

The Recovery Plan and inequality: moving towards a more inclusive economy

Social cohesion, together with the ecological and digital pillars, constitute the key spheres of action of the Recovery, Transformation and Resilience Plan (RTRP). This is a plan which outlines the roadmap for a robust, inclusive and resilient economic recovery, not only to tackle the crisis triggered by the COVID-19 pandemic but also to respond to the challenges of the next decade.

The impact of the crisis on inequality

Besides being a health and economic crisis, the COVID-19 pandemic has also been a social crisis, with a highly asymmetric impact among the different segments of society. It has deepened the differences in labour income which had persisted since the 2008 financial crisis, with a greater impact on young workers, on the sectors hardest hit by the restrictions (mostly services), and on those with fewer skills and on temporary contracts. These are groups with below-average wages, so the wage gap has widened and the percentage of households living close to the poverty line and at risk of exclusion has increased. Furthermore, the destruction of jobs has been concentrated among the most disadvantaged groups, exacerbating income differences.

Spain: change in the Gini index since the start of the pandemic

Change in index compared to February 2020 (pps)



Notes: The Gini index is the benchmark index for analysing the level of wage inequality. It can take values on a scale between 0 and 100. Higher numbers reflect higher levels of inequality and vice versa. The change in the Gini index compared to February 2020 is corrected to account for the seasonal variations experienced during the same period two years earlier.

Source: CaixaBank Research, based on internal data.

While official statistics on inequality in Spain during this pandemic are not yet available, the CaixaBank Research Inequality Tracker¹ allows us to observe how inequality has changed over the past few months. The fluctuations in the Gini index show the significant impact of COVID-19 on income inequality before public sector transfers, with a historical increase of 11 points between February and April 2020 and a partial correction in the months that followed. However, in April 2021 the index was still 4 points above pre-pandemic levels, although automatic stabilisers, public transfers and the mechanisms put in place to mitigate the impact of the crisis have greatly damped the rise in inequality and reduced this increase in the Gini index to 1.4 points.

Moving towards a more inclusive form of growth

In this context, the Recovery and Resilience Facility (RRF), which is at the heart of the Next Generation EU Recovery Fund, includes inclusive growth and greater social and territorial cohesion among its objectives.

This objective of inclusive growth, understood as greater well-being for the whole of society, is not only included for equity reasons, but also efficiency reasons. Inequality can be harmful not only in terms of social justice, but also economic justice: it makes growth more fragile, it results in a suboptimal use of human capital and talent, it reduces cohesion and it increases social conflict.

In this vein, Spain's Recovery Plan includes among its objectives the reduction of inequality and greater social inclusion and cohesion, addressing it in two ways: protecting the most vulnerable and providing opportunities for development. Measures in the first category include protective or «mitigation» measures, such as the modernisation and bolstering of social services and inclusion policies, which mitigate the inequality that already exists, as well as affecting secondary incomes.² The second category, with a longer-term vision, would focus on preventive actions such as tackling inequality *ex-ante* where it is generated, within primary incomes. To tackle it, it will be essential to address the gaps that cause it in the first place, such as the digital, territorial, educational and generational divides... all closely interrelated.

Inequalities begin to develop from the moment life begins, and they feed into each other and thus accumulate over the years. Inequalities in education are transferred to the labour market and wages, and ultimately to pensions. In this respect, the increase in child poverty in Spain is very worrying, as it is a sign of greater inequality in future generations to come. Therefore, reducing the gaps that prevent a higher degree of equal opportunity for development and thus avoiding the pitfalls of poverty is essential to tackling inequality at its source.

1. www.inequality-tracker.caixabankresearch.com.

2. Primary income includes income from work, investment income and other primary income. Secondary income includes current transfers, current taxes, social security contributions and benefits, etc.

Closing gaps

The RTRP includes spheres of action which aim to tackle a variety of issues, affecting inequality, such as actions in the field of education, digitalisation, territorial cohesion and the labour market, among others.

Measures in the field of **education** are the cornerstone for bolstering equal opportunities from the ground up. They include investments worth 1,646 million euros, with the creation of 65,000 places in child education – thereby addressing a key stage for achieving equal opportunities – and a new skills-based curriculum. Improving educational outcomes is the best tool for achieving long-term lasting progress in terms of inequality and represents an essential lever for achieving improvements in productivity and the transformation of the Spanish economy.

Linked to the educational measures, **digitalisation** also plays an important role. It is estimated that 15 million Spaniards lack basic digital skills. The RTRP allocates 3,590 million to improving digital skills and to the digitalisation of education, including investments in digital infrastructure, connectivity and support for the digitalisation of economic sectors such as tourism, industry and agrifood, and the digitalisation of SMEs. The aim of these actions is to ensure digital inclusion through training in digital skills, to improve employability and working conditions and, ultimately, to obtain productivity gains.

Digitalisation is both a challenge and an opportunity for reducing inequality. On the one hand, the existence of a digital divide in access to and knowledge of digital technology creates a vicious circle in which inequality feeds back on itself. However, at the same time digital technologies open a window of opportunity for improving access to education and teaching formats, creating new jobs, improving working conditions and obtaining productivity gains.

Also, measures aimed at bolstering **territorial cohesion** and reducing differences between the development levels of different regions will address another focus of inequality, namely the rural-urban divide, which has been widened by demographic dynamics such as ageing and depopulation. In all, the Plan sets out 130 measures aimed at rural areas and small towns, ranging from economic diversification and boosting innovation to full digital connectivity and support for entrepreneurship.

Another key focus for combating inequality is the correction of the imbalances which persist in the **labour market** (high rate of structural unemployment, temporary employment and job insecurity), which amplify some of the problems mentioned above. While labour reform is subject to agreement between the various social stakeholders, it is essential to improve the effectiveness of public employment services and active employment policies, and to reconcile the need for flexibility with security in the labour market.

Impact of the RTRP on inequality

According to estimates contained in the RTRP itself, it is expected to mitigate income inequality by reducing the Gini index to 31.3 points 10 years from now, compared to 33.2 points prior to the pandemic³ (30.8 on average in the EU). Such a reduction would bridge two-thirds of the gap with the EU.

The Plan is also expected to have a positive effect on regional convergence through ensuring that public investment has a greater impact on GDP growth in the regions that lie in the lowest income per capita percentiles. Thus, a region with a GDP per capita that lies 1% below the national average will generate a 1.1% higher average annual growth,⁴ which is to be achieved by reducing differences in employment and productivity.

Re-activating the social ladder

One of the differential features of this Plan is its broad scope and comprehensive vision, with measures that reinforce one another and will contribute to address the dynamics that fuel inequality.

The objectives of digitalisation, resilience and inclusive growth are complementary. Achieving a more resilient economy that reduces the intensity of recessions – precisely the times when inequality increases – also weakens the cyclical component of inequality, thereby ensuring that the achievements of expansionary phases are not undone in times of crisis. Moreover, improving the quality of human capital not only reduces inequality, but also promotes greater economic growth and job growth through higher productivity.

If recovering from the severe shock caused by the pandemic is the most pressing issue, then what is important is that the implementation of the Plan lays the foundations for the transformation of the Spanish economy. The weaknesses that afflict it are well known, but taking measures to treat it must not be delayed and we must activate the social ladder through education, digitalisation and employment.

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3. Data from Eurostat for 2018.

4. In the RTRP it is estimated that, in the absence of the NGEU, growth in these regions would be 1.1% below the average.