GROWING INEQUALITIES AND ITS IMPACTS IN SPAIN

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Executive Summary

In contrast with many other European and OECD countries, Spain's income inequality has decreased over the last 30 years. Nevertheless, Spain is still among the most unequal countries in the EU15, as it started from a fairly disadvantaged situation. Spain's inequality indices are typically larger than those of countries such as Denmark, Norway, Finland, Sweden, Belgium, the Netherlands, France, and Germany and many East European countries.

The overall picture is fairly clear: since 1985, and with the exception of two recession episodes, Spain has seen a pronounced income inequality reduction. During these two periods of economic downturn inequality increases, but this only partly offsets the previous reduction. Notwithstanding this, the current deep economic recession may change the picture for the coming years.

An important source of this income inequality reduction has been earnings compression, partly due to falling upper secondary and tertiary education premium. In addition, Spanish changes in the tax system (increased progressivity and broader tax base) and the large increase in redistributive social expenditures (1980-1995) have also contributed to inequality reduction. Income maintenance (notably pensions and unemployment benefits) and health represent the largest share of social expenditures. Regional inequalities have also decreased over the years: although the convergence rate has not been constant, disparities have decreased over the period of interest. Nevertheless, some social inequalities, such as health, still have an important regional component.

Despite the decreasing income inequality trend, some features of the Spanish socio-economic situation may jeopardize the future well-being of Spaniards and increase income and social inequalities in the near future. These features are mainly: (i) polarisation of education outcomes; (ii) duality in the labour market, (iii) high unemployment rates, and (iv) relatively high share of low skilled workers in low productivity industries.

Education outcomes are fairly polarised in Spain: while it is one of the countries with the largest population share with tertiary education, it also has one of the largest drop-out rates in Europe and one of the largest percentage of population with low-secondary education (i.e., low vocational education as opposed to upper secondary education). Such polarised picture holds for the population as a whole, but most worrisome, it also holds for the younger cohorts. This remarkable duality did

not contribute to increasing wage inequality, mainly due to the low and decreasing wage skill premium and to the fairly low unemployment rates that allowed participation rates to be high. Additionally, working hours at the top and bottom of the wage distribution also play and equalising effect. Workers at the bottom of the wage distribution increased working hors, while working hours of those at the top have decreased. Collective bargaining in Spain, which is at the industry provincial level, also seems to have contributed to wage compression, by not allowing discriminating by skill level.

Although decreasing returns to education have indeed contributed to wage compression and thus to reducing income inequalities during the periods of economic boom, unemployment remains one of the most important problems in Spain. In addition, low educated individuals are over represented among those with temporary contracts, another important feature of the Spanish labour market. In the recent years larger-than-ever participation rates (and relatively low unemployment rates) have allowed most individuals to enter the labour market regardless of their education level. In fact, decreasing returns to education and relatively low unemployment rate gave the wrong incentives to young students to enter the labour market and drop out from school.

Another urgent issue in the agenda should be reforming the labour market. Spanish labour market is characterized by a duality between insiders (with stable permanent jobs, high wages, good job conditions, and large employment protection) and outsiders (with temporary contracts, facing large uncertainty, low wages, bleaker prospects, and worse job conditions). Relative to other European countries, the latter group is not only very large (for many years, one third of the labour force) but it also has no perspectives of job stability over the life cycle, as temporary contracts in Spain are a dead-end and not a stepping-stone. Contrary to that, permanent contracts are very protected by unions and enjoy one of the largest employment protection indices in Europe. With the recent crisis, many of the job losses in Spain come from temporary workers, who are typically young and low educated. Actually, young individuals are overrepresented among the unemployed and among temporary job holders. Only workers aged 26 to 35 experienced a monotonic increase in inequality after the 1993 recession.

Another important feature of the Spanish labour market over the last forty years is the large increase in female participation. Notwithstanding this, female labour force participation rates are still substantially lower than in most EU countries. Such large increase in female labour participation, however, had a negligible effect on individual inequality —but may have contributed to the reduction of household inequality, due to assortative matching.

Spanish Long Table: Changes on the GINI and other relevant variables

	1985-1992	1993-1995	1996-2007	2008-last available
Income inequality	-	+	-	+
Consumption inequality	-	+	-	+
Wealth inequality	n.a.	n.a.	n.a.	n.a.
Labour market: Wages inequality	n.a.	+	-	+
Labour market: Unemployment	-	+	-	+
Labour market: % of temporary contracts	+	=	=	-
Education: Gini years of education	-	-	-	-
Education: Degree of education		Important: polarization in education!		
Material deprivation (data only from 2004 onwards)	n.a.	n.a.	-	+
Poverty risk (data only from 2004 onwards)	-	+	-	+
Social exclusion (data only from 2004 onwards)	n.a.	n.a.	- or =	+
Marriages	+	-	- or =	-
Divorces and legal separations	=	+	+	-
Average family size	-	-	-	-
Fertility rate	-	-	= a bit +	-
Mortality rate	+	+	-	=
Infant mortality rate	-	-	-	-
Home owners	+	+	+ After 2001: -	-
Total crimes	+	+	+	+
Homicides	n.a.	=	+ After 2003: -	-
Electoral turnout		No clear pattern		
Civic participation	n.a.	-	+	-
Trust in institutions	n.a.	n.a.	=	-
Extreme parties support	=	+	-	+
Good attitudes towards immigrants	n.a.	n.a.	=	+
Public total social expenditures	+	- (after 1995)	+ 1995-2000: -	n.a.
Tax burden	n.a.	n.a.	++	--
Union density	+	=	=	=
Union coverage	=	=	-	-

Besides the important role of the evolution of labour income in reducing income inequality, the large increase in social expenditures has also insured individuals' income and contributed to reducing income inequality. The high unemployment rates of the current downturn, however, are taking away employment opportunities from the worse educated and increasing their risk of poverty. It is unknown whether the Spanish welfare system will be able to absorb the costs of unemployment.

Recent evidence shows that this will indeed be difficult and in 2012 new unemployment benefits cuts have been introduced. The role of taxes as a redistributive mechanism has also contributed to income inequality reduction. For one thing, tax progressivity has increased, and for the other, the tax burden, despite being lower than in most European countries, it has increased during democracy. These two features make direct taxation more redistributive.

Besides the role of education inequalities in determining employment opportunities, education plays a role in explaining other social outcomes, notably poverty risk and social exclusion.

Spanish households hold their wealth in real state. Although up until the crisis, house ownership in Spain had an equalizing effect, household debt is bound to be a major problem for Spanish citizens and may contribute to a more unequal society. In other words, at this moment many Spanish households are very vulnerable to the financial and economic fragile situation.

1. Introduction

Until 1975 Spain lived in a dictatorship and in 1978 the current constitution was approved. During the following years, Spain went through notable social and political changes, including the expansion of the education and health system, the promotion of female participation in the labour market and social life, and several labour market reforms. These all, together with the productive structure of the country, contributed to shape income and social inequalities.

Despite all the tremendous changes that Spain has undergone since the beginning of the democracy, citizens' political disaffection seems to be a cultural phenomenon that shows remarkable stability across generations. Relatively low levels of electoral turnout, low trade union density, scarce participation in social and political organizations, lack of confidence in political institutions, and little interpersonal trust are some of the symptoms of such disaffection.

Over all the period (1985 to date), inequality has, in contrast with most OECD countries, decreased in Spain; although comparison is hampered by the fact that due to data constraints we cannot compare over long periods of time. To estimate inequality in Spain over such long period researchers have to draw information from various data sets that are not necessarily consistent with each other. In fact, time periods of consistent data are fairly small.

From 1985 to 1993 inequality decreased significantly in Spain. Nevertheless with the economic crisis and after 1993, income inequality started to increase again. In 1996 however the Gini coefficient was below that of 1985. Therefore, over the period 1985-1996 (for which we have consistent data), inequality decreased. During the 1993-2000 period (for which we again have consistent data from the ECHP), inequality increased right after the 1993 recession, and it decreased as the effects of the recession faded away. From 2003 to 2009 we again have consistent data (the EU-SILC). During the first years and until the beginning of the crisis in 2008, inequality decreased significantly. In 2008, again linked to the economic crisis, inequality increased. Inequality in 2009 has not reached the level of 2003 but the crisis in Spain was only starting then.

Thus, it is very difficult to take overall conclusions, although we can safely argue that during the 1985-2010 period inequality has decreased, with some periods of large inequality reduction (1985-

1993 and 2003-2007) and some with important post-recession periods with inequality increases (1993-1996 and 2008-2009), that are not large enough as to offset the previous reductions.

The research up to date mostly argues that the main contributor to this reduction has been not only the reduction on wage inequality but also the increase of public expenditures, notably in the form of unemployment benefits. These last benefits have helped to contain the inequality increase during the periods with high unemployment rates. Similarly, differences in education could have led to important social differences, would it not have been for the recent economic boom and social protection mechanisms.

Wage inequality has been reduced despite the more unequal composition of the labour force in terms of age, gender and education. This is due to changes in the wage structure. In contrast with many OECD countries, Spain has seen the top incomes wage distribution compressed. This has reduced inequality in the last years before the crisis. The Divided we stand (OECD) reports "A lower gap in wages between the best-paid workers and the lowest paid. The gap between the top and bottom 10% paid workers decreased by one fifth in Spain between 1994 and 2008, while it increased almost everywhere else in the OECD".

Wealth ownership is also lower in Spain than in many other countries mainly due to the particular characteristics of the house market in which 92% of the population (in 2000) owns a house.

In fact, an important characteristic of the Spanish economy, is this extremly high percentage of house ownership. This has contributed to reduce wealth inequality during the period for which we have data, i.e. the last economic boom, but may accentuate the inequality during the current crisis. At this moment, many households have large debts, at very long time period (20-30 years) and variable interest rates that makes them very sensitive to the financial cycles. Private (also household) debt in Spain is currently very large and it is one of the main characteristics of the current crisis.

In Spain, social inequality runs mainly through unemployment and educational inequalities. Unemployment has been traditionally high in Spain, with a large proportion of the population in low skilled, temporary, and low productivity sector jobs. The large unemployment and the dual labor market in Spain (with large differences between those with permanent secure job and the others) have generated large inequalities in social and economic opportunities. Although inequality in unemployment is a well-spread phenomenon (for example, with young unemployment being always much larger than total unemployment), the large unemployment rates in Spain have stressed this problem. If the percentage of individuals with no job reaches the Spanish level, the welfare system enters in crisis, as recent months have shown in Spain.

During the recent economic boom, Spain had a large unemployment reduction with the lowest rate of the modern history at 8% in 2006/2007. This has probably contributed to the slight inequality reduction that Spain has experienced during these years. It is therefore to be expected that in the last years, inequality has and will continue to increase. The welfare system that softens the economic shocks and its impact on inequality may not be able to be sustained in Spain.

Education has also experience tremendous changes in Spain. As for the rest of Europe, educational attainment in Spain has increased over the last decades, with an increase in the number of years of education. This increase however has not helped to move Spain up on the ranking and it still occupies the lower positions in the ranking of OECD countries in terms of percentage of (even young individuals) that have at least attained secondary education (OECD, 2011).

As for the labour market, Spain has a duality in the education system. On the one side, the percentage of young people with tertiary education is higher in Spain than in many other European countries (OECD, 2011). On the other side, however, Spain has one of the largest dropout rates in Europe and has experienced an increase in the number of students in low qualified and short vocational programs. If we take a long time perspective, education inequality however has notably decreased over the years.

Intergenerational mobility in education has increased in Spain, although not in all aspects. While the importance of parental background on the probability of having upper secondary education has been reduced, the probability of obtaining tertiary education is still remarkably larger for individuals whose parents have tertiary, and to a less extend, upper secondary education.

The large drop-out rates and the increased number of individuals with low educational attainments has clear consequences for inequality. For example, unemployment rates differ largely across education group and this is especially relevant in a country like Spain with such large unemployment rates. Similarly, inequalities in education translate in wage inequalities. This is true even in Spain, a country in which the returns to higher education have decreased over the last years.

Social protection expenditures in Spain have increased substantially over the years, although they are still below many other EU countries. For example, in 2008, social protection expenditures in Spain were 22.7% of GDP, below UK, Portugal, Greece, Finland, Switzerland, Germany, Italy, Belgium, France, the average EU27 (26.4%) and EU 25 (26.5%).

The redistribution capacity of the government is thus small. In addition to social protection expenditures, governments can regulate so as to decrease inequalities for example in education,

labour outcomes or health. As we have seen, the Spanish legislation has not always achieved much in this direction.

It is important to keep in mind that despite the relatively small size of the social welfare system in Spain, inequality would have been much larger over the last years, had the welfare system not provided with unemployment and other benefits. Similarly, differences in education could have led to important social differences, would it not have been for the recent economic boom (that changed the wage structure in favour of lower educated individuals) and social protection mechanisms.

Despite social protection being low and the education and labour inequalities, Spain is among those with lower material deprivation. This is in terms of individuals' consumption patterns. When it comes to poverty rate however Spain performs much worse than most EU countries. This means that although there are sufficient household at risk of relative poverty, this is not reflected in their consumption patterns. The impact of poverty in Spain has evolved similarly to the economic cycles, increasing during recession periods with high unemployment rats. Social exclusion is also larger in Spain than in the EU15 average.

Family formation has seen rapid changes in Spain: decreasing number of marriages over the last 40 years, increasing average age at marriage, and increasing number of family breakdowns, although the number of single mothers in Spain is very low. Spain has also seen a tremendous decrease of fertility and mother's age at birth of first child. For example, the number of families with 3 or more children were only about 3% in 2010.

Spain is a very large and diverse country with 17 regional governments, some of which are considered to have distinct features and were assigned regional power before the others (Catalonia, Galicia and the Basque Country). Over the years and since democracy, the central government has transferred some public services to all the regions, although tax collection has been centralized in Madrid —with the exception of the Basque Country and Navarra. At the begging of the period, only the so called historical regions had been transfer public services, notably health and education, but over the years these were transferred to all regions. The decentralization of some of the public services has also allowed for regional differences not only in terms of productive and social structure but also in terms of public services such as health coverage, education, and infrastructure.

Spanish regions are very different in terms of economic performance, although differences have been reduced. For example, setting the Spanish GDP per capita to 100, according to the National Statistical Office, in 2011 the Basque Country had an index of 134, Navarra 129, Madrid 127, and

Catalonia 117. On the other end, for example, Extremadura had an index of 69, Andalucía of 76, and Castilla-La Mancha of 80.

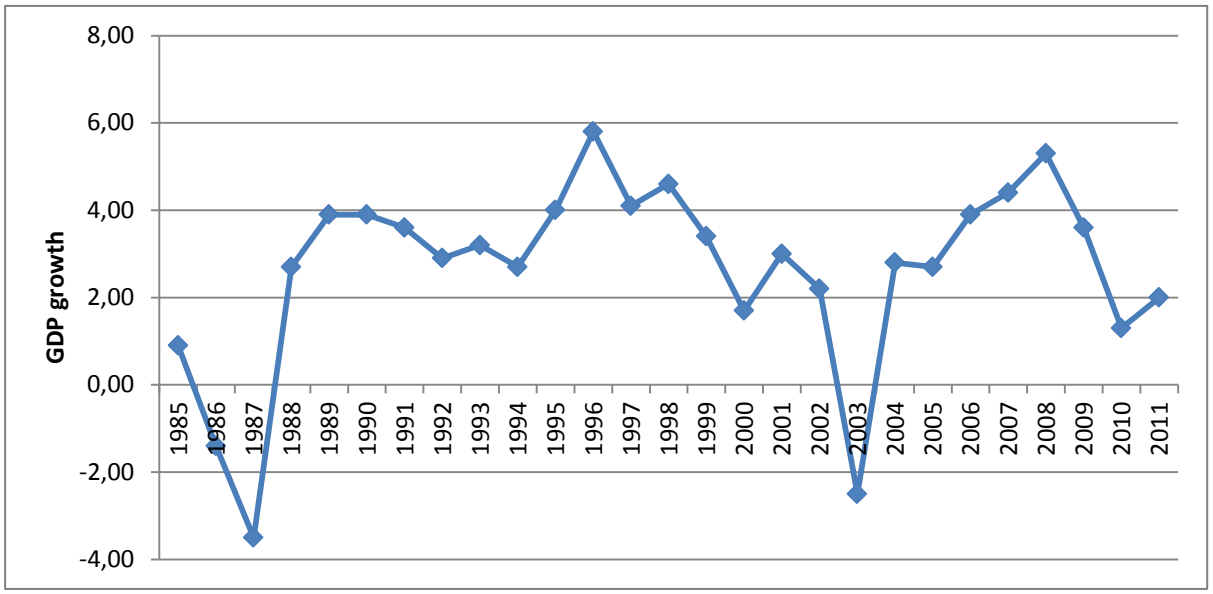
During the last 25 years there has been convergence between regions in terms of income per capita, although the convergence has not been constant. Regional convergence in Spain (again with different speeds depending on the period) has also been taking place in terms of labour productivity, schooling achievements, and female labour participation. The EU structural funds were used in Spain to increase infrastructure in the poorer regions, which contributed to convergence.

De la Fuente (2001) reports that regional convergence in terms of both income per capita and output per job was larger in the 1975-1985 period than in the 1985-1995 period, although it was always positive. According to de la Fuente (2008) income per capita convergence in the period 1985-1995 is largely due to the large infrastructure investment disparities over those years. This period coincides with the entrance of Spain in the EU and the use that the government did of the structural funds. This had costs in terms of efficiency. After 1995, and according to the same author, infrastructure investment is still increasing but it is not systematically devoted to poorer (neither to richer) regions. According to de la Fuente (2008) the average infrastructure investment per inhabitant during the 1965-2004 period was larger in Aragón, Rioja, Asturias, Castilla-León, and Cantabria and lowest in Catalonia, Galicia Andalucía, Baleares, and Murcia.

Spain is a large (505,992 km^2 and 47 million inhabitants) and very diverse country, with important economic, social and cultural differences. In 1985 Spain had already been through a rapid economic and social change that started ten years before, with the dead of Franco. By 1985, the economy was totally open, which facilitated the entry of Spain to the EU in 1996. Becoming a member state of the EU eased and accelerated further changes.

According to Eurostat data, the Spanish GDP per capita at market prices in purchasing power standard per inhabitant increased from 13400 in 1995 to 24700 in 2011, although the GDP growth has experienced two important crises during the 1985 -2010 period: one in the mid-Nineties and the current one (source: INE).

Figure 1.1 GDP annual growth



During the 1995 to 2011 period, the wage share of the GDP at market prices has remained very stable around 0.47 to 0.50.

2. The nature of inequality and its development over time

2.1 Has inequality grown?

2.1.1 Household income inequality

Spain does not have a coherent series of data, which covers the 30 year period going from 1980 to 2010. Instead one has to rely on five different data sets: The Household Budget Survey (HBS) that covers the period 1985-1996, the European Household Community Panel (ECHP) that has information on income from 1993 to 2000, the Household Budget Survey, providing information from 1998 to 2004, the European Union Survey on Income and Living Conditions (EU-SILC), with information on incomes from 2003 to 2009, and the Household Budget Survey covering the period 2006 to 2010.[1] All these five data sets are representative of the Spanish population but have important methodological differences, which render them incomparable. Also, the definition of the available income variables is not exactly the same across datasets. Hence, income inequality trends in Spain cannot be analysed in a coherent manner for the whole period of analysis, but ought to be examined within each data set. Furthermore, the trends shown by the HBS1998-2004 and the HBS2006-2010, displayed in grey in Figures 1 to 5, should be taken with caution as incomes are originally reported in wide brackets and thus contain some imputation for about 80% of the households.[2] This helps explain why they report lower inequality than the other series.

Despite the disrupted trends, Figure 1 shows that unlike most of the OECD countries, income inequality did not increase in Spain for most of the sample period. Over the last 25 years, Spain experiences two periods of pronounced inequality reduction, which are truncated by the arrival of a recession, and are followed by periods of inequality increase, which only partly offsets the previous reduction. Thus, inequality seems to be lower in 2010 than in 1985 —that is, unless there has been a large inequality increase during the years 2000-2003, for which we do not have reliable data. These trends are robust to various ways of measuring inequality (the Gini coefficient, the mean log

[1] The first two HBS (1985-1996) and (1998-2004) are the Encuesta Contínua de Presupuestos Familiares, while the last HBS is the Encuesta de Presupuestos Familiares.

[2] Precisely because of this, many scholars have not used the HBS to examine the distribution of income, see for instance Pijoan-Mas and Sánchez-Marcos (2010). Since only the HBS include information on household consumption, the HBS income series will be useful to compare consumption and income inequality trends— see below.

deviation (MLD), half the squared coefficient of variation, and the variance of logs), and to different equivalence scales —Figure 1 shows inequality trends of two equivalent income definitions, with the OECD and the Modified OECD equivalent scales.

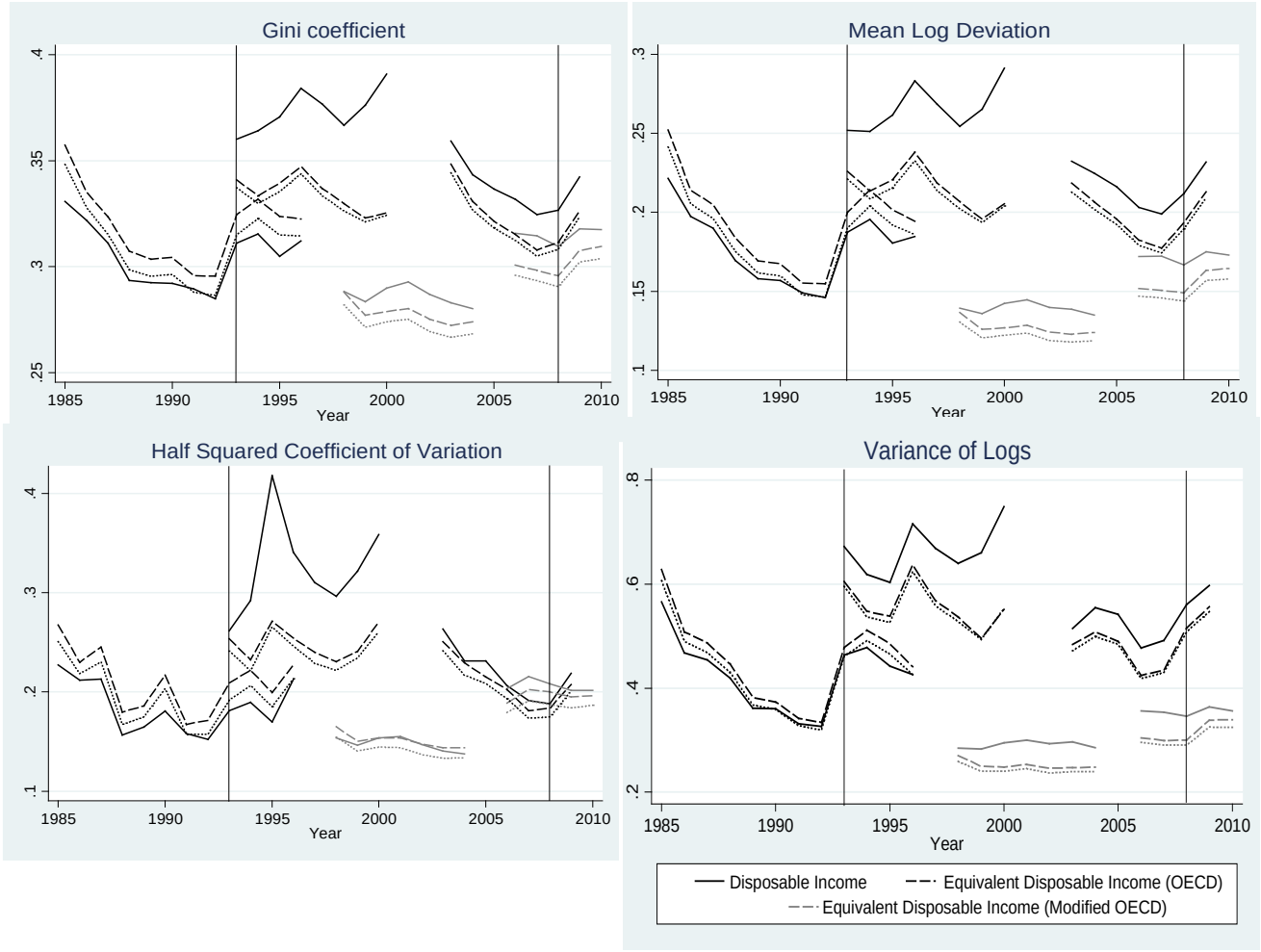
The first pronounced income equalisation period, which gets truncated by the economic recession of 1993, has already been previously documented (see, among others, Oliver, Ramos and Raymond, 2001a and 2001b, Ayala, Martínez and Ruiz-Huerta, 1993, Gradín and del Río, 2001), and it has been partly attributed to the equalising effect of the enhanced tax and benefit system, which managed a much larger budget and increased the progressivity of the tax system (Ayala and Sastre, 2007). Due to lack of a coherent series of data, it is not possible to pin down the beginning of this period. Notwithstanding this, the few studies which make use of the two HBS of 1973 and 1980 find that, despite the oil shocks of the beginning of the Seventies and Eighties, inequality decreases slightly.

The economic recession of 1993 triggers a change in the long-standing decreasing inequality trend. What it is more difficult to say is whether inequality remained constant or it rather increased in the years after the crisis, as the two data sets that cover the post-1993 recession period (HBS 1985-1996 and ECHP) yield inequality estimates which go in opposite directions.[3] According to the HBS 1985-96 income inequality moves erratically around a flat trend, while the ECHP data report an upward-sloping trend of rising inequality until year 2000. Taking into account the effects of family composition and scale economies through equivalent scales, however, changes the picture, as now equivalent income inequality decreases for the post-recession period.

The second period with a sharp inequality fall has not been properly examined, as yet. Again, due to lack of data, it is difficult to say when this period began. The EU-SILC data starting in 2003 reports a substantial fall until 2008, when the recession hits the Spanish economy and growth contracts abruptly (2.6 pp, from 3.5% to 0.9%). Following the same pattern as in the last crisis, after the downturn of 2008, inequality increases until 2010, last year of available data.

[3] Such differences in the overlapping years of the HBS1985-1996 and the ECHP have already been noticed by other studies, e.g. Ayala and Sastre (2007) and Pijoan-Mas and Sánchez-Marcos (2010).

Figure 2.1. After-tax after-transfers income inequality trends. Effect of equivalence scale.



Clearly recessions are inequality exacerbating in Spain. Given that unemployment behaves much the same way, one is inclined to conjecture that unemployment might be driving inequality up in such periods of hardship, as many households loose at least one of the income sources.

Figure 2 shows inequality trends of pre- and post-tax post-transfers income inequality for the two periods for which we have data, covered by the ECHP and EU-SILC. Direct taxes do reduce the level of inequality but do not change the overall trends. Likewise, Figure 3 shows that including imputed rents in the definition of income does not modify the inequality trend for the period 2003-2009, as the EU-SILC is the only data set that provides information on imputed rents.

Figure 2.2. Before and after-tax after-transfers income inequality trends. Effect of taxes

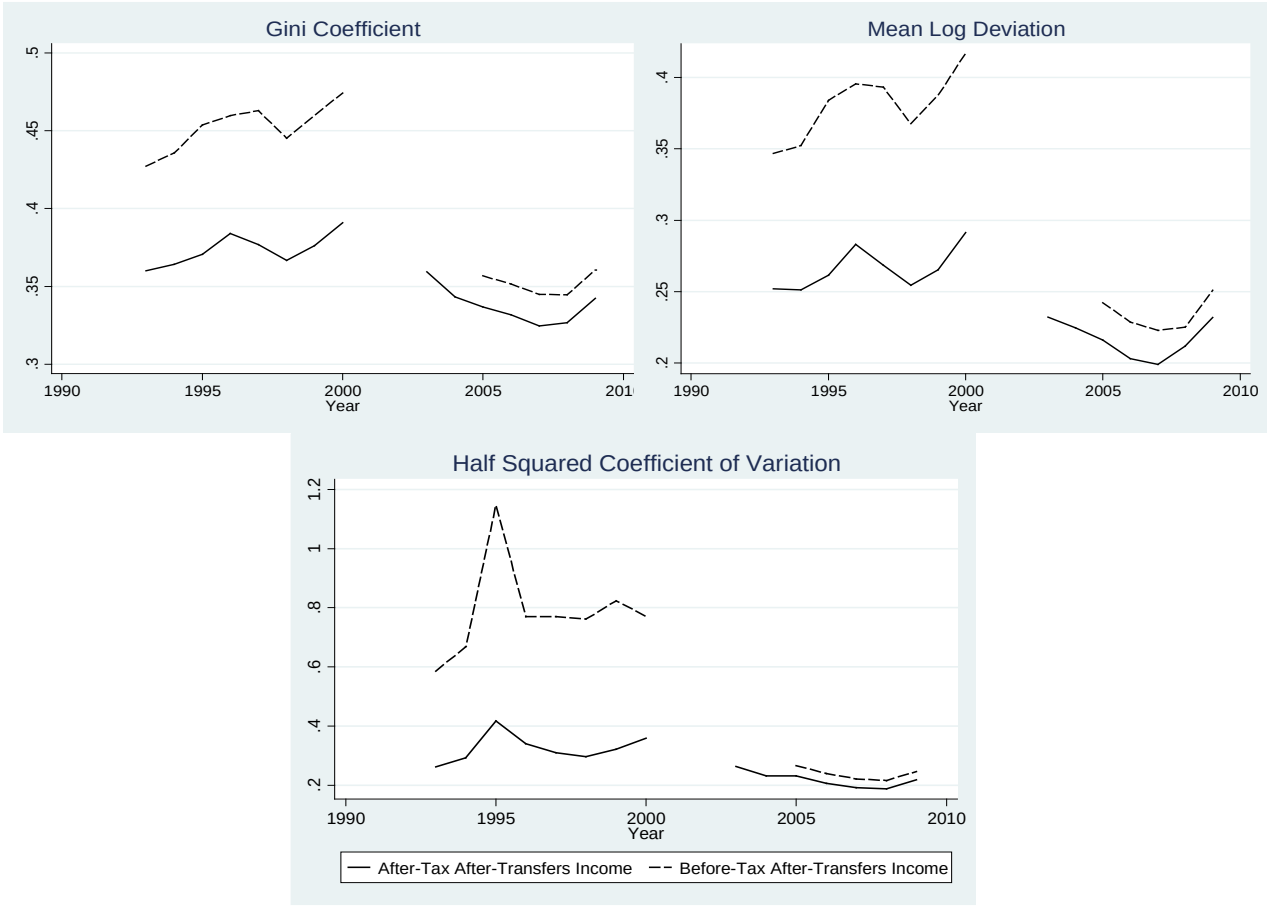


Figure 2.3. After-tax after-transfers income inequality trends. Effect of imputed rents.

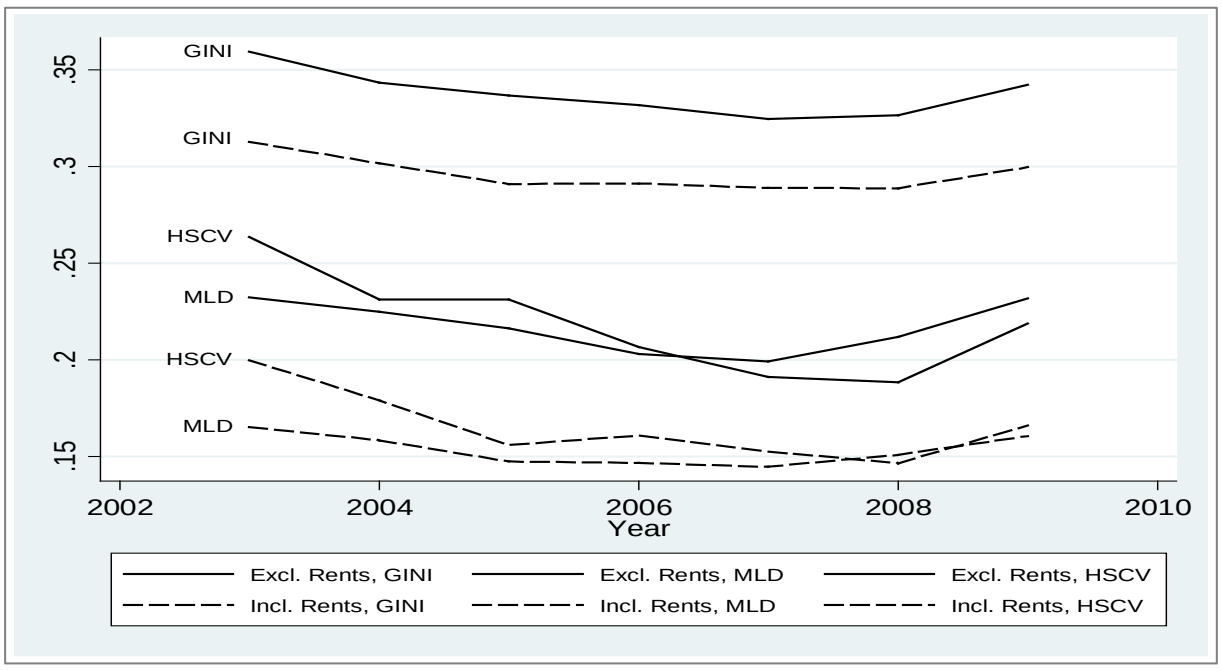
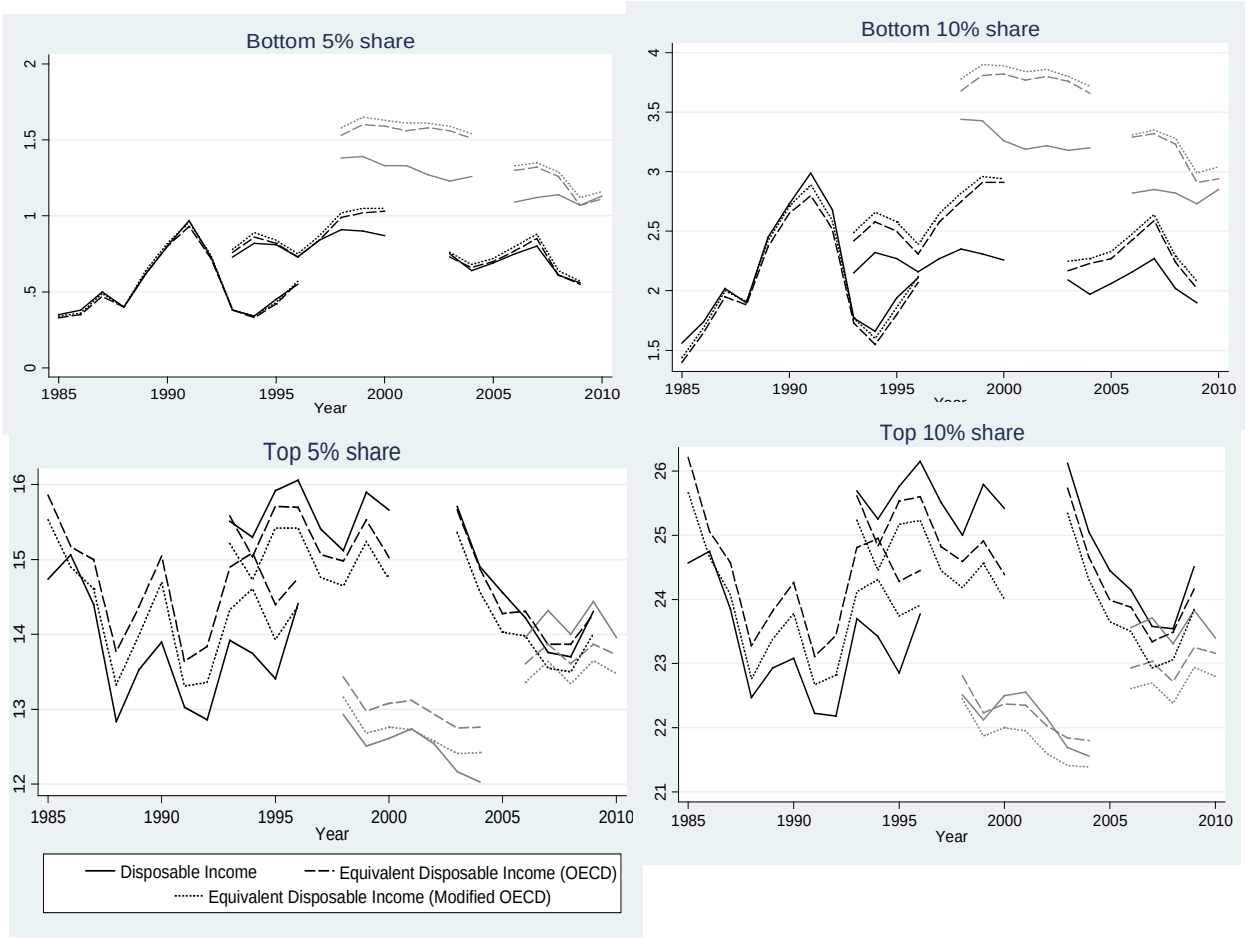
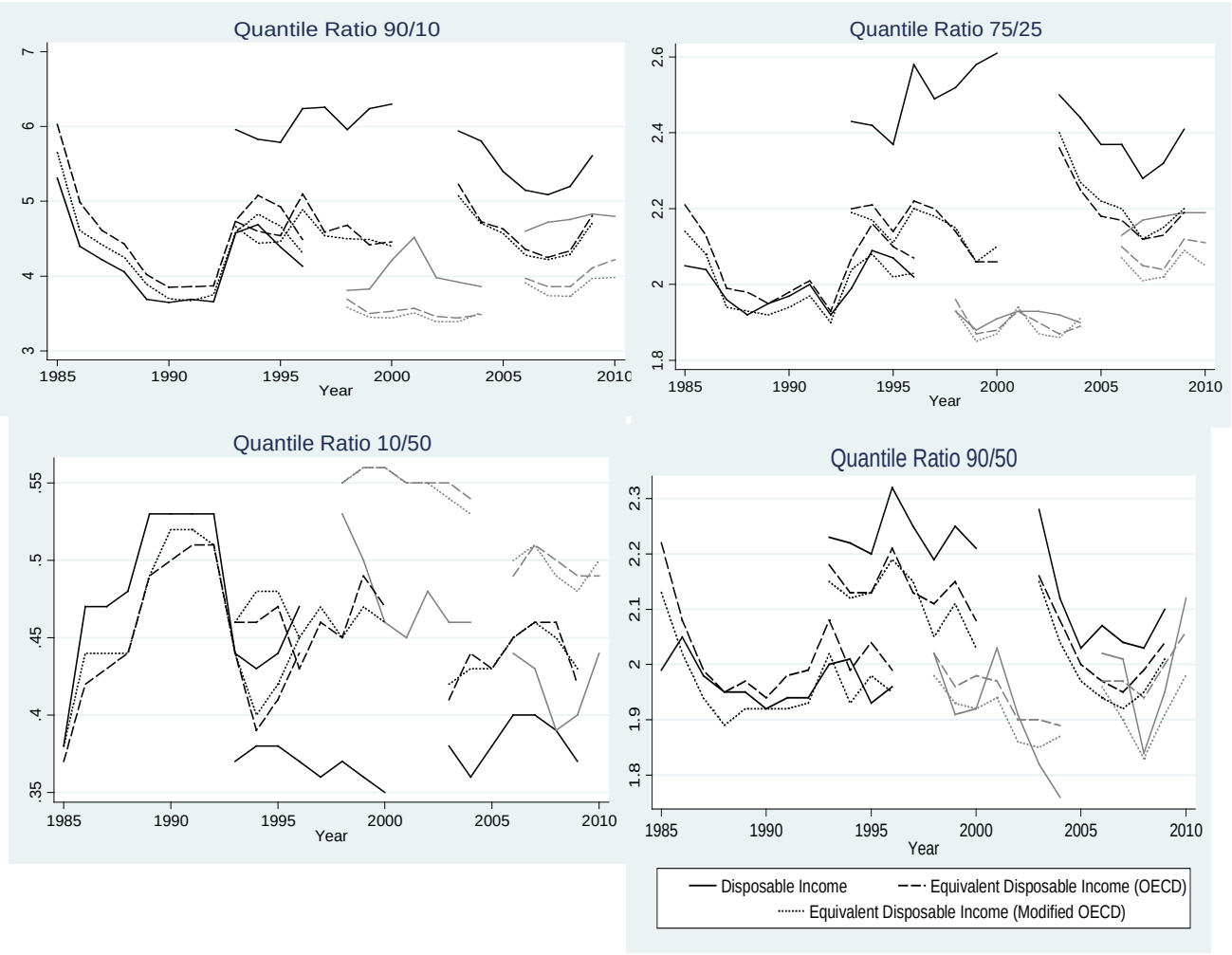


Figure 2.4. Top and bottom after-tax after-transfers income. Effect of equivalence scale.



Changes in the top and bottom ends of the distribution seem to be partly driving the reported inequality trends. As Figure 4 shows, over the two periods of strong inequality decrease, income shares of the better-off, i.e. top 10 and 5 per cent of the population, fall, while those of the worse-off, i.e. bottom 10 and 5 per cent of the population, increase. These changes in top and bottom incomes can also be seen in the quantile ratios depicted in Figure 5. For instance, the 90/10 quantile ratio shows a parallel trend to that of the Gini coefficient and the MLD reported above, indices which place less weight in the changes that occur in the upper part of the distribution.

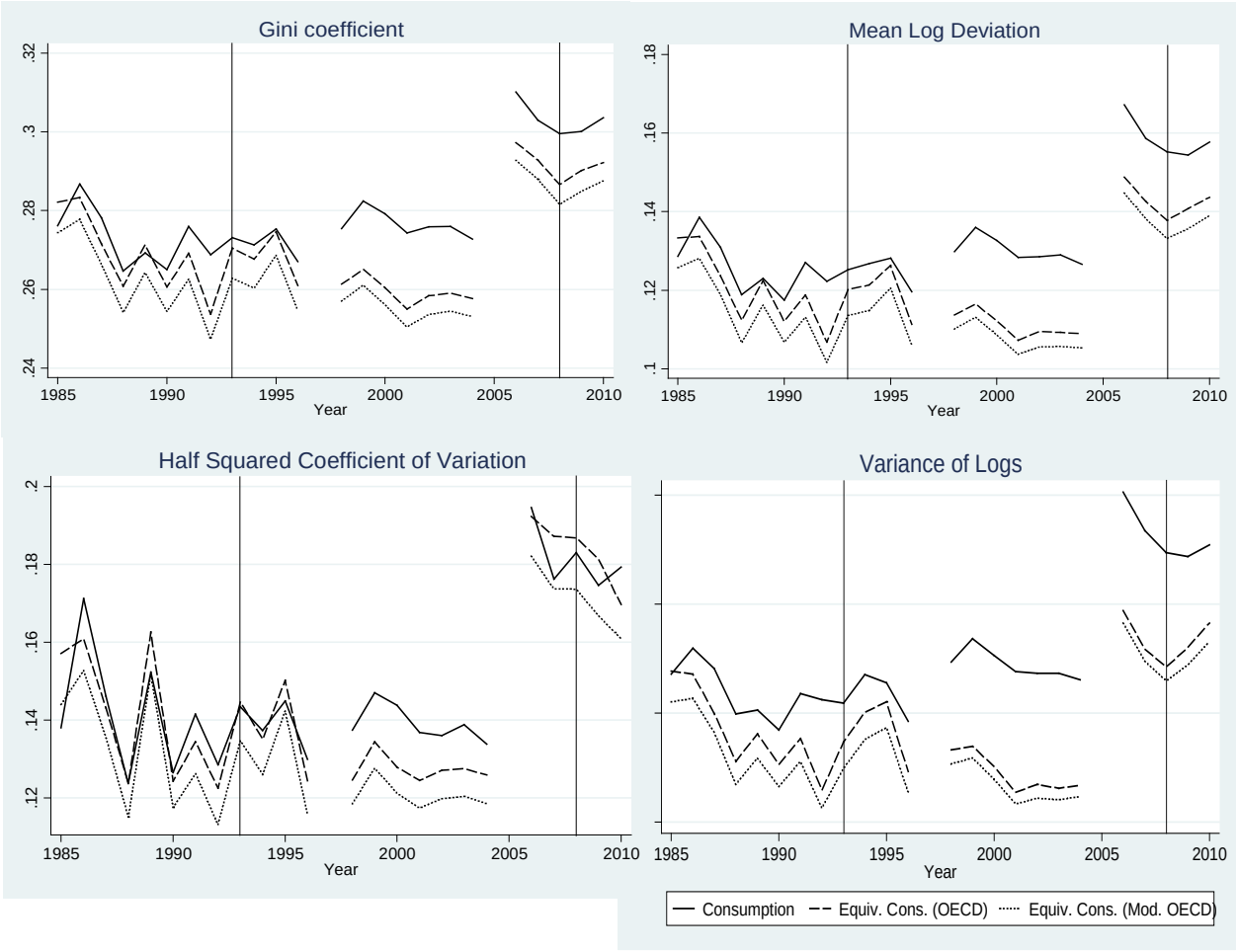
Figure 2.5. Quantile ratios for after-tax after-transfers. Effect of equivalence scale.



Consumption Inequality

Household consumption inequality can only be examined with the information of the three HBS, as neither the ECHP nor the EU-SILC reports information on consumption. Figure 6 shows inequality trends in consumption in non-durable goods for three definitions of consumption (household consumption and two definitions of equivalent consumption using, as we did for income, the OECD and the Modified OECD equivalent scales) and four inequality indices. With no credit constraints, individuals can smooth out transitory income variations.

Figure 2.6. Consumption in non-durables inequality trends. Effect of equivalence scale.



Because of this we expect consumption inequality trends to be flatter and smoother than income inequality trends. This is precisely what happens over the pronounced income inequality decrease of the end of the Eighties and beginning of the Nineties. Comparing Figures 6 and 1, one clearly sees that the fall in consumption inequality is less substantial than that of income —as already noticed by Cutanda (2002). Actually, consumption inequality only declines in the late Eighties and it thereafter increases slightly until 1995. The picture is somewhat different when we look at either of the equivalent consumption definitions, as they do show a similar trend to that of equivalent income inequality. For the other period of substantial inequality decrease, 2003-2008, the HBS data shows a stronger inequality decline for consumption than for income. This counterintuitive evidence is most likely due in part to the large imputation done in the income variables (see above).

2.1.2. Wealth and debt inequality

Compared to the EU17, Spanish households are among the ones holding fewer assets. Eurostat statistics on the stocks of financial assets and liabilities households hold as percentage of GDP show that most countries (e.g., Belgium, Denmark, Italy, Germany, Portugal, UK or the Netherlands) have indeed a larger percentage than Spain.

In contrast, most Spanish households hold most of their wealth in real state. Data is only available for recent years. In 2002, except for the bottom and top income deciles, well above 70% of the household wealth was in real state (Azpitarte, 2010). This is consistent with the fact that about 90% of households own their house in Spain —though in 2010, with the crisis, it was only 83%.

There is no information and thus no studies on wealth holding in Spain before 2002, except for few studies that used tax information. In 2002, the Bank of Spain sponsored and run the Spanish Survey of Household Finances (EFF), which had two follow up waves in 2005 and 2008. The EFF oversamples wealthy households and provides detailed information on household wealth (assets and debts) as well as income, consumption, and other family characteristics. Few studies use the EFF. Azpitarte (2010) estimates wealth inequality, Bover (2005) examines the distribution of wealth, Bover (2008) focuses on the dynamics of wealth holdings, Bover, Martínez, and Velilla (2005) compare the wealth distribution in Spain with those in Italy, the US and the UK; and Bover (2010) compares wealth inequality in Spain with that of US by looking at the role of household composition.

According to Azpitarte (2010) the overall household net wealth gini coefficient in Spain was 0.54 in 2002 (0.56 according to Bover, 2010). By type of asset it was: 0.58 for fungible, 0.84 for financial wealth, and 0.50 for housing wealth. In the same data set, income inequality measured by the gini was, according to the same author, 0.42 (Spain, 2002). Although this number is higher than the one found with other sources, it is important to consider that the EFF oversamples wealthy households. These results indicate that, as it is typically the case, net wealth inequality in Spain is larger than income inequality. In contrast with other countries, however, the difference between income and net wealth inequality is not accounted for by the age profile and employment status but by house ownership. This is, the between component of house owners versus non-owners is larger for net wealth than for income inequality. In a country with about 85-90% of home ownership, the net (of debts) house wealth has a clear age profile; except for the very rich and the very poor (this last group has a lower percentage of home ownership).

According to Azpitarte (2010), house ownership of main residence and (to a lesser extent) other house ownership has an equalizing effect. This same author estimates that house ownership may

contribute as much as 54% (main residence) and 31% (other house assets) to wealth inequality reduction. In short wealth in real state is more equally distributed in Spain than financial wealth, at least in 2002.

When looking at the dynamics (admittedly short time dynamics), Bover (2008) reports that net wealth inequality (as measured by the gini) increased from 2002 (0.419) to 2005 (0.465). Income inequality instead decreased over the same period, according to our own calculations using the EU-SILC —see section 2.1.1.

The two studies that compare the distribution of wealth in Spain with that in other countries (Bover, Martínez, and Velilla, 2005 and Bover, 2010) show that Spain has the lowest household wealth inequality when compared to Italy, US, and UK. For example, while the wealth gini index in 2002 in Spain was 0.56, this was (in 2001) 0.80 in the US (Bover, 2010).

