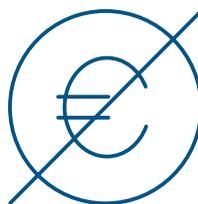
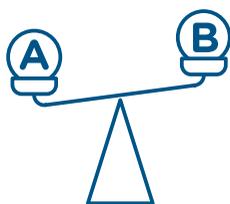

SOCIAL NEEDS IN SPAIN

Economic and material welfare

report

01

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Credits

Social Observatory of “la Caixa”

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INTRODUCTION



One of the most important advances in our understanding of the social situation has been the development of much more complete and regular databases than those that existed no more than two decades ago. Currently, in most European countries there are surveys and administrative records that allow for a much more accurate identification of the real picture of social needs, a task that the "la Caixa" Banking Foundation will address in various reports.

This abundance of information does not mean, however, that the leap from the availability of data to the interpretation of achievements and setbacks in the satisfaction of those needs is immediate. On the one hand, it is necessary to standardise the information offered by the different databases into a consistent set of indicators, which is sufficiently representative and of an appropriate size. On the other, most studies on social needs are limited to the exhaustive use of just some of the sources available, given the problems involved in the harmonisation and sharing of the primary information in the respective databases.

The aim of this report, the first in a collection on the measurement of social needs in Spain, in the different aspects that constitute welfare, is precisely to try to represent the scale and characteristics of the needs related to economic welfare and the living conditions of Spanish households through a basic set of new and significant indicators. Using these indicators, we aim to provide society with an account of the material wel-

fare of the population based on all available sources. These, among others, include the Living Conditions Survey (Encuesta de Condiciones de Vida), the Family Budget Survey (Encuesta de Presupuestos Familiares) and the Active Population Survey (Encuesta de Población Activa), all from the National Institute of Statistics, and the Financial Family Survey (Encuesta Financiera de las Familias) from the Bank of Spain.

The report uses a triple challenge as the focus for monitoring social material needs: having sufficient and stable income, maintaining an economic-financial balance that limits problems of overindebtedness and avoiding severe poverty.

The fact that we have comparable information for different points in time, before and after the financial crisis, allows us to answer the first general question, about where are we now and how have we evolved in the three aforementioned challenges. Pre-empting what readers can find on the following pages, the portrait is enlightening: practically all material conditions of life have worsened since the middle of the last decade. Moreover, in contrast to the widespread belief among many decision makers and the public that welfare problems are essentially determined by the economic cycle, even in the recovery stage following the crisis the levels of these conditions remain far from their position before the start of the great economic slowdown.

In the report we also compare the position with that of Europe by selecting indicators to represent each challenge. In all of these, Spain has fallen down the rankings during the last decade. Again relating the country's economic capacity to the coverage of social needs, the report shows that Spain's position in all the rankings is clearly lower than one would expect given its average level of income.

As the third question, we also examine, again through a proposal for indicators, the response of public policies to these needs. Readers will find very specific figures that again summarise some of the particular features of the way in which the needs impact on material conditions. The consequence of the lower amount of resources invested and the gaps in the protection system is that Spain is one of the countries with the least capacity to cover the social needs analysed in the report.

Summarising the information through a basic system of indicators, letting the figures almost speak for themselves and qualifying the story with brief specific comments that help with the interpretation, is a new addition to the range of studies on the social position. It is now up to the reader to browse through the pages of the report and construct their own story, reexamining what are normally opinions and assumptions in light of a new and broad set of objective figures.

ECONOMIC AND MATERIAL WELFARE

This first report measures the social needs related to economic and material welfare. **Every person and household faces three fundamental challenges:**

-  **1. Having sufficient and stable sources of income:** the only way to ensure that personal and family needs are covered is to earn sufficient income to reach a decent standard of living.
-  **2. Maintaining an economic-financial balance that limits problems of overindebtedness:** if families do not manage to maintain a suitable balance between income and expenses they will inevitably reduce their capital or incur debt and this will make it more difficult for them to maintain their economic situation in the future.
-  **3. Avoiding severe poverty:** preventing poverty constitutes one of the main social challenges in developed countries to improve the material living conditions of the population.

SPAIN

Every person and household faces three fundamental challenges:

(people as a percentage of the total population)

First challenge:



To have sufficient and stable sources of income

Lack of independence

22.7% ↑ 26.0%
2008 2017

Monetary risk of poverty

19.8% ↑ 21.6%
2008 2017

No regular sources of income^a

2.4% ↑ 3.3%
2008 2017

Loss of income

14.6% ↓ 12.0%
2008 2016

Economic vulnerability

31.1% ↑ 32.6%
2008 2017

a: Referring to % of households without regular sources of income.

Second challenge:



To maintain an economic and financial balance and avoid indebtedness

Economic dissatisfaction

34.1% ↓ 29.2%
2008 2017

Difficulty in making ends meet

31.9% ↓ 25.2%
2008 2017

Dissaving

30.7% ↓ 29.3%
2008 2014

Overindebtedness

9.5% ↓ 7.8%
2008 2014

Third challenge:



To avoid severe poverty

Material deprivation

14.1% ↑ 15.7%
2009 2017

Chronic risk of poverty

6.5% ↑ 13.5%
2008 2016

Very low consumption

3.1% ↑ 5.4%
2008 2017

Consistent poverty

6.8% ↑ 8.8%
2009 2017

- The vast majority of indicators of material living conditions have worsened since 2008.
- The short period of economic recovery has had very little impact on recovering these losses, although since 2017 there has been a certain improvement in some social needs.

The most important

1.

More than one in every five people are below the risk-of-poverty threshold, a figure that is well above that seen in the vast majority of European Union countries, including several with a lower income level than Spain.

2.

Almost one in every three people earns an income which they consider lower than necessary to cover their expenses. This financial imbalance can lead to stress and anxiety.

3.

Job insecurity and unemployment result in many people facing significant drops in their income each year, which generates great economic instability and insecurity. In parallel, low incomes and their instability also considerably hinder the processes of personal independence.

4.

The crisis led to a rapid deterioration in the ability to meet the most basic social needs. Added to this are increasing difficulties to improve social relations and the growing percentage of people who cannot afford to buy even the essentials.

5.

The increase in situations of prolonged poverty raises alarm bells about future levels of economic and material welfare.

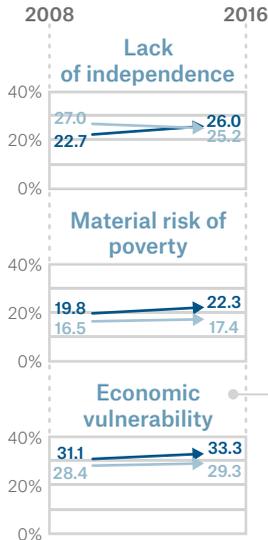
SPAIN vs EUROPE

Spain → Europe →
(percentage of people compared to total population)

First challenge:



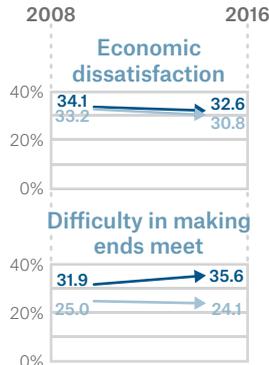
To have sufficient and stable sources of income



Second challenge:



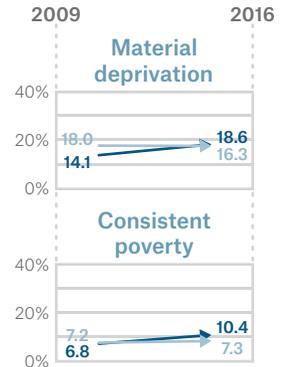
To maintain an economic and financial balance and avoid indebtedness



Third challenge:



To avoid severe poverty



The most important

1.

The trend in economic vulnerability problems is especially worrying as Spain was already among the lowest ranked countries in the European Union before the crisis.

2.

In all the indicators selected as representative, Spain has fallen in the rankings over the last decade.

3.

In all indicators, the position of Spain in the rankings is clearly not what one would expect given its income level, being ranked below other countries with a lower economic capacity.

PUBLIC POLICIES

1

There have been no clear improvements in the protective intensity of the system.

2

The resources invested in the monetary benefits system are lower than in other countries.

