

**ASSESSMENT OF THE EUROPEAN EMPLOYMENT STRATEGY**

**SPAIN**

**FINAL REPORT**

**(SUMMARY)**

**2002**

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## **PRESENTATION**

This FINAL REPORT SUMMARY shows the main results of the impact analysis carried out in the course of the assessment the European Employment Strategy in Spain. The period evaluated goes from the situation prior to the implementation of the EES up to the present. The analysis carried out focus on the topics included in the THEMES that appear on the Commission document “Problem statements for Member State’s policy impact evaluation projects”.

The evaluation process was based on the work of several expert groups from different universities and study groups. These expert groups covered most of the themes mentioned in the mentioned document, in accordance with the project plan that was initially approved. The groups worked independently and were directed by a coordinating group of the Department of Economic Analysis of the Universidad Autónoma de Madrid, which was in charge of defining and specifying the content of the lines of analysis, orienting methodologies and promoting the interactive discussion of conclusions and proposals among the participants in the evaluation.

## List of main abbreviations used:

The Spanish acronyms of proper names and certain Spanish institutions are used, with the corresponding English translation in parentheses.

**AIEE**, Acuerdo Interconfederal para la Estabilidad del Empleo (Inter-confederation Employment Stability Agreement)  
**AICV**, Acuerdo Interconfederal para la Cobertura de Vacíos (Inter-confederation Vacancy Coverage Agreement)  
**AINC**, Acuerdo Interconfederal Negociación Colectiva (Inter-confederation Collective Bargaining Pact)  
**AC.**, Autonomous Communities  
**ALMP**, Active Labour Market Policies  
**CC.OO.**, Comisiones Obreras (Workers' Commission)  
**CEOE**, Confederación Española de Organizaciones Empresariales (Spanish Confederation of Business Associations)  
**CEPYME**, Confederación Española de Pequeñas y Medianas Empresa (Spanish Confederation of Small and Medium-Sized Enterprises)  
**DL**, Decreto Ley (Law Decree)  
**EES**, European Employment Strategy  
**ER**, Employment Rate  
**ERDF**, European Regional Development Fund  
**ESO**, Enseñanza Secundaria Obligatoria (Obligatory Secondary Education)  
**ESF**, European Social Fund  
**EU**, European Union  
**FORCEM**, Fundación Para la Formación Continua en la Empresa (Foundation for Ongoing Training in Companies)  
**FP**, Formación Profesional (Vocational Training)  
**FPC**, Formación Profesional Continua (Continuing Vocational Training)  
**FPO**, Formación Profesional Ocupacional (Occupational Professional Training)  
**GDP**, Gross Domestic Product  
**GVA**, Gross Value-Added  
**HR**, Hiring Rate  
**ICO**, Instituto de Crédito Oficial (Official Credit Institution)  
**ICT**, Information and Communications Technologies  
**INE**, Instituto Nacional de Estadística (National Statistical Institute)  
**INEM**, Instituto Nacional de Empleo (National Unemployment Institute)  
**IRPF**, Impuesto sobre la renta de las personas físicas (Personal Income Tax)  
**LFS**, Labour Force Survey  
**LTU**, Long-Term Unemployed  
**MTAS**, Ministerio de Trabajo y Asuntos Sociales (Ministry of Labour and Social Affairs)  
**NAP**, National Action Plan for Employment  
**NGO**, Non-Governmental Organisation  
**OECD**, Organisation for Economic Cooperation and Development  
**PHOGUE**, Panel de Hogares de la Unión Europea (Household Panel of the European Union)  
**PNIDI**, Plan Nacional de Investigación, Desarrollo e Innovación (National Research, Development and Innovation Plan)  
**R&D**, Research and Development  
**RDL**, Real Decreto Ley (Royal Law Decree)  
**SCCS**, Social, Cultural and Community Services  
**SME**, Small and Medium-Sized Enterprise  
**SPE**, Servicio Público de Empleo (Public Employment Services)  
**STU**, Short-Term Unemployed  
**TGSS**, Tesorería General de la Seguridad Social (Social Security General Treasury)  
**UGT**, Unión General de Trabajadores (General Workers' Union)  
**UJSs**, Unemployed Job-Seekers  
**VAT**, Value-Added Tax

## 1. AN OVERALL PERSPECTIVE

In 1997, the Spanish economy continued along the path of growth that had begun three years before. In this context, Spain's macroeconomic policies maintained its orientation for the succeeding four-year period, with the **European Employment Strategy (EES)** already in effect. This was due to the success obtained in its integration in the EMU and also to the new stability requirements stemming from its participation in the single currency.

GDP enjoyed sustained growth, at rate near 3,9% a year, based mainly on strong internal demand. However, at the end of the study period, in 2001, the economy lost steam, in line with the international economic decline. Spain's convergence with the European economy has had positive results to date, and with regard to its labour market, the activity and employment rates have evolved favourably, with the unemployment rate falling by more than seven percentage points over the period. However, its present level remains too high it was 13% with the methodology then used, or 10,5% with the new EUROSTAT definition.

Spain's spending on employment over this period was substantial, increasing by a factor of 1.5 during the EES, which took the form of the National Action Plans (NAPs) for Employment. Most of this spending was on Active Labour Market Policies. An estimate of the direct impact of this *increase in aggregate spending* on the Spanish economy on a macro level suggests that its contribution to the annual increase in employment is positive, with more than 150,000 jobs over four years, not including its indirect effect on labour productivity or on the efficiency of the system of production in general and the labour market in particular.

During this period, the Spanish labour market has shown a positive evolution of its principal activity, employment and unemployment indicators (Tables 1 and 2). The activity rate increased 1,5 points and the employment rate increased by 5 points (5,3 for women) with an average annual job-creation rate of 4.3 percent. The net employment created was 1.9 million jobs, 12 percent of which went to young people and 53 percent to women.

**Table 1. Basic evolution of the Spanish labour market (1997-2001). Annual averages**

Year	Thousands			Relative Rates		
	Active	Employed	Unemployed	Act. Rate (1)	Empl. Rate (1)	Unem. Rate
1997	16.121,0	12.764,6	3.356,5	49,8	39,5	20,8
1998	16.265,2	13.204,9	3.060,4	50,0	40,6	18,8
1999	16.422,9	13.817,4	2.605,5	50,2	42,3	15,9
2000	16.844,1	14.473,7	2.370,4	51,3	44,1	14,1
2001	16.891,0	14.661,2	2.229,8	51,3	44,5	13,2

Source: INE (LFS)

(1) for population over 16 years, including those over 65

**Table 2. Basic relative indicators for the Spanish labour market (1997-2001). Annual averages .**

<i>Activity rate ( in % with respect to the population age 16 and over)</i>					
Year	Total	By gender		By age	
		Men	Women	Under 25	Over 25
1997	49,8	63,0	37,5	44,3	51,1
1998	50,0	63,2	37,8	44,6	51,2
1999	50,2	63,1	38,4	45,6	51,2
2000	51,3	63,8	39,8	47,0	52,2
2001	51,3	63,8	39,8	47,0	52,1
<i>Employment rate ( in % with respect to the population age 16 and over)</i>					
Year	Total	By gender		By age	
		Men	Women	Under 25	Over 25
1997	39,5	52,9	26,9	27,0	42,3
1998	40,6	54,5	27,7	28,8	43,2
1999	42,3	56,1	29,5	32,1	44,4
2000	44,1	57,6	31,6	35,0	45,9
2001	44,5	57,9	32,2	35,3	46,3
<i>Unemployment rate</i>					
Year	Total	By gender		By age	
		Men	Women	Under 25	Over 25
1997	20,8	16,1	28,3	39,0	17,2
1998	18,8	13,8	26,6	35,5	15,7
1999	15,9	11,1	23,0	29,6	13,4
2000	14,1	9,7	20,5	26,1	12,0
2001	13,2	9,3	19,0	24,9	11,2

Source: INE (LFS).

## 2. PREVENTION AND ACTIVATION POLICIES FOR THE UNEMPLOYED

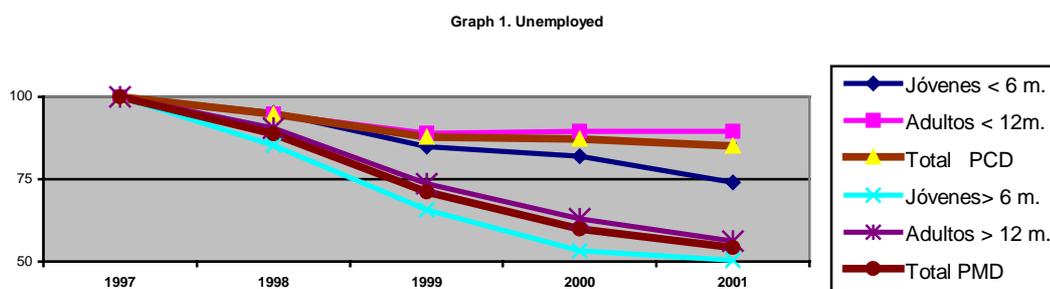
During 1998-2001 in Spain, and as part of the NAPs, measures for the *Improvement of labour insertion capacity* affected, on average, 26 percent of UJSs and 23 percent of unemployed. Actions falling under *Employment Orientation and Self-employment Counselling* benefited a number of persons equivalent to 17 percent of UJSs and 15 percent of unemployed. Lastly, *Employment Promotion* actions (mainly, subsidies for permanent hirings) affected a group representing around 2 percent of UJSs and 2 percent of unemployed. In addition, a notable part of the active employment measures of the NAPs was the incentive programme to hire unemployed with permanent contracts and the conversion of temporary contracts into permanent ones.

### Effects on labour situation

With regard to the evolution of unemployment, the decrease in the unemployment rate over the period being analysed was 7.6 percentage points, and the unemployment rate dipped below 13 percent in the third quarter of 2001. The male and female unemployment rates dropped by 6 and 9 percentage points respectively, although the gap between the two rates is still substantial. In terms of time spent searching for a job,

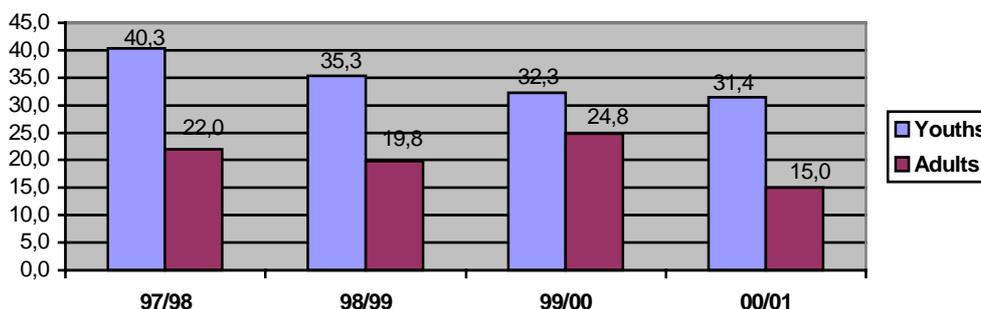
the percentage of Long-Term Unemployed (more than 1 year unemployed), dropped from 55 to 43.7 percent, with respect to all unemployed persons (Graph 1).

The varying intensity of these decreases, which were especially strong in 2000-2001, has caused substantial changes in the relative size of each group out of the total number of unemployed persons. Especially notable is the reduction of the number of unemployed, both youths and adults, who slip into LTU. Whereas in 1997 LTUs accounted for most of the total unemployment (61 percent), in 2001 the relative size of



LTU (long-term and longer-term unemployment) has been reduced. This change can be attributed, at least in part, to the intensification of labour insertion measures in preceding years for STUs. There is also a significant progress in the levels of employability of groups that have recently entered the ranks of the unemployed and which constituted the primary target of the EES in order to prevent them from slipping into Longer-Term Unemployment. The percentage of transition to Longer-Term Unemployment in the case of young people dropped from 40 to 31 percent and from 22 to 15 percent in the case of adults (Graph 2), as measured through the LFS survey.

Graph 2. Evolution of EPA flows with respect to persistence in Longer-Term Unemployment for youths and adults (1997-2001)



### Training actions and employability

The assessment of the impact of active professional training measures on the employability of unemployed persons was carried out by applying econometric analysis to administrative databases. The characteristics of the available data allowed us to estimate the chances of having now a job (*Hiring Rate-HR*), as well as the chances of

having had a job at one point during the accumulated observation period (*Employability Rate-ER*). The results showed that participation in training programme, for all categories considered, had a positive effect in improving a person's chances of getting a job, in terms of both HR and ER. The average values of the estimated probabilities for ER at 6 and 12 months, for the group of those receiving training, were 25.3 and 49.1 percent, respectively. These rates represent an improvement over the group of those who did not receive training, of 4.9 percentage points at 6 months and 8.6 percentage points at 12 months.

Although part of these results should be approached with caution due to reasons of statistical significance, in the case of the variable *Educational Level*, Occupational Training tends to have a compensatory effect, thus improving a person's chances for employment. That is, the training actions seem to be more effective (in terms of net improvements in employability) in groups that start off with the lowest levels of educational attainment in the official educational system, and thus a lower probability of insertion in the control group. On the other hand, in the case of most of the other variables (*Gender, Age, Time Seeking Employment*), it was observed that training measures have a greater impact precisely among those groups with a higher level of employability in the control group: men, those under 35 and short-term unemployed (less than 6 or less than 11 months seeking employment). Lastly, the analysis of other complementary indicators showed a slight positive impact by courses with a shorter duration, and the importance of previous experience or the completion of courses corresponding to mid-level qualification in certain service and industry activities.

