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ANALYSIS AND PROSPECTS

INCOME AND
EXPENSES:
**AN EQUATION
THAT
CONDITIONS
OUR QUALITY
OF LIFE**

S U M M A R Y



FUNDACIÓN FOESSA
FOMENTO DE ESTUDIOS SOCIALES
Y DE SOCIOLOGÍA APLICADA

Income and expenses: an equation that conditions our quality of life



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FUNDACIÓN FOESSA

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Summary

Conclusions

Throughout this report, we have explored in detail the complex dynamics that determine living conditions in the Spanish society, proving in a conclusive manner that, in order to improve them, focusing exclusively on one of the two elements of the equation – income or expenses – is not enough.

Achieving a comprehensive improvement of the quality of life requires addressing both aspects in parallel and in a coordinated manner. This comprehensiveness should be conceptualised as such at the core of any intervention aiming to improve the living conditions of the most vulnerable families, whether those interventions are carried out by social services or third sector entities.

In this case, we have defined living conditions by means of three elements which have become chronic and determine the socio-economic situation of a large portion of the population in our society:

- Firstly, a **precarious labour market**, with high rates of structural unemployment and high levels of part-time or temporary work. These elements, together with low-quality wages, cause Spain to hold one of the highest figures in Europe of working poor (12% in 2022). This means 2.5 million people who, in spite of having paid employment, have such a small income that it does not enable them to lift themselves out of poverty.
- As a second element, there is a **structural poverty** that persists irrespective of the overall economic situation. From 2008 until today, the poverty rate has remained within a relatively narrow range, varying between 19% and 21%, regardless of any periods of serious economic crisis or expansion undergone by the country.

In addition to poverty – which as a concept is exclusively based on the limited access to monetary resources, the concept of severe material deprivation focuses on households' ability to access essential goods and supplies that are crucial for a decent life. Some of the items included in this indicator are affording meals with meat, chicken or fish every second day; affording to keep the home adequately warm; not being able to cope with unexpected expenses; not being able to avoid arrears in the payment of their main home; or not having a personal car, a telephone, or a washing machine. In 2022, 8.1% of Spanish households suffered from material deprivation, a figure that doubles the one recorded in 2008 (3.6%) and which is higher than the one reached at the peak of the crisis (7.1% in 2014).

- Lastly, **unaffordable housing**, which makes it impossible for the most vulnerable population to access this right and causes strains in many households, thus limiting their access to other rights.

To understand the reasons behind these situations, we have resorted to the aforementioned equation of income minus expenses, since it is an extremely useful element both in terms of its simplicity and its explanatory ability.

