

## Challenges of the Welfare State: The Spanish Case

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**Abstract:** Recent events-especially the economic crisis- have revealed the need to maintain the Welfare State, especially in developed countries (the most attacked by the crisis) which are also hit the hardest by the recession and job losses. On the one hand, the increase in demand for social services joins the decreased capacity to collect taxes as a result of the fall in economic activity and declining social contributions because of the rising unemployment. On the other, economic difficulties to prop up the welfare of citizens have caused the most unrest and political debate about whether social spending is precisely that what must suffer cuts to balance the public accounts. The answer of each country to this question will depend on its ability to meet new challenges without compromising the future of younger generations. The objective of this paper is to discuss the Spanish model of welfare, taking into special consideration the demographic effects of an aging population and the reversal of migration flows in order to discern which direction and what concrete measures can answer the previous question. This has been a response that in the Spanish case, has highlighted the need to review the excessive benevolence in granting a benefits system and the existing pockets of fraud in the tax system.

**Key words:** economic crisis; social benefits; Welfare State

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### 1. Introduction

It is obvious that the recent events undergone by most developed countries have revived the controversy over the level of Welfare State (WS) viability.

Regardless of the doctrinal discussion aroused by the increasing presence of the public sector in the economy, new arguments have been swayed in regard to the size of such in the so called market economies, among which the Spanish economy is found, and about what should be the priority actions and the amount of benefits offered by WS, both in way of services and pecuniary value, to its beneficiaries.

It is a well-known fact that the functioning designed by the constituent legislator in the text that was passed in 1978, when speaking about the Social State<sup>1</sup> and “economy market”, has been the legal frame of the highest rank under which the progressive enlargement of its benefits has been implemented, both in subjective terms (the population that benefits from such) and objective terms (the number of situations that are covered).

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<sup>1</sup> The Magna Norm, in its 1st article states the following: “Spain is constituted as a Social State and democratic by Law, upholding as core values of its legal system freedom, justice, equality and political plurality” and in the 38th article (within the section that refers to the rights and obligations of citizens) it says: “Free enterprise is recognized within the frame of market economy. Public authorities shall both guarantee and protect such exercise and defend productivity, in accordance to the requirements of the general economy and, in its case, the planning thereof.”

Traditionally, the intervention of the public sector in the economy aimed towards achieving the citizenship's wellbeing has been defined in three main fronts:

- Designing of fiscal and monetary measures (for instance, by means of applying very progressive taxation or granting loans at a low interest rate).
- Investing in the development of public services which are necessary in order to assure an adequate level of life for citizens.
- Adopting normative dispositions to monitor the social and employment conditions of citizens, not only those that have to do with job performance, but also those whose end is protecting the weaker (underage, dependent, outcast, unemployed).

To that end, the WS has basically focused on achieving three objectives:

- Financial security.
- Reducing inequality.
- Fighting poverty.

With those purposes in mind, the manifestations of its protective actions have been increasing in an ever-growing catalogue of benefits.

Thus, seeking to guarantee worthy levels of income—not only for workers<sup>2</sup>—since keeping a worthy level of life is considered to be a right, not charity, the system foresees benefits of economic nature in the cases of retirement, disability, unemployment, etc., but also the free supply of certain goods and services. It is known that in Spain access to education is universal and free (besides mandatory) between six and sixteen years of age and that health assistance is also universal and free through the National Service of Health<sup>3</sup>.

In this way, the justification in Spain rests in on the fact that, as a consequence of certain events, whether they be expected (old age) or unexpected (unemployment, disability), there is an uncertainty generated over the income flow of individuals receiving public aid and the granting of this kind of benefits try to reduce.

In order to have this inequality reduced<sup>4</sup>, measures can be applied that affect the generation of revenue, for instance, by means of implementing progressive taxes, but also through an ample catalogue of services and benefits that would allow for the equality of opportunities, since the income that the market itself yields (functional sharing of income) directly relates with factor productivity and this is in turn—as it is known—closely dependent on human capital. For that reason, besides the income perspective, the expenditure side (which represents an important part of the WS models) has a meaningful effect on the achievement of equality. Such is the case of education or health.

Finally, with aims to achieving the objective of fighting poverty and in order to favor the integration of the outcast, the WS foresees policies and grants benefits in the case of unemployment, for instance, but it also supplies a wide catalogue of social nature services to those who have less free of charge.

Certainly, all the development and expansion experienced in Spain has not been indifferent to the concourse

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<sup>2</sup> Let us remember that the origins of the Spanish Welfare System trace back to Bismarck's professional model.

