Sustaining growth to benefit all in Spain

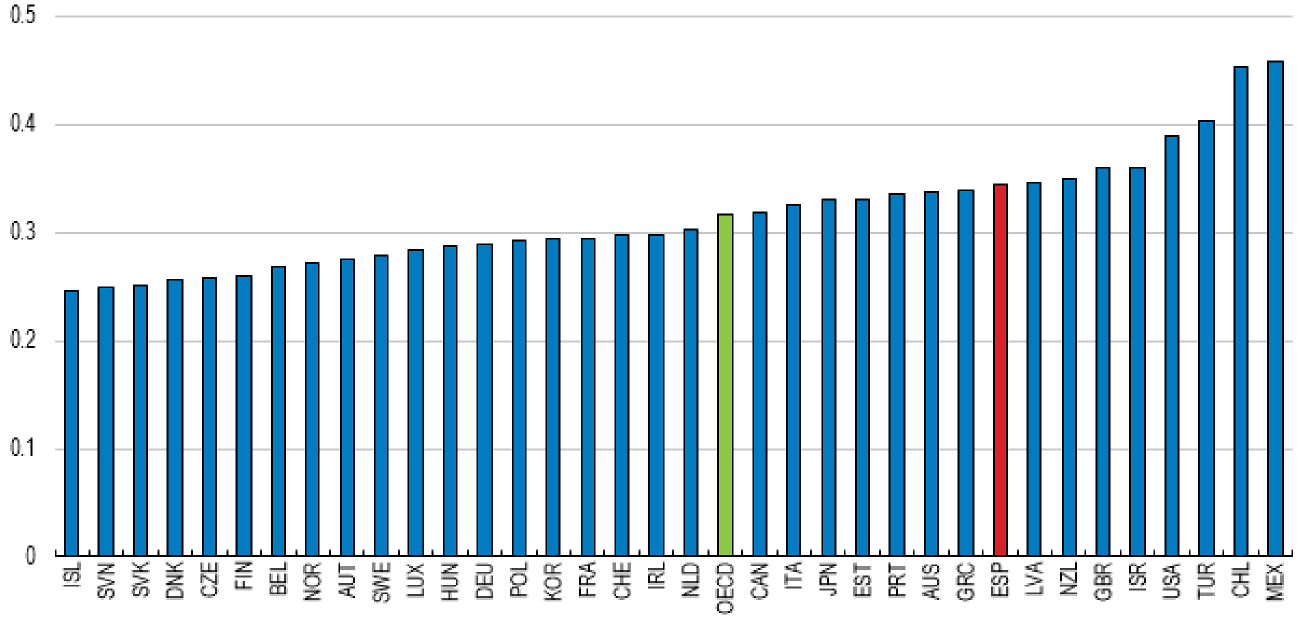
By David Law, Spain desk, OECD Economics Department

Spain continues to recover from the economic crisis with strong growth and falling unemployment, as highlighted in the latest OECD Economic Survey of Spain (OECD, 2018). If the recovery is to be sustained, it is vital that the benefits of economic growth are shared as high rates of income and wealth inequality can harm economic growth and productivity, and limit productive investment opportunities.

Income inequality is relatively high in Spain (Figure 1) and it increased during the crisis, as employment fell significantly and income disparity grew. The risk of being in poverty now varies greatly across regions and the rate of child poverty is particularly high, at 22% in 2015, which is well above the OECD average of 13%. The risk of poverty is especially high for children living in migrant and single parent families. With some positive developments in the labour market since 2015, income inequality and poverty rates are likely to have improved somewhat, however, these issues are expected to remain a concern for some time.

Figure 1: Income inequality is high

Gini coefficient after taxes and transfers, 2015 or latest year available



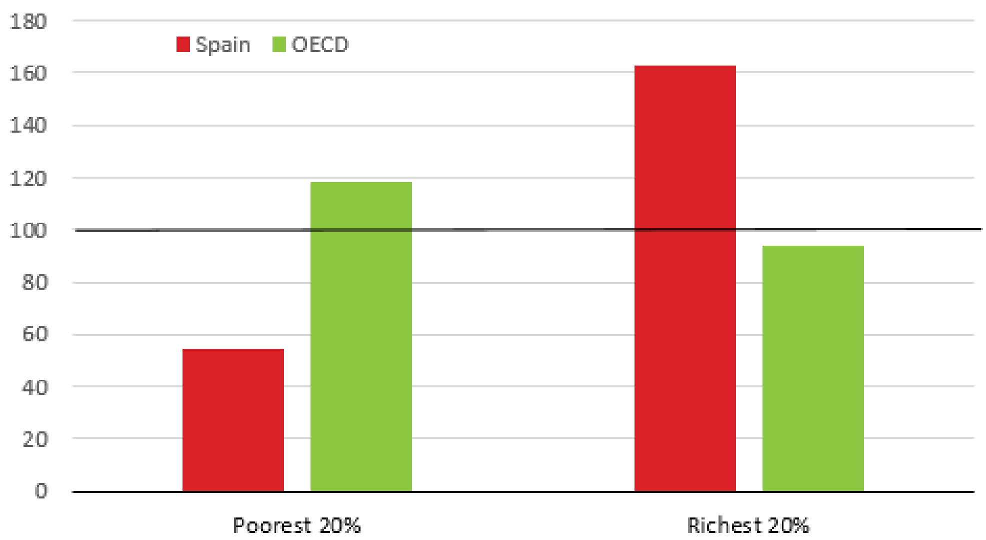
Note: The Gini coefficient has a range from zero (when everybody has identical incomes) to one (when all income goes to only one person). Increasing values of the Gini coefficient thus indicate higher inequality in the distribution of income.
Source: OECD, Income Distribution and Poverty (database).

Wealth inequality in Spain appears relatively low in international perspective, reflecting high rates of home ownership. However, as is the case in other countries, wealth inequality is higher than income inequality with the top 10% of households holding close to half of all wealth, compared to around one fifth for the bottom 60% of households. Wealth inequality seems likely to rise over time, given changes in the distribution of income and recent labour market trends. Indeed, new work undertaken by the OECD using household survey data shows that wealth inequality already increased between 2011 and 2014 in Spain, and that the income and wealth mobility of households exhibit a degree of persistence, which can exacerbate inequalities (Martinez-Toledano et al., forthcoming).

The tax and transfer system in Spain could do more to tackle inequality. Low-income households receive less cash transfers than higher-income ones, with those in the bottom 20% of the income distribution receiving only around 55% of the average payment across all families, compared to the top 20% receiving over 60% more than the average family (Figure 2). Better targeting of transfers, so more is received by those who need them the most, would reduce inequality. Additionally, the 2018 OECD Economic Survey of Spain notes the burden the tax system places on labour taxation and recommends that regressive reduced value-added tax rates be abolished and that the tax allowances granted for inheritance taxes for the most wealthy are reconsidered.

Figure 2: Social expenditures are poorly targeted

Transfers received by working-age individuals, % of average cash transfer



Note: Public social cash transfers are at the household level, adjusted for household size. Income groups refer to disposable incomes.
Source: OECD, Social Expenditure Database.

Reducing inequality in the long-run will also require sustained improvement in labour market outcomes. For instance, in 2017, unemployment among the young was 38.6%, long term unemployment as a share of the labour force was 7.7% and 27% of workers were on temporary contracts. The 2018 OECD Economic Survey of Spain makes a number of recommendations in this regard. For example, the Survey recommends increasing spending on training and job search assistance, the introduction of a profiling tool to adapt active labour market programmes to the needs of individual workers, and measures to boost the labour market participation of women, such as extending the provision of early childhood education. The Survey also discusses the role that targeted reductions in social security contributions could play in improving labour market outcomes for low wage workers and the benefits of greater use of firm-level collective agreements, and recommends continuing efforts to fight against the abuse of temporary contracts to reduce labour market duality.

References

OECD (2018), *OECD Economic Surveys: Spain 2018,* OECD Publishing, Paris. https://doi.org/10.1787/eco_surveys-esp-2018-en.

Martínez-Toledano, C., D. Law, D. Haugh and M. Adalet McGowan (forthcoming), “The Business Cycle and Wealth and Income Mobility in Spain”, *OECD Economics Department Working Papers,* forthcoming.