

Divide between Rich and Poor

**Collection
Social Divides**

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This issue forms part of the Collection “Social Divides”,
which is made up of the following publications:

- **An Introduction**
- **The Divide between Rich and Poor**
- **The Divide between Men and Women**
- **The Divide between the Young and the Elderly**
- **The Divide between the Rural World and the Urban World**
- **The Divide between Turbocapitalism and Retrocapitalism**
- **The Divide between Analogical and Digital**

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Introduction

- ▶ Spain has become an increasingly more unequal country, with ever greater numbers of rich people but more poor people too. This is creating dynamics of polarisation that are leading to a dual society that is advancing at two speeds. A multidimensional divide that, based on the different indicators analysed, we can affirm exists, is broad and has different social, economic and even political implications, thus does not simply obey a mere lack of income.
- ▶ Inequality in Spain is high, exceeding the European average and, furthermore, it has a structural component. High levels of inequality of income and of wealth, as well as serious problems in terms of equal opportunities, with a social elevator that does not work as it should, are giving rise to an intergenerational transmission of poverty or, to put it another way, to poverty becoming hereditary.
- ▶ The snapshot of poverty and social exclusion in Spain evidences a strong increase in people who are in this situation, both following the financial crisis of 2008 and following the covid-19 epidemic. Some 25.5% of the Spanish population is in this situation.
- ▶ Furthermore, covid-19 has not affected the whole population in the same way, it has had a greater impact on more disadvantaged areas and vulnerable groups. A recent Oxfam report estimates a 22.9% increase in poverty in the last year, leading to the highest figures in the last decade.
- ▶ The Spanish system presents inequality in the distribution of income and wealth (fundamentally due to the labour market and an economic fabric with low productivity and a small business size). Furthermore, this inequality is not sufficiently reduced, above all if we compare it with countries from the European environment, after the action of a model of redistribution and of social protection that is not capable of providing a solution to current problems and that leaves numerous social groups in a situation of exclusion. The capacity to reduce poverty and inequality is lower than in other Eurozone countries and, moreover, the system does not always target those who need it most.
- ▶ Economic growth alone will not be sufficient to close this divide; therefore, it will be necessary to review and update the existing mechanisms and incorporate other new ones. From debate with twelve experts on the subject, specific proposals for a solution can be inferred, such as a reduction in fiscal spending, shifting the burden of taxation from working income towards capital income, a minimum living wage, an increase in benefits aimed at the lowest deciles of the distribution and the improvement of child benefits, a modern and innovative industrial policy with an increase in investment in RDI up to 3% of GDP, a new housing rental law and a greater pool of social housing, universal infant education or an increase in spending on dependency, among others.

- ▶ This divide is converting us into a more vulnerable society with regard to tackling the less positive phases of the economic cycle in the immediate future but, also, more vulnerable with views to tackling the great challenges of the future in the medium and long term. Closing this divide in the present means investing in the future of society.

Key figures

x6

The incomes of the 20% of Spaniards with the highest incomes are 6 times higher than those of the 20% with the lowest incomes.

53%

Some 53% of wealth is in the hands of the richest 10% of society.

34.4%

Some 34.4% of the Spanish population cannot afford to go away on holiday for at least one week per year.

x28

The wealth of the richest 20% of Spaniards is over 28 times higher than the poorest 20%.

44.1%

At present, 44.1% of the Spanish population are now in a similar position to that of their parents at age 16 years.

27.6%

The child poverty rate in Spain stands at 27.6%.

4

It takes 4 generations, on average, to climb out of a situation of poverty and into the middle class.

21%

Some 21% of the population are living below the poverty threshold.

13%

Poor workers represent 13% of the Spanish population.

10

Over 10 million people are at risk of poverty or social exclusion.

23%

Poverty in Spain has increased in the last year, with an impact of covid-19 of nearly 23%.

