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IV. The economic impact of migration

Introduction

For much of the 20th century, Spain experienced significant net emigration. But over the last decade, the net flow has reversed and Spain has become an immigration country. A number of factors, including its geographic position, historical links with Latin American countries, and a strong growth performance compared with most other EU countries, has made Spain an attractive recent destination for migrants. With the sharp rise in the inflow of immigrants, Spain is facing the challenge of defining an overall policy on immigration. And the challenges are numerous. These include most importantly decisions on the size of the immigrant inflow and the way immigrants should be selected in the case of non-EU immigrants, ways to cope with the still large number of illegal immigrants and means to integrate better the immigrants that stay.

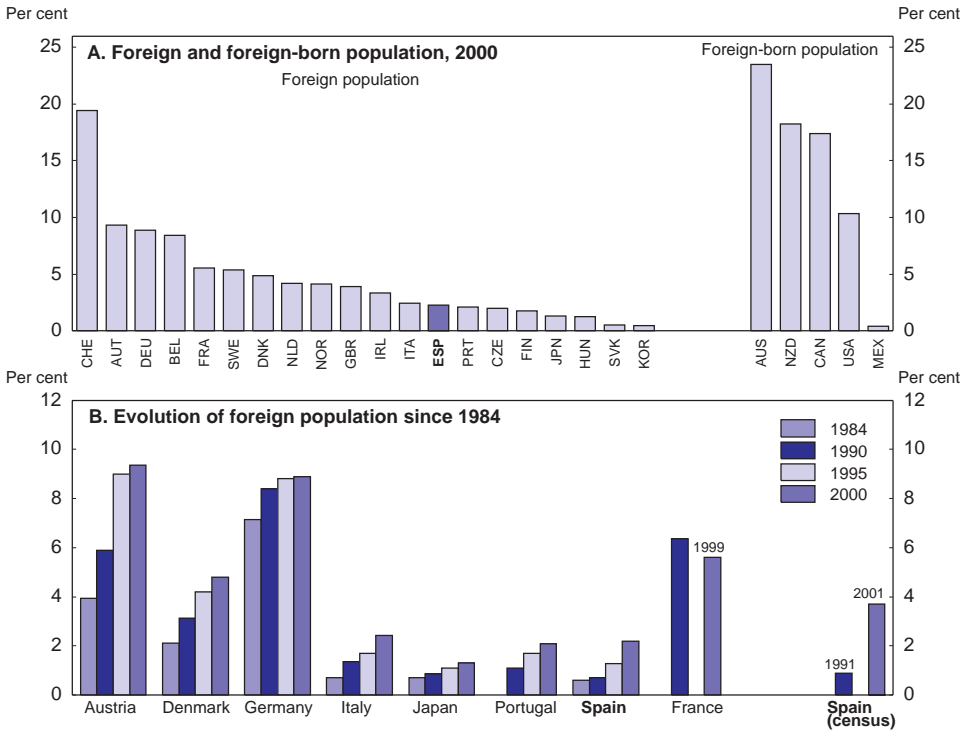
This chapter lays out the interactions between immigration and economic performance and economic policies. After putting immigration flows and stocks into an international perspective and assessing the factors affecting them, the chapter outlines the evolution of migration policy and current arrangements. The economic aspects of immigration are assessed in terms of their interaction with the labour market, their impact on output and incomes, on public finances and on trade and the balance of payments. Policies for integrating immigrants are also reviewed, while the last section provides conclusions and recommendations.

Migration stocks and flows

From emigration to immigration

Immigration is a recent phenomenon, but has risen rapidly over the last decade. According to the census, 1.5 million foreign citizens¹³⁰ were living in Spain in 2001, four times more than in 1991, representing 3.6 per cent of the population. This is still a low proportion of the population compared with many other OECD countries (Figure 26), and there are still more Spaniards living outside Spain (2.2 million) than immigrants in Spain (Dolado, 2002). For more than a century, many Spaniards emigrated, initially to Spanish-speaking countries, and between

Figure 26. **Foreign population in selected OECD countries**
As a percentage of the total population



Source: SOPEMI 2002, based on population registries for Austria, Denmark, Germany, Italy and Japan; population census for France; resident permits for Portugal and Spain; and population census for Spain in 1991 and 2001.

the 1950s and 1970s to other western European countries, in particular France. In the second half of the 1970s, though, following the first oil price shock and rising unemployment in Europe, outflows started to decline, and Spanish emigrants started to return.

At the same time, stronger growth since the mid-1980s, combined with a more restrictive migration policy in some European countries, made Spain an attractive destination for migrants from countries with a lower income. In 1991, the migratory balance switched from negative to positive, and net immigration has grown continuously since then. This has been taking place in a context of rapidly decreasing Spanish fertility rates and an ageing population.¹³¹ Indeed, while the natural growth rate of the population approached 0.9 per cent in 1970, at the end

of the 1990s almost all the population growth was due to the rise in the foreign population.

There is no single complete and reliable data source to analyse migratory stocks and flows (Table 30), but the available statistics suggest that the increase in immigration has been particularly important since the second half of the 1990s.

Table 30. **Immigration statistics in Spain**

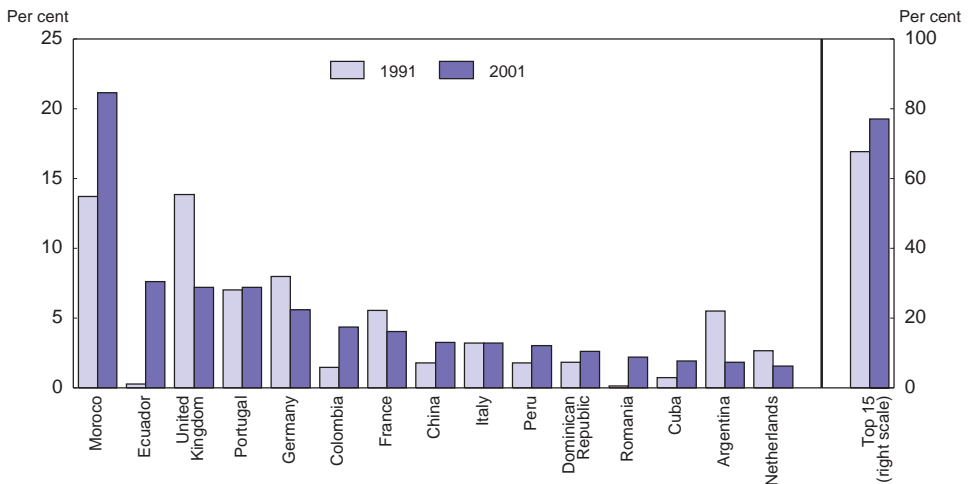
Statistic	Source	Period	Details	Comments
Foreign residents	Ministry of Interior	1991-2001 Some previous years (1980)	Age, sex, origin, destination	Problem: underestimates the number of EU citizens as they are not obliged to register in Spain. Some probably tend to keep their main residence in their country of origin. Probably provides a good estimate for the number of non-EU foreigners legally residing in Spain (non-signalled exit must be rare).
Residents registered in the "Padron"	Municipalities and INE	1996, 1998-2000 (1st January)	Age, sex, origin, destination	Problem: no systematic trace of exit when a foreigner goes from one city to another. INE attempts to avoid double-counting. Not obvious that EU foreigners systematically register. Undocumented foreigners are allowed to register and probably do so to benefit from social services.
Population census and projection	INE, Census in 1991 and based on the Encuesta de Variaciones Residenciales for 1991-1997 and on the Padron for 1998- 2000.	1991-2001	Origin, age, etc. for census years; no detail for projected years	New Census in 2001 but complete results available only in 2003. The total number of foreigners from the Census has the advantage of being rather exhaustive. Problem: no detail on migrants' characteristics outside the census year.
Encuesta de Migraciones	INE, as part of the Encuesta de Población Activa	1980-2001	Age, sex, origin, activity status, profession, sector, education level	Problem: sample initially very restricted for foreigners; progressively extended (in 1987, 1992, 1995 and 2001) and methodology modified several times. Cannot be used over time. Better coverage now but still not completely representative (about 50 per cent of the foreigners in 1999). Covers only households (and not immigrants living in collective housing). Temporary immigrants are not surveyed either.

Source: OECD.

This is in contrast with most other EU countries, where net immigration flows increased during the 1980s, but declined in the 1990s, especially in the second half. The increase in the number of foreigners residing in Spain is important, but it is not exceptional in international comparison (Figure 26). However, since there were few immigrants in Spain a decade ago, the increase in immigration is perceived as being substantial.

Immigration from non-OECD countries, in particular Africa, has been the most important. While residents from the European Union represented about two thirds of the foreign population in 1980, their share shrank to only one third of the total in 2001. However, the latter figure is probably an underestimate, since many EU citizens do not declare their residence.¹³² The number of African residents has quadrupled, led by Moroccans. Immigration from eastern European countries, though still low, has also been increasing very rapidly since the end of the 1990s, and that from Latin American countries has recently rebounded. Overall, the origin of immigrants is quite concentrated (Figure 27). In 2001, 82 per cent of the foreign residents were living in the six autonomous communities comprising the islands (Balears and Canarias), the Mediterranean coast (Cataluña, Valencia, Andalusia) and in the capital (Madrid), where 64 per cent of the total population was located.

Figure 27. **Foreign population by nationality for the top 15 source countries**
As a percentage of total foreigners

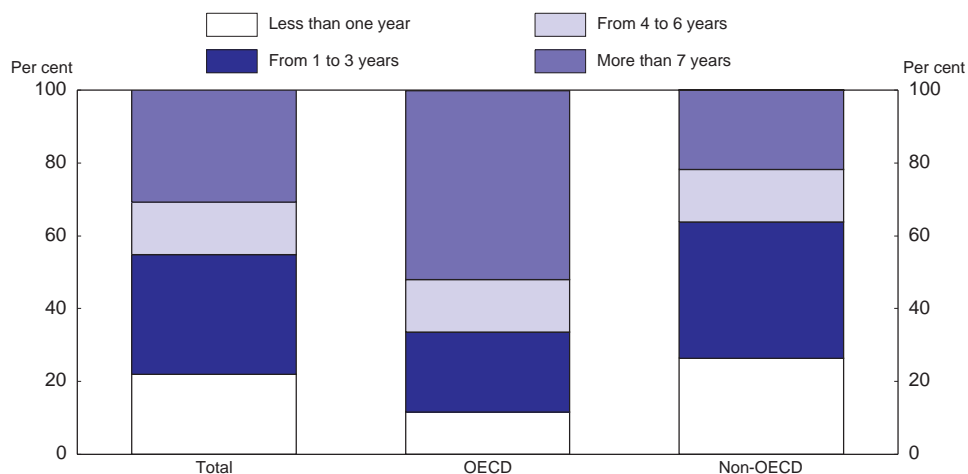


Source: Dirección General de la Policía del Ministerio del Interior.

A large number of immigrants is entering and staying illegally, as revealed by the four legalisation processes that have taken place since 1990. Some immigrants cross the Strait of Gibraltar on fragile vessels (“pateras”) landing in Andalusia or Canarias, with wreckages not uncommon. Although such events have received considerable attention, most immigrants enter Spain legally, with a visa or a residence permit, but a number of them stay illegally once these papers have expired. There is of course no reliable estimate of their number. The difference between the census data (1.5 million) and the number of officially-registered foreign residents (1.1 million) provides an indication (Figure 26), although it also probably includes EU citizens who have not declared their residence. The number of applicants for legalisation in 2000 and 2001 who were denied residency, that is about 186 000 at mid-April 2002 provides another indication; but some of the undocumented foreigners have not applied.¹³³

The lack of data on exits from Spain, as well as the relative novelty of the immigration increase from developing countries, make it difficult to assess the extent to which migration is permanent or temporary. According to the only available source, in 2001, less than one third of foreigners had been in Spain for more than seven years, and they were mostly OECD citizens (Figure 28). About two-thirds of non-OECD foreigners had been in Spain for less than three years, but since their immigration is recent, it cannot be inferred that it is of a temporary nature.¹³⁴

Figure 28. Length of stay of foreigners
2001



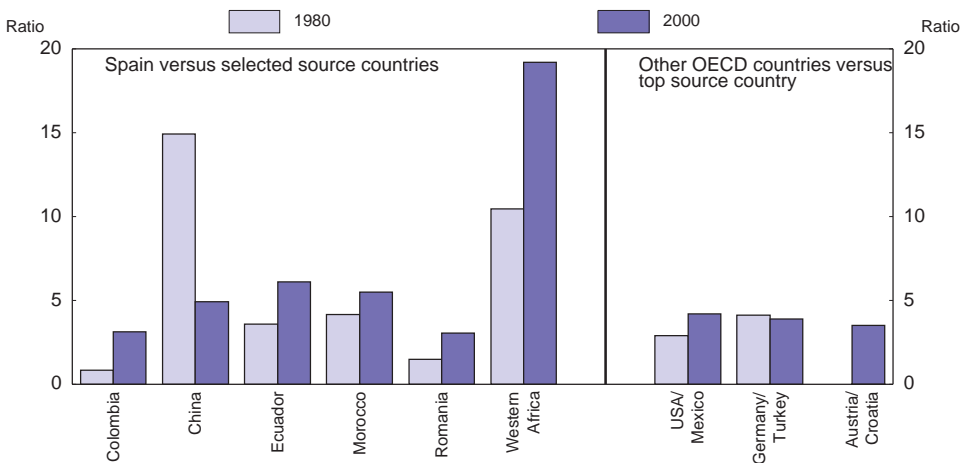
Source: INE, Encuesta de Migraciones.

The factors inducing migration are going to persist

The economic incentive for people from developing countries to migrate, as highlighted by the difference in income per capita between Spain and important source countries, is quite large, and has been growing over the last two decades (Figure 29). In 2000, the Spanish income per capita was 5.5 times higher than in Morocco, against 4 times higher in 1980. The differential is even larger for Western African countries and has also widened against Latin American countries.¹³⁵ Lower travel costs and improved communications have been additional factors boosting migration, which make it very likely that the incentive for people living in developing countries to migrate to Spain will persist.

