



European Centre of Expertise (ECE) in the field of  
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# **Labour Market Policy Thematic Review 2017: An in- depth analysis of the impact of reforms on inequality**

SPAIN

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## **1 Introduction: Overview of inequality in Spain**

Spain shows one of the worst performances during the crisis in all indicators related to inequalities in the EU and OECD countries. Certainly, the impact of the crisis has not been equally shared, showing a clear regressive trend of the average household disposable income, with a much higher reduction among households in the lowest percentiles and with increases among households of higher percentiles in the period 2007-14 (Ayala, 2016, with OECD data). According to Eurostat data, Spain shows in 2015 a Gini coefficient 3.6 percentage points higher than the EU-28 average (34.6 and 31.0 respectively in a scale from 0 to 100) and ranks sixth, after Lithuania, Romania, Bulgaria, Latvia and Estonia. The increase of the Gini coefficient in the period 2006-15 (almost four times as much as in EU-27, 2.7 p.p. vs 0.7 p.p. respectively, the fifth largest increase) is a sign of the higher impact of the crisis on inequality. The S80/S20 income quintile ratio has increased from 5.5 in 2007 to 6.9 in 2015, which places Spain in the fourth worst position (after Romania, Lithuania and Bulgaria) among the EU28 countries and depicts the worst evolution during the crisis. As a consequence, Spain ranks also fourth (after Romania, Latvia and Lithuania) in the at-risk-of-poverty rate, with 22.1 % in 2015, almost five p.p. more than the EU-28 mark (17.3 %). Considering the at-risk-of-poverty rate anchored at the beginning of the crisis (2008), Spain is in 2015 at 29.9 %, 11.4 p.p. more than the EU-28, which means an increase of 10.1 p.p. since 2008. The high early school leaving rates, the high share of low skilled people among the adult population and large regional disparities in students' performances at school are additional features of the recent evolution. Inequalities in access to health care have also risen significantly from low levels during the crisis (EC, 2017).

Three factors explain this different evolution: first, the impact of the crisis on unemployment which has been more intense in Spain, particularly among the lower qualified, who have lost to a large extent their income source; second, the internal devaluation process, also more acute among low-wage earners and aggravated by a deterioration of the employment quality and increasing use of part-time work; third, the low capacity of the social protection system to prevent the risk of poverty, social exclusion and inequalities.

The first factor accounts for approximately three quarters of the households' income reduction since 2008 (Goerlich, 2016), for most of the increase in inequality (estimated at 80 % of the increase between 2007 and 2011 in OECD 2015) and also explains the inter-country gap in inequality (Gradín, 2016). Indeed, the number of households without any occupied member has almost multiplied by 1.5 between 2008 and 2014 (from 4.7 million to 6.9); a similar trend is registered in the number of households without any income which has more than doubled in the period (from 365 000 or 2.2 % of all households in 2007, to 770 000 or 4.0 % in 2015). The loss of jobs has affected the low qualified (ISCED 0-2) more, reaching a peak of 35.5 % unemployment rate in 2013, whereas the medium qualified (ISCED 3-4) reached 25.9 % and the highest (ISCED 5-8) 16.1 % in that year. As of 2016, 54.2 % of all unemployed are low qualified (60 % of men unemployed and 48.5 % of women unemployed). Long-term unemployment is also a source of inequalities because of the income deterioration once unemployment benefits and subsidies are exhausted. In

2016 (2Q) 59 % of the unemployed have been unemployed for more than one year and 44 % for more than two.<sup>1</sup>

The evolution of wages has also underpinned inequalities, since the groups at the bottom of the income scale have lost more than those at the top: in Spain, the incomes of the poorest 10 % dropped by almost 13 % per year between 2010 and 2014, compared to only 1.5 % for the richest 10 % (OECD, 2015). The improvement of the labour market in 2013 and 2014 has not resulted in better social indicators: the persistent duality of the Spanish labour market, the increasing part-time nature, which might be emerging as a further aspect of labour segmentation, and wage moderation have contributed to increased in-work poverty (EC 2016a). The labour market reform, that has substantially affected the collective bargaining and the wage setting mechanisms, at least in theory, has been frequently denounced as being behind the evolution of wages; however, neither the coverage of firm level collective bargaining has increased (EC 2016a) nor have wage agreements dropped substantially after the labour market reform. The principal mechanism contributing to the internal devaluation has been the reduction of initial wages: at the end of 2014, economic conditions for new hiring had dropped to the early nineties level, while the average loss in disposable income of workers who have maintained their jobs throughout the crisis has been less than 3 % by 2013 (Bentolila et al. 2016, with data from the Continuous sample of labour lives).