2 An increasingly unequal country

In Spain, inequality is high, exceeding the European average and, furthermore, it presents a structural component. From analysis of the main inequality indicators (such as the Gini Index, the S80/S20 coefficient, the P90/P10 indicator and the Palma Index), it can be deduced that Spain is suffering from one of the highest levels of income inequality in Europe. It is shown, furthermore, that economic growth alone does not necessarily bring with it any reduction in inequality levels, nor any advance or progress in social policies.

Spain is to be found in the top ten of the most unequal European countries and among those whose inequality has increased most, since in the last ten years, the Gini Index has evolved, increasing by over two percentage points between 2009 and 2014, and returning to levels similar to those of a decade ago in 2019. However, lacking closed data for the last year, an increase is forecast of this index with the impact of the pandemic. This has led to a society where the earnings of the 20% of Spaniards with the highest incomes are six times higher than those of the 20% of Spaniards with the lowest incomes. This reality is explained, largely, by the consequences of the financial and economic crisis as well as the measures and policies that were executed to tackle its effects.

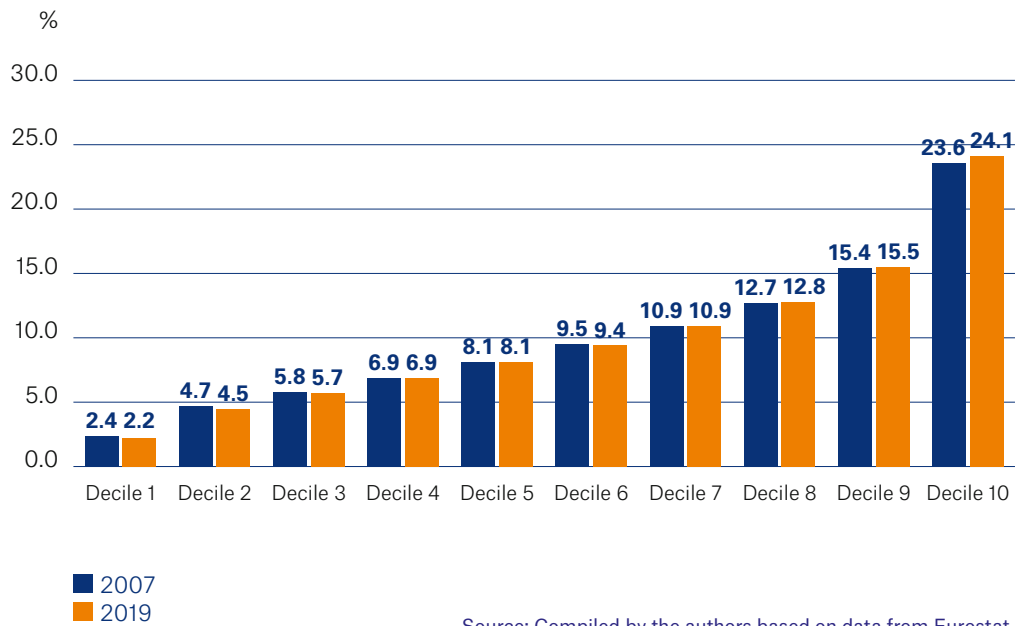
The data are evidence that the the economic crisis affected the classes with the lowest incomes with much greater intensity, and during the economic recovery these same groups of people, the most vulnerable, were the ones who benefitted least. Subsequently, the impact of the pandemic has again meant a greater impact on the most vulnerable groups, once more representing an increase in inequality in Spain.

According to the OECD, between the years 2007 and 2014, the mean Spanish wage fell by 9% on average, but if we analyse how this fall was distributed between the different social strata, it can be confirmed that some 21% of the fall directly affected the 10% of the population with the lowest incomes, while the economic recovery that took place between the years 2013 and 2016 benefited, to a greater extent, groups with higher incomes. According to data from Oxfam Intermón, up to 19 of every 100 euros of economic growth went directly to the hands of the 10% of households with the highest incomes which was the same amount as reached 30% of the poorest households and, even, up to five times more than what ended up in the hands of the 10% of households with the lowest incomes in Spain. Therefore, the economic growth of recent years is not distributing its fruits equally. From the above it is deduced that the percentage of national income in the hands of families with the lowest incomes is lower than in the last

decade, while those households with the highest incomes have increased their share of the national income.