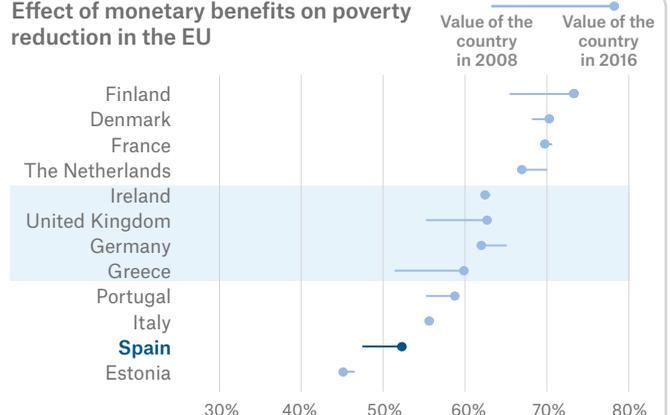
3

The amounts paid are well below the poverty line.

4

Spain is one of the countries where the capacity of the benefits package to reduce monetary poverty is lowest.

Effect of monetary benefits on poverty reduction in the EU



Source: Own development from EU-SILC (Eurostat).

THE SITUATION IN SPAIN



The analysis contained in this report examines three different sub-dimensions or challenges that cover the essential aspects of what needs to be measured: firstly, if people have sufficient and stable sources of income; secondly, if they maintain an economic-financial balance and prevent overindebtedness; and thirdly, if they avoid severe poverty.

The information collected leaves little room for doubt about the problems in Spain in each of these dimensions. Practically all indicators have worsened since the middle of the last decade, and the progress achieved in the short period since the end of the crisis has not managed to substantially compensate for the decline recorded during the years of the crisis.

Note:

The appendix containing an explanation of the methodology followed for the selection and production of the indicators in this report is published in a separate document, which can be found on the website www.observatoriosociallacaixa.org.

First challenge: To have sufficient and stable sources of income

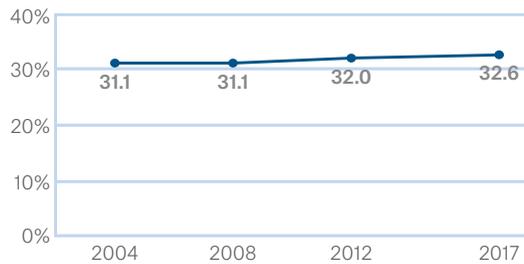


This challenge is measured with the indicators shown in figure 1. The interpretation of the figures is explained in the rest of the section.

Figure 1. Key indicators of the first challenge

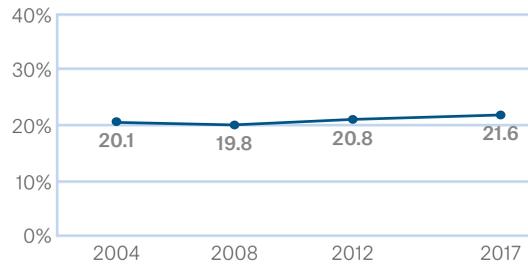
Economic vulnerability:

% of people who live in households where the income is below 75% of the median income



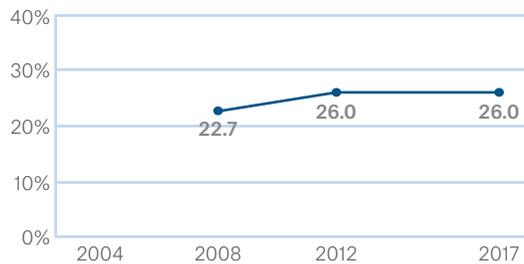
Risk of poverty:

% of people who live in households with income less than 60% of the median income



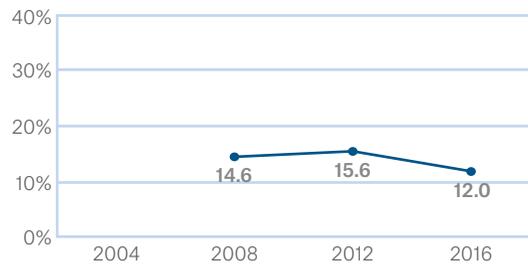
Lack of independence:

% of people older than 25 with no income or income below the Public Indicator of Multiple Effect Income (IPREM, around €536/month)



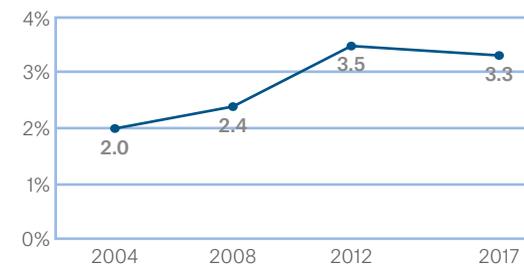
Loss of income:

% of people in households who have suffered a large decrease in income (more than 25% of the previous year's income)



No regular source of income:

% of households that do not receive income from work, pensions or unemployment benefits



Source:

Own development with data from the Transversal and Longitudinal ECV and the EPA.

The economic welfare of the population depends not only on the level of production or income, but also on how this is distributed among families. One of the possible adverse effects of inequality is that many households live with an income that is clearly lower than that received by a standard family. These households, even if their basic needs are covered, find themselves in a situation of economic vulnerability that often entails hardship and having to go without. In addition, their income cushion to deal with new needs or unforeseen situations is limited, which generates insecurity.

Many of these families also fail to earn enough to avoid the risk of poverty. The risk of falling into poverty increases when family income is below 60% of the median income, according to the standard agreed in the European Union. In Spain, more than a fifth of the

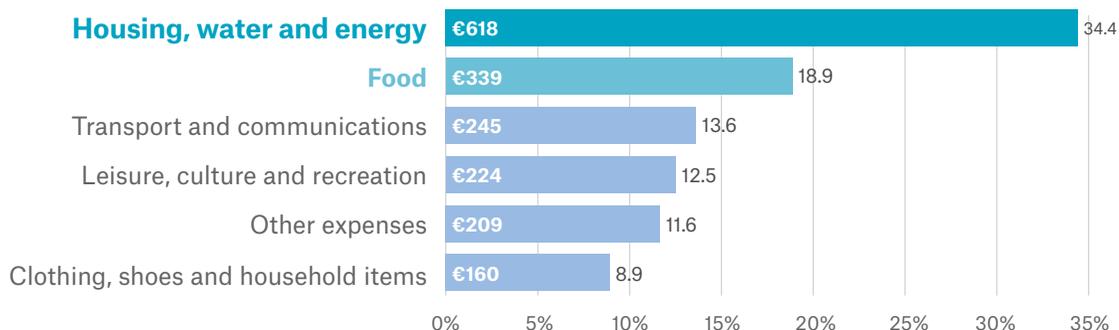
population is in that situation, a figure that is higher than in almost all other European countries. Although the proportion of the population at risk of poverty was already high ten years ago, the economic crisis has further worsened the situation, mainly due to the losses suffered by households affected by unemployment. In order to reduce this risk-of-poverty indicator, there is a need not only to create employment but for that employment to allow workers to earn sufficient salaries. It is also important to improve the effectiveness of redistribution policies, increasing the coverage and sufficiency of benefits aimed at groups that are currently poorly protected, such as low-income households with dependent children.

VULNERABILITY THRESHOLD AND MONTHLY EXPENSES

The vulnerability threshold (75% of the median) in 2016 for a family comprised of a couple with two children under the age of 14 is a monthly income of around €1,800 (12 payments).

This figure is 65% of the €2,800 earned by a standard household of this type in our country.

Figure 2. MONTHLY EXPENSES OF A FAMILY THAT EARNS €1,800



The crisis has also increased the percentage of families who lack regular sources of income from work (salaried or self-employed), a pension or unemployment benefits. The increase in unemployment has naturally influenced this lack of the normal sources of income, but so has the weakness of the so-called "safety net" of social protection, aimed at guaranteeing a minimum income when the right to contributory benefits ends.

Together with the possibility of having sufficient sources of income, people value the stability of these over time. A modest but secure income may provide greater economic welfare than a higher but uncertain income. Job insecurity and unemployment, comparatively high in Spain, may negatively affect this social need. Although the most recent figures point to some improvement in this indicator compared to the core years of the crisis, many people still live in households whose income has been significantly reduced over the last year.

Personal economic independence is also a value desired by most adults. Although the consumption capacity and standard of living of household members depends above all on the combined income of the family unit, having their own income improves individual independence, provides freedom and increases bargaining power within the family. This indicator has also worsened to some extent with the crisis, due to the lower number of income earners, but the most significant aspect is the persistence of a large gender gap. Reducing this gap requires the adoption of measures that remove the obstacles that reduce the participation of women in the labour market and limit their professional progress.

Lack of economic independence: many more women than men

Regardless of the age range considered, many more women than men lack their own income or earn less than the IPREM (around €535 a month). This difference is due to the employment and salary gap between men and women, as well as the unequal distribution of domestic and care tasks. The gender imbalance in economic independence also occurs in other European countries, although to a different extent: in Denmark, Sweden and Finland there are hardly any differences between men and women, whereas these are notable in, for example, Belgium, Germany and the Netherlands.