### **Integration of beneficiaries and effectiveness of measures**

The emphasis on prevention over the course of these years is clear. On the other hand, the effectiveness of the measures have been shown in two types of trends: a) Significant progress has been made in the hiring and insertion rates of the beneficiaries of the actions undertaken. b) The effects of the actions undertaken are manifested in the decrease in Longer-Term Unemployed, which was influenced at least in part by the concentration of measures geared towards short-term unemployed persons; the decrease in the flows from short-term unemployment to longer-term unemployment; and the higher insertion rates of Short-Term Unemployed persons.

An additional matter are the reasons that provoked the changes in the measures applied. The changes in the composition of the active measures geared towards the target groups were basically determined by the adaptation of EES guidelines. The greater use of certain complementary or alternative training measures can be explained by various factors: the application of greater diversification of active measures, which used to be excessively centred on professional training; the boost given to orientation services in order to promote active measures instead of passive ones, expanding the functions of unemployment offices, which used to be excessively geared towards the payment of unemployment benefits; the promotion of social-interest employment in order to offer some sort of labour insertion and access to income to the most disadvantaged groups; the promotion of agents for local development, linked to the greater importance given to job-creation on a local level and to the development of activities related to new employment sources (rural tourism, environment, etc.).

With regard to the possible indirect effects of the measures on groups that are not beneficiaries of the actions, the analysis carried out does not allow a detailed determination of the existence or non-existence of displacement and substitution between groups. Nevertheless, the observation of LFS data indicates that the greater insistence on active measures for the benefit of the Short-Term Unemployed has not had a negative effect on the possibilities of insertion of Longer-Term Unemployed, as the latter group of unemployed has grown smaller in size in both absolute and relative terms, at a rate that surpasses even the reduction of Short-Term Unemployed.

With regard to groups who have been unemployed for longer periods of time, the creation or maintenance of some specific employment-promotion and job search stimulation, have been geared towards groups with the greatest disadvantages, especially adults and young people with low educational attainment. These are, in fact, groups with a very low possibility of labour insertion and in most cases, do not represent direct competition in the labour market with respect to other groups not benefited by the measures. All in all, the regulations regarding incentives for permanent contracts and the conversion of temporary contracts into permanent ones have been changed along the different Employment Plans. For the most part of unemployed exist incentives in the case of non temporary contracts, although with different amounts.

### **3. TAXES, BENEFITS AND LABOUR SUPPLY**

In order to measure the evolution of the relationship between gross and net remunerations, and the evolutions of average remunerations, two indicators were used: the marginal tax rate and the income differential rate between salaries and unemployment benefits.

The marginal tax rate (MTR) –defined as the increase in personal income tax (IRPF) plus the increase in the social security payments by the employee, divided by the increase in gross remuneration - is in Spain lower than the European average, by different family status and by salary levels. However, it should be pointed out that in the year before the implementation of the employment guidelines (1997), there was a substantial drop in the marginal tax rate indicator, which explains the comparatively favourable starting point of the country. The reduction of MTR in these years was larger in Spain than in Europe, although its evolution showed fluctuations. The greatest drops can be seen in those with very low remuneration levels.

Unemployment benefits stand on average around 44% of average salaries. The evolution of this income differential rate indicates that benefits have increased in Spain at a slightly higher rate than salaries. The increase took place in 1998, and to a lesser degree, in 1999. In 2000-2001, such benefits have remained neutral with respect to salaries. Variation in the indicator during this period are not due to benefit rules, which have remained the same, but to the changing structure of beneficiaries, since short term unemployed have higher replacement rates than long term ones.

#### **Impact of measures**

##### **a) Effects of tax reforms**

The effectiveness of the tax reforms introduced in Spain has been positive, although their quantitative impact does not appear as significant, in relative terms, in the model used. The decline in the MTR is equivalent to a reduction in the tax burden of the labour supply. The measurement of its impact on the variation of the work force, however, shows results that vary from one estimate to the other, depending on the econometric model used in the evaluation. The results are ambiguous due, partially, to the short time period involved and to the aggregated analysis. So in many of the estimates, the effects are positive but not very significant in terms of additional labour supply. In others, the opposite is true.

We have included disaggregate simulations which calculates the elasticity of the labour supply for the different groups. In these simulations, the substitution effect is clearly positive (due to the increase in the cost of leisure time), while the income effect turns out to be negative. From the estimates made, it can be concluded that the effect of the personal income tax (IRPF) reforms on the labour supply has been modest. The impact of the IRPF, on the other hand, has been different for men and women, with the latter reaping greater benefits. In this respect, the tax cut does not seem to have affected the labour supply of married, employed men, while affecting that of previously not occupied married women, whose supply increased. The lowering of the marginal rates of the IRPF has been more beneficial to women, and in particular, previously not occupied married women. This outcome is coherent with taxation theory, since in the case of family units, the entry of a second earner (traditionally the woman) may mean a worse fiscal treatment. As a result, if the marginal rates are too high, this may affect the income-housework choice for married women with family obligations.

## **b) Effects of unemployment benefits**

**Benefits and and the probability of leaving unemployed status.** The analysis (using data collected before the EEE) shows that the this probability decreases progressively with age, but, in the case of women, this variable (age) has shorter relation to the probability of finding employment. For its part, having a university education shows different trends depending on gender: while women with university studies have an increased probability of finding employment compared to the reference group (those with an educational level of primary schooling or lower), men with university studies have a lower probability of doing so rapidly. This explains the comparative advantage of women with university studies over women without university studies in finding employment. In the case of unemployed men, university studies do not lead to a quicker job, compared to that of those with lower levels of educational attainment.

The civil status of the unemployed also has divergent effects depending on gender: married men leave unemployment faster than single men, while single women stay unemployed for shorter periods than married women. This is explained by the fact that married women juggle job-seeking alongside household tasks. The reception of some kind of financial benefit is negatively associated with finding a job : people who are not receiving unemployment benefits get out of unemployment faster. But the effect may not be due to the benefit itself; a negative effect is also observed when analysing the relationship between the length of time of previous employment and getting out of unemployment: the longer the previous employment, the longer it takes to get out of unemployment. Both results are related, as the length of time spent in a job is associated with longer periods of eligibility for unemployment benefits.

Other available econometric studies for Spain show contradictory results. On one hand, (Bover, 1995; Bover, 1995; García Perea Pérez, 1997; Calero, 2001), a significant negative effect between unemployment benefits and the rate of leaving the unemployment situation, which reduces the influence of unemployment on determining salaries. The greatest disincentives produced by unemployment benefits are on the probability of going from unemployment to inactivity and not so much on the probability of going from unemployment to employment. On the other hand, other studies suggest that it is the high turnover in the labour market which explains the econometric relationship between benefits and unemployment duration, since there is a segment of the work force that goes in and out of unemployment very rapidly, and thus remains outside the social protection system (Toharia, 1997).

In this context, Spanish policy has been oriented towards providing incentives to seek employment among those receiving unemployment benefits. Such actions, in general, are geared towards two aspects, in line with the guidelines deriving from the EES: the prevention of fraud in the collection of unemployment benefits, and the promotion of active participation of unemployed people in job-seeking. The effect of the regulations implemented has been an increase in mechanisms that provide a disincentive for inactivity. The monitoring and control of benefit collection have been stepped up, particularly with respect to the percentage of beneficiaries who have been controlled, in order to detect the existence of regulatory incompatibilities in the collection of benefits.

Although there has been a reduction in direct and indirect monitoring action by the administration on the recipients of unemployment, there has been a qualitative rather than quantitative intensification of coverage. In this way, there have been notable improvements in the application of active insertion policies for benefit recipients: curricular actions, personalised analyses of professional aptitudes and weaknesses, and specific training courses for benefit recipients and tutored intermediation, among others.

**Unemployment benefits and the poverty trap.** Estimates are available on the amount of unemployment benefits and its relation with earnings, for different recipient cases and situations. No poverty traps were detected on the general programmes studied; net income earned from working, even part-time, is greater than that obtained while unemployed (Table 3).

### **c) Social Security registrations and underground economy.**

Social Security registrations has risen at a faster rate than the number of employed persons, as measured from other sources, since 1997. Part of the reasons behind this difference are probably the changes in labour laws, that may lead to reducing the underground economy. Among the actions considered to be very positive in terms of their effectiveness with respect to this reduction are the measures adopted to control and fight fraud, hiring incentives implemented with significant reductions in social contributions for groups with high levels of unemployment, the use of computerised databases in order to carry out statistical cross-referencing, the normalisation of criteria for action and the improvement in the management of unemployment benefits.

**Table 3. Estimates regarding the substitution rate for recipients of unemployment benefits or subsidies.**

Alternatives considered	Range of Substitution Rate depending on family situation and duration of unemployment
A1. Net earnings: not working versus working part-time:	
*Salary level under average worker's salary	80-83 %
*Salary level above average worker's salary	37-79 %
A2. Net earnings : not working versus working full-time:	
*Salary level under average worker's salary	41-73 %
*Salary level above average worker's salary	21-65 %

Source: Benefits Dependency Study

#### 4. LIFE-LONG LEARNING

In general terms, there has been a significant advance in the average educational level of the Spanish population. In the last five years, the percentage of the population in the lowest three categories of educational attainment (illiterate, no schooling, primary education) has dropped considerably. At the same time, the percentage of those with secondary school diplomas and university degrees has grown. This phenomenon is associated with the results of previously implemented educational policies, but it should be noted that these were reinforced over these years by the application of different lines of action in the field of employment, manifested in the NAPs and associated with the EES.

##### **Impact of the prevention of premature drop-out**

Various measures have been adopted aimed at reducing the drop-out rate in Spain. As a result of all such measures, a clear increase in the participation rates of young people (16-18 years-old) has been observed recently. In the last five years school attendance rates increase for both males and females. However, compared to other countries of the EU, Spain still lags behind in school attendance until students are eighteen years of age. On the other hand, for students of between nineteen and twenty years of age, Spanish school attendance is higher.

In order to analyse the relationship between the situation of the labour market and school attendance, as well as the link that exists between family socio-economic origin and the educational decisions of young people, different probability models were estimated using individual data. The following phenomena may be observed in these results: a) Women always have a higher probability of staying in school than men; b) the size of the household has a negative impact on the probability of staying in school; c) the variables that reflect the educational level of the father are among the most significant ones: higher levels of educational attainment of parents are associated with significant increases in the probability of staying in school; d) the labour situation of the father has some relation to educational demand, with the probability of continuing with secondary education increasing if the father is an employer and decreasing if the father is unemployed; e) overall unemployment rates of the population have a negative impact on school attendance rates.

Lastly, it should be pointed out that the demand for secondary education shows a strong positive correlation with the educational level of the parents. This confirms a certain intergenerational persistence of inequalities in human capital, which may be difficult to eliminate solely through financing policies.

At the same time, there have been advances in social guarantee programmes for young people 16-20 years of age with no schooling or who are at risk, as well as through other actions. Despite this, the educational courses on social guarantee programmes that are available (for youths who have not completed minimum studies) are still considered to be insufficient, with an estimated 20% of students failing to complete obligatory secondary schooling. And although there is a “second chance” for education through various channels, its expansion has been modest in these years.

### **Secondary school performance**

It may be reasonably postulated that the demand for post-obligatory education depends to a high degree on the academic results obtained by students in the primary level and especially at the secondary level. The information available on the products of the educational system at the basic levels has traditionally been scarce.

Nevertheless, this information has improved over the past few years due to several reasons: 1) Evaluations (based on student samples) have been carried out using tests on primary levels (1995 and 1999) and secondary grade levels (1997 and 2000). Using this data, the INCE and the Evaluation Institutes of the Autonomous Communities issue diagnostic reports on the functioning of the educational system, and the evolution of academic performance over time. 2) Continuing participation in international secondary school academic performance evaluation (Third International Mathematics and Science Study, TIMSS, and the PISA Project for the evaluation of reading, mathematics and sciences). 3) The publication of broad sets of indicators (MEC 2000, 2001) that summarise the academic results attained by students in different grade levels, based on subjective evaluations by teachers who decide on whether or not students go on to the next grade (or cycle) in primary and secondary school.

Based on these indicators, it can be said that the percentage of students who are not behind at age 15 went from 42% in 1985 to 65% in 1999. The data also suggests a positive correlation between this indicator (percentage of students who are not behind) and the per capita GDP of the Autonomous Communities (ACs).

### **Reduction of illiteracy**

In order to evaluate the extent of illiteracy in Spain, two types of indicators can be used. The first reflects absolute illiteracy and refers to people who can neither read nor write. The second, which is broader, also considers persons who cannot understand texts or calculations that are useful for work or social activities. This is referred to as functional illiteracy. The incidence of illiteracy in the population of people between 16 and 64 years old dropped from 2.2% in 1995 to 1.5% in the year 2000 and functional illiteracy went from 9.2% and 7.4% over the same period.

This evaluation, which is positive, nevertheless shows a need to intensify the collection of information regarding the evolution of the skills, aptitudes and knowledge attained by

the adult population in the future, using methodology that allows international comparisons.

