

**SISTEMAS DE RENDIMENTO MÍNIMO
GARANTIDO: UM DESAFIO PARA O ESTADO
SOCIAL ESPANHOL DO SÉCULO XXI**

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SPANISH WELFARE STATE**

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GUARANTEED MINIMUM INCOME SYSTEMS: A CHALLENGE FOR THE TWENTY-FIRST CENTURY SPANISH WELFARE STATE¹

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Abstract: In the wake of the 2007 financial crisis, fundamental questions about economic inequality and one of its main consequences, i.e. poverty, have again garnered attention after a period in which they were largely ignored. The paper aims to be a contribution to the debate on the socio-economic effects of the 2007 crisis. It does it by drawing attention to the Spanish social safety net. First, we evaluate the impact the economic crisis has had on the Spanish households, in terms of poverty, unemployment, and inequality. We then examined the safety net in Spain, with special focus on the guaranteed minimum income system, from a comparative perspective within the legal framework of the European Union (hereinafter EU) Active Inclusion Strategy adopted in 2007. Finally, the authors propose the implementation of a guaranteed minimum income system in the national level, focusing on the relevant costs and the necessary fiscal measures to bear them.

Abstract: No seguimento da crise financeira de 2007, questões fundamentais sobre desigualdade económica e uma das suas principais consequências, i.e. pobreza, chamaram novamente a atenção, depois de um período em que foram largamente ignoradas. O presente artigo pretende contribuir para o debate acerca dos efeitos socioeconómicos da crise de 2007. E fá-lo chamando a atenção para a rede de segurança social espanhola. Em primeiro lugar, avaliamos o impacto que a crise económica teve sobre as famílias espanholas, no que se refere a pobreza, desemprego, e desigualdade. Em seguida, examinamos a segurança social em Espanha, com um foco especial no sistema de rendimento mínimo garantido, de uma perspectiva comparativa com o quadro legal da Estratégia de Inclusão Activa da União Europeia, adoptada em 2007. Finalmente, os autores propõem a implementação de um sistema de rendimento mínimo garantido a nível nacional,

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focando os custos relevantes e as medidas fiscais necessárias para os suportar.

Key words: Guaranteed minimum income, social rights, poverty, income inequality, tax burden

Palavras chave: Rendimento mínimo garantido, direitos sociais, pobreza, desigualdade dos rendimentos, carga fiscal

Summary: 1. Introduction; 2 The impact of 2007 financial crisis on Spanish households 2.1 Poverty and income inequality during the Golden Decade; 2.2 Consequences of the 2007 crisis on poverty and income inequality; 2.2.1 The impact of the 2007 crisis on poverty and social exclusion in Spain; 2.2.2 The impact on the labor market; 2.2.3 The impact on the income inequality; 2.2.4 Relations between unemployment and poverty; 3 Guaranteed minimum income systems in Europe; 3.1 Guaranteed minimum income in European legislation; 3.2 A typology of the GMI schemes in Europe; 3.3 GMI programmes in Spain; 4. Legal-financial analysis of our proposal; 4.1 Constitutional foundations of GMI systems in Spain; 4.2 Cost estimation; 4.2.1 Preliminary consideration; 4.2.2 Quantification formula; 4.2.2.1 Number of beneficiaries; 4.2.2.2 Amount; 4.2.2.3 Total cost; 4.3 Revenue estimation; 4.3.1 A previous consideration: Spanish tax burden; 4.3.1.1 In comparison with the EU; 4.3.1.2 Spanish tax burden trends in recent years; 4.3.1.3 The unresolved issue of fiscal fraud in Spain; 4.3.2 Explanation of the suggested raise on tax collection; 4.3.2.1 Fight against fiscal fraud; 4.3.2.2 Partial recovery of the CT effective tax rate; 5. Conclusions; 6. References

1. Introduction

More than a century ago, most of Western countries started to intervene in the market and to protect workers by introducing social safety nets in order to improve market outcomes –among other things. This is especially relevant when we are dealing with income (re)distribution. Markets may allocate resources in an efficient way, but it does not imply that such allocation is fair.

This welfare capitalism worked fairly well during the 1945-1975 period, a period known as “Les Trente Glorieuses” or the “golden age” of the welfare state. However, on or around 1972 this model started to lose ground. From then on, criticisms based on the excessive cost of welfare institutions in terms of public debt, loss of entrepreneurship and economic inefficiency became common. The 1973 oil crisis and the collapse of the Bretton Woods system lead to a significant decrease in the economic growth rates of the OECD countries. The subsequent crises of the 1980s, 1990s, and today brought with them a progressive decline in welfare expenditure and an increase of unemployment rates.

Much has been said about the causes of the crisis and the appropriate public policy response. Furthermore, in the wake of the 2007 crisis fundamental questions about political economy that had been largely ignored for long time garnered public and academic attention. Thomas Piketty and Emmanuel Saez have carefully exploited American, British, or Canadian income tax data to document that income dispersion –i.e., economic inequality- has increased in most OECD countries in the last four decades². Although there are many drivers for recent surge in income inequality, there is widespread consensus that increases in the dispersion of household income since the late 1970s have been mainly driven a growing concentration of the market income in favor of higher-income households³. Cash wages and salaries were the main responsible for the increased income inequality because they represent the main component of labor income, which in turn represents the largest source of total income.

The paper aims to contribute to the discussion about the political economy of targeted safety nets. The remainder of the paper is divided into four sections: in Section 2 we analyze the impact of the crisis on the Spanish households in terms of poverty, unemployment, and income distribution; in Section 3 we examine the social safety net in Spain, with special focus on the guaranteed minimum income system, from a comparative perspective within the legal framework of the EU Active Inclusion Strategy adopted in 2007; in Section 4 we propose the implementation of a new guaranteed minimum income for Spain, estimating the relevant costs and suggesting some tax measures to collect the necessary

2. It is not an exaggeration to say that the *Occupy Wall Street* Movement and its “We are the 99%” slogan had its empirical scientific basis in the work done by THOMAS PIKETTY/EMMANUEL SAEZ, *Income Inequality in the United States, 1913-1998*, *Quarterly Journal of Economics*, Vol. 118, No. 1, pp. 1-39.

3. EDWARD HARRIS/FRANK SAMMARTINO, *Trends in the Distribution of Household Income between 1979 and 2007*, in *Measuring Economic Sustainability and Progress*, Chicago, 2014, pp. 181-211.

financial means and, finally, Section 5 concludes.

2. The Impact Of 2007 Financial Crisis On Spanish Households

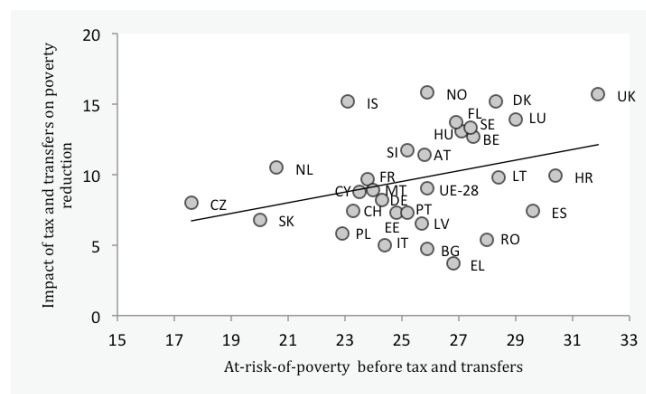
2.1 Poverty and income inequality during the Golden Decade

There have been significant economic changes in Spain since the early 1970s. The development of new productive structures and the rapid growth rates helped to significantly reduce the average income differential between Spain and EU 15 countries. However, this rapid growth in Spain during its “golden decade” (1996-2005) was characterized by two remarkable facts:

(1) The different composition of the Spanish economic growth compared to that of the other EU countries during the period 1996-2005. While in Europe and US productivity increased and contributed to the growth of production output, it decreased in Spain at an approximate rate of 0.8 percent and had therefore a negative contribution to the national economy⁴. The Spanish economic growth was based on long working hours and non-technological capital.

(2) Even though during the Golden Decade 8 million jobs were created and working population exceeded 20 million, some of the available statistics at the time pointed to a persistent poverty and income inequality rates during the period.

Poverty's main feature in Spain is its stability. According to data from Eurostat in 2010 20.7 percent of Spanish population was at risk of poverty or social exclusion⁵. This higher exposure to poverty and social exclusion can be at least partially explained by the (limited) impact of conditional cash transfers (CCT) and direct taxes on poverty reduction.



4. JOSÉ GARCÍA MONTALVO, Crisis económica y ajuste inmobiliario en España, in Crisis global: hacia un nuevo modelo económico y social, Vitoria-Gasteiz, 2009, pp. 171-182.

5. Data available at the Eurostat website at: http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/main_tables (last time consulted April 12, 2014).

Figure 1. The impact of tax and transfer on poverty reduction (EU-SILC countries, 2012)⁶

Source: Eurostat.

As shown in the chart above, Spain has (i) a high poverty rate before redistribution –the highest of the EU-SILC after Hungary and UK; and (ii) a CCT and taxes system whose redistributive impact is well below the average –represented in the graph by the slope⁷. According to the latest data from Eurostat –baseline year is 2011- the at-risk-o-poverty rate after social transfers was above 20 percent in five EU countries: Croatia, Romania, Bulgaria, Greece and Spain.

Something similar happens with income inequality. According to the S80/S20 ratio which compares the income of the upper and lower quintiles of the distribution –where higher values mean higher inequality-, the Spanish economic growth during the Golden Decade was not accompanied by a reduction in income inequality. As shown in the graph below, one of the characteristic features of income inequality in Spain before the 2007 crisis was its stability⁸.