Household debt has increased over the recent economic boom (which ended in 2008), notably due to: the increase in the price and ownership of houses (reaching 92% in 2000), low interest rates sustained by the international confidence in the Spanish economy, and little control over household debt conditions. With the current fall in housing prices and the economic crisis (unemployment sky-scraped), household debt is large and the possibilities to return the debt decreased. According to the European Commission Staff Working Document 30.5.2012 SWD(2012)-159 “In-Depth Review for SPAIN”, in 2010 the private sector debt was about 75% of the GDP (other IMF estimates report 90/80%). Households that have more difficulties at returning the debt (those more severely affected by unemployment, with longer time debts, and less attractive interest rate conditions), will suffer more from the crisis. This may in turn increase wealth inequality.

2.1.3 Labour market inequality

The Spanish labour market is characterized by a dual market with some workers (those in permanent jobs) having high employment protection, and a large percentage of workers in temporary (dead end) contracts. In addition, it is characterized by large unemployment rates, and a relatively high share of low skilled workers in low productivity industries, as well as for an increased level of female participation.

Earnings inequality

Labour market incomes are usually an important source of overall income inequality. Due to lack of data we cannot quantify the contribution of earnings inequality to income inequality, but we can nevertheless gain a first insight by comparing the two trends. This is what Figure 2.8 shows: inequality trends for net earnings and net income for the periods covered by the ECHP (1993-2000) and the EU-SILC (2003-2009). The similarity of both trends —found also in other studies, such as Pijoan-Mas and Sánchez-Marcos, 2010, then, suggests that earnings inequality may be to a considerable extent accounting for income inequality.

Several factors are behind the earnings inequality trends: the labour market participation behaviour of different household members, the correlation between hours worked and wage levels, and the evolution of wage inequality. As far as the extensive margin is concerned, the behaviour of unemployment seems to be behind the decreasing earnings inequality trend and the increase that followed the 1993 recession. The fall in unemployment until 1993 was partially responsible for the reduction in tertiary education premium, which in turn compressed the wage distribution. The reduction in skill wage premium since the mid-Eighties can be partly explained by the increase in occupational mismatch, according to Felgueroso, Hidalgo and Jiménez (2010). They also argue that since the mid-Nineties the extensive use of temporary contracts is also partly responsible for the fall in the wage skill premium, as temporary employment reduce market experience and firm tenure among well-matched workers.

The unemployment increase that came with the recession, affected mostly the lower tail of the distribution, thus raising earnings inequality (Pijoan-Mas and Sánchez-Marcos, 2010). The earnings inequality decrease observed after the mid-Nineties and until the last downturn, is partly due to the increased number of hours of the workers at the bottom end of the distribution (Nolan, Whelan and Maître, 2010)), since wage inequality did not change much (Carrasco, Jimeno and Ortega, 2011) or at most decreased slightly (Lacuesta and Izquierdo, 2012).

Despite such lack of change in the dispersion (and levels) of real wages, the labour market underwent important and significant changes, which we briefly address below.

Figure 2.8. Earnings and income inequality

Temporary work and employment protection

According to the OECD data (2008), Spain has a protection index almost 3 times that of UK. For example, while the employment protection index in the UK was 1.09, in Sweden 2.06, in the Netherlands 2.23, and in Italy 2.58, in Spain it was equal to 3.11 (similar indexes were found in France, 3.00 and Luxembourg, 3.39).

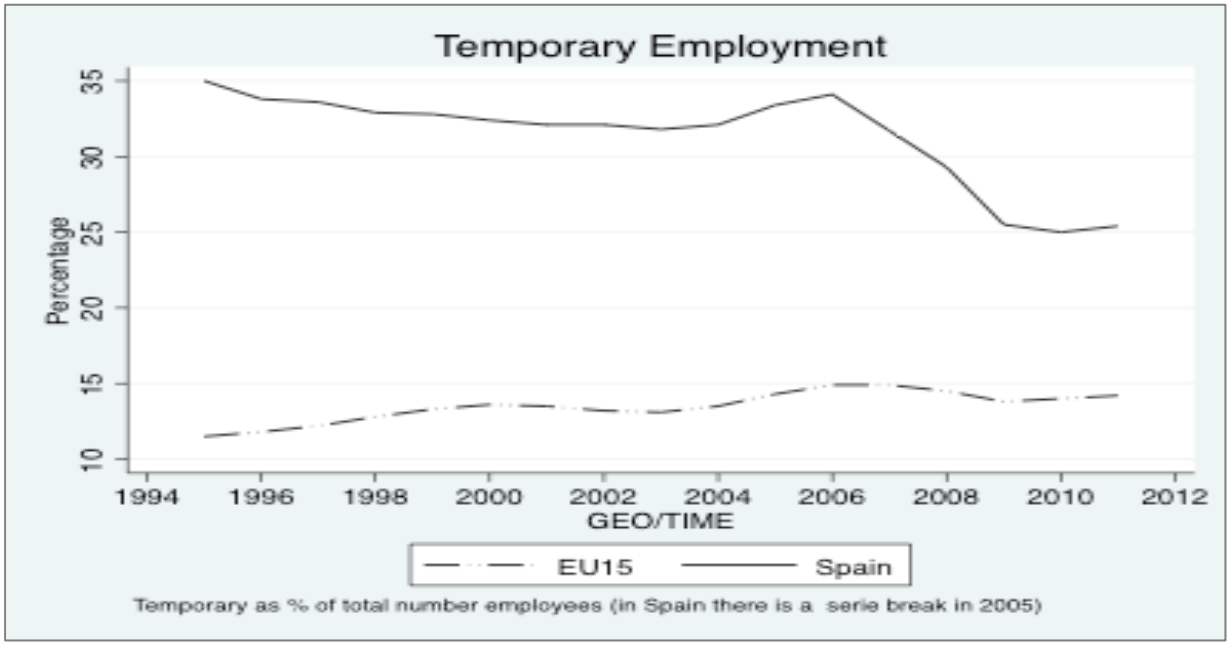
In contrast, and as a second pillar of the dual Spanish labour market, Spain has experienced a large increase of temporary (fixed term contract) work. These temporary contracts tend not to represent a stepping-stone towards more stable labour relations but instead often represent a dead end to more temporary jobs or to unemployment (García and Muñoz (2011), Dolado, García-Serrano and Jimeno (2002), Amuedo-Dorantes (2000)). This is partly due to fairly inflexible Spanish labour market that resorts to temporary employment as a way to introduce flexibility. Spain has therefore a very strong dual labour market in which insiders and outsiders have very different rights and salaries.

If, as expected, wages depend on tenure, experience, and vulnerability, the large increase of workers in temporary work over the last years, could have contributed to increase wage inequality. In addition, temporary workers tend to be the first ones to be dismissed when crisis hit the economy.

In 2011 about 25.4% of employees (16 to 64) were employed in temporary contracts. Before the current crisis, when many temporary workers lost their job, this number was as high as 34.1% in

2006 (during the recent economic boom) and 35% in 1995 (Eurostat data). Figure 2.9 displays the ratio of temporary employment as a percentage of total employment in Spain (Eurostat, LFS):

Figure 2.9. Temporary employment



The rapid increase of temporary work in Spain has been due to the large employment reforms that started in 1984 and aimed at reducing unemployment through introducing flexibility in the labour marker. Flexibility was introduced not much through reducing employment protection of those in permanent contracts but mainly by creating a dual marker. These reforms aimed at reducing unemployment did not succeed as, for example, temporary contracts represented 35% of the total employment in 1995, while unemployment rate was as high as 20%.

The increase in temporary work since the beginning of the 90's and after the first big labour reform in 1984 may have had an impact on increasing wage inequality but also on generating income volatility. Cervini-Plá and Ramos (2012) found that in Spain workers with fixed-term contracts indeed experienced more instability than workers with permanent contracts over the 1993-2000 period. Since the incidence of temporary work varies across socio-economic groups, the negative effects of temporary employment have been unequally distributed across groups.

Figures 2.10 and 2.11 show these differences by gender and age (Eurostat source, LFS):

Figure 2.10. Share of temporary employees

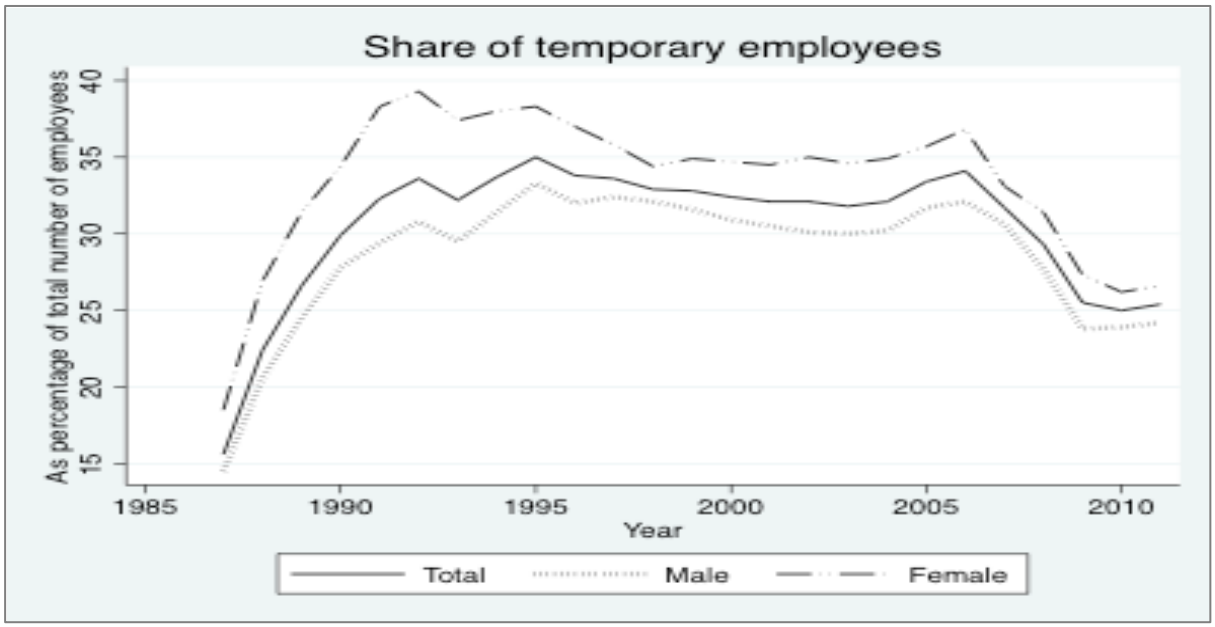
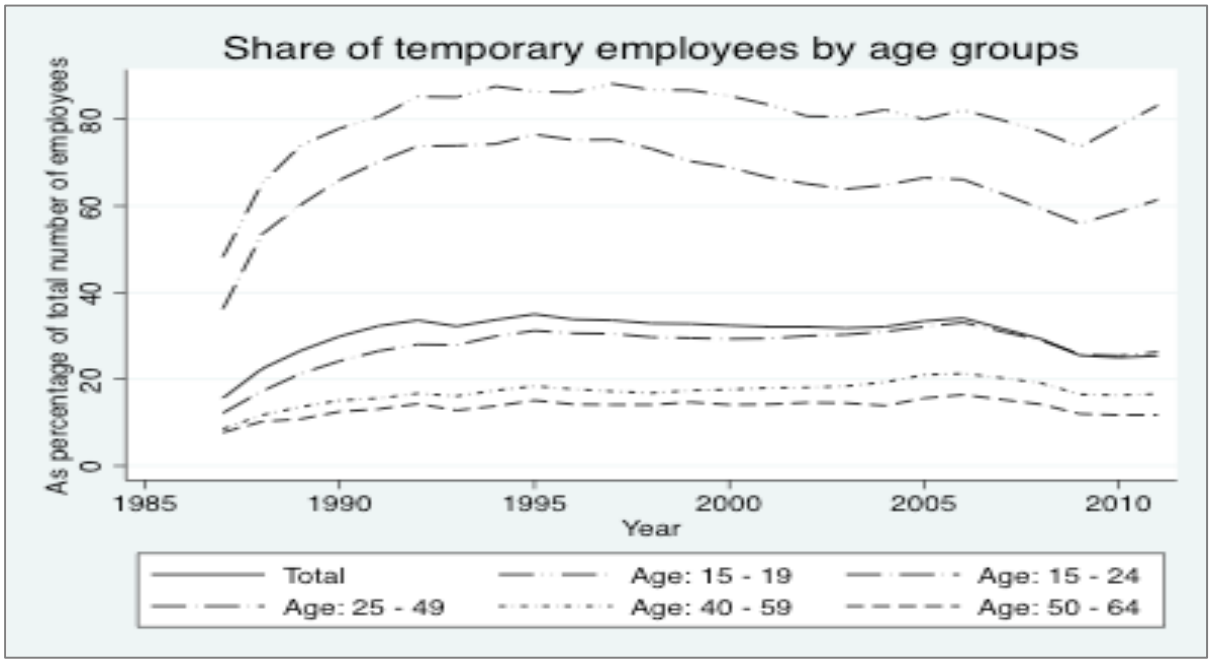


Figure 2.11 Share of temporary employees by age groups



Low pay

The incidence of low pay jobs is also a source of wage and income inequality in a country. In a recent study, Nolan, Whelan and Maître (2010) compare the incidence of low pay jobs in various EU countries using the 2006 wave of EU-SILC. This study uses various methods ranging in the level of precision and the number of countries that could be included due to data limitations and uses a well-

accepted definition that classifies individuals in low pay jobs as those having gross hourly earnings below 2/3 of the median for full time employees. According to their findings, Spain has 16.9% of 18-65 full time (more than 30 hours a week) workers in low pay jobs. This share is larger than that for Norway (7.6%) and Italy (12.3%), but substantially lower than the share of Hungary (30.3%), Poland (26.8%), and the UK (24.8%).

In terms of low pay as percentage of full time full year workers, Spain ranks fifth from the bottom out of 14 countries. The table below reproduces Nolan, Whelan and Maître (2010) Table 5:

	%low pay		%low pay
Belgium	10.0	Austria	19.0
France	11.0	UK	19.4
Netherlands	14.2	Cyprus	22.0
Slovakia	16.0	Estonia	22.7
Spain	17.4	Poland	22.7
Czech Republic	17.5	Lithuania	26.7
Slovenia	18.8	Luxembourg	29.7

In the same paper, the authors use data from the ECHP and make similar calculations for the mid 90's. They report a law pay incidence of 22.2% in Spain. This means that from mid-90's to mid-2000's low pay has decreased in Spain. This surely contributes to explain the wage inequality decrease over this same period.

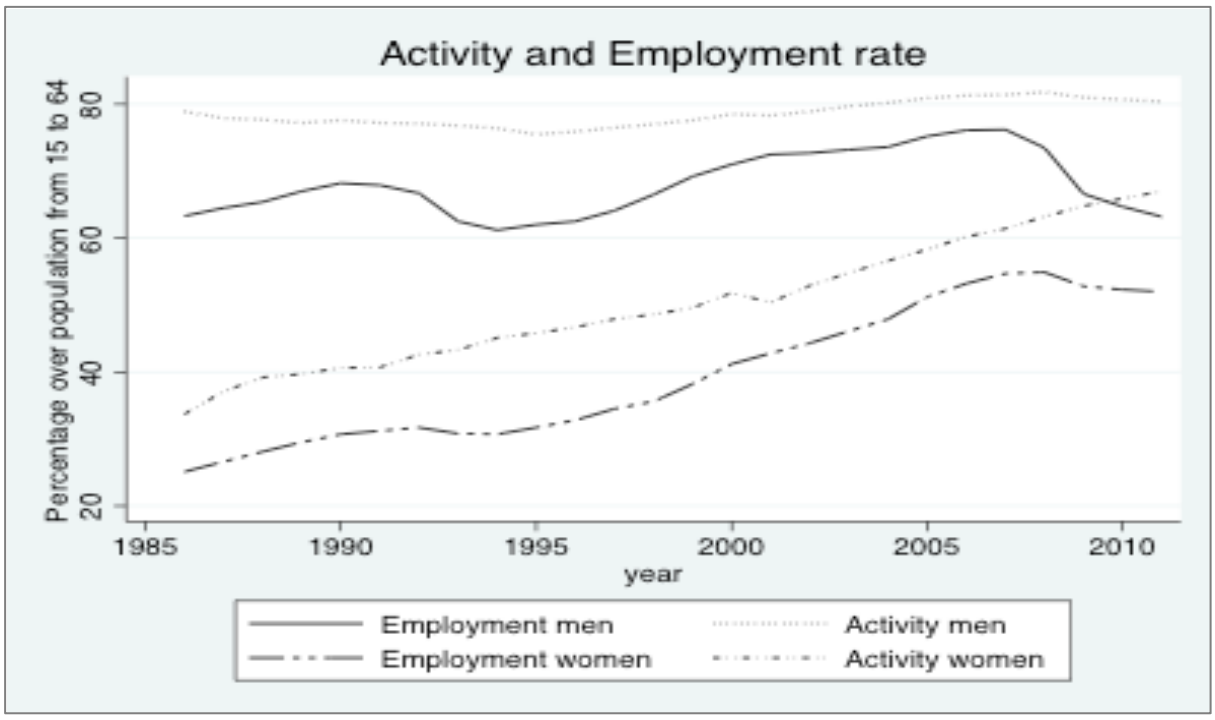
In addition, over the last years, the total number of working hours of those workers at the bottom of the wage distribution has increased, while those at the top of the wage distribution have slightly decreased their number of working hours. These two facts together may also explain the decrease in earnings (as well as income) inequality in Spain over the last years (Divided we stand, OECD).

Female participation

Over the last 40 years, female participation in Spain has increased even though it still lags behind that of many EU countries, starting with numbers below 30% just after the end of the dictatorship and reaching 50% in current times. Female participation evolution over the years has been: 28.53% (1976), 27.77% (1980), 28.96% (1985), 34.56%(1990), 37.86% (1995), 41.76% (2000), 46.95% (2005),

and 52.60% (2010) (INE, IV trimester of every year). The increase in females' education and the extremely low fertility rate in Spain are two often mentioned reasons behind this increase. At the same time, and as in many other countries, male participation has decreased notably due to early retirement, from about 77% in 1976 to 67.92% in 2010. The evolution over time of activity rates and employment rates by gender is depicted in Figure 2.12 (Eurostat, LFS).

Figure 2.12 Activity and employment rate



The impact of increasing female participation on wage inequality is a priori unknown as it depends on several factors: (i) the wage structure, (ii) how it changes with the entrance of females in the labour market, (iii) the household composition and household income where the females entering the labour market come from. First, according to Lacuesta and Izquierdo (2012), the increase of female participation has not increased their relative wage respect to men during the 1995 to 2006 period. These authors argue that female labour participation increase over recent years may have actually contributed to increase wage inequality: although females wages are less disperse than men's, its unconditional mean is sufficiently lower than that of men. In sum, the wage inequality reduction that Spain experienced during these 10 years would not have been driven by increased female participation.

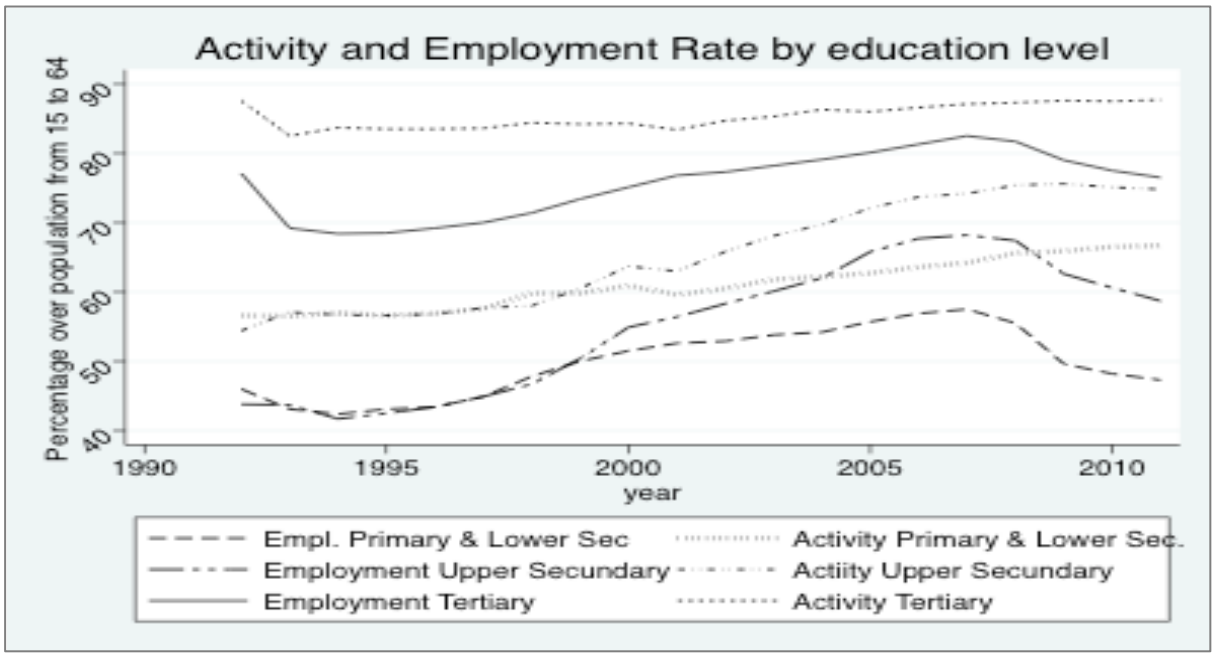
Second, if we take the household as a unit of study to understand wage inequality, the effect of increased female participation will depend on the selection mechanism of these women entering the labour market. If as a result of assortative matching, women that enter the labour market belong to high earning households, the increased female labour participation would have increased income inequality in Spain. This seems to be what has been happening in Spain over the last years. In addition, females' returns to education are somewhat larger than those of men.

In short, the increase of female participation does not seem to have been the reason behind the income and wage inequality reduction experienced in Spain over the last years.

Labour market characteristics by education level

Employment and activity rate (and not only unemployment rate) diverge largely by education level, especially between those with tertiary education and the rest. Figure 2.13 shows the data compiled from Eurostata (LFS):

Figure 2.13 Activity and employment rate by education level



Entrance of immigrants

An important characteristic of Spanish recent history is the massive and unprecedented (in terms of numbers and speed) entrance of immigrants: while in 2000 only 2.28% of individuals had no Spanish nationality, this number moved up to 12.2% in January 2011. These immigrants are typically young and at working age. Their activity rate is thus high: 77% in 2002 and 79% in 2001), and higher than the activity rate of upper secondary native workers. Immigrants have therefore contributed to increase the size of the labour force. At the beginning of the 2000's immigrants arrived attracted by the economic boom and the demand for labour in Spain. At this moment, immigrants are one of the groups with the largest unemployment rate and are now slowly returning to their home country. This, together with the increase of Spanish emigrants in search for better jobs outside the country, reduced (although only slightly) the size of the labour force. According to Spanish National Statistical Office (INE) in 2010 Spain lost 0.3% of immigrants and in 2011 this number increased to 0.7% (INE, provisional figures).

Self-employment

Self-employment in Spain accounts for a significant share (about one fourth) of overall employment. Even though evidence for the period 1985-1996 suggest that earnings inequality evolves differently for self-employed and employees, earnings inequality trends do not change much when self-employment income is included (Albarrán, Carrasco, Martínez-Granado, 2009). This notwithstanding, it is interesting to note that the different inequality behaviour between the two types of workers is accounted for by the differing importance of transitory and permanent components. While changes in transitory earnings are mostly responsible for the observed trend in self-employment earnings inequality, the permanent component is what drives overall earnings inequality amongst employees.

Unemployment

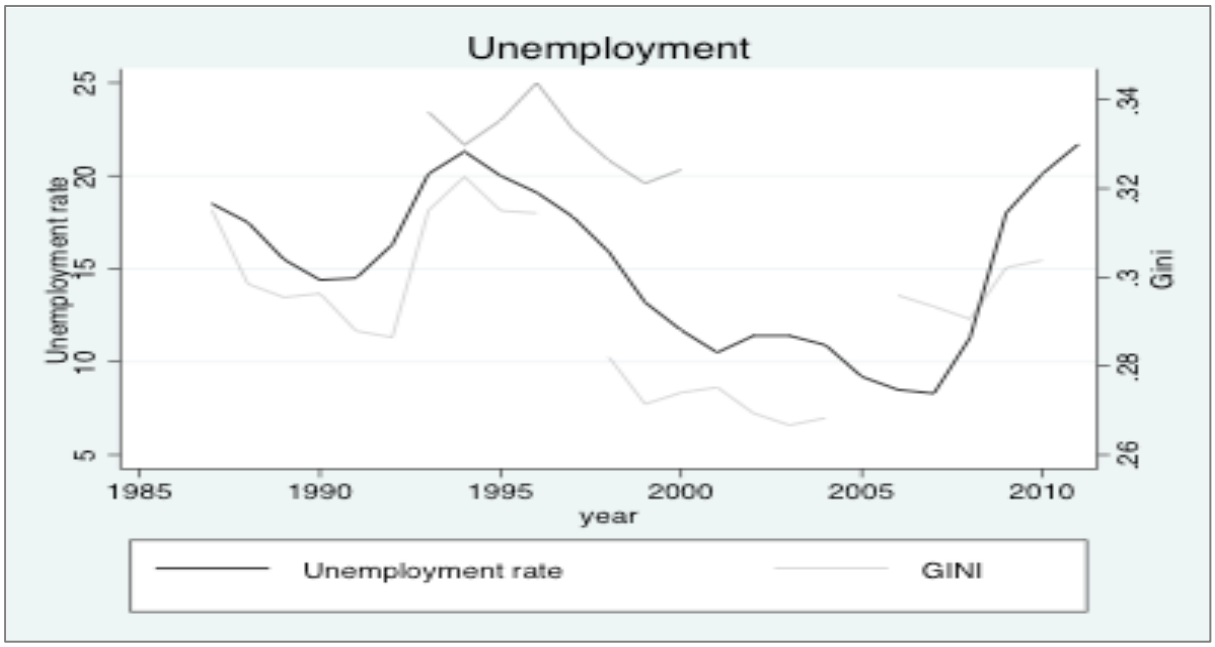
The high unemployment rate is one of the salient figures of the Spanish labour market that would have contributed more to inequality, had not been for the unemployment benefits. Unemployment contribution to inequality is also strongly related to the fact that young and low educated have larger unemployment rates. Although unemployment inequality is a wide spread phenomenon around the Western world, the large unemployment rates in Spain make this problem more vivid. When the unemployment rate is very large for a sustained period of time, the welfare state cannot always

absorb its consequences and we indeed see inequality increasing after periods of economic crisis. For example, when the unemployment rates are as large as now, the differences between unemployment rates across educational achievements imply that in absolute terms large amounts of low educated individuals have no jobs. Although in relative terms young and low educated individuals have always larger unemployment rates, the social impact that it has in terms of absolute numbers is much larger in Spain where unemployment rates are huge. During economic crisis, the possibility to soften the effects of unemployment through public expenditures gets much limited as unemployment increases. For example, Spanish president Mariano Rajoy announced on July 11, 2012 (with an unemployment rate of 24.63% at the second trimester of 2012, source: INE) that the unemployment benefits would get reduced after the 6th month. Similarly, during economic booms, as the last one in which unemployment in Spain was the lowest of modern history (8% in 2006/2007) it has probably been one of the contributors of the fairly large inequality reduction that Spain (in contrast with most other OECD countries) experienced in the 2003-2008 period.

In 1985, the first year of this study, unemployment (and inequality) was very large in Spain. In that year, unemployment rate was about 22%. Exactly after that year and with the entrance of Spain at the EU and the global economic boom, the unemployment rate (and income inequality) started to decrease until begging of the 90's at which point unemployment (and inequality) increased again together with the global crisis. In 1996, the unemployment rate was again at around 20%. Since then and until the recent crisis, unemployment (and income inequality) decreased. Unemployment rate reached a historical minimum in 2006/2007 with an unemployment rate of a bit over 8% (Eurostat statistics). This long lasting decrease of unemployment is partly attributed (see Congregado, Golpe, and van Stel, 2011) to the many new government policies, including fiscal and labour market reforms. Of course, the economic booms and unemployment reduction in Spain are also linked to the international situation.

Using Eurostat statistics (LFS) we can see the following unemployment behaviour over time:

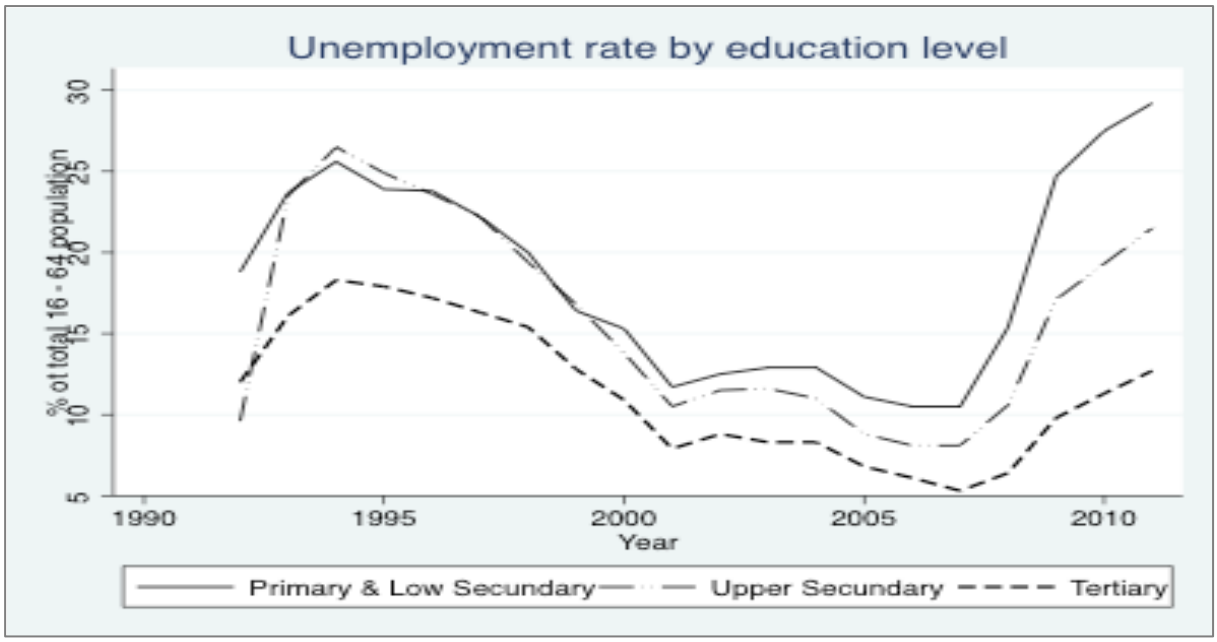
Figure 2.14 Unemployment rate



Although there is a correspondence between unemployment rates and inequality trends, the impact of unemployment onto inequality is not well studied, although the unemployment differences across socio-economic status seems a contributor to inequality.

Individuals with lower education have above average unemployment rates. This means that during high unemployment rate periods, this group has very large unemployment rates. In contrast, the unemployment rate of individuals with tertiary education is much lower than for the rest of the population. Figure 2.15 shows Eurostat (LFS) data on unemployment rate by education level across time. The unemployment rate differences between individuals with low and upper secondary education in the current crisis is very relevant, as in Spain individuals with low secondary education represent a relatively large group.

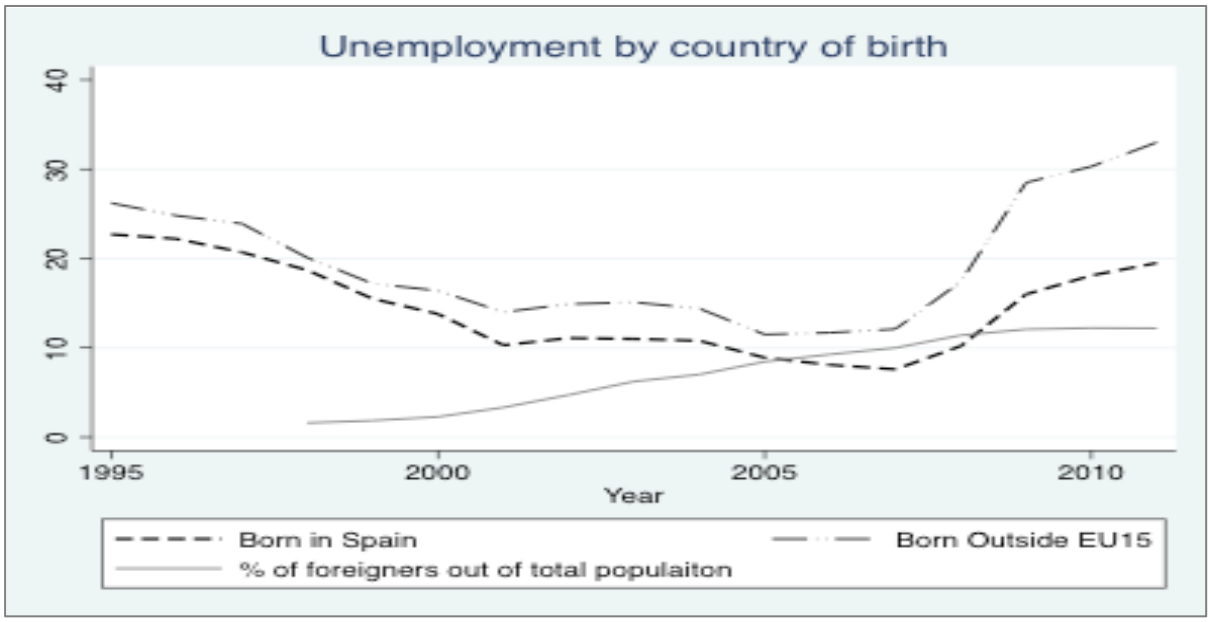
Figure 2.15 Unemployment rate by education level



Similarly, unemployment rate differs depending on nationality. Immigrants in Spain have much larger unemployment rates than natives. For example, according to the National Statistical Office (INE, 2012 II trimester, Press release), the unemployment rate of individuals with no Spanish nationality was during the second semester of 2012 equal to 35.76%, while for the total population this percentage was equal to 24.63%. This means that there are 1.2 million unemployed immigrants from a total of about 4.5 million immigrants. It is important to notice however that immigrants have a larger labour force participation rate, as they mostly arrive in the country of destination at working age and also have a lower reservation wage. This unemployment may become a very important problem in Spain as time passes with no sign of economic recovery, and their unemployment benefits expire. These are mostly very recent immigrants (most of them arriving after 2002) with small local networks and few strong ties in the country that could support them when unemployment benefits stop.

Figure 2.16 shows unemployment rates by country of birth (own calculations using Eurostat statistics) and the total share of immigrants on the population from the INE:

Figure 2.16 Unemployment rate by country of birth

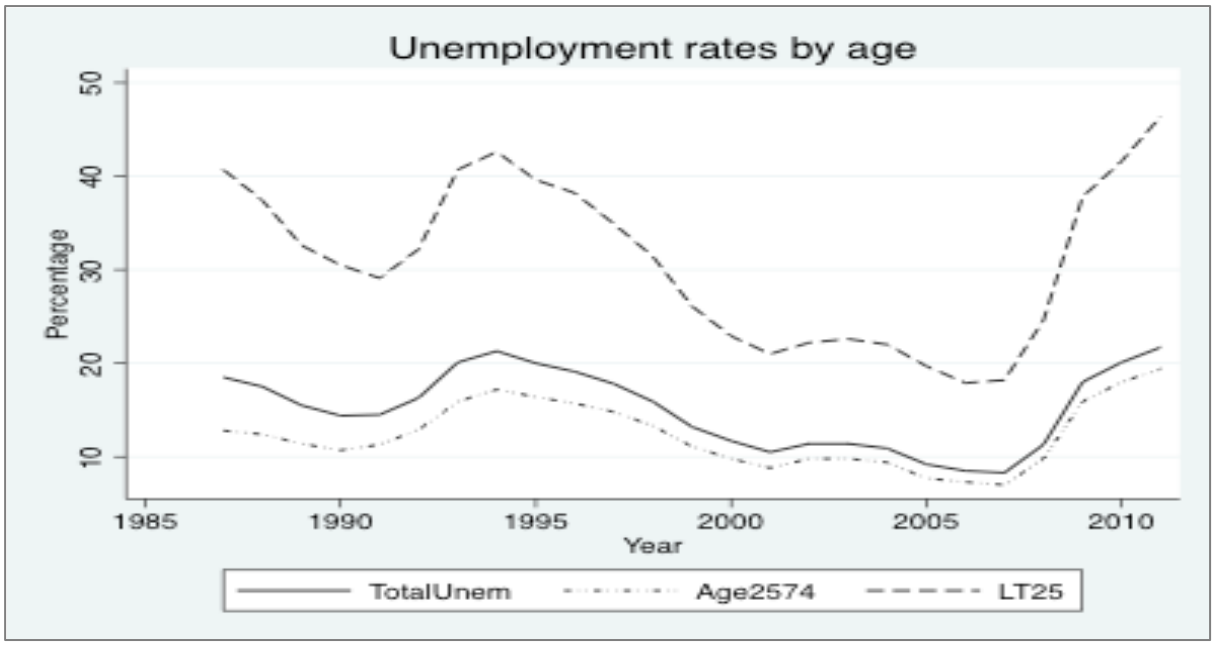


Again, unemployment rate shows important differences across age groups, with larger unemployment rates among young people. Once more, although this typically happens everywhere in Europe, periods with very high unemployment rate in Spain imply very large amounts of young unemployed people, which introduces tension in the financial sustainability of the current welfare state. In addition, this current crisis has impacted young people more than the previous crisis, probably due to large number of young individuals in temporary contracts over the last years.

In addition, young unemployment has a long lasting effect (scarring effect): individuals with unemployment spells when young have a larger probability to be unemployed later in life and earn lower lifetime salaries. High youth unemployment has also high social and economic costs for the whole society, with underutilization of human capital. In fact, the large current numbers of young unemployment rate makes us think that there may be another lost generation, as these are the largest percentages of young unemployment rate at least since 1987.

Last available figures (INE, 2012, II trimester) show that while the average unemployment rate was 24.63%, this percentage was 53.28% for those 16 to 25 and 73.27% for those 16 to 19. For those older than 25, the unemployment rate during this period was 22.22% (23.09% for those 25 to 54 years old). The two years of recent history with the maximum unemployment rates were 1985 and 1996. During these two years, young unemployment rates were large but never reached current levels (INE). Figure 2.17 shows data from Eurostat (LFS):

Figure 2.17. Unemployment rates by age

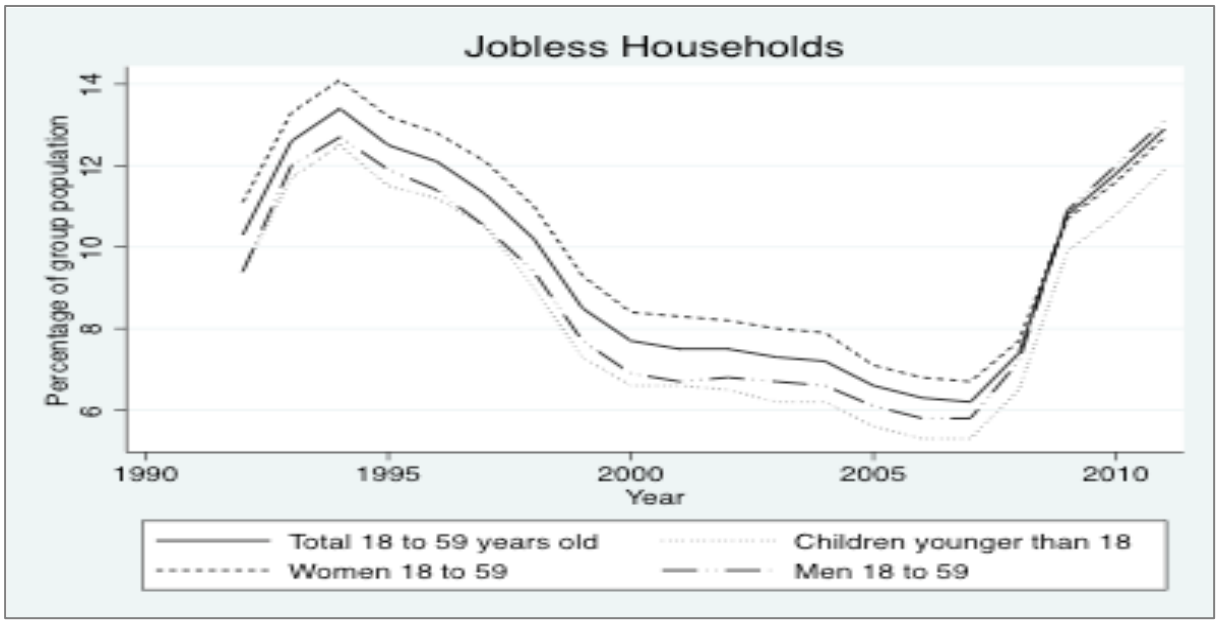


Temporary worker are also very affected by unemployment. Temporary workers are, in contrast with permanent workers, among the first ones to loose their job. For example, the ILO study edited by Vaughan-Whitehead (2012) reports that in the current economic crisis in Spain 90% of employment losses were of workers in temporary contracts. Temporary workers are typically young and low educated.

In contrast, unemployment affects women and men very similarly: current unemployment rates are 24.57% versus 24.71% (INE), although female participation rate (among those 16 to 64 years old) is much lower for women (68.74%) than for men (81.45%) (INE, II-trimester of 2012). The lower female participation rate means in fact that women wages and income are lower and that gender inequality (voluntary or not) exists.

The consequences of unemployment are worse when there is no adult working in the household. Eurostat indicators show that the numbers of jobless households are increasing with the recent crisis in Spain, reaching very high levels —see Figure 2.18. This contrasts with the lower incidence of jobless households during the last economic boom (about half of current levels).

Figure 2.18. Jobless Households



2.1.4 Educational inequality

As for the rest of Europe, educational attainment measured as the numbers of education in Spain has increased over the last decades. Nevertheless, and at least over the recent years, Spain has generated, in this respect, an almost dual society with a fairly large proportion of (at least young) individuals with tertiary education and an also large proportion of drop-outs or individuals with low secondary education —low qualified and short vocational programs— (this is also true when looking only at the younger generations).

The figures are clear, despite the increase in educational achievements and expenditures:

(i) Spain occupies the lower positions in the ranking of OECD countries in terms of percentage of individuals that have at least attained secondary education. This is true even when considering young individuals only (OECD, 2011). In this sense, Spain is similar (although performing slightly worse) than Italy and Greece and (performing slightly better than) Portugal. The rest of EU countries have significantly higher educational attainments in this sense.

(ii) In contrast, the percentage of (at least young) population with tertiary education is higher in Spain than in many other European countries (OECD, 2011). For example, it is (sometimes only slightly) higher than in Italy, Greece, Germany, Finland, Austria, the Netherlands and UK.

Very recently, Meschi and Scervini (2010) have generated a data set for inequality in various European countries. This data contains information not only on education means but also on various

inequality measures, such as the standard deviation, the Gini coefficient and the mean log deviation). For Spain, the information in the data comes from three different statistical sources, namely the European Social Survey (ESS), the EU-SILC, and the International Social Survey Programme (ISSP). For Spain, the data set allows examining the trends of education measured both as 'years of education' and as 'highest qualification achieved' (i.e. primary or lower, lower secondary, upper secondary, and tertiary education) for 13 different birth cohorts starting with those born in 1920-1924 and ending with those born in 1980-1984.

Over the years, Spain has experienced a rapid increase in the education level, especially at the very end and after the dictatorship. In Spain, it is not only until the end of the dictatorship (in the late 50's and 60's) when the educational system starts getting some attention from the government and it is only in 1970 when the first education law (*LGE*) is enacted. This law regulated the whole educational system, including university education. An important feature of the LGE is that it extended the obligatory education from 6 to 14 years old. This means that the expansion of the education system in Spain started some years later than for the rest of Europe. Those born in Spain in the early 1950's to 1960's are the first to benefit from the first important educational reforms, although mean years of education reaches 13 only with the 1970 cohort. With the democracy (individuals born after 1975 or those entering secondary education at that time), the educational system experiences various improvements and years of education increase steadily until recent years. Since the democracy, Spain has seen several educational reforms, notably the LOGSE in 1990 that increased the compulsory education from 14 to 16 years old.

Figure 2.19. Average years of education over birth cohorts

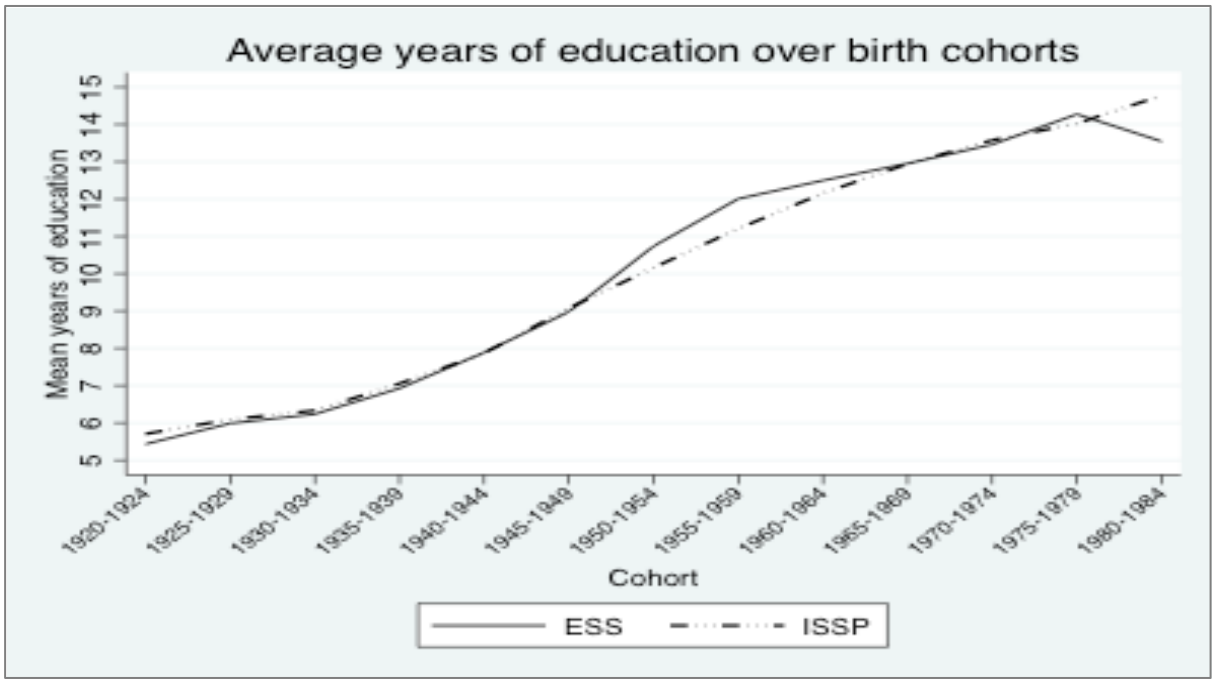
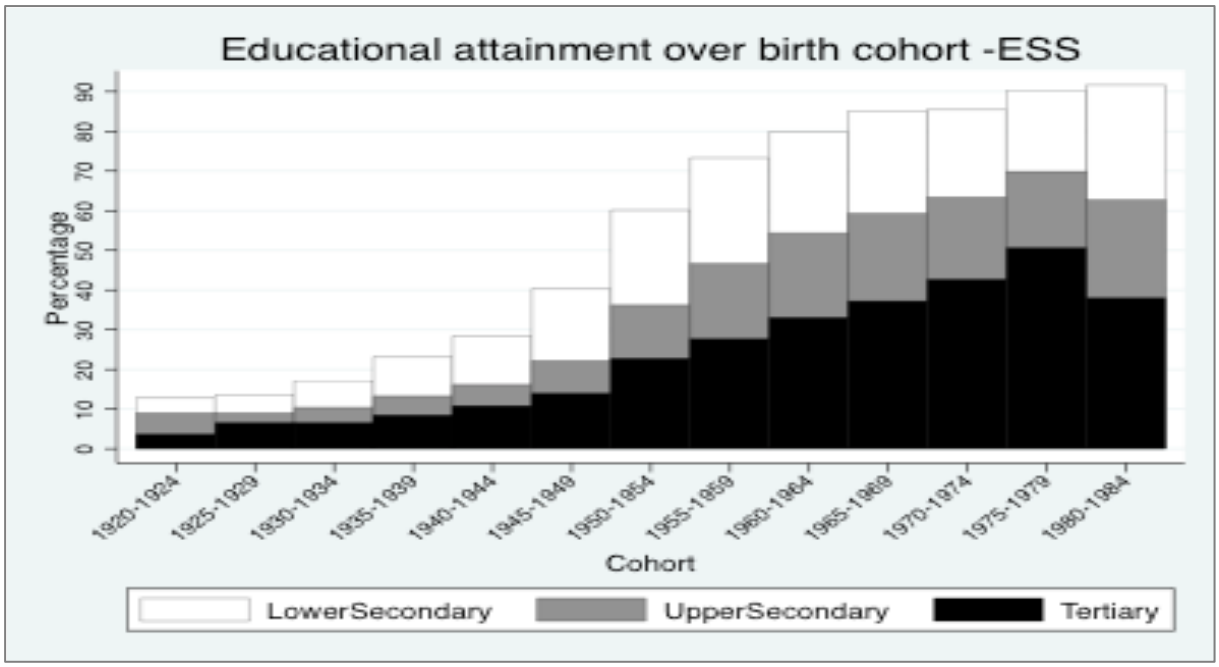


Figure 2.19 plots mean years of education for all the 13 cohorts ranging from the 1920-1929 cohort to the 1980-1984 cohort, using the two data sets included in Meschi and Scervini (2010)'s data. In Figure 2.19 one can appreciate the increases in years of education, including a little jump after the 1974 generation due to the increase of compulsory education from 14 to 16 in 1990. For the 13 cohorts together (individuals born in 1920 to 1984) the mean education is 10 years (both with ESS and the ISSP).