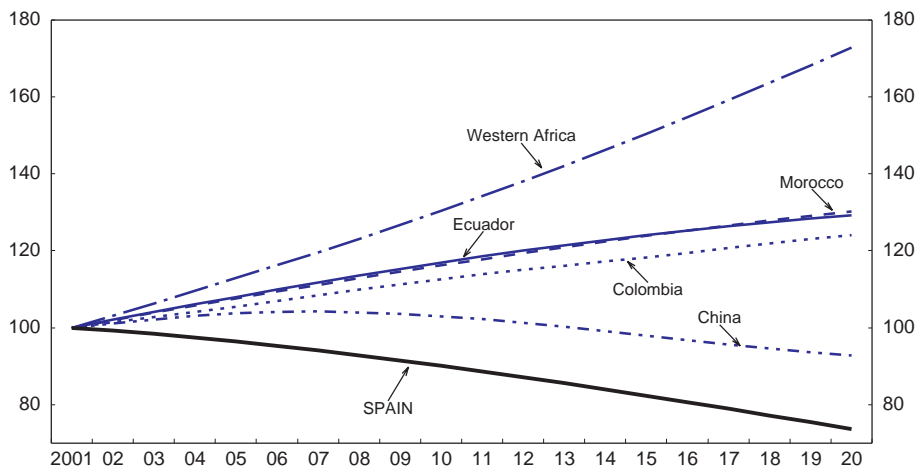
Structural factors in countries of origin, related to demography, economic and political reasons, are also at play. In the Maghreb, as well as in Ecuador and Colombia for example, fertility rates have started to decrease, but the cohorts of young people arriving at working age are still very important, a trend which is going to continue in the future (Figure 30), while in Western African countries fertility rates remain high. However, the increase in the stock of immigrants in Spain has been much larger than that of the young working-age population in source countries over the past decade (Figure 31), indicating that the role played by demographics *per se* in overall pressures is probably limited, and that economic and social factors are more important.

Figure 29. Income differentials¹



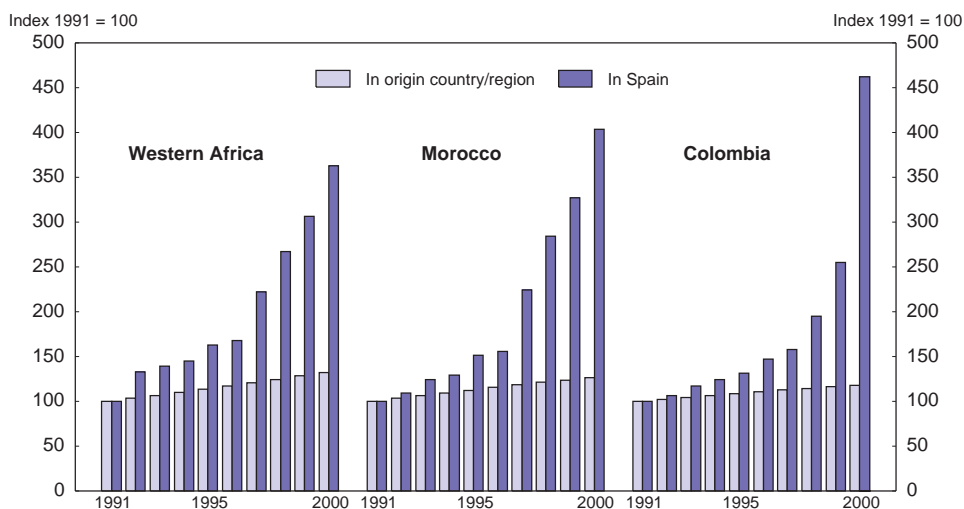
1. Ratio of GDP per capita in current PPPs in Spain (or wealthy OECD countries) to that of source countries.
Source: World Bank, *World Development Indicators*.

Figure 30. **Population projections for Spain and selected source countries**
Age 15-44, index 2001 = 100



Source: United Nations, *World Population Prospects*.

Figure 31. **Population of selected source countries/regions, aged 15-44**



Source: United Nations, *World Population Prospects*.

Growth was slow in most of these countries, and particularly unstable in Northern Africa, and job markets have been unable to absorb these young cohorts, resulting in high unemployment. Focusing on Morocco, currently the main source country, about 30 per cent of people aged under 34 living in urban areas were unemployed in 2000.¹³⁶ The situation is no better in rural areas. The economy would have to grow between 6 to 8 per cent a year to absorb the people seeking work.¹³⁷ This figure is much higher than past performance, and not likely to materialise in the current environment. Unemployment rates have also risen over recent decades in Latin American and Eastern European countries. The absence of a favourable outlook concerning the economic and sometimes political environment often makes emigration one of the few options for any improvement in living standards. A survey conducted in 2001 showed for example that more than half of young Arabs wanted to emigrate to other countries, mostly to industrialised countries (UNDP, 2002).¹³⁸ These incentives to emigrate seem unlikely to diminish substantially in the near future and often seem to outweigh the risks, even to their lives, that emigrants incur.

While these factors make most OECD countries a desirable destination for migrants, a number of additional features favour Spain. In particular, Spain has experienced relatively strong growth. Migrants also know that they can find jobs for low-qualified workers, especially in labour-intensive agricultural activities – a sector having strongly developed since joining the European Union – and domestic services, even if undeclared. For Central and Latin Americans, the common language also makes Spain an easier destination. Among the policy factors, the various regularisation processes of undocumented immigrants in Spain combined with increasingly restrictive immigration policies in other EU countries have also made Spain a favoured destination.

Migration policy: still in the making

In line with the EU policy framework, Spain distinguishes two types of foreigners in its migration policy. Since the Treaty of Rome, EU citizens are free to enter, move and reside in another EU country, and there should be no discrimination based on nationality for labour market access. Since the Maastricht Treaty, EU citizens are not even required to hold a work permit to be able to work. They, and their family members, have access to the “Community regime”, which provides a five-year resident card automatically. Foreigners from non-EU countries fall under the “General regime”. Spain being a recent immigration country and the closest entry point to Europe from Africa, policies *vis-à-vis* non-EU foreigners have also been influenced by the EU-wide focus on border controls (Box 5).

Box 5. EU-wide immigration policies

Visa matters, belonging to the first pillar of the Amsterdam Treaty, are part of community policy. Since 1999, two lists of countries have been established, whose nationals need or do not need a visa to enter the European Union or the Schengen area. Out of the top 15 immigration source countries (Figure 27), Argentineans are exempted from a visa requirement for periods up to three months; Ecuadorians used to be exempted too, but a visa requirement has been ratified by the European Parliament in January 2003.

Immigration issues as such, on the other hand, belong to the third pillar (Justice and Home Affairs), where policies remain under the sovereignty of national governments. A number of joint actions have been agreed regarding asylum seekers and illegal immigration, aiming at the harmonisation of practices, notably at the June 2002 Seville summit closing the Spanish presidency of the EU Council, but little action has been yet taken. Regarding conditions of residence and employment, the initiatives have failed to achieve any harmonisation of national practices. The rules on family reunification are very flexible, for example, allowing substantial national variations. Directives to regulate immigration, such as labour immigration and family reunification had been proposed by the Commission but were not adopted.

Past policies

The first law regulating the immigration of non-EU nationals was passed in 1985, a few months before Spain joined the European Communities.¹³⁹ It was relatively restrictive regarding work and residence permits – no permanent permit existed, and the requirements for the renewal of temporary permits were rather strict – and immigrants' rights were limited.¹⁴⁰ Despite the regularisation process of 1986 following the introduction of the law, a stock of undocumented immigrant workers built up and in 1991, at the same time as a visa requirement was introduced for Moroccans in preparation of Spain's joining of the Schengen area, another regularisation process took place, whereby more than 100 000 foreigners were provided with papers (Table 31). After that, to complement the general regime that deals with individual immigration demands of all types (for work, family reunification, etc.), a system of quotas for work permits was established in 1993 in an attempt to better manage inflows of non-EU workers. Work permits were to be issued every year to fill those jobs that had not been filled by Spanish nationals. In practice though, instead of managing inflows through the Spanish embassies in source countries, the quota system functioned more as a regularisation mechanism for undocumented workers already present in Spain, with 20 000 to 40 000 work permits issued almost every year between 1994 and 1999.

Table 31. **Regularisation processes**

	Number of demands	Number accepted
1985-86	44 000	23 000
1991	148 000	110 000
1996	25 128	21 294
2000 ¹	247 600	163 900
2001	350 100	216 300

1. It should be added 57 616 number of demands, and 36 013 accepted, as a consequence of a re-examination process.

Source: OECD based on Moreno Fuentes (2000), SOPEMI *report for Spain* 2000, and *Balance* 2000, Delegación del Gobierno para la Extranjería y la Inmigración, Ministerio del Interior.

Table 32. **Annual quota for work permits in the 1990s**

	Permits demanded	Permits granted
1993	–	5 220
1994	37 093	19 953
1995	37 206	25 604
1997	67 522	24 615
1998	65 221	27 904
1999	97 033	39 879

Source: SOPEMI *Report for Spain*, 2000.

Despite these initiatives, another regularisation process was implemented in 1996 for foreigners who had previously had papers but had not been able to renew them (Table 31). The gap between work permits demanded and issued under the quota also grew over time (Table 32), indicating that the number of undocumented foreigners had built up in parallel.

Regarding the integration of immigrants, the decentralised institutional arrangements in place, together with the multi-dimensional nature of the issues at stake, resulted in some lack of co-ordination among the different authorities and gaps in the coverage of the basic needs of immigrants. In the case of health care, for example, immigrants contributing to social security had access, but long-term unemployed, the undocumented and those having only a residence permit did not.

In search for a new policy framework

In 2000, a new Immigration Act was adopted, and after two massive regularisation processes in 2000 and 2001 (in which about 380 000 immigrants obtained

papers for a one-year period), the government is setting up a new policy framework. The declared objective is to better gear immigration to labour market needs, and to reduce the number of undocumented immigrants. It is intended that future labour immigration relies exclusively on a system of yearly quotas for short-term work permits (the “contingente”) for foreigners living outside Spain, while measures to contain illegal immigration have been implemented. It is still early to evaluate the results of the new policy measures, but the available information points to some limits of the approach.

The new Immigration Act and the GRECO plan

The current Immigration Act (*Ley de extranjería*) was adopted in December 2000.¹⁴¹ Compared with the previous legislation, it makes civil and social rights of immigrants residing legally in Spain equal to those of nationals, notably for access to welfare services and education, and establishes the possibility to vote at the local level. On the other hand, it draws a sharper distinction between documented and undocumented foreigners, restricting certain rights of undocumented foreigners and reinforcing the possibilities for expulsion.¹⁴² However, if registered in the “Padrón” (the municipal residence register), undocumented foreigners are entitled to free education for their children (from 3 to 18), access to grants for education and health care.

The institutional setting has also changed. Immigration issues, which were previously in large part the responsibility of the Labour Ministry, have been brought under the supervision of the Interior Ministry, illustrating the importance attached to border and police aspects of immigration. The newly created Delegation of the Government for Foreigners and Immigration is now in charge of formulating policy and co-ordinating and directing actions in this field. Since March 2001, all migration policy measures are grouped in a programme called GRECO, being implemented over 2001-04, under four themes: global and co-ordinated design of immigration in the EU context, integration of foreign residents, admission regulation and inflow control, and management of refugees.

Current tools for managing entry, residence and work

Non-EU foreigners must obtain a residence permit (initially only temporary) to stay in Spain. The right to work is generally distinct from the right to reside, although a work permit is granted automatically to permanent residents. Moreover, a recent reform will grant foreigners with Spanish parents with an automatic work permit. As in most other European countries, and contrary to Australia, Canada and the United States, there is no permanent immigration policy (*i.e.* a foreigner cannot enter in Spain with a permanent visa). Except for asylum seekers who obtain refugee status, permanent residence permits are granted to non-EU foreigners only after five years of uninterrupted residence, resulting from right-recognition over

time to immigrants that were initially seen as temporary immigrants. The number of refugee visas is very small (700 in 2000), and Spain has a relatively low recognition rate compared with other OECD countries.

As in the previous legislation, the system of work permits included in the 2000 Immigration Act is rather complex, including more than ten types of permits. It is composed of two parts, the general regime, which deals with individual applications, and a new quota system. In January 2002, the government announced that the quota system would be the main source of work permits. Outside this system individuals could apply for a first work permit only in specific cases.¹⁴³

Work permits are grouped under two broad categories, wage earners and self-employed, the latter representing only about 5 per cent of the total in 2000 (Table 33).¹⁴⁴ The first permit that a non-EU foreigner can obtain is for a maximum duration of one year, and can (and often does) include restrictions on the sector

Table 33. **Work permits**

Type of permits	Duration	Characteristics	Number granted in	
			2000	Jan.-June 2001
For wage earners				
A	Maximum of one year. Can be extended if the activity requires	Temporary work for foreigners living outside Spain. Can be limited to a specific sector or region.	1 143	1 509
T	Maximum of 9 months	Seasonal or temporary work for foreigners living outside Spain. Can be limited to a specific sector or region. Employer guarantees transport (including return) and housing.
B initial	Maximum of one year	Can be limited to a specific sector and/or region.	37 472	33 247
B renewed	2 years	After B initial. No limitation.	5 529	2 336
C	2 years	After B renewed. No limitation.	30 406	27 320
F	5 years maximum	For cross-border workers.	795	517
Permanent			32 004	7 033
For self-employed				
D initial	One year	Can be limited to specific activity or region.	964	448
D renewed	2 years	After D initial. No limitation.	264	206
E	2 years	After D renewed. No limitation.	1 155	943
F	5 years maximum	For cross-border workers.	107	8
Permanent			3 614	840

Source: OECD based on the 2000 Immigration Act and Ministry of Labour and Social Affairs.

and/or region in which it can be used (for example, agricultural work in Andalusia). When a non-EU foreigner asks for a work permit under the general regime for the first time, the law stipulates that the decision must take into account the overall employment situation. Public employment services have to certify either that the job offer has been published and not been filled or that there are no job seekers with the required profile. The process seems to be rather lengthy, and enterprises have been asking for more flexibility, in particular in the way the checks are carried out. The permit can be renewed if the foreigner still has a work contract or if he receives unemployment benefits (for a duration equal to the period of rights in the latter case). Refusals of work permits (as well as visas) do not have to be justified anymore under the new law.

