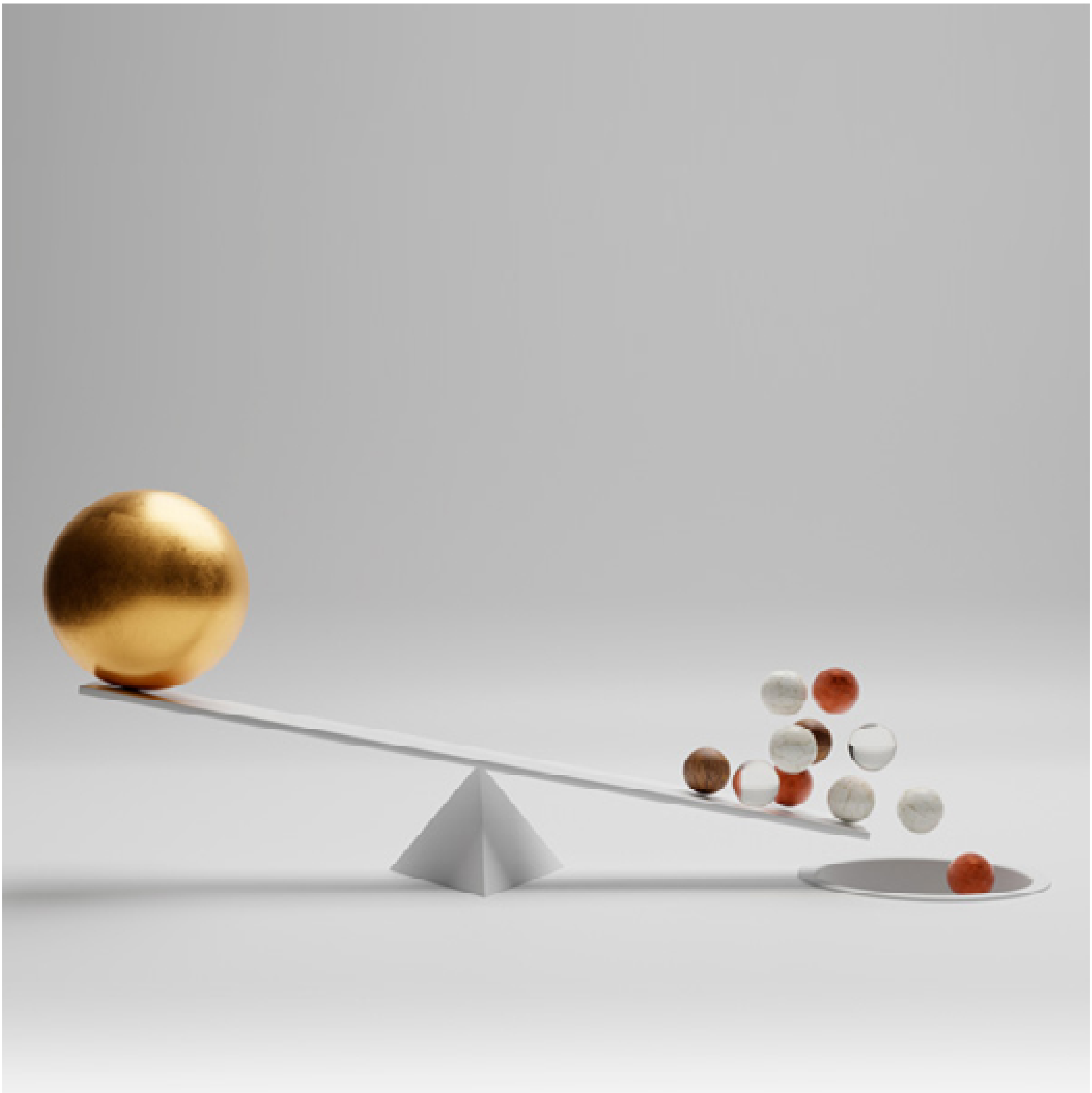
Inequality and social contract

Luis Ayala Cañón
Editor

2022



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Inequality and social contract

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Introduction

Luis Ayala Cañón, editor

The general aim of this book is to offer an accurate portrayal of the extent of inequality in Spain, its determining factors, and the policies necessary for reducing it. Sharing this goal with other prior studies, its main contribution is the construction of a narrative to explain to society how we have reached this point. Through its different chapters, we have tried to express what can be done and what difficulties Spain's society faces in defining a social contract that would enable the problem of inequality to be tackled with adequate measures.

To approach this undertaking, I was invited by the Social Observatory of the "la Caixa" Foundation to coordinate the work of leading specialists in studies on inequality and the social contract, in collaboration with a scientific committee formed by Lídia Brun, Olga Cantó, Sara de la Rica, Víctor Lapuente, Margarita León, Jorge Onrubia and Leire Salazar. The task of this committee consisted of identifying the specific issues upon which the research studies had to be based and supervise the progress.

Five thematic areas were established that served to define the contents of the studies commissioned. These areas can be summarised in the form of a research question: What does the overview of inequality in Spain look like? What inequalities does the market generate and how can they be reduced? How is the welfare state approaching this task? How can the welfare model be funded to enable development of the desired redistribution model? How could Spain's society be organised to establish a new social contract that enables inequality to be reduced?

With the aim of responding to these questions from different perspectives, the research was commissioned to some of the academics with the greatest experience in this subject. The results of their work are the chapters that make up this volume. The reader will be able to appreciate in them a common format and a similar tone, marked by the goal of bringing this analysis to an interested but not necessarily specialised audience.

Why should social and economic inequality matter to us?

Of the different challenges that contemporary societies are facing, one of the most urgent is the increase in economic differences among the population. These excessive levels of inequality can give rise to significant social problems:

- In those countries that have least managed to moderate these differences, social cohesion is also weaker.
- When inequality reaches great dimensions, it can erode the quality of the institutions of democratic countries. Furthermore, it leads to greater political polarisation, while the rules of collective decision-making function increasingly poorly.
- The inequalities of today represent greater social fragmentation in the future. The transmission of poverty between generations reduces equal opportunities and causes a loss of efficiency, since it prevents the talent of one segment of society from being able to bear fruit.
- When inequality reaches a high level, it has a negative effect on economic growth: the most recent data show that the most egalitarian countries grow in a more sustained and stable way.

What are the causes of current inequality?

The broad variety of consequences that inequality brings with it makes reflection and debate on the determining factors of the problem more relevant.

Economic and social inequalities can be studied from very diverse angles. Despite the variety of concepts and dimensions, the majority of approaches coincide in showing that the current inequality in wealthy countries is different to what we were familiar with until relatively recently. Its extent has increased and the social elevator appears to have come to a halt. Especially concerning is the fact that situations of greater social vulnerability have become more chronic, and that their incidence is higher among younger age groups. The causes of this new distribution pattern are various:

- The globalisation of economic activity, with the intensive growth of international flows of goods and services and of capital and labour, has given rise to important changes in demand – in a downwards sense – of less skilled workers.
- This displacement of demand for workers with lower wages has been reinforced by the technological change in production processes and the growing digitalisation of economic activities.
- Processes of dysregulation – affecting the labour market, but also other spheres – and the transfer to private initiative of parcels traditionally occupied by the public sector, as is happening with some basic social welfare services, has undermined the corrective function of public intervention.
- The redistributive capacity of the system of taxes and benefits has gradually been reduced over time.

In the Spanish case, in addition to all those processes present in the majority of high-income countries, there are some singularities. Among the factors that explain the higher level of inequality in Spain and its persistence over time are the characteristics of its production structure, with a greater weight of activities that require low labour costs to be able to compete, the dual problem of unemployment and underemployment in the labour market, and the weakness of redistribution policies.

What are we going to find in this book?

The sum of the different chapters is an accurate portrayal of the extent of inequality in Spain, its determining factors, the policies that could reduce it and the possibilities and limits for establishing social contracts that could enable advances in moderating it. The combination of different studies offers one of the most comprehensive approaches to the problem of inequality in Spain in a synthetic and intuitive way, which undoubtedly will be provide a basic reference work for the social and academic debate. Although the chapters can be read independently of each other, a major advantage with respect to other studies is that they offer a joint narrative.

The volume begins with an overview of half a century of inequality in Spain, a study by Luis Ayala and Olga Cantó. In this first chapter, the data are analysed that explain why Spain has been, in recent decades, one of the European countries with the highest inequality. As the authors explain, its evolution is very much marked by the phases of the economic cycle, with rapid growth in inequality when the economy is in recession and slow reductions when it expands. They also observe that one of the main reasons for the increase in inequality is the reduced redistribution capacity of the system of taxes and social benefits.

The next three chapters are concerned with analysing the inequalities generated by the market and what the strategies could be used to reduce them. The study by Sara de la Rica, Lucía Gorjón and Gonzalo Romero analyses the inequalities related with employment. By focusing attention on the relationship between the labour market and income inequality, with an important accent on the intergenerational perspective, they confirm that part-time employment and unemployment are fundamental for understanding income inequality and that this especially affects women, young people and people with a low education level.

In the third chapter, Manuel Hidalgo deals with the effects that technological change and the production and wage structure have on inequality in Spain. The increase in wage inequality in the years of the Great Recession placed Spain among the countries with the highest levels in Europe. Among other reasons, the increase in temporary and partial contracts stands out, determined in turn by the particularities of the production structure. The author also alerts to the increase in wage polarisation due to the effect of technological change, which could be partially counteracted by an adequate education and training policy better geared towards the market's needs.

In the fourth chapter, Juan Antonio Módenes studies the instability affecting housing and problems with access to it, difficulties that were also accentuated with the Great Recession of 2008. Spain is one of the European countries where young people have the most problems related with this dimension of wellbeing, mainly in access to housing. However, the main new development is that, in recent years, changes in residential systems have also affected housing stability for more advanced age groups.

In the fifth chapter, Miguel Requena and Leire Salazar focus on the study of educational inequalities, opening a window to how our welfare state can reduce market-derived inequalities. Although the expansion of the Spanish educational system led to the education and training level of the younger generations increasing, especially in the case of women, the authors find a clear relationship between the socioeconomic conditions of households and diverse educational variables, such as the probability of early schooling, early school leaving or the opportunity to study tertiary courses.

A third block of chapters is devoted to the study of the role of the tax system in reducing inequality. In the sixth chapter, José María Durán and Alejandro Esteller analyse the demand for income redistribution in Spain and how the fiscal system is adapted to it. The authors show how the combination of lower fiscal pressure and a non-progressive fiscal system mean that the inequality after taxes and benefits is among the greatest in the EU. This reality contrasts with the preferences of Spanish citizens, more favourable than in other European countries towards the Government adopting measures to reduce inequality.

In the seventh chapter, Julio López Laborda, Jorge Onrubia and María del Carmen Rodado analyse the progressive nature and redistribution of taxation in Spain. Within the European context, Spain is in a position bringing up the rear, which is explained by the smaller dimension of its fiscal system. They also point out that the regressive nature of indirect taxes increases inequality and reduces the joint redistributive effect of contributions and of direct taxes, although the consequences are lesser with respect to other countries due to the lower revenue collection weight of indirect taxation.

In the eighth chapter, Sara Torregrosa examines the nature and effects on inequality of fiscal fraud, focusing on income tax (IRPF). Her estimates lead her to conclude that fraud contributes notably to inequality, since it is greater in more significant sources of revenue for taxpayers with higher incomes. As the author points out, the expansion of fraud is causing growing rejection from public opinion and can cause deteriorations in institutional trust, which is so necessary for establishing social contracts.

The last block of the book examines the conditions for securing a new social contract that enables inequality to be reduced. In the ninth chapter, Inés Calzada, Eloísa del Pino and Antonio Manuel Jaime-Castillo study attitudes towards inequality and redistribution. They reveal that social support for redistribution is very widespread and that the majority of the population believes in the need for taxes, but is mistrustful of the justice of the fiscal system. The population also shows its support for health, pensions, education and unemployment policies. No fractures are observed between social groups regarding the need for social and fiscal policies, but there are differences in support for specific measures, and this becomes an obstacle for the reduction of inequality.

In the penultimate chapter, Margarita León, Manuel Alvariño and Llorenç Soler address the study of political conditioning factors for a possible social contract against inequality. In Spain, agreements in spheres such as taxes, unemployment, pensions or minimum incomes have been broad. However, the lines of political division are numerous and polarisation around moral issues pushes in the opposite direction and hinders the reaching of consensus on matters relating to equality. They also warn that a divided public opinion and an institutional design that facilitates governing alone and without agreements also disincentivize the contract.

In the chapter that closes the book, Pablo Simón analyses the importance of culture and institutional quality for establishing social agreements. The shortfalls in these spheres may be a hindrance for redistribution demands to be translated into an effective social contract. The review of the data enables the author to confirm that the satisfaction of Spanish people with the functioning of democracy is low, but at the same time great importance is attached to social justice. With respect to institutional quality, the author highlights the margin for improvement of the efficiency of the Government, a legislative branch with little impact on public policies, a justice perceived as politicised, and a state framework of autonomous regions that requires adjustments in the area of shared government.

Acknowledgements

This book has been made possible thanks to the support of the “la Caixa” Foundation. We cannot thank the Foundation enough for the efforts it has made, through its Social Observatory, to bring the discussion on inequality to the forefront from a set of solid foundations of knowledge.

A snapshot of half a century of inequality in Spain

Characteristics and factors explaining why Spain is one of the most unequal countries in Europe

Luis Ayala, UNED
Olga Cantó, University of Alcalá

Abstract

When a country has much inequality, it also has much social instability and consequently the likelihood of conflict, as large sections of the population are excluded from the rewards of economic growth. If these high levels of inequality persist over time, the chances of implementing redistribution policies are lessened by the resistance of economic elites to transfer resources. Moreover, today's inequalities may become even more pronounced in the future, especially if they affect children and increase the intergenerational transmission of poverty. This may lead to the accumulation of growing social problems in health, housing or education. Finally, greater inequality reduces economic growth rates.

One of the most important socio-economic problems in Spain is the high level of income distribution inequality, which is significantly higher than in most European countries. One of the main reasons for this is the lower redistributive capacity of its tax and benefit system. This high level of inequality has persisted over time and has made the country more vulnerable to possible economic shocks. The evolution of inequality in Spain is greatly affected by the phases of the economic cycle, as it quickly increases during economic downturns and barely decreases during upswings. An economic slowdown and rise in unemployment have a very adverse effect on low-income households.

The intensity and duration of the crisis that began in 2008 led to a major increase in household income inequality, particularly from labour, and this resulted in a significant fall in the share of the population with average incomes. This negative trend was not offset by the meagre, highly uneven economic growth from 2014, thereby leaving many households in a situation of considerable vulnerability when the covid-19 crisis hit. Poverty in Spain, historically characterised as recurrent but transitory, risks becoming chronic if this dynamic is not reversed, as this would lead to the effects of transitory shocks continuing over time.

Main ideas

1

Spain has been one of the most unequal countries in Europe in recent decades and was the fifth most unequal country in the EU-27 between 2015 and 2019.

2

The evolution of inequality is affected by economic cycles: income differences increase more during downturns than they shrink during upswings.

3

The lowest incomes have fared worst and the highest incomes best ever since the 2008 crisis. Spain is the EU country where the gap between the highest and lowest incomes has grown the most.

4

The growth of inequality in Spain in recent decades has been due to changes in labour and capital income and the limited redistributive capacity of taxes and benefits, which barely increased between 2015 and 2019.

5

The richest 20% of the population receives more than 43% of earned income. The higher share of this income in total revenue makes it the largest contributor to inequality.

6

The middle-income group of the population is shrinking. Its share is lower today than it was thirty years ago, and lower than it is in rich European countries.

7

Poverty in Spain has become chronic since 2010, especially in younger households with dependent children. The percentage of children in jobless households has doubled over the past fifteen years.

8

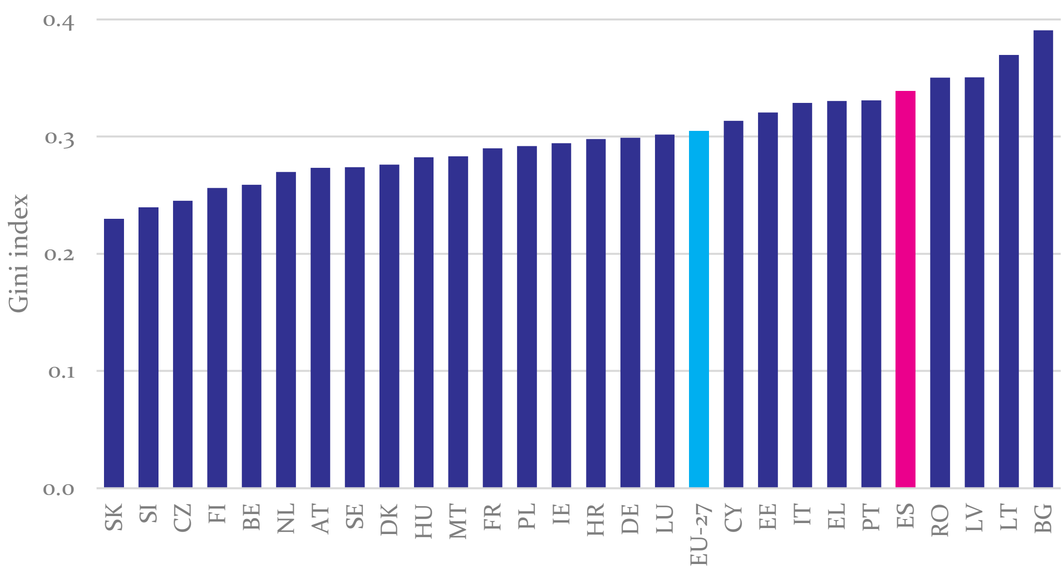
Early evidence on the economic effects of the pandemic indicates a higher increase in inequality and poverty than in the rest of the EU-27.

1 Spain is still one of the most unequal countries in the European Union

The earliest studies with comparable international data carried out in the 1970s showed that income differences among Spanish households were much greater than in high-income countries. According to data immediately prior to the onset of the pandemic, Spain, along with several Eastern European countries, remained among the EU countries where inequality was highest. There is a certain consensus that the main reasons for this problem are its productive fabric – with a lower share of high-tech branches than in higher-income European countries – high level of unemployment, notable incidence of low-paid work and limited size of its tax and benefit system.

There has been a succession of various stages in the evolution of inequality between that point in time and today. The most important reduction occurred in the 1980s, when a major increase in social spending extended the positive effects of an economic upswing. This, however, did not happen again in subsequent periods of growth. The greatest increase in inequality occurred in the aftermath of the Great Recession.

Figure 1: Spain is the high-income country in the European Union where inequality is greatest
Household income distribution, Gini index, EU-27, 2015-2019 average



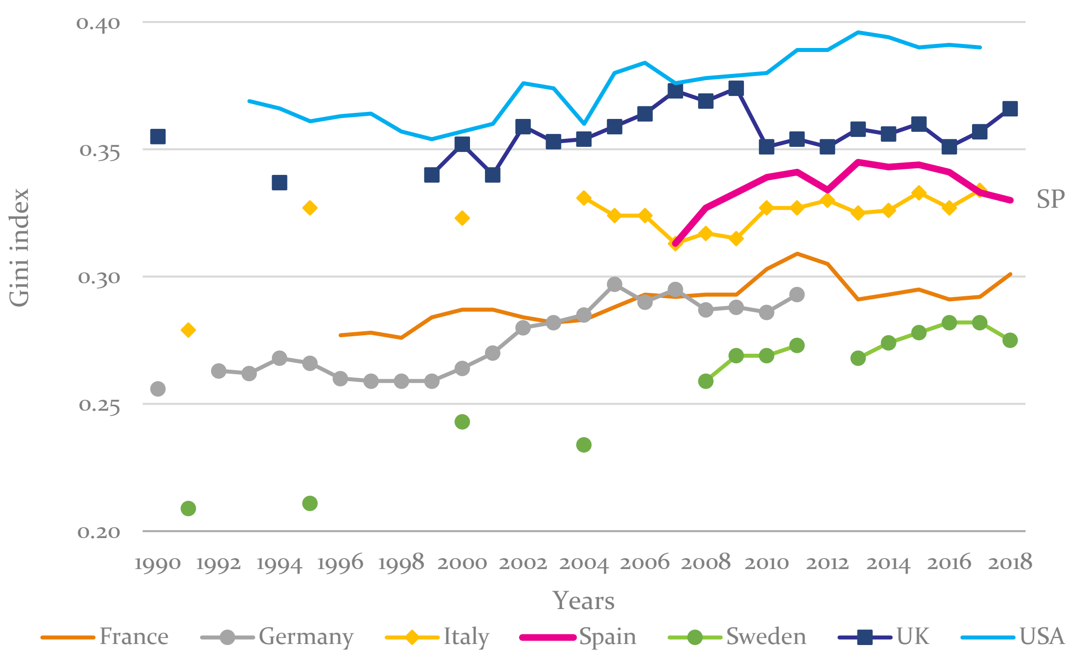
Source: compiled by the authors based on EU-SILC (Eurostat).

2 Inequality has increased in most developed countries in recent decades

Income distribution inequality has increased since the 1980s in the vast majority of OECD countries (the Spanish experience during this decade was an exception, as inequality declined). There are several reasons for this trend, although the concentration of labour and capital income in the top brackets of the income scale has increased in almost all countries.

One cause is the impact of globalisation on the demand for lower-skilled workers, whose wages have fallen as the economic share of imports from lower-wage countries has increased. Also worth noting is the escalation of technological change in the productive system as a whole, as it has shifted labour demand towards higher-skilled workers. At the same time, the increasing deregulation of labour markets has been reducing the effect of several institutional elements that had the greatest capacity to restrict the increase in labour income inequality: minimum wages, dismissal costs and the extension of collective bargaining, among others. Capital income inequality has also increased and its contribution to total inequality has risen in most countries. All these changes have not been as strongly offset by the redistributive effect of the tax and benefit system as in previous decades, predominantly because of a generalised reduction in tax rates and decreasing contribution of cash benefits.

Figure 2: Income inequality has grown over the past three decades in high-income countries
Household income distribution, Gini index, 1990-2018



Source: Income Distribution Database (OCDE).

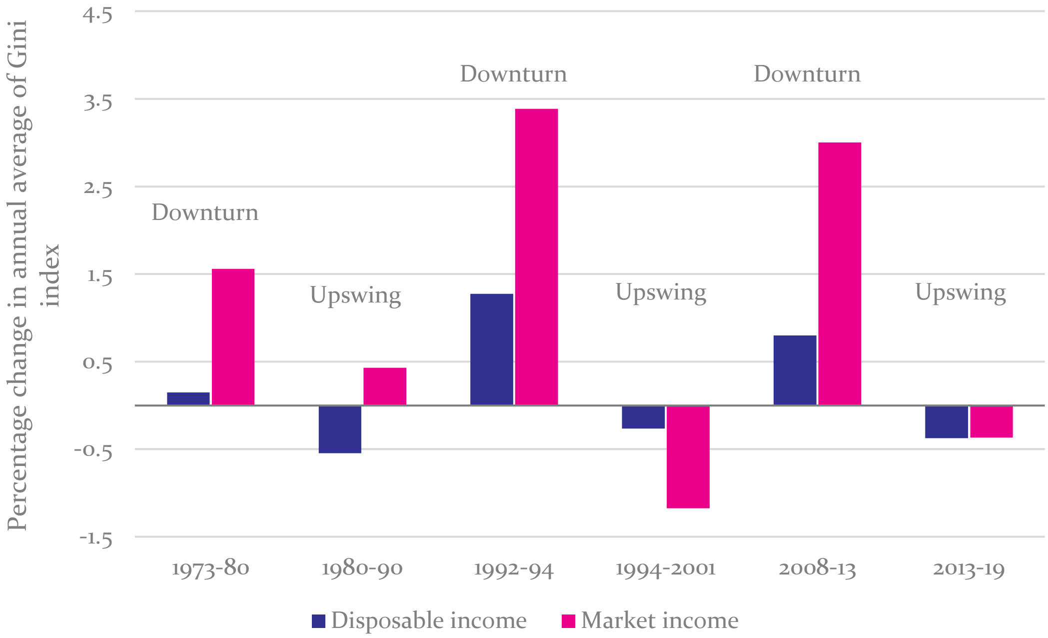
3 Inequality in Spain increases more during downturns than it decreases during upswings

The effect of economic upswings and downturns on inequality is uneven in Spain. With the exception of the severe, protracted crisis of the 1970s, inequality increased considerably in all periods of economic contraction. In upswings, however, with the exception of the 1980s, inequality decreased only slightly. In the two periods cited as exceptions, the reason for the more moderate behaviour of inequality can be found predominantly in the increased redistributive capacity of the tax and benefit system. This system has played a different role in each upswing period. It had the aforementioned major restraining effect in the 1980s; on the other hand, it had the opposite effect to the dynamic of reducing inequality in primary incomes between 1994 and 2001; and finally, its impact was almost neutral between 2013 and 2019.

Inequality increases predominantly because of structural changes in the factors determining the distribution of primary income, especially those of a technological, commercial and institutional nature. Common to all of these is the increasing internationalisation of the economy, which has enhanced the importance of the ability of countries to compete in global markets. These changes have also affected the characteristics of the economic cycle and distributive capacity of public policies.

Figure 3: Inequality in Spain increases more during downturns than it decreases during upswings

Percentage change in the annual average of the Gini index for each period, 1973-2019



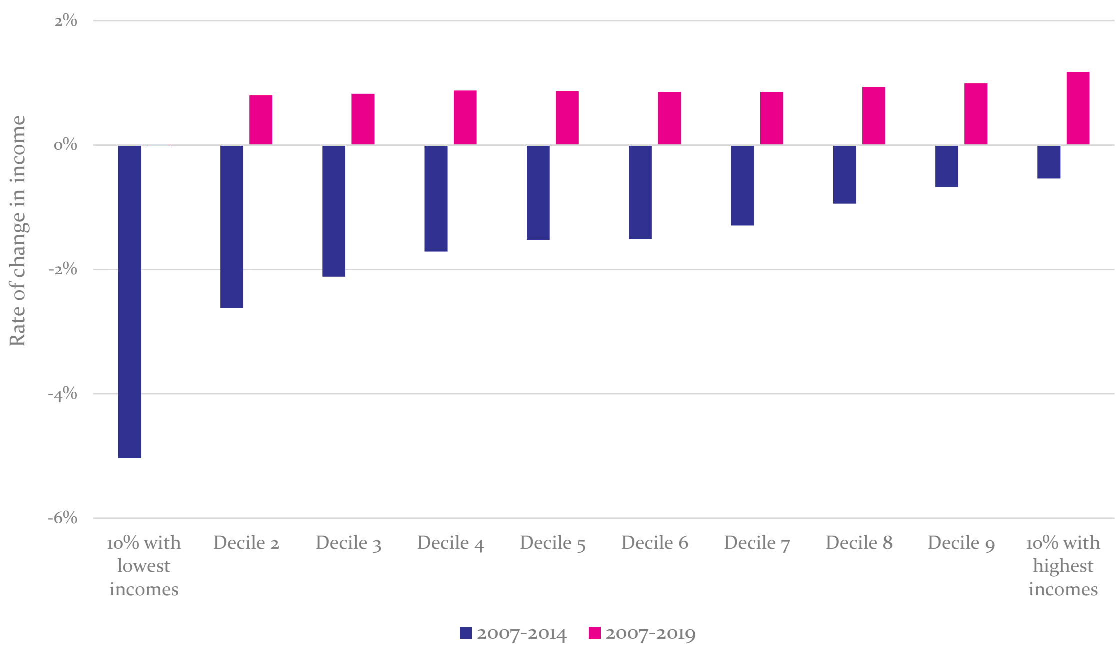
Source: compiled by the authors based on “Basic Household Budget Surveys”, “EU Household Panel” and “Living Conditions Survey”.

4 Incomes in the lowest brackets have fared the worst ever since the 2008 crisis

The evolution of income distribution over the past decade and a half has been marked by a worsening of the financial situation of the lowest income households. In contrast to this trend, the incomes of higher-income households have fared significantly better than average over the same period. Particularly noteworthy was the fall in the lowest incomes due to the Great Recession, which hampered their subsequent chances of recovery. Although Spain was not the country where the average income of the population fell the most, it was the EU country where the incomes of the poorest 10% fell the most compared to the richest 10%.

All income groups saw their incomes fall from the onset of the crisis in 2008 until the recovery in 2014, but these losses were greater for the poorest groups. The subsequent recovery until the pandemic helped to moderate these losses, but growth was unevenly distributed and higher income groups benefitted more.

Figure 4: Income trends for poorest households have been the most adversely affected among the population as a whole since the onset of the crisis in 2008
Average annual change in income per income decile as a %, 2007-2014 and 2007-2019



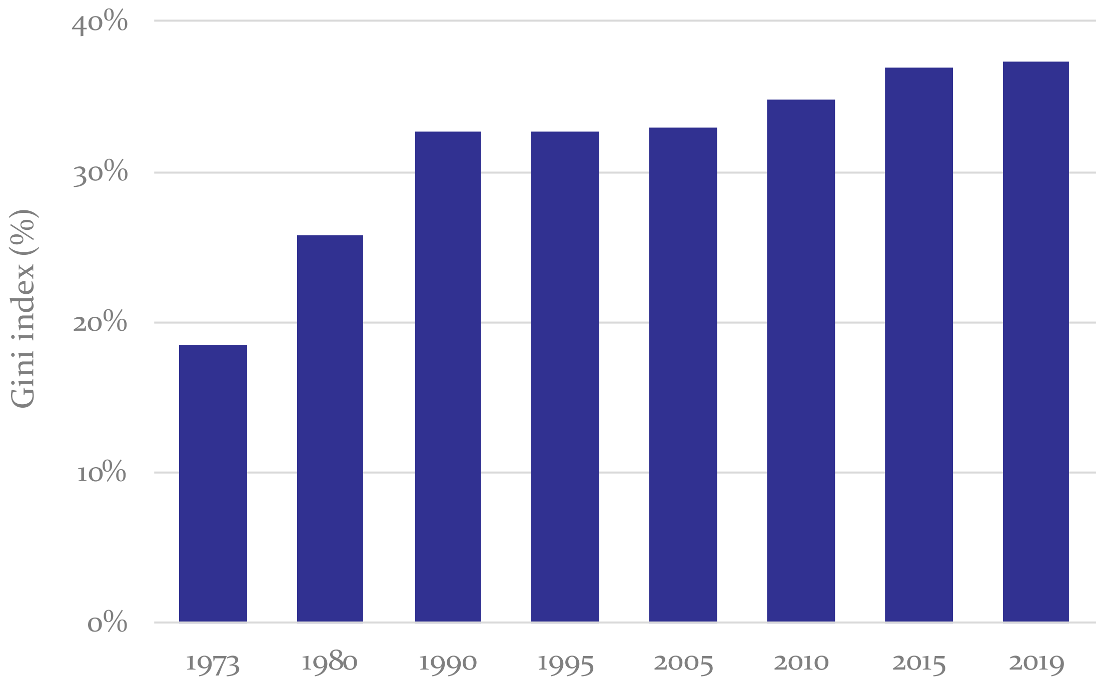
Source: compiled by the authors based on "Living Conditions Survey".

5 The growth of inequality in Spain is due to changes in labour and capital income and the limited redistributive capacity of taxes and benefits

Inequality in the distribution of income from labour and capital, so-called primary incomes, is high in Spain because of the characteristics of its productive fabric. This structure is characterised by a high share of activities with low technological content that do not require highly qualified employees and therefore favour labour relations marked by temporary and part-time work, especially in phases of economic slowdown.

The development of several basic welfare state instruments in the latter decades of the last century led to significant increases in the capacity to correct inequality, but their redistributive impact has improved very little since then. The scope of its tax and benefit system is therefore not enough to prevent increases in primary income inequality from translating into increases in disposable income inequality during downturns.

Figure 5: The redistributive capacity of Spain's tax and benefit system increased less in the early decades of the 21st century than in the 1970s and 1980s
Reduction of the Gini index achieved by tax and benefit system as a %, 1973-2019



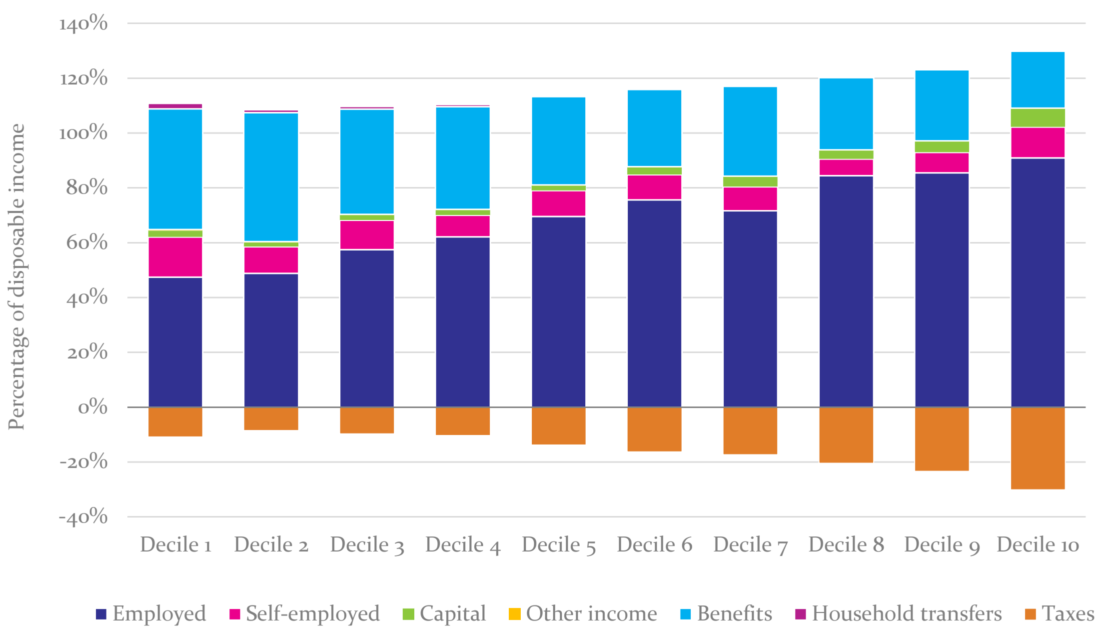
Source: compiled by the authors based on "Household Budget Surveys", "EU Household Panel" and "Living Conditions Survey".

6 Self-employment and capital income are the most unequally distributed

The most important income source in Spanish households stems from paid work (more than three quarters of the total). Nonetheless, the importance of each source varies considerably according to the level of disposable income of each household. While almost half the income of the poorest households comes from social benefits, income from employment and capital increases in relative importance as the level of household income rises. Therefore, the richest 20% account for more than 43% of wage and salary income and more than half of capital income.

The distribution of spending on cash benefits is more equal, although it fails to compensate enough for the inequality of primary incomes. A peculiarity of the income structure of Spanish households is the different share of self-employment income in each income group. The highest percentages correspond to the first deciles and the top decile. This result is in line with the characteristics of this type of employment. The self-employed in Spain make up a high percentage of its labour force, but most of them are liberal professionals or owners of small retail businesses, unlike in other countries, where they correspond more to entrepreneurs in industrial businesses. Even so, more than a quarter of this income is received by households in the top decile.

Figure 6: Social benefits are a major source of income for low-income households, while the share of capital income increases significantly with the income level of Spanish households
Composition of household disposable income according to income level as a %, 2019



Note: *contribution of taxes to disposable income is negative.*

Source: compiled by the authors based on "Living Conditions Survey".

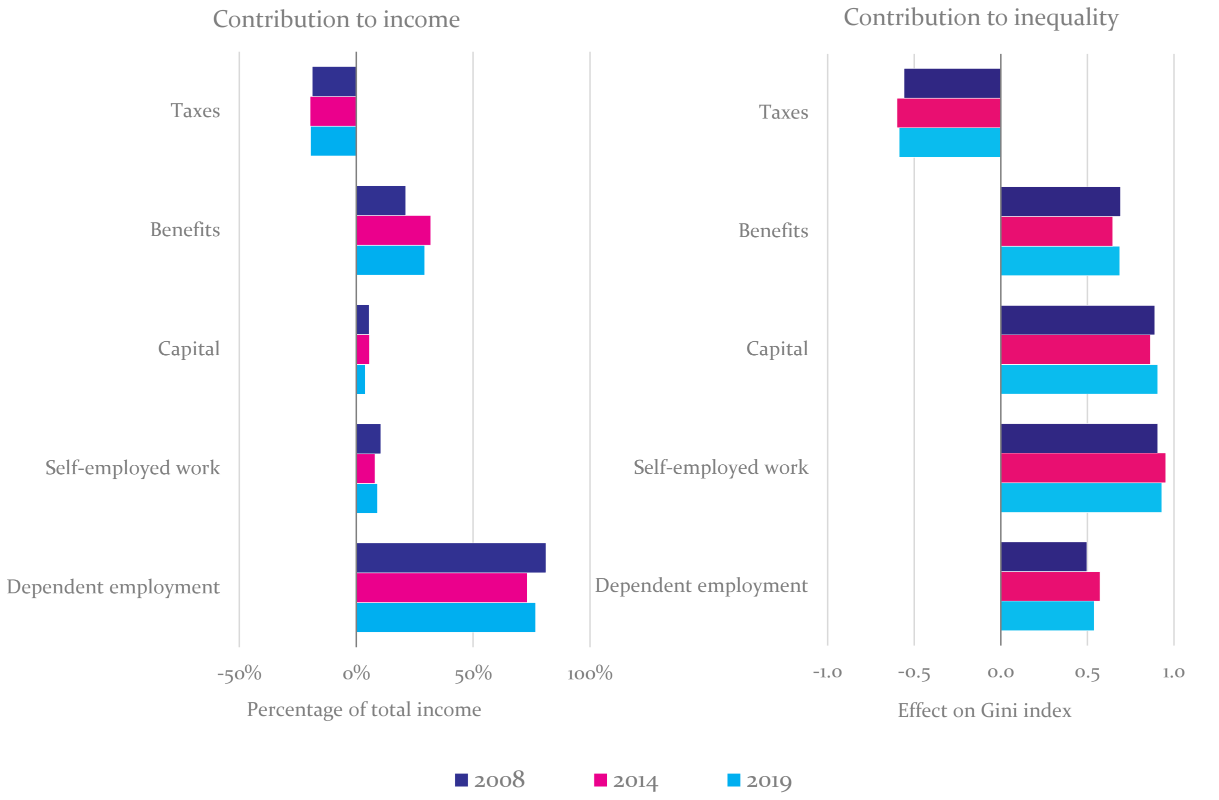
7 Labour income is the largest contributor to inequality because of its higher share of total income

Of all the incomes received by households, those from paid jobs contribute most to primary income inequality in Spain because of their size. This contribution has also remained consistent over time, as it was a prominent reality before the Great Recession, persisted while the crisis lasted and did not change during the recovery prior to the pandemic. Nonetheless, it is self-employment income and capital income that are most unequally distributed. Spain is, in fact, one of the EU countries where inequality in capital income is highest. Several studies have estimated a considerable increase in various countries of the importance of capital income inequality in explaining total inequality since the mid-1980s.

The contribution of dependent labour income to inequality has a certain cyclical component. It increased during the 2008 crisis and declined, albeit moderately, in subsequent years. The reason for this behaviour is the high sensitivity to the business cycle of sectors such as construction, where total wages depend more on hours worked than on hourly wages. Workers in these sectors experience a significant improvement in incomes during upswings that would otherwise be significantly lower.

Figure 7: Employment is the main source of household income, while capital and self-employed income are the most unequal

Share of each income source in total income and contribution to inequality in the distribution of each source, 2008, 2014 and 2019



Source: compiled by the authors based on “Living Conditions Survey”.

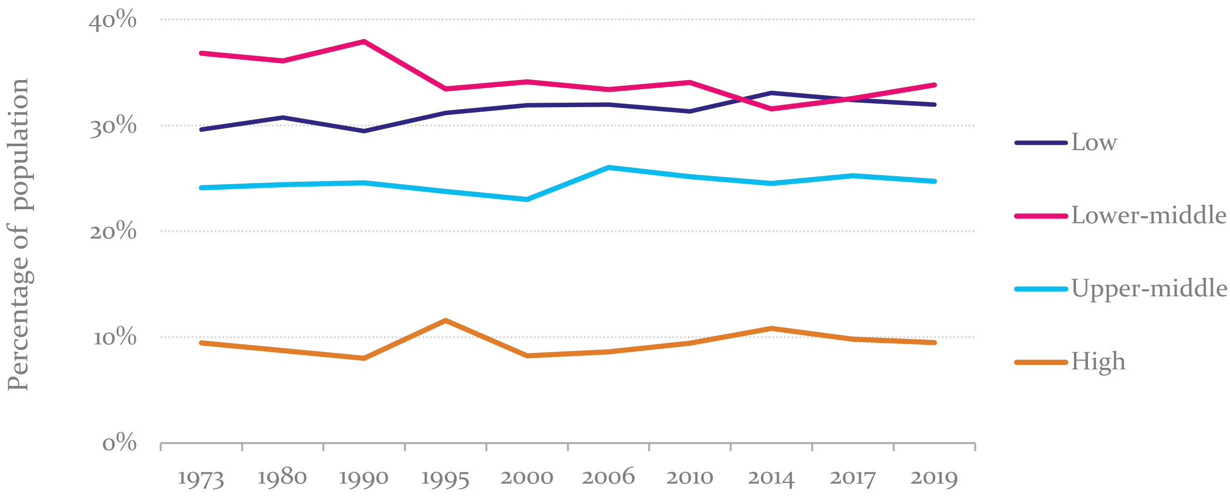
8 The middle-income group of the population is shrinking, and its share is lower today than it was 30 years ago

A period of growth occurred in the middle-income segment of the population ever since the consolidation of democracy in Spain until the beginning of the 1990s, especially for the lower-middle-income segment. In contrast, the high-income group gradually diminished until reaching a minimum value of 8% at the beginning of the 1990s. This process can be explained by several factors, such as the late development of the welfare state in Spain, higher education levels of the population, increase in female paid work, improvements in some occupations and wage increases themselves. What was particularly relevant, as in other countries, was the expansion of Spain's tax and benefit system, given the higher incidence of social benefits on middle and low incomes and the moderating effect of progressive taxation on higher incomes.

The middle-income population accounted for almost two-thirds of the total before the 2008 crisis. There was a major fall in the share of this group in a few years as a consequence of this crisis, parallel to the growth of the low-income group – almost one in six households fell to the lower income stratum – and the higher income bracket. This change affected internal inequalities within each income group, with a significant increase in inequality within middle-income households. This process was once again reversed during the pre-pandemic recovery, with a return to a scenario that was very similar to that before the crisis.

Figure 8: The middle-income group has been in decline with regard to the total, while that of low-income households has increased

Distribution of population according to income group as a % of population, 1973-2019



Note: *low income: below 75% of the median; lower-middle income: between 75% and 125% of the median; upper-middle income: between 125% and 200% of the median; high income: above 200% of the median.*

Source: compiled by the authors based on "Household Budget Surveys", "Household Budget Continuous Survey", "EU Household Panel" and "Living Conditions Survey".

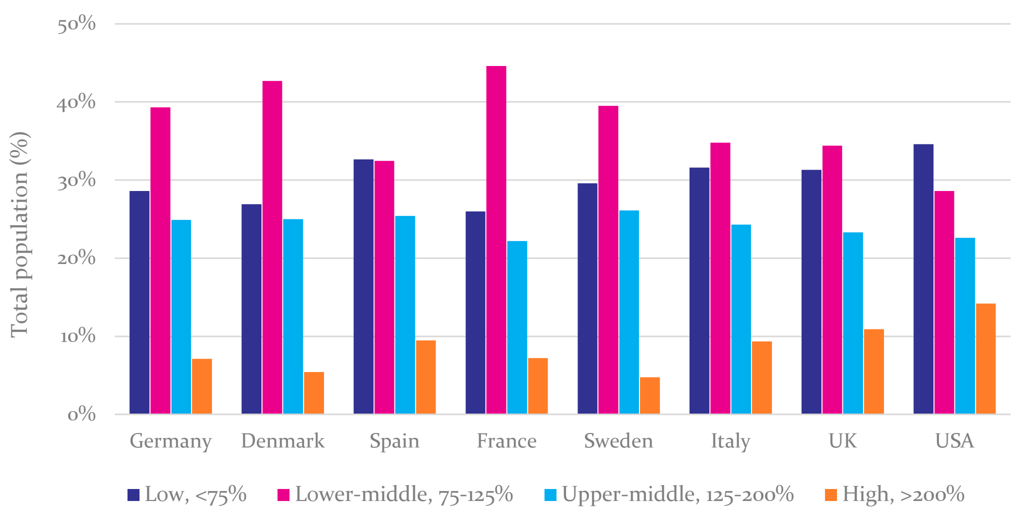
9 The middle-income group in Spain is considerably smaller than in rich European countries

Spain has some distinctive features in population distribution according to income level (32% in the low-income bracket, 58.5% in the intermediate segment and 9.5% in the high-income group). This segmentation is significantly different from that of Nordic and Central European countries. Only in the United States do middle-income earners have a lower share among higher income countries, with almost 50% of the population.

The fact that most determines the different extent of average incomes in each country is the combination of a large lower-middle-income segment and a more contained upper-middle-income bracket. Characterised in this manner, Spain is closer to Anglosphere models than to those of Central Europe and the Nordic countries, given its limited share of the lower-middle income bracket (33.8% of the total).

There are several socio-demographic features that also distinguish the middle-income group in Spain. Compared with other countries, it has an older population, with a lower level of education, a significant proportion of which has to work full-time to access this level of income, and it does so primarily through medium professions, unlike in other countries, where a significant part of the middle classes have professions that can be considered more highly qualified and better paid. These features suggest major intergenerational differences in Spain, where generations that entered the labour market over the past two decades have seemingly enjoyed fewer opportunities because of a generalised stagnation of productivity and structural loss of employment quality. These younger generations have had better opportunities to access middle incomes in other countries.

Figure 9: The main distinguishing feature of Spain's income structure is a lower share of the lower-middle income group and a higher share of the low-income group
Distribution of population of selected high-income countries according to income group as a % of population, 2019



Note: *low income: below 75% of the median; lower-middle income: between 75% and 125% of the median; upper-middle income: between 125% and 200% of the median; high income: above 200% of the median. Data for Italy and the United Kingdom are from EU-SILC 2018.*

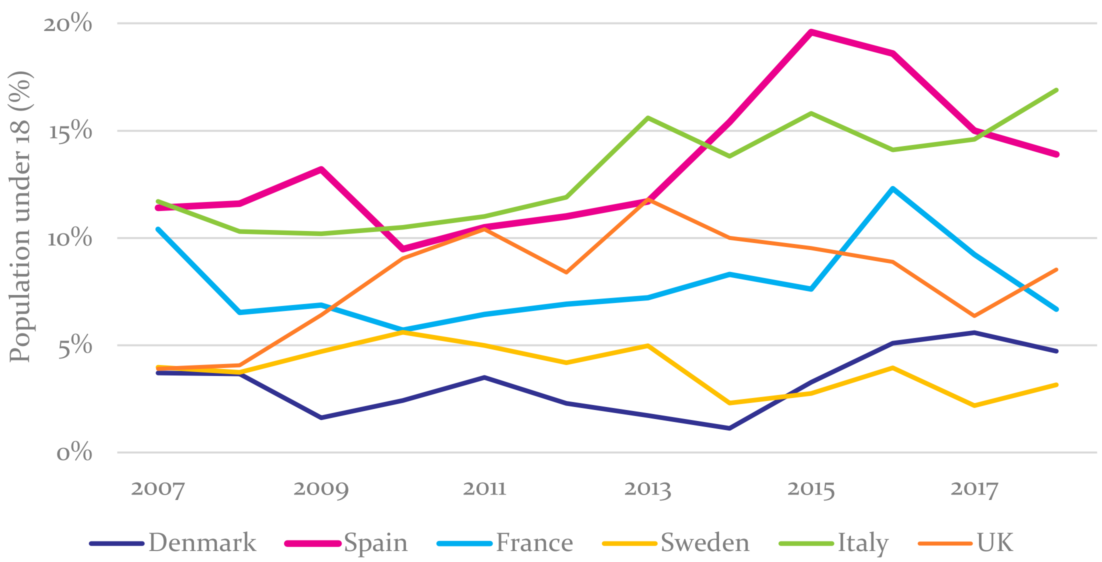
Source: compiled by the authors based on EU-SILC and "Current Population Survey".

10 Poverty in Spain is becoming chronic, especially in younger households with dependent children

Poverty in Spain during the 1990s and first decade of the present century was characterised by being more transitory than chronic, although it was recurrent. But poverty has become chronic ever since the Great Recession, especially in younger households and those with dependent children. The percentage of children living in a household in which none of the active members is employed has doubled over the past fifteen years. This situation has had a decisive impact on their disposable income, given the scant attention of family policies among social policies as a whole in Spain (less than half that of other EU countries). Almost 14% of children had been in poverty for three years or more before the pandemic, while this was less the case for the population as a whole.

It has been demonstrated that the longer the duration of unemployment and poverty, the more difficult it is to reverse both situations. If these difficulties persist from generation to generation, they lead to a high dependency on parental income and lower social mobility of lower socio-economic brackets. This situation restricts the possibility of achieving a new social contract.

Figure 10: Poverty is becoming chronic, especially in households with dependent children
Children under 18 spending three consecutive years below the poverty line as a %, 2007



Source: compiled by the authors based on longitudinal EU-SILC.

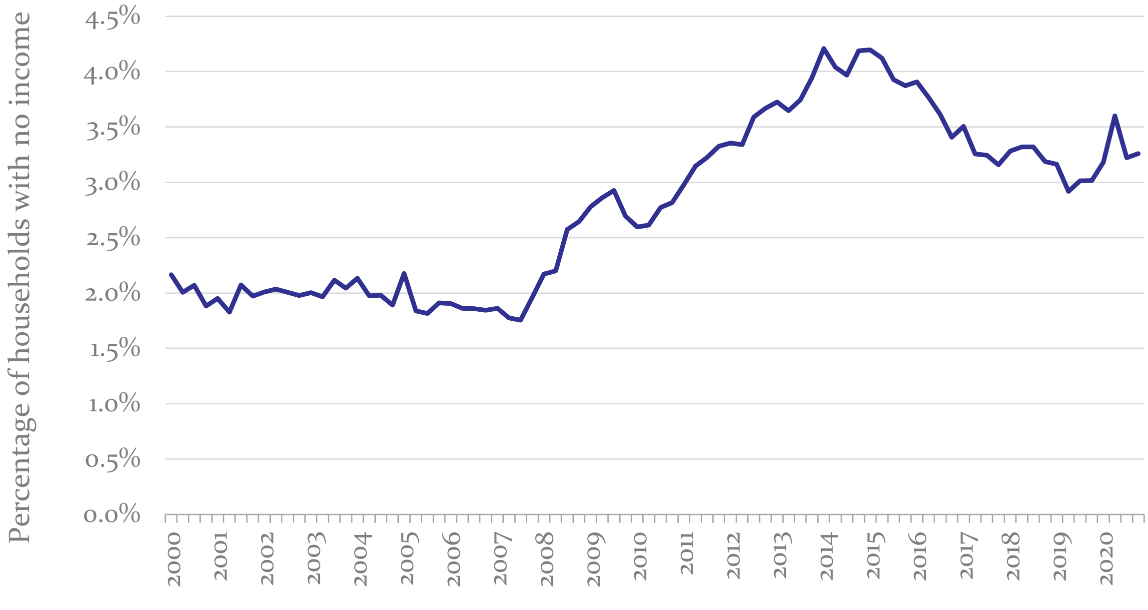
11 Spain is the EU-27 country where inequality is most likely to have increased during the pandemic

Declining incomes since the beginning of the pandemic suggest a major impact on income distribution. The restrictions of activity revealed inadequacies in labour incomes, the main source of household income. The various possibilities of access to teleworking exacerbated the wage differences between the more skilled and more stable wage earners and those with lower skills. The pandemic has also shown that a high number of households are living from day to day and find it extremely difficult to cope with unforeseen expenses.

European Commission projections show that Spain is the EU-27 country where inequality would have increased the most after the changes in the tax and benefit system during the pandemic. Some indirect indicators show changes in wage differences that replicate the waves of the pandemic: very rapid growth during lockdown, subsequent stability, a slight fall in de-escalation and new upswings in successive waves.

The only official data that allows us to anticipate some redistributive effects is the data from households with no income contained in the "Labour Force Survey". Their number increased extremely rapidly in the first hundred days of the pandemic, fell with the recovery in activity during the summer of 2020 and rose again in the last quarter of that year, reflecting the effects of the second wave and part of the third. This is a very negative fact because of its possible adverse long-term effects, as an increase in this form of poverty was significantly higher in households with children. All the data coincide to show a rapid increase in inequality and poverty as a consequence of the pandemic. As in previous downturns, the risk is that this increase will become endemic.

Figure 11: The pandemic has led to a rapid increase in the number of households with no income, when their number was still much higher than before the Great Recession
Households with no income as a %, 2000-2020



Source: compiled by the authors based on "Labour Force Survey".

Conclusions

One of the most important socio-economic problems in Spain is the high level of income distribution inequality. This situation has persisted over time and has made Spain more vulnerable to possible adverse economic shocks. Trend analysis shows that it is not enough for the economy to achieve high levels of growth in order to alleviate this problem, as the productive structure and characteristics of professions and Spain’s labour market tend to generate low-paid jobs, in addition to more widespread unemployment. Spain is also one of the European countries with a tax and benefit system that has the least redistributive capacity.

These structural features mean that inequality rises sharply during economic slowdowns, normally through a rapid increase in the number of low-income households and a fall in the relative share of the number of middle-income households. The expected effects of the pandemic under these circumstances are basically an increase in inequality and severe poverty, especially in households with children, with the accompanying risk that, as in previous downturns, its consequences will become endemic.

Proposed actions

1

Any attempt to reduce the high levels of inequality in Spain requires changing the distribution of household incomes prior to public sector intervention. It will be difficult to moderate the current differences without changes in the productive fabric. In any case, there is scope in the area of regulation, including instruments such as minimum wage, types of contracts or, in the longer term, education policies that can play a key role in improving distribution.

2

Spain is one of the EU countries with the lowest redistributive capacity of the tax-benefit system. In order to reduce this gap, it is necessary to increase the size and progressivity of its tax system and extend non-contributory protection, especially for young people and households with children.

3

These possible actions should include both households with incomes below the poverty line and highly vulnerable lower-middle class households.

4

Counter-cyclical instruments need to be extended in order to moderate the differences between the very minor effects of upswings on inequality and those of downturns, which have a large impact.