### **Ongoing education**

Using the data provided by the Household Panel of the European Union (PHOGUE), it is possible to obtain an indicator of adults' evaluation of the training they have received recently. The latest date for which data is available on the matter indicates that only 17% of women and 23.6% of men have a negative opinion (not very useful or not at all useful) of the training they received that year. The most negative indicators correspond to the oldest group of employees (55 to 64 years old) while the most favourable opinion came from young people (16 to 24 years old). This gives a glimpse into the difficulties that arise in facilitating the adaptation of the older working population to the new professional requirements of technical and organisational innovations.

In this context of aptitudes, there was an increase in the participation of adults in continuing education from 1997 to 2001, which can be clearly seen in different indicators: the number of students enrolled in adult continuing education increased by a factor of 1.21 in five years, the percentage of university student over 25 increased from 20.6% to 27.9% over the same period. Also, the participants in adult continuing education increased from 6.3% of the total number of employed persons (before the implementation of the EES), to approximately 11% today.

Continuing education, as mentioned before, has enjoyed strong growth since 1997, with increasing participation by workers in company training plans and training leaves. The evaluation showed that the probability of receiving training in Spanish companies is greater for men than for women, that this probability diminishes significantly from age 45 onwards, while it increases substantially for those with the highest educational levels, and that individuals with the most experience in the company receive training more easily than average, while workers with low qualifications have very low relative participation. Large companies or industrial and services firms (except retail and hotel/restaurant) are most likely to offer training courses.

As for the relationship between continuing education and mobility, it was confirmed that in the case of Spain, the probability of voluntarily changing jobs has a clearly negative correlation with having received training financed by the employer. On the other hand, other types of training actions not covered by the company do not reduce the probability of mobility. Therefore, it seems that the first type training may be interpreted as a source of specific human capital to the company and reduces the probability of employees leaving their job. It can also be seen that mobility is reduced as work experience grows (greater human capital) and with the possession of a second-level vocational training degree (FP-II) or a diploma course. Lastly, the higher the salary received in the company, the lower the probability of voluntarily leaving the job.

## **5. SOCIAL INCLUSION**

In order to evaluate the impact and the degree of effectiveness in the short term of the application of training programmes for population groups considered to be at risk of

labour exclusion, a study was carried out regarding the evolution of job demand in the administrative records of the Public Employment Services (SPE), as well as a microeconomic analysis of this information. The groups studied were Disadvantaged Youths (persons under 25 with low educational level), Disadvantaged Adults (persons over 45 with low educational level), Disabled persons, Immigrants and Ex-convicts.

### Effectiveness of the training measures

The FPO programme is geared towards offering training to the unemployed registered at the offices of the Public Employment Services (INEM), in order to improve their employability. The analysis carried out two phases: a) Interpretations of Hiring and Employability Rates (HR and ER), which are directly observable at 6 and 12 months; b) the estimation of these values through a probit analysis.

Whereas the HR only offers a partial and incomplete glimpse into the employment possibilities of individuals, the ER can reflect the accumulated possibilities of labour integration of trained and non-trained persons. Its use is especially appropriate in the Spanish labour market, given the relatively high levels of job turnover, that makes the classification of individuals as employed or unemployed through point-in-time observations inappropriate to reflect their situation.

When comparing the employability differences between the control group and the group of those who received training, using just observed data, the participation in training actions for Disadvantaged Youths, Disadvantaged Adults and Immigrants seems to have only a slight positive impact on improving their possibilities of access to employment in the short term (6 months), but no at 12 months. The situation seemed to improve in the 12 months horizon only in the case of disabled persons and ex-convicts, a fact that may be related to the accumulated impact of other integration measures.

However, the complementary microeconomic study allows an analysis of the effect of the programme on the probability of finding employment for the control group and the corresponding group of persons who received training. The most notable results are in Table 4. The effectiveness of occupational training seems to be especially positive for Disadvantaged Youth, Disabled persons and Ex-convicts (large differences in employability between trained and non-trained individuals). These are precisely the groups that, even without training, show the highest levels of employability among all the specific groups considered. In the case of Disadvantaged Adults, the effect tend to be very small, but still positive. However, for individuals that belong to the group of Immigrants who received training (a very small minority of the group totals), the situation tends to become worse with time, compared to those who sought other means of labour integration.

**Table 4. Groups at risk of exclusion. Differences in Employability Rate of participants and non-participants in the FPO Programme (Probit model with adjustment)**

Category variables	Heckprobit	
	6 months P(f)- P (c)	12 months P(f)- P (c)
Average	1.61	<b>1.53</b>
<b>GENDER</b>		
Male	1.94	<b>2.22</b>
Female	1.59	<b>1.55</b>

<b>TIME SEEKING JOB</b>		
Less than 6 m	2.42	<b>3.14</b>
6-11 months	1.94	<b>2.28</b>
12-23 months	1.79	<b>2.04</b>
24 months or more	1.57	<b>1.95</b>
<b>TYPE OF BENEFIT</b>		
None	1.69	<b>1.78</b>
Contributive benefits	1.92	<b>1.82</b>
Any subsidy	2.48	<b>2.76</b>
End of eligibility	1.27	<b>0.85</b>
<b>EXCLUSION RISK</b>		
Non-risk groups	1.42	<b>1.09</b>
Disadvantaged Adults	0.76	<b>0.17</b>
Disadvantaged Youth	3.00	<b>5.03</b>
Disabled	1.05	<b>0.61</b>
Immigrants	0.77	<b>-0.61</b>
Ex-convicts	1.82	<b>2.26</b>

Source: Own compilation based on INEM microdata.

### **Effectiveness of measures in terms of integration**

In order to carry out a deeper analysis of the employability of groups at risk of exclusion, a specific complementary study was carried out for those groups with the relatively largest sample sizes available: Disadvantaged Youth, Disadvantaged Adults and Disabled Persons, which looked into the internal differences between individuals in the same group.

In the case of Disadvantaged Youth, the best results of the training actions, in terms of differences in employability with respect to those with no training, were observed in the sub-group of women aged 20-24, who have been unemployed for less than 6-11 months, and who receive benefits, subsidies or who have stopped receiving any type of financial aid. In the case of Disadvantaged Adults, the categories with the best results were men under age 54, who have been seeking employment for less than 12 months and who receive benefits or subsidies. With regard to the the group of Disabled Persons, the most favourable results were observed in the subgroups of men, young persons under age 24, with a low level of educational attainment or higher education, who have been unemployed for less than 6-12 months and those receiving benefits.

The most notable aspect that was generally observed among these groups was the predominance of results in which, for a large number of categories, the HRs and ERs that are relatively high after 6 months experience a large decline or go negative at 12 months. This would confirm that, especially among disadvantaged adults and young persons, the training actions received by these groups with special difficulties only have a significant effect during the period immediately following the training, so that the passage of time works against their possibilities of finding employment, especially for those who, for various reasons, required complementary training.

### **Most effective results**

Detailed monitoring of the effectiveness of the integration measures for these minority groups would require specific studies to be undertaken regarding the integration problems experienced by these groups, in order to define and improve the active measures geared towards them. This exceeds the scope of the general view considered

here. Below are some of the basic trends observed with regard to the set of measures currently underway.

The creation of jobs linked to financial, tax and labour incentives for disabled persons has increased in the past few years, although this must also be linked to a general context of strong job creation. With regard to other groups, the current system of programmes has only, for the time being, established reductions in social security payments for permanent contracts of different groups (long term unemployed, older than 45 years), as well as those programmes directed at people at risk of exclusion that will be mentioned below.

As for the most successful programmes, it can be said that those with the highest degree of development and diversification are those geared towards disabled persons. Carrying out a comparative study of the effectiveness of each of the programmes would require very detailed information and in some cases, would be impossible given the different nature of each one of them. In any case, the best results seem to come from programmes that are implemented in collaboration with the associative organisations of the sector, as well as those combined with specific training linked to the subsequent hiring in associate companies or at Special Employment Centres. Subsidised contracts and other tax incentives seem to have a significant effect in improving access to the labour market only during times of economic expansion and strong demand for labour. As for programmes geared towards other groups at risk of exclusion, their recent implementation (2000-2001) does not provide a long enough period to carry out an analysis although for the time being, they have had a slight effect.

## **6. ENTREPRENEURSHIP AND SELF-EMPLOYMENT**

The key initiatives implemented in Spain in recent years regarding the simplification of administrative processes and self-employment comprised three large areas: Measures to support small and medium-sized enterprises, stimulating the hiring of additional workers and promoting self-employment.

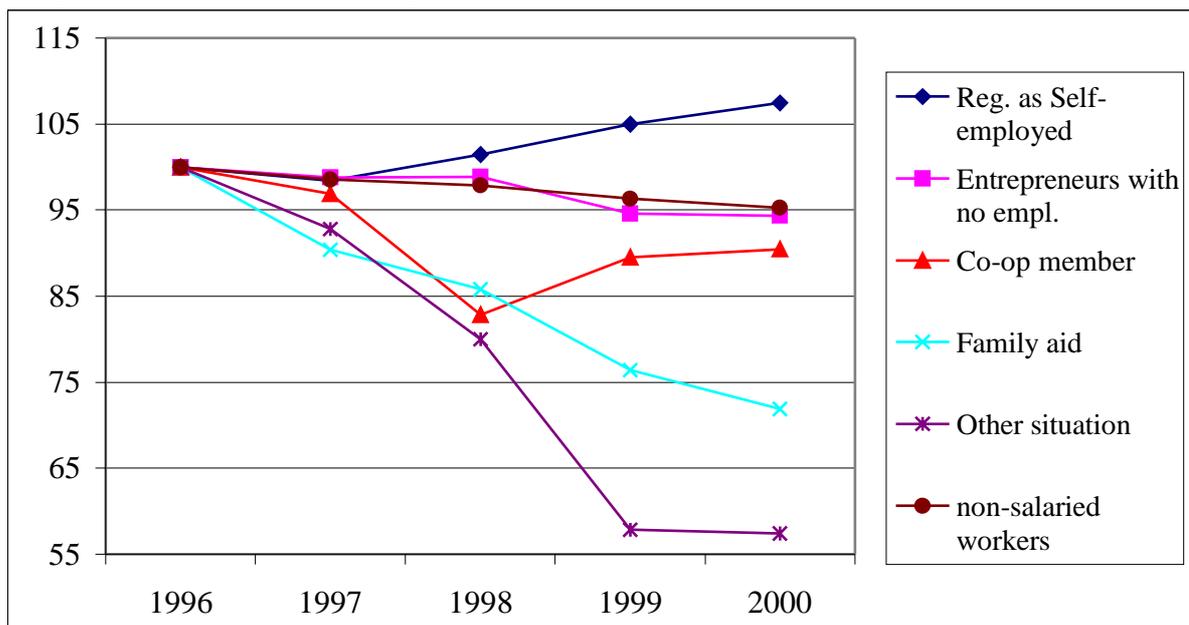
The first category consists of measures geared towards the objective of reducing the administrative steps required to begin entrepreneurial activity, on one hand, and to increase the availability of training and information demanded by micro-businesses, on the other, as well as to finally provide financial support to this type of initiative. With regard to the reduction of costs and administrative procedures needed in order to hire additional workers, one of the main programmes is the First Job Programme, which is meant to promote and facilitate the hiring of workers by the self-employed. Another is the labour market reform of 1997 aimed at improving hiring conditions and reducing the cost of laying off workers. With regard to the promotion of self-employment, some of the key measures include the technical assistance provided to unemployed persons for them to become self-employed workers, training programmes for self-employed workers, the Overall Plan for the Promotion of Business by Self-employed Workers, and the Support Plan for Women Entrepreneurs.

### **Main results**

These programmes have met with mixed results. For example, employment in SMEs have not shown clear growth; while the percentage of this type of companies on the total number of companies has remained virtually stable, their share on employment has shown contradictory trends depending on the statistical sources used to measure it. There are fewer doubts as to the strong growth observed in the number of employees in Workers' Companies during the period. In this context, newly-created work centres have also shown clear growth.

In Spain, in 1996 there was still a rather large number of self-employed people in the agriculture sector, although their number has decreased year by year, while the number of self-employed workers in other sectors have either been stable or increased. This explains the positive evolution in the number of contributors to the self employed social security scheme (R.E. Autónomos) that can be seen in Graph 3; agricultural workers belong to a different social security scheme. The median profile (in terms of probability) of those who work as autonomous workers is as follows: male, greater presence in this category with age, not very high educational level, high incidence of foremen or those working in skilled manual labour, higher incidence in agriculture, and only moderate incidence of part-time work.

**Graph 3. Evolution of self-employed workers. Baseline 1996=100).**



Source: Ministry of Labour and Social Affairs and Work Force Survey.

To explain the evolution of self-employment in Spain, there are two basic interpretations: a) it is a professional situation that serves as a “refuge” during periods of economic crisis for employees who lose their jobs and vice versa; b) it shows the process of modification on how the work is organised, and the emergence of what has come to be known as “new forms of work”. The absence of a clear link between the cyclical behaviour of self-employment and total employment in the econometric estimates, and the existence of reasonable levels of correlation between self-employment and the most representative variables of new labour structures lead to

conclude that the changes in the organisation of work processes that are taking place in our system of production constitute the most robust explanatory argument for the growth in non agricultural self-employment.