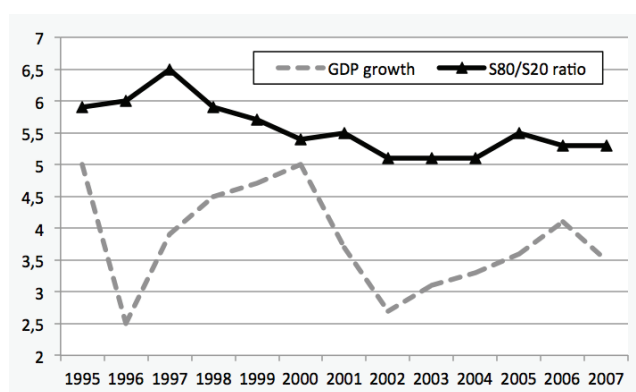


Figure 2. Evolution of growth and inequality rates during the Spanish Golden Decade

Source: Eurostat.

In short, the economic growth and the remarkable jobs creation during the Golden Decade were not accompanied by correlative decreases in poverty and

6. The ability of CCT and direct taxes to reduce the poverty is measured as the difference between the poverty rate before tax and transfers minus the rate after redistribution.

7. Eurostat places the at-risk-of-poverty threshold at 60% of national median equivalised disposable income, and it is expressed in purchasing power standards (PPS) to take into consideration the differences in the cost of living across countries.

8. The Gini coefficient in Spain -the chart plots the S80/S20 ratios- fell by 3 points –from 34 to 31- in the period 1995-2002, and remained stable until 2008 (31.3). However, in 2008 it increased 1 pp (up to 32.3) and in 2009 1.5 pp (up to 33.9). See the data at the Eurostat webpage at: http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/database

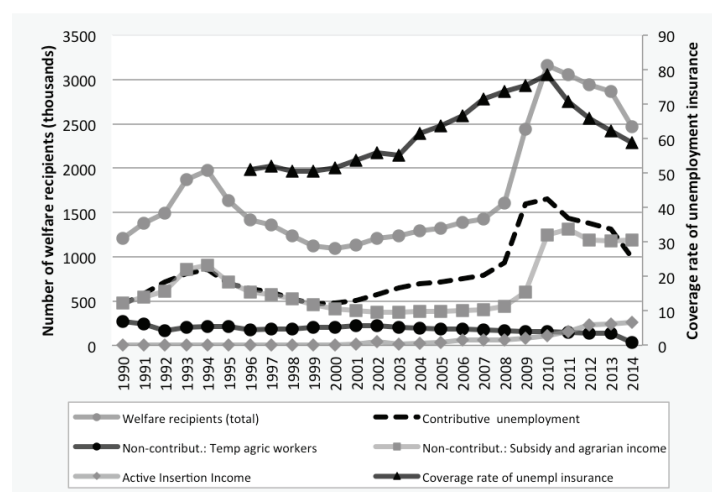
income inequality⁹.

2.2 Consequences of the 2007 crisis on poverty and income inequality

As said before, there is a broad literature on the origins, consequences and possible ways to end the Great Recession. From a macroeconomic standpoint, most of the discussion has been focused on the hypertrophy of the financial system –especially the US financial system¹⁰–, the abolition of the Glass Steagall Act in 1999 by the Clinton Administration making it possible for US investment banks to undertake proprietary trading and its replacement by the Gramm-Leach-Bliley Act, the lack of regulation of the world economic system in general or the responsibilities of international organizations –IMF, WB, WTO, etc.– for the lack of foresight –partially recognized by the IMF Evaluation Office in a report issued on February 8, 2011. In the next sections we will focus on the analysis of some key aspects of the crisis not on the macroeconomic side but in its impact on the most vulnerable household in Spain.

2.2.1 The impact of the 2007 crisis on poverty and social exclusion in Spain

A first approach to the impact of the crisis on poverty consists in the analysis of the increase in the number of recipients of welfare benefits. The rise in unemployment, particularly the rise in the long-term unemployment, has caused that in 1,832,300 Spanish households all its active members are unemployed. Predictably, the increase in the long-term unemployment should lead to a parallel increase in the number of welfare recipients.



9. Economic growth is regarded by the standard economic approach as one of the most effective measures to combat poverty and inequality. Figure 2 shows that while in the period 1995-2006 Spain experienced a decade of remarkable economic growth inequality rates have remained essentially unchanged. The same is true for poverty: the proportion of people at-risk-of-poverty rate has remained constant at around one fifth of the population.

10. For an excellent analysis of the growth and size of the US financial system over the period 1909-2006. THOMAS PHILIPPON/ARIELL RESHEF, Wages and Human Capital in the US Financial Industry: 1909-2006, National Bureau of Economic Research Working Paper Series, No. 14644, 2009.

Figure 3. Welfare recipients and coverage rate of unemployment insurance (evolution, 1990-2014)

Source: INE and Spanish Ministry of Employment and Social Security.

As shown in the chart above, in the three years from 2008 to 2011 the number of welfare recipients more than doubled, from 1.5 million to slightly more than 3 million. Furthermore, the graph shows an unprecedented increase in demand for welfare benefits compared to previous periods of economic down-turn. When breaking down the various components of the welfare system, we observe that the largest increased corresponds to unemployment benefits, although since 2010 there has been a decrease in both contributory and non-contributory streams¹¹. The number of people that are gradually exhausting unemployment benefits continues to grow, with no other benefit programs –PRODI, Active Insertion Income, Guaranteed Minimum Income programs- providing an essential safety net for the millions of workers out of the labor market.

2.2.2 The impact on the labor market

According to the Spanish National Office of Statistics (INE), in the second quarter of 2007 there were 1.76 million persons unemployed (around 8 percent). In the fourth quarter of 2013 there were 5.89 million persons unemployed (around 26 percent). Thus, the unemployment in the last six years has grown in more than four million people, representing over 10 percent of total jobs lost worldwide in the period (ILO 2012). Since 2008, most OECD countries have implemented –although with significant differences in their intensity- fiscal consolidation plans in order to address budget deficits. Fiscal consolidation programs tend to increase income inequality in various ways, as we will see in the next section (2.2.3). But of all these forms in which consolidation plans increase income inequality, probably the more important is the increasing unemployment, especially the long-term unemployment, as in the vast majority of the cases long-term unemployment leads to significant reduction of disposable income. As shown in the figure below, in Spain 60 percent of total unemployment is long-term unemployment¹².

11. The requirements to access the non-contributory subsidy (“Subsidio de desempleo”) program in Spain are the following: (1) acquire a legal unemployed status; (2) being registered as job claimant not having rejected suitable job offer; (3) lack of income of any kind that exceed 75 percent of the minimum wage. The subsidy lasts for 6 months, renewable for two periods of equal duration, up to a maximum of 18 months, with some exceptions.

12. Unemployment benefits in Spain last a minimum of 4 months and a maximum of 24 months. See http://www.sepe.es/contenido/prestaciones/pdf/Contributiva_Eventuales.pdf

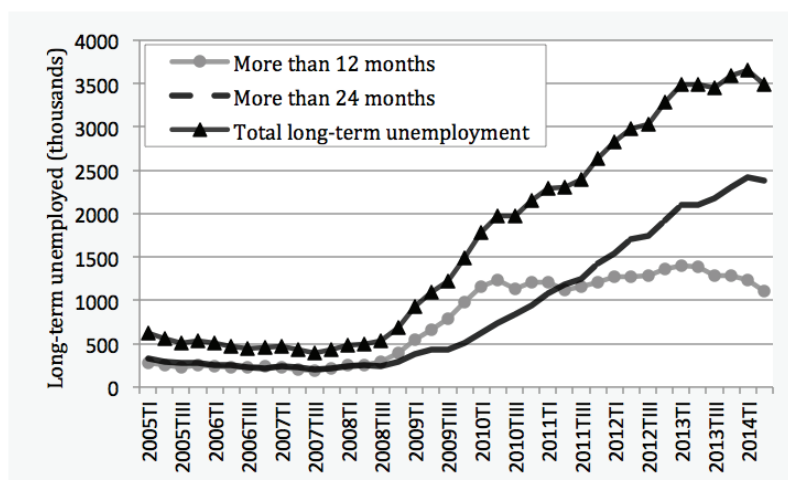


Figure 4. Evolution of long-term unemployment in Spain (2005T1-2014T1)

Source: INE.

2.2.3 The impact on the income inequality

It is well documented that income dispersion has increased in most OECD countries in the last three decades. Although there are many drivers for recent surge in income inequality, there is a widespread consensus that increases in the dispersion of household income since the late 1970s have been mainly driven by a growing concentration of the market income in favor of higher-income households¹³. Cash wages and salaries were the main responsible for the increased dispersion because they represent the main component of labor income, which in turn represents the largest source of total income.

Since the early 1980s, there has been a marked increase in household income dispersion in most OECD countries. In the United States, the average market income of the 1 percent more than doubled for the period 1981-2011, from \$440,865 to \$1,048,234. Over the same period, the average of the bottom 90 percent of the population fell by 5 percent, from \$32,009 in 1981 to \$30,437 in 2011¹⁴. This trend towards increasing income concentration at the very top of the distribution is also observable in most of the English speaking countries: but what about Spain?

Figure 5 shows the evolution of the gross monthly salaries for the 90th, 50th and 10th percentiles. The 90 to 50 ratio measures inequality in the upper part of the income distribution, the 50 to 10 ratio the inequality in the lower part of the income distribution, and 90 to 10 ratio is an overall measure of wage salary

13. OECD, *Divided We Stand: Why Inequality Keeps Rising*, Paris, 2011.

14. FACUNDO ALVAREDO *et al.*, *The Top 1 Percent in International and Historical Perspective*, NBER Working Paper, No. 19075.

inequality.