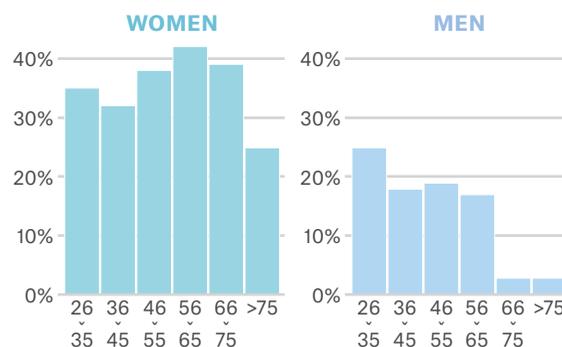
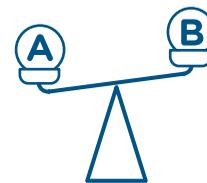


Figure 3. Men and women with their own income lower than the IPREM, in % of each age group.

Second challenge:

To maintain an economic-financial balance and avoid indebtedness

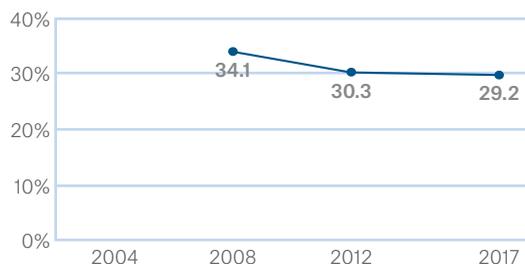


This challenge is measured with the indicators shown in figure 4. The interpretation of the figures is explained in the rest of the section.

Figure 4. Key indicators of the second challenge

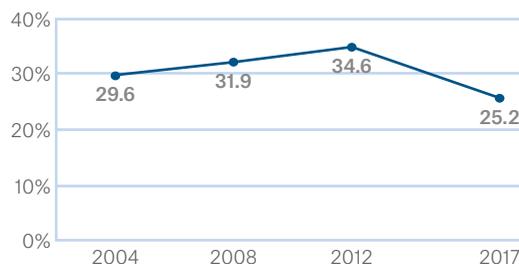
Economic dissatisfaction:

% of people in households whose income is less than 90% of their subjective needs to make ends meet



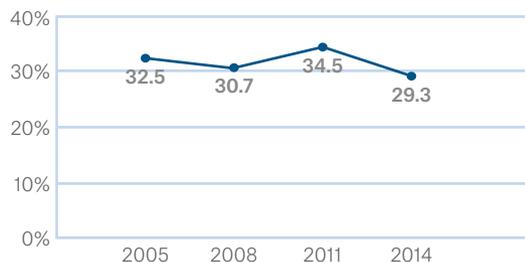
Difficulty in making ends meet:

% of people who live in households that say they find it difficult or very difficult to make ends meet



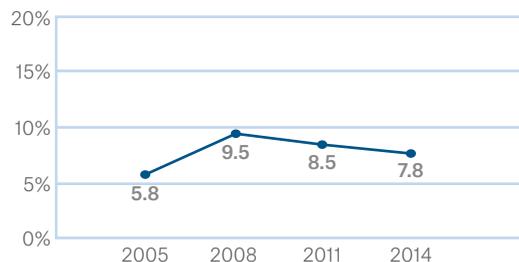
Dissaving:

% of people who live in households whose expenses exceed their income



Overindebtedness:

% of people who live in overindebted households (spending more than 40% of their gross income on repaying debts, including mortgages)



Source:

Own development with data from the ECV and the EFF.

When examining the degree to which people and families manage to maintain a balance between income and expenses, the first relevant indicator is the degree of economic dissatisfaction of the population. People who live in households whose income is less than 90% of their subjective needs to make ends meet constitute practically a third of the total. This imbalance not only creates financial tensions within the home, but also stress and anxiety which may lead to mental health problems.

The percentage of households saying that they find it difficult to make ends meet increased significantly during the crisis. Given that this indicator can be interpreted as a measure of the financial pressure experienced by households in different situations, the fact that more than a quarter of the population is in this situation means that we need to reflect on the inadequacy of a high percentage of the salaries received. The flow of income, mostly from the labour market, is insufficient to finance the expenses for one out of every three people.

As a result, almost 30% of the population live in households that regularly dissave, that is, in order to meet their bills they use the savings they have at that time or have to borrow money. Although dissaving may allow families to temporarily sustain their consumption in periods of low income, spending more than they earn means reducing their wealth or incurring debt. Therefore, the dissaving rate indicates that a significant proportion of the population is worsening their economic position and may find it difficult to guarantee their economic situation in the future.

That dissaving, if it occurs repeatedly, gives rise to problems of overindebtedness. This process does not only depend on the level of income, as it varies depending on the point in each person's life cycle and the income and expenses of the households. The figures show that, in the boom period prior to the crisis, in a phenomenon linked to the housing bubble and the ease of access to credit, Spanish households were taking on a great deal of debt, believing themselves capable of making the repayments for these burdens in the long-term. It should be noted that excessive debt may reduce welfare and cause serious problems of insecurity and economic stress.

Third challenge: To avoid severe poverty

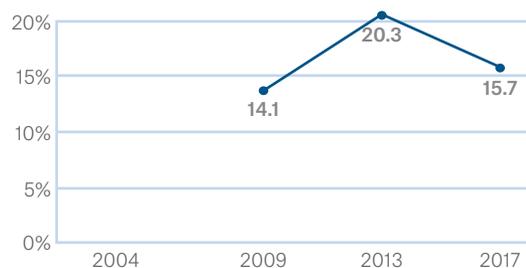


This challenge is measured with the indicators shown in figure 5. The interpretation of the figures is explained in the rest of the section.

Figure 5. Key indicators of the third challenge

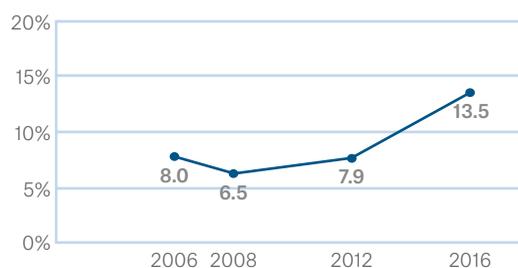
Material deprivation:

% of people who live in households unable to afford five or more needs from a list comprised of 13 such needs^a



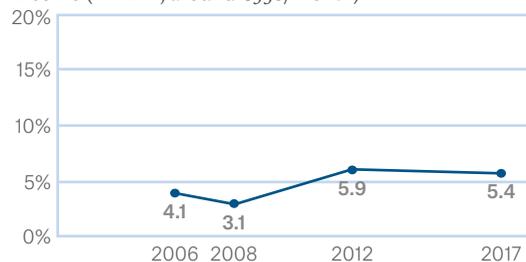
Chronic risk of poverty:

% of people who live in households at risk of poverty for 3 consecutive years or more^b



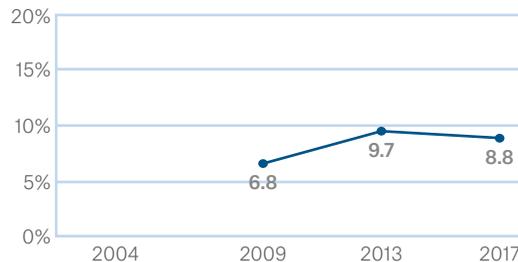
Very low consumption:

% of people who live in households whose spending is lower than the Public Indicator of Multiple Effect Income (IPREM, around €536/month)



Consistent poverty:

% of people whose households simultaneously suffer from monetary risk of poverty and material deprivation



Notes:

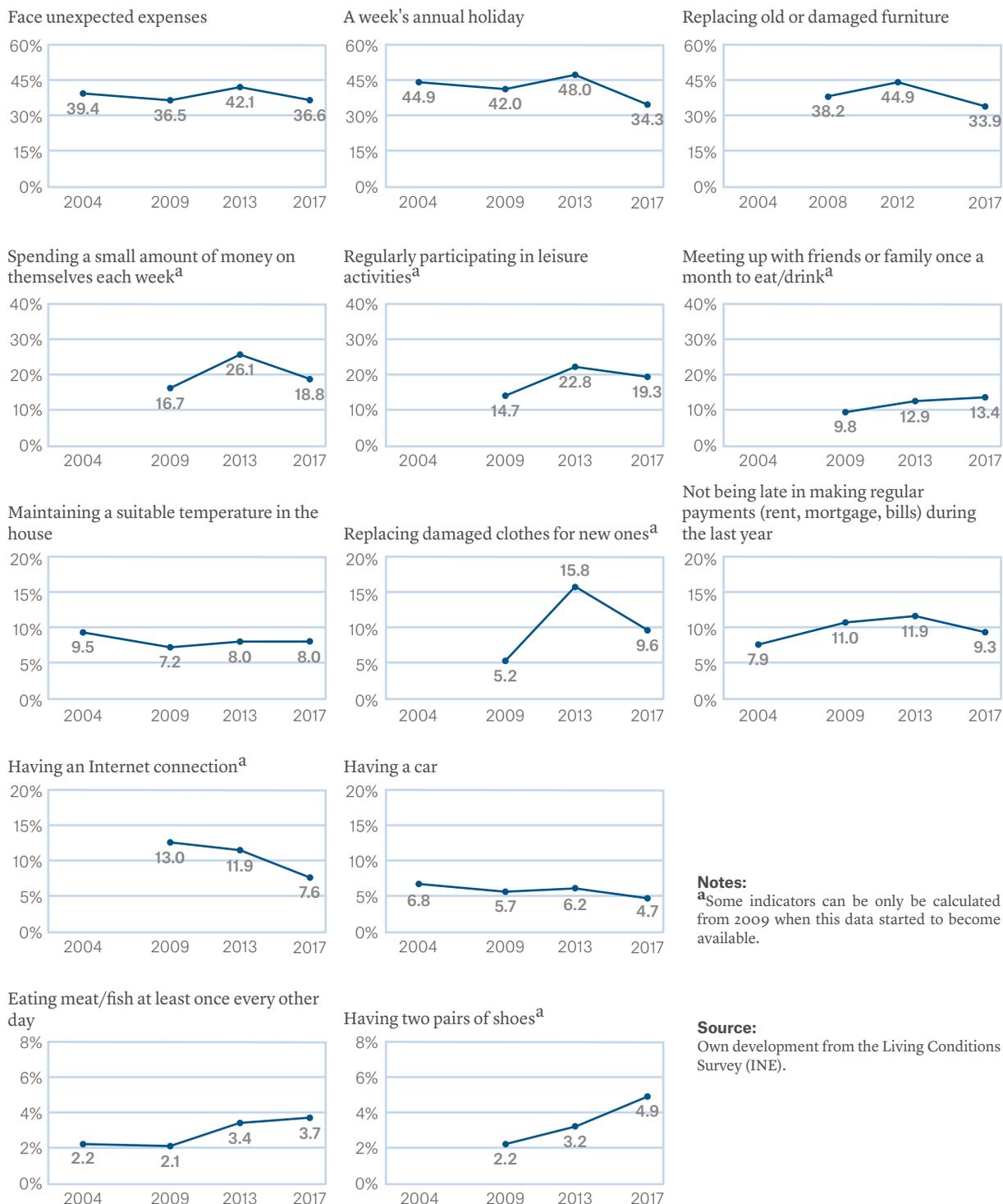
^aThe material deprivation and consistent poverty indicators could be measured for the first time in the years 2009 and 2013, the time at which material deprivation could be calculated with this list of 13 needs. ^b2006 is the first year in which chronic poverty could be calculated.

Source:

Own development with data from the ECV and the EPF.

Figure 6. Material deprivation indicators:

List of unaffordable items included in the material deprivation indicator (as a percentage of people who cannot afford this expense)



Notes:
^aSome indicators can only be calculated from 2009 when this data started to become available.

Source:
 Own development from the Living Conditions Survey (INE).

Avoiding situations of severe poverty is a fundamental challenge to improve material living conditions and meet the most basic social needs. Material deficiencies are, however, a daily reality for a large proportion of Spanish society. Material living conditions clearly improved in the years immediately prior to the crisis, and worsened as it took hold. It is often thought that material deprivation indicators change more slowly than those for monetary poverty. However, the recent crisis had an early impact on these indicators.

Among other effects of the crisis, some that stand out are the increase in the difficulty of replacing old clothes, having a small amount of money to spend on oneself, as well as the worsening of the indicators relating to having a social life. This increase reflects the difficulties faced by a growing number of people in maintaining their social participation levels. On the other hand, indicators such as not being able to have a week's annual holiday, linked to situations of lesser severity, or not being able to replace damaged or old pieces of furniture with new ones, recorded relatively lower increases between 2009 and 2013, although they continued to be the most widespread deficiencies among the population (40%). In all European countries, and Spain is no exception, this was the type of spending that was the first to be cut after the start of the crisis.

It is concerning to note that during the crisis, in addition to increases in monetary poverty and the material deprivation of families, the chronicity of these situations increased to the point where it had doubled. The percentage of individuals living at risk of poverty for three or more consecutive years increased from 6.5% to 13.5% of the population between 2008 and 2016.

People receiving low income over a prolonged period of time suffer more severe long-term deprivation in very diverse areas (employment, salaries, health or social relations), something that must be taken into account in order to properly design anti-poverty programmes.

Chronic risk of poverty

Individuals who live for three or more consecutive years in households with a monthly income under the poverty line find it much more difficult to overcome their complicated economic situation. In fact, various studies indicate that in many rich countries, the likelihood of being poor today is almost double for someone who was poor in the previous year. The length of time spent in that situation increases the probability of remaining in it.

The consequences of chronic or persistent poverty are much more significant than those of transitory poverty, particularly for young people as it has been proven that this is related to learning difficulties, anti-social behaviour, poor health and difficulties finding employment when they are older.

The percentage of people who cannot reach a sufficient level of consumption has also increased. Among the basic household needs, not being able to afford the essentials (regularly eating meat or fish or keeping the house at a suitable temperature) is probably one of the most severe. This problem grew during the crisis and, even more worryingly, it has shown very little improvement during the subsequent period of economic recovery.

Finally, another notable feature of the evolution of poverty is the very significant increase in the percentage of the population who suffer from consistent poverty, that is, they suffer from both monetary poverty and material deprivation, a situation that brings with it a special fragility. In Spain, this group grew during the crisis to reach almost 10% in 2016 and 8.8% in 2017.

All these results for deprivation and chronic poverty are probably linked to the increase in long-term unemployment, which has led to more situations of a prolonged lack of income in households. The reduction in the poverty line during the crisis may also explain why in recent years the situations of relative poverty are associated with worse living conditions and more severe economic difficulties than before the start of the crisis.

THE SITUATION IN EUROPE



Of all the aspects usually taken into account when assessing the process of European integration, household economic and material welfare has not received the most attention in either political debate or the analysis of the social situation.

Although there have been different initiatives promoted by EU institutions, the policies that may lead to an improvement in the indicators discussed in this report fall outside the scope of action of the governing bodies of the European Union. This explains why differences among the member states in this area are still noticeable today. Since 2004, a very rich source of common information has been available which allows us to explore these differences. It is called the European Union Survey of Income and Living Conditions (EU-SILC).

Both the extent of these differences and Spain's position compared to other countries can be calibrated by selecting some of the most representative indicators in each sub-dimension for which there is comparable information for European Union countries. One of the first conclusions we can draw when it comes to comparing EU countries is that Spain is much lower down the rankings for the material living conditions indicators than it is for GDP. On a scale that normalises average EU GDP at a value of 100, Spain was 14th out of 28th with a normalised GDP of 101 in 2008, and it continued to occupy 14th place in 2016 but with a normalised GDP of 91. As can be seen below, its ranking in the comparisons considered here is always worse than one would expect given its economic strength.

Economic vulnerability

Spain's position in the *ranking* of countries ordered according to economic vulnerability, that is, people with an income of less than 75% of the median income, is much worse than its ranking for per capita income. There are only three countries in which the percentage of people living in economically vulnerable households is higher than in Spain. The trend is also negative, having fallen down the rankings over the last decade. Moreover, it is especially worrying that Spain's position has remained unchanged during the last quartile.

Rich countries from central and northern Europe generally have an economic vulnerability rate below the European average, and the opposite occurs in the poorest countries, although with exceptions.