With regard to self-employment promotion programmes applied within the framework of the Spanish Employment Policy and its subsequent NAPs, it seems that their impact has been positive. Self-employed work has become a good basis for the transition from unemployment to employment (Table 5), which points to a high degree of effectiveness in general on this group.

**Table 5. Number of entrepreneurs without employees, who were seeking employment the year before.**

	1996	1997	1998	1999	2000
Thousands of persons	58.9	64.9	67.2	52.6	47.4
Percentage / total self-employed	3.09	3.44	3.56	2.91	2.63

Source: LFS.

### **Environment and business activity**

A basic question is whether there are any indications of a more favourable environment for business activity and job-creation in the wake of the implementation of the above-mentioned measures. Based on the different studies carried out, and even if the indicators used do not lead to one consistent diagnosis, it can be said that since 1997 there has been a notable improvement in the context in which entrepreneurial activity and job-creation processes take place. A prime example of this is the reduction of bureaucratic steps required for a new firm to begin its activity; secondly, the flattening out of the growth of average salary, both per hour and per worker; thirdly, the prospects for future job-creation, as shown in businesses surveys, have improved greatly, which has been reflected in the increase in the openings of new work centres, especially those motivated by the start of a business activity.

### **7. EMPLOYMENT CREATION : SERVICES AND IN THE SOCIAL ECONOMY**

In 1997, services were the main job-creating sector in the Spanish economy. The population working in services represented 62% of the total workforce. Before that year, general steps were taken towards employment creation and stability in all fields, without setting down specific measures for the services sector and the social and local economies. At the same time, the policies implemented for the social economy were few. The state law on co-operatives, was in need of actualization, and only a few of Self-Governing Regions had legislation on this matter. The steps taken, from 1997 on, to encourage employment creation in the social and local economies were basically a new Co-operatives Act, the creation of stimuli to bring in unemployed people as partners in social-economy enterprises (capitalisation of unemployment benefits), the financing of business and training projects for the services and managing teams of

social-economy enterprises, the development of the creation of Social-Initiative Cooperatives, mostly with unemployed people for assistance work with dependent persons.

Other more general policies also contributed to job creation in these contexts. The development of the part-time employment contract aided implementation of regional employment policies. In their turn, new employment sources were boosted by the introduction of new professional-qualification certificates, mostly associated with new information technologies.

Regarding general promotion of services, there was a number of very specific measures: Concerted Programme for the Development of Social Services; development of Active Sector Policies in the context of Quality and Innovation Programmes aiming to introduce quality-assurance systems in SMEs and services in general; measures on tourism and hotels promotion, seeking to increase competitiveness; promotion of environmental industrial services. Actions in this field focused on developing employment in the regional and social-economy contexts, and above all as regards co-operation among the agents involved : the creation of a local tranche of the ESF to develop subsidies for encouraging local initiatives implementing new activities; fostering of agreements on development and application of Integrated Services for Employment Plans to co-ordinate the actions of local agents; restructuring of Local Employment and Development Agents' programmes; development of a 'Company Seedbeds Creation' Programme, especially for young people; introduction of an experimental project on dissemination of ideas among companies; and fostering of distance-working so as to mitigate migration from rural areas to cities.

### **Differential evolution in services sector employment**

The Spanish economy has been able to increase its level of employment by nearly 2.7 million jobs, from 1977 to 2001. However, this evolution has not been neutral with respect to the way in which employment has been distributed in the different sectors of activity. The evolution of the labour market has led to spectacular growth in tertiary employment, along with a decline in the rest of the sectors. These tertiarisation processes have led to a situation in which 62.4 percent of employed persons work in the services sector, which has been able to generate 3.8 million jobs in the past 24 years. In other words, it can be said that services have constituted the true driving force for job creation, especially in the case of the more advanced services and of services related to the development of the Welfare State.

The tertiary employment has been distributed in four main occupational groups in the last five years. Aside from the fact that most of tertiary employment is white collar in nature (nearly  $\frac{3}{4}$  of the total), the skilled white-collar workers have the biggest share of employment (nearly 40 percent). However, less skilled workers also have a relatively high share of employment at approximately 20 percent. With regard to the characteristics that define services employment, the data points to a series of features: the presence of women is greater than in any other type of activity; there is a predominance of persons between ages 35-44 and 55-64; along with Catalonia and Madrid, service activities are more prevalent along the Mediterranean, and in general, in regions with significant tourist activity; occupations are mostly non-manual; there is a prevalence of permanent employment; and part-time employment is much more frequent.

As for the underlying factors that account for the growth of tertiary employment, three types of phenomena are important: the evolution of tertiary demand, the evolution of its productivity and the transformations in the productive structure. Thus, for the services sector as a whole, 30 percent of the differential growth in employment is due to increases in Gross Value Added (GVA), and the other 70 percent can be explained by slower productivity growth relative to other sectors. However, not all activities behave in the same way. The above statement is true for services destined for sale, but is not true in the case of public services. The progressively greater complexity of the Spanish system of production can be seen in the decline observed in the most basic activities (Agriculture, forestry and fishing; mining and energy products), along with the increase in the relative importance of more sophisticated activities related to new technologies and forms of production (Corporate services, Communications). The result is a shift in the core of inter-sectoral relations from industry to services, especially those of an advanced nature (Table 6).

In contraposition to the above-mentioned characteristics, the analysis carried out also showed the existence of certain barriers that could threaten the continued growth of tertiary activities in the future, thus limiting the sector's capacity to create employment. So, there is excessive regulation of the tertiary markets, which have insufficient exposure to competition. Complementary, tertiary prices show inflationary behaviour – due to a slower rise in its productivity with respect to other sectors-, which is partially slowing the growth of its end-user demand, and thus employment as well.

Regardless of these characteristics, there is little doubt that services employment in Spain shows several favourable aspects, which have been reinforced in the last years : it has lower temporary employment rates than the economy as a whole; the percentage of temporary employment in the sector has declined with more intensity than in other sectors; there is a greater probability of temporary contracts being converted into permanent ones after one year; service sector workers have higher rates of staying employed; and service workers also have a greater probability of finding jobs after a period of inactivity or unemployment.

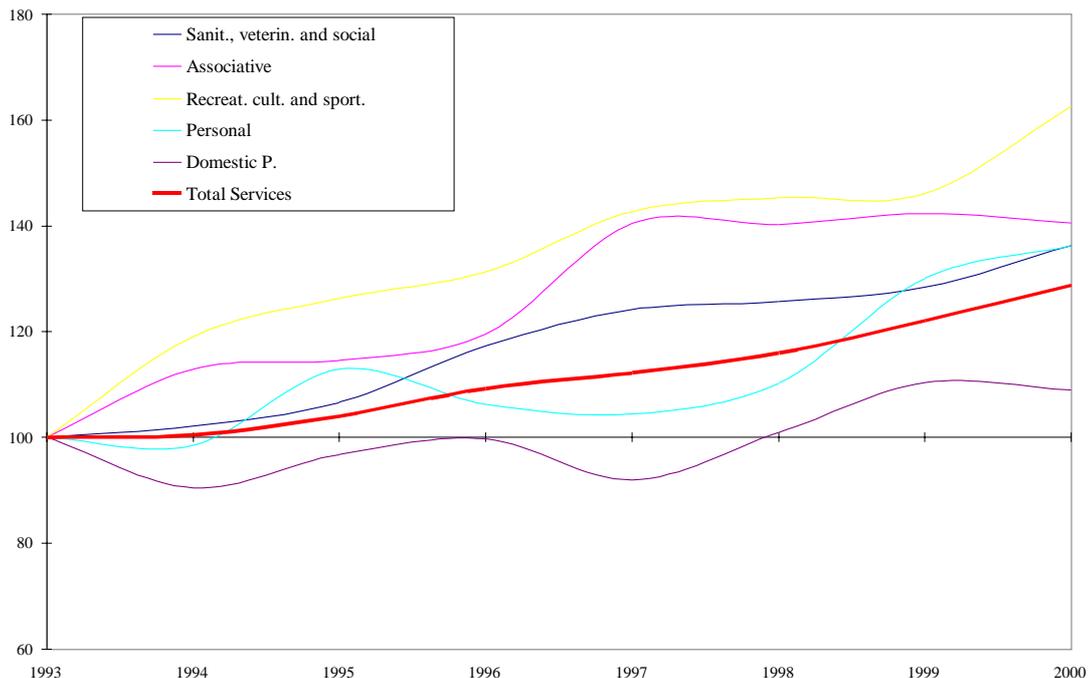
Within the services sector as a whole, the group of social, cultural and community services (SCCS) is more relevant. Furthermore, recreational, cultural and sports services are the components of SCCS in which employment is growing the most. A similar trend, although less intense, can be seen in health, veterinary and social services, associative services and personal services. The employment in all of these activities is growing at a faster rate than the tertiary sector as a whole (Figure 4). The “job profile” in these activities, shows they are basically female; that from age 25 onwards the probability of working in socio-cultural activities increases; that the highest probability of working in these activities occurs among those with secondary education and those with mid-level university education; that menial jobs, services jobs and professional jobs are the three most common types of occupation: and that temporary employment, and to a much greater degree, part-time employment, increase the probability of belonging to this sectoral classification. The profile of jobs in SCCSS is as follows: composed mostly of women, greater probability of being employed in such services after age 25 or with secondary level studies or mid-level university education; higher probability of access to these activities through part-time or temporary employment.

As for the factors that explain the growth of this type of activity, there are two important ones: a) first, the modifications underway in the structure of the demand by families are clearly favourable to this type of activities; b) the promotion of such activities through political action, as objectives related to social inclusion are among the aims of political and social policies, which clearly favours the network of companies and public and private actors, which constitute a large part of the sector's infrastructure.

The SCCS evolution's strongest basis is the needs expressed by families with regard to a large part of the services produced in it. If we assume, as a working hypothesis, a certain set of socio-cultural expenditures as representative of these services, we see that they have had a more dynamic evolution than the rest of the components of the consumption of families, taken as a whole, including all services taken as a whole. The factors that are most intensely associated with the SCCS are the evolution of tertiary employment, female employment, the evolution of the GVA of the tertiary sector as well as that of the economy as a whole, productivity, the increase in part-time employment, and the number of self-employed workers.

This constitutes a series of stimuli and opportunities for the development of the socio-cultural sector and job-creation within the sector. Among the objectives that have been reinforced in this trend are: establishing interdisciplinary social services teams at the local and regional levels to manage employment promotion programmes for disadvantaged groups; to improve municipal primary care social service; the consolidation and improvement of employment in NGOs; the implementation of a Strategic Plan for social services, and lastly, the regulation of other child-care services.

**Graph 4. Employment in the different components of SCCS**



**Table 6. Evolution of employment by sector of activity, 1977-2000**

Sector of Activity	Absolute change in employment	Relative change in employment	Absolute variation on size relative to total
<b>Agri, livestock, fishing</b>	<b>-1,574.1</b>	<b>-61.3</b>	<b>-13.9</b>
<b>Construction</b>	<b>370.6</b>	<b>30.7</b>	<b>1.1</b>
Energy, water, mines	-18.5	-9.9	-0.3
Chemicals	-85.3	-16.7	-1.2
Other manufacturing	-359.2	-22.3	-4.4
Metal processing	-61.2	-5.7	-1.7
<b>Industry</b>	<b>-524.2</b>	<b>-15.5</b>	<b>-7.7</b>
Wholesale services	178.7	48.0	0.8
Retail and repair services	354.2	24.5	0.7
Hotel and Restaurant	463.6	100.3	2.7
Transport	94.3	16.8	0.0
Post and Telecommunications	114.0	121.3	0.7
Fin. Inst. and Real Estate	175.6	61.7	0.9
Business Services	688.4	616.9	4.6
Health services	494.1	175.0	3.1
Government	494.1	114.9	2.9
Education and Research	494.8	145.1	3.0
Other services	293.5	37.6	1.1
<b>Services</b>	<b>3,845.2</b>	<b>74.4</b>	<b>20.5</b>
Total	2,117.5	17.2	0.0

Source: LFS.

## The social economy

The sector employs nearly 400,000 persons in Co-operatives and Workers' Companies (Table 7). This last group has followed a rising trend of more than 5% per annum since 1994; this has implied an increase in relative terms of more than 47% between 1994 and 2000. In the successive NAPs, there are several notable programmes related to the social economy. Such programmes have grown by nearly 40% since 1997.

**Table 7. Employment in Co-operatives and Workers' Companies**

	Empl. in Co-ops		Empl. in Workers' Co.		Total	
	Workers	Absolute change	Workers	Absolute change	Workers	Absolute change
1994	189.725		50.734		240.459	
1995	201.251	11.526	52.995	2.261	254.246	13.787
1996	214.477	13.226	52.857	-138	267.334	13.088
1997	227.609	13.132	55.783	2.926	283.392	16.058
1998	244.711	17.102	62.567	6.784	307.278	23.886
1999	259.757	15.046	75.606	13.039	335.363	28.085
2000	269.063	9.306	84.870	9.264	353.933	18.570

Data 31 December of each year. Source: Data base of Social Economy. Companies registered with the Social Security system (MTAS).