According to the same data set, and depending on the original source used, Spain has about 23-26% of individuals with tertiary education. If we only look at the younger cohorts, such percentage increases to almost 40% depending on the exact cohort. This percentage only reaches a level as low as 10% when looking at the 1940-1944 cohort —and it is 20% with the 1950-1954 cohort. In the youngest cohorts of the data, about 90% of the individuals completed at least lower secondary education, which means that only about 10% of them did not even have lower secondary education. The percentage of individuals with at least lower secondary education is 80% for the 1960-1964 cohort and 60% for the 1950-1954 cohort.

Figure 2.20 shows a similar picture: it reports the highest educational attainment by cohort based on ESS data reported in Meschi and Scervini (2010).

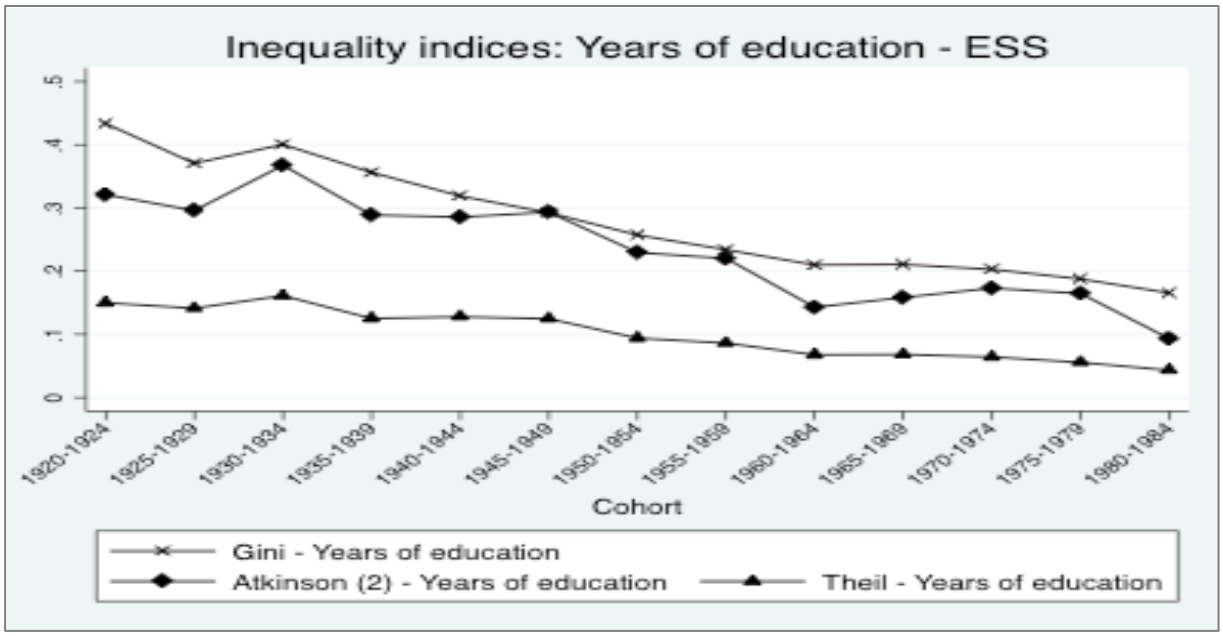
Figure 2.20. Educational attainment over birth cohort



In Figure 2.20 we see a steady (until the youngest cohort) increase of tertiary education and an increase in lower secondary education. The total number of individuals with primary or less education does not change over the period and it is not reported here.

Despite the dual educational outcomes described above (relatively large proportion of individuals with tertiary education and also a large proportion of drop-outs or individuals with low secondary education), education inequality has been reduced in Spain over the last years. Figure 2.21 shows the figures using various inequality measures calculated by Meschi and Scervini (2010) for mean years of education in the ESS data:

Figure 2.21. Inequality in years of eduaction



An important aspect of education inequality relates to the degree of intergenerational mobility. This is to what extent individuals' educational achievements depend on parental background. It is assumed that if individuals' education can be explained by their parents' education, on average it means that educational attainment will not depend only on individual abilities and therefore it is not the outcome of a fair process. In other words, if children's ability is independent of parental education and children are not held responsible for their parents' effort, fairness would imply that there is no correlation between parental and children education.

Di Paolo (2012) uses data from the 2005 wave of the EU-SILC and estimates the role of parental education in the probability of completing upper-secondary and tertiary education in Spain. He uses various cohorts starting from 1940 and ending in 1980. This last cohort should have finished their tertiary education by 2003 or a bit latter, and the data is from 2005. In a regression analysis Di Paolo (2012) shows that the importance of parental education on children's educational attainment has decreased over the cohorts in Spain (while it has not in Italy). That is, there seems to be more intergenerational mobility now than 40 years ago. Nevertheless, it is important to stress that while the importance of parental background on the probability of having upper secondary education has been reduced, the probability of obtaining tertiary education is still remarkably larger for individuals whose parents have tertiary, and to a less extent, upper secondary education. That is, those individuals with parents with lower secondary or primary education have a much smaller probability to obtain a university degree. The expansion of tertiary education in Spain is therefore largely due to

individuals' with parents that have tertiary and to a lesser extent upper secondary education (e.g. higher educational backgrounds). Assortative matching also plays a role in maintaining unequal opportunities in Spain.

In an international comparison study, Schuetz, Ursprung, and Woessmann (2008) find that Spain is among the countries in which family background plays a smaller role in determining individuals' own education. Denmark, Finland and Portugal have higher levels of inter-generational mobility than Spain, the rest of EU countries in the study have all larger intergenerational transmission coefficients than Spain. The least mobile countries are UK and Germany.

Education inequalities translate into inequalities in job opportunities and, as we previously reported, in unemployment inequalities. The reduction in unemployment during economic booms can partly explain the reduction in inequalities. Education inequalities also imply wage inequalities. In Spain, however, this effect is much smaller, as returns to education have decreased over the last years (OECD report; Education at a Glance 2011). This is also a possible reason for the decrease in wage inequality in Spain. According to this OECD report, while in 1997 people with no secondary education was earning 76% of those with upper secondary education, this number went up to 85% by 2004. Similarly the premium for tertiary education went from 49% to 32% in those same years. According to the same source in Spain, and in contrast with many other countries, inequality in returns to education in Spain favoured women, both for upper secondary and for tertiary education.

2.2 Whom has it affected?

The overall inequality trend documented in section 2.1.1 can be accounted for by changes in differences between mean incomes of population groups or by changing inequality for each of the groups. This section presents the results of decomposing the MLD into a between component, which captures the disparities between the different population groups, and a within component, constructed as a weighted average of the inequality of each group, where the weights are the population shares of each group.[4]

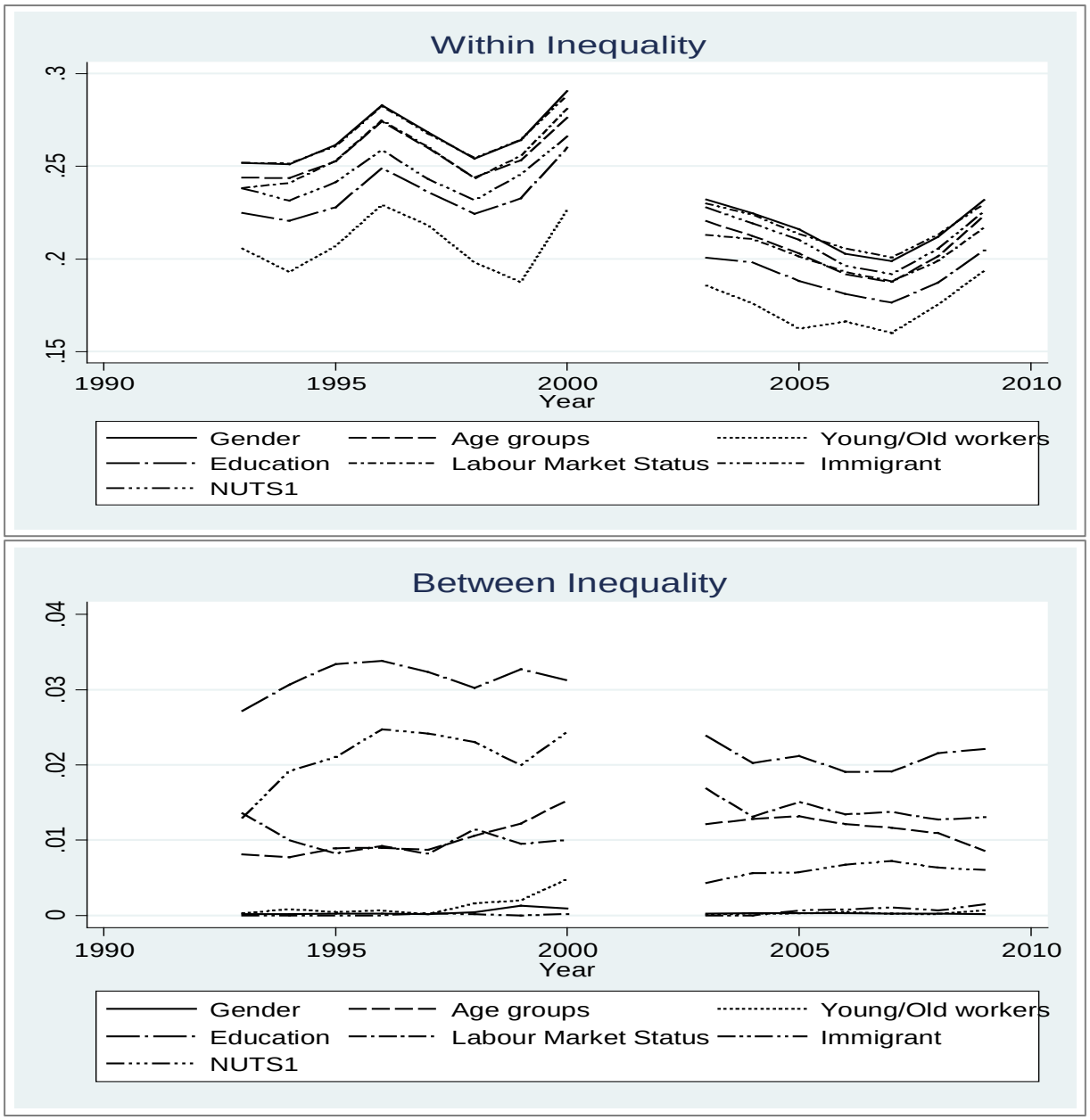
[4] We choose to decompose the Mean Log Deviation, and not any other index of the Generalized Entropy Family, precisely because the MLD is the only one that uses population shares to aggregate within group inequality, when computing the within component —See Cowell (1980) and Shorrocks (1980) for more on the decomposition of inequality indices by population groups, and Cowell (2011) for a nice and short overview.

Our decomposition analysis only uses data from the ECHP (1993-2000) and EU-SILC (2003-2009), as the HBS 1995-1996 does not contain information on the socio-economic characteristics of the household members, but only of the head of the household. It is unfortunate that we do not have information to analyse the first period of decreasing inequality, but at least we can examine the second period of falling inequality and the two post-crisis periods, where inequality increased. We partition the population in seven manners:

1. by gender: males vs. women.
2. in 6 age groups defined by as: less than 26 years old, 26 to 35, 36 to 45, 46 to 55, 56 to 65, and over 65.
3. workers by age group: less than 26, 26 to 35, 36 to 55, and 56 to 65.
4. by education level: primary, secondary and tertiary.
5. by labour market status: employed vs. non-employed, the latter including unemployed and inactive individuals.
6. immigrants vs. non-immigrants.
7. by regions, where regions are defined by NUTS1. That is, Northwest. Northeast, Madrid, Centre, East, South and Canary islands.

Figure 2.22 displays the between (left panel) and the within (right panel) group components of all 7 decompositions for the ECHP and EU-SILC data, while Figure 2.23 shows the two components for each of the seven splits of the population. The first conclusion we can draw from the decompositions is that irrespective of how groups are defined, the within inequality component follows a parallel trend to that of overall inequality. Below, in Figure 2.24, we examine the inequality trends for each population subgroup. The left graph reveals that the between component is quite small for most of the splits, accounting for a small percentage of overall inequality that ranges from less than 0.5% for gender or immigration to 12% for education groups. This means that most of the action happens inside the groups and not between them. The only splits that account for a relevant percentage (say 5%) of overall inequality are education groups, regions and labour market status. We now turn our attention to these splits.

Figure 2.22. Between and within inequality components, by seven population groups



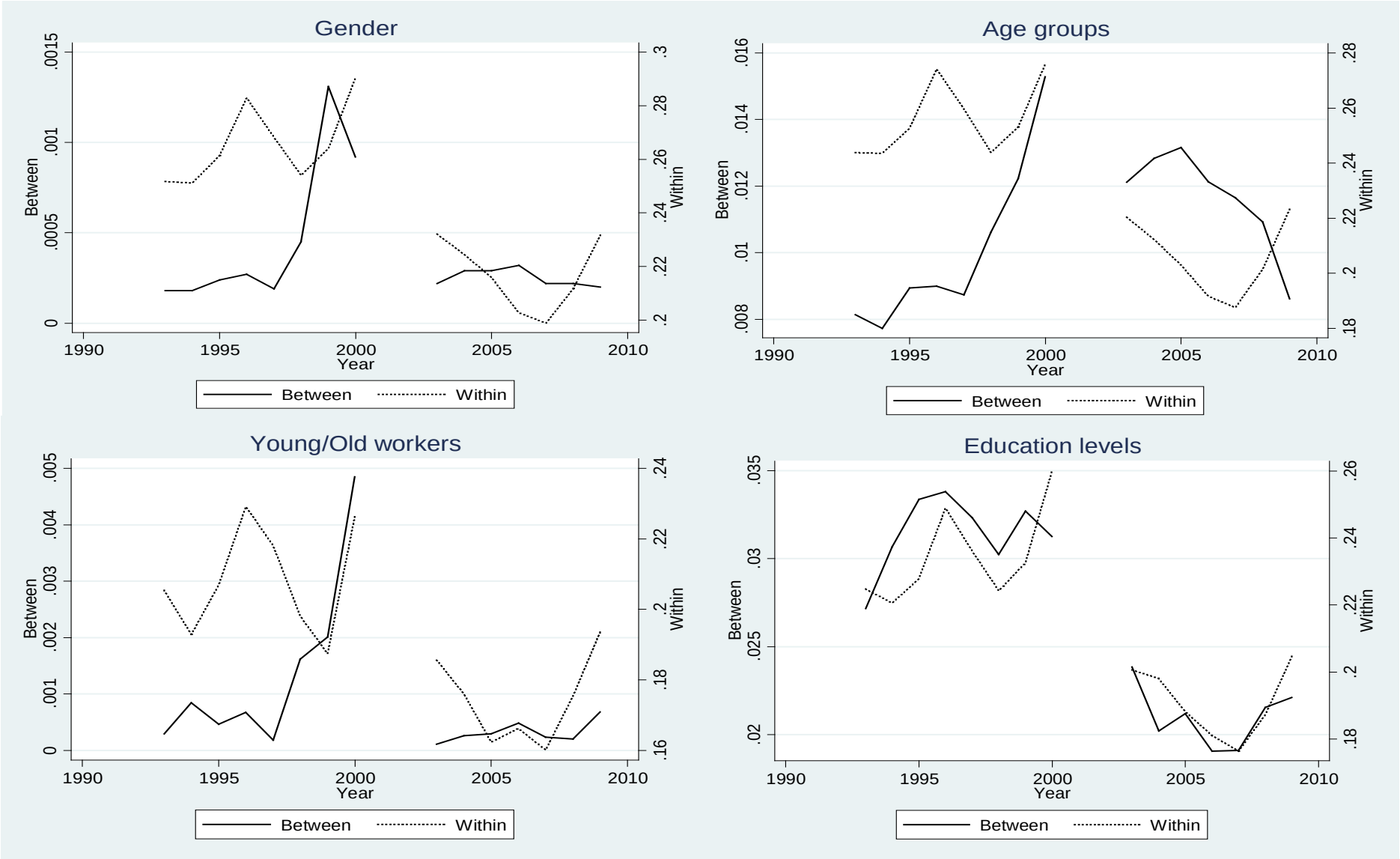
First, the between and within education groups inequality components track the overall inequality trend. The evolution of the inequality between mean incomes of the three education groups may be the result of the similar evolution of the tertiary education premium, reported by Pijoan-Mas and Sánchez-Marcos (2010).

Second, contrary to our intuition, inequality between employed and non-employed individuals decreases right after the recession of 1993 and increases as the recession wanes, precisely when job creation increases and unemployment falls. In the 2000s, however, disparities between employed and non-employed decrease irrespective of the business cycle.

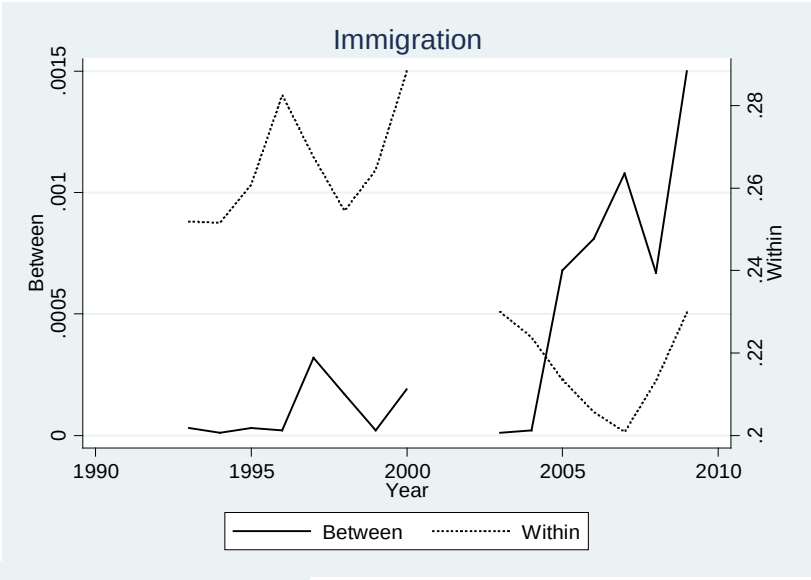
Third, while regional disparities track overall income inequality for the end of the Nineties, they are counter-cyclical for the 2000s.

As far as the inequality for each of the groups is concerned, it is worth noting that while for the 2008 recession all employed age groups display similar inequality trends, for the post-recession period of 1993, young workers between 26 and 35 years see their inequality increase until year 2000. Inequality for all other groups behaves much the same way as overall income inequality.

Figure 2.23. Trends of between and within group inequality




Labour Market Status
Between
Within
Year
1990
1995
2000
2005
2010
.008
.01
.012
.014
.016
.18
.2
.22
.24
.26
.28
Between
Within


Immigration
Between
Within
Year
1990
1995
2000
2005
2010
0
.0005
.001
.0015
.2
.22
.24
.26
.28
Between
Within

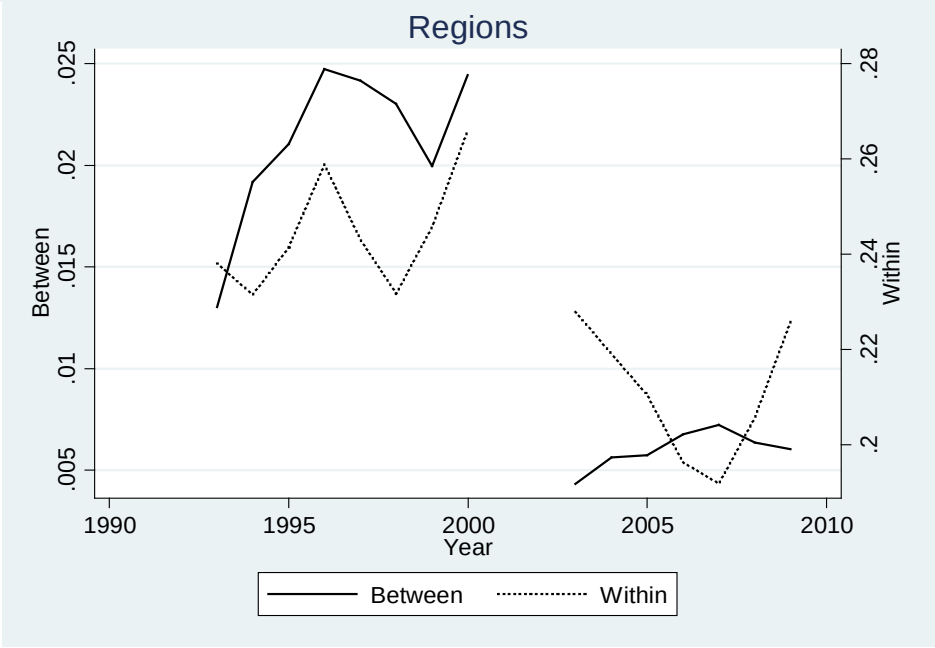
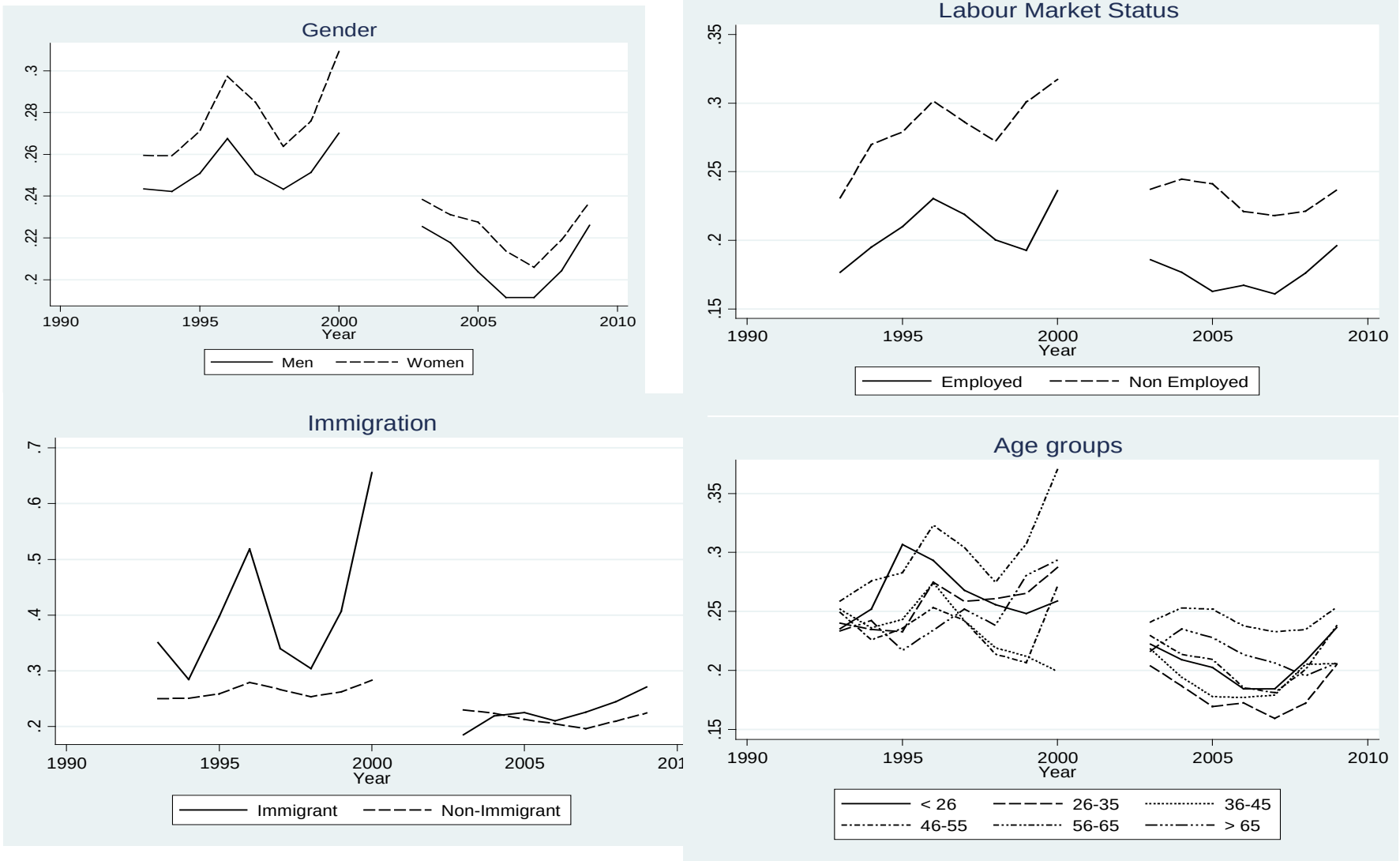
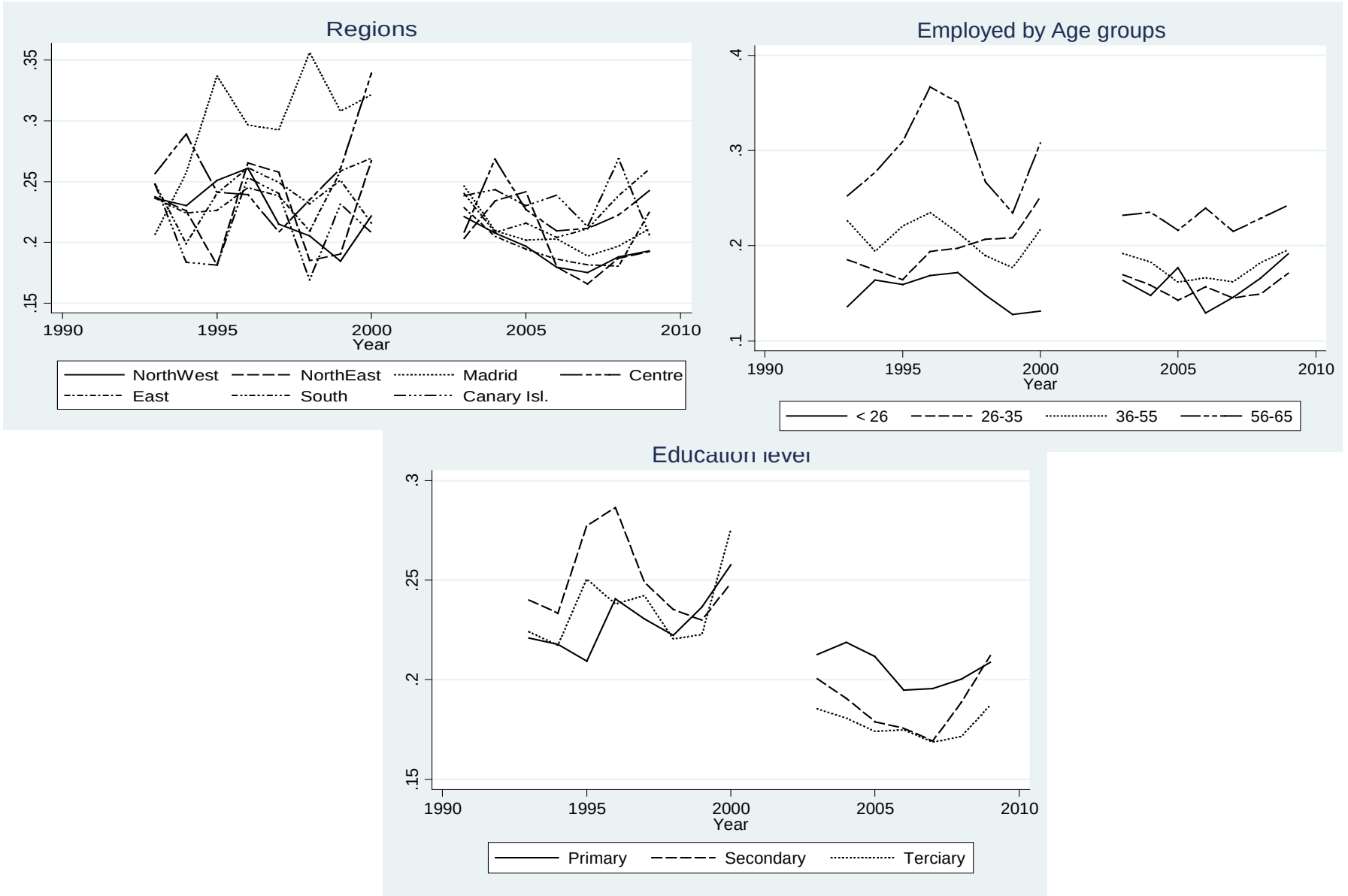

Regions
Between
Within
Year
1990
1995
2000
2005
2010
.005
.01
.015
.02
.025
.2
.22
.24
.26
.28
Between
Within

Figure 2.24. Inequality within relevant population subgroups




Regions
.15
.2
.25
.3
.35
1990
1995
2000
2005
2010
Year
NorthWest
NorthEast
Madrid
Centre
East
South
Canary Isl.
Employed by Age groups
.1
.2
.3
.4
1990
1995
2000
2005
2010
Year
< 26
26-35
36-55
56-65
Education level
.15
.2
.25
.3
1990
1995
2000
2005
2010
Year
Primary
Secondary
Terciary

2.3 Interdependence between various inequalities

The counter-cyclical behaviour of income inequality is partly due to the evolution of certain labour market inequalities, which shape wages and earnings inequality, and to the behaviour of education disparities.

Education levels have increased dramatically in Spain since democracy was reinstalled in the country, which has surely improved the well-being of the population. At the same time, education inequalities have decreased, despite the large rise in tertiary education and the huge drop-out problem from secondary school. Such reduction in education disparities has multiple effects on the distribution of wages and earnings. First, given the positive relationship between education level and wages, it compresses the distribution of wages, even more so, since the returns to higher education have decreased over the last years. Second, it reduces differences in job opportunities and also in unemployment inequalities, which in turn, may decrease inequality of earnings.

As far as the labour market is concerned, the large increase in temporary employment in the mid-Eighties has contributed to a more unequal distribution of earnings, through a reduction in earnings instability. These unequalizing factors have been more than offset by the drop in returns to higher education, the decrease in low pay jobs, the lower disparities in hours worked between poorer and better-off workers, and the reduced disparities in education levels.

The substantial increase in female labour force participation, one of the salient features of the evolution of the Spanish labour market, has not had much effect in the distribution of earnings: the inequality increasing effect of increasing the share of workers with lower wage has been offset by the lower inequality amongst the group of female workers, relative to men's. Notwithstanding this, assortative matching may have has led to larger household earnings inequality.

It is important to mention again that the unemployment trend is the mirror image of the inequality trend. In a country with very high unemployment rates, the labour market status seems to shape income inequality.

Current inequalities will translate into future inequalities. For instance, unemployment spells when young implies larger unemployment probability when older as well as lower lifetime wages. With low intergenerational mobility, this will in turn affect the opportunities and outcomes of future generations. That is why it is important that intergenerational mobility in education has increased in Spain.

Finally, the huge migration inflow that Spain has experienced since the beginning of this century has had clear implications on inequalities. Immigrants are typically employed in low productivity jobs and face larger unemployment probabilities, which have contributed to increase labour market inequalities. This factor, though, may loose importance in the following years, as with the recession a relevant share of immigrants is returning to their countries of origin.

2.4 Why has inequality decreased? (though it is bound to increase in these next years)

In Spain, income inequality has been decreasing since the mid-70s (Alcaide) with some short period of inequality increase just after economic recessions (1993-1996 and since 2008) and some other period with more of a flat trend. There are two periods in which inequality decrease is very pronounced: 1985 (and probably before) to 1993 and 2003 to 2007. See also Goerlich and Mas, 1999; García-Perea 1991; Jimeno and Toharia 1994; Pijoan and Sánchez-Marcos, 2010; Divided we Stand. OECD; Oliver, Ramos and Raymond, 2001a,b.

There are few important features that can explain the behaviour of income inequality in Spain: changes in the wage structure together with changes in the labour market composition, the evolution of employment and unemployment, and the redistributive role of the government.

It has been argued that an important contributor to the income inequality decrease in Spain has been the wage compression or wage inequality reduction. The most important changes in the labour market during this period have been related to changes in the educational composition, increased female participation (with lower salaries than men), and the large percentage of temporary (i.e. decrease in seniority or tenure) work. These compositional changes have been accompanied by changes in the wage structure. All together has led to a reduction of wage inequality. According to the OECD report "Divided we stand": "[…] The gap between the top and bottom 10% paid workers decreased by one fifth in Spain between 1994 and 2008, while it increased almost everywhere else in the OECD". Lacuesta and Izquierdo (2012) find that, in contrast with other OECD countries, the increase of the hourly wage at the bottom of the distribution of is much larger than the increase at the top.

One of the most recent study on the evolution of ***wage*** inequality and its causes (Lacuesta and Izquierdo, 2012) shows that the labour force composition changes that Spain underwent over the 10 years before the crisis (1995-2006) would have increased inequality, had not been for the

accompanying changes in the wage structure: while female relative to male wages had not changed much, returns to education had decreased, and returns to tenure increased during the period. The overall effect is that, in contrast with many OECD countries, Spain has seen the top incomes wage distribution compressed. This has reduced inequality in the last years before the crisis.

The reduction in the differential across education levels in Spain may have offset the increase of tertiary education and actually have reduced wage inequality. In general terms returns to tertiary education have decreased since the 80s (Abadie, 2007, del Rio and Ruiz-Castillo, 2001; Febrer and Mora 2005; Lacuesta and Izquierdo, 2012 and Pijoan-Mas and Sánchez-Marcos, 2010, Felgueroso, Hidalgo and Jiménez, 2010) with very few exceptions for few years and data sets (Hidalgo, 2008 and Arellano et al., 2002). In fact, as a result, Arellano et al (2002) find that wage dispersion has increased at the top.

In sum, Spain has seen a fairly sharp decrease in returns to education. This may have been due to the increase in individuals with tertiary education at the same time as upper secondary education fell behind (i.e. there was also an increase of the number of dropouts and individuals with low secondary education); and a productive system unable to absorb the more skilled labour supply. Indeed, occupational mismatch is one of the causes behind the fall in the wage skill premium since the mid-Eighties ((Felgueroso, Hidalgo and Jiménez, 2010). The fall in wage skill premium is also explained by the increasing use of temporary employment, which reduces experience and tenure among properly-matched workers. According to this OECD report, while in 1997 people with no secondary education was earning 76% of those with upper secondary education, this figure went up to 85% by 2004. Similarly the premium for tertiary education increased from 49% to 32%, for the same period.

Similarly, the decrease in tenure and seniority (and the increase in temporary employment) has also contributed to reduce inequality, according to Lacuesta and Izquierdo (2012). Although individuals with lower tenure have a lower mean income, they are also more homogenous among themselves. This may reduce inequality. That is, the between variance of this group may have explained the wage reduction in the 10 years before the crisis (Lacuesta and Izquierdo, 2012). This may have happened despite the wage dispersion in tenure.

It is interesting to notice that while returns to education decreased, returns to tenure took the opposite direction over the same period. Lacuesta and Izquierdo (2012) argue that while unions have put pressure to contain wage differences on education, they had not much problem to allow the dual labour market. This has gone in detriment of temporary and young employees with typically low levels of seniority.

The increase of female participation instead does not seem to have contributed much to the reduction of inequality. On the one side, female mean earnings is lower than men's and therefore the increased participation of females could have increased inequality through the between inequality component. On the other side, however, within earnings dispersion is lower for women than for men, and therefore increasing the share of women in the labour market, reduces within wage inequality. The wage structure (female relative to male wages) has not changed much during the period, and therefore this does not play a role in changes in inequality (Lacuesta and Izquierdo, 2012). The overall effect seems to be negligible. An early empirical study in Spain over the 80's (Gradin and Otero, 2001) and a recent one looking at the 1995-2006 period (Lacuesta and Izquierdo, 2012), find that increased female participation has not contributed to reducing inequality.

In short: the Spanish labour market has been characterized by a change in composition, and the between component of the various compositional groups has explained the wage reduction over the 10 year period before the recent crisis (Lacuesta and Izquierdo, 2012).

In addition to changes in the wage structure, the OECD report "Divided we stand" point that the number of working hours has also contributed to reduce inequality, as the bottom of the wage distribution has increased the working hours while the top slightly reduced them.

Spain is characterized by large unemployment rates that, in times of crisis, are difficult to sustain. At these moments, social differences in unemployment become very salient and may be difficult to contain. For example, while returns to education have decreased and therefore inequality has been reduced, this may change in times of high unemployment, as education in Spain does provide more employment opportunities. In fact, unemployment and inequality trends seem to be mirror images. In the OECD report "Divided we stand" they argue that the large employment rate (thus lower unemployment, among others) during the last economic boom (1996-2008) […] accounts for close to 70% of the total reduction in earnings inequality".

Income inequality however does not only depend on wage inequality. The government helps ameliorate disparities by means of redistributive policies. In Spain, however, social transfers, although larger now than ever before, have a limited redistributive effect. Generally speaking, policies with a progressive structure, and thus a great potential to redistribute, are poorly endowed and thus doomed to have an insignificant redistributive effect. Pensions, however share the opposite feature. They are designed to provide rather constant replacement rates across the earnings distribution, so their structure is not very progressive, but since the quantities involved are so huge, they stand out as the most redistributive policy (Calero, 2001; Calonge and Manresa, 1997; Pazos and

Salas, 1997). Although no empirical study has been done, unemployment benefits may also play an important role in Spain, especially during periods of high unemployment.

Another determinant of household income inequality is the role of assortative matching. If the entrance of female in the labour market has disproportionally meant that richer households have become two household earnings, household income inequality would have increased. This seems to be what has been happening in Spain over the last years. In addition, females' returns to education are somewhat larger than those of men, which would have contributed even more to this increase.

2.5 Conclusions: The 'national story' of evolving inequality drivers

In contrast with many other European countries, Spain's income inequality has decreased over the last 30 years. In spite of that, Spain is still among the most unequal countries in the EU15, as it started from a fairly disadvantaged situation. Since 1985, Spain experiences two periods of pronounced inequality reduction. In between these two periods, there are few years of inequality increase (coinciding with a recession) that only partly offsets the previous reduction. With the current crisis, inequality may start increasing again. With the last data available however income inequality is lower now than it was in 1985.

This reduction has partly been due to wage compression, brought about by reduced disparities in returns to education, which reduced the share of the top incomes and increased the share of those at the bottom of the distribution. In addition, Spanish changes in the tax system (increased progressivity and broader tax base) and the social welfare system (increased social expenditures) have also contributed to inequality reduction.

Despite the decreasing income inequality trend, some features of the Spanish economy may jeopardize the future well-being of Spaniards and increase social inequalities. These features include polarised education outcomes, duality in the labour market, high unemployment rates, and relatively high shares of low skilled workers in low productivity industries.

In the recent past, reduced disparities in returns to education have contributed to reducing wage and income inequality, while larger-than-ever participation rates (and occasional low unemployment rates) have allowed most individuals to enter the labour market, regardless of their education level, and to lower their chance of entering poverty and social exclusion. The high unemployment rates of the current downturn, however, is taking away employment opportunities for the worse educated and increasing their risk of poverty.

Therefore, Spain urgently needs reforms in the education system and in the labour market. As outlined above, education outcomes are polarised: Spain has one of the largest population shares with tertiary education, but it also has one of the largest dropouts rates in Europe and population shares of low-secondary education individuals (low vocational education as opposed to higher secondary education). Such polarised picture holds not only for the population as a whole, but also for the younger cohorts only. As regards the labour market, Spain has a dual market, where insiders enjoy stable permanent jobs with higher wages and better job conditions, and outsiders hold temporary contracts with lower wages, bleaker prospects, and worse job conditions. Relative to other European countries, the latter group is very large (for many years, one third of the labour force) but it has no perspectives of job stability over the life cycle, as temporary contracts in Spain are a dead-end and not a stepping-stone. Contrary to that, permanent contracts are very protected by unions and enjoy one of the largest employment protection indices in Europe.

Another important feature of the Spanish labour market is the large increase in female participation over the last 40 years. Notwithstanding this, female labour force participation rates are still substantially lower than in most EU countries. Such large increase in female labour participation, however, had a negligible effect on individual inequality —but may have contributed to the reduction of household inequality, due to assortative matching.

Finally, age is a relevant factor, especially since young individuals are overrepresented among the unemployed and among temporary job holders. Only workers aged 26 to 35 experienced a monotonic increase in inequality after the 1993 recession.

Wealth inequality in Spain can only be studied for very recent years (2002-2008) and therefore not much can be said about its dynamics. Compared to other EU17 countries, most Spanish households hold their wealth in real state, while financial assets represent a reduced share of overall wealth. Wealth inequality in Spain is lower than in countries such as UK, US, and Italy. According to the little empirical evidence, the large percentage of house ownership in Spain has an equalizing effect. Household debt, however, is bound to be a major problem for Spanish citizens and may contribute to a more unequal society.

3. The social impacts of inequality

3.1 Introduction

Since the reestablishment of democracy, Spain has seen the development and expansion of social policies (notably health, education and some other social policies such as family policies). Social expenditures relative to the GDP have steadily increased until the year 2000, which has surely helped mitigate the social inequalities documented in this chapter.

Despite the growing importance of social expenditures and they have remained throughout the entire period much below those of many other European countries. For instance, social protection expenditures in Spain were 22.7% of GDP, in 2008. This figure is lower than in the UK, Portugal, Greece, Finland, Switzerland, Germany, Italy, Belgium, France, the average of the EU27 (26.4%), and the average of the EU 25 (26.5%) (INE and Eurostat statistics). In absolute terms Spain spent 5425 Euro per capita in social protection. This is about the same amount as in Greece, and less than the average of the EU27 (6603 Euro), of the EU25 (6959 Euro), the UK, Italy, Germany, Belgium, Finland, France, Denmark, or Norway (14401 Euro).

Social inequalities in Spain have a clear income or socio-economic and educational gradient. In other words, income and education inequalities are partly responsible for them. The reduced income inequality, partly due to the increasingly larger social expenditures and improved redistributive effect of taxation, has thus helped reduce social inequalities. Education inequality, however, has worked in the opposite direction. Labour market inequalities, and especially the differential incidence of unemployment, have also contributed to shape some social inequalities, such as poverty or social exclusion.

Social protection expenditures are relevant to reducing contemporary social inequalities. Besides contributing to achieve this goal, education and health policies, are important instruments to break the generational transmission of social inequalities and social exclusion. In a recent study, Ichino et al. (2011) find a strong correlation between intergenerational mobility (intergenerational inequalities) and public expenditures on education, using data for many OECD countries (i.e. Denmark, Finland, Canada, Sweden, Germany, France, the US, the UK, Spain, and Australia).

In addition to the socio-economic origin of social inequalities, Spain also shows important regional differences. Since democracy the central government in Madrid has been transferring some public

services to regions, thus creating a more decentralized government. The administration of some public services (such as education and health) has been transferred to the regions, but tax collection has been kept centralized in Madrid —with the notable exception of the Basque Country and Navarra, who collect their own taxes. The existing differences in public finances and tax expenditures of each region are thus not necessarily related to the economic and productive differences in Spain.

One of the concerns has been whether the transfer of public services to the regions has generated regional inequalities in the provision of public services. For example, some argue that decentralization has fuelled existing regional differences in health coverage (vaccinations, preventive health, etc) and infrastructure (private and public). However, López Casanovas, Costa Font and Planas (2005) show that although heterogeneity still persists, regional disparities in health are not related to the decentralization of the health system. In fact, there are also many regional differences on the amount of private versus public provision of health. For example, García Gómez and López Nicolás (2007) report that Catalonia has the lowest ratio (36.8% in 2001) of public to total (public and private) hospital beds.

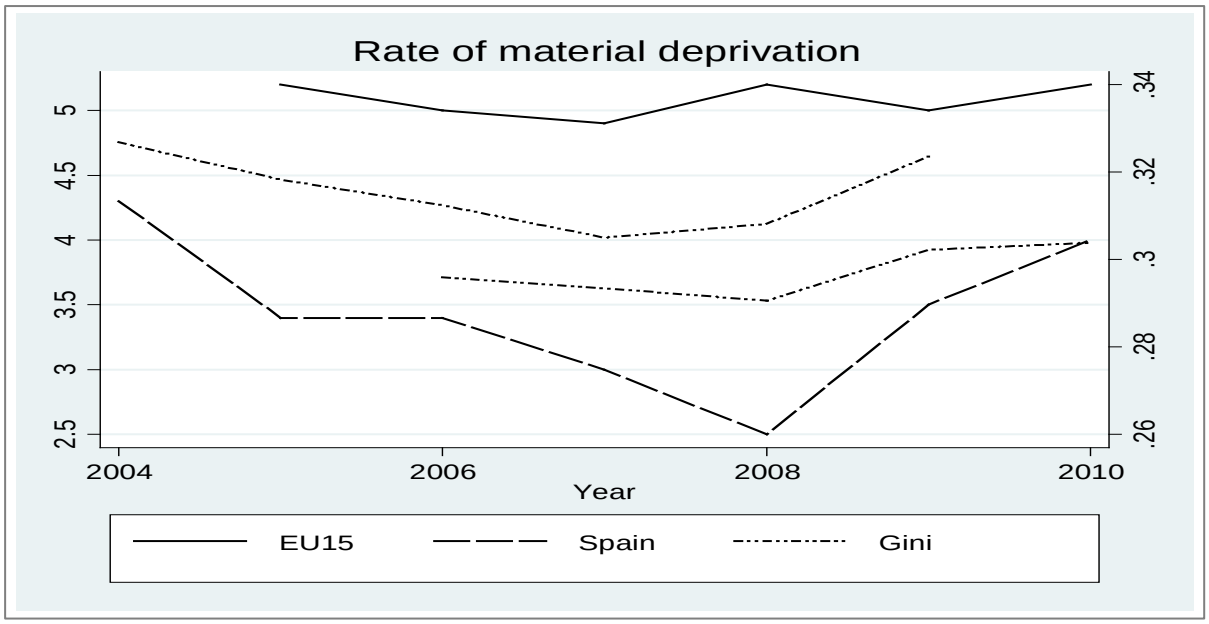
3.2 Material deprivation

Material deprivation is, according to the OECD official definition, "[…] the inability for individuals or households to afford those consumption goods and activities that are typical in a society at a given point in time, irrespective of people's preferences with respect to these items." The emphasis thus is on the possibility to afford rather than the willingness to consume, say due to tastes.

The EU-SILC data (2004-2010) has information on the percentage of respondents who cannot afford at least three of the following nine items: (i) to pay their rent, mortgage or utility bills; (ii) to keep their home adequately warm; (iii) to face unexpected expenses; (iv) to eat meat or proteins regularly; (v) to go on holiday; (vi) a television set; (vii) a washing machine; (viii) a car; and (ix) a telephone. As with the OECD, the material deprivation index used by Eurostat focuses on financial affordability and does not consider as deprivation lack of consumption due to preferences.

The material deprivation in Spain is, according to Eurostat figures, below that of EU15. As Figure 3.1 shows, during the economic boom, the percentage of households in material deprivation had been decreasing, although the tendency changed with the start of the crisis in 2008.

Figure 3.1. Material Deprivation



Gender differences exist, but are small and change over time. That is, material deprivation in Spain follows a similar pattern for the two genders. Age differences are also small, with 18 to 64 years old individuals having a lower rate of material deprivation than other age groups.

As the table below shows, differences by labour market status are more pronounced, the unemployed clearly being the worse-off group, with material deprivation rates that double the rates of the other labour market groups.

	Employed	Not employed	Unemployed	Retired
2004	3.00	5.30	11.60	3.70
2005	2.20	4.10	7.90	3.30
2006	2.20	4.10	8.40	3.60
2007	1.90	4.20	7.60	2.90
2008	1.80	3.10	9.40	1.40
2009	2.40	4.10	9.90	1.70
2010	2.50	4.70	10.70	1.80

As argued elsewhere, regional differences in Spain are large. The table below shows the regional differences based on the same Eurostat data source. Regions are ordered from the lowest to the highest material deprivation rate in 2010.