<sup>3</sup> Access to medicines is articulated by means of a copayment formula (40% in general), although some medicines are foreseen to be provided free of charge to certain collectives (pensioner or chronically ill). Nevertheless, as will be stated later on, these formulas have been revised, not without controversy, in order to demand a higher co-responsibility in the use of medicine on the part of the patient, and some Autonomous Communities, since health competencies were totally passed on to them, have established the payment of 1€ per prescription (such is the case of Madrid and Catalonia) which has presently been appealed against before the Constitutional Court in some cases (Catalonia) or is expected to be shortly (Madrid).

<sup>4</sup> Needless to insist that equality favors social cohesion and this is also one of the modern objectives of WS.

of several factors which are economic, political, social and demographic in nature, and which determine the new horizon that it will have to face in a short frame of time and which will affect its financial viability in the long term, that is, its sustainability.

A brief overview over the financial model of the Spanish Welfare System, sticking to the Social Security, education and health, reveals the close dependence existing between its level of resources and the development of the economy.

It is true that, in the recessive stages of the economic cycle, to the inherent challenges of obtaining public resources (to fund health or education) we have to add, in the Spanish case, the difficulties in collecting contributions (of employees and employers) and the imbalance that results from facing a wider catalogue of situations of need<sup>5</sup> affecting a growing number of potential beneficiaries (real ones), and in turn increasing the cost of opportunity of continuing the collection of resources for WS purposes.

But in the Spanish model there have also concurred other factors of political nature, like the booming demand for social benefits that took place after the establishment of democracy in our country, and especially considering the gap that existed when compared to those countries of our closer economic surroundings.

This comparative backwardness, therefore, led to an unparalleled growing social expenditure that now needs to be, not only maintained but, increased since the coverage threshold in social matters keeps an upward trend and any holdup or regression is interpreted as social involution process, which is difficult to defend from a political stand point.

But in the Spanish case, the to-a-certain extent “logical” evolution of the Welfare System linked to the democratization processes of society (in which there has been a transfer between political rights to social rights) has been joined by a firm process of administrative decentralization, the so-called “Autonomies State”, which has not been exempt from malfunctions and criticism from the WS development point of view, and which has occasionally led to wasting public resources and lack of control over the expense on wellbeing, getting even to create situations of discrimination among citizens, depending on their location in the Spanish territory (Autonomous Community in which they live).

Other factors of social nature, like high levels of fraud<sup>6</sup> in the perception of benefits (pensions, unemployment, dependency, health or pharmaceutical expense) or the failure to disclose income in contributing to the system (irregular recruitment), while at the same time the political agenda pulls out benefits that were not formerly part of the WS configuration (as is the case of the dependency), have contributed to the questioning of the financial viability of the system.

Finally, and as if all the aforementioned issues were not enough, a series of variables of demographic nature has irrupted affecting the WS sustainability and, as it happens in Spain, have become even more obvious as a result of the basic data linked to the economic development: on the one hand, the birth rates decrease and, on the other, the life expectancy increases.

It is true that, during the later years of economic boom, the increase of dependency rates (ratio between pensioners and contributors) which is consequence of the “ageing of ageing”<sup>7</sup> has been compensated by

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<sup>5</sup> Almost complete lack of resources or a significant reduction of them.

<sup>6</sup> For example, a report by the Court of Auditors published on January, 2012, has shown the dependency income of 30,000 deceased persons has been paid, amount that represents over 140 million Euros ever since the Dependency Law was passed (December 14, 2006).

<sup>7</sup> A recent study of the Population Fund of the United Nations (PFUN) shows that the population in Spain that is 60 years old or more represents 22.7% of the total amount and in year 2050 this amount will increase to 38.3% thus placing us in the eighth place in the world.

immigration<sup>8</sup>, but it is also true that direction of migrations has changed<sup>9</sup> as a consequence of the economic crisis (once again, Spain has become a country of exiting net population). This change has come together with a growing concern for brain-drain and has forced our Welfare System, during all this time, to assume from the beginning the increase of certain components of social expenditure linked to the immigration phenomenon<sup>10</sup> and, more recently, to the loss of qualified human capital. It has also been necessary to face other challenges which come as a result of the progressive ageing of the population (higher amount of retirement pensions because of increasing number of pensioners that result from early retirement and reconversion processes, as well as the higher life expectancy).

In order to have a better knowledge of the challenges that the future of the WS in Spain faces, it is necessary to go over the reasons that have explained its main components.

The expenses in health have grown considerably in Spain as a result of considering health a universal benefit in nature (General Law of Health, April 25, 1986), which has entailed a significant increase in the number of beneficiaries and, in some cases, has led to abusing the benefits granted by the National Health Services (sanitary tourism, fraud in medical prescriptions...). That has come together with other phenomena that have important effects over the increasing health expenditure. I am referring to the impact that an ageing population has over such (Spain is at the head in life expectancy statistics<sup>11</sup>); the innovation and technological advance processes which affect, not only the provision of services, but also diagnosis or treatments; medication in processes that are not strictly medical; the decreasing disease tolerance; the loss of co-responsibility on the part of the patient<sup>12</sup> for his or her use of services; the increase in the number of hospital beds; the abuses of diagnostic tests and the growing expenses in staff.