## 8. TAXATION ON LABOUR DEMAND

The measures aimed at reducing the tax burden on labour in Spain have been traditionally oriented in two directions: a) Modifying the social security charges that fall on companies and workers (including changes of a general nature linked to employment creation, or specific modifications related to the hiring of certain groups of workers by companies). b) Modifying the tax pressure, focused mainly on the SME segment. General social security rates have been lowered slightly for permanent workers, reducing contributions for unemployment contingencies; reductions in contributions for newly hired workers belonging to specific groups of have been greater.

As for tax incentives, the modifications differ in terms of the area affected, amount and fluctuations over time: deductions in corporate tax and personal income tax for the hiring of disabled workers, incentives for staff expansion, the introduction of deductions for training expenses, the increase in the amount exempted for the capitalisation of unemployment benefits, improved treatment of salary income due to the reform in IRPF, the reduction in the VAT rate of certain activities, etc.

## **Tax pressure**

**Average taxation on the economy.** In the period under study, the real tax pressure in Spain increased slightly. The main factor behind this is the rise in taxes on production and imports. This factor explains four-fifths of the increase in the tax burden ratio. Real social contributions, on the other hand, increased moderately and taxes on capital maintained their relative importance in terms of national product. At the same time, taxes on income and property decreased in relative terms. In these years, Spain has practically maintained its differential in tax pressure with respect to the Community average. Income and property taxes, as well as taxes on production and imports, are under the EU average, but the relative weight of social contributions in GDP is higher in Spain.

**Taxes on labour.** The revenue from taxes levied on labour is measured using the indicator known as AITREL (total taxes on labour divided by the effective salary cost). In general terms, the tax revenue has remained constant throughout the period under study, with slight declines in the intervening years. The evolution in other European countries has been similar, although without variations.

The increase in revenue originates mainly from social contributions, which is explained by an increase in employment. There was also a slight increase in revenues from Personal Income Tax (IRPF), although to much lesser degree. The evolution of the two components of this indicator was very different from that in Europe as a whole, where an increase in revenue from income tax served to compensate for the drop in social contributions.

As for the taxation of low-paid work, Spain was in line with the employment guidelines and this measure has had an impact that has been higher than the European average, for families with two children and income equivalent to the average salary, as well as for single persons earning the average salary. The biggest reduction was for those with salaries below average.

**Environmental taxes.** The ECOTASAS indicator mentioned in Guideline 12 is broadly defined as revenues from energy taxes (fuel oil, petrol, electricity, etc.), transport (vehicle registration tax, taxes of specific modes of transport, etc) and taxes on pollution or the use of natural resources, measured as a percentage of GDP. The revenue from state taxes levied on the environment experienced a large increase, mainly due to the effect of the rise in taxes on consumption. Taxation on aspects related to the environment on a regional level is relatively recent, and does not constitute an established source of tax revenue in Spain, and thus, it does not represent significant revenues on the regional level, at least for now.

**Tax wedge.** The tax wedge is the wedge introduced by obligatory levies on labour, and is defined as total revenues from labour taxes and contributions to social security paid by both workers and employers expressed as a percentage of GDP. With regard to the period for which it was possible to calculate this indicator (1997-1999), the tax wedge declined slightly, due to decreased revenue from IRPF, which was almost completely offset by increased revenues from social contributions.

Revenues from social contributions increased over the period considered in parallel with the nominal growth of the Spanish economy, so that the weight of social contributions in terms of GDP remained constant. The evolution of social security contributions can be influenced by the rate of contribution, the amount of the contribution base and the number of social security registrants. The contribution rate have remained nearly the same since 1995. The maximum contribution base has grown faster than the expected inflation rate. But the main factor has been the increase on the number of workers contributing to social security due to the creation of new jobs and more workers joining the formal economy.

### **Impact of the reforms on labour**

The elasticity of labour demand with respect to tax pressure was estimated, and the results of the model suggest that total tax revenue has the same elasticity as real salaries, which is not surprising since the greatest efforts have been made in taxes on labour. The elasticity of labour demand with respect to the AITREL indicator of tax burden, shows the correct sign, which means a positive effect on job-creation. However, its different components show widely varying elasticity. Whereas they are clearly negative for social contributions, for labour taxes they are very slight and not significant.

When analysing the impact of the reforms on low-paid work, one conclusion is clear: Spain has made a great effort and has surpassed the Community average in cuts in tax burden on labour. The group benefiting the most from this tax cut is that of family with children.

In summary, Spain's tax wedge has decreased, as the overall effect of a large decline in IRPF as a result of the legislative reforms introduced and a slight rise in social contributions.

The demand for salaried employees has been estimated as a function of each of the taxes per salaried employee specified in the model, expressed as a percentage of GDP, as well as the salary, net of labour taxes and special taxes, also in terms of GDP. The

highest link, accounting for almost all of the new jobs created, appear with the reduction of social contributions per salaried employee in terms of GDP.

Even if there may be discrepancies with regard to the exactness of the elasticities calculated using the different models developed, the direction of the effects is beyond doubt. Listed from greater to lesser negativity for employment, first would be social contributions, followed by special taxes, and in last place, IRPF, with very slight or near-zero negative elasticity as suggested by the constant changes in the sign of its parameter.

## **9. MODERNISING WORK ORGANISATION**

### **Changes in labour law in Spain**

In 1997, the Inter-confederation Agreement for Employment Stability (AIEE) was signed by the social agents. This agreement was reached three years after the previous reform of labour laws, which had been adopted by the government despite objections by social actors. That same year two other agreements were signed between confederations: 1) the accord on Collective Bargaining (AINC), which defined a new system for collective bargaining with a rationalised structure that avoided the excessive atomisation of the previous model and promoted a more logical articulation among the different areas of negotiation; and 2) the Vacuum Coverage agreement (AICV), which was aimed at completing the substitution process of antiquated labour rules, in areas that are now responsibility of the social partners, for those economic sectors where there was not yet a new one .

In 2000, the last year of the AIEE, efforts were made to forge a new agreement on type of contracts and their job protection. When it failed to materialise, the government approved a Royal Law Decree in March 2001, containing new measures on these areas and part time work. The 20<sup>th</sup> of December 2001 the Social Partners reached the Inter-confederation Agreement on Collective Bargaining for 2002. In it the guidelines for the bargaining process during this year are set out.

### **Structural changes in work organisation through collective bargaining**

An analysis of the content of collective bargaining agreements (CBA) can provide evidence of how the above-mentioned general agreements have materialised in terms of the reorganisation of work organisation. Three broad areas are considered: i) working hours, ii) employment, and iii) other additional issues. With regard to the first area, the average working hours agreed on in collective bargaining experienced very moderate declines (Table 8); the same applies to the actual hours worked as measured in surveys.

The most noticeable trend in the regulation of working hours has been to allow a non-uniform distribution of working hours, which are increasingly established on an annual basis in accordance with the stipulations of the collective bargaining agreements (Table 9). This flexibility has appeared on the different levels, but it is more frequent when it is

negotiated at firm level. Usually the decision about how to redistribute is taken either at firm or work centre level, particularly when it requires working more than the standard hours on a particular day. On some CBAs additional overtime work is eliminated as a result of adopting flexible annual distribution.

**Table 8. Working hours in thousands per year**

Year	Annual working hours agreed	Actual hours worked
1994	1763.4	
1995	1765.9	
1996	1767.5	
1997	1767.8	1680.8
1998	1766.6	1675.2
1999	1765.0	1671.7
2000	1761.9	1674.3
2001	1760.9	1675.2

Source: MTAS.

**Table 9. Clauses on work day in CBAs, 1999 -2001**

	CBAs					Workers				
	Nº 1999	% 1999	Nº 2000	% 2000	% 2001	Nº 1999	% 1999	Nº 2000	% 2000	% 2001
<b>Total</b>	3.874	<b>100.0</b>	3.945	<b>100.0</b>	<b>100.0</b>	7.782.847	<b>100.0</b>	7.862.814	<b>100.0</b>	<b>100.0</b>
Total working day related clauses	2.374	<b>61.29</b>	3.084	<b>78.2</b>	<b>69.97</b>	4.587.173	<b>65.6</b>	6.341.352	<b>80.7</b>	<b>81.57</b>
Irregular dist. Of working hours during the year	243	<b>22.13</b>	934	<b>23.7</b>	<b>25.48</b>	2.678.717	<b>38.31</b>	3.548.782	<b>45.1</b>	<b>43.05</b>
Ordinary work day over 9 hours / day	78	<b>7.10</b>	259	<b>6.6</b>	<b>7.99</b>	789.081	<b>11.28</b>	1.487.356	<b>18.9</b>	<b>15.91</b>
In continuous work days of >6 hours, legal rest periods are counted as work	287	<b>26.14</b>	1.790	<b>45.4</b>	<b>29.2</b>	1.723.363	<b>24.65</b>	2.365.201	<b>30.1</b>	<b>26.18</b>
Accumulation of daily rest in 14-day periods.	110	<b>10.2</b>	496	<b>12.6</b>	<b>12.40</b>	851.537	<b>12.18</b>	1.246.135	<b>15.9</b>	<b>12.24</b>
Shift work	41	<b>3.73</b>	345	<b>8.8</b>	<b>4.41</b>	333.352	<b>4.57</b>	555.376	<b>7.1</b>	<b>3.8</b>

Source: MTAS, *Estadística de convenios colectivos de trabajo*.

As for levels of employment and types of job contracts, at the moment, the collective agreement of slightly more than half the workers under include stipulations regarding some of the issues. This trend has grown since the AIEE, with the AINC having carried over the principles and measures included in the former. In this evolution, the most frequent stipulation in collective bargaining agreements is the conversion of temporary contracts into permanent ones and, to a lesser degree, the commitment to maintaining a fixed level of employment (Table 10).

**Table 10. Clauses on employment included in CBAs, 1999 -2001**

	CBAs					Workers				
	Nº 1999	% 1999	Nº 2000	% 2000	% 2001	Nº 1999	% 1999	Nº 2000	% 2000	% 2001
<b>Total</b>	3874	<b>100.0</b>	3945	<b>100.0</b>	<b>100.0</b>	7782847	<b>100.0</b>	7862814	<b>100.0</b>	<b>100.0</b>
Employment-related clauses	1612	<b>41.61</b>	1675	<b>42.5</b>	<b>42.75</b>	4629102	<b>59.48</b>	4730539	<b>60.2</b>	<b>52.61</b>
Net job creation	140	<b>3.61</b>	150	<b>3.8</b>	<b>3.90</b>	431027	5.54	439435	<b>5.6</b>	<b>2.81</b>
Job creation through partial retirement (hand-over contract)	405	<b>10.45</b>	478	<b>12.1</b>	<b>11.15</b>	2106542	27.07	1891584	<b>24.1</b>	<b>16.66</b>
Maintenance of employment	288	<b>7.43</b>	293	<b>7.4</b>	<b>7.36</b>	502453	6.46	601315	<b>7.7</b>	<b>7.12</b>
Conversion of temporary to permanent contracts	528	<b>13.63</b>	550	<b>13.9</b>	<b>13.88</b>	2031445	26.10	1920903	<b>24.4</b>	<b>18.58</b>
Other employment-related clauses	329	<b>8.49</b>	362	<b>9.2</b>	<b>8.89</b>	2001691	25.72	952640	<b>12.1</b>	<b>11.30</b>

Maximum number of temporary contracts	90	<b>2.32</b>	110	<b>2.8</b>	<b>3.39</b>	424321	5.45	544552	<b>6.9</b>	<b>9.41</b>
Use of Temporary Employment Companies	352	<b>9.09</b>	400	10.1	10.17	1313162	16.87	1638352	20.8	<b>18.68</b>

Source: MTAS, *Estadística de convenios colectivos de trabajo*.

Lastly, there is a tendency to include more issues related to the modernisation of the organisation of work, and the internal structure of work centres. There is an increased reference to functional polyvalence, professional classification, modification of working conditions, participation of workers in organisation, the implementation of new technologies, the implementation of productivity incentives and, in particular, measures aimed at mitigating inequalities suffered by part of the staff (Table 11).

**Table 11. Other clauses related to the modernisation of work organisation in CBAs, 1999 -2001**

	CBAs					Workers				
	Nº 1999	% 1999	Nº 2000	% 2000	% 2001	Nº 1999	% 1999	Nº 2000	% 2000	% 2001
<b>Total</b>	3874	<b>100.0</b>	3945	<b>100.0</b>	<b>100.0</b>	7782847	<b>100.0</b>	7862814	<b>100.0</b>	<b>100.0</b>
Functional polyvalence	684	<b>17.66</b>	834	<b>21.14</b>	<b>3.58</b>	1925449	<b>24.74</b>	2749500	<b>34.97</b>	<b>34.32</b>
Substantial modifications of working conditions	402	<b>10.8</b>	445	<b>11.28</b>	<b>12.39</b>	919306	<b>11.81</b>	1141718	<b>14.52</b>	<b>13.72</b>
Participation of workers in organisation	485	<b>12.52</b>	459	<b>11.63</b>	<b>11.77</b>	1194223	<b>15.34</b>	1461703	<b>18.59</b>	<b>14.31</b>
Implementation of new technologies	160	<b>4.13</b>	168	<b>4.26</b>	<b>4.56</b>	508167	<b>6.53</b>	6311879	<b>8.04</b>	<b>6.10</b>
Productivity incentives	1076	<b>27.77</b>	1112	<b>28.19</b>	<b>29.05</b>	2157736	<b>27.72</b>	2016505	<b>25.65</b>	<b>24.64</b>
Non-discrimination or promotion of equal opportunity for men and women	541	<b>13.96</b>	575	<b>14.58</b>	<b>15.20</b>	2193403	<b>28.18</b>	2964135	<b>37.70</b>	<b>36.63</b>

Source: MTAS, *Estadística de convenios colectivos de trabajo*

## Flexibility of employment and its impact

### a) Relationship between flexibilisation and reduction of working hours on the net number of jobs created.

In the Spanish context of sweeping economic changes and deregulation of sectors and markets, it is not very viable to isolate and quantify the incidence of greater flexibility on the number of jobs created in a period of time as short as the one under consideration. Nevertheless, as mentioned in the Introduction, the economy has experienced an increase in its capacity to generate employment per unit produced in the last period. The higher elasticity of labour demand in the face of increased production, caused by the labour market reforms of 1994 and 1997, started before the EES, but continued and amplified during it and other changes in the labour market.