The new quota system included in the 2000 Immigration Act (Box 6) aims at allowing a more active management of immigration inflows based on domestic labour market needs. In contrast with the previous quota system, it is composed of generic job offers which can be filled exclusively by foreigners residing outside Spain, with preference given to countries which have signed bilateral agreements on immigration with Spain. It also aims at improving the likelihood that temporary foreign workers will return to their country of origin.

Although it is too early to make a definitive judgement, the results of the implementation of the quota system in 2002 are not encouraging. 13 600 of the 32 000 job offers agreed upon in December 2001 were actually filled, including 3 100 "stable" jobs, largely by Polish and Romanian workers. The recent regularisation processes may partly explain why entrepreneurs have not followed through with concrete offers, as they may have been covered nationally. However, the system also seems to suffer from deficiencies. A criticism made by the social partners and non-governmental organisations (NGOs) relates to the length and administrative cost of the process. It takes about four months between the moment when entrepreneurs submit their requests and the date when the quota is effectively allocated amongst the employer organisations. Employer organisations underline in particular the necessity to simplify the administrative process. The lack of established rules to determine the quota as well as to allocate it amongst employers and provinces is another common criticism. As to the selection process, employers have underlined the relatively high costs associated with travelling abroad to select workers, while trade unions have emphasised the lack of established rules as well as the insufficient means and experience of embassies.

To overcome these problems, the government has modified the rules. The main changes agreed, published in January 2003, are the following: *i*) firms wanting to hire more than five foreign workers (and not only business organisations) can also make generic job offers; *ii*) jobs can also be offered to a worker who has previously had a work permit in Spain and has returned to the country of origin, but he can only return to his earlier employer; *iii*) if a province cannot provide

Box 6. The new quota system for work permits

The quota system ("*Contingente*") distinguishes two types of work permits: temporary permits, for jobs with a maximum duration of one year, and with responsibility for the employer to provide decent housing and to organise the travel of the worker from the country of origin and back; and "stable" permits, for non-temporary jobs, of one year's duration.

The process of determining the size of the quota starts at the provincial level, with business organisations sending their requests for foreign workers (about 80 000 "stable" and 31 000 temporary jobs in 2002) to the Provincial Executive Commissions of the INEM, which, after evaluating the employment situation in the province, transmit a proposal to the Labour Ministry (about 33 000 "stable" and 29 000 temporary places in total). Taking into account the national employment situation, unemployment among foreigners, and, in 2002, the number of foreign workers regularised, the Ministry of Labour makes a new proposal. Finally, after consultation with the inter-ministerial commission for foreigners, business organisations, trade unions, and the superior council for migration policy, the government approves a quota (10 900 "stable" and 21 100 temporary places for 2002).

The allocation of the quota among business organisations in the various provinces is then based on the requests of the business organisations and set in collaboration with the provincial commissions of the INEM. Business organisations subsequently present generic job offers by type of occupation to the Labour Ministry, which transmit them to Spanish embassies and consulates, which then recruit the workers, possibly with the assistance of employers. Foreigners recruited then receive the work permits. Preference is given to countries with bilateral agreements with Spain; in 2001 and 2002, six countries (Morocco, Dominican Republic, Colombia, Ecuador, Romania and Poland) signed such agreements. Aiming to prevent illegal immigration and economic exploitation of undocumented foreigners, they include a general definition of the selection process of foreign workers (communication to the embassy of the offers defined in the quota, selection of candidates by a commission with possible participation of employer organisations, evaluation of living conditions), a guarantee that foreign workers obtain the same rights and working conditions as Spanish workers, specific provisions for temporary workers and voluntary repatriation assistance programmes.

the jobs that it has been assigned, the government can transfer them to other provinces; iv) administrative steps have been simplified; and v) the role of trade unions in the allocation of quotas has been increased. For 2003, a preliminary quota of 13 700 temporary and 10 600 "stable" job offers were agreed upon. However, it is not clear how far these changes will resolve the problems cited above.

Dealing with irregular immigration

Police measures aimed at better controlling the entry of immigrants are high on the current policy agenda. The government has reinforced border controls, including along the coast, through a surveillance system. Spain has also been encouraging the Moroccan government to intensify controls on its side. The recent proposal by the European Commission to invest EUR 40 million to organise joint EU-Morocco patrols to control illegal immigration in the Strait of Gibraltar including from sub-Saharan Africans, goes in the same direction. Policing efforts seem to have started to bite in the Strait, but part of the flow seems to have been diverted to the Canaries instead. Increasing police activity against illegal immigration networks is also part of the GRECO programme. The government has recently announced its intention to increase the legal sanctions against people smugglers.

The two massive regularisation processes conducted in 2000 and 2001 have shown that a large number of foreigners were indeed staying in Spain without documents. More than 650 000 applications were received, out of which, by mid-April 2002, about 440 000 had been given a one year residency permit (and often a work permit), and 210 000 (or 32 per cent) had been filed or rejected.¹⁴⁵ At a minimum, undocumented foreigners involved in these regularisation processes were about 1.4 times as numerous as foreigners officially residing in Spain at end-1999 when the first process started.¹⁴⁶ These processes have also shown that people entering illegally in Spain are far from being the majority of the “stock” of undocumented foreigners: they represented about 20 per cent of the applicants in the first process, and Ecuadorians – who did not need a visa to come to Spain at that time – were the most important nationality in the 2001 process.

In this context, and given that most of the immigrants come to Spain to work, focusing on dealing with undeclared employment is an efficient way to reduce irregular immigration, as it influences incentives to immigrate. Reinforcing labour inspections is part of the GRECO programme, and the government is also planning to increase the sanctions for hiring undocumented workers. However, the means dedicated to labour inspection services seem to be relatively small; a report for the professional association of labour inspectors indicated that they were a maximum of 700, and had poor working conditions.¹⁴⁷ Besides, the aim of reducing undeclared employment sometimes conflicts with that of preserving activities relying on undeclared work. Indeed, part of the hiring of undeclared workers seems to result from the impossibility to hire them legally, given the difficulty to obtain a permit, as emphasised by employer organisations.

The government is also increasing the number of expulsions of undocumented foreigners.¹⁴⁸ Agreements for repatriation have been negotiated with Algeria, Ghana, Guinea Bissau, Morocco, Nigeria and a number of other countries.¹⁴⁹ However, beyond the human issues that are involved, expulsions are difficult to implement on a large scale. It is often impossible to identify the nationality of

undocumented foreigners, and thousands of sub-Saharan Africans cannot be expelled because most African governments do not recognise them as their nationals. Transport and escort costs are also high. Hence, a number of foreigners arrested when entering illegally, often in the islands, are transferred to special centres in the peninsula, but released soon after. The problem is even larger when considering the number of undocumented foreigners already living in Spain. Looking just at the regularisation processes, a minimum of 90 000 persons have seen their applications rejected and are therefore staying in Spain without documents, and the overall number is certainly larger.¹⁵⁰ As noted above, the government had eliminated the possibility for undocumented workers to regularise their situation by closing the general regime in 2002, but it has been partially re-opened for 2003.¹⁵¹ In addition, the partial re-opening of the general regime is allowing the regularisation of some immigrants living in Spain.

Economic aspects of immigration

An important part of the overall economic gains from immigration is probably appropriated by the migrants themselves. However, the economic effects of immigration on the native population are playing an important role in shaping the attitudes towards immigration and thereby the policies to influence it. While migration may also have external economic effects in the countries of origin, analysis of these effects is beyond the scope of this chapter. The chapter is not dealing with the economic impacts of emigration either. While these were probably important in the past, very little analysis is available on the subject, and the impacts are probably lower nowadays.

Labour market outcomes

Greasing the wheels of the labour market?

Given the still limited share of foreigners in the labour force, immigration has probably had relatively little effect so far on overall labour market performance. However, its impact may be important in some sectors. This section analyses the contribution of immigrants to labour market performance, notably how they affect wages and employment. It also assesses if immigration is playing a role in reducing some of the problems discussed in the previous chapter, namely the segmentation of the labour market and the regional disparities in unemployment.

- Wages, employment and labour conditions

Immigration of people of working age implies an increase in the labour supply and might thus be expected to affect wages and/or unemployment of natives. The size of this effect ought to depend on the extent to which immigrants complement or substitute for natives in the labour market, on the labour market

situation, and on other factors, especially the possibly associated capital flows. There is little empirical analysis specifically on Spain. The only study covering the early 1990s by Dolado *et al.* (1996) concluded positive – albeit weak – effects of immigration on the labour market outcomes of native workers. However, studies linking wages and employment to migration densities suffer from an endogeneity problem, since migration is to some extent a function of labour market conditions – people are more likely to move where labour demand is relatively high – making it difficult to identify an independent effect of migration.¹⁵² Besides, in the case of Spain, the importance of undeclared foreign workers make the results of studies based on official work permit statistics unreliable.¹⁵³ Nevertheless, the information available allows one to distinguish three main types of immigration flows that have different characteristics and thus probably a different impact on the labour market.

The first group consists of the OECD (mostly EU) foreigners, who are on average better educated than the Spanish average worker and generally occupy skilled jobs (Table 34). Working largely in multinationals or in tourism-related activities, they often occupy labour market niches, linked to their characteristics as

Table 34. **Education level and type of employment: foreigners versus natives**
Per cent of the total population of each category, 2001

	Foreigners		Spanish
	OECD	Non-OECD	
Population of more than 16 years by level of education			
Illiterate and primary school uncompleted	3.4	11.4	15.5
Complete primary school	11.6	19.8	26.0
Secondary school	40.3	43.4	39.9
Professional and technical education	11.8	8.3	5.6
University education and professional specialisation	33.0	17.1	13.0
Total (in thousands)	168.6	365.9	33 688.6
Employment by sector and type of occupation			
Managers	20.8	4.5	7.7
Technicians and scientific and intellectual professions	21.5	3.8	12.1
Technicians and support personnel	13.3	4.2	10.3
Administrative employees	7.2	3.6	9.7
Employees in restaurants, personal services and sales	12.0	18.3	14.0
Qualified workers in agriculture and fishing	1.2	2.5	4.2
Craftsmen and qualified workers in mining, manufacturing industry and construction	11.7	16.3	17.6
Machinery operators	3.6	5.0	10.4
Unqualified workers	8.8	41.8	13.5
Army	..	0.0	0.6
Total (in thousands)	90.9	242.6	15 555.2

Source: INE and EPA.

foreigners (language ability, cultural proximity for services to foreign residents). Their jobs are often linked to the internationalisation of the Spanish economy – including investment inflows which create jobs – and to the presence of other EU foreigners (tourists or residents), and in any case are located in sectors of employment that might be considerably smaller in their absence.

Second, a group of the highly educated non-OECD immigrants occupy high-skilled jobs, mostly in the commerce and professional service branches (Carrasco, 1999). Coming often from Chile or Argentina, they include a large share of self-employed and have often been residing in Spain for a relatively long time. The impact of that group on the Spanish labour market is not clear, but it seems likely that they contribute to Spanish economic development and growth.

The third group includes the majority of non-OECD immigrants, who, by contrast, are more concentrated in unskilled jobs.¹⁵⁴ Information on that group of workers is taken from a number of surveys conducted in the second half of the 1990s, which allow to pinpoint their labour market characteristics.¹⁵⁵ In part, they occupy jobs that are unattractive for Spaniards, due to harsh working conditions and low pay. This is the case for work in greenhouse farming, some construction jobs and domestic services, where virtually no Spaniards are working. In these jobs, immigrants seem to be complementary to the Spanish labour force, although competition among themselves is probably important. This is probably less so in other jobs or sectors, such as hotels and restaurants, external domestic services, tradesmen in the construction sector and qualified agricultural workers, where both immigrants and Spaniards are working. The situation varies across sectors (or jobs) and ethnic group, but this group generally faces precarious conditions in the Spanish labour market: *i*) they are often not declared;¹⁵⁶ *ii*) they mostly work on temporary contracts; and *iii*) they tend to work longer hours, sometimes paid below the contractual rate.¹⁵⁷ Hence, they are generally contributing to the “temporary work” segment of the Spanish labour market, which is very important compared with other OECD countries.

Undeclared work is not specific to immigrants. It is obviously difficult to estimate the importance of undeclared activities in the Spanish economy, and the various estimates available are not reliable, but there is evidence that it is relatively more important in Southern European countries than in Central and Northern Europe. A traditional explanation for the existence of undeclared activity is that the costs of declaring are too high, either due to labour market regulations or to a high tax wedge. The level of the minimum wage is relatively low in Spain compared with other EU countries,¹⁵⁸ and generally not considered as deterring employment of low-skilled people, and the sectors in which immigrants are working have rather loose labour regulations.¹⁵⁹ The tax wedge, on the other hand, although not high on average compared with other European countries, is relatively high for low-wage workers (OECD, 2000) so that the incentive not to declare

may be higher in their case. The relatively low probability of being caught obviously also plays a role. Agriculture, construction and hotels and restaurants, which are particularly large in the Spanish economy, are mainly composed of small enterprises which are more difficult to control, typically resort more frequently to undeclared employment, and even more so for domestic services. The development of outsourcing is also making undeclared employment easier (OECD, 2000). This is all the more the case in Spain as labour inspections seem to be relatively weak in international comparison.

Immigrants are probably more likely in undeclared employment than Spaniards because they have to work to survive. The relative difficulty to get a permit or renew it also probably plays a role. In fact, the huge increase in recent years in the number of foreign workers affiliated to the social security system following the two latest regularisation processes – non-EU immigrants represented almost 4 per cent of the affiliated workers in June 2002 compared with only about 1.5 per cent at end-1999 – shows that providing papers to immigrants contributes to reduce undeclared employment (Table 35).

Table 35. **Workers affiliated with the social security system**
In thousands

	December 1999	December 2000	December 2001	June 2002
Non-EU foreigners	214.4	314.1	448.9	606.3
EU foreigners	120.6	140.5	158.1	184.8
Spanish	14 243.3	14 781.6	15 141.7	15 496.0

Source: Ministry of Labour and Social Affairs, *Estadísticas Laborales y de Asuntos Sociales*.