Material Deprivation	2004	2005	2006	2007	2008	2009	2010
Principado de Asturias	2.20	1.40	2.00	2.10	1.30	1.40	0.80
Cantabria	1.60	0.60	2.90	1.70	0.80	0.60	1.10
Navarra	0.40	0.70	1.50	1.60	1.20	1.60	1.70
Aragón	1.10	1.50	0.50	0.60	0.50	0.20	2.00
País Vasco	1.30	2.10	1.20	0.60	1.60	2.30	2.10
Castilla y León	0.90	1.40	1.00	1.40	0.70	1.80	2.20
Castilla-la Mancha	2.00	1.80	2.30	1.50	1.40	2.70	2.50
La Rioja	2.10	0.90	1.10	2.10	2.60	2.00	2.70
Canarias	8.10	8.50	9.50	3.20	3.90	13.10	2.80
Comunidad Valenciana	4.50	3.00	2.10	2.20	2.70	3.60	3.10
Ceuta	21.20	8.00	20.50	15.90	2.50	4.60	3.10
Cataluña	3.40	3.10	3.00	2.50	1.60	2.00	3.70
Average Spain	4.30	3.40	3.40	3.00	2.50	3.50	4.00
Galicia	5.20	4.50	3.30	3.60	1.60	3.30	4.10
Comunidad de Madrid	2.80	4.10	2.80	2.40	3.20	3.00	4.50
Illes Balears	2.70	5.00	1.70	3.00	2.40	6.40	4.60
Extremadura	3.50	2.70	1.60	1.60	1.70	1.40	5.00
Andalucía	8.20	3.80	6.10	6.20	4.60	4.30	5.20
Melilla	n.a.	n.a.	4.20	5.60	8.10	1.10	6.80
Región de Murcia	6.40	5.60	5.10	4.30	3.30	6.30	12.60

While Spain's rate of household material deprivation is below the EU15 average, income poverty in Spain is well above that same average. Income poverty and material deprivation are related but not unequivocally.

As it is customary when analysis poverty in Europe, we employ a relative poverty definition. That is, poverty is measured relative to the median income of the distribution and relative to a given time period. In particular, take as a poverty threshold 60% of median equivalent income after social transfers. Notice that median, instead of mean, income is usually employed as it is more robust to outliers and to the length of the upper tail of the income distribution.

Due to data problems (see section 2.1.1) we only have disrupted poverty trends for Spain. For the period 1985-1996, we use estimates by Canto, Del Río and Gradin (2003), which uses data from the second term of the Household Budget Survey (ECPF). The period 1993-2000 is covered by estimates

provided by Barcenas and Cowell (2006) with ECHP data, while the last period from 2003 to 2009 we draw on the Eurostat estimates with EU-SILC data.

Putting the three sets of estimates together —Canto, del Río and Gradín (2003) with the HBS, Barcenas and Cowell (2006) with the ECHP and Eurostat with the EU-SILC— we obtain Figure 3.2:

Figure 3.2. Poverty rates

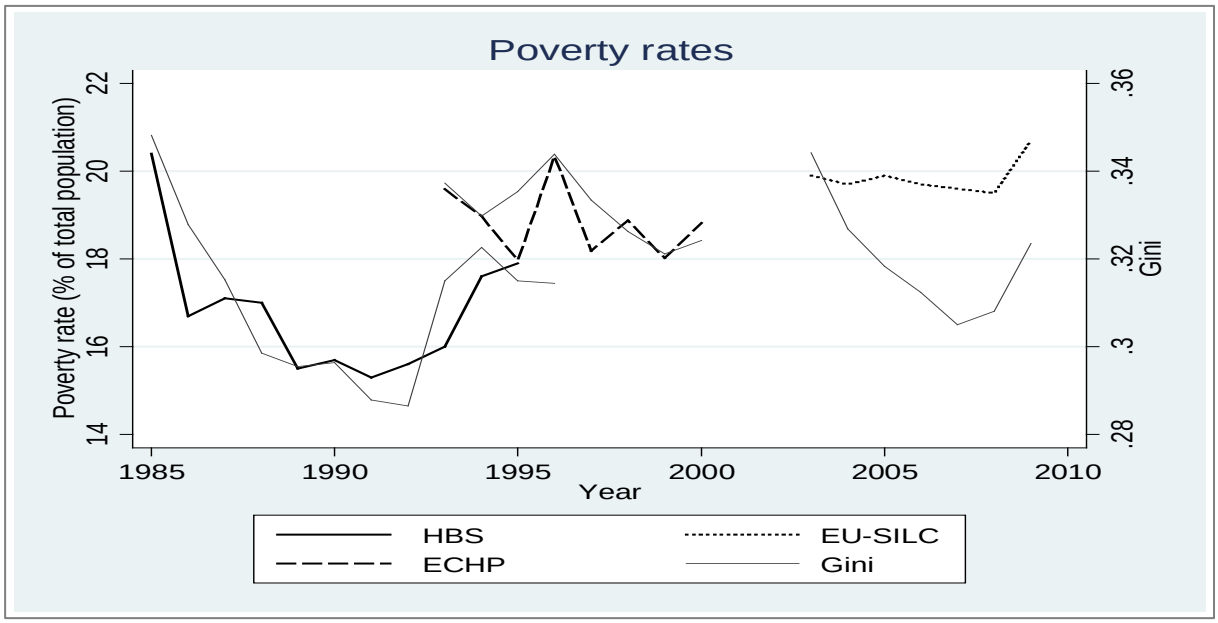


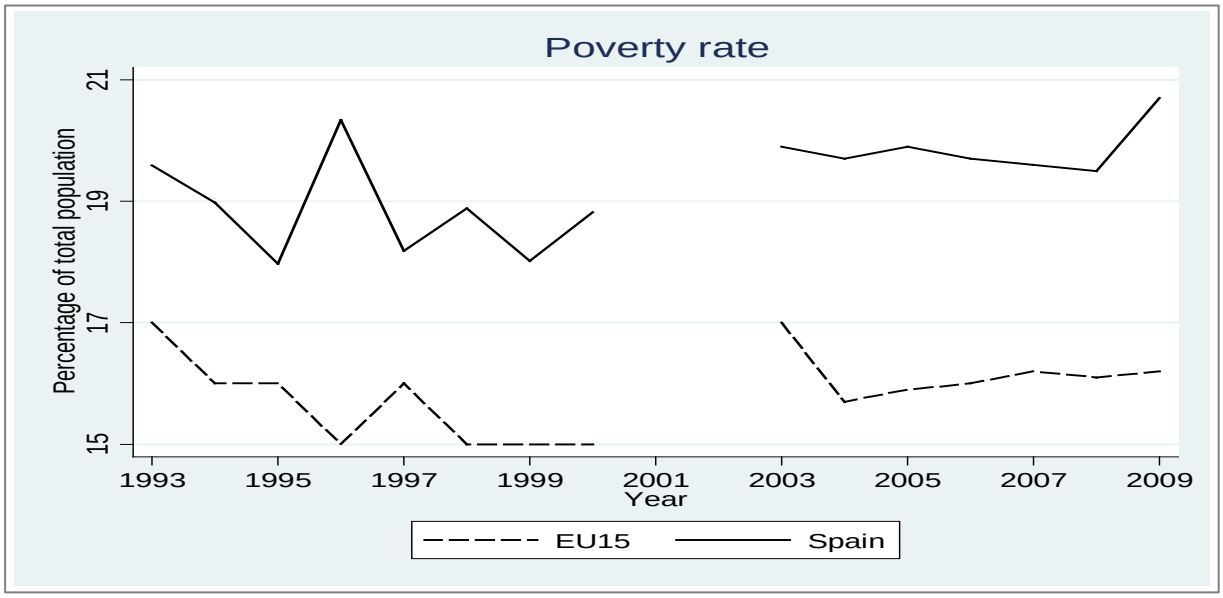
Figure 3.2 shows that poverty risk follows a trend parallel to inequality. It decreased from 1985 to 1993, and it then increased with the recession. As a result of the economic recovery, poverty, decreased again in the late Nineties, and seems to remain flat for the first years of the new century. With the 2008 recession, however, poverty is on the rise again. Poverty thus seems to be moving together with the business cycle and the unemployment rate.

As compared to the EU15, Figure 3.3 shows that poverty incidence is larger in Spain than in the EU15 average, and that this has increased over the last years with the current economic crisis.

It is interesting to notice the different performance of the rate of material deprivation and of relative poverty: while Spain's rate of household material deprivation is below the EU15 average, income poverty in Spain is well above that same average. These differences may be due to different consumption preferences between Spaniards and European citizens. Although the EU-SILC questionnaire asks respondents whether they can or cannot afford certain consumption items, the perception of affordability is rather subjective. Some European citizens may feel they cannot afford

holidays (for example, because they need to spend that income in education) even if they have a larger purchasing power than others

Figure 3.3. Poverty rates in Spain and EU15



Poverty incidence has clear differences across type of households. For example, as the table below shows, adults with children have a larger probability to fall into poverty.

Risk of poverty rate, 2009, Eurostat	
Average Spain	20.7
Two adults	17.6
Two adults with one dependent child	18.2
Two adults with two dependent children	23.3
Two adults with three or more dependent children	44.2

As pointed out in the introduction of this section, education inequalities are likely to explain other socio-economic inequalities. Indeed, differences in poverty risk across education levels are very large. While returns to tertiary education have been decreasing over the years, education still gives access to jobs and to better opportunities. As the table below shows, risk of poverty of individuals with low education level is three times as much as the poverty risk of individuals with tertiary education.

Risk of poverty rate by education level, 2009, Eurostat	
Average Spain	20.7
Equal or less than lower secondary education (levels 0-2)	26.6
Upper secondary & post-secondary (levels 3 and 4)	17.0
First and second stage of tertiary education (levels 5 and 6)	8.9

As often stressed in this report, regional socio-economic differences in Spain are large. The extent of poverty across regions, however, is difficult to compare in a meaningful way, as prices and public service provision also differ. Notice that by using the country median income to define the poverty threshold, we are not taking into account those differences. This is what Eurostat employs, and the table below shows the regional picture of regional poverty:

Risk of poverty rate, 2009, Eurostat	
Navarra	7.3
País Vasco	11.6
Asturias	12.3
Aragón	13.6
Madrid	13.6
Cataluña	15.3
Galicia	16.8
Cantabria	17.2
Comunidad Valenciana	20.1
La Rioja	20.5
Illes Balears	20.6
Average Spain	**20.7**
Castilla y León	21
Melilla	27.6
Castilla-la Mancha	27.8
Región de Murcia	29.2
Andalucía	30.1
Canarias	31.1
Ceuta	34.3
Extremadura	38.2

When taking into account differences in living costs, however, the picture dramatically changes. Mercader, Ramos, and Ayllón (2005) present an empirical exercise in which they compare the poverty risk when using as cut-off point 60% of the median income of Spain and of Catalonia. Notice

that the latter takes account of the large regional differences in living costs between Spain and Catalonia. Their results are summarized in the table below:

Relative poverty line:	**Catalonia**
60% of each Catalonia	
1990	16.2
1999	17.8
60% of total Spain	
1990	7
1999	9.3

That is, using median income of Catalonia as a cut-off point to define relative poverty, Catalonia had a risk of poverty equal to 17.8 in 1999. If instead the Spanish median income is used, the poverty risk in Catalonia drops to nearly half (9.3). This empirical exercise highlights not only the existing regional disparities but also the difficulty to measure them adequately.

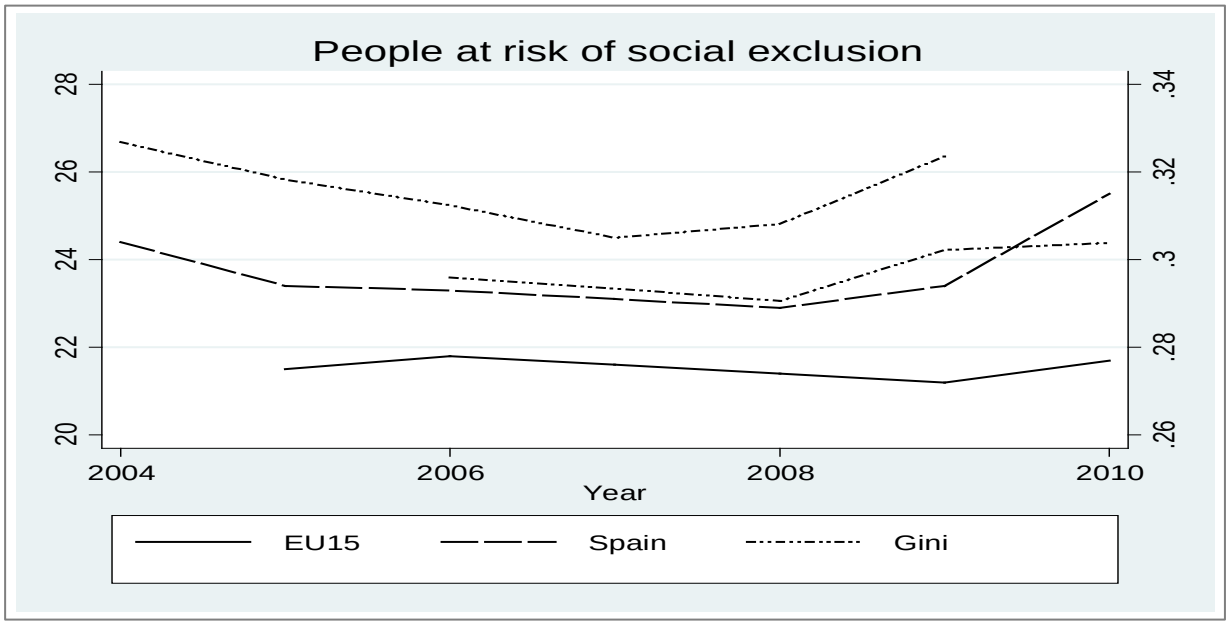
3.3 Cumulative disadvantage and multidimensional measures of poverty and social exclusion

Social exclusion is not related only to income but to a large set of bad outcomes that do often correlate with income but that in addition self-reinforce each other. Cumulative disadvantage relates not to the probability of a bad outcome but to the worse conditions over the life cycle. Individuals from some backgrounds have lower wages and employability throughout their life with fewer opportunities from early age on.

Cumulative disadvantage is less clear to identify in Spain than in other countries with, for example, a long history of migration and ethnic diversity. Similarly, Spain does not have a clear defined group in terms of family structure, with a low percentage of single motherhood or household with large number of children. This is not to say that in Spain there are no problems of cumulative disadvantage but they are more difficult to identify and measure. Therefore, we focus on the risk of social exclusion.

Since 2004 only, Eurostat constructs an indicator on the risk of social exclusion. Figure 3.4 shows its short term evolution for Spain and how it compares with the EU15 average:

Figure 3.4. People at risk of social exclusion



As for poverty rate, risk of social exclusion is larger in Spain than for the EU15 average. Similarly, the risk of social exclusion has increased since 2008 with the beginning of the current economic crisis.

As for poverty risk, in Spain there are important differences by education level. Once more, and despite the wage compression in Spain (with decreasing return to education over the last years), the education gradient of social exclusion is steep. As the table below shows, relative to individuals with tertiary education, the risk of social exclusion of individuals with low levels of education is three times as large.

Risk of social exclusion rate, 2009, Eurostat	
Average Spain	23.7
Equal or less than lower secondary education (levels 0-2)	30.9
Upper secondary & post-secondary (levels 3 and 4)	21.9
First and second stage of tertiary education (levels 5 and 6)	11.9

3.4 Indicators of social Cohesion

Social cohesion refer to the strength of ties that people have with each other or with institutions in a given society. It also relates to the material and political well-being in a society, its perceived fairness, solidarity, etc. Social capital is thus an important element determining the social cohesion within a

society.

The importance of social capital for the well-functioning of a society has been much emphasized in the recent literature. Social capital is correlated with individuals' well-being, and with the country's economic and social outcomes, such as economic growth, tax morale, reciprocity and generosity.

Economic inequality is negatively correlatd with socail capital. Although it is hard to distinguish between cause and consequence, it seems that depletion of social capital is one of the bad outcomes of inequality.

It is important to keep in mind that social capital can be taken as a very broad concept that may include nodding people in the corridor (Putman, 2001). This implies that there is not a unique definition and measure of social capital. We will distinguish between and focus on three types of social capital: (i) participation in civic and political activities; (ii) attitudes, such as trust on others; and (iii) networks, strong or weak ties.

To describe social capital for this last category, we use the Eurostat report "Social Participation Statistics", which uses a module of the 2006 wave EU-SILC to measure social isolation by means of self-reported questions on frequency of meeting friends or having someone to whom ask for help if needed. Using these indicators, Spain comes as one of the least isolated countries in Europe. Among the 26 countries covered by the study, Spain has one of the lowest percentage of people reporting not to have any one (relative, friend or neighbhour) to be able to ask for help if needed. Italy is at the other end of the distribution. Since social isolation is correlated with poverty, this same report calulates the ratio of people who cannot ask for help to anyone if neeed between poor and non-poor, where poverty is defined as relative poverty with a cutt-off point of 60% of the median of equivalent income. Spain with a ratio of just above 2 is among the countries with the highest value. That is, poor people in Spain are more than twice as likely to be socially isolated as non-poor. The causal relationship however is ambiguous: it may be that poverty causes isolation (poverty does not help maintain contacts) or that isolation causes poverty (having no ties hampers the possibility to escape poverty). Another measure included in the Eurostat report is the frequency in which respondents meet with family and friends. In this respect, Spain (as Italy) scores high in both dimensions. Relatively to other EU countries, Spain (together with Belgium, Italy and Portugal) score particularly high in the frequency of meeting with family. Family ties tend to be considered stronger than friends ties.

In the same 2006 EU-SILC module, there is information on respondents' participation in civic activities. In there, respondents are asked about their participation in seven different types of civic

activities: informal voluntary activities; political parties or trade unions; professional associations; churches or other religious groups; recreational groups; charitable organizations; and other groups or organizations. Although it depends on the type of civic acticity, Spain scores around or above the EU15 averegae in terms of respondents' participation in civic activities. Spain has a larger percentage of respondents than the EU15 average participating in: chartiable organizations (11 vs 7%), professional associations (4.4 vs 4.1%), religious organizations (18 vs 15%), informal voluntary activities (45 vs 36%), and political parties or trade unions (5.5 vs 4.5%). In contrast, respondents in Spain participate less than the EU15 average in recreational groups or organizations (14 vs 22%).

Finally, social capital is also related to citizens' attitudes. Individuals' trust on others and on institutions have been considered key indicators of social captital. In the OECD (2011) report "Society at Glance, Social Indicators", there is information, based on various years and sources, on a serie of indicators on trust. Among OECD countries there is a large dispersion on the percentage of individuals that feel they can trust each other. For example, while on average 59% of OECD citizens feel they can trust others, this number is as low as 13% in Chile (24% in Turkey and 30% in Greece) and it is higher than 80% in Denmark, Norwary, Finalnd, Sweden, and the Netherlands. In Spain this percentage is 62, similar to Austria, Germany, Belgium and the UK.

In this same report, the authors show a negative correlation between this measure of "trust on others" and inequality. This, again, shows the correlation between inequality and various measures of social capital.

Using the Gallup World Poll, the same report presents an index on confidence in national institutions, which is a measure of citizens' trust in institutions. The OECD average is 56% and Spain is, as for trust on others, around this average, with a 50% of resopndents reporting to have confidence in national institutions. Spain scores lower than countries like Denmark, Finalnd, Sweden, the Netherlands, and Norway and similar to countries like Belgium, France, Germany, and Italy.

In contrast, Spain scores very high on the corruption index. That is, there is a large number of respondents (75%) who perceive that corruption is widespread in business and government in Spain. The OECD avergage is 56%. The other three southern mediterranean countries also score very high in this dimension: Italy (76%), Portugal (84%), and Greece (89%). At the lowest end (40% or less) there is Denmark, Finland, Sweden, Switzerland, the Netherlands, while Luxembourg. Belgium, France, and Germany are at around the OECD average.

Trust or confidence in national institutions can be measured not only by self-reported questions but also by voter turnout. One would expect there to be a correlation between citizens' perception of the

functioning of national institutions and their voting behaviour. The voter turnout in the last EU parliamentary elections (2009) was 45% in Spain. This number is similar to the EU27 average (43%), although Eurostat misses turnout information for many countries. The voter turn out for the last two national elections in Spain was 75.7% in 2008 and 68.94% in 2011 (Eurostat data). These nubmers are low compared to countries like Denmark, Italy, Belgium,or the Netherlands.

3.5 Family formation and breakdown, lone parenthood, fertility

As we will report in this section, family breakdowns, changes in household type and size, and the number of marriages seem to indicate that there have been important changes in a country in which individuals receive support from the family more than from the state through social welfare.

As in many other countries the number of marriages in Spain has been decreasing over the last 40 years, although from 1980 to 2004, this number was fairly stable around 5 (marriages per 1000 inhabitants). As Figure 3.5 shows, from 2004 onwards, the crude marriage rate has declined reaching a low of 3.6 in 2010 (INE and Eurostat). Since this downward trend is very recent, we cannot assess whether it will be temporary.

Figure 3.5a. Crude marriage rate

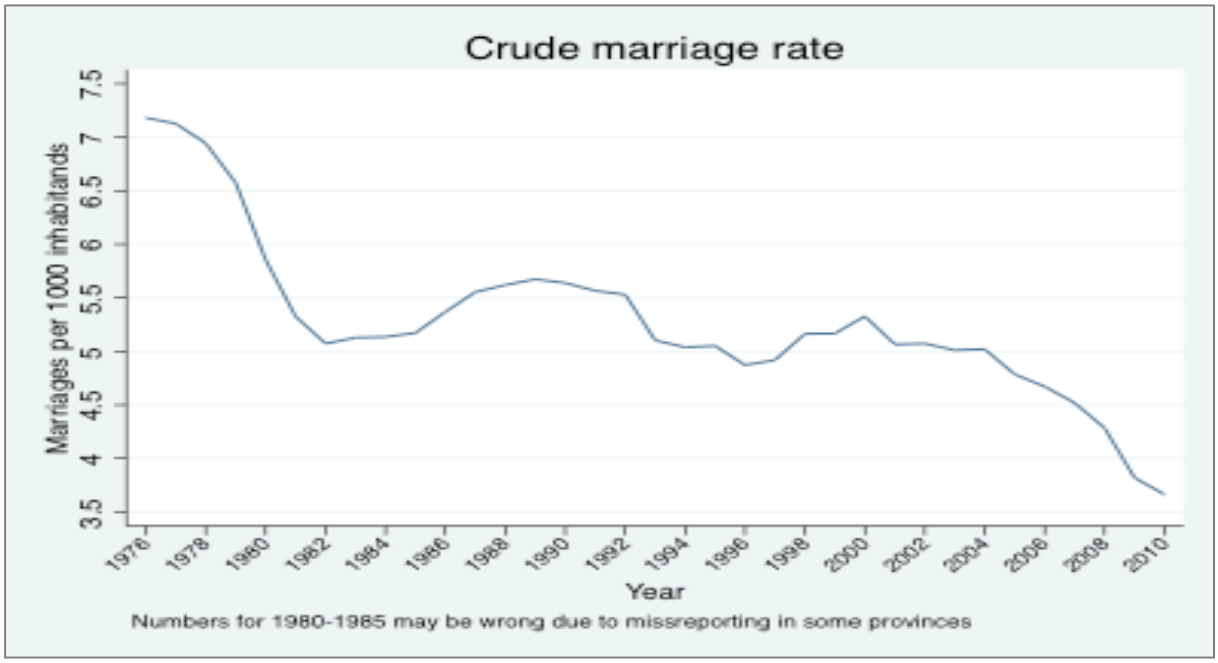
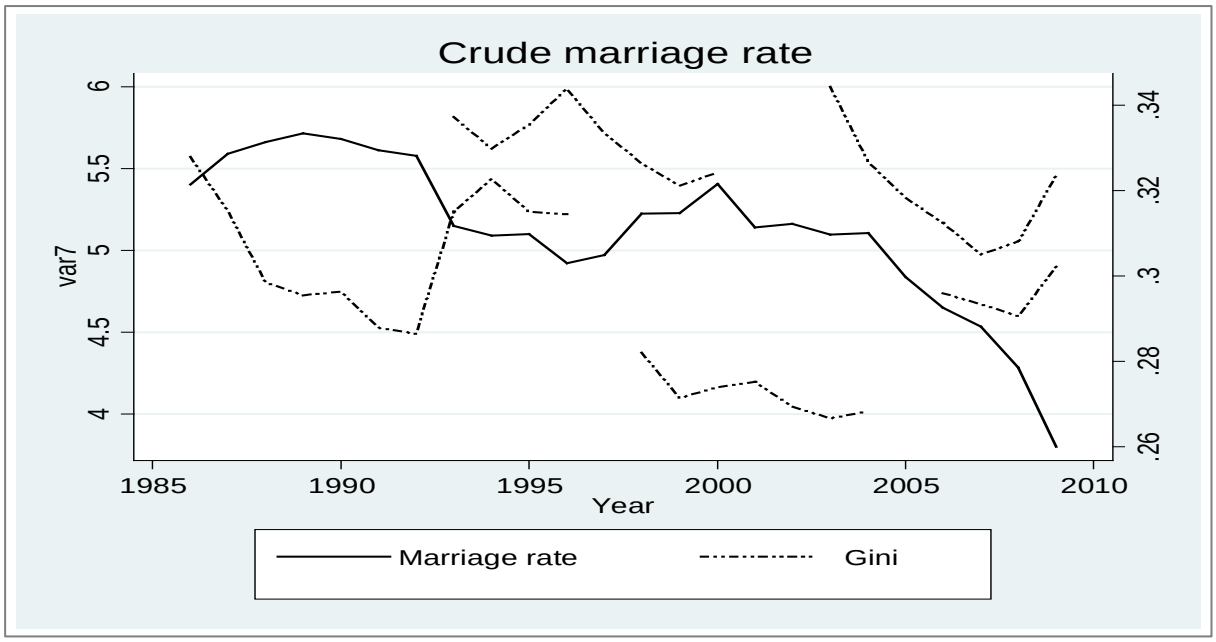


Figure 3.5b. Crude marriage rate & Gini



The average marriage age has been increasing over time. This has been so also over the period 1980-2004, in which marriage rates remained constant. While in 1976 the average age at marriage was 26 years old, this went up to 28 in 1990, 30 in 1996, and it is 34 in 2010. This increase has partly been due to the increasing number of second marriages. If we exclude these marriages, the age at first marriage in 2010 goes down to 32: while age at first marriage was 25 in 1972, it reached 28 only in 1995 and 30 in 2002 (6 years later). (Source: INE). Given all these figures, it is no surprise that fertility rates in Spain have been among the lowest in the world from many years, going down from 2.2 (1980), 1.36 (1990), 1.23 (2000), 1.31 (2003) to 1.40 (2009).

High unemployment and rising temporary employment are thought to determine such bad demographic figures. Using Spanish data for 1991, Ahn and Mira, (2001) conclude that spells of non-employment and temporary jobs among young men is one important factor that has forced many young people to delay their marriage and childbearing, lowering the fertility rate in Spain. Ahn and Mira (2002) analyse the changing relationship between fertility and participation in OECD countries and also point out that the very low fertility rates in several southern countries, like Spain, have been caused by the high unemployment rates.

Other important changes include

Over the years, many social changes have been taking place in Spain, many of which had an impact on the family, its type and organization. The tremendous increase in female labour participation has decreased fertility and changed the organization of family life. For example, mothers' age at first birth is currently at 30 years old (INE) and the fertility rate (Eurostat) has gone down from 2.2 (1980), 1.36 (1990), 1.23 (2000), 1.31 (2003) to 1.40 (2009).

The divorce law in Spain was introduced in 1981. This late (compared to other countries) introduction is due to the fact that before 1975 Spain had a catholic dictatorship. Since then, the number of family breakdowns in Spain has substantially increased. At this moment, Spain is one of the countries with the higher divorce or separation rates in Europe. The divorce and legal separation rates are shown in Figure 3.6 (INE and Eurostat).

Figure 3.6a. Divorce and legal separation rate

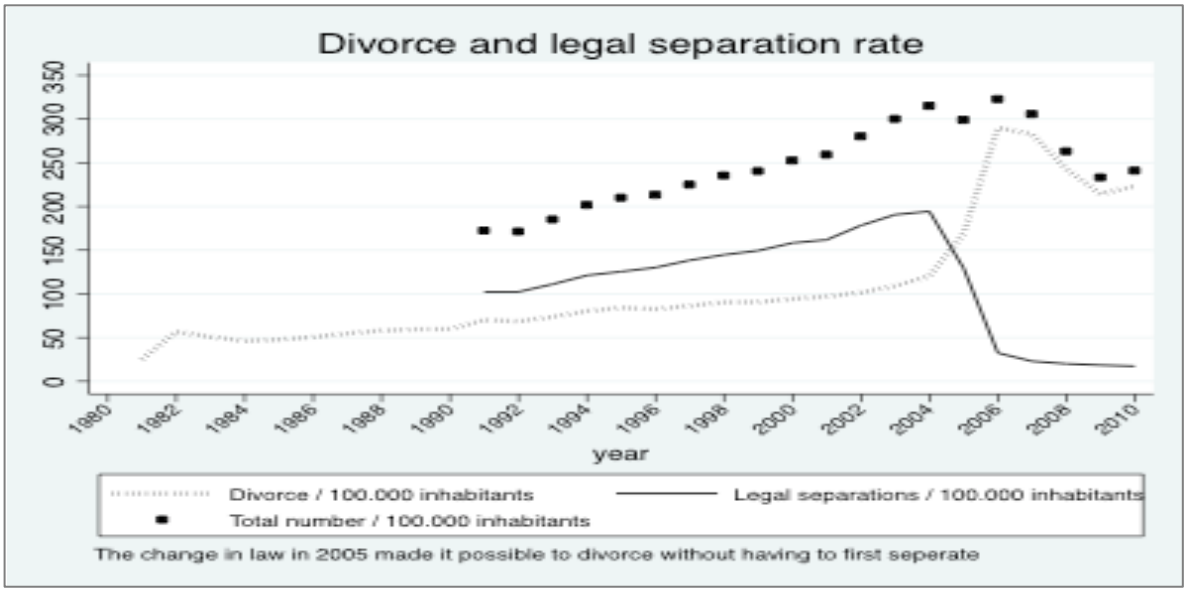


Figure 3.6b. Total (divorce and legal separation rate) & GINI

In 2005 a change of law introduced what is known as “express divorce”. This change eliminated the obligation to be legally separated for few years before couples could file for divorce. This has meant that in 2010 over 90% of family breakdowns went directly through divorce. Actually, there is some double counting of some “family breakdowns”, since many couples first separated legally and few years after (when allowed) divorced. Although at the beginning of the current economic crisis divorce rates decreased, they have been increasing again since 2009.

Almost 50% of family breakdowns in Spain (INE) were from couples with children: 28% of the total had only one child and 22% had two or more children. In 83% of family breakdowns with children, the custody was given to the mother (INE, 2010).

The most important changes in family structure from 1985 to now can be studied comparing the last two available Spanish census, i.e. 1991 and 2001. In Spain there are earlier census in 1970 and 1981, which can also be used to have a longer perspective. The results from comparing the census, notably from 1991 to 2001, can be summarized as (INE):

- A significant decrease in household size: According to the last four available census, household size in Spain has decreased from 3.9 (1970), 3.5 (1981), 3.2 (1991) to 2.9 (2001). This (together with population growth) implied that the number of households in Spain has increased over the last fourty years.

- An important increase in the number of single households over the last 15 years. Single households have increased by slightly more than 80% from 1991 to 2001. This large increase happened at the same time (and despite) when the emancipation age of young people increased. The increase of single households can be partly explained by the increase in the number of divorced men (and to a less extent of women, as many live with their children). Another reason behind the increase of single households has been the reduction by 4.5% (1991-2001) of the number of households with three generations. In fact, a noticeable share of single households are formed by 65 year and older living alone.

- The number of children per family has decreased. For example, according to the Household Budget Survey in Spain, the number of families with 3 or more children were merely about 3% in 2010.

- At this moment, the most common (about 18% in 2001) household type is a couple with two children. Although marriage crude rates have been increasing and therefore the number of married mothers as percentage of total mothes has also been decreasing, the vast majority of non-married mothers live in situations that are similar if not identical to those who are married.

- Nevertheless, the number of households with mothers and children (and no father) has also increased in the last years. The vast majority of these mothers are vidowers (47%). Relative to the total number of mothers, this figure should have been stable (if not decreasing) over the years, as health has been improving. The rest of mothers living alone with their children are: divorced or legally seperated mothers (25% in 2001); married but not living with their partner (15%); and single mothers (11%). Notice that divorced or legally seperated mothers that do not get financial suport from the father of their children, are in Spain considered single mothers.

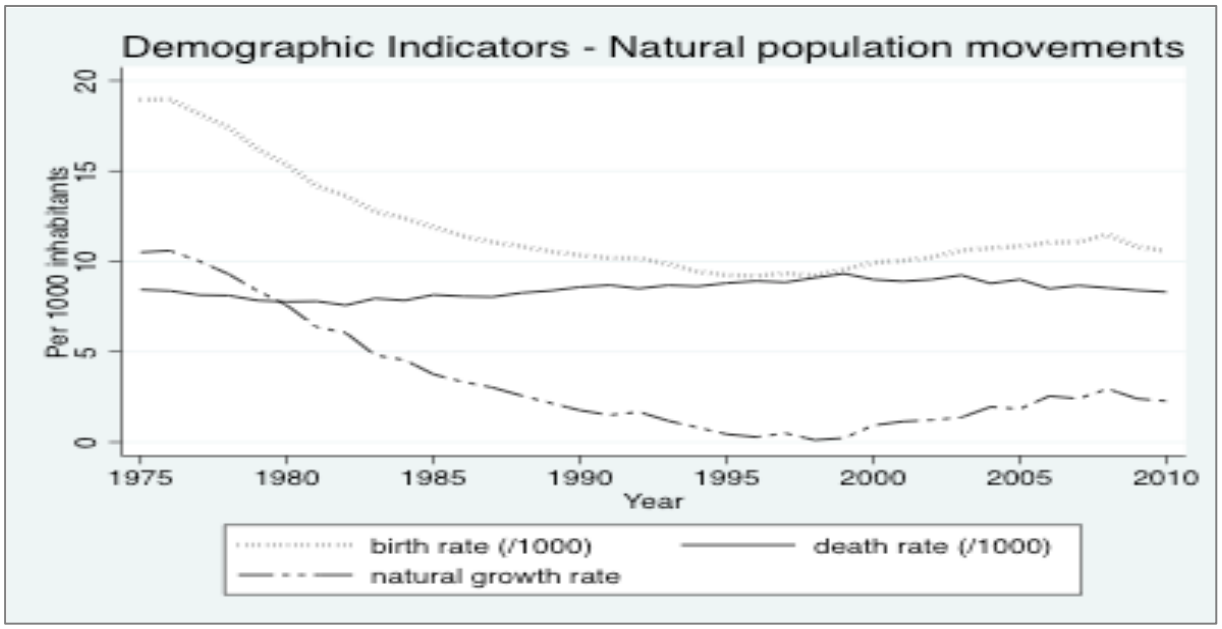
3.6 Health inequalities

The Spanish National Health System structure and organization is based on the 1986 law, which almost universalized the rights on access to healh. The universal health access has been granted to everybody irrespective of their country of origen and tax contribution. With the current economic situation, however, this system may be at risk. Besides the public health system, Spain has a large percentage (which varies across regions) of health services provided privately. The use of private health services is correlated with income as acces is only granted upon payment. In addition, and on top of the access to health services, health inequalities may arise from health behaviour that in turn may correlate with income, labor market status (e.g., health at work varies across ocupations), education, and origin.

Another inequality dimension of health may result from regional differences. It is believed that health provision and quality varies depending on the degree of urbanization (with rural areas having worse health services) and on the autonomous region. The health system has been decentralized to the 17 regions since the begginig of the 80s. This may imply that health coverage and quality differs across them.

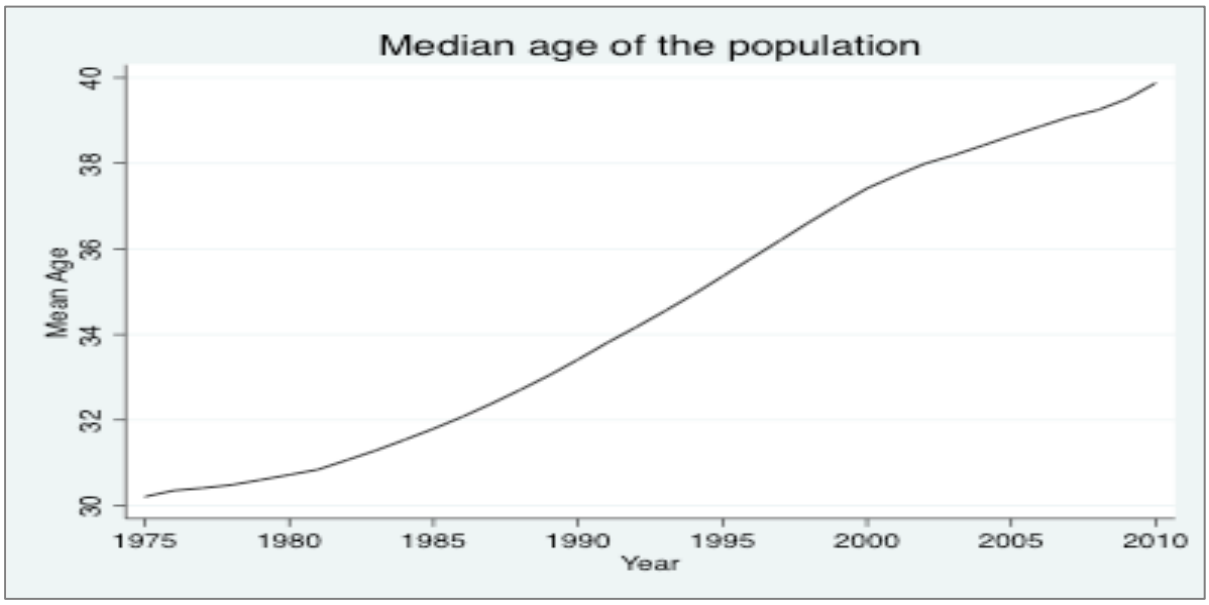
The Spanish population is ageing as a consequence of very low fertility rates and relatively high life expectacny. The natural population growth in Spain has been decreasing since 1975, although the tendency has changed slightly in the last 10 years due to the higher fertility rates of non-national Spanish women. Figure 3.7 shows the natural population movements in Spain over the last 40 years (Eurostat).

Figure 3.7. Demographic indicators. Natural population movements



In addition to the small fertilty increase in the last years, the unprecedented entrance of immigrants after 2002 has also caused a population increase. The two phenomenon may in the future slow down the population ageing in Spain. Figure 3.8 shows the increase of the median age in Spain over the last 40 years (INE).

Figure 3.8. Median age of the population



In 2010, Spain had one of the highest life expectancy in Europe (81.5 years) and togerther with Switzerland and Italy it is the only country that in 2009 had a life expectancy higher than 81 years old

(Eurostat). As it is normally the case, the gender differences go in favour of females. Figure 3.9 shows life expectancy trends by genders (INE):

Figure 3.9. Life expectancy at birth

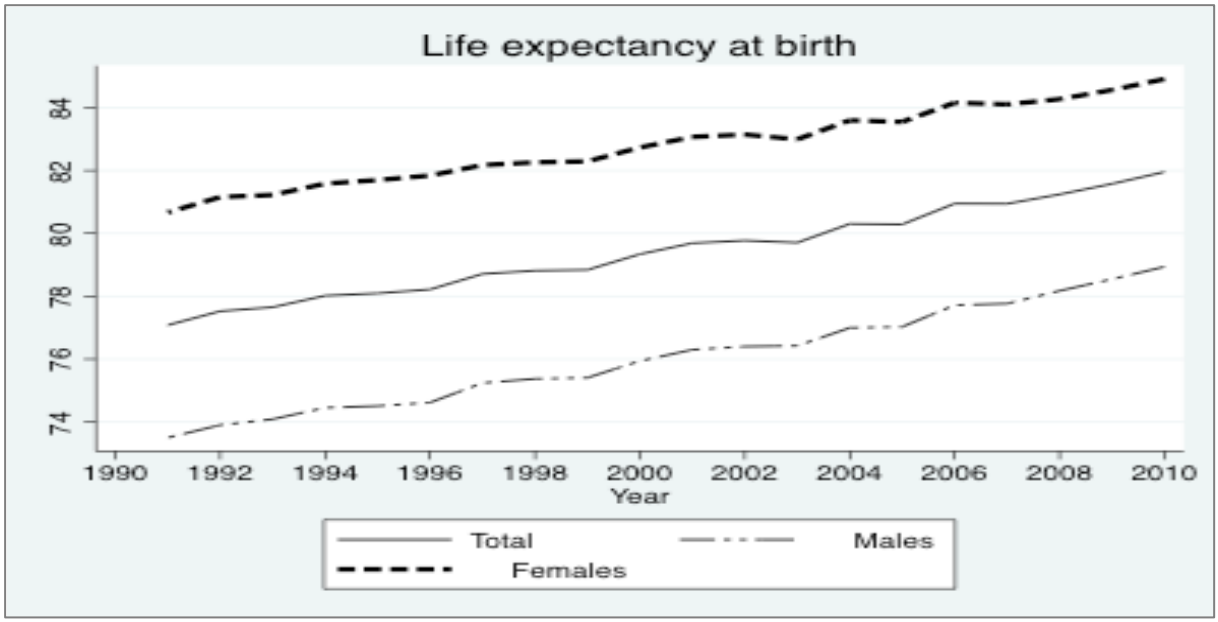
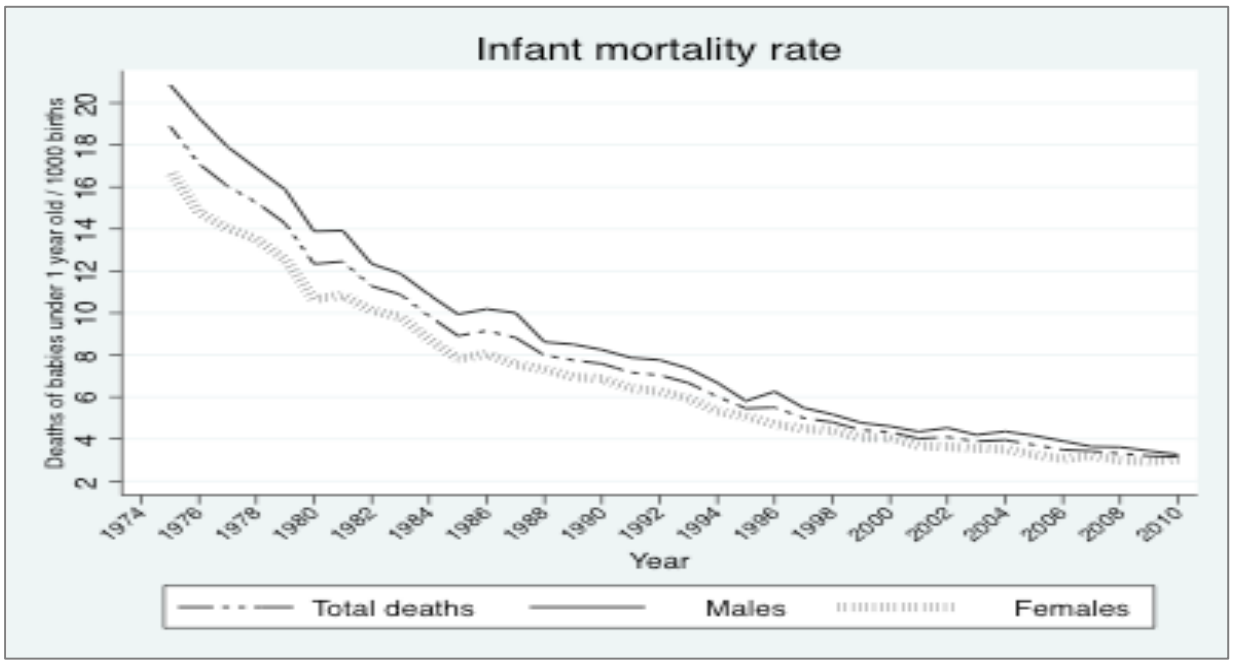


Figure 3.10. Infant mortality rate



The infant mortality rate has also been improving over the years, falling dramatically since the end of the 70s (INE) —see Figure 3.10.

Surprisingly, infant mortality rates show important regional variations. According to data from the Spanish Ministry of Health, infant mortality (/1000 births) rates in 2007 range from (excluding Ceuta

and Melilla) 5.9 (Asturias), 4.3 (Bask country), and 4.1 (Andalucía) to 2.6 (Catalonia) and 2.3 (Navarra).

Detailed measures of health

Much of the detailed data on health in Spain comes from the Spanish National Health Survey (SNHS), a bi-annual survey with very detailed health questions on a total sample of about 31,000 Spanish households. The survey was run in 1987, 1993, 1995, 1997, and 2001 by the Health Ministery of Spain and since 2003 is run by the national statistical agency (INE). In what follows we will heavily rely on this survey.

The SNHS asks respondents to report their health status. The data shows that most people in Spain feel satisfied with their health. Nevertheless the time trend, sketched in the table below, is not very optimistic: if anything, it has slightly detriorated after an initial improvement from 1987 to 1993.

My health state is:	1987	1993	1997	2001	2003	2006/07
Very good	14.4%	10.9%	12.8%	14.4%	11.2%	18.0%
Good	53.5%	57.6%	55.6%	55.1%	56.8%	48.6%
Regular	23.9%	24.4%	23.5%	23.1%	23.2%	24.8%
Bad	6.7%	6.0%	6.5%	5.7%	6.7%	6.4%
Very bad	1.4%	1.1%	1.6%	1.7%	2.2%	2.3%

Self-reported health satisfaction in Spain is (2006, SNHS) higher for men and for higher educated individuals. Although education differences may be actually concealing age differences, subjective health inequality across educational groups persist even when looking at 25 to 44 years old. In fact, the empirical evidence for Spain shows a clear socio-economic gradient in subjective health inequality (see, for instance, Blanco and Ramos (2010), Regidor, Gutierrez-Fisac, Domínguez, Calle and Navarro, 2002; and Regidor, Barrio, De la Fuente, Domingo, Rodríguez, and Alonso, 1999). In addition to the socio-economic gradient, income inequality is also thought to have a detrimental effect on individual health (Wilkinson (1996), Deaton (2003)). In a recent study, Blanco and Ramos (2001) examine the effect of income inequality and income polarisation on self-assessed individual health status and find that both inequality and polarisation have a detrimental effect on individual health, using data from the ECHP.

Notwithstanding this, Van Doorslaer and Koolman (2004) found that in 1996 Spain was among the countries with a smaller self-assessed health inequality across income groups. In their study Portugal, UK and Denmark ranked among the most unequal countries. These same authors do however find regional differences in Spain. In fact, regional disparities are indeed relatively large in Spain, as they are in other South European countries. For example, while on average 66.5% of the Spanish population (SNHS, 2006) reported their health to be "very good" or "good". This percentage was (we exclude Ceuta and Melilla) highest in La Rioja (76%), Cantabria (71.6%), Balearic Island (71.6%), and Basque Country (71.2%), and lowest in Galicia (54.6%), Murcia (62%), Asturias (62.5%), and Extremadura (62.8%). Using the self-evaluation question of the 2001 Spanish National Health survey, García Gómez and López-Nicolás (2007) examined and empirically estimated subjective health inequality by regions in Spain. They find that income played a smaller role in explaining health inequality in those regions where mean health satisfaction is highest.

Objective health measures have different time trends depending on the dimension we look at: while many objective health measures have improved over the years, other aspects have slightly deteriorated. For example, the number of calory intake has increased from 3000 (average/person/day) in 1985 to 3400 in 2004 (Spanish Ministry of Health). According to the same source, the number of disable people in Spain has reduced slightly from 8.99% in 1999 to 8.55% in 2008. These figure are larger for women (10.27% and 10.10%, respectively) than for men (7.66% and 6.95%, respectively).