5

In adverse conjunctural circumstances, such as covid-19, early action measures targeted at groups at risk of poverty are also needed to avoid financial insecurity and vulnerability from becoming chronic.

Inequality in employment

Employment equality as a pathway to income equality

Sara de la Rica, ISEAK Foundation
Lucía Gorjón, ISEAK Foundation
Gonzalo Romero, ISEAK Foundation

Abstract

The economic recession that began in 2008 led to consequences that radically transformed socio-economic reality. The greatest impact of the recession in the case of Spain was on the labour market, with a significant increase in the unemployment rate, rising from 8.1% in 2008 to 26.1% in 2013. This study analyses the relationship between the labour market and income inequality in Spain, as well as the determinants of accessing employment and part-time work from an intergenerational perspective. The results show that part-time employment and unemployment are essential to understanding income inequality, and that these particularly affect women, young people and those with a low level of education.

Main ideas

1

Income inequality in Spain is strongly connected to access to employment. In 2019, 70.6% of all people in the bottom 10% of income were unemployed.

2

Spain has one of the EU's highest unemployment rates, especially among young people. Its youth unemployment rate was 23.4% in 2018. It also has a high level of long-term unemployment.

3

Being young and having a low level of education impede access to employment and this negative impact has increased over time. Being a woman also reduces access to employment, although this negative impact has decreased over time.

4

Access to employment varies significantly according to autonomous community, and differences are exacerbated among young people: taking into account people aged 25-29, the probability of having a job in Navarre is 92% while in Andalusia it is 72%.

5

Income inequality is also related to hours worked. Part-time workers tend to be low-paid and most of them would like to work more hours.

6

Part-time employment predominantly affects young people and women. Up to a quarter of people in the lowest 20% of income earners are part-time employed women. The gender gap in this area increased by 55% between 1999 and 2019.

7

People employed in the service sector have a lower work intensity. The probability of working full-time if you are young is no more than 80% in health or hospitality and this figure is 55% in education.

8

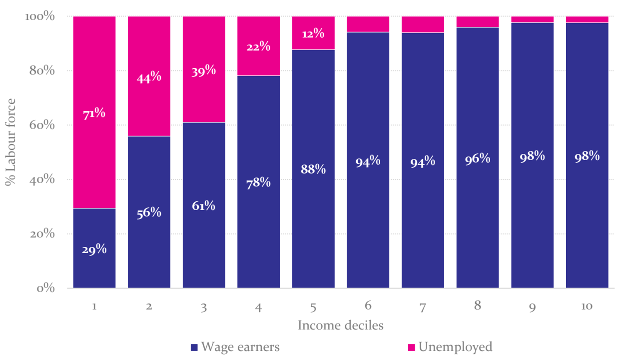
The covid-19 pandemic has made it even more difficult for young people to access employment.

1 Income inequality in Spain is strongly connected to access to employment

The relationship between inequality and access to employment can be detected if we look at the employment situation of people according to income deciles. In 2019, 70.6% of all people in the lowest income group (first decile) were unemployed. This proportion becomes reversed in favour of wage earners as income levels increase. Hardly any people are unemployed among the richest half of the population. This positive correlation between unemployment and inequality can also be detected in the changes of both indicators in recent years. Both unemployment and inequality rose sharply during the Great Recession, and it was only from 2014 onwards that a decrease in both indicators could be observed. Nonetheless, unemployment and inequality rates have not yet returned to pre-crisis levels despite the economic recovery.

Figure 1: Lack of employment affects mainly lower incomes

Distribution of labour force (employed and unemployed) according to income deciles, 2019



Note: *the (monetary and non-monetary) income of wage earners and unemployment benefits in net terms have been taken into account. Inequality is measured by the Gini index, taking into account equivalised disposable income, which helps compare the income of households of various sizes.*

Source: author's calculations based on data from the "Living Conditions Survey" (ECV) 2019, INE.

Figure 2: Changes in inequality is positively related to a lack of employment

Unemployment rate and Gini index (equivalised disposable income) in Spain, 2005-2019

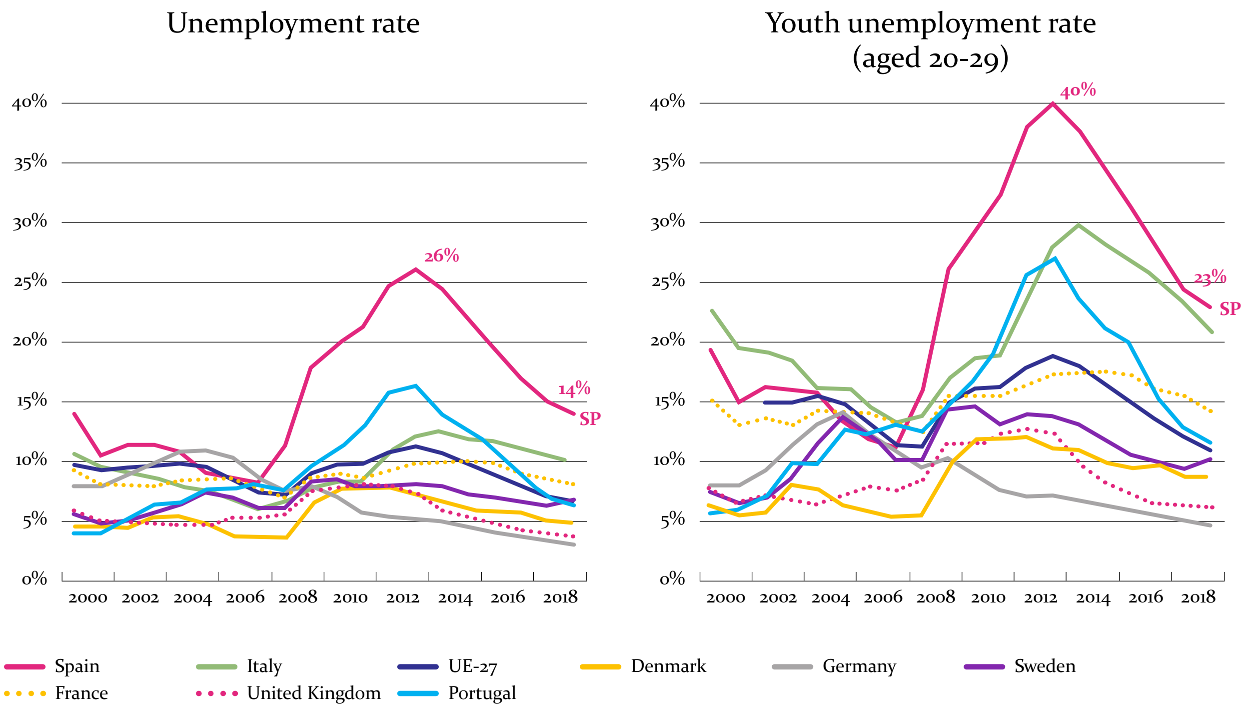
Source: Eurostat.

2 Spain has one of the EU's highest unemployment rates, especially among young people, as well as a high level of long-term unemployment

The unemployment rate in Spain was among the EU's highest in the wake of the Great Recession, and it has remained so despite the subsequent economic recovery. Special mention should be made of youth unemployment, which rose to 40.1% of young people of working age at the height of the effects of the crisis in 2013.

Figure 3: Access to employment in Spain is much more difficult and volatile than in the rest of Europe, especially for young people

Unemployment and youth unemployment rates (aged 20-29), 2000-2019

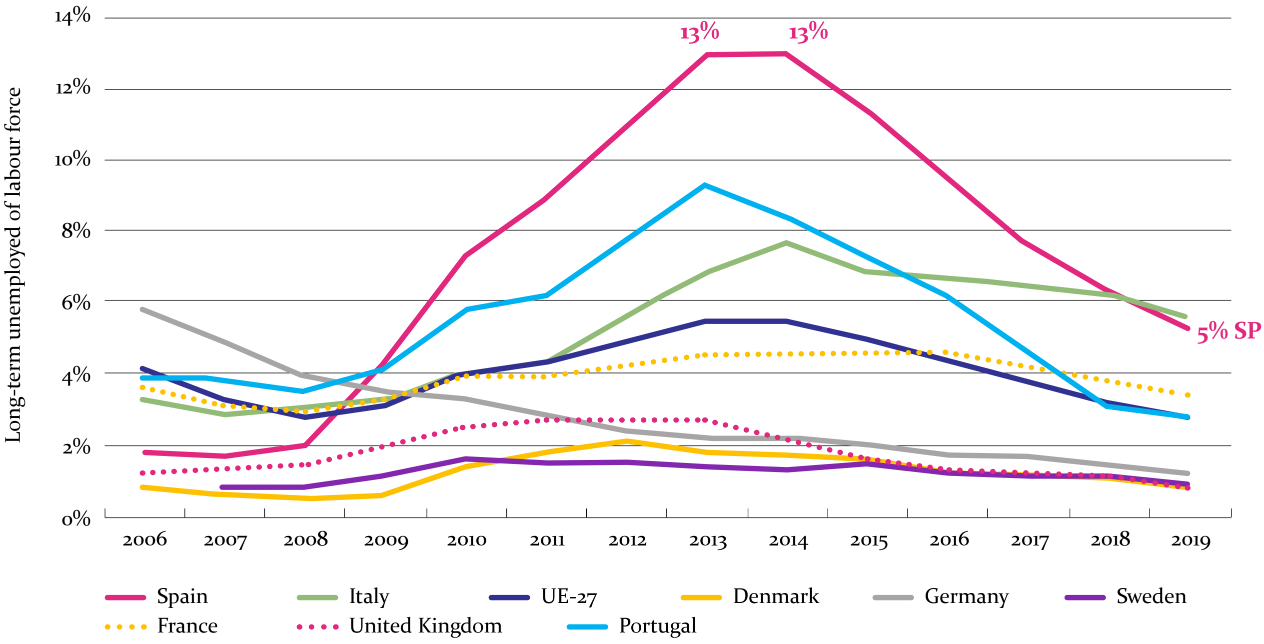


Source: Eurostat.

Spain is also characterised by a high degree of chronic unemployment. A total of 13% of its labour force had been unemployed for more than a year at the height of the Great Recession, compared to the European average of 5.5%. Difficulties in finding a job increase as this state of unemployment continues, which means that its persistence over time can lead to chronic inequality.

Figure 4: Spain has a high level of long-term unemployment and this increases the risk of chronic inequality

Long-term unemployment, 2006-2019



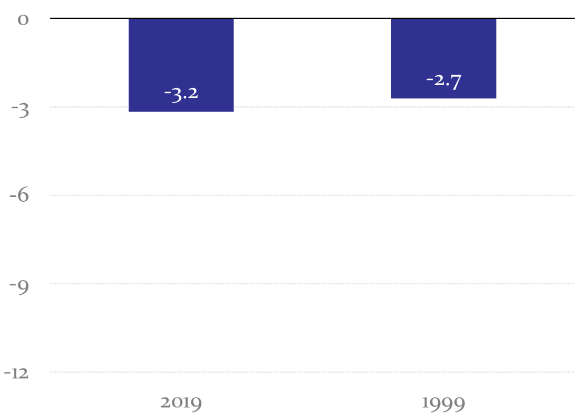
Source: Eurostat.

3 Being young and having a low level of education impede access to employment. Being a woman also reduces access to employment

Young people (aged 25-29) are 3 percentage points less likely to be employed than middle-aged people (aged 30-45). A gender gap also exists with similar characteristics: women are 5.4 percentage points less likely than men to be employed. Nonetheless, it is important to note that this gap has narrowed substantially, from 9.7 points 20 years ago.

Figure 5: Young people make up the age group with the greatest difficulty in accessing employment

Effect on the probability of being employed, young people (aged 25-29), 1999 vs. 2019

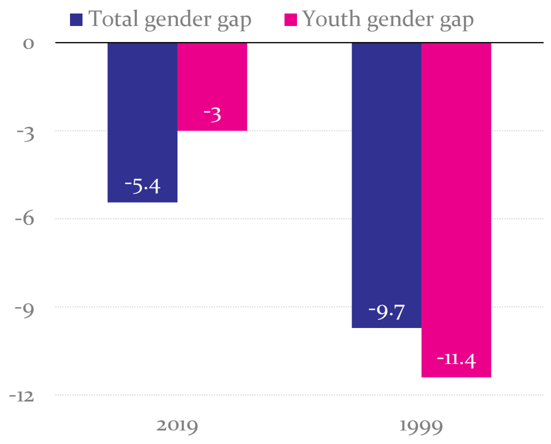


Note: *average marginal effects. Reference group: people aged 30 to 45.*

Source: author's calculations based on data from the "Labour Force Survey" (EPA) 2019, INE.

Figure 6: Women have more difficulties in accessing employment compared to men, although the gap is smaller than 20 years ago

Effect on the probability of being employed, total women and young women (aged 25-29), 1999 vs. 2019



Note: *average marginal effects. Reference group: men.*

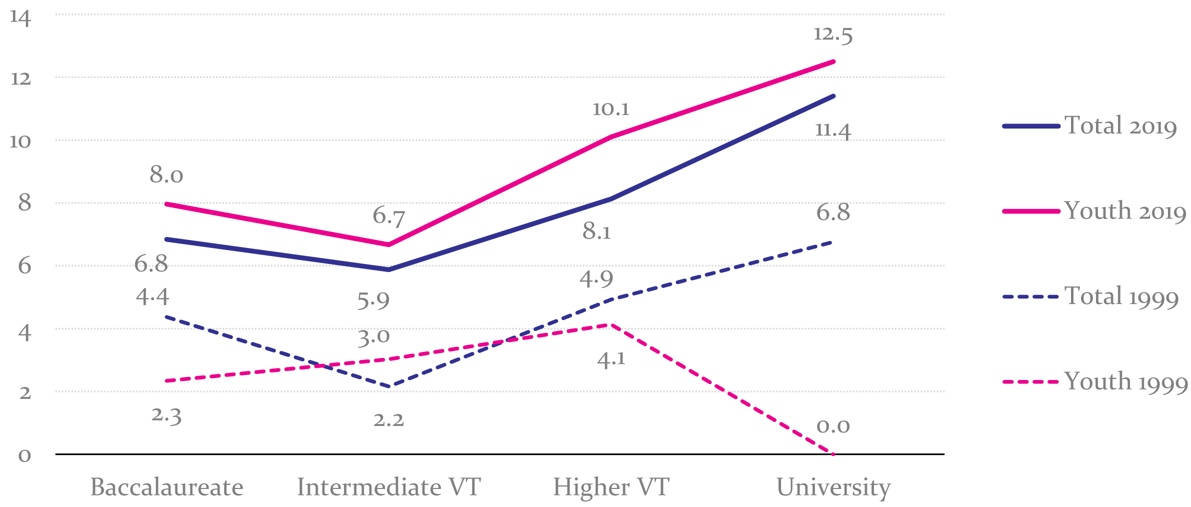
Source: author's calculations based on data from the "Labour Force Survey" (EPA) 2019, INE.

The probability of accessing employment increases with higher educational levels, especially among young people[1]. Education is more important today than it was 20 years ago, with a higher positive effect for all educational levels compared to the group of people with an educational level equal to or lower than compulsory secondary education (ESO).

[1] Except for university education in the case of young people in 1999, whose effect is not significantly different from zero. A possible explanation of this result could be the short-term delay between the completion of university studies and actively searching for a job.

Figure 7: Educational levels help more today than they did 20 years ago when it comes to accessing employment, especially for young people

Effect on the probability of being employed according to educational levels, total population and young people (aged 25-29), 1999 vs. 2019



Note: *average marginal effects. Reference group: people with an educational level equal to or lower than compulsory secondary education (ESO).*

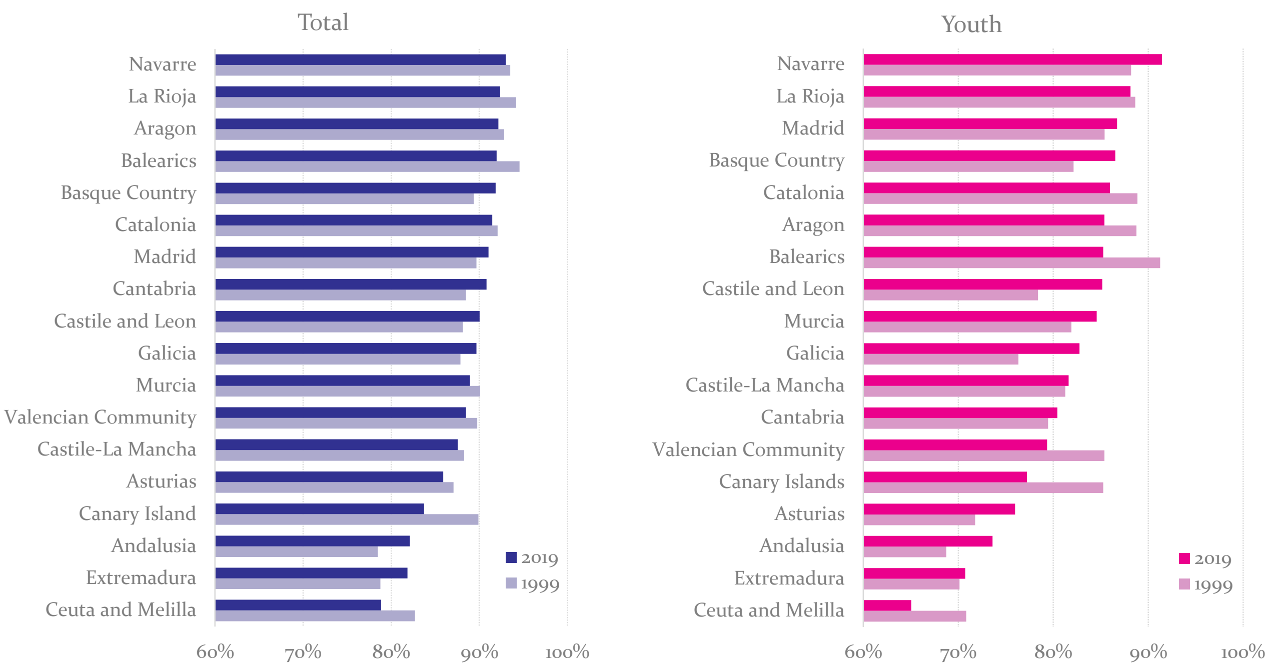
Source: author's calculations based on data from the "Labour Force Survey" (EPA), INE.

4 Access to employment varies significantly according to autonomous community, and differences are exacerbated among young people

Navarre, La Rioja and Aragon are notable as regions where a person is most likely to be employed, while the probability of being employed is lower in Andalusia, Extremadura and the autonomous cities of Ceuta and Melilla. In the case of people aged under 30, the differences between regions with the highest and lowest probability of finding a job are even more striking. With regard to changes over time, it can be seen that there are regions in which the probability of finding a job has increased over the past 20 years, as is the case of the Basque Country, Madrid and Andalusia (among others), while the opposite effect has occurred, especially among the population of young people, in the case of, for example, the Balearic Islands, Canary Islands and Valencian Community.

Figure 8: Access to employment displays major differences across regions

Probability of being employed according to region for total labour force (aged 25-60) and young people (aged 25-29), 1999 vs. 2019



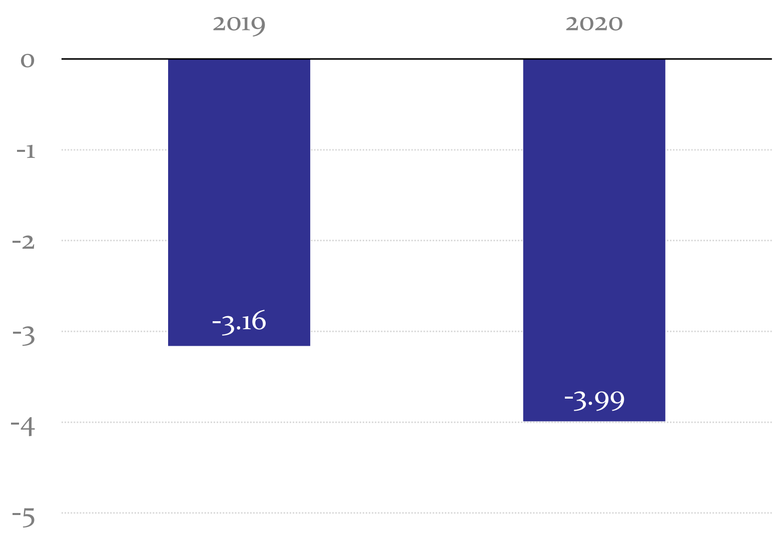
Source: author's calculations based on data from the "Labour Force Survey" (EPA), INE.

5 The covid-19 crisis has made access to employment even more difficult for young people

The covid-19 pandemic has brought economic activity to a standstill and this has hit the labour market hard. Nonetheless, this impact has not affected the entire population in the same way, as it has been particularly hard on the youngest people. This is because we are referring to a group that is highly affected by temporary contracts and therefore more prone to suffer labour market adjustments in times of recession. The negative effect on the probability of young people finding a job subsequently increased in 2020 to almost 4 percentage points.

Figure 9: The covid-19 crisis has made access to employment even more difficult for young people

Effect on the probability of being employed, young people (aged 25-29), 2019-2020



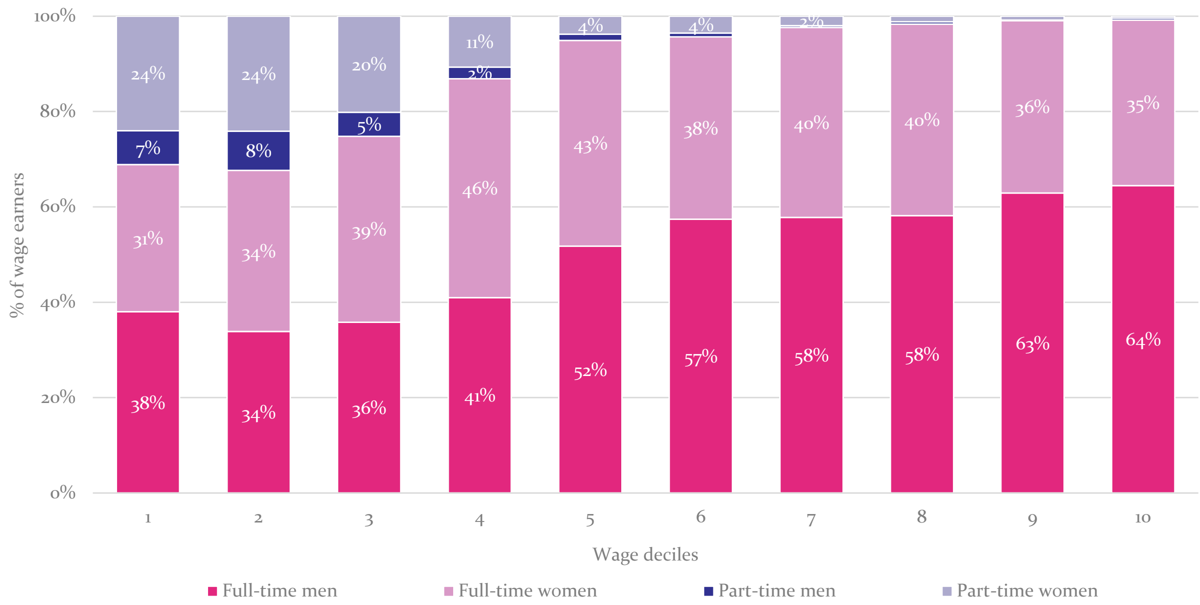
Note: *average marginal effects. Reference group: people aged 30-45.*

Source: author's calculations based on data from the "Labour Force Survey" (EPA), INE.

6 Income inequality is also related to hours worked

Job insecurity becomes particularly relevant when taking into account the differences among employed people. The analysis has especially focused on the inequality between those working full time and those working part time. The phenomenon of part-time employment has an unequal effect on society, and women in particular have much higher rates of part-time work (percentage of part-time workers among all employed persons) than men. This difference partly explains the gender gap, given that part-time workers tend to be lower paid.

Figure 10: Part-time workers, who are mostly women, have lower wages
Distribution of wage earners by wage deciles according to type of workday and gender, 2019



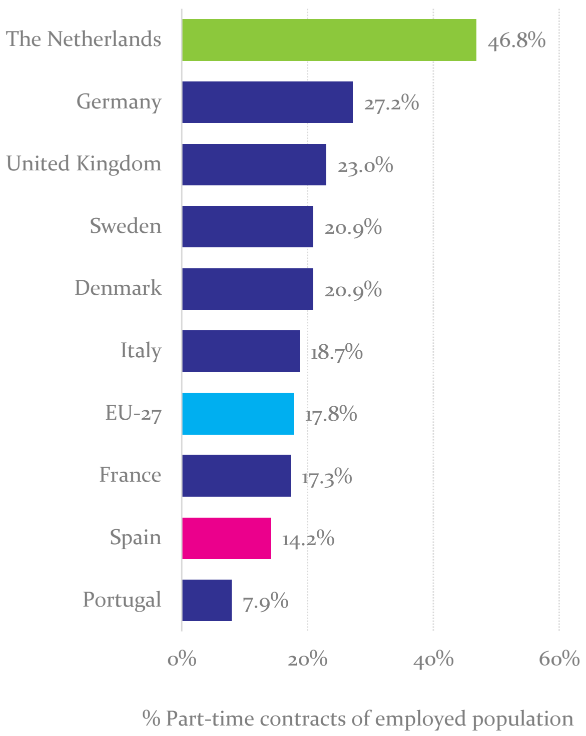
Note: *the (monetary and non-monetary) income of wage earners has been taken into account in net terms.*

Source: author's calculations based on data from the "Living Conditions Survey" (ECV) 2019, INE.

In European terms, Spain's part-time work rate stands at 14.2% and is lower than the average. Nonetheless, this is largely an involuntary phenomenon, given that more than half of the people in this situation work fewer hours than desired. In contrast, almost half of those employed in the Netherlands work part-time, but only a 5.4% minority do so involuntarily.

Figure 11: In European terms, Spain has a low part-time employment rate

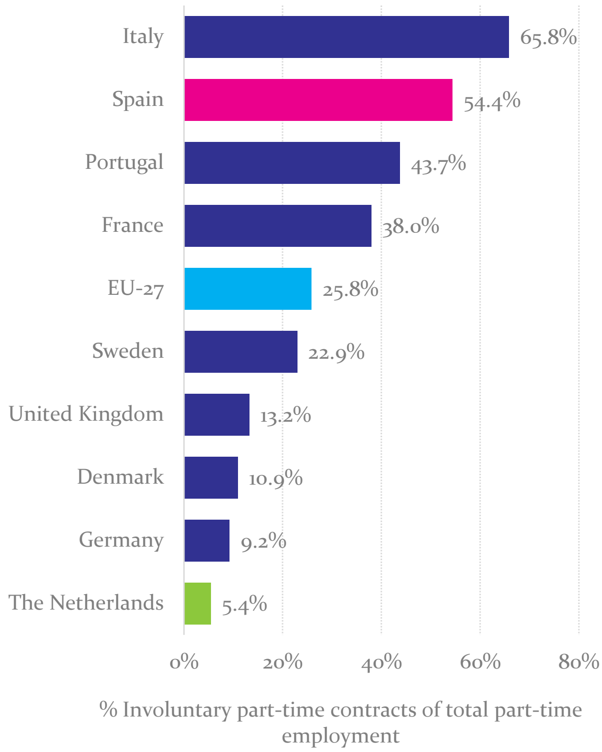
Part-time contracts as a proportion of employed population, 2019



Source: Eurostat.

Figure 12: Nonetheless, this is largely involuntary part-time employment

Involuntary part-time contracts as a proportion of total part-time employment, 2019



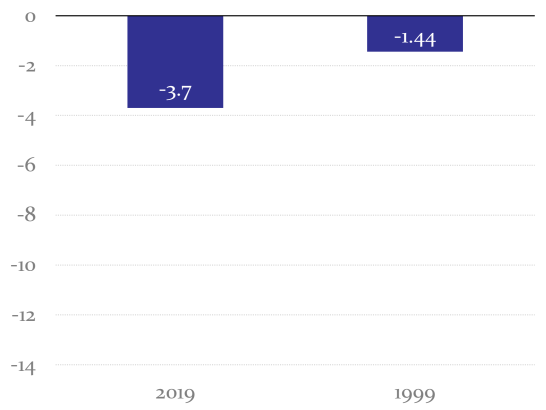
Source: Eurostat.

7 Part-time employment primarily affects young people and women

There are two groups of people more affected by part-time employment. On the one hand, young people, who are 3.7 percentage points less likely to be in full-time employment compared to middle-aged people. This penalisation is higher than the 1.44 percentage points detected 20 years ago. Women, on the other hand, are 12.6 percentage points less likely to be in full-time employment than men. While it is true that the gap is narrowing for young women, the risk of working few hours is much higher today than 20 years ago for both the total working population (4.5 points) and population of young people (1.6 points). In fact, the gender gap in this area increased by 55% between 1999 and 2019.

Figure 13: Part-time work is more prevalent among young people, who find it more difficult to work full-time than 20 years ago

Effect on the probability of working full-time, young people (aged 25-29), 1999 vs. 2019

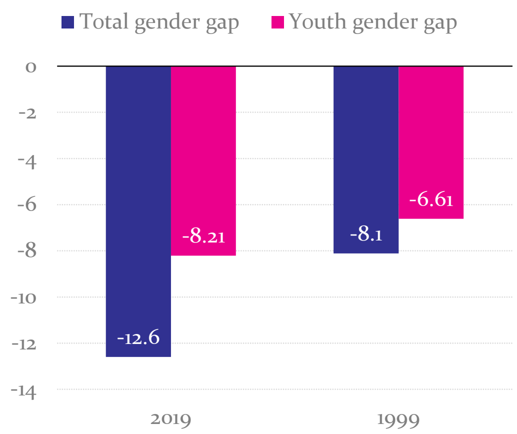


Note: *average marginal effects. Reference group: people aged 30 to 45.*

Source: author’s calculations based on data from the "Labour Force Survey" (EPA), INE.

Figure 14: Women are less likely to work full-time. This gap has widened markedly over the past 20 years

Effect on the probability of working full-time, total women and young women (aged 25-29), 1999 vs. 2019



Note: *average marginal effects. Reference group: men.*

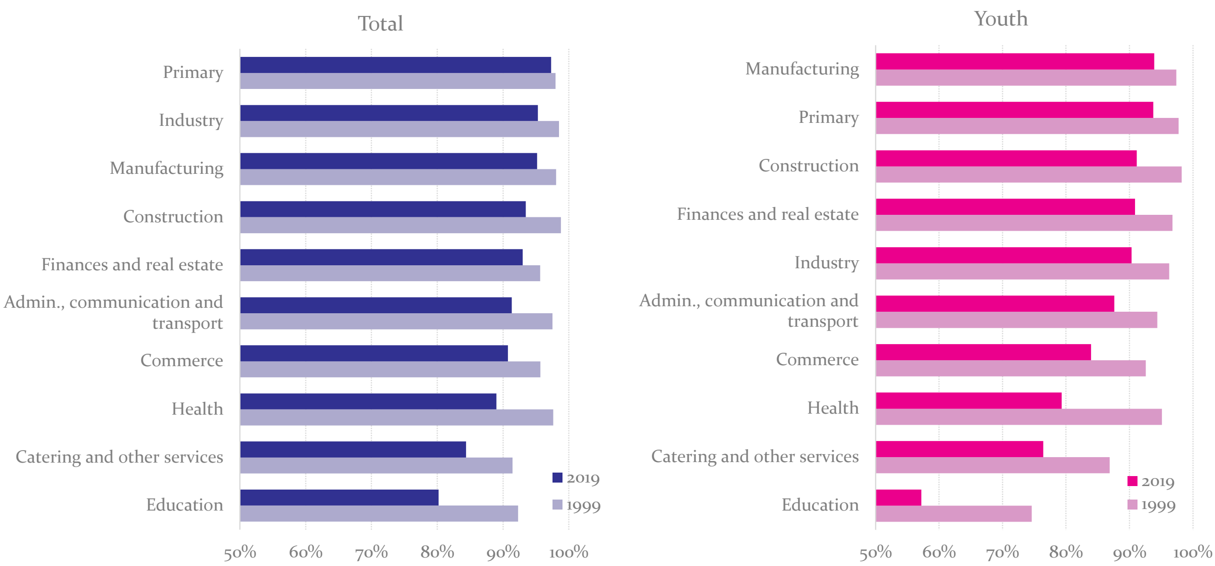
Source: author’s calculations based on data from the "Labour Force Survey" (EPA), INE.

8 People employed in the service sector have a lower work intensity

The probability of working full-time varies significantly according to activity sector. The agricultural, industrial and manufacturing sectors make up the group with the highest probability of working full-time. It is the activities related to the service sector – health, education, and hotels and restaurants, among others – that have the lowest probability of full-time work. These differences among sectors are much greater when the analysis has focused exclusively on the group of young people. As an additional note, the probability of working full-time has declined across the board since 1999, particularly in the services sector. It is the activities related to this sector that have therefore experienced the largest decline in labour intensity and consequently in wages.

Figure 15: Part-time work particularly affects the health, education and hotel and catering sectors

Probability of full-time work according to activity sector for total labour force (aged 25-60) and young people (aged 25-29), 1999 vs. 2019



Source: author's calculations based on data from the "Labour Force Survey" (EPA), INE.

Conclusions

It could be said that income inequality in Spain is closely related to the reality of the labour market. Two elements of the labour market can specifically be highlighted as the cause of this link: inequality in access to employment, which is directly related to unemployment, and inequality in employment, which is more closely related to job insecurity, and especially to the number of hours worked. Young people are one of the groups most affected by this inequality of opportunities in the labour market, given that they have the most difficulties in accessing employment, and they are more likely to work part-time or have a temporary contract when they do so. This group has also suffered greatly from the impact of the covid-19 pandemic. It is therefore necessary to implement an employment plan focused on young people that promotes their access to employment and strives to reduce job insecurity by strengthening the figure of a stable contract. On the other hand, we cannot ignore the fact that there is a gender gap in the labour market that also directly impacts inequality. Although this gap has narrowed over the years, the gap in labour intensity has continued to widen. This is because part-time work has become a phenomenon that mostly affects women. In light of this reality, it is essential to continue to make progress in terms of work-life balance and to promote an equal distribution of tasks between men and women. Finally, there are other aspects that also influence inequality of opportunities in the labour market and these should be alleviated, such as differences in education or those among regions or sectors of activity.

Proposed actions

1

It is necessary to promote measures to reduce early school leaving and encourage young people to undertake higher education, whether it is vocational training or university studies.

2

Active employment policies aimed at the reintegration of unemployed people into the labour market should be designed in line with the needs of the labour market, following international best practices examples such as those in Germany, France and Finland.

3

An employment plan for young people should be designed to facilitate their access to the labour market. This plan should also aim to reduce job insecurity, especially in sectors and regions where it is most prevalent.

4

Women assume almost all care work in the home and this forces them to reduce their work intensity. It is essential to implement measures that encourage the equal sharing of burdens and tasks between men and women and encourage the equal reconciliation of family and work.

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Low labour intensity and the origins of inequality

How production and wage structures and also technological change affect inequality in Spain

Manuel Alejandro Hidalgo Pérez, Pablo de Olavide University and ESADE EcPol

Abstract

Wage inequality in Spain grew in the years following the Great Recession of 2008, and this increase places Spain among the countries with the highest wage inequality in Europe. The main, although not only reason was the increase in temporary and part-time contracts among the lowest paid and youngest workers. The production structure of the Spanish economy is a determining factor, as the distribution of various types of contracts corresponds to the particularities of each sector. Finally, although technological change increases wage inequality, training reduces it.

Main ideas

1

Wage inequality in Spain has grown since the onset of the Great Recession, and this increase is mainly due to the rise in temporary and part-time contracts among people earning lower wages.

2

The lowest paid workers have experienced a reduction in their total working hours following the Great Recession, although no significant changes in hourly wages have been observed.

3

This increase in inequality was more pronounced between 2014 and 2018, driven by higher wage growth among the highest earners compared to the lowest earners.

4

The share of temporary and part-time employment accounts for most of the differences in inequality among sectors.

5

Inequality between younger and older workers grew between 2010 and 2018, as those aged 30 and over saw their average gross monthly wage increase by 1.5%, while those under 30 saw it fall by 8.1%.

6

High temporary employment is one of the reasons why inequality in Spain is among the highest in the European Union.

7

Technological change increases wage polarisation in the labour market, an effect on wage inequality that can be partially offset by training.

8

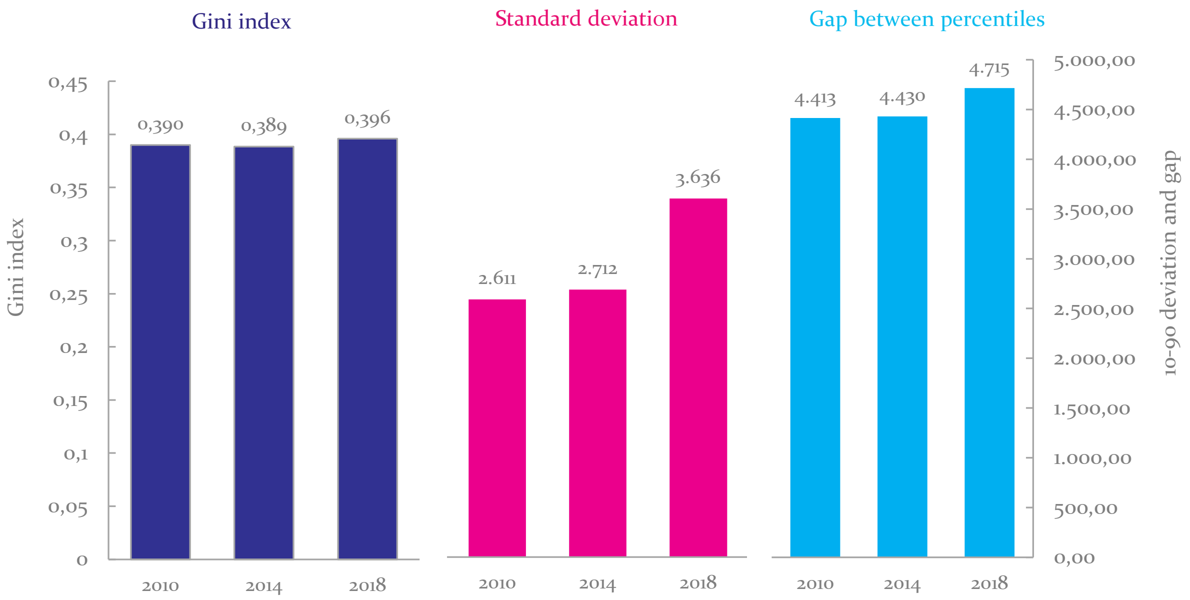
Covid-19 has apparently not led to a large increase in wage inequality, and this can be explained by two opposing trends that largely offset each other: temporary layoffs will have increased inequality, but rising unemployment will have reduced this.

1 Wage inequality in Spain has grown since the onset of the Great Recession

The indicators available for the Spanish economy over the past decade have shown an increase in wage inequality. Nonetheless, this increase stems from differential behaviour between two different periods: the first, between 2010 and 2014, and the second, the remaining time until 2018. While the first period shows a slight increase in inequality in absolute terms (euros), it is between 2014 and 2018 when this increase became more pronounced, driven by a higher increase in wages among the highest earners compared to the lowest earners.

Figure 1: Various indicators reveal an increase in inequality between 2010 and 2018, especially in the last four years

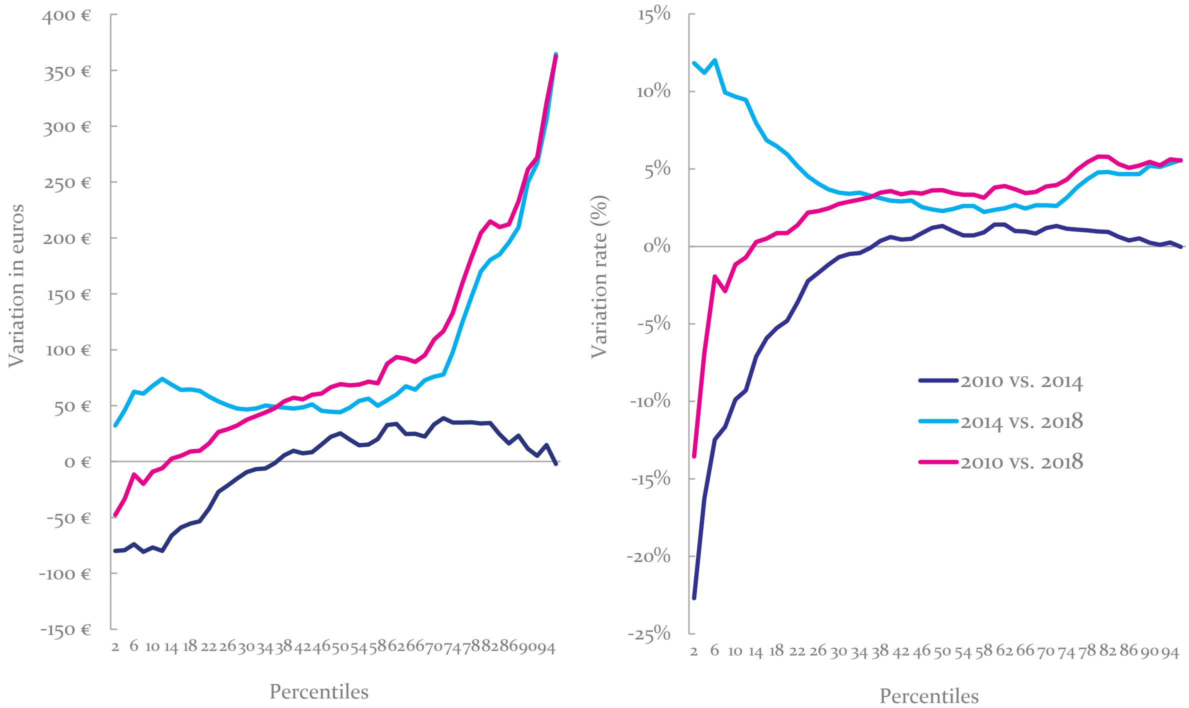
Evolution of various measures of monthly gross wage spread: Gini index of wage distribution, standard deviation and gap between 10th and 90th percentiles, 2010, 2014 and 2018



Note: *standard deviation indicates the extent of wage spread with regard to the average wage. The larger the standard deviation, the greater the spread. The gap between percentiles is measured as the difference between the wages representing the 10th and 90th percentiles for each year. In other words, between the wage that leaves only 10% of wages to its left and the wage that leaves 90% of wages to its left. The left axis shows Gini index values, and the right axis shows standard deviation values and gap between percentiles.*

Source: compiled by the author based on data from the "Wage Structure Survey", 2010, 2014 and 2018, INE.

Figure 2: Inequality has increased as a result of lower wage growth in the lower percentiles
Absolute change (euros) and rate of change (%) in gross monthly wage by wage distribution percentile, 2010, 2014 and 2018



Note: *the lines shown correspond to the differences between wage distribution percentiles between the years indicated, in euros in the left-hand panel and in rates of change in the right-hand panel. For example, the difference in euros between the 10th percentile in 2014 and 2010 was -76.9 euros (left-hand panel) or -9.9% (right-hand panel).*

Source: compiled by the author based on data from the "Wage Structure Survey", 2010, 2014 and 2018, INE.

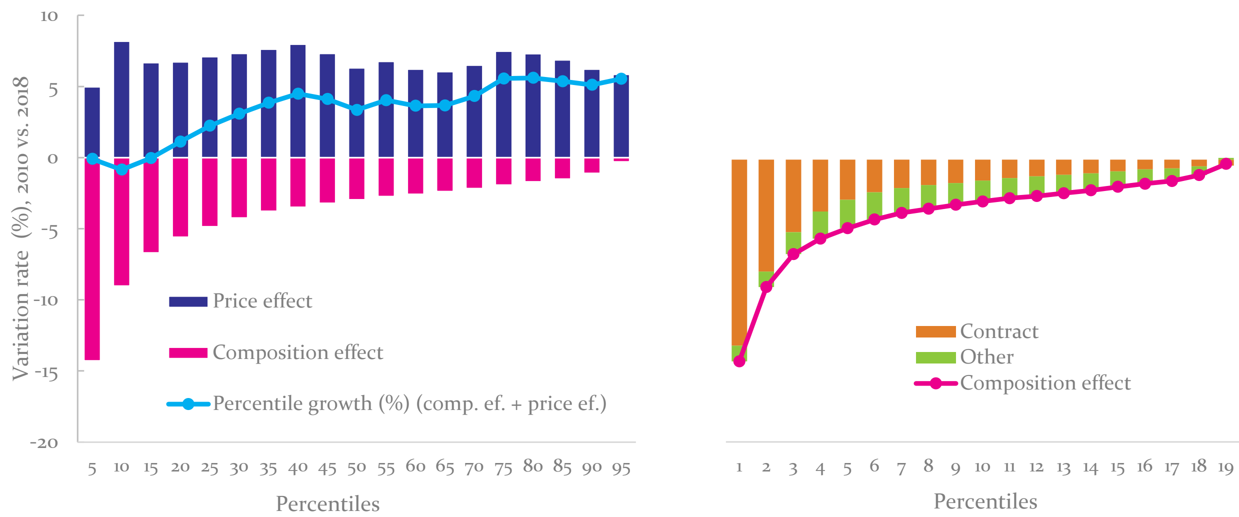
2 The increase in wage inequality is mainly due to the unequal share of low labour intensity contracts

Workers are defined by a number of characteristics (e.g. experience, educational level, types of contracts, etc.), and each characteristic is remunerated differently in the labour market. The total remuneration of a group of workers may thus vary because of a change in the price of these characteristics (referred to as the "price effect") or because of a change in the characteristics of the group (referred to as the "composition effect").

In this case, unequal wage variation across percentiles is seemingly explained by changes in the composition of characteristics. Specifically, across these characteristics, it is an increase in the share of temporary or part-time contracts over the total that would explain a high proportion of the change in wage inequality between 2010 and 2018. The slower growth in low pay is therefore not as much due to the fact that workers with certain characteristics were paid less, but because the "characteristics" of this group changed. This group progressed towards a higher share of temporary contracts, or a lower labour intensity.

Figure 3: Price effect has been similarly positive for all wage levels, but composition effect has had a negative impact, especially on the lowest wages

Percentage change in gross monthly wages by percentile between 2010 and 2018 (left-hand panel) and composition effect breakdown (right-hand panel)



Note: *the sum of composition effect and price effect yields the percentage increase by each percentile between 2010 and 2018 (left-hand panel). The right-hand panel shows a breakdown of the composition effect. For example, while the 10th percentile fell by almost 1% between 2010 and 2018, the 90th percentile rose by 5.1%. This different behaviour is almost entirely explained by the change in the characteristics of jobs and working persons by percentile. For example, the drop due to the composition effect was 9.0% at the 10th percentile, while it was barely 1% at the 90th percentile.*

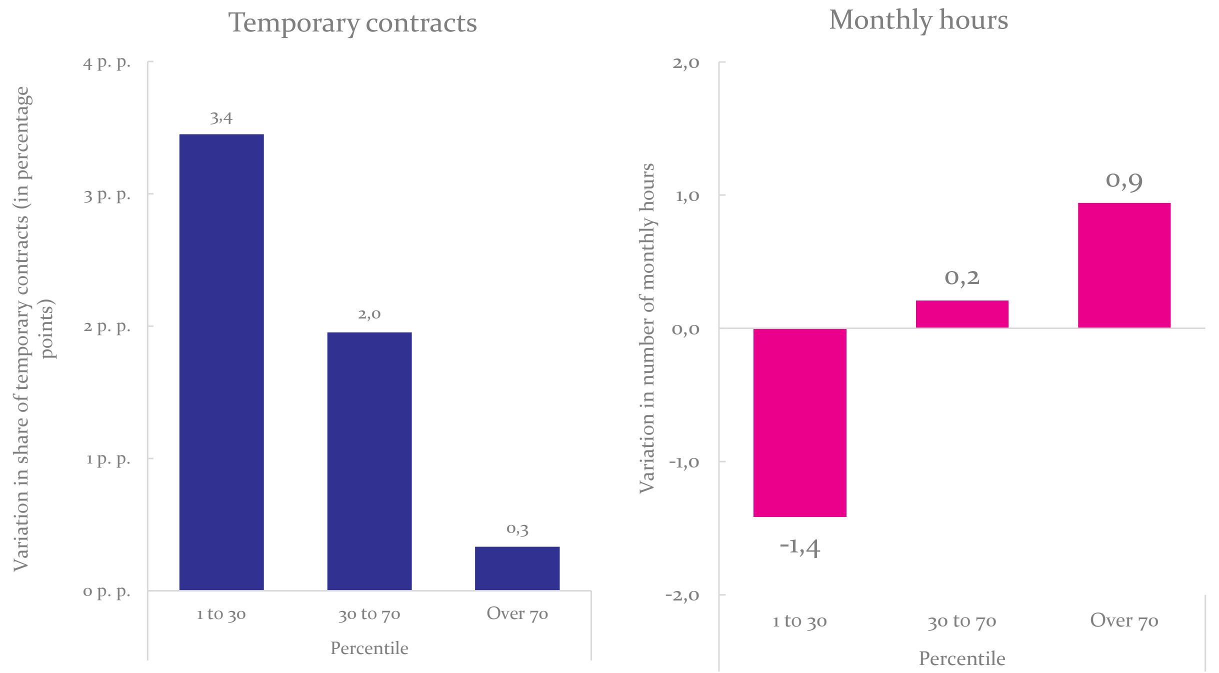
Source: compiled by the author based on data from the "Wage Structure Survey", 2010 and 2018, INE.

3 The lowest paid workers have experienced a reduction in their total working hours following the Great Recession

An increase in temporary employment and greater use of part-time contracts among lower-paid workers have played an important role in growing wage inequality over the past decade. The share of temporary contracts therefore increased more sharply between 2010 and 2018, while the share of permanent contracts fell. This led to a fall in average hours worked per employee at the bottom wage distribution ranking and, as a result, gross monthly wages in this group fell. This fall in hours explains much of the increase in wage inequality, rather than a drop in hourly wages.

Figure 4: The share of temporary contracts increased among low-paid people more than in all other groups

Evolution of the share of temporary contracts and hours worked by distribution brackets, 2010 vs. 2018



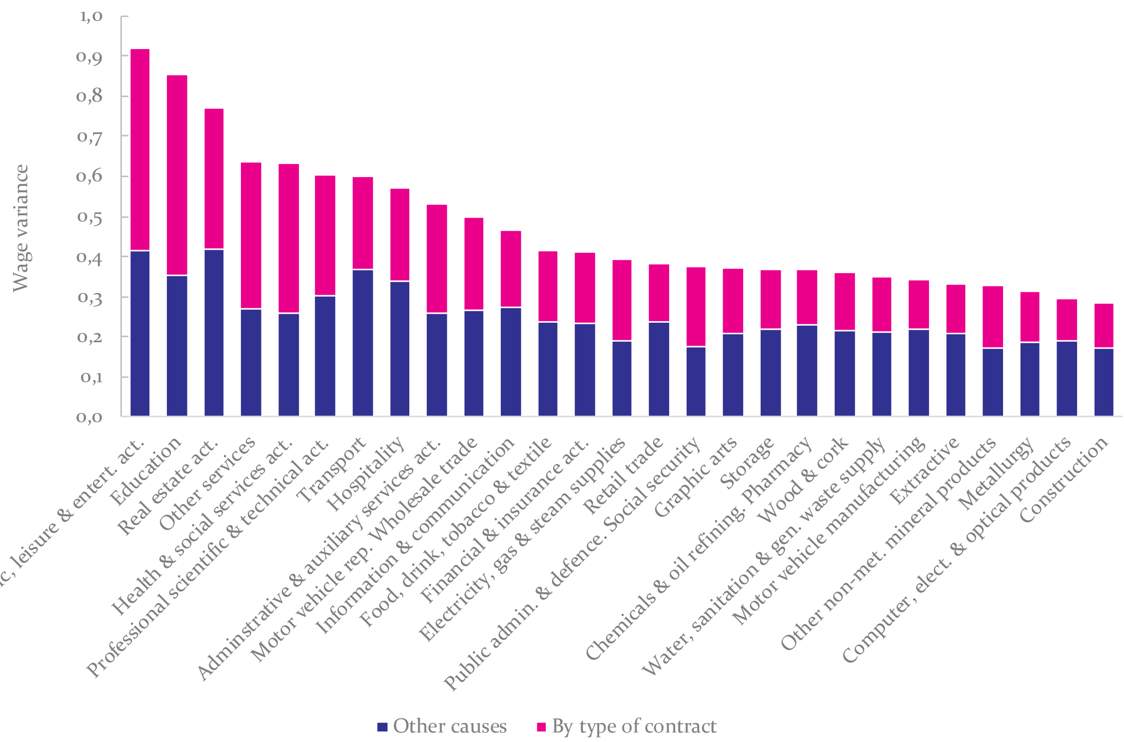
Source: compiled by the author based on data from the "Wage Structure Survey", 2010 and 2018, INE.

4 The share of temporary employment accounts for most of the differences among sectors

The different characteristics of companies in each productive sector has led them to use various types of contract to cover their staffing needs. Nonetheless, the regulations in Spain also encourage the abuse of temporary contracts, even in sectors where the seasonal production causes of the activity fail to justify this. A greater use of part-time contracts has been added to this in recent years, which, according to Spain's "Labour Force Survey" (EPA), is largely involuntary. The distribution of wage inequality among the various sectors is therefore closely tied to the use of this type of contract. Indeed, the production structure contributes little to wage inequality among sectors, as this falls by up to 60% if the effect of contracts and employment is "deducted".