In the case of the development of expenses in pensions, the explaining variables can be classified into three categories: once again the demographic factor, the normative or political factor (acknowledgement of non-contributive benefits, which used to be of assistance), and the financial crisis context.

In the case of social expense in education, such has been universalized (1982-85<sup>13</sup>), there has also been—just as it happened with the health system—a total decentralization of competencies and the period of mandatory schooling has been increased from age 14 to age 16 (1990), although approximately 1/3 of all students are studying in subsidized schools.

With this panorama, what are the main challenges that the WS in Spain is facing? In general, guaranteeing the sustainability of the system in the long term, becoming necessary to intensify actions against fraud, improving the financing system so that, in the case of Social Security, the contribution rates and its basis would match real wages, encouraging the use of generic medicines, establishing taxes on certain consumptions or the practice of some unhealthy habits or extreme sports, rationalizing expenses—whether centralizing supplies or, at least, the information about the product cost offered by different suppliers and, even, the same supplier in different territories

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<sup>8</sup> Del Brío Carretero J. F. y González Rabanal M<sup>a</sup>. C. (2004): “Una proyección del gasto social en pensiones en España. Análisis de su viabilidad”, *Revista Internacional de Seguridad Social*, Vol. 57, No. 3, July-September 2004, pp. 105-124.

<sup>9</sup> Until recently, Spain has been a net receiver of immigrants in which the foreign population has represented 12% of the sum total of citizens.

<sup>10</sup> Gimeno Ullastres J. y González Rabanal M<sup>a</sup>. C. (2003): La evolución reciente del gasto social”, *Informe 2003, Políticas Sociales y Estado de Bienestar en España*, Madrid: Fundación Hogar del Empleado, pp. 155-165.

<sup>11</sup> In 2012, life expectancy was 81.9 years. This number has increased since 2008 in almost half a year and increases every passing day in 4.8 hours.

<sup>12</sup> The concept of universality gets confused with gratuity which leads to an abusive use of the services offered.

<sup>13</sup> On July 3, 1985, an Organic Law is passed that regulated the Right to Education.

or for different centers—carefully analyzing the effects that result from the migratory phenomenon and, under any circumstance, prevent fraudulent recruitment, expand the working life of employees (linked to exiting the crisis and improving employment), extending the calculation period for the retirement pension to all the contribution history, postponing the retirement age according to the higher life expectancy of the population, rationalizing the financing system of benefits and monitoring the fraud in their perceptions, foreseeing the creation of funds or remnants in order to reduce the level of dependency of resources to the economic circumstances of the moment, improving the schooling performance rate, increasing the average expense on students and reducing the student/teacher ratio, working on adjusting the educational system to the formation needs of the labor market, improving the pedagogic capacities of teachers, stressing individualized treatments and the adoption of programs adapted to the level of intellectual capacity of the student, favoring talent, regardless of the economic stratum of origin...

## 2. Conclusion

The especial circumstances under which the expansion of the WS took place in Spain have been conducive to a set of characteristics that have affected its future development as well as the possible challenges faced in the actual context of economic crisis.

Its fast and belated expansion, the obsession to rise to the level of other current models in the countries of our closer economic surroundings, the especial incidence of political variables (democratization, administrative decentralization), as well as social (considerable increase of the coverage provided, fraud), economic (the context of the crisis, maybe worse and longer lasting than what other countries have considered) and demographic (strong birth rate decline and firm increase of life expectancy), have made our expenditure in wellbeing to be, in terms of GDP, one of the fastest growing accounting entries that our country has experienced since democracy was established.

Nevertheless, the present economic crisis context in which the future of the most highly developed economies lies increases the cost of opportunity of obtaining resources towards that end.

Because of all those reasons, it is expedient to face the challenge of ageing of the ageing, of the excessive cost of certain entries that are a consequence of fraud, or of the low level of responsibility of those involved..., without entailing a regression in the level of coverage that was achieved. It is opportune to favor rationality in the use of resources, which are evermore necessary while scarcer, seeking out efficiency and a return in those services provided and expenditures realized, trying to make them more suitable, not only to the needs of individuals, but to the needs of society as a whole. That is the only way the financial sustainability of the system will be ensured as well as the wellbeing of present generations, without compromising the future ones so that, what has been achieved so far may be consolidated and even improved in the future, regardless of what may happen in the economy and its adverse cycles.

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