First Variable: Income

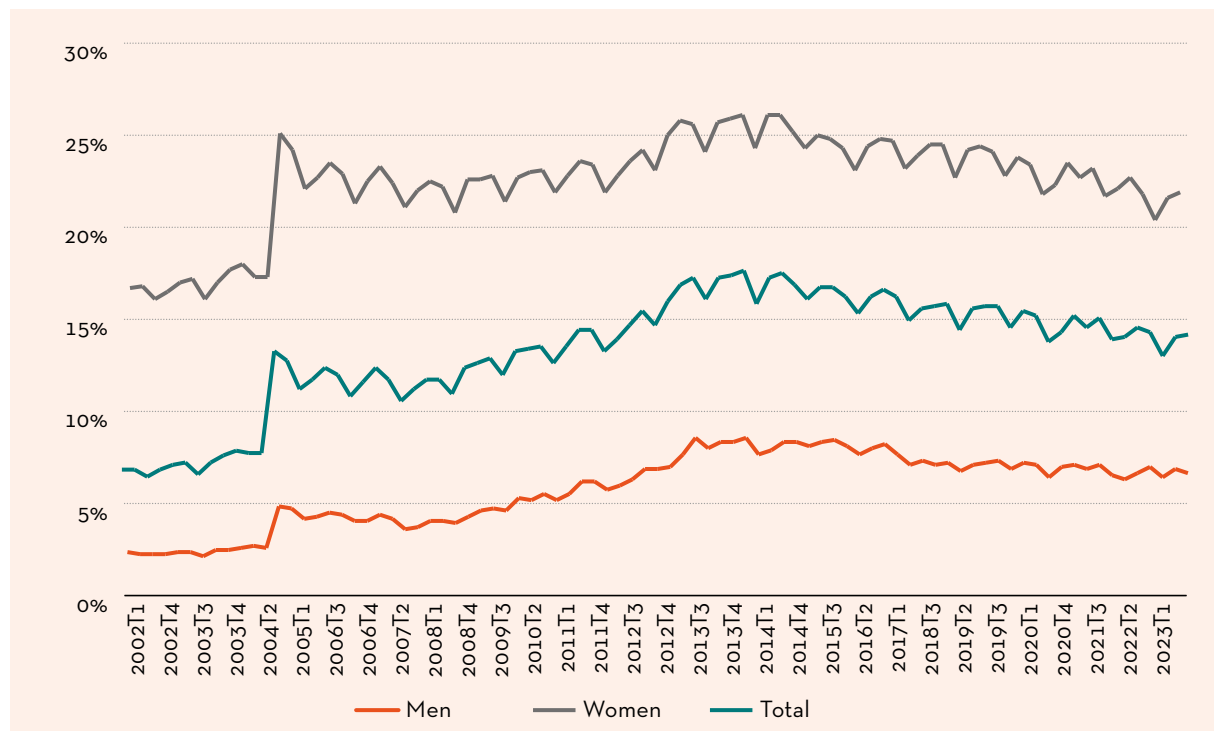
Starting at the beginning of the equation, in order to talk about income, we need to first talk about the labour market. From the global financial crisis that started in 2008 right up until the current situation, we would like to point out three key elements in relation to this labour market that have marked the trajectory of many people.

Firstly, Spain has faced **high rates of structural unemployment**. Even at times of relative economic stability, unemployment has persisted above 10%. During the Great Recession, the country suffered a particularly severe blow, reaching an unemployment peak of 26%, which left the economy and the lives of individuals deeply scarred. Despite certain advances, the fight against chronic unemployment remains an ongoing challenge.

Secondly, **the temporary nature** of the Spanish labour market has also represented a structural feature, with figures ranging between 20% and 30%. This reality affects the financial and emotional safety of families. Although it seems that the latest labour reform has managed to reduce this percentage to 17%, it is still too soon to conclude that these measures have definitely solved the problem.

Thirdly, **part-time employment**, particularly when unwanted, is a reality for more than one million people who wish to have more hours of work but cannot because of the lack of opportunities. This not only affects their income, but also generates frustration and poses challenges to their quality of life.

Proportion of employees with low wages broken down by sex



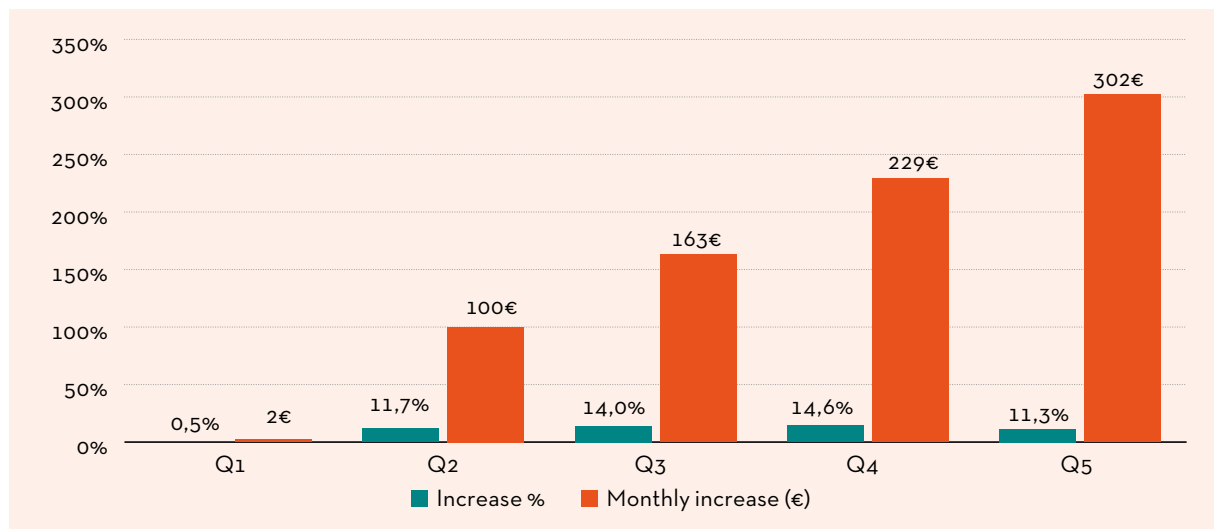
Source: Annual Wage Structure Survey, Quadrennial Wage Structure Survey, Spanish National Statistics Institute (INE, as per the Spanish acronym).

In spite of the persistence of these negative traits of our labour market, and going back to the equation that underpins the report, the truth is that **income has increased by 12% in Spain between 2008 and 2021**. Even though there is no doubt that this is positive for the population as a whole, if we analyse the evolution of income by income quintiles, we can observe substantial differences.

If we consider a household made up of two adults and two children under 12 belonging to the fifth quintile (highest income), this family would have seen a monthly income increase of €600. However, a similar household belonging to the first quintile, i.e. with lower income, would only see a monthly income increase of €4.

The **growing inequality** reflected by these figures makes us question the average improvement observed for households in our country. Those whose income increases most are those who have more, whereas those who have less, practically remain in the same situation. This speaks ill of the equity of our redistributive model.

Increase of the average income level by income quintiles (2008-2021)



Source: 2018 Survey on Integration and Social Needs of the FOESSA Foundation, 2021.

Finally, we also need to address **Spain's income guarantee system**. Particularly, the implementation of the minimum living income (IMV, as per the Spanish acronym), which was excellent news at the time, because it focused on those who are more vulnerable and have a lower income, for whom it is almost impossible to obtain an income through employment. However, as we have been observing since it was implemented, among its shortcomings, two aspects are worth noting: insufficient coverage, as it only covers 44% of the population in a situation of severe poverty; and its low protective capacity, since the average amount of the IMV per holder is €490 per month, which is half of the minimum guaranteed interprofessional wage (SMI, as per the Spanish acronym).

To sum up, in Spain there is a persistent poverty of about 20% and a deprivation rate which is even increasing. Therefore, the question is how an income increase is possible while situations of poverty and deprivation are not sensitive to this trend. One explanation has already been given: due to inequality, those who have less are not seeing their income improve. The second explanation, however, leads us to the other variable of the simple equation that we have analysed in this report: expenses.

Expenses: Living in a Bubble

Food

In this chapter on expenses, we would like to focus on food and housing, as we consider them to be absolutely essential and necessary items to which households allocate almost half of their resources. Once again, we observe significant differences if we analyse this based on the income level of households; wealthier households allocate 40% of their income to both items, whereas those with fewer resources now allocate more than €6 out of every €10 (63%) to ensure they have food and a roof over their heads, although, as we will see below, not always managing to ensure that it is decent and adequate.