For some objective health mesaures, the time trend has not been favourable. Nevertheless, it is important to take into account that Spanish population has been ageing over the same period, which hampers comparison. Death rates from 1981 to 2007 are, according to the Spanish Ministery of Health:

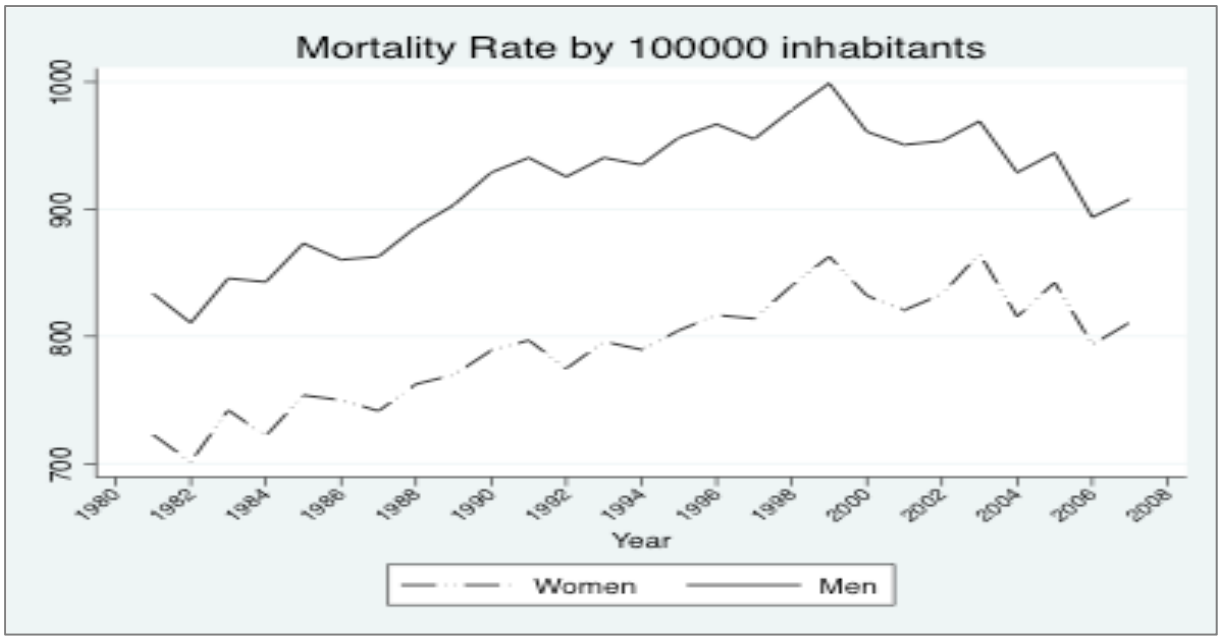
Death rate / 100,000 inhabitants	**1981**	**1991**	**2001**	**2007**
Suicide	4.6	7.5	7.8	7.3
Diabetes Mellitus	19.4	23.5	23.5	22.6
Ischemic heart disease	76.1	90.6	95.3	82.9
Tumor	157.6	202	231.7	222.8
Total mortality rate	777.2	867.2	884.4	858.8

Health inequailties however still remain. One important dimension of health inequalityies is gender. The table below shows that women are usually worse-off when it comes to objective health (SNHS 2006):

	Total	Males	Females
Hypertension	20.74	18.69	22.72
Myocardial infarction	2.31	3.21	1.45
Other heart diseases	5.52	5	6.02
Varicose veins in the legs	12.49	5.22	19.48
Arthrosis, arthritis or rheumatism	20.66	13.32	27.73
Chronic back pain (neck)	20.23	12.91	27.28
Chronic back pain (lower back)	21.02	16.38	25.48
Chronic allergy	12.2	10.65	13.69
Asthma	5.49	5.08	5.88
Chronic bronchitis	4.79	5.11	4.48
Diabetes	6.19	6.34	6.06
Stomach or duodenum ulcer	5.63	6.42	4.86
Urinary incontinence	3.91	2.95	4.83
High cholesterol	15.85	15.45	16.23
Cataract	7.11	5.41	8.76
Chronic skin problems	6.11	5.64	6.56
Chronic constipation	5.72	2.62	8.71
Depression, anxiety or other mental disorders	13.84	8.2	19.26
Embolism	1.24	1.26	1.23
Migraine or frequent headaches	12.01	6.55	17.28
Haemorroids	7.64	6.01	9.21
Malignant tumours	2.51	2.01	3
Osteoporosis	4.85	1.27	8.31
Anaemia	6.77	1.74	11.61
Thyroid problems	3.95	0.87	6.91
Prostate problems	3.46	7.08	n.a.
Menopause problems	3.54	n.a.	6.98

As shown in Figure 3.11, however, mortality rate is lower for women (INE):

Figure 3.11. Mortality rates



Regidor, Gutierrez-Fisac, Domínguez, Calle and Navarro (2002) present an empirical analysis of health inequality using the incidence of four chronic illnesses (heart, diabetes, bronchitis/asthma, and allergies) and a measure of self-reported health. They find important socio-economic gradients: health inequalities exist by education but also by social class. According to the same source, for some categories, inequalies in Spain increase from 1987 to 1997.

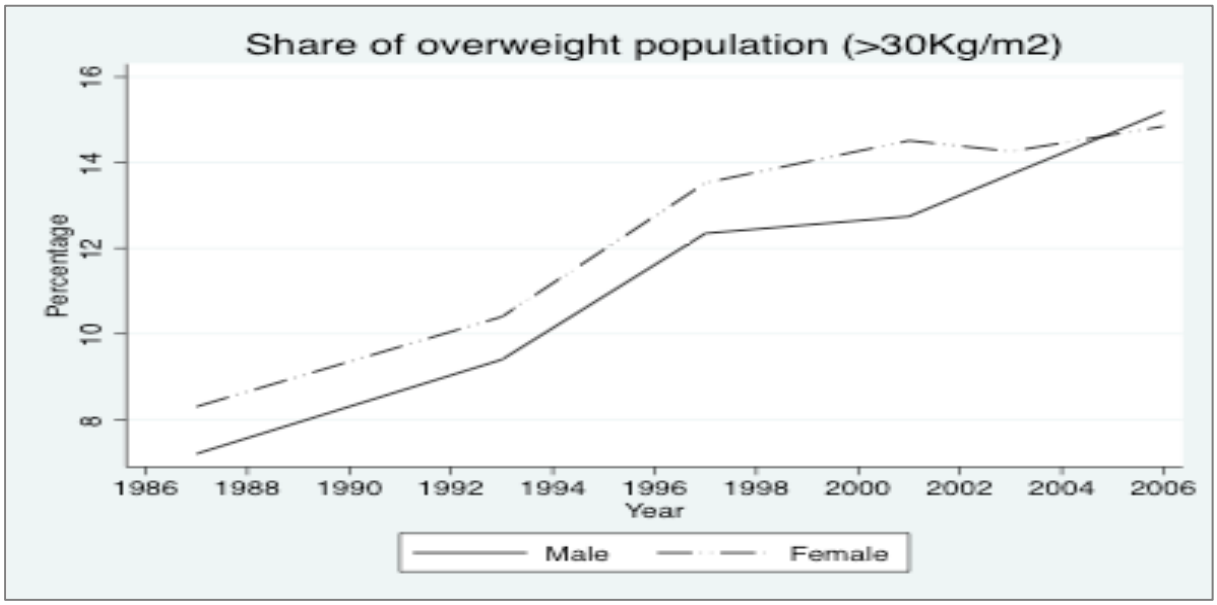
Another important dimension in Spanish health inequalities are (as for subjective health mesures) regional differences. Comparisons across regions, however, are not straight forward as the age strucure also differs largely across regions. While some regions have aged faster due to emigration, others have experienced the arrival of young domestic and international immigrants. Excluding Ceuta and Melilla, average age ranges from 37.5 (Murcia) or between 38 and 39 (Canarias and Andalucía) to 45 (Asturias), 44 (Castilla-La Mancha and Galicia) or 43 years old (Aragon) (INE, 2006).

Regional disparities are large, according to the SNHS (2006) data. The number of suicides (per 100,000 inhabitants) in 2007 ranges from 2.6 and 2.8 in Madrid and Cantabria to above 10 in Navarra, Galicia and Asturias. The regional distribution of some illnesses related deaths are also very unequal. For example, the death rate (per 100,000) due to Diabetes Mellitus in 2007 varies from 9.9 in Madrid to above 30 in Castilla-LaMancha, Asturias, and Canarias (with a death rate of 46). For ischemic heart disease the differences in 2007 range from 60.6 in Madrid (we exclude Melilla) to above 100 in Galicia (101.8), Extremadura (104.1) and Asturias (136.6). Figures for tumors range from

around 170 for Murcia (171.7) and Canarias (173.9) (we exclude Ceuta and Melilla) to above 300 in Castilla y León (303.9) and Asturias (319.1). Finally, and although again we need to take into account changes in the age structure, overall mortality rates go from 650.8 in Canarias and 677.2 in Madrid (excludeingMelilla) to 1097.6 in Castilla y León, 1105.2 in Galicia, and 1196.4 in Asturias.

Another important dimension of health is health behviour, as this is an important determinant of future health outcomes. An example is obesity, for which we observe small gender differences. As Figure 3.12 shows, the number of overweight adults (older than 20 years) has increased enourmosly in the last twenty years (Spanish Ministery of Health):

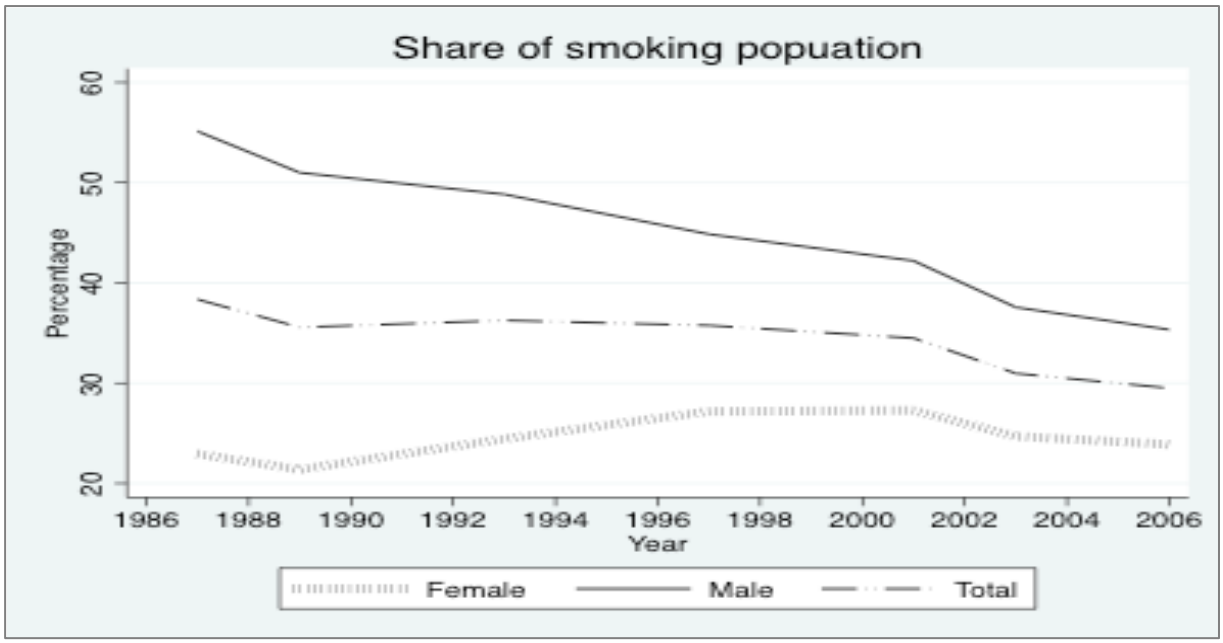
Figure 3.12 Share of overweight population



As for objective health measures, regional differences are fairly large. The number of overweighted population in 2006/2007 (same measure and source as in Figure 3.12) varies from 11.8 in Madrid, 11.7 in Baleares, and 10.9 in La Rioja to 18.9 in Murcia, 17.6 in Andalucía, and 17.1 in Extremadura.

In contrast, the share of smoking population in Spain, displayed in Figure 3.13, has decreased over the years and varies largely between genders, although the gender differences of the 1980s have narrowed down enormously.

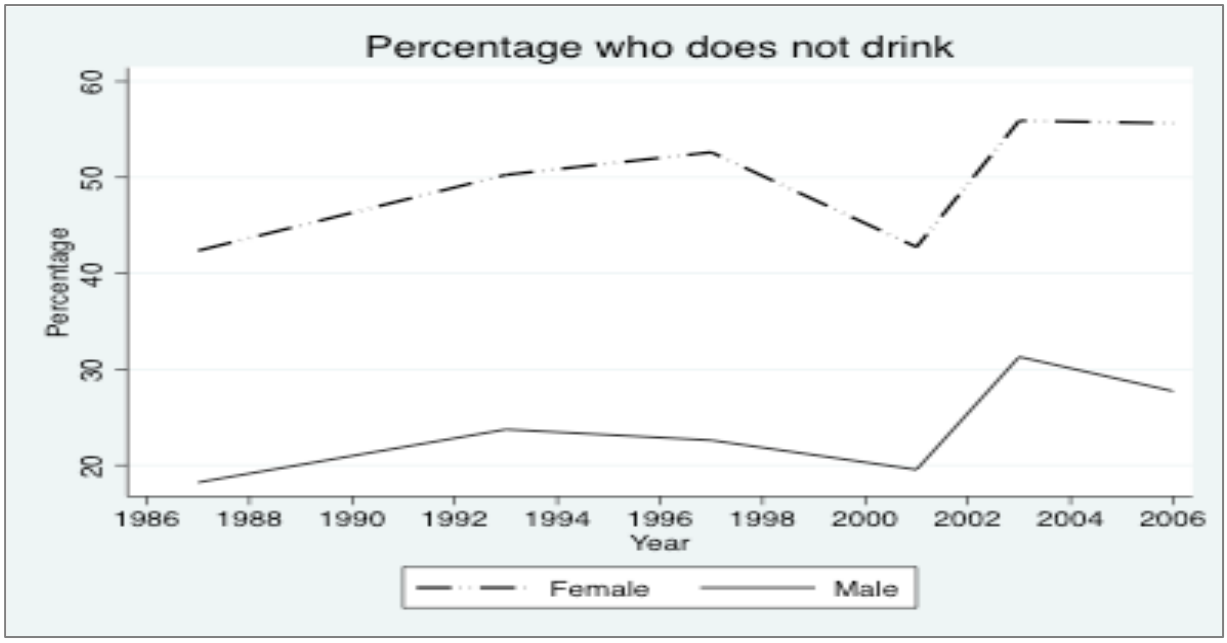
Figure 3.13. Share of smoking population



Regional differences are much smaller, with percentages ranging from 24 to 34 in 2007 and from 34 and 42 in 1987.

As Figure 3.14 shows, the evolution of drinking behaviour over time is positive (Spanish Ministry of Health). As for smoking, however, there are important gender and regional differences in drinking behaviour.

Figure 3.14. Percentage who does not drink



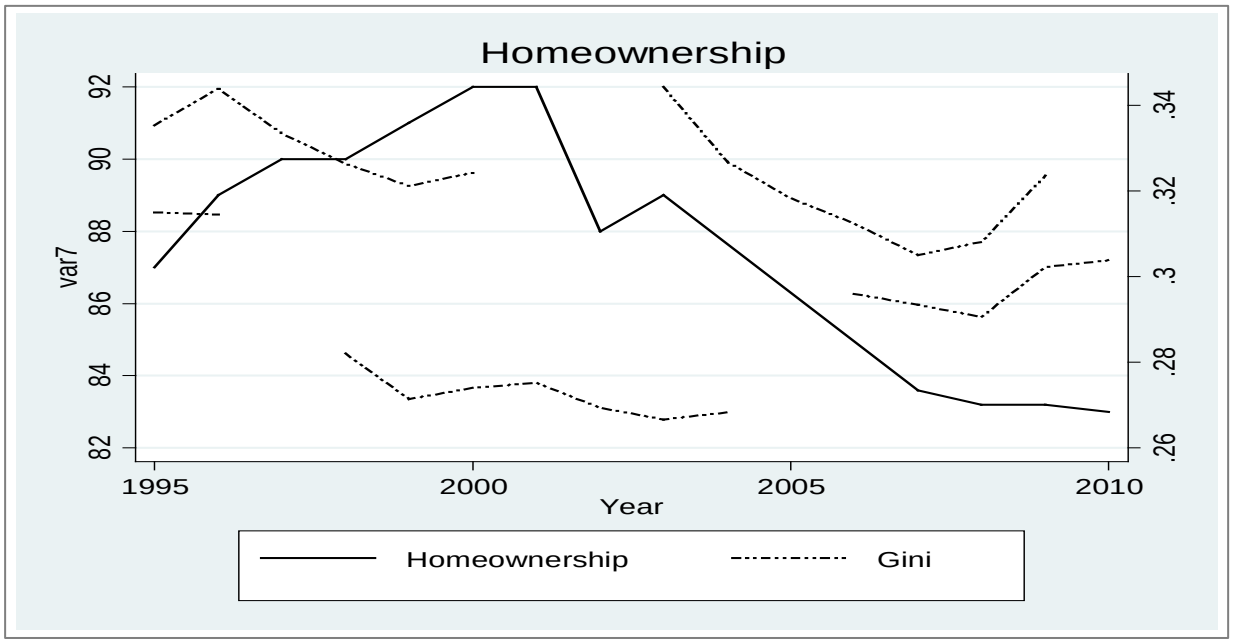
3.7 Housing tenure

Government policies over the years have promoted homeownership, while there has been fewer (if any) tax deductions for renting. Over the years, Spain has not only had regressive mortgages deductions, but at the same time social housing and tax benefits for rent have been very limited.

The combination of these two governmental political strategies may have been the cause and the consequence of the very high percentage of homeownership in Spain. In fact, Spain has the largest homeowership rate in Europe (followed by Italy).

Figure 3.15 displays the evolution of homeownership in Spain (Eurostat):

Figure 3.15. Homeownership



Perhaps because of the increase in the number of migrants in the popuplation or because of the crisis, that makes it hard for young people to buy (or keep) a house, ownership rates have decreased in the last years, after the year 2000 when it was about 92%.

Since homeownership is so large in Spain, inequalities will be less pungent. Migration status however may be one of the dimensions through which inequalities may play a role. Amuedo-Dorantes and Mundra (2012) examine homeownership by migration status and find that EU15 residents in Spain have larger degrees of homeownership even after controlling for individual and household characteristics. Nevertheless, the oppostite is true for permanent residents from non EU15 countries,

temporary residents, and undocumented inmmigrants. In addition, there is anecdotical evidence indicating that access to (and financial conditions of) mortgages are worse for immigrants.

Housing quality in Spain is fairly good. For example, Spain has one of the lowest percentage of individuals living in overcrowded houses. This is an index defined by the Eurostat that takes into account the number of rooms per individual (and age).

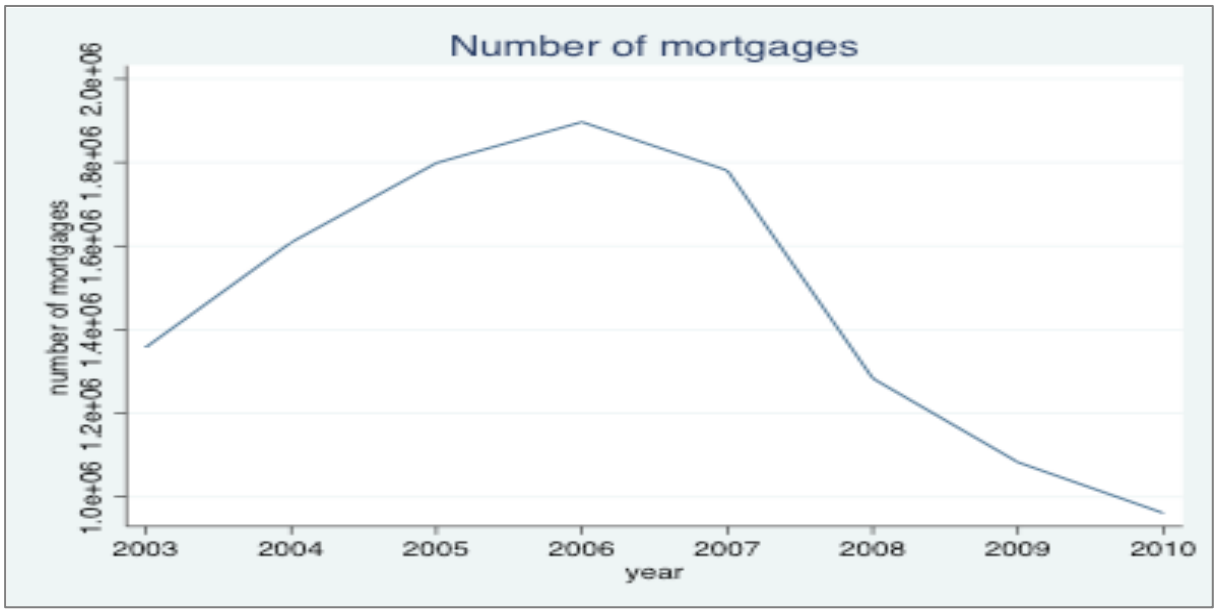
Financial problems & homeownership

The high rate of homeownership in Spain has generated important problems, especially after the current economic crisis: the number of owners with large mortgages increased during the housing boom and with the current financial crisis many households can neither pay the mortgage nor sell the house. The price house index (Spanish average) was 83.44 in 2011 if 100 in 2007, although regional differences were very large. In Catalonia, for example, the 2011 index was 73.13 (also 100 in 2007), in Madrid 77.53, and in Andalusia 91.32. This difference in price drop can have consequences for regional differences in household income (net of wealth) inequality in the next years.

Eurostat keeps track of an indicator called “household overburden rate”, which is the percentage of population living in a household with total housing costs (net of housing allowances) larger than 40% of the total disposable income. In 2010 this percentage was 11.2%, while in 2005 it was just above 4%. This clearly shows an increase after the crisis.

The number of mortgages, shown in Figure 3.16 (INE), had steadily increase during the early 2000s and started decreasing after the crisis

Figure 3.16. Number of mortgages



This means that many households have large debts, for a very long time period (many mortgages are at 20-30 years), and with variable interest rates that makes them very sensitive to the financial cycles. During the years previous to the crisis, households had easy access to credit at the time were interest rates were relatively low. During those years Spain seemed a very stable country and the international financial market was lending money at a failry low interest rate. This situation has made Spanish families very vulnerale to house prices and interest rates.

According to the European Commission Staff Working Document 30.5.2012 SWD(2012)-159 "In-Depth Review for SPAIN", one of the problems of the Spanish economy is indeed the high levels of private debt. According to this source, in 2010 the private sector debt was at 227% of the GDP. This should decrease over the years, as loans to the private sector typically fall during crisis. According to the same source, one third of this private sectod debt is household debt, 90% of which is in mortgages. It is interesting to notice that the corporate debt, according again to the same source, is mostly in construction and real sate.

3.8 Crime and punishment

The number of total crimes recorded by the police has been steadily increasing at least since the begginig of the 80s. At that time Spain was just coming out from a dictatorship, a time in which crime rates were, for many reasons, very low. In addition, population has also increased during these years:

Spain had about 36 million inhabitants in 1985 and 47 millions in 2010. It is interesting to notice that while income inequality in Spain has been decreasing since 1985, the evolution of crimes recorded by the police has been increasing

The number of homicides had a different behaviour: it increased from 1995 to mid-2000s and decerased afterwards. Figure 3.17 shows the evolution of crimes and homocides (Eurostat) :

Figure 3.17a. Crimes recorded by police

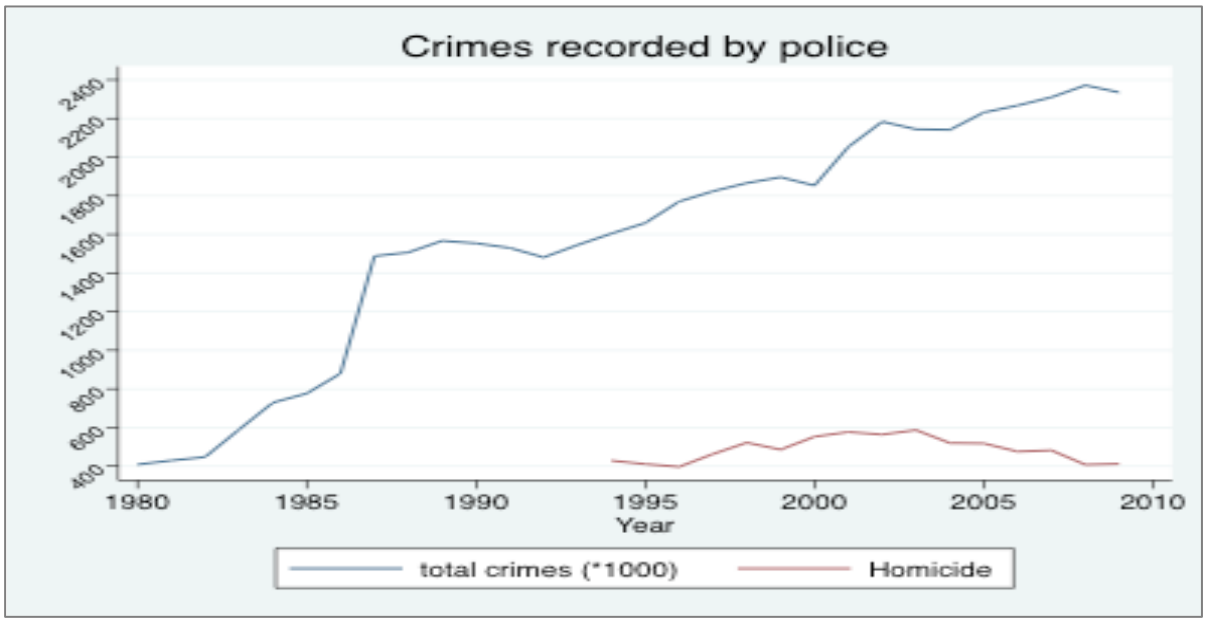
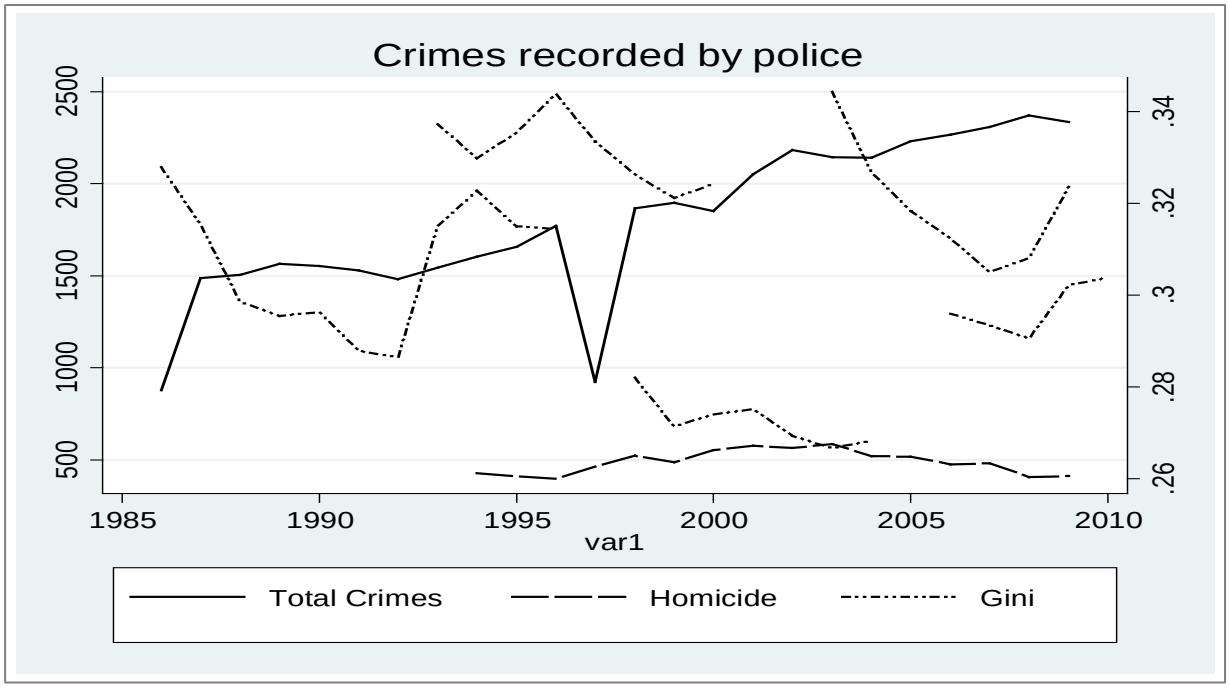
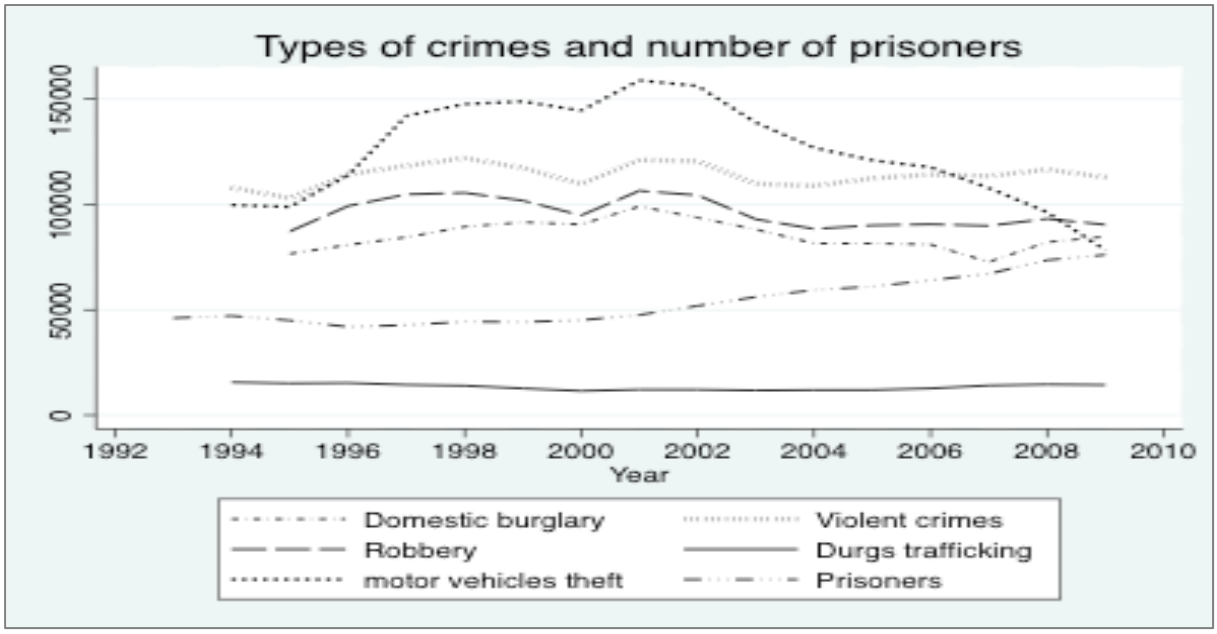


Figure 3.17b. Crimes recorded by police & Gini



According to the same source (Eurostat) most types of crime increase until 2002 and decrease thereafter —see Figure 3.18. The number of prisonners, however, has increased over the last 20 years.

Figure 3.18. Types of crimes and number of prisoners



3.9 Subjective measures of well-being, satisfaction, "happiness"

Subjective measures are based on individuals' answers to a question of the type: "taking all together, how satisfied or dissatisfied are you with your life as a whole these days?". If we assume that (i) there is a correlation between reported satisfaction and the theoretical concept we are interested in (welfare) and (ii) individuals mean or feel about the same when reporting their satisfaction level (interpersonal comparability), the answer to these questions can be taken as a proxy measure of welfare.

In this section, we examine individuals' reported life satisfaction even though adding individuals' reported satisfaction to measure a country welfare requires stronger assumptions and thus precaution.

According to the World Database of Happiness (Veenhoven, 2012), Spain has, on a 0 to 10 scale, a reproted happiness average of 7.2. This number includes Spanish data from 2000 to 2009. According to the same source, the number of happy years is 58.4. This index is a combination of happiness scores and life expectancy. In this index, Spain ranks 17 out of 149 countries. The ranking on the

mean happiness is a bit lower: 26 out of 149 countries. This is because, as mentioned earlier, life expectancy is high in Spain. Spain has an average reported life satsifaction lower than, for example, Denmark, Sweden, Belgium, the US, and the Netherlands but larger than the UK and France, among others.

The same World Database of Happiness reports happiness inequality in each country. This can range from 0 to 3.5. Happiness inequality in Spain equals 1.81. Spain ranks 21st out of 135 countries for which there is data on happiness inequality. Spain is more unequal than, for example, Finland, the Netherlands, Sweden, Norway, Denmark and Belgium and more equal than, for example, Germany, the UK, France, and the the US.

In the European Social Survey, wave 2002 and wave 2004, the average 0 to 10 reported happiness in Spain was 7.3. In the following waves (2006, 2008, and 2010) it increased to 7.6.

3.10 Intergenerational mobility for education and occupation

The number of data sets from which to examine intergenerational mobility in Spain is very limited. This has meant that there is little empirical evidence on this for Spain, as strong assumptions need to be made if one wants to estimate intergenerational mobility in Spain.

Education

Di Paolo (2012) using the 2005 wave of the EU-SILC estimates the probability of completing upper-secondary and tertiary education in Spain conditional on individuals' parental background. In his empirical analysis he distinguishes various cohorts starting in 1940 and ending in 1980. This last cohort consists of individuals who could have finished their tertiary education in 2003, or latter if they took longer. In a regression analysis Di Paolo (2012) shows that the importance of parental education on children's educational attainment has been decreasing over the cohorts in Spain. In this same paper he finds that this is not the case in Italy.

It is important to stress however that while the importance of parental background on the probability of having upper secondary education has decreased over the years in Spain, the probability of obtaining tertiary education is still remarkably larger for individuals whose parents have tertiary, and to a lesser extend, upper secondary education. Offsprings of parents with lower secondary or primary education have a much smaller probability to obtain a university degree. The expansion of tertiary education in Spain is therefore largely due to individuals' with parents that have

tertiary and to a less extend upper secondary education. Assortative matching also plays a role in maintaining unequal opportunities in Spain.

Occupation & Earnings

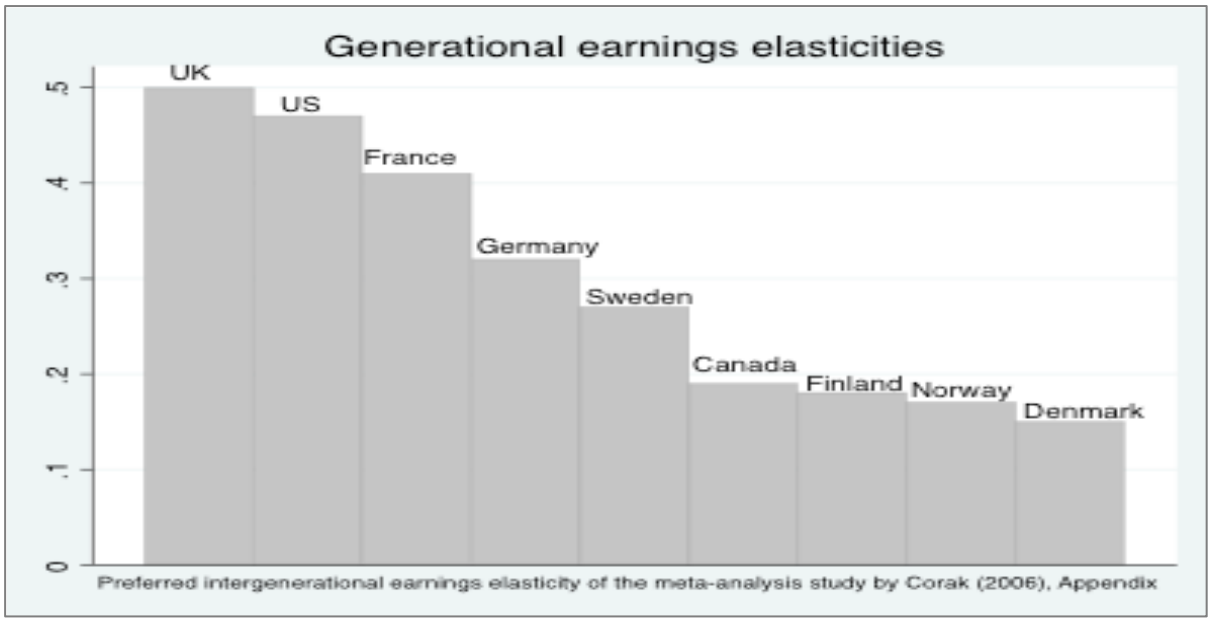
Raitano and Vona (2011) present an empirical study on intergenerational mobility for eight EU countries. They find that Spain is among those countries with the lowest occupation (ISEI) mobility, although in all countries there is occupational persistence across generations.

Earnings mobility is very difficult to measure, as there is no information on income profiles for adult children and their parents. At most, information is available only for offsprings still living in the same household as their parents. This contrasts with occupational and educational mobility, which can be (and often is) measured by means of recall information, i.e. adult children are asked about their parents' education and occupation when they were young.

The only evidence for Spain is due to Cervini-Plá (2009), who by means of two sample two stage estimator and matching data from different sources estimates intergenerational earnings mobility. She uses information on adult children from the 2005 wave of the EU-SILC and matches it (using reported education and occupational data of the parents) with the Household Budget Survey (EPF, INE).

The empirical results show that in Spain the dependence between parents and children income has decreased over time, and that it is larger for mothers and daughters than for fathers and sons. The estimated intergenerational elasticity of father' earnings on sons' earnings are 0.38 for 30 to 40 year old sons and 0.43 for 40 to 50 year old sons. For mothers and daughters these elasticities are 0.50 and 0.58, respectively. An earlier study in Spain reports an earnings elasticity of 0.64 in 1980 and 0.44 in 1990 (Hugalde, 2004). The two studies together indicate that intergenerational earnings mobility may be increasing in Spain. As compared to the estimates of Corak (2006) shown below, intergeneration mobility in Spain is larger than in anglo-saxon countries, such as the US and the UK, but lower than most other European countries included in Figure 3.19.

Figure 3.19. Generational earnings elasticities



Other aspects of intergenerational mobility

Besides educational and occupation intergenerational mobility there are other important inputs that are transmitted from parents to their offspring. Some of these inputs are very difficult to observe and measure: for example, access to networks or informal knowledge. In a recent study, Raitano and Vona (2011) use the 2005 wave of the EU-SILC to estimate the residual correlation (controlling for child occupation and education) between parental background and labour incomes of the children. When comparing the eight countries in their study, the paper concludes that while this residual correlation is not significant for Finland, Denmark, Germany and France, it is large in UK, Ireland, Spain and Italy. This means that in countries like Spain, on top of educational and occupational opportunities, parents are transmitting other background non-measurable characteristics that increase children's income. In short, there is a larger intergenerational transmission of informal forms of social and human capital in Spain than in other EU countries.

3.11 Conclusions: Appraisal of the interdependence and the 'national story' of inequlaity drivers and their social impacts

Income inequality in Spain has been reducing since 1985. Nevertheless, income inequality in Spain is still larger than in many EU countries; social protection expenditures are still below those of many

other EU countries. Therefore, the social costs of inequality are, although decreasing, not negligible. In addition, education and labour market inequalities have not decreased at the same time and this has meant that in fact over the last years social inequality has run through unemployment and educational inequalities.

Although returns to education have decreased in Spain (contributing, as argued above, to wage compression), education still plays an important role on other social outcomes such as employment, poverty risk, and social exclusion. Health inequalities also have an important regional and socio-economic component in Spain.

The risk of poverty is still fairly high and increasing with the current economic crisis. Similarly, social exclusion is higher in Spain than in many EU countries, and with the recession it has been increasing. Poverty rates differ largely across family types and education levels. Social exclusion rate is also larger for lower educated individuals.

Although family plays an important role in Spanish society, social cohesion and participation is strong in Spain. Spanish citizens are active participants of their social environment. In addition, a fairly large percentage of Spanish citizens have trust on others and on country institutions. This is true despite Spain (within the EU context) not scoring well in the corruption index. Even though family size is decreasing substantially and divorce rates are increasing tremendously, everything indicates that ties between children and parents are still an important source of support in Spain. In fact, the number of single parents (either through alone motherhood, widowhood, or divorce families in which one parent does not contribute to raising the children) is very low. An important demographic change however has been the reduction of households with three generations. This means that the number of elderly living alone or in elderly homes has increased. This form of family support has therefore been shifted to society.

An important problem in Spain is household private debt, mostly in mortgages. Spain has a large percentage of homeownership, some of which have acquired their mortgages at the boom of the housing prices, with variable interest rates and at a time when banks would give large mortgage amounts. At this moment, many Spanish households are very vulnerable to the financial and economic situation.

The current crisis will only exacerbate the social impacts of inequalities. Social, health and education expenditures, which were already not very large in Spain, will have to be downsized. This reduction will mean that access to *good* health and education will increasingly depend on individuals' income. This, in turn, will reduce intergenerational mobility.

4. Political and Cultural Impacts

4.1 Introduction

After a long dictatorship (1939–1975), a peaceful transition to democracy (1975–1979), and an active involvement in the process of Europeanization after its entry to the European Economic Community (1986), Spain has undergone deep social and political transformations. However, citizens' political disaffection seems to be a cultural phenomenon that shows remarkable stability across generations. Relatively low levels of electoral turnout, low trade union density, scarce participation in social and political organizations, lack of confidence in political institutions, and little interpersonal trust are some of the symptoms of such disaffection.

The level of political participation in Spain depends largely on political factors, particularly the overall satisfaction of the electorate with the political situation, the mobilization capacity of political parties, and the level of social capital. However, some individual characteristics certainly matter. Although differences in education and income appear to have a minimum impact in terms of electoral engagement, there is an important gap between income and educational groups in terms of other forms of participation, such as involvement in voluntary associations and social movements, in political parties and even in trade unions. Similarly, poorer and less educated individuals tend to trust the least in their fellow citizens and in political institutions. These trends imply not only that this population has less opportunities for political representation of their interests, but also less chances of developing autonomous social organizations or relationships of cooperation with social and political elites.

It is also noteworthy that while people from low- and medium-income households have remained, on average, more stable in their ideological positioning, individuals from high-income households have shown a gradual movement to the left of the political spectrum. Surprisingly, pro-redistribution attitudes have increased among those from high-income groups, while the level of support for reducing income inequalities has fallen among the individuals from low-income households. However, considering the whole population, there is a growing tendency to adopt centre positions in the dilemma of individual versus government responsibility in the achievement of welfare. This coincides with the remarkable tendency of Spain's political parties, as well as the electorate, of taking positions toward the ideological centre, while extreme political positions have received minimal levels of support.

Even though many of the political attitudes and values analysed in this chapter are the result of a long-standing process of cultural accumulation, in the short-term some of these attitudes and values seem to be closely associated with the evolution of economic cycles. For instance, although pro-European sentiment in Spain has always been above the European average, a notable decline in support for European Union membership is observed since mid-2009 undoubtedly linked to the financial and economic crisis, similarly to what happened in the period 1993-1994 which was also characterised by a difficult economic situation in Spain. In a similar fashion, trust in government, the national parliament and the legal system has steeply declined since mid-2008 undoubtedly linked to the current severe economic recession, the tough process of fiscal adjustment and the high levels of unemployment.

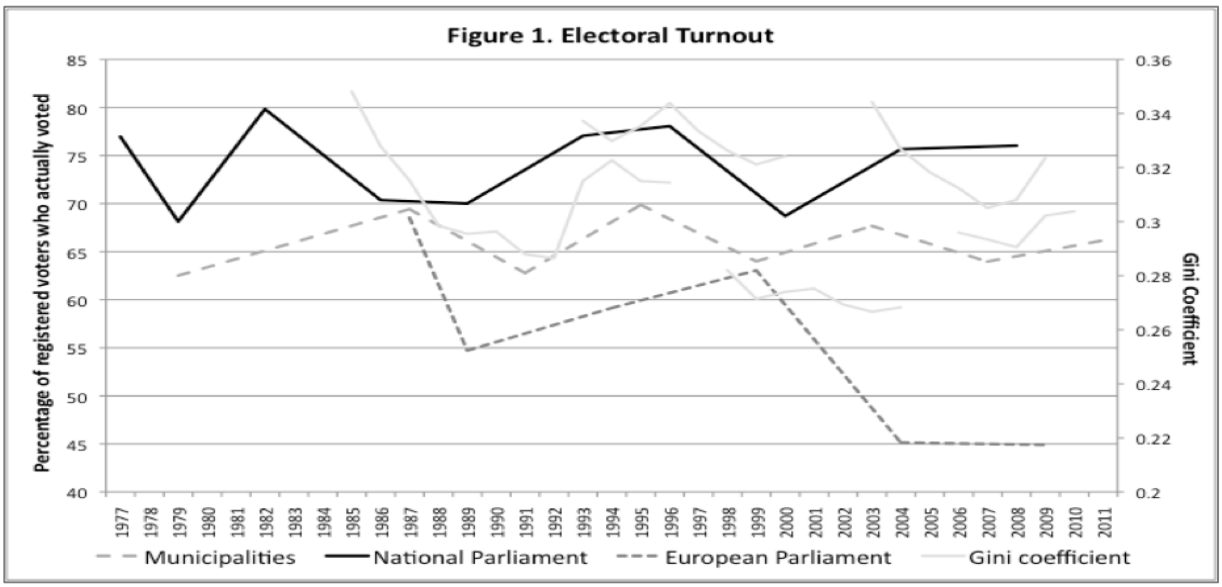
4.2 Political and Civic Participation

Political Participation

The Spanish recent democratic life coincides almost perfectly with the historical period covered in this study. In 1977, the Spanish population had its chance to vote for the first time after 40 years of dictatorship. Two years after the first general election, local elections arrived, followed just one year later by the first region to hold their regional election. Three years after that, all Spanish regions had elected their regional Parliaments for the first time, and only four years after the first European election was held. However, Spain has one of the lowest levels of turnout among the member states of the European Union (EU). Ups and downs are frequent and pronounced depending on the electoral cycle, and electoral participation differs sharply among levels of government.

Figure 4.1 shows voter turnout in municipal, national and European elections between 1977 and 2010. The evolution of turnout levels shows patterns similar to any other European country: largest turnouts to elect the national Parliament, lowest turnouts to elect the European Parliament and intermediate levels in the local and regional elections. Electoral participation in National Parliament elections has been around 74 per cent and in local elections around 66 per cent. The highest level of participation was in the 1982 general election, held one year after a failed coup attempt, where the vote was a clear way to demonstrate support to the democratic process (Gunther, 1986). The abstention has been greatest in the European Parliament elections, in which the percentage of registered voters who actually voted fell from 68.9 per cent in 1987 to 44.9 per cent in 2009.

Figure 4.1. Electoral Turnout



Source: Ministerio del Interior. Dirección General de Política Interior

While voter turnout in national and local elections does not exhibit a clear trend, in European elections it seems to be declining in the last years. The first European Parliament election took place in 1987 with the highest voter turnout in this type of elections in the country (69%). In the following elections the voter turnout has been close to the average turnout across the European Union, except in 1999 when the Spanish participation was 63 per cent, 13.5 points above the European Union average. This exceptional mobilization of Spanish voters for the European elections in 1987 and 1999 was certainly due to the fact that they coincided with the municipal and regional elections, which were held at the same time. However, following a common trend in the region, electoral participation in the last campaigns is declining. The voter turnout was only 45 per cent in 2009, almost 18 points less than a decade ago but above the average European participation, which was 43.5 per cent, a record abstention in Europe.

According to previous research, voter turnout in both national and European elections has revealed clear socio-demographic profiles: abstention has been high among women, people under 25 years of age, people with the lowest educational levels, the unemployed and housewives (Anduiza, 2005). Nevertheless, according to Boix and Riba (2000), who studied the decision to abstain from voting in the general elections of 1982, 1989, 1993 and 1996, except for age, individual characteristics have little impact on the decision to vote. Unlike what happens, for example, in the United States, where

interpersonal differences in individual resources (education and income) determine a substantial part of the variation in abstention, Boix and Riba (2000) argue that in Spain differences in resources have a minimum impact in terms of political participation, while the degree of political mobilization is more important. For instance, they found that while an uneducated voter abstains with a probability of 15 per cent, a voter with postsecondary studies decides not to vote with a probability of 10 per cent. However, the coefficient of education changes its sign once the variable "interest for politics" is included in the equation. Similarly, other research has found null influence of education (Anduiza, 1999; Blais 2000).

In sum, the level of participation in Spain depends largely on political factors, particularly the overall satisfaction of the electorate with the political situation, the mobilization capacity of political parties, and the level of social capital. In times of general disaffection people are more likely to be concerned and turn out to vote; in times of global optimism there appears to be less need for taking part in political affairs. In addition, Boix and Riba (2000) found that in provinces with a strong associational life, the likelihood of abstaining is three times less (6 per cent) than in provinces without associational life (16 per cent). The presence of developed political organizations also contributes to reduce abstention. Therefore, it is also important to analyse the patterns in some indicators of civic participation.

Civic Participation

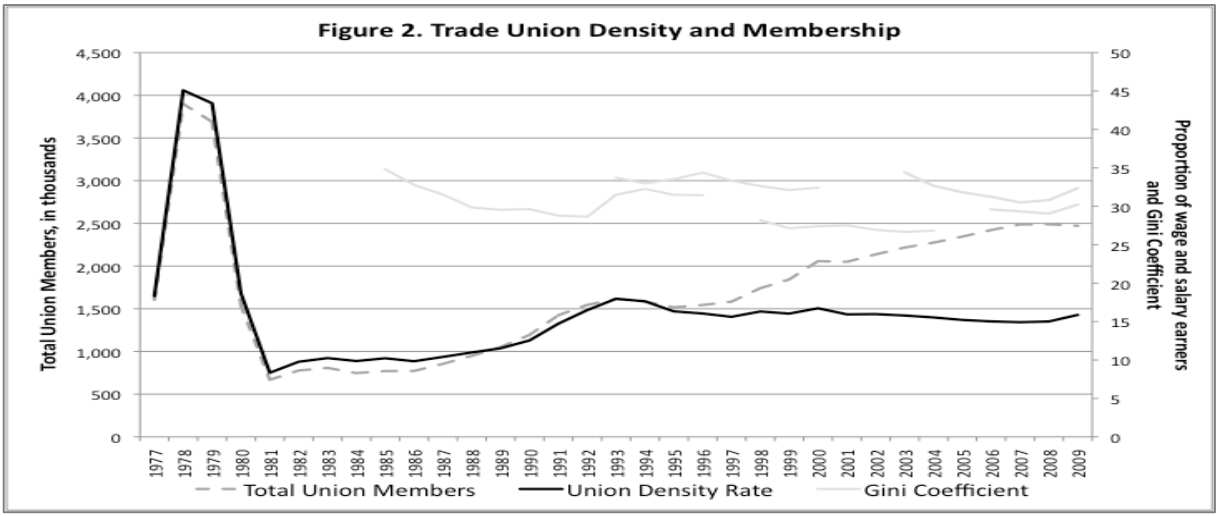
Spain stands out as one of the western countries with lower levels of political participation and civic involvement. Some analysts seem to agree that, after a period of greater citizen mobilization before, during and immediately after the transition to democracy Spaniards retreated from politics and regained their traditional passivity (Sastre, 1995 and 1997; Torcal, 1995). Sastre even argue that the Spanish transition to democracy was not particularly accompanied by a mobilized citizenry, since the transition was mainly elite-driven and Spanish political parties intentionally pursued a strategy of demobilization to facilitate elite agreements. Examples of this scarce political and civic involvement are the low shares of adult population who belong to a political party, a trade union, or a civic organisation (such as welfare organisations, religious or church organisations, local community associations, among others).

