

## **Barcelona's minimum living wage initiative.**

### **Inequality in Barcelona**

Given its level of prosperity, Spain's position as the third most unequal country in the EU-28 is far worse than would be expected. A country's overall inequality is determined first by the primary or *predistributive* level of inequality created by the market, and second, by the extent to which this is mitigated or *redistributed* by tax policy and social transfers. The capacity for redistribution in Spain has always been low and does not appear to be showing any signs of improvement, with taxation and benefits reducing inequality by just 3.16 per cent in 2014 and a mere 2.54 per cent in 2015 (Fedea, 2018: 4). The main problem with the Spanish redistributive model, however, is the dual nature of its labour market and social welfare system, both of which disadvantage outsiders and favour insiders (Buendía and Molero Simarro, 2018; Fernández-Albertos and Manzano, 2012).<sup>1</sup>

The structural weaknesses in the Spanish welfare system are also due to a lack of coordination and subsidiarity between the three levels of government. Central government retains contributory benefits (mostly unemployment benefits and pensions), leaving the regional and municipal governments to fund the bulk of non-contributory emergency benefits and benefits of last resort (Navarro-Varas and Porcel, 2017: 57). The basic problem is that, since neither the central nor the regional government provides an adequate level of support, it is ultimately up to municipal governments to ensure that the basic needs of vulnerable individuals are met.

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<sup>1</sup> Regarding the outsiders, Eurostat data show that while government benefit coverage of the unemployed and unemployable is 61 per cent for the EU-28, it is barely 50 per cent in Spain. As for the insiders, according to the OECD, Spanish households in the bottom income quintile receive just 10 per cent of benefits, whereas the top quintile gets more than 30 per cent.

The financial crisis has exacerbated these weaknesses and their negative impact on Barcelona and its Metropolitan Area (AMB),<sup>2</sup> pushing up inequality which even before the crisis was higher than in most developed parts of Europe. Inequality in Barcelona has two main components: i) persistent structural poverty among groups with low levels of education, the elderly, women, single-parent households and immigrants, and ii) economic segregation and polarisation in certain areas. Moreover, with the new middle classes increasingly moving into the city centre, many of the most vulnerable are being pushed out to deprived areas such as Eix Llobregat and Eix Besós.<sup>3</sup> While average household disposable income for the whole city was €35,000 in 2014, it was below €24,000 in almost all of the neighbourhoods in these two areas. Yet there are other factors related to housing affordability explaining poverty in Barcelona:

- a) globalisation (replacement of the former population by more affluent incomers) and automation (replacement of low-skilled jobs by higher-skilled specialists and creative),<sup>4</sup>
- b) the increased density, mobility and diversity of Barcelona's population – the city provides more work opportunities than rural areas and therefore attracts a larger and more diverse population,
- c) the city's importance as a tourist destination and the accompanying pressure from the tourist industry<sup>5</sup> and from speculation in the residential market.
- d) The mostly well-educated people from the higher social classes are taking advantage of the economic opportunities in the city centre, pushing up housing prices to the detriment of lower income groups.

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<sup>2</sup> The Metropolitan Area of Barcelona (AMB) is the local government authority of a conurbation formed by 36 municipalities, created on 21 July 2011 through Act 31/2010 of the Catalan parliament.

<sup>3</sup> Situated in the north-east of the city, the Eix Besós comprises 10 neighbourhoods spread across the districts of Nou Barris, Sant Andreu and Sant Martí.

<sup>4</sup> 12 per cent of jobs in Spain are threatened by automation (Arntz et al., 2016).

<sup>5</sup> It is estimated that Airbnb rents out more than 23,000 rooms and apartments to tourists in Barcelona. Some 10 million tourists visited Barcelona in 2017, making it the third most popular tourist destination in Europe.

- e) The final result has been an increase in the cost of housing – now the highest in Spain – specifically affecting low-income households.

These factors are responsible for a number of other specific problems, for instance almost 500,000 people (almost half of the city's 1.1 million jobs) now have to commute to work because they cannot afford the high property prices in the city. Similarly, the 40,000 low-skilled long-term unemployed have been hardest hit by the rise in the cost of housing.<sup>6</sup>

### **Central government responsibilities and municipal government constraints**

National governments generally rely on labour market to mitigate inequality. However, active labour policies, unemployment benefits and the various traditional guaranteed minimum income schemes for the poor have not been enough to mitigate the growing poverty and inequality found both globally (Dwyer, 2016; Titmuss, 1958) and in Spain (Ayala, 2000; La Rica and Gorjón, 2017). While the tools deployed by central government are inadequate, the options available to a municipal government like Barcelona's are even more limited. Though Barcelona should be prioritising the creation of good quality jobs, it simply lacks the resources to create the 80,000 jobs needed to eradicate unemployment in the city.

There is evidence to support the argument that people need a certain degree of financial security before they are able to look for a decent job or gain an adequate level of training.<sup>7</sup> A universal and unconditional basic income could provide this security, putting an end to the problems associated with the conditionality of traditional means-tested welfare benefits (poverty traps, non-take-up, stigmatisation, administrative obstacles, information barriers, etc.). However, the municipal government lacks both the resources to fund such a scheme<sup>8</sup> and the political authority to approve it – it is only legally allowed to provide

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<sup>6</sup> Between 2008 and 2016, the number of unemployed people over the age of 44 in Spain who had been out of work for more than two years increased eightfold from 110,000 to 870,000.

<sup>7</sup> The impact of poverty on cognitive function is the same as spending a sleepless night, reducing IQ scores by 13 points (Mani et al., 2013).