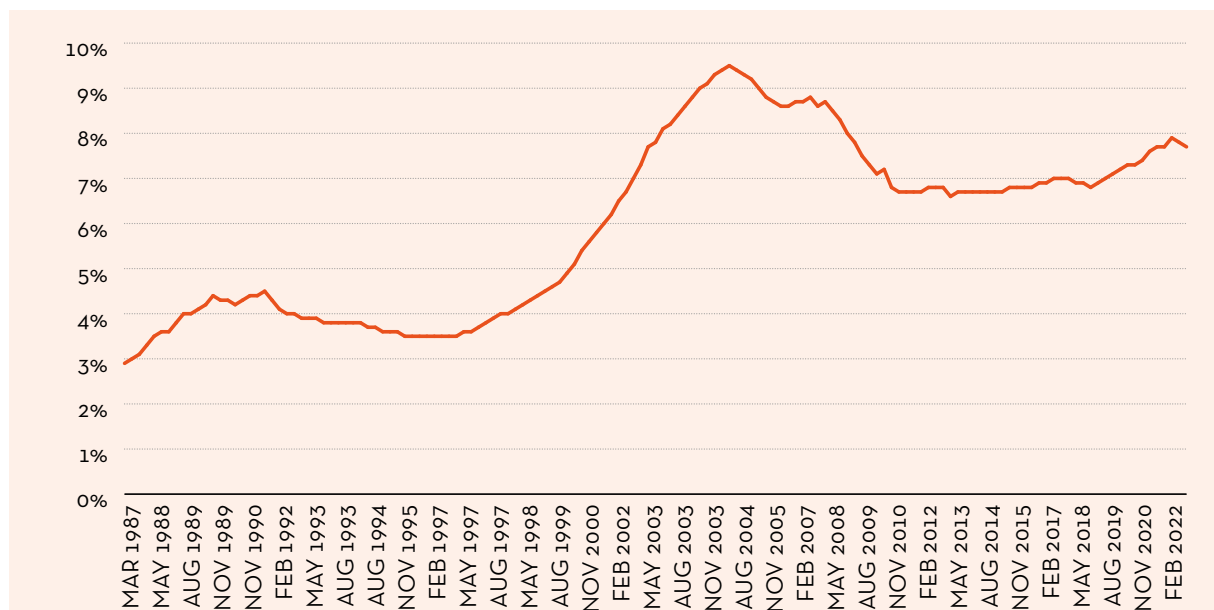
Housing

In addition to food, housing is another important expense that households cannot go without. While food is a flexible expense that allows for the adjustment of the quantity and quality of our purchases to the available resources, housing is precisely characterised by the opposite, since it constitutes a fixed and rigid cost that cannot be modulated.

Since the Great Recession was considered to be over in 2015 up until today, housing prices have increased by 51% (74% in the case of new housing). In other words, if a household could buy a new home in 2015 with €100,000, in 2023, the same home would cost €151,000.

This marked increase in housing prices causes households with less income to stray even further from the possibility of purchase, with renting becoming practically the only option for them to ensure housing. However, the rental market does not bear good news either for the finances of these households. According to data from Idealista, one of the most important real estate websites, the price of rent has increased by 44% in Spain.

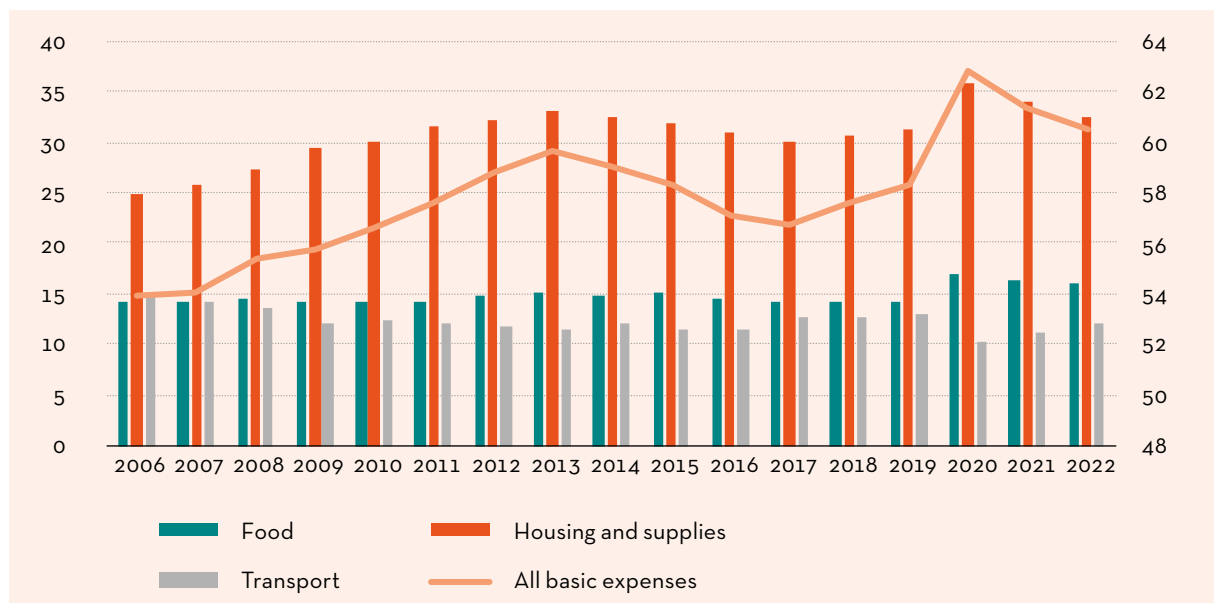
Housing purchase effort in yearly gross income (1987-2023)



Source: Own elaboration based on data from the 2022 Living Conditions Survey.

The trend in recent years shows a constant price increase, so it is very interesting to observe how indicators that measure the effort that households have to make to obtain housing have evolved in recent years. According to the data of the Bank of Spain, in 1987, one household required 2.9 years of income to buy a house, whereas nowadays households need to invest 7.7 years of income to that end. Therefore, the effort that a household has to make nowadays to buy a house is more than double the effort required in 1987. Moreover, another consideration should be added to this: while in 1987 only 46% of households had more than one salary or source of income, nowadays 66% of households have two or more sources of income, an increase that is undoubtedly due to the incorporation of women into the labour market. In other words, not only more years are required, but, in most cases, income comprises more sources.

Evolution of expenses per item and essential expenditure (2006-2022)



Source: Own elaboration based on data from the Household Budget Survey from 2006 to 2022 (INE).

All of these realities illustrate the difficulties faced by a large number of households to maintain a financial balance, since they allocate most of their monthly income to the payment of housing, leaving very little room for other essential needs such as food, medical care, or education.

These realities of financial stress and excessive efforts to access housing can be considered warnings that remind us of the potential risks of an unbalanced real estate market. As we have learned from the Great Recession of 2008, these precarious situations can be the prelude to even more serious realities, such as evictions and mortgage foreclosures.

Nevertheless, these financial sacrifices and efforts made by households are not always gratified with the achievement of decent and adequate housing and living conditions, causing households to resort to certain strategies consisting in giving up some of their needs. For example, as energy prices continue to increase, many households are faced with the difficult decision of choosing between heating their homes and satisfying other essential needs. While in 2017 8% of households **could not afford to keep their home at an adequate temperature**, in 2022 this is the reality for 17% of households, i.e. more than 3.2 million households are cold during winter and/or hot during summer.

We have a housing problem; the data indicates so, but now also the population says and perceives so. According to the data of the barometer of the Spanish Sociological Research Centre (CIS, as per the

Spanish acronym), in July 2023, 10% of the population identifies housing as one of their main concerns compared to 2% in the previous year. This increase in the **perception of housing as a problem** proves the persistence of this phenomenon, as well as its relevance.

Conclusions: Challenges to Picture a Better Future

To condense the above as much as possible, even though there is a slight and uneven improvement in relation to income, living conditions have not improved, with the excessive effort to afford housing being identified as one of the main reasons behind this situation. Therefore, in spite of a moderate but steady income growth, expenses, particularly housing, have risen notably, which has led to significant challenges in terms of financial affordability and sustainability for many households.

Although this is a valid statement about the population as a whole, it is especially glaring in the case of households with lower income. In every crisis that our society has gone through, a persistent reality becomes evident: those who are more vulnerable suffer more disproportionately from the most severe consequences. Whether during economic recessions, health crises, or socio-economic challenges, the most fragile groups of our population are faced with a greater burden that ends up causing their living conditions to be more deteriorated than those of the rest of the population.

Here is where the welfare state should adopt a key role, since its influence both on expenses and income could be crucial. First of all, in the sphere of income, it is essential to establish a legislative framework on labour having as its main objective the reduction of job insecurity. This entails the promotion of quality employment, with fair working conditions, and decent wages allows each person and their families to enjoy a decent, full, and satisfactory life. Furthermore, a robust and effective social safety net should be ensured, one that supports those households and groups that cannot obtain sufficient income through the labour market, either due to adverse economic circumstances or personal limitations. Secondly, in the sphere of expenses, it is essential to design and implement public policies that enable the rights contained in the Spanish Constitution. This includes, importantly, the access to adequate housing, which currently represents one of the main challenges in terms of expenses for many households. Additionally, rights such as education, healthcare, and others should be affordable and of high quality, ensuring that no individual is excluded due to economic limitations.

Therefore, it is essential to remember that the welfare state has a crucial role in society since it guarantees that the essential rights of individuals are fulfilled. Even though in this report we have delved into the analysis of households' living conditions and the different aspects of income and expenses, we cannot forget that the welfare state is the cornerstone that should ensure the protection and well-being of society as a whole. Its function is to ensure that individuals have access to good-quality public services such as education, healthcare, housing, and social protection, regardless of their economic situation. Thus, addressing and strengthening the welfare state remains a priority in order to guarantee a just and equitable society.

This leads us to the discussion of taxation. Although we know that it is an extremely complex topic for which we lack sufficient space in this report, we do want to, at least, bring to the table an opinion that may feed future work and reflections. Tax collection is the central element that allows us, as a society, to obtain certain rights (education and healthcare, for instance, but also justice, security, mobility, etc.). Accordingly, taxation can be understood from the double perspective addressed by this report: an expense, in the sense of an amount that does not enter our pockets anymore; but also income, as the set of services and rights with which it provides us through the welfare state. This reflection strikes us

as something critical and, even though finding the balance between income and expenses within each household is important, it is as important to seek equity in the distribution of the tax burden as the formula to balance individual and collective expenses to guarantee the fulfilment of the rights of the entire population.

We would like to highlight here the need to implement comprehensive strategies addressing both income generation and the effective management of the expenses incurred in by households and which, ultimately, result in an improvement of the living conditions of the population as a whole and of the most vulnerable groups in particular. To this end, we would like to point out a series of challenges that we as a society are faced with and that should be taken into account if we wish to relieve many households from their suffering:

- **Planning and coordinating employment policies focused on groups with more difficulties to access the labour market** and which take into consideration the personal and family situation of the worker, facilitating their work-life balance; access to training provided not exclusively by online means to prevent the digital divide; and training programmes combined with socio-educational actions for individuals who are part of priority groups.
- **Addressing job insecurity** from a comprehensive perspective. To do so, we should chart a path that continues to reduce temporary employment contracts, providing workers with the security and instability that they deserve. Furthermore, it is essential to advocate for the reduction of part-time employment, allowing more individuals to access full-time employment with all the benefits that this entails. Lastly, in this fight against insecurity, income should also improve, ensuring fair salaries that adequately reflect workers' contributions to society. Improving the above elements would not only benefit the working class, but also strengthen the economic and social foundation, promoting a more equitable and prosperous society.
- **Carrying out the necessary legislative changes** so that domestic workers, who are mainly women, achieve fully equivalent labour and social security rights.
- Implementing a **minimum income guarantee system with sufficient coverage**, reaching the entire population in a situation of severe poverty with no exceptions. With the aim of ensuring that no one is left behind, it is necessary that the income guarantee system tends groups that have been excluded from the same to date, such as people in an irregular administrative situation. However, administrative adjustments are also required, such as regulatory simplification or the possibility of automatic allocation of benefits to those who meet the requirements without them needing to apply for the same.
- Ensuring that the aforementioned **minimum income guarantee system offers sufficient amounts** to ensure that those who receive the benefits have the opportunity to live with a minimum level of well-being. To this end, the commitment of both the State and the autonomous regions is required, supplementing the benefits provided at each level of the Public Administration. These amounts should, ultimately, adjust to actual prices and the cost of living, as well as to the household structure.
- Ensuring **access to decent and adequate housing** is undoubtedly a current and future challenge for our society. To address it with the courage and resolution that it requires, full involvement in the design and enforcement of public policies is essential. Having decent housing, together with access to water, energy, and internet connection, is the right that paves the way for other rights and enables or not access to said rights. Without a doubt, it is the cornerstone of the well-being of individuals, which turns it into a true catalyst of well-being and access to rights.

- Some of the following potential **specific and effective intervention actions in the sphere of housing**. On the one hand, expanding the public housing offer for rent, which would provide families with an accessible and safe option to obtain good-quality housing at affordable prices. On the other hand, increasing the offer of emergency housing, which would ensure that households in situations of extreme poverty have a shelter and, ultimately, that there is no one without a roof over their head due to financial adversity.