Figure 1. **How is income distributed in Spain?**

Distribution of growth in household gross disposable income by deciles 2007-2019



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

In Spain is high, exceeding the European average and, furthermore, it has a structural component

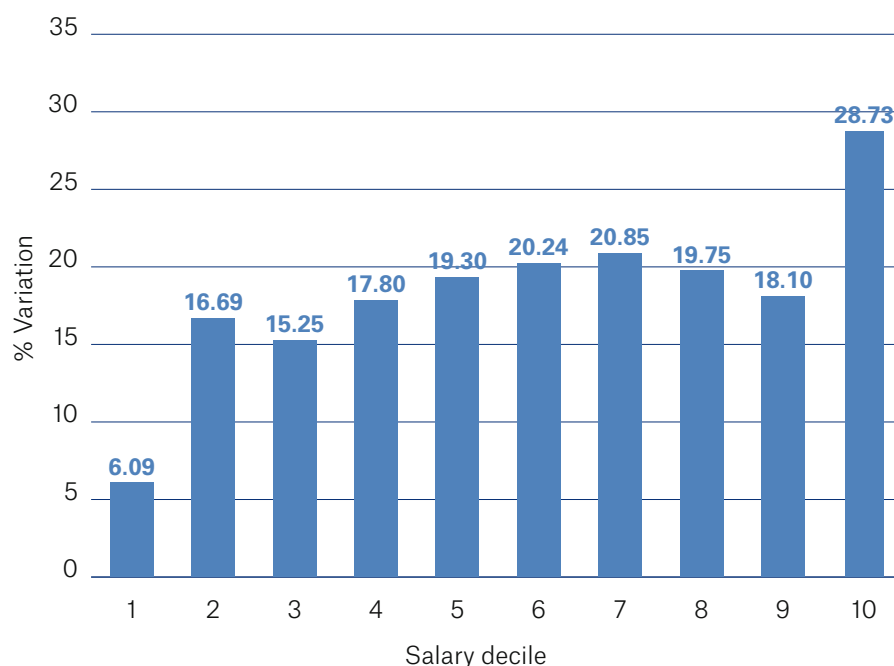
Inequality in terms of income, in Spain, is related directly with the inequality that exists in the labour market. Having a job, nowadays, is not synonymous with wellbeing, given that Spain presents high levels of labour precarity, as is reflected in the high rate of seasonality (24.7%), involuntary part-time employment (52.2%), or the duration of temporary contracts (of these, one in every three lasts for less than seven days).

In the years in which a sustained increase in GDP in Spain took place, there was no direct correlation with sustained wage increases and, therefore, the tendency that has been observed in recent years is that economic growth has not been transferred to workers. In contrast, the decrease in GDP is transferred with greater force to employees, in terms of both occupation and salaries alike.

Following the wage devaluations of recent years, and despite a certain rally in wages in recent months, the losses experienced continue to be unrecovered.

Figure 2 **How has the average salary evolved according to the wage level of the population?**

Variation in average nominal monthly gross wage by deciles, 2007-2018



Source: compiled by the authors based on data from the Spanish National Institute of Statistics (INE).

The economic growth
of recent years is not
distributing its fruits equally

Income inequality can also be analysed based on the data provided by the Spanish Tax Agency. The latest data available, corresponding to the 2019 tax year, reflect that approximately 5 million people declared annual earnings of over 22,000 euros, and 12.5 million people (around 60% of tax payers) had a gross annual income of 21,000 euros or less.