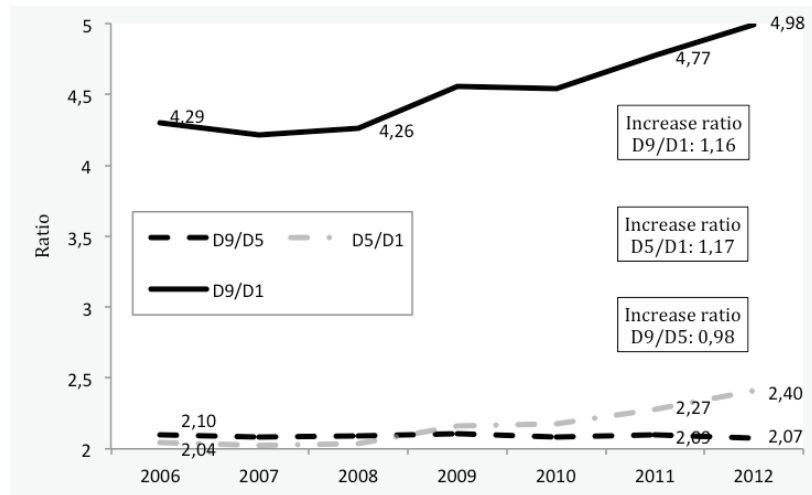


Figure 5. Evolution of gross monthly salaries ratios per deciles in Spain, 2006-2012

Source: INE.

The chart shows that beginning in 2008 wage dispersion has increased and that the action has taken place in the lower part of the distribution. In the upper part of the distribution not only inequality has not increased, but has slightly decreased. Increasing wage salary dispersion is entirely attributable to increasing inequality in the lower part of the distribution. And this in turn is entirely due to 15 percent decrease in the average salary of the 10th percentile for the period 2008-2012¹⁵.

In sum, one of the conclusions we can draw from the previous data is that economic down-turn and the following fiscal consolidation plans have deepened preexisting situations of at-risk-of-poverty and social exclusion –more extended problems in Spain than in most of the EU countries. The most common discourse is to blame the unemployment crisis for it –especially the long-term unemployment. As we will see in the next section, this is a half-truth.

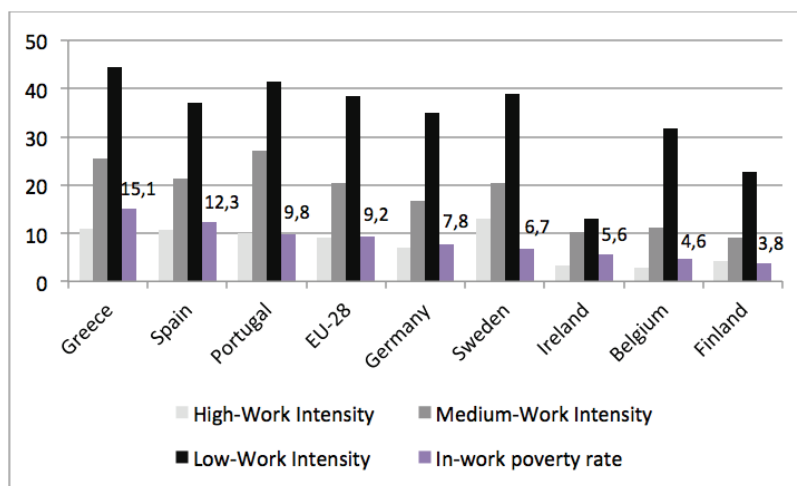
2.2.4 Relations between unemployment and poverty

15. The average monthly gross salary of the 10th percentile was EUR 497,74 in 2008 and EUR 423,02 in 2012 (~0.85). The average monthly gross salary of the 50th percentile increased from EUR 1,407 in 2008 to EUR 1,483 in 2012 (1.05). From 2008 onwards, Spanish lower quantile of the distribution saw their decrease significantly while D4 and D5 experienced gross increases.

The fact that being in employment is an effective way to secure oneself against poverty and social exclusion is clearly supported by the evidence and has been recognized by the European Council. In 2007, only 8 percent of the employed population in the EU-27 had an income below the national poverty threshold, compared to 42 percent for the unemployed¹⁶.

But Member States also recognized holding a job is not always enough to escape at-risk-of-poverty. In this sense, the report of the European Foundation for the Improvement of Living and Working Conditions entitled “Working Poor in Europe” points out that even if it is true that having a job is the most effective social protection measure against poverty, it is not the only relevant factor. In addition to individual employment status we should also take into consideration: (1) the income levels of households with working poors –low pay and in-work poverty; and (2) the impact of taxes and benefits on reducing at-risk-of-poverty rates.

So holding a job is no guarantee to escape poverty (Figure 7). Although in-work poverty rate for those with low work intensity is below the EU28 average, in-work poverty affects a large fraction of workers in Spain and its overall rate (12.3 percent) is well above the EU28 average (9.2 percent).



As said above, the impact of tax and transfers is also a key factor to analyze both the extent and the intensity of income inequality and at-risk-of-poverty and social exclusion rates in a given country. When assessing the redistributive effect of taxes and benefits two factors have to be taken into account¹⁷:

16. PASCAL WOLFF, 79 million EU citizens were at-risk-of-poverty in 2007, of whom 32 million were also materially deprived, Eurostat Statistics in Focus 46/2009, Office for Official Publications of the European Communities, Luxembourg, 2009.

17. Vid. VASKA ATTA DARKUA and ANDREW BARNARD, Distributional effects of

(1) The disproportionality of the tax or benefit –the concentration coefficient of taxes and benefits.

(2) The relative size of the tax or transfer as a percentage of the income.

Regarding the concentration coefficients of taxes and benefits, Nordic and Southern countries –with the possible exception of Denmark–, both score low broadly. Concerning disproportionality indexes, Continental/Corporatist and Anglo Saxon welfare states outperform the Social Democratic and the Mediterranean welfare models.

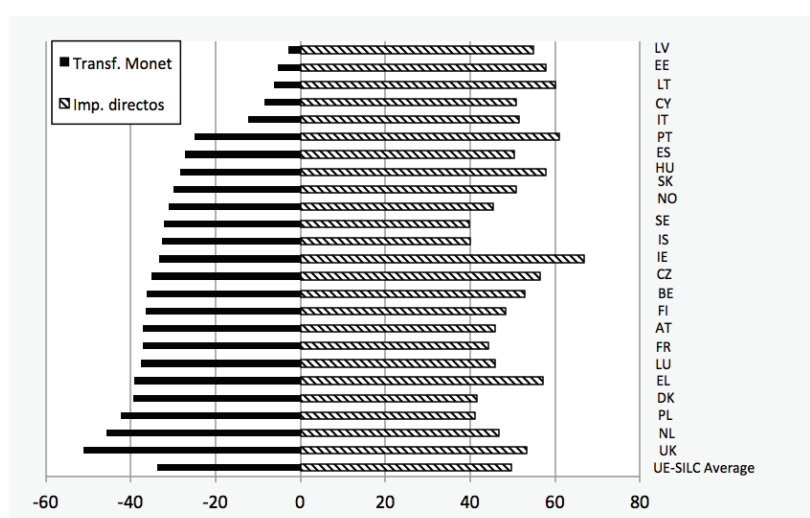


Figure 7. Concentration coefficients for tax and transfers (baseline year 2007)

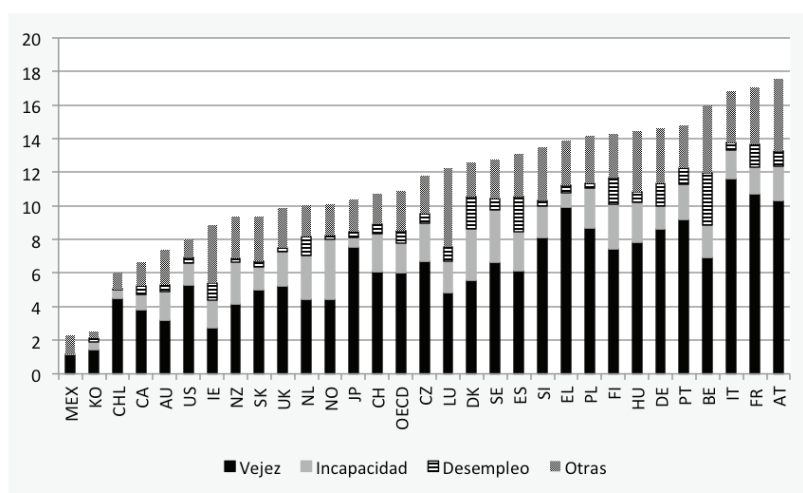
Source: Atta-Darkua and Barnard, 2010.

Now, it is not all about disproportionality, but the relative size of the social transfers also matters. Figure 8 presents a summary of the size and composition of the social transfers for OECD countries¹⁸. In the OECD countries, on average, 11 percent of gross income consisted of social transfers (cash benefits). There was a significant variation across countries, going from slightly more than 2 percent in Mexico and Korea to more than 15 percent in Austria and France. Old-age pensions are the largest item in most of the OECD countries. This has a decisive effect on the redistributive impact of tax-and-transfers systems as pensions imply horizontal (across life cycle stages) and not vertical distribution. States that rely heavily on old-age pensions distribute income during the life cycle phases of the individuals, but they do not redistribute from haves to have-nots. Countries with

direct taxes and social transfers (cash benefits), in *Income and living conditions in Europe*, Brussels, 2010, pp. 345-367.

18. See Figure 10 for the whole tax burden.

a social transfers system dominated by old-age pensions, such as Spain, Greece, or Italy, tend to be hardly redistributive. Excluding pensions, the weight of cash transfers in Spain –as a percentage of household disposable income- is the lowest of all OECD countries, behind Mexico, Greece, and Italy¹⁹.



Source: OCDE (Social Expenditure Statistics Database).

Let's now consider how being (un)employed affects at-risk-of-poverty or social exclusion rate. In the EU as a whole in-work poverty rate amounted to 9.2 percent of all the population from 16 to 64 years in 2012. However, there are significant differences between countries. As we can see in Figure 9, the EU's Southern countries face high poverty risk for both the employed and the unemployed population. On the other side, Social democratic and Corporatist welfare present low poverty rates for the employed population, but regarding at-a-risk-of-poverty rates for unemployed there is no clear pattern between different welfare models –Portugal presents lower poverty rates for unemployed than Sweden and Finland, in Germany almost 70 percent of people who are unemployed are at-risk-of-poverty, while in Ireland this figure is just over 30 percent.

19. GERLINDE VERBIST/MICHAEL F. FÖRSTER/MARIA VAALAVUO, The Impact of Publicly Provided Services on the Distribution of Resources: Review of New Results and Methods, Vol. 13, No. 2, pp. 121-139.

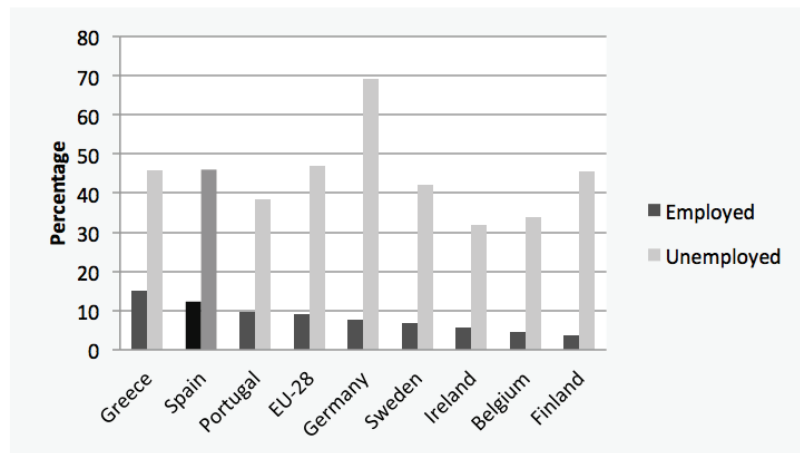


Figure 9. At-risk-of-poverty-rate by employment status (2012)

Source: Eurostat.

According to a Eurostat news released issued on April 2014, the highest regional unemployment rates were registered in five Spanish regions: Andalucía (36.3 percent), Ceuta (35.6), Melilla (34.4), Canarias (34.1) and Extremadura (33.7) (Eurostat 2014). Furthermore, in more than a 25 percent of the regions the majority of the unemployed had been out of work for at least a year: the long-term unemployment stood at 47.5 percent on average in the EU28 in 2013, with significantly variations between the “core” of Europe (German, Austrian regions) and the periphery (Spanish and Greek regions). In the extent that long-term unemployment is a representative index (proxy) of the more severe forms of poverty and material deprivation, what we are witnessing is an unprecedented increase of poverty in many European regions. A priori this would be Guaranteed Minimum Income (GMI) beneficiary population.

It is certainly true that unemployment –over all long-term unemployment- is the leading cause of increasing at-risk-of-poverty and social exclusion in Spain and most of the EU countries. But just to be clear: it is also true that existing policies have proved insufficient to guarantee a minimum income and the social integration of these people.

3. Guaranteed minimum income systems in Europe

3.1 Guaranteed minimum income in European legislation

Before going to analyze GMI support schemes in the EU Law, it is first convenient to fix some concepts. With regard to the concept of GMI, according to R. Peña Casas GMI “*is essentially a policy-tool that can be applied as a benchmark of adequacy of various welfare provisions or other socially defined minimums*, such as minimum wage, minimum State pension or minimum social

benefits”²⁰. According to the European Community Charter of the Fundamental Social Rights of Workers –to which the Lisbon Treaty makes reference in Title X on social policy- “workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living” (article 5.1) and “[...] shall have a right to adequate social protection and shall, whatever his status and whatever the size of the undertaking in which he is employed, enjoy an adequate level of social security benefits” (article 10, paragraph 1). There are many similar examples in International Law. Article 23 of the Universal Declaration of Human Rights states that every worker has the right to just remuneration ensuring himself and his family an existence worthy of human dignity and complemented when necessary by other social benefits (article 23.3) and Article 25 of the UDHR guarantees the right to a standard of living adequate for the health and well-being of himself and of his family [...] and the right to security in the event of [...] lack of livelihood in circumstances beyond his control (article 25.1). But, what type of policy realizes these rights to “security” and “social protection”? Different approaches to poverty lead to different kinds of public policy.

The traditional approach and the most common policy is to have a minimum wage. In fact, after German Chancellor Angela Merkel approved the country’s first minimum wage at 8.50 euros an hour, to start in 2015, only six countries in the EU-28 remain without a minimum wage level. Thus, in the vast majority of EU countries there exist statutory minimum wages which establish a floor wage applicable to all economic sectors²¹.

Now, the minimum wage only applies to the employed population and as we said above unemployment is the main culprit for increasing at-risk-of-poverty and social exclusion rates in most of the EU countries. With the idea that poverty and social exclusion incapacitate for the exercise of individual and social rights as starting point, many industrialized countries have passed legislation approving a GMI.

In Europe there has been scarce discussion about GMI regulation because according to the subsidiarity principle, whereby the Union does not take action (except in the areas that fall within its exclusive competence), unless it is more effective than action taken at national, regional or local level (article 5 of the TEU), the competence corresponds to the Member States or their local or regional authorities. The European Commission (EC) and the other European institutions can only make regulations encouraging MS to implement social policies that human dignity, but without imposing binding legislation such as Directives or Regulations.

20. RAMÓN PEÑA CASAS, *Minimum income standards in an enlarged EU: the Case of Guaranteed Minimum Income Schemes*, background Paper for the EU Project Setting Minimum Social Standards across Europe, Brussels, 2006. Italics in the original.

21. Currency conversions from non-euro currencies being based on average exchange rates for 2012, European monthly minimum wages range from EUR 173.84 in Bulgaria to EUR 1921.03 in Luxembourg.

The cornerstone text in the European context about GMIs is the European Council Recommendation of 24 June 1992 on Common Criteria Concerning Sufficient Resources and Social Assistance in Social Protection (92/441/EEC)²². The regulation, adopted at the Lisbon European Council, aims to fight social exclusion by encouraging the ME to recognize a fundamental right to adequate resources and benefits sufficient to enable the people to have a decent standard of living. Furthermore, the European Council suggests that the right persons who have been unable either to enter or re-enter the labor market have to receive sufficient resources and social assistance is to be recognized by the ME according to some general principles:

- (1) It is to be a right based on respect for human dignity.
- (2) The scope of that right is to be defined vis-à-vis individuals, having regard to legal residence and nationality.
- (3) In the case of those persons whose age, health and family situation permit holding a job, that right is subjected to active availability for work or for vocational training with a view to obtain a job.
- (4) Access to the right is not subjected to time limits, assuming compliance with the eligibility conditions.
- (5) It is to be accompanied by those policies deemed necessary, at national level, for the economic and social integration of those concerned²³.

It was not until 1999 that the European Commission decided to give continuity to the recommendation 92/441/EC and issued a Report on the implementation of the recommendation²⁴. After examining the different GMI schemes then existing in all ME except for Greece and Italy, the Report considered that a progress towards certain convergence had been made over all in some Mediterranean countries (Spain and Portugal). Nevertheless, the report highlights persisting significant differences between Mediterranean GMI schemes and the rest of the EU countries, and distinguishes between three different models:

- i. Countries such as Germany, Belgium, Austria, France, and Luxembourg, where social insurance based on employment predominates and where GMI schemes have remained outside of social security systems.
- ii. Countries like UK, Ireland, and the Nordic countries, where GMI systems have been remained perceived as intrinsic to these social security systems based on the principle of universality and people's needs.
- iii. The Mediterranean countries, which lie between these two models and

22. See <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:31992H0441>

23. See EUROPEAN COUNCIL, *Council Recommendation of 24th June 1992 on Common Criteria Concerning Sufficient Resources and Social Assistance in Social Protection*, 92/441/EEC, Brussels, 1992.

24. See <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:51998DC0774>

where GMI schemes were by the time “relatively rare”²⁵.

With the announcement in 2000 of the Open Method of Coordination (OMC), the social dimension of the European economic integration and its relation to the social protection was markedly enlarged. The OMC sets a common set of objectives and indicators to measure progresses made in terms of economic integration and social protection. With the implementation of the OMC, the presumption that national social policies tend to converge with EU recommendations in terms of social exclusion was established. Regarding the GMI policy in the European area, Monica Threlfall affirmed in 2003 that “a free-mover can now count on receiving a reasonably similar amount of subsistence-level support in all states”²⁶. However, even being true that a tendency to convergence may characterize certain aspects of the European GMI schemes, such as the emphasis on active inclusion, there is considerably less evidence of a convergence in the quantum of the benefits of the magnitude highlighted by Threlfall.

3.2 A typology of the GMI schemes in Europe

The best well-known taxonomy of social protection systems is likely to be that of I. Gough et al. for OECD countries²⁷. With regard to the EU countries, the study distinguishes 5 different groups:

Table 1 Typology of social assistance regimes identified by Gough *et al.* (1997)

Regime label	Countries
Selective welfare systems	Australia, New Zealand
The public assistance state	USA
Welfare states with integrated safety nets	Britain, Ireland, Canada
Dual social assistance	Germany, France, Belgium, Luxembourg
Citizenship-based but residual assistance	Denmark, Finland, Sweden, Netherlands
Rudimentary assistance	Italy, Spain, Portugal, Greece, Turkey
Decentralized discretionary relief	Norway, Austria, Switzerland
Centralized discretionary relief	Japan

Source: Gough *et al.* (1997).

25. See EUROPEAN COMMISSION, *Report on the Implementation of the Recommendation 92/441/EEC of 24th June 1992 on Common Criteria Concerning Sufficient Resources and Social Assistance in Social Protection Systems*, Commission Report to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions [COM/98/774 final], Brussels, 1999.

26. MONICA THRELFALL, *European Social Integration: Harmonization, Convergence and Single Social Areas*, *Journal of European Social Policy*, Vol. 13, No. 2, 2003, pp. 121-139.

27. IAN GOUGH *et al.*, *Social Assistance in OECD Countries*, *Journal of European Social Policy*, Vol. 7, No. 1, 1997, pp. 17-43.

Independently of how accurate or inaccurate the typology by Gough *et al.* is –Saraceno *et al.* suggest that Spain and Italy have a universal safety net that complements targeted programs, what would bring those countries closer to the “dual assistance” group²⁸ – maybe the more salient feature of the typology by Gough *et al.* is its marked continuity with G. Esping-Andersen’s work on the taxonomy of welfare regimes²⁹. Focusing more narrowly on the GMI schemes in Europe, Table 2 summarizes some basic information obtained from both MISSOC (Mutual Information System on Social Security) provided by the European Commission, and SaMip (Social Assistance Minimum Income Protection Interim Database), based at the Swedish Institute for Social Research, University of Stockholm.

Table 2 GMI systems in Europe

	Designation	Applicable regulation
Belgium	Minimex	Loi du mai 2002 concernant le droit à l'intégration sociale
Germany	Sozialhilfe	Sozialgesetzbuch (Book XII), December 27, 2003.
Greece	No existing program	Nor specific nor general legislation on income support mechanisms.
Spain	Renta Mínima de Inserción, o Ingreso mínimo	Ley General de la Seguridad Social, aprobada por Real-Decreto Legislativo No. 1/94 de 20 de junio de 1994.
France	Revenu de Solidarité Active	Loi n°2009-1673 du 30 décembre 2009 de finances pour 2010.
Italy	Reddito Mínimo	Legge 328/2000 per la realizzazione del sistema integrato di interventi e servizi sociali
Netherlands	Algemene Bijstand	Employment and Assistance Act (de Wet Werk en Bijstand), 2004.
Portugal	Rendimento social de inserção	Two Decrees in 2010: (i) Rendimento social de inserção; (ii) Subsídio social de desemprego.
UK	Income Support	Income Support (General) Regulations, No. 1967,

Source: MISSOC and SaMip.

28. CHIARA SARACENO (ed.), *Social Assistance Dynamics in Europe. National and Local Poverty Regimes*, Bristol, 2002. In a later work, Gough seems to accept this critique when affirms: “In Europe, the cluster analysis overturns the view that there is a distinctive Southern European assistance regime, as elaborated in Gough (1997). The more extensive, higher spending assistance programmes of Spain (and, most likely, Italy) are akin to those of the Northern EU member states; only programmes in Portugal and Greece earn the title of “rudimentary assistance” (IAN GOUGH, *Social Assistance Regimes: A Cluster Analysis*, *Journal of European Social Policy*, Vol. 11, No. 2, 2001, pp. 168-169).

29. GOSTA ESPING-ANDERSEN, *The Three Worlds of Welfare Capitalism*, Princeton, 1990.

When it comes to analyze EU countries legislation on GMI schemes three different rationales –acting in diverse ways- can be observed:

- i. The move in recent years towards a greater link between GMI programmes and having a job, a strategy Ivor Lædemel and Heather Trickey call “work first”. This welfare model of active inclusion philosophy aims to ending welfare dependence, so that employment replaces as soon as possible the income assistance program.
- ii. In most industrialized countries basic regulation recognizes a (a priori) universal right to the benefit, but further legislation usually tends to narrow the scope of the benefits.
- iii. In most OECD and EU countries the quantum of the benefits is established at the national level. In some countries, however, the quantum (significantly) differs between regions. This is the case of Spain.

3.3 GMI programmes in Spain

Since the restoration of democracy in Spain in 1978, the evolution of GMI system can be divided into three different stages³⁰:

- (1) 1980-1989: the stage of growth. The industrial restructuring and high unemployment rates lead to the creation of a non-contributory unemployment benefit program for those unemployed who had exhausted the contributory benefit.
- (2) 1990-2000: the stage of decentralization. Two major mechanisms to fight poverty and social exclusion are implemented during these years: (i) the Non-Contributory Pensions Act 26/1990, which consolidated and extended social non-contributory pensions; and (ii) the regional (Autonomous Regions) GMI schemes with different access requirements, quantum, and conditions for labor-market insertion.
- (3) 2000-2008: the stage of the Spanish GMI scheme integration in the Lisbon strategy general framework, which main idea is to make compatible economic efficiency and social integration. We can say that this last period was over with the outbreak of the 2007 financial crisis.

The current GMI scheme in Spain is characterized by its diversity and regional differences. The Spanish GMI net is formed by:

- The Minimum Complements for Contributory Pensions.
- The unemployment benefits, which include: the non-contributory benefit, the Agrarian Income, the Temporary Protection Program for Unemployment and Insertion, the non-contributory benefit for temporary agrarian workers,

30. *Vid.* GREGORIO RODRÍGUEZ CABRERO, *Valoración de los programas de rentas mínimas en España*, Bruselas, 2009.

and the Active Insertion Income.

- The retirement and disability non-contributory pensions.
- The old-age and disease non-contributory pensions.
- The Social Integration for Disable People benefits (LISMI benefits).
- The Regional Minimum Insertion Incomes.

But the Spanish safety net is not only fragmentary and diverse, it is also insufficient. Even if we add the beneficiaries of the Active Insertion Income (257,000 in February 2014), the beneficiaries from the Temporary Protection Program for Unemployment and Insertion (62 in February) to the beneficiaries of the Minimum Insertion regional programmes, Spanish safety net covers less than 2 percent of the population –while around 60 percent of the total unemployment (5.8 million) is long-term unemployment. According to the 2012 Report for Minimum Insertion Incomes issued annually by the Spanish Ministry of Health, Social Services and Equality, in 2012:

- The average national quantum for a Minimum Insertion Income in Spain was EUR 420.55 per month. There was high variation in the quantum, going from an annual spending on each beneficiary of EUR 2,635 in the Basque Country to the EUR 462.63 in Comunidad Valenciana.
- The total number of beneficiaries was 217,358, from which 132,801 were women and 84,557 were men. Regarding the dependent members of the beneficiaries, there were 339,499, from which 174,991 were women and 159,741 were men. This makes a total (direct beneficiaries + dependent members) of 556,857, from which 307,792 were women and 244,298 were men.
- The total expenditure executed was EUR 854,748,514.34.

However, even this scarce level of coverage has to be observed with some caution, because almost one in three Minimum Insertion Income recipients is located in the Basque Country. Furthermore, the budget of the Basque GMI program represents about 40 percent of the total expenditure in GMI schemes in Spain.

4. Legal-financial analysis of our proposal

4.1. Constitutional foundations of GMI systems in Spain

The Spanish 1978 Constitution states that “Spain is [...] established as a social and democratic State” (article 1.1). This definition cannot be understood as “a simply rhetoric term without legal and constitutional implications, but rather on the contrary, it has to be considered as a truly structural principle of the legal

order, inviolable foundation of the political system”³¹. The Constitutional Court of Spain confirmed that these principles were not mere statement of intentions but had a normative content. In subsequent rulings the Constitutional Court of Spain has held that “recognition of the so-called social and economic rights –as reflected in several provisions of the Constitution- leads to State intervention to make them effective, while provides social significance to the exercise of the their rights by the citizens – especially of those with financial content, such as property rights - and the fulfillment of certain duties – such as tax duties”³².

A priori it is not possible to derive legal implications from this constitutional provision, to this extent that we cannot extract individual rights of the type we can claim before a court from it. However, the clause of the welfare state has a prominent hermeneutical value binding both administrative and judicial authorities in their interpretation of the whole legal system. According to Ekkehart Stein, it is possible to distinguish two basic aspects in the aforementioned hermeneutical value: on the one hand, the principle of “the social obligation of the State”, i.e. the assumption of public responsibility for social benefits; on the other hand, the establishment of a “social connection or modulation of the fundamental rights”, in the sense that it is necessary to adjust the effective enjoyment of the different rights to the real possibilities of each social group or, to put it another way, to ensure the use of their rights by the least well-off³³, what connects perfectly with the purpose of GMI systems.

In particular, we also owe to German scholarship the characterization of the Social state as the one in charge of the “existential provision” (“Daseinvorsorge”)³⁴. This concept was borne out of a specific historical situation in which, as a result of the social changes brought about by the technological revolution, individuals lost control over the structure and the means of their own existence, falling into a situation of “social need” where their lives are unstable and precarious. It is against this background that the State is entrusted, as one of its main missions, with the task of providing human beings with the means that are necessary for their existence yet out of their reach. We can therefore claim that the idea of the Social state imposes on public authorities the legal obligation to guarantee a minimum threshold of subsistence, irrespectively of the particular behaviour of each individual. GMI systems are one of the tools through which this can be done, in line with the dignity and fundamental rights that are inherent to all human beings. Not in vain, in a Social State “fundamental rights no longer have a merely negative and limitative scope, their exercise being guaranteed through welfare and other type of benefits provided by the state”³⁵.

31. ALVARO RODRÍGUEZ BEREIJO, *La Constitución de 1978 y el modelo de Estado: Consideraciones sobre la función de la Hacienda Pública*, Sistema 53, 1983, pp. 75-94.

32. Decision of the Spanish Constitutional Court 18/1984, 07.02.1984.

33. ANGEL GARRORENA MORALES, *El Estado español como Estado social y democrático de derecho*, Murcia, 1980, p. 100.

34. This concept was originally formulated by FORSTHOFF in 1938. Afterwards, it was considered as a main character of the Social state, see MANUEL GARCÍA-PELAYO, *Las transformaciones del Estado contemporáneo*, Madrid, 1987, p. 27.

35. Decision of the Spanish Constitutional Court 86/1982, 23.12.1982 (separate opinion of Judge Díez de Velasco).

In the same sense, the articulation of a GMI system is not merely an imposition of the Social state clause. It follows more generally from the value attached by the Constitution to human dignity as “the foundation of the political order and social peace” (Article 10(1) of the Spanish Constitution) and from the obligation imposed on public authorities “to promote the conditions which ensure that the freedom and equality of individuals and of the groups to which they belong may be real and effective, to remove the obstacles which prevent or hinder their full enjoyment, and to facilitate the participation of all citizens in political, economic, cultural and social life.” (Article 9(2) of the Spanish Constitution). In sum, the articulation of a GMI system in Spain would implement the constitutional mandate that entrusts upon public powers the task of ensuring the “existential provision” of all citizens, in accordance with their dignity, and would stimulate the quest for real equality, which remains for the time being a distant goal.