It is unlikely that the reduction of working hours could have had an important effect on employment creation. As can be appreciated in Table 8, reduction on annual working time for full time workers has been very modest. Many authors and institutions (CEOE and the two largest labour unions) share the idea that the apparent reduction of working hours that appear in other sources is due in large part not only to the growth of contract types that allow shorter working hours –essentially part-time work—but also to a series

of factors that have to do with the method for the annual calculation of days off and holidays, or even with the duration of unemployed periods.

#### **b) Social actors, collective bargaining and employment**

Approximately 60% of all collective bargaining agreements do not fully deal with all the issues that may be subject to negotiation, especially those negotiated on the provincial and regional level, although the variety of content has increased. In this context, in 2001, Spanish social actors and the government have maintained an open social dialogue at what has been called the “collective negotiating table” where issues such as how to reform collective bargaining agreements and their content are negotiated. Whereas the initial proposal was for structural modifications, the solution adopted was an Inter-confederation Agreement on Collective Bargaining for 2002.

#### **c) Positions of social actors with regard to the interrelation and balance among job flexibility, security and quality.**

Over the past few years, social actors have given their opinions regarding the effects of the EES. From such opinions, it can be deduced that the main push for reforms by the EES during 1998-2001 has coincided with the application in Spain of the agreements signed by the social agents and the government in 1997. A summary of the effects of the AIEE is as follows: Significant growth in employment, especially permanent employment; persistence of a high level of temporary employment; an improvement in the quality of employment with regard to greater stability in the hiring of women and young people, although there remains a notable segmentation by gender and age in the labour market; very little development of part-time employment; very little reduction in groups where high turnover of temporary contracts are prevalent. However, there is no common diagnosis regarding the causes of temporary employment, on the desirable (and possible) levels of job stability, or on the measures needed to achieve them.

#### **d) How do Spanish social actors see the road taken by the European Employment Strategy until now?**

**Employer organisations (CEO and CEPYME)**, consider it necessary to work towards objective indicators, both quantitative and qualitative, that are directly related to the effectiveness and efficiency of the measures of the Employment Plans and their impact.

At the same time, they have a positive opinion of the fact that regulations on the distribution and flexible arrangement of working hours have moved away from emphasising quantitative aspects regarding the maximum number of hours in a work day. They look favourably on the trend to define working hours on an annual basis. They also have a positive opinion of the increasing number of collective bargaining agreements that allow for an irregular distribution of the work day and flexible mechanisms to deal with overtime hours. Business organisations believe that the evolution of the content of negotiation regarding work days and working hours is positive, but that they still contain serious restrictions especially in areas such as the flexible distribution of working hours or the adoption of more advanced systems of variable remuneration.

They recognise the impact of the 1997 labour reform on areas such as the regulation of fixed-term contracts and the conversion of temporary contracts into permanent ones, and consider as progress everything that allows higher levels of stability without negative effects on employment. But they consider more flexible formulas, that can ensure a balance between flexibility and security, to be the direct responsibility of social actors; in particular, those issues that should be subject to collective bargaining or company-wide agreements. As for the reforms introduced by the Royal Law Decree of March 2001, they consider its content to be positive, although it is not enough to eliminate the rigid structures that act as disincentives to employment stability.

Finally CEOE considers that the modernisation of systems of professional classification is making slow progress, although the efforts being made in this area are important. Other areas where only modest progress has been made are those related to geographical mobility and functional mobility. On the other hand, it has a positive opinion of the changes introduced in the treatment of salary policies that reinforce the variable component of salaries, which are sometimes linked to improvements in productivity or results, although there still are serious restrictions.

**Labour unions** have been more critical of the procedure used by the government in preparing and applying the NAPs, and the budget devoted to it, as well as the manner in which they are monitored and evaluated. However, they share certain positive views regarding measures that emerged as a result of the 1997 agreements.

They consider that the progress made in the area of the reorganisation and reduction of working hours to be insufficient, and that reducing working hours requires legislation, since collective bargaining only allows marginal reductions. With regard to the irregular distribution of the work day, which is usually necessary in order to shorten it, the unions see its progressive growth to be positive, clearly concentrated in the industrial sector, while its increase in the services sector is associated with temporary employment. In general they consider that temporary employment affects negatively the reduction in the work day. The unions consider the agreed reduction in overtime hours to be insufficient, as it only has a clear effect when it is determined to be incompatible with the irregular distribution of the work day.

The unions continue to be critical of the high level of temporary employment, especially the use of successive temporary contracts for the same job, even in the public sector. The unions also have a negative opinion of the government's adoption of the Royal Law Decree on Urgent Measures to Reform the Labour Market of 2001, which, in their opinion, implies a collapse of the process of social dialogue in matters that should be in the hands of social actors.

The progress made in the modernisation of the organisation of work is considered to be insufficient, as the unions consider that collective bargaining cannot be the only way to achieve this, and that more legislative measures should be taken. The unions also consider that their participation and influence in the area of work organisation are limited. Their opinion regarding measures taken to improve geographic mobility is positive. However, the same is not true in the case of functional mobility. The progress

made in the area of equal opportunity and the content of the Reconciliation of Work and Family Act are also considered to be insufficient.

## 10. REDUCTION OF GENDER INEQUALITY

The different PNAEs from 1998 in Spain affects women to a significant extent. Following the EES, equality policies began to take on a horizontal approach, affecting the full range of labour policies. The PNAEs prioritised women, applying measures such as permanent contracts for women to receive higher discounts than those for men; permanent contracts for women in occupations in which they are under-represented to receive further discounts; financial, advisory and training aid for women's businesses to be boosted, etc. One of the most significant steps in that direction was the Work and Family Life Conciliation Act in 1999, which introduced a number labour-law changes. At the same time, reforms in the education system were introduced to include teaching on infant education, social integration and socio-cultural leisure, one the one hand, and optional vocational and work-guidance modules in secondary education for adults, on the other. In addition, follow-up mechanisms were created, such as the Equality Observatory, and a boost was given to consultation systems, with the Institute of Women taking part in Structural Funds Monitoring Committees.

### The aggregate impact of the EES

In order to analyse the differences between the trends observed before and after the measures adopted since Luxembourg summit, Table 12 shows the cumulative rate for activity rates, unemployment rates and employment rates for three different periods: 2001-1987, 1996-1987, the period prior to the European Employment Strategy (EES), and 2001 to 1997, the period of implementation of the EES.

**Table 12. Average cumulative rates of the main labour market indicators**

	Activity Rate		Unemployment Rate		Employment Rate	
	Women	Men	Women	Men	Women	Men
2001-1987	1.65	-0.43	-2.68	-4.02	2.49	0.16
1996-1987	1.74	-0.78	0.68	0.73	1.46	-0.92
2001-1997	1.46	0.30	-9.45	-12.79	4.59	2.27

Source: Compiled from LFS data

The increase in the activity rate is greater for women in the period prior to the EES, while in the case of men the rate is negative for the 1996-1987 period and positive in 2001-1997. The biggest changes are in the unemployment rate and the employment rate, where there are clear differences among the time periods under consideration. As for unemployment, the cumulative rate of change in unemployment rate is 0.68 percent for women and 0.73 percent for men in 1996-1987. This trend takes a drastic reversal in recent years, with cumulative rates at -9.45 and -12.79 percent respectively. This change is due to a series a different factors including economic growth and perhaps the

measures included in the EES. Something similar can be seen in the cumulative rates of change in the employment rates, where the biggest growth occurs in 1997-2001.

This report carries out a quantitative analysis of different indicators, which are listed in Table 13. Based on the time series, we can conclude that the measures adopted by the employment plans in 1997-2001 have gone along and reinforced the positive trend that began in the 1990s, towards a gradual reduction in the inequalities between men and women. Only two cases show atypical values in the period under study, E09M and F3. These atypical values are just transient changes that do not affect the long-term evolution of the indicator. Therefore, the measures adopted by Spain from 1997-2001 do not seem to have produced a change in the trend over time of the gender gap indicators, but to have sustained a favourable evolution.

**Table 13. Series analysed**

Series	Series name
EO1	Difference in absolute unemployment rates
EO2	Difference in absolute employment rates
EO3	Occupational segregation index between men and women (Main groups)
EO4	Sectoral segregation index between men and women (Main groups)
EO9H	Non-volunteer part-time work. Men
EO9M	Non-volunteer part-time work. Women
P1	Growth rate of employed female population
F1	Female employment rate / male employment rate
F2	Female unemployment rate / male unemployment rate
F3	Female activity rate / male activity rate

### A microeconomic analysis

A logit model was used to estimate the evolution of the relationship between an individual's gender and the probability of remaining unemployed, employed or inactive. Table 14 shows the logistic estimate of the probability of remaining outside the labour market for the years considered. In all three models, all the variables are significant and  $R^2$  is around 37 percent. It can be observed that the variables married and age have a positive effect on the probability of remaining inactive, a fact that coincides perfectly with the available data, especially in the case of women.

On the other hand, the higher a person's educational attainment, the lower the probability of being inactive. As for gender, we see that the variable is positive for all the years, which means that the probability of remaining outside the labour market is much higher among women than among men. The estimated coefficient for the gender variable decreases in absolute value over the period considered, once the effect of education and age have been isolated. In the table, coefficients are marked with asterisks to indicate their degree of significance.

**Table 14. Logistic estimate of the probability of remaining inactive (Y=1 if the individual is inactive)**

Variables	1999/2	2000/2	2001/2
Gender	-1.302**	-1.253**	-1.241**

Civil status	1.430**	1.460**	1.452**
Age	0.062**	0.068**	0.068**
Education	-0.537**	-0.381**	-0.404**
Constant	-0.970**	-1.954**	-1.930**
$\chi^2$	53,138.22	48,175.6	47,828.86
R <sup>2</sup> Nagelkerke	36.7	36.1	37.0
Individuals	165.147	152.374	147.393

\*\*99 percent significant (Wald statistic)

Source: Estimates derived from the econometric model applied

Table 15 shows the logistic model for the case of employment; the results indicate that all the variables are significant and show the expected sign. The probability of being employed is greater for men and increases with educational attainment. On the other hand, this probability decreases with marriage, especially in the case of women, and with age. If we look at how the estimated coefficients vary by gender, we see that its absolute value goes down in steps from 1999 to 2001. This indicates that a woman's probability of being employed has increased over the past few years, and the effect of civil status is decreasing over time.

**Table 15. Logistic estimate of the probability of being employed (Y=1 if the person is employed)**

Variables	1999/2	2000/2	2001/2
Gender	1.349**	1.302**	1.300**
Married	-1.539**	-1.521**	-1.492**
Age	-0.049**	-0.055**	-0.056**
Education	0.523**	0.374**	0.394**
Constant	0.037**	1.037**	1.056**
$\chi^2$	43,005.67	39,530.98	39,855.97
R <sup>2</sup> Nagelkerke	30.9	30.6	31.7
Individuals	165,147	152,374	147,393

\*\*99 percent significant (Wald statistic)

Source: Estimates derived from the econometric model applied

Lastly, the model was estimated to see the evolution of the probability of remaining unemployed. In this case, the specification is not comparable to that of the two previous cases. The estimated coefficients, like the model in general, show much lower statistics than the inactivity or employment model. Based on the data shown in Table 16, the married variable is not significant to explain the probability of a person to be unemployed. As for gender, being a woman increases the probability of being unemployed. This probability becomes greater as we move away from 1999.

**Table 16. Logistic estimate of the probability of being unemployed (Y=1 if the individual is unemployed)**

Variables	1999/2	2000/2	2001/2
Gender	-0.367**	-0.399**	-0.410**
Married	0.049	-0.003	-0.008
Age	-0.047**	-0.047**	-0.048**
Education	0.024*	-0.020**	-0.0120*
Constant	-0.669**	-0.576**	-0.623**
$\chi^2$	7,010.7	5,596.52	5,294.5
R <sup>2</sup> Nagelkerke	9.8	8.9	9.1
Individuals	165,147	152,374	147,393

\*\*99 percent significant (Wald statistic)

Source: Estimates derived from the econometric model applied

As expected, the analysis confirms labour inequalities between the genders. Women have a greater probability of remaining inactive and of being unemployed than men, while in the case of employment, the probability for women is lower. The analysis shows that evolution of the estimates of the coefficient for the gender variable over time in each of the regressions carried out: inactive, employed and unemployed. In the case of employment and inactivity, there is a qualitative improvement in the period from 1999 to 2001. More specifically, the probability associated with a woman being inactive is lower in 2001 than in 1999, while the probability of a woman being employed has increased over the same period of time.

### Family responsibilities and participation in the labour market

Family structure remains the most important factor in determining the labour behaviour of women. In the case of men, family responsibilities decrease their probability of leaving their job, while in the case of women, as the secondary earner in the family, this probability increases. In this regard, Table 17 shows the effect of family responsibilities on a series of individual decisions regarding the labour market. The table shows two types of data: the percentage out of the total of women and men counted in each category and their absolute numbers.

**Table 17. Effect of family responsibilities on the labour market**

	1999/02		2000/02		2001/02	
	Women	Men	Women	Men	Women	Men
Not looking for work due to personal or family responsibilities	28.4% 15,051	0.70% 197	28.2% 13,483	0.60% 148	24.1% 11,049	0.50% 129
Cannot work in two weeks or less due to personal or family responsibilities	27.2% 14,442	0.40% 122	27.5% 13,158	0.40% 115	23.7% 10,882	0.40% 97
Left previous employment due to personal or family responsibilities	7.90% 1,050	0.60% 82	6.90% 825	0.40% 47	7.30% 844	0.30% 38

Was taking care of household or family responsibilities before looking for work	15.90% 1,540	0.10% 9	15.6% 1,309	0.10% 7	14.10% 1,096	0.20% 13
Work is part-time due to family responsibilities	2.30% 558	0.00% 3	2.20% 541	0.00% 5	2.20% 525	0.00% 3

Source: Compiled from LFS flow data.

The table clearly shows the difference in the effect of having family responsibilities for men and women on their decisions regarding the labour market. For example, out of all the women who are not looking for a job in the second quarter of 1999, 28.4 % cited having family or personal responsibilities for not doing so. On the other hand, out of all the men who were not looking for a job, only 0.7% cited family responsibilities for not doing so. In all the indicators, the differences between men and women are enormous, which suggests that for men, family responsibilities do not constitute a significant factor in making decision regarding the labour market.

The same table shows that the percentages and the absolute numbers for women declined significantly from 1999 to 2001. In this regard, it seems that the efforts made in the past few years have been achieving positive effects in reducing the number of women who cannot make both work and family compatible in their life, especially insofar as regional governments have also made contributions.

Therefore, it is reasonable to accept the explanation that the asymmetry in family burden has a very significant effect on the decisions that men and women take in the labour market. This does not mean that when women give up the opportunity to work it is because they are obliged to do so. Such a choice may be due to a voluntarily decision to spend time at home. In this case, the inequalities between the genders would not be the result of discriminatory behaviour but rather the manifestation of a process aimed at maximising well-being carried out in the home in a completely voluntary manner.

Although only 0.7% of men requested paternity leaves, in the first year of its existence, it seems that this measure, along with reducing the cost of a replacement worker for maternity leaves, are appropriate lines of action to eliminate the barriers women face with regard to equal access to the labour market. Even after the corresponding law (November 1998), substitution for a period of weeks or months implies some added costs to companies (training, adaptation), which should be taken into consideration insofar as maternity can partially retain its consideration as a cost for firms, and thus a barrier.

## 11. HORIZONTAL PERSPECTIVE

**Employment Plans and Structural Funds.** The successive NAPs in Spain have enjoyed a favourable economic context for the achievement of their objectives. In horizontal terms, from 1998 to the present, their evolution has been favourable overall, a fact that is manifested in both the content of succeeding programmes, which have progressively improved this approach, and in their practical application, with increasingly satisfactory results. This encouraging improvement, however, cannot hide

certain failings, the most glaring of which is the lack of a solid view of the big picture beyond the accumulation of measures.

As for structural funds, they constitute an important contribution to the financial resources of the NAPs (60-70% over the entire period), especially the ESF. For the 2000-2006 period, Community interventions in Spain support the European employment strategy. In this regard, the central objective of the structural funds is to reinforce social and economic cohesion in terms of a real convergence of their economies, which has to be accompanied by one of the EU's top priorities, employment creation.

The implicit approach mentioned above takes into account regional diversity and local needs, and is very receptive to the European Employment Strategy, which is reflected in its planning. In this way, there are no glaring cases of overlap and it guarantees a correlation between interventions and the territory, promoting the coherence of all interventions in the same sector.

**Social actors.** Social actors have made important contributions to the development of the NAPs, having benefited from long prior experience in building consensus, although paradoxically, it has not been possible to come to agreement on the Plans themselves, which have not enjoyed the backing of employer associations and labour unions. Some of the most notable aspects of the role of social actors in the NAPs include the development of social dialogue with very positive partial implications for employment policy (Agreements for Stability in Employment, and Stable Part-Time Contracts, on collective bargaining) training policies (Agreement on Training for the employed) and social policies (Agreement on Pensions). This phenomenon, however, has not included the field of R&D and the information society, in which the relationship with social actors has been of a merely formal nature, for the transmission of information, and this issue has had a scant incorporation in collective bargaining.

**Institutional actors.** The participation of institutional actors in the NAPs has been in line with the increasing degree of decentralisation of employment policies, which allows them to carry out their own strategy in this field. Since 1998, these strategies have been in line with European guidelines for employment, with their emphasis on employability (promotion of hiring, training, orientation and intermediation, life-long learning, among other actions) and entrepreneurial spirit (social economy, self-employment, support for enterprise), with a notable horizontality with regard to women. The pillar that has been most heavily promoted by local initiatives has been that of entrepreneurship.

The actors involved have displayed a high level of partnership in certain basic aspects. The state and the autonomous communities have done so in the process of decentralisation and modernisation of public employment services. In areas of overlapping strategies –essentially with regard to employability—there is probably a need for a greater degree of coordination between the employment strategies of both levels of government. The state and local governments have already worked together to reinforce actions on a local level, in an attempt to adapt active policies to social and economic realities. The NAPs have little to say regarding partnerships between local and regional governments. This principle, however, has a greater presence in certain plans by the Autonomous Communities.

The relationship between social and institutional actors has also yielded important successes in the decentralisation of SPEs and in employment agreements in the Autonomous Communities. However, there have been very few agreements at the local level. The participation of peripheral authorities in the Structural Funds is very satisfactory, and has fully responded to the demands of the partnership.

**The information society.** The treatment of the information society in the NAPs is part of a broader strategy that is aimed at strengthening R&D in Spain. The two most important elements of this strategy are the creation of the Ministry of Science and Technology and the development of the National Research, Development and Innovation Plan (PNIDI), whose residual presence in the NAPs can be explained by the fact that INFO XXI plan assumes all the initiatives of PNIDI with regard to the information society. INFO XXI is the Spanish government's most recent specific initiative to develop the information society. It includes the actions and commitments that each ministry will carry out with their own budget for the period from 2001-2003, as well as other projects that need to be supported in order to be carried out either in the private sector or the public sector. Aside from mobilising substantial resources, it also provides for the co-financing of certain projects with the Autonomous Regions, local governments and the private sector, which would mean additional funding as well as strengthening inter-administrative co-ordination.

The initiatives carried out in the three-year period have given a boost to R&D in Spain, which has increased its efforts in the direction of the information society, reinforcing the European employment strategy in this way. In particular, this has benefited the pillars of employability and entrepreneurship, as well as that of adaptability through ongoing training, and equal opportunity through training and information aimed at the integration of women.

**Training.** Progress has been made in the three training sub-systems present in Spain: initial/official education, professional training and continuing education. All three are decentralised, with the first two managed by the Autonomous Communities, while the third is managed through accords between the government and social actors.

During the time the NAPs were in force, the association among actors was reinforced in all three sub-systems. This has been especially positive in the area of professional training for the employed, where the previously existing dynamic between the government and social actors has been developed even more. A similar process took place with the decentralisation of Public Employment Services (SPE), and with the transfer of training for the unemployed to regional authorities where they participate actively.

**Equal opportunities for men and women.** Initiatives for the promotion of equal opportunities between men and women have enjoyed progressive consolidation in the NAPs. Since 2000 there has been a widespread adoption of these initiatives in a large part of the pillars and guidelines; furthermore, women have been classified as a priority group in most programmes and actions.

The specific strengthening of Pillar IV is illustrated by incentives for social policies such as the Reconciliation of Work and Family Life Act. In terms of partnerships

between actors, at the government level there have been some interesting results such as the Day-Care Plan in conjunction with local and regional governments, and the strengthening of proximity services together with local governments, but such services are still insufficiently developed.

The social dialogue with social actors has yielded interesting fruits within this area, with the transversality of equal opportunity being included in agreements on job stability and training, in which women are favoured. There has been much less progress in collective bargaining, where the existence of an agreement between management and labour unions could hasten the adoption of equal opportunity in companies and the different sectors of production.

In order to assess the horizontal effects of the EES in this field, we need to look at the impact of all the measures included on this phenomenon. This is due to the fact that a high percentage of the general measures (not targeted by gender) have an impact on female workers. While it is true that such measures are not specifically tailored for women, insofar as women are in a less advantageous situation in the labour market, the “marginal impact” on this group is usually greater than that on men. Even when taking into account both lines of action and their effects, the analysis carried out in the evaluation shows that the measures adopted by the employment plans have not yet managed to bring about structural changes in the strong occupational segregation in the Spanish economy, although female employment has increased by 23% over these four years.

**The impact of local partnerships on employment.** The evaluation of the development of local partnerships and their impact on employment presents serious difficulties, mainly due to a lack of information. Nevertheless, there are signs that can provide an idea of the magnitude of their potential presence. One is the increase in resources mobilised at the local level. In the NAPs, these resources have grown by 364% on the average over their period of application.

The results for Spain’s regions indicate that there has been an acceleration of the dynamic of social agreement with the arrival of the European strategy and that many accords were active during its period of validity. Furthermore, these accords are predominantly tripartite, making them highly representative. A similar procedure could be used with regard to employment plans by local governments, such as the evolution of the budgetary effort made in the respective areas. The contribution of the Autonomous Communities to the cost of activation measures contained in the NAPs went from just 7% in 1997, to near 17% in 2001.

**Advances achieved in terms of employment in other policies at the national level.**

These advances were observed in the context of macroeconomic policy, sectoral policies and regional policies. In the first case, the impacts were observed mainly through basic indicators of employment performance, in relation to the European Union. Employment growth, which enjoyed a very favourable macroeconomic context, was highly positive, with an average rate of 3.4% over the period from 1998 to 2001. This rate of growth is about two times higher than that in the EU average. Furthermore, the number of unemployed persons declined by slightly more than 1,2 million persons, which represents one fourth of the total reduction of unemployed persons in the European Union.

These successes should be juxtaposed with the differences that still remain between Spain and the EU. Such differences show the difficulty for achieving full employment. Groups with difficulties in labour integration (women, young people, persons over certain age), also made progress, although in the case of women the gap with respect to the male employment rate has remained.

Tax and fiscal policies have also influenced employment, both through spending and revenue, which in the 1990s, in both Spain and the EU, began moving towards a reduction in tax pressure and rationalised spending. This orientation has remained basically unchanged in the three-year period under study, although there was a slight increase in both (spending and revenues), which nevertheless, was in line with their evolution in the EU. This evolution is coherent with the effort to bring public finances into order, which has allowed some reforms to be undertaken in direct taxation, aided by economic growth.

In general terms, income taxes and social contributions as a percentage of salaries have decreased. Also, the relative size of income taxes and social contributions paid by employees and employers has decreased with respect to the total volume of salary costs. This decline was greater in Spain, where the tax wedge was already lower, than in the EU, thus increasing the differential that already existed at the beginning of the three-year period. This same evolution can be seen in tax balances (income tax plus social contributions minus benefits). This has had a positive influence with regard to employment objectives. Nevertheless, this has been possible, principally due to the increase in indirect tax revenues associated with economic growth; if the economic cycle changes other sources of finance will be required.

**Sectoral and territorial policies.** The expansion of the economy is a nation-wide phenomenon and is not limited to just a specific sector or territory. However, the attribution of a causal link between employment and the policies implemented is difficult, basically, due to the difficulty in isolating their impact in space and time. Nevertheless, certain links with employment have been observed in the policies analysed, which are related to the reform process of markets, products and factors, and to liberalising trends in the economy, which have also modified the point of view of intervention in the territory. In all the cases studied, a predominant logic was observed, with a tendency towards competition and economic efficiency, considered as prerequisites for employment generation.

In this context, large increases in employment were observed in all economic sectors, with the exception of agriculture. However, just as significant as the large number of

jobs created is the fact that employment growth was compatible with a certain rise in productivity, with the exception of construction, whose evolution follows the general economic cycle. This reflects that productivity gains sought by policies implemented in past years, in a break from the growth model in the 1990s, where growth depended mainly on an increase in labour by taking advantage of differences in the cost of labour between the European Union and Spain, and towards growth based on gains in economic efficiency, although an intensive increase in employment is sought.

The labour market in Spain still shows inequalities among sectors and regions. This can be seen in the divergent results obtained in terms of employment growth rate, productivity and especially regional unemployment rates. Four years after the inception of the EES, it is striking to see the juxtaposition of regions with high unemployment rates with others that enjoy unemployment rates near the European average. The fact that these differences have not been narrowed is a symptom of a lack of geographic mobility, which is confirmed by empirical evidence. The reasons behind this dispersion of results lie in the characteristics of the housing market (whose structure presents serious disjunctions), in certain social benefits that serve as disincentives to mobility, in the centralised nature of collective bargaining, which limits the adaptation of agreements to the reality of each specific region, and in the limited information regarding vacancies in the labour market.

## 12. MAIN CONCLUSIONS

- Since 1998, the NAPs have introduced substantial changes in Spain's **Active Labour Market Policies** : Short-Term Unemployed Youths and Adults as priority target groups; the strengthening of individualised measures for orientation and active job-seeking; the reformulation of occupational training; and the creation of new programmes for training, employment and commitment to seeking employment, specifically geared towards disadvantaged groups. During the period, the role of regional public authorities and social actors in the creation and development of active measures was given a boost by the emergence of regional and local employment accords, the establishment of partial reforms in the functioning of the labour market based on social dialogue between management and labour organisations, and the increased regulatory function of collective bargaining in the areas of hiring and training.

From 1997 to 2001 public spending on active employment and training measures grew by a factor of 1.5. Seventy percent of all integration actions and of individuals benefited by the NAPs were in the group of STU. The emphasis on the preventive approach, through the intensification of actions aimed at enhancing the employability of STU is reflected in the strong decline in the number of unemployed considered as LTU; and in terms of flows, the increase in the flows from unemployment to employment and the reduction of the flows from short-term to longer-term unemployment.

The results of the evaluation carried out on the effectiveness of the Professional Training programme for the unemployed (FPO) indicate that it has had a net positive effect on the employment possibilities of the members of most groups considered. Occupational Training seems to have a compensatory effect for persons with the lowest levels of educational attainment, as it clearly improved their possibilities of

employment. The specific analysis of the effectiveness of the FPO programme on the target groups of the EES shows that, in line with the above indicators, STU youths and adults were the groups that obtained the best results. The analyses carried out confirms that the application of the preventive approach recommended by the EES was appropriate for dealing with Spain's unemployment problems. However, alongside the decrease achieved over the past year and a half in the group of LTU, the current context of a slowing economy introduces the risk of fresh increases in the initial flow into STU (which has already been partly detected in the case of young people).

- In general terms, the effectiveness of the **tax and unemployment benefits** reforms introduced in Spain has been positive, although their quantitative impact is not significant in relative terms. In respect to the decline in the MTR, the effect of the personal income tax reforms on the labour supply has been modest. The impact of the IRPF, on the other hand, has been different for men and women : the tax cut does not seem to have affected the labour supply of married, employed men, while affecting that of previously no occupied married women, whose supply increased. The lowering of the marginal rates of the Personal Income Tax has been more beneficial to women, and in particular, previously no occupied married women.

In respect to the unemployment benefits, the reception of some kind of financial benefit is negatively associated with obtaining a job : people who are not receiving unemployment benefits get out of unemployment faster. A negative effect is also observed when analysing the relationship between the length of time of previous employment and getting out of unemployment: the longer the previous employment, the longer it takes to get out of unemployment. Both effects are related among themselves, as the length of time spent in a job is associated with longer periods of eligibility for unemployment benefits. Other available econometric studies for Spain show contradictory results : they suggest that it is the high turnover in the labour market which explains the econometric relationship between benefits and unemployment duration, since there is a segment of the work force that goes in and out of unemployment very rapidly, and thus remains outside the social protection system.

In this context, the policy of Spain's labour authorities has been orienting itself towards providing incentives to seek employment among those receiving unemployment benefits. Such actions, in general, are geared towards two aspects, in line with the guidelines deriving from the EES: the prevention of fraud in the collection of unemployment benefits, and the promotion of active participation of unemployed people in job-seeking. From the point of view of whether receiving unemployment benefits, in itself, constitutes a disincentive to go back to work (poverty trap), some estimates are available for different recipient cases and situations; no poverty traps were detected. On another level, Social Security registrations has risen at a faster rate than the number of employed persons (as measured by surveys) since 1997. The causes that lie behind this difference are probably the formalisation of the underground economy on one hand, and changes in labour laws, on the other.

- There has been a significant advance in the average **educational level** of the Spanish population. In the last five years, the percentage of the population in the lowest three categories of educational attainment (illiterate, no schooling, primary education) has dropped considerably. At the same time, the percentage of those with secondary school diplomas and university degrees has grown. This phenomenon is associated with the

results of previously implemented educational policies, but it should be noted that these were reinforced in recent years by the application of different lines of action, shown in the NAPs and associated with the EES.

A clear increase in the participation rates of young people in education (16-18 years-old) has been observed recently. Lastly, it should be pointed out that the demand for secondary education shows a strong positive correlation with the educational level of the parents. This confirms a certain intergenerational persistence of inequalities in human capital, which may be difficult to eliminate solely through financing policies. At the same time, there have been advances in social guarantee programmes for young people with no schooling or who are at risk, as well as through other actions. Despite this, the educational courses on social guarantee programmes that are available (for youths who have not completed minimum studies) are still considered to be insufficient

There was an increase in the participation of adults in continuing education from 1997 to 2001. Continuing education has enjoyed strong growth since 1997, with increasing participation by workers in company training plans and training leaves. The evaluation showed that the probability of receiving training in Spanish companies is greater for men than for women, that this probability diminishes significantly from age 45 onwards, while it increases substantially for those with the highest educational levels, and that individuals with the most experience in the company receive training more easily than average, while workers with low qualifications having very low relative participation. As for the relationship between continuing education and mobility, it was confirmed that the probability of voluntarily changing jobs has a clearly negative correlation with having received training financed by the employer.

- During the period studied, the actions implemented in Spain in order to comply with the Directive on **social inclusion** focused on the development and intensification of active measures in favour of disabled persons. In most cases, such measures were tantamount to further development of employment measures that already existed, by significantly improving the available resources, their articulation with the general scheme for active employment policies, and increasing participation by social actors, especially private, non-profit organisations. .

In general, employment promotion measures have a predominant role in strategies applied to these groups, while training and orientation measures occupy a less important position. In 1998-2001, the evolution of labour market indicators showed a significant decline in Long-Term Unemployed and stronger in the case of Longer-Term Unemployed. The greater emphasis given in favour of specific measures for long-term unemployed adults may have had something to do with this positive evolution.

The application of the generic FPO programme seems to be especially positive in the case of Disadvantaged Young People (under age 24 with low educational attainment), Ex-convicts and Disabled persons. On the other hand, this programme hardly had any significant effect in the case of Disadvantaged Adults (over age 45 with low educational attainment). In most of the groups and categories studied, participation in FPO programmes only had an effect on employability in the short term (6 months), with substantial reductions in effectiveness on employability at 12 months.

- The different NAPs implemented show increasing attention to **entrepreneurship and self-employment**. So, SMEs have now become an important focus within the general scheme of employment policy. Although they are hard to quantify, given their mainly qualitative nature, the large dimensions of the measures undertaken suggest that objectives related to facilitating the hiring of new workers have claimed an important place in employment policies after 1997. The promotion of self-employment is probably the objective that has benefited from the greatest variety of measures included in the successive NAPs.

The analysis shows that the evolution of self-employment, despite increasing somewhat, does not show a clear upward trend. This may be due to the existence of factors that hinder the ability to take full advantage of the job-creation potential of this type of work. One such factor is the lack of entrepreneurial aptitudes and the relatively low level of human capital of self-employed workers. There are also administrative barriers to the initiation and continuity of self-employment in Spain.

Despite the importance of SMEs in the employment creation process, their evolution has not been as positive as expected. Improving these results will require improving the capacity of SMEs to gain access to business tools that have become indispensable in the new economic context: information technology, communications and the infrastructure businesses need to take full advantage of international trade.

- The **services sector** is a veritable engine of employment creation in Spain. As a general conclusion, the content, objectives and measures proposed by the different NAPs implemented in Spain have had a high degree of relevance to the recommendations of the EES. The country's future employment policies should focus their efforts on two aspects. The first consists of allowing service activities to expand freely, limited only by technological and supply restrictions. This requires that progress be made in the construction of competitive service markets, which in turn demands that advances continue to be achieved in the deregulation of the service market and its opening up to international competition, which is currently too restricted.

There is also an urgent need to apply economic policy measures to allow the development of the demand for services, both from the point of view of families (related to new demand resulting from women taking remunerated jobs), companies (related to the outsourcing of services by non-tertiary companies, and which requires market growth to be promoted in order to make specialisation in corporate services viable and allow the vertical disintegration of production processes of industrial companies) and external demand (linked to the new opportunities offered by new technologies for the international trade).

The development of of the Social Economy and the maximisation of the opportunities offered by this new source of employment creation faces several hurdles. One is the existence of an inadequately structured industrial complex. This is the case of newly identified cores of economic activity, which are not yet well developed. In order to remedy the situation, measures should be implemented in order to promote business activities that cater to as-yet unsatisfied demand. The development of the activity of companies involved in the Social Economy –and in in the Local Economy- is limited by a shortage of certain vocational skills that are essential for their activity but for which the supply is still scarce in the labour market. Finally the Social Economy sector must be

able to cope with new requirements, new demands and therefore, new employment opportunities emanating from a rapidly-evolving society.

- The evolution of Spanish **labour taxation policy** has contributed to employment creation in line with the objectives of the EES. At the same time, the lowering of personal income tax rates and social contributions paid by employers has had an effect on the formalisation of the underground economy (undeclared work), an objective that is also implicit in the European Guidelines.

There have been two counterbalancing effects in this respect: an increase in the labour demand due to a large reduction in personal income tax (low elasticity) and slight variations in social contributions (high elasticity), and a decline in labour demand due to increased tax pressure and environmental taxes. The estimates carried out show that the combined effect is positive from the point of view of the variation in employment, with practically all of the new jobs created accounted for by the reduction in social contributions.

- The changes in the labour regulations and the general collective bargaining agreements, according to EES recommendations, have materialised **in terms of the reorganisation of work organisation** : greater flexibility in the distribution of working hours, more frequent conversion of temporary contracts into permanent ones, more attention to the commitment to maintaining the level of employment in the firm, progress made in the matter of functional polyvalence and in the professional classification, modification of working conditions, participation of workers in organisation, the implementation of productivity incentives, etc. Nevertheless, a major part of all collective bargaining agreements do not fully deal with all the issues that may be subject to negotiation, especially those negotiated on the provincial and regional level, although the variety of content has increased.

A summary of the effects of these reforms, according to social actors opinions, are : a significant growth in employment, especially permanent employment; the persistence of a high level of temporary employment; an improvement in the quality of employment with regard to greater stability in the hiring of women and young people, although there remains a notable segmentation by gender and age in the labour market; very little development of part-time employment; very little reduction in groups where high turnover of temporary contracts are prevalent.

- To face the gender inequality, the different PNAEs affects **women** to a significant extent. Following the intent of the EES, equality policies began to take on a horizontal approach affecting the full range of labour policies. As a partial result of this, the increase in the activity and employment rate is greater for women in the period 2001-1997.

Family structure remains the most important factor in determining the labour behaviour of women. In the case of men, family responsibilities decrease their probability of leaving their job, while in the case of women, as the secondary earner in the family, this probability increases. It clearly shows the difference for men and women in the effect of having family responsibilities on their decisions regarding the labour market. The efforts made in the past few years have been achieving positive effects in reducing the number of women who cannot make both work and family compatible in their life,

especially insofar as such efforts were reinforced by contributions from the regional governments.

- The evolution of the treatment of **horizontal aspects** in the NAPs has generally been favourable. This is reflected in both the content of the successive programmes and in their practical application, with increasingly more satisfactory results over time. The EES has become increasingly integrated into the NAPs, although the employability pillar still draws the most attention. So the EES has a reasonably positive impact in Spain. It has established important links with the different internally managed policies and has given a boost to decentralisation processes and co-ordination with regional governments, as well as promoting social dialogue with social actors.

The social cohesion policy has established very strong links with employment through the extensive mobilisation of structural funds, especially through FEDER and the ESF. The EES has also favoured partnership among institutional actors and between institutional and social actors. The central government and the regional governments have forged agreements to promote the decentralisation process and the modernisation of the SPEs. The processes of social dialogue between the central government and social actors, which have been going on for a long time, lead to the signing of important accords and contributing decisively to the government's macroeconomic stability policy in the first years of the EES.

There has been an improvement in the way equal opportunity has been treated in the NAPs, with a growing presence of initiatives to improve equality between men and women in different areas, which shows a significant effort. The results also indicate a favourable evolution of most indicators regarding women, who constitute a priority group for most of the programmes and actions.

Macroeconomic policy has established new connections with employment. This has brought about a stable and credible environment, that has reduced the level of uncertainty and favoured economic growth. These have to do with market reforms and the deregulatory trend of the economy, which have also changed the orientation of interventions in the territory. In all the cases analysed the trend has been towards promoting competition and economic efficiency. Large increases in employment have been observed in all sectors of the economy, except in the case of agriculture. However, just as important as the generation of a strong flow of jobs is the fact that it has been compatible with productivity gains. These results in both employment and productivity have also been observed in the case of the Autonomous Communities.

The assessment of the employment results confirms the positive evolution of employment and unemployment aggregates in terms of all the indicators. However, the gap that remains between Spain and the rest of the EU shows the difficulty of achieving full employment, and the reference levels that serve as targets for employment in the E.U. .

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