Figure 5: Contract type explains most wage inequality within sectors

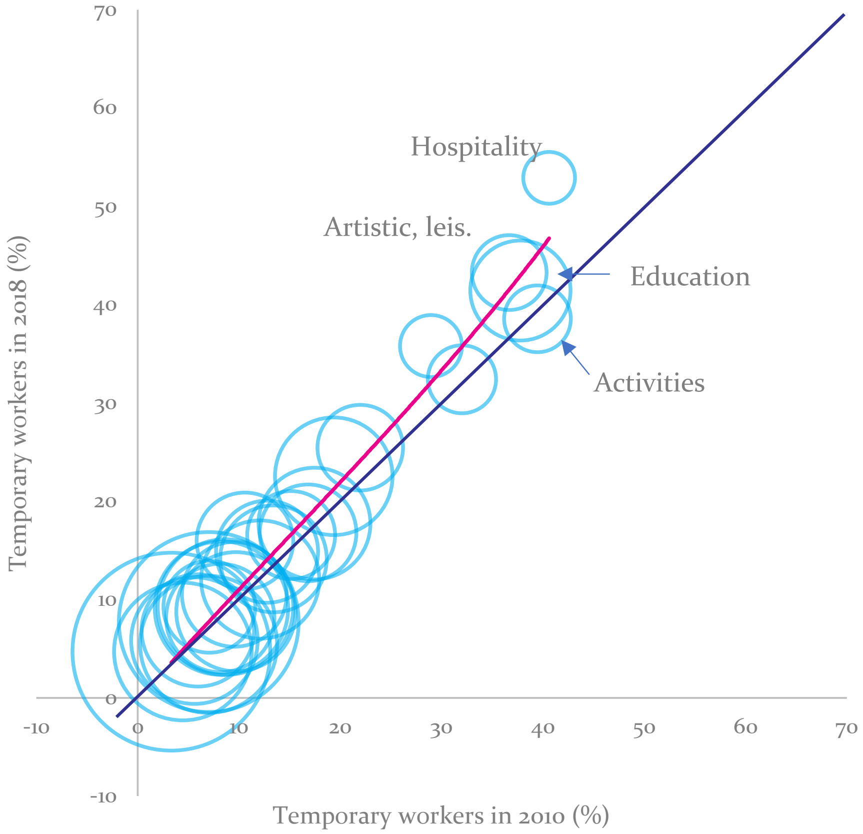
Logarithm variance of gross monthly wages by sector and type of contract, 2018



Source: compiled by the author based on data from the "Wage Structure Survey", 2018, INE.

The share of temporary contracts specifically increased in most sectors (21 out of 27), and it also increased even further in those sectors where temporary employment was already high.

Figure 6: The increase in temporary employment was higher in sectors where temporary employment was already high, such as hospitality or education
Percentage of workers with temporary contracts by sector, 2010 and 2018



Note: *this figure relates the shares of temporary employment in each sector in 2010 to those in 2018. The size of the circle reflects the share of the sector in terms of employment in 2018. On the blue line indicates that the share of temporary employment in a sector in 2010 would be the same in 2018. Above the line, that the share of temporary employment would be higher in 2018 than in 2010. Finally, the pink line is a non-linear approximation to the relationship among the sectoral shares of temporary employment for both years and by sector. The fact that it moves increasingly further away from the blue line from its origin indicates that those sectors with a greater share of temporary employment in 2010 also increased it more during these years.*

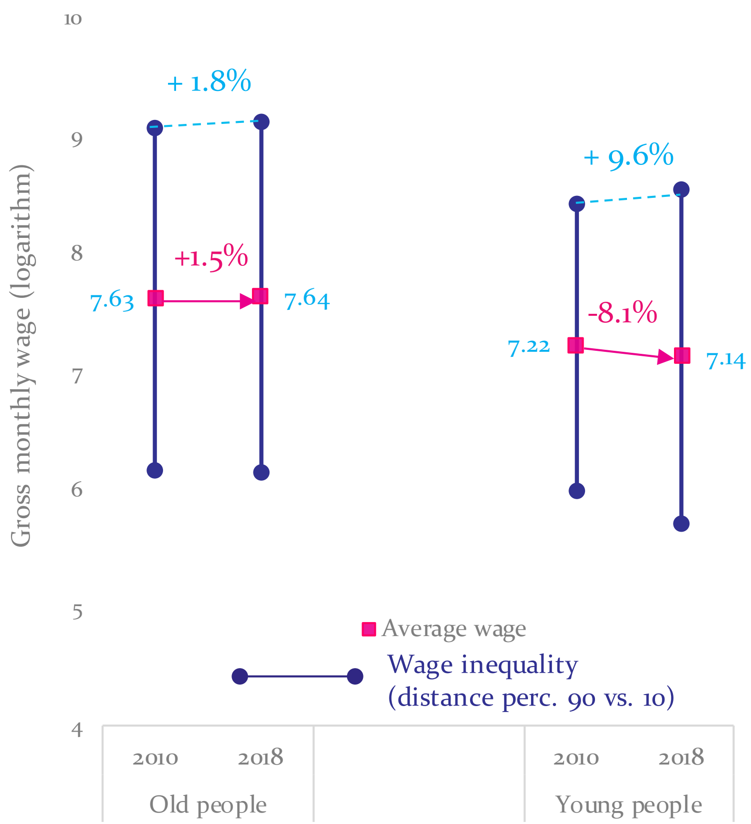
Source: compiled by the author based on data from the "Wage Structure Survey", 2018, INE.

5 Inequality between younger and older workers grew between 2010 and 2018

The average gross monthly wage of working people aged 30 and over increased by 1.5% between 2010 and 2018, while that of those under 30 fell by 8.1%. This implies an increase in inequality between young and old. Inequality within the two groups also evolved differently. While it increased by 1.8% among older workers, it increased by 9.6% among the young. The results of these estimates indicate contracting as the main explanation. This increase in inequality between groups, alongside growing differences within each group, especially among young people, helped to increase wage inequality in Spain.

Figure 7: While the average wage and extent of wage inequality rose moderately among the over-30s, the average wage fell sharply and wage inequality increased among the young

Logarithm of the average gross monthly wage and of the 10th and 90th percentiles by age group, 2010 and 2018



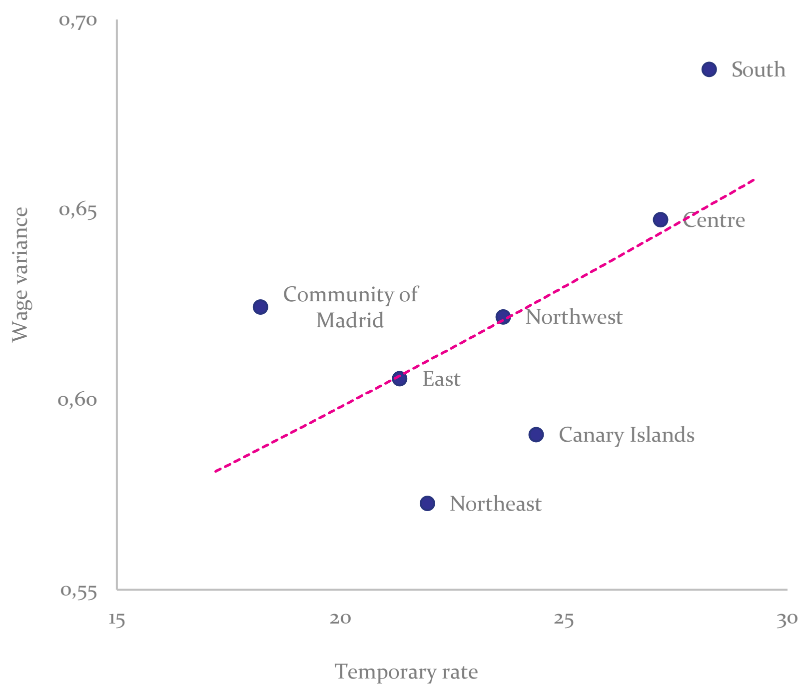
Note: *this figure shows the evolution of the average gross monthly wage (in logarithm) for two age groups of workers (young people under 30 and people aged 30 and over). It also includes the gap between the 10th and 90th percentile wages for each group. The segment reflects this gap between percentiles.*

Source: "Wage Structure Survey", 2010 and 2018, INE.

The greater share of temporary employment in terms of regions also suggests a connection between its use and greater wage inequality. Once again, the existence of differences in the production structure across regions would affect differences in wage inequality among regions. But the main influencing factor is that different sectors make differentiated use of possible types of contract.

Figure 8: The association between temporary employment and wage inequality can also be seen across territories

Relationship between temporary employment rate and logarithm variance of average gross monthly wages by regional groupings, 2018



Note: *the availability of data for this paper does not identify the autonomous communities in full detail for reasons of statistical confidentiality, only reaching the groupings shown in this figure. South: Andalusia and Murcia; East: Valencian Community, Catalonia and Balearic Islands; Centre: both Castiles and Extremadura; Northwest: Asturias, Cantabria and Galicia; Northeast: Aragon, Navarre and the Basque Country.*

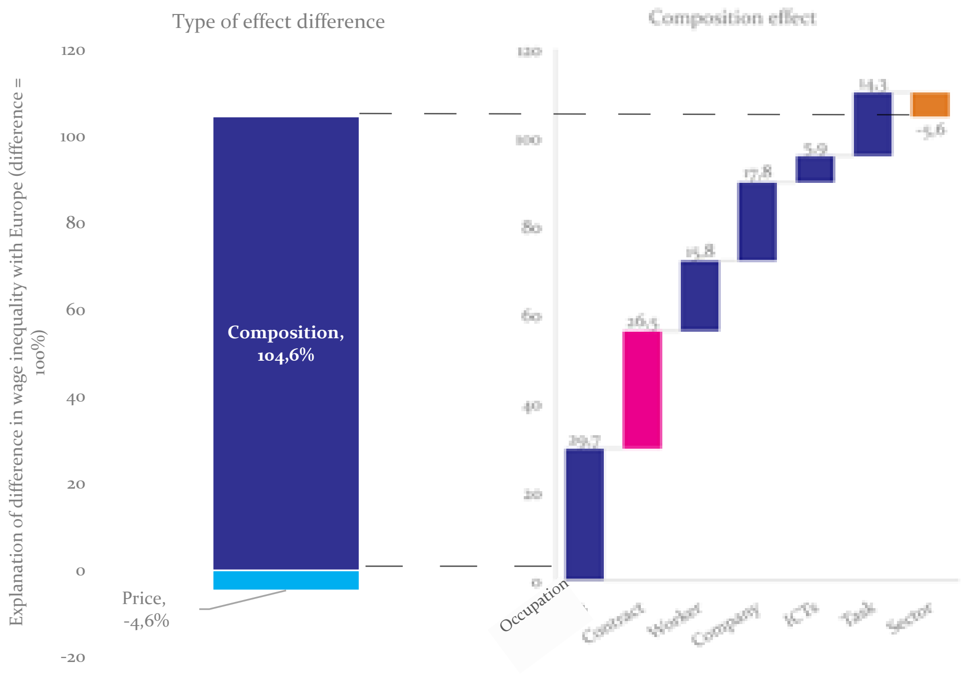
Source: compiled by the author based on data from the "Wage Structure Survey", 2018, INE.

6 High temporary employment is one of the reasons why inequality in Spain is among the highest in the European Union

Two issues should be underlined when comparing wage inequality in Spain with the rest of Europe. First, Spain is among the countries with the highest inequality. Second, it appears that the type of contract explains a quarter of these differences when the causes are analysed in comparison with a group of selected countries (Germany, France and Italy). Other important causes are differences in the average type of company (possibly related to productivity), in occupation or in the characteristics of the employees themselves.

Figure 9: Contract type is an important variable in explaining differences in inequality between Spain and other EU countries

Difference in logarithm variances of the average gross monthly wage between Spain and Europe by type of effect, as well as explanation of composition effect



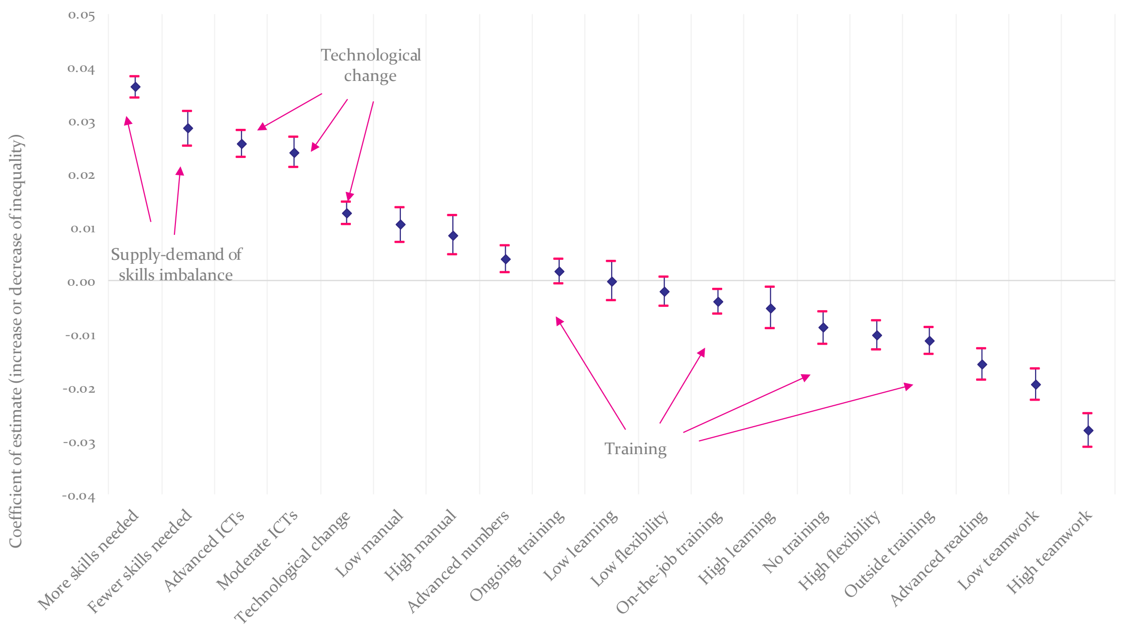
Note: *the left-hand panel shows how price and composition effects contribute to the difference with Europe in terms of wage inequality. The sum, equal to 100, is the difference in the variance of wages (in logarithms) between Spain and selected countries (higher in Spain by 12%). The right-hand panel is a breakdown of how each factor group contributes to the composition effect. It specifically includes occupation, type of contract, personal characteristics of worker (such as education or gender), type of company (such as size or ownership), whether or not it uses new technologies (ICTs), tasks that the worker performs in his/her job or sector in which the firm conducts its activity. The sum of all these effects is equal to the composition effect.*

Source: compiled by the author based on data from Cedefop (European Centre for the Development of Vocational Training), 2014.

7 Technological change increases wage polarisation, but this effect can be offset by training

Technological change affects wages differently depending on the tasks performed. Thus, in those jobs with tasks whose performance is complemented by the use of information and communication technologies (ICTs), usually those with higher wages, technological change promotes wage growth. Conversely, in those jobs where ICTs replace workers, the effect on their wages is to reduce these. This process of task substitution has had a greater effect on workers who were in the middle reaches of wage distribution, largely because automation has mainly affected industry, where wages are specifically within this ranking. Technological change therefore replaces the middle wage earners and benefits the higher paid, although it does not affect those at the bottom reaches of wage distribution. The overall effect is a polarisation of the labour market that concentrates workers at the extremes. This would explain why technological change might increase wage inequality. Nonetheless, the fact that technological change increases inequality can be offset by workers acquiring technological skills and abilities. Training therefore reduces inequality, especially if it is matched to the skills demanded in jobs.

Figure 10: Technological change, and mismatch between supply and demand of technological skills, increases inequality. Worker training can reduce inequality
Effect of various worker and job post characteristics on the variance of gross monthly wages



Note: *10% confidence coefficients and intervals obtained in RIF regression of the variance in monthly gross wage logs for a set of variables. The estimated coefficient measures the effect of each variable included on the horizontal axis on wage inequality. It increases inequality if positive and reduces it if it is negative. It is important that the segment is separated from the horizontal axis that crosses the vertical axis at the 0 (zero) value. It can be said in that case that the effect on inequality is statistically significant.*

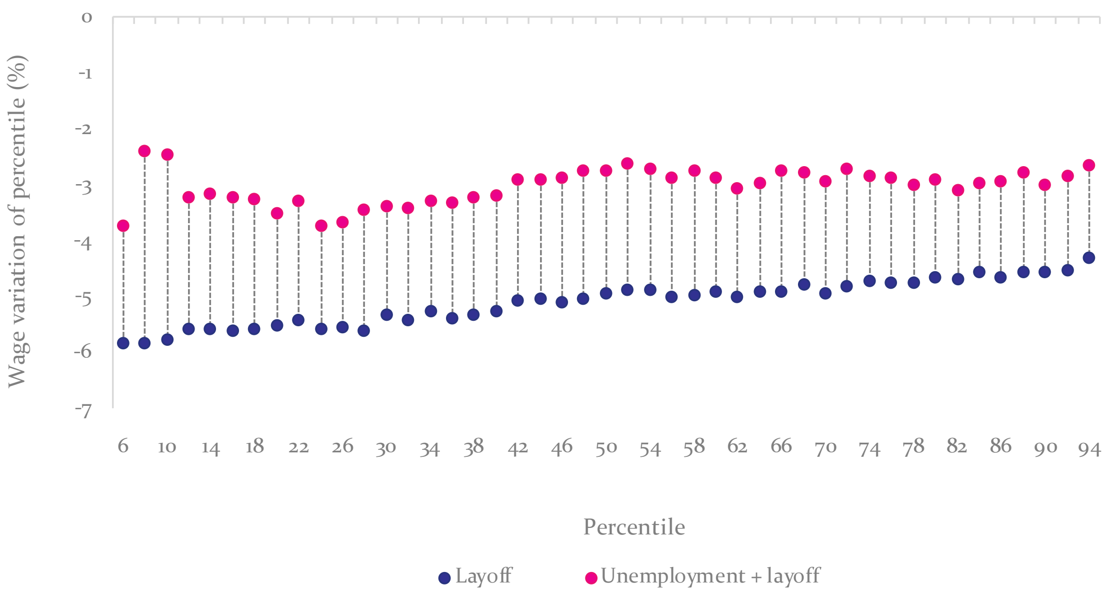
Source: compiled by the author based on data from the "Wage Structure Survey", 2018, and Cedefop.

8 The covid-19 pandemic has increased wage inequality, but this rise does not seem to be dramatic

The consequences of the pandemic on labour market inequality have so far been complex, although two are notable: a rise in unemployment and implementation of massive temporary layoff programmes. In the former, the rise in unemployment has reduced wage inequality among active workers. This can be explained by the fact that the probability of being dismissed tends to be higher among workers with worse "characteristics" and therefore lower wages. Moreover, because the probability of being dismissed is higher among people with temporary contracts, their departure from the labour market raises the average wage of lower-paid workers as labour intensity increases. Conversely, by its very definition, those agreeing to temporary layoffs have their pay reduced by up to 70% of their monthly income (according to Law 8/2020). If the probability of agreeing to temporary layoffs is not the same for all workers – as it is higher among those with lower salaries – these temporary layoffs would again have increased wage inequality.

There is also the likely role of technological change in the impact of covid-19 on wage inequality. It is therefore known that the possibilities of teleworking or readjusting production activity to the new scenario have not been the same for everyone, and that the situation has been more complex and difficult for workers who are less qualified and therefore have lower wages.

Figure 11: Covid-19 would have increased wage inequality
Wage change rate (%) of simulated distribution percentiles



Note: *simulation of variation of wage distribution percentiles by combining "Labour Force Survey" (EPA) data for 1st and 4th quarters of 2020 and wage structure in 2018 according to INE's "Wage Structure Survey". For example, the effect of the fall in wages due to a temporary layoff would be -5.9% at the 10th percentile, but the dismissal of lower-paid workers ultimately reduces this drop to -2.5%.*

Source: compiled by the author based on data from the "Wage Structure Survey" and "Labour Force Survey", INE, 2018 and 2020 respectively.

Conclusions

A good deal of wage inequality in Spain stems from the distribution of various types of contracts. An increase in temporary contracts and part-time jobs would have reduced labour intensity among those who earn the least, so that their average gross monthly wages would have fallen, compared to increases in the wages of those who earn the most. Since each sector makes differentiated use of these various types of contract, wage differentials among them are found to be diverse. For example, inequality has increased in sectors that traditionally had higher levels of temporary employment, as they have increased the use of this type of contract even more. This increase in temporary employment has particularly affected young people, who have seen their labour intensity reduced even further compared to older workers. As for the differences with Europe in terms of wage inequality, although they are partly explained by types of contracts, they stem from other equally significant causes, specifically differences in company productivity. Finally, technological change and covid-19 would have increased wage inequality.

Proposed actions

1

Given that a good deal of wage inequality stems from the particular distribution of contracting in Spain, any reform that reduces this spread would help to achieve the objective of reducing it. Some possible measures could include reducing differences in dismissal costs for each type of contract, discouraging high turnover between contracts and generally clarifying aspects of temporary contracts, such as grounds for dismissal, in order to prevent their abuse.

2

Although it is true that greater promotion of technologies increases inequality in the short and medium term, it may also reduce precariousness in the long term if accompanied by a suitable training policy geared to new market needs. Such a policy could be implemented in both compulsory and non-compulsory education. Training should especially focus on designing individualised training pathways that take into account the needs identified by companies and administrations. Training programmes should also be evaluated and their adaptation to the needs of enterprises should be explored.

3

Furthermore, income support for workers whose wages remain below minimum levels will always be necessary. An adequate design of income transfers will be essential, as well as improving both the minimum insertion incomes already existing in Spain's autonomous communities and its recently approved minimum living income.

4

Finally, it would be necessary to assess the relevance or otherwise of other mechanisms, such as tax credits for low-paid workers.

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Instability and problems to access housing, an increasingly more prevalent reality

Recent developments in demographic and social inequalities in access to housing and stability

Juan A. Módenes, Centre for Demographic Studies, Department of Geography, Autonomous University of Barcelona

Abstract

Changes in terms of access to and stability in Spain's residential system have been accentuated as a result of the economic crisis that began in 2008. What is new with respect to previous processes of changes to residential systems is that on this occasion they affect not only access to housing for young people, but also stability in more elderly people. Although the main problems are shared by the population as a whole, there are important elements of diversity and inequality that the covid-19 crisis will most likely not help to reduce.

Main ideas

1

Less than 70% of people aged 30-34 have become independent, which is the main and perhaps most important residential problem in Spain.

2

Of those aged 30-34 who have become independent, 70% have done so through market rent or owned with mortgage.

3

More than 60% of adults aged 45-49 live in market rent or owned with mortgage.

4

Spain has shifted away from the traditional Southern European residential model, based on high residential stability.

5

Most young households in Catalonia and the Community of Madrid live in rental accommodation.

6

Rental share has increased in recent years at all socio-economic levels, not only in more modest households.

7

Almost 50% of those aged under 35 living in rental accommodation experience a situation of financial overstretch in paying for their housing.

8

80% of households with lower incomes living in rental accommodation have to financially overstretch to pay for their housing.

9

Spain is one of the European countries where young people have more financial problems related to housing.

10

The covid-19 crisis erupted in a country with more tenants with an older profile and, therefore, more residential insecurity.

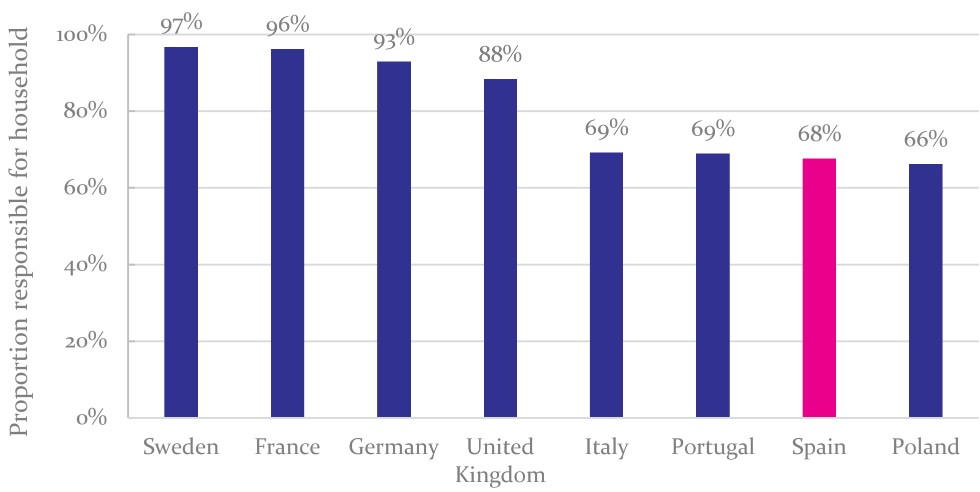
1 Less than 70% of people aged 30-34 have become independent, which is the main and perhaps most important residential problem in Spain

Spain has been characterised by a very late process of residential independence for several decades now, and the reason for this delay can to be found in socio-economic conditions that prevent young people from becoming independent. Difficulties in access to housing are one of the main obstacles in this process.

The time delay in young people becoming independent is not exclusive to Spain, given that other Mediterranean and even Eastern European countries also share the same problem. While less than 70% of people aged 30-35 are responsible for the household in which they live in these countries, this figure usually exceeds 90% in Northern European countries. The process of residential independence in Spain – and, in general, that of starting a family – extends beyond the age limit of 30, viewed as the international benchmark for the end of this stage in life.

Figure 1: Residential independence for young people in Spain is late, as it is in other Southern and Eastern European countries

Proportion of people aged 30-34 who are responsible for their household, various European countries, 2019



Note: *the data for the UK and Italy are from 2018.*

Source: Eurostat, European Union Statistics on Income and Living Conditions, 2019.

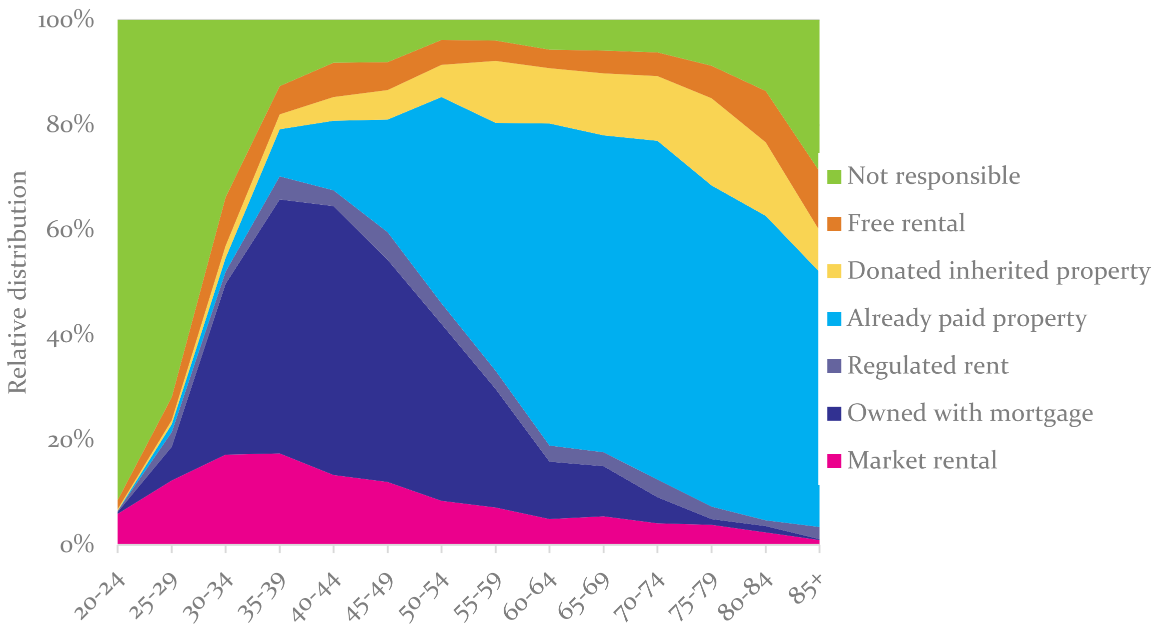
2 70% of people aged 30-34 who have become independent have done so in high market exposure housing

Once achieving independence, the residential options open to young people are almost exclusively limited to market rent and owned with mortgage. These two options, primarily regulated by the market, require significant payments on a regular monthly basis against a backdrop of major job insecurity and instability and without efficient public policies to protect households experiencing difficulties. Long-term, more secure alternatives are few in number. Renting with some kind of official protection or with reduced rental is extremely rare among young people, as it is in other age groups. Owned without a mortgage starts to become predominant after the age of 50. This type of ownership is normally accessed after having previously acquired the property through a mortgage. Much less frequent is access to owned without payments directly by inheritance or a gift.

It can be argued that there is an explanatory relationship between delayed independence and the high market exposure of young people's residential options. Indeed, the fact that only 68% of people aged 30-34 have become independent is most likely related to the fact that almost 70% of people aged 30-34 have to confront market rent or mortgage payments. Job insecurity for young people would only exacerbate their residential instability.

Figure 2: Young people frequently live in market rental or mortgaged housing at the beginning of their life cycle

Distribution of persons according to household responsibility and type of tenure according to age group



Source: Bank of Spain, "Survey of Household Finances", 2017.

3 More than 60% of adults aged 45-49 live in market rent or owned with mortgage

Although late independence has been a stable feature of our residential system for decades, there has been a significant change in recent years in the share of renting and home ownership in housing for young people. Although market rent has gradually increased, access to mortgages has been drastically reduced.

But there are other generational changes underway. On the one hand, young people who have been moving into renting in recent years tend to stay in this tenure option considerably longer, which means that a future increase in the percentage of renters at more mature ages can be predicted. On the other hand, young households that primarily took out mortgages 10 or 15 years ago comprise a kind of bubble that will shift along the age axis as they become older.

Figure 3: Market rent supplants owned with mortgage among young households and both supplant fully paid ownership in older age groups

Proportion of persons responsible for a household living in market rent and owned with mortgage according to age and year

Source: INE, "Living Conditions Survey", various years.

4 Spain has shifted away from Southern Europe's residential model, based on high residential stability

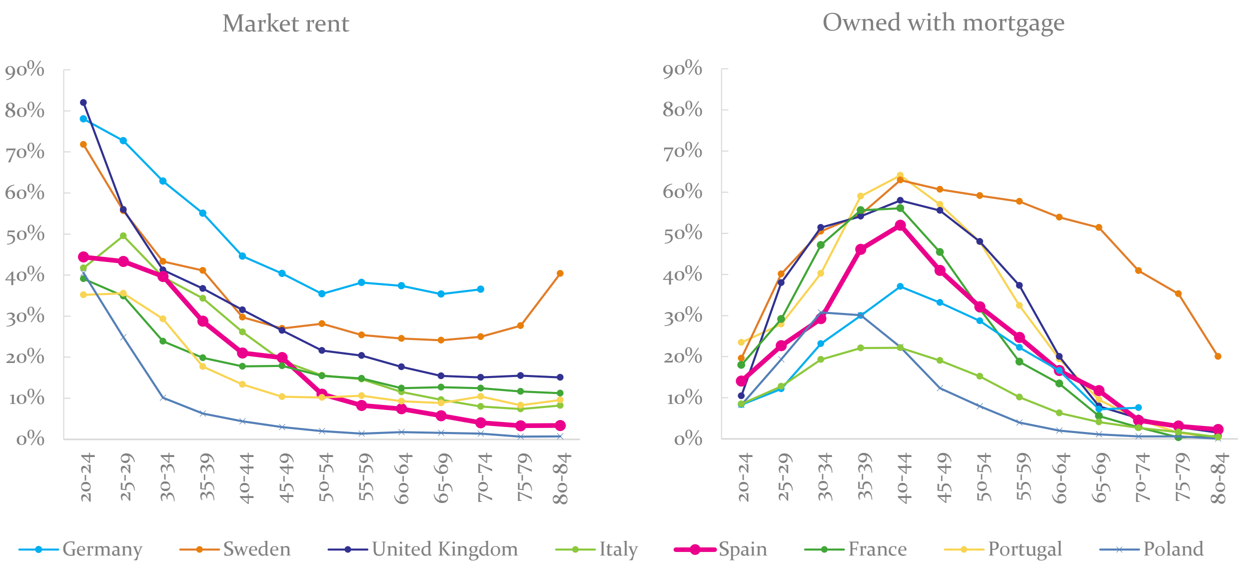
Recent changes in the system of access to housing for Spanish households reflect a departure from the patterns of Southern European countries. Indeed, residential options in these countries with little market exposure, without payment obligations, are more frequent. The proportion of homes transferred or owned with no outstanding payments has a much greater share in places such as Italy.

This is despite the fact that young people in Southern European countries also become independent relatively late. This would seemingly call into question the relationship between late independence and high market exposure. In reality, there is no such link. In other Southern European countries, young people can access housing that is provided by the family network or can be purchased with the help of their resources. This also used to be common in our system, but has gradually disappeared. The use of family assistance as a substitute for a lack of social housing policies is failing in Spain.

The decline in the share of mortgages among young people means that we are still some distance from the level of this category in Italy, while the importance of mortgages among older people, around the age of 40, still draws us nearer to the peaks reached in countries such as the United Kingdom or Sweden. In short, the share achieved by the options most exposed to the vicissitudes of the market positions us in a European average that, as we shall see, is not accompanied by similar levels of security and stability in housing.

Figure 4: Spain is in an intermediate position in Europe with regard to the share of market rent and owned with mortgage

Proportion of persons responsible for a household in market rent and owned with mortgage according to age and country of residence



Note: *the data for the UK and Italy are from 2018.*

Source: Eurostat, European Union Statistics on Income and Living Conditions, 2019.

5 Most young households in Catalonia and the Community of Madrid live in rental accommodation

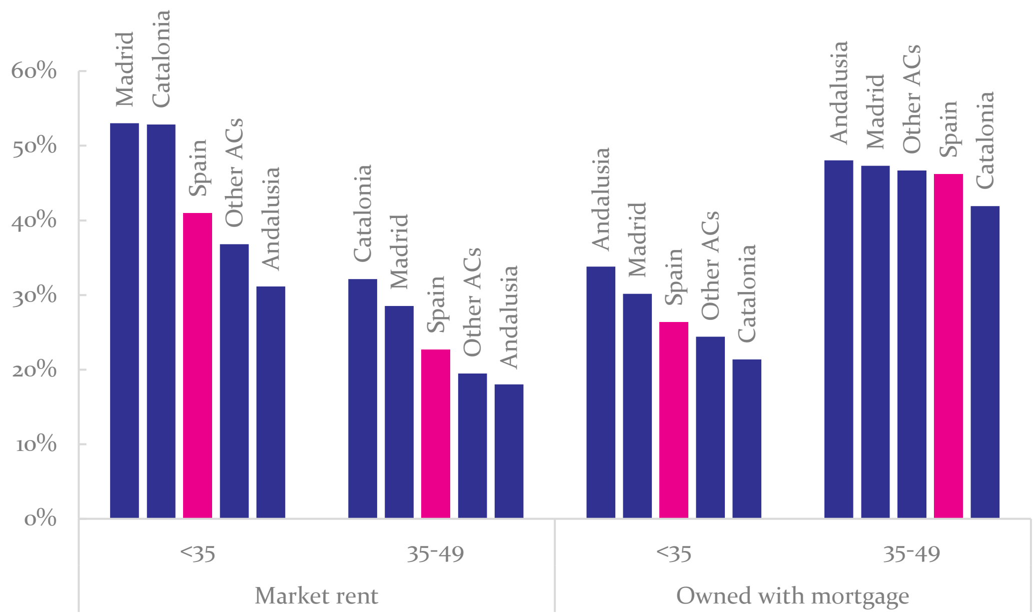
Although sharing a common residential system framework, important regional differences have traditionally been developed and maintained in Spain. For example, in Catalonia, a considerable stock of rental housing was maintained both in consolidated city centres and certain rural areas. In contrast, there was a considerably greater decrease in urban rental stock in Madrid.

However, it is worth noting that more than half of young people aged under 35 live in rental accommodation in the Community of Madrid, which contrasts with only 30% in Andalusia. These differences are not due to different proportions of urban and rural population in the regions. The above hierarchy is still true when selecting only independent young people residing in highly populated areas.

All this confirms that the usual access to housing for young people when they become independent is already in market rent in large metropolitan areas of Spain.

Figure 5: There are regional differences in access to housing

Proportion of persons responsible for a household in market rent and owned with mortgage according to autonomous community (aged under 50 by major age group)



Source: INE, "Living Conditions Survey", 2019.

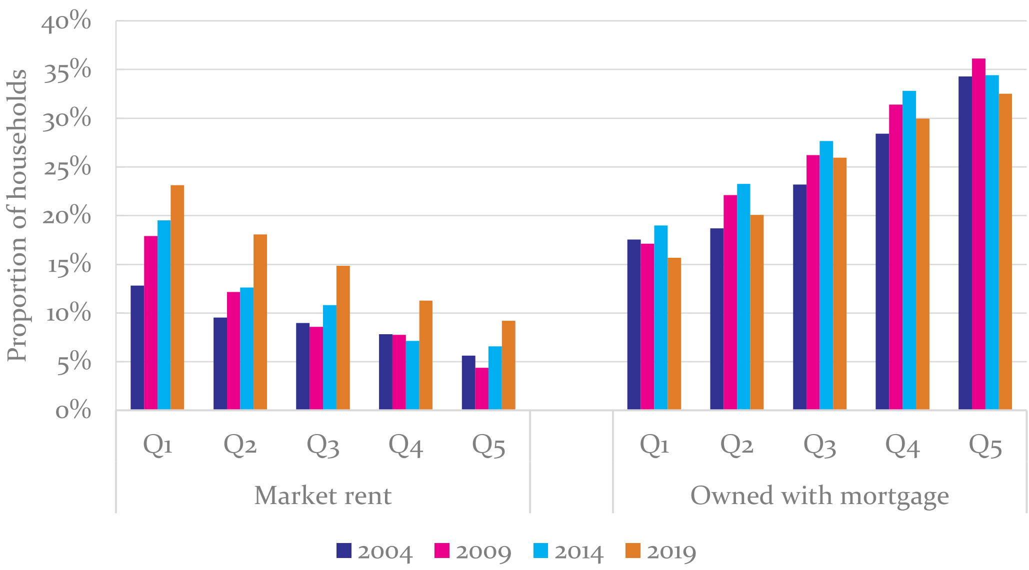
6 Rental share has increased in recent years at all socio-economic levels, not only in more modest households

There is a strong relationship between the level of household income and share of households renting or owning with a mortgage. The higher a household's economic capacity, the lower the proportion of market rent households and the higher the percentage of owned with mortgage households. Although stable, this pattern of social heterogeneity in access to housing has undergone some significant changes in recent years. It is still too early to confirm whether we are facing real structural changes, or whether we are simply observing the hangover from the 2008 crisis, which the covid-19 crisis could reinforce and lengthen over time.

Firstly, an increase in the share of renting began in the most modest households, but has recently become generalised in the entire social spectrum. Secondly, the decline in the share of mortgaged property has occurred in all income quintiles. Finally, although households with greater financial possibilities more frequently lived in rented or mortgaged accommodation in the past, this feature of social heterogeneity is now becoming blurred.

Figure 6: Renting and mortgages have opposing breakdowns according to income levels, although the recent increase in renting is widespread

Temporal change in the standardised proportion of persons responsible for a household in market rent and owned with mortgage per quintile of equivalised disposable income



Note: *proportions have been standardised by broad age groups. Quintiles have been calculated according to distribution of households based on their equivalised disposable income.*

Source: INE, "Living Conditions Survey", various years.

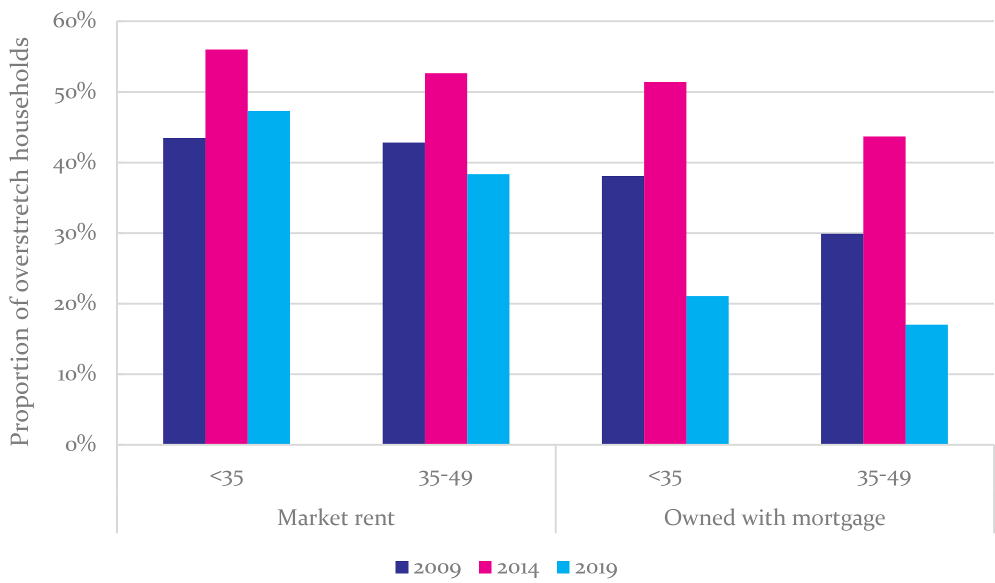
7 Almost 50% of those aged under 35 living in rental accommodation experience a situation of financial overstretch in paying for their housing

The increase in rental share does not imply a decrease in the financial efforts that households have to make. It can therefore be argued that the variation in the shares of market rent and owned with mortgage is more related to supply-side determinants (e.g. more restrictive mortgage criteria) rather than a fundamental change in the demand preferences of Spanish households, although it may be related to their creditworthiness.

Around 50% of households headed by persons aged under-50 in market rent or owned with mortgage had to financially overstretch to meet their monthly housing payments in 2014. This level was reached in the aftermath of the major financial crisis and although this overstretch has declined since then, it remains at high levels for market rent. The decline in this overstretch with regard to mortgages is tied to the positive selectivity of households accessing a mortgage (e.g. tightening of eligibility criteria), rather than to an improvement in household situations.

Figure 7: Financial overstretch is highest in market rent and peaked after the major financial crisis

Temporal change in the proportion of market rent and owned with mortgage households that have to financially overstretch according to age of main reference person



Source: INE, "Living Conditions Survey", various years.

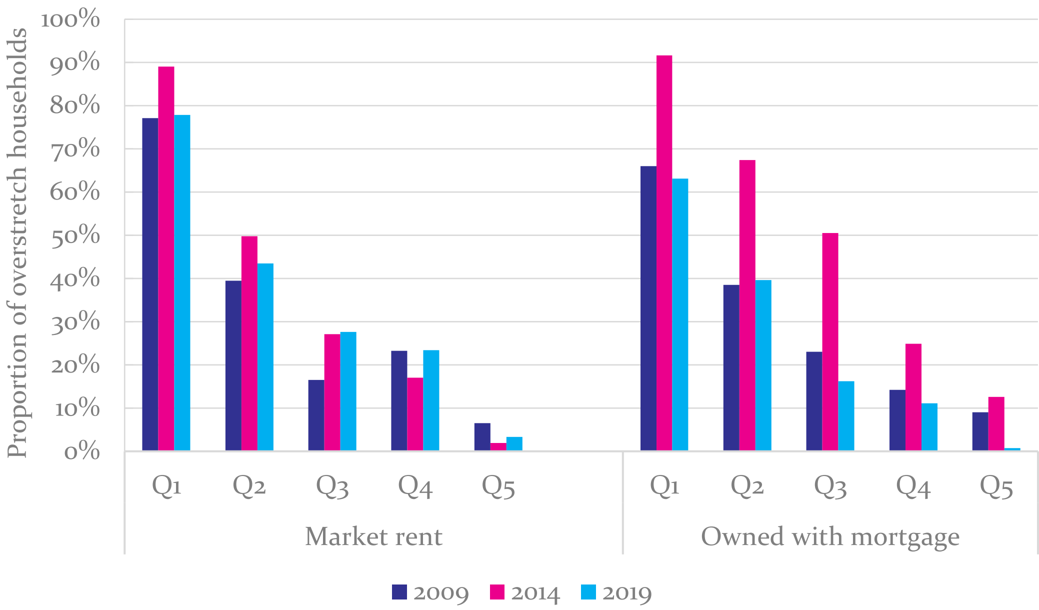
8 Almost 80% of households with lower incomes living in rental accommodation have to financially overstretch to pay for their housing

There is a strong positive relationship between income levels and percentage of households that have to financially overstretch. This basic relationship has not been altered by the succession of economic downturns. Overstretch related to market rent is much more stable and indifferent to economic conditions than that related to owned with mortgage, a situation that is repeated across all income quintiles.

It is worth looking at the first income quintile. Some 80% of households renting in this quintile have to overstretch. In other words, having a low income, living in rental accommodation and having a high level of residential insecurity are one. There is currently intense endogeneity among these three characteristics. Barely any households in the fifth, higher income quintile are forced to overstretch.

Figure 8: Financial overstretching is structural in renting, while it is more sensitive to the economic situation in owned with mortgage

Temporal change in the proportion of households in market rent and owned with mortgage that have to financially overstretch according to income quintile



Note: *indicators are standardised by age of reference persons.*

Source: INE, "Living Conditions Survey", various years.

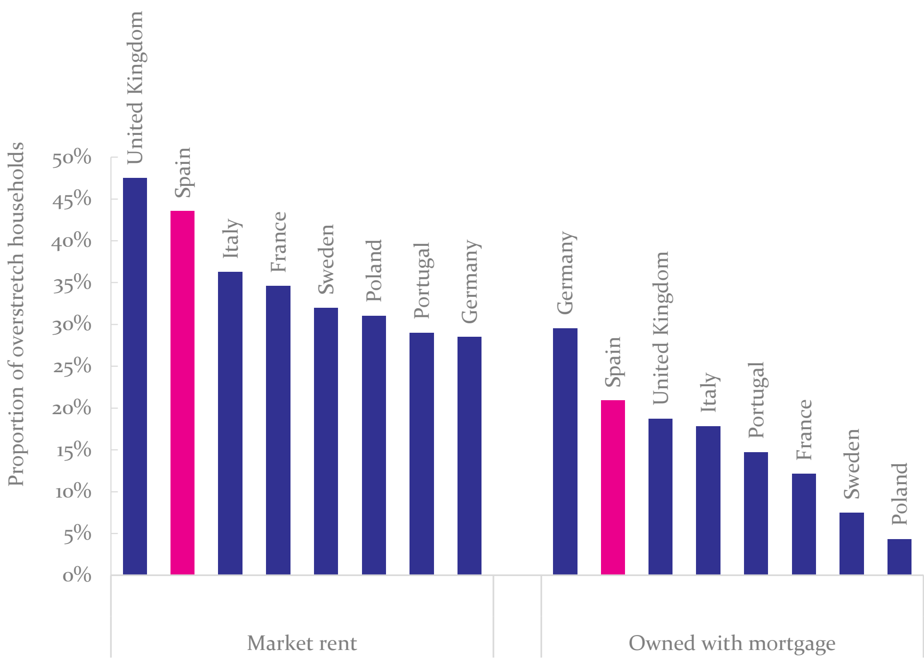
9 Spain is in the lead of European countries where young people have more financial problems with regard to housing

Residential overstretch is the result of a combination of low incomes (as discussed in the previous section) and a lack of more affordable housing options, especially in terms of renting. Both demand and supply problems therefore concur. The growth of renting in recent decades, alongside a lack of effective protection for the most vulnerable households, suggests that the severity of the residential overstretch that we observe in Spain does not occur in other countries where regulation and protection of access to housing by public authorities is more advanced. It is not surprising to note that Spain is in the lead of the countries analysed in terms of this level of overstretch, both in terms of market rent and owned with mortgage.

Other features of the heterogeneity of financial overstretch are shared. This overstretch in the countries analysed is typically higher among households living in market rent accommodation than among those living in owned with mortgage. The exception is Germany, where the low level of financial overstretch in renting is matched by the level of overstretch among households with mortgages.

Figure 9: Spain has high financial overstretch in both market rent and owned with mortgage compared to other European countries

Proportion of households in market rent and owned with mortgage that have to financially overstretch according to country



Note: *the data for the UK and Italy are from 2018. Indicators are standardised by the age of reference persons.*

Source: Eurostat, European Union Statistics on Income and Living Conditions, 2019.

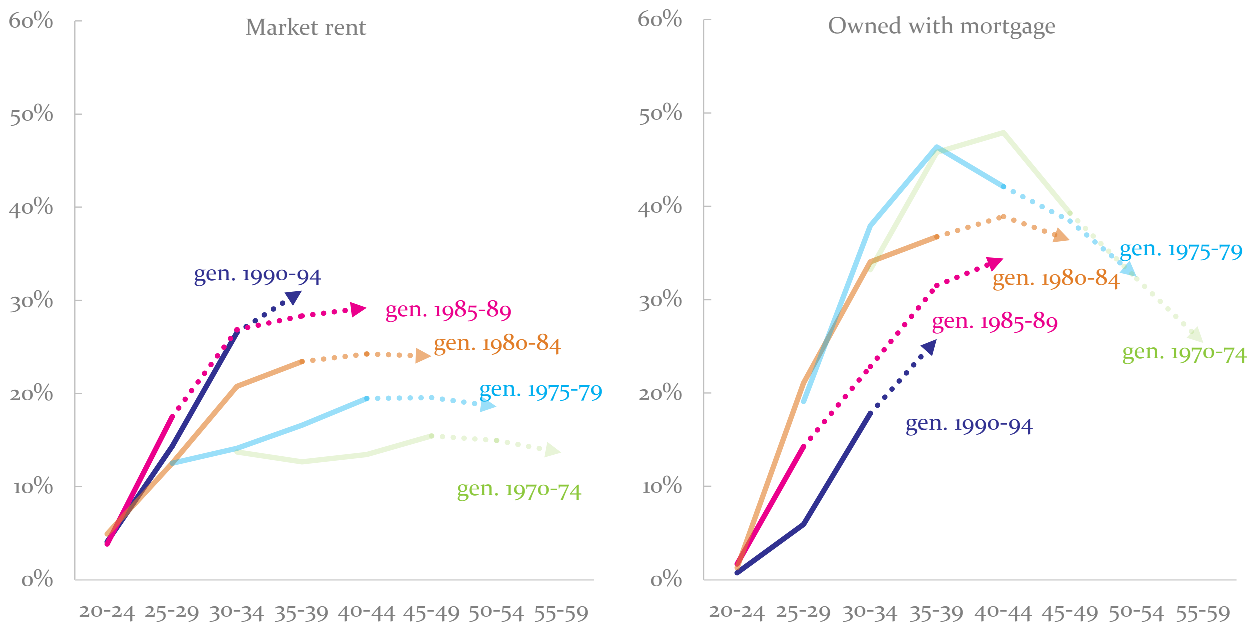
10 The covid-19 crisis erupted in a country with more tenants with an older profile and, therefore, more residential insecurity

For the first time in many decades, a generation of young people turned thirty in 2019 with a higher proportion of market rent tenants than owned with mortgage. This is the generation born between 1985 and 1989, part of the so-called "millennial generation". We can expect this situation to be repeated in younger generations if we project generational trajectories from 2004 to 2029, as can be seen in the generation born between 1990 and 1994 (which is also affected by a lower level of residential independence). Successive generations, already part of the so-called "generation Z", will reach higher market rent levels and maintain these longer (with low protection and high overstretch).

If the trends of the recent past and present consolidate in the future, Spain will no longer be referred to as a country of homeowners, at least with regard to its young and mature-young population. This is the context in which public protection alternatives will have to be offered to a population most likely hard hit by the economic crisis resulting from covid-19.

Figure 10: Rental share increases with each new generation

Predicted generational trajectories (from 2004 to 2029) of the proportion of people heading a household in market rent and owned with mortgage according to age*



Note: *the broken lines correspond to projected indicators.*

(*) Numerator: persons of each age group responsible for a household in either tenure. Denominator: total number of persons of each age group.

Source: INE, "Living Conditions Survey", various years, and own elaboration.

Conclusions

There have been four basic trends of change in Spain's residential system in recent years:

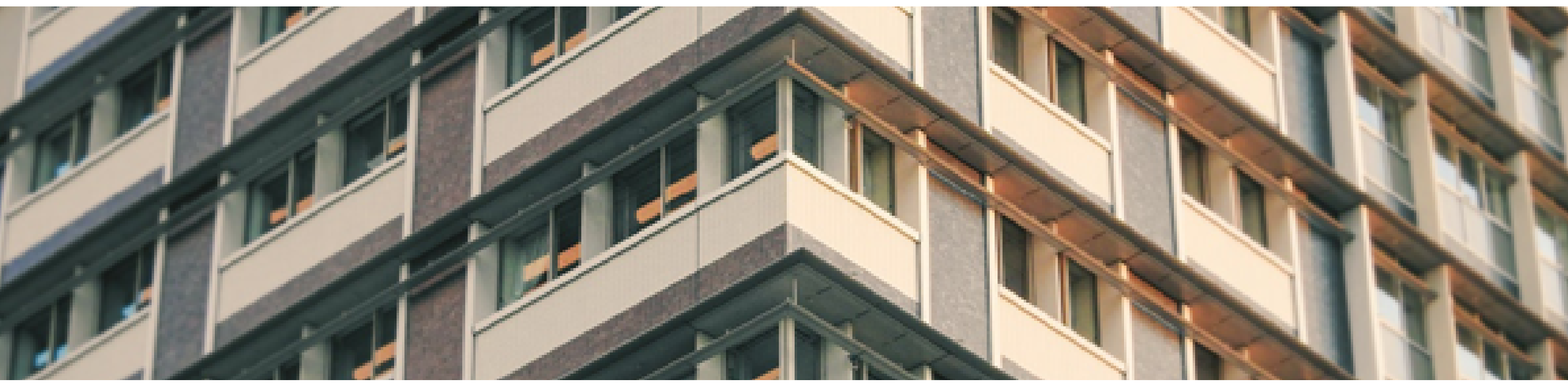
1. A model of rapid access to ownership is abandoned for one based on initial access through market rent, with a tendency to extend to older age groups.

2. Spain is consolidating its position as a country of late independance. This structural delay in the residential independence of young people is relatively not tied to more or less favourable economic circumstances.

3. Spanish households are more exposed to the market, especially young and mature-young households living in the country's more urbanised regions. Although the share of owned with mortgage among young people is decreasing, a bubble remains in place that will affect a significant number of households until relatively old age. The prior predominance of access through mortgages has been replaced by reliance on market rent.

4. Market exposure in Spain is associated with a high financial effort on the part of households. Therefore, in addition to the usual problems of access common to the Spanish residential system, there has recently been a major problem of residential instability and insecurity, which is particularly serious because it affects the most disadvantaged sectors of society.

Faced with this residential situation panorama, it is necessary to act politically in a decisive manner, sometimes innovating outside the commonplace. The design of measures may vary according to ideological positions and economic availability. Nonetheless, the focus should be on those areas that will produce benefits for various age groups and intergenerational relations.



Proposed actions

1

Encouraging residential independence through direct support (in the housing market) or indirect support (in the labour market) satisfies an individual right, but it is also in the general interest. For example, it would encourage economic activity by increasing direct and indirect residential demand.

2

Housing policies should no longer be thought of as a vehicle for encouraging the residential integration of new households, but rather should be extended to put the main focus on the stability and security of existing households. The residential stability of existing households is beneficial for the formation of families and therefore affects, among other things, the level of fertility. At the same time, it fosters intergenerational solidarity by enabling the delayed independence of children in crisis situations.

3

There is a need to move from housing policies focused on stimulating residential construction to policies focused on managing existing stock. Demographic residential demands will be increasingly satisfied by dwellings that are vacated in the future by elderly households that are disbanded because of population pyramid ageing, so that new construction will basically be limited to replacing obsolete stock and covering the increase caused by the periodic arrival of migratory flows. Policy management of existing stock should therefore have two clear objectives:

- To facilitate the reuse of vacant stock (due to mortality of its members or residential mobility) for the demographic use of younger households, limiting friction in transmission.
- To reduce residential instability and insecurity resulting from high market exposure.

4

Residential stock management policies should favour the most vulnerable groups. Furthermore, public policies focused on constructing a residual stock of social rental housing must be overcome, as the accumulated deficit could not be updated in a reasonable period of time. A possible alternative action would be to take advantage of those dwellings that remain vacant and are difficult to sell on the normal market in order to provide them to the most needy groups.

Study characteristics

The data used in this study come from the “Survey of Living Conditions”, its European Union equivalent (European Union Statistics on Income and Living Conditions) and “Survey of Household Finances”. These data only extend until 2019, immediately before the onset of the covid-19 crisis, so it is impossible to consider the major changes brought about by the pandemic. Nevertheless, it is clear that the Spanish population entered this period full of uncertainty with some clearly worrying parameters, as described above. Successive editions of these surveys will make it possible to follow this evolution.

The new population and housing census planned for 2021 is set to combine various sources of information and will provide further analysis of the residential situation of the Spanish population, especially in its regional and local aspects.

This study does not directly address the issue of “residential insecurity” expressed as a subjective opinion of the housing stability of households. This is because this information does not appear in the source chosen, and for the sake of consistency we have chosen to address financial effort, another dimension of stability. Several personal bibliographical references have been noted in the bibliography that do indeed address residential insecurity directly.

It is also noted that this study is a descriptive exploration of the residential reality of our country. The causal analysis of these processes would require a different type of focus and methodology that addresses the individual and contextual elements contributing to change in residential behaviour.

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Pending equality

The persistence of unequal opportunities following the expansion of education

Miguel Requena, Department of Sociology II, National University of Distance Education
Leire Salazar, Department of Sociology II, National University of Distance Education

Abstract

Spain's education system has undergone a major expansion, particularly from the latter half of the last century onwards. This expansion has improved the educational level of younger generations, especially in the case of women. But although it has reduced educational inequalities, it has not eliminated them. There is still a clear link today between the socio-economic and cultural conditions of households and the likelihood of early childhood schooling, dropout rates and opportunity for children to pursue tertiary education. Particularly worrying is the situation of poorly educated, low-income groups in society, given that they face major difficulties in preventing their children from achieving unfavourable educational outcomes.

Main ideas

1

The historical disadvantage of women in education has been reversed at almost all educational levels. Whereas only one in three university graduates born before 1940 was a woman, these figures have been reversed among those born after 1980.

2

Almost 40% of children under the age of 3 are in school, which is above the European average. But there are striking differences between autonomous communities that decrease according to the age of children.

3

Households with greater educational or financial resources provide more schooling for children aged 0-3: young children from high-education households are up to 28% more likely to attend school than those from low-education households.

4

Both cultural and financial family resources are strongly related to early school leaving, and Spain leads the EU ranking in this, especially among boys.

5

Tertiary education enrolment is clearly linked to family resources: the higher the socio-economic status of parents, the greater the access of their children to tertiary education.

6

The expansion of the education system has produced much educational mobility, but it has failed to remove the obstacles to exceeding parental levels: almost half of the children of low-educated parents remain at that level.

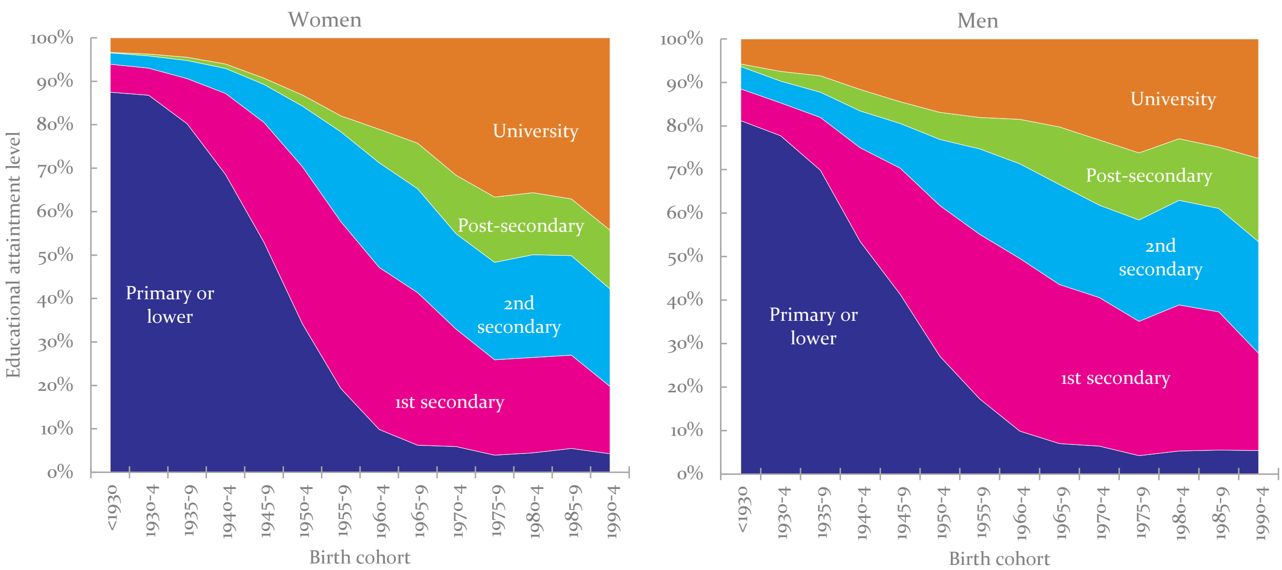
7

Evidence suggests that remote school attendance during lockdowns caused by the covid-19 pandemic has intensified educational inequalities.

1 The historical disadvantage pattern of women in education has been reversed at virtually all levels of education

Spain underwent an authentic educational revolution, especially during the latter half of the 20th century, and this has led to a considerable and almost constant rise in the country's average educational level, as well as reducing the gap with the educational levels of advanced societies. It is often said that the younger generations are the most educated in Spain's history. A striking feature of this generational change is that it has reversed age-old gender educational inequalities to the point where women are now at an advantage. This phenomenon can primarily be seen in university performance: if there were some 2 male university graduates for every female university student among those born before 1940, this ratio became 1.5 in the opposite direction when taking into account those born after 1980.

Figure 1: Spanish education expanded very significantly in the 20th century
Percentage of people in Spain according to educational level by birth cohort and sex



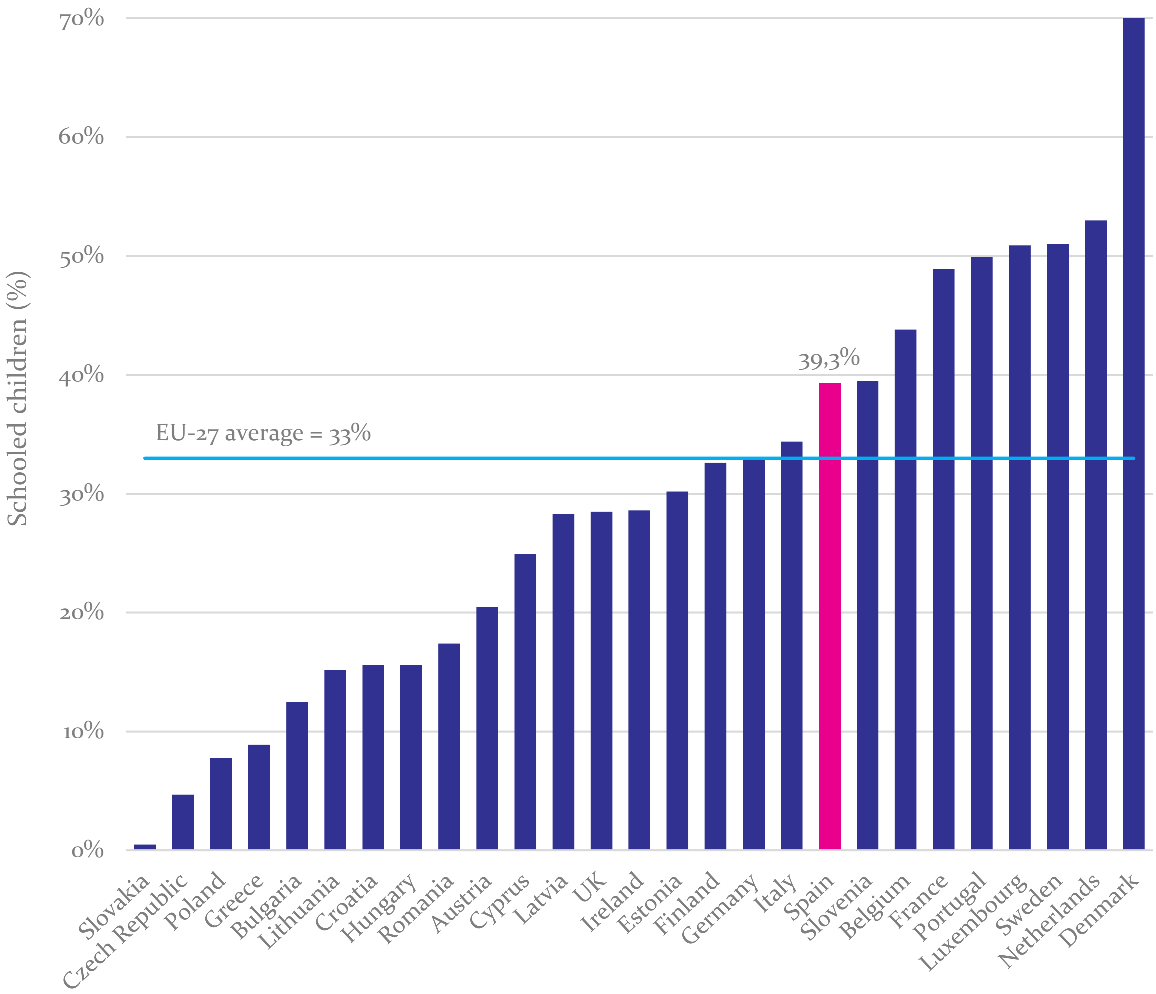
Source: compiled by the authors based on data from the "Labour Force Survey" (EPA) 2019, INE.

2 Almost 40% of children under the age of 3 are in school, but there are many differences among autonomous communities and according to age group

Schooling and professional care in Spain for children aged 0-3 are neither compulsory nor free of charge. Nonetheless, the early years of life are crucial for the later development of cognitive and other skills (social, attitudinal, emotional) that can improve educational paths, prevent school failure and dropout, enhance academic performance and ultimately improve the educational achievement of the adult population. Until recently, Spain had low relative levels of schooling or professional care at this early stage, but it has reached levels similar to, and even higher than, those of European countries in recent years. For example, while the EU-27 average stood at 33% of schooling or professional care at this age in 2016, Spain had already reached 39.3%. Given the fact that Spain is already at this level, one of the challenges now is to ensure that the expansion of public coverage is not achieved at the cost of impoverishing service quality.

Figure 2: Spain is above the EU average with regard to early schooling

Percentage of children under 3 enrolled in pre-primary education or professional care in EU countries, 2016

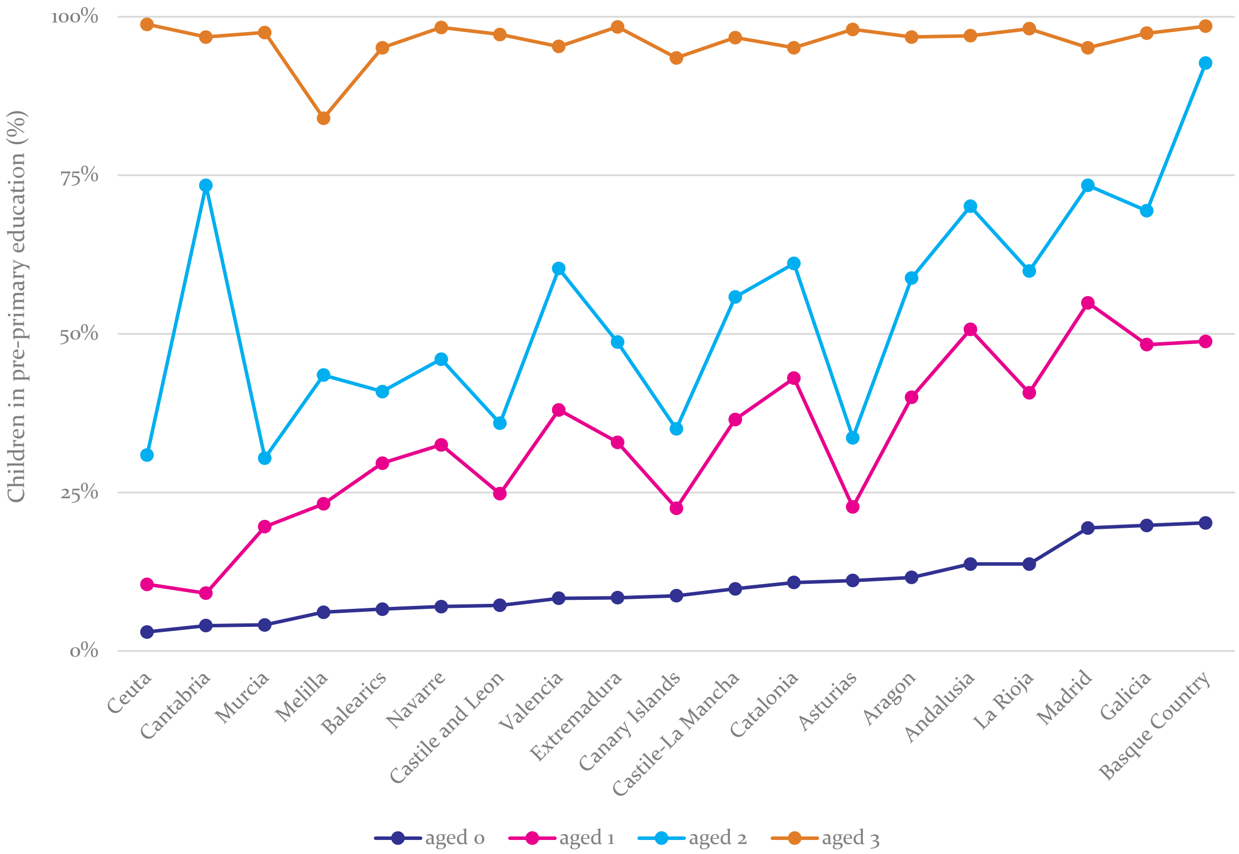


Source: Flisi and Blasko (2019), based on data from European Union Statistics on Income and Living Conditions (EU-SILC) 2016.

In terms of the breakdown by age and region, it can be seen that schooling is already widespread at three years of age; proportions fluctuate widely around 50% at two years of age; swings are equally marked among one-year-olds, with a wide range of variation from 10% to 50%, and the differences are between 3% and 20% for children one year of age. The variation between each of Spain's autonomous communities is very marked, although no clear patterns can be observed.

Figure 3: Differences in early schooling among autonomous communities are notable, although they decrease in line with the age of children

Percentage of children under 3 enrolled in pre-primary education according to region and age, 2019



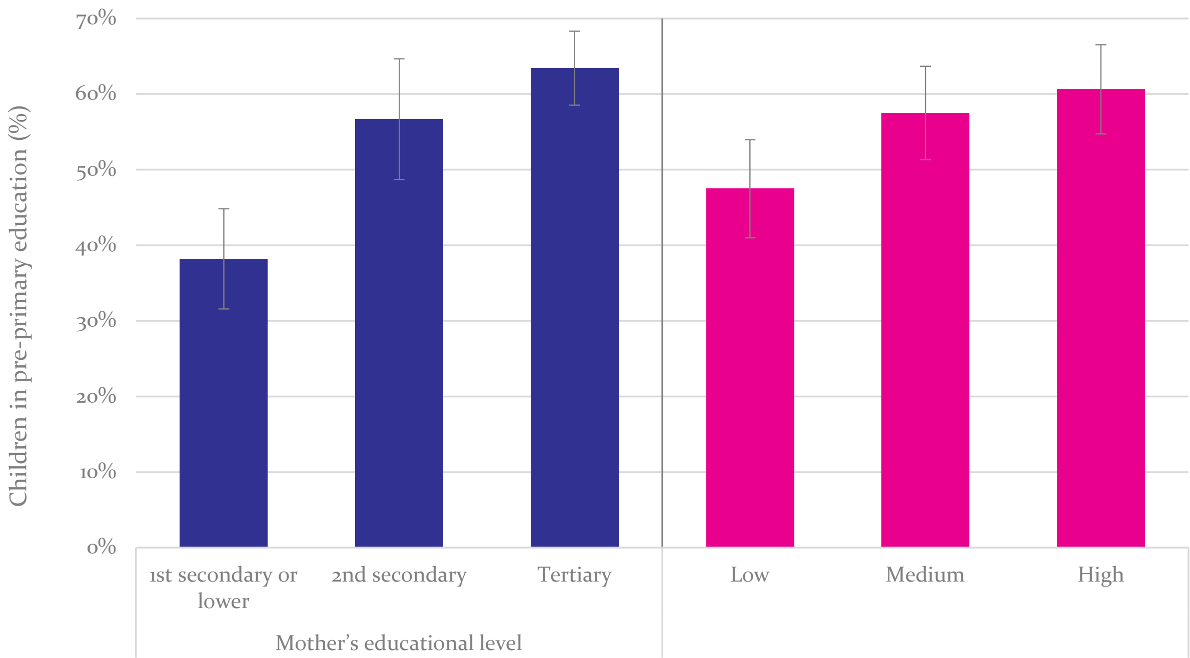
Source: compiled by the authors based on data from the "Living Conditions Survey" (ECV) 2019.

3 Households with more educational or financial resources provide more schooling for children aged 0-3

The access of children under 3 to schooling or professional care in Spain largely depends on the socio-economic status of their households. If we take the mother's education as an indicator, we find that children aged 0-3 born to mothers with tertiary education are 70% more likely to be in school than their counterparts born to mothers with lower secondary education or below, and 12% are more likely to be in school than children born to mothers with higher secondary education. The gap associated with the financial position of the household is smaller yet nonetheless relevant: children from households in the top tercile of disposable income are 28% more likely to be in school or professional care than those in the bottom tercile, a figure that falls to 5% when compared to those in the middle tercile. In turn, children from households in the middle tercile are 21% more likely to be in school or early professional care than those in the bottom tercile. Whether socio-economic status is defined by educational or financial factors, the most striking differences in this pre-school stage are between the lowest ranked and the remainder. This leads to a situation that runs counter to the objective of reducing unequal opportunities for education: it is these disadvantaged children who are most in need of incentives (as these can alleviate or compensate for the educational deficits of their families of origin), but instead have the least access to them.

Figure 4: The higher the socio-economic status, the higher the early schooling

Percentage of children under 3 in pre-primary education according to socio-economic status, 2019



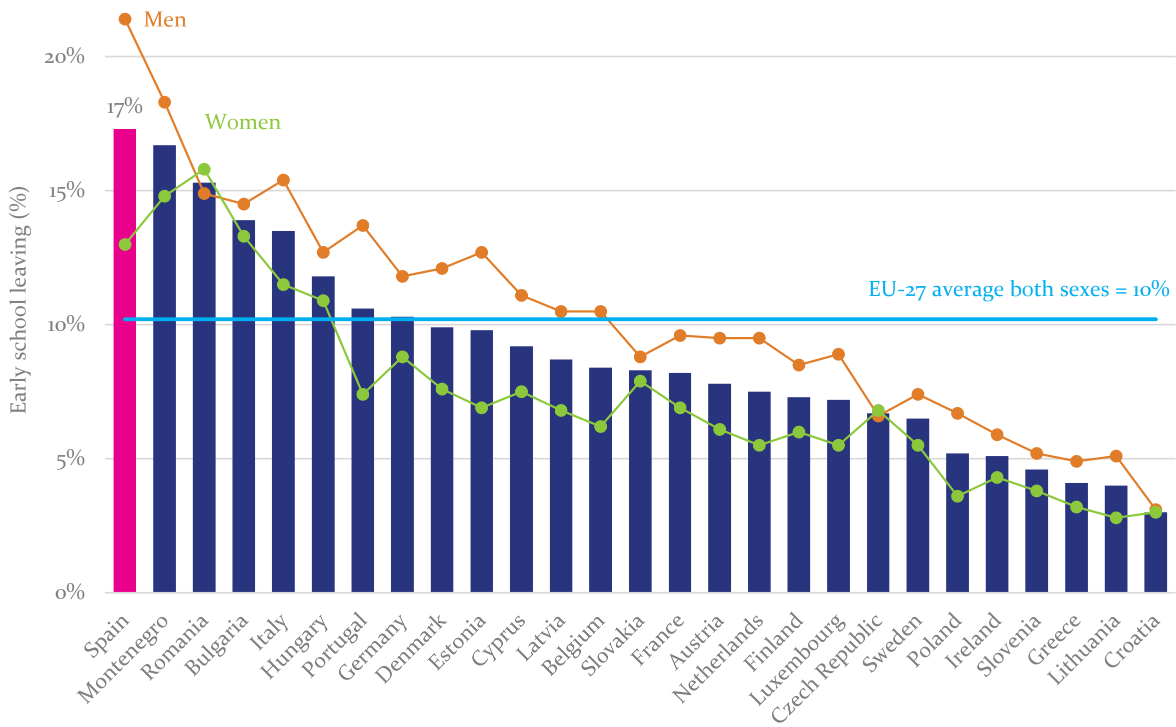
Source: compiled by the authors based on data from the "Living Conditions Survey" (ECV) 2019, INE.

4 Spain leads the EU ranking in early school leaving, especially among boys

With regard to Europe, Spain has the highest figure of early school leaving (ESL). One in six young people aged between 18 and 24 has not completed any course of at least the same level as compulsory secondary schooling (ESO) and is not in any other type of formal education or training. This poor position, far below the European average – Spain has 70% more ESL young people – continues to persist despite the fall in dropout rates in recent years. In all likelihood, this reduction was tied to, among other factors, a drastic decrease in the supply of low-skilled jobs in the construction, catering and agriculture sectors brought about by the Great Recession and subsequent drop in the opportunity costs of continuing to study. This argument is reinforced by the fact that ESL fell sharply during the covid-19 pandemic. Although ESL is more prevalent among boys in virtually all European countries, it is particularly noticeable in Spain, where ESL applied to more than one in five boys (21.4%) in 2019, the highest figure in the EU. A Spanish male is therefore 60% more likely to be affected by ESL than a female, compared to 40% of the European average. Only Portugal, the Netherlands, Poland, Estonia and Lithuania have a comparable relative male educational deficit in this indicator. This is a complex phenomenon that is partly due to the specific structure of Spain's labour market, and a wide range of other factors – psycho-sociological, institutional, etc. – could be added to this.

Figure 5: Spain has the worst early school leaving record in Europe

Total percentage and gender shares of early school leavers in EU countries, 2019



Note: *ESL occurs when a person aged 18-24 does not complete upper secondary education and is not in any other formal education.*

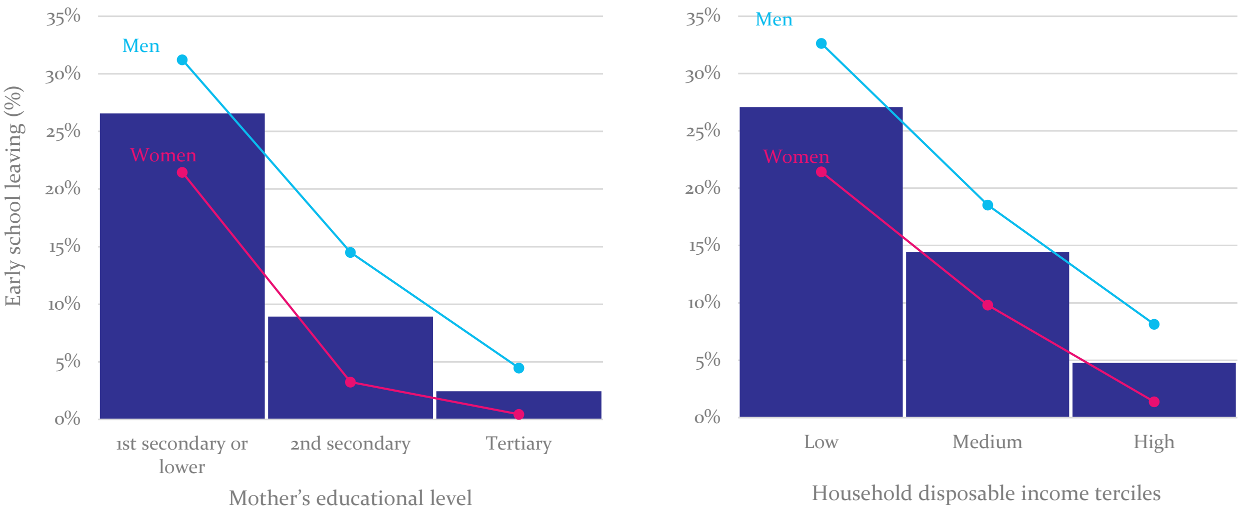
Source: compiled by the authors based on data from Eurostat, EU "Labour Force Survey" (LFS) 2019.

5 Both cultural and financial family resources are strongly related to early school leaving

ESL is not equally distributed across all social sectors, but is instead associated with the educational, cultural and financial resources of the household of origin. Children of mothers with low educational levels (lower secondary or below) are almost 11 times more likely to be affected by ESL than the rest. Similarly, children from households in the bottom income tercile are 6 times more likely to drop out of school early. These socio-economic determinants affect both sexes: for example, there is barely any ESL among daughters of highly educated mothers. As already observed in the pre-school stage, the ESL differential is more pronounced between the lower and middle social segments than between the middle and upper social segments.

Figure 6: The higher the socio-economic status, the lower the early school leaving figure

Total percentage and gender share of ESL according to mother's educational level and household disposable income terciles, 2019



Source: compiled by the authors based on data from the "Living Conditions Survey" (ECV) 2019, INE.

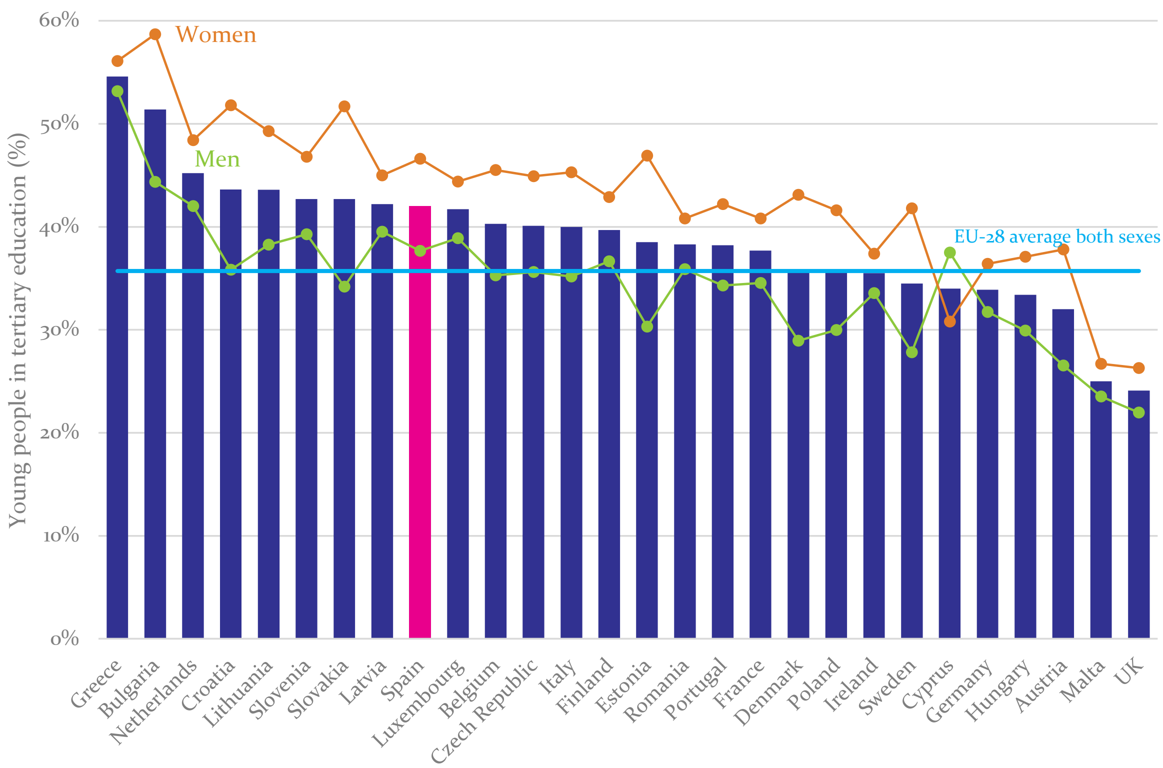
In addition to the aforementioned causes of dropout, the substantial differences among autonomous communities – low rates in the Basque Country, Asturias, Cantabria, Madrid and Navarre and very high rates in Ceuta, Melilla, Andalusia and the Balearic Islands – indicate other factors that are specific to each region. What undoubtedly helps to explain these differences are the unequal distribution of socio-economic resources in the various areas, different historical patterns in population literacy, specific elements of education design and more generally institutional design, unequal demand for labour for this age segment in various sectors and various patterns of productive specialisation.

6 Spain is one of the EU countries with the highest number of enrolments in tertiary education, especially among women

Another effect of the expansion of Spain's education system has been the extension of tertiary education, especially university education. More than four out of ten young Spaniards (42.2%) were studying at tertiary level in 2019, above the European average (35.7%) and in the top ranking of countries with the greatest access to this level of education, alongside Greece, Bulgaria, the Netherlands, Croatia and Lithuania. The pattern of higher female educational levels in tertiary education is also repeated both in Spain and in the rest of Europe (with the sole exception of Cyprus). Thus, there are only eight men for every ten Spanish women in tertiary education.

Figure 7: Spain occupies a good position in the European ranking of young people in tertiary education

Total percentage and gender share of the population aged 20-24 in tertiary education in various European countries, 2019



Note: *percentage of population aged 20-24 in tertiary education (level 5 and above in International Standard Classification of Education [ISCED 2011]).*

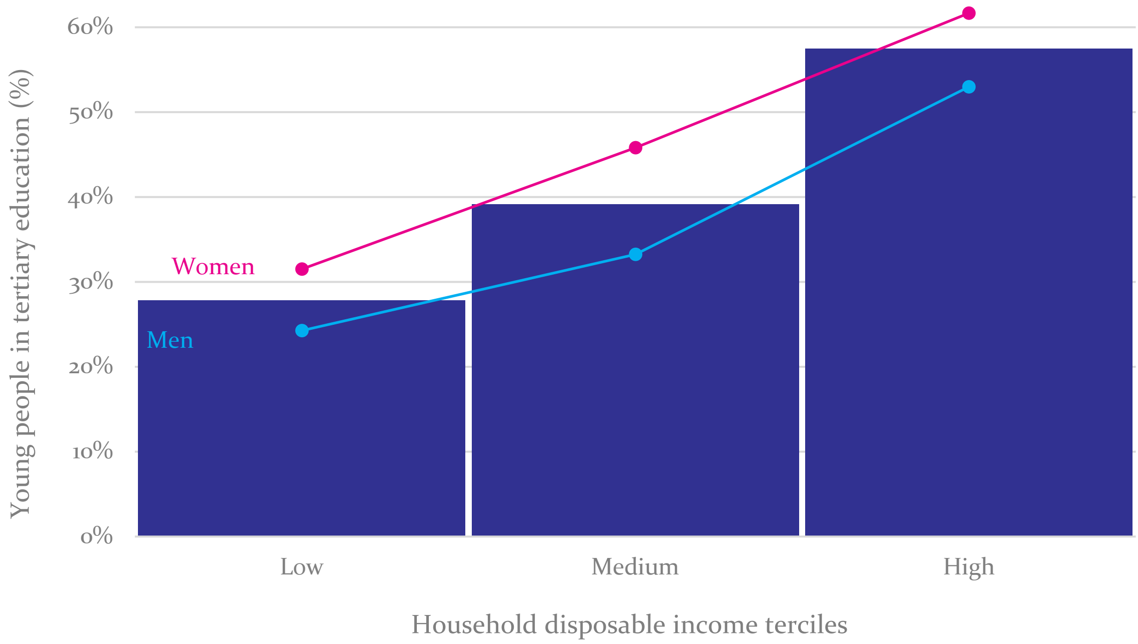
Source: compiled by the authors based on data from Eurostat, EU "Labour Force Survey" (LFS) 2019.

7 Enrolment in tertiary education, including higher levels of vocational training, is clearly related to family resources

The remarkable expansion of Spain's education system at higher levels does not imply that inequalities in access have been eliminated entirely. In fact, the better the socio-economic status of parents, the greater their children's access to tertiary education. A person from a high-income household was twice as likely to be in tertiary education as a person from a low-income household in 2019. This educational advantage of high-income segments over middle-income segments is similar to that of middle-income segments over low-income segments (slightly more than 40% higher in each case).

Figure 8: The higher the household disposable income, the more likely to be in tertiary education

Total percentage and gender share of population aged 20-24 in tertiary education in Spain according to terciles of household disposable income, 2019



Source: compiled by the authors based on data from Eurostat, EU "Labour Force Survey" (LFS) 2019.

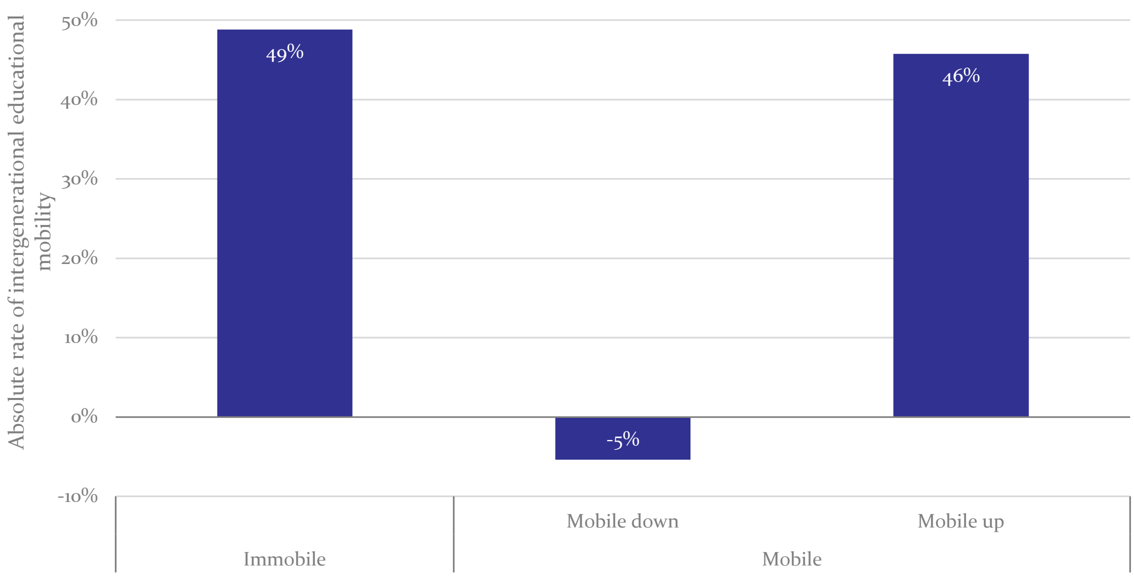
The educational spreads associated with material resources can be observed equally between men and women, although the latter were more likely than the former to be enrolled in tertiary education in 2019, regardless of family income level.

8 The expansion of the education system has produced much educational mobility, but it has failed to remove the obstacles to exceeding parental levels

The great expansion of Spain's education system, especially greater access to higher levels of education, has led to considerable, mostly upward mobility. Thus, approximately 50% of Spaniards born between 1970 and 1994 attained a higher level of education than their parents, a similar percentage attained the same as their parents, and only 5% remained at a lower level.

Figure 9: Most of those with a different level of education from that of their parents exceed this latter level

Percentage of the cohort of children with the same (immobile), lower (mobile down) or higher (mobile up) educational levels than their parents, 2019



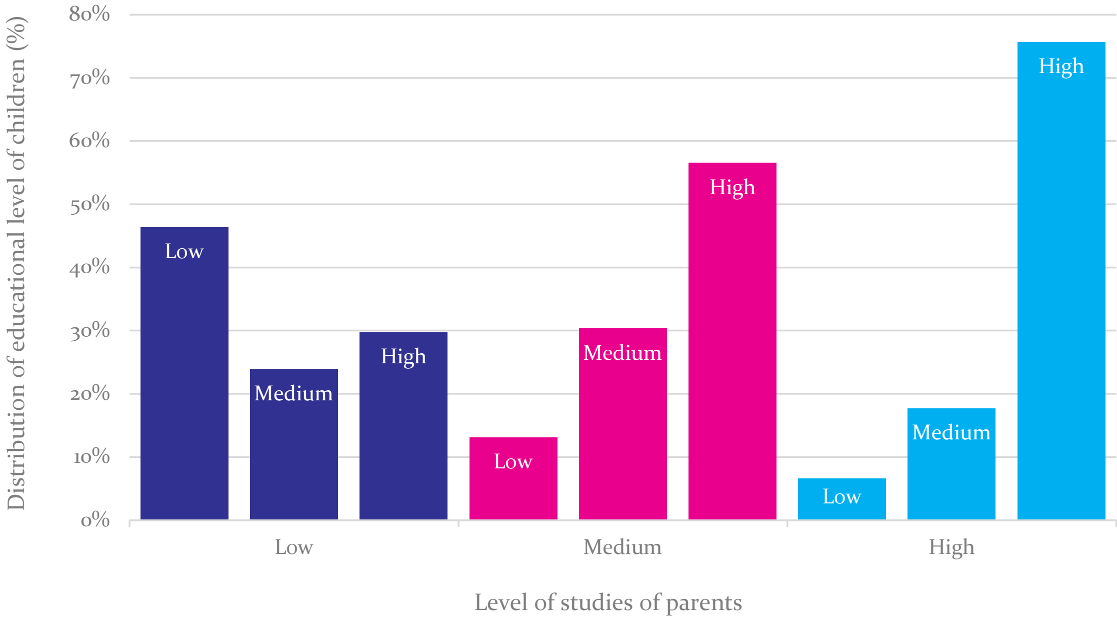
Note: *population aged 25 to 59 years only. The level of education of the parents is taken as the father's or the mother's highest level of education.*

Source: compiled by the authors based on data from the "Living Conditions Survey" (ECV) 2019, INE.

Despite this degree of educational mobility brought about by the expansion of the education system, access to qualifications still depends on the socio-economic status of the family of origin. Therefore, around half of the children from low educational backgrounds remain at that level, while up to three out of four children from high educational backgrounds manage to remain in that category. Children from low educational backgrounds are 3.5 times more likely to remain in low educational levels than those from medium educational backgrounds, and up to 7 times more likely than those from high educational backgrounds.

Figure 10: Educational mobility depends on social background

Percentage of the cohort of children with low, medium and high educational levels according to the educational level of parents, 2019



Note: *population aged 25-59 years only. Low level = first stage of secondary education or lower; medium level = second stage of secondary education; high level = tertiary education.*

Source: compiled by the authors based on data from the "Living Conditions Survey" (ECV) 2019, INE.

Conclusions

Despite the undoubted benefits to society of expanding Spain's education system, a process that began in the middle of the last century and has continued to the present day, this has not eliminated the educational inequalities associated with socio-economic status. Despite the fact that successive generations have clearly achieved higher education levels than previous generations, the economic and cultural resources of families clearly continue to determine the opportunities for progress in the school system. The children of families with more resources are more likely to be enrolled in school at all levels of education, from the non-compulsory infant stage to university. Early school leaving is also strongly influenced by family resources and is particularly prevalent among boys. Although social mobility has prevailed in Spain in recent decades, the children of families with fewer resources currently face a particularly sticky floor. These results remind us that there is still room to design public policies that can improve the equality of educational opportunities, as these are still the best way to access other socially desirable resources (e.g. health, work and income).

Finally, we do not yet have consolidated findings on the effects of the covid-19 pandemic on educational inequalities. Nonetheless, the available work suggests that school closures and remote school attendance during confinement may have intensified these. Carretero et al. (2021) indicate the possibility that the massive use of digital media may have exacerbated the situation of students with low socio-economic status, whose higher degree of digital exclusion makes it more difficult for them to access online learning. A recent Danish study (Jæger and Blaabæk, 2020) on the use of library resources shows that the covid-19 pandemic increased inequality in learning opportunities because affluent families made more systematic, intensive use of libraries than disadvantaged families. A British study on the use of time (Andrew et al., 2020) shows that the time spent by families on children's learning practices (4-15 years) is likely to increase the gap in educational levels between families of different socio-economic status. Children from the richest households spent 30% more time each day on learning activities during school closures in the UK; they had more access to individualised resources, such as chat rooms or tutoring, and they had more and better equipment for online education in their homes than children from families in the bottom income quintile. Apart from issues related to the specific time and resources that families have devoted to learning activities, the possibilities of maintaining employment and telework have not been evenly distributed according to social background during the health crisis.

Proposed actions

1

Substantially reduce the costs of tuition, canteens and extended days, in addition to increasing the supply of quality centres in vulnerable areas in order to encourage access to education for children aged 0-3 in families with fewer resources.

2

Promote flexible public care options in the period from 0 to 6 years old that can help to reconcile parental and professional care.

3

Promote preventive interventions in school environments (early detection of special needs, reinforcement programmes, among others), especially for boys, in order to reduce early school leaving.

4

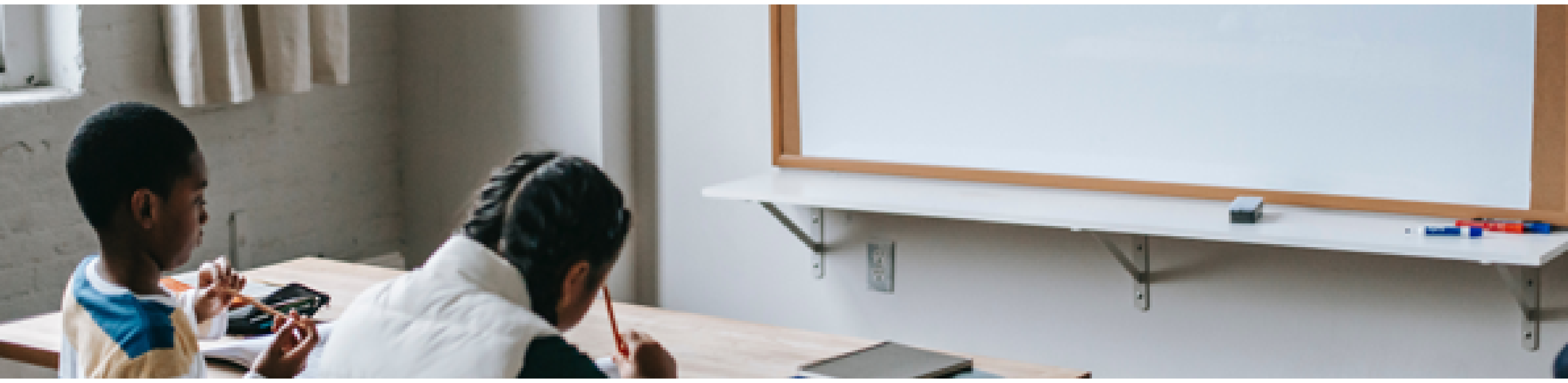
Increase investment in scholarships at all stages of formal education to increase access to higher levels for students with fewer resources.

5

Provide “second opportunities” and “stepping stones” to tertiary education for poorer students in order to reduce early school leaving.

6

Reinforce the prestige and social desirability of vocational education to reduce its bias according to socio-economic backgrounds and establish it as a viable alternative to university studies.



Study characteristics

The main purpose of this study is descriptive. It basically aims to provide a snapshot of the educational inequalities associated with socio-economic status that characterise participation in various stages of the educational cycle: pre-school stage, final stage of compulsory education and access to tertiary education. It also sets out to establish the degree of intergenerational persistence of these inequalities among Spaniards born in the 1970s, 1980s and 1990s. It does not, however, specify the mechanisms that lead to the inequalities identified at each of these levels, nor does it compare their importance. Its goal is more modest, although hopefully not without some utility: to identify the social segments in which the bottlenecks associated with socio-economic status are concentrated, thereby making it difficult to advance in the education system and inevitably reducing equality of opportunity in the transcendental field of education. It is precisely these disadvantaged sectors that should be targeted to ensure that education can promote social fluidity.

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Demand for income redistribution in Spain

Is Spain's tax system in line with the social demand for redistribution?

José María Durán Cabré, University of Barcelona and Barcelona Institute of Economics
Alejandro Esteller Moré, University of Barcelona and Barcelona Institute of Economics

Abstract

Income inequality prior to taxes, transfers and other public spending in Spain is in the middle ranking of the EU-28 and when compared to the baseline countries in this study. Nonetheless, final income inequality, i.e. after public sector action, tends to be among the upper reaches. The redistributive effect of taxes and cash transfers has been diminishing since 2008 until falling below the EU average, and it is the lowest of the countries under review. This result can to some extent be explained by the combination of a lower tax burden and a not very progressive tax system, in which taxation on consumption has been gaining ground since 2010. Nonetheless, Spanish citizens are in favour of the government taking measures to reduce inequality, a demand that is similarly high when compared to other countries and remains stable over time.

Main ideas

1

Inequality in Spain prior to public sector intervention is lower than the EU-28 average and is in the middle ranking when compared to baseline countries (Denmark, France, Germany, Italy, Netherlands, Portugal, Sweden and United Kingdom).

2

Spain has been witnessing a decreasing redistributive impact of public sector action since 2008, especially redistribution stemming from taxes and cash transfers.

3

Income inequality following public sector intervention increased between 2004 and 2017, and it is now higher than the EU average. Spain is the most unequal country of all those considered, second only to Portugal.

4

The Spanish public sector has a low redistributive capacity compared to the baseline countries, and Spain has been the country with the lowest level of redistribution since 2013, well below the EU average.

5

The overall tax burden in Spain is far from the EU-28 average, thereby limiting its redistributive capacity.

6

An increasing tax burden since 2010 has failed to translate into redistribution, which may be due to the greater importance given to taxation on consumption.

7

The demand for redistribution in Spanish society is well above the EU-28 average, and this level has been very stable over time.

8

In short, redistribution in Spain is not in line with the demand from society. In other words, Spain redistributes less in comparison with the redistribution of baseline countries, despite the fact that social demand for redistribution is higher.

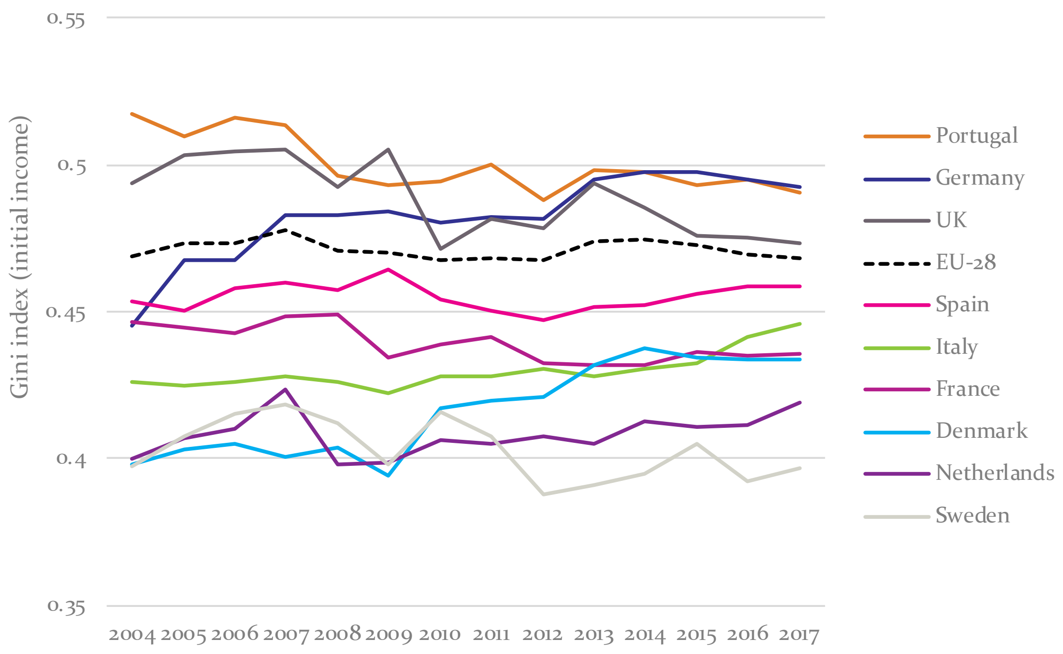
1 Inequality in Spain prior to public sector intervention is lower than the EU-28 average

The degree of initial income inequality, i.e. prior to public sector action through taxes and public spending, although including pensions, varied considerably across EU-28 countries over the period 2004-2017. The level of initial inequality in Spain, as measured by the Gini index, remained below the EU-28 average throughout this period, and in the middle ranking when compared to the set of baseline countries in this study (Denmark, France, Germany, Italy, Netherlands, Portugal, Sweden and United Kingdom).

Initial inequality remained relatively stable in Spain, and there was no clear effect of the economic cycle on its level. In fact, the highest value of the Gini index was obtained in 2009, a year in which GDP fell sharply by 3.8%, while the lowest value corresponds to 2012, when GDP also fell by 3%. Initial inequality tended to increase steadily from that year on, despite clear economic growth over the period 2014-2017.

Figure 1: Income inequality in Spain prior to taxes, benefits and other public spending is similar to that of other European countries

Evolution of Gini index of initial income in Spain and other European countries, 2004-2017



Note: *Gini index of initial income, including public pensions, by household and with proportional income distribution among adults in each household.*

Source: compiled by the authors based on the World Inequality Database, 2004-2017.

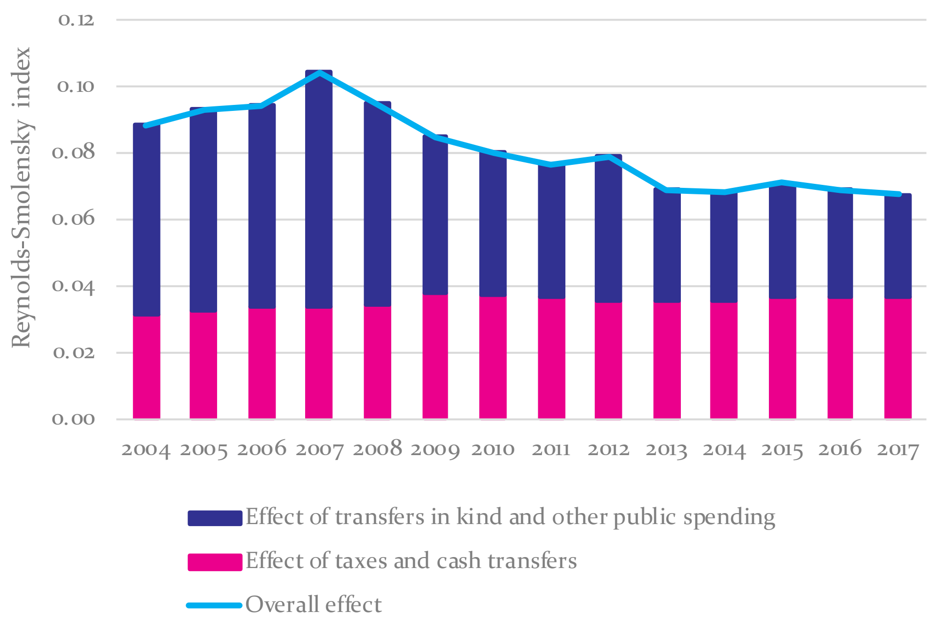
2 Spain has been witnessing a decreasing redistributive impact from taxes and cash transfers since 2008

As would be expected, public sector action through taxation and public spending reduces inequality in initial income distribution. The Reynolds-Smolensky (R-S) index is used to calculate its redistributive impact by measuring the difference between the Gini index prior to and following public sector action. Therefore, the higher the value of this index, the greater the reduction in initial inequality.

The redistributive impact of taxes and cash transfers increased in Spain between 2004 and 2007, although it began to decline from 2008 onwards, a trend that continued for the remainder of this period. In contrast, the redistributive impact stemming from transfers in kind (mainly health and education) and the rest of public spending (justice, defence, internal security, etc.) remained extremely stable throughout this period. This meant that the total redistributive effect achieved its maximum in 2007, and its minimum in 2017, the last year of the period under review.

Figure 2: The redistributive effect of public sector action in Spain decreased over this period, in particular that stemming from taxes and cash transfers

Evolution of redistributive effect of Spain's public sector as measured by the Reynolds-Smolensky index, 2004-2017



Note: *Reynolds-Smolensky index measured as the difference between the Gini index of initial income and that of final income.*

Source: compiled by the authors based on the World Inequality Database, 2004-2017.

The redistributive impact of taxes and cash transfers should a priori depend on the economic cycle. This would imply that the importance of taxes increases and that of transfers decreases when the economy is growing in order to stabilise it. In line with this goal of stabilisation, taxes would act pro-cyclically in times of growth, so that their redistributive effect would be greater, and vice versa in times of crisis. This was clearly the case between 2004 and 2008, a period of strong growth, as well as between 2009 and 2013, years of recession. Nonetheless, despite the strong growth of the Spanish economy between 2014 and 2017, the redistributive effect stemming from taxes and cash transfers remained steady throughout this period, and it even diminished slightly.

It can also be seen that the redistributive effect of taxes and cash transfers was much higher than that of public spending at the onset of this period. However, the latter decreased, and was even slightly lower from 2013 onwards, when policies to contain overall public spending were introduced. It therefore appears that these policies would have a significant impact on the redistributive capacity of the public sector.

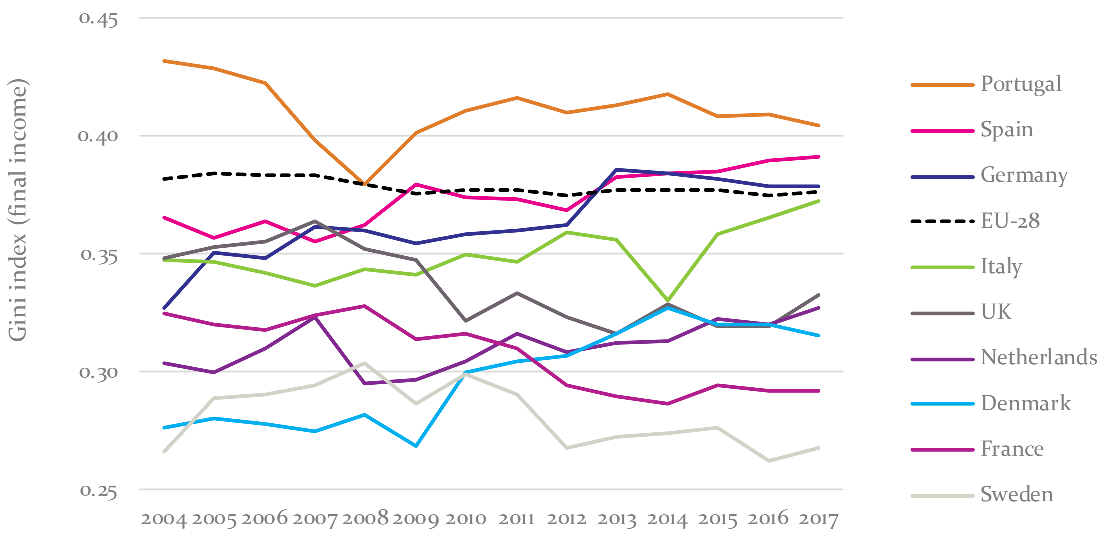
3 Income inequality following public sector intervention increased between 2004 and 2017, and it is now higher than the EU average

The lower redistributive impact of taxes and cash transfers, in addition to a slight increase in initial inequality, meant that inequality in the final income distribution in Spain increased between 2004 and 2017. The Gini index of final income increased by 7.2% between 2004 and 2017 as a result of a slight increase in initial income inequality (+1.1%), especially an increase in disposable income inequality (almost 8%), i.e. income after taxes and cash transfers. Final inequality has been growing steadily in Spain since 2013.

Thus, although the initial level of inequality is below the EU average, final inequality, after taking income and public spending into account, is higher and tends to move further away from the EU average. Spain is the most unequal country of all those considered, second only to Portugal, although, unlike Portugal, final inequality has recently tended to increase. In other words, the final inequality level in Spain has tended to become the same as that of Portugal.

Figure 3: The level of final income inequality in Spain has tended to increase over time and is higher than the European average

Evolution of Gini index of final income in Spain and in EU-28 baseline countries, 2004-2017



Note: *Gini index of final household income, i.e. initial income (including pensions) minus taxes and plus cash transfers, transfers in kind and other public spending.*

Source: compiled by the authors based on the World Inequality Database, 2004-2017.

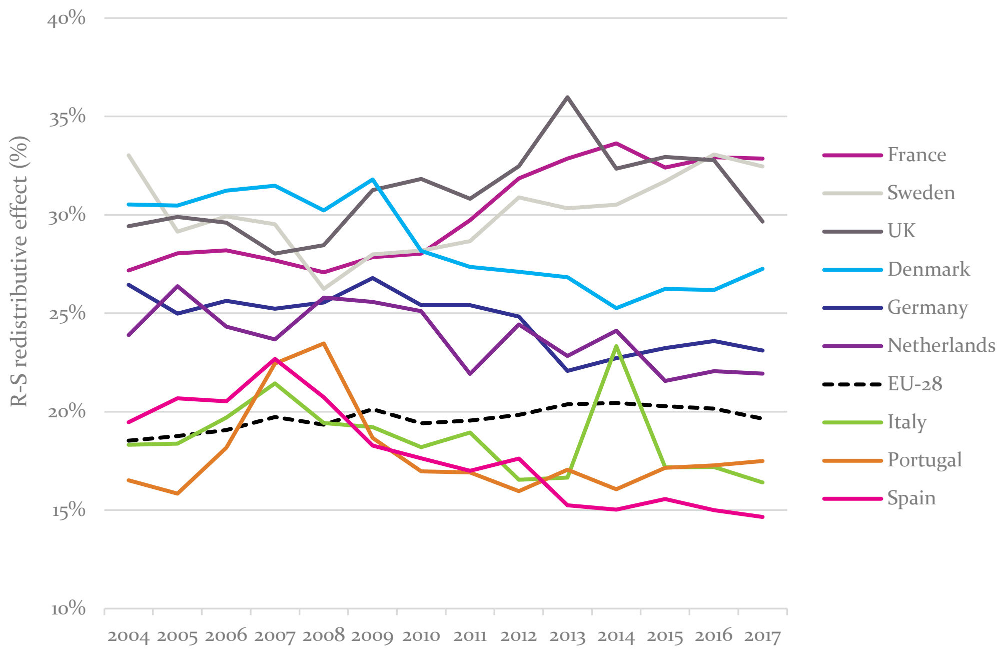
4 The Spanish public sector has a low redistributive capacity compared to the baseline countries

Public sector actions through taxes, cash transfers and other public spending has managed to reduce the level of inequality in the final income of European households, although the overall redistributive effect varies significantly among countries. The most notable aspect is that Spain is in the lower ranking of the baseline countries and has had the lowest redistributive impact since 2013, clearly below the EU average.

It can be seen how the redistributive effect in a country can vary throughout the economic cycle during this period. In the case of Spain, it is striking that the overall redistributive effect increased in the expansionary phase of the cycle (2004-2007) and diminished from 2008 onwards, although it later remained steady throughout the period 2014-2017, when the economy grew by almost 3% per year.

Figure 4: The redistributive impact in Spain has tended to diminish, ranking as the country with the lowest impact since 2013

Comparison of the redistributive effect of taxes, cash transfers, transfers in kind and other public spending measured by percentage reduction in the R-S index, 2004-2017



Nota: *the redistributive effect is calculated as the percentage reduction of the Reynolds-Smolensky index with respect to the Gini index of initial income.*

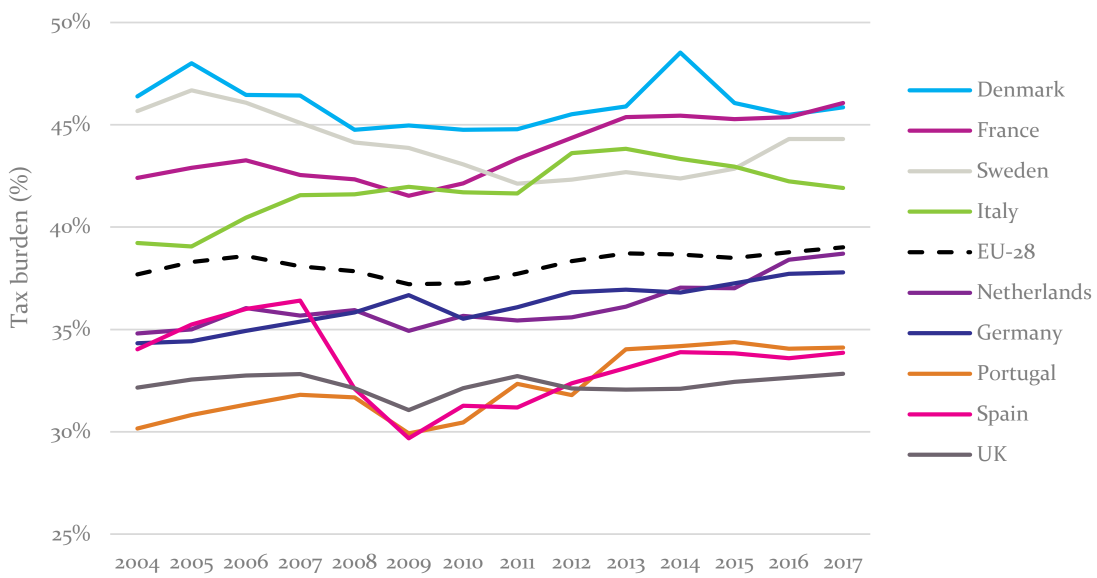
Font: compiled by the authors based on the World Inequality Database, 2004-2017.

5 The overall tax burden in Spain is far from the EU-28 average, thereby limiting its redistributive capacity

The public sector can redistribute income through expenditure – cash transfers or the provision of services – or income – the tax system. When it comes to the latter, redistribution requires the tax system as a whole to be progressive. Thus, the higher the tax burden level, understood as the proportion of tax revenue over GDP, the greater the redistribution. Consequently, a necessary condition for redistribution is that the tax system achieves relatively high tax burden levels. Otherwise, the redistributive scope of the tax system will be limited even if there is progressivity.

Denmark and France have the highest tax burdens when comparing the baseline countries, situated at around 45%. The UK, Spain and Portugal can be found at the other extreme, where the average tax burden is around 33%. Taking into account that the EU-28 average for the period analysed is 38%, Spain has a level of tax burden well below that of its EU partners.

Figure 5: The tax burden level in Spain is below the Community average
Tax burden level in Spain and in EU-28 baseline countries, 2004-2017



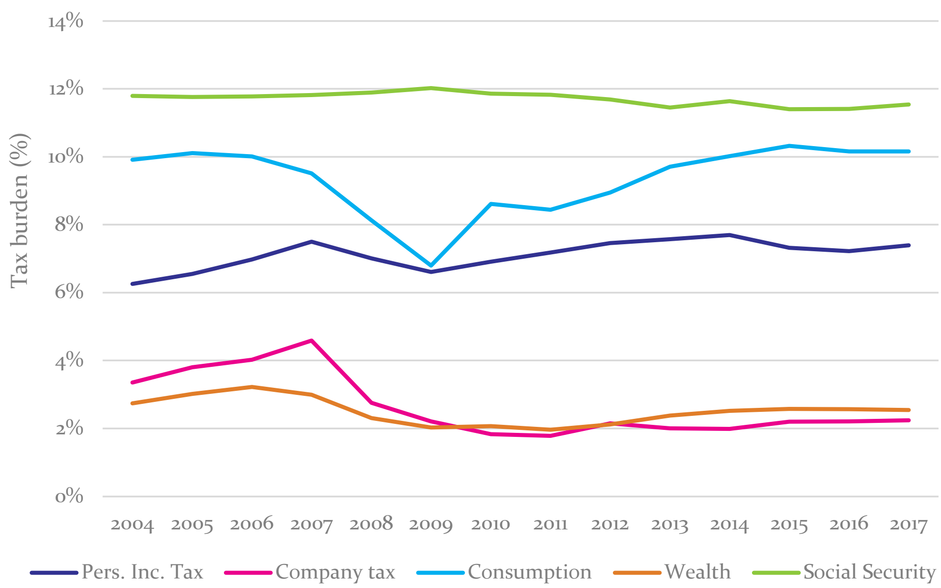
Note: *the tax burden is the ratio of tax revenue to GDP.*

Source: compiled by the authors based on OECD tax statistics, 2004-2017.

Indeed, the fact that Spain has a low tax burden in relation to neighbouring countries is neither positive nor negative per se, as this level, and consequently public sector size and degree of redistribution, must be decided by its citizens. Nonetheless, this difference limits the redistributive capacity of the tax system.

If the tax figures making up the tax burden in Spain are analysed, social security contributions are the most important revenue in the tax basket, while at the other end of the scale are corporate income tax and the set of taxes levied on wealth (wealth tax, inheritance and gift tax, property tax, asset transfer tax and stamp duty). It is worth noting that the importance of consumption taxation has increased by 3 percentage points since 2009.

Figure 6: Social security contributions are the most important tax in Spain's tax system
Tax burden by tax in Spain, 2004-2017



Note: *each line represents the importance of each tax figure on GDP, which means that the annual sum of the values of each series ends up equal to the total tax burden in Spain. The "Social Security" line includes employee and employer contributions; the "consumption" line adds VAT and excise tax receipts; and "wealth" includes wealth tax, inheritance and gift tax, property tax (IBI) and asset transfer tax.*

Source: compiled by the authors based on OECD tax statistics, 2004-2017.

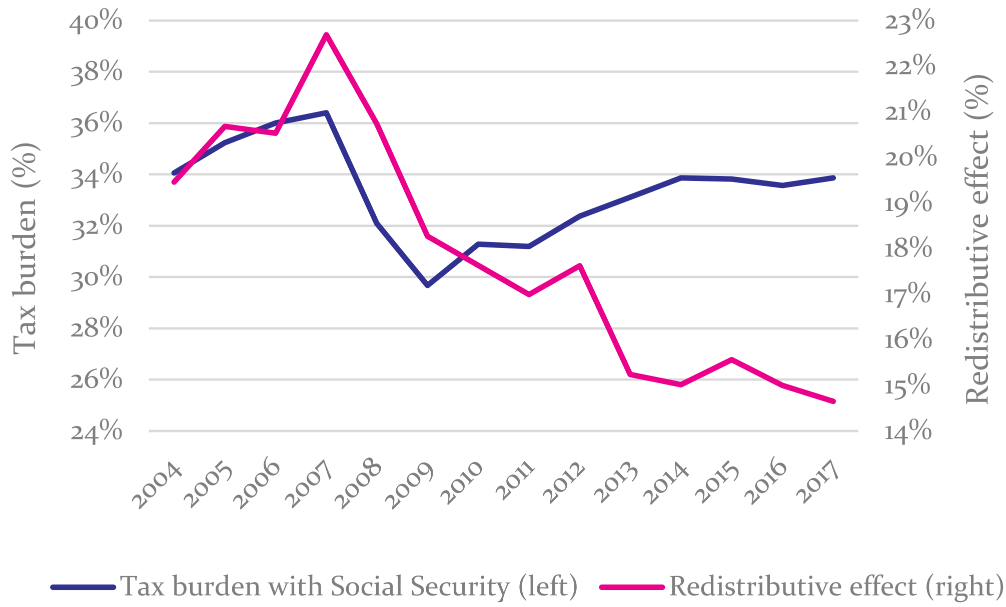
6 An increasing tax burden stemming from higher taxation on consumption has failed to translate into redistribution

In addition to redistribution, taxes also help to stabilise the economy. The tax burden should therefore increase with economic growth and decrease when the economy declines. Consequently, redistribution should increase in times of economic expansion because of the pro-cyclical nature of taxes, and vice versa during times of recession.

This relationship between redistribution (again measured as the percentage reduction of the Reynolds-Smolensky index) and stabilisation (tax burden) can clearly be observed until 2009. On the one hand, the tax burden increased between 2004 and 2007, a period of expansion, as did redistribution. On the other hand, the tax burden decreased between 2008 and 2009, a period of recession, as did redistribution. But this relationship was broken from 2010 onwards, as a result of the emphasis on fiscal consolidation objectives (either by reducing public spending or increasing taxes). Specifically, taxes were counter-cyclical (tax burden increase despite still being in crisis) between 2010 and 2013, while the level of tax burden simply remained steady (around 34%) despite economic growth from 2014 onwards. Although what has occurred since 2010 is contrary to the stabilisation of the economy, this tax burden increase has not helped to redistribute personal income. This is the scissors shape that can be observed in the graph.

Figure 7: The redistributive impact diminished from 2010 onwards, although the tax burden increased

Relationship between overall tax burden level and percentage reduction of redistributive effect, 2004-2017



Note: *the redistributive effect is measured through the Reynolds-Smolensky index, which measures the difference between the Gini index before and after the action of the public sector.*

Source: compiled by the authors based on the World Inequality Database and OECD tax statistics, 2004-2017.

What possible explanation is there for this circumstance? As has been observed, the importance of consumption taxation increased significantly between 2010 and 2017. In other words, the greater tax burden in Spain since 2010 has been mainly through a form of taxation that is regressive with respect to income.

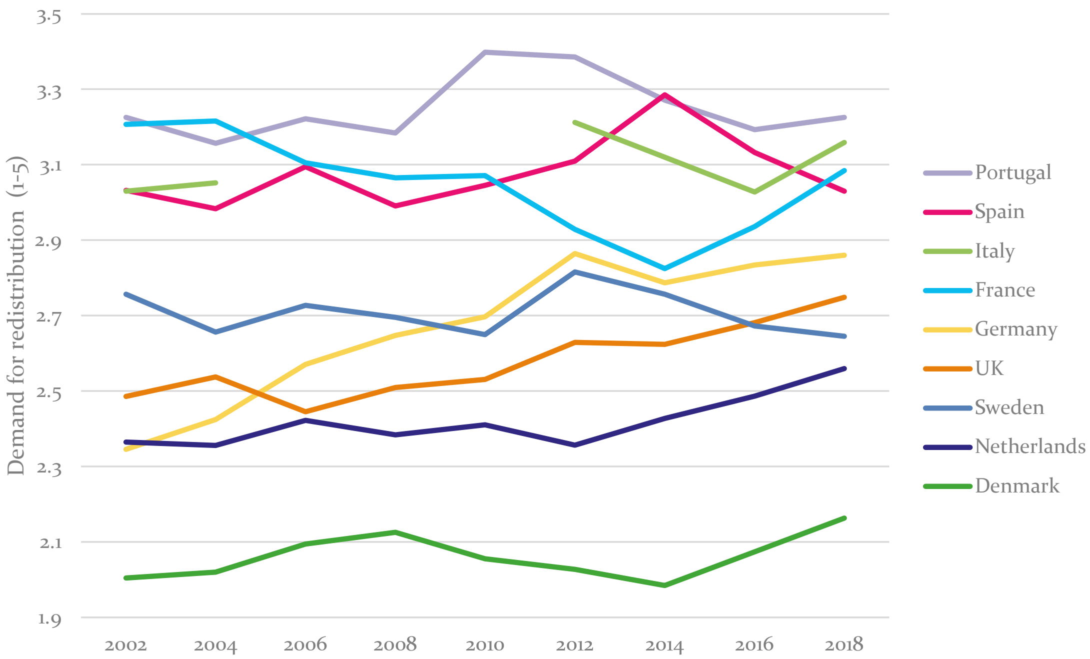
7 The demand for redistribution in Spanish society is well above the EU-28 average, and this level has been very stable over time

The demand for redistribution in Spanish society is reflected in the European Social Survey, a biennial survey conducted between 2002 and 2018 that asked citizens whether the government should take measures to reduce income level differences. The replies were on a scale of 1 to 5, so that the higher the value, the greater the demand for redistribution. With an average of 3.08 over the period 2002-2018, this value is within the "agree" range in Spain, as is the EU-28 average, where the demand is less pronounced, at 2.89. Specifically, among the countries in the comparison, Spain is the country where demand is the strongest, alongside Portugal (3.25), Italy (3.10) and France (3.05), which are also in the "agree" range.[1] Furthermore, unlike Portugal or France, among the countries with the highest demand, Spain is the country where this demand has remained the most steady over time.

[1] *Caution must be taken, however, with the line for Italy, as the survey was not available for the period 2006-2010, and we have had to interpolate the 2014 value.*

Figure 8: The demand for redistribution in Spain is among the highest in the baseline countries, and its level also hardly varies over time

Redistribution demand (1 to 5 index) for Spain and EU baseline countries, 2002-2018



Note: *the demand for redistribution is an average of the individual answers provided in the survey to the statement: "The government should take measures to reduce differences in income levels". Leaving aside "(Don't know)/(Refusal)", the scale is as follows: a value of 5 is given if the respondent answers "Agree strongly" to the question, 4 if "Agree", 3 if "Neither agree nor disagree", 2 if "Disagree", and 1 if "Disagree strongly". Thus, the higher the index value, the more in favour of redistribution. No data is available for Italy between 2006 and 2010, and so the data for 2014 have been interpolated.*

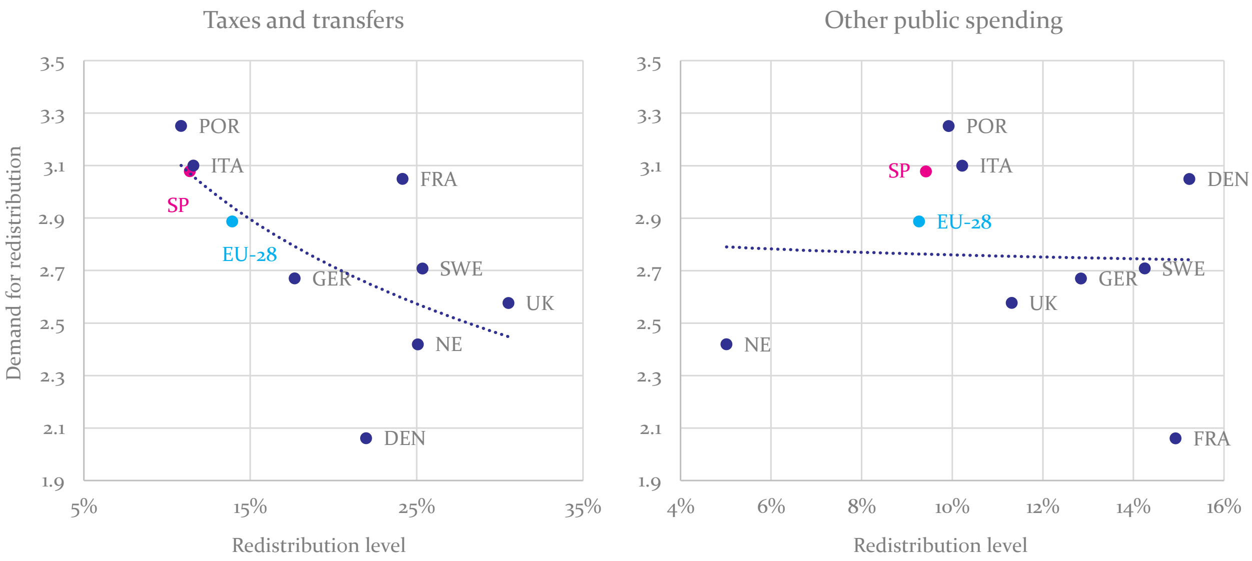
Source: compiled by the authors based on the European Social Survey, 2004-2018.

Spain's situation is interesting if we compare it with that of the baseline countries. Not only is it one of the countries where the demand for redistribution is most pronounced, but it also has a marked structural component. The opposite case is Denmark, where although the demand is indeed stable, it is much less pronounced. This asymmetry is undoubtedly related to the different redistributive intensity of the public sector in each country. Spain's relative position therefore indirectly indicates that there is a redistribution gap in the country.

8 Redistribution in Spain is not in line with the demand from society

Spain is among the EU countries where the demand for redistribution has been most pronounced over time. At the same time, it is one of the countries with the lowest level of redistribution conducted by the public sector. This strong demand is partly the result of its low redistribution level. Thus, a negative relationship should be observed when relating the average demand for redistribution over the period to the effective level of redistribution. This is particularly clear when displaying the correlation between the demand for redistribution and the redistributive impact of taxes and cash transfers (left panel). Nonetheless, the demand is not related to that caused by other public spending (health, education, etc.), as shown in the right-hand panel.

Figure 9: Demand for redistribution falls when redistribution through taxes and transfers is high; by contrast, it is separate from the redistribution level through other public spending
Correlation between demand for redistribution and redistribution level through taxes and cash transfers (left) and through other public spending (right)



Note: *each point in the two graphs is the combination of the level of redistribution (horizontal axis), defined as the percentage reduction in R-S, and the demand for redistribution (vertical axis), defined by the scale ranging from 1 to 5 for each country (the average values for the period are taken for each case). The dotted line in each graph is the estimate of the relationship between the two data series, in an attempt to explain a general relationship between the level of redistribution and demand.*

Source: compiled by the authors based on the World Inequality Database and European Social Survey, 2004-2017.

The strong demand for redistribution in Spain is at least partly the result of its low redistribution level from taxes and cash transfers. The demand should decrease as redistribution through these channels increases. In contrast, this demand does not seem to be affected by the impact of other public spending. Therefore, the public sector should a priori focus its efforts on taxes and cash transfers in order to be in line with the demand for redistribution. This aspect is worth bearing in mind when designing redistributive policy.

Conclusions

The impact of taxes and public spending in Spain is clearly lower than that of its European partners when it comes to reducing inequality. This relative gap has also tended to grow wider since 2013. This situation means that the level of final income inequality, i.e. after public sector action, is high in comparison with the baseline countries.

The tax burden in Spain is far from the EU-28 average. Although it has risen since 2010, this increase has not led to greater redistribution, perhaps due to the importance of consumption taxation to the detriment of the share of corporate taxation.

Nonetheless, Spain is one of the EU-28 countries with the highest social demand for redistribution, which is consequently not fully compensated by public sector action. Comparison with the baseline countries suggests that the higher demand for redistribution at least partly stems from a low level of redistribution through taxes and cash transfers. The demand for redistribution tends to remain steady when redistribution through taxes and cash transfers is relatively high.

Study characteristics

The data used to analyse inequality and redistribution stemming from the public sector are from the Distributional National Accounts (DINA) published in the World Inequality Database. This statistical source is systematically built upon tax data, surveys and national accounts, therefore providing a much more complete picture of initial pre-tax income. For example, undistributed corporate profits are thus included, while foreign income is supplemented by estimates of income from tax havens. This is a major advantage when compared to other statistical sources, as these are clearly incomes that particularly affect higher-income households, although it makes the data less comparable with those from other surveys.

The definition of initial income before public sector action includes pensions to allow for a uniform cross-country comparison (Guillaud et al., 2020). The incomes of pensioners may have been zero if they were not included, so that they would be classified as poor, leading to an overestimation of overall inequality. The higher the proportion of pensioners, the higher the overestimation of inequality in that country.

References

Guillaud, E.; Olckers, M. and Zemmour, M. (2020). “Four levers of redistribution: the impact of tax and transfer systems on inequality reduction”. In: *Review of Income and Wealth*, 66 (2), 444-466.

Reinforcing the redistributive capacity of the tax system

Tax progressivity and redistribution in Spain within the framework of Europe

Julio López Laborda, University of Zaragoza and FEDEA
Jorge Onrubia Fernández, Complutense University of Madrid – ICEI and FEDEA
María del Carmen Rodado Ruiz, Rey Juan Carlos University

Abstract

This report compares the redistributive effect of taxes in Spain with that of other countries in the European Union. Spain's lagging position seems to be primarily explained by the smaller size of its tax system. This smaller tax size also at least partly explains its serious public account imbalance. The revenue-raising capacity of Spain's tax system could be increased by combining the use of direct and indirect taxes in such a way as not to deteriorate the limited role of taxes and social contributions to correct income inequalities among Spanish households.

Main ideas

1

The tax burden plays a dual role: to provide enough resources to finance the welfare state and to contribute to reducing inequality.

2

Spain is among the EU countries with the highest inequality in market income, gross income (i.e. after cash benefits) and disposable income (after direct and indirect benefits and taxes).

3

Like other European countries, Spain corrects existing inequalities in market income distribution more with cash benefits rather than with direct taxes and social contributions.

4

Spain is below the EU-28 average in terms of the redistributive effect of direct taxes and social contributions.

5

Spain is one of the few EU-28 countries where social contributions by workers and the self-employed act regressively, thereby increasing inequality by reducing the redistributive efforts of direct taxation.

6

The regressivity of indirect taxes increases inequality and reduces the joint redistributive effect of contributions and direct taxes. This effect in Spain compared to other countries is offset by a lower collection share of indirect taxation.

7

Spain's lagging position in relation to other EU countries in terms of the redistributive effects of taxes is primarily explained by the smaller size of its tax system.

1 Taxes finance the welfare state and contribute to reducing inequality

Spain has had a public account imbalance problem for a long time now: the existence of a structural gap between public expenditure and revenue that has continued to grow since 2015 (2.4% of GDP in 2015, 3.7% of GDP in 2019, 4.2% of GDP in 2020). The 2021 and 2022 forecasts are 4.9% and 5.2% of GDP respectively, figures that fall well short of the medium-term structural budget balance target set for Spain by the European Commission. This means that, apart from the impact of the economic cycle, Spain's public finances suffer from a permanent public revenue shortfall that can be estimated at between 45 and 65 billion euros over the past few years. These limited resources are vital for financing the spending policies that make up a welfare state. Furthermore, this ongoing imbalance compromises the effective performance of fiscal policy in times of economic crisis, such as the one triggered by the covid-19 pandemic.

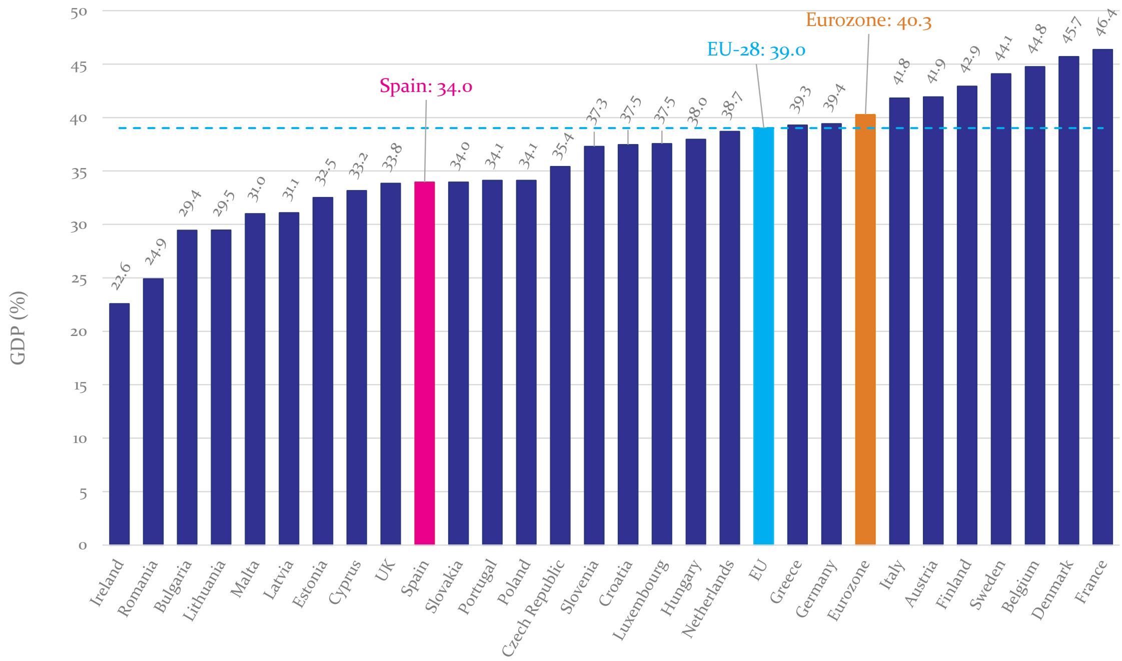
It is necessary to ascertain what level of services, and therefore spending, society wants and to adjust revenues to ensure this in order to bridge this structural gap. The preferences revealed apparently show that more tax revenues are needed, as well as rationalising (but not necessarily cutting) public expenditures. While it is always desirable to achieve better outcomes in terms of public spending efficiency, comparative experience demonstrates that budget margins stemming from these improvements can barely bridge the entire structural gap. Consequently, this means that Spanish society is faced with the need to raise tax revenues. Given that the tax burden reflects the proportion of resources generated by a country in a year (GDP at market prices) that are coercively deducted by applying various tax system figures, including social security contributions, an increase in tax collection would reasonably translate into an increase in the tax burden. It is apparently unrealistic to believe that fulfilling the spending needs demanded by Spanish society, which are not too far removed from those of the most developed countries in the European Union, could be achieved with a level of tax burden significantly lower than that existing in those countries.

Spain's tax burden was 5.0 points below the EU average in 2017 and 6.3 points below the Eurozone average. Although this comparison refers to 2017, for reasons of homogeneity with the remaining data used in the paper, the differences remained practically the same in 2019, the last year with definitive data (34.8% in Spain, compared to respective averages in the European Union and the Eurozone of 39.1% and 40.5% of GDP). Consequently, if Spain were to bring its tax burden into line with the EU or Eurozone average, revenue would increase by approximately 54 to 71 billion euros.

In addition to representing a tax revenue benchmark that allows the chosen level of public spending to be financed in relation to the resources available in each country, the tax burden also helps to establish the size of fiscal redistribution that is to be achieved. There is broad agreement that redistribution operated by the public sector should be carried out predominantly through public spending in order to reduce the costs to the economy (so-called “efficiency costs”) that could arise from the use of progressive taxes. But this does not imply that any taxation contribution to the function of redistribution should disappear. First, because the efficiency costs of progressive taxes may not be as high as commonly suggested. Second, because a progressive tax system encourages trust in institutions and social cohesion and limits the concentration of political power arising from the concentration of economic power. In addition, in the case of Spain, Article 31.1 of the Constitution establishes that “[e]veryone shall contribute to sustain public expenditure according to their economic capacity, through a fair tax system based on the principles of equality and progressive taxation, which in no case shall be of a confiscatory scope”.

Figure 1: The tax burden in Spain is 5.0 points lower than the EU-28 average and 6.3 points lower than the Eurozone average

Tax burden in the EU-28 and Eurozone, 2017



Source: compiled by the authors based on data from Eurostat.

2 All countries correct inequality more with cash benefits rather than with taxes

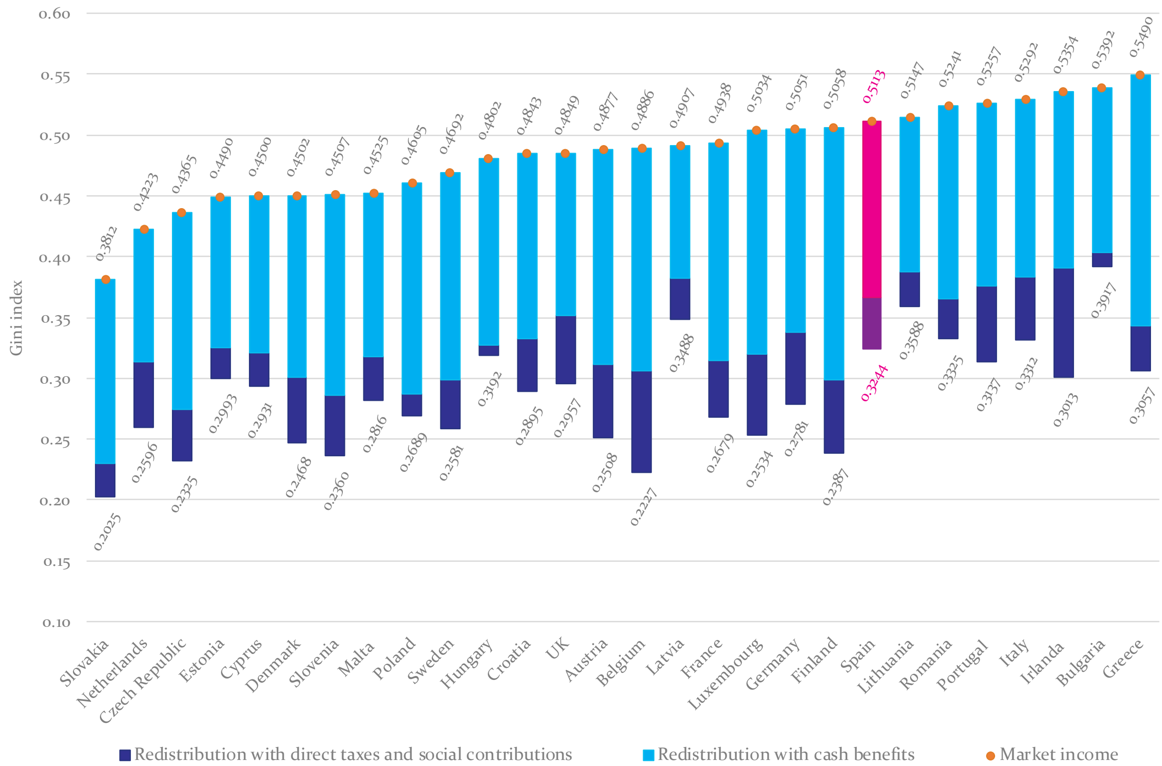
The redistributive capacity (or redistributive effect) of the public sector reflects how income distribution inequality changes as a result of public intervention. Inequality is usually measured by the so-called “Gini index”, which uses values between 0 (maximum equality) and 1 (maximum inequality). The redistributive effect of a tax or benefit is commonly measured by the Reynolds-Smolensky index, which is simply the difference between the Gini index before and after applying the tax or benefit. The household is considered to be the unit of analysis in this paper unless specifically mentioned, so that all inequality, redistribution and progressivity indices have been calculated by applying the modified OECD equivalence scale (which assigns a value of 1 to the first adult, 0.5 to other adults and 0.3 to children under 14 years of age) to the corresponding magnitude.

Let us now look at the importance of taxes and cash benefits in the redistributive capacity of EU countries. As can be seen in the figure, Spain is among the countries with the highest inequality in market (or primary) income distribution.

Considering only direct taxes and social contributions paid by workers and the self-employed, fiscal redistribution represented on average 22% of the total in the EU-28 in 2017, while the remaining 78% corresponded to redistribution through cash benefits. Nonetheless, as can be seen in the figure, there are notable differences between countries: from 5% in Hungary to 38% in Ireland. In the case of Spain, the importance of direct taxation and social contributions paid by workers and the self-employed in redistribution is very close to the average, accounting for 22.2% of the total correction of inequality in market income distribution. An additional result observed in the comparison is that the percentage correction of market income inequality stemming from taxes and benefits does not depend on the level of market income.

Figure 2: Cash benefits are almost three times as important as direct taxes and social contributions in market income redistribution

Redistribution through cash benefits, direct taxation and social contributions in the EU-28, 2017



Source: compiled by the authors based on data from Euromod.

3 Spain is below the EU-28 average in terms of the redistributive effect of direct taxes and social contributions

The redistributive effect of a tax basically depends on two aspects: the intensity with which the tax departs from proportionality, measured by the so-called "Kakwani progressivity index" (difference between the inequality of tax share distribution and income inequality), and the effective collection of the tax, expressed in terms of its average effective rate, which is the quotient between collection and income.

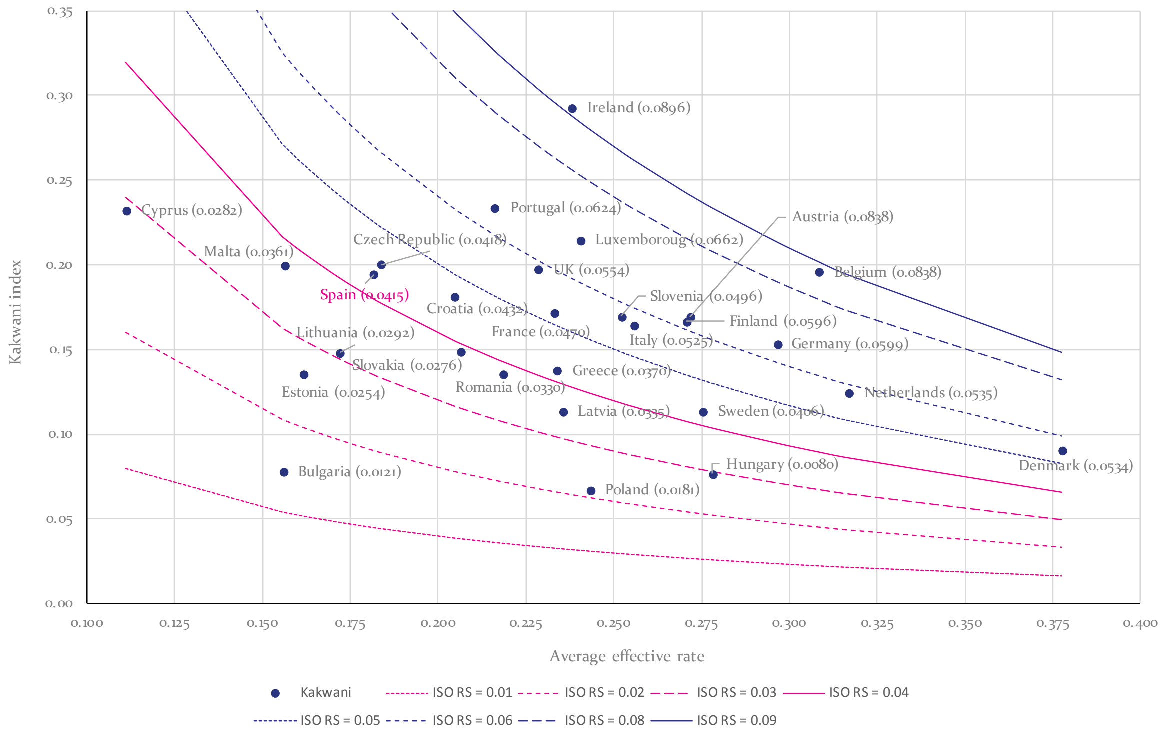
Focusing for now on direct taxes and social contributions of workers and the self-employed (let us call this “direct taxation” for the sake of simplicity), all the combinations of progressivity and average effective rate that can achieve the same correction of gross income inequality (resulting from adding monetary benefits to market income) has been outlined for various redistribution levels. The result is a map of “iso-redistribution” curves. The location of each country on this map helps to identify various “redistributive style” models of direct taxation in the European Union, characterised by a greater or lesser intensity with which progressivity and level of taxation are combined to achieve the respective redistribution levels.

The redistributive effect of direct taxation in Spain is below the European average, at similar levels to those of the Czech Republic, Croatia, Greece and Sweden, all of which have corrections in inequality of between 4 and 5 percentage points of the Gini index. There are various groups of countries with higher redistribution levels. Thus, France, Slovenia, Italy, Denmark, the Netherlands and the United Kingdom have an inequality correction of between 5 and 6 points; Finland, Germany, Austria, Portugal and Luxembourg have a correction of between 6 and 7 points; and the greatest redistributive efforts are made by Belgium and Ireland, above 8 points, the latter country with a reduction in inequality of almost 9 points. Only countries that joined the European Union after the enlargements of 2004 and 2008 can be found below the group in which Spain is positioned, with corrections in inequality of less than 4 points in the Gini index of gross income. In terms of highest to lowest correction, Poland, Bulgaria and Hungary are notable in the lower positions, the latter with a redistributive effect of less than one point.

Spain obtains its redistributive effect with high, above-average progressivity, but with an obviously lower average rate. Three well-defined “redistributive styles” can be identified if one looks at the countries with an above-average redistribution of direct taxation. On the one hand, three countries concentrate their redistributive efforts on above-average progressivity of direct taxation to compensate for below-average effective average rates: France, the United Kingdom and Portugal; on the other hand, three other countries, Denmark, the Netherlands and Germany, opt for the opposite combination, achieving their high redistributive levels with above-average average rates but below-average progressivity. Finally, a third group of countries, comprising Slovenia, Italy, Finland, Austria, Luxembourg, Belgium and Ireland, achieves high levels of tax redistribution with average rates and progressivity that are in both cases higher than the EU-28 average.

Figure 3: Spain combines a lower average effective direct tax rate and higher progressivity than the EU-28 average

Direct taxation and social contributions in the European Union, 2017: redistribution, progressivity and average effective rate



Source: compiled by the authors based on data from Euromod.

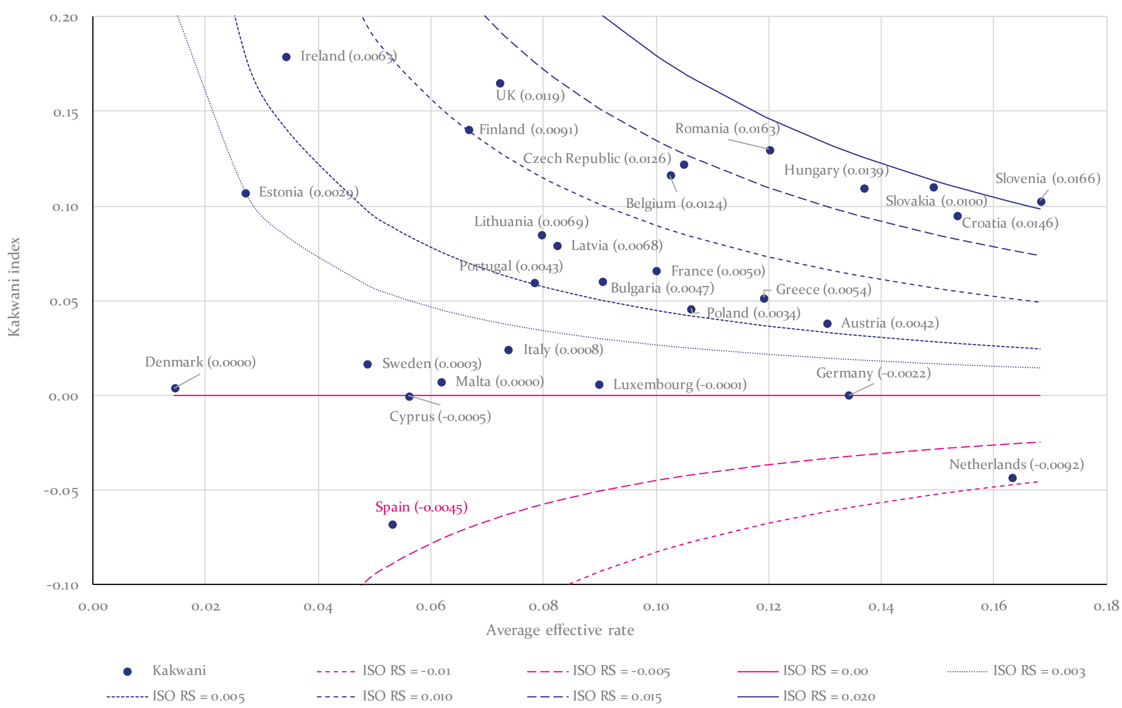
It can be seen above that Spain is among the countries with the highest market income inequality. It is also among those countries with the highest gross income inequality. The available Euromod data for the EU-28 indicate a significant positive relationship between gross income inequality and the redistributive effect of direct taxation. With the exception of Sweden and Greece, all the countries with lower redistributive efforts than Spain joined the European Union after 2004, following its enlargement to the east, and of those countries only Latvia, Lithuania and Bulgaria start from higher levels of gross income inequality. The remaining countries with higher gross income inequality (Italy, Portugal and Ireland) significantly outperform Spain in terms of redistributive efforts.

4 Social contributions in Spain by workers and the self-employed have an unequalising effect, albeit moderate

When it comes to the redistributive capacity of direct taxation, it is interesting to differentiate between the contribution of direct taxes and that stemming from the social contributions paid by workers and the self-employed (without taking into account the contributions paid by employers). Looking at the contributions of workers and the self-employed in some countries (Germany, the Netherlands and Spain), they behave regressively, albeit very slightly. There is also another group of countries (Cyprus, Luxembourg, Malta, Denmark, Sweden and Italy) in which contributions are almost proportional. This component of social contributions is progressive for the remaining EU-28 countries, although only Estonia, Finland, Belgium, the Czech Republic, Romania, Hungary, Slovakia, Slovenia, the United Kingdom and Ireland have high Kakwani index values. Nonetheless, the positive or negative impact on the correction of inequality is generally rather moderate. In the case of Spain, the inequality generated represents 10% of the redistributive effort of direct taxes (reaching 4.4 Gini points).

Figure 4: Social contributions paid by workers and the self-employed are the most regressive in the EU-28, but their average effective rate is among the lowest in the EU-28

Social contributions in the EU-28, 2017: redistribution, progressivity and average effective rate



Source: compiled by the authors based on data from Euromod.

5 Indirect taxation has an unequalising effect, although its smaller revenue collection size in Spain cushions its high regressivity, the highest among the countries compared

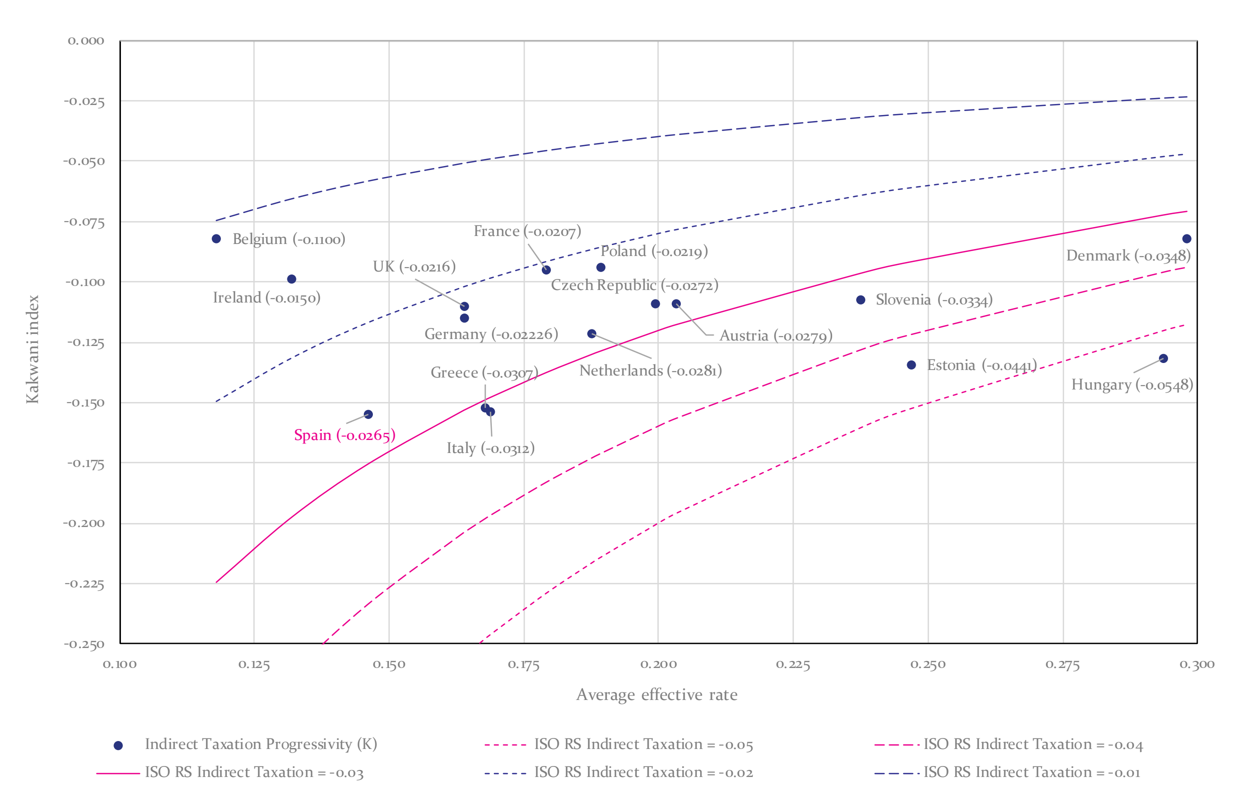
The regressivity of indirect taxes is a commonly found result of empirical research. This is primarily due to the fact that the share of household income allocated to consumption decreases as this income increases. The existence of reduced rates and exemptions in these taxes slightly offsets this regressivity, but fails to reverse it.

As has been done for direct taxation, a map of iso-redistribution curves for indirect taxation has been outlined. The figure shows that the negative redistributive effect of indirect taxation in Spain is quite similar to that of countries such as Germany, France, the Netherlands, the United Kingdom, the Czech Republic, Austria or Poland, and is lower than that of Italy, Slovenia or Denmark. The differences primarily stem from the disparity in the average effective rates, i.e. in the share of the contributions paid for these taxes in household income. The differences in the degree of regressivity among countries are not very large.

Spain is the country with the highest regressivity of indirect taxation among those considered in the analysis, although the inequality generated by these taxes is fairly well cushioned by its low average rate, the third lowest after Belgium and Ireland. Indirect taxation in these two countries is also the least regressive in the sample under review, which also makes it the least unequal.

Figure 5: Spain combines a lower average effective indirect tax rate and higher regressivity than other EU-28 countries

Indirect taxation: negative redistributive effect, regressivity and average effective rate. Selected EU-28 countries



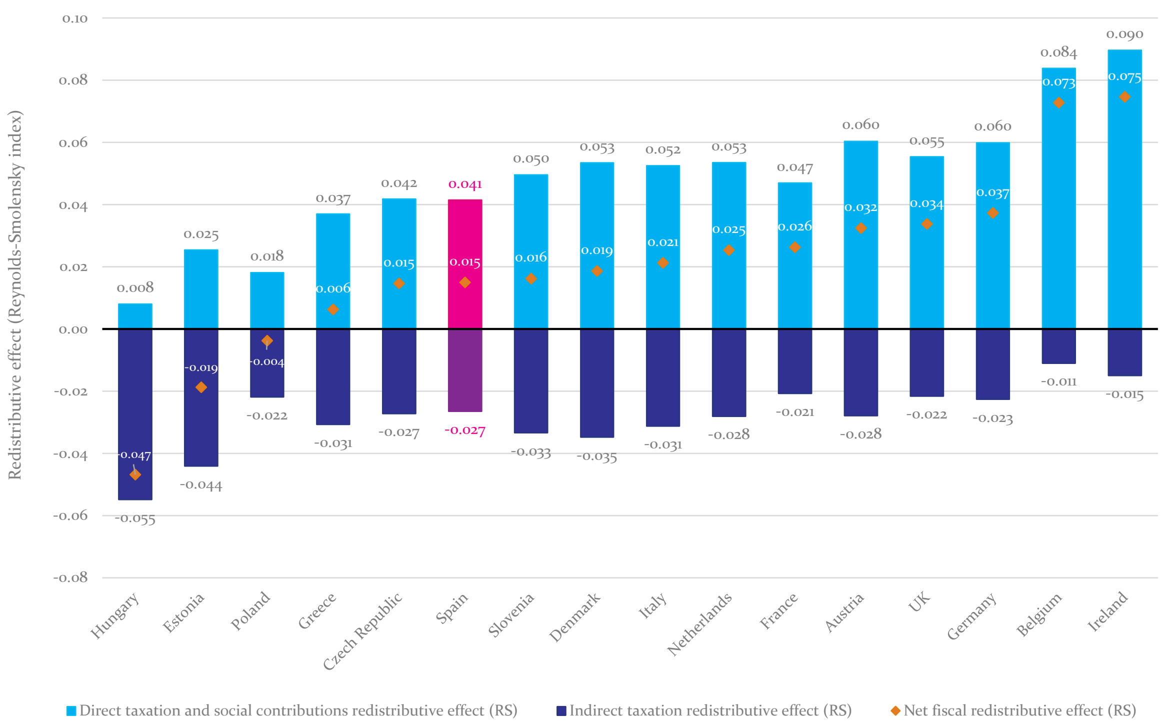
Source: compiled by the authors based on data from Blasco, J., Guillaud, E. and Zemmour, M. (2020), "Consumption Taxes and Income Inequality. An International Perspective with Microsimulation", LIS working papers series, 785, February 2020, https://hal.archives-ouvertes.fr/hal-02735145, and Blasco, J., Guillaud, E. and Zemmour, M. (2021), "La TVA réduit-elle l'efficacité des systèmes socio-fiscaux de redistribution?", LIEPP Policy Brief, 51, March 2021.

6 The negative redistributive effect of indirect taxation significantly offsets the positive effect of direct taxation

The regressive nature of indirect taxes means that income inequality increases after they have been applied. This effect of inequality accounts for more than half of the equalising effect of direct taxes and social contributions in about two thirds of the countries considered (64% in Spain). The negative redistributive effect of indirect taxation in Hungary, Estonia and Poland is even higher than the positive effect of direct taxation, which leads to the fact that the entire tax system in these countries increases inequality in distributing gross household income. At the other extreme, Ireland and Belgium combine a lower negative redistribution of indirect taxation with a high redistribution of direct taxation, thereby helping them to have a net redistributive effect of taxation that is almost double that achieved by Germany, the third country below those two.

Figure 6: The effect of inequality of indirect taxation causes the tax system in some EU-28 countries to increase income inequality

Contribution to redistribution of direct taxation and social contributions, as well as indirect taxation (selected EU-28 countries)



Source: compiled by the authors based on data from Euromod, Blasco, J.; Guillaud, E. and Zemmour, M. (2020) and Blasco, J.; Guillaud, E. and Zemmour, M. (2021).

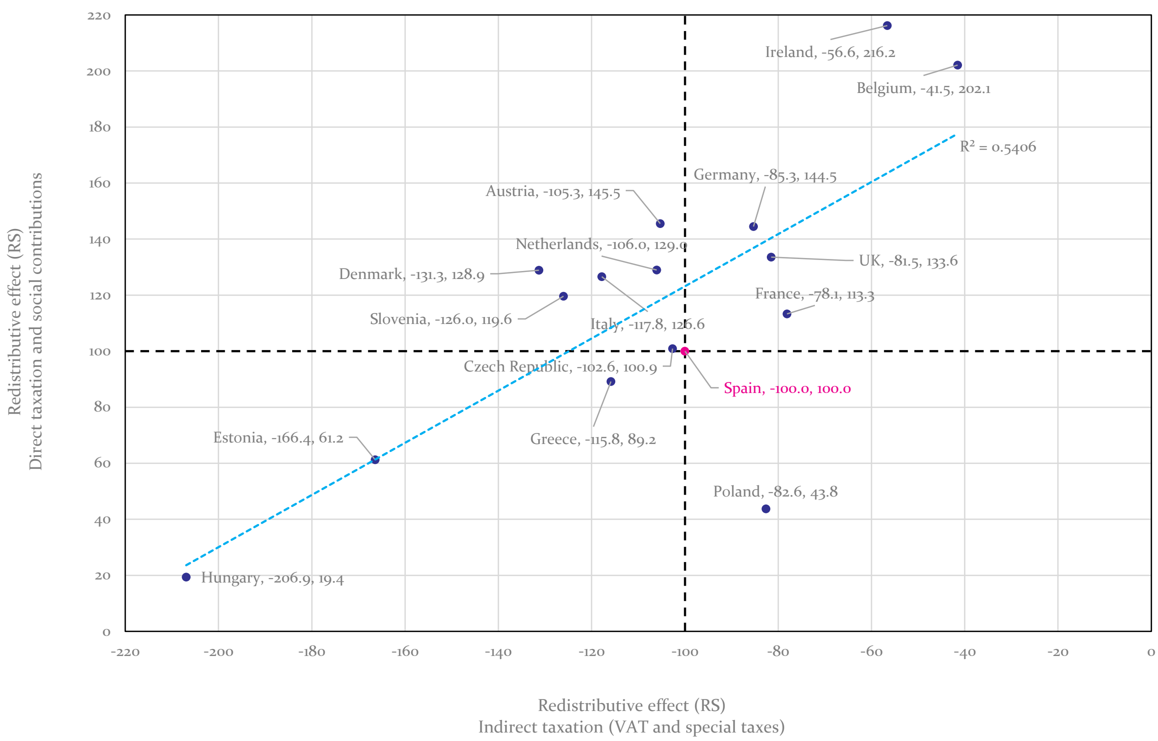
The following figure complements the previous one and compares the various countries with Spain in terms of both the positive redistributive effect of direct taxation and the negative redistributive effect associated with indirect taxation. The upper left quadrant contains those countries with a higher redistributive effect of direct taxation than Spain and a higher inequality effect of indirect taxation: Austria, the Netherlands, Denmark, Italy, Slovenia and the Czech Republic. The net redistributive balance is higher than in Spain with the exception of the Czech Republic.

On the other hand, the upper right quadrant contains those countries with a higher redistributive effect of direct taxation than Spain and less inequality stemming from indirect taxation. This explains why France, the United Kingdom, Germany, Belgium and Ireland present a net redistributive result with respect to Spain that is even better than when direct taxation is considered alone. Those countries whose direct taxation has a lower redistributive capacity than Spain's can be found in the two lower quadrants: on the right hand side is only Poland, with a lower inequality of indirect taxation, and on the left hand side are Greece, Estonia and Hungary, all with a higher inequality. As already observed in the previous figure, all these countries have worse net redistributive outcomes than Spain.

The following can be observed if Spain is compared to those countries with a more redistributive tax system: the progressivity of direct taxes is high in Spain, but so too is the regressivity of indirect taxes. Furthermore, there is a lower share of direct taxes in the total than indirect taxes when compared to these other countries. This means that Spain's tax system as a whole is less progressive. If this is combined with the fact that the tax burden in Spain is also significantly lower, the result is that Spain's tax system has a lower redistributive effect.

Figure 7: All countries with a higher net fiscal redistributive effect than Spain also have a higher redistributive effect of their direct taxes and social contributions

Redistributive effect of direct taxation and social contributions vs. indirect taxes (Reynolds-Smolensky index, Spain = 100. Selected EU-28 countries)



Source: compiled by the authors based on data from Euromod and from Blasco, J., Guillaud, E., and Zemmour, M. (2020), "Consumption Taxes and Income Inequality. An International Perspective with Microsimulation" LIS working papers series, 785, February 2020, https://hal.archives-ouvertes.fr/hal-02735145, and Blasco, J., Guillaud, E. and Zemmour, M. (2021), "La TVA réduit-elle l'efficacité des systèmes socio-fiscaux de redistribution?" LIEPP Policy Brief, 51, March 2021.

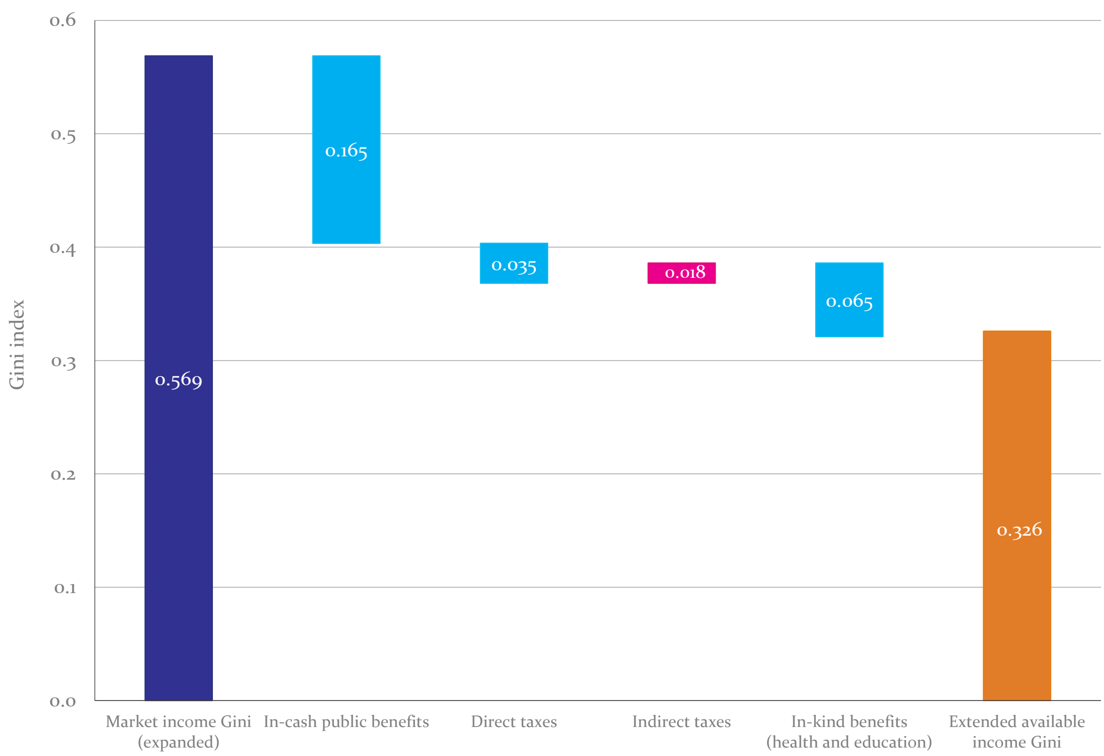
7 Spain's position in relation to other EU-28 countries can seemingly be explained, above all, by the lower collection volume of its tax system

The redistributive power of Spain's public sector in relation to its European partners has been calculated in the previous sections by using the same databases and methodology for all of them. The information on Spain can be completed by offering several recent results on the redistributive effect of public intervention in the country through taxes (indirect and direct, including corporate income tax and employer social security contributions) and benefits, both monetary and in-kind (education and health).

As can be seen in the figure, public intervention in 2018 reduced market income inequality by 42.7%. Of this percentage, 94.8% was due to the equalising effect of public benefits, both monetary (among which pensions have the highest share) and in-kind (education and health). The figures are very similar in previous years.

Figure 8: Almost 95% of the reduction in inequality in Spain stems from the effect of both in-cash and in-kind benefits

Inequality correction after taxes and public benefits for Spanish households in 2018 (changes in Gini index)



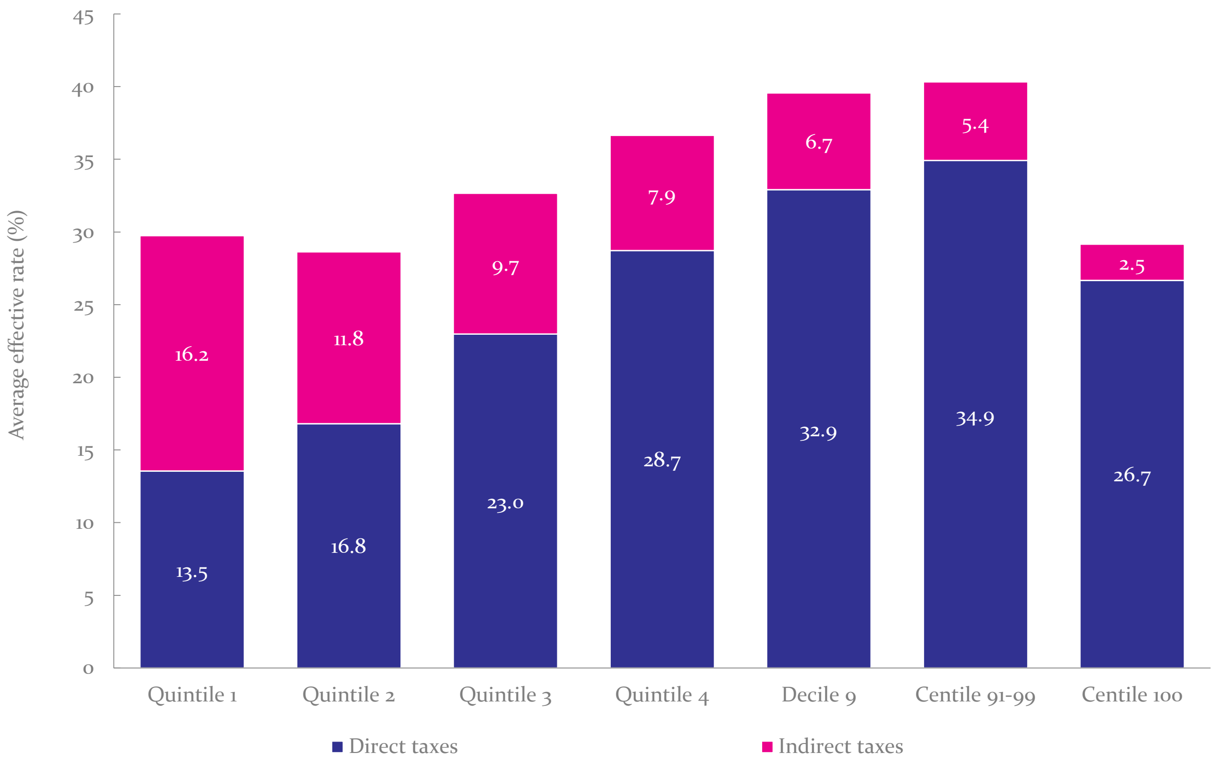
Note: *indices calculated for distributions in terms of equivalent income.*

Source: López Laborda, J., Marín, C. and Onrubia, J. (2021), "Observatorio sobre el reparto de los impuestos y las prestaciones entre los hogares españoles. Sexto Informe - 2017 y 2018", *Estudios sobre la Economía Española*, EEE 2021/33, FEDEA, Madrid. https://documentos.fedea.net/pubs/eee/eee2021-33.pdf.

The small redistributive effect of taxes is predominantly the result of personal income tax, although corporate taxes also help to reduce inequalities. Indirect taxes increase inequality in income distribution, as do social contributions, albeit to a very small extent: the contributions by employers have a positive redistributive effect, but the effect of contributions by workers and the self-employed is negative. The figure below shows the average effective rate paid by households in 2018 for various divisions of their gross income, including a breakdown between direct and indirect taxes. The figure clearly shows the progressivity of the former, the regressivity of the latter and the progressivity of the tax system as a whole, except for households in the first income quintile, whose rate is slightly higher than that of the second quintile, and for households in the top 1% with the highest gross income, whose tax contribution is lower in relative terms than that by other lower income households. This result for the "top 1%", although not sufficient to make the Spanish tax system regressive, shows that the reality in Spain is similar to that reflected by the ongoing debate in many countries on the lower taxes paid by "rich households".

Figure 9: The Spanish tax system is globally progressive, except for households at the bottom and at the top of gross income distribution

Tax mix of the tax burden of Spanish households according to the distribution of gross income, 2018



Note: *indices calculated for distributions in terms of equivalent income.*

Source: López Laborda, J., Marín, C. and Onrubia, J. (2021), "Observatorio sobre el reparto de los impuestos y las prestaciones entre los hogares españoles. Sexto Informe - 2017 y 2018", *Estudios sobre la Economía Española*, EEE 2021/33, FEDEA, Madrid. https://documentos.fedea.net/pubs/eee/eee2021-33.pdf

In light of the results presented throughout this report, it can be concluded that the problem of Spanish public finances is basically one of revenue size. And this is a twofold problem. First, because of insufficient public revenue to cover the structural deficit of Spain's public accounts. And second, because the smaller size of direct taxes in Spain compared to other EU-28 countries means that it still has a long way to go to achieve the redistributive results achieved by them. Nonetheless, it is also true that the smaller relative size of indirect taxes compared to those countries offsets its potential for inequality.

The implications of a reform aimed at increasing taxes can be briefly discussed in order to contribute (if necessary, with a possible reduction in some expenditures) to bridging the gap between public spending and revenues. Increases in the revenue raising capacity of VAT and excise duties will, *ceteris paribus*, reduce the progressivity and redistributive effect of the tax system. Therefore, if Spanish society wants to at least maintain the limited redistributive capacity of its tax system, it does not seem that the increase in the tax burden should be entrusted exclusively to indirect taxation. Direct taxation will also have to play a role. Otherwise, disposable income inequality will inevitably increase without substantial changes in primary and gross income inequality.

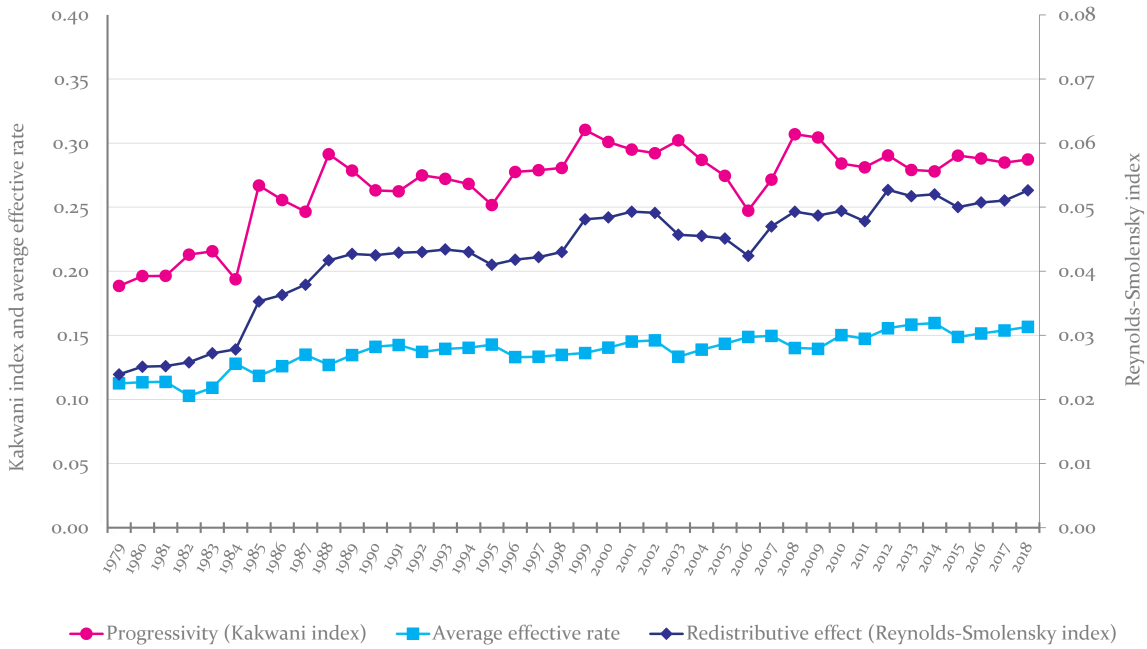
Personal income tax has always been, and still remains, the main redistributive instrument among direct taxes, as is the case in all comparative countries. In Spain, however, it seems that those in power have long since given up on further strengthening its importance in the tax system and thus its redistributive capacity. As can be seen in the figure below, the maximum extent of the progressivity and revenue collection of this tax was reached in the early 2000s and subsequent legislators have not significantly altered this, with the temporary exception, in terms of the average effective rate, of the additional rates, introduced at the height of the financial crisis and remaining in force between 2012 and 2014. But there is still room for this tax to increase its revenue-generating capacity, as there are various elements of its structure that could be reviewed, such as its incorporated tax benefits, simplified taxation regimes for business activities or rates, especially that of savings, which is responsible for taxing financial capital yields and most capital gains.

The goal of wealth tax and inheritance and gift tax is also clearly redistributive. But these two taxes have been languishing for years (not only, but also especially because regulatory powers over them were attributed to the autonomous communities under the common system), plagued by tax benefits that undermine their collection and progressivity and prevent them from playing a significant role in redistribution. If Spanish society decides that these taxes should continue to form part of its tax system, they can also significantly improve their revenue-raising capacity. In order to achieve this, their structure should be reviewed, as in the case of personal income tax, and it should also be determined whether the autonomous communities should continue to exercise their regulatory powers over these taxes and, if so, whether it is necessary to set specific conditions for this exercise (for example, to avoid the tacit abolition of these taxes).

Finally, the contribution of social security payments (adding those by workers and employers) to the correction of inequalities could be reinforced by acting on the minimum and maximum contribution bases, thereby increasing progressivity. A modification along these lines could also help to increase their contribution to tax collection, which is required in order to reduce the large deficit in recent years from financing contributory social benefits.

Figure 10: Personal income tax in Spain reached a peak of progressivity and revenue in the early 2000s

Redistributive effect, progressivity and average effective rate of personal income tax in Spain. Evolution from its introduction in 1979 to 2018



Note: *all three indicators are expressed as per unit and calculated in terms of (non-equivalent) monetary income.*

Source: compiled by the authors based on microdata from the Personal Income Tax Return Panels 1982-1998 and 1999-2016 (IEF) and from the Personal Income Tax Return Annual Samples 2012-2018 (AEAT and IEF).

Conclusions

The results for Spain fare unfavourably if compared to its European partners in terms of income distribution among households and the correction of inequalities by the public sector. Spain is among the countries in the EU-28 with the highest inequality in market income distribution, and it continues to be among the countries with the highest inequality in income distribution following public intervention with cash benefits and taxes.

The correction of inequality achieved by taxation in Spain is lower than the EU-28 average. The explanation lies not so much in the degree of progressivity of direct taxes or regressivity of indirect taxes, but rather in the smaller size of the country's tax system in relation to other countries. As has been observed, Spain ranks 16th out of 28 in terms of redistribution through direct taxes and contributions by workers and the self-employed, i.e. without taking into account the inequality of indirect taxation. Without considering the regressivity of indirect taxes, Spain ranks 9th out of 28 in terms of progressivity. Finally, Spain ranks 23rd when it comes to the level of taxation, with only five countries with lower average effective rates.

An increase in the tax burden could consequently improve the redistributive capacity of Spain's tax system, as well as help to bridge the structural gap in public finances.

Proposed actions

1

Increase the revenue-raising capacity of Spain's tax system in order to help bridge the structural gap between public expenditure and revenue (together with a reduction of some public expenditure based on efficiency criteria if required).

2

In order to implement the above, combine the use of indirect taxes, which are more appropriate from the perspective of their lower efficiency costs, with direct taxes so as not to deteriorate – or even accentuate – the already limited contribution of the tax system to correcting income inequalities among Spaniards.

3

Intervention among indirect taxes should preferably focus on VAT, while the focus should be on personal income tax, inheritance and gift tax and wealth tax among direct taxes, in addition to social security contributions.

Study characteristics

The main limitation has been the lack of availability of data on the progressivity and redistributive effect of indirect taxation for all EU countries. Most studies on the redistributive impact of tax systems, both by national institutions and international organisations (OECD, European Commission, etc.) do not include these data, as they are taxes whose collection is through companies and professionals involved in the value-added generation chains, with quotas finally being passed on in the prices paid by end consumers. Given their relevance, argued herein, we have opted to use the information on distributional aspects of indirect taxation contained in the works by Blasco *et al.* (2020 and 2021) cited in the corresponding figures. This has forced us to reduce the number of countries for which the analysis is carried out by including this type of taxation.

It would therefore be advisable to promote comparative studies that incorporate the most important instruments of public intervention into the distributional analysis, including direct and indirect taxes, all social contributions (corporate and employee and self-employed), cash benefits and primarily in-kind provided public services, such as health and education.

Similarly, to explore this area of study in greater detail, it would be helpful to carry out analyses that explore redistribution from a life-cycle perspective in order to complement the information from studies adopting an annual perspective, which currently predominate.

Tax fraud leads to inequality

The nature and effects of personal income tax fraud on inequality

Sara Torregrosa Hetland, Lund University

Abstract

This report provides estimates on the nature of personal income tax fraud in Spain and how this affects inequality. This tax has been highlighted for two reasons. First, because it is the tax that carries out most of the redistribution derived from taxes in the country, as it combines high revenue with a progressive nature. Second, it determines how the public view the fairness of the tax system as a whole because of its visibility. The key conclusion is that fraud, by being greater in the types of income received by higher earning taxpayers, predominantly financial income, is a major contributor to inequality. Similarly, indirect effects should be also added, such as a reduction in public spending of a redistributive nature. Furthermore, a growing rejection of fraud by the general public and apportioning blame to the tax administration may undermine the institutional trust required for achieving social contracts against inequality.

Main ideas

1

Tax fraud leads to inequality: it is an affront to those who comply by those who do not.

2

A significant part of self-employment or capital income is not declared in personal income tax. Although this represents 20% of the income declared in this tax, other measures suggest that the real weight in household income is 30%.

3

Tax compliance is around 80% for self-employment and fixed capital income, but it falls to 50-60% for financial income. Fraud in the first two cases has been considerably reduced in recent decades.

4

Tax compliance is lower the higher up the income scale one goes, and this leads to inequality and significant reductions in tax revenue. The richest 0.1% conceals approximately 23% of their income.

5

Up to 70% of the population considers fraud to be unjustifiable, compared with 50% in 1981. There is also a majority opinion that fraud mainly stems from the inefficiency of the tax administration.

6

International comparison shows that applying withholding taxes and providing information by third parties are crucial. Income not subject to this control reaches a plateau compliance level of 60-70%.

1 Tax fraud leads to inequality: it is an affront to those who comply by those who do not

Tax fraud automatically leads to inequality between those who pay what they owe and those who do not. Two people with the same financial capacity can ultimately pay very different taxes if one declares his/her entire income and the other hides a part of this. On the other hand, the effects of fraud on inequality are underlined if those who do not pay what they owe are those who have the most.

Personal income tax (IRPF by its Spanish acronym) is the progressive, redistributive tax par excellence of Spain's tax system, which is why this report focuses on personal income tax fraud. The tax's effective progressivity is inevitably lower precisely because fraud is concentrated in specific income brackets, as well as among those with high income levels. In other words, a system without fraud would lead to a greater reduction in inequality.

Fraud also exists in other taxes without specific redistributive purposes (VAT, corporate taxes, etc.), and this naturally also impacts inequality. Taxes are closely interrelated (e.g. lower corporate tax rates than personal income tax rates may incentivise income "shifting" to the former from the latter). Fraud has an impact on tax collection in all of these and thus on public spending, which in no small part is earmarked for providing common goods with redistributive effects (education, health, etc.).

Ever since the transition to democracy in Spain, various studies have indicated a trend towards reducing personal income tax fraud, and this reached 50% of the tax base in the years 1979-86. Other estimates also indicate a reduction in the informal economy since the mid-1990s, with values close to 20% in the first decade of this century (Pickhardt and Sardá, 2015). This seemingly corresponds to the expectation that economic development brings with it improvements in tax compliance. But, as will be demonstrated in the following pages, this is not a direct and inevitable relationship, and there are certain areas where tax compliance remains very low.
It is nonetheless difficult to measure tax fraud. It has to be approximated on the basis of several indicators and may refer to more or less broad concepts. A very broad concept of tax fraud will be used in what follows, including tax evasion, avoidance and tax base shifting. Evasion is illegal taxpayer behaviour (e.g. non-declaration of certain income derived from the informal economy or obtained in tax havens). By contrast, the other two items on the list are not. Avoidance seeks to minimise tax payments by taking advantage of opportunities provided by legislation (e.g. the use of remuneration structures that exploit the tax privileges of capital). Base shifting occurs when tax regulations incorrectly approximate real income (e.g. in the case of objectively assessing income). However, the distinction between what is legal and what is illegal is often difficult to make, and a large grey area exists that is the subject of legal dispute. For the purposes of this report, the key point is that both avoidance/evasion and shifting share the same goal of "hiding income" for tax purposes.

2 A significant part of self-employment or capital income is not declared in personal income tax

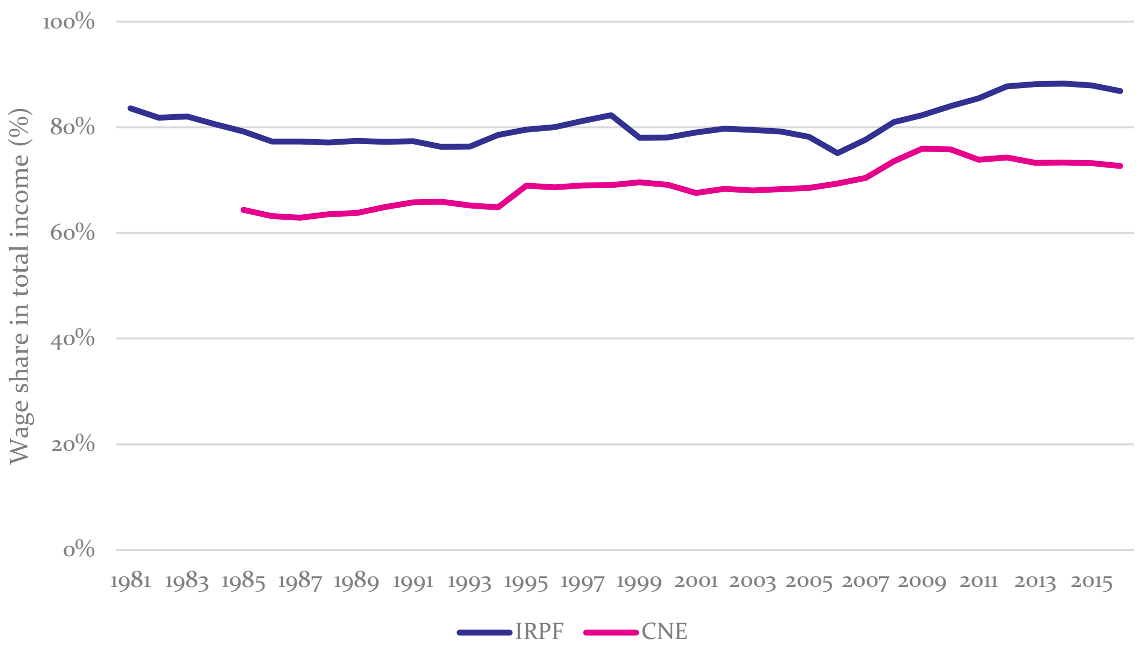
Personal income tax began to be collected in 1979 and thereafter has been predominantly based on wages. One reason for this is that this type of income was subject to source withholding and reporting from the outset. This mechanism ensures a high level of tax compliance, because what would be the point of declaring to the tax authority an amount less than what it already knows, given that it has been reported by the payer?

Reporting and withholding were introduced later in capital income after overcoming many obstacles, including the proliferation of opaque financial products such as bearer promissory notes. Likewise, the desire to open up the Spanish economy to the outside world and stimulate its competitiveness prompted the granting of a series of tax privileges for capital income that were in line with international trends. In terms of self-employment income, it has also avoided – and continues to avoid – automatic reporting and its proportion subject to objective estimation has been calculated well below its real value by tax regulations.

This explains why this share is around ten points lower (around 70%) in Spain's national accounts, despite the fact that the share of labour in income declared in personal income tax has fluctuated around 80% over the past forty years. As national accounts are generally considered a reliable reference framework, capturing all income regardless of its tax treatment, this suggests that a major share of non-wage income is under-reported in personal income tax.

Figure 1: The difference between personal income tax and national accounts when it comes to measuring unearned income suggests that a major share of it is under-reported

Wage income as a percentage of total income declared in personal income tax and of total household income in Spain's national accounts (CNE), 1981-2016



Source: compiled by the author based on data from the AEAT (Badespe) and the CNE (INE).

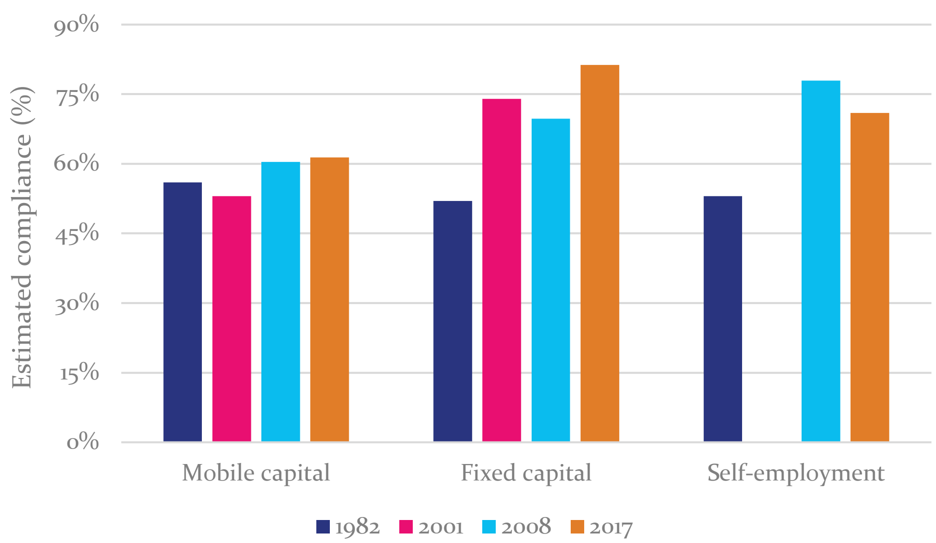
3 Tax compliance falls to 50-60% for financial income

This report provides an estimate of fraud by income type for 2017 and compares this with previous results from 1982, 2001 and 2008. The exercise is based on comparing the contributions made by people with income that is easier to hide with those made by people with income that is more difficult to hide. The latter would be wage income, as it is assumed to have the highest compliance and therefore used as a benchmark for the rest. If those receiving unearned income make higher contributions (for the same level of total income), this may suggest the existence of fraud in the overall sense mentioned above. For example: two individuals claim to have an income of 1,000, and one makes a contribution of 10 and the other of 20. Is the second more generous, or, alternatively, could he/she have an actual income of 2,000? The calculation is obviously made using a large number of tax returns and taking into account a multitude of possible factors.

The incomes studied are those of mobile capital (e.g. interest), fixed capital (e.g. rents) and self-employment (freelancers). The results show that fixed capital and self-employment now have a level of tax compliance, i.e. a percentage of declared income over actual income, approaching 80%, up from 50% in the early 1980s. But compliance in financial capital has reached a kind of plateau, remaining at lower levels of between 50 and 60%.

Figure 2: Tax compliance has increased over the years, but it still remains very low for finance capital income

Percentage of estimated compliance (declared income over actual income) for capital income and self-employment, 1982, 2001, 2008 and 2017



Note: *estimated compliance is relative to that of wage income.*

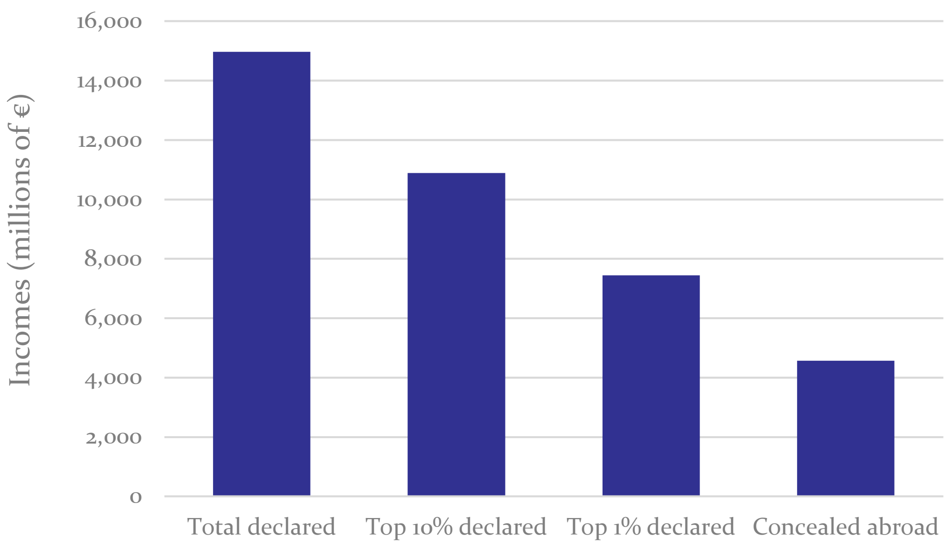
Source: compiled by the author based on personal income tax microdata from 2017. Domínguez et al. (2015) for 2008, Torregrosa-Hetland (2020) for 2001 and Torregrosa-Hetland (2015) for 1982.

4 Wealth hidden abroad leads to undeclared income that could reach 30% of total declared financial income

In terms of inequality, one type of fraud worth paying special attention to is that arising from undeclared investment income abroad, as the use of tax havens is usually carried out by large fortunes. For 2017, Artola et al. (2021) calculated undeclared wealth abroad at 182.666 billion euros (75% of total wealth abroad of Spaniards). A conservative estimate of the return generated by this hidden wealth would put it at 2.5% (this is suggested by the Johannesen et al. study [2018], using data from tax regularisations in the United States), which translates into 4.57 billion euros. In order to obtain an idea of its size, it is enough to note that this figure corresponds to 30% of total declared positive financial income, and up to 61% of that declared by the richest 1%.

Figure 3: Income hidden in tax havens could reach 30% of total declared financial income, and 61% of that declared by the top 1%

Reported financial capital income (totals, top decile of filers and top percentile of filers) and estimated hidden income in tax havens, 2017



Source: compiled by the author based on personal income tax microdata from 2017, using the estimate of unreported wealth abroad by Artola et al. (2021) and imputing a yield of 2.5% (obtained by Johannesen et al. [2018] from US regularisations).

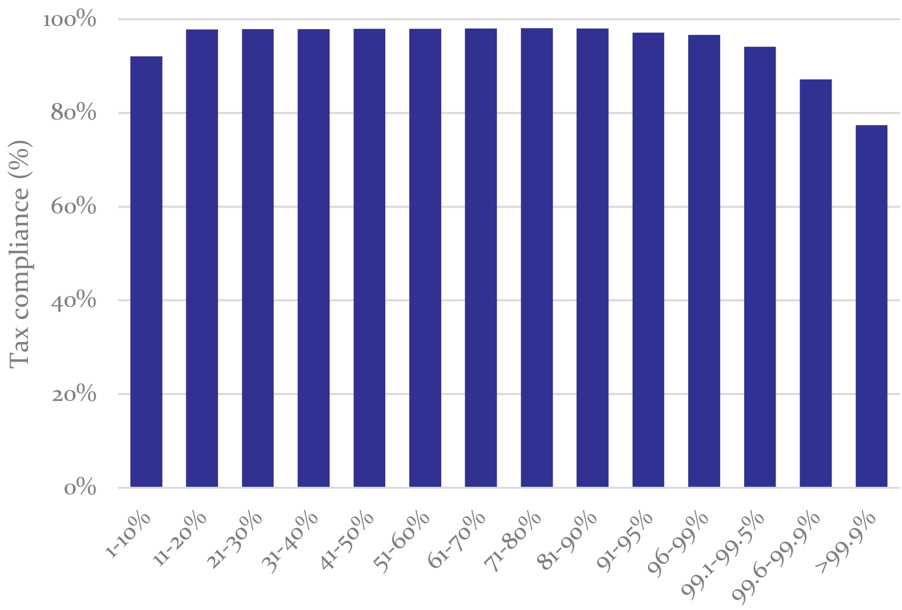
5 Tax compliance is lower the higher up the income scale one goes

The assumption has been made that all those earning the same type of income (e.g. from self-employment) hide the same proportion of it in order to obtain an estimate of real income. But in terms of income hidden abroad, the consensus in economic research has been followed to allocate it exclusively to the richest 1% of filers. After completing this exercise, it can be seen that compliance declines as one moves up the income scale, especially among the richest 5%.

In addition to this direct effect on inequality, there is also an indirect effect. As personal income tax is a progressive tax, the fact that fraud is concentrated among the highest income earners leads to a sharp loss of revenue. The associated tax gap stood at 7.101 billion euros in 2017, corresponding to 9% of potential personal income tax revenue in that year and 0.7% of GDP. This loss of revenue inevitably restricts public spending, which in no small part is devoted to providing common goods with redistributive effects (education, health, etc.).

Figure 4: Tax fraud is greater at higher incomes, more so the higher the incomes, and is estimated at 23% for the richest 0.1% of personal income tax filers

Estimated average compliance (declared income over actual income) in percentage at different income levels of the tax filer population, 2017



Source: compiled by the author based on personal income tax microdata from 2017.

6 Up to 70% of the population considers fraud to be unjustifiable, compared with approximately 50% who viewed it as such in 1981

Although various estimates indicate a reduction in tax fraud in recent decades, the public perception is that, on the contrary, it is on the rise. This was the opinion of more than 80% of people surveyed between 2011 and 2017. One possible reason for this is that the public is now more aware of the existence and consequences of fraud and rejects it overwhelmingly. It has also been noted above that perceptions of fraud tend to be worse in times of economic crisis rather than in times of growth.

Fraud aroused little social rejection during Franco's regime – it was after all directed against a state with little legitimacy and a tax system that was widely viewed as unfair. But this rejection grew in the decades following Spain's transition to democracy. Those who thought that tax fraud was never justified (a typical indicator of "tax morale") represented around half of the population in 1981. This proportion increased to 65% (average) in the period 1995-2018, and tending to increase slightly since 2007/2009.

Figure 5: A growing share of the population believes that fraud is increasing and overwhelmingly rejects it

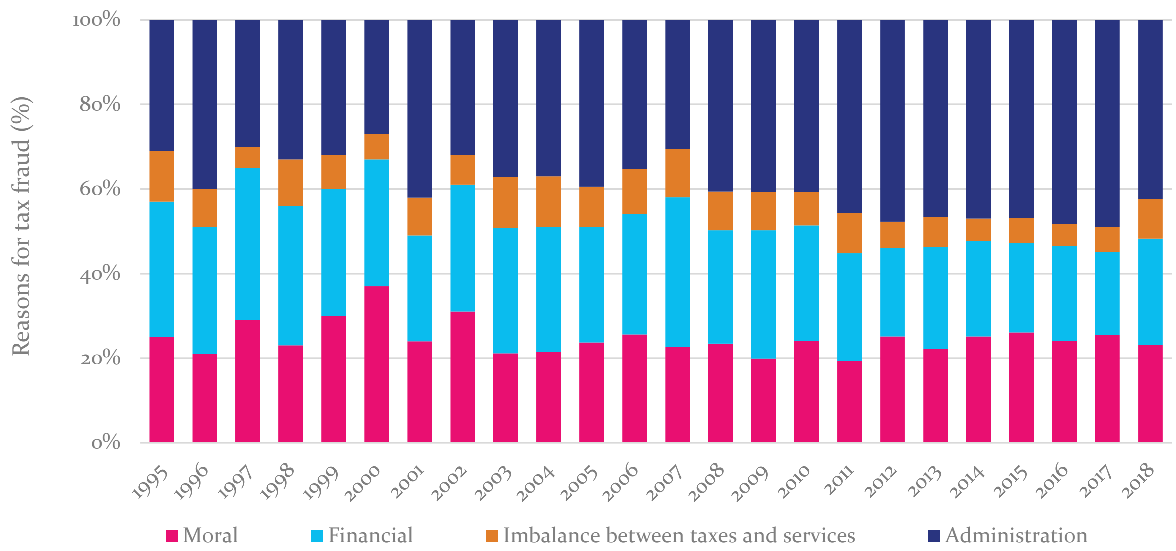
Percentage of respondents who believe fraud has increased and percentage who view it as unjustifiable behaviour, 1995-2018

Source: tax barometers of Spain's Institute for Fiscal Studies (IEF).

Over time, a growing number of people have attributed fraud to a tax administration that does not pursue it effectively. The percentage of the population sharing this view has risen from around 30% to 45% over the past twenty years, which may also indicate an increase in the expectations placed on the public authorities. The attribution of fraud to moral reasons ("lack of honesty and civic awareness") is slightly above 20% and shows no clear trend, while economic reasons ("current taxes are excessive", "sometimes you have to cheat a bit to get by") and attributing fraud to the imbalance between taxes and services ("services and benefits are inadequate for what you pay") have tended to decrease.

Figure 6: People are increasingly pointing to the tax administration as a cause of tax fraud

Percentage of people who consider the reasons for tax fraud to be moral, financial, administrative or an imbalance between taxes paid and services received, 1995-2018



Source: tax barometers of Spain's Institute for Fiscal Studies (IEF).

7 International comparison shows that applying withholding taxes and providing information by third parties are crucial

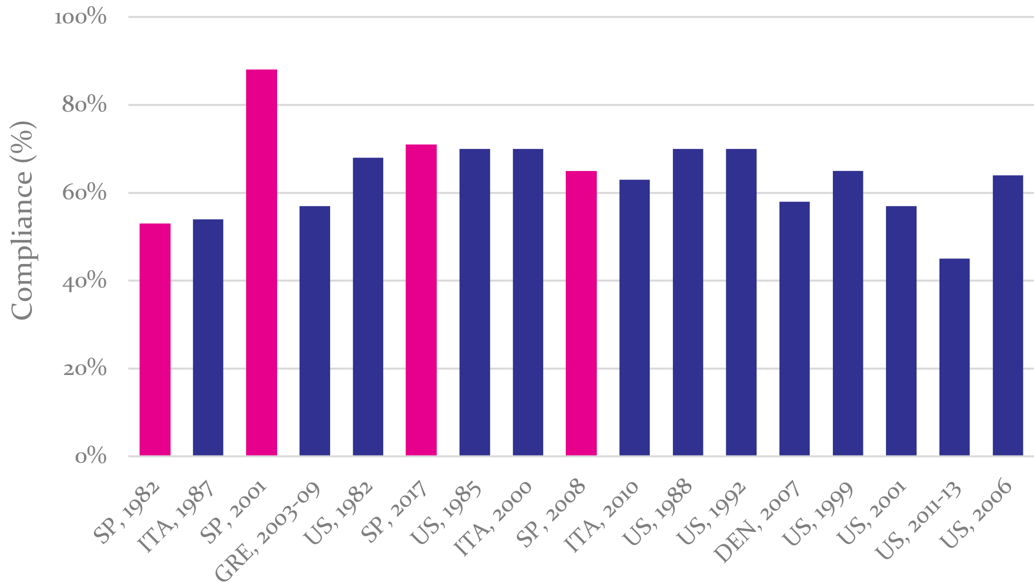
If one looks at the neighbouring countries of Spain, lower levels of fraud can be observed in many cases. While this reaffirms the fact that fraud in Spain is a real problem, it should also be borne in mind that such a comparison is often made with more economically developed countries. Spain does not appear to be a major anomaly when this factor is taken into account in historical terms. Tax compliance increases with the level of development, as many elements that have an impact on it change: administrative capacities, tax morale, economic structure, etc.

The picture is somewhat different when it comes to income not subject to third-party control (i.e. income where there is no reporting or withholding by the payer for the tax administration) because compliance is low in all countries, regardless of their economic development. For capital income, estimated compliance in Spain was 61% for mobile capital and 81% for fixed capital in 2017, figures similar to those in Sweden, for example.

As for self-employed income, most Western countries with available data show compliance levels for this type of income approaching 60-70%, with no clear improvement with income level.

Figure 7: Compliance in incomes unmonitored by third parties is low in all countries and no improvement with income level is observed

Compliance on self-employment income or income not reported by third parties (reported income over actual income) in Spain and other Western countries, various years



Note: *observations according to real per capita income in the corresponding year based on Madison Project data (2018). In the case of Denmark 2007 and the United States 2011-13, it is not only self-employment, but also all income without information from third parties.*

Source: for Spain, Esteller-Moré (2011), Domínguez *et al.* (2015) and Torregrosa-Hetland (2015, 2020, 2021). For other countries, Galbiati and Zanella (2012), Artavanis *et al.* (2016), Klepper and Nagin (1989), IRS (1996), Fiorio and D'Amuri (2005), Albarea *et al.* (2020), Kleven *et al.* (2011), Feldman and Slemrod (2007), Johns and Slemrod (2010), IRS (2019) and Black *et al.* (2012).

It follows from this information that generalised third party reporting mechanisms could significantly improve compliance. The extent of income subject to this type of control, i.e. the increase in its share of total household income received, would have greatly explained the historical reasons for reducing tax fraud. Unreported income had a compliance rate of 58% in Denmark in 2017, but accounted for only 5% of the total (Kleven *et al.*, 2011).

Conclusions

Personal income tax fraud in Spain has a major effect on inequality. Despite the fact that the task of redistribution falls mostly on this tax, fraud (broadly speaking) limits its overall nature, reduces its collection and diminishes its role in reducing inequality.

There are a number of aspects that can encourage or limit fraud and its inequitable effects. For example, certain incomes are treated differently depending on their origin through the use of tax privileges or poor valuation and imputation mechanisms. Such differential treatment leads to inequality among taxpayers, even if it is done legally.

Second, the existence of tax differentials between regions incentivises changes in the tax residence of taxpayers, as has recently been shown in income and wealth taxes (Agrawal and Foremny, 2019; Agrawal *et al.*, 2020). Tax harmonisation could limit the competition that may be created between countries or regions when it comes to offering increasingly lower tax rates. Although this report focuses on personal income tax, similar dynamics also affect corporate taxes.

Third, the use of cash has been shown to be a facilitator of fraud, so promoting electronic transactions can be an effective mechanism to counteract this, provided that this translates into enhancing automatic information flows. But in terms of that which goes from economic agents to the tax administration, a proportion of fraud will be simultaneously reduced if the percentage of economic activity that escapes it can similarly be reduced. On the other hand, smooth cooperation between tax administrations is necessary, as well as a decisive utilisation of the opportunities offered by digitalisation (Duran and Esteller, 2020), which should be feasible with the technological means available.

Finally, regular estimates of the tax gap (the difference between taxes that should be collected by law and those actually collected) help to assess tax systems and tax administration. There is the precedent of Duran *et al.* (2019) for this, applied to wealth and inheritance taxes in Catalonia. In other countries, such as the United States or the United Kingdom, periodic studies have been conducted that include random tax audits, which allow for much greater accuracy than what is contained here. The most recent contributions also underline the need for specific analyses of the richest taxpayers, given the concentration of income among them and their use of sophisticated evasion mechanisms (Guyton *et al.*, 2021).

Proposed actions

1

Apply a broad definition of the tax base so that it limits tax privileges and exemptions. This includes taxing the real values of income, for example, by eliminating the objective estimation and use of values closer to market values in imputed income (including that of main residence).

2

Promote tax harmonisation, both internationally and between autonomous communities in Spain, with the aim of making it more difficult to hide income in tax havens and to hinder the dynamics of downward competition.

3

Enhance automatic information flows among economic agents and the administration, as well as among administrations, both nationally and internationally. This should include the promotion of electronic transactions.

4

Conduct regular estimates of the tax gap. This information could serve as a tool for assessing the tax system and tax administration.

Study characteristics

This study considers personal income tax fraud in a broad sense, including both tax evasion/avoidance and tax shifting, despite the fact that they are treated differently in law. This has been done because of the difficulty of empirically differentiating these aspects and because they lead to the same fiscal consequences: increased inequality, reduced revenue and public rejection.

The report also includes a few proposals that would help to emphasise the redistributive nature of the tax (and therefore the tax system) by making the taxation of individual income broader and more comprehensive. Nonetheless, an analysis of the political feasibility of these proposals has not been considered here, as this is undoubtedly complex. The goals of equality will have to be reconciled with other policy objectives, including taxation.

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Spanish society demands greater economic equality

Attitudes towards inequality and redistribution

Inés Calzada, Complutense University of Madrid
Eloísa del Pino, CSIC
Antonio M. Jaime-Castillo, UNED

Abstract

The view that Spanish society is very unequal is firmly deep-rooted in public opinion. This view corresponds fairly closely to reality, as its actual level of inequality is high when compared to other European Union countries. There is very broad social support for public intervention in income redistribution, with no major differences among social groups. In terms of the means of achieving social welfare, the vast majority of the population believes in the need for taxation, although it also strongly distrusts the fairness of the tax system. There is also a perception of widespread tax fraud. Likewise, the population expresses broad, ongoing support over time for investment in health, pensions, education and unemployment policies. In this respect, there are no divisions among social groups either, although differences exist when it comes to supporting specific measures or programmes in which certain social policies are implemented. The obstacle to reducing inequality is therefore not so much the need to intervene with social and fiscal policies, but rather disagreements concerning the specific measures within each policy and their possible partisan use.

Main ideas

1

Nine out of ten people in Spain believe that income differences are too great. This view is in line with the reality in the country, where inequality is among the highest in Europe.

2

There is broad support for state intervention in income redistribution, with very few differences among social groups or by ideological stance.

3

The vast majority of citizens believe that taxes are needed and serve to make life better for all citizens, with very few differences by educational level, gender, age or occupation.

4

Nonetheless, the population is highly suspicious of the fairness of the tax system and believes that widespread fraud exists.

5

Citizens express strong, ongoing support for public spending on health, pensions, education and unemployment, as opposed to more unstable and less intense support for other public policies.

6

Despite the broad consensus on the need for specific policies, major ideological differences emerge when looking in detail at areas such as housing, education and health.

7

Although there is a widespread view of an unequal society in terms of both wealth distribution and opportunities, Spaniards tend to believe that their personal situation is an exception to the rule.

8

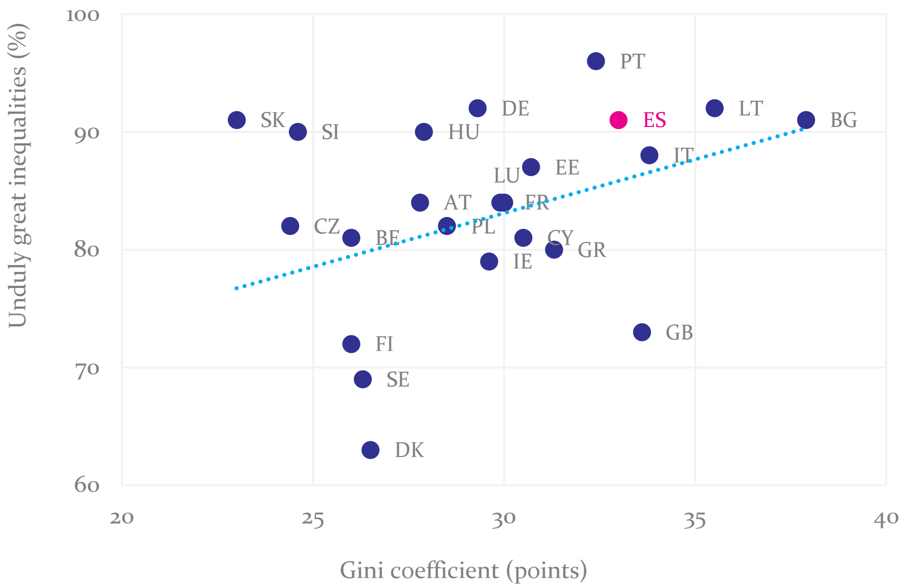
The strong support for a minimum living income may be partly tied to the context in which it was approved: the covid-19 pandemic.

1 Public opinion perceives a high level of inequality in Spain

The belief that Spanish society is not very equal is deeply rooted in public opinion. According to Eurobarometer data from 2018, 91% of Spaniards agree or strongly agree with the idea that income differences among people are too great in Spain. This percentage is only slightly higher in the case of Portugal, Lithuania and Germany. This subjective view corresponds to the reality that Spain has a relatively high level of inequality within the European Union. Public opinion in those countries where inequality is highest generally tends to perceive internal inequality as indeed excessive, although this is not a perfect association. Recent studies have also shown that the view of Spanish society in terms of the evolution of inequality is rather pessimistic, with 55% of citizens saying that it will increase over the next twenty years.

Figure 1: View of inequality is associated with its actual level

Percentage of people agreeing that inequalities are extremely high and Gini coefficient, 2018

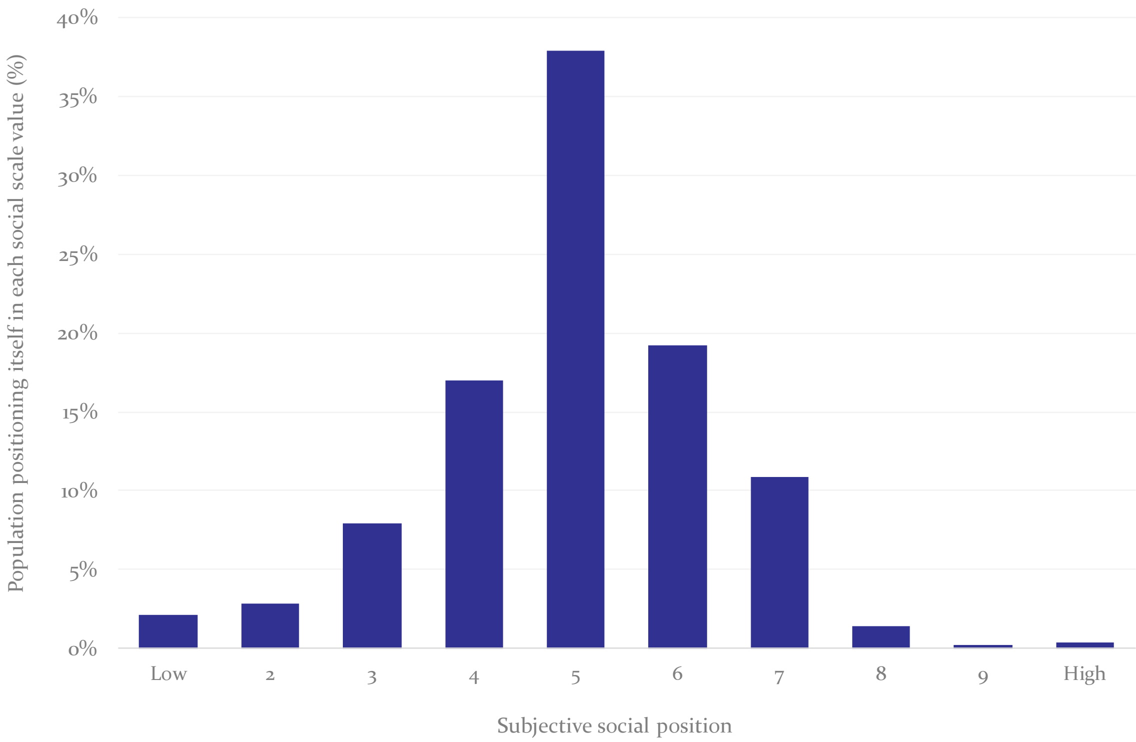


Source: European Social Survey and Eurostat, 2018.

2 Spaniards tend to believe that their personal situation is an exception to the rule

The way that citizens view inequality and its consequences differs according to whether they are asked about society in general or about their own individual case. This would indicate a limited knowledge of the mechanisms that lead to inequality. For example, when people are asked about the position they believe they occupy on the social ladder, most position themselves on the middle rungs. This is not exclusive to Spain, but occurs in countries with higher or lower levels of economic development or with different historical traditions. This tendency towards the centre stems from the fact that the reference group with which people compare themselves corresponds to the same social environment, therefore comprising people of similar status. The majority of Spaniards believe that their social position is higher than that of their parents and grandparents.

Figure 2: Most people position themselves on the middle rungs of the social ladder
Percentage of population that positions itself on each value of a scale from 1 to 10 in terms of social position, 2009



Source: International Social Survey Programme, 2009.

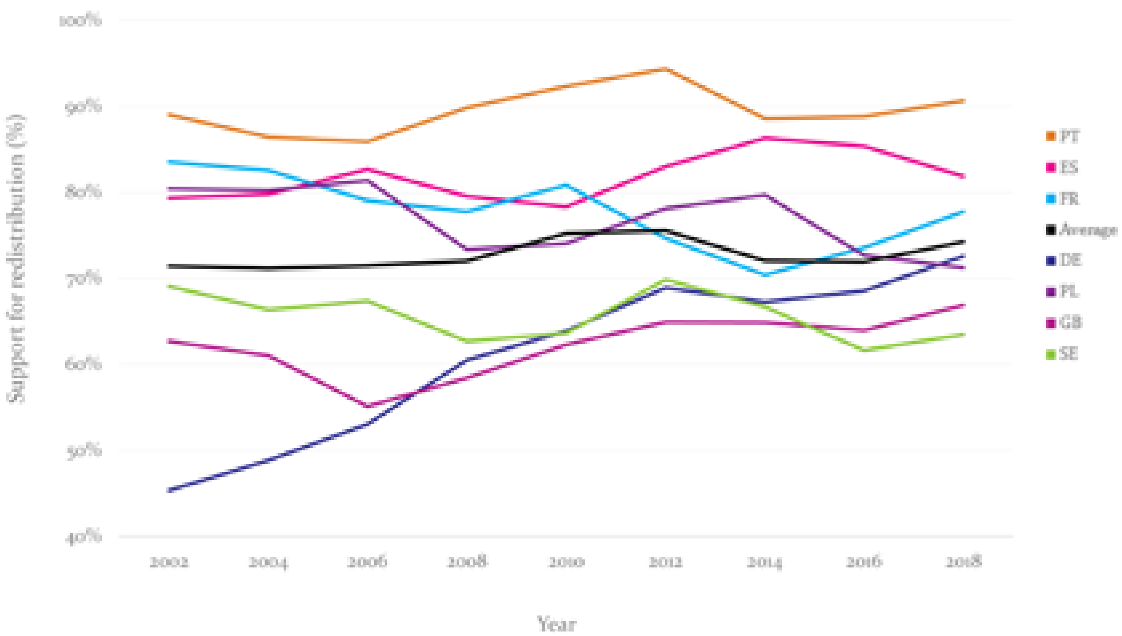
The replies are different when people are asked to rank themselves on an income scale from the poorest (i.e. 20%) to the richest quintile. Almost half of the population (49%) fall into the first and second poorest quintiles, compared to one in ten respondents who fall into the fourth and fifth quintiles. People in this case tend to see themselves as below the income level to which they belong, and this is also the case in other European countries. The way that citizens view the inequality of opportunity also differs according to whether they are assessing society in general or their own situation.

Thus, two-thirds of the Spanish population disagree strongly or somewhat with the statement that there are equal opportunities in Spain, but less than one-third provide the same answer when the question is about the opportunities available to the individual being questioned. In contrast to what occurred with income inequality, the consensus view is that the opportunities available to citizens are greater today than they were thirty years ago. The systematic overestimation of the probability that a person from any social class has of reaching high-status occupations might be contributing to this. This bias coexists with others, such as the systematic overestimation of to what extent poverty distribution is unequal.

3 There is broad support for state intervention in income redistribution

Alongside other southern European countries, Spain is characterised by a high demand for redistribution: 93% of its citizens are in favour of the state implementing measures to reduce income differences, a much higher percentage than in countries such as Sweden or the United Kingdom (where the figure is around 60%). This support has remained steady at extremely high levels since 2002 (between 80 and 90%) both in Spain and, for example, Portugal.

Figure 3: Spain is among the countries with the highest level of support for redistribution
Percentage of support for income redistribution in selected European countries, 2002-2018



Note: *the average refers to that of the countries in this survey, including European countries inside and outside the European Union.*

Source: European Social Survey, 2002-2018.

Similarly, no major differences can be found in the preference for redistribution according to various socio-demographic variables (gender, age and income level). The biggest contrast appears in the analysis according to income, insofar as the group with the highest income consistently appears as the least favourable to redistribution, albeit within a degree of accepting redistribution that is always higher than 70%.

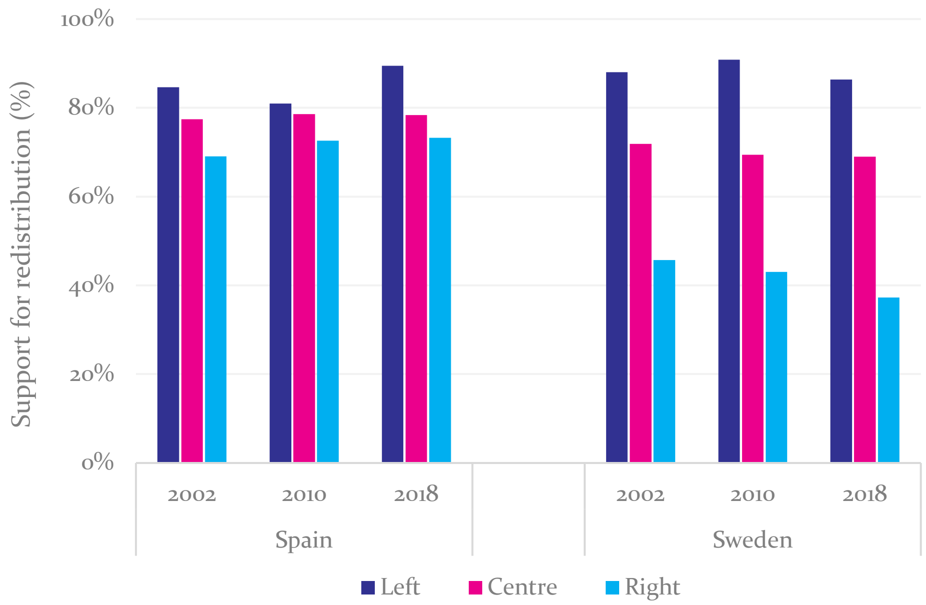
Figure 4: Differences in support for redistribution by gender, age or income level are minor
Percentage support for redistribution by gender, age and income level, 2002, 2010 and 2018

Note: *income data prior to 2008 are not collected by deciles and thus cannot be organised by quintiles for 2002.*

Source: European Social Survey, 2002-2018.

At an ideological level, it can be seen that people who identify with the left tend to prefer greater redistribution, followed by those who identify with the centre and the right (in that order). However, even those who define themselves as right-wing are in favour of redistribution in percentages higher than 70% for most of the period under review. Differences in support by ideology are generally much greater in countries with high levels of redistribution, such as Sweden.

Figure 5: Differences in Spain in support for redistribution on ideological grounds are minor
Percentage of support for redistribution in Spain and Sweden by ideology, 2002, 2010 and 2018



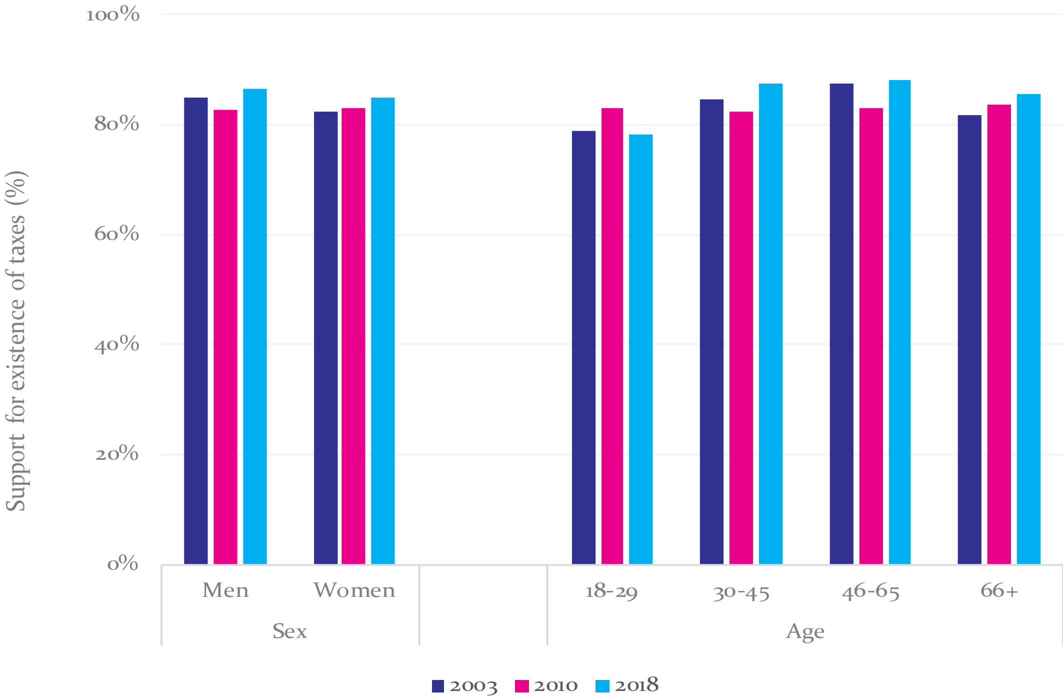
Source: European Social Survey, 2002-2018.

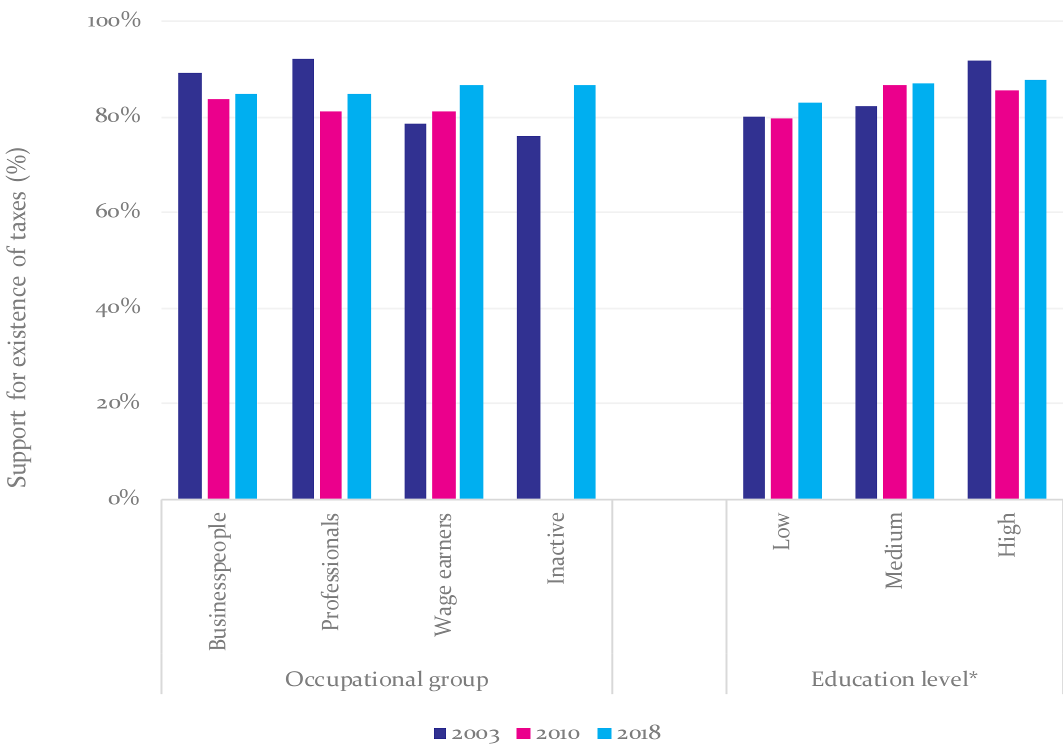
4 The vast majority of citizens believe that taxes are needed and serve to make life better for all

A very high percentage of citizens believe that taxes are important so that we can all lead better lives. In addition, 64% believe that taxes are vital for the state to provide public services, while 14% see them primarily as a means to better redistribute wealth. On the other hand, 19% believe that "taxes are something the state forces us to pay without really knowing in return for what". Despite the crisis generated by the pandemic, citizens are more in favour of raising (47%) than lowering taxes (20%), provided that this increase has an impact on improving public services and benefits. Support for the existence of taxes has barely changed over the past 20 years, and there are very few divisions in this consensus according to educational level, gender, age or professional status. Young and less educated people are the two groups least in favour of paying taxes, but the difference with the remainder is small, and in no case can we speak of opinions polarising over time between age groups or social classes. Personal attitudes, so-called "tax morale", are a key determining factor of tax behaviour (even more so than socio-demographic issues).

Figure 6: There is broad support for the need for taxation

Percentage of support for taxation by age group, gender, education level and professional status, 2003, 2010 and 2018





Note: *the statement used to measure support for taxes was: "we would all have better lives if there were no taxes at all", and the percentage is those who replied: "disagree".*
**"Low", "medium" and "high" education levels refer to "compulsory secondary or lower", "non-compulsory secondary" and "university" respectively.*

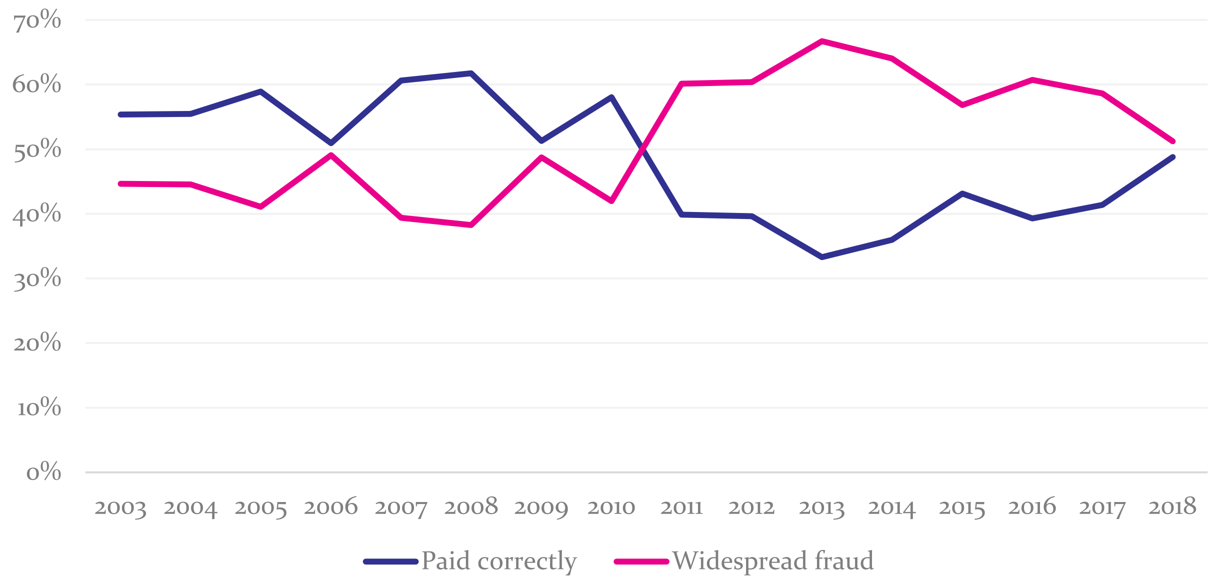
Source: Institute for Fiscal Studies (IEF), 2003-2018.

5 The population is highly suspicious of the fairness of the tax system and believes that widespread fraud exists

The acceptance of taxation coexists with a deep distrust of how the tax system works. For example, 77% of people in 2020 thought that taxes were “not collected fairly”, and a majority (62%) in that same year believed that Spaniards were “not very” or “not at all” responsible when it came to paying taxes. This negative view of how the tax system works, as well as of the fiscal responsibility of others, contrasts with how Spaniards view their own responsibility or that of their acquaintances: 93% considered themselves “fairly” or “very” aware and responsible in paying taxes, and 75% said that “fairly”, “all” or “almost all” the people they knew declared their entire income when filing their personal income tax returns. But if (almost) everyone believes that they are fiscally responsible, where then does the idea come from that the tax system is not working? On the one hand, from the conviction that the tax burden is unfairly distributed and, on the other hand, from the existence of tax fraud. With regard to the latter, 90% of the population in 2020 thought that there was a lot or a fair amount of fraud, whether because of dishonesty (28%), evasion (26%) or low wages (28%). These data are very worrying, because what we think our neighbours do and our view of how the tax authorities work determine our willingness to pay taxes. In fact, levels of tax evasion do not correlate with the effective tax burden, but they do indeed correlate with the view that taxes are unfair or that the political class is dishonest.

Figure 7: Perception of tax fraud worsened during the economic crisis

Perception of how taxes are paid according to the answer to the question: “are taxes paid correctly or is fraud widespread?”



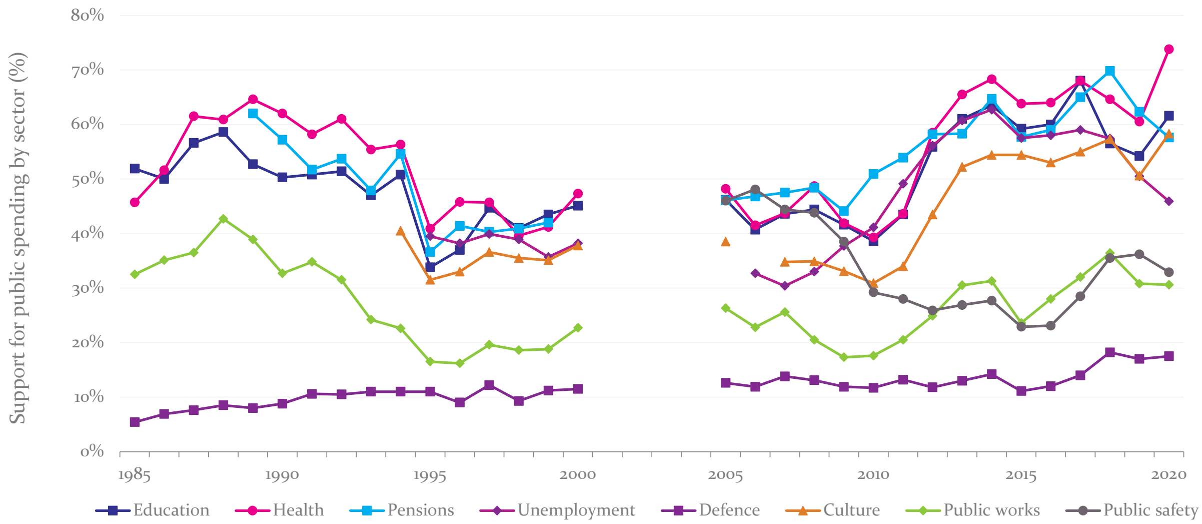
Source: Institute for Fiscal Studies (IEF), 2003-2018.

6 The public expresses strong, ongoing support for public spending on health, pensions, education and unemployment

Social protection policies – health, education, pensions and unemployment – have received more ongoing support since 1985 than a cross-section of other policies – defence, security, public works and culture. From the mid-1980s until the early years of the Great Recession, 50-60% of the population replied that there were too few resources dedicated to health, education or pensions, despite the fact that spending had continued to rise throughout this period. Against a backdrop of cutbacks between 2011 and 2012, the percentage of those who considered spending on these policies to be low rose again (after having experiencing a momentary dip), reaching almost 70% for health, education and pensions and almost 60% for unemployment protection. No more than 6% of the population considered that there were too many resources spent on these three policies during the entire period under review, except for unemployment protection, where the percentage reached 10%.

Figure 8: Citizens express strong, ongoing support for public spending on health, pensions, education and unemployment

Percentage of respondents answering "very few" by sector, 1985-2020



Note: *no data exist for the period 2001-2004.*

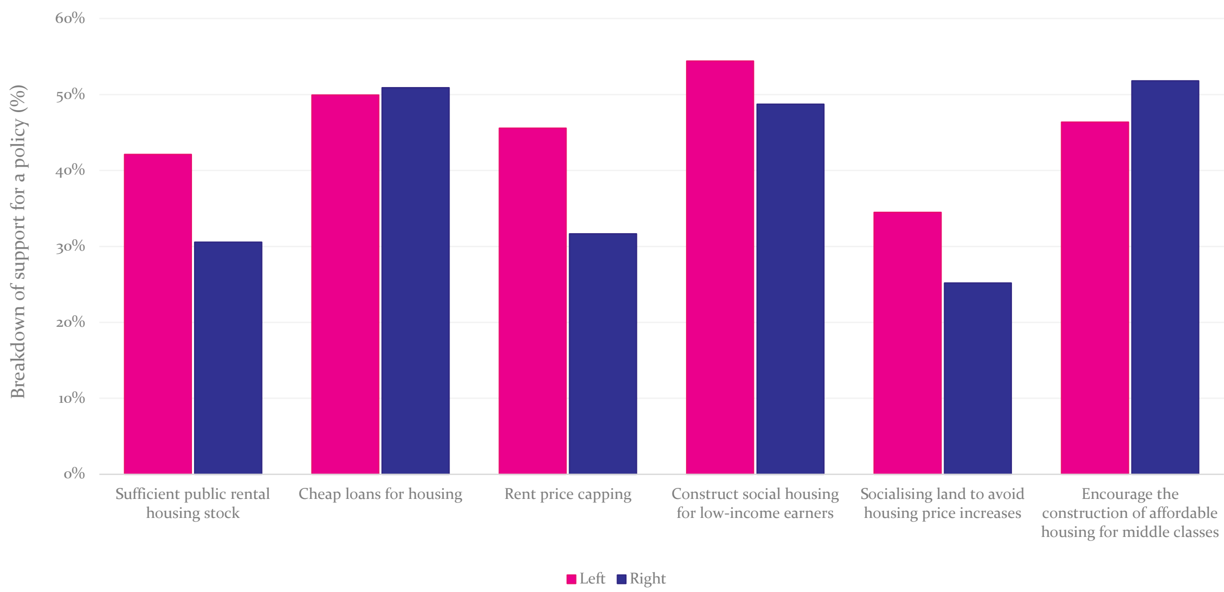
Source: compiled by the authors using data from Spain's Centre for Sociological Research (CIS), 1985-2020.

The high percentage of citizens supporting ongoing social policies over time makes it extremely difficult to think that there could be major divisions in public opinion on spending on health, pensions, education or unemployment. In fact, those who vote for the two main parties (PP and PSOE) have very similar preferences regarding the size of the welfare state. Likewise, no major differences can be noted in terms of economic position or level of education. Finally, it is worth highlighting the anomaly, with regard to the European context, of the high level of support for unemployment protection in Spain, no doubt due to the high rates of unemployment in our country in comparative terms.

7 Major ideological differences emerge in areas such as housing, education and health

Up to 90% of the population in Spain believes that the government should actively protect the right to decent housing. Nonetheless, the percentage differs in the case of young people (8 percentage points higher) and among those who declare themselves to be right-wing (16 percentage points lower). Continuing in the area of housing, several programmes, such as the creation of a public rental stock, the limitation of rental prices or the construction of social housing for the most needy, receive more support from those who define themselves as left-wing. Only the initiative to lower the cost of loans has similar support on both sides of the ideological divide.

Figure 9: Support for specific programmes in housing policy is ideologically driven
Percentage of support for specific housing programmes by ideology, 2019



Source: Centre for Sociological Research (CIS), 2019.

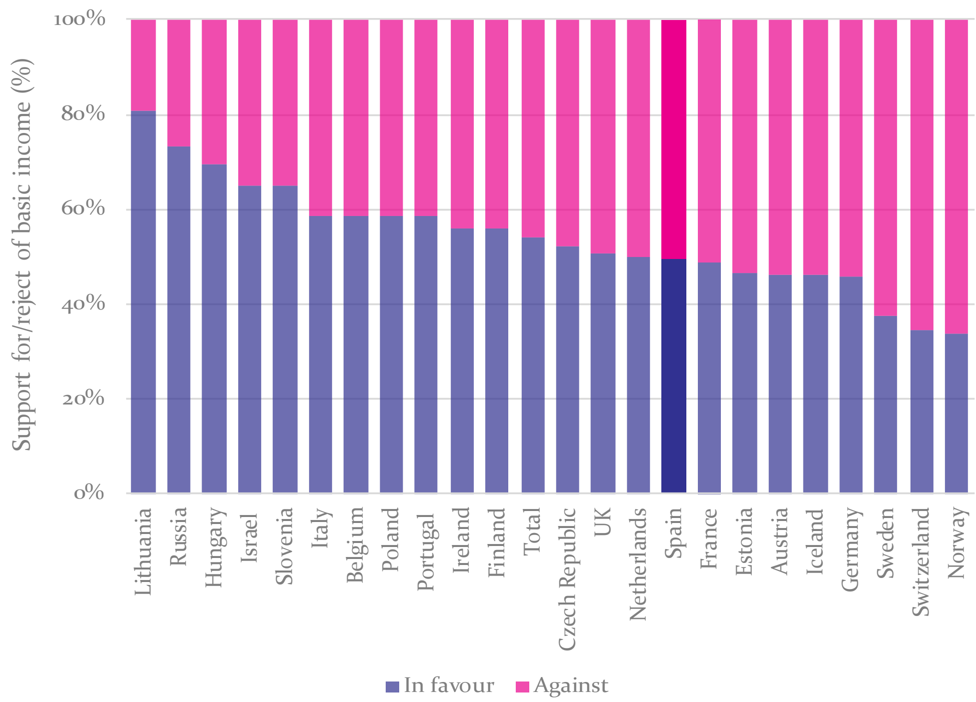
Ideology also has a significant influence on preferences in other public policies, such as education and health. Therefore, although 92% of citizens agree that governments should provide school education, attending public schools is significantly lower (20 percentage points) among the children of the upper classes and those identifying as right-wing. On the other hand, the percentage of left-wingers who consider the presence of immigrants in schools to be enriching is higher (29 percentage points) than that of right-wingers. As far as health care is concerned, preference for the public system in some cases, such as childbirth or serious illness, is 11 percentage points higher among those on the left of the ideological divide. In terms of health management, although the differences among social classes are minimal, people on the left are 17 percentage points more in favour of public management than those on the right (77% versus 60%).

8 The strong support for a minimum living income may be linked to the fact that it was approved during the covid-19 pandemic

Although social policies aimed at security generally tend to have more support than those promoting equality, and those benefitting the majority of the population are more popular than those benefitting only part of it, the introduction in 2020 of a minimum living income (IMV by its Spanish acronym), an important inequality-reducing measure aimed at the lowest income group, enjoyed broad parliamentary consensus. The European Social Survey of 2016 included a question on a basic income that also involved a social wage programme, although it had different characteristics from those of the IMV. The data indicate that the percentage of citizens in Spain who supported the basic income initiative was practically the same as the percentage who opposed it. While half of the population represents low support for a policy compared to other social policies, it is a remarkable level of support compared to other countries such as Sweden, Switzerland and Norway. The CIS later asked about the minimum living income. Now well into the covid-19 crisis, the percentage of people in favour of this measure was over 81%. All this suggests that changes in the economic situation may also lead to a change in this support in the future. A GESOP survey in 2020 showed that 70% were in favour of a basic income, although the vast majority preferred it to be temporary (71%) and conditional (85%).

Figure 10: Support for basic income in Spain is in the middle ranking of Europe

Percentage of support for or rejection of basic income in various European countries, 2016

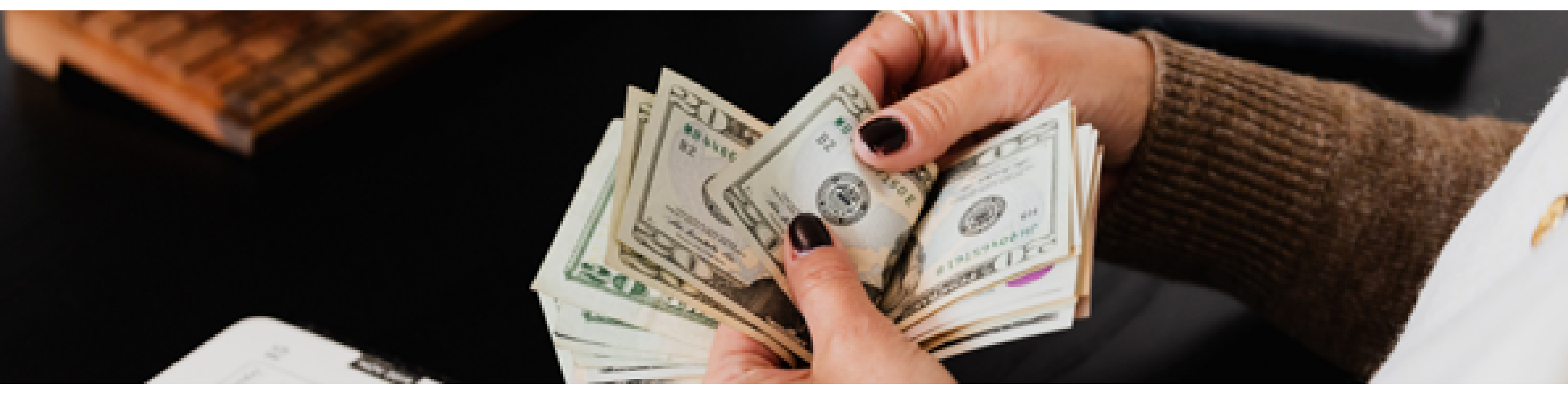


Source: European Social Survey, 2016.

Conclusions

Spanish public opinion believes that there is a high degree of economic inequality, and this is in line with the actual level of inequality in Spain. This high perception of inequality translates into a greater demand for redistribution, as is the case in other southern European countries, with very few differences by social group or ideology. In terms of the redistributive tools available to the state, there is broad support for the need to pay taxes, despite widespread distrust in the fairness of the tax system and view of widespread fraud. A high perception of fraud contributes to the delegitimisation of tax payments and the tax system as a whole, and this is a key and necessary part of the strategy to reduce inequalities. In terms of expenditure, there is high support for the need to invest in health, pensions, education and unemployment policies. However, there is more disagreement on the specific measures or programmes in which policies are defined, such as housing, education or health.

It can be concluded that the public as a whole is not in principle an obstacle to the implementation of social or fiscal policies that can contribute to reducing inequality. However, there is a possibility that the implementation of specific programmes within each policy may lead to divisions, especially if their designers exploit existing perceptions, preferences and disagreements. Another conclusion from public opinion data is that measures to reduce inequality should be based on universal programmes, as these attract more general support among the population. The political and public consensus on the desirability of a minimum income would also indicate the importance of context when it comes to generating broad support for redistributive policies.



Study characteristics

The data used in this paper are primarily from the European Social Survey, which is a representative random sample survey that has been conducted in most European countries every two years since 2002. These data help to compare Spanish public opinion with those of other neighbouring countries. Data from the International Social Survey Programme, Centre for Sociological Research (CIS) and Institute for Fiscal Studies (IEF) were also occasionally used for specific issues when it came to Spain. The descriptive data presented have been appropriately weighted according to the data shares provided by the survey itself.

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A political culture unaccustomed to dialogue

The political constraints of the social contract

Margarita León, Autonomous University of Barcelona
Manuel Alvariño, Autonomous University of Barcelona
Llorenç Soler, Autonomous University of Barcelona

Abstract

Reaching lasting political agreements is vital for solving structural problems such as social inequality in Spain. There are several factors that can make it easier or more difficult for political parties, usually at odds with each other, to reach this type of consensus. On the one hand, the lines of political division are many and range from, among others, the economic sphere to the moral or territorial sphere. Their content, importance and way in which they are translated into political competition vary among societies over time. In Spain, as in other southern European countries and in contrast to the north, there is greater polarisation on cultural or moral issues than on economic issues. Left-wing and right-wing parties have consequently reached agreements in areas such as taxation, unemployment, pensions or minimum incomes, which is something that could be repeated in the area of reducing inequality. On the other hand, polarisation on moral issues pushes in the opposite direction and makes it difficult to reach consensus on equality. Furthermore, divided public opinion and an institutional design that makes it easier to govern alone without any agreements also discourage pacts. Changing specific characteristics of parliamentary committees could in turn convert them into a space for negotiation in order to overcome these difficulties and reach positive social impact agreements.

Main ideas

1

Political competition in southern Europe revolves around moral rather than economic issues. For example, almost 85% of left-wing voters in Spain are in favour of adoption in same-sex marriages, while only 60% of right-wing voters are in favour of this.

2

Polarisation on moral issues makes it difficult to reach consensus on equal rights issues, such as, for example, divorce, same-sex marriage or abortion. Nonetheless, disagreement has not resulted in counter-reforms.

3

Far-reaching agreements to reduce inequality are possible even in areas where ideological differences remain. Indeed, ideological differences have failed to prevent agreements on tax policy and unemployment protection.

4

The combination of economic, moral and territorial conflicts maximises polarisation in the area of education, and this has led to constant counter-reforms.

5

Cohesive public opinion is associated with less polarisation and a higher likelihood of agreement, and vice versa. This would, for example, explain the agreements reached on gender equality.

6

Certain features of Spain's institutional design are not favourable to political pacts, especially legislation by decree laws, whose use doubled between 2005 and 2015.

7

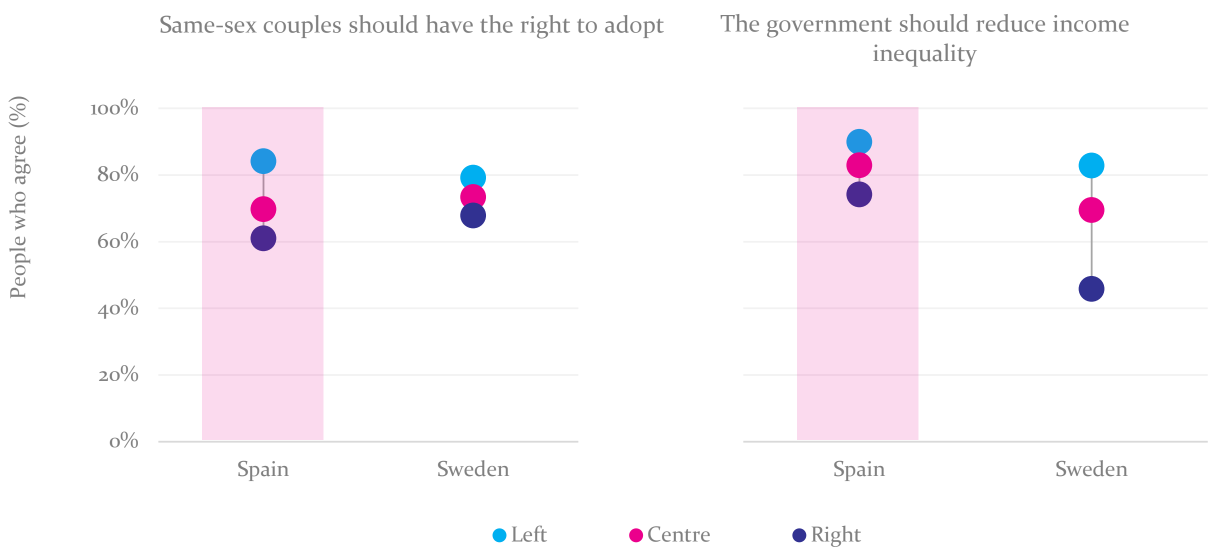
A fragmented political scenario, such as that in Spain after 2015, favours coalition governments, which is an opportunity for agreement-based institutional learning.

1 Political competition in southern Europe revolves around moral rather than economic issues

Political parties compete with each other by proposing and debating measures in various spheres in order to win votes. It is traditionally understood that the most important ideological differences between left and right are economic in nature: for example, with regards to state interventionism or wealth redistribution. Nonetheless, political conflict also revolves around cultural or moral issues (such as gender equality), or even others such as territorial or ethnic issues. From a comparative perspective, each of these aspects of political conflict has a different importance depending on the country. In Spain, as in other southern European countries, there is greater polarisation on cultural issues rather than on economic issues. People of opposing (left-right) ideologies in Spain consequently disagree more on issues such as same-sex marriage than on economic areas such as social spending. The opposite is true in continental or Scandinavian Europe. The fact that voters of opposing parties hold relatively similar positions on issues such as redistribution is important and provides an opportunity for parties to sit down and negotiate a social contract to reduce inequality.

Figure 1: Southern Europe is more polarised on moral issues and northern Europe on economic issues

Percentage of people in Spain and Sweden agreeing with each statement according to their ideological self-positioning, 2016



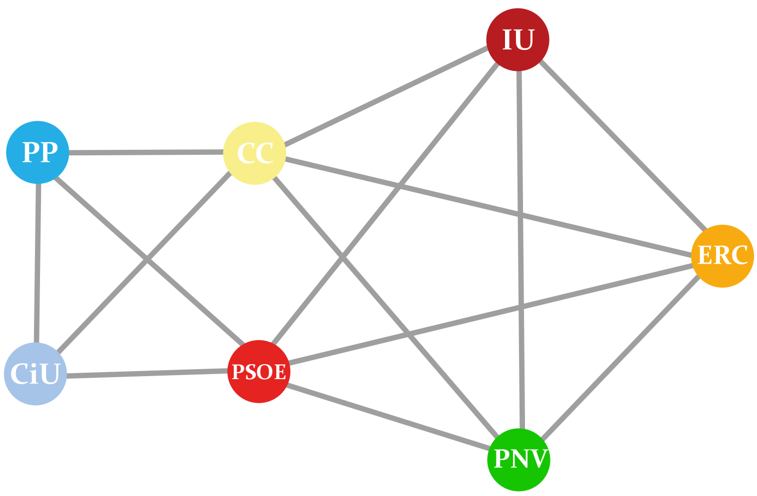
Source: European Social Survey, 2016.

2 Ideological differences have failed to prevent agreements on tax policy and unemployment protection

Parties of dissimilar ideologies also hold different positions in terms of the responsibility of the state in addressing unemployment, or on how much money should be raised through taxation. But analysing their behaviour when it comes to voting for laws on these issues demonstrates that they frequently reach agreements, as occurred in either of two recent laws, even with the PP and PSOE, which are often involved in the dynamics of opposition. Despite the fact that many of the agreed reforms on taxation and unemployment protection were not redistributive in nature, these agreements show that parties are capable of putting aside their differences in order to reach agreements on economic matters, and they also indicate the possibility of doing so in the case of inequality.

Figure 2: Political divisions on economic issues do not prevent cross-party agreements on economic issues

Cross-party agreements in the votes on unemployment protection laws 22/1992 and 45/2002



Note: *the figure shows the connections between the parties and resulting parliamentary coalitions. The circles represent the parties, and the lines between them represent the votes in the same direction (either in favour and/or abstention or against) on 20% or more of each of the reforms. The acronyms correspond to the following parties in this and following figures: PSOE: Socialist Party; PP: People's Party; CiU: Convergence and Union; CC: Canarian Coalition; IU: United Left; ERC: Republican Left of Catalonia; PNV: Basque Nationalist Party; UP: United We Can; Cs: Citizens; BNG: Galician Nationalist Bloc, and UPN: Navarrese People's Union.*

Source: compiled by the authors based on documents from the Spanish Parliament and the media.

3 Far-reaching agreements to reduce inequality are possible even in areas where ideological differences remain

The cases of pensions and minimum incomes are examples of more lasting, politically crosscutting agreements. The Toledo Pact managed to unite most political parties, employers and trade unions around a number of pension reform recommendations. This document, as well as the committee in charge of overseeing its implementation, encourages a certain culture of negotiation. Although the Toledo Pact has managed to separate the public pension system from electoral competition, its existence has not led to complete agreement when it comes to voting on specific laws. For example, the 2011 reform (which raised the retirement age to 67) was approved only with the votes of PSOE and CiU, and the 2013 reform (which decoupled pensions from the CPI) went ahead thanks to the PP's absolute majority, without the support of any other party. More recently, the unanimous approval of the minimum living income (IMV by its Spanish acronym) in May 2020 also demonstrates that parties can set aside polarisation to pursue common goals, although in this case the exceptional circumstance of the pandemic may have played a role.

Table 1: Far-reaching, long-lasting agreements have been reached in redistributive areas such as pensions and minimum incomes

Party voting on each law, reform or proposal for measures, 1995-2020

Year	Proposed by	Reform	PP	PSOE	CiU	PNV	ERC	IU/UP
1995	CiU	Toledo Pact	+	+	+	+	+	+
2003	TP comittee*	Proposal for pension reform	+	+	+	+	+	+
2007	PSOE	Social security law	+	+	+	+	+	+
2011	TP comittee*	Proposal for pension reform	+	+	+	+	+	+
2011	PSOE	Pension reform	-	+	+	-	-	-
2013	PP	Pension reform	+	-	-	-	-	-
2020	TP comittee*	Proposal for pension reform	+	+		+	+	+
2020	PSOE/UP	Minimum living income	+	+		+	+	+

Note: **Toledo Pact committee.*

Votes can be in favour/abstention (+) or against (-). IU became the UP coalition in 2019. CiU disappeared in 2015.

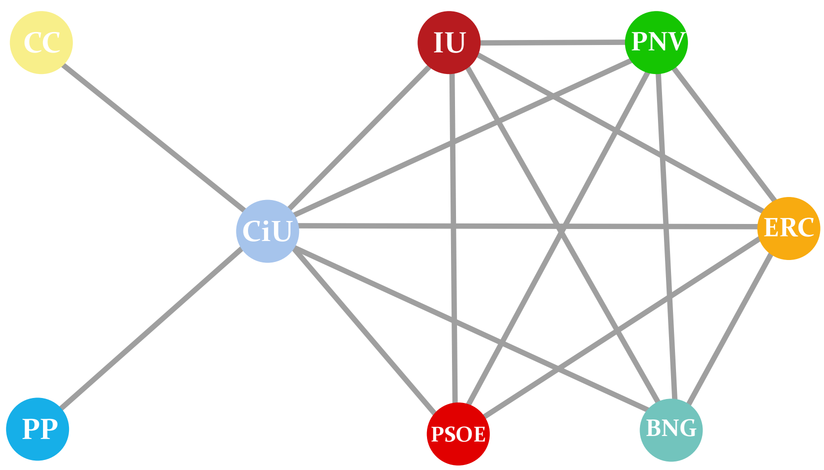
Source: compiled by the authors based on documents from the Spanish Parliament and the media.

4 Polarisation on moral issues makes it difficult to reach consensus on equal rights issues

A social contract to reduce inequality has to go beyond the economic sphere to also include inequality when it comes to accessing rights. When conflicts arise in Spain over moral judgements and positions, parties tend to become polarised and it is more difficult to find a space for dialogue and agreement than when economic issues are involved. Examining the votes in the Spanish Parliament on laws with moral content, such as divorce, homosexual marriage or abortion, one can observe the existence of an intense polarisation between left and right at a national level. Consequently, the PP has only reached agreements with CiU, while the left-wing and regional parties have formed large coalitions. Although reforms in this area have been pushed through without agreement, there have been no counter-reforms, as is the case with education. Even so, the lack of a far-reaching agreement casts doubt on the long-term sustainability of reforms.

Figure 3: Political divisions on moral issues lead to less cross-party agreements

Cross-party agreements in the votes on laws with a moral content: same-sex marriage, divorce and abortion



Note: *only parties present in most votes with current political relevance have been included. UPN is included as part of the PP, as it has been in coalition with this party during several terms.*

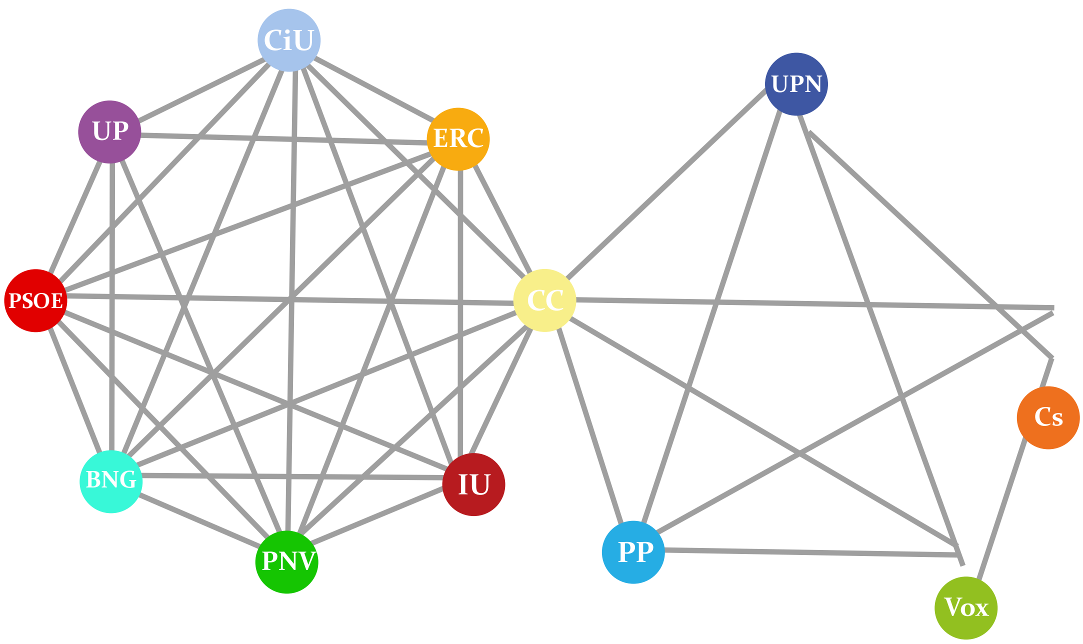
Source: compiled by the authors based on documents from the Spanish Parliament and the media.

5 The combination of economic, moral and territorial conflicts maximises polarisation in education, and this has led to constant counter-reforms

Overlapping moral, economic and territorial conflicts make agreements on education particularly difficult. The laws proposed by PSOE and the PP differ in at least three areas. First, there is a crucial moral element, as the laws by PSOE lessen the importance of religion in academic records by enhancing its voluntary nature. As for the territorial aspect, the reforms by PSOE have decentralised the powers of the education system and given more power to the autonomous communities, unlike the reforms by the PP. This explains why the conservative regional parties vote with PSOE on reforms of a secular nature. As regards the issue of redistribution, the reforms by the PP and PSOE also differ in the degree of autonomy granted to the network of state-subsidised schools, both in terms of student selection criteria and the use of public land. The strong presence of interest groups (Catholic families, charter schools or public school teachers) outside of the Spanish Parliament reinforces political polarisation in this sector. As a result, Spain has a parliament that is divided into clearly distinct coalitions.

Figure 4: The combination of ideological differences on economic, moral and territorial issues leads to complete polarisation around education reform

Cross-party agreements in votes on successive education reforms



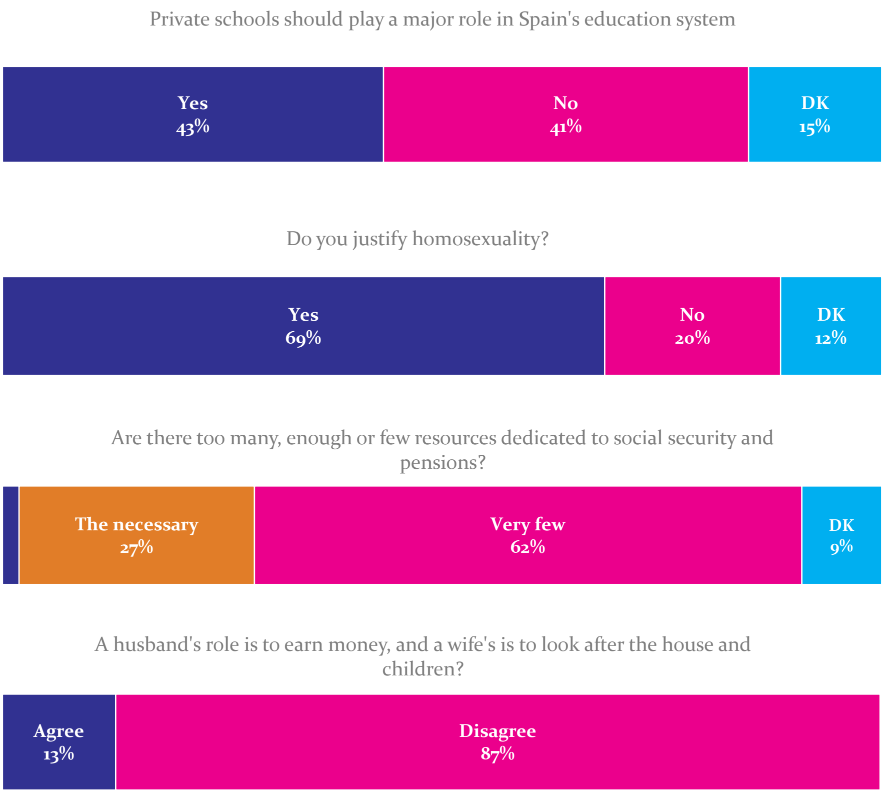
Note: *the parties present in most of the parliamentary votes have been included: PP, PSOE, CC, CiU, PNV, IU, ERC, BNG (3 out of 6) and UPN (4 out of 6), as well as the most relevant new political parties (Cs, Vox and UP).*

Source: compiled by the authors based on documents from the Spanish Parliament and the media.

6 Cohesive public opinion is associated with less polarisation and a higher likelihood of agreement, and vice versa

There is an undeniable link between public opinion and the positioning of parties, although it is impossible to determine whether one is a cause or a consequence of the other. Whether public opinion is cohesive or divided is therefore a relevant factor for potential political agreement: when public preferences converge in favour of a public policy, parties have no room for competition, and vice versa. The polarisation of public and party opinion generally coincides in the areas examined in this report. On the one hand, the division of public opinion on the role of public schools is matched by similar disagreement in the Spanish Parliament. On the other hand, the consensus on the desirability of dedicating resources to redistribution and equal rights issues corresponds with the adoption of far-reaching political agreements in this area. More than 80%, 68% and 60% of citizens support equal rights and higher levels of social spending on gender equality, gay rights and social security and pensions respectively, which would explain why agreements have been reached on all these issues.

Figure 5: Political polarisation generally occurs in the presence of divisions in public opinion
Level of public agreement on different education and rights issues in %, 2017



Note: *in the question "are too many, enough or few resources dedicated to social security and pensions?" the missing category corresponds to "too many" and the value is 2%.*

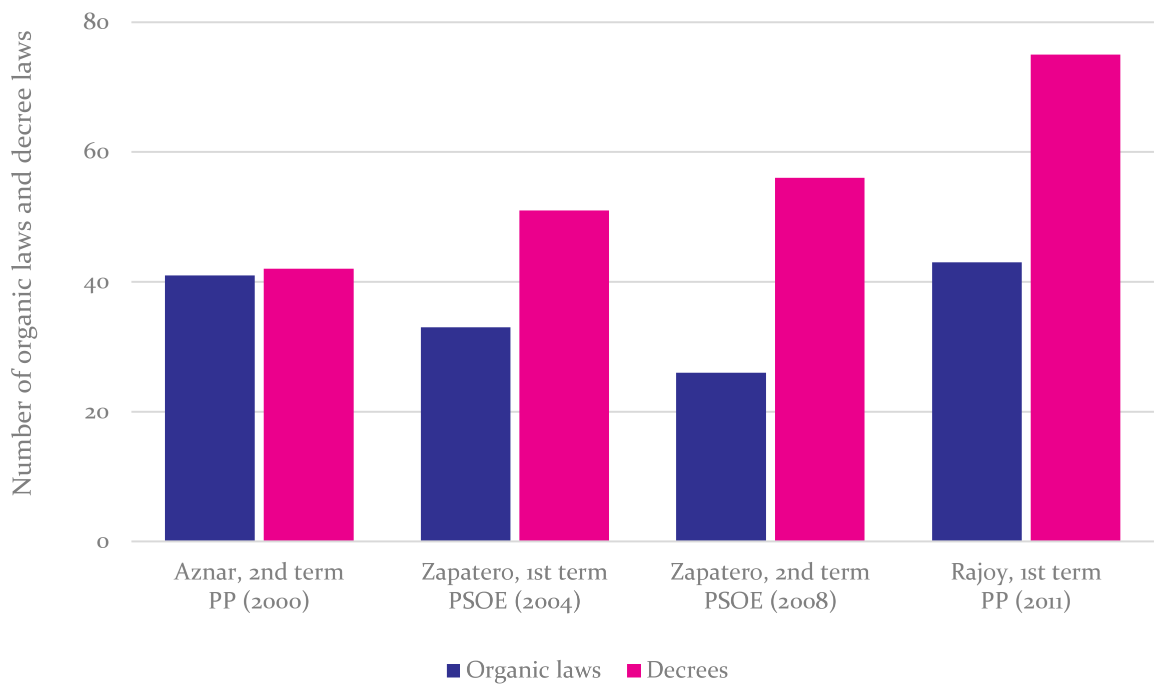
Source: compiled by the authors based on data from Spain's Centre for Sociological Research (CIS), European Social Survey and Investing in Education in Europe: Attitudes, Politics and Policies (INVEDUC) survey, 2017.

7 Certain features of Spain's institutional design are not favourable to political pacts, especially legislation by decree laws, whose use doubled between 2005 and 2015

Institutional characteristics affect the fragmentation of the party system, the frequency of absolute majorities and the relative power of the executive. The easier it is to govern alone without agreements, the less incentive political actors have to negotiate and reach agreements. Two features of this design in the case of Spain are notable for discouraging dialogue. First, the electoral system facilitates the emergence of absolute majorities, although less so than in other countries with more majoritarian systems. This is because the size of the constituencies is too small for the d'Hondt method to be proportional, and this benefits the majority parties. Second, the Spanish executive has relatively strong power even as a minority government. This exercise of power occurs especially through the use of the decree law, a procedure that allows the executive to legislate outside of the parliamentary arena. Although this tool is theoretically only for emergencies, a worrying rise in its use can be observed in practice in comparison with legislation by organic law.

Figure 6: The use of decree laws has increased in recent legislatures

Number of organic laws and decree laws per government, 2000-2015

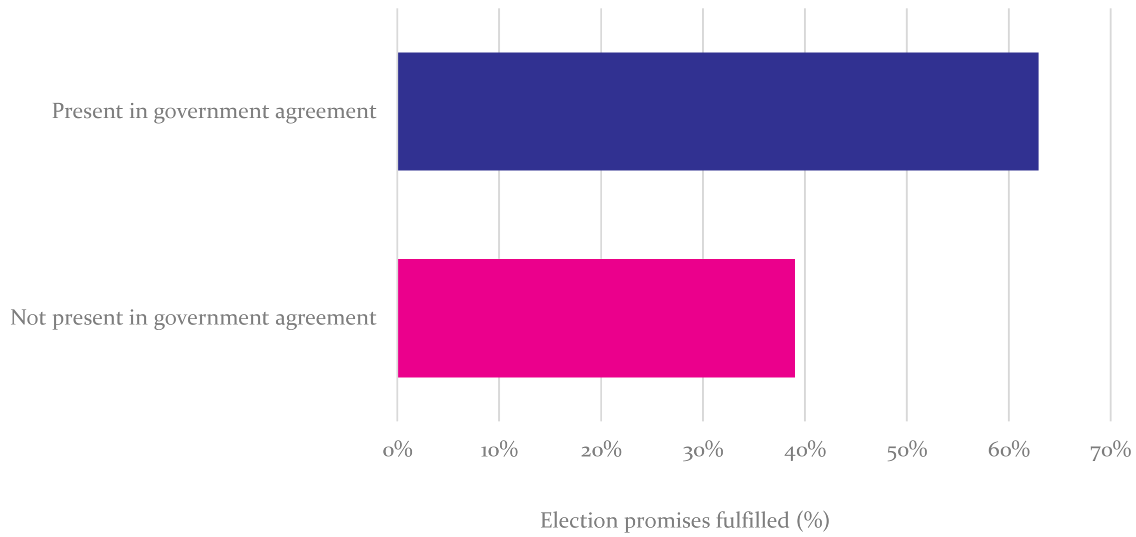


Source: adapted from Palau and Muñoz (2015).

8 A fragmented political scenario, such as that in Spain after 2015, favours coalition governments, which is an opportunity for agreement-based institutional learning

The advent of multi-party politics has forced major parties to pursue alliances that help them to reach governmental agreements in order to achieve investiture. It has also been demonstrated that the electoral promises of coalition agreements are more likely to be fulfilled if they are included in such an agreement. This may be due to the fact that the content of coalition agreements is receiving increasing media and public attention. The drafting of such agreements should therefore be the result of slow, consensual negotiation. In order to achieve this, it may be useful to develop institutional learning from the experience of other countries with a longer history of coalition governments, such as the Netherlands, where governments such as these between conservatives, liberals and social democrats have been in place for many decades.

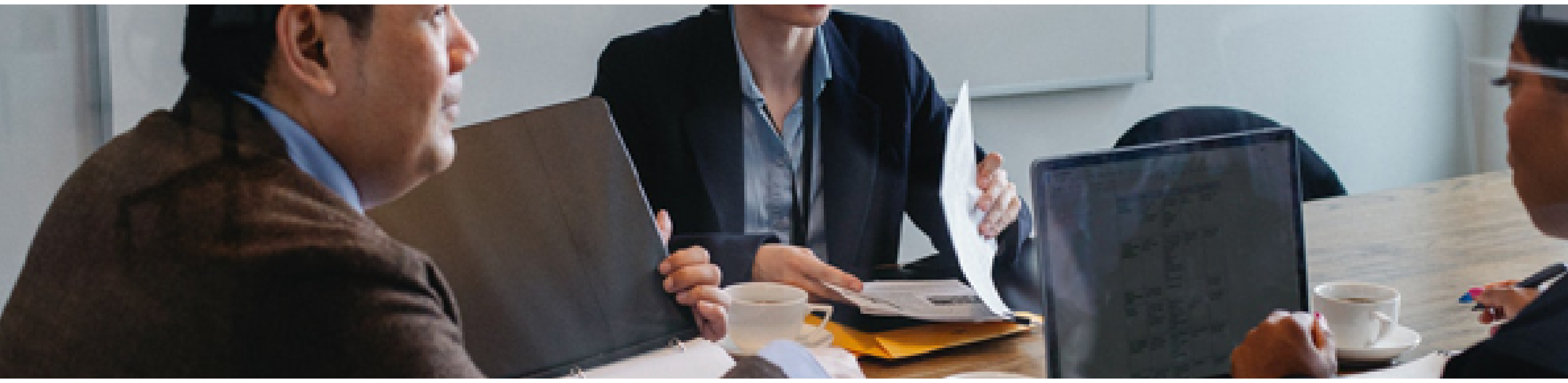
Figure 7: Election promises included in agreements are 33% more likely to be kept
Percentage of election promises fulfilled depending on whether or not they are present in coalition agreement, Ireland, 2007



Source: compiled by the authors based on data from Mansergh and Thomson, 2007.

Conclusions

Reaching a social contract against inequality requires the capacity for agreement among political parties of different political persuasions. This study has focused on how the different lines of political division enable or hinder the ability to reach agreements in various public policy areas. In Spain, as in southern Europe and in contrast to the north, divisions on economic issues lead to less polarisation than disagreements of a moral basis. This is true both for public opinion and for parliamentary activity: left and right have voted together on a number of reforms on unemployment, tax reform, pensions and minimum incomes. The fact that agreements have already been reached in economic areas suggests that it can also be done again in the future, and this should encourage the parties to tackle together the growing problem of inequality, at least in its purely economic aspect. In contrast, both public opinion and parties appear more divided on moral issues such as abortion, same-sex marriage or, in the past, divorce. Reaching agreement is particularly difficult in the case of education, an issue in which there are conflicting economic, moral and territorial autonomy convictions. There are also a number of institutional factors that alter the incentives for parties to negotiate or confront each other in these various areas. In the case of Spain, imperfect bipartisanship and a significant concentration of power in the executive have led to government terms without major agreements. Also worrying is the growing use of decree laws to legislate without the need for parliamentary debate or consensus. One element of institutional design that could, on the contrary, help to achieve social contracts is parliamentary committees, although these would need to be given greater power, effectiveness and diversity. The shift towards a multi-party system that began in 2015, in which coalitions have become increasingly important, may provide an opportunity for institutional learning based on political dialogue and agreement.



Proposed actions

1

Strengthen the separation of powers by reducing the legislative capacity of the executive, notably through a reform of decree laws.

2

Promote the role of parliamentary committees as spaces for cross-party negotiation, especially in the case of issues around which there is political polarisation, and provide these committees with greater legislative and executive powers.

3

Encourage the specialisation and permanence of MPs in parliamentary committees, as well as the presence of expert staff in order to enhance their technical nature.

4

Promote gender parity in parliamentary committees.

5

Increase resources for committees and the Spanish Parliament to improve their power to act. Committees often do not have their own office and staff, and instead obtain these resources through the parliament. In contrast, there is a significant budget allocation for this purpose in Denmark, which also provides a great deal of technical and expert advice to MPs.

6

Encourage closed meetings that can facilitate negotiation in areas of extreme political polarisation, as already occurs in the case of Danish committees or in Spanish subcommittees, known as "ponencias".

Study characteristics

This study assesses a number of factors that have enabled and hindered agreements among political parties in various policy areas with a potential redistributive impact. The research is also intended to formulate a set of proposals that could make it easier to achieve far-reaching, long-lasting social contracts. Nonetheless, the proposals mentioned at the beginning of this study and elaborated in the conclusion, most of which are of an institutional nature, will not lead to the elimination of political conflict or electoral competition. The growing fragmentation of the party system and the intense polarisation currently experienced in the Spanish Parliament are factors that are very difficult to influence. Despite all this, analysing what kind of political conflicts occur and what institutional contexts facilitate political agreement is an important step on the road towards a social contract to reduce inequality.

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The importance of institutional culture and quality for reaching social agreements

Pablo Simón Cosano, Carlos III University of Madrid

Abstract

This study deals with the political culture of Spaniards and the quality of their institutions. Its main thesis is that both elements may hinder demands of redistribution to be translated into an effective social contract. In terms of culture, it demonstrates the low satisfaction of Spaniards with regard to the functioning of democracy, the major importance they attach to social justice in their concept of democracy, their greater propensity to protest in comparison with other countries and their notable support for technocracy. In terms of institutional quality, it addresses low government effectiveness in comparative terms, the limited strength of legislature in influencing public policies, the poor perception of the independence of the judiciary and the functioning of decentralisation, which could be improved in terms of horizontal cooperation.

Main ideas

1

Satisfaction with democracy and trust in institutions and system actors (government, political parties, parliament, legal and judicial system) plummeted following the Great Recession and have barely recovered in the case of Spain. This generally reinforces the preference of citizens for governments of experts.

2

Participation in demonstrations by Spaniards is high, while in contrast levels of institutional political participation and involvement in associations are low.

3

Although Spain is among the countries where most citizens favour small social differences, effective redistribution by the state is limited from a comparative perspective.

4

The importance that Spaniards attach to social justice is compatible with core ideas of liberal democracy, such as checks and balances of power or direct democracy.

5

With fewer resources, less technical capacity and independence of its public servants, Spain ranks at the bottom of southern European countries in terms of the quality of the institutions in charge of designing public policies.

6

The power of the Spanish parliament to appoint officials and politically control the executive is comparable to that of neighbouring parliaments, but it has few resources and little capacity to influence public policy directly.

7

Spaniards view the judicial system as not being very independent from political and economic powers, and they mainly attribute this to their system of governance.

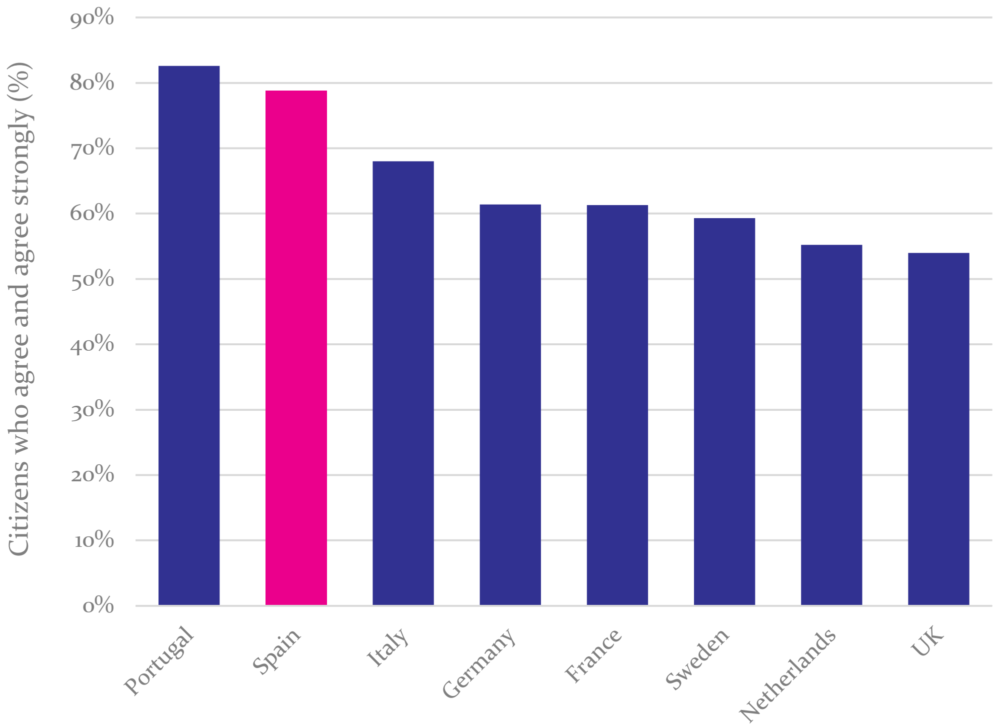
8

Spain is characterised as a relatively decentralised country, but it lacks institutions of shared governance and horizontal coordination among its autonomous communities.

1 Spain is among the countries where most citizens favour small social differences, although effective redistribution is limited

One way of measuring the preference of Spaniards for a social contract is to analyse their attitudes towards the redistribution of wealth. Southern European countries have the highest percentages of agreement with the following statement: "for a society to be fair, differences in people's standard of living should be small". Particularly noteworthy are Portugal and Spain, where 80% of respondents agree or agree strongly with this statement. At the other extreme are the Netherlands and the United Kingdom, where the preference for equality is lower, although it is supported by more than half of respondents.

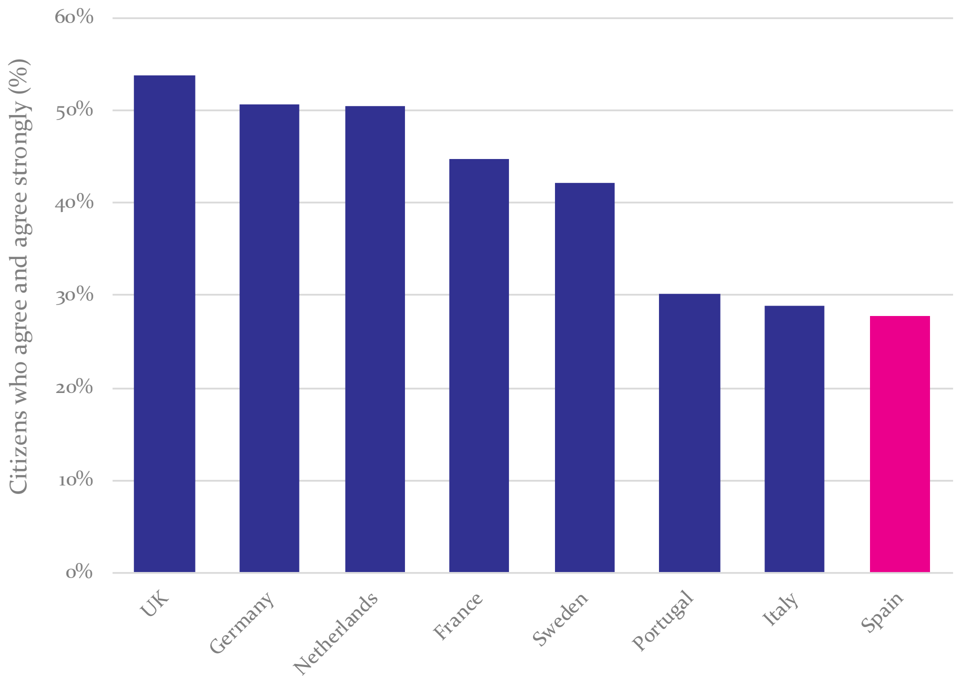
Figure 1: The preference of Spaniards for redistribution is high
Percentage agreeing with the statement that social differences should be small



Source: "European Social Survey", 2016.

In contrast, the question of the extent to which "large differences in people's incomes are acceptable to properly reward differences in talents and efforts" also reveals preferences about redistribution. If society is viewed as meritocratic, inequalities will also be considered fair because they are due to individual choices and not to chance. There is once again a difference between the countries of southern Europe and those of central or northern Europe. The United Kingdom, the Netherlands and also Germany have the highest percentages of people who agree with this statement. At the other end of the scale are Portugal, Italy and Spain, where citizens believe that income inequalities are less justified by differences in talent or effort.

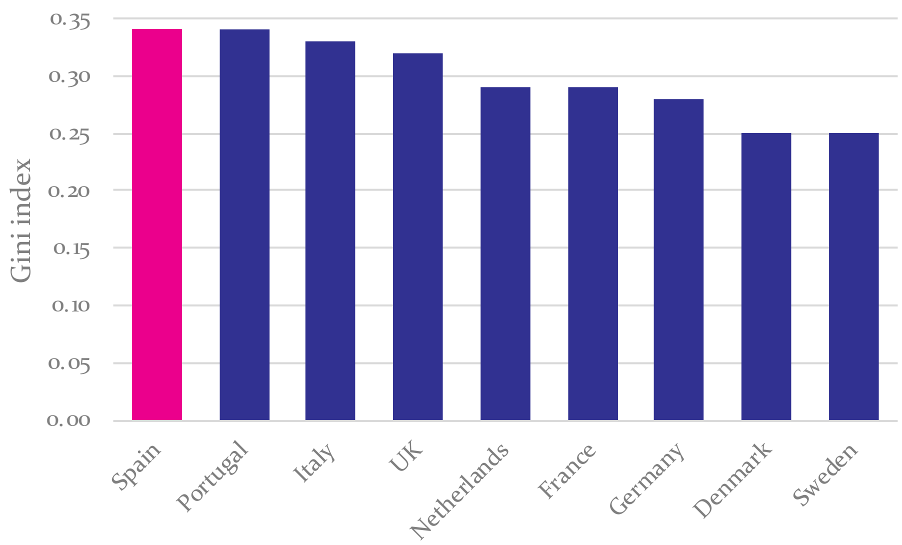
Figure 2: The tolerance of Spaniards to social inequalities is low
Percentage of people who agree with the statement that differences in incomes are acceptable to properly reward differences in talents and efforts



Source: "European Social Survey", 2016.

In light of these preferences, one would expect redistribution to be more pronounced in southern Europe, but the data precisely indicate that the opposite is true: countries where the welfare state has the least redistributive capacity are those where there is paradoxically the greatest demand for intervention.

Figure 3: Spain's capacity to reduce inequality is limited
Gini index after transfers, 2019



Source: OECD Income Data Base (IDD), 2019.

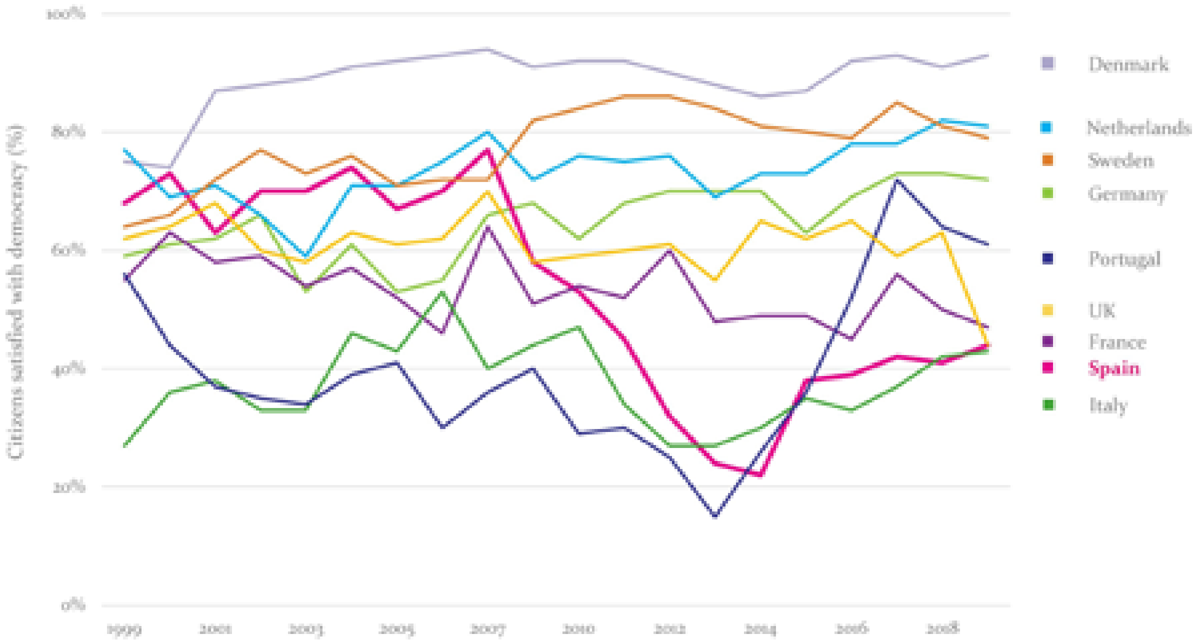
This dynamic is tied to the perceived lack of equal opportunities in these countries. A person's social position in Spain or Italy is much more determined by his or her family background than in other countries in the centre or north of the continent. This circumstance helps to understand the low tolerance of several southern European countries for inequalities that are perceived as unmeritocratic. The state's limited capacity to reverse this situation fuels the demand for redistribution, thereby becoming a vicious circle.

2 Satisfaction with democracy and trust in institutions plummeted following the Great Recession and these have barely recovered in the case of Spain

Two basic conclusions can be drawn when analysing satisfaction with democracy in neighbouring countries. The first is that older democracies tend to have higher levels of satisfaction with regard to the functioning of their political systems. Thus, the level of satisfaction in Germany, Denmark or the Netherlands was above 60% during the period from 1999 to 2019, compared to the lowest values in southern European countries. The second key issue is wavering satisfaction. It is precisely in the second group of countries where satisfaction fell most significantly during the period of the Great Recession. Although values in Portugal have recovered very quickly, the process has been slower in Italy or Spain. Indeed, before the pandemic, Spain had one of the lowest levels of satisfaction with its democracy, underpinning the idea that when the system's effectiveness is flawed, its support base tends to erode.

Figure 4: Spanish citizens are dissatisfied with the functioning of their democracy

Percentage of citizens satisfied with the functioning of their democracy, 1999-2018

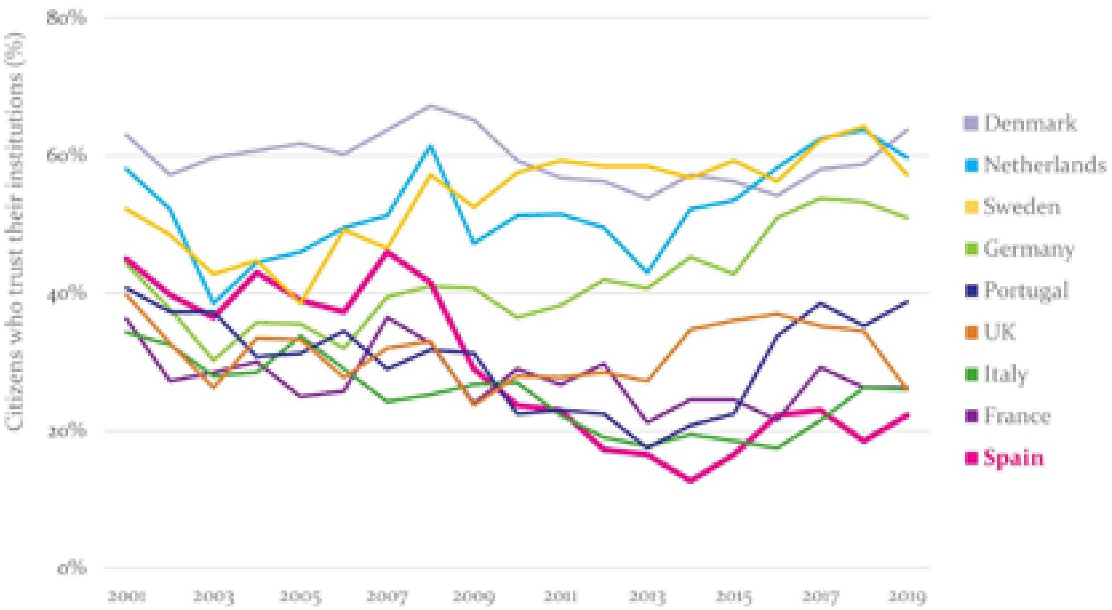


Source: Eurobarometer, 2001-2019.

Assessments of trust in institutions and system actors – government, political parties, parliament, legal and judicial system – waver along similar lines. European countries had levels of trust in their institutions that were not very different from each other during the late 2000s. However, an important separation into two groups has emerged since the Great Recession. On the one hand, those that were in a high position, such as Denmark or the Netherlands, have barely moved at all, while on the other hand, there have been countries that have witnessed a gradual decline, such as Italy, France or Portugal, or a very abrupt falls, such as Spain.

Figure 5: Trust of Spaniards in their institutions hit rock bottom in 2014 and stabilised at low levels

Percentage of citizens who say they trust their institutions, 2001-2019



Note: *the scale comprises an aggregate index of trust in government, parliament, political parties and judicial system.*

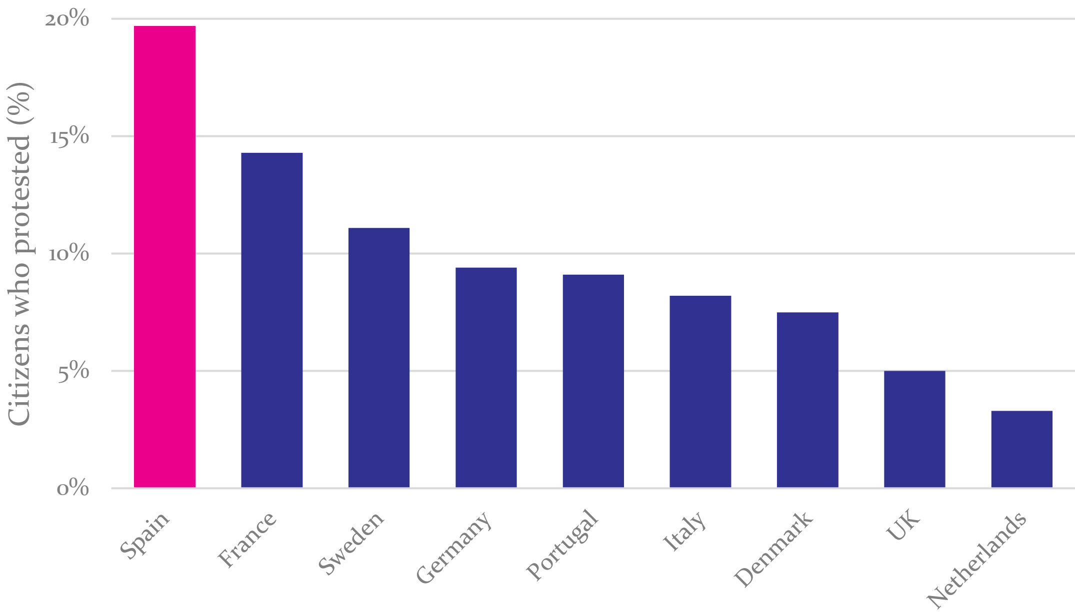
Source: Eurobarometer, 2001-2019.

When it comes to institutions, the phenomenon in Spain is similar to that of trust in democracy, and the risk is also the same: if citizens are distrustful of them, it is more difficult that they accept them as valid interlocutors and instruments for promoting social commitments.

3 Spaniards participate in politics more through protests than through associations

Spanish electoral participation is not very different from the European average. But the participation of Spaniards in legally authorised demonstrations has reached very high levels, with 20% of citizens having attended at least one in the past 12 months. At the opposite end of the scale are the Netherlands and the United Kingdom. This relative position of countries is generally maintained beyond the specific period of conducting the survey.

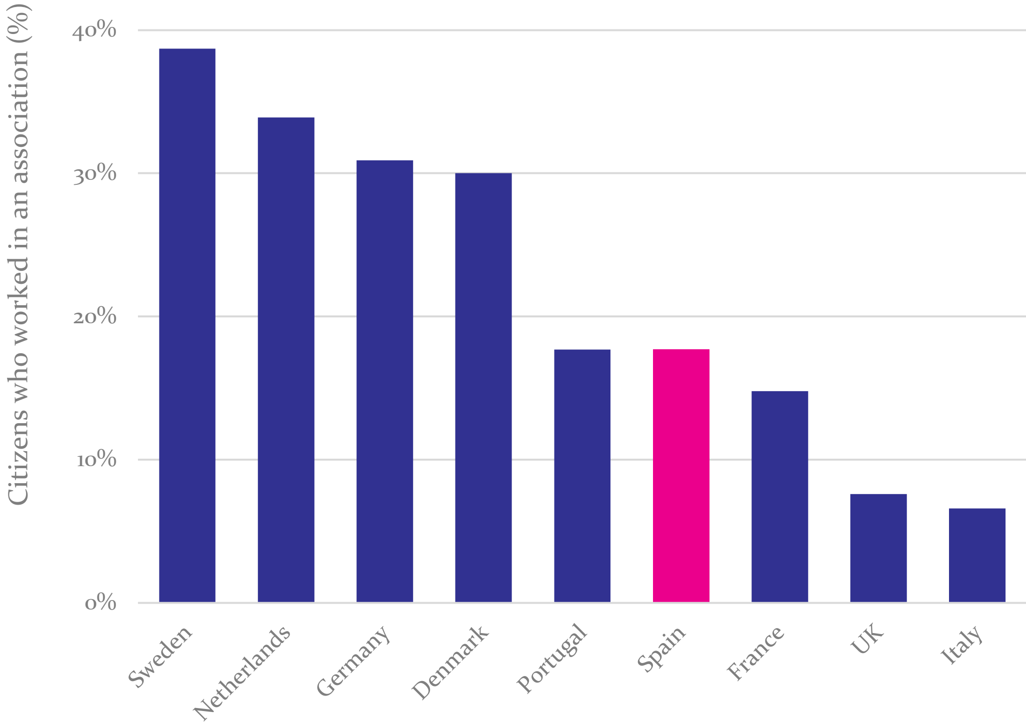
Figure 6: Demonstration protests are a frequent form of political participation in Spain
Percentage of citizens who demonstrated in the past 12 months



Source: "European Social Survey", 2018.

Having a network of political and also social or non-profit associations can contribute to developing norms and networks that facilitate public life (which, alongside attitudes of interpersonal trust, is generically defined as "social capital"). Spaniards are not particularly notable in this area: they are fourth from the bottom in terms of the involvement of citizens in association life. Work in associations is higher in central and northern Europe. Other forms of participation, such as direct contact with political representatives, are also much less common in Spain than in these countries.

Figure 7: Participatory work through associations is low in Spain
Percentage of citizens working with an association in the past 12 months



Source: "European Social Survey", 2018.

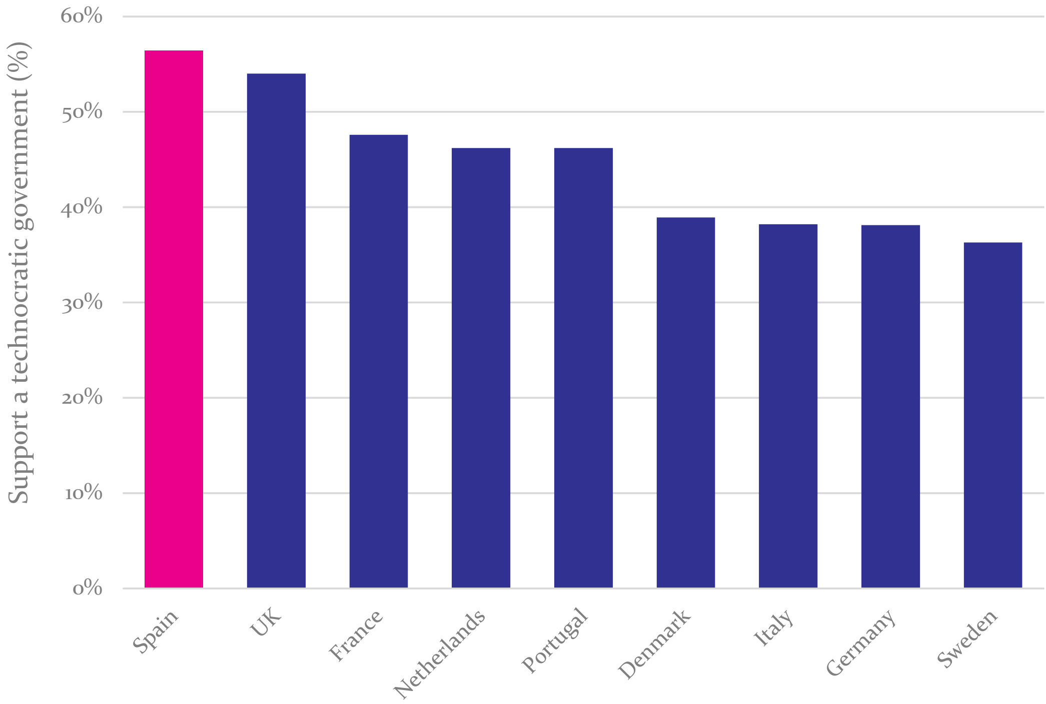
Participation in associations is conditioned by the combined institutional and cultural framework that citizens face, often referred to as the "political opportunity structure". These data are also therefore the result of these conditioning factors and not (only) of intrinsic preferences for one or another model of participation.

4 Spaniards prefer governments of experts

Trust in classical institutions, such as political parties, has tended to decline in most consolidated democracies in recent decades. This has promoted the popularity of a technocracy, i.e. the idea that experts are in charge of exercising power. Some preliminary evidence exists that covid-19 has reinforced this preference, at least during its initial phase. Leaving aside Italy, whose citizens are more critical of technocratic governments (as they have had them more often), democracies that have less confidence in their institutions generally tend to desire more a government of experts. Spain and the United Kingdom were the countries with the highest support for technocracy in 2018. The relative positions of countries have barely changed since 2008.

Figure 8: Spaniards display much more support of technocracy than citizens in neighbouring countries

Percentage of citizens who prefer experts, not the government, to take charge of the country



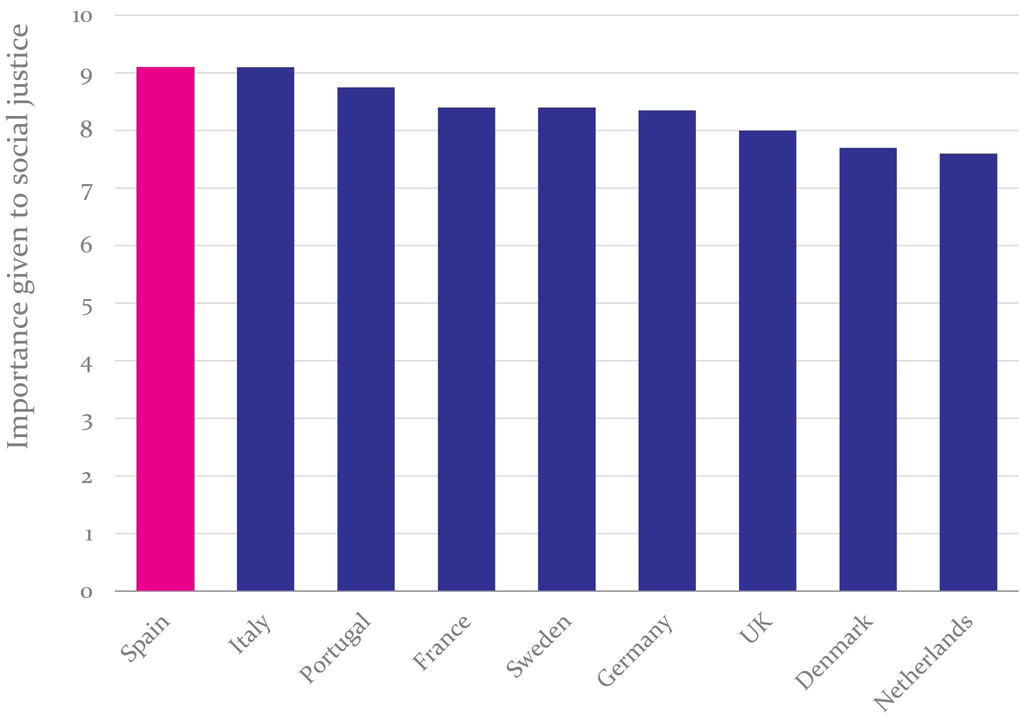
Note: *refers to percentage of citizens who think that a government of experts is either very good or good.*

Source: "European Values Survey", 2018.

5 The notion of democracy in Spain is strongly tied to that of social justice

Irrespective of satisfaction or trust in the system, democracy has undoubtedly become the preferred form of government. Nonetheless, the vagueness of the term per se sometimes makes it difficult to know what citizens mean when they talk about democracy or, in other words, what core values they consider to be associated with these political systems. Thanks to the 2012 edition of the "European Social Survey", it is possible to understand how democracy is envisaged in various countries. One round in this survey asks a question along the lines of "how important you think it is for democracy in general…" and then groups the replies in various degrees of "democracy".

Figure 9: Social justice is a core component in the notion of democracy by Spaniards
Importance given to social justice as a component of democracy



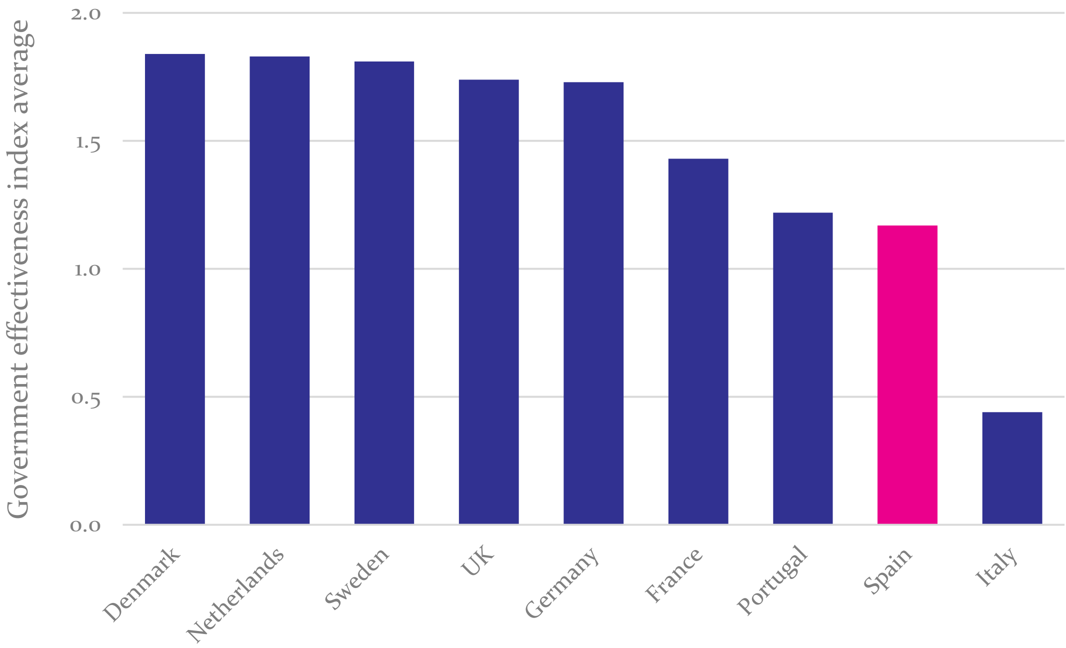
Note: *the scale ranges from 0 ("not at all important for democracy in general") to 10 ("extremely important for democracy in general").*

Source: "European Values Survey", 2012.

Spain, Italy and Portugal are notable as countries where citizens attach most importance to social justice as a key aspect of democracy. At the opposite end of the scale are the United Kingdom, Denmark and the Netherlands. This fact reaffirms what has been previously observed: there is a greater preference for social equality in countries where the redistributive potential of the welfare state is lower, and vice versa. Moreover, when it comes to Spaniards, considering social justice to be central to their conception of democracy does not contradict other values. They therefore support this value as key to democracy, but they also support other aspects to a similar degree, such as the separation of powers, the holding of free, competitive elections or the direct participation of citizens.

6 Spain ranks at the bottom in terms of the quality of the institutions in charge of designing public policies

Figure 10: Spain has low levels of government effectiveness in a comparative approach
Government effectiveness index, 2000-2020



Note: *government effectiveness is estimated by the "government effectiveness index", which combines in a single measure the quality of public service delivery and bureaucracy, competence of civil servants, independence of administrations from political pressures and their credibility to commit to public policies. This index ranges from -2.5 to 2.*

Source: Quality of Government Institute, 2021.

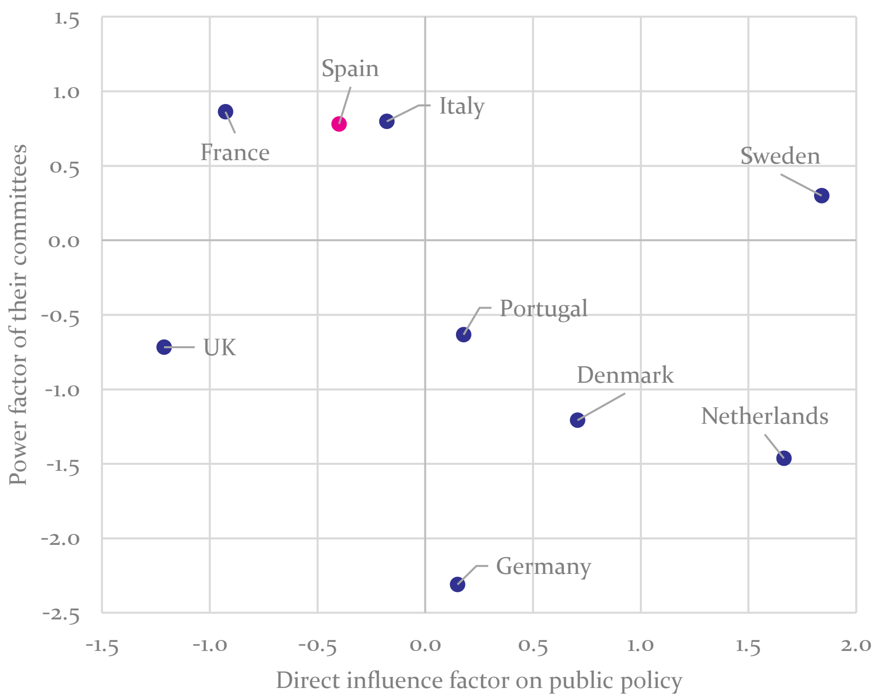
The relative position of countries in terms of government effectiveness is similar to that observed when it comes to trust in institutions. In any case, Italy is again notable in the lower ranking, while Spain still lags far behind central and northern European countries. The state is more likely to be seen as a credible agent in sustaining social arrangements when it is efficient in providing services. Moreover, the fact that the state's competence is perceived as low reduces confidence in its procedural fairness (i.e. its fairness in allocating resources), which is crucial to the promotion and durability of any agreement. One element that hinders the social contract in Spain would therefore be tied to these shortcomings in both the real and perceived effectiveness of its public policies.

7 Parliament has few resources and little capacity to influence policy directly

A key aspect of the functioning of any democracy is the power of its parliaments. Four different aspects can be distinguished based on this perspective: the capacity of the legislature to choose office holders (president, ombudsman, etc.), the capacity for control and oversight of these offices holders (through votes of no-confidence or requests for information), the power of parliamentary commissions to push through legislation and, finally, parliament's own direct influence on implementing public policies.

Figure 11: The Spanish parliament has little power to influence public policies despite the strength of its committees

Direct influence factor on public policies and strength of parliamentary committees for various European countries, 2011



Note: *the direct influence factor records elements such as the degree to which parliament can control its own agenda, its budget or the length of debates. The aspect of the strength of committees refers to the extent to which committees can request documents from the government, initiate or amend legislation or raise parliamentary questions.*

Source: Sieberer, 2011.

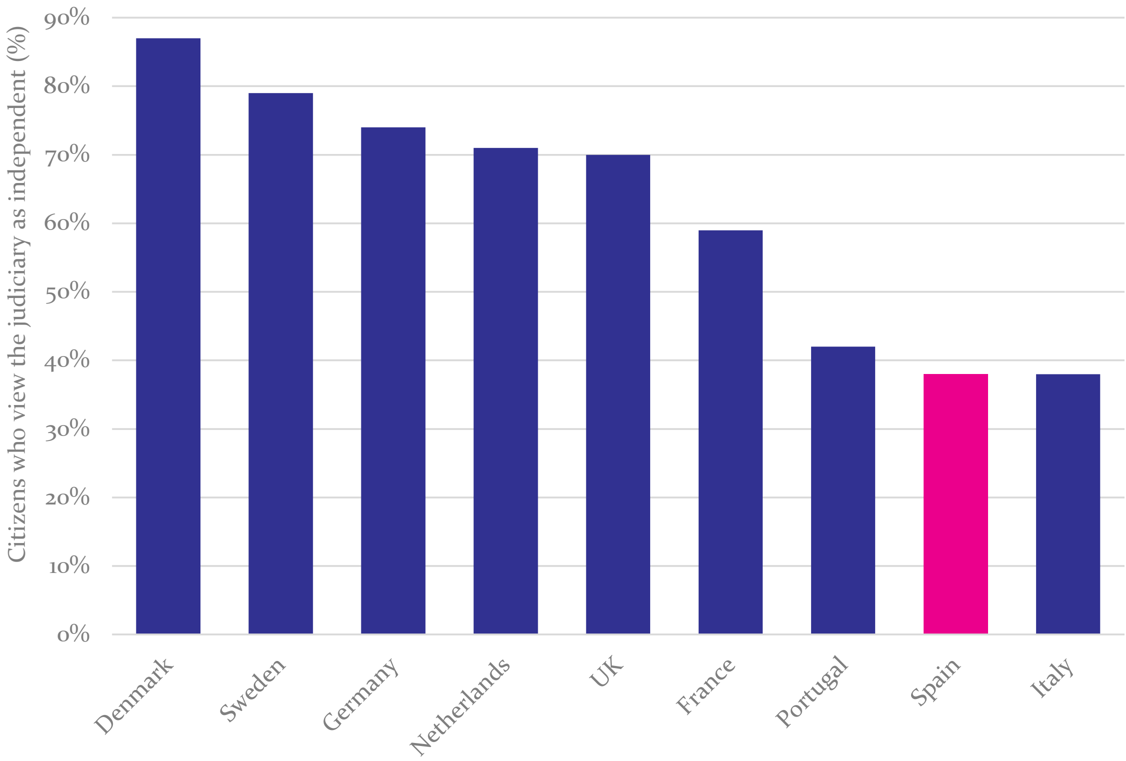
The Spanish parliament has great influence in hiring and controlling public officials and in the role of its legislative committees, but it has little capacity to determine public policies directly. This is generally the case in southern European countries, as opposed to central and northern Europe. In a context of parliamentary fragmentation in Spain, the legislature not only has little capacity to influence policy, but is also one of the least well funded and least technically specialised of its neighbouring countries.

8 Spaniards view the judicial system as not being very independent from political and economic powers

Institutions such as the European Union and Council of Europe have stressed that it is essential to ensure that the judiciary is independent. For this reason, it is worrying that Spaniards consider that their country's justice system is not independent. As in other aspects of attitude, there is considerable variation between northern and southern European countries. The belief that one's own justice system is independent reaches rates above 70% in countries such as Denmark, Sweden, Germany and the Netherlands. The opposite scenario can be found in Portugal, Spain and Italy. Furthermore, Spanish citizens stress that there is substantial political and business influence on the courts. This view calls into question the equality of the rules of the game that the actors demand to participate in a social contract.

Figure 12: Spain is one of the countries where citizens consider the justice system to be least independent

Percentage of citizens who say that the judiciary is very or fairly independent in their country



Source: Eurobarometer, 2019.

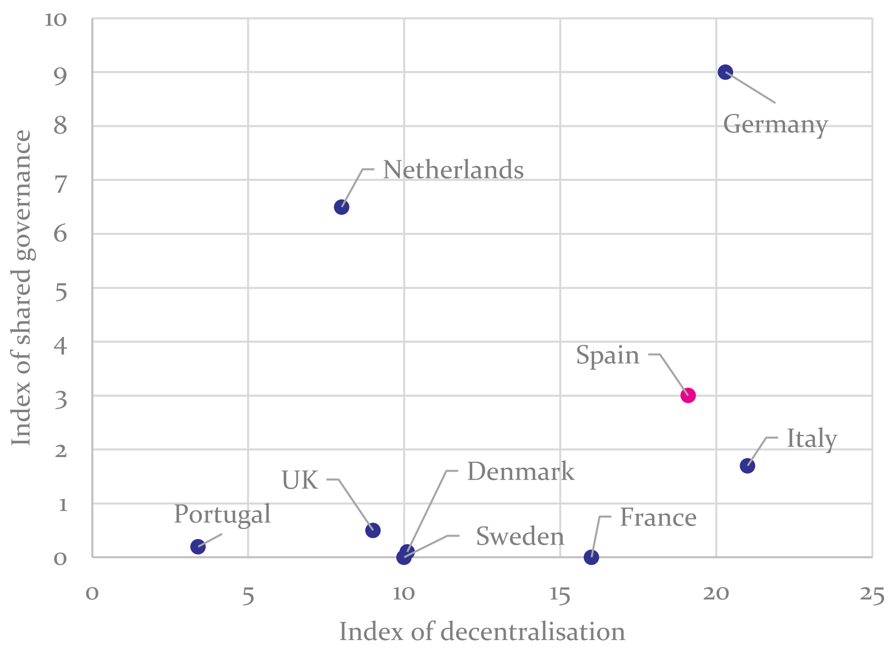
In terms of the governing body of the judiciary, the Spanish legislature has a greater capacity to determine its composition than neighbouring countries. Parliament decides who the members of the General Council of the Judiciary will be, whereas it is the magistrates themselves in the rest of Europe who propose and elect the members of this body.

9 Spain is characterised as a relatively decentralised country, but it lacks institutions of shared governance and horizontal coordination

Most countries in the world have tended to decentralise over the past 50 years. Nonetheless, the model they have followed varies according to the level of powers that sub-national units have (self-government) and the influence that the latter have on the state government as a whole (shared government).

Figure 13: Spain is relatively decentralised, but lacks the shared governance mechanisms of other federal countries

Decentralisation and shared governance index for various European countries



Source: Hooghe *et al.*, 2010.

There are various groupings of countries. Germany is notable among all of these in the high degree of self-government of its federated units, or Länder, as well as their high degree of participation in central government decisions. Spain and Italy are also notable for the high degree of self-government of their regions and autonomous communities, but they have lower levels of shared government than Germany. In fact, with the exception of the Netherlands, the participation of regional units at the centre is low in most countries, even where sub-national entities have significant powers. There is a notable lack of horizontal coordination mechanisms among the autonomous communities in Spain, as well as a lack of adjustment in terms of their financial sufficiency or regulatory independence.

Conclusions

Southern European countries, including Spain, are characterised by strongly aspiring to a more egalitarian society. But public policies seemingly have a limited impact when it comes to realising this demand. This study analyses the institutional and cultural factors that potentially determine this mismatch. Spaniards are generally dissatisfied with the functioning of democracy and have little trust in agents and institutions, and this is compatible with a greater desire for a government of experts. Similarly, they participate more through demonstrations than through associations. With regard to its institutions, Spain generally has a state that still retains the capacity to improve its efficiency, a legislature that continues to have little impact on public policies, a judiciary that is perceived as politicised and a state of autonomous communities that requires adjustments in the area of shared governance. Changing culture is a complex process, but institutional reforms can be addressed without further delay. Moreover, the European Next Generation funds are an opportunity to make adjustments in the transition towards more efficient, transparent institutions. Reforming the administration, providing the legislature with more resources (as is already being considered with the Scientific Office), reviewing the governance of justice and updating the regional funding framework and shared government mechanisms are the types of adjustments that can help a social contract to have a better chance of flourishing.

Proposed actions

1

It is necessary to think of formulas that can help to restore confidence in institutions, as this has deteriorated considerably in Spain since 2008. Given the preferences of Spaniards, any measure that combines expert knowledge and social policies will have greater public support.

2

A rich fabric of associations can help to better control policy, as this helps to channel the demands of citizens towards public managers. It is therefore necessary to encourage the development of civil society and its involvement in day-to-day policies.

3

It is necessary to increase the skills of public workers and civil servants in order to improve the provision of public services, as well as their independence from political pressures. Public policies must also be evaluated more and in a better way.

4

Parliament must be given more weight by improving its funding, as well as giving it greater technical capacity through adequately staffed and resourced advisory offices.

5

The selection process of the governing body of judges needs to be reformed to improve its independence from political power.

6

Finally, Spain's autonomous communities should be provided with more channels for shared governance, as well as improving those already in place: making the senate more useful, updating regional financing and providing the necessary regularity to conferences of sectors and regional leaders.

Study characteristics

This study includes at least three important limitations to consider. The first is that the relationship between culture and institutional quality is endogenous. In other words, there is a circular relationship between both components and it is not always easy to ascertain which factor leads to the other. Transparent, effective institutions can lead to a culture of greater trust and social capital, and a developed civic culture can similarly help institutions to function better. Since these components are also associated with preferences for redistribution, it is possible that the three variables evolve together in various social balances. Second, this study has focused on a national level. However, major differences within Spain can also be observed among autonomous communities in terms of the quality of their institutions, dynamics of redistribution and capacity to reach political and social contracts. A crucial avenue to explore in the future is to study in detail successful experiences at a sub-national level. Finally, while this paper presents avenues for reform, it is important not to overestimate their effects. Moreover, these changes do not necessarily lead to a change in cultural or behavioural patterns of the actors on their own (see, for example, how confidence in the judiciary is low in Italy, where the mechanisms of governance of judges are very different from those in Spain). This suggests that there are no magical reforms that can restore public confidence in the political system if they are not accompanied by other factors that transcend the institutional sphere, such as social and economic policies.

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