First, the affiliation rates of the Spanish political parties are amongst the lowest in Europe. At the end of the 1980s the ratio of members to electors was 10.5 in Western Europe as a whole; Spain, with a ratio of just 2.0, ranked last in the region, and this rate has varied little in time. The ratio between the

members and voters of the different parties is also extremely low. According to Torcal and Moreno (1999) the very low levels of party affiliation in Spain are in accordance with the Spaniards' even weaker propensity to play an active role in the parties, with the parties' scant organizational penetration of society, and with the weakness of party identification among the electorate.

Second, like France, Portugal and Greece, Spain has a relatively low unionisation level and unstable membership bonds since the democratisation in the late 1970s. Up until the mid-1970s, union membership was essentially illegal. The recognition of union liberty and the formation of numerous labour organizations in 1977 led to a spectacular and short-lived increase in union membership, as it is shown in Figure 4.2. This immediately dropped sharply but in the 1980s, the unions managed to acquire organizing rights and succeeded to build a reasonably loyal membership base among permanent workers in large firms (Visser, 2006). The net union membership increased steadily from 1980 to the end of the 2000s, with only a slightly decline in 1993-1994 probably due to the economic crisis, when income inequality increases. Total membership also slows down with the 2008 recession, when inequality raises again.

Figure 4.2. Trade Union Density and Membership



Source: OECD Labour Force Statistics

Union density (share of workers who are members of a union), however, provides a different picture since 1994, when it reached its maximum, 18 per cent. Thereafter, it has remained stable about 16 per cent, a low rate compared to other OECD countries. This can largely be explained by the fact that 90 per cent of the workforce is employed in small- and medium-sized enterprises (Hamann and Martinez, 2003). Spanish workers' reluctance to join unions has created a paradoxical situation for the two main union federations, the Unión General de Trabajadores (UGT) and Comisiones Obreras

(CCOO). Whilst they enjoy both considerable institutional recognition in the political arena and hegemony in large companies[5], their presence and influence are much weaker in the small and medium-sized companies that are precisely the largest category of firms (Torcal and Moreno, 1999, p. 10).

It is remarkable how the income gradient of union affiliation has changed since the eighties. Membership has markedly declined amongst low and middle income workers, while it has remained rather constant amongst high income employees. According to EVS data, at the beginning of that decade 15.6 per cent of low income employees were union members, while only 10 per cent of high income employees were. However, in more recent waves a greater proportion of wage and salary earners in high-level income households were union members (12 percent) while less than 5 percent of employees of low income levels were. For middle-income employees, except for the sharp drop between the eighties and nineties, the proportion of members has grown slightly.

Table 4.1. Trade Union Membership by Income Level - Share of employees -

EVS-wave	Income household respondent			
	Low	Medium	High	Total
1981-1984	15.58	15.14	10.18	13.64
1990-1993	5.40	6.69	3.94	5.49
1999-2001	8.57	7.38	11.01	8.87
2008-2010	4.83	9.23	11.93	9.32

Source: EVS Longitudinal Data File 1981-2008

Finally, levels of membership and participation in voluntary associations and new social movements are relatively low as compared to the average of EU countries[6]. On average, 25 per cent of Spanish respondents of the EVS report belonging to any civic organisation[7] (27 per cent if political parties and labour unions are included) in contrast to 46 per cent of the EU average. As can be seen in Figure 4.3, there is an important gap between income groups and it is increasing over time. While in the Eighties

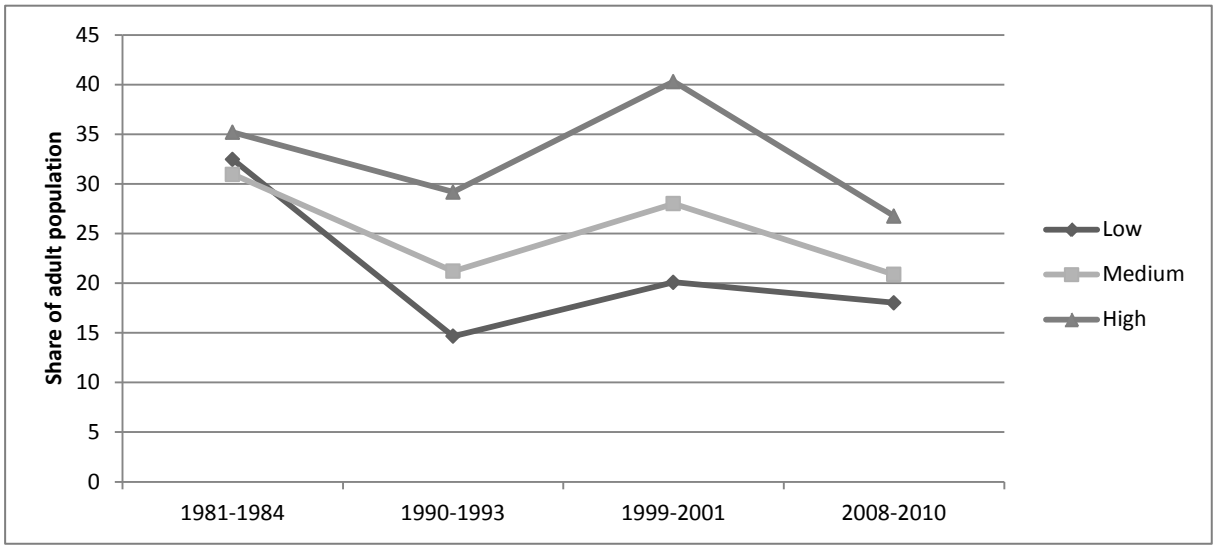
[5] In spite of low affiliation levels, Spanish unions play a central role, for instance through representing the work-force in work councils and during negotiations, and in collective bargaining, which affects 90 per cent of the wage-earners in the private sector (Izquierdo et al 2003). These factors mitigate the low density level of membership.

[6] In Spain the correlation between belonging to a civic group and doing unpaid work for the same sort of groups is 0.6.

[7] Including welfare organisations, religious organisations, cultural activities groups, 3w-development or human rights groups, environmental groups (ecology, animal rights), professional associations, youth work associations, local community action, sports/recreation groups, women groups, peace movements, voluntary health organisations, among other groups.

the difference in participation of members from low and high income groups was less than 3 per cent, at the beginning of 2000s the difference was more than 20 points. Although in the last EVS wave this gap seems to be narrowing, the difference is still important, 8.7 points. There is also a gap in terms of gender (Table 4.2); women are less likely to belong to or work in voluntary organizations than men. This is not only true for political parties and trade unions, but also for all the many organizations of civil society that depend on the voluntary citizen participation.

Figure 4.3. Membership of civic organisations by income level



Source: EVS Longitudinal Data File 1981-2008

Table 4.2. Membership of civic organisations, political parties and trade unions by gender

EVS-wave	Male	Female	Total
1981-1984	38.48	28.52	33.3
1990-1993	25.47	19.28	22.26
1999-2001	33.73	28.25	30.92
2008-2010	28.17	22.67	25.34

Source: EVS Longitudinal Data File 1981-2008

It is worth noting that, using data from the CIS (Centre for Sociological Research), Morales (2005) rejects the idea of a decline in civic engagement in Spain, against what is usually argued in other studies (Sastre, 1995 and 1997; Torcal, 1995). Even though Morales recognises that associational membership is only modestly increasing, she remarks that associational engagement seems to be growing, especially amongst younger cohorts, which seem to prefer the more socially oriented organizations, in particular human rights and 3rd World development groups, mainly due to the growing popularity of this sort of NGOs in Spain.

In sum, political and civic participation in Spain is relatively low compared to the EU average. Conventional forms of political participation are mostly stable or slightly decreasing. Neither political parties nor trade unions have been able to boost significantly their membership figures and they have to content themselves with stable trends. Hence, there seems to be no obvious relationship between declining inequality and political and civic participation. Similarly, the so-called associational world has not been able to attract more Spanish citizens to their organizations over time. However, we are cautious because a purely descriptive approach to the evolution of citizen engagement in Spain is not enough to support the hypothesis of declining involvement in politics. Other kinds of participation, such as protest initiatives, are becoming more popular and fundamental social changes are taking place that will bring in the short or medium term a change in citizen involvement in Spain.

4.3 Trust in others and in institutions

According to some authors, trust is the central element in a complex virtuous circle (Coleman 1988, 1990; Putnam 1993; Fukuyama, 1995; Dalton 1996). Higher levels of confidence in the system's institutions and trust in one's fellow citizens facilitate the social interactions that build a strong civil society. Trust is associated with social participation and engagement in community and civic affairs that help build the political institutions necessary for democratic and efficient governments. In turn, governments with these characteristics create the conditions in which social and political trust can flourish. In this section, we focus on the evolution of interpersonal trust and confidence in institutions in Spain.

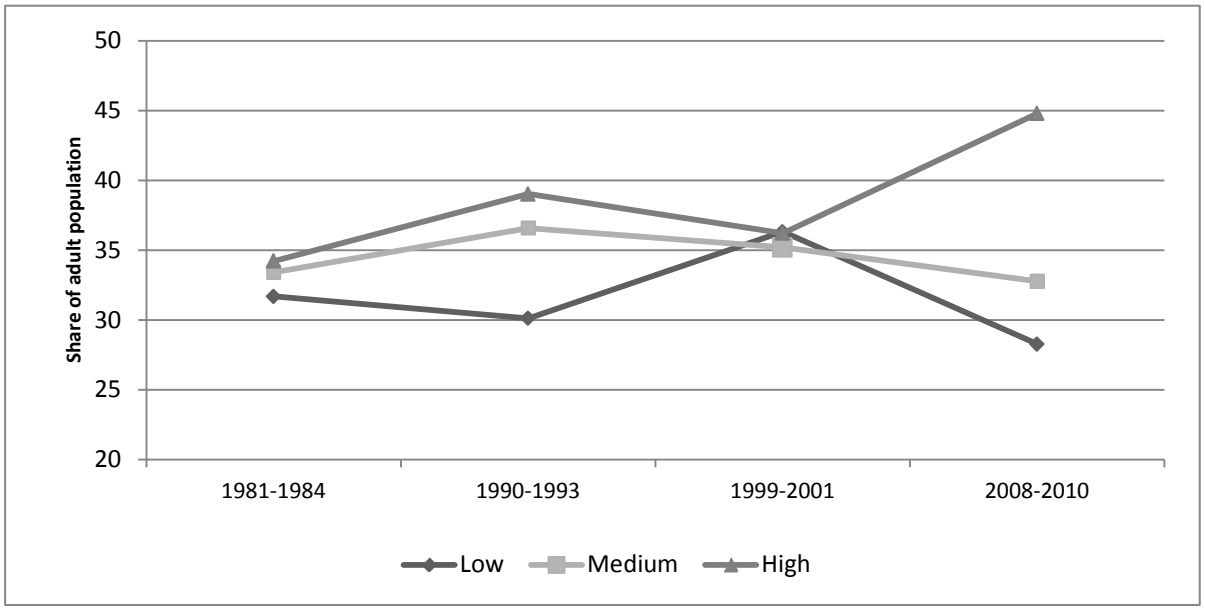
Trust in others

Following Torcal and Montero (1999), the relatively low level of associational life in Spain coincides with a series of attitudes related to social capital, in particular with the also relatively low level of interpersonal trust. In 1981, 61 per cent of Spaniards stated that they mistrusted their fellow citizens. Despite many political, cultural and social changes, almost three decades later this figure has hardly changed. In 2008 only one third of the population said they can trust in other people (Figure 4.4). Torcal and Montero also argue that the lack of trust in Spain is basically the result of an entrenched cultural heritage transmitted from generation to generation. This transmission might be explained by political events that most Spaniards experienced and/or received from their elders during their processes of socialization. However, it is not necessary to go back to earlier centuries in Spanish

history; this authors' explanation is based on the recent historical events that occurred before the transition to democracy, fundamentally the extraordinary discontinuity in the Spanish political life since the beginning of the 20th century and the strong influence of the authoritarian regime.

Similarly to civic participation, data from different sources reveal that the level of trust is positively correlated with income (Figure 4.4) and educational levels (Figure 4.5). By income levels, the difference in the share of people who consider that most people can be trusted[8] appears to be greater with time. Data from the EVS shows that in the period 1981-1984 the difference in the percentage of people of high- and low-income households expressing trust in others was only 2.5 points, while in 2008-2010 this difference increased to 16.5 points. However, in 2000 the percentage was the same for both groups, 36 per cent. It is interesting to note that the trend in the confidence levels of both groups follows opposite directions, namely, when the confidence of individuals with high level of income increases, trust of individuals from low income households decreases, and vice versa, which is particularly noticeable in the last period. Income inequality thus does not seem to have an obvious relationship with interpersonal trust. If at all, a possible inequality decrease from 1980 to 2010 has widened interpersonal trust perceptions between better-off and worse-off individuals by increasing trust amongst the former and decreasing trust amongst the latter.

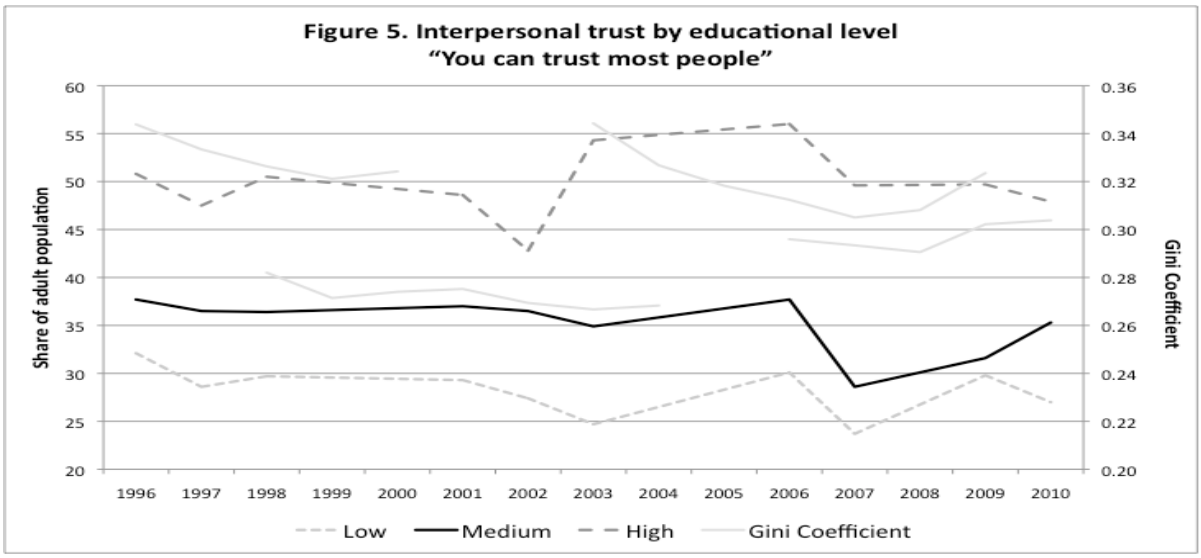
Figure 4.4. Interpersonal trust by level of income "People can be trusted"



Source: EVS Longitudinal Data File 1981-2008

[8] In the EVS, respondents are asked to give their opinion in a scale ranging from 1 (a great deal of trust) to 4 (none at all). 'Trust' is coded as 1 and 2 on this scale.

Figure 4.5. Interpersonal trust by educational level "You can trust most people"



Source: Latinobarómetro

Drawing on another data source, the Latinobarómetro, we can observe not only that the overall levels of trust are very consistent with those from other sources, but also that differences by educational level follow a pattern more clearly defined. On average, 35 per cent of respondents said they can trust most people, as opposite to the statement "you can never be too careful when dealing with others". In this case, there is a difference of 21.5 points between those with high and low levels of education, a difference that peaked in 2003 due to a significant growth in the level of trust among the most educated. Nevertheless, between 2006 and 2010 the level of interpersonal trust of this group fell to the same levels observed in the late nineties, declining 8 points.

Trust in institutions

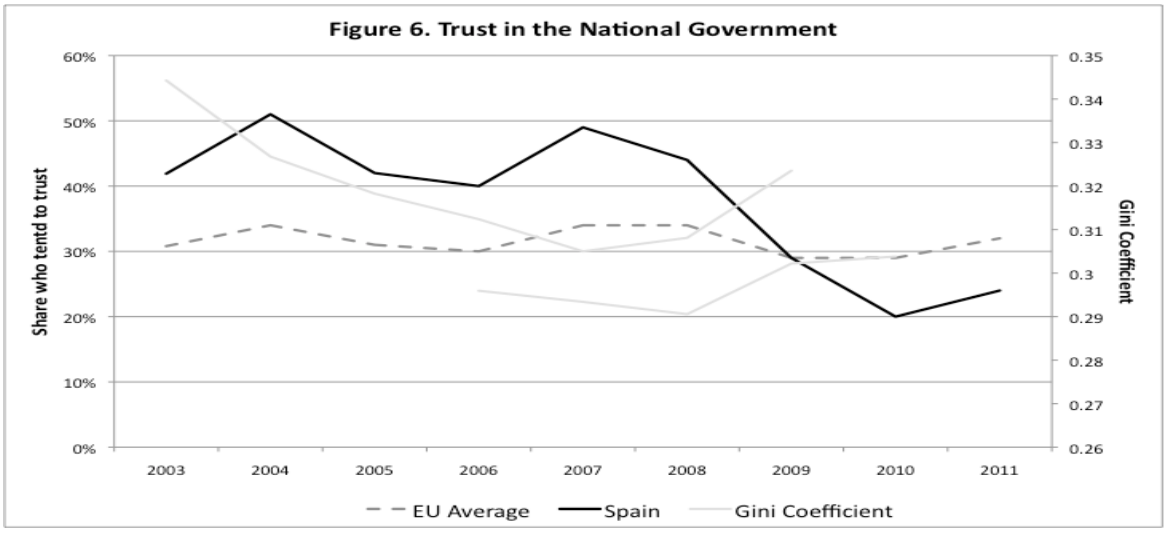
In the previous section we mention how important the Spanish political transitions have been in the transmission of low levels of interpersonal trust in Spain. At some extent, a similar effect can be expected with the way citizens perceive political institutions and evaluate their performance. In fact, a correlation between social trust and confidence in political institutions indeed exists, and it is also associated with satisfaction with democracy (Zmerly, Newton and Montero 2007). However, in this case individual's political experiences play a more relevant role. Not only the uncertainties of the political transition at the beginning of the Eighties, the problems of consolidating a new democracy with a different territorial structure and the unknown experience of governmental alternation, but also recurring economic crisis, one of the highest and more persistent unemployment rates in Europe, and intermittent political crisis caused by scandals involving cases of public corruption

provide the context for understanding the evolution of Spaniards' trust in institutions (Montero, Ghunter and Torcal 1998).

Based on Eurobarometer data, Figures 4.6 to 4.8 illustrate trends in the levels of trust in the national government, the national parliament and the legal system respectively over the last decade, for Spain and the EU. Different from most European countries where citizens place most confidence in the police, followed in descending order by the courts, the national parliament, and political parties (Schnaudt 2010), in Spain the differences concerning the average levels of citizens' confidence in government, the national parliament and the courts do not reach statistical significance. Only in the last two years the legal system has been rated more positively than the government and the national parliament.

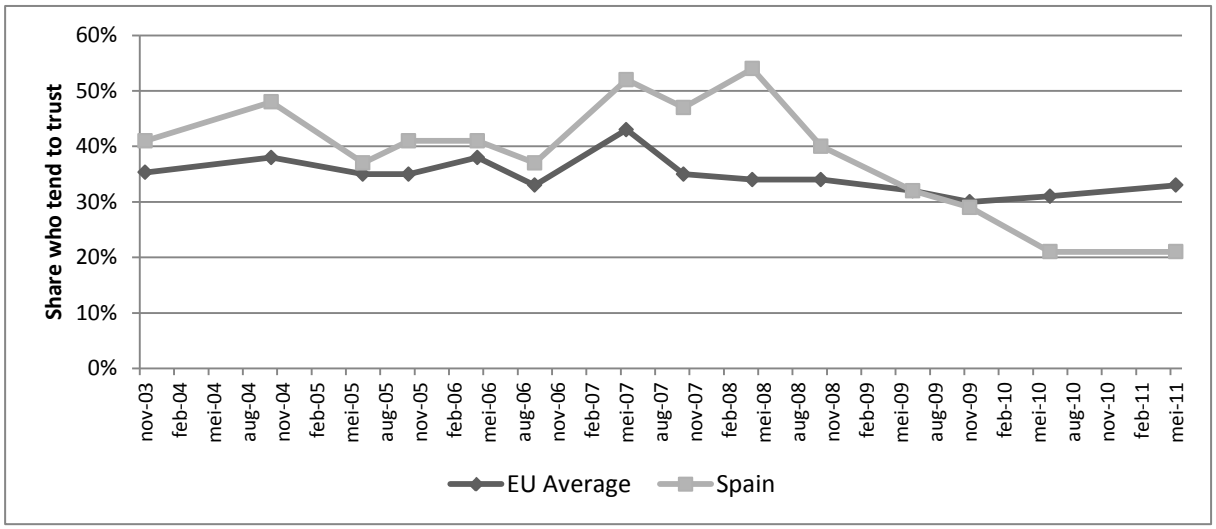
From the data in Figure 4.6 we can observe that the share of people who tend to trust government in the last decade has fluctuated around 40.4 per cent. Interestingly, during the early period Spain above-average trust in government, but since mid-2008 it has fallen dramatically, probably reflecting citizens' feelings of the financial crisis and the current economic downturn. A similar pattern is observed regarding trust in national parliament (Figure 4.7). Although trust in the legal system has followed a different trend around the EU average, it also appears to be sensitive to the current economic crisis affecting particularly hard the Spanish economy. It fell from 56 per cent in October 2007 to 40 per cent in November 2009, but it increased slightly again in 2010.

Figure 4.6. Trust in the National Government



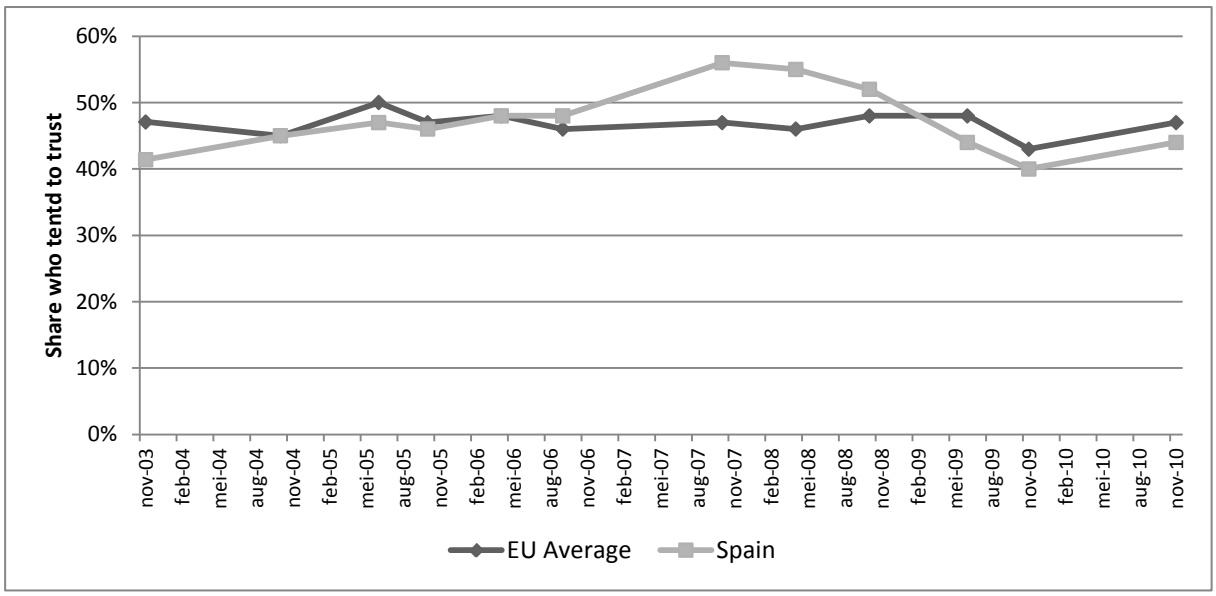
Source: Eurobarometer

Figure 4.7. Trust in the National Parliament



Source: Eurobarometer

Figure 4.8. Trust in the National Legal System



Source: Eurobarometer

4.4 Political values and legitimacy

In this section we present an analysis of the evolution of political values expressed by Spanish people. We begin by looking at the evolution of the individual self-positioning in the left-right scale and population shares supporting "extreme" left and "extreme" right political values.[9] In addition,

[9] We use the ideological classification of Torcal (2002), where the terms "left" and "right" are used instead of extreme or radical, because they have very different connotations depending on the context.

we discuss the evolution of citizens' support for the process of European membership. Finally, we present some results concerning attitudes towards immigration given the importance of this issue in Spain and its potential relationship with the evolution of inequality.

Ideological self-positioning

Table 4.3 shows that the average self-positioning in the traditional left-right scale reveals little change since the end of the seventies: It has been around 4.7 with a standard deviation of 0.14. However, the percentage distribution of the electorate's ideological position reveals a slight movement toward the centre. While in 1979 the majority of citizens were already at the centre, from 1979 to mid-80s the percentage of individuals located in the centre was reduced by almost 25 per cent (11 percentage points). From 1982 to 1993 they were mainly located in the centre-left. Afterwards, the centre resumed growth in 1989, and in 2000 reached almost half of the population. In the last decade, the centre has remained the choice of the majority, but the alternatives centre-right and centre-left have also gained weight[10].

Table 4.3. Evolution of Ideological self-positioning Percentage of respondents aged 18 and over

	1979	1982	1986	1989	1993	1996	2000	2005	2010
Left (1-2)	11.1	10.5	10.9	11.9	15.4	11.1	7.9	9.1	9.8
Centre-Left (3-4)	31.4	36.1	45.8	42.0	33.9	34.5	30.6	38.5	32.4
Centre (5-6)	42.6	32.1	31.9	28.9	30.0	37.0	44.9	39.1	39.2
Centre-Right (7-8)	11.3	17.7	8.3	13.1	14.7	13.9	13.5	11.0	14.7
Right (9-10)	3.7	3.5	3.1	4.1	6.0	3.6	3.1	2.3	3.8
Total	100	100	100	100	100	100	100	100	100
Mean	*4.72*	*4.81*	*4.42*	*4.56*	*4.67*	*4.71*	*4.90*	*4.64*	*4.78*

Source: Data from 1979 to 2000 is taken from Torcal (2002) and for 2005 from Montoro (2007). Data of 2010 corresponds to the annual average. All these years use data from post-electoral surveys by CIS. Those whose response was "don't know/no answer" are not included in the total.

The growth of the centre positions has been related with different factors. Following Torcal (2002), it would correspond to the presence of parties with electoral majorities that define their space as such, the Union of Democratic Centre (Unión de Centro Democrático) in the late seventies and the Popular Party (Partido Popular) from the beginning of the nineties. According to this author, this seems to reflect a scenario in which the electorate changes ideologically in line with the political parties, instead of these parties changing to accommodate the stable ideological distribution of voters. Torcal

[10] It is worth mentioning that the share of people who refuse to locate themselves on the left-right ideological scale is around 14 percent of the total population, which is slightly above the EU-average (13.2 percent).

(2002, pp. 64) shows that there was no generational change in Spaniards' ideological positioning, as might be expected. 'New voters' incorporated from 1989 were more left-wing than right-wing or centrist. Therefore, the shift to the centre of voters since 1989 has occurred as a result of the change in the rest of the voters and not because of the distinct profile of new voters. In addition, according to Montoro (2007), the dominance of the centre is also related to the growth of the middle class. For this author, the presence of a growing middle class moderates the centrifugal forces of the traditional left and right and reconciles well with the core values of liberalism.

Similarly to the important difference between the share of population who identify themselves as centre-left and centre-right (on average, 36 versus 13 per cent respectively), in the most extreme positions there has been a disproportion in a different scale. In 2010 people self-positioned on the right are only 3.8 per cent, while more than 9 per cent identify themselves as left-wingers. Although both groups generally correspond to minorities of the total population,[11] in 1993 these extreme positions reached their maximum, when 15.6 percent of respondents were self-positioned on the left and 6 per cent on the right.

To some extent, the ideological distribution of the Spanish population reflects a central party system characterised by ideological moderation and the bipolarisation of the electoral competition around the main centre-left and centre-right parties, the Spanish Workers Socialist Party (PSOE) and the Popular Party (PP), leading to wholesale alternation in government[12]. Spain has not witnessed the growth of extreme right-wing forces[13], and extreme left-wing has been quite marginal in Spain's democracy. In the legislative elections of 1986, 1989, 1993, 19996, 2000, 2004 and 2008 several right-wing candidacies were presented, and the sum total obtained by the parties has never exceeded 0.3 per cent of the votes. Different from other European countries where the rise in immigration has given way to a growth in right-wing xenophobic extremism, these types of parties have been unable to capitalize on either the increase in immigration or the economic circumstances

[11] These figures correspond to 2.3 per cent and 6.9 per cent respectively of the total surveyed population, namely, including those who do not place themselves in the left-right scale.

[12] In contrast, Spanish regions are characterised by innovative coalitions between statewide and non-statewide parties, and patterns of government alternation that diverge from the central level. See Wilson (2012).

[13] Extreme right wing forces in Spanish politics have been minor and poorly organised groups usually identified with the Franco's past such as the *Falange Española* party (Franco's Fascist party), *Democracia Nacional* (National Democracy) or *Fuerza Nueva* (New Force), among others.

in electoral terms (Rodriguez 2012, 118). This notwithstanding, the growth of region-based parties rejecting immigration is predictable.[14]

In terms of differences among income groups, from Table 4.4 we can observe that, interestingly, while low and medium income groups have remained, on average, more stable in their ideological position (except for a notable shift to the right in 1999 for the low-income group), among those of high level of income there has been a gradual movement to the left of the political spectrum, from an average of 5.3 to 4.5 between the first and the last waves of the EVS. This fact is certainly reflected in the slight overall movement to the left between the Eighties and late 2000s.

Table 4.4. Mean of self-position in political scale by income level

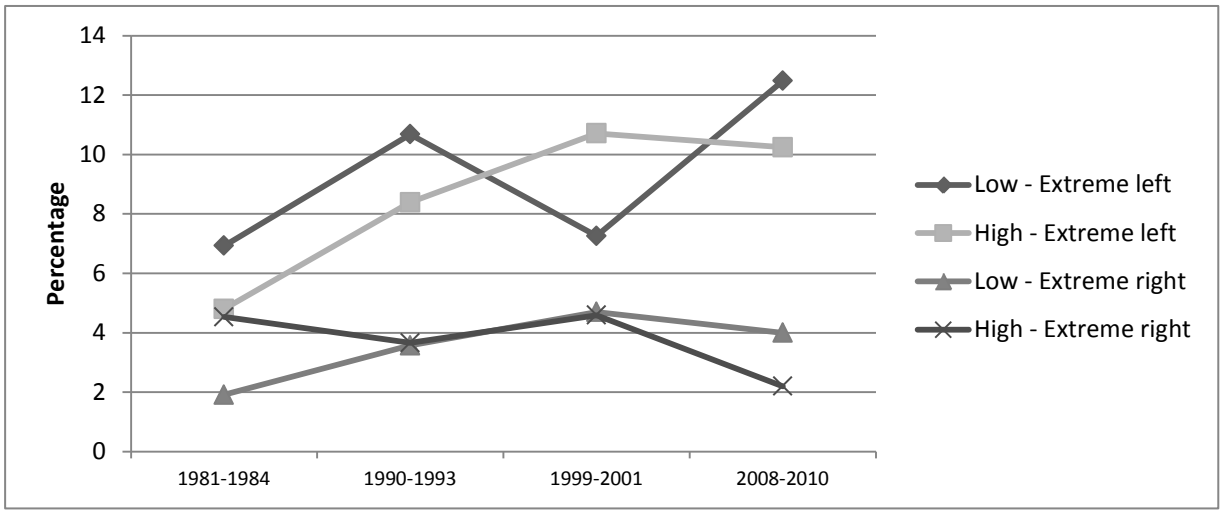
	Income household respondent			
EVS-wave	**Low**	**Medium**	**High**	**Total**
1981-1984	4.77	4.64	5.31	4.89
1990-1993	4.68	4.50	5.05	4.76
1999-2001	5.01	4.66	4.81	4.79
2008-2010	4.69	4.57	4.50	4.62

Source: EVS Longitudinal Data File 1981-2008

The same phenomenon is observed in Figure 4.9, where the shift to the left of individuals from high-income households is more evident. While in the first wage of the EVS 4.5 per cent of them was self-located at the bottom of the ideological scale, in the last two waves this percentage was more than 10 per cent. At the same time, the share of this group who identified with the right fell from 4.5 to 2 per cent, while the share of people in the low-income also self-identified as right-wing increased from 1.9 to 4 per cent.

[14] At regional level extreme right-wing parties seem to start to take advantage of the high levels of immigration and unemployment. For instance, xenophobic *Plataforma per Catalunya* (PxC) was close to enter into the Catalan Parliament in November 2010, reaching 2.8% of the votes. This party is already present in some few town halls since eight years ago.

Figure 4.9. "Extreme" ideological positions by income level



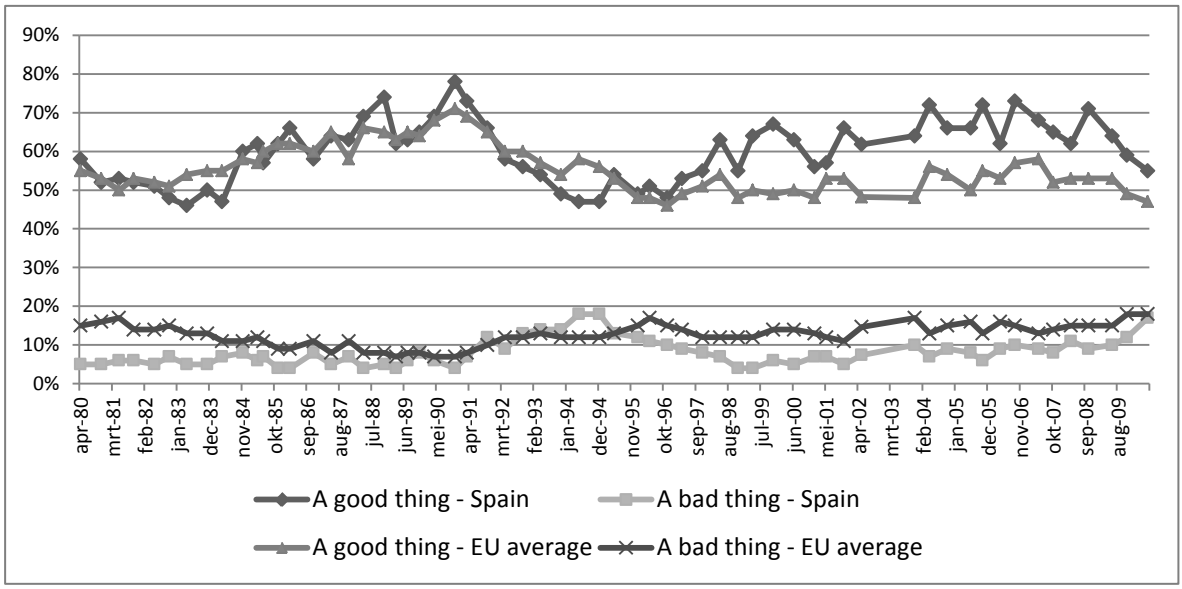
Source: EVS Longitudinal Data File 1981-2008

European Union Membership approval

Spaniards' support for the process of European integration has always been among the highest in the European Union. Historically, Europeanization was always seen as something that would finally enable Spain to consolidate its democratic institutions and overcome a past marked by divisions, internal conflicts and authoritarianism. The Spanish people's support for the democratic system has been consolidated by Spain's membership of the EU: in 1984 it was the preferred option for 69 per cent of Spaniards, but this figure had risen to more than 84 per cent by 2004 (Piedrafita *et al* 2006).

As it is shown in Figure 4.10, with the exception of the period 1993-1994, characterised by a difficult economic situation in Spain, pro-European sentiment in Spain has always been above the European average. This was particularly evident in the years immediately after accession, but also, in the period that began in 1998, coinciding with Spain's integration in the third stage of the Economic and Monetary Union. Subsequently, as time has passed, Spaniards have begun to see clearly the benefits of integration. The years of economic prosperity in particular swell the ranks of pro-Europeans. Specifically, Spain's participation in the euro clearly had a remarkable impact, as it was during the years 1999-2000 that the highest level of identification with Europe (78 per cent) was recorded. In 2006, however, perhaps reflecting the crisis surrounding the negotiation and ratification of the Treaty establishing a Constitution for Europe, the feelings of identification with Europe have lessened somewhat in Spain, to the extent that European identity among Spaniards was barely 62 per cent, slightly above the average. After a short recovery, the late-2000s financial and economic crisis has again adversely affected the levels of support for the EU membership.

Figure 4.10. Support for the European Union Membership of the European Community (common market) is…



Source: Eurobarometer

Attitudes toward immigration

Many of the demographic changes in Spanish society are closely related to the change in migratory movements since Spain's accession to the EU. At the beginning of the 1990s, Spain along with Portugal and Italy were the OECD countries with lowest net migration balances.[15] This trend was reversed at the beginning of the new century, to the extent that Spain has become the OECD country with the highest net migration balance. This can be attributed to two phenomena: the return of emigrants and the rise in immigration. In the short space of a decade, the foreign population per 100,000 inhabitants has risen from under 100 to over 1,000 (Piedrafita *et al*., 2006: 66-69).

Since 1980, the percentage of immigrants of the total population in Spain, traditionally a country of emigration, has increased from around 1.5 per cent until more than 12 per cent in 2010. According to the data of the National Statistics Institute, in 2010 there were more than 5.7 million foreigners (INE, 2012). Given that registered immigrants totalled just over 540,000 in 1996, this means that Spain has taken in more than 5 million immigrants in the last fifteen years. Of these immigrants, approximately 41 per cent come from the European Union, while 59 per cent come from other parts of the world, mostly Latin America, North Africa and the non-EU countries of Europe.

[15] The net migration balance represents the difference between immigrants and emigrants in a country per 1000 inhabitants.

Along with the growth in immigration, attitudes towards immigrants have also changed. Intolerance towards immigrant can be a rough indicator for the level of racism and xenophobia in a country. We take as an indicator of intolerance the share people who said they do not like immigrants or other workers as neighbours. Data from the EVS shows an important increase in the share of people who prefer not having an immigrant as a neighbour, from less than 2 percent in the early eighties to more than 9 percent at the beginning of the 2000. People in the low-income group are more likely than those in medium or high-income groups to express this sort of attitude, probably because to some extent, the labour conditions of this group have been negatively affected by the influx of low-skilled migrants (see Carrasco *et al* (2008) and Fernandez and Ortega (2008)).

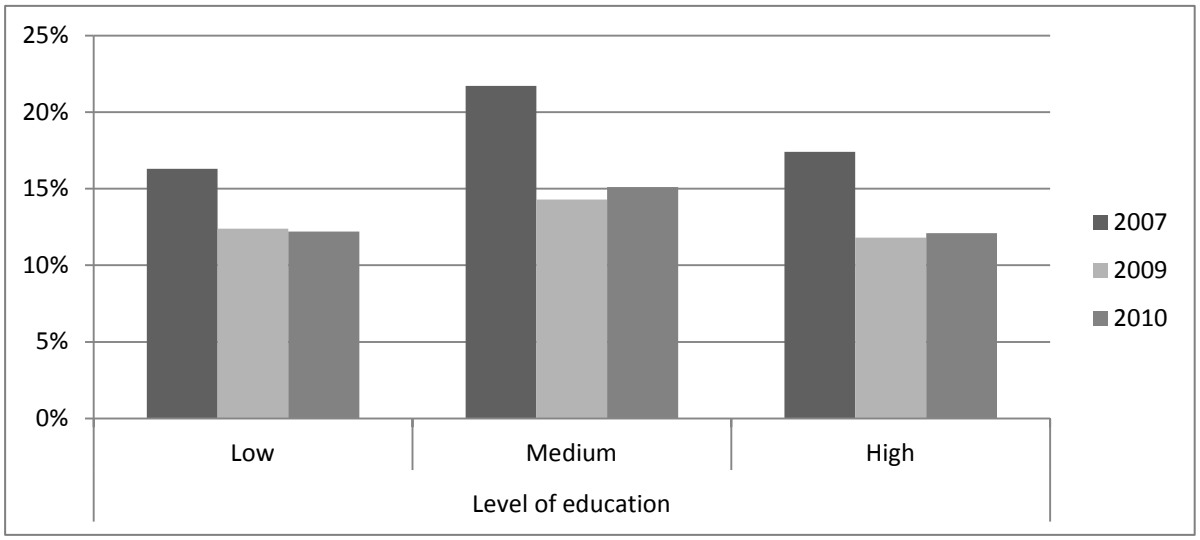
Table 4.5. Attitudes toward immigration by Income level Don't like immigrants/foreign workers as neighbours

	Household income level			
EVS-wave	**Low**	**Medium**	**High**	**Total**
1981-1984	3.32	0.76	2.12	1.99
1990-1993	10.27	6.47	7.45	8.15
1999-2001	12.82	10.13	9.69	9.33
2008-2010	3.55	5.18	4.1	4.4

Source: EVS Longitudinal Data File 1981-2008

Such trends are certainly related with the economic cycle, the perception of crime and safety, among other issues, but the increasing trend of intolerance is clear in the data. However, it is remarkable that the last EVS-wave presents a drastic reduction in this percentage, which accords with the data from Latinbarometer, which displays an important reduction in the share of respondents who believe there is a conflict between nationals and immigrants (Figure 4.11), perception shared by people of all educational levels.

Figure 4.11. Share of population who think that conflict between nationals and immigrants is very strong by level of education



Source: Latinbarometer

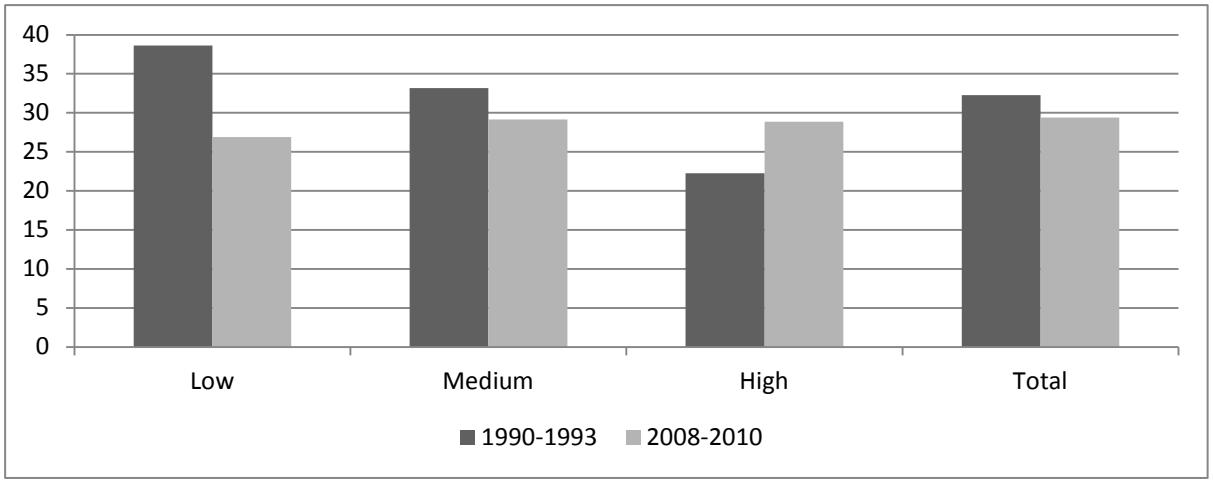
4.5 Values about social policy and welfare state

As it was documented in chapter 2, Spain is a highly unequal country within the European context. In this section, we analyse Spaniards' attitudes related with inequality. In order to do so, we look at a range of indicators for social policy values and support for the welfare state, with a particular emphasis on preferences for redistribution of income. In the first place, it is noteworthy that Spanish people are quite aware of inequality in the country, which is considered a problem by a large majority of citizens. Data from the ISSP (1999) and the Latinobarómetro (2001, 2007, 2009) show that around 85 per cent of Spaniards agree to some extent with statements like "differences in income are too large" or "the distribution of income is unfair". As a consequence, demand for redistribution in Spain has been higher than the European average and similar to that in other Southern European countries.

Figure 4.12 displays the share of the total population agreeing with the statement "income should be made more equal", a proxy of preferences for redistribution, for a period of decreasing income inequality (1990-1993) and a period of inequality increase (2008-2010). For the entire sample preferences for redistribution are slightly higher when inequality falls. The income gradient also changes between these two periods. For the first period of decreasing inequality there is a clear negative gradient: the share of individuals within each income group agreeing with the statement

falls as income increases. Such gradient, however, is rather flat for the second period of inequality increase.

Figure 4.12. Agreement with "Income should be made more equal" by level of income



Share of individuals self-positioned 1-3 on a 1-10 scale between the extreme statements: "Income should be made more equal" and "Income should be made higher". Source: EVS Longitudinal Data File 1981-2008

Regarding attitudes toward individual responsibility for meeting people's needs, considering the whole population, it is remarkable that both extreme positions have lost weight in favour of centre positions, especially that position that places greater responsibility on the government. As Table 4.6 shows, the share of people who agree with the statement "government should take more responsibility to ensure that everyone is provided for" fell almost 8 percentage points between the early Nineties and the end of the same decade, up to 17 percent, the same percentage observed at the end of the 2000s. At the same time, the percentage of individuals agreeing that "people should take more responsibility to provide for themselves" remained more stable, falling only 2 points. In contrast, the share of individuals with an intermediate position, namely those who answered exactly 5 on a scale of 1 to 10, increased from 15 to 23 percent.

Following Torcal (2002), these variations in the opinions on social inequalities might be related with economic and political events that occurred since the Eighties both in Spain and in the rest of the world. In particular, between 1980 and 1993, on the one hand, the percentage of people self-positioned in the centre-left or the left who believed that reducing social inequalities is very important fell, which was interpreted by Torcal as an achievement of the Washington consensus and the events of the late Eighties and early Nineties with the fall of the communist regimes in Eastern Europe. On the other hand, the general decline in favourable views to reduced social inequalities that occurs after 1993, particularly affecting those citizens in the centre and centre-right positions, seems to have been motivated by transformative effect of the new drift of the Popular Party, more oriented by a neo-liberal discourse.

Table 4.6. Government versus individual responsibility for meeting people's needs. Share of respondents by income level

People should take more responsibility (1-3)				
	Household income level			
	Low	Medium	High	Total
1990-1993	16.6	19.6	26.3	19.8
1999-2001	20.9	18.4	19.4	17.7
2008-2010	17.3	20.2	17.5	17.6
The government should take more responsibility (8-10)				
	Household income level			
	Low	Medium	High	Total
1990-1993	27.6	31.7	27.6	29.5
1999-2001	18.8	25.3	25.0	21.7
2008-2010	22.2	21.7	26.9	21.8

Source: EVS Longitudinal Data File 1981-2008

However, beyond the ideological changes influenced by political events, there are important differences among people with different levels of income, just as happened with attitudes towards income inequality. Table 4.6 shows that the share of people in high-income group who attributed more responsibility to individuals fell by nearly 9 percentage points between the first and the last EVS-wave, while among those with low incomes it rose less than 1 percent. In contrast, the share of people with high income agreeing that government should take more responsibility remained almost unchanged at around 27 percent, while this opinion lost favourability not only among those in the low-income group but also among those in the medium-income group. In the latter, the drop was nearly 10 points, which may explain the greater role played by centre positions.

Iglesias et al (2012) show the existence of a structural change in the preferences formation for redistribution in Spain and its determinants between 1995 and 2007. In 1995, one of the most important factors that determined these preferences was the level of education. In this study, the authors found that years of education had a negative impact on the probability of being left-wing and, therefore highly-educated individuals were more averse to redistribution and higher taxes, especially those at university level. In line with García-Valiñas et al (2008), their results also show that Spanish regions had very different beliefs regarding the role of the state and citizens' preferences for income equality. In particular, they observe that Madrid, Navarra and the Basque Country had stronger right-wing beliefs than the rest of Spain in this year, and even stronger in Madrid than in the other two regions. In 2007, their results present a significant change compared to 1995 in terms of determinants of redistribution preferences. In this case, education is no longer significant, while income and age are now the main determinants of the probability of individuals to be leftist. In

addition, for this year they found a strong left-wing group effect in Catalunya. According to the authors, this temporal evolution of redistribution preferences may be linked to the fast social changes that have happened from 1995 to 2007, both in terms of an increase in income level and in the increasing amount of immigrants.