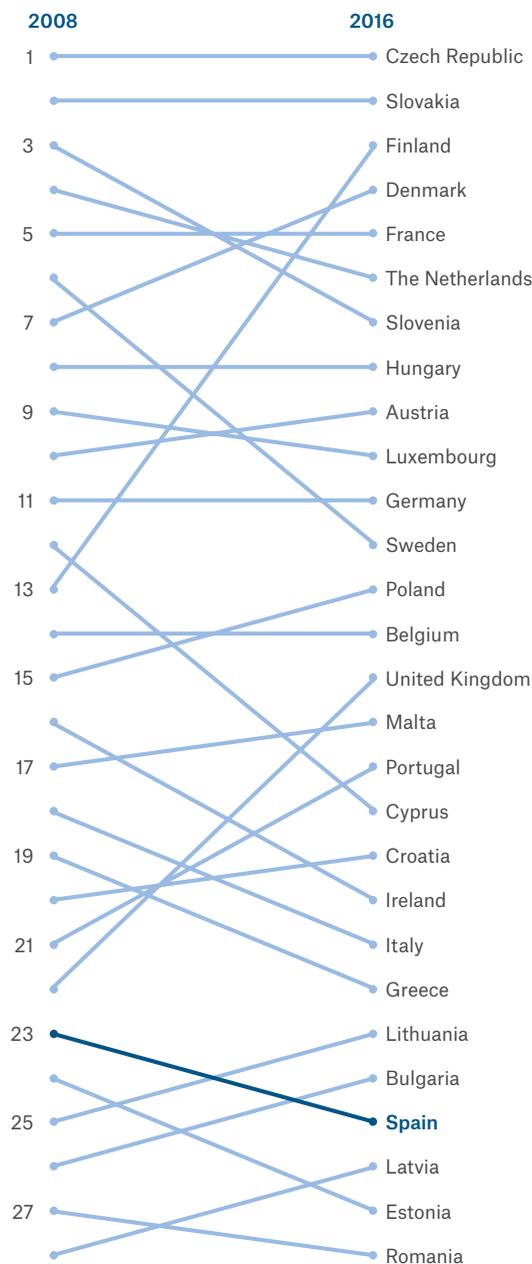
Spain is one of the average income countries with the highest proportion of economically vulnerable people. This figure must also be considered taking into account that the threshold defined for economic vulnerability is a relative measure; that is, this threshold depends on how income is distributed among the population.

Due to the severity of the economic crisis, Spain is one of the five countries where in 2016 the value of income used to establish the economic vulnerability threshold was equal to or lower than that used in 2008. This is due to the strong impact of the prolonged recession on the level of income (the other four cases are Greece, Ireland, Cyprus and the United Kingdom).

In summary: Spain is in an unfavourable position within European Union in the basic indicator of economic vulnerability. This position is not simply due to the crisis, given that Spain's situation was already unfavourable before 2008. In any case, this situation has worsened since then and has not been corrected since the beginning of the recovery.

Figure 7. Vulnerability

(Ordered from least to most vulnerable)
Spain is in 25th position compared to 14th position in terms of GDP



Source:
Own development from EU-SILC (Eurostat).

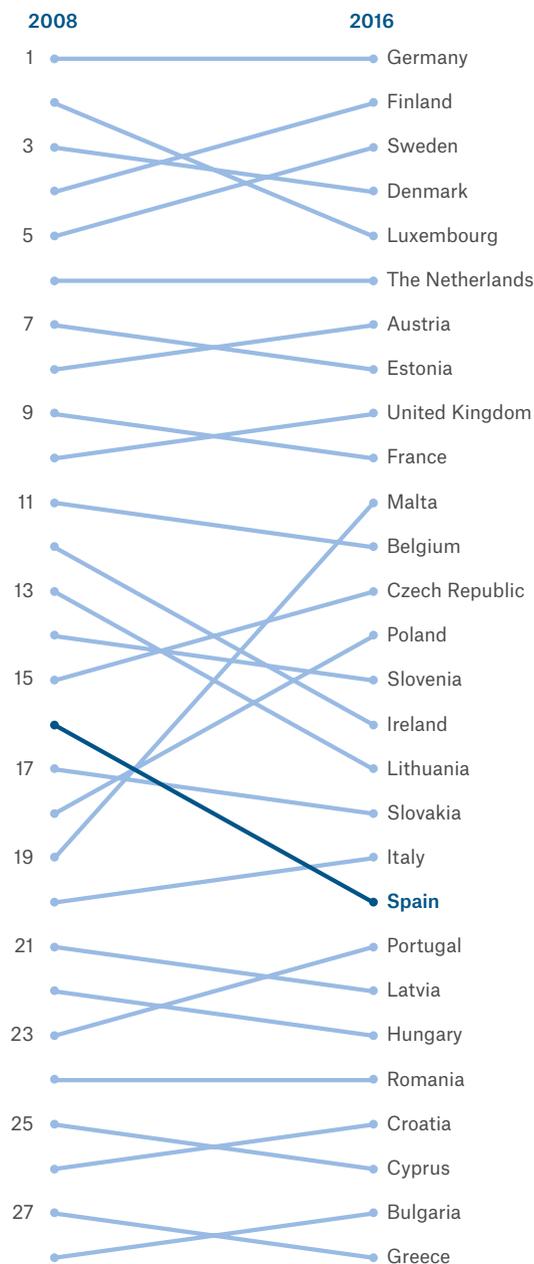
Difficulties in making ends meet

Difficulties in making ends meet is an indicator of the capacity of households to maintain a certain economic-financial balance. In most European Union countries this indicator had not worsened since the beginning of the economic crisis. Spain, however, is one of the nine countries where an increase in the value of this indicator has indeed been seen. There is, in any case, a very wide difference in the level of "difficulties in making ends meet" found in EU member states. Spain occupies 20th place among the 28 European Union countries, with a clear worsening since 2008. Although still positioned within the third quartile, it now occupies the penultimate position in the group, whereas before the crisis it was in second place.

It should be noted that the order of countries according to this second indicator is different to that for vulnerability. The countries with continental (Germany, Austria) and Nordic (Finland, Sweden) welfare systems occupy the top positions in the *ranking*. The ranking of countries according to difficulties in making ends meet is more consistent with the ranking according to income.

Again, Spain does conform to this relationship, occupying a much lower position than one would expect given its average level of wealth, and is ranked below countries with a per capita income significantly lower than Spain. The difference between Spain and the EU-28 average is more than 10 percent (35.6% of people in homes with difficulties in making ends meet, compared to 24.1%), whereas before the crisis this was less than 7 percent.

Figure 8. Difficulty in making ends meet (Ordered from lowest to highest difficulty) Spain is in 20th position compared to 14th position in terms of GDP



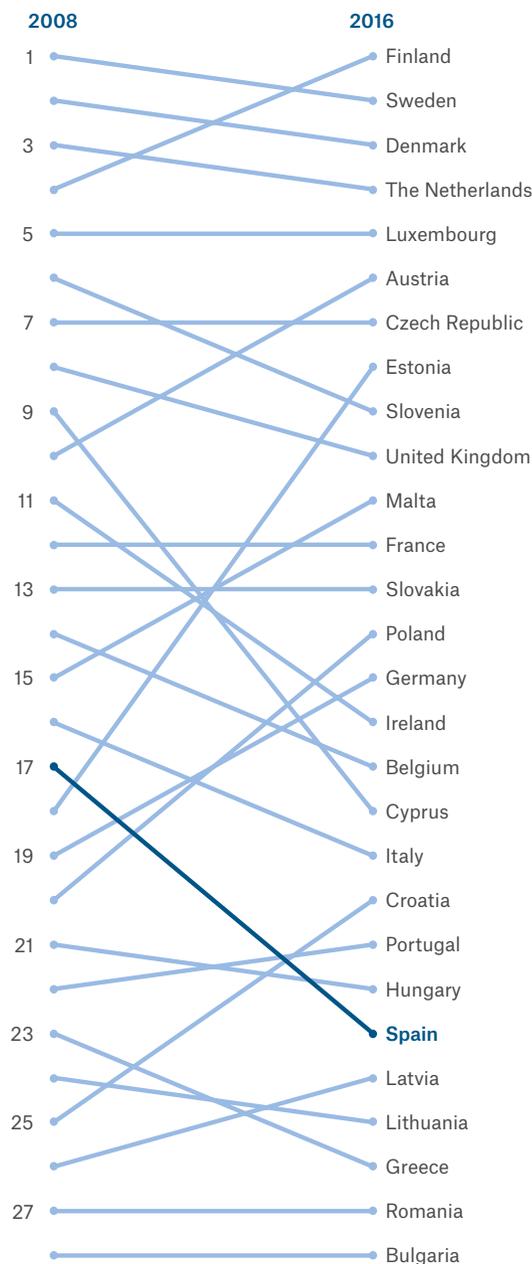
Source: Own development from EU-SILC (Eurostat).

Consistent poverty

The fourth indicator selected is consistent poverty. It is an important data figure when examining the position of Spain in the context of EU countries given that it combines two of the variables used by the European Commission to track progress in the living conditions of European households: monetary risk of poverty and material deprivation. This figure is especially negative for Spain, which is in the last quartile of the EU-28, and has also fallen in the rankings since 2008.

The worsening of the consistent poverty indicator in Spain stands out within the framework of EU countries. Between 2009 and 2016, Spain was one of the three countries for which the percentage of people simultaneously suffering low income and material deprivation increased the most. The high level of unemployment and general decline in the income of Spanish households led to us falling down the rankings for both monetary poverty and material deprivation. Before the crisis, the extent of the problem in Spain was lower than the EU-28 average, but now (in 2016) the situation is the opposite (10.4% of people living in situations of consistent poverty compared to 7.3%, respectively).

Figure 9. Consistent poverty
(Ordered from least to most poor). Spain is in 23rd position compared to 14th position in terms of GDP



Source:
Own development from EU-SILC (Eurostat).

PUBLIC POLICIES



Information on the effects of policies aimed at improving living conditions is limited. Although more studies to evaluate these policies have been produced in recent years, there are still gaps that hinder the appropriate monitoring of their effectiveness. The diversity of the aspects reviewed in this chapter also makes it difficult to define a single summary measure that can be used to evaluate the results of all of them.

In the context of European countries, efforts have been made to better define some coordinated social inclusion indicators, useful for monitoring social policy. At the beginning of the century, at the Nice European Council (December 2000) and that in Laeken (December 2001), the first foundations were laid for progressing in both the coordination of the social policies of the European Union's Member States and the definition of some basic indicators that allow progress in reducing poverty and improving living conditions to be assessed.

In the following years, the European Commission developed a common methodological framework for producing indicators with these characteristics. However, almost all of the proposed indicators are focused on poverty and deprivation values more than on the measures adopted to moderate the impact or intensity of these issues.

It seems necessary to combine both the *input* indicators, such as the expenditure on specific policies, and the *output* indicators, in order to measure the direct effect of these spending programmes. In recent years, measures on the adequacy of monetary benefits have also been generalised as one of the possible instruments for evaluating these policies. Various international organisations, such as the World Bank and Eurostat, have proposed different indicators that relate the benefits that form the safety net with variables representing household needs.

In this last section of the report on economic and material welfare, three types of indicators are analysed:

- 1) Expenditure on specific policies to combat poverty.
- 2) The adequacy of benefits (in relation to the necessity threshold).
- 3) The impact of monetary benefits on reducing policy.

Benefits that protect people with insufficient resources

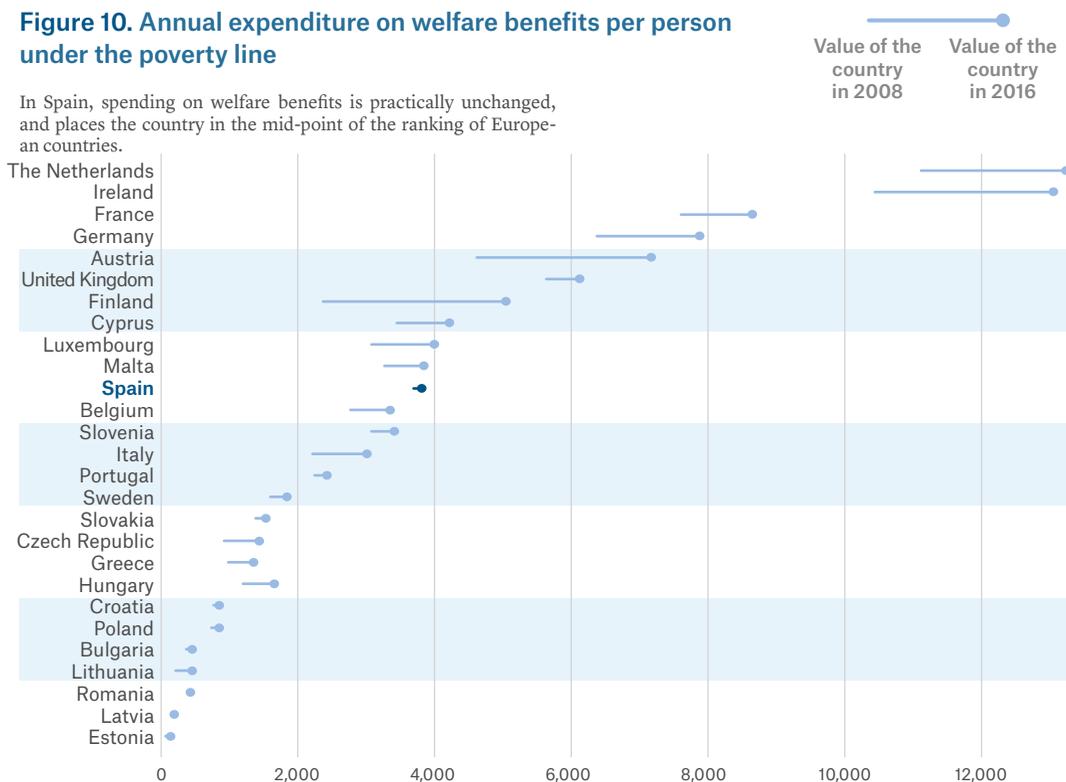
Spending on means-tested benefits is the first indicator of the effort made to meet needs specifically linked to insufficient income and resources. These benefits include different types of subsidy: benefits for illness, disability, old age, subsistence, family, unemployment, housing and social exclusion.

Firstly, in order to frame the Spanish experience in the context of the EU-28 countries, the total expenditure on benefits that guarantee an income has been divided by the number of people living in households whose

income is below the poverty line (60% of the median income per adult equivalent). It is, therefore, an indicator of the intensity with which the public system protects the low income population. This comparison, however, must be treated with caution because the benefits are not entirely homogeneous across countries, nor do they include the set of instruments used to support people without resources.

Figure 10. Annual expenditure on welfare benefits per person under the poverty line

In Spain, spending on welfare benefits is practically unchanged, and places the country in the mid-point of the ranking of European countries.



Notes:

In order to better identify the differences between countries, **Denmark has not been included** in figure 10 because its spending is much higher than the European average (€33,241 in 2015 and €25,705 in 2008).

Source:

Own development from ESSPROS data on expenditure and receipts and EU-SILC (Eurostat).

In a European comparison, Spain is close to the mid-point in the ranking of the annual spending on welfare benefits given the number of people below the poverty line.

A second noteworthy feature is that the value of the indicator is almost unchanged since 2008, whereas in the vast majority of cases (22 countries) the protective intensity of the guaranteed income system has increased significantly in response to the economic crisis. Spain is in the intermediate group of countries, a fair distance behind those that offer greater protection, which are the vast majority of countries with a higher per capita income. Our country is also a fair distance from the least generous nations in the payment of these benefits, which are essentially those in Eastern Europe.

As stated above, the picture painted by the comparison with Europe should be treated with caution. In fact, the position of Spain is quite different when looking at indicators that can illustrate the scope of public intervention through financial welfare benefits.

Firstly, the expenditure on benefits has not remained stable, as the European comparison figures seemed to indicate. The evolution of the indicator for total expenditure on guaranteed income benefits as a proportion of GDP is strongly characterised, logically, by the countercyclical nature of many benefits, with the number of beneficiaries growing when the economy contracts and falling in the expansion phases.

According to data from the Ministry of Employment and Social Security and the Ministry of Health, Social Services and Equality, expenditure on the package of benefits in the guaranteed income system fell from 1.8% of GDP in 1997 to 1.1% ten years later. Subsequently, with the deterioration of the economy and employment, this expenditure rose rapidly, reaching 2% of GDP in 2010, and remained at this level until the return to economic growth. This recovery marked the beginning of a new fall to 1.8% of GDP in 2015.

Adequacy of benefits

A second indicator of the effectiveness of public policies is the adequacy of the monetary benefits, which provides a measure of their capacity to meet the basic needs of the recipients. The most direct and normal way to measure the adequacy levels of benefits that seek to guarantee income is to compare them with the poverty line for each type of household.

For the three instruments analysed (non-contributory pension, active insertion income and minimum income), the figures seem to indicate an improvement in the coverage offered by this benefit.

Thus, for example, in the year 2008, the non-contributory pension was equivalent to almost 55% of the income established at that time as the poverty line for a single-person household, whereas eight years later this pension was equivalent to almost 63%.

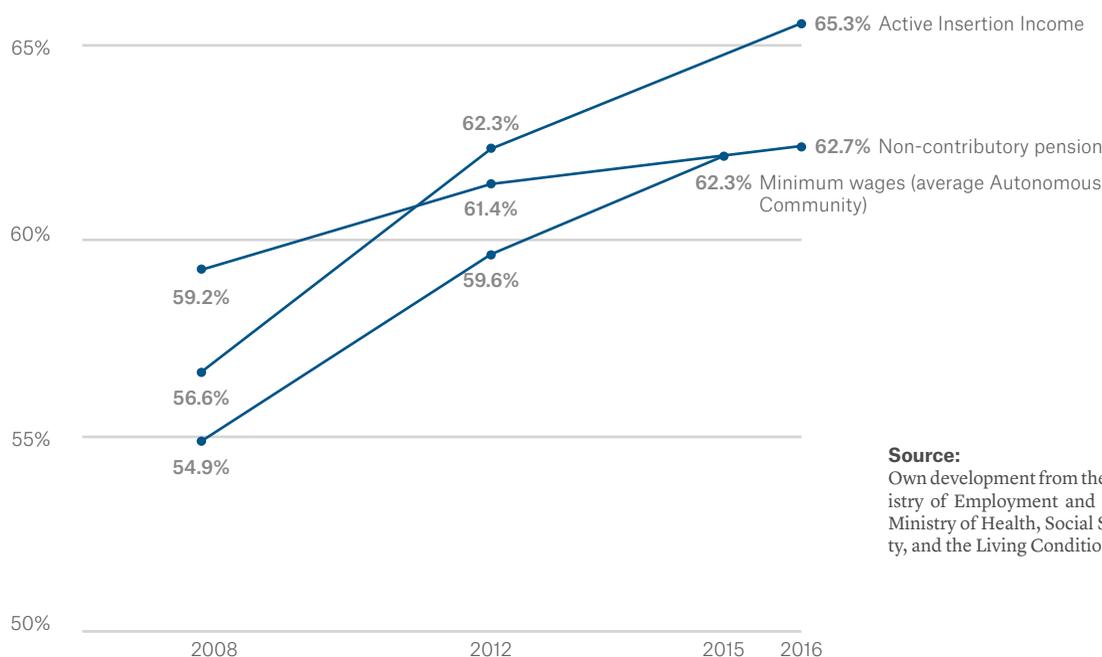
However, this apparent improvement in coverage is not the result of an increase in benefits, but rather due to a reduction in the poverty line. In reality, the crisis has caused this figure to fall noticeably since 2008.

In any case, the guaranteed income benefits included in the comparison are clearly insufficient to meet the risk of poverty, and in all cases are less than 66% of the poverty line. This gap is even greater when the household size increases, as is the case of couples with children. In these households, the adequacy levels are below 45% of the average of minimum wages, and do not reach 30% in the case of active insertion income.

Comparing the size of benefits with the poverty line also allows us to compare ourselves with other European countries.

Figure 11. Adequacy of benefits

(Ratio between the amount of each benefit for a single person and the corresponding poverty line, %)



Source:

Own development from the records of the Ministry of Employment and Social Security, the Ministry of Health, Social Services and Equality, and the Living Conditions Survey (INE).

The figures from the European Union Survey of Income and Living Conditions (EU-SILC) allow the poverty lines for the different household types to be calculated for all EU countries. There is also relatively homogeneous information on the size of benefits in each EU Member State.

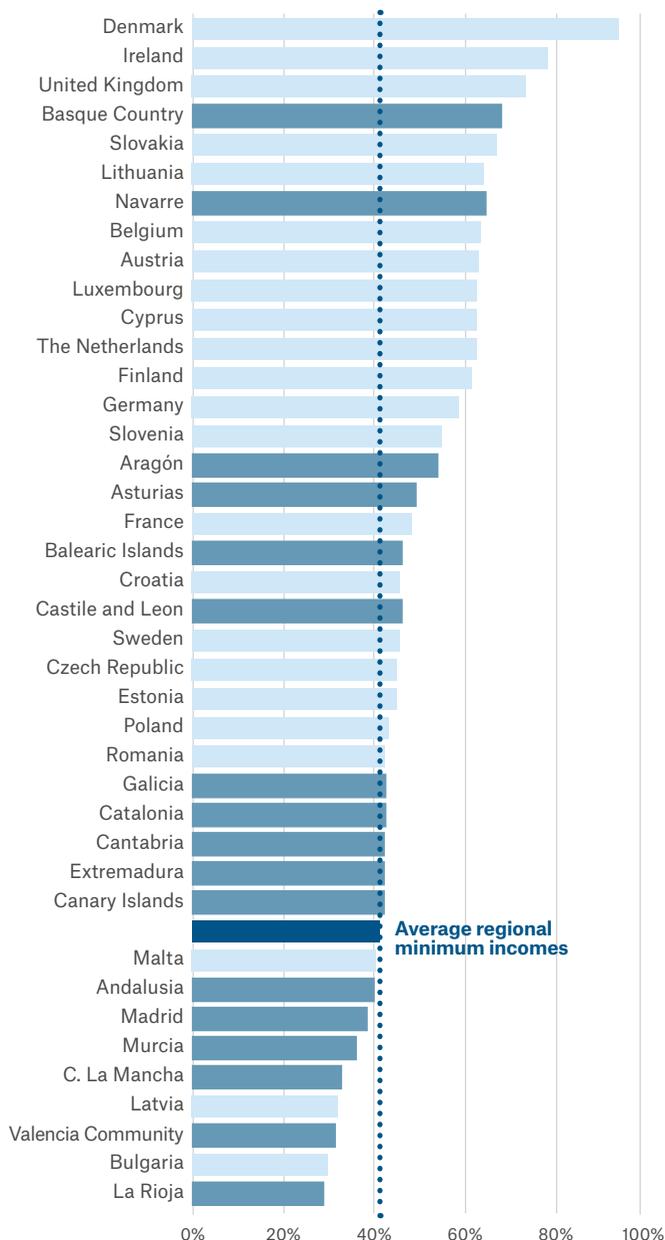
The figures referring to guaranteed income benefits include very detailed information on the basic amounts of the general minimum income systems and the different existing supplements.

However, as in the previous section, it should be noted that the comparison may not be entirely perfect since, in addition to the basic minimum income benefit, various countries add supplements that take into account a wide variety of personal and family characteristics (age, illness, cost of living, educational needs, medical expenses and many other circumstances) and these are not always easily identifiable in the data available.

In any case, if we compare the European countries on the basis of the adequacy of the minimum wage in relation to the income set as the poverty line for a household of two adults and two children, the first thing that stands out is the big differences between countries. Of the 24 countries for which there is information available on the adequacy of the safety net, the average minimum regional wage (value taken for Spain because this benefit is determined by the Autonomous Communities) places Spain in 19th place.

There are some Nordic countries, such as Denmark, that can boast of the great adequacy of benefits, as they almost completely cover the risk of poverty. Others, like the Anglo-Saxon countries, have indicators close to 75%. The Central European countries generally offer average adequacy levels: between 50% and 70% of the poverty line. In the case of the average results for Spain, these are noticeably lower than most countries around us. Although there are regions that would appear in the mid-low area of the *ranking*, and some that would even be in the upper part, such as the Basque Country and Navarre, for most regions the adequacy indicators are very low in the European context.

Figure 12. Adequacy of minimum incomes in the European Union, 2015
(Amount for a couple with two children / poverty line)



Source: Own development from MISSOC, data from the Autonomous Communities and EU-SILC (Eurostat).

Monetary benefits and reducing poverty

The third type of indicator to measure the effectiveness of policies assesses the capacity of monetary benefits to reduce poverty.

In this case, the most common procedure to quantify this effect is to compare the poverty indicators (based on household disposable income) with the values of those same indicators were welfare benefits not to be provided.

This procedure has its limitations, given that it obviously does not take into consideration any possible changes in behaviour households would make if they were not to receive benefits. However, even taking into account this limitation, it can be a valid exercise allowing us to compare differences in the ability of benefits to combat poverty at different times or between countries.

In fact, it is one of the indicators used to monitor progress in the social development objectives of the European Union.

Firstly, the results of the analysis show that the ability of benefits to combat poverty increased during the crisis period.

As in the previous case, the real reasons for this improvement are not found in any increase in the size of benefits, but rather in the overall fall in income, which contributed to the monetary benefit system having a greater impact on the economic position of Spanish households.

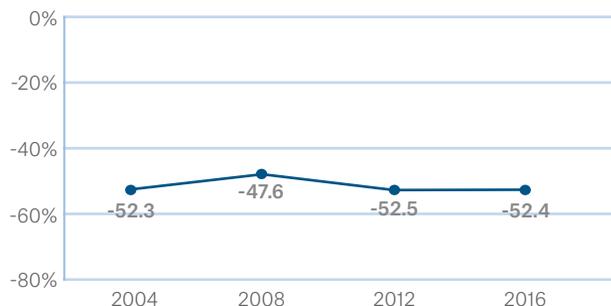
In any case, this capacity is limited and has not improved in recent years when the employment and economic activity indicators have started to recover.

The monetary benefits package is insufficient to eliminate the monetary risk of poverty, given that it reduces poverty to levels that are close to half of the value prior to receiving these benefits. It should be noted that a very significant part of that reduction is due to the notable impact that pensions have on the income of many households. If this effect, which largely reflects a redistribution of income over the life cycle, is discounted, the reduction of poverty due to benefits reduces significantly.

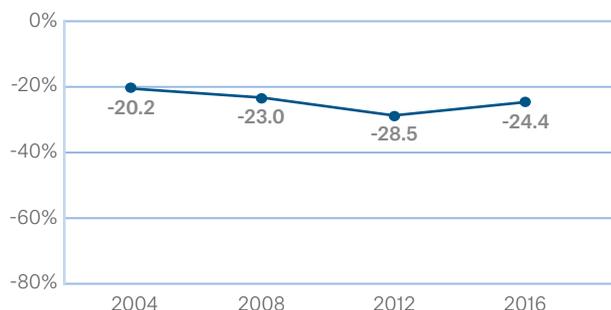
Figure 13. Poverty-reducing effect of monetary benefits in Spain

(Difference in % between the poverty rate with and without benefits)

All benefits



All benefits apart from pensions

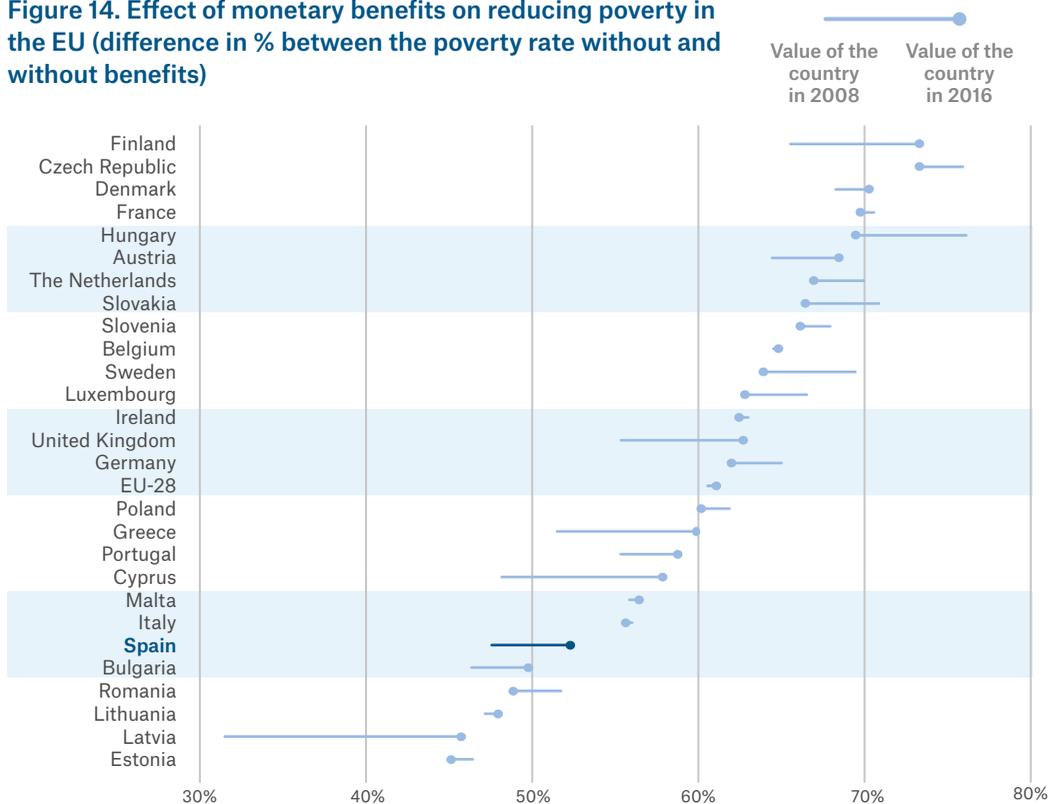


Source:

Own development from the Living Conditions Survey (INE).

The data from Eurostat allow us to compare the position of Spain for this measure (figure 14). Of the 27 countries included in the comparison, Spain is in 22nd position, which is well below both the European average and also the average for countries with a lower level of per capita income. However, during the crisis the poverty-reducing effect of benefits in Spain increased more than in other countries, due mainly to the greater increase in unemployment and the sharp fall in the level of income.

Figure 14. Effect of monetary benefits on reducing poverty in the EU (difference in % between the poverty rate without and without benefits)



Source: Own development from EU-SILC (Eurostat).

CONCLUSIONS

1 Material living conditions are worsening in Spain.

Practically all indicators chosen to measure the state of social needs in terms of material living conditions have worsened since the middle of the last decade. This pattern of change reflects a significant reduction in the levels of welfare in Spanish society and the limited progress made in the short period of economic recovery since the end of the last crisis has not managed to compensate for that reduction.

2 Significant presence of monetary poverty

One of the features that most demonstrates the critical situation in terms of the difficulties in having sufficient and stable sources of income is the significant presence of monetary poverty in Spain. For more than one out of every five people, household disposable income is under the risk-of-poverty threshold, implying that the scale of the problem is well above that seen in most European Union countries, including some with a lower level of income than Spain. This indicator was already noticeable before the economic crisis, but its intensity and prolongation has resulted in it increasing even more. The crisis has also led to a drastic increase in the number of households without regular sources of income, due to the progressive exhaustion of unemployment benefits.

3 Economic instability

The problems of insufficient income are combined, in many cases, with other deficiencies and disadvantages. Although the most recent figures indicate a certain improvement, job insecurity and unemployment produce a significant number of situations in which many people (between 10 and 15% of the total) face significant drops in income each year, generating great instability and economic insecurity. In parallel, low incomes and their instability considerably hinder the personal independence of more than a quarter of people older than 25 in Spain. There is also a pronounced gender gap in the levels of economic independence, so it is urgent to adopt reforms to eliminate the obstacles that limit career progress for women.

4 The economic recovery is not leading to social recovery

From the evolution of the long-term figures it can be deduced that the recovery in the economy, while it may reduce the difficulties in obtaining sufficient and stable income, will not achieve the progress sought in this field on its own. In order for higher employment levels to lead to a significant reduction in the risk of poverty, the working conditions for a large segment of the population must be improved, in addition to increasing the coverage and adequacy of benefits aimed at currently poorly protected social groups.

5 Dissatisfaction, stress and anxiety
Another clear example of the emergence of new needs linked to material living conditions is the growing level of economic dissatisfaction in Spanish society. Almost one in every three people earns less income than they consider necessary to cover their spending. This financial imbalance may fuel situations of stress and anxiety.

6 Lack of financial balance
This situation is corroborated by other indicators for the financial pressure experienced by households in different situations, such as the fact that more than a third of the population have difficulties in making ends meet and the similar percentage of the population living in households that regularly dissave. That a significant proportion of the population has problems achieving a balance between what they spend and what they earn not only affects their future economic situation but also the very financial balance of Spanish society, burdened by excessive indebtedness. The problem is also fueled by the difficulty that Spanish households have in understanding the need to adjust their expenditure to their income, especially in the expansionary phases of the economy.

7 Basic material needs on the rise
In addition to the poor results from the monetary indicators, we also see problems, deeply rooted in the social structure, with the other material living conditions. The crisis led to a rapid worsening of the ability to satisfy the most basic social needs, accentuating problems related to household items and basic consumption as a characteristic feature of Spanish society. Of special importance is the poor performance of the indicators related to both social life, a symptom of the growing difficulties of large groups to maintain their social participation, and the level of consumption, given the seriousness of not being able to afford basic expenses.

8 Chronic poverty
The worsening in overall living conditions is related to some processes that lead to the impoverishment of society becoming chronic. The longer duration of risk of poverty situations, which has increasingly affected a large number of households (close to 14% of the Spanish population has been living in poverty for over three years), raises alarm bells over future levels of welfare, as spending prolonged periods in this situation is an almost certain guarantee of more serious deficiencies in the long-term in almost all fundamental dimensions for the coverage of social needs (employment, salaries, health or social relations).

9 Spain falls in the international rankings
The overall deterioration shown in the evolution of the indicators is also revealed when the figures from Spain are viewed in the light of the experience of its closest neighbours. In all indicators selected as representative of the different sub-dimensions analysed, Spain has fallen in the rankings over the last decade. Especially negative is the trend in economic vulnerability problems, given that before the crisis Spain was already among the countries with the highest values. It should also be noted that in all indicators, Spain's position in the *ranking* is clearly lower than it should be given its average level of income. In each case it is ranked lower than many countries with a lower economic capacity.

10 Deficient monetary welfare benefits
One of the main reasons for this very unfavourable situation is the weakness of the monetary benefits system. The resources invested are lower than in other countries; there have been no improvements in the protective intensity of the system, in contrast to that seen in neighbouring countries, and the amounts paid are well below the poverty line. It is not unexpected to find that Spain is one of the countries with the worst results in terms of the capacity of the benefits package to reduce the scale of monetary poverty.

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