In relation to wealth inequality, according to the Global Inequality Lab, Spain is the country where personal wealth has grown most over the last thirty years. However, the data provide evidence that this growth in personal wealth has been distributed unequally among the population and tends to be concentrated

among a small minority. Thus, according to 2019 data from the Global Wealth Report, the richest 10% concentrate over half of the wealth and the richest 1% have in excess of 1.8 million euros of assets on average, meaning that they now accumulate a quarter of wealth versus the 16.5% that they possessed in 2008. Situated at the other extreme are the poorest 50% of the population, who barely concentrate 7.7% of disposable wealth, which means their share has fallen four points with respect to the data from 2008.

Furthermore, and due to the accumulative effect, wealth inequality in Spain is more acute than income inequality.

But inequality is not only related to income or wealth. There is another type of inequality that is especially negative and that deserves attention because of its social impact: inequality of opportunities. According to the Eurostat data on social mobility, the majority of transitions are downwards, whereas upwards mobility has suffered damage in the last decade, specifically from representing 41.3% of transitions in 2007 to 29.5% in 2018. As a result of this dynamic, a narrowing of the middle class is taking place in Spain.

Economic, social or educational circumstances are normally transmitted between the members of a household; this is known as the “intergenerational transmission of poverty”. The place of birth (family, socioeconomic level of parents, services and facilities in the area of residence, etc.) increasingly conditions the socioeconomic circumstances of each individual if equality of opportunities does not act as it should. In this sense, one of the key aspects is education, and one of the matters to be resolved is the duality that exists in the education system: the early leaving of education or repeating of a year are phenomena more common among students from the poorest homes.

3

Poverty and social exclusion levels are growing

We continue with the analysis with a snapshot of poverty and social exclusion in Spain, with the aim of evidencing the strong increase in the number of people at risk of poverty or social exclusion. Specifically, the data for 2020, incorporating furthermore the impact of covid-19, reflect that 21% of the population is living below the poverty threshold, 0.3 points more than in 2019.

Spain occupies the fifth position among EU countries with the highest risk of poverty or social exclusion. Between the years 2008 and 2018, we observe an increase of 2.3 percentage points in the poverty or social exclusion risk rate, which reached a peak of 29.2% in 2014.

Furthermore, the impact of the pandemic has again fallen more heavily on the most vulnerable groups. A report by Oxfam Intermón titled "Overcoming the pandemic and reducing inequality. How to tackle the crisis without repeating mistakes", calculates that there are a million people more in a situation of poverty after covid-19, reaching 10.9 million people in 2020". Although this figure does not include the positive impact of ERTE temporary lay-offs, it is the greatest increase in relative poverty in Spain in the last ten years, followed by the 22.3% of 2016.

Furthermore, this same report alerts that the impact is even greater among the poorest people. Thus, severe poverty would have increased, i.e., people who have an income lower than 5,826 euros per year. Specifically, 10.86% of the population would be in this situation, above the pre-covid 9.2%. They situate the severe poverty rate at 10.86% in 2020, up from 9.2% pre-covid.

In Spain, over 10 million people are living under the poverty threshold

The conclusion that is drawn again emphasises the fact that the economic growth that Spain has enjoyed since the year 2014 has not been transferred to its citizens: in Spain, 10 million people are living under the poverty threshold, i.e., they live in households whose income is below 60% of the median income.

Furthermore, Spain has a serious child poverty problem, because nearly three out of ten children aged under 16 in the country are living below the poverty threshold (27.6%).

Another of the phenomena analysed is that of so-called “poor workers”: having a job in Spain is no longer sufficient as a mechanism for escaping poverty. The precarity of the labour market has led to 13% of the country’s workers being classed as poor: they suffer major difficulties getting to the end of the month, satisfying their material needs and developing their life projects. But poverty also directly impacts on those out of work, especially the long-term unemployed.

This multidimensional analysis, which not only focuses on the material absence of income, but also encompasses many other situations of vulnerability, such as material deprivation and difficulty in accessing basic goods and services, or low employment intensity, among other factors, is completed with an analysis of the state of social exclusion in Spain, a scenario that affects some 8.5 million people in the country, according to data from the 8th FOESSA Report.

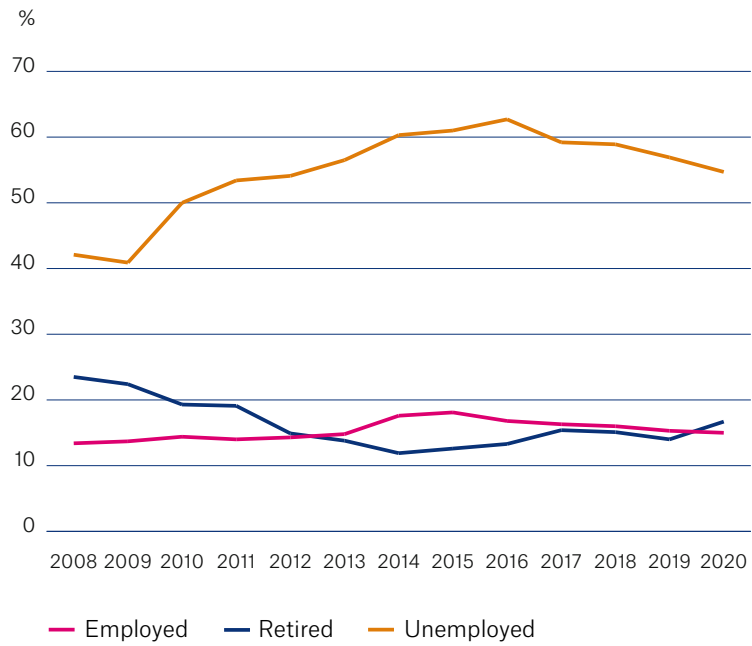
It is also deduced from this study that the economic recovery has permitted improvements for a significant part of the population but, in turn, it has worsened the situation of the weakest. The result of all this is that over 18% of the population are currently in a situation of severe or moderate social exclusion, and that up to 4.1 million people are in a situation of severe social exclusion, jeopardised by insecure and inadequate housing, persistent unemployment, extreme labour precarity and even invisibility for political parties.

Having a job in Spain
is no longer sufficient as a
mechanism for escaping poverty

The latest data from the INE Survey on Living Conditions reflect that the at risk of poverty or social exclusion rate rose to 26.4% in 2020, above the 25.3% of 2019, which reflects the impact of covid -19. It is also worth highlighting the differences that exist in relation to poverty and social exclusion based on activity, as observed in figure 3. However, from the 2020 data, a very mitigated impact for occupied people can be inferred, for example of covid-19, which could be due to measures such as the ERTes (temporary lay-offs).

Graph 3. **Poverty or social exclusion levels vary according to whether you are occupied, unemployed or retired**

Risk of poverty or social exclusion according to activity



Source: compiled by the author based on data from the INE.

4 Towards a new redistribution and social protection model

The existence of this divide leads us to think about the different measures and public policies needed to find a solution to it. Firstly, we must start out from the base scenario which is that Spain presents an inequality in income distribution that is fundamentally explained by its labour market and a productive fabric characterised by low productivity and the small size of businesses (a specific example is how labour poverty is concentrated into micro-companies).

But another serious problem is the redistribution and social protection system. The traditional mechanisms are not showing themselves to be capable of finding a solution to the current problems and they are leaving numerous social collectives in a situation of exclusion. In Spain, the redistribution and social protection system has less of a capacity to reduce poverty and inequality than in other countries in the Eurozone; furthermore, the system is not always aimed at those who need it most.

The current economic and social context is different to that which existed at the time when the redistribution mechanisms in force today were designed. In short, despite the economic growth experienced by Spain, its income per capita is not distributed equitably, which is evidence of a problem of both productivity and revenue distribution. Thus then, insofar as economic growth in itself is not going to resolve this divide, we need to turn the spotlight onto the most vulnerable groups as we review the social protection mechanisms that already exist and create other new ones.