4.2 Cost estimation

4.2.1 Preliminary consideration

When explaining the rationale of a new policy proposal one should not forget its financial consequences. In particular, in a context of economic crisis in which fiscal consolidation is an unquestionable objective, it is necessary to ensure that the implementation of our proposal will not hamper the pursued reduction of public deficit. Thus, in this section we offer an estimation, which cannot be exhaustive nor definitive due to the multiple and uncertain variables involved, of the total public expenditure that our proposal entails. After this, as will be outlined below, we will propose some tax measures aimed at collecting revenue equivalent to our proposal costs. We therefore guarantee the neutral effect of our proposal, so that it cannot be rejected under the pretext of the economic crisis. In any case, as we will see later, we suggest a gradual implementation of our proposal in order to avoid any distortion of the current fiscal consolidation.

Moreover, it should be noted that our expenditure and revenue analysis refers only to the implementation of our proposal itself, setting aside its effects on the rest of macroeconomic variables. In other words, despite the fact that part of the monetary transfers made from the State to the beneficiaries of the guaranteed minimum income system is likely to return to the State through taxes (mainly those taxes linked to consumption³⁶), we have decided not to consider such impact in our calculation. Neither have we included an estimation of the (probable) effect that this consumption might have in terms of fostering economic activity, which may also result in the increase of tax revenues. In return, in our work there is no estimation of the (in our opinion) implausible negative effect that an increase of the tax burden may have, i.e., the decline in household disposable income may have a direct effect on investment and consumption levels.

Therefore, taking the classic principle *ceteris paribus* to the extreme, we will examine our proposal itself, isolated from the effects that can have on the

36. It is well known that low-income people, who are the beneficiaries of the guaranteed minimum income system, are more likely to spend a large part of their income in consumption.

rest of economic variables. In order to simplify our analysis, we assume that positive effects would outweigh possible negative consequences (although such assumption probably damages our position).

4.2.2. Quantification formula

To make our proposal accessible to a non-specialist public, we present a very intuitive method of calculating costs on the basis of the following formula:

$$C = N \times Q$$

Where C is the total cost of our proposal, N is the potential number of beneficiaries and Q is the individual amount of the GMI. The explanation below details the amount of these elements in different hypotheses.

5.1.2.1. Number of beneficiaries

As has already been said, one of the main problems of the current guaranteed minimum income systems lies in the strict eligible requirements. For our part, and this is one of the innovations of our proposal, we suggest the reduction and simplification of these requirements. Among others, the one referring to income threshold is particularly important. Our ideas would best translate into practice by setting the poverty line as the relevant threshold. However, it should be kept in mind that in Spain this poverty line, set at 60% of the median income (in 2013, EUR 7,040³⁷), exceeds relevant magnitudes as the public income index (IPREM 2014: 6,390.13), the guaranteed minimum wage (SMI) or the minimum income threshold of non-contributory pensions. Consequently, referring to the poverty line as the relevant income threshold is really problematic, since it would multiply the cost of our proposal and, at the same time, it would distort the Spanish social protection system. On the contrary, as we cannot reorganize now the system as a whole but only improve one of its multiple defects, we have to consider (although we feel it does not go far enough) the current income threshold of Social Security non-contributory pensions, which slightly exceeds severe poverty line (set at 30% of the median income). We should bear in mind that the adoption of this line would result in the complete eradication of severe poverty in Spain.

As a result of the above, we refer to the current income threshold of Social Security non-contributory pensions set at EUR 5,122.60 in 2014 (EUR 426.88 per month). In case the beneficiary lives with relatives, the income threshold varies as follows:

37. *Encuesta de Condiciones de Vida (Instituto Nacional de Estadística)* 2013. Available online at www.ine.es

1. If the person lives only with his spouse and/or kindred to the second degree:

<i>Number of people living together</i>	<i>€/Year</i>
2	8,708.42
3	12,294.24
4	15,880.06

2. If the blood relatives living with the person include any of his own parents or children:

<i>Number of people living together</i>	<i>€/Year</i>
2	21,771.05
3	30,735.60
4	39,700.15

Although accurate data are not available, at times of economic crisis such as the present, the number of people below that threshold must be approximately 3% of total Spanish population³⁸. Thus, to consider all possible scenarios according our estimations, we propose a maximum value of 3.5%, a minimum of 2.75% and one intermediate of 3.1%, as follows:

$N_1 = 2.75\% = 1,293,078$ people³⁹
$N_2 = 3.1\% = 1,457,652$ people
$N_3 = 3.5\% = 1,645,736$ people

This estimation is made considering that we are facing a severe economic crisis with very high unemployment rates. An eventual improvement of the economic situation would render these figures excessive. Likewise, an eventual worsening

38. Note that in 2008, at the outbreak of the current economic crisis, people below the poverty line (U30) were 2.3% (VI Informe FOESSA, 2011, p. 30, available at http://www.foessa.es/publicaciones_Info.aspx?Id=379). The threshold we suggest is slightly higher, so the relevant figure of recipients would also be slightly higher. In fact, our estimations come close to the unemployed people who do not receive any public benefit (according to the State Employment Service SEPE). Moreover, although it is not the best indicator, our estimations approach the number of jobless households in Spain (AGETT, Informe Regional AGETT del mercado laboral, 4º trimestre de 2011, 2012, p. 11, available online at http://www.aggett.com/servicio/informes/Informe%20Regional_IVTR11.pdf).

39. The estimation is made on the basis of a total Spanish population of 47,021,031 (INE 2010).

would make them insufficient. In any event, one should take into account that the hypothesis N_3 shows a very deteriorated economic situation (even worse than the current one)⁴⁰. Be that as it may, the implementation of our proposal would involve a tenfold multiplication of the number of beneficiaries of the current Spanish integration minimum income (see Section 3.3).

4.1.2.2. Amount

In line with what we have detailed in the section above, the amount of our proposal is related to the Spanish non-contributive pensions, although we recognize that it is not completely satisfactory. Besides, our proposal is aimed at simplifying (and, where appropriate, replacing) the current myriad assistance benefits (non-contributive pensions, unemployment benefits, the so-called Temporary Employment Protection and Insertion Program, etc.). Consequently, we propose an amount equivalent to the current (2014) income threshold of non-contributive pensions, i.e., EUR 365.90 monthly (fourteen times a year) or EUR 426.88 (twelve times a year), for a total amount (Q) of EUR 5,122.60 per year. This amount exceeds slightly the Spanish average non-contributive retirement pension (EUR 354.41 in February 2014) but it is moderately inferior to Spanish average non-contributive disability pension (EUR 398.14 in February 2014). Compare to the current amount of the regional integration minimum income, our proposal is slightly higher than the average amount (see Section 3.3). In any case, it should be recalled that this is a minimum amount that applies for the whole State, but it can be legitimately increased by regional authorities (*Comunidades Autónomas*).

4.1.2.3. Total cost

We now move to the calculation of the total cost of our three different hypotheses (C_1 , C_2 y C_3) corresponding to the three different numbers of beneficiaries we estimate (N_1 , N_2 y N_3). In order to make our proposal more intuitive in terms of macroeconomic variables, both the percentage of Spanish GDP and the percentage of Spanish National Budget (2014) that this cost represents are shown in the table below.

40. In fact, it considers a worse situation than the existing in 1990 (2.7%), equivalent to the one of 1980 (3.5%), according to the data available in VI Informe FOESSA, 2011, p. 30.

Table 3. Total cost estimation

Hypothesis	Total cost (in EUR thousands)	GDP % 2013 ⁴¹	National Budget % 2014 ⁴²
C ₁ (N ₁ x Q)	6,623,921.4	0,65%	1,56%
C ₂ (N ₂ x Q)	7,466,968.1	0,73%	1,76%
C ₃ (N ₃ x Q)	8,430,447.2	0,82%	1,99%

As we can see, the implementation of our proposal requires, in the worse hypothesis, the investment of resources amounting to a maximum of 0.8% of Spanish GDP, which represents in any case less than 2% of the total public expenditure in 2014 (including State, Social Security, State Agencies and other public bodies). Considering that fiscal consolidation is one of the most important goals of both the Spanish Government and European Commission, we should seek new public revenues that balance such new public expenditure. We consequently move to the next section in which we propose some measures to increase public revenues in order to avoid any distortion of the current fiscal consolidation.

It should be borne in mind that we are not considering that our proposal would lead to considerable savings for the regional public purse, since our proposal will replace the current integration minimum income schemes which are nowadays borne by regional authorities (*Comunidades Autónomas*). Unfortunately, there are not sufficiently disaggregated data, so the relevant calculation is not possible⁴³.

4.3. Revenue Estimation

4.3.1. A previous consideration: Spanish tax burden

4.3.1.1. In comparison with the EU

As indicated above, we suggest some measures to increase public revenue in order to avoid any obstacle to the current process of reducing public deficit. To put these measures into context, we should consider the current Spanish tax burden. We will analyse this variable from a comparative approach (considering

41. Spanish GDP in 2013, at current prices, amounts to EUR 1,022,988 million, according to Spanish National Statistical Institute (INE).

42. As stated in the Spanish Budget Act for 2014 (LPGE), total public expenditure (State, Social Security, State Agencies and other public bodies) amounts to EUR 423,230.10 million.

43. For illustrative purposes only, we may point out that regional expenditure on integration minimum income exceeds EUR 400 million.

EU and OECD countries) and we will also show the Spanish historical series, particularly focused on recent years.

Thus, in comparison with the EU countries with regard to total tax revenue as percentage of GDP, according to the data reported by Eurostat, in 2011 Spain collected as taxes (and social contributions) the 33.6% of its GDP. As shown in Figure 10, Spain ranked 19th among EU countries. The differences are really striking: the fiscal burden of Spain is 7 points inferior to the EU28 average (40.6%) and approximately one point inferior to OECD average (34.57%).

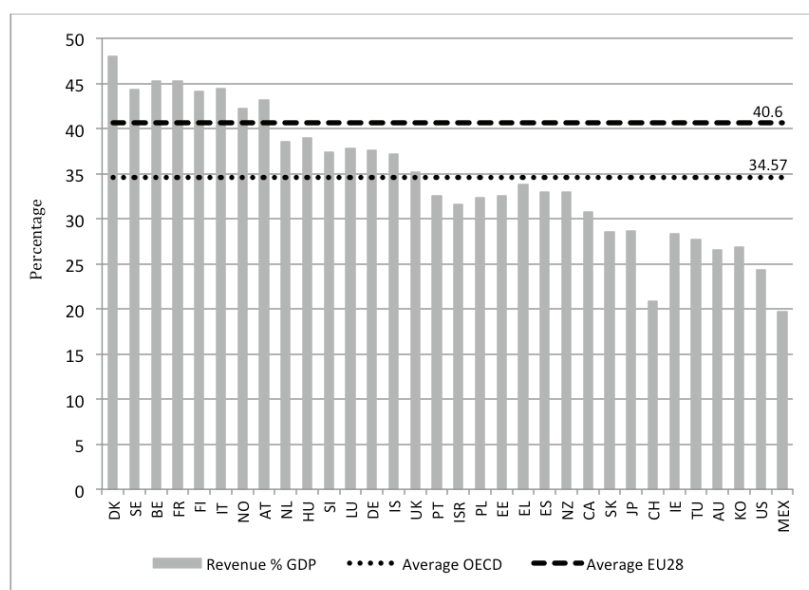


Figure 10. Tax burden EU28 and OECD in 2011

Source: Eurostat and OECD.

Differences are even greater when comparing Spain with the large European countries: France's rate (47%) is more than thirteen points higher than the Spanish one; Italy's rate (44.3%) is more than ten points higher; Germany's rate (36.9%) is three points higher; and even United Kingdom's rate (35.7%) exceeds the Spanish one by two points.

These data lead to the conclusion that Spanish tax burden is clearly inferior than EU28 average (even inferior than OECD average). Moreover, there are wide differences in comparison with large countries like France or Italy, which are the relevant countries for these purposes. As a consequence, Spanish Government has less financial means than most European countries to provide public services that effectively protect citizens' social rights. This relative financial weakness

44. 2012 data are not yet completely available.

supports the implementation of measures aimed at increasing public revenues.

4.3.1.2. Spanish tax burden trends in recent years

Spanish tax burden is not only below the European average, but it is also constantly decreasing in recent years (although there is a slight increase in 2010 and 2011), in contrast to the past decades as shows Figure 11.

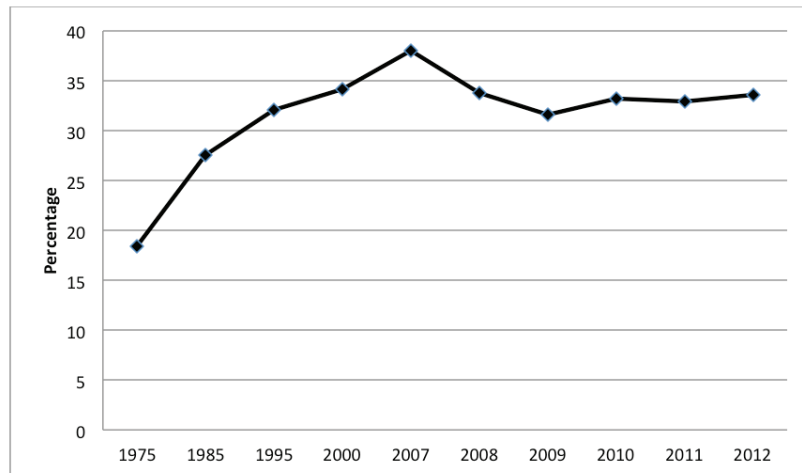


Figure 11. Spanish tax burden trends (% GDP)

Source: Eurostat (Total receipts from taxes and social contributions as percentage of GDP).

The steep decline occurred between 2007 and 2009, year in which Spanish burden tax sank below 1995 rates (31.6% in 2009 versus 32.1% in 1995), is particularly impressive. It should be kept in mind that this is not an absolute figure but a relative one, so this decline of the burden tax cannot be explained by economic crisis only. Indeed, data reveal that the gap between the country total wealth (in terms of GDP) and total tax revenues has soared. In fact, as Figure 12 shows, from 2007 to 2009 tax revenues decreased much more than GDP. In particular, in 2008 Spanish GDP grew 3.3 points, while tax revenues sank 13.6%. In contrast to previous years, in 2010 and 2012 the downward trend reversed due to the fiscal consolidation measures implemented by the Spanish Government, so tax revenues increased more than GDP. Taking into account the relative low Spanish tax burden, this is the correct path to achieve convergence in Europe.



Figure 12. Annual rate of change of tax revenues and GDP (2006-2012)

Source: Spanish Revenue Agency (AEAT) data. Annual GDP rate of change in current prices.

After noting that both Spanish tax burden and tax revenues sank during the period 2007-2009, it is interesting to focus on the evolution of the Spanish Corporate Income Tax (*Impuesto sobre Sociedades*), one of the most important taxes in Spain and, particularly relevant for our purposes, the only major tax collected exclusively by the State (most tax collections are shared by State and Regions).

Firstly, one should note that, as Figure 13 shows, the relative importance of Corporate Income Tax collection has fallen very considerably in recent years. Thus, in 2006 Corporate Income Tax collection reached to 3.8% of Spanish GDP, whereas in 2012 was scarcely 2.1%. This great change is striking itself, but it is even more remarkable in comparison with the Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) collection, representing in 2012 a larger GDP percentage (6.9%) than in 2006 (6.5%).

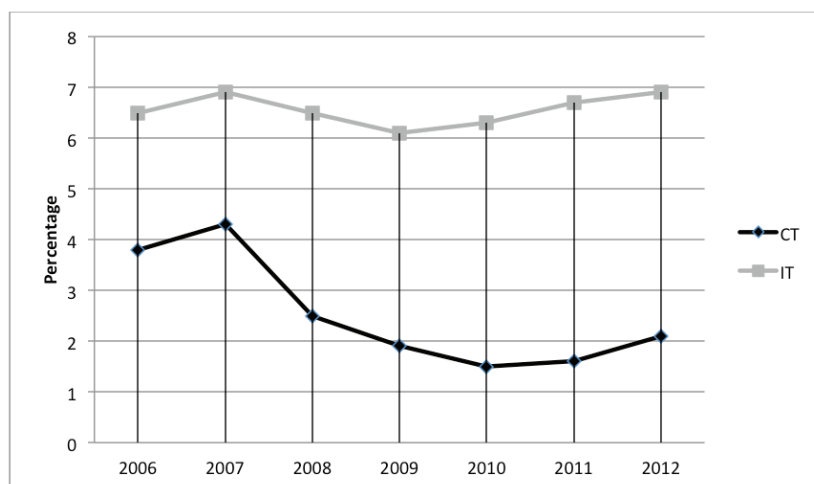


Figure 13. Corporate Tax Collection (CT) and Income Tax Collection (IT) as % GDP (2006-2012)

Source: Spanish Revenue Agency (AEAT) data.

The decreasing importance of this tax (both in absolute and relative figures) can be explained by the several legislative reforms implemented in the recent years. In particular, nominal tax rate has fallen from 35% to 30% (even 20% in some cases), tax deductibility of accounting depreciation was widened⁴⁵ and the annual limit for the application of certain tax credits was also extended. Therefore, during the period 2007-2011 average effective tax rate⁴⁶ dropped by nearly eight percentage points, from 16.4% in 2007 to 8.8% in 2011. However, the fall was particularly marked in large companies effective tax rates⁴⁷: from 9.9% in 2007 to 3.5% in 2011. Thus, in only four years the effective burden tax on large corporations decreased by approximately two thirds.

45. For the financial year 2009, this measure led to a lower tax collection estimated in EUR 400 million, according to Spanish Revenue Agency (*Informe anual de recaudación tributaria 2010*, p. 46). Surprisingly, Spanish Minister for Finance estimated during a press conference that tax collection would increase by EUR 840 million due to the derogation of such measure for the financial year 2012.

46. This effective tax rate is computed by dividing total tax expenses by the company's earnings before taxes (*Tipo efectivo sobre RC > 0 %*).

47. We refer to companies deemed to be consolidated groups for CIT purposes.

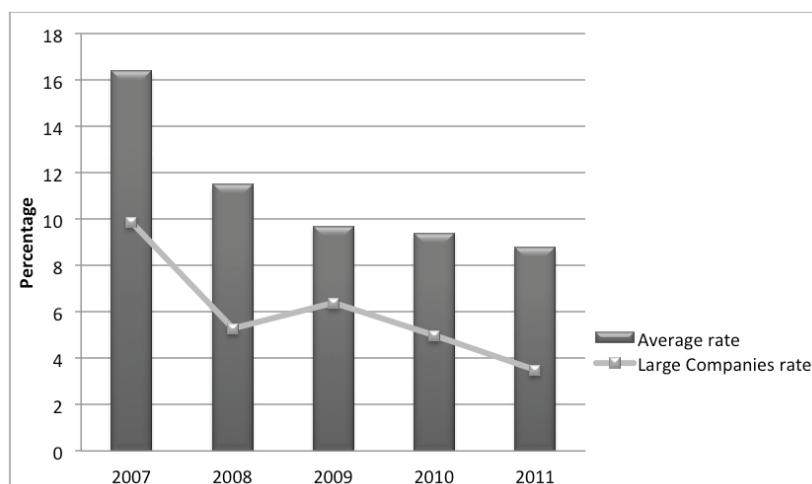


Figure 14. Average and Large Companies CT effective tax rate (%)

Source: AEAT (*Informe anual de recaudación tributaria 2012*, p. 47). Data of 2012 fiscal year are not showed since they are still provisional.

In contrast to what has occurred regarding Corporate Income Tax, effective Income Tax rates have not fallen so much, so a larger part of burden tax is imposed on labour income. That being so, it seems equitable to require some extra effort from companies, in particular from those with higher profit margins. We therefore suggest the revision of Corporate Income Tax in order to increase Spanish tax revenues.

4.3.1.3. The unresolved issue of fiscal fraud in Spain

As we have just stated, demanding an extra effort from large companies, with an important ability to pay and a declining tax burden, may be fair in order to collect the necessary financial resources to put our proposal into practice. However, we cannot demand such an extra effort without facing at the same time one of the most relevant problems of Spain, i.e., the current massive fiscal fraud.

Indeed, a large fiscal fraud results in a notably unfair distribution of tax burden, since, as Spanish Constitutional Court said, fiscal fraud means that “*some do not pay what they should and the shortfall is compensated by others who either have less chances to defraud or have a higher civic compass*”⁴⁸.

Despite the fact that it is very difficult to offer a completely accurate figure, several reports (even the Spanish Minister of Labour⁴⁹) have estimated that the

48. Decision of the Spanish Constitutional Court 110/1984, 26.11.1984.

49. According to press reports (*El País*, 14th January 2010), Spanish Minister of Labour (Celestino Corbacho) estimated that the informal economy in Spain represented between 16% and 20% of GDP. In addition, it is said that in 2009 *Deutsche Bank* estimated that such figure should raise to 23%. Anyway, the accuracy of the data provided by Minister of Labour was

informal economy in Spain represents between 20% and 25% of GDP, which approximately doubles EU average⁵⁰.

According to these calculations, the resulting loss of revenue could be evaluated at 5% of GDP, i.e., more than EUR 50,000 million per year⁵¹. Moreover, if the size of Spanish informal economy were similar to EU average, Spain would additionally collect EUR 25,000 million per year, approximately 2.5% of GDP.

Furthermore, one should bear in mind that reducing Spanish fiscal fraud is a completely feasible task. This is supported by the fact that, according to official data reported by the Ministry of Finance, in 2013 Spanish Revenue Agency collected EUR 10,950 million due to particular measures against tax fraud. One should also consider that, according to the opinion of Spanish Revenue Agency employees, these measures can be more ambitious to collect more than EUR 35,000 million⁵².

4.3.2. Explanation of the suggested raise of tax collection

In view of the foregoing, the additional tax collection that the implementation of our proposal requires (between EUR 6,000 and 8,000 million) should come from the fight against fiscal fraud and, subsidiarily, from the revision of the Corporate Income Tax, raising the burden tax of the most profitable companies. Ideally, the whole additional collection would come from the fight against informal economy. However, in order to make our proposal completely realistic, we assume that a temporary raise of Corporate Income Tax collection may be also necessary.

4.3.2.1. Fight against fiscal fraud

Thus, we suggest an extra collection amounting EUR 5,000 per year. This can be considered as a conservative estimate since, as was stated previously, if the size of Spanish informal economy were similar to EU average, Spain would additionally collect at least EUR 25,000 million per year. The steady increase from 2009 of the tax collection directly linked to measures against tax fraud proves the feasibility of our proposal. In consequence, obtaining an additional

quickly denied by the Minister of Economy (Elena Salgado).

50. JOSÉ MARÍA PELÁEZ MARTOS, *El fraude fiscal en España. Situación y propuestas para combatirlo*, in *Implicaciones de la economía sumergida en España*, Madrid, 2010, p. 199. In addition, as stated in a comprehensive research, informal economy in Spain represented in average 12.5% of GDP from 1980 to 1985, whereas this ratio grew to 20-23.7% from 2005 to 2008 (MARÍA ARRAZOLA/ JOSÉ DE HEVIA/ IGNACIO MAULEÓN/ RAÚL SÁNCHEZ, *La economía sumergida en España*, in *Dos Ensayos sobre la economía española*, Madrid, 2011, p. 66).

51. An empirical research estimated this loss in 5.6% of GDP. (MARÍA ARRAZOLA/ JOSÉ DE HEVIA/ IGNACIO MAULEÓN/ RAÚL SÁNCHEZ, “La economía sumergida en España”, in *Dos Ensayos sobre la economía española*, Madrid, 2011, p. 67). Additionally, there are other higher estimates close to EUR 70,000 million per year (JOSÉ MARÍA PELÁEZ MARTOS, *El fraude fiscal en España. Situación y propuestas para combatirlo*, in *Implicaciones de la economía sumergida en España*, Madrid, 2010, p. 200).

52. As stated by the Technicians Syndicate at the Ministry of Finance (*Gestha*) in October 2011, available at <http://www.gestha.es/?seccion=actualidad&num=208>

EUR 5,000 million collection is a realistic objective.

After the tax amnesty adopted by Spanish Government in 2012, some strict legal measures have been passed (e.g. severe sanctions in the event of failure to comply with the new informative tax return on goods and rights located abroad). Nevertheless, it is generally considered that there is clearly room to implement new measures against fiscal fraud⁵³.

4.3.2.2. Partial recovery of the CT effective tax rate

We also propose collecting additionally between EUR 2,000 and 3,000 million through the revision of the current system of tax deduction⁵⁴ and, if necessary, through the establishment of a slightly higher tax rate only applicable to large companies. One should bear in mind that this is a very conservative estimate too, as the resulting loss of revenue after the amendment of CT in 2006 amounted to EUR 6,000 million per year⁵⁵. It is again a totally feasible goal. In fact, according to official statistics, the CT amendment passed in 2012 resulted in additional tax revenues amounted to EUR 4,607 million.⁵⁶

Therefore, without prejudice to the desirable consolidation of the reforms established by Royal Decree Law 12/2012 (Real Decreto-ley 12/2012) –which are supposed to be only temporary in force–, a comprehensive reform of CT remains necessary in order to guarantee both fairness and a sufficient tax collection, in line with the proposals which are spreading all over the world⁵⁷.

5. Conclusions

First- The current economic crisis has challenged the Spanish social protection system, as the number of beneficiaries has doubled in only five years, from 1.5 million in 2008 to more than 3 million in 2013. However, since 2010 the number of beneficiaries is constantly decreasing, both in non-contributive and contributive levels, while no other social benefits have been established to mitigate income poverty.

Second- At a time of economic crisis, social policies proposals should reasonably consider the current fiscal consolidation goal. Nevertheless, individual rights are not zero cost, nor is maximizing wealth a neutral criterion to take collective

53. See FRANCISCO DE LA TORRE, *¿Hacienda somos todos? Impuestos y fraude en España*, Madrid, 2014.

54. According to the Ministry of Finance, the current system of tax deduction implies a loss of tax revenues of approximately EUR 1,618.41 million, (*Memoria de Beneficios Fiscales de los PGE 2014*, p. 179, available at http://www.sepg.pap.minhap.gob.es/Presup/PGE-2014Proyecto/MaestroTomos/PGE-ROM/doc/L_14_A_A2.PDF).

55. CCOO, *Evolución del sistema tributario en España*. Propuestas en materia de política fiscal, Madrid, 2011, p. 26.

56. 2012 Tax Collection Report (*Informe de recaudación tributaria 2012*:39).

57. See, for instance, US proposal available at <http://www.treasury.gov/resource-center/tax-policy/Documents/The-Presidents-Framework-for-Business-Tax-Reform-02-22-2012.pdf>.

decisions. Markets may allocate resources in an efficient way, but it does not imply that such allocation is fair. Public policies should then improve the functioning of the market.

Third- Indicators used in this work show that Spanish social policies combating poverty and exclusion were of limited effectiveness even before 2008. Both poverty and social exclusion have increased due to economic crisis but unemployment has grown much more, what has questioned the adequacy of the policies for the sustained integration of beneficiaries into the labour market, linked to regional minimum income programs for the past ten years.

Fourth- Although the Spanish guaranteed minimum income system is reasonably broad, there are also gaps, overlaps and an unequal regional provision of social benefits that speak in favor of harmonising the system by passing a Social Services State Law, which would establish a common model that guarantee the right to have a minimum income in all regions (*Comunidades Autónomas*).

Fifth- The current interaction of minimum incomes and the programmes for the sustained integration of beneficiaries into the labour market should be deeply revised. In all regions, except in Basque Country, every euro obtained in labour market is automatically deducted from the minimum income amount. This not only causes the so-called “poverty trap”, but also encourages informal economy, i.e., fiscal fraud. However, some studies suggest that general active inclusion strategies are probably reducing the effectiveness of these programmes, since employability levels of the beneficiaries are very different. Bearing this in mind, we reckon that minimum income programmes and social and labour market inclusion programmes should follow different criteria. Considering the scarce amount of our suggested minimum income, its disincentive effects on labour supply should be, in any event, limited. Anyway, the implementation of our proposal must be accompanied by incentive measures in the field of employment, like the French PPE or the American EITC.

Sixth- According to the number of beneficiaries estimated and the amount proposed, the implementation of the GMI we propose may cost, for the three hypotheses suggested, between EUR 6,600 and 8,400 million, i.e., between 0.65% and 0.82% of Spanish GDP.

Seventh- In 2011 Spain collected as taxes (and social contributions) the 33.6% of its GDP. Thus, Spain ranked 19th among EU countries. The differences are striking: the fiscal burden of Spain is 7 points inferior to the EU28 average (40.6%) and approximately one point inferior to OECD average (34.6%). Besides, the relative importance of Corporate Income Tax collection has fallen very considerably in recent years. Thus, in 2006 Corporate Income Tax collection reached to 3.8% of Spanish GDP, whereas in 2012 was scarcely 2.1%. Moreover, the fall was particularly marked in effective tax rates: from 16.4% in 2007 to 8.8% in 2011.

Eighth- Several reports have estimated that the informal economy in Spain represents between 20% and 25% of GDP, which approximately doubles EU

average. According to these calculations, the resulting loss of revenue could be evaluated at 5% of GDP, i.e., more than EUR 50,000 million per year. Moreover, if the size of Spanish informal economy were similar to EU average, Spain would additionally collect EUR 25,000 million per year, approximately 2.5% of GDP.

Ninth- The additional tax collection that the implementation of our proposal requires should come from the fight against fiscal fraud and, subsidiarily, from the revision of the Corporate Income Tax, raising the burden tax of the most profitable companies. Ideally, the whole additional collection would come from the fight against informal economy. However, in order to make our proposal completely realistic, we assume that a temporary raise of Corporate Income Tax collection may be also necessary.

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