The third group of immigrants allows the maintenance, or in some cases the development, of activities based on low-skilled labour. Although in many cases they seem to complement Spanish workers, the presence of this flexible and easily exploitable workforce is probably exerting some downward pressure on wages and labour conditions of the low-skilled Spanish workers in the same sectors. In their absence the sectors they work in would either have to provide better pay and working conditions to attract workers or would not exist.

- Mobility

One feature of the Spanish labour market is the persistence of large differences in unemployment rates across regions. Immigrants are more mobile than natives, as they have less attachment to a particular region. They could therefore be expected to reduce regional disparities in unemployment resulting primarily from the low mobility of native workers (Chapter III). In practice, however, immigrants go

where there is employment for them, and it is sometimes in regions where the unemployment rate is low, such as in Madrid and Barcelona, and sometimes in regions where it is high, like in Andalusia, reflecting the strong segmentation of the labour market. In fact, immigrants and natives by and large respond to a different set of incentives, as the former (at least the low-skilled ones) are in a much weaker position and do not have much choice. Thus immigrants have a minor role in evening out regional unemployment differences as they boost both employment and labour supply without much influence on the labour market situation of the natives.

Integration of immigrants into the labour market

The way in which immigrants integrate into the labour market very much depends on which group of immigrants is concerned. No study exists on the adaptation of EU foreigners in the Spanish labour market, but there does not seem to be any major problem. They have a lower unemployment rate than Spanish nationals according to the labour force survey (EPA) or a slightly higher level according to registered unemployment statistics (Table 36). Even less is known about the second group, the non-EU highly-skilled workers, but, when they have papers, they probably do not face major problems. As in other European countries, highly-skilled foreigners may sometimes face barriers due to lack of recognition of diplomas.

Table 36. Unemployment rates of foreigners and natives
In per cent, 2001

	EPA ¹	INEM ²
Total	10.5	10.1
Spanish	10.4	10.0
OECD foreigners	8.4	10.8
Non-OECD foreigners	15.8	12.8
Total foreigners	13.9	12.2
EU	8.3	11.0
Other Europe	13.7	8.9
Latin America	15.2	11.5
Rest of the world	17.1	14.3
Africa	n.a.	16.5
North America	n.a.	8.3
Asia	n.a.	5.9
Others	n.a.	14.6

1. The EPA unemployment rate of a specific group is defined as the level of unemployment of that group over the labour force of the same group.
2. The INEM unemployment rate is defined as the registered unemployment over the workers affiliated to the social security system.

Source: EPA and OECD calculations based on *Anuario estadístico de extranjería* 2001 and social security data.

The situation is different for the non-EU low-skilled workers, especially those who are employed without a work permit. The recent character of this immigration makes it difficult to assess how they integrate into the labour market, as time plays an important role in integration. Carrasco (1999) notes that the proportion of documented in total non-EU immigrants increases with the length of stay, as well as their wages (except for Africans). Non-EU immigrants have generally access to a limited number of sectors and seem to have difficulties escaping the temporary jobs at the low end of the labour market. Qualification and experience generally seem to be of relatively little relevance in their work position and evolution.¹⁶⁰ Sectoral and regional limitations included in some of the permits (which represented 35 and 47 per cent of the work permits granted in 2000 and the first half of 2001, respectively) may partly explain that situation. The difficulty immigrants had faced in renewing their work permit may also have played a role, as it often leads to spells of undeclared work until the next regularisation process. The short duration of the permits does not help in that respect. Unemployment is higher than among Spanish workers, women being more exposed than men (although the gender differential is smaller than for Spanish nationals), and Africans being by far the most exposed ethnic group (Table 36).¹⁶¹

Output, productivity, growth

Immigration raises output, as it increases both supply and demand, but how it affects output per capita is less obvious. In a first instance, immigration increases labour supply. Most immigrants come in their working age, and foreigners from non-EU countries have higher participation rates than Spanish nationals (79 per cent in 2001, against 59 per cent for EU foreigners and 68 per cent for the whole country).¹⁶² Indeed, they have had a clearly substantial positive effect on the employment rate, foreign workers (mostly from non-EU countries) having contributed about 27 per cent to the increase in employment between end-1999 and mid-2002.¹⁶³

Apart from this direct effect, immigration facilitates female participation in the labour market, through employment in domestic services. The total female participation rate, at 52 per cent in 2001, remains below the OECD average (59 per cent), but it has increased by about 10 percentage points over the past decade. The substantial increase in female education likely explains a large part of this increase, but the possibility to resort to foreign women to take care of children and parents has probably played a part too.¹⁶⁴ Indeed, institutional services to take care of young children and elderly parents are relatively little developed in Spain compared with other OECD countries; only 5 per cent of children aged less than 3 were covered by formal childcare arrangements at the end of the 1990s¹⁶⁵ and, by European standards, a relatively large proportion of Spanish women were providing elderly care, thus reducing participation (Spiess and Schneider, 2002).

While this situation may lead to lower fertility instead of not participating in the labour market,¹⁶⁶ having a domestic employee is often the only way to combine family life and work.

The effect of immigration on output and growth also depends on the capital that immigrants may bring along or may be associated with. While most of those coming from developing countries do not have any capital, German or British pensioners coming to Spain to live in a sunnier place spend their retirement income. They not only consume goods and services, but also have an impact on demand through the acquisition of real estate, which has been growing by about 30 per cent per year over the last eight years (Bank of Spain, 2002a). As noted above, professionals working for multinationals and in the tourism sector, are “complementary” to these investment flows, although they do not own the capital. These investment flows raise the stock of capital in the Spanish economy.

How immigrants affect productivity depends on qualification, or at least on the type of jobs they occupy. While the highly-skilled Europeans certainly contribute positively, non-EU immigrants mainly occupy low-productivity jobs, and the increase in such immigration flows may have contributed to the slowdown in overall productivity growth since 1995.¹⁶⁷ However, a simple calculation based on the (rough) assumption that non-EU workers are less productive than their Spanish and EU counterparts, suggests that this effect is limited: assuming productivity levels of non-EU workers equivalent to 75 or 50 per cent of the Spanish workers would have reduced labour productivity growth by 0.1 and 0.2 percentage point per year, respectively, between 1995 and mid-2002.¹⁶⁸ Another angle of analysis, based on a simple growth accounting exercise, helps in evaluating how the shift in employment shares across sectors has affected productivity growth, and the role played by immigration of non-EU foreigners in this shift. This calculation suggests that the changes in employment shares have slowed down annual productivity growth by about 0.2 percentage point between 1995 and the second quarter of 2002, whereas the total slowdown amounted to 0.6 percentage point per year on average. Most of the sectoral shift is linked to immigration (Annex V), but the size of the effect is limited in any case. These estimates do not take into account other possible positive effects of immigrants on the labour productivity growth of other workers, as is generally thought to be the case when investment flows and immigration are complementary and when low-skilled labour is complementary to high-skilled labour.

Besides the overall macroeconomic effect, immigration is also having an effect on regional development. In some rural areas, the development of horticultural activities, which rely heavily on immigrant labour, has had a noticeable effect on overall activity and income. It has allowed some regions

to catch-up *vis-à-vis* the national average in terms of income per capita, while others have widened their lead.¹⁶⁹ This is also the case in tourism areas with important immigration, such as Las Palmas.

Fiscal effects

The effect of migrants on the public finances will depend on their characteristics, behaviour, rights and obligations. If the typical migrant were similar to the average Spaniard, the effect of migration on per-capita budget values would be limited to lowering per-capita public debt. However, immigrants do differ from Spanish nationals. Highly-skilled workers from EU and non-EU countries are likely to pay relatively high income taxes, while they probably require less per capita spending and have limited pension rights. EU pensioners (who represent about one third of EU residents)¹⁷⁰ may have an effect through income taxes when they declare their residency; however, although precise information is not available, as mentioned above, it seems to be the case that a number of them do not declare residency in Spain. They are nevertheless contributing through indirect taxes. As to the lower skilled non-EU foreigners, lower income levels imply lower income tax payments, but their higher participation rate may imply more payment of social security contributions (when declared). On the spending side, they share the features of the EU workers and also often have only limited access to unemployment benefits because of too short contribution periods to the UI system resulting from their temporary work contracts. These features seem to be beneficial for the public accounts in the short run, but it is less clear in the longer run, which is important in the context of ageing.

Research on the fiscal impact of immigrants is scarce. Aparicio and Tornos (2000) provide the only estimate on the short-term impact of non-EU immigrants on the state budget (Table 37). Their contribution is clearly positive, as the revenues that immigrants contribute are more than twice the expenditure they generate.¹⁷¹ The sums concerned were still very low in 1998, but they must have grown over the last years. In particular, social security contributions have boomed with the increase in social security affiliation of foreigners following the regularisation processes. Indeed, the legal status is instrumental in determining the fiscal impact. Immigrants who have no residence or work permit and/or work undeclared (they are not included in the above estimates), are likely to induce a net fiscal loss. By definition, they do not pay taxes or social security contributions, while, with the Immigration Act, they are entitled to receive health benefits, education for their children and other types of social assistance, when they are registered in the municipal “*Padrón*”.

Welfare dependency of immigrants has been a subject of real or imagined concern in a number of European countries, but the Spanish situation seems quite different. While non-EU foreigners experience higher unemployment than Spanish

Table 37. Fiscal impact of non-EU immigrants

1998

	% of GDP	% of public expenditure
State expenditure generated by immigrants		
Immigrant and refugee affairs	0.00	0.01
Public order and safety	0.02	0.05
Health	0.09	0.23
Education	0.05	0.13
Unemployment	0.02	0.04
Total	0.17	0.46
State revenue contributed by immigrants		
Income tax on individuals	0.06	0.15
Property tax	0.01	0.01
Special tax	0.00	0.01
Value added tax	0.00	0.01
Tax on economic activity	0.00	0.00
Total tax	0.07	0.19
Social security contributions	0.31	0.86
Total contributions by immigrants	0.38	1.04
Balance	0.21	0.59

Source: Calculations based on Aparicio and Tornos (2000).

nationals, they receive unemployment benefits less often: in December 2001, 77 per cent of the immigrants registered as unemployed received no benefits, against 45 per cent for the whole unemployed population (and 61 per cent for the EU foreigners). The temporary nature of their jobs combined with their frequent passage into an irregular situation explains why non-EU immigrants are *de facto* often excluded from unemployment benefits. Compared with the other European countries, the level of social transfers other than those related to health and pensions is low. Minimum incomes exist at the autonomous community level, but they are generally rather low and cover only a relatively limited number of households;¹⁷² they are sometimes subject to being Spanish, and require a residence of between 3 to 5 years, thus often excluding immigrants. Family benefits are very low, as is the extent of other social services, *e.g.* for housing.¹⁷³

In the context of increased decentralisation, some concern has been raised that the concentration of immigrants in a number of areas may put some strain on the public finances of the autonomous communities or local governments, raising an equity issue between regions. Spending on programmes specifically designed for immigrants is low,¹⁷⁴ but both health and education spending is now mainly concentrated at the autonomous community level (Chapter II and III). However, such concerns should not be exaggerated: while there

are additional expenditure, increased immigration also generates additional tax revenues at the community level. Some concern could remain in the case of undocumented foreigners (which pay VAT but not direct taxes), and for the low-income documented foreigners. Yet, the problem raised is not specific to immigration, but more generally relates to differential population dynamics (and possibly differential dynamics in the social composition of the population) across regions and how it can be compensated for in the Spanish decentralised system. The new rules for allocating revenues to the autonomous communities provide for some adjustment across regions. Nevertheless, only in the case of a significant shock to the population size (when the annual growth rate in the number of pupils or the number of persons benefiting from health benefits deviates by more than three percentage points from the national average) is there compensation.

Another widely debated issue is that of the long-term fiscal impact of immigration, in particular its potential contribution to mitigating the effects of population ageing. The demographic changes currently taking place in Spain imply that ageing is going to occur later but more intensively than in other OECD countries, raising an important problem for the long-run sustainability of public finances. Immigration, by immediately increasing the working-age population and employment helps to improve the financing of the pay-as-you-go pension system. The relief provided is transitory, however, since in the longer-run immigrants retire too. Indeed, projections based on different assumptions on immigration flows find that the increase in public spending on pensions at the 2050 horizon remains high by international comparison (Box 7).