<sup>8</sup> The total budget of Barcelona's municipal government is around €2.8bn, whereas an unconditional and individual basic income scheme covering all the city's inhabitants would cost in excess of €8bn.

emergency benefits subsidiary and complementary to central and regional government income schemes.

Despite these constraints, the municipal government does have another mechanism at its disposal, namely wage policy. According to the ILO, approximately 90 per cent of all nations have a minimum wage, the level of which is either set unilaterally by the government or through collective bargaining between the social partners. A plenary meeting of the city council in 2016 accordingly adopted an agreement containing the following commitments: i) nobody who works for the city council, whether as a council employee or a subcontractor, shall be paid less than €1000 a month, and ii) a procedure will be launched to work and negotiate with the city's social partners to formulate an action plan for achieving a minimum wage of €1000 a month.<sup>9</sup> Although the city council does not itself have the legal authority to stipulate a minimum wage, it can still pursue this goal indirectly through social dialogue and its public procurement policy.

### **Living wage or municipal support?**

In autumn 2017, the Barcelona city council set up a minimum wage working group comprising representatives of employers' associations, the trade unions, the AMB and – in an advisory role – the Barcelona Economic and Social Council. The group discussed a report calculating a living wage for Barcelona along the same lines as those calculated in countries such as the United States, i.e. the net-of-tax wage that average adults require to meet their own basic needs and those of their family.<sup>10</sup> The report concludes that the

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<sup>9</sup> This decision is supported by several international guidelines. ILO Declaration of Philadelphia, for example, already called for 'a minimum living wage to all employed and in need of such protection' in 1944. ILO Convention No. 131 (of 1970) stipulates that each Member State 'undertakes to establish a system of minimum wages which covers all groups of wage earners'. The European Social Charter (of 1996) is another benchmark, defending in its Article 4.1 the 'right of workers to a remuneration such as will give them and their families a decent standard of living'. One other important legal instrument is the Opinion of the Court of Justice of the European Union of 26 September 2000 and the corresponding Judgment of 17 November 2015, which requires that tenderers undertake to observe the minimum wage established by law as a condition for participation in procedures for the award of public contracts.

<sup>10</sup> [http://ajuntament.barcelona.cat/premsa/wp-content/uploads/2017/03/SDR\\_AMB.pdf](http://ajuntament.barcelona.cat/premsa/wp-content/uploads/2017/03/SDR_AMB.pdf). (accessed November 2018).

weighted average living wage should be €1089 per person per month in Barcelona and €1032 in the rest of the AMB, a difference reflecting the higher housing prices in the city.

The current gross minimum wage rate set by the Spanish government is €858 a month (€803 a month net), or some €230 less than the living wage calculated for Barcelona. This means that the national minimum wage would not appear to be the most appropriate tool for determining the level of a decent and adequate wage, at least for Barcelona and the AMB. To overcome this problem, a number of sectoral agreements providing for the establishment of a sectoral minimum wage have been negotiated in Barcelona (Rojo Torrecilla, 2016: 89).

One of the advantages of a minimum wage is that it does not appear to have any real impact on employment, training or company survival prospects. Indeed, there is empirical evidence to support the adoption of a minimum wage, particularly at municipal level, since doing so contributes to: i) adjusting the lowest wages to prices in a particular location or at a particular moment in time; ii) increasing the disposable income of the lowest-paid workers, meaning that they are able to boost the local economy by increasing their consumption; iii) encouraging training for workers; iv) reducing poverty and inequality; and v) reducing the need for other benefits targeting the working poor<sup>11</sup> (Ramos and Suriñach, 2016: 9).

In addition to the €1000 minimum wage, Barcelona is piloting other minimum income policies, like the B-MINCOME project. Under this two-year *randomized control trial* pilot, 1000 vulnerable households in the Eix Besós area are currently receiving a minimum income, the ‘Municipal Inclusion Support’ (SMI), in combination with four active social and employment inclusion policies<sup>12</sup>. Using a randomised selection, participants have been divided into three groups stratified by income and household

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<sup>11</sup> Reich and West (2015) found that the 10 per cent increase in the US minimum wage between 1990 and 2012 was accompanied by a 2.4 to 3.2 per cent reduction in enrolments and a 2 per cent reduction in the overall cost of Food Stamp programmes.

<sup>12</sup> For details of the B-MINCOME pilot project, see: <http://ajuntament.barcelona.cat/bmincome/en/> (accessed November 2018).

composition. The first group of 450 households is receiving the SMI unconditionally, i.e. without any means-testing. The second group of 550 households is subdivided into four treatment subgroups. In the first, receipt of the SMI is conditional on participation in one of the four active inclusion programmes, whereas this conditionality does not apply to the second subgroup. In the third subgroup, the benefit is reduced proportionally when the household receives additional income, whereas this does not occur in the fourth. The third and last group consisting of 500 households with the same socio-demographic characteristics is a non-active or a control group needed to compare the first two groups' outputs.

Through testing these four benefit modalities – conditional or unconditional, limited or unlimited – and combining them with four active inclusion programmes, the B-MINCOME pilot is providing valuable information about which of these four modalities is most efficient and effective in reducing municipal poverty and exclusion and helping recipients to develop their own strategies for improving their situation.

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**Bru Laín**

University of Barcelona, Department of Sociology

Email: [bru.lain@ub.edu](mailto:bru.lain@ub.edu)

(author of reference)

**Lluís Torrens**

Barcelona City Council, Social Rights Area  
and Pompeu Fabra University - IESE Business School

Email: [ltorrens@bcn.cat](mailto:ltorrens@bcn.cat)