Spain in this period is a good example of the ambivalent effect of the level of education on redistributive preferences discussed in Alesina and Giuliano (2011). In the interpretation of Iglesias and his co-authors, in those societies where education is a crucial factor in income differences, the level of education is linked to the possibilities of social improvement in a way that those individuals will present lower preferences for redistribution, as in Spain in 1995. Later, once education levels have increased significantly in many segments of the population and it is more generalized, including the highest levels of education, as it happens in Spain in 2007, this variable starts to be less significant.

Finally, some studies have shown that preferences for redistributive policies are linked to the existence of a justice idea, i.e., individual beliefs about what it is fair in terms of distribution of income (see Alesina and Giuliano, 2011). Effort plays a key role in these beliefs; if individuals perceive unfair economic results that do not correspond to the individual effort and ability, they will be more likely to support redistribution and reject market outcomes. In this sense, beliefs about how the poor are struggling to get out of poverty may be a relevant factor in explaining redistributive preferences. Although most Spaniards are sympathetic to the plight of poor people, many people have unfavourable attitudes towards the poor. According to EVS data, at the beginning of the Nineties 24 per cent of respondents thought that poverty is caused by laziness or lack of willpower. This percentage fell 6 points at the beginning of the 2000s and then increased again at the end of this decade. There are not great differences by income group, except for the Nineties, when individuals from high income level households were the least likely to have this view.

Table 4.7. Why do people live in need: laziness or lack of willpower

	Household income respondent			
EVS-wave	**Low**	**Medium**	**High**	**Total**
1990-1993	23.6	24.1	24.7	24.4
1999-2001	20.9	20.5	16.8	18.4
2008-2010	24.1	23.0	27.4	23.9

Source: EVS Longitudinal Data File 1981-2008

4.6 Conclusions

The many economic, political and social transformations occurred in recent decades in Spain have hardly affected Spaniards' political and civic attitudes. In particular, political disaffection does not simply decline with the process of democratization. Low levels of political involvement, civic participation and social and institutional trust were already present before the democratic change and have remained stable since then.

There seems to be a consensus among scholars about the impact of the extraordinary discontinuity in the Spanish political life since the beginning of the 20th century. The strong influence of the authoritarian regime and the uncertainties in the transition to democracy hindered the development of autonomous social organizations, traditions of cooperation between social and political elites, and relationships based on mutual trust between citizens. In addition to these long lasting effects, recurring economic crisis, one of the highest and more persistent unemployment rates in Europe, and intermittent political crisis provide the context to understand why Spain stands out as one of the western countries with lower levels of political participation and civic involvement.

However, we should be cautious because this purely descriptive approach to the evolution of citizen engagement ignores other kinds of participation, such as protest and non-electoral involvement in civic initiatives, which are becoming more popular as a response to the fundamental social changes that are currently taking place in the country. This is especially relevant as the increasing awareness of economic inequality may bring in the short or medium term a change in citizen involvement in Spain.

Although many of the figures presented in this chapter depict a depressing picture, there is also room for optimism. The tendency of Spain's political parties, as well as people, toward ideological moderation and the negligible support for extremist ideological positions to great extent bodes well for the country's future stability. It is salient that, different from other European countries where the rise in immigration has given way to a growth in right-wing xenophobic extremism, in Spain these types of political forces have been unable to capitalize on a significant growth of anti-immigration feelings in electoral terms, considering the unfavourable economic circumstances. It is also remarkable that the public opinion surveys carried out in recent years present a significant reduction in the share of respondents who believe there is a conflict between nationals and immigrants and in negative attitudes towards immigration in general.

In addition, Spaniards are quite aware of inequality in the country, which is considered a problem by a large majority of citizens. As a consequence, demand for redistribution in Spain has been higher than the European average and similar to that in other Southern European countries. However, in recent years a paradoxical situation has been observed: those who are more likely recipients of welfare state benefits seem less likely to hold positive attitudes toward redistribution than those who are less likely to receive them. Given the relevance that education and income appear to have in terms of different opportunities for political participation, as well as for developing social capital, it is not surprising that the poor and less educated seem to lose interest in support for the redistributive role of the state.

5. Effectiveess of policies in combating inequality

5.1 Introduction

Many policies, reforms, and political decisions have a direct or indirect effect on inequality. For example, labour market reforms, education or health policies have had a clear impact on defining Spanish inequalities. Ichino et al. (2011), for example, show the importance of education policies on intergenerational mobility and thus intergenerational inequalities. Similarly, regional differences in Spain do not only depend on the economic structure of the region but also on fiscal agreements between the central government and the autonomous regions in terms of taxes and transfers. All these issues have already been tackled in Chapter 3.

The policies that have a most important role in shaping inequality are those related to: public services (notably health and education), taxation (redistribution), transfers to fight poverty and social exclusion, transfers to maintaining rents (these expenditures are very relevant in Spain, a country where unemployment rate has traditionally been very high), labour market reforms (as we have argued above, Spanish labour market reforms have generated a dual market) and policies influencing labour income (notably minimum wage and wage bargaining policies).

5.2 Labour income

Labour reforms seem to be unavoidable in Spain if we are to reduce inequlaities in employment. Some argue that while unions have been contributing to wage compresion in Spain (e.g., returns to education have been decreasing), they have not worried much about the inequalities generated through the duality between permanent and temporary employment in Spain.

The wage compresion by skills (education and occuaptional level) that Spain has experience in the last decades, may be partly due to the wage barganing struture in Spain. In Spain wage barganing is at the provinvial industry level and covers (affects) about 90% of the workers. This wage barganing system is often refered to as the “intermediate” level, a level between the centralized (national industry) and the decenstralised (company) level. The few empirical exisitng evidence shows that this intermediate level gives rise to the largest wage increases. Most important, the very scarce empirical evicdence (Izquierdo, Moral & Urtasun, 2003) shows that in Spain this has probably lead to wage

compression. These authors argue that the Spanish collective agreement system has reduced dispersion of wages across and within skill levels. These same authors argue that, in contrast, barganing at the company level gives rise to more wage dispersion and argue that: "[…] provincial industry agreements are characterised by a lower wage dispersion between job categories, not only compared with company-level agreements, but also compared with national industry agreements" (page, 24). Remember that in Spain, wage barganing is mostly at the provincial industry level.

Many well-known labour economists in Spain have defended the need to end with the dual labour market in Spain and have promoted public campaigns to stimulate new policies into this direction. They have also argued in favour of increasing the percentage of labour policy expenditures devoted to active policies to promote training and job orientation. It is important to notice that in Spain a very large percentage of the expenditures on labour policies were, already before the crisis, devoted to non -active labour policies.

Minimum wage

According to OECD data, the minimum hourly real wage in Spain in 2010 was 5.37 US$PPP. This number is well below other European countries such as, Luxembourg, France, the Netherlands, Belgium, UK and Ireland; it is fairly similar to European countries such as, Greece and Portugal (and to a less extend Poland); and it is higher than countries such as, Czech Republic, Slovak Republic, and Hungary.

Over the last 40 years, these differences have been maintained. Figure 5.1 shows trends for Spain and 5 other EU countries (OECD):

Figure 5.1. Real hourly minimum wage

It is important to notice that the literature has argued that the hourly minimum wage in Spain is not very relevant, as collective wage agreements are typically set higher than this minimum wage. This is, as argued above, probably caused by the Spanish collective bargaining system at the provincial industry level, a negotiating level that gives the largest wage increases (Izquierdo, Moral & Urtasun, 2003).

Union & collective agreements

Collective union wage agreements in Spain are negotiated mainly at the provincial industry level (Izquierdo, Moral & Urtasun, 2003). As argued above, and summarized by these authors in the following way (abstract): "At an intermediate bargaining level, that is to say at the provincial industry level, larger wage increases are usually seen than those agreed both at the more centralised (i.e. national industry) and more decentralised (company) levels. Furthermore, bargaining at higher than company levels considerably reduces wage differentials between job categories.

This finding is consistent with the wage inequality reduction and with the decreasing returns to education that Spain has seen over the last decades (see chapter 2). In addition, wages negotiation at the provincial industry level does not allow for a flexible system that can easily adapt wages to economic and productivity changes. In an article that appeared in the Spanish newspaper *El País* on March 8, professors J.I. Conde-Ruiz, J.J. Dolado, L. Garicano, and M. Jansen (March 8, 2001) argue that wages in Spain are not strongly related to productivity differences among sectors and occupations. They argue that the lack of wage flexibility does not allow firms to adapt to technological changes. These economists argue in favour of wage negotiations at the company level.

As explained above, Spain collective bargaining is at the provincial industry level, which implies that union coverage (measured as the percentage of employees covered by union bargaining) is very large at around 80-90%. Nevertheless, there is a small percentage of workers that are union members.

Union density, measured as the percentage of employees that are unionized, is much lower in Spain than in many other EU countries (OECD). In 2009, for example, union density was 15.9% in Spain, which is below the OECD average. In Sweden, Denmark and Finland, this number is almost 70%. In Sweden, Belgium, Luxembourg, Italy, and Ireland union density was above 30%. In addition, Austria, UK, Slovenia, Greece, the Netherlands, Portugal, Germany, Switzerland, Czech Republic, Slovak Republic, and Hungary all had larger percentages of union density than Spain, even though for some of the countries the percentages were similar to those of Spain. Poland had similar union density and only France (5.9%) had a much lower union density than Spain.

If we look at the time evolution, we see that union density in Spain increased during the first half of the nineties and it remained at that level since then. In contrast, some other countries have seen union density decrease since the eighties, although some stayed fairly stable over the almost last 30 years. The time evolution in union density according to OECD data can be seen in Figure 5.2:

Figure 5.2a. Union density

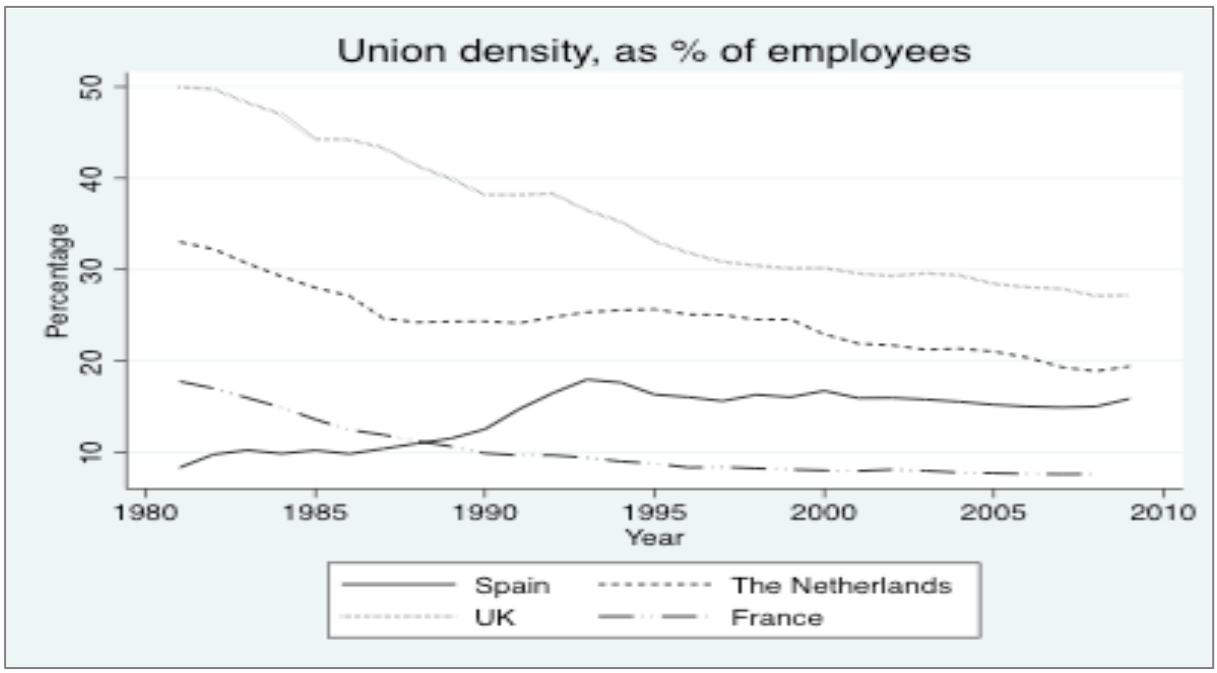
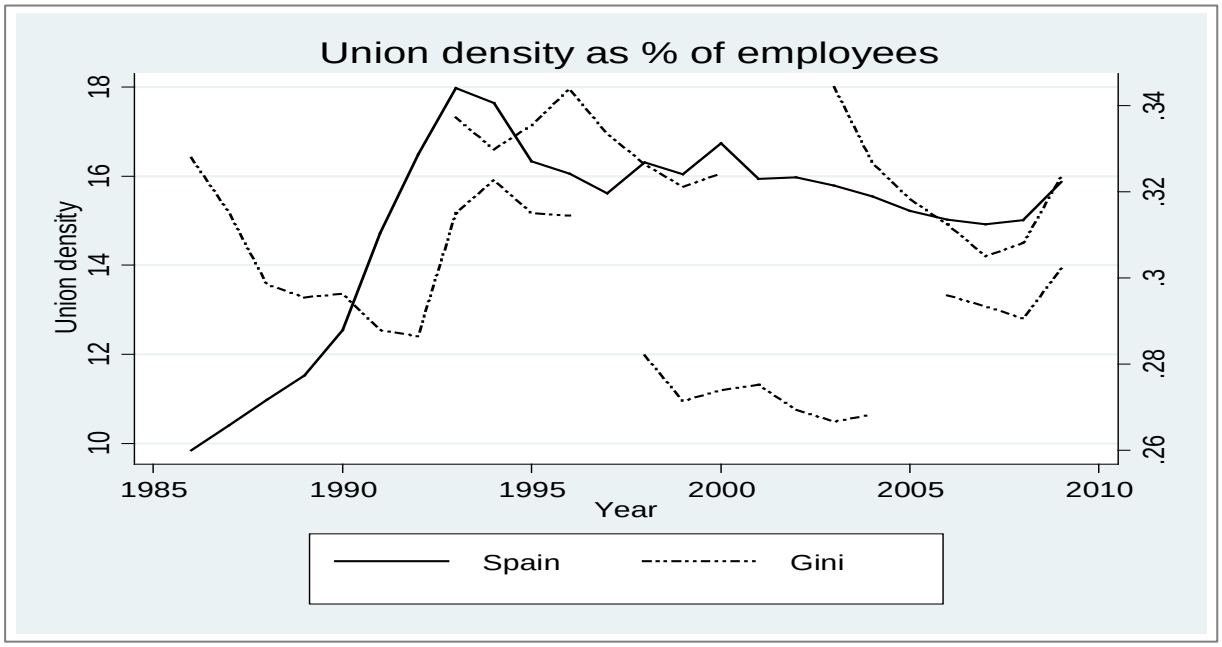


Figure 5.2b. Union density in Spain

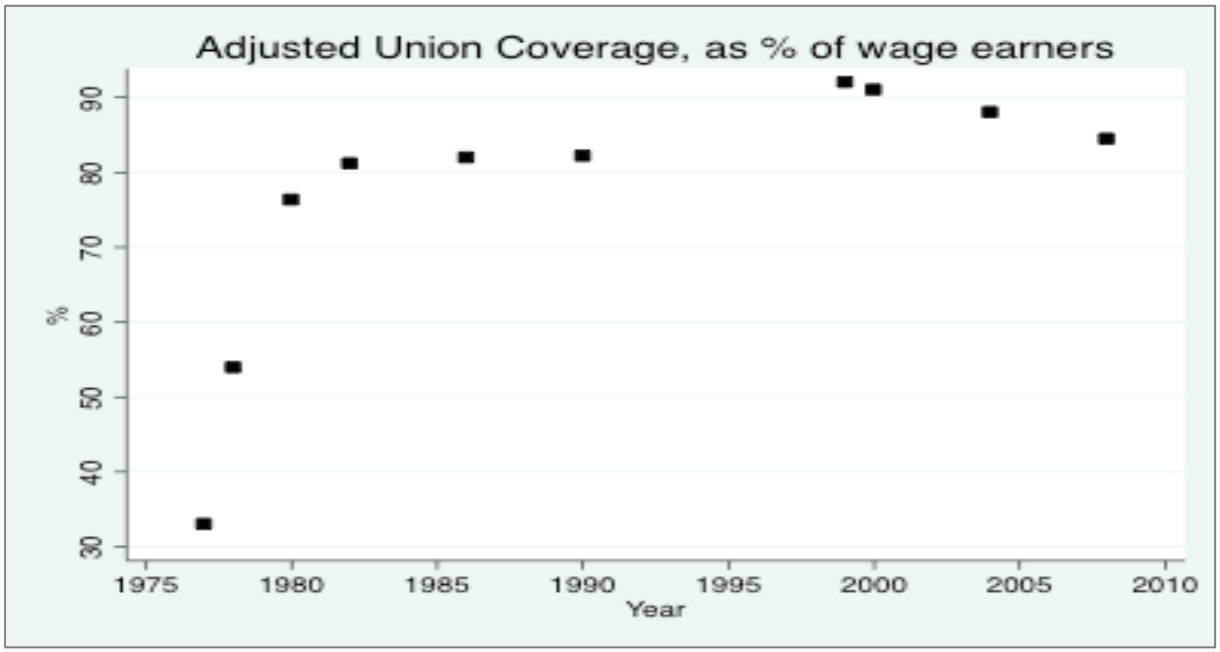


Visser (2006) has done a very complete and thorough work in identifying union participation, density and bargaining coverage for a list of 24 countries, including Spain and many other EU countries. For the case of Spain (as for some other countries), data collection was tedious and included (citing the

author): "annual reports or statements of union confederations, independent unions, Web sites, financial reports, and occasional surveys."

According to this source we can indeed corroborate that despite the low union density (membership) in Spain, union coverage and coordination of wage bargaining is high in Spain. Visser (2006) defines union coverage as the percentage of employed workers who are covered (affected) by collective agreements negotiated between the unions and the employers. According to this source, union coverage in Spain has been around 80-90% since 1985. This means that Spain is among the countries with the largest percentages of union coverage in Europe, with far larger union coverage than Germany and UK. The time evolution of this index has been calculated by Visser (2011). This data is on adjusted union coverage on that it takes into account that some sectors or occupations are excluded from the right to bargain. Figure 5.3 shows the evolution over time of this data.

Figure 5.3. Adjusted union coverage



Visser (2011) also has information on the degree of coordination of wage bargaining process. Visser data classifies each country/year into 5 different categories ranging from a high degree of coordination (5) to no coordination (1), where 5 stands for "economy-wide bargaining, based on a) enforceable agreements between the central organisations of unions and employers affecting the entire economy or entire private sector, or on b) government imposition of a wage schedule, freeze, or ceiling" and 1 stands for fragmented bargaining, mostly at company level.

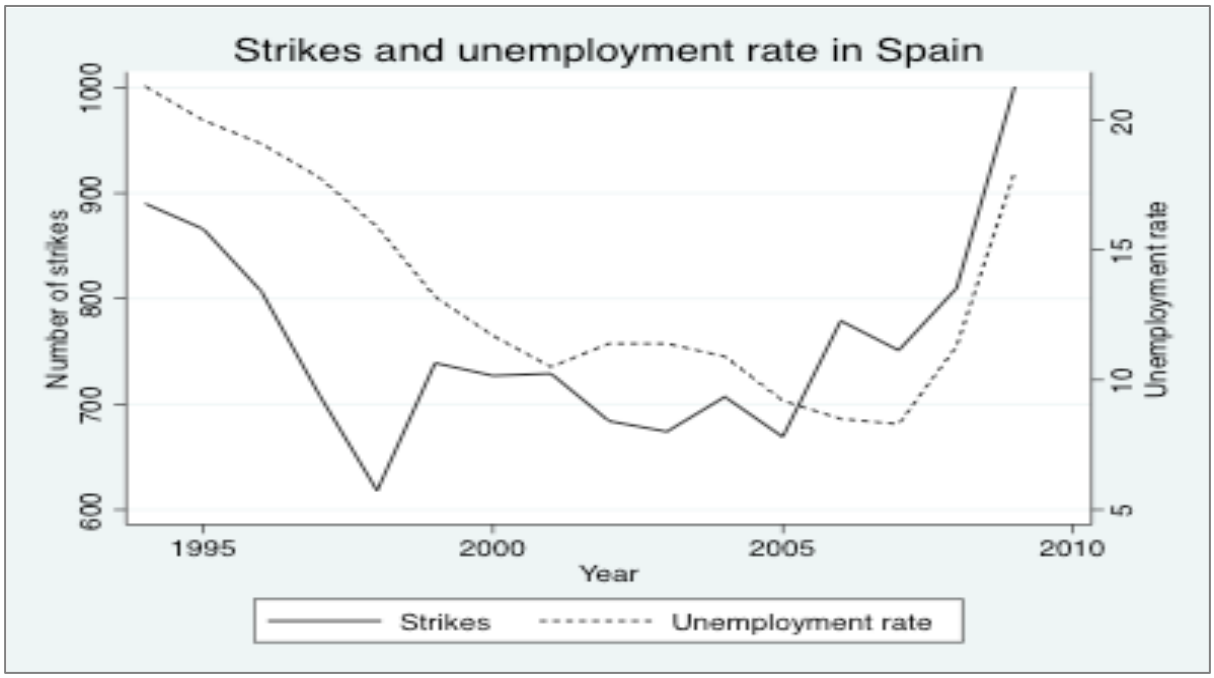
Figure 5.4 shows that Spain has had a relatively high and stable level of coordination. The last years Spain scored 4 in this Index, which stands for: "mixed industry and economy-wide bargaining: a) central organisations negotiate non-enforceable central agreements (guidelines) and/or b) key unions and employers associations set pattern"

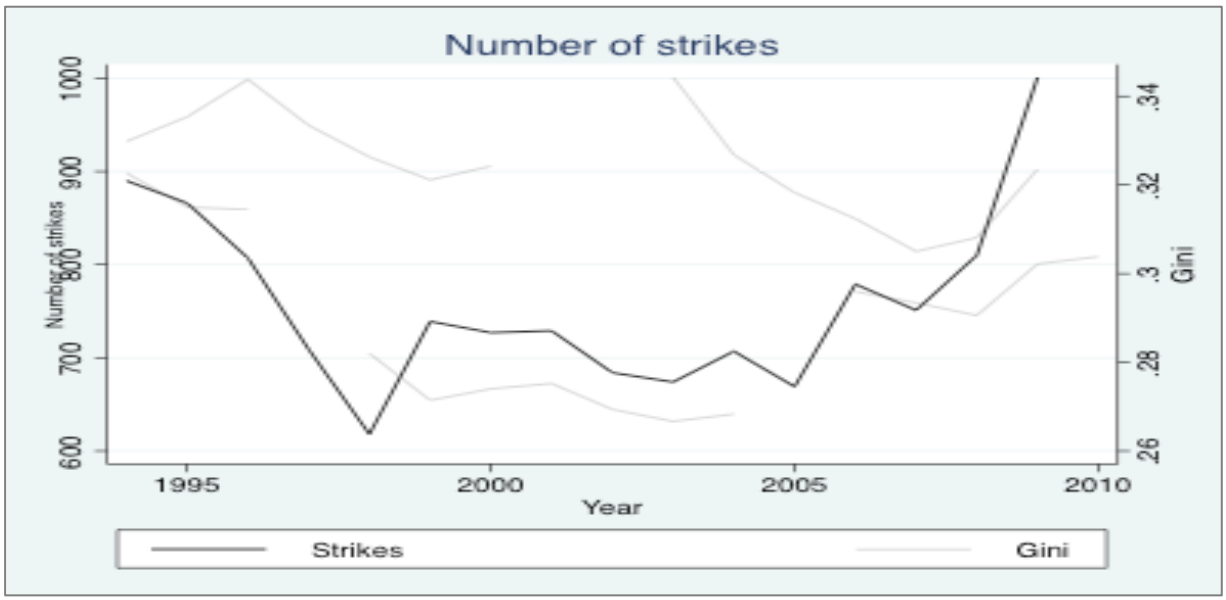
Figure 5.4. Coordination of wage bargaining

Worker discontent

Individuals' or workers' discontent with the economic situation or the government policies can be approximated by the number of strikes. Figure 5.5 (source: INE) plots the number of strikes in a given year together with the unemployment rate. In Figure 5.5 we can indeed see that during the periods of economic crisis (and large unemployment rates), the number of strikes increases.

Figure 5.5. Strikes and unemployment rate





We can see that the number of strikes has increased considerably over the last years, going from just below 700 in 2002 to 1000 in 2009, i.e. a 40% increase.

Working hours

The actual number of working hours in Spain (ILO) has, as in many other countries, been decreasing over the years, starting at an average of just above 38 hours a week in 1985 to less than 35 hours currently.

Figure 5.6. Working hours

According to the OECD report "Divided we stand", over the last years working hours of workers at the bottom of the wage distribution have actually increased, while workers at the top of the wage distribution have slightly decreased their number of working hours. They argue that these two facts together can contribute to explain wage inequality reduction in Spain over the years.

In 1996 and in 2000, the Spanish national statistical office (INE) has introduced a module on working time (Survey on Working Time) in their Labour Cost Survey. This module asks respondents to report information on, for example, overtime worked hours and contractual working hours. The data reveals that in 2000 Spanish workers' overtime (non-contractual working hours) represented less than 1% of the contractual working hours. The number of working hours lost because workers were on temporary sick leave is about 3% of the contractual working hours. From that survey we find the following information for the year 2000:

Contractual working hours	1644.3
Effective working hours	1595.4
Extra hours	14.4
Temporary sick leave	49.4

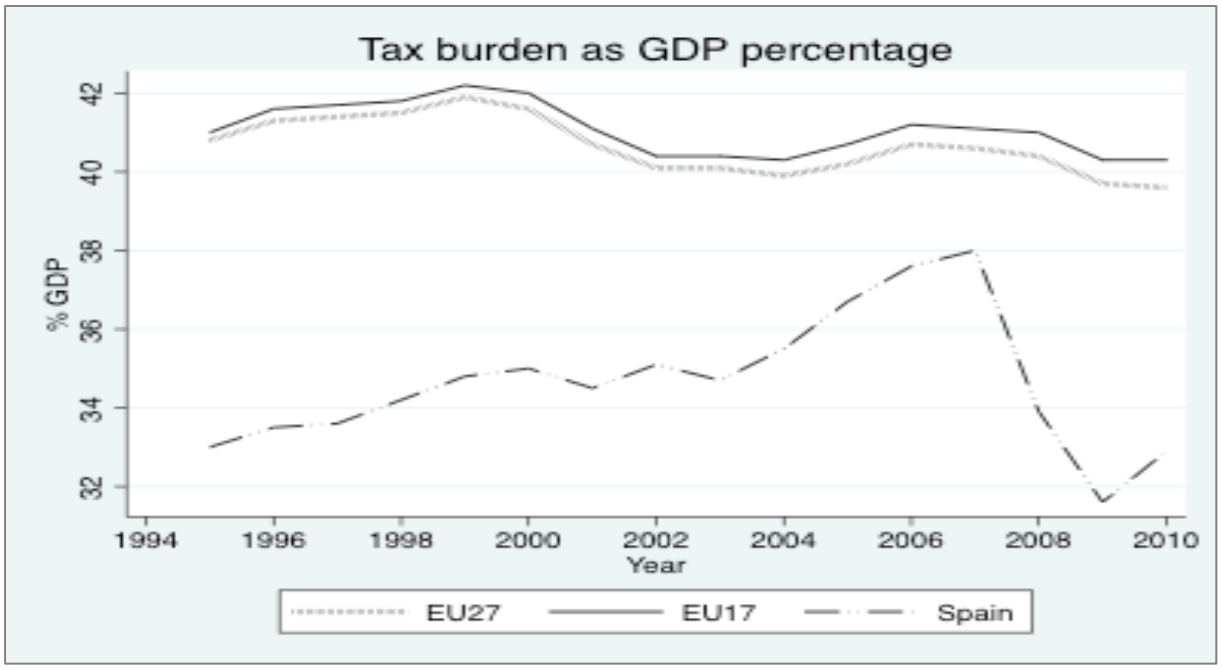
This means that Spanish workers effective worked hours are lower than their contractual working hours, at least in 2000.

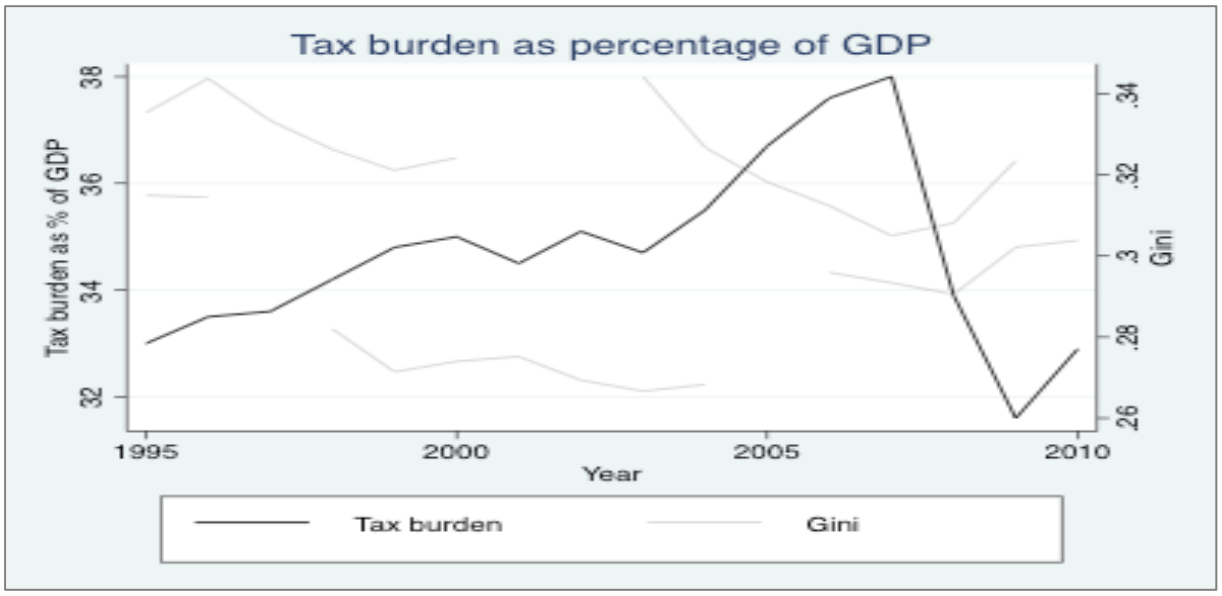
5.3 Taxation

In this section we will measure the tax burden in Spain using Eurostat data based on the following definition: the "total receipts from taxes and social contributions (including imputed social contributions) after deduction of amounts assessed but unlikely to be collected" as a percentage of GDP. When reporting this measure of tax burden, we will include taxes from all government bodies (central, regional, and EU institutions). In Spain the vast majority of the tax receipts come from the central government. In 2010 (last available year), the central government (including social security funds) collected 74% of the total tax receipts. The rest of taxes were collected by the autonomous communities (16%), the local governments (10%) and the EU (virtually 0%).

Figure 5.7 shows the evolution of the tax burden following the above definition as percentage of GDP in Spain.

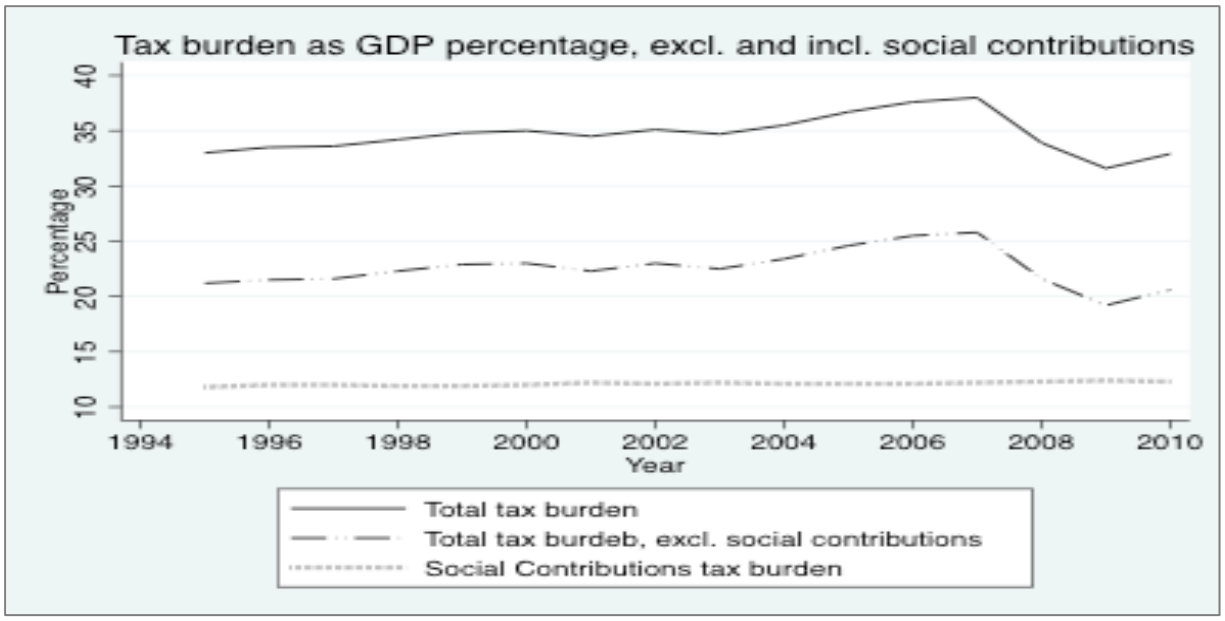
Figure 5.7 Tax burden





As it can be seen in Figure 5.7, Spain has a smaller tax burden than the EU17 and EU27 average. In 2007 with the onset of the crisis, the tax burden in Spain has decreased considerably, although it had been increasing in the years previous to the crisis (1994-2007). Whether or not we include social contributions into this definition does not change the time trend of tax burden in Spain, as social contributions are a rather flat percentage of GDP, ranging from 11.8 to 12.4% depending on the year, as Figure 5.8 shows:

Figure 5.8. Tax burden, with and without social contributions



The other tax burden does have a larger variability, ranging from 19.2% to 25.8%:

The current crisis led to a decrease of the tax burden as a percentage of the GDP after 2007. In front of this, and given the pressure to reduce public debt, the Spanish government has seen the need to increase revenues and reduce expenditures. Accordingly, the new government (end 2011) has increased taxation in 2012 through, for example, increasing the VAT (both, increasing the tax rate and moving some goods to higher VAT categories) and the marginal rate of the income tax. These measures have generated much debate in Spain, with some economists arguing that these tax increases will hamper economic growth. They argue instead in favour of other forms of increasing revenues, such as reducing or abolishing tax benefits to homeowners or tax exemptions to lottery winners or to some donations.

The decomposition of tax receipts by main components in Spain is as follows (Eurostat):

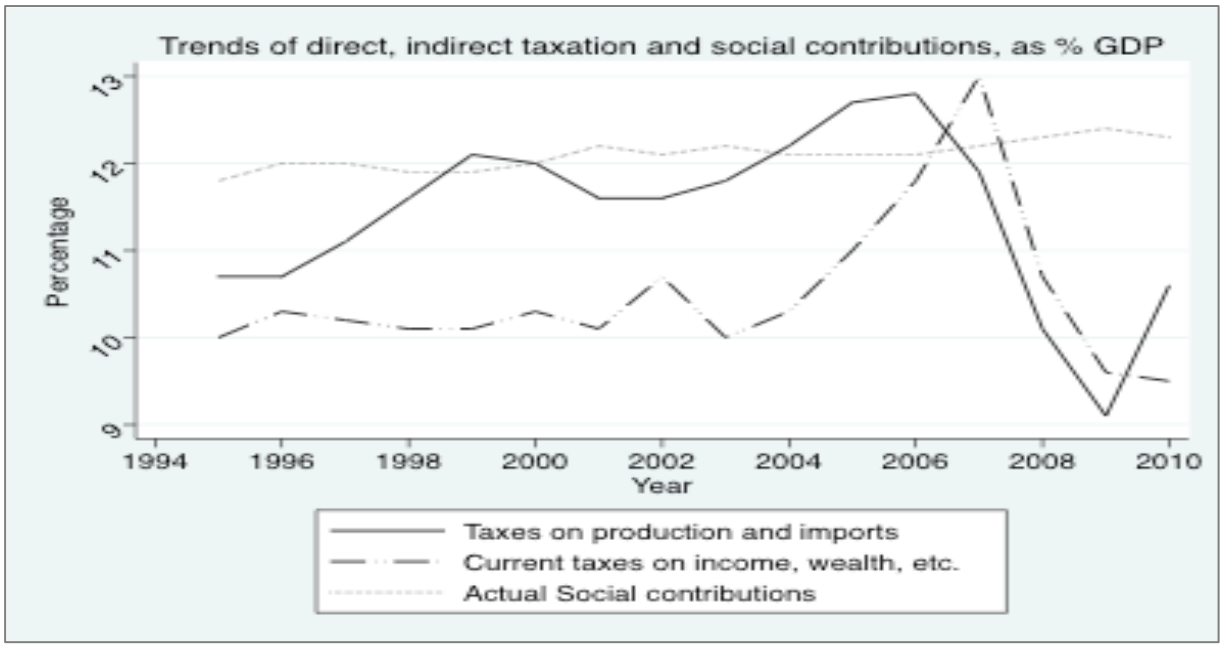
Eurostat	**As % of GDP**				**As % of total taxation**			
	1995	**2000**	**2005**	**2010**	**1995**	**2000**	**2005**	**2010**
Taxes on consumption - total	8.9	10	10	8.7	27.9	29.3	27.9	27.2
Taxes on labour - total	16.2	15.6	15.9	16.7	50.4	45.8	44.4	52.2
Taxes on capital - total	7.6	9.1	10.4	7.4	23.8	26.5	28.9	23.1

(Note that the percentages do not add up to 100. This is data drawn from Eurostat).

The table shows that the composition of taxation has been fairly stable across time. In Spain, as in most of countries, labour taxes represent a larger percentage of the GDP than capital and consumption.

Figure 5.9 shows the time trend of direct versus indirect taxation as well as social contributions (Eurostat):

Figure 5.9. Direct and indirect taxation and social contributions



In Figure 5.9 we can see the impact of the current crisis on tax collection, which has increased the financial pressure on the Spanish government. Taxes revenues on income and wealth have decreased substantially after the crisis to levels lower than the pre-crisis ones. Tax revenues on production and imports have decreased to levels much lower than the ones pre-crisis (1995-2006/7).

Finally, we will report (Eurostat data) the implicit (effective) tax rate by function. Implicit or effective tax rate are calculated by dividing the revenues from taxes by the corresponding aggregate tax base. Effective tax rates may be understood as an approximate measure of fiscal pressure.

Eurostat	**Implicit (effective) tax rate**			
	1995	**2000**	**2005**	**2009**
Taxes on consumption - total	14.2	15.8	16.7	12.6
Taxes on labour - total	31	30.5	32.3	31.7
Taxes on capital - total	n.a.	30.8	37.5	28.4

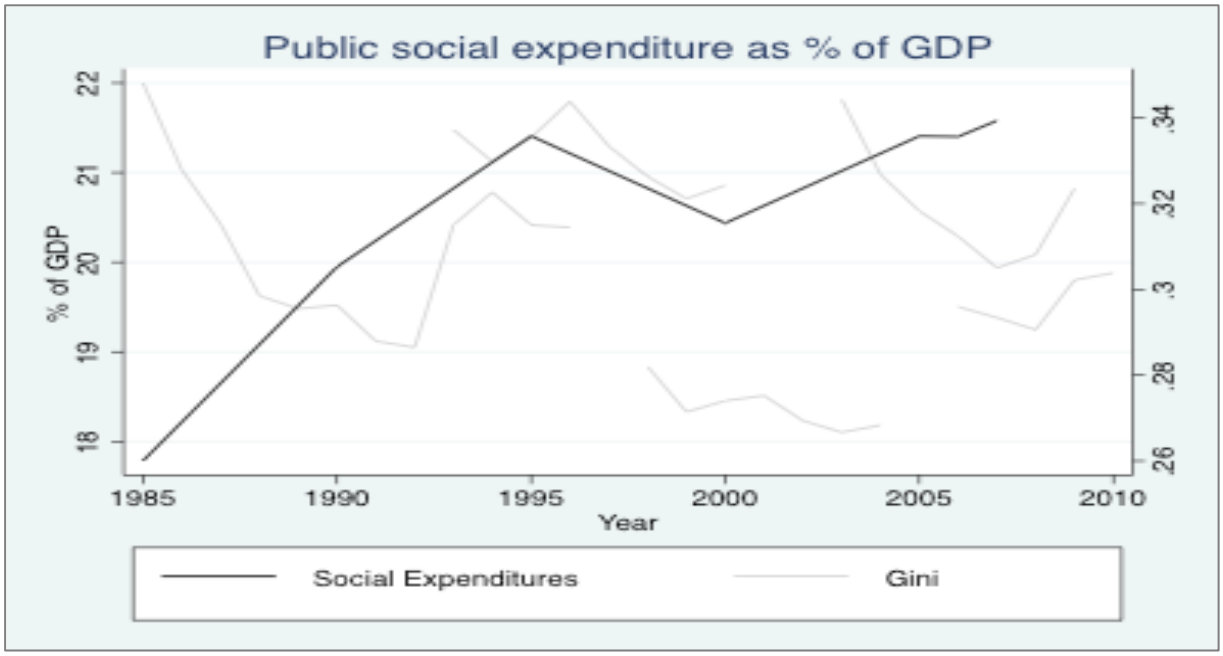
We see that over the period, there has been not a clear trend. In comparison to the EU27 average, Spain has lower taxes on consumption and labour.

5.4 Social expenditures

Spanish welfare system is, as for many other Southern European countries, less developed and thus less distributive than in northern countries. After the dictatorship and during the first years of the socialist party (1982 onwards), important developments were made. This period has probably defined what the current welfare system is. Although the welfare system was first developed during the last years of the dictatorship, it is not until the 80's with the democracy and the socialist party in the government when social expenditures start increasing. As in many other Mediterranean countries, however, welfare and care relies largely on the family.

An important characteristic of the Spanish welfare system over the studied period is that although social expenditures are indeed lower than in most European Countries, they increased tremendously over the 1980-1995 period. This period coincides with the first socialist government that lasted more than a decade: 1982-1996. In 1996 the conservative party (PP) won the elections and social expenditures decreased. In 200 however they increased again even though the PP was in power until 2004 when the socialist party entered the government again (2004-2011). Figure 5.10 shows the evolution of social expenditures according to the OECD.

Figure 5.10. Public social expenditure



It is important to realize that this tendency is about to revert in the years after the economic crisis (2008 onwards).

The welfare system in Spain consists mainly on:

(i) cash transfers devoted to the income maintenance of those who have contributed (notably pension, unemployment, and disability benefits),

(ii) and considerably smaller cash transfers to individuals that lack behind in terms of health, income or family situation, for example by providing non-contributory payments to elderly or widowers or to individuals with disabilities.

(ii) Universal and (almost) free health and education system.

(iii) Some small cash and non-cash benefits. These are very small and are typically means-tested transfers, for example, for care to elderly or to large families with children under 3 years old. Some of the social benefits are provided by the central government but others, are provided and organized at the regional level. For example, education and health is much decentralized and some non-curricula education is provided by the local governments.

(iv) to a much less extend: homeownership tax benefits have been given to house owners.

Since a considerable part of the social expenditures are devoted to income maintaining expenditures (notably unemployment and pensions) and health, the aging population in Spain will continue putting much pressure on the welfare system in Spain. This will mean that other measures to foster redistribution will be left behind. Instead, social protection expenditures in Spain represent a very small percentage of the social expenditures. Although this had been increasing substantially over the years previous to the crisis, the current economic situation and the need to reduce public debt is leading to a reduction of social expenditures.

According to INE and Eurostat Spanish social protection expenditures in 2008 were 22.7% of GDP. This percentage is below that of the UK, Portugal, Greece, Finland, Switzerland, Germany, Italy, Belgium, France, the average EU27 (26.4%), and the average EU25 (26.5%). In terms of expenditures per capita, Spain social protection expenditures are also lower than in most European countries. In 2008, Spain spent 5425 euros per capita. This is about the same as Greece and it is less than the EU27 average (6603), the EU25 average (6959), the UK, Italy, Germany, Belgium, Finland, France, Denmark, and Norway (14401)(Eurostat). In addition, it is important to keep in mind that the last date available is from before the big current crisis in Spain. In the last years (and in the years to come), government expenditures (and social expenditures among them) have been reduced tremendously.

The OECD data gives a very similar picture (OECD Stat, August 2012): although it is true that public social expenditures in Spain (21.6% of GDP in 2007) are above the OECD average (19.24%), Spain spends less on social expenditures than many other European countries:

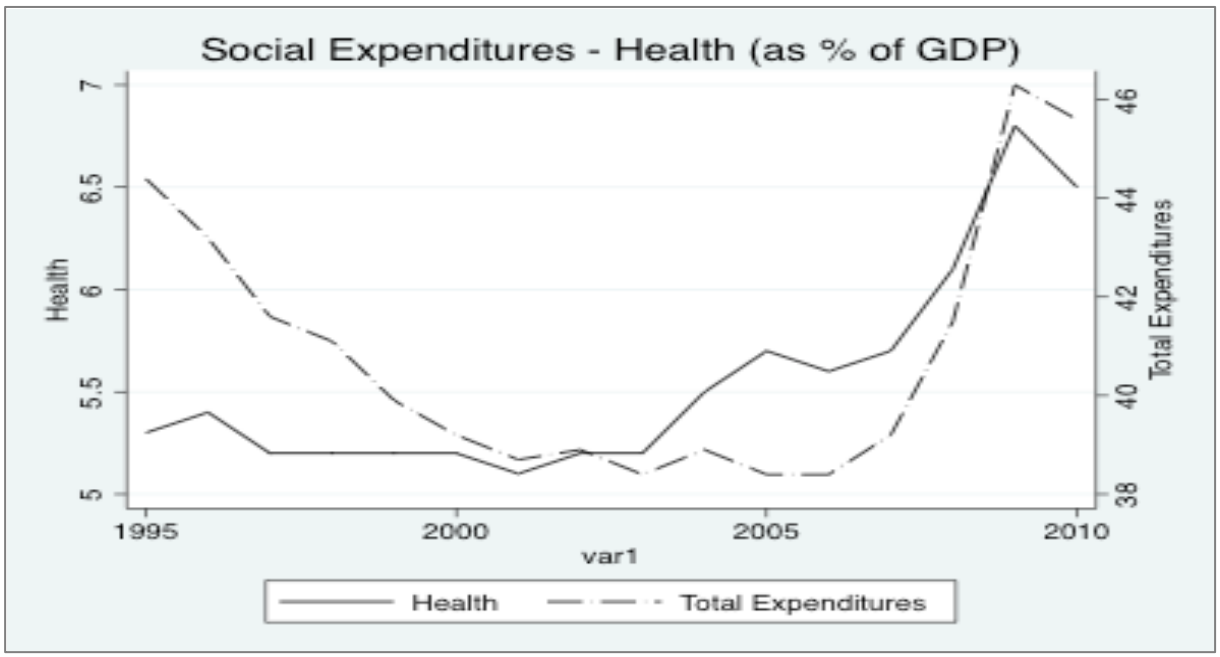
Public Social Expenditures as % of GDP; 2007	
Iceland	14.59
Ireland	16.311
Switzerland	18.521
OECD avg	19.242
Poland	19.788
Netherlands	20.078
Slovenia	20.264
UK	20.541
Luxembourg	20.648
Norway	20.799
Greece	21.329
Spain	**21.579**
Portugal	22.523
Hungary	22.931
Finland	24.834
Italy	24.855
Germany	25.161
Denmark	26.1
Belgium	26.338
Austria	26.421
Sweden	27.304
France	28.396

Although these percentages refer mostly to public expenditures, the OECD reports that the information they have "does not facilitate separate identification of public, mandatory and voluntary private social expenditure. Therefore, the presented public aggregates include some mandatory and voluntary private benefits."

Eurostat also provides data on public expenditures as percentage of GDP by different expenditures categories. This data includes all type of benefits (cash transfers and in kind) to households and to individuals. Eurostat classifies these expenditures into the following categories: sickness and health, disability, old age, survivors, family/children, unemployment, housing, social exclusion, and other expenditures.

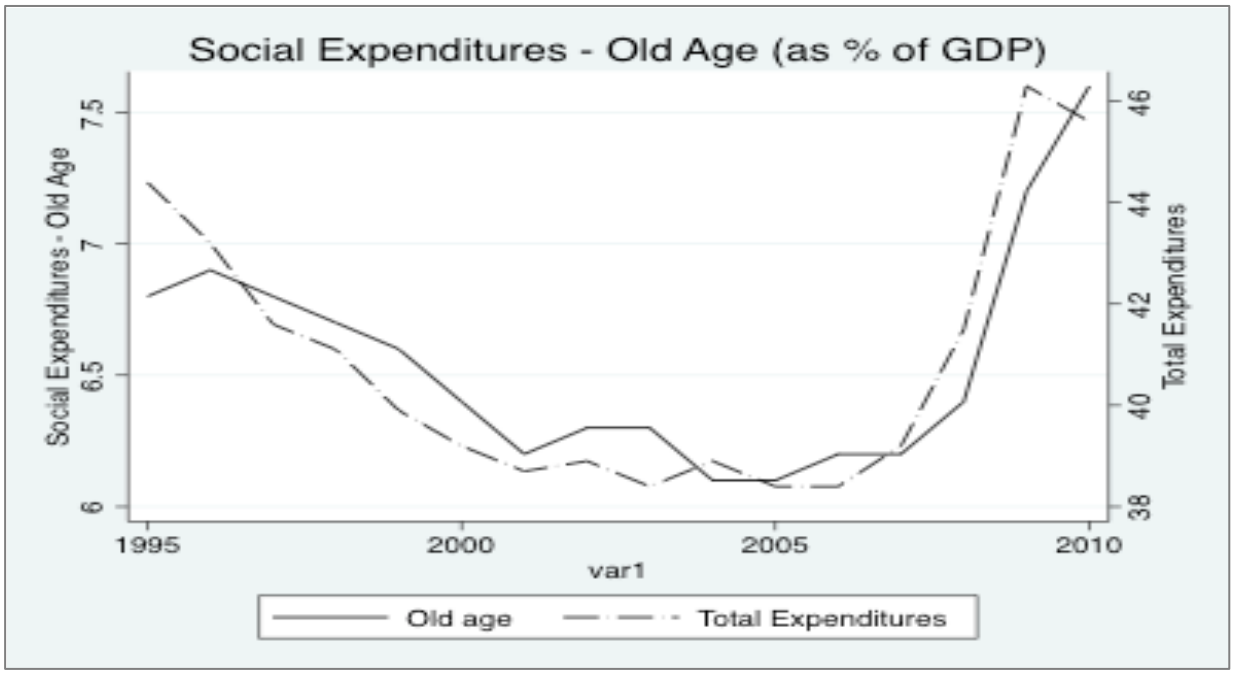
Figures 5.11 to 5.14 depict the time evolution of these different social expenditures, together with the total expenditures. The expenditures related to health and sickness follow the same trend as overall expenditures. Notice that these Figures all show decline in expenditures relative to GDP that came with the last recession. Expenditure cuts do not only apply to these expenditure types, but also and importantly to health and education.

Figure 5.11. Social expenditures: Health



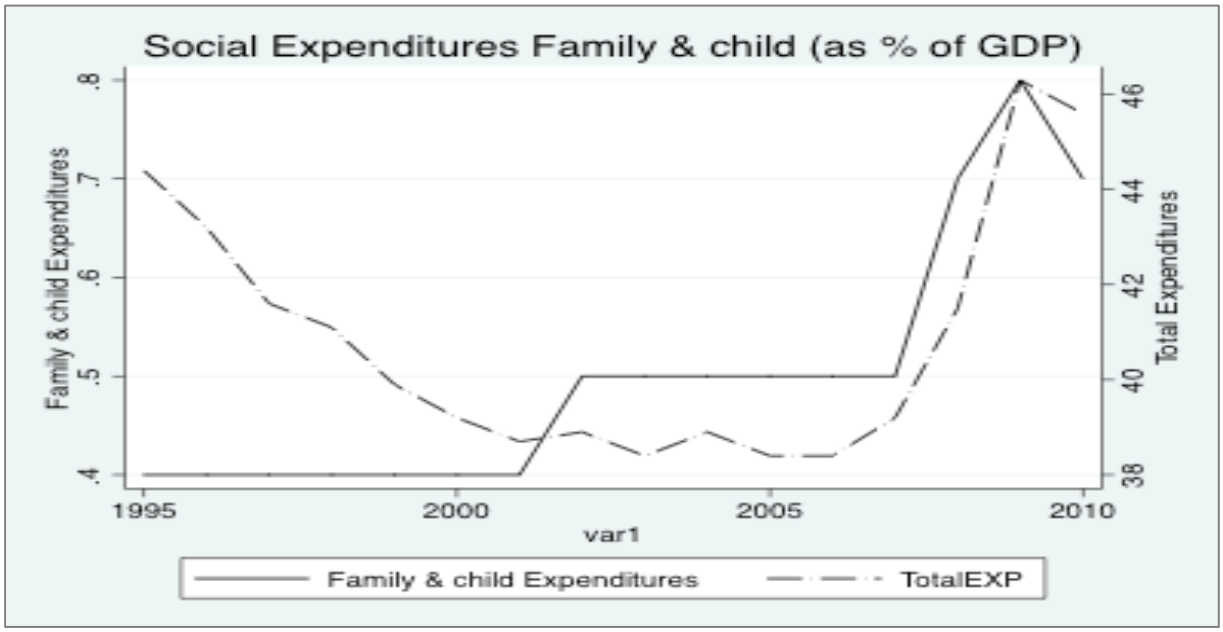
The expenditures for the elderly also follow the same time trend as total expenditures', although in Figure 5.12 we cannot appreciate a decrease for the recession.

Figure 5.12. Social expenditures: elderly



Social expenditures for family and children are much lower in Spain than in many other EU countries and than the EU17 average, although they have increased over time.

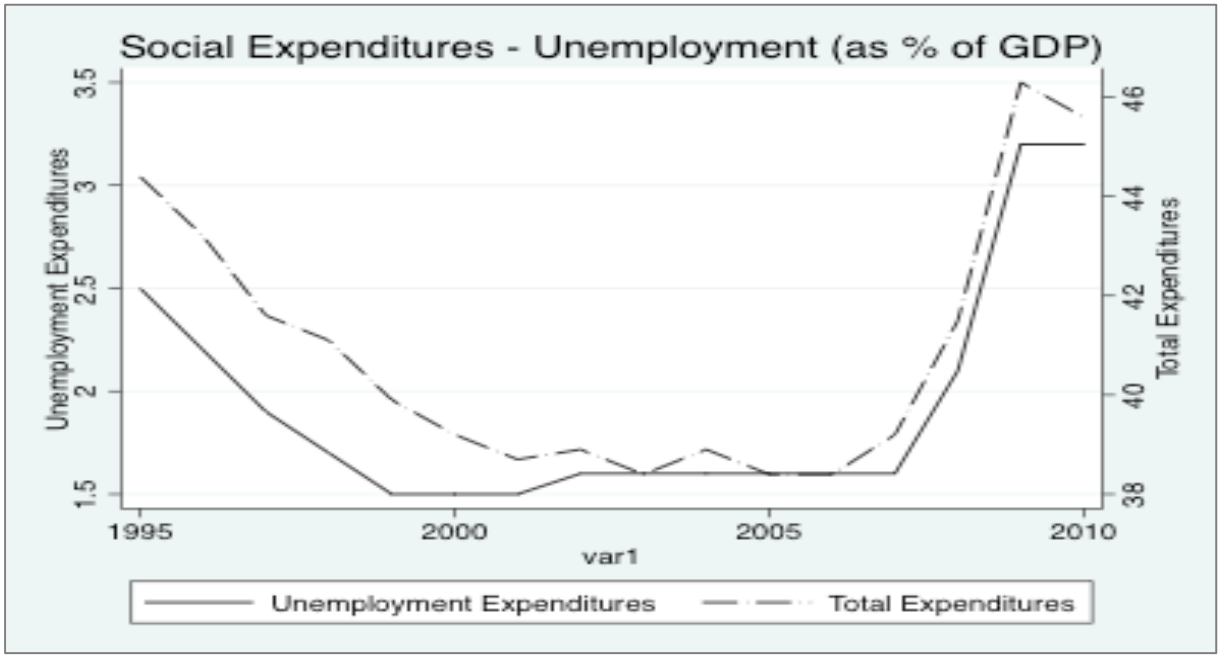
Figure 5.13. Social expenditures: Family and Children



After health and the elderly, unemployment expenditures are the third largest social expenditures as percentage of GDP. In recent years, social expenditures related to unemployment have been larger in Spain than in the EU17 average. One would expect that social expenditures in unemployment are going to be correlated (and counter-cyclical) to the labour market situation. Figure 5.14 shows that

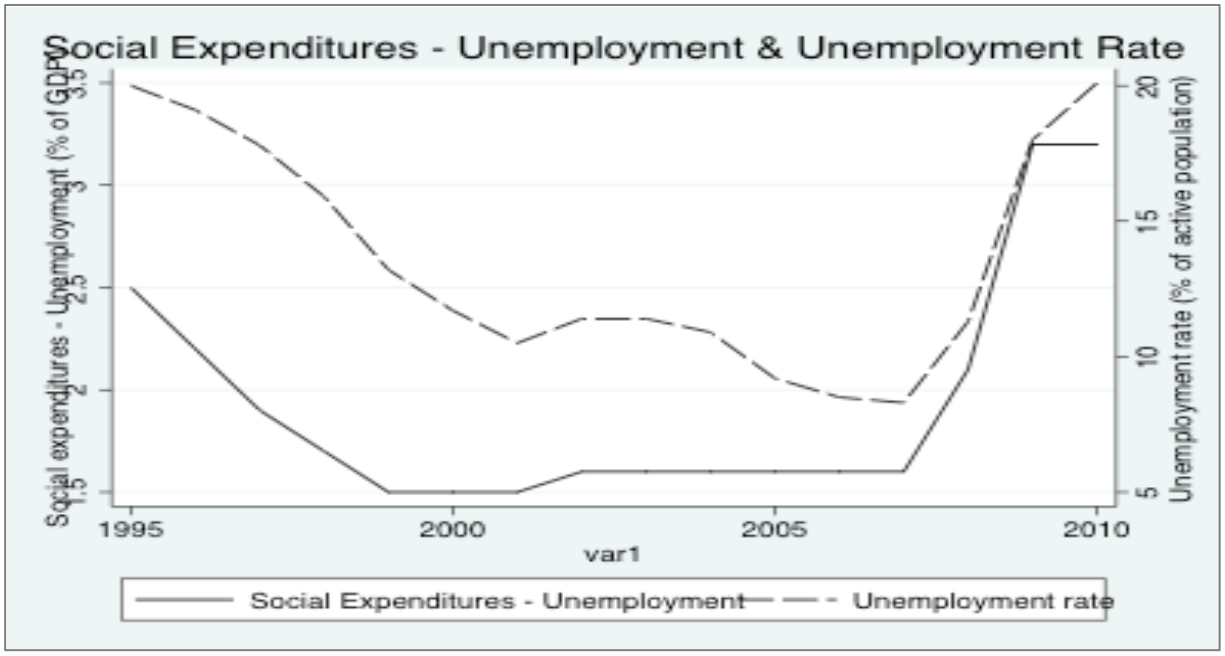
social expenditures in unemployment have indeed increased very much with the recent economic crisis, which is characterized by high unemployment rates.

Figure 5.14. Social expenditures: Unemployment



A closer look at the relationship between unemployment rate and unemployment expenditures (Figure 5.15) shows that the correlation is indeed fairly strong:

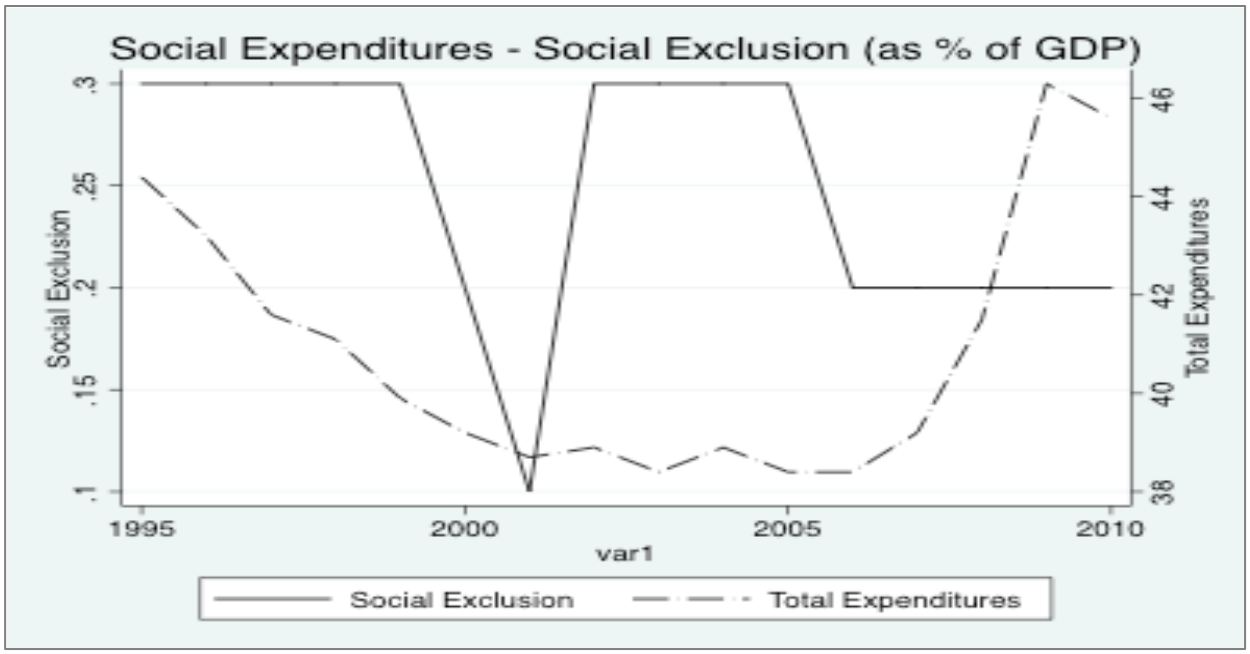
Figure 5.15. Spending in unemployment and unemployment rates



Social expenditures in housing in Spain have been very stable around 0.1% of the GDP in all years. This type of expenditures therefore has not been as cyclical as the others. Housing expenditures (as % of GDP) are lower in Spain than in the average EU 17.

Finally we plot the social expenditures devoted to social exclusions in Figure 5.16. This type of expenditures represents a fairly small percentage of the GDP and is fairly erratic (we cannot discard some measurement error in 2001) over the period. This hampers comparison with total expenditures. Not surprisingly, these expenditures are also lower in Spain than in the EU17.

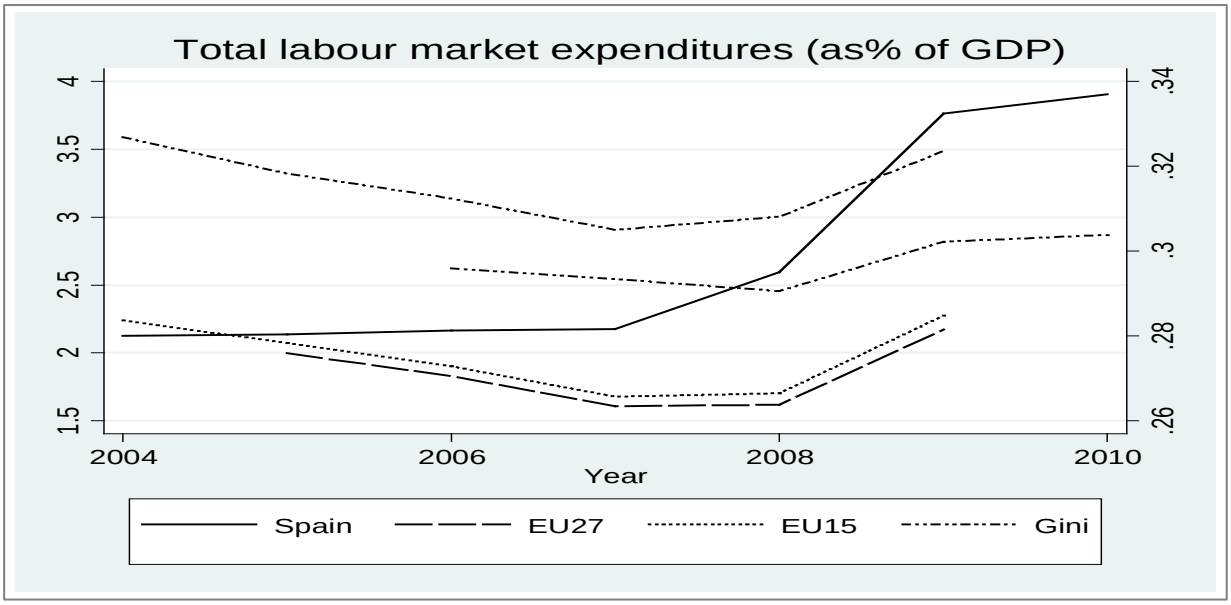
Figure 5.16. Social Expenditures: Social exclusion



Active labour market policies

Expenditure in labour market policies as percentage of the GDP, shown in Figure 5.17, has grown by about 80% since 2004. At this moment Spain is one of the countries with the largest percentage of GDP devoted to labour market policies: in some recent years Spain has had the highest or among the highest levels of labour market expenditures together with Belgium, Denmark, and Ireland:

Figure 5.17. Total labour market expenditures



Although a large percentage of these expenditures are devoted to non-active policies, expenditures in active labour market policies (in absolute terms) are at this moment also above the EU15 and the EU27 average. Nevertheless, in relative terms, Spain spends a smaller share to active policies than many other countries. In addition, over the last years, the share devoted to non-active or "passive" policies (i.e., "out-of-work income maintenance and support" and "early retirement") as percentage of the total share of labour market expenditures has increased. Taking recent times data, we see that this share was at its lowest in 2006/2007 with 67% (when unemployment was at his lowest level), but it already reached almost 80% in 2010.

	LM Support ("passive")			Active LM policies			LM Services		
Year	**EU27**	**EU15**	**Spain**	**EU27**	**EU15**	**Spain**	**EU27**	**EU15**	**Spain**
2004	n.a.	1.41	1.50	n.a.	0.60	0.55	n.a.	0.22	0.08
2005	1.27	1.32	1.46	0.51	0.53	0.58	0.22	0.23	0.09
2006	1.13	1.17	1.44	0.50	0.52	0.63	0.20	0.21	0.10
2007	0.95	1.00	1.46	0.46	0.48	0.63	0.19	0.20	0.09
2008	0.96	1.02	1.89	0.47	0.48	0.61	0.19	0.20	0.10
2009	1.40	1.47	2.98	0.54	0.55	0.65	0.24	0.25	0.13
2010	1.36	1.43	3.11	n.a.	n.a.	0.67	n.a.	n.a.	0.12

Using Eurostat statistics we look at the evolution and levels of labour market (LM) expenditures in Spain. We divide the expenditures in 3 groups: (i) Labour market services; (ii) Active policies: training, job rotation and job sharing, employment incentives, supported employment and rehabilitation,

direct job creation, and start-up incentives; and (iii) Labour market support ("passive" policies): out-of-work income maintenance and support and early retirement.

As we can see in the table, the % of GDP devoted to active labour marker polices has also been increasing over the years, although by far not at the speed of the LM support policies or LM services expenditures. From 2004 to 2010, LM support policies doubled and LM services increased by 50%, while the active LM policies only grew by 22%.

The table below shows data on the percentage that each type of policy represents on the total labour market expenditures (Eurostat):

	2004	2005	2006	2007	2008	2009	2010
Labour market services	**3.59%**	**4.29%**	**4.37%**	**4.17%**	**3.98%**	**3.53%**	**3.18%**
Training	5.74%	6.95%	6.68%	6.39%	5.72%	4.67%	4.60%
Job rotation & job sharing	0.39%	0.40%	0.34%	0.32%	0.33%	0.25%	0.29%
Employment incentives	12.83%	13.55%	14.53%	14.27%	10.19%	6.93%	6.51%
Supported employment and rehabilitation	1.49%	0.90%	0.98%	0.97%	0.95%	0.73%	0.89%
Direct job creation	3.79%	3.07%	2.82%	2.83%	2.52%	2.14%	1.99%
Start-up incentives	1.58%	2.38%	3.62%	4.04%	3.60%	2.63%	2.95%
Total Active policies	**25.82%**	**27.24%**	**28.97%**	**28.82%**	**23.31%**	**17.34%**	**17.23%**
Out-of-work income maintenance & support	68.86%	66.36%	64.17%	64.34%	70.17%	77.62%	78.54%
Early retirement	1.73%	2.10%	2.49%	2.67%	2.54%	1.51%	1.05%
Total Passive Policies	**70.59%**	**68.47%**	**66.66%**	**67.01%**	**72.71%**	**79.13%**	**79.59%**

In the table we see that almost 80% of the labour market expenditures are on non-active policies. This percentage has only increased after the recent economic crisis and high unemployment rate.

5.5 Education

The first education law in Spain (*LGE*) is from 1970, during the last years of the Franco dictatorship. The LGE regulated for the first time all the educational system from primary to tertiary education and extended obligatory education from 6 to 14 years old. Since the democracy, Spain has seen several educational reforms, notably the LOGSE in 1990 that increased the compulsory education from 14 to 16 years old. Since the 1990 LOGSE, Spain has had various new legislations in 1995, 2002, and the

current legislation, which dates from 2006. The structure of the education system had also been changed during this period. The current structure can be simplified as follows:

Pre-primary education: 3 to 6, non-mandatory but publically offered at schools.

Primary education: 6 to 12, mandatory and publically offered

Low secondary education: 14 to 16, mandatory and publically offered

→ students are kept together until this age.

Upper secondary education: non-mandatory. It includes either upper secondary education (2 years) allowing entrance to university, or vocational education. Publically offered.

Tertiary education: non-mandatory. It includes university and upper vocational education. Publically offered.

This is: students go together until age 16 at which point they can choose between academic and vocational track. The upper vocational track can also lead to university. This means that, compared to other European countries, Spain tracks late. E.g., selection age is 10 in Germany, 11 in many former East European countries, 12 in the Netherlands and Belgium, and 14 in Italy. In fact there is no country in Europe in which selection occurs later than in Spain. The Scandinavian countries (Denmark, Finland, Iceland, and Sweden) track students also at 16 years old.

Selection age has two opposite effects: (i) (a) early track may cause higher inequalities by reducing peer effects from talented to less-talented students and (b) if tracking depends on social background rather than on talent, early tracking reduces equal opportunities; and (ii) (a) late track may increase school dropout rates of those students who at an earlier age would have not dropped if chosen a vocational training and (b) early track may accommodate better the needs of both, more talented and less talented students, as class homogeneity increases performance. The empirical evidence on the total effect seems to be inconclusive.

The evidence in intergenerational mobility shows that Spain is among the countries in Europe in which the education of the parents has a smaller role in predicting own education (Schuetz, Ursprung, and Woessmann, 2008). This may be suggestive evidence of a positive effect of late tracking on intergenerational mobility. In fact Hanushek and Woessmann (2006) argue empirically that there is a relation between early tracking an educational inequality.

The Spanish education system performs very badly in terms of education achievements, although the cause of this bad performance is yet unknown and it is probably due to a combination of various causes.

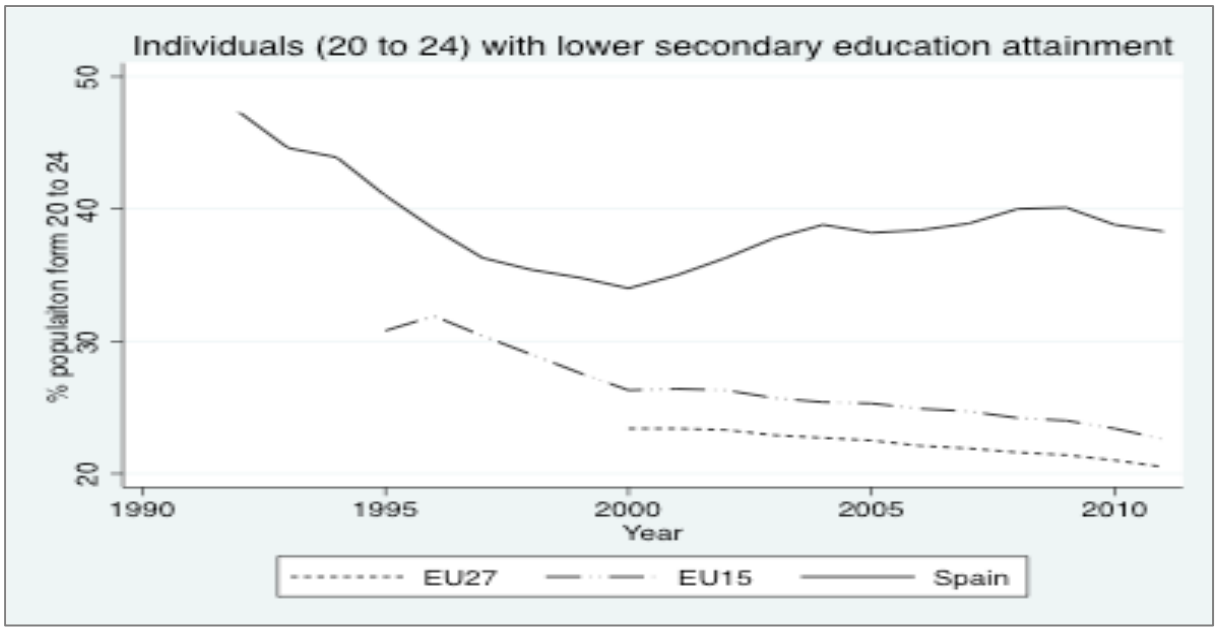
Florentino Felgueroso, Luis Garicano, and Sergi Jiménez in the NadaEsGratis blog (November 2011) as well as many other economists summarize the bad Spanish education performance as: (1) although the percentage of population with tertiary education has been increasing over the years and it is above the EU average, the number of dropouts and individuals with very low education is among the highest in Europe (dual system); and (2) of the European countries participating in PISA, Spain ranked among the very lowest.

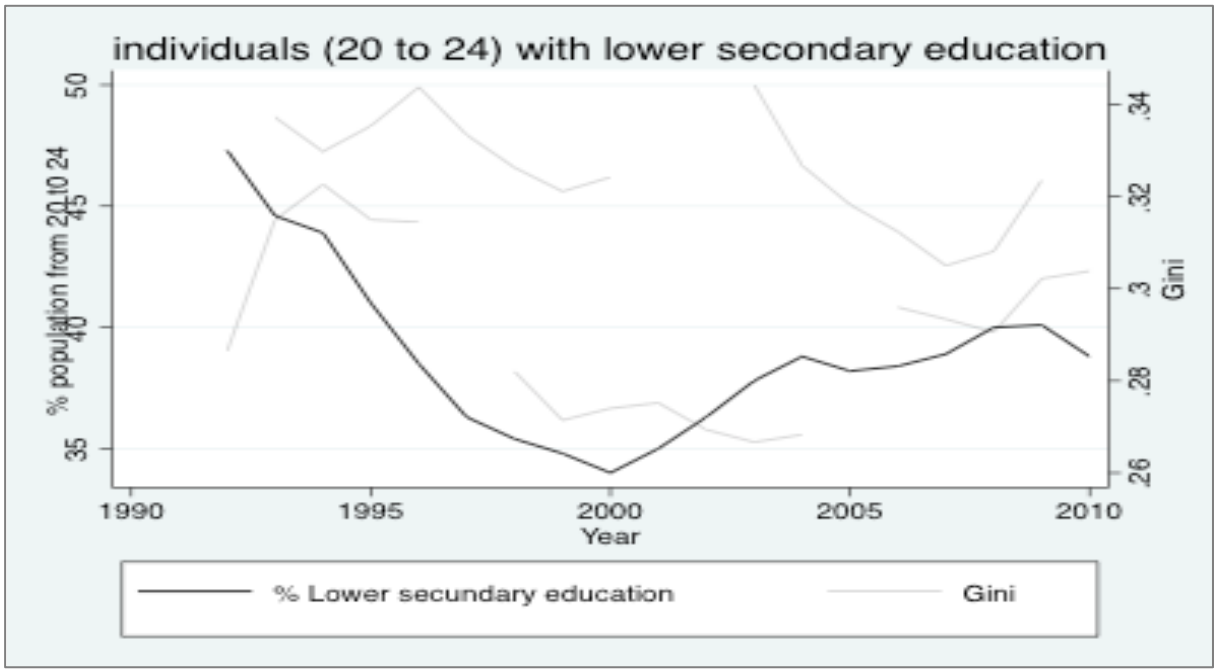
These authors (as well as many other economists) argue that the bad labour market performance in Spain may be a consequence (and a cause) of the education system.

What is the reason behind Spanish bad performance? There is some empirical work estimating the education production function by taking into account endogeneity problems that may jeopardize causal conclusions. This literature has made substantial qualitative advances. They have found, for example, that family background is one of the explanatory variables that enter the education production function, although Spain is among the most intergenerational mobile countries. Using "number of books at home" as a proxy for parental background, the literature finds a positive correlation between this and educational outcomes of the children.

Some Spanish economists argue that the main reason behind the bad education performance in Spain has been the low investment in education. Although there is some evidence suggesting a weak correlation between investments in education and educational outcomes (Hanushek and Woessmann, 2010), the structure of the educational expenditures in Spain is very different than the one in many other countries. This difference could be a factor explaining the Spanish educational bad performance. In comparison to other countries, Spain invests more in primary education and less in tertiary and upper secondary education (i.e. non-mandatory secondary education).

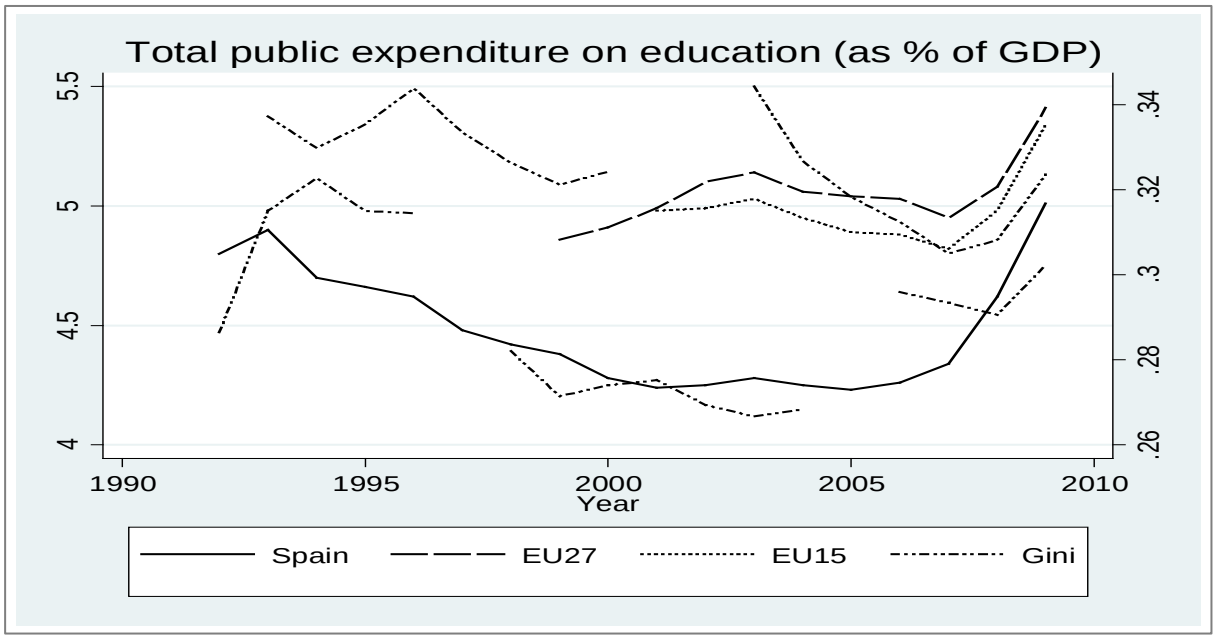
Figure 5.18. Percentage of individuals with lower secondary education





Using Eurostat data, Figure 5.19 shows that total public expenditures in education is lower in Spain than in both the EU15 and the EU27 average.

Figure 5.19. Total public expenditure on education



This lower level of expenditures in education comes indeed from lower levels of expenditures in secondary and tertiary education, which remains one of the problems in Spain, a country with (i) an increase in the percentage of population with tertiary education, (ii) a large number of young people with low secondary education (low vocational education as opposed to upper secondary education), and (iii) low returns to tertiary education. Spain is a country with low returns to education and a low productivity level. Figures 5.20 to 5.22 show public expenditures in education by category as percentage of GDP (Eurostat)

Figure 5.20. Total public expenditure on primary education

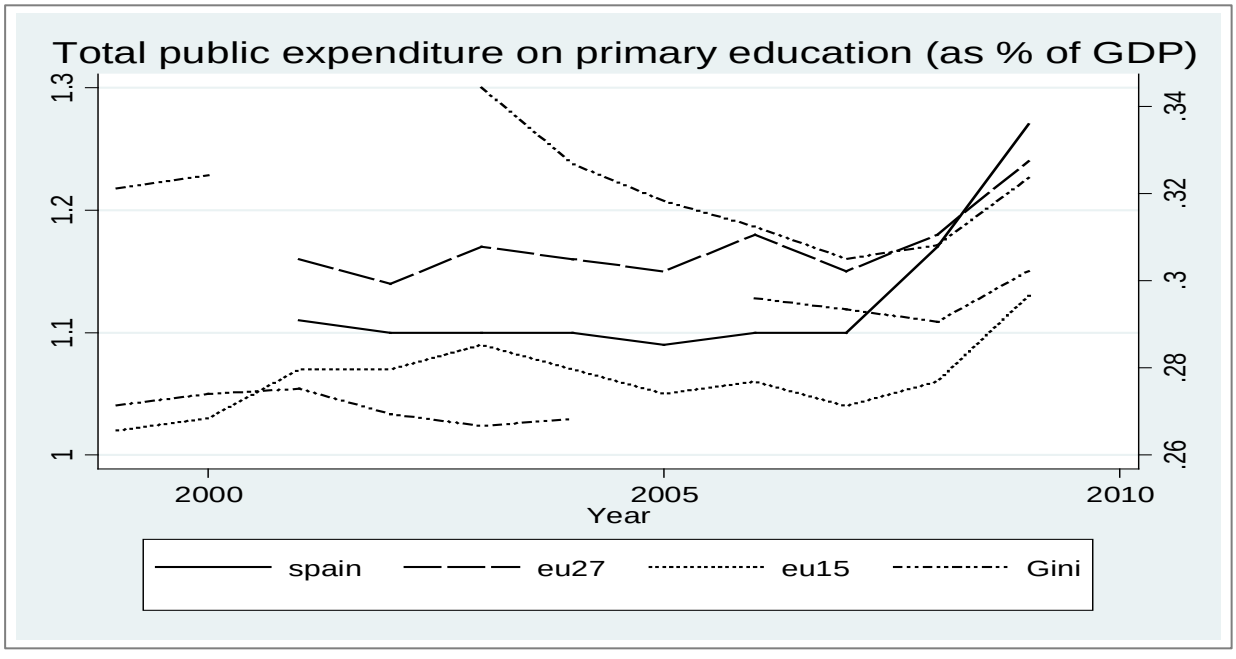


Figure 5.21. Total public expenditure on secondary education

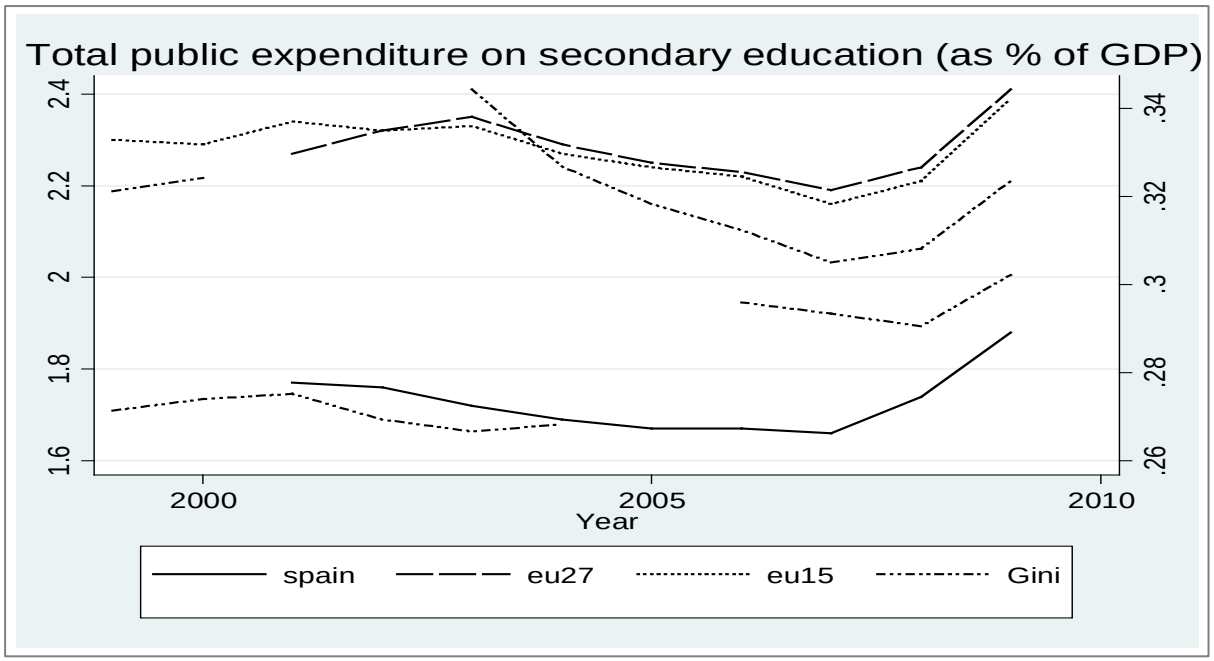
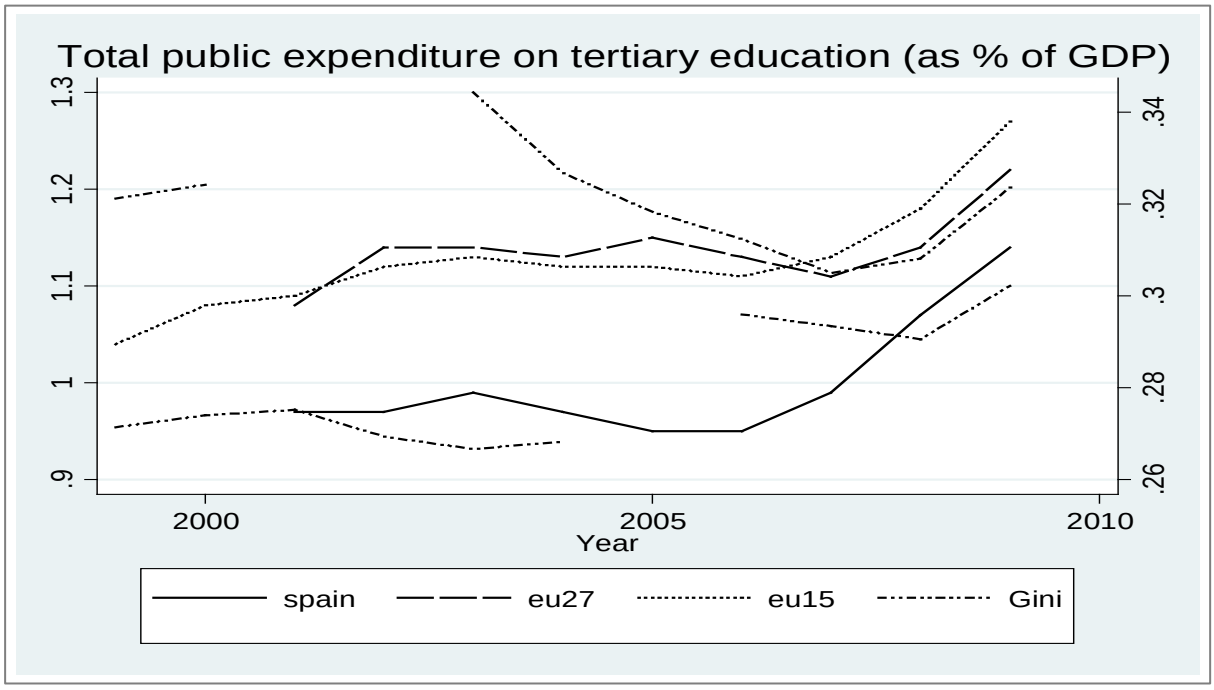


Figure 5.22. Total public expenditure on tertiary education



In addition to the structure of the expenditures in education, some Spanish economists argue that increasing school autonomy would contribute to increase students' performance and enhance educational quality in Spain (see Antonio Cabrales y Florentino Felgueroso, blog NadaEsGratis, setember 2011). According to the data used by these authors, Spain is among the countries in which schools have the less autonomy on deciding about the teacher hiring. Similarly, they argue that performance pay would also increase educational quality and that Spain is among the group of

countries who do not offer any type of performance pay to teachers. Hanushek and Woessmann (2010) literature survey finds that these two factors seem to indeed play a role in determining cross-country education quality differences.

Another argument that has been put forward in the literature, both as a determinant of educational quality and of education inequalities, is the private involvement in education. In Spain there are three types of schools: public, private with public support, and private with no public support. The public schools represent the vast majority of schools and most of the private schools are publically supported. For example, in 2010 (INE) from the total number of schools offering secondary mandatory education 67% were public, 29% private publically supported, and less than 4% were private not publically supported. Regional differences are very large, according to the same source (INE). For example, while the Bask country, Madrid, and Catalonia have 50, 52 and 61% of secondary mandatory schools that are public, these numbers are 76% and up to 82% in Canarias, Andalucía, Extremadura, and Castilla La Mancha. Similarly, of the total number private schools, 25% and 20% are not publically financed in Madrid and Canaries, respectively. This percentage is, for example, 10% in Andalucía, 4.4% in Catalonia, 1.6% in the Bask Country and 0% in Navarra or La Rioja. Eurostat has data from 2001 to 2010 on the percentage of students enrolled in public and private schools. The data shows that these percentages have not changed much during that period: in 2001 public enrolment was 69.1% and in 2010 it was 70.4%.

The role of pre-primary education has also been highlighted as both, a determinant of future education achievements and of education (and income) inequality. In Spain the enrolment to pre-primary (publically provided) education system is very high (Eurostat) and therefore this cannot be a reason to explain the bad performance of the Spanish educational system.

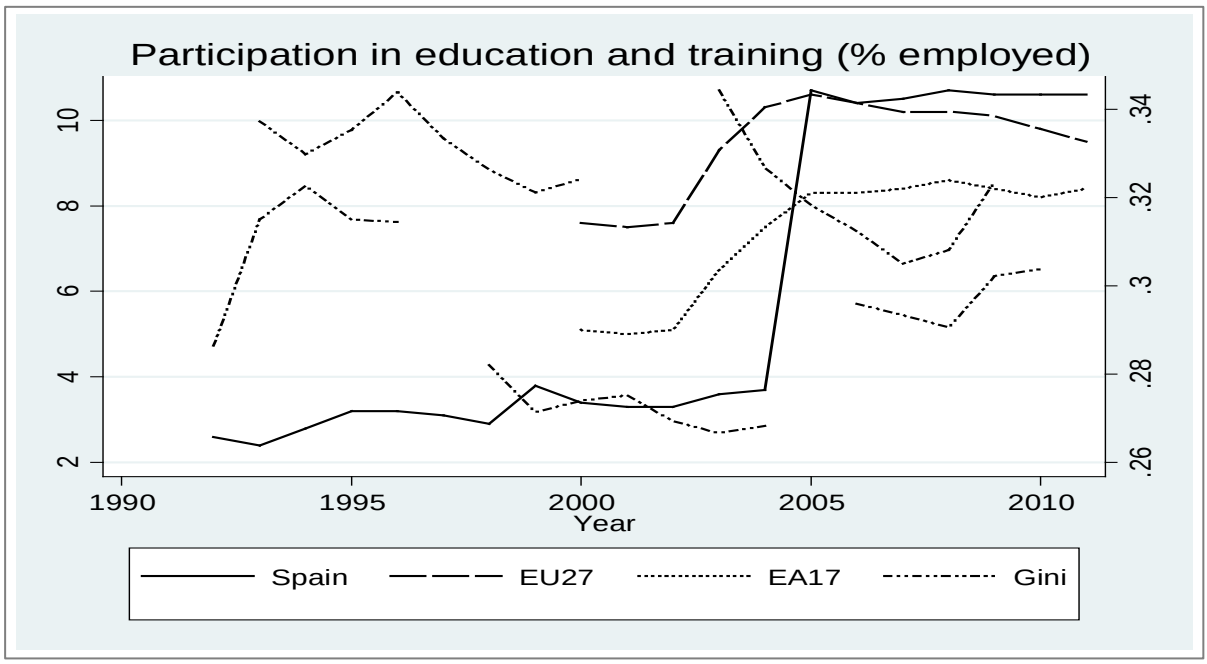
	Participation 4 year olders in education (as % of 4 year olds)
2001	100
2002	100
2003	99.5
2004	100
2005	99.3
2006	97.1
2007	98.4
2008	98.7
2009	99.4
2010	99

Finally, the literature argues that another cause of educational inequalities runs through intergenerational mobility. One element that can hamper this mobility is the school admission process. In Spain admissions to primary and secondary public and private publically supported schools (the vast majority of private schools) differ across regions and it is based on parents' choice. In case of insufficient slots in the most popular schools, there is strict rules typically based on location, and some other socio-economic or health characteristic (depending on the year they can be household income, single motherhood, health problems, etc.)

Further education and training

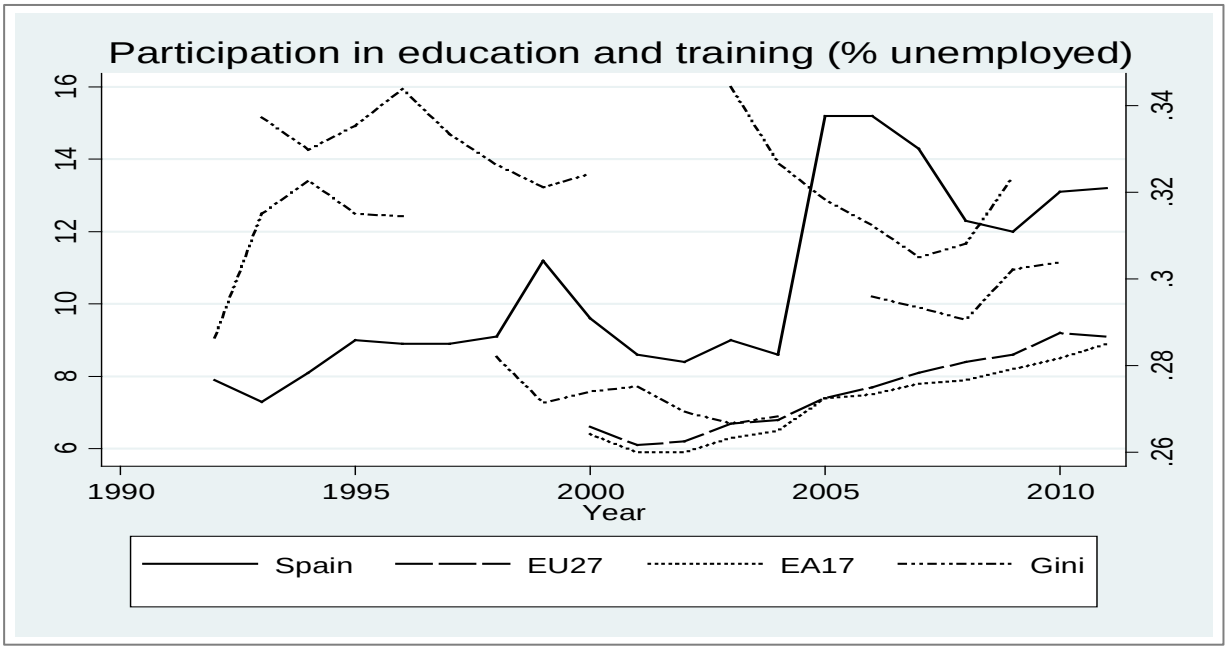
The number of employed individuals in education and training as percentage of employed has increased very much in Spain (Eurostat). Traditionally Spain had low levels of training, with a large number of individuals employed in low productivity sectors with temporary contracts. As shown in Figure 5.23, however, this percentage increased substantially in 2004.

Figure 5.23. Participation in education and training (% employed)



In contrast Spain has been among the countries with the largest percentage of unemployed in education and training, see Figure 5.24.

Figure 5.24. Participation in education and training (% unemployed)



5.6 Conclusions: Appraisal of the `national story´of policies affecting inequality, intended or unintended

Most, if not all, labour economists in Spain argue for the urgent need of implementing labour reforms aimed at finishing with the dual market (insiders versus outsiders) that has generated large inequalities in terms of income and stability. At the same time, Spanish wages are fairly compressed (and dispersion has been decreasing since 1985) with low returns to education. Some argue that Spanish collective bargaining system at the industry provincial level has contributed to this wage compression.

The tax burden in Spain is lower than in most European countries and it is below the EU17 and EU27 average. This may change in the following years with the governmental need to increase revenues and reduce public debt.

Social expenditures and the welfare system in general are lower in Spain than in many European countries, although during the 1980-1995 period Spain had experienced a large increase in social expenditures. A large part of these are devoted to health and to income maintenance (old age and unemployment), while expenditures for social protection are very low. In the current high unemployment rate scenario, with an ageing population that puts pressure on the pension and health system, the social welfare system is becoming very vulnerable.

Similar to the Spanish labour market (chapter 2), the Spanish educational situation is also characterized by duality. Spain has an increasing and fairly large percentage of the population with tertiary education, while the number of dropouts and individuals with low secondary education (low vocational education) is among the highest in Europe. Although due to wage compression, this duality has not had a large impact on wage inequality, this may be changing, as unemployment rates of individuals with lower education are very high. There may be multiple reasons behind the bad Spanish performance, notably the structure of educational expenditures and the low autonomy of the schools. In terms of intergenerational inequality, it is important to notice that the current empirical evidence shows that Spain is among the countries in Europe in which the education of the parents has a smaller role in predicting own education.

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