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In addition to the faults intrinsic to the redistribution mechanism itself, such as lack of progressivity in the system and of resources for developing redistribution policies, there is an incapacity to respond to new realities, such as long-term unemployment or the situation of the working poor. The first question that we can ask ourselves is whether sufficient resources are being devoted to developing social protection policies. Spain maintains a percentage of public income and

expenditure in relation to GDP that is lower than the European average; income represents 41.3% of Spanish GDP versus 46.8% of GDP in the Eurozone, while expenditure in Spain represents 52.3% in contrast with an average of 54.1% in the Eurozone. Therefore, a certain margin for improvement would still exist; a very clear example being the paltry amounts that Spain currently assigns to social protection: just 17.4% of its GDP, behind the Eurozone average (19.8% of GDP) and countries such as Greece (19.8%), France (23.9%) and Italy (21.2%).

But it is not just a case of having more resources, what is even more important is ensuring that actions are focused on covering the gaps in our protection system, as in the case of benefits for families, and on improving their efficiency and progressivity. In this sense, one of the problems with Spanish social policies is their lesser impact on mitigating inequality. In Spain, social transfers reduce inequality less than in the rest of the countries of the Eurozone. Spain is positioned at the European average in terms of inequality of incomes and this inequality may even be lower than in other countries, such as France, Greece, Portugal or Germany. However, inequality is greater after taxes and transfers, which is evidence of the limited redistributive action of the State and leads to greater inequalities in household disposable income.

The same conclusion is drawn from the effect of transfers when it comes to reducing poverty. Thus, in Spain, the difference between poverty risk rates before and after social transfers is lower than the average difference of Eurozone countries. In other words: in Spain, transfers reduce inequality less than they do in Europe: while social transfers in Spain reduce, on average, the poverty rate by 24.4%, in the Eurozone social measures achieve a reduction effect of 32.2%.

Furthermore, nor does the Spanish taxation system respond to the current problems of poverty and inequality. It does not collect sufficient revenue through all of its major taxes, maintaining a fiscal pressure of 35.4%, far below the 41.5% of the Eurozone. Thus, it is estimated that Spain suffers losses of fiscal revenue that vary between 50 and 60 billion euros per year due to its more moderate fiscal pressure, according to the Tax Ministry Technicians Union (Gestha). It must not be forgotten, furthermore, that the country suffers a serious problem with fiscal fraud and tax evasion. Besides this, it is fundamental to put the spotlight on the system's progressivity since, as indicated by Fedea's Observatory on the Distribution of Taxes among Spanish Households, the effective average rate of 20% of the poorest households is higher than that of some groups of households with higher incomes, due to the greater weight that indirect taxation and social contributions have on the income of these households.

In conclusion, the current economic and social framework is different to that which existed at the time when the redistribution mechanisms in force today were designed. For this reason, we are facing a new context, in which the tasks or functions of the State with respect to society are being redefined. The divide between rich and poor is forcing a rethink of the redistribution system and of taxation which must, firstly, be a reflection of the principles and values of a society and, secondly, be reviewed and updated as that society progresses and changes.

We must be capable of restoring confidence, of bringing a large part of the population out of its resignation regarding inequality and of guaranteeing minimum decent living conditions in the face of a complicated and uncertain future. This is not just a demand related to social justice, but to a need for coexistence, credibility and the strengthening of democracy.

With the aim of finding new proposals for solutions that range from the revising and updating of the instruments already in force to the inclusion of new ones, there was a consultation and the organisation of a focus group with experts¹ on the subject before the covid epidemic, who took part in a debate about this serious social divide. Furthermore, they were asked to suggest what measures would be necessary and positive for solving the problem². What follows is a summary compilation of the proposals that emerged at that session.

1 The experts were Amparo González Ferrer, Antonia Díaz, Borja Barragué, Guillermo Fernández Maíllo, Jorge Onrubia, Jesús Ruiz-Huerta, José Ignacio Conde-Ruiz, José Moisés Martín, Luis Ayala, Pau Mari-Klose, Rosa María Martínez López and Santiago Álvarez.

2 The proposals included in this chapter do not obey the consensus of all the experts consulted, but rather are a formulation of measures extracted based on their different contributions.

Redistribution system

- ▶ Fiscal reform, which includes:
 - Taxes on inheritances and donations harmonised on a state-wide scale.
 - Elimination of the excess of deductions, exemptions, etc. that mean the system is very complicated and collects less than it should.
 - A review of taxation for the self-employed, within a context in which the traditional employment contract is not responding to the new realities that are emerging in the labour market.
 - A shift from taxation on working income towards taxing capital income. Integration of part of capital taxation into the IRPF personal income tax system.
 - Achievement of fiscal pressure levels similar to those of the Eurozone.

- ▶ A guaranteed minimum income system through the establishment of a minimum living income. This measure must be designed in such a way that it does not imply the weakening of the overall expenditure in order to avoid a shift from a social State to a minimal assistance State.

- ▶ Compatibility of social benefits with employment, up to a certain level.

- ▶ Increase in benefits aimed at the lowest deciles of distribution, as well as non-contributory benefits to a decent standard of living (for example, taking the IRPF income tax personal and family minimums as a reference).

- ▶ The breaking down of barriers for accessibility to protection mechanisms, by making them more flexible and attempting to establish synergies between areas such as the healthcare sphere and social protection cash benefits.

- ▶ An increase in spending on the dependency system and the promotion of so-called “care policies”, with a clear gender perspective.

- ▶ Revision of public prices.

- ▶ Inclusion of poverty and inequality indicators in the general State budgets (macroeconomic scenario and results measurement indicators), as well as of redistribution targets.

- ▶ IRPF (income tax) obligatory for everyone of working age, so that the most disadvantaged groups are integrated into the system and the generality principle is applied adequately.

- ▶ Review of the pensions system to ensure a greater level of resources is available for assignment to other areas of public spending. One sphere of action is found in social security contributions and in schemes such as the flat rates for self-employed people.

Childhood, education system and housing

- ▶ Universal child education, including education from 0 to 3 years, sustained by a system of public nursery schools. This measure is fundamental, furthermore, for gender equality.
- ▶ An improvement to child benefits in order to advance towards a universal basic income for minors. This measure should be accompanied by the corresponding reform of the IRPF income tax system.
- ▶ Policies of “defamiliarization” of costs (in areas such as school dining rooms, extra-curricular activities, assistance for pupils with learning difficulties, etc.) that contribute to the fight against school segregation.
- ▶ An increase in public spending assigned to families and children to bring it more in line with the Eurozone average.
- ▶ A Housing Rental Act that guarantees access to housing to those people with the fewest resources, especially young people. Enlargement of the social housing pool.
- ▶ An increase in public spending on education and healthcare, at least, until it matches the Eurozone average.

Labour market and business

- ▶ Simplification of the great diversity of contract modalities that exist and greater protection for temporary workers against dismissal.
- ▶ Increased protection for employees, rather than for jobs. For example, against situations of dismissal (especially affecting temporary positions).
- ▶ Inclusion of domestic workers into the general Social Security regime.
- ▶ A modern and innovative industrial policy that increases the productivity of the Spanish economy and the size and competitiveness of businesses. For this, an increase in investment in RDI is required up to the European target of 3% of GDP, as well as a progressive increase in the weight of industry in the GDP.
- ▶ Business sustainability. Promotion of business sustainability strategies that contemplate areas such as good governance, the environment and social responsibility, and that lead to growth in the size of the companies and, with that, to employee protection.
- ▶ Fight against the strong turnover of businesses, supporting the feasibility of enterprises from their birth. Promotion of business creation and innovation hubs.



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