

Regional Analysis Spain

The Tax Burden in Spain - Too High or Too Low?

Expansión (Spain)

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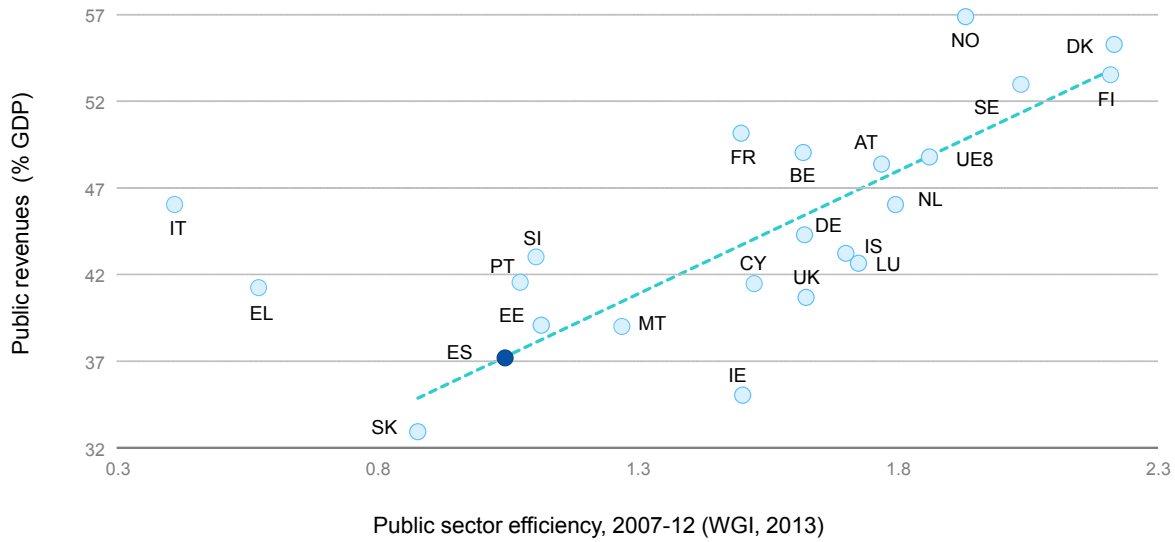
One of the most hotly debated political issues during the last elections was the margin that Spain has for raising and lowering taxes. While the most common electoral strategy is to propose measures to simultaneously increase spending and reduce taxes, in some cases tax rises designed to increase both the tax burden and spending are openly mooted.

The argument often put forward in Spain is that, according to [Eurostat](#), the country's tax burden (total public revenue as a percentage of GDP) in 2018 was 38.9%, 6.1 percentage points below the EU average (45%). This line of reasoning presupposes, firstly, that the average tax burden in Europe is a clear benchmark to which Spain should be compared, which is a large assumption. Over recent decades, the size of the public sector has varied significantly in countries such as [Sweden](#), where the tax burden reached almost 60% of GDP in 1989 but has been around 50% for the last decade, with Sweden being a leader among advanced economies in what, for [some](#), is an example of modernizing the welfare state. There is no way of guaranteeing that the current tax burden in the EU will reflect the preferences of European citizens in a decade's time, or those of the Spanish population. Even if we were to accept that it was a good benchmark, this proposal also presupposes that, if Spain brought its tax burden in line with the European average, it would achieve the same level of welfare. Without the proper precautions, this is a risky assumption.

Beyond preferences, the evidence shows that there are various explanations for the differences between European countries, two of which are of particular significance. Firstly, countries with more efficient public administrations (as defined by the [World Governance Indicators](#)) generally have higher tax burdens. Spain is no exception to this rule. When the public sector turns taxes into goods and services efficiently, society is better prepared to bear the cost of taxes associated with new policies. Secondly, the relationship between public efficiency and the tax burden is the result of decades-long interaction and cooperation between the public and private sectors. For a long time, as in Robert [Axelrod's](#) work in the 1980s, game theory has analyzed forms of cooperation as an application of evolutionary theories to interactions between agents. When the public sector proposes to finance a new policy concerning health, education, infrastructure or pensions, and does so efficiently and qualitatively, the private sector is incentivized to cooperate by paying taxes and to accept similar proposals in the future. If, on the other hand, the public sector falls short of expectations through mismanagement, inefficiency or corruption, the private sector loses trust and its costs related to job creation, investment and innovation increase. The reaction may also involve productive activity being transferred to other economies, and even tax evasion. The tax burden is, therefore, endogenous and its size depends on the efficiency with which public administrations operate and the quality of their institutions.

The focus must, then, be on better spending in order for society to accept new policies and higher taxes, and this should be reflected at election time. An increased tax burden in Spain will not necessarily transform the country into one of its central or northern European counterparts, if care is not taken beforehand to improve the efficiency of all of our public policies and taxes by assessing their results and validity. Rather, the contrary is true. It is more likely to lead us into a situation like that of Italy, where the tax burden is around the European average, but where the public sector is less efficient than in Spain and where, consequently, costs relating to growth and welfare are higher.

REVENUE AND EFFICIENCY OF THE PUBLIC SECTOR IN THE EU



Source: Andrés and Doménech (2015) based on Eurostat data and World Governance Indicators.

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