Finally, the redistribution capacity of the Spanish social protection system and its capacity for lifting people out of poverty is more limited than in the EU-28 and very much based on the protection capacity of the pension system (Cantó 2014, Ayala 2016, Gradín 2015). Moreover, although unemployment benefits and fiscal reforms at the onset of the crisis managed to cushion the impact of unemployment on inequality, the fiscal consolidation measures have weakened the capacity of the social protection system to prevent an increase in both poverty and inequalities. According to OECD simulations, the measures have had a larger negative impact on those unemployed for more than 6 months and on families with above average incomes due to the increase in the personal income tax (OECD, 2015b). As a consequence, the impact of social transfers on redistribution increased until 2011, but diminished afterwards. On its side, the capacity of the social protection system to lift people out of poverty increased until 2013 but substantially diminished thereafter<sup>2</sup>.

## **2 Country-specific recommendations and their impact on inequalities**

### **2.1 Country-specific recommendations**

The CSR for Spain in 2015 and 2016 focus on ensuring a durable correction of the excessive deficit (CSR 1 in 2015 and 2016); promoting the alignment of wages and productivity (CSR 3.1 in 2015); increasing the quality and effectiveness of ALMP such as job search assistance and counselling, improving labour market integration, strengthening the effectiveness of training measures (CSR 3.2 in 2015 and CSR 2.1 in

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<sup>1</sup> Source: INE, LFS

<sup>2</sup> The difference in the Gini coefficient before and after transfers increased until 2011, when it reached 4.9 p.p. but has decreased thereafter until 4.8 p.p. in 2015; moreover, the impact of social transfers (excluding pensions) on the poverty rate increased until 2013, when it was 9.4 percentage points, but has diminished afterwards to 8 p.p. in 2015. Source: Eurostat, EU-SILC.

2016) and improving the labour market relevance of tertiary education (CSR 3.1 in 2016). They focus as well on streamlining minimum income and family support schemes, addressing gaps and disparities in minimum income schemes and improve family support schemes, including access to quality childcare and long-term care (CSR 3.3 in 2015 and 2.2 in 2016) and fostering regional mobility (CSR 3.3 2015). Finally, they insist on removing the barriers preventing businesses from growing and accelerating the implementation of the law on market unity (CSR 4 in 2015 and 2016).

The care-taker situation of the government since the end of 2015 and during almost all 2016 has limited the adoption of measures that give a response to the 2016 CSR. Thus, three measures adopted in 2015 and only two in 2016 have been selected, that show considerable impact on equalities and/or equal opportunities, although there is sometimes a lack of available evidence or evaluations to prove it.

### **Ensuring a durable correction of the excessive deficit through less public spending**

Following an earlier CSR, both fiscal revenue increases and public spending cuts have been implemented since 2010 with the objective to bring the public deficit back to sustainable levels. According to Conde-Ruiz et al. (2016) who use Eurostat data, public spending increased in Spain more than in the euro area (EU-15) during the first expansion phase of the crisis (2007-09) (7 percentage points of GDP in Spain and 5.6 p.p. in EU-15), driven mostly by the expenditure in unemployment benefits. In the consolidation phase (2009-15), it decreased also less (2.5 p.p. compared to 2.9 p.p. in EU-15), but did it in all functions but in pensions and public debt interest, that increased by 2.6 p.p. (24 % in real terms, the highest increase in EU-15) and 1.7 p.p. respectively. On the contrary, public spending in health decreased by -13.8 % compared to EU-28 average increase of +2.2 %; public expenditure in education decreased by -14.3 % vs -2.9 % in EU-28; spending on the rest of social protection (disability, social housing, regional minimum income schemes, family, long-term and child care, etc.) dropped by -13.8 % whereas it increased by 3.4 % in EU-28.

All in all, Spain spent less than the EU-28 in 2015 (43 % of GDP vs 48 %), and this is so in all headings, except on unemployment expenditure (67 % more than in EU-28 in 2014) and public debt interest (36 % more than in EU-28 in 2014). Pensions absorb at present a similar share of GDP as EU-28 but have increased substantially since the beginning of the crisis. Therefore, the weight of fiscal consolidation has been borne by the beneficiaries of public education, health, long-term care and child care, family and other social policies, whereas pensioners have maintained, in a context of low or even negative inflation rates, their purchasing power until 2016<sup>3</sup>. This is reflected in the evolution of the at-risk-of-poverty rate, that has halved among people older than 65 (from 25.5 % in 2008 to 12.3 % in 2015) but has increased among households with dependent children (from 23.4 % in 2008 to 27.4 % in 2015).

### **Reform of the training for employment system**

In 2015, a far reaching and ambitious reform of the organisation and governance of the so-called training for employment subsystem (*subsistema de formación para el empleo*) was approved (RDL 4/2015 and Law 30/2015). The reform changes roles of

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<sup>3</sup> Since the inflation rate increased at the end of 2016 to 1.5 %, and the approved increase of pensions for 2016 was 0.25 %, this has resulted in the first loss in purchasing power since 2012.

traditional stakeholders as well as planning processes. It may induce efficacy and efficiency to training activities both to the unemployed and to occupied workers not only through a more coherent and sound governance system, but also through increased intelligence and improved skills-forecasting capacities that are linked to planning that should contribute to achieve better results. The reform reinforces lifelong learning programmes targeted at employed workers through the recognition of a 20 hour period of training leave applied to all workers with at least one year of seniority or the possibility to introduce an individual training account for workers. It considers as well the introduction of a training voucher system (*cheque-formación*) for unemployed workers that allows them to choose the provider that better meets their training needs. Moreover, for the first time, the reform specifically includes low-skilled unemployed as a priority group for addressing training actions. The accompanying budgetary increase shall underpin the reform.

Some of the changes have not yet been effectively implemented and there are no readily available data on the impact of the reform. Some positive potential impacts on equal opportunities of employed and unemployed persons can nevertheless be envisaged. On the one hand, the consideration of low-skilled unemployed as a priority group, if effectively implemented, addresses a major challenge in Spain, which is the high share of the low-skilled among the long-term unemployed with low participation in training (EC, 2016a). According to Jansen (2016), only one out of eight low-skilled registered unemployed in January 2015 benefited from one active labour market measure during the three following months; and only one out of twenty low-skilled very long-term unemployed (more than two years) would be offered a training course. On the other hand, improved training for the employed thanks to better prospective analysis and anticipation of skill needs, adequate incentives for training providers to innovate and adapt to the labor market and increased availability of training programs at regional level (especially in small regions) may also contribute to increase employability of participants and their opportunities to improve labour conditions. However, the fact that higher skilled workers of larger companies tend to participate more in continuous training than lower-skilled workers in small and medium enterprises, as it happens at present, could potentially act against improving equality of opportunity.

### **Introduction of new hiring incentives (exemption of 500€)**

The objective of reducing the prevailing segmentation between temporary and permanent workers and of stimulating creation of permanent jobs is addressed in Spain, to a great extent, through hiring incentives based on reductions of employers' social security contributions. In 2015, an exemption for the first EUR 500 wage in cases of new permanent hiring was introduced (Law 25/2015, 28<sup>th</sup> July)<sup>4</sup>, that replaced a formerly introduced flat rate (*tarifa plana*) of EUR 100. The objective of the new EUR 500 exemption was to correct the regressive impact of the former flat rate that applied to all labour contracts regardless of their wage. The EUR 100 flat rate favoured high-earners (the incentive became more relevant the higher the salary), showed a low incidence in supporting the reinsertion of harder-to-help groups' into the labour market and diverted resources from ALMP measures for vulnerable groups (González-Gago, 2016b).

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<sup>4</sup> Royal Decree-Law 25/2015, of 28 July, of second chance mechanism, reduction of financial burden and other measures (*Ley 25/2015, de 28 de julio, de mecanismo de segunda oportunidad, reducción de carga financiera y otras medidas de orden social*).

The new exemption for the first EUR 500 wage, benefits those on lower incomes such as young people and the low-skilled (European Commission, 2016). According to Devesa E. et al. (2015), this modality involves an average reduction of 4 % of labour costs for a full-time worker, which compares with a 14 % reduction obtained with the former flat rate; but the reduction of labour costs in cases of the minimum wage is 11.6 %, which compares to 7.7 % with the EUR 100 flat rate. Moreover, whereas the impact of the EUR 100 flat rate on the Social Security balance was negative, i.e. it meant a cost for the Social Security, the EUR 500 exemption may be neutral, since it requires that the increase in permanent hiring is only 23.3 %, which could eventually be reached. According to official figures, 317 989 contracts have benefited from the exemption till September 2016, when it ended<sup>5</sup>, which means 13.4 % of the open-ended contracts signed between March 2015 and August 2016. Unfortunately, there is no information as to what extent the increase in permanent hiring was due to the incentive, so it is not yet known if the incentive has resulted in a cost for the Social Security.

### **Renewal of the Employment Activation Programme**

In April 2016, the Employment Activation Programme (*Programa de Activación para el Empleo*), approved in 2014 in agreement with the social partners (RD 16/2014, of 20<sup>th</sup> December), was renewed (RDL 1/2016 of 15<sup>th</sup> April) with the aim of sustaining family income for the long-term unemployed with family responsibilities no longer entitled to any non-contributory unemployment benefit. In what could be understood as a response to CSR 3.2 of 2015 ("take steps to increase the quality and effectiveness of job search assistance and counselling"), this programme entitles long-term unemployed to a EUR 426 monthly benefit. This economic benefit is accompanied with intensive guidance and counselling and with the possibility to make it compatible with a job during 5 months, while hiring companies reduce the subsidy of EUR 426 from the salary payments. Although the impact of the programme has been lower than foreseen (99 410 beneficiaries, far less than 400 000 expected)<sup>6</sup>, its results are encouraging: 23 % of participants (21 792) found a job; 16 % of participants (15 212) benefited from the possibility of being employed, and out of which 87 % maintained their jobs after exhaustion of the programme.

In spite of its reduced impact, the Employment Activation Programme is an important step towards improving equal opportunities of the long-term unemployed with family responsibilities through intense use of ALMP, thus easing their access to a job while providing economic support to the family. A thorough evaluation should be made to increase its scope and whenever possible to improve its apparent good impact.

### **Joint Action Programme to support long-term unemployed**

A new Joint Action Programme to support long-term unemployed (*Programa de Actuación Conjunta para desempleados de larga duración*) was agreed by the Ministry for Employment and Social Security and the Autonomous Communities in April 2016 and has finally been approved in December 2016. It aims to support at least 1 000 000 long-term unemployed in the period 2016-18 and is endowed with EUR 515 million. This budget is intended to finance structural measures that allow the Autonomous Communities to improve the capacity of the regional employment

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<sup>5</sup> The care-taker situation of the government in August 2016 hampered the renovation of the measure, as would have been the intention of the government.

<sup>6</sup> Data of 30<sup>th</sup> March 2016 (SEPE, 2016).

services to provide a rapid (maximum 6 months since registration with the PES) and individualised attention to the LTU.

Two kinds of measures are to be implemented: on the one hand, the provision of a personal tutor who shall elaborate an employability profiling of each long-term unemployed and is responsible to design an individualised itinerary. The maximum amount of long-term unemployed persons supported by each tutor has been set at 120. On the other hand, the Programme foresees training for staff (including the tutors) of the Autonomous Communities to improve the attention provided to the beneficiaries and to improve management systems that have a direct impact on the unemployed.

There are no data available on the implementation of the Programme. Together with the Employment Activation Programme described above, as well as with other existing programmes for the long-term unemployed (such as Prepara), this Joint Programme brings about a turning point in the equal opportunities offered to the long-term unemployed, both in quantitative (over 1 million long-term unemployed targeted) and qualitative terms, with the effective reinforcement of individualised pathways to employment. It can also mean an opportunity to modernise the Spanish public employment services and make them more effective (Jansen, 2016).

## **2.2 Unaddressed country-specific recommendations and their hypothetical impact on inequality**

### **Increase capacity of regional employment services to reinforce their coordination with social services. Address gaps in minimum incomes and regional mobility**

Since 2012, the CSRs for Spain include systematically, with different writings, recommendations to reinforce coordination between the employment services, social services and the various minimum income schemes existing at central level and in the Autonomous Communities. So far, however, minimum income support schemes in Spain remain a set of unconnected programmes, with levels of benefits around or below 40 % of the national median income in most regions, very low coverage rates between 1 % and 3 % and large regional disparities (EC, 2016a). In this context, in some Autonomous Communities (Basque Country, Navarre, Murcia, Castilla y León), social and employment services are increasing coordination in order to better support active inclusion of those furthest away the labour market, including recipients of minimum income benefits (EC, 2017).

A sound minimum income system able to effectively provide economic support to those most at need (usually those having exhausted employment benefits and/or at risk of severe poverty and social exclusion) would undoubtedly impact equality. Fuenmayor et al. (2012) simulate the impact of extending the coverage and intensity (the quantity of the economic benefit) of the regional minimum schemes to their theoretical beneficiaries, as regulated by the respective regional laws. They conclude that both the number of beneficiaries and the budget devoted should be multiplied by approximately 5.5, up to 850 000 beneficiaries and EUR 3.3 billion, although with large regional differences. The impact on extreme poverty would be significant: considering a threshold of 30 % of the median income, it would decrease from 6.8 % to 6.1 % and considering a threshold of 15 % from 3.7 % to 1.4 %. The intensity of poverty, i.e. the distance between the average income of the poor and the poverty threshold, would fall from 43.6 % to 36.9 %. Fuenmayor et al. simulate also the impact of a minimum income system common to all autonomous communities, that

considers an amount equal to the 40 % of the respective regional poverty threshold and that includes an employment incentive (reducing incompatibilities between employment and benefits to a certain extent): as a result, the number of beneficiaries should further increase up to 1.5 million households, the budget to EUR 7.6 billion and the average monthly amount should increase from EUR 325 per month to EUR 440 per month. Such a system would reduce severe poverty (threshold of 40 % of median income) from 9.1 % to 2.8 %.

Some progress has been achieved in the provision of individualised support by regional employment services. However, limited progress has been recorded as regards coordination between employment and social services (EC, 2016a and EC 2017). However, improved coordination (including, when needed, income support) would clearly enhance the opportunities of the most vulnerable beneficiaries lifting them out of poverty *and* entering the labour market if they receive the active labour measures they need (Social Inclusion Network, 2014).

### **Family support schemes, including child and long-term care system**

The CSR 3.3 in 2015 and 2.3 in 2016 recommend the improvement of family support schemes, including access to quality childcare and long-term care. However, following sharp budgetary reductions in response to the need of fiscal consolidation described above, overall limited progress has been made in improving family support schemes, including affordable early childhood education and care (from 0 to 3) and long-term care (EC, 2016a). This lack of support affects children's opportunities, particularly children from vulnerable backgrounds. It also hampers women's labour market opportunities, particularly again those who are lower skilled, who cannot afford private expensive child care services and have thus to exit the labour market or work part-time, while the risk of poverty and social exclusion among part-timers is higher. The reduction of 5 percentage points since 2011 in the share of children under three years of age cared for formally, for more than 30 hours a week, is an eloquent result of the tendency depicted. Also the reduction of the number of dependent persons covered by the long-term care system has been estimated at 40 000 in 2014 (Barriga Martín et al. 2015); moreover, since the State ended the payment of social security contributions for informal carers in November 2012, the vast majority of informal carers -mostly women- are out of the social security system, with an evident impact on their labour conditions and social protection (González-Gago, 2016).

## **3 Other important reforms and inequalities**

### **Personal Income Tax reform in 2014**

After a tax reform in 2012 aimed at increasing tax revenue through increases in VAT and Personal Income Tax (PIT), a new tax reform was approved in 2014 with effect from July 2015. This new reform aims to reduce PIT and it is estimated that the ex-ante fiscal cost of the personal income reform, once fully implemented, will be almost EUR 6 billion, or 12 % of total tax revenue from PIT in 2014.

Simulations of the impact of the reform on general income conducted by the European Commission Joint Research Centre based on the EUROMOD model show that almost 60 % of the households are affected by the reform and that, on average, the reform increases the average disposable income for households by 1.4 %. According to these simulations, the tax reform would have made PIT more progressive, with a Kakwani

index increasing from 0.35 to 0.37 (+4.1 %) between 2014 and 2015, though less redistributive (Reynolds-Smolensky index diminishes by -7.4 % in the same period)<sup>7</sup>. However, the significant reduction of tax revenue would have reduced the ability of the tax system to make after-tax incomes more equal, possibly more than offsetting the increase in progressivity, and thus reducing the redistributive power of taxation in Spain (EC 2016a and EC 2016b).

The Spanish Institute for Fiscal Studies (Adiego Estella, M. et al. 2015) has carried out its own assessment, which leads to slightly different conclusions in terms of the impact of the PIT reform on equality. Focusing on the difference between the PIT normative framework in 2011 and 2016, the analysis concludes that the 2016 framework reduces inequalities more than the 2011 one, in spite of the fact that the effective average tax rate is 2.6 percentage points lower. Thus the lesser tax revenue (EUR 2 870 million in 2016) is more than offset by the redistribution capacity of the 2016 normative framework, with the Reynolds-Smolensky index in 2016 5.1 % higher than the 2011 one (0.045664 and 0.043447 respectively). This redistribution capacity would be explained by the higher progressivity of the 2016 framework with the Kakwani index 8.1 % higher in 2016 than in 2011 (0.295876 and 0.273738 respectively).

The Spanish report analyses also the impact of the PIT reform on poverty and concludes that it contributes to reduced poverty in three dimensions: it reduces the incidence of poverty, since the poverty rate diminishes from 21.31 % to 20.82 % (thus -2.3 %); it reduces the intensity of poverty by 2.51 %; and it reduces inequality among poor persons by 2.47 %. Moreover, this impact on poverty can be seen in all poverty thresholds used (from 10 % to 90 %).

### **New maternity complement for retirement pensions of mothers**

The Integral Plan for Family support 2015-17 included a “maternity complement” (*complemento de maternidad*) for women entitled from 1 January 2016 on to a contributory retirement, permanent disability or widowhood pension and who have had children. If the woman had two children, the complement is equal to 5 %, it increases to 10 % if the woman had three children, and to 15 % if she had four or more. It is estimated that 124 000 women are entitled to this new complement in 2016, and this number will increase accumulatively to 455 000 in 2019. The cost in 2016 of the measure is estimated at EUR 56 million, which means a complement of about EUR 30-35 per month on average. According to data released by the Ministry for Employment and Social Security, half of the women accessing these pensions in 2016 were entitled to the complement (had thus had more than 2 children). This complement is a step forward in recognising and addressing the cost of family responsibilities and child bearing for women and the resulting pension gaps. However, it only benefits women accessing contributory pensions from 2016 onwards, so that women entitled to non-contributory pensions will not have theirs complemented; women entitled to contributory pensions but who retired before 2016 will not have theirs complemented either. The positive step forward is partly jeopardised by insufficient and inadequate coverage that might result in increasing disparities.

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<sup>7</sup> The Kakwani Index is calculated as the difference between the degree of inequality of tax liabilities and the degree of inequality of pre-tax income. The higher the value, the more progressive the tax system is.

The Reynolds-Smolensky index is calculated as the difference between the degree of inequality of pre-tax income and the degree of inequality of after-tax income. The higher the value, the more redistributive the tax system is.

### **Law 25/2015 of a mechanism for a second chance, reduction of financial burden and other social measures**

This Law introduces rules on debt relief, providing a mechanism by which borrowers acting in good faith, but with outstanding payments, could have a second chance. For the first time in Spain it is extended to physical persons with the aim of avoiding that an entrepreneurship failure remains an ever-lasting barrier for future entrepreneurship processes. It allows, among other things, more flexibility in out-of-court payment agreements, debts restructuring and extends until 2017 the suspension period for evictions of vulnerable collectives. This more flexible and effective system gives borrowers a second chance to repay their debts, which becomes applicable after completion of bankruptcy arrangements with creditors. The Law provides a “fresh start” for consumers and individual entrepreneurs, as it relieves them of unsustainable debt and incentivises future entrepreneurial behaviour and consumption, thereby supporting continued economic growth and social cohesion (IMF, 2015).

According to IMF estimates (IMF, 2015), the law could reduce about EUR 30–44 billion of private sector liabilities (EUR 22–28 billion for consumers and EUR 9–18 billion for entrepreneurs), or nearly half of the total liabilities of distressed borrowers, which amounts to about 3–4 % of the total level of household debt and about 1–2 % of the level of corporate debt. Moreover, the impact on banks’ earnings is estimated to be relatively small (1–2 % a year).

However, public creditors are excluded from the “fresh start”, which shall leave debtors with important debts, thus limiting considerably the impact of the reform. According to the IMF, the consideration of public claims would have a relatively small impact on the public finances estimated at 3–4 % of annual tax revenues.

In the absence of data on the effective implementation of the Law, doubts about its functioning in the absence of significant investment in judicial structures have been aroused and criticisms have been put forward arguing that the reform fails to establish a quick and inexpensive pathway for low income debtors (Gómez Pomar, F. 2015). Thus, the potential impact of the reform as a new opportunity for beneficiaries, particularly those on low-income, is significant, particularly if, as suggested by the IMF, public creditors are included; however, its effective impact remains uncertain.

## **4 Conclusions**

Spain faces important challenges as regards equality and equal opportunities, being among the EU-28 countries with the highest income inequality levels and with a very bad performance following the economic crisis and the policies implemented. The severity and persistence of unemployment is a major challenge for equality, that affects a high share of the labour force who have inadequate skills, partly because they never got them or may have lost them after years in unemployment. The other challenge is faced by a weak social protection system, too much focused on retirement pensions and unable to effectively lift people out of poverty *and* accompany them towards a job, and that has been further weakened by the fiscal consolidation measures adopted. Moreover, a reduction of the purchasing power of pensions, in an envisaged context of higher inflation, has been estimated at seven percentage points during the next ten years, which is an additional source of concern<sup>8</sup>. Scarce and

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<sup>8</sup> As declared by the President of the Independent Authority for Fiscal Responsibility in the Parliament’s Commission of the pensions’ Toledo Pact, 8 February 2017. Diary of

deteriorating caring infrastructures and services (childcare and long-term care) are an additional pressure on equal opportunities for children and dependant persons, and with a particular impact on women and their possibilities to get good quality jobs. In general, the social protection system needs increased financial means.

The reforms implemented by the government during the last two years in response to the CSR could contribute to greater equality, particularly those aimed at reinforcing the scope and effectiveness of active labour market measures addressed at the long-term unemployed. The design of intense individual itineraries for the unemployed is a correct step towards increasing their opportunities to get a job, but the scope and effectiveness should be ensured; the quality of employment and/or the transactions towards a good quality job for the poorly skilled should also be ensured. The current low impact of active labour market measures in increasing labour market chances of the unemployed, especially the long-term low-skilled ones, is one of the weaknesses that needs to be addressed (and is already to some extent being addressed) with urgency. Otherwise, the risk exists that a large share of unemployed is lost and/or that they are unable to contribute to equality and reduction of poverty.

The effectiveness of active labour market policies and of the social protection system could be enhanced through improved coordination of employment and social services, including family support services, child and long-term care and minimum income schemes, that support activation and employment itineraries of the persons able to work. This challenge requires intense coordination among several levels of the administration, including the central and regional administrations; it also needs to take into account the role of entities in the third sector with valuable expertise in working with vulnerable unemployed persons and their families; as it has been described above, it also requires enhanced financial means.

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## Annex 1: Summary of Reforms Impacting on Inequalities

No.	Short title of the reform	CSR–relevant (yes / no)	Policy area (e.g. labour taxation, consumption taxation, social protection, education, healthcare, etc.)	Short description of the reform	Direction of impact on inequality: increasing/ decreasing	The magnitude of impact on inequality: strong/ moderate/ limited	The reform has primarily impact on: - income inequality - inequality of opportunity	Target groups: are reforms targeted at some particular groups?	Time aspect: impact on inequalities now / expected in the future
1	Ensuring a durable correction of the excessive deficit through less public spending	Yes	Fiscal Deficit	Reduction of public spending	Increasing inequalities	Strong	Inequality of opportunity	Not really, but it affects users of public services, thus persons in need	Now and in the future, due to the long-term impact of less opportunities for the vulnerable
2	Reform of the training for employment system	Yes	Labour / VET	The reform changes roles of traditional stakeholders as well as planning processes. Introduces 20 hour period of training leave, an individual training account for workers and a training voucher system ( <i>cheque-formación</i> )	Decreasing inequalities	Moderate	Inequality of opportunity	Employed and unemployed population	Expected, when the reform is fully implemented
3	Introduction of new hiring incentives (exemption of 500€)	Yes	Labour	The first EUR 500 wage is exempted to pay employers' social security contributions.	Decreasing inequalities	Limited	Inequality of opportunity	All persons	Now
4	Renewal of the Employment Activation Programme	Yes	Labour	This programme entitles long-term unemployed to a EUR 426 monthly benefit, which is accompanied with intensive guidance and counselling and with the possibility to make it compatible with a job during 5	Decreasing inequalities	Limited	Inequality of opportunity	Long-term unemployed	Now

				months, while hiring companies reduce the subsidy of EUR 426 from the salary payments.					
5	Joint Action Programme to support long-term unemployed	Yes	Labour	<p>This programme aims to attend at least 1 million long-term unemployed in the period 2016-2018 and is endowed with EUR 515 million.</p> <p>It shall finance the provision of a personal tutor for the LTU (max 120 LTU per tutor) responsible to design an individualised itinerary. It shall also finance training to the staff (including the tutors) of the Autonomous Communities to improve the attention provided to the beneficiaries and to improve management systems that have direct impact on the unemployed.</p>	Decreasing inequalities	Moderate to strong	Inequality of opportunity	Long-term unemployed	Now and in the future (period 2016-2018)
6	Personal Income Tax reform in 2014 (implemented in 2015)	No	Fiscal Deficit	This new reform aims to reduce PIT and it is estimated that the ex-ante fiscal cost of the personal income reform, once fully implemented in 2015 and 2016, will be almost EUR 6 billion, or 12 % of total tax revenue from PIT in 2014.	Decreasing inequalities	Moderate	Income inequality	All	Now
7	New maternity complement ( <i>complemento de maternidad</i> ) for retirement pensions of mothers	No	Gender Equality	The “maternity complement” benefits women entitled from 1st January 2016 on to a contributory retirement, permanent disability or widowhood pension and who have had children. If the woman had two children, the complement is equal to 5 %, it	Decreasing inequalities	Limited	Income inequality	Recently retired women who have been mothers	Now

				increases to 10 % if the woman had three children, and to 15 % if she had four or more.					
8	Law 25/2015 of a mechanism for a second chance, reduction of financial burden and other social measures	Yes	Labour	This Law introduces rules on debt relief, providing a mechanism by which borrowers, among which also physical persons, acting in good faith but with outstanding payments could have a second chance. It allows, among other things, more flexibility in out-of-court payment agreements, debts restructuring and extends until 2017 the suspension period for evictions of vulnerable collectives.	Decreasing inequalities	Limited	Inequality of opportunity	All	Now

## **Annex 2: Proposed indicators to assess inequalities**

Growth in real GDP per capita

Growth in real disposable income per capita

Growth rates of the median disposable income and of the disposable income of the first bottom decile of the income distribution, in real terms (compound annual, over 5 years)

Gini index of households' income after tax and transfers (source: Eurostat)

Gini index of households' income after tax and before transfers (source: Eurostat)

Redistributive impact of taxes and transfers: difference between post-tax and transfer Gini index and market based Gini index (source: OECD, Eurostat)

Median/mean equivalised disposable income, before/after social transfers/pensions

Ratio S80/S20 of disposable income, after social expenditures (source: Eurostat)

Ratios S90/S50 and S50/S10 of disposable income, after social expenditures

At risk poverty rate before/after social transfers (pensions included in social transfers), for the total population and for the elderly

Severe material deprivation rate

At persistent risk of poverty after social transfers

Indices of wealth distribution

Note: the indicators also include other breakdowns (e.g. by age or type of households).

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