These projections assume that immigrants and natives are similar. In practice, this may not be the case on a number of counts. Immigrants can contribute to temporarily raising fertility rates, because the females of the first generation have higher fertility rates. When looking at public expenditure at large, immigrants arrive at working-age, implying that they contribute to the pension system but have not benefited from education expenditure.¹⁷⁵ These types of effects may imply that immigration alleviates public expenditure pressures, but they are only transitory. Besides, immigration may also require specific public expenditure, such as for example for the education of immigrants' children. More generally, immigration in itself does not change the fact that the parameters underlying the calculation of old-age pensions are generous in Spain. Currently pensioners receive, on a discounted basis more than they contribute. As shown in the previous OECD *Survey*, the internal rate of return that equalises the discounted value of contributions paid with that of pensions received amounts to about 4 per cent for the general pension scheme (OECD, 2001a). It reaches even between 6½ and 9 per cent in the case of the agricultural and domestic employee regime, sectors where a large proportion of immigrants works. These implicit yields are much higher than the potential growth of the economy over the coming decades,

Box 7. Projections of public pension expenditure

According to the joint projections by the OECD and the Economic Policy Committee of the EU, the old-age dependency ratio in Spain is expected to rise by 36 percentage points and public expenditure on pensions by 8 percentage points of GDP by 2050 (against 3 to 4 percentage points in other OECD countries) (OECD, 2001a). These projections assume net immigration of 60 000 persons per year from 2010 onwards, and do not incorporate the most recent immigration developments. Recent immigration inflows have been much larger than expected and the latest INE demographic projections embody an equilibrium inflow of 160 000 foreigners per year,¹ which would damp the increase in the dependency ratio by about 6 percentage points, bringing it to 56 per cent by 2050. Using the revised INE demographic projections, Jimeno (2002b) estimates that public pension expenditure should increase by about 7 percentage points of GDP between 2000 and 2050, which is still higher than in most other OECD countries.² In addition, such immigration levels would imply a strong and continuous growth in the foreign population, probably unprecedented in other OECD countries, which would result in the foreign or foreign-born population representing 21 per cent of the total population by 2050, which is quite high by international standard.³

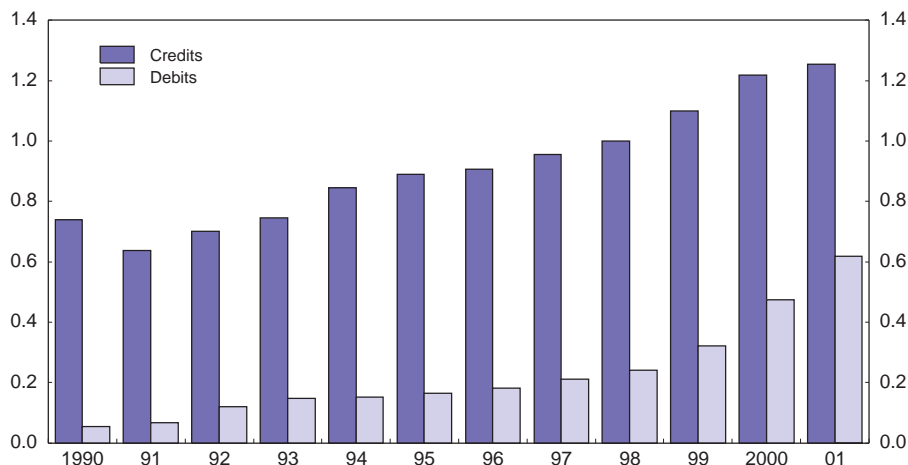
1. The inflow of foreigners decreases from 360 000 in 2000 to 160 000 in 2005, keeping constant this figure up to 2050.
2. On the basis of simulations carried out in OECD (2001a), a permanent increase of immigration to 150 000 people a year would limit the rise in pension expenditure to 5½ percentage points of GDP between 2000 and 2050, which would still be one of the strongest increases in the OECD.
3. The recent reform relaxing citizenship laws for foreigners with Spanish parents could imply that a significant part of this foreign population might acquire Spanish citizenship and would no longer be counted as immigrants.

highlighting the absence of neutrality from an actuarial point of view.¹⁷⁶ All in all, these elements suggest that the extent to which immigration can alleviate the fiscal consequences of ageing is at best limited, and possibly negative in the long run if the system is not reformed.

Balance of payments: remittances and trade

Immigration may affect the balance of payments in a number of ways. Remittances of foreign workers to their country of origin are still low compared with those of Spanish emigrants to Spain (Figure 32), but they have grown significantly since 1998.¹⁷⁷ In the future however, given the expected increase in immigration

Figure 32. **Workers' remittances**
Per cent of total compensation of employees



Source: Bank of Spain, *Boletín Estadístico* and OECD.

flows from non-EU countries, remittances are likely to become increasingly important. The links between their country of origin and the host country that immigrants create may also generate future trade. This is not the case at the moment, however. Trade flows with the EU countries have in fact preceded migration of EU people, while immigration of non-EU foreigners is still very recent, and largely reflects already existing cultural and economic (including trade) links (*e.g.* with Latin American countries).

Theory suggests that movements of goods and labour can to some extent be substitutes; trade barriers lower the return of the abundant factor (labour in the source country) and increase the return of the scarce factor (labour in the host country), thus increasing the incentives to migrate on both counts (Faini, 2001). This link seems relevant in the case of immigrants working in the traded goods sector in Spain, and in particular agriculture. Sectors like fruits, vegetables and olive oil are still benefiting from protection, in particular through important trade barriers (Box 8).¹⁷⁸ Significant additional support is provided to water-intensive agricultural activities through water charges, which are often set below cost, and not related to the quantities consumed (Chapter III). These policy settings create a demand for cheap labour in Spain, and drive part of the migration flows.¹⁷⁹

**Box 8. EU agricultural market access
for South Mediterranean countries***

The European Union has signed a number of association agreements with countries on the other side of the Mediterranean, providing them with preferential market access. The advantages provided are nevertheless limited for agricultural products. The most important "Mediterranean" agricultural sectors are olive oil and fruits and vegetables. The first is subject to high specific tariffs (ranging from EUR 1 194 to EUR 1 737 per ton) and the second to *ad valorem* tariff from 0 to 21 per cent; duties are generally higher for some "sensitive" products and during periods of peak EU production. Besides, additional duties can be applied if certain "entry prices" are not respected, which in fact amounts to imposing a minimum import price. Quotas are also applied on some products, some of which are binding (*e.g.* tomatoes for Morocco and potatoes and oranges for Egypt in 1998 and 1999). Tunisia (more precisely the state-trading organisation that is the exclusive exporter of olive oil in Tunisia) also benefits from a zero tariff on exports up to an amount equivalent to 2 per cent of EU production; this tariff quota is regularly filled.

* The information provided in this Box is mainly based on CIHEAM (2001).

Integrating immigrants

The integration of immigrants encompasses several dimensions. Integration in the labour market, as discussed above, is the first, and it implies first acquiring a legal status. But social and cultural aspects matter too, as they condition social cohesion and growth potential, and policy may play a role in this respect. The new Immigration Act was conceived very much on the basis of the willingness to make progress in that area. Integration is not an issue for EU citizens and not so much for non-EU foreigners who occupy skilled jobs either, but, as seen above, foreigners coming from developing countries often occupy jobs at the lower end of the Spanish labour market, and are at risk of being marginalised. The general "integration philosophy" of the Immigration Act is to allow legally resident immigrants access to the same social services as Spanish citizens, as opposed to developing policies specifically targeted at immigrants. Immigrants, whether legally resident or not, are allowed access to compulsory education and health care as well as (for legal residents only) to social transfers, including housing assistance. There may be some problems in practice however, and, in some cases, this approach seems to be insufficient (because immigrants face specific problems and/or are over-represented in the low-income groups). A tension also persists

between the integration objectives and the willingness to restrict immigration as far as possible to temporary immigration.

The responsibility for immigrants' integration policies is shared among the various administrative levels. Central government has unique responsibility on immigration matters, but regions are responsible for education, health, social assistance and housing policies. Local administrations also have the responsibility to provide social services. Co-ordination among the different competent administrations is organised through bodies like the Permanent Observatory of Immigration, the High Council of Policy of Immigration, or the Forum for the Social Integration of the Immigrants. At the central level, the Instituto de Migraciones y Servicios Sociales (IMSERSO), co-ordinates a number of activities through conventions and funding, including for NGOs, which supply a significant part of the assistance to immigrants, reflecting the rather limited government involvement in that area in the past. Overall, the IMSERSO spent EUR 34 million on programmes for immigrants and refugees in 2001, *i.e.* 0.03 per cent of overall central government outlays. At the regional level, Madrid and Andalusia have recently developed their first pluri-annual immigration plans, with yearly spending of between 0.3 and 0.5 per cent of their total budgets. In Madrid, about three-quarters of the financing is devoted to the new social centres for immigrants, managed by NGOs. In contrast with the general integration philosophy, these centres provide specific services to immigrants only, such as help for family reunification or return to the origin country, language courses, emergency housing, judicial assistance, and translation and interpretation. It is too early to evaluate the activity of these centres, but they seem to have a relatively limited coverage of the immigrant population.

Housing is probably one of the main problems for immigrants' integration. It is difficult for immigrants to find a place to rent, even when they can afford it. Many live in slums or shanties, or in sheds in rural areas, often without drinkable water, and sometimes no electricity and/or sewage, and, in rural areas, often outside the town on land that is not for construction.¹⁸⁰ Rent abuse exists, and owners may require very high guarantees.¹⁸¹ A number of factors explain that situation. First, as highlighted in Chapter III, there is a general lack of supply of housing for rent, which affects particularly the groups of the population who cannot afford or do not have the credit-worthiness to buy a house, including immigrants. Social housing is also very little developed.¹⁸² Second, immigrants often face discrimination from the owners, due to their ethnic origin. Regions are in charge of housing policies. In Andalusia, a plan for promoting private and public investment in rental housing for temporary workers with high mobility has been jointly adopted by the central and regional governments, but little is done to support the rehabilitation of existing housing (Defensor del Pueblo Andaluz, 2001). In Madrid, Navarra and Murcia, programmes providing guarantees for rental housing for immigrants are being developed, as a way to overcome the discrimination barrier, but on a

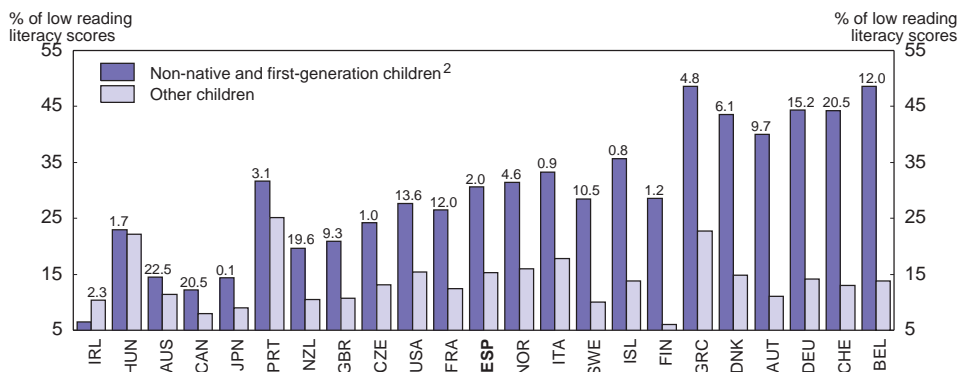
very small scale. Finally, municipalities generally do not promote immigrants' access to housing. This situation highlights the need to reform housing and land policies along the lines suggested in the previous chapter, so as to allow the price of land to fall and make investment in rental housing profitable. Additional measures would also be needed, both in terms of developing access to housing for low-income households in general, and to overcome the specific barriers faced by immigrants due to discrimination, for example through guarantee programmes.

Language difficulties are also an important barrier to integration for some groups of immigrants. It is obviously not the case for Spanish-speaking immigrants, and apparently not either for foreigners from OECD countries, whose jobs often involve the practice of their mother tongue. But it is for the other groups, in particular Africans. There is no general strategy for teaching Spanish to adult immigrants and very little is known about the language ability of immigrants from non-Spanish speaking countries. Spanish courses are also proposed at the level of the autonomous community, competent in education matters. In addition, there are initiatives in some locations, either by NGOs or local governments, but not systematically, and the coverage seems to be low. The language problem is even larger in the regions where immigrants have to learn a second language, especially in Catalonia, which has a large number of non-EU immigrants.

Evidence from older immigration countries shows that language skills are important for labour market integration and for social integration at large. Language proficiency is found to have a significant impact on both employment probability and earnings in the United Kingdom and the United States for example (Dustmann *et al.*, 2000). Hence, a more active approach would be needed in this area, well targeted on immigrants' needs and encouraging their participation, as some groups of immigrants seem reluctant to learn Spanish. While part of the immigration may remain temporary, the experience of other countries shows that even if not intended, a large part of immigration becomes permanent, implying that there may be important gains associated with such an investment.

Regarding children, the awareness of the risk of marginalisation has led every autonomous community to develop integration plans for children of immigrants and provide financing for compensatory education. Children of undocumented immigrants face specific difficulties: they often lack the basic material, like textbooks, as their parents have precarious jobs and incomes, and frequent changes in location also explain their relatively poor performance, for example in reading (Figure 33). As in other countries, the concentration of children of immigrants in specific locations and schools is also challenging the Spanish educational system. The fact that compensatory education is provided only in schools attended by a large number of immigrant children is probably accentuating the

Figure 33. **Disadvantage in reading of 15 year-old children¹**
2000



1. Countries are classified according to the difference in performance of “non-native and first-generation children” and other children.

2. The share of non-native and first-generation children – *i.e.* those whose parents were not born in the country – in the total is indicated above the bars of each country.

Source: OECD, *Knowledge and Skills for Life – First Results from PISA 2000*.

problem (Cuesta Azofra *et al.*, 2000). A recent report of the “Defensor del Pueblo” indicates that 17 per cent of the schools in which more than 30 per cent of pupils are children of immigrants do not have any specific plans and means to attend their education needs.¹⁸³

Conclusions and recommendations

Immigration on a large scale in Spain dates only from the mid-1990s, and migration policy has changed recently to respond to the challenge raised. The aim of the reform of the policy framework, which is still not fully implemented, is to better control immigration flows, in particular to reduce illegal immigration, while attempting to better match legal immigration flows with labour demand.

In large part, immigration results from the combination of the strong economic development of Spain and poor economic performance in source countries. Today, despite the strong increase in recent years, immigration remains relatively low and has therefore had rather limited macroeconomic impacts. However, the increase in immigration is likely to continue in the future and may become more important. In this context, it is important to assess the various economic impacts of immigration, notably how it affects some of the labour market problems, growth, and the sustainability of public finances in the long run.

Immigration has had a positive effect on economic growth. With the exception of EU pensioners, whose presence is overall positive for the economy, most foreigners come to Spain to work. With the inflow of highly-skilled workers (mostly from the Union), which are often accompanying capital inflows, Spain is reaping the benefits of its closer integration with the European Union and, more generally, of the increased internationalisation of its economy. Non-EU foreigners, on the other hand, by often occupying jobs at the bottom of the qualification ladder that Spaniards can afford to refuse, have contributed to sustaining or developing the activity of a number of sectors relying on low-skilled labour. They have helped in raising the employment rate both directly through their high participation rates, and indirectly by facilitating female participation through domestic services. The overall effect on labour productivity is less clear. The development of low-productivity sectors through immigrants' work has somewhat moderated the growth of overall labour productivity, but this does not imply that natives' productivity and standards of living have been negatively affected; instead they have probably been improved, notably due to the increase in female participation. Besides, non-EU immigrants' productivity is probably much higher than if they had stayed in their countries, implying important net gains for themselves, especially when they are legally resident.

On the labour market, immigration has largely contributed to the strong growth in employment registered over the recent period – particularly after the regularisation processes – probably moderating inflation pressures at the same time. To the extent that non-EU immigrants are largely complementary to Spanish workers, they probably affect the unemployment of natives rather little. Immigration seems to have played a limited role in reducing regional differences in unemployment linked to the low mobility of the Spanish labour force. Most non-EU immigrants work on temporary contracts, contributing to the already high share of such contracts, highlighting the inflexibility of the “mainstream” labour market.

As to the effect on public finance, immigration will mitigate the expected increase in the dependency ratio, but the relief is transitory because immigrants will also retire. Given the high implicit yields embedded in the current pension system (especially in some of the regimes where immigrants are affiliated), increased immigration will only contribute to postpone the fiscal consequences of ageing, and reforms of the pension system remain necessary. In the short-run, however, immigrants are not dependent on the welfare system and, when legal residents, actually make a positive contribution to public finances. Although their unemployment rate is higher than that of natives, the combination of entitlements and the short-term nature of their jobs and work permits imply that they receive unemployment benefits much less often. Abolishing the sectoral and geographic limitations on work permits may also help to reduce the unemployment rate of immigrants.

Migration policy faces a difficult task. Reducing illegal immigration is an important policy target, and the number of new work permits issued to non-EU persons (other than in the regularisation exercises) seems to have been much smaller than the estimated number of undocumented immigrants in the country. But the demand for labour in certain sectors, and hence the incentive to immigration, is strong; tightening controls on immigration enough to enforce the formal restrictions would affect the expansion of these sectors. Where this expansion is partly due to sectoral support, as in the case of agriculture through trade protection at the EU level and undercharging for water, this may be less of a concern.

Since illegal migration occurs because of the relative ease with which migrants can find undeclared employment, measures to reduce undeclared employment (by increasing labour inspections) also act to reduce illegal immigration. The government is reforming the new quota system to improve its functioning and make it more flexible. For any given level of quotas, the government should take into account the need to align the resources devoted both to border controls and to labour inspection (and taking into account the relative efficiency of the two sets of measures) if illegal entry is not to continue to undermine the formal immigration targets.

A difficulty encountered in analysing immigration flows and policies is the relative lack of publicly available statistics. Improving their collection and diffusion would lead to better policy analysis on this highly sensitive topic. The effort already provided to extend the coverage of the foreign population in the labour force survey could be intensified, to draw a more precise picture of how they affect the labour market, and allow some analysis through time, currently precluded by the recurrent changes in methodology and coverage. There are still few statistics publicly available concerning migration policy. Publishing the number of residence permits granted every year, for example, would be useful, as well as continuing the publication of the number of work permits granted, which was interrupted in 2002.

Integration of immigrants is important for both economic and social reasons. The new Immigration Act clarifies the rights of immigrants in terms of access to health and education. The government targets its integration efforts on legally resident immigrants to avoid providing incentives for illegal immigration. Housing seems to be an obstacle, which reinforces the necessity to reform housing policies and to develop the supply of rental housing, along the lines suggested in Chapter III. Developing guarantee schemes at the regional or local level may also be a tool to overcome discrimination. There is also room for a more active policy in developing Spanish language courses for immigrants, and encouraging participation in them, in particular as they may improve their ability to better integrate in the labour market. There is also probably much to gain from reinforcing the policy to improve the performance of children of immigrants at school.

Notes

1. As in the rest of the euro area, the introduction of the fiduciary euro resulted in a fall in demand for notes during the course of 2001, households being compelled to clear their cash reserves. That saving, put at 2½ per cent of GDP by the BBVA (2002a), seems to have been partly spent on consumer durables and housing in late 2001. This may have stimulated consumption by between ¼ and ½ percentage point in 2001, which would partly explain why it grew more slowly in early 2002 (Laborda, 2002).
2. According to Farré and Raymond (2002), the wealth effect on household behaviour is significant and of the same order of magnitude in Spain as in the other main OECD countries: a rise in total wealth by one euro results in a fall in the saving ratio by nearly 4 cents. These authors claim that the bulk of the reduction (by 4 percentage points) in the household saving ratio between 1995 and 2000 was due to the increase in wealth (over 40 per cent in real terms), itself stemming from the rise in the relative prices of financial assets and real estate. Since 2000, the continuing rise in house prices has offset the stock market fall.
3. The number of dwellings has increased on average by nearly 500 000 over the last four years, whereas the number of new households has risen by only 200 000 (Bank of Spain, 2002a).
4. According to Tinsa Real Estate Appraisals, approximately one-third of real estate purchases in autumn 2002 were for investment purposes. This investment, which takes the form of purchases of second homes or of property for children, is one of households' favourite ways of saving to protect themselves against the risk of inflation.
5. The proportion of households with both members working rose between 1992 and 2000 by 12 percentage points to 43 per cent, though this remains well below the European average (60 per cent). Measured against household income, the effort required to finance an average mortgage loan remains fairly moderate from an historical point of view, despite the recent rise in real estate prices (Bank of Spain, 2002a). A discussion of the risks of a speculative bubble is also provided by Balmaseda *et al.* (2002).
6. In the Balearic Islands, moreover, the introduction of a special green tax on tourism may have had an effect.
7. Prices of hotel and tourism services have climbed by an annual average of 9½ per cent since 1997, which is 6½ per cent more than in France and 4½ per cent more than in Italy.
8. For example, lower wage costs in countries such as the Slovak Republic prompted the car manufacturer Seat to transfer part of its production to that country during autumn 2002. According to Muñoz (2002a), foreign firms have been cutting back on their net investment in the industrial sector in Spain, though not in services. This

author argues, however, that this process has more to do with the restructuring by multinationals throughout Europe than with Spain losing its comparative advantage in terms of wage costs.

9. Temporary employment accounted for only 13.2 per cent of total employment in the EU in 2001. The reduced use made of temporary contracts in the private sector in Spain was partly offset by an increase in the public sector.
10. The capital-labour ratio has fallen in recent years and the share of salaries in value added, which went from 52.2 per cent in 1993 to 49.8 per cent in 1996, rose slightly to 50.1 per cent in 2001.
11. At end-2003, the National Statistical Institute (INE) will present the revised ESA 95 national accounts figures, calculated for the base year 2000. There are a number of indicators, such as the buoyancy of tax receipts and the steeper-than-expected population rise (revealed by the 2001 census) resulting from increased immigration, which suggest that GDP might be revised upwards.
12. Between 1995 and 1999 (the period for which detailed data are available), 70 per cent of jobs (measured in full-time equivalent) were created in sectors where productivity was lower than the national average. Over 50 per cent of jobs were created in sectors where apparent labour productivity was less than 75 per cent of the national average. See also Estrada and López-Salido (2001) on this subject.
13. According to a study carried out by the Bank of Spain (Estrada *et al.*, 2001a) for the period 1996-99, nearly three-quarters of Spain's productivity gap with the EU is due to a different production structure, whereas only a quarter of the gap derives from a lower level of sectoral productivity.
14. The statistical changes that the INE introduced in the labour force survey with effect from the first quarter of 2002 brought some major revisions in labour market statistics. As reported in the previous survey (OECD, 2001a), there have been three main changes: *i*) a revision of the labour force to take account of new immigration figures; *ii*) an adjustment in the system of reweighting the sample deriving from the labour force survey; *iii*) the way unemployment is calculated has been made consistent with Eurostat norms. For 2001, these changes meant revising employment upwards by 8 per cent and the labour force by 5 per cent, while the unemployment rate was reduced by 2½ percentage points.
15. According to the INE, the total cost of work, per worker and per month, has risen by some 5 per cent on average across the whole economy since early 2001. This is 1½ percentage points higher than in the euro area for which Eurostat publishes homogeneous statistics. In the case of Spain, the sharp rise in labour costs partly reflects a bigger increase in non-wage costs than in the other countries, this being due to the raising of the ceiling on social security contributions for the least skilled workers, which is now the same for all job categories. The rise in non-wage costs may also be partly attributable to the suspension of the subsidies, which certain contracts had hitherto benefited from.
16. Rogers (2001), for example, draws attention to the existence of a price convergence phenomenon in the case of Spain. The empirical findings presented in this study depend, however, on the specification of the equation estimated.
17. As indicated in the previous OECD survey (OECD, 2001a), for example, it is hardly likely that price convergence between Spain and the euro area is the result of rising wages in the service sector due to a catch-up in industrial productivity, as described by Balassa and Samuelson. Productivity growth has been lower in Spain than in the

other countries in recent years and the increase in prices of services is closely linked with the trend in profit margins in the latter sector.

18. According to the Spanish Government, the effect of the introduction of the euro on inflation in 2002 may have been slightly more marked than in the other countries because of the special difficulty of converting pesetas into euros.
19. Taylor rules typically relate short-term interest rates to the output gap and inflation developments relative to inflation target. Such rules, estimated on the basis of underlying inflation for the euro area but used for Spain, suggest that short-term interest rates should be around 5¼ per cent if a 1½ inflation target is assumed and around 4½ per cent in the case of a 2 per cent target. The three-month interest rate averaged only 2.85 per cent in early January 2003.
20. As in 2001, activity in 2002 turned out lower than forecast. The 2001 budget was initially based on an assumption of real GDP growth of 3.6 per cent, and of 2.9 per cent for the 2002 budget. In 2001, growth finally reached 2.7 per cent and was around 2 per cent in 2002.
21. In 2002, with inflation overshooting the initial target by nearly 2 percentage points, pensions expenditure again had to be increased by a total of EUR 2.1 billion, or 0.3 per cent of GDP, which is spread evenly over the 2002 and 2003 budgets.
22. Monitoring of the budget out-turn was also difficult in 2002 because of the ongoing process of decentralisation and the lack of information at the regional level. Discussions concerning the quarterly publication of government (including regional) accounts are under way with a view to improving the monitoring of the budget outturn. A new Eurostat regulation will effectively be in force as from 2003 whereby all levels of government will be obliged to report quarterly budget outturns. One of the obstacles to the implementation of this regulation is the difficulty of applying the ESA 95 methodology to lower levels of government.
23. The agreement in the public service also provides for a 3.2 per cent increase in 2004, of which 0.5 per cent represents a deferred wage increase in the form of a pension fund set up for civil servants.
24. Over the past 15 years, the number of civil servants has risen by 800 000, which is 3 per cent per year (Caixa, 2002). This sharp increase is attributable in particular to decentralisation and the development of the autonomous communities, where over 80 per cent of these jobs were created, whereas the number of central government public servants has declined. Despite having risen so rapidly, the proportion of government jobs, at 14.5 per cent of total employment, was not high in international comparison (OECD, 2001a). Recently, the restrictions on recruitment to the civil service have resulted in an appreciable increase in temporary jobs, especially at the regional and local level. The share of temporary employment in the public sector, for example, rose from 16.6 to 22 per cent between 1997 and 2002, whereas it fell from 38.8 to 34 per cent in the private sector.
25. Sometimes information on general government is presented with reference to the forecast end-2002 outturn, which is useful, but is usually made in comparison with the initial 2002 Budget, which is inadequate.
26. The projections are based on the following assumptions: oil prices are assumed to stay at USD 31 per barrel in the first half of 2003 before falling to USD 25 in the second half and remain there until the end of the projection period; exchange rates are fixed at their level of 7 February 2003 (1 EUR = 1.08 USD), implying an appreciation of the euro *vis-à-vis* the US dollar of 20 per cent since the first half of 2002.

27. The basket also includes the tax on electricity and on car registration and devolved taxes (on wealth, inheritance and donations, gambling and stamp duty).
28. The previous income tax reform lowered the top rate from 56 to 48 per cent, and the minimum rate from 20 to 18 per cent.
29. Revenues from mutual funds are considered as capital gains by the 1999 law, not capital income, so that they are taxed at a flat 15 per cent rate (instead of the marginal rate), if generated in more than one year.
30. Tax exemption for rental income, though good for the development of the market of rental housing and labour mobility will also subsidise the numerous holiday rentals.
31. Those businesses whose activity falls outside the geographic application of the tax (like exporters and importers) will not be allowed to pay tax under this regime.
32. After the 1999 reform, the tax brackets were modified in 2000 but not in 2001 and 2002.
33. According to the 1998 law, local authorities can only resort to fees if a direct link can be established with the cost of the service to be financed. According to Martinez (2000), the municipalities' lack of information in this area partly explains why little use is made of this source of finance.
34. Spending efficiency will be enhanced by management improvements. A recent example is the extension to the whole of Spain of a control system developed in Andalusia for prescriptions of anti-inflammatory drugs. More generally, the indicators could gauge the budgetary management of the regions and the central government. The publication of such information in other federal countries, coupled with the existence of local referenda, represents a powerful incentive to take account of the aspirations of the population and keep tighter control over public finance (OECD, 2002a).
35. Hospital reform has also been slowed by the completion of the decentralisation of health spending to the 10 communities that did not as yet have that responsibility in 2002. In late 2000, the government had suspended the reform process, pending the transfers of responsibility.
36. A 1998 Court of Auditors study on hospital activity showed that some hospitals were paying up to twice as much as others for the same drug. According to the body that managed non-decentralised health services up until 2002 (INSALUD), the rules governing tenders for procurement contracts relating to advertising and competition, as laid down by law, were not applied in half of these contracts.
37. Despite the budgetary restrictions, the number of doctors has increased since the mid-1990s, suggesting wage restraint.
38. According to official estimates, these measures had the effect of slowing the growth of public spending on prescription drugs by 7 percentage points between 1999 and 2002. However, over 40 per cent of this reduction was due to the narrowing of margins on drugs, the effect of which is temporary. Consumption of generic products rose to 3.4 per cent of pharmacy spending in value terms and was put at 6.7 per cent in real terms in May 2002.
39. In 2003, minimum pensions will be raised by 5½ per cent, *i.e.* 1½ per cent more than the inflation-linked adjustment, whilst survivors' pensions will be increased by some 8 per cent. The budgetary cost of these measures amounts to EUR 335 million.
40. The bulk of the 28-page report on Spain's national strategy by the Ministry for Social Affairs concerning the future of the pension system deals with the period 2000-15, whereas the pressures liable to emerge after that period are discussed in only three lines. An annex to the report contains an extrapolation of pension expenditure projections up

to 2040, *i.e.* 10 years before the demographic pressures peak. Also, the projected 3¼ per cent of GDP increase in pension payments between 2020 and 2040 seems very optimistic. The assumptions underlying this projection are, first, a decrease in the number of pensions for the population aged 65 and over – despite the rise in female labour force participation and the possibilities of combining retirement and survivors' pensions without means-testing – and, second, a decrease in pensions relative to productivity (and real wages), contrary to the trend during recent years. The Stability Programme 2002-06 (Ministry of Economy, 2002) includes also unofficial projections similar to those of the Ministry of Social Affairs until 2040. These projections are extended until 2050 and project an increase of public pension spending by 4½ per cent of GDP between 2020 and 2050.

41. The INE will publish at the end of 2003 new demographic projections based on the results of the 2001 census.
42. The uncertainties, which chiefly concern economic and demographic developments, are both positive and negative, and their implications are frequently subjected to sensitivity analyses (OECD, 2001a).
43. Since 1980 pensions have been growing on average by 1½ percentage points more than wages. Were this trend to continue, there would also be problems of income distribution, especially since, according to the authorities, the elderly are less subject to poverty than labour force participants and the unemployed in particular (Ministry of Labour and Social Affairs, 2002).
44. It would seem reasonable for persons who will be retiring at age 65 in 2015-20 to know at least by age 55, how their pensions will be calculated. This means that the reform has to be adopted between 2005 and 2010, *i.e.* during the next parliamentary term.
45. The INE will present at the end of 2003 revised national accounts, which will take into account, among other things, the new census for 2001.
46. The Bank of Spain periodically publishes several indicators of convergence with the European Union. For those on the stock of public and private capital, see Bank of Spain (2002b).
47. For an exhaustive account of such externalities, see OECD (1999) that follows Calmfors (1993).
48. However, the empirical evidence in favour of this hypothesis is not conclusive (OECD, 1997a).
49. For a background for these attempts, see Bentolila and Jimeno (2002).
50. Wage increases have been more moderate at the enterprise level than at the sectoral (provincial or national) level, although this is partly due to the fact that they are usually signed in larger firms, where wage levels are higher to start with, and workers receive higher non-wage benefits (Fina *et al.*, 2001).
51. Out of 18 OECD countries, it is longer only in the Netherlands, Denmark, France and Norway.
52. Countries like the United States and the United Kingdom do not have unemployment assistance after unemployment benefits have expired, while Australia and New Zealand do not have a UI system.
53. Out of 800 000 temporary workers in agriculture, 600 000 live in Andalusia and Extremadura.

54. Abuses of the system were reported in the past. In particular, some enterprises issued false certificates of days worked, while some municipalities did the same in public works. This type of abuse seems to have almost disappeared in recent years.
55. The May 2002 decree suppressed the PER completely for new entrants, *i.e.*, for those who have not received the subsidy during the last three years. The new, temporary subsidy for new entrants in the PER system will be limited to those who have been resident in the area for at least ten years, which will exclude most immigrant workers.
56. Individual dismissals may be “justified” by the law depending on different criteria, including economic reasons. In practice, most dismissals are declared “unjustified” by courts, carrying higher severance payments.
57. Those unemployed workers who take up co-operative work and handicapped workers who set up as self employed were already able to capitalise their benefits as initial investment and will now be able to use part of their benefits to pay social security contributions.
58. Such a measure should probably be accompanied by a simplification of the different types of temporary contracts. There are too many, which makes contract management difficult.
59. Quality of university education is very difficult to pin down and measure, though the literature on this subject points to several weaknesses. The Bricall *et al.* (2000) report, written by a group of experts prior to the most recent reform, points out that the structure of university institutions is somewhat old fashioned and teaching is focused to knowledge transmission rather than learning processes. Mora *et al.* (2000) stress that high unemployment rates among the young with university degrees reflects, among other factors, the lack of preparation of Spanish graduates to changing professions and skilled requirements, as the education system is too focused on professional education. Mora and García (1999) show that the cost per student of university education is relatively low because the number of services offered other than lectures is also limited.
60. 100 per cent of children aged 5 go to school, 98 per cent at age 4, and 75 per cent at age 3. Only France, Italy and Belgium have higher rates.
61. Enrolment rates are 1.3 per cent for under one-year-olds, 5.7 per cent for those aged 1 and 13.7 per cent for those aged 2.
62. In particular, schooling at this stage will be considered “assistential” as well as educational, implying that not all pedagogic staff will be required to hold university degrees.
63. Most private schools are financed by the State through special agreements (*concertos*) covering current expenses. Investment in private education is paid by the school, which can receive extra finance from students through fees. Private schools that receive public funds are obliged to follow official guidelines in their curricula and the same admission criteria apply as in public schools.
64. That is another flexible way to obtain the compulsory secondary education certificate and provides a link with the other post-compulsory formal education paths.
65. The new national tests (*Prueba General de Bachillerato*) will substitute a previous exam that was required only for those who wanted to access university.
66. See OECD (2002c).
67. The FORCEM has been renamed after the entry of the government in its management, as the *Tripartite Foundation for Training for Employment*.

68. The number of demands for training covered 4.7 million workers in 2000; about 80 per cent were approved and implemented.
69. Good indicators of university performance are not easy to find. One possible good indicator is a low drop-out rate (although, in this case, provisions would have to be made so as to ensure that universities do not minimise drop-out rates by accepting only the best students).
70. Spending on grants is 11 per cent of total public expenditure in tertiary education (against 12 per cent in the OECD), covering mostly fees, and in some cases some help for books and transport. The fact that grants do not cover the actual cost of living is also a factor behind the low mobility of students.
71. The OECD index of tax advantages for R&D expenditures reveals that, for each unit spent by large firms on R&D, one third is recovered in lower tax payments. This is the highest ratio out of 24 OECD countries reviewed, and almost double that of the second country ranked, Canada.
72. Annual employment growth for scientists and engineers was 8 per cent between 1995 and 1999, much higher than average employment growth and one of the highest in the OECD.
73. The rise in the birth rate between 1960 and 1975 increased households' residential investment owing to the higher rate of acquisition of housing by those aged 22 to 32 years (Eguía and Echevarría, 2001), *i.e.* at the time of getting married (Namkee, 2001).
74. House purchases by non-residents have increased sharply since 1993. The pressure exerted by foreign demand in tourist areas is also causing property price disparities to widen across the country. Up to 1991, tax incentives also encouraged Spanish residents to buy second homes.
75. Land prices have more or less doubled in Madrid since 1997 (Bank of Spain, 2002a).
76. These restrictions on the rental housing market were removed by the 1985 reform.
77. Leases dating from before 1985 could be extended indefinitely. Rents relating to contracts signed before 1964 were frozen, whereas those signed between 1964 and 1985 could be linked to inflation.
78. A study of the Economic and Social Council (CES, 2002) indicates that the proportion of youngsters between 20 and 34 that have left their parents' home has decreased from 44 to 33 per cent between 1977 and 2001. This phenomenon, which reflects longer time spent at studying and problems of unemployment and unstable employment for the young, seems to be more intense than in other countries, and has probably contributed to reducing fertility rates.
79. The object of this assistance is to facilitate the purchase of a home at reduced prices by means of loans at preferential rates and subsidies.
80. In Barcelona, for example, some 50 per cent of rental accommodation comes under rules imposing low rents and the renewal of contracts until the death of the tenant or the tenant's spouse (or until their children are 25 years old) (Trilla and Carreras, 2001).
81. According to Pareja and San Martín (2002), the rate of return on rental investment has been lower than that on public debt since 1984, although the gap has narrowed since 1998.
82. The competence of the municipalities and autonomous communities as regards land management was confirmed by the decision of the Constitutional Court to rescind the

- measures taken by central government in June 2000 with the objective of restricting the communities' discretionary powers as regards issuing building permits.
83. Since the Act of 1998, an urban plot of land, *i.e.* land complying with certain technical characteristics, has been considered *a priori* to be developable, unless a decision to the contrary is taken and is properly argued. Under the communities' town planning rules, however, other conditions have been imposed which *de facto* prevent owners from exercising their right to build until they have obtained formal permission from the municipal or regional authorities. The process for disposing of land for construction are long (three years on average, sometimes much more), complex and uncertain.
 84. Income from principal homes occupied by their owners (imputed rents) ceased to be taxed in 1999.
 85. Comunidad Valenciana, Andalusia and the Basque Country.
 86. In practice, most regional governments stick to the national minimum of 13 Sundays. The autonomous community of Madrid allows the largest number of Sunday openings, namely 21.
 87. The association of hypermarkets claims that about 50 new shopping centres are on the waiting list for opening permits.
 88. Telefónica's share of access lines was 95 per cent at the end of 2001, 82 per cent in the national long distance market (share of minutes) and 83 per cent in international traffic minutes.
 89. The approved price cut was 2 per cent, as it was foreseen in the original price cap system, although the connection fee has been taken out of the price cap system and has been increased by 8 per cent, ending the tariff re-balancing process. Simultaneously, the regulator adopted some other measures to foster competition, like a new single invoicing mechanism for pre-assigned customers, and reinforced rules for public procurement of telecommunication services.
 90. Telefónica lowered its investment in cable networks in 2000 when it focused its broadband strategy towards ADSL technologies. The main company in the cable business is Auna, which also owns Retevisión (the second fixed telephony operator) and Amena (the third mobile operator).
 91. The government has pressed operators to accelerate its development, and could withdraw the deposits paid by the operators when the licences were given, since investments have been delayed. The government has recently liberated cable and radio-telephony operators from their investment agreements, but not UMTS operators.
 92. Modernisation measures will only apply to older vessels (5 or more years old) and only for improving security, not efficiency of catches; construction will be linked to somewhat stricter decommissioning rules for old vessels; and exports to third countries in joint venture agreements will only be possible with those countries that have signed a fishing agreements with the European Union.
 93. For instance, the legislation has allowed the recent merger of the clearing and settlement systems of all secondary markets, which has taken place as a result of this initiative. Although a *de facto* monopoly system, the law leaves the door open for other competing systems.
 94. New regulations on the take over bid (OPA) regime in stock markets are also being prepared, following some episodes of sales of controlling stakes which were just at the limit that obliges the launch of an OPA, although they will depend on the corresponding European directive on the issue.

95. Venture capital investment is equivalent to 0.25 per cent in Italy, 0.38 per cent of GDP in France, 0.48 per cent in the Netherlands and 0.85 per cent of GDP in the United Kingdom.
96. To protect the initial stability of stock values, stock market regulations oblige the main owner of a firm to keep a participation for some time when it is publicly offered. Up to now, this resulted in the loss of any tax advantages for the venture capital entity, which prevented them from offering the participated firms in the stock markets. The new regime addresses this problem by extending tax advantages for two years after admission to trading on a regulated market.
97. In fact, saving banks have acquired very few and very small commercial banks. On the other hand saving banks reinforce competition in the market. The possibility of privatising saving banks is not on the politic agenda.
98. In a comparison by the Bank of Spain for the period June 2001 – June 2002, profits of Spanish banks fell by 10 per cent, whereas those of French banks fell by 20 per cent and those of German and Italian banks by more than 35 per cent.
99. The two largest Spanish banks, BBVA and Santander, invested heavily in Latin America in past years. Consolidated foreign claims of Spanish institutions in the area (which exclude loans of affiliates of Spanish banks in domestic currencies, that are less prone to devaluation risks) amounted to USD 48 billion in December 2001. Of these, 32 per cent originated in Argentina, 30 per cent in Mexico, 10 per cent in Brazil and 9 per cent in Chile. Claims on Argentina fell strongly during the first half of 2002 due to devaluation and to the partial reduction of positions in the country by Spanish banks.
100. In part because the Bank of Spain imposes stricter solvency ratios for Spanish banks.
101. These two alternative scenarios assume the same exchange and nominal interest rates as the baseline scenario. Furthermore, public spending is maintained stable in real terms with respect to the reference scenario.
102. Potential growth in the euro area, which is estimated at about 2 per cent between 2005 and 2008, tends to decline slightly due to the negative effect of ageing.
103. Council Decision (2002/358/EC) of 25 April 2002 concerning the approval, on behalf of the European Community, of the Kyoto Protocol to the United Nations Framework Convention on Climate Change and the joint fulfilment of commitments thereunder.
104. Some co-generation facilities are ineligible for support as they fail to meet efficiency criteria.
105. In 2001, for example, the premium per kilowatt hour for renewable energy varied from EUR 0.03 for electricity generated from biomass to EUR 0.36 for small-scale solar energy electricity production (National Commission for Energy, 2002). Energy recovery from the incineration of waste also receives a feed-in premium. From 2007 this system will end support for larger co-generation facilities.
106. Support was granted for energy saving projects, the installation of co-generation capacity, and promoting the use of natural gas and renewable energy sources.
107. Some expansion of existing plants has been allowed.
108. Not only are emissions of carbon dioxide in this sector the highest per kilowatt hour of electricity generated, but the externalities due to other conventional pollutants are also substantially higher than for other major electricity generating sectors (CIEMAT, 1997). For example, the sulphur content of domestically produced coal is high (IEA, 2001).

109. The domestic coal industry is regionally concentrated and so appropriate, temporary assistance might be required for these regions. However, concerns over the security of supply of coal are less important (IEA, 2001).
110. For example, Capros and Mantzos (2000) estimate that marginal abatement costs of a sectoral approach with identical reduction targets would rise to EUR 348 per tonne of carbon from EUR 103 in the case of an optimal allocation of abatement efforts in Spain alone.
111. Almost three-quarters of the financing is expected to come from the European Community.
112. The expansion of gas powered electricity generation will also allow a further downsizing of support to the coal industry.
113. For emitters not participating in the EU trading scheme, carbon taxation could be usefully applied, if the implicit tax on carbon embedded in fuel taxation does not exceed the price of allowances. In particular, carbon taxation on the fuels used by small-scale combustion plants that will fall outside the EC emission trading scheme could help reduce the overall cost to the economy of achieving greenhouse gas targets.
114. Waste statistics in Spain have recently been reviewed. Reporting methodologies across autonomous communities have differed substantially over time making the determination of trends extremely difficult.
115. In particular, Directives 75/442/EEC on waste and 99/31/EC on the landfilling of waste. For this reason the European Commission has opened infringement proceedings against Spain on the grounds of several actions of illegal dumping with the view of bringing the Kingdom of Spain to the European Court of Justice.
116. *Normativa e instrumentos de gestion en materia de residuos.*
117. In reducing the amount of waste generated the government has required larger firms to prepare waste reduction strategies. In the case of packaging waste, the reduction is expressed in terms of packaging weight relative to the weight of the product.
118. These include Ecoembes (for general packaging waste), Ecovidrio (glass), and Sigre (pharmaceutical packaging). If companies do not join such a system, they are required to implement a deposit-refund scheme. Industrial packaging must be sent to an authorised operator for disposal.
119. The packaging law (following the EC directive) required that between 25 and 45 per cent of all packaging must be recycled, but that recycling of an individual packaging material need only reach 15 per cent.
120. Annual outlays have been above EUR 10 million in recent years, with remedial action taking place at 275 contaminated sites.
121. The EC Water Framework Directive will require full-cost recovery by 2011.
122. These prices refer to those charged in the Jucar and Almeria counties (Albiac-Murillo *et al.*, 2002).
123. Agricultural support policies may also be indirectly contributing to demand for irrigation water. See also Chapter IV.
124. These changes were introduced in the 1999 amendments to the Water Act. New irrigators would pay half the capital costs for new infrastructure and be required to cover operation and maintenance costs.
125. Such a policy would be equivalent to grand-fathering existing rights and allowing trading.
126. The national analysis uses a 50 year timeframe for the cost analysis with a real discount rate of 4 per cent.

127. Desalination costs vary considerably according to the size of plant and the amount of electricity that can be sold. A range of cost of between EUR 0.3 and 0.4 per m³ is suggested by Uche *et al.* (2001).
128. Almost a third of the land under irrigation is based on systems over a century old (Ministry of Agriculture, Fishery and Food, 2002).
129. Public investment is limited to existing and uncompleted irrigation systems, though new irrigation schemes of a “social nature” may also receive funding.
130. Foreigners referred to in this chapter are foreign citizens, as Spain bases its statistics on nationality rather than place of birth.
131. For an analysis of ageing in Spain see OECD (2001a).
132. Up to 2003 EU citizens were obliged in principle to obtain a residence card. As from March 2003 this obligation no longer applies to those working or studying in Spain, following the implementation of the 28 July 2000 Marseille Declaration, although EU citizens must apply for a number of identification of foreigner (N.I.E), which is necessary for bank operation, etc.
133. The total number of undocumented foreigners is uncertain. In June 2001, Enrique Fernández-Miranda, the Delegate of the Government for Immigration, declared that Spain had about 1.2 million immigrants on its territory (*El Mundo*, 10 June 2001); the number of foreign residents officially-registered by the Ministry of the Interior on 31 December 2000 was around 896 000 and 1.1 million at end 2001.
134. There are no statistics on the return of foreigners to their country of origin or to any other country.
135. Besides, income distribution is generally wider in these countries, and has often worsened since the 1980s, which makes the incentives to migrate all the greater for low-income people.
136. This figure is in addition probably underestimated, since, as in most developing countries, informal activity is high and under-employment too.
137. See OECD (2002d).
138. The countries covered in this survey are the 22 members of the League of Arab States, which includes North African countries and Arab Middle-Eastern countries, with a population of 280 million in 2000.
139. Up to 1985, Spanish legislation characterised immigration-related issues as matters of “public order” (and therefore the exclusive responsibility of the Ministry of Interior) and issues related to settlement of foreign nationals in Spain were very weakly regulated. For a review of Spanish migration policy until 1999, see Moreno Fuentes (2000).
140. Rights to meeting and association were limited, although these aspects were softened on a number of occasions by the courts; family reunification rights were not recognised.
141. The Immigration Act is the result of two laws. The “*Ley de extranjería 2000/4*” was adopted in December 1999, after two years of negotiation between all political parties in a parliamentary commission, and put a strong focus on integration issues. It was reformed a few months later by the “*Ley de extranjería 2000/8*”, that put more emphasis on the control of immigration flows. One of the main points of disagreement was the introduction of a permanent possibility for undocumented foreigners to obtain a temporary residence permit if they could prove that they had stayed two years in Spain and had sufficient means of subsistence, which was denounced as providing incentives for immigrants to come illegally. The new Act extends the period of stay to five years.

142. Undocumented foreigners do not have the rights of meeting, association, unionisation and strike. Being in Spain without authorisation is a serious offence that can be punished by expulsion instead of a fine. Documented foreigners committing offences that can be punished by one to six years of jail can also be expelled.
143. The decision was published in early January, at the same time as the quota was announced, to restrict individual applications to specific categories of people, such as those for which looking at the national employment situation is not required (*e.g.* family members of foreign residents, students, Chilean and Peruvian nationals due to preferential international agreements).
144. The publication of the number of work permits granted has been recently interrupted, and figures are not available for the whole year of 2001.
145. The persons whose application was rejected (whose number is probably inferior to 210 000 because some may have applied in the two subsequent processes) were not expelled and are likely to remain on the territory.
146. This is under the assumption that all the persons whose application was rejected in the 2000 process did apply in the 2001 process.
147. See *El País*, 14 October 2001.
148. The government has proposed a 2003 budget for expulsions of EUR 8 million, almost three times higher than in 2002.
149. France, Italy, Portugal, Bulgaria, Poland, Slovakia, Estonia, Letonia, Lithuania and Rumania.
150. 90 000 is a minimum as it is the number of persons whose application was rejected in the 2001 process. 70 000 applications were also rejected in the 2000 process, but part of those rejected in the first process have certainly participated in the second. Those who did not apply, those who entered after the processes, and those who fell into illegality because their permit expired and could not be renewed since then due to lack of a work contract should also be added.
151. The government has also announced its intention to eliminate the permanent mechanism of regularisation "*por arraigo*" (*i.e.* for settlement reasons) included in the Immigration Act, which is allowing foreigners able to prove that they have been living in Spain for five years to obtain papers.
152. Besides, migration decisions of natives may also respond to labour immigration (Brücker *et al.*, 2001). For a critical analysis of this type of studies suggesting that immigration effects on the labour market may be underestimated see Borjas (2002).
153. Dolado *et al.* (1996) consider the number of work permits granted from 1990 to 1992. In 1991 and 1992 they are dominated by the regularisation process, so that it is not the effects of immigration on the labour market *per se* that are captured, but rather the effects of the legalisation of immigrants.
154. According to the labour force survey, non-OECD immigrants as a whole are better educated than Spanish nationals. Although the share of the second and third groups of workers referred to here cannot be exactly established (due to lack of data), the third group (*i.e.* low-skill jobs) is more important than the second (high-skilled jobs). To some extent, the fact that non-OECD workers are on average better educated than Spanish nationals may reflect under-utilisation of immigrants' human capital. However, this may also reflect the non-accuracy of the figures: as noted above, the labour force survey is not completely representative for foreigners, especially for non-OECD immi-

- grants, who are more likely to live in collective housing (not covered) and have temporary visas.
155. See Colectivo IOÉ (1998) for the construction sector, Colectivo IOÉ (1999) for hotels and restaurants, and Carrasco (1999). Mendoza (1997) provides information on African employment in agriculture and construction, and Martínez Veiga (1999) for employment in domestic services, agriculture and construction.
 156. 24 per cent of the immigrants surveyed by Carrasco (1999) were without contracts; in the construction sector, 62 per cent of the Poles and 19 per cent of the Moroccans surveyed by Colectivo IOÉ (1998) had no contracts, against 1.5 per cent of the Spaniards; in restaurants, 42 per cent of the Peruvians, 23 per cent of the Dominicans and Chinese, 12 per cent of the Moroccans and 6 per cent of the Philipinos and the Spanish had no contract.
 157. In the construction sector, 52 per cent of the Moroccans were working more than 40 hours a week, against 39 per cent of Spanish; overtime hours are more often paid at the normal rate for Moroccans than for Spanish and Polish workers (Colectivo IOÉ, 1998). Foreigners also tend to work longer hours in hotels and restaurants; more than two thirds of the Dominicans and Filipinos were not paid for extra-hours, against one third for Spanish and Moroccan workers (Colectivo IOÉ, 1999).
 158. At end-1997, it was one of the lowest in the European Union in PPP terms (OECD, 1998).
 159. For example, domestic employees can be fired without notice and do not have access to unemployment benefits.
 160. Comparing the situation of young natives and young non-EU immigrants both in Belgium and Spain at labour market entry based on the EU Labour Force Survey, Kalter and Kogan (2002) find that while differences in education levels explain the disadvantage that non-EU youth face compared with natives, it is not the case in Spain.
 161. It is also likely that there is more variability in their unemployment rate than for natives, *i.e.* that they play the role of cushioning the variations in activity. It is however not possible to verify this based on the labour force survey since data for foreigners are published only annually.
 162. EU foreigners, on the other hand, include a large number of pensioners.
 163. Employment data used here is the affiliation with the social security system, available for foreigners starting in December 1999.
 164. About 55 000 foreigners were registered under the domestic employee social security regime in June 2002. It is a sector where undeclared employment is common, so that overall domestic employment is higher.
 165. See OECD (2001f).
 166. See Álvarez-Llorente (2002) and Muñoz (2002b).
 167. The important increase in temporary jobs for natives may also have played a role. Unemployment dropped from about 18 per cent in 1995 to about 11 per cent in 2002, with new employment largely situated at the low-skilled, low-productivity end.
 168. Productivity here is measured as GDP divided by the number of workers affiliated with the social security system. The number of non-EU foreigners affiliated with the social security system is not available for 1995, so that the number of existing work permits was used instead, after checking that they were quite similar to the number of affiliations in the period where both are available.

169. In Almeria, income per capita was equivalent to 82 per cent of the national average in 1999, against 73 per cent in 1991. In Huelva, the Rioja and Castellon, income per capita was equivalent to 73, 119 and 117 per cent of the national average, respectively, against 69, 110 and 108 in 1991.
170. According to the 2000 Census, one out of three EU residents were aged more than 55.
171. Revenues from the VAT on consumption are not included.
172. According to de Ayala Cañón *et al.* (2001), 70 000 households or 180 000 individuals (0.5 per cent of total population) were benefiting from a minimum income.
173. According to the OECD database on social transfers, in 1998, the benefits provided to compensate for low income represented 0.07 per cent of GDP, family benefits and services to families 0.4 per cent of GDP, and housing benefits 0.07 per cent of GDP (excluding income tax relief granted for purchasing a main residence).
174. Aparicio and Tornos (2000) estimated that they were inferior to 2.8 per cent of the expenditure they estimated at the central level in 1998. They may have somewhat increased recently.
175. See Collado *et al.* (2002).
176. As shown by Samuelson (1958), in the steady-state the system's internal rate of return must be less than or equal to the real rate of output growth in order to keep the pension regime in equilibrium. Given the effect of immigration and under the assumption of a stable annual growth of 1¼ per cent of productivity, real output could rise on average by 1¼ per cent a year over the 2000-50 period, a rate much below the estimated level of the internal rate of return of the pension system.
177. Moroccan and Peruvian immigrants surveyed in the Madrid area by Aparicio and Tornos (2000) were sending on average one to two months of their salaries in remittances to their origin country in 1999.
178. The fruit and vegetable sector, which employs many immigrants, is not benefiting from direct subsidies from the CAP, but benefit from trade protection; other sectors including the olive oil sector enjoy both trade protection and production subsidies. The regime of EU subsidies to olive oil was significantly modified in November 1998. The main modification entailed replacing the intervention price system by a private storage aid, abolishing aid to consumption and introducing an overall cash ceiling on the amount of production subsidies (these changes are not definitive; they have been extended up to 2004/05). This ceiling is distributed across countries according to the national guaranteed production level. In the event that national production exceeds the quota, the subsidy per tonne is reduced proportionately.
179. The demand from Latin American countries for reduced protection of EU markets, in particular for agricultural products, was one of the most contentious points in the last Ibero-American summit in November 2002. In March 2002, the Spanish Secretary of State for Foreign Affairs defended (during a meeting of entrepreneurs from Spain and Maghreb countries on investment opportunities in the Maghreb) the view that free trade between the EU and Maghreb, including in agricultural products, should be sought by 2010 so as to help the development of these countries and slow immigration flows. The president of Catalonia also supported this view (see *Noticias Infoagro*, 22/03/2002). For an analysis of the impact of liberalisation of Euro-Mediterranean trade in agricultural products, see Lorca Corrons (2002).
180. According to a report by the Defensor del Pueblo Andaluz (2001), in western Almeria, at least 65 per cent of the immigrants did not live in decent housing. More than 50 per

cent had no access to drinkable water, and 25 per cent to electricity, and most had no sewage.

181. For example, in Madrid, rents can vary between EUR 150 and 240 per month for a bed in shared rooms. The immigrants are also often asked to provide a bank guarantee or are required to pay a number of monthly rents in advance, while the norm is one month (*El País*, 9 April 2002).
182. According to Trilla (2001), social housing accounts for 2 per cent of the housing stock, against 18 per cent on average in the EU.
183. See *El País*, 23 January 2003.

Glossary of acronyms

ADSL	Asymmetric digital subscriber line
ALMP	Active labour market policy
BBVA	<i>Banco Bilbao Vizcaya Argentaria</i>
BIS	Bank for International Settlements
CAP	Common agricultural policy
CES	<i>Consejo Económico y Social</i> (Economic and social council)
CLH	Transportation monopoly
CMT	<i>Comisión del Mercado de las Telecomunicaciones</i> (telecommunications sector regulator)
CPI	Consumer price index
EC	European Commission
ECB	European Central Bank
EMU	European Monetary Union
EPA	Labour force survey
ESA	European System of Integrated Economic Accounts
EU	European Union
EUR	Euro
Eurostat	European Union Statistical Institute
FAO	Food and Agricultural Organisation
FORCEM	Foundation for the training of workers
GDP	Gross domestic product
GHG	Greenhouse gas
GRECO	<i>Programa Global de Regulación y Coordinación de la Extranjería y la Inmigración en España</i> (Global Programme to Regulate and Co-ordinate Foreign Residents' Affairs and Immigration in Spain)
IAE	<i>Impuesto de actividades económicas</i> (tax on business activities)
IEA	International Energy Agency
IBI	<i>Impuesