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Reforms for more and better quality jobs in Spain

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By Yosuke Jin, Aida Caldera Sanchez and Pilar García Perea

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ABSTRACT / RÉSUMÉ

Reforms for more and better quality jobs in Spain

The Spanish economy is growing strongly, but there is a risk that many people are being left behind. Unemployment, especially among young people and the low-skilled, remains very high. About half of all the unemployed have been unemployed for over a year and one third for more than two years. A quarter of all those who are employed are on temporary jobs. Since the global economic crisis, poverty and inequality have increased. An immediate priority is to ensure adequate income support for those most in need. Getting more people into better jobs is crucial to raise living standards and to reduce poverty. In terms of structural policies, this requires continuing to improve activation policies, such as training and job placement, re-skilling and up-skilling the unemployed, preventing youth from leaving the education system under-qualified and better on-the-job-training. More can be done to foster the creation of better quality jobs by reducing barriers to hiring and addressing labour market duality.

This Working Paper relates to the 2017 OECD Economic Survey of Spain (www.oecd.org/eco/surveys/economic-survey-spain.htm)

JEL codes: E24; I20; I30; J30; J60

Keywords: Job quality, poverty, income inequality, social benefits, education and skills, labour market reform

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Des réformes s'imposent pour favoriser la création d'emplois plus nombreux et de meilleure qualité en Espagne

L'économie espagnole connaît une forte croissance, mais un grand nombre de personnes risquent d'être laissées pour compte. Le chômage, particulièrement chez les jeunes et les personnes peu qualifiées, reste très élevé. De tous les chômeurs, environ la moitié le sont depuis plus d'un an, et depuis plus de deux ans pour un tiers d'entre eux. Un quart de tous les salariés occupent un emploi à durée déterminée. Depuis la crise économique mondiale, la pauvreté et les inégalités se sont aggravées. L'une des priorités immédiates consiste à assurer un complément de revenu adéquat à ceux qui sont le plus dans le besoin. Offrir à davantage de personnes un emploi de meilleure qualité est essentiel pour relever les niveaux de vie et réduire la pauvreté. En termes de politiques structurelles, cela signifie qu'il faut continuer à améliorer les politiques actives du marché du travail comme la formation ou les services de placement, œuvrer à la reconversion ou au relèvement du niveau de qualification des chômeurs, faire en sorte que les jeunes ne quittent pas le système scolaire avec des qualifications insuffisantes et améliorer la formation en cours d'emploi. Il est possible de faire davantage pour favoriser la création d'emplois de meilleure qualité en réduisant les obstacles à l'embauche et en s'attaquant au dualisme du marché du travail

Ce Document de travail se rapporte à l'Étude économique de l'OCDE de l'Espagne 2017 (www.oecd.org/fr/eco/etudes/etude-economique-espagne.htm).

Classification JEL : E24; I20; I30; J30; J60

Mots-clés : Qualité de l'emploi, pauvreté, inégalité de revenus, prestations sociales, éducation et des compétences, réforme du marché du travail

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REFORMS FOR MORE AND BETTER QUALITY JOBS IN SPAIN

Yosuke Jin ,Aida Caldera Sanchez and Pilar García Perea[1]

The labour market situation in Spain has continuously improved since the beginning of 2014 and job creation has been strong. A wide-ranging agenda of structural reform (Box 1 in the Assessment and Recommendations), highly expansionary euro-area monetary policy and, more recently, easier fiscal policy have supported demand and job creation during the recovery. Evidence suggests that the 2012 labour market reform has contributed to significant wage moderation, lower job destruction and a reduction in the duration of unemployment spells (Box 1). The significant reform of the banking sector in 2012 was an important complement to the labour market reform. It helped to address the deep dysfunctions in the financial sector and facilitated that new credit started to flow again to firms supporting hiring and investment.

Box 1. What does the evidence say about the impact of the 2012 Labour Market Reform?

In February 2012 the Spanish government approved a comprehensive reform of the labour market that modified several aspects of the Spanish labour market regulation, including changes to collective bargaining rules and collective and individual redundancy procedures and costs (See OECD, 2012 for a description of the reform). Since then evidence has started to build up on the impact of the reform. This body of evidence suggests the following main results.

- **Wage moderation**: The reform contributed to significant wage moderation in the first year and a half after the reform. OECD evidence suggests that between the fourth quarter of 2011 and the second quarter of 2013 business sector unit labour costs (excluding non-wage components) declined by 3.2%, with more than a half of this drop attributed to the 2012 reform (OECD, 2014a). These results are consistent with econometric evidence by the Bank of Spain (Izquierdo et al., 2013) and qualitative evidence (BBVA, 2013; Ministerio de Empleo y Seguridad Social, 2013). More recent analysis by Doménech et al. (2016) suggests that greater wage moderation stems not only from the 2012 labour market reform, but also from the 2012 II Agreement of Social Partners on Employment and Collective Bargaining to moderate wage growth, which has been extended in the following years. Such wage moderation has contributed to improve Spain's competitiveness.

- **Employment growth**: Net employment contraction following the reform was below expectations, suggesting therefore a positive impact of the reform on employment growth (Ministerio de Empleo y Seguridad Social, 2013; Izquierdo et al., 2013). More recent analysis by Doménech et al. (2016) further suggests that the reduction in employment during the 2012-2013 recession was milder than one could expect given the tight fiscal and financial conditions, which suggests that the labour market reform increased the resilience of the labour market to face negative shocks.

- **Duality and hiring rates**: OECD evidence (OECD, 2016a) finds that the reform is estimated to have increased the share of hirings with open-ended contracts by 46%, all else equal, during the two years following the reform. A more detailed analysis by firm size suggests that the effects were concentrated in firms smaller than 50 employees (OECD, 2014a). A recent study also shows a positive although small effect of the reform in reducing the duality of the Spanish labour market (García-Pérez, 2016).

1. Yosuke Jin and Aida Caldera Sánchez are members of the OECD Economics Department and Pilar García Perea was on secondment from the Bank of Spain to the OECD Economics Department at the time of writing this paper. The authors would like to thank Álvaro Pereira, Robert Ford, Pierre Beynet, David Haugh, Andreas Kappeler, other colleagues in the Economics Department, the Directorate for Employment, Labour and Social Affairs, and the Directorate for Education and Skills for helpful comments on this paper. The authors also would like to thank Gábor Fülöp for statistical research assistance and Sylvie Ricordeau for administrative support (also from the OECD Economics Department).

- **Separation rates**: The overall effect of the reform on separation rates is less obvious, as the reform eased firing procedures and reduced its costs, but at the same time raised the incentives to adopt internal-flexibility measures within firms. OECD evidence (OECD, 2014a) suggests that separations decreased after the reform, especially for temporary contracts, possibly resulting from the greater use of internal flexibility measures as an alternative to contract termination.
- **Transitions from unemployment to employment**: OECD estimates that the 2012 reform increased the probability of leaving unemployment and entering employment for any unemployment duration (OECD, 2014a). Furthermore, the reform also contributed to containing the duration of unemployment spells, in particular due to faster transitions into permanent contracts for those workers entering unemployment after a temporary job. More recent evidence by García-Pérez (2016) confirms this evidence and finds that the reform increased the probability of exiting unemployment towards permanent employment, especially for young people.

These are all important achievements and Spain has a stronger base to keep tackling the labour market challenges it still faces. The unemployment rate is gradually decreasing, but remains very high and many people have been jobless for a very long-time. Long periods of unemployment are associated with discouragement and the loss of human capital, making labour market reintegration very difficult. Moreover, job quality deteriorated during the crisis. Spain performs relatively poorly compared to other OECD countries in terms of earnings, labour market security and the quality of the working environment, which are all important elements for well-being and productivity (OECD, 2014b, Cazes et al., 2015). A lack of skilled workers and managers drags productivity down, and with it the economy's growth potential.

The chapter discusses a wide range of policy measures to further reduce unemployment and make growth more inclusive in line with the flexicurity concept that emphasises the flexibility of labour markets at the same time as ensuring secure transitions for employees from one job to another. Along with the effective implementation of the 2012 labour market reform, the chapter discusses policies to improve on-the-job training, job placement and the minimum income support system. Productivity enhancing reforms, such as reducing regulatory barriers to entry in service sectors, can help to support business expansion and employment and lay the foundations for more and better quality jobs (Chapter 2). Lifting productivity will also require improving the quality of teaching in school, continuing the development and modernisation of the vocational education and training system and better aligning tertiary education with labour market needs. The business sector has an important role to play in these endeavours through its input into university training design, providing on-the-job training opportunities as part of vocational education and training (VET) programmes, and improving training for its workers.

Spain faces challenges to develop more and better quality jobs

Employment growth has been strong, but unemployment remains high

A bright side of the recovery has been robust job creation. Strong gross domestic product (GDP) growth has resulted in significant job creation, with the total number of employed increasing by 10.5% since the beginning of 2014. Job creation has been particularly strong in the tourism sector and relatively modest in other sectors which traditionally had created a large number of jobs, such as wholesale and retail as well as manufacturing. In contrast, employment remains subdued in the construction sector, an important source of jobs before the crisis. Overall, employment ratios remain below pre-crisis levels and the OECD average of 66% (Table 1). The unemployment rate has come down substantially from its peak (26.1% in 2013), but at close to 19% in late 2016, remains extremely high and well above pre-crisis levels and the OECD average (Figure 1).

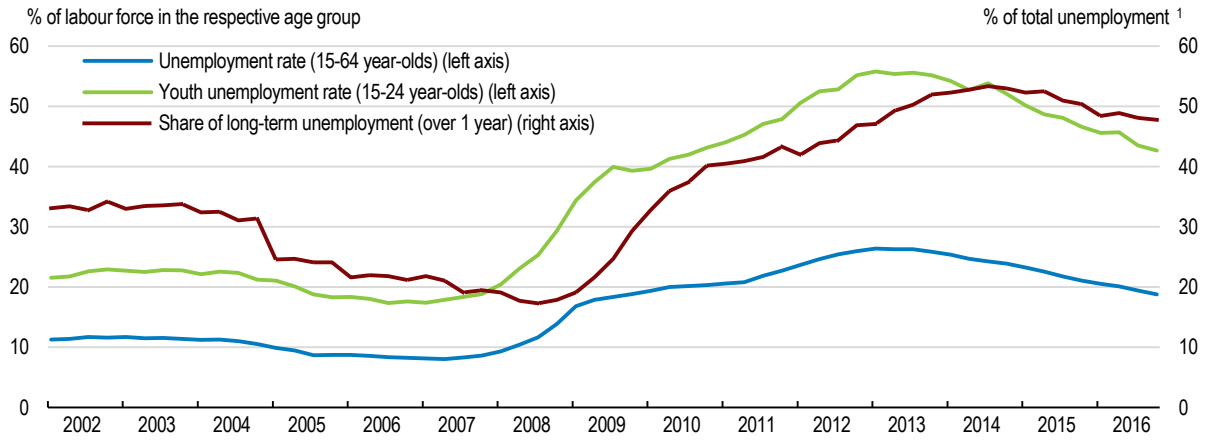
Table 1. Labour market indicators

	Spain		OECD	
	2007	2015	2007	2015
Employment/population ratio	66.8	58.7	66.5	66.3
Labour force participation rate	72.8	75.5	70.5	71.3
Unemployment rate	8.3	22.2	5.8	7.0
of which long-term unemployment (> 1 year)	20.4	51.6	28.4	33.8
Youth (15-24)	18.1	48.3	12.0	14.0
Prime age (25-54)	7.2	20.6	4.9	6.2
Older population (55-64)	6.0	18.6	4.0	4.9
Men	6.5	23.7	5.6	7.5
Women	10.7	25.5	6.1	7.6
Lower secondary or less	10.5	31.0		
Upper secondary and post-secondary non-tertiary	8.1	21.6		
Tertiary	5.3	13.2		
Youth:				
Lower secondary or less	20.4	56.3		
Upper secondary and post-secondary non-tertiary	16.5	45.0		
Tertiary	13.4	35.9		
Youth "not in education, employment, or training" NEET rate (15-29) [1]	15.9	22.7	13.5	14.6

1. Unweighted OECD average for the Youth NEET rate, instead of the OECD total.

Source: OECD Labour Force Statistics database and Eurostat Labour Force Survey.

Figure 1. Unemployment remains very high



1. Data for the share of long-term unemployment refer to population aged between 15 and 64.

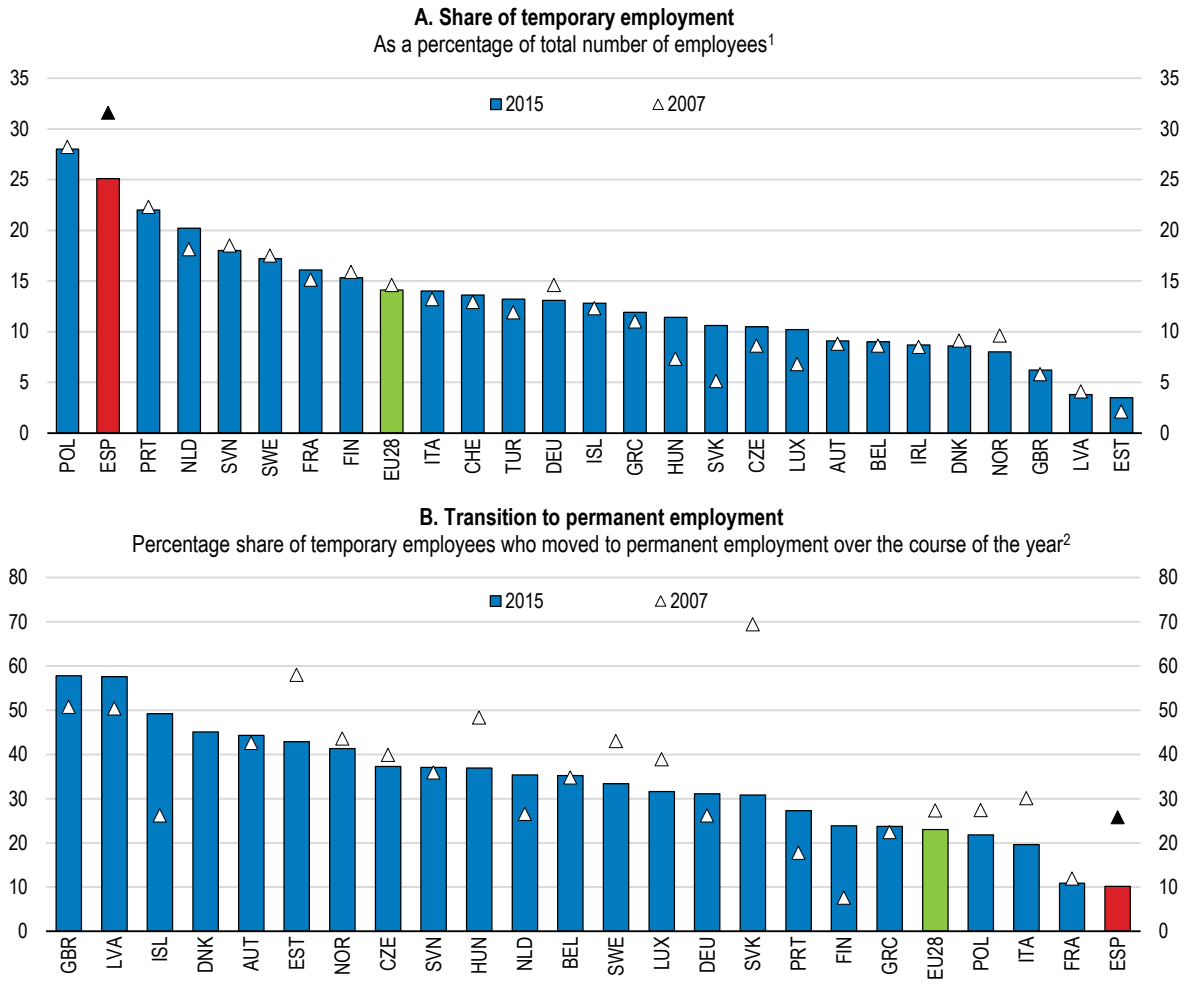
Source: OECD (2017), *OECD Employment and Labour Market Statistics* (database), February; and Eurostat (2017), "Employment and unemployment (Labour Force Survey)", *Eurostat Database*, February.

The low-skilled face a higher risk of being left behind and such a risk is disproportionately high among youth. The unemployment rate is markedly high among the less-well educated, and this holds true across different age groups (Table 1). Unemployment is more frequent among the youth, in many instances associated with termination of temporary contracts. The low-skilled youth face much more significant risk of unemployment, and the ratio of those who are "not in education, employment or training" (NEET),

although falling, is high by OECD standards (Table 1), with many of them being early school leavers. Long-term unemployment, although declining, persists and still accounts for almost half of total unemployment (Table 1), with such risks concentrated on the less-well educated (Jansen et al., 2016).

With 25% of all workers on a temporary contract, the share of temporary workers is the second highest in the OECD (Figure 2). About 10% of the working age population had a low work-intensity, defined as the share of workers that work no more than 45% of the year in 2013 (Fernández et al., 2016). Many temporary workers do not work all year long as they move from one temporary job to another interspersed by unemployment spells. As in many other OECD countries, part-time work also increased during the crisis, and stalled at 15.2% in the fourth quarter of 2016. In particular, more than half of part-time work is involuntary (63% against the OECD average of 17.4% in 2015), meaning that these people work part-time because they cannot find a full-time job, a significant increase during the crisis that is receding only slowly. Temporary work and part-time work are both strongly associated with low annual incomes and low long-term earnings.

Figure 2. The Spanish labour market remains characterised by its duality



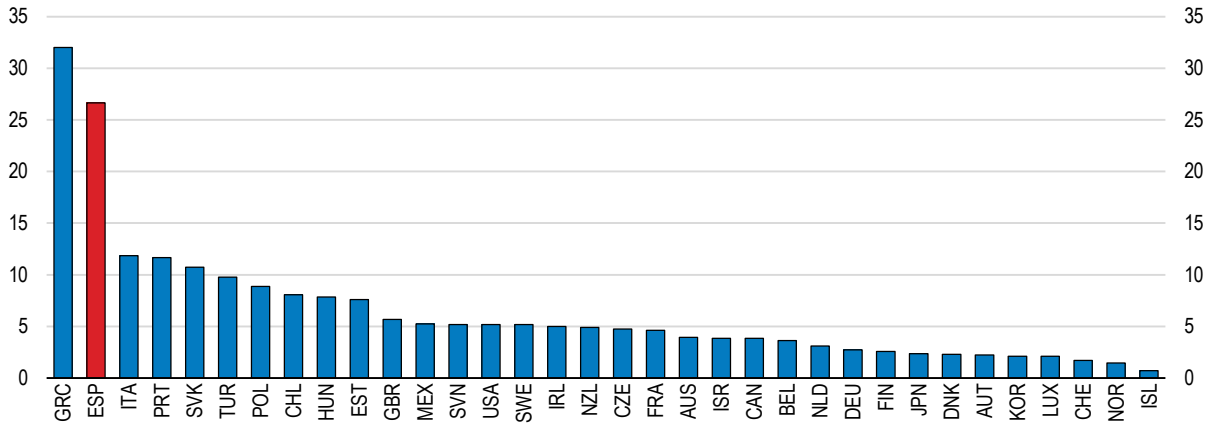
1. Data refer to those aged 15 years and over.
2. 2014 instead of 2015 for Germany, Greece, the United Kingdom and the European Union (EU28) aggregate. The 2007 data for the EU28 aggregate refer to EU27.

Source: Eurostat (2016), "Employment and unemployment (Labour Force Survey)", *Eurostat Database*, December.

Labour market insecurity in Spain was among the highest in the OECD in 2013 (Figure 3). Labour market insecurity captures not only the risk of job loss, but also the duration of unemployment and earning losses after accounting for the generosity and coverage of unemployment insurance. High unemployment risk and weak income support for jobless people (see below) jointly explain high labour market insecurity in Spain.

Figure 3. Labour market insecurity, among the highest in the OECD

Risk of becoming unemployed and its expected cost as a share of previous earnings, percentage, 2013[1]



1. 2011 for Chile.

Source: OECD (2016), "Job quality", *OECD Employment and Labour Market Statistics* (database), December.

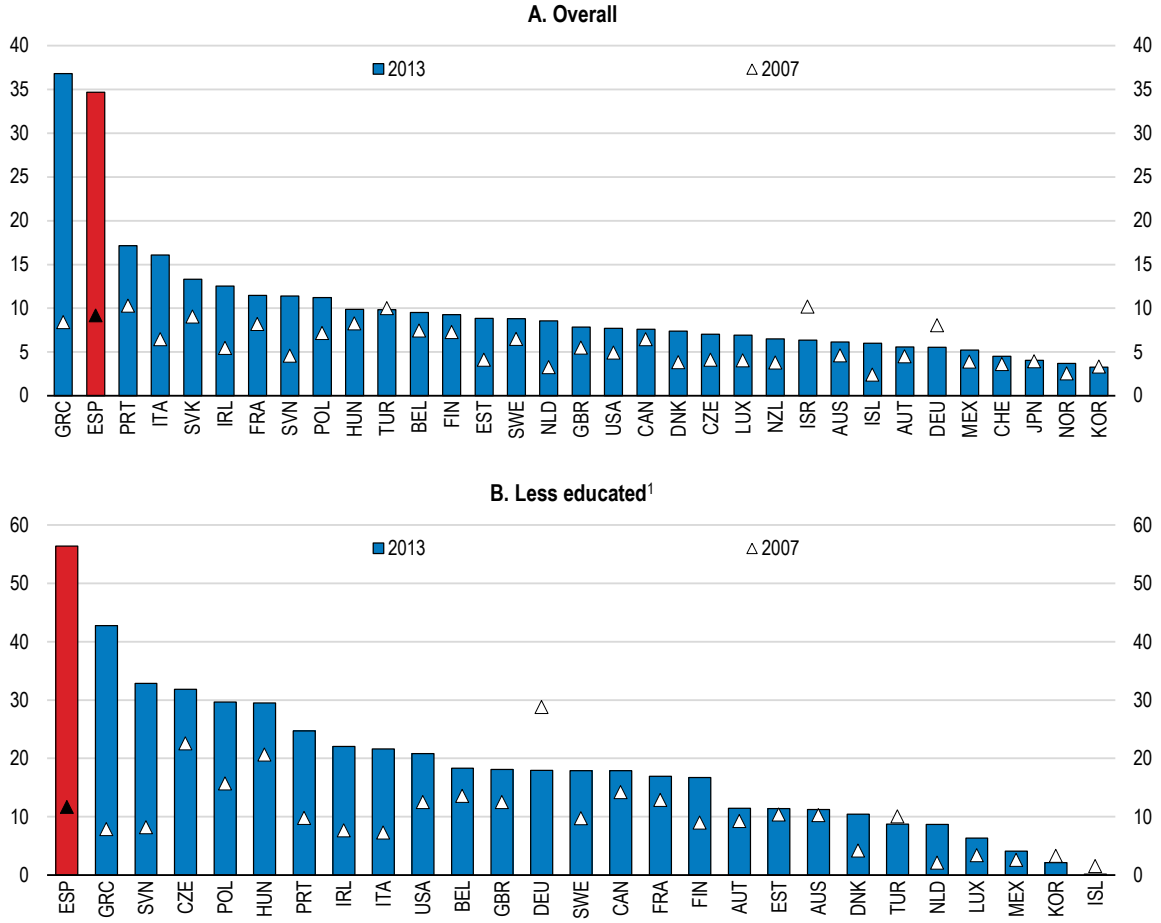
How to read this figure: In the OECD Job Quality framework, the headline indicator of "labour market insecurity" is the product of unemployment risk and unemployment insurance and measures the expected earnings loss associated with unemployment. Unemployment risk encompasses both the probability of becoming unemployed and the average expected duration of unemployment spells. It gives an indication of the expected amount of time a person is likely to spend in unemployment in a given year. Unemployment insurance is measured by the coverage of unemployment insurance and the replacement rates of public transfers received by the unemployed. For more details see OECD (2014) OECD Employment Outlook 2014, OECD Publishing.

Job security is a major determinant of individuals' well-being. The detrimental effects of labour market insecurity go beyond the well-being of workers. It affects firms' profits by reducing worker retention rates, investment in firm-specific skills and productivity (Cazes et al., 2015). Moreover, persistent unemployment reduces the probability of finding a job as jobseekers become less motivated and their skills depreciate, and firms tend to avoid hiring those who have remained unemployed for a long time (Jansen et al., 2016).

Low-skilled workers and the youth face the highest labour market insecurity. Low-skilled workers were the most vulnerable to unemployment risk, compared to their peers in other OECD countries in 2013 (Figure 4). On average, they were estimated to spend more than half of the year in unemployment (Figure 4), though the recovery is likely to have improved the situation since then. The probability of becoming unemployed among the Spanish youth was also one of the highest in the OECD in 2013, after having risen sharply during the crisis. For young people with no prior work experience the situation was estimated to be even worse given their additional barriers to find a job (Jansen et al., 2016).

Figure 4. Unemployment risk, particularly high among the less well-educated

Proportion of time that a worker is expected to spend on average in unemployment, percentage



1. 2012 for Australia, Korea, Mexico and the United States. Less-educated: lower secondary diploma or less.

Source: OECD (2016), "Job quality", *OECD Employment and Labour Market Statistics* (database), December.

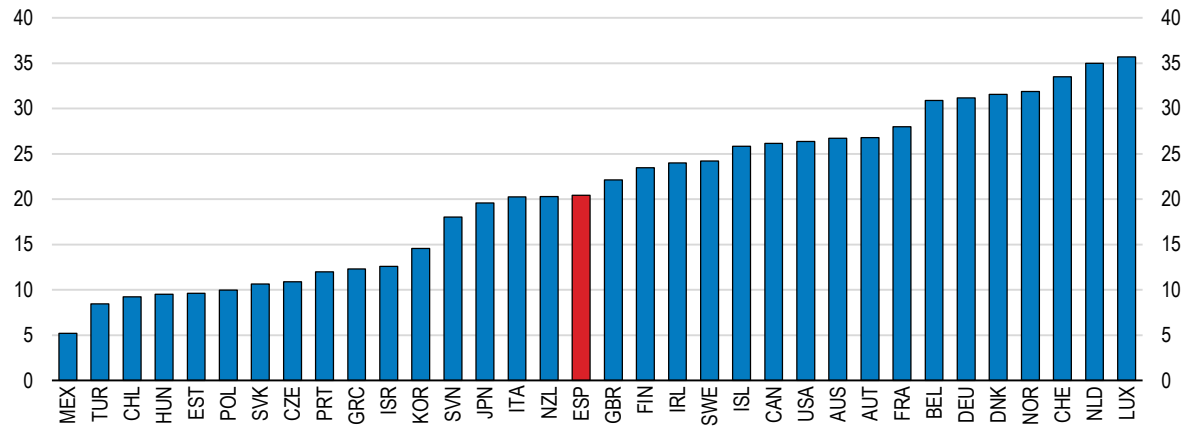
How to read this figure: Unemployment risk encompasses both the probability of becoming unemployed and the average expected duration of unemployment spells. As such it gives an indication of the expected amount of time a person is likely to spend in unemployment in a given year. It is calculated by multiplying the monthly probability of becoming unemployed by the average expected duration of unemployment spells in months. For more details see OECD (2014) OECD Employment Outlook 2014, OECD Publishing.

Average earnings are low

Average earnings were low compared to other OECD countries in 2012 (Figure 5). This reflects low worker skills but also weak firm productivity. Evidence from firm-level data suggests that productivity and labour earnings are very weak in the vast majority of Spanish firms compared to their peers in other European Union (EU) countries (Figure 6).

Figure 5. Low average earnings in Spain

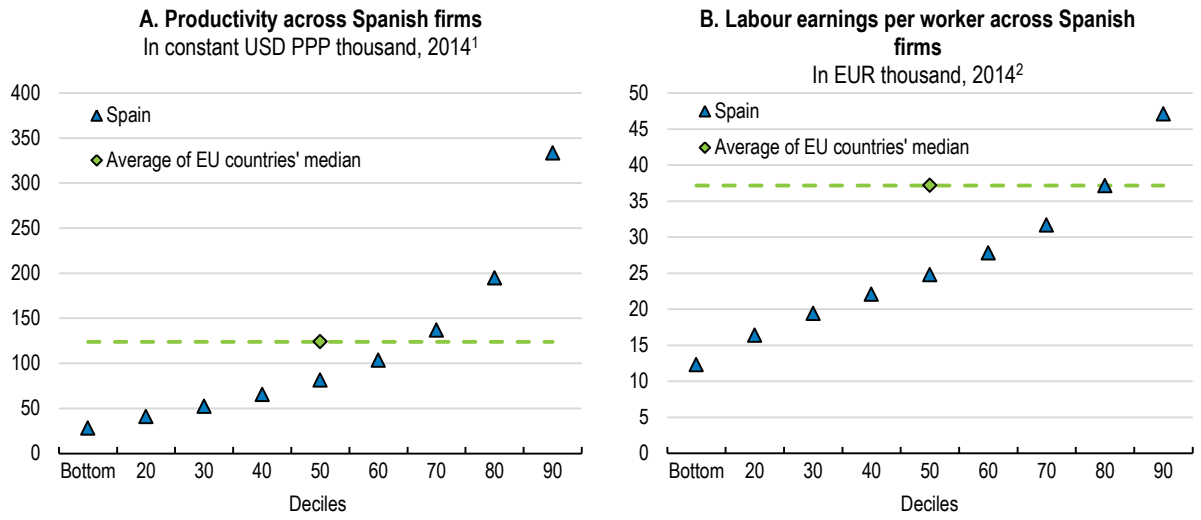
Average gross hourly earnings per worker in constant USD PPP, 2012[1]



1. 2013 for all countries unless otherwise mentioned in the following: 2012 for France, Italy, Poland, Spain, Sweden and Switzerland. 2011 for Israel. 2010 for Estonia, Luxembourg, the Netherlands, Slovenia and Turkey. PPP: purchasing power parities.

Source: OECD (2016), "Job quality", *OECD Employment and Labour Market Statistics* (database), December.

Figure 6. Productivity and labour earnings are weak in the vast majority of Spanish firms



1. Gross output based labour productivity. Industry-level purchasing power parities (PPP). European Union (EU) countries refer to 20 EU member countries that are available in the ORBIS database.

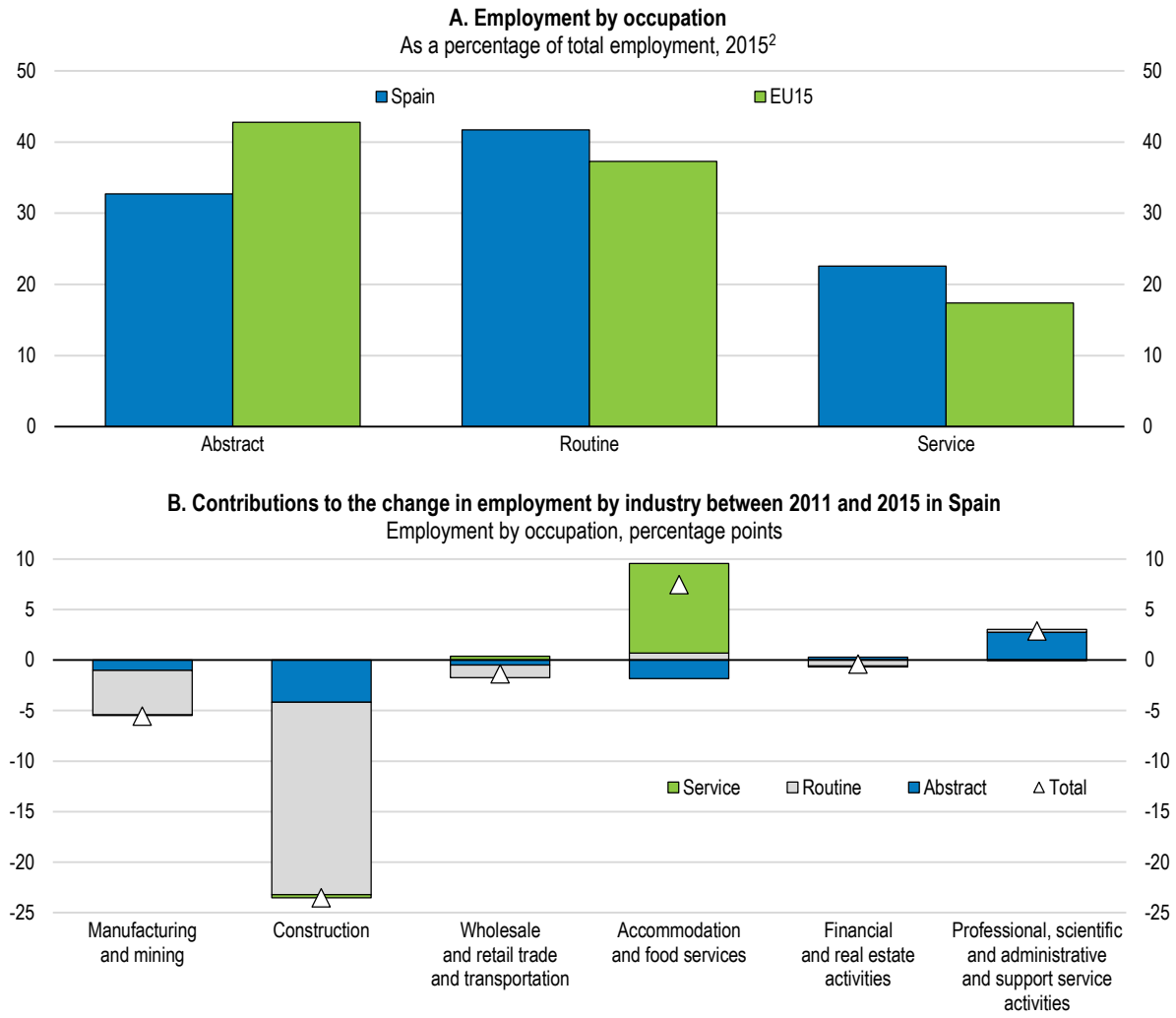
2. Labour earnings per worker refer to total costs of employees (including employers' social security contributions) per number of employees. EU countries refer to 18 EU member countries that are available in the ORBIS database.

Source: Calculations based on the ORBIS database.

Low skills are in part associated with the occupational structure in Spain, which is biased towards low-wage occupations. It is characterised by a relatively smaller share of highly-skilled ("abstract") occupations (around 30% of all occupations, compared to over 40% in the EU-15) and a larger share of

low-skilled ("in-person service") occupations (Figure 7, Panel A). The significant job destruction during the crisis substantially reduced the share of "routine" occupations (Figure 7, Panel B).

Figure 7. Firms' skill requirements are low in Spain[1]



1. Occupations are classified into the three categories "abstract", "routine" and "service" based on the International Standard Classification of Occupations (ISCO) 08 at 1-digit level. "Abstract" occupations require non-routine analytical skills which gained more importance on the back of the use of information and communication technology (ICT). "Abstract" occupations include managers (ISCO-1), professionals (ISCO-2), technicians and associate professionals (ISCO-3). Tasks in "routine" occupations can be relatively easily codified into some defined rules and thus more easily substitutable by technologies and offshored inputs. "Routine" occupations include clerical support workers (ISCO-4), craft and related trades workers (ISCO-7), plant and machine operators and assemblers (ISCO-8) and elementary occupations (ISCO-9). "Service" occupations do not necessarily require high skills but they are not easily offshored since their tasks should be made in the same place as the customers, typically in-person services. "Service" occupations include service and sales workers (ISCO-5). Data refer to the population aged between 15 and 64.

2. The EU15 aggregate refers to Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.

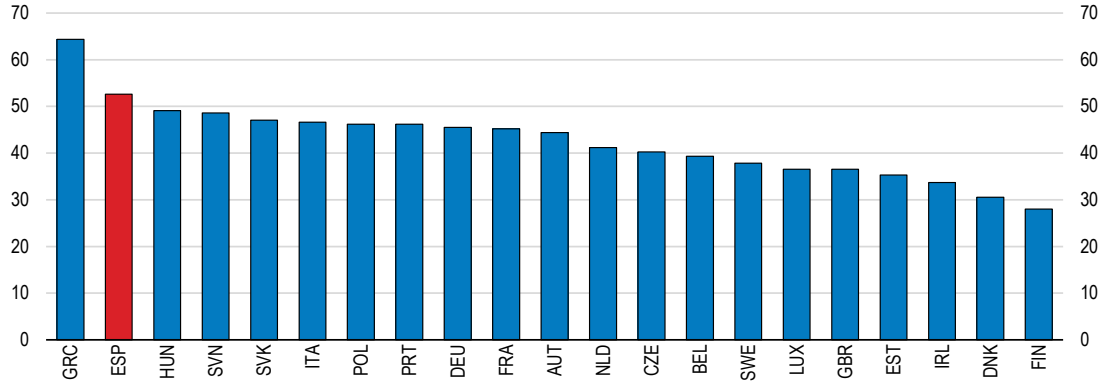
Source: Eurostat (2016), "Employment and unemployment (Labour Force Survey)", *Eurostat Database*, December

The quality of the working environment is low

More than half of all workers suffer from job strain in Spain (Figure 8). This means that these workers are exposed to excessive job demands, such as time pressure or physical health risks, compared to the resources they have at hand to fulfil their work duties. For instance, job resources such as work autonomy and on-the-job learning opportunities are less frequent in Spain than in other EU countries (Figure 9). This is in part related to the low level of workers' skills, as low-skilled workers typically have fewer job resources available and face higher job demands than the average worker (Cazes et al., 2015). Fewer learning opportunities in Spain are also related to the high incidence of temporary jobs. Evidence suggests that firms often do not train their temporary workers as they stay only for short periods (Cabrales et al., 2012). Such low investment contributes to temporary workers low productivity (Dolado et al., 2012).

Figure 8. The quality of the working environment is low and job strain is high in Spain

Incidence of job strain (excessive job demands against job resources available) among workers, percentage, 2015[1]

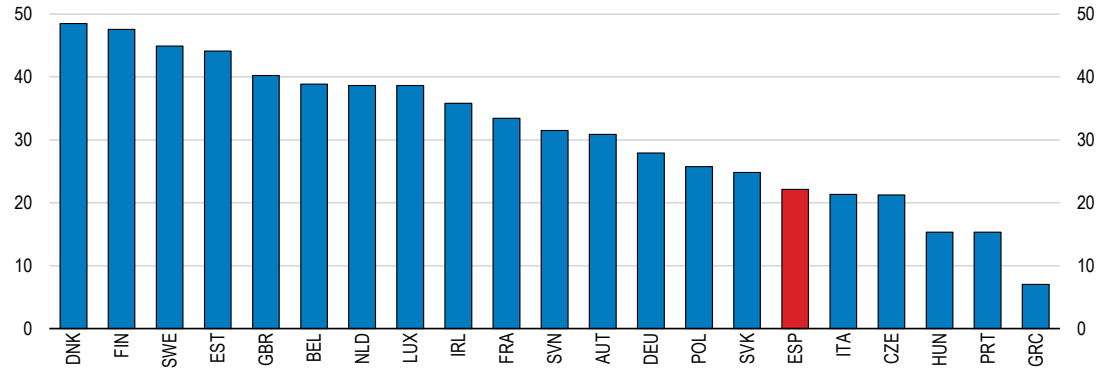


1. "Quality of the working environment" is measured by job strain – discrepancy between job demands and job resources to accomplish tasks. Two types of job demands are considered: i) time pressure and ii) physical health risk factors. Two types of job resources are considered: i) work autonomy and learning opportunities and ii) workplace relationships. The headline indicator "Job strain" refers to those jobs where the workers face one demand but have no resources or face two demands but have one or no resource.

Source: OECD (2016), "Job quality", *OECD Employment and Labour Market Statistics* (database), December.

Figure 9. Work autonomy and learning opportunities are scarce in Spain

Percentage share of workers with work autonomy and/or learning opportunities, 2015[1]



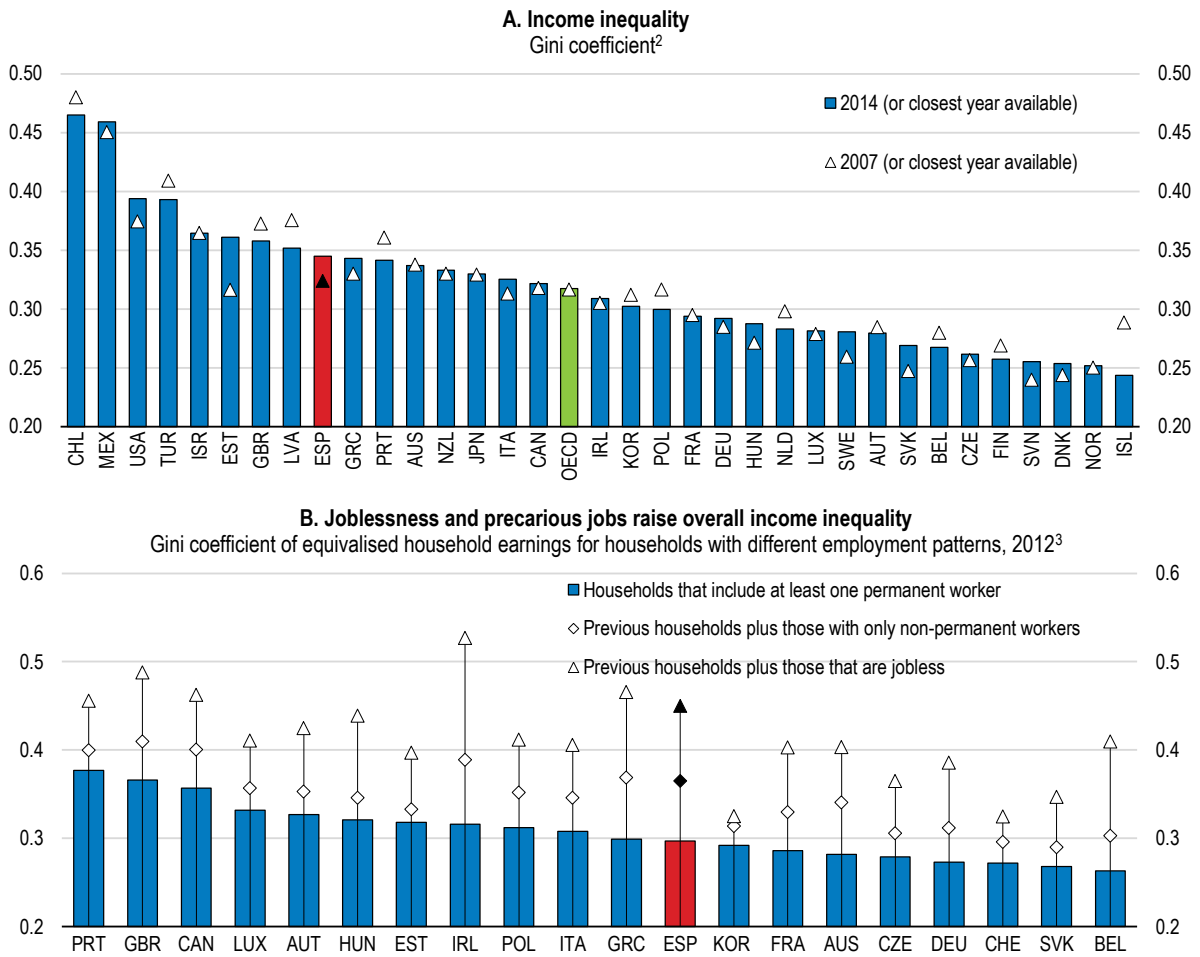
1. Under the headline indicator of "job strain" of "quality of the working environment" one type of job resource considered is work autonomy and learning opportunities. Work autonomy refers to the ability of employees to influence the way they carry out their immediate work activities such as the order of tasks and the methods of work. Learning opportunities capture both informal learning at work by doing the job and formal training opportunities provided by the employer or during work hours.

Source: OECD (2016), "Job quality", *OECD Employment and Labour Market Statistics* (database), December.

Ensuring adequate support for the most vulnerable

In the wake of the crisis, market income inequality rose (Figure 10, Panel A), essentially due to a steep rise in joblessness and, to a lesser extent, higher disparity in annual earnings. While inequality slightly declined in 2014 thanks to the improvement in the labour market, the level of inequality remained high. High inequality owed largely to low earnings at the bottom of the income distribution: the gap between the median and the bottom 10% income group was larger than the OECD average. In particular, the extent to which joblessness and temporary jobs contribute to overall inequality was among the largest in the OECD (Figure 10, Panel B).

Figure 10. Income inequality increased during the crisis[1]



1. The Gini coefficient is calculated for household disposable income after taxes and transfers, adjusted for differences in household size and it has a range from zero (when everybody has identical incomes) to one (when all income goes to only one person). Increasing values of the Gini coefficient thus indicate higher inequality in the distribution of income.
2. 2012 instead of 2014 for Japan and New Zealand. 2013 instead of 2014 for all other countries except for Australia, Finland, Hungary, Israel, Korea, Mexico, the Netherlands, Spain and the United States. 2006 instead of 2007 for Japan. 2008 instead of 2007 for Australia, France, Germany, Israel, Mexico, New Zealand, Norway, Sweden and the United States. 2009 instead of 2007 for Chile. The OECD aggregate is calculated as an unweighted average of the data shown.
3. Or most recent year available.

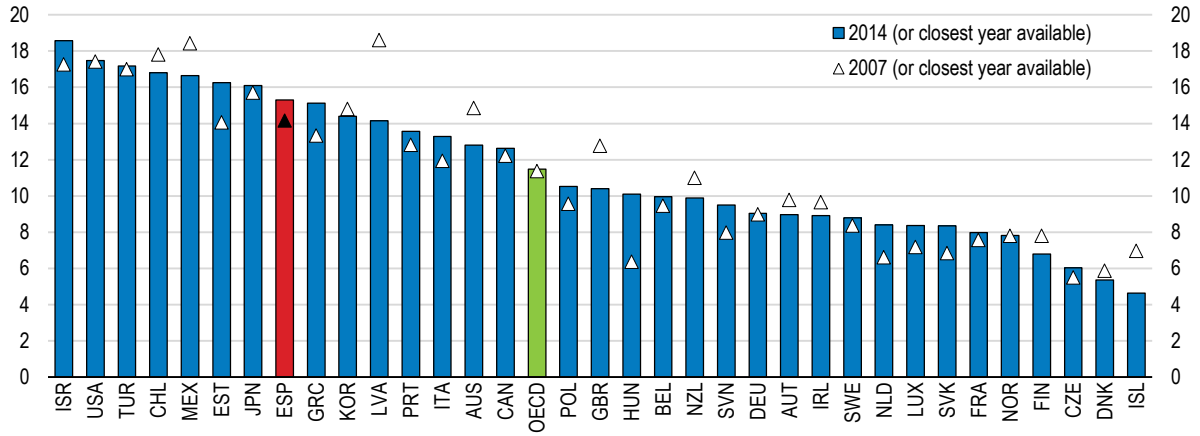
Source: Provisional data from the OECD Income Distribution Database; and OECD (2015), *In It Together: Why Less Inequality Benefits All*.

How to read Panel B of this figure: In Spain, the Gini coefficient is 0.30 when taking account of households with at least one permanent worker. It rises to 0.37 when including also households where all adult members in work are on a temporary contract or other precarious jobs. It rises further to 0.45 when including households where no adult member is in work.

Poverty remained also high by OECD standards in 2014, after having significantly risen during the crisis (Figure 11). The poverty rate – measured by the share of households living with less than 50% of the median household disposable income (the poverty line) – was high in 2014 (Figure 11), although it started to decline (owing to the job recovery, thus it is expected to have declined further in 2015 and 2016). The risk of poverty is likely to remain particularly high among jobless households and households with only temporary workers and especially so if they have children (Figure 12). The child poverty rate was relatively high in 2013, at 23.4% compared to an OECD average of 13.3%. On the other hand, the elderly and pensioners have been much better protected from the impact of the crisis, with relative poverty among the elderly falling by 14 percentage points to 6%, thanks to the pension system (OECD, 2014c).

Figure 11. Poverty increased during the crisis

Relative poverty, percentage[1]

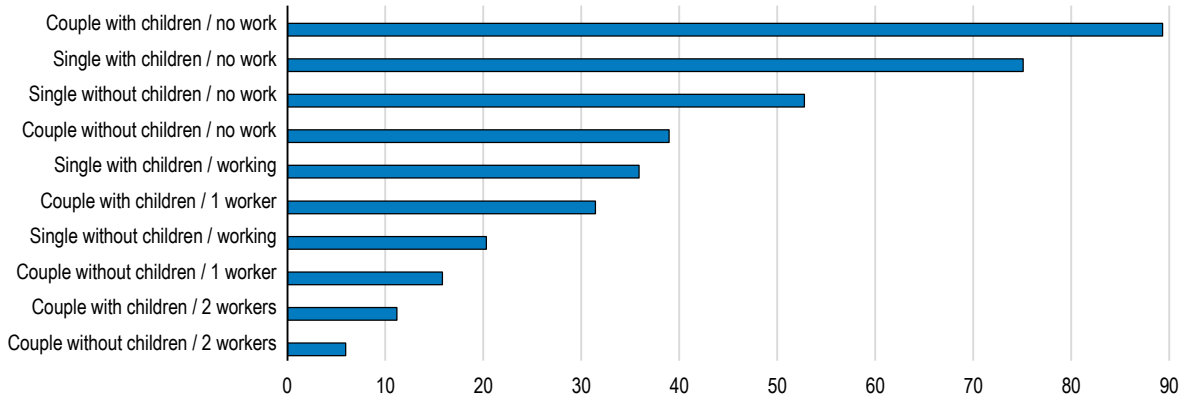


1. The relative poverty rate is defined as the share of people living with less than 50% of the median disposable income (adjusted for family size and after taxes and transfers) of the entire population. 2012 instead of 2014 for Japan and New Zealand. 2013 instead of 2014 for all other countries except for Australia, Finland, Hungary, Israel, Korea, Mexico, the Netherlands, Spain and the United States. 2006 instead of 2007 for Japan. 2008 instead of 2007 for Australia, France, Germany, Israel, Mexico, New Zealand, Norway, Sweden and the United States. 2009 instead of 2007 for Chile. The OECD aggregate is calculated as an unweighted average of the data shown.

Source: Provisional data from the OECD Income Distribution Database.

Figure 12. Poverty risks are high for families with children or with unemployed family members

Poverty rate across different employment status and household structure, percentage, 2013



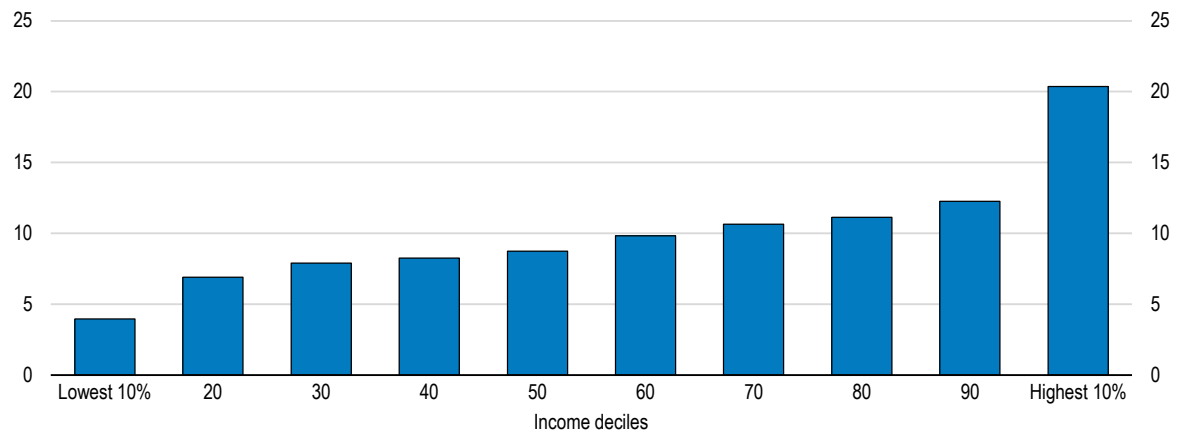
Source: Calculations based on the OECD Income Distribution Database.

Social benefits are weak and poorly targeted

The tax and transfer system could do more to relieve poverty. Total social spending as a percentage of GDP is higher in Spain than the OECD average, which helped to partly cushion the negative effects of the steep rise in unemployment following the crisis. However, social benefits are poorly targeted with relatively well-off households benefiting more than the poor (Figure 13). Income support to low-income households is also very weak. Among the working age population, the bottom 20% receives less than a quarter of the support that goes to the top 10% (Figure 13). Cash transfers are particularly low at the bottom 20% of the income distribution.

Figure 13. Transfers benefit mostly the top incomes

Cash transfers received by each income decile group as a percentage of total cash transfers, working-age population, 2013



Source: Calculations based on the OECD Income Distribution Database.

The minimum income support provided by safety nets is weak and its coverage is very limited. Social protection in Spain consists not only of the unemployment insurance system managed by the central government, but also of minimum income support schemes run by the central and regional authorities (Box 2). Only 1.5% of households received minimum income support in 2014 from the regional schemes. The *Renta Mínima de Inserción* (RMI) is the most common income support scheme for those who are not eligible for unemployment benefits, aimed at alleviating poverty by means of cash benefits for basic living needs. For those who do receive the RMI, the net replacement ratio is low compared with similar social assistance in other OECD countries, in particular for those with children (Figure 14). There are also large disparities across regions in coverage and support that do not reflect regional differences in levels of poverty (European Commission, 2016). Moreover, social assistance beneficiaries often need to go through long and cumbersome procedures to access benefits and benefits are rapidly withdrawn when beneficiaries return to work, eroding their work incentives. Simplifying the procedures to access basic support would help improve access and coverage for those eligible.

Box 2 The structure of responsibilities at different government levels in Spain

In Spain, the structure of responsibilities for employment services and social assistance is complex, involving authorities at three different levels: the central government (*Administración General*), regional authorities (*Comunidades Autónomas*) and local authorities which consist of provincial, sub-provincial and municipal entities. Regional and local authorities fund their expenditure via two major sources of revenue: i) transfer payments, most often unconditional, from the central government; and ii) their own taxes.

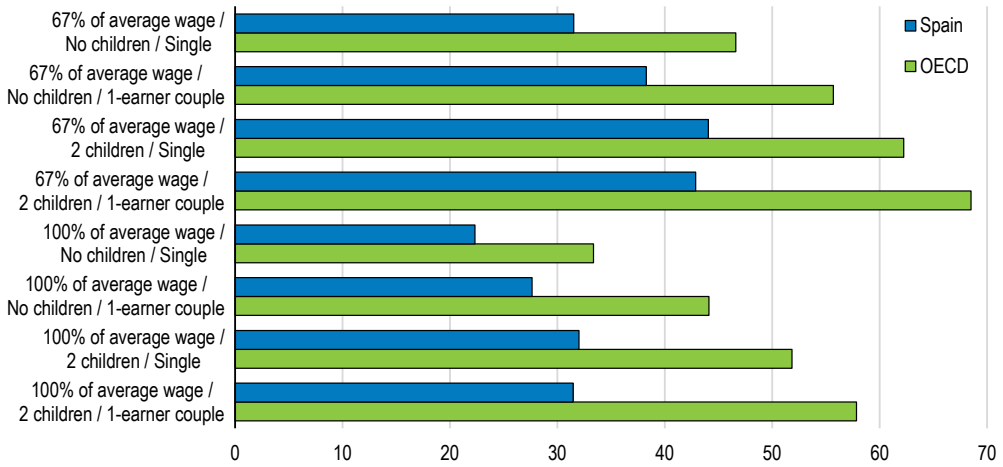
In some policy areas, the responsibilities are distributed between two or even three levels of government. For example, in the case of active labour market policies the central government is responsible for designing the policies while regional authorities are responsible for their implementation. For unemployment insurance, which is closely related to active labour market policies, the central government is responsible for its management. An effective activation policy, combining adequately unemployment benefits and active labour market programmes for the unemployed, would require intensive cooperation between the central government and regional authorities. Beyond that, providing effective support to the long-term unemployed who have exhausted their unemployment benefits and need social assistance, calls for an effective cooperation between employment and social services, for which both regional and local authorities are responsible.

There are already in place mechanisms to enhance cooperation across the authorities at different levels. The Sectoral Conferences that bring together the national and regional administrations by policy area are a notable example. Further cooperation could be achieved by exchanging best practices between regional authorities, setting up common action plans and electronic single points of contact. Information sharing on policies and beneficiaries in a timely manner, including setting up a shared information system, is an important element for enhanced cooperation.

Both national and regional support programmes to address poverty should be rethought. The national and regional authorities are working closely to assess the effectiveness of the income support schemes. These consist of some targeted employment programmes (*Renta Activa de Inserción* (RAI), *Programa de Recualificación Profesional* (PREPARA), and *Programa de Activación para el Empleo* (PAE), see below); specific schemes in the social security system, such as the minimum income for pensioners ("*Complemento a mínimos*"), non-contributory schemes for families ("*Pensiones no contributivas por hijo a cargo*"), and minimum income support systems run by regional authorities (such as the RMI). This complex system of social support could benefit from streamlining and better coordination across different government levels so that its effectiveness and targeting is improved. The coverage and amount of supports of the regional schemes should be raised, especially for families with children. Income support for low-income households with children is particularly poor, due to weak top–ups for children, and should be raised, given the particularly high poverty rate among households with children (Figure 12). Importantly, the benefits should be strictly conditional on active job search. This would not only provide immediate income support but also allow benefit recipients to stay connected to the labour market, as long as relevant activation and employment support measures are put in place.

Figure 14. Income support for jobless households is weak

Net replacement rates for long-term unemployed by previous earnings level and household structure, percentage, 2014[1]



1. Net replacement rates show after-tax benefits as a proportion of the previous earnings. These benefits include social assistance, family and housing benefits in the 60th month after job loss. For married couples the percentage of average wage relates to the previous earnings of the "unemployed" spouse only; the second spouse is assumed to be "inactive" with no earnings and no recent employment history.

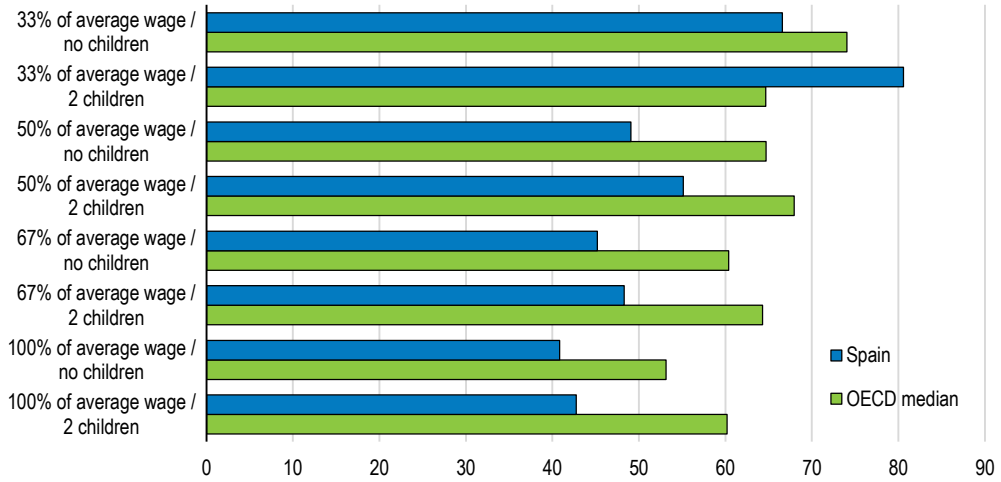
Source: OECD Tax-Benefit Models.

When strengthening the minimum income support system the authorities should also consider the potential effects on work incentives such system may have. Currently, social benefits received while out of work are rapidly withdrawn, as reflected in high participation tax rates (the fraction of income which is taxed away by the combined effect of taxes and benefit withdrawals when returning to work) (Figure 15). To strengthen the financial incentives to return to work, social benefits for jobless people should be phased-out more gradually after they return to work and as they earn higher wages, instead of one-for-one reductions in the benefit as it is the case currently. Many other countries gradually phase-out benefits as earned income rises, as for instance in France (the *Revenu de Solidarité Active*). This may have a larger budgetary cost, but it ensures that incentives to return to work are not compromised.

Public support for families is weak in general. Social spending per child is below the OECD average and is particularly low for early childhood, resulting from low spending on family cash benefits and on public childcare services. Family cash benefits accounted for only 0.5% of GDP in 2013, much below the OECD average of 1.2%. Family cash benefits are found to reduce income inequality (Fournier and Johansson, 2016) and can be enhanced given the high child poverty rate. Reinforcing public childcare services will not only help to alleviate child poverty by reducing childcare costs for poor households, but will also help reconcile work and family life, supporting female labour force participation, which also contributes to GDP growth in the long run (Thévenon et al., 2012).

Figure 15. Financial incentives to return to work are low at low earning levels

Participation tax rates by earnings level and household structure, percentage, 2014[1]



1. Data refer to the average of single person and one-earner married couple household structure. Participation tax rate refers to average effective tax rates measuring the extent to which taxes and benefits reduce the financial gain of moving into work. The estimates here relate to the situation of a person who is not entitled to unemployment benefits (e.g. because they entitlements have expired). Instead, social assistance and other means-tested benefits are assumed to be available subject to relevant income conditions. The percentage of average wage relates to the earnings from full-time employment of the individual moving into work.

Source: OECD Tax-Benefit Models.

Improving the coverage of unemployment insurance

A substantial share of the unemployed has exhausted its benefits and is at risk of poverty and social exclusion. While the replacement ratio of the standard unemployment benefit is not particularly low, its coverage has been put under strain by the high numbers of long-term unemployed. The standard unemployment benefit covered only 24% of the unemployed in 2012, well below the OECD average. In addition, a substantial number of those who separate from temporary contracts are not entitled to the

standard unemployment benefit or quickly lose their entitlement as a result of very short contribution periods in the social security system.

Strengthening the unemployment insurance system, as part of making employment policies oriented more towards activation, would help vulnerable jobseekers improve their employment prospects. Many of those who were on temporary contracts cannot meet the minimum contribution period of 360 days in the preceding six years, which is required for the standard unemployment benefit. Some of these jobseekers rely on other type of benefits, such as unemployment assistance benefits (*prestación por desempleo de nivel asistencial*), but the amount and coverage of these benefits are low. Instead, the standard unemployment benefit should extend its coverage to vulnerable jobseekers. Precisely speaking, its minimum required contribution period should be reduced to six months or shorter as in many other EU countries. Other countries which had similar requirements such as Italy made this requirement more flexible (OECD, 2015a). Improved coverage should be coupled with stronger incentives to remain in contact with public employment services.

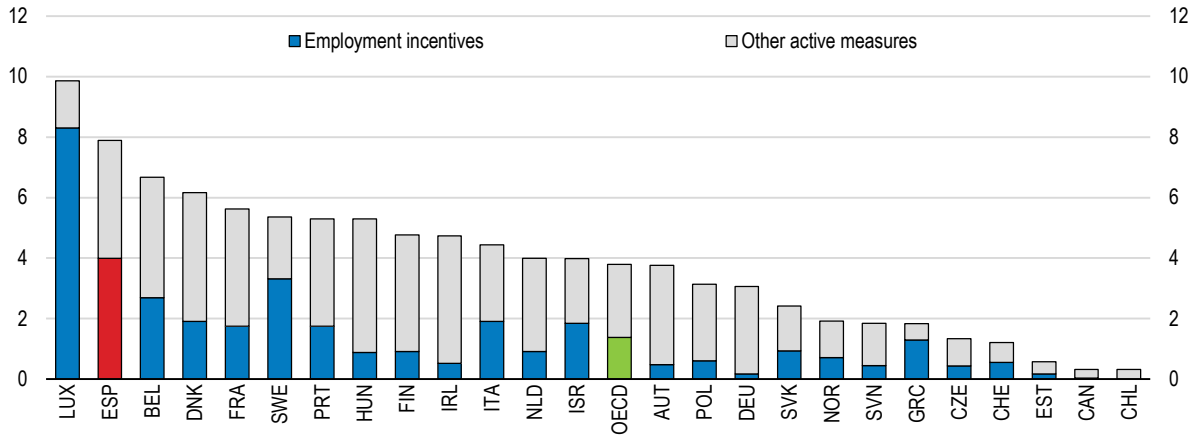
Improving the effectiveness of active labour market policies to get more people into jobs

Spain has continued making progress towards improving activation policies in the past few years. As part of its 2014-16 Activation for Employment Strategy, the government has started to introduce for the first time modern activation tools such as profiling systems to better target groups at greater risk of long-term unemployment. This is welcome, as profiling tools are essential to identify barriers impeding a quick return to work for the large number of long-term unemployed. However, implementation of recent reforms remains uneven across regions given insufficient and poorly targeted resources in many regions, besides high levels of bureaucracy and lack of effective mechanisms to reach the most vulnerable among the unemployed.

Spain spends still considerably less on active labour market policies (ALMPs) per unemployed person than in other OECD countries. The spending effort, measured as ALMP spending per unemployed person as a ratio to GDP per capita, was among the lowest in the OECD (3.9% for Spain against the OECD average of 14.5% in 2013). Possibly more importantly, the balance of spending on labour market programmes has been heavily skewed towards employment incentives (Figure 16), mostly hiring subsidies for the unemployed. Hiring subsidies can help to avoid workers losing contact with the labour market during a recession (de Serres and Murtin, 2013). However, now that the recovery is taking hold, the widespread use of hiring subsidies is inefficient. Previous experience has shown that these measures generate substantial deadweight losses and undesirable substitution effects, yielding at most small employment gains (Dolado et al., 2013; Crépon et al., 2013). Subsidies should be phased out or targeted solely on the most disadvantaged or difficult to place workers, such as older workers that have been unemployed for over a year. Moreover, greater efforts are needed to improve the efficiency of spending on labour market programmes. For that it is essential that evaluation mechanisms, which are very uncommon in Spain not only for labour market programmes but also in other policy areas, are put in place to assess what works and what does not and to reallocate resources towards effective schemes and to shut down ineffective ones.

Figure 16. Active labour market policies are concentrated in employment incentives

Participants in active labour market policies as a percentage of the labour force, 2014[1]



1. Active labour market programmes include all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. This category includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled. Employment incentives consist of job rotation and job sharing schemes as well as programmes making payments for a limited period only to facilitate the recruitment, or continuing employment in the case of restructuring, of unemployed persons and other target groups into jobs where the majority of the labour cost is covered by the employer. Due to data availability other active measures exclude programmes related to public employment services. 2013 for Ireland, Poland and Spain. 2010 for Greece.

Source: OECD (2016), "Labour market programmes: expenditure and participants", *OECD Employment and Labour Market Statistics* (database), December.

Coordination between the central and regional government in job placement has been an issue for long time. In Spain, the central government manages unemployment benefits, while regions are in charge of managing placement services and ALMPs in general (Box 2). In the past regions received funding for ALMPs according to the number of unemployed, which distorted incentives for regional employment offices, as regions that succeed in placing more unemployed did not receive additional funding for their performance. To address this incentive problem, in 2013 the government started to gradually allocate funds to regions on the basis of quantitative indicators of performance. In 2016, 70% of funding is subject to the attainment of objectives agreed by the central government and regional authorities, up from 60% in 2015. A common catalogue of services has also been created to increase coordination and ensure a guaranteed minimum level of quality in job placement and job search support across regions. These measures go in the right direction, but change has been slow.

To further improve coordination and the quality of employment services, the authorities should consider setting up a single point of contact for all social and employment services and assistance. This could generate greater efficiency and ensure effectiveness through a more coordinated service delivery. It would also facilitate the sharing of expertise and information across regions.

The implementation of the new activation strategy is also held back by the limited capacity of public employment services to provide effective, individualised counselling. The number of jobseekers that each caseworker in the public employment service (PES) oversees is high, with one employee of public employment services in charge of more than 250 unemployed. Moreover, there is evidence that caseworkers spend a large proportion of their time on administrative tasks instead of counselling (OECD, 2015b). The public employment services need qualified staff and higher staff-to-job seeker ratios to properly implement the new activation strategy. Appropriate training is needed to help caseworkers use the

new profiling tools and in particular to provide individualised counselling to hard-to-place jobseekers, such as the long-term unemployed, the low-skilled and youth. On this front, the recent programme *Programa de Activación para el Empleo* (see below) is going in the right direction, as it focuses on tailored assistance for jobseekers and reduces the number of jobseekers per caseworker by close to half.

Better targeting support to the most disadvantaged groups

In an effort to improve the matching between job openings and jobseekers and reduce very high unemployment, a single Spain-wide job portal was put in place in 2014. While the number of vacancies uploaded in the single job portal has steadily increased, it remains low and the quality of job postings is uneven with some providing only minimal information about the job requirements and a majority only providing a link to the website where the vacancy was originally posted. Experience from other OECD countries suggests that digitisation and new technologies can help improve job search assistance and reduce operating costs (Box 3). E-services are often useful to help the more educated and ready-to-work jobseekers find a job and can potentially enhance mobility of workers, which is low in Spain, by reducing information barriers and facilitating the coordination of unemployment services across regions. However, digitisation may be less of an answer to help harder-to-place jobseekers, such as the long-term unemployed or first-time job seekers. These often need personalised and specialised job counselling that is best provided and is most effective via face-to-face counselling, as recent rigorous evaluations from Denmark, Germany and Switzerland show.

Box 3. Digitisation and new technologies are transforming the way public employment services operate

In some countries public employment services are investing in user-friendly digital services aiming to increase service availability and accessibility and improve performance whilst keeping costs down. For instance, the Netherlands redesigned in 2010 their PES services (OECD 2015c) to make a greater use of digitisation. Each jobseeker fills in an electronic questionnaire that helps determine whether or not the jobseeker is entitled to intensive support and the kind of support that is necessary. Moreover, jobseekers have an online account and automatically receive action plans and matched vacancies. All activities are monitored automatically and reminders and directions are given as necessary. If the required tasks are not fulfilled, such as applying for a job vacancy, personal interviews are used to follow-up and continued non-compliance may lead to sanctions. The Netherlands treats 90% of the unemployed benefit recipients through e-services and only those facing the greatest employment difficulties (about 10%) receiving face-to-face services. Finland is moving in the same direction to cut costs and better target its resources to the most disadvantaged jobseekers.

To further improve efficiency public employment services have started to contract-out intermediation services to the private sector. A new framework agreement was introduced in 2014 to develop public-private partnerships between regional public employment services and private placement agencies under a common set of rules for all regions funded by the national employment service. Compensation to private agencies depends on verified full-time employment lasting at least six months, with higher compensation for placing the long-term unemployed. Such cooperation is only starting and only some regions participate. Around 200 000 jobseekers are being assisted by private agencies and only about 10 200 jobseekers have found a job thanks to the new private-public partnerships, according to the Labour Ministry.

OECD experience suggests that contracting-out to the private sector can help the public employment services improve service quality by exploiting the expertise and the know-how of external providers. However, for external provision to work the incentive structure of private employment partnership needs to be carefully designed and monitored to create the right incentives (OECD 2015c). The authorities should be careful, as there is a risk that private placement agencies place the unemployed who are easiest to employ, leaving aside the hardest to place unemployed who need more help. Experience from a number of OECD countries suggests that for these initiatives to work, the relevant authorities should define the target population that private providers should focus on and design a system of fees for private agencies that rewards performance in achieving sustainable job placements for this target population. It is also crucial to

put in place good auditing and performance monitoring systems so the public employment service can evaluate whether contracting out has indeed led to sustained job placements and public money is effectively spent.

Experience in Australia – a country that has successfully involved private providers in job placement – shows that this is not easy and can be expensive (OECD, 2013). Therefore, it would be wise for Spain to start by testing the usefulness of contracting out activation to private providers through pilot studies for a target population, for instance the long-term unemployed who are in most need of specialised support that the PES cannot currently provide. Such a small scale approach would ensure the system is properly designed, including by developing proper schemes to monitor outcomes which Spain lacks at the moment, before scaling it up more widely. It would also be more cost-effective than the current approach of targeting all the unemployed, despite the fact that some of them may not need the help of private agencies to find a job.

Helping the long-term unemployed

One of the most worrying legacies of the crisis is the large number of very long term unemployed. About half of all unemployed have been unemployed for over a year – down from a peak 53% in 2014– and among this group about seventy percent has been unemployed for more than two years. What is most worrying is a strong concentration of the longest unemployment spells among disadvantaged groups, such the low educated, older workers above fifty years old and workers from the construction sector (Jansen et al., 2016). Nearly 60% of very long-term unemployed have no more than mandatory education and many of them used to work in the construction sector, which is unlikely to become such a large source of jobs as in the past. The recovery has led to a significant improvement in the job finding rates of the short-term unemployed, however, a similar improvement has not been observed for the long-term unemployed (Jansen et al., 2016).

The long-term unemployed need better targeted and more effective programmes. The existing programmes, *Renta Activa de Inserción* (RAI), *Programa de Recualificación Profesional* (PREPARA), and *Programa de Activación para el Empleo* (PAE) launched since the beginning of the crisis and with different target populations, could be better coordinated or streamlined to become more effective. The PAE is a major package of income support and training launched in early 2015. The programme has helped 15% of its participants find work, which is relatively successful compared with similar programmes in other countries (Card et al., 2015). The programme aims at upskilling the unemployed and includes the support of a personal tutor to help the person back into employment. These are steps in the right direction, however, the programme provides weak income support – around 400 euros per month (which is slightly lower than the basic amount of the minimum income support – *Renta Mínima de Inserción*) during six months non-renewable. Accessing the benefit is also difficult given demanding requirements to provide evidence of active job search. This may explain why out of the EUR 1.2 billion allocated to the programme, only 182 million euros were spent in 2015 and only some 100 000 people have benefited from the programme, much below the number of potential beneficiaries initially estimated.

A joint action plan to improve assistance to the long-term unemployed, primarily for those aged 30-55, was agreed with the regions and introduced in December 2016. It aims at improving the capacity of the public employment services to provide personalised assistance to the long-term unemployed by retraining staff, hiring new staff, strengthening collaborations with private agencies and improving information systems by developing profiling tools among others. Funding will be conditional on regional public employment services performance in providing personalised assistance to the long-term unemployed, the quality of that assistance, and the insertion rate of the long-term unemployed into stable employment. These efforts to improve the capacity of the public employment services are welcome, but it will also be important to strengthen the links with education policies.

A majority of the long-term unemployed lack basic literacy, numeracy and digital skills and recognisable diplomas and substantive re-training could be provided in collaboration with vocational education and training (VET) institutions. Spain also has relatively extensive offer of academically oriented "Adult Education" programmes and some of the resources of these programmes could be reoriented towards work-based training for the long-term unemployed.

Ensuring youth are not left behind

Youth unemployment is very high, and underscores the risks of a lost generation of youth who are missing out opportunities to build their careers. Youth unemployment doubles the overall unemployment rate. While the level of education is a key determinant of youth labour market success, the fact that even young university graduates suffer unemployment rates close to 36% (Table 1) signals the grim labour market prospects Spanish youth face.

Young people who are "not in education, employment or training" (NEETs) is a particularly vulnerable group for whom the risk of being left permanently behind is high. Although the NEET rate has fallen since 2013 to below 20%, it is worrying that the share of young people remaining NEETs for more than one year is large by OECD standards (OECD, 2016b). This risk is particularly high for low-skilled NEETs, who have not finished upper secondary schooling. At 12.9%, the share of young people in Spain who are low-skilled NEETs was one of the highest among OECD countries in 2015, remaining 3.4 percentage points above its pre-crisis level. Almost half of this group live in households without any employed adults, suggesting that they are also at risk of poverty (OECD, 2016a).

The Youth Guarantee scheme is meant to help young NEETs by promoting vocational guidance, labour information and assistance in job seeking, employability and hiring as well as entrepreneurship support. Spain has received the highest share of European funding to implement the guarantee and to provide assistance to youth, but the implementation of the scheme started slowly and has not yet reached as many youth as it should. As the European funding is being complemented with national funds, the number of registered youth has increased to around 400 000 as of November 2016. Apart from funding, some challenges remain to be addressed. It is still difficult to reach out unregistered youth NEETs who are farthest away from the labour market.

The registration to the Youth Guarantee programme was simplified in late 2016, facilitating regional authorities to provide assistance to youth NEETs. The government is also working with the regional and national PES to enhance attention to the registered youth and to increase the number of youth NEETs that are registered. The on-going cooperation with the Chambers of Commerce and the National Institute of Youth has been positive, and the authorities are considering new agreements with other partners (such as the Red Cross, Fundación ONCE and second chance schools, among others) to reach out to youth, disseminate information, encourage registration and provide basic training for the youth NEETs. These efforts are welcome and should be coupled with better education policies geared towards improving the skills of Spanish youth, as discussed below.

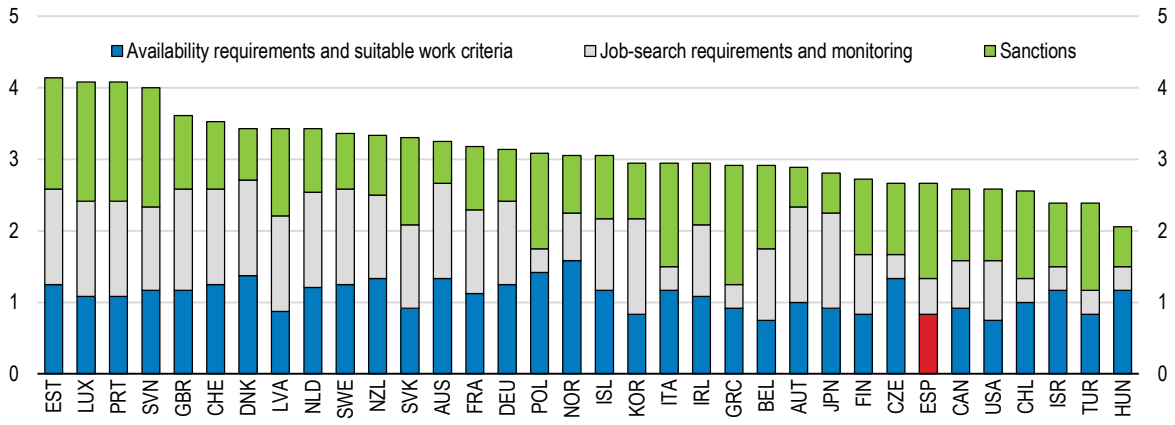
Effective implementation of conditionality is needed

An important part of best practice active labour market policies is to enforce requirements that the unemployed who receive income and employment support must participate actively in job search and/or training. Such conditionality keeps beneficiaries closer to the labour market, making it more likely that they will return to work. In Spain, job search requirements to receive unemployment benefits exist and the unemployed must renew their registration with the public employments services (PES) every three months to keep receiving benefits. However, monitoring of job search activities by PES, while it has been strengthened recently, is still low (Figure 17). Moreover, benefit recipients are in general not legally

required to report their independent job-search efforts to the PES (Figure 18), in contrast to what happens in other OECD countries (Langenbucher, 2015). The only exception is the *Programa de Activación para el Empleo* (PAE) which requires active job search as a condition to access the programme. Since 2012, regional PES offices have the legal right to set up regular monitoring to ensure jobseekers are actively looking for employment. The regional PES offices should use this new capacity to strengthen monitoring and to guide jobseekers in their search towards the type of jobs that match their skills or towards training opportunities that can enhance their job capabilities.

Figure 17. Job search requirements for the unemployed are low by international standards

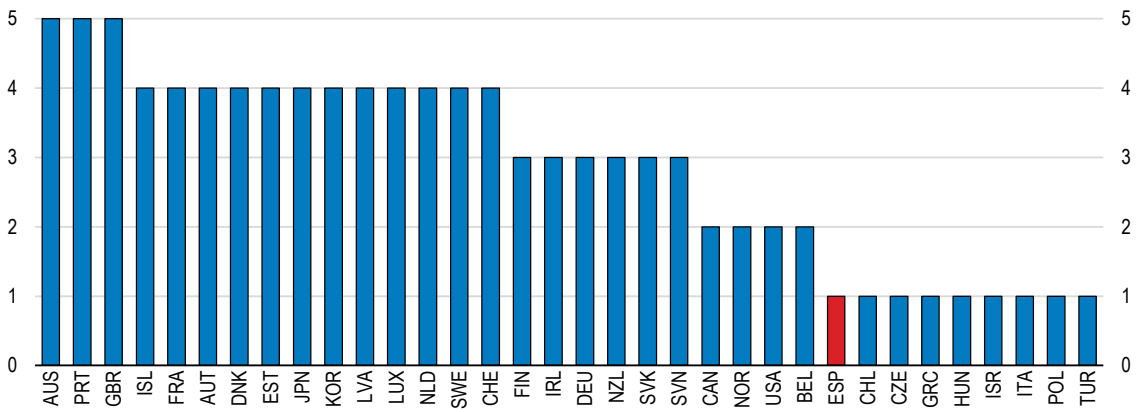
Index score from 1 (least strict) to 5 (most strict), 2014



Source: Langenbucher, K. (2015), "How demanding are eligibility criteria for unemployment benefits, quantitative indicators for OECD and EU countries", *OECD Social, Employment and Migration Working Papers*, No. 166, OECD Publishing, Paris.

Figure 18. Job-search monitoring is low

Frequency of monitoring, index score from 1 (least strict) to 5 (most strict), 2014



Source: Langenbucher, K. (2015), "How demanding are eligibility criteria for unemployment benefits, quantitative indicators for OECD and EU countries", *OECD Social, Employment and Migration Working Papers*, No. 166, OECD Publishing, Paris.

As the economy recovers and more jobs become available jobseekers obligations in return for training and support provided by the public employment services should be strictly enforced, in line with recommendations in earlier OECD Economic Surveys (OECD, 2014c, 2012, 2010). This mutual obligation approach should be even more strictly applied when beneficiaries of unemployment benefits have also received a generous severance pay. At the same time, while increasing jobseeker obligations may be

successful to activate new entrants to unemployment, it is not enough for the long-term unemployed who need individualised support and help to get re-skilled.

Regional authorities in charge of local public employment services should be more effectively involved, in order to enhance the mutual obligation approach for those who do not fulfil the obligations of active job search. As discussed above, to this end, the authorities should progress towards a more integrated support for jobseekers, including by setting-up a single point of contact responsible for both placement services and social assistance.

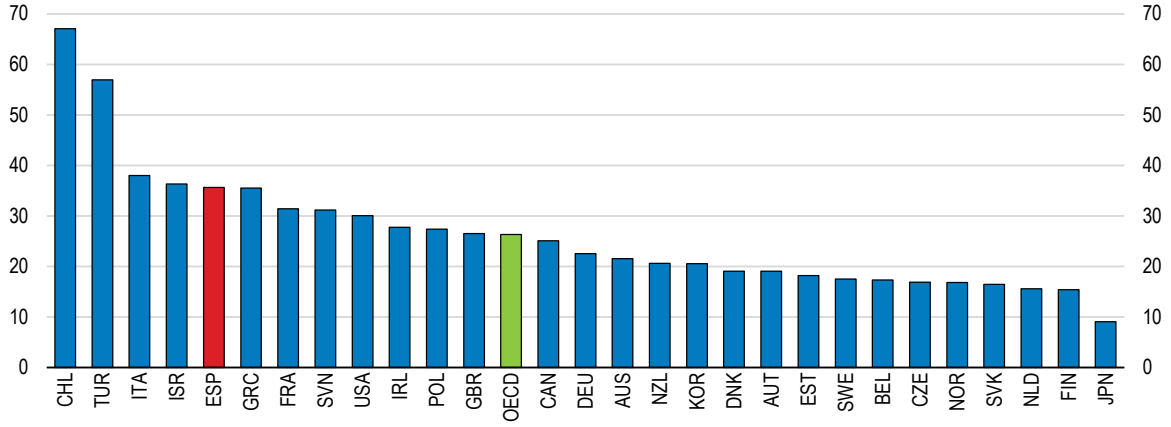
Strengthening skills

Strengthening the relatively poor skills of the Spanish workforce will be crucial for helping the unemployed find jobs and to better equip young generations for a changing labour market. More than half the unemployed have no more than mandatory secondary education (Jansen et al., 2016). The unemployment rates of these low-educated workers tripled between 2007 and 2015, reaching about 30% (Table 1). A key factor behind this development was the collapse of the construction sector and related real estate services. Before the crisis the construction sector accounted for over 13% of total employment, and this share had fallen to 6% by 2015. Many of these construction jobs were held by low-educated men, including many immigrants. Given the good employment opportunities and the relatively high wage in the construction sector, many young males dropped out of education at an early age to work in construction, but when the housing bubble burst they lost their jobs. While employment has grown strongly recently, it is unlikely that future employment growth will be enough to absorb these low-educated workers without substantial re-skilling.

Moreover, the average level of educational attainment among Spanish people is low by OECD standards, although it has risen in the younger generations. Upper secondary education attainment is well below the OECD average, while tertiary educational attainment is now on a par with many other OECD countries. Such poor educational attainment partly explains that skills proficiency is among the lowest across OECD countries (Figure 19).

Figure 19. The proportion of low performer adults is high in Spain

Percentage of adults who score at or below Level 1 in literacy and/or numeracy, 2012[1]



1. 2015 for Chile, Greece, Israel, New Zealand, Slovenia and Turkey. Low-performing adults are defined as those who score at or below Level 1 in either literacy or numeracy. The OECD aggregate refers to the unweighted average of the 28 OECD countries that participated in the OECD Programme for the International Assessment of Adult Competencies (PIAAC). Data for Belgium refers to Flanders. Data for the United Kingdom refer to England.

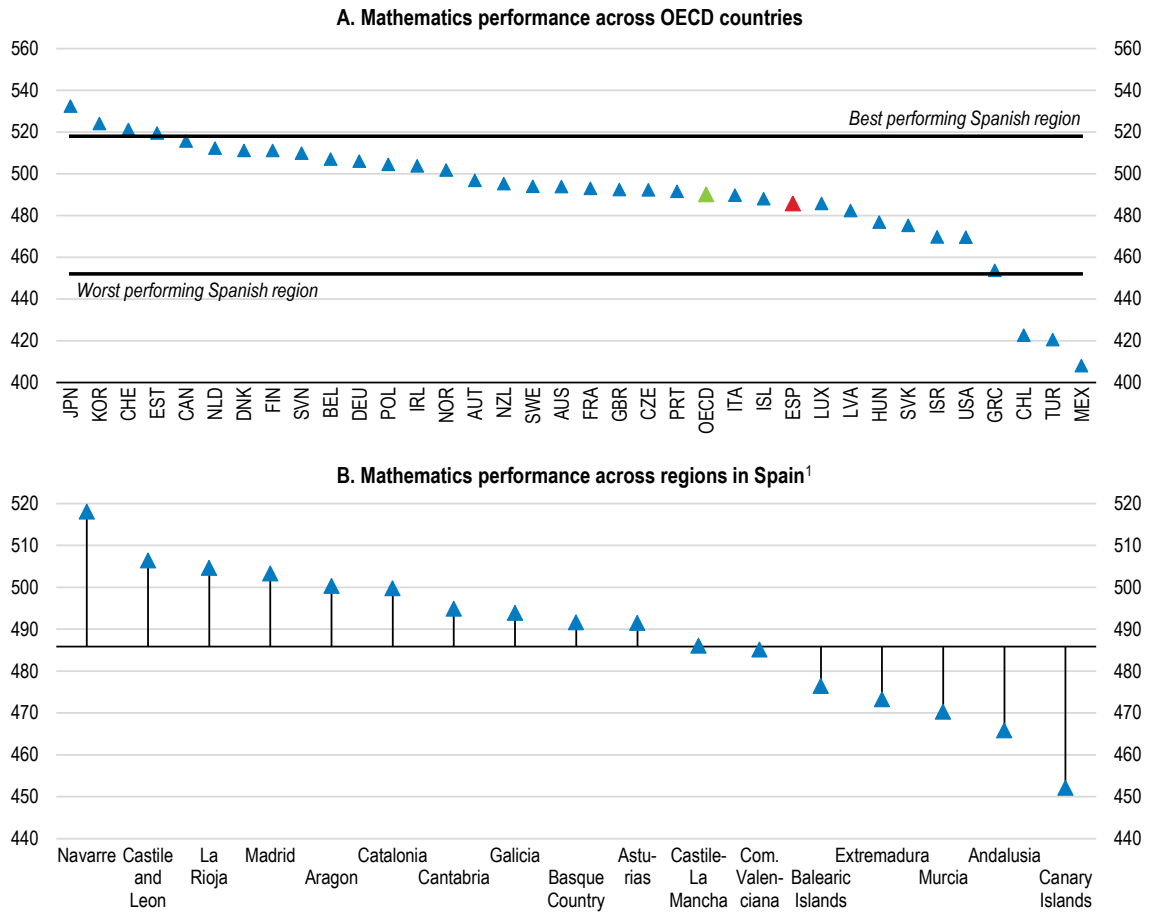
Source: OECD (2016), *Skills Matter: Further Results from the Survey of Adult Skills*.

Compulsory education

A good place to start is to improve compulsory education. School performance is poor (Figure 20) and early school leaving is the highest in the EU (Figure 21), despite a significant improvement in recent years, falling from 26.3% in 2011 to 19.9% in 2015. This is explained by a number of factors including employment opportunities for low qualified youth in certain regions, reduced number of pathways to upper-level secondary education or the perceived lower labour market value of some secondary vocational education and training (VET) degrees.

Figure 20. School performance is low on average with large regional disparities

Mean PISA score, 2015



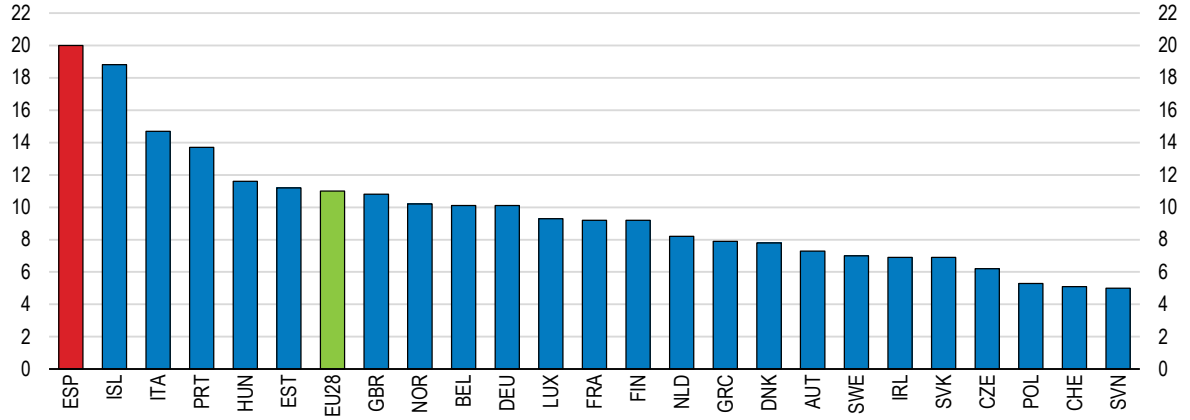
1. The horizontal axis is drawn at the national level of mean PISA score in Spain.

Source: OECD (2016), *PISA 2015 Results (Volume I): Excellence and Equity in Education*.

There are also large differences in educational outcomes across regions, with the best performing region at the same level as the fourth best performing OECD country (Estonia) and the worst performing at the same level as Greece (Figure 20). Regional disparities are largely accounted for by socio-economic factors such as economic prospects in the location of schools, parents' educational attainment and resources, and migration backgrounds (Cordero et al., 2014). However, the characteristics of schools in terms of autonomy and accountability also affect educational outcomes (Hanushek and Woessmann, 2011). Moreover, in Spain factors likely to affect student performance, such as autonomy in hiring teachers and formulating budget, monitoring of teachers and teacher peer review, as well as standardised exams for orientation of students (OECD, 2016c), also differ across regions.

Figure 21. Early school-leaving rates are high

Percentage of the population aged 18 to 24 having attained at most lower secondary education and not being involved in further education or training, 2015



Source: Eurostat (2016), "Early leavers from education and training", *Eurostat Database*, December.

The Organic Law for Improvement of the Quality of Education (LOMCE), approved in 2013 and gradually implemented since the school year 2014/15, aims to reduce early school leaving and improve educational outcomes. The main pillars of the law are the development and modernisation of vocational education and training (VET), new national external assessment for students, more school autonomy in exchange for accountability and new roles for the regional government in the definition of curricula. While it is too early to evaluate the impact of the law given its broad scope and uneven implementation across regions, its objectives go in the right direction with an increased focus on competencies and skills. Greater school autonomy and better management skills of school leaders are needed and should be accompanied by a well-designed evaluation and assessment framework.

The LOMCE introduced new national standardised assessments. The standardised assessments in primary school have already been implemented for diagnostic purposes, helping to identify students facing learning difficulties in order to provide additional support. Such information should be shared with social and employment services allowing them to reach out to youth with a high risk of falling through the cracks of social and employment support, following the example of Norway (OECD, 2016b). The LOMCE also plans to implement standardised assessments in secondary education from this school year, to define the standards that the students have to achieve in order to obtain a national degree.

There is now widespread recognition that evaluation and assessments are key to improving educational practices and student learning (OECD, 2015d). Empirical evidence also suggests that standardised tests help improve student performance (Hanushek and Woessmann, 2011). Following the example of other OECD countries − five out of six countries surveyed by the OECD Programme for International Students Assessment (PISA) conduct standardised compulsory assessments at least once a year (OECD, 2016c) − Spain also should ensure frequent implementation of national standardised assessments. Such assessments are instrumental in recognising and rewarding the work of educational practitioners and in certifying the achievements of students. Among decentralised systems, national evaluations can help to set common standards and avoid major differences in performance between regions.

Improving the quality of teaching, by providing adequate training to teachers before starting to teach and on-the-job training is needed to further improve educational outcomes and ensure an effective implementation of the law. OECD survey evidence shows that Spanish teachers are less likely to benefit from on the job support programmes than teachers in other OECD countries, and that the support they

receive is not very effective (OECD, 2015b). Teacher support and development activities consist mainly of participation in courses, with little positive impact on performance. Measures to enhance the quality of teaching include improving teacher training at university, a better selection process, and improved teacher and training support once they become teachers. For instance, new forms of professional development could be implemented, including collaborative development between teachers. Finally, regions should evaluate how their spending is currently being allocated in order to more effectively reduce early drop-out rates.

Vocational education and training

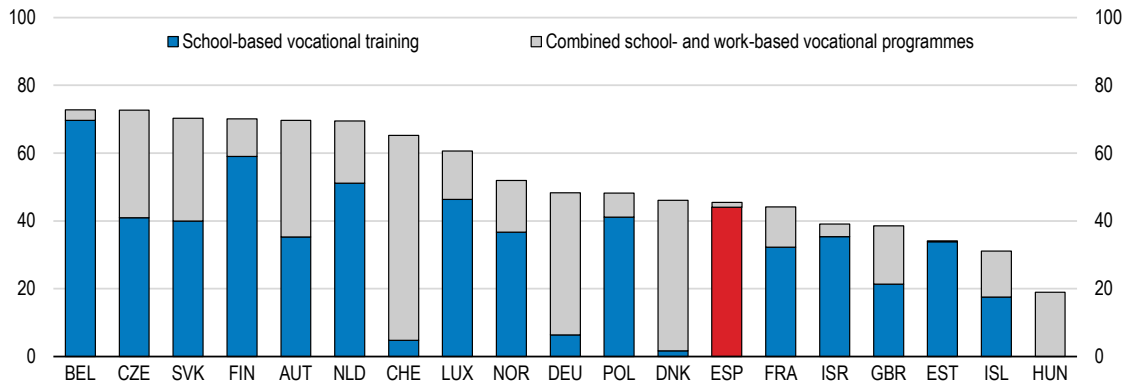
High quality vocational education and training (VET) can help facilitate a smoother school-to-work transition by providing work-related skills. The LOMCE introduced the new Basic VET, a fall-back programme for students lagging behind whose educational team consider as the best way for them to be kept in the educational system. The programme leads them to obtaining a certificate recognised by the European Union, and according to the authorities it has helped to reduce the early school leave rate. The LOMCE, in its primal objective for the VET reform, made the upper-secondary VET more attractive to students and employers: by redesigning courses to adapt them to labour market needs, increasing training at the workplace, strengthening foundation skills and making the transition between upper secondary and tertiary VET easier. More funding has also been allocated to finance new optional subjects in school-based VET, among others.

Despite this progress, the number of students enrolled in school-based VET remains limited, although it has increased in recent years. Students are older than is expected in those educational levels on average, which suggests that school-based VET is being used also as a way for early school leavers to re-enter education (European Commission, 2016). This is a welcome development, as it is a way for early school leavers to re-enter education and strengthen their work-related skills.

OECD experience suggests that practical training in VET is efficient to enhance rapid school-to-work transitions than school-based training. To that extent, recent steps to increase practical training in the workplace as part of VET education are welcome. However, most of the vocational training is still school-based vocational training, as opposed to some other countries that have succeeded in developing effective dual VET systems such as Denmark, Germany or Switzerland (Figure 22). Further increasing the share of mandatory workplace training, as recommended in the 2014 *Economic Survey*, would be desirable not only because of the value the workplace has as a learning environment, but also because it could also help align more closely training with the needs of employers.

Figure 22. Most of the vocational training is school-based

Share of students enrolled in vocational training by programme orientation, as a percentage of all students in upper secondary education, 2012



Source: OECD (2014), *Education at a Glance 2014: OECD Indicators*.

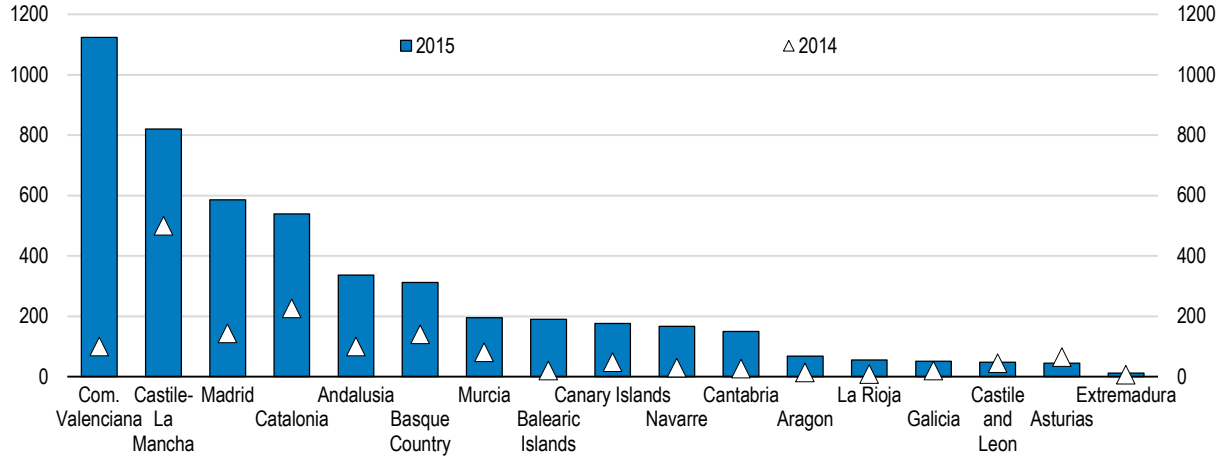
Dual VET

The dual VET system, which provides students with school-based training and practical training in a company simultaneously, remains underdeveloped and more efforts are needed to consolidate it. Since 2012, the dual VET system has grown substantially, with dual VET programmes starting up in all autonomous communities, the number of students enrolled quadrupling and the number of participating educational institutions and companies rising markedly (Figure 23). The number of students enrolled in dual VET (15 304 in 2015-2016) still represents a small proportion of all VET students and the number of companies participating in dual VET is a tiny share of all firms (about 0.2%).

More efforts are needed to expand the dual VET system further. A first step is to secure commitment from more firms to provide students with practical training opportunities. The number of companies providing training for dual VET has multiplied by ten, from 513 in 2012-2013 to 5 665 in 2015-2016. To further increase the incentives and attractiveness for firms to participate in dual vocational education, it is necessary to ensure that the skills being developed are in line with firms' needs and that they are adapted to the rapidly changing nature of jobs (OECD, 2014c; 2014d). This requires greater influence by employers in designing the curricula and improving trainers' skills.

Figure 23. Involvement of companies providing dual VET is low

Number of companies providing dual vocational education and training (VET) by region



Source: OECD (2015), *OECD Skills Strategy Diagnostic Report Spain 2015*; and Ministerio de Educación, Cultura y Deporte (MECD) (2014), "Datos de la Formación Profesional Dual del curso 2013-2014".

A second step is to facilitate small and medium-sized enterprises (SMEs) participation in VET. About 90% of all Spanish firms have five employees or less. Such a small size makes it difficult for most companies to provide a training tutor, which is a requirement in most VET programmes. This may explain why so far most of the collaborations in dual VET are with large firms. Against such constraints, the authorities are trying to help develop wider cooperation between firms and VET educational centres in partnership with the Chambers of Commerce, the business and labour unions. Greater cooperation could be further facilitated by building on the experience of some regions where clusters of firms with a shared need for workers with certain VET qualifications have gotten together (e.g. *Grupo de Iniciativas Regionales de Automoción* in Cantabria, Northern Spain). Collaboration between SMEs can help to share costs and enhance students experience by providing opportunities to acquire skills on different jobs (Box 4).

Box. 4. Better engaging firms in providing apprenticeships: the case of Australia

In Australia, the system of Group Training Organisation (GTO) was established in the early 1970s and there are now approximately 190 companies associated with the system. GTOs recruit apprentices and sign the apprenticeship contract and place apprentices into host employers. It is attractive to SMEs as the administrative costs are reduced. GTOs also provide additional services such as broking vacancies for apprenticeship and candidates, reviewing the quality of training, and providing career guidance to youth. Some GTOs are specialised in a particular industry while others provide services for a region covering many industries (OECD, 2016d).

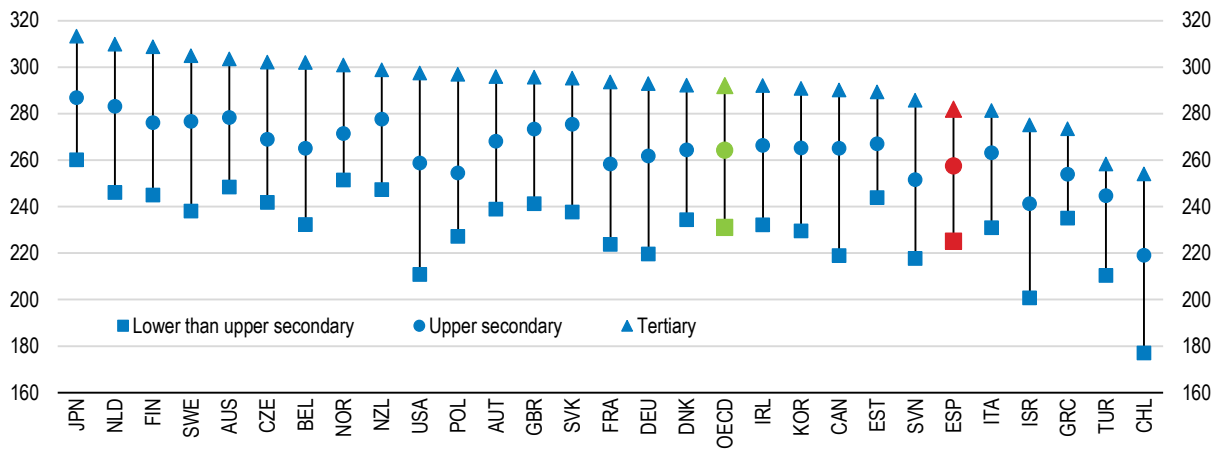
Finally, another target for policy action to build good quality dual VET, and VET more generally, is the lack of qualified teachers and training tutors in companies. Currently, to become a teacher in the VET system one needs to have a university degree in the field of work, but no practical work experience in the field of teaching is needed. Further facilitating access to teaching in vocational schools to practitioners, as well as easing requirements for firm tutors, could help to increase the pool of qualified teachers and training opportunities. Greater participation in the Erasmus+ programme – an EU Programme that facilitates that tutors and teachers learn in countries with long lasting experience in VET – could also help to improve the skills of teachers and tutors.

University education

In Spain, literacy proficiency among tertiary graduates is among the lowest in the OECD (Figure 24), with the skills of tertiary graduates similar to the level of skills of students who finish secondary education in other countries. The recent OECD Skills Strategy for Spain shows that a complex set of factors explain the low set of skills Spanish students acquire at university (OECD, 2015b), including the funding formulas based almost exclusively on the number of students, governance systems with insufficient external accountability, selection procedures that promote inbreeding and very low mobility of students and teachers.

Figure 24. Foundation skills are low on average

Mean literacy proficiency score, 2012[1]



1. 2015 for Chile, Greece, Israel, New Zealand, Slovenia and Turkey. The OECD aggregate refers to the unweighted average of the 28 OECD countries that participated in the OECD Programme for the International Assessment of Adult Competencies (PIAAC). Data for Belgium refers to Flanders. Data for the United Kingdom refer to England.

Source: OECD (2016), *Skills Matter: Further Results from the Survey of Adult Skills*.

At the same time, Spain seems to be underutilising the skills that do exist, with a high proportion of university graduates in occupations which do not require a university diploma. A survey by the Spanish statistical institute shows that only three out of four university graduates were carrying out tasks requiring a university diploma four years after their graduation in 2014 (INE, 2015). This reflects in part an important misalignment between university education and labour market needs. The low demand for high skills among Spanish firms is another factor explaining this outcome, as discussed above.

Recent government initiatives aim at improving the modernisation and internationalisation of university education. A 2015 Royal Decree aims at making study programmes and funding more flexible and to enhance co-operation with the business sector to adapt programmes to labour market needs and to facilitate the development of joint research and development (R&D). The proposal to restructure governing boards so that representatives from the private sector and civil society sit on the board and influence university decision-making could help to better align university education with labour market needs.

On-the-job training

Education and training policy needs to reach out to the numerous adults who left education with poor skills. As noted above, on-the-job learning opportunities are less frequent in Spain than in other EU countries and a substantial share of workers is poorly skilled.

Recent government initiatives aim at improving on-the-job training. The new training-for-employment model, adopted in September 2015, is based on the principle of greater transparency and control in the management of public resources, greater competition in the provision of training courses, and better assessment of training quality. By using more information on workers' skill needs it aims at closing the gap between skills demand and supply. Information on skill needs is gathered by the public employment offices in cooperation with social partners.

A 2015 Royal Decree establishes an evaluation and monitoring system to ensure training quality, a multi-annual strategic planning, open and transparent tendering processes for private training providers, and an anti-fraud unit (OECD, 2015b). The new system enhances the involvement of employers in choosing the training courses although efforts are still needed to adapt the courses to labour market needs.

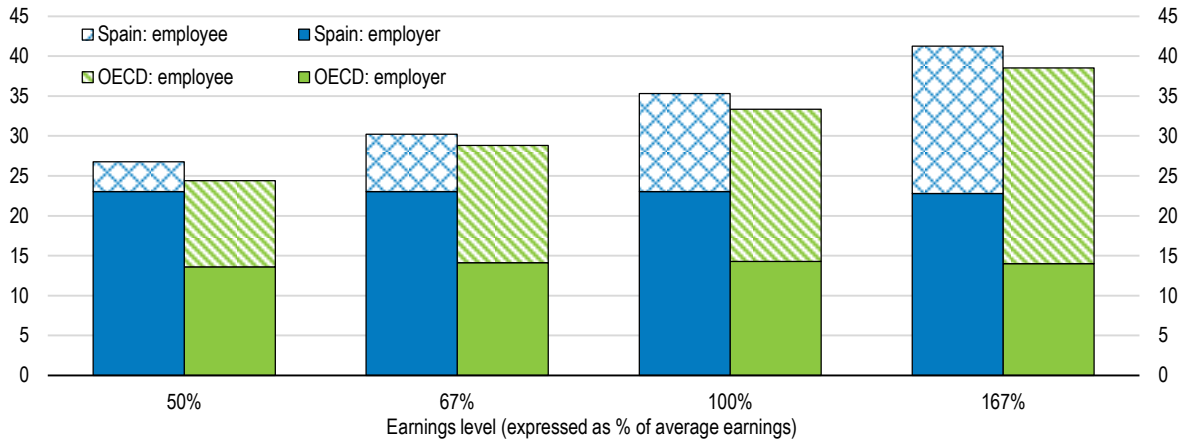
Supporting more and better quality jobs

Reducing barriers to hiring low-skilled workers

Spain implemented in 2015 and 2016 a reform to make the tax system more conductive to growth (OECD, 2014c). Even after the reform, however, the structure of taxation remains tilted towards labour income which penalises growth and employment (Johansson et al., 2008). Reducing the tax wedge on labour, which is high by international standards (Figure 25), could further support employment. The 2014 personal income tax reform reduced the tax wedge by exempting income up to 12 000 euros and lowering personal income tax rates, likely contributing to boost labour supply, especially among those with low skills. A temporary measure to boost permanent jobs between February 2015 and August 2016 reduced social security contributions (SSCs) for employers, by exempting the first 500 Euros of workers' salaries employed on all new permanent contracts for two years. This measure is more progressive and better targeted at low wage earners than the 2014 flat SSCs fee for all new permanent hires that generated stronger incentives to hire high-wage workers (OECD, 2014c).

Figure 25. Tax wedge is high due to high employer social security contributions

Tax wedge for the average of four different household types by earnings level, as a percentage of total labour costs, 2015[1]



1. The four different household types include: single person without children, one-earner married couple without children, single parent with 2 children and one-earner married couple with 2 children.

Source: OECD (2016), "Taxing Wages: Tax wedge decomposition", *OECD Tax Statistics* (database), December.

To further support job creation, the government should build on this cut in employer SSCs, by making it permanent and restricting it to low-wage workers. This will have long lasting positive effects on employment among low-skilled workers, where the need to stimulate labour demand is largest, and evidence suggests that reductions in non-wage labour costs are effective (OECD, 2011). OECD estimates suggest that such a measure could increase employment by around 70 000 jobs and GDP by ¼ percentage point over the next five years (Gal and Theising, 2015). Such a reduction in employer SSCs should be considered in the context of a broader tax reform to improve the tax structure which is currently titled towards labour income which penalises growth and employment (See Assessment and Recommendations).

Further reducing labour market duality

The Spanish labour market remains characterised by a strong duality between permanent and temporary workers. While the share of temporary workers has significantly declined since 2007 (when it reached 32%), 25% of all workers have a temporary contract, the second highest share in the OECD (Figure 2, Panel A). The 2012 Spanish labour market reform has helped to tackle deeply entrenched labour market segmentation by strengthening the incentives for employers to hire on open-ended contracts (Box 1). OECD analysis suggests that the reform increased the share of open-ended contracts in new hires. However, over 60% of net employment growth has taken the form of temporary contracts since early 2014, according to the Labour Force Survey data. Young people, including the highly-educated, are the main group affected by temporary contracts. Transitions from temporary to permanent status are very limited and have significantly worsened since 2007 (Figure 2, Panel B).

Job quality among temporary workers is particularly poor. Labour market insecurity for temporary workers during the crisis was significant and found to be three times as high as for permanent workers (OECD, 2014b), due to the fact that labour adjustments affected disproportionately temporary workers. Temporary workers earn some 30% lower hourly wages in Spain, with around half of which (15 percentage points) is estimated to be a wage penalty (attributed to the type of contract all else equal, OECD, 2015e). Over time, temporary workers tend to experience unstable employment careers and low wages subsequently ("scarring effects", see García-Pérez et al., 2016).

Many temporary workers do not work all year long. According to EU-SILC data, the share of individuals with low work intensity in Spain was high at 11% of the working age population in 2013 (working no more than 45% of the standard worker, in line with Eurostat definition) and many of them report "short-term unemployed" as a main activity of the reference year (Fernández et al., 2016). This suggests that many of them move from one temporary contract to another, interspersed by unemployment spells. On top of lower hourly wages, such low work intensity significantly reduces their overall annual earnings.

There is still a large gap in protection levels and dismissal costs between temporary and permanent contracts. If needed, on the basis of further evaluation of recent reforms, additional reform pursuing a greater convergence of termination costs between permanent contracts and temporary contracts, as recommended in the 2014 Economic Survey, could help to reduce duality further and reduce the precariousness of employment. The government may have to reconsider severance payment for temporary workers, due to the European Union Court of Justice ruling on the employment conditions for temporary workers. In broad terms, according to this ruling, severance payment for both temporary and permanent workers should be calculated in the same way. The government has asked a group of experts to examine the implications of the ruling and they will soon present their assessment, which may become a trigger for reviewing again the differences between temporary and permanent work contracts.

The 2012 labour market reform aimed to define more clearly the criteria justifying fair dismissals, with the aim of reducing firms' costs of firing and, therefore, hiring. More precisely, a persistent decline in revenues or income over three consecutive quarters within a firm is considered to be a season for fair dismissal. The law also states that court intervention should be limited to verifying facts asserted by the employer. The number of cases classified as fair dismissal has risen as a ratio to those as unfair dismissal in the years after the reform. However, the law still leaves discretion for labour courts to interpret the definition of fair dismissal (Durán López, 2015; Gómez Abelleira, 2012; Jimeno et al., 2015). As a result, many firms opt for accepting upfront that a dismissal may be considered unfair by the courts, which is more costly but judicially more certain. The authorities should once again try to revise the law to increase judicial certainty regarding fair dismissal, although the experience of the previous reform illustrates the difficulties involved.

Out-of-court procedures, such as conciliation, mediation and arbitration to settle labour disputes could help to further reduce uncertainty. The use of conciliation procedures has been on the rise over the past four years. Such out-of-court procedures could be developed further to enhance dialogue and provide a quicker and more effective response to litigation.

Promoting job creation through more flexible adjustment of wages

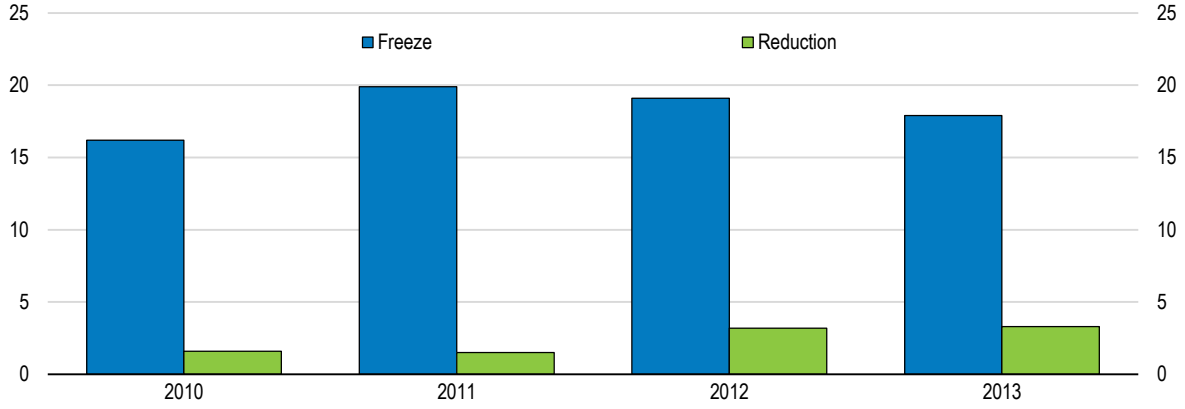
Spain has a complex collective bargaining system that traditionally provided limited leeway for firms to adjust working conditions to external and internal conditions even when unemployment was very high. The 2012 labour market reform significantly changed Spain's collective bargaining system. The objective was to restore competitiveness by aligning labour costs more closely with productivity and to allow employers to exploit more easily internal flexibility measures as an alternative to dismissals in the presence of adverse shocks (OECD, 2014c). The reform gave priority to collective bargaining agreements at the firm-level over those at sector or regional level. The reform also enhanced the possibility for employers to opt-out from sector or regional collective bargaining agreements and pursue internal flexibility measures.

Evidence suggests that the reform has contributed to wage moderation (OECD, 2014a; Doménech et al., 2016; García-Pérez, 2016 and Box 1), which has helped employment performance and helped to restore competitiveness helping the export sector to lead the recovery. Nevertheless, it is difficult to disentangle whether salary moderation is a consequence of the labour market reform or a consequence of the successive Agreements for Employment and Social Dialogue signed by the social partners since 2012,

which recommended salary restrain. Moreover, evidence suggests that despite the progress, firms still adjust employment in the presence of a fall in demand much more than wages or hours per employee (Izquierdo and Jimeno, 2015). The share of companies applying flexibility measures to working conditions increased after the 2012 reform (Figure 26).

Figure 26. The share of companies applying salary freezes and reductions is low

As a percentage of all companies[1]



1. Figures are based on the Bank of Spain's 2014 Survey on Salary Formation.

Source: Durán J. (2016), "Spain: Impact of crisis on labour costs and employment levels in companies", European Observatory of Working Life (EurWORK), April.

The new bargaining regime allows firms to opt out of the terms and conditions contained in collective agreements at the sectoral, regional or national level. Less than five percent of all firms have opted-out from higher level collective agreements (Izquierdo and Jimeno, 2015). The reform also gave priority to firm-level agreements over those at sector or regional level. This has provided certainty for firm-level agreements, which are on the rise, although remaining rare and have been essentially concluded in large firms. Overall this evidence suggest that large companies seem to be benefiting most from the reforms as it is easier for them to negotiate firm-level agreements or resort to the internal flexibility to change the terms and conditions in collective agreements. Therefore there is still scope to facilitate flexible wage adjustments that promotes job creation.

The extension of collective agreements at the sector level is automatic across the country, regardless of the representativeness of parties involved in collective bargaining. Such collective agreements then bind not only wages but also other employment conditions such as working time and shifts, unless firm–level agreements exist. The authorities should reconsider the conditions under which the statutory collective agreements are extended, in particular, by gradually requiring higher and stricter representativeness of business associations and by checking that such representativeness applies. This should avoid the situation that collective agreements are driven excessively by a limited number of the best performing firms. Alternatively, firm-level agreements and the opting-out system could be developed further, which requires strengthening worker representation in the firm. To that aim financial incentives can be provided for firm-level bargaining, as was introduced recently in Italy (OECD, 2017).

Policy recommendations for more and better quality jobs in Spain

Ensuring basic support for the most vulnerable

Key recommendations

- Increase the amount and coverage of the regional minimum income support programmes and of cash benefits for families with children.

Other recommendations

- Revise and streamline different social benefits at national and regional levels to improve their targeting and effectiveness.
- Phase out slowly the Renta Mínima de Inserción, the most common income support scheme, when beneficiaries return back to work and earn wages.
- Extend the coverage of the standard unemployment benefit to precarious workers, reducing the minimum required contribution periods.

Making active labour market policies more effective

Key recommendations

- Increase the efficiency of regional public employment services by: i) employing profiling tools and specialisation of counsellors; ii) increasing resources and staff-to-job seeker ratios; and iii) improving coordination to provide integrated support for jobseekers via a single point of contact for social and employment services and assistance.
- Promote the VET system and adult education programmes to help the unemployed and those in need to gain relevant skills.

Other recommendations

- Make better use of digitisation to improve job search assistance for ready-to-work jobseekers, reducing operating costs and targeting better resources to the most disadvantaged jobseekers.

Improving the skills of Spanish youth for getting them into jobs

Key recommendations

- Improve the quality of teaching through better university and on-the-job training for teachers.
- Continue the development and modernisation of vocational education and training (VET). Expand dual VET and ensure skills meet firms' needs by fostering a greater role of employers in training students and designing curricula.

Other recommendations

- Use national standardised tests widely in primary and secondary education.
- Improve attractiveness of basic and secondary VET by increasing the share of mandatory workplace training and facilitating pathways to dual and higher level VET.

Reducing demand side barriers to job creation

Key recommendations

- Reduce employer social security contributions for low-wage workers on permanent contracts.
- Request gradually increased representativeness of business associations when allowing the extension of collective agreements.

Other recommendations

- To further reduce duality, if necessary, pursue a greater convergence of termination costs between permanent contracts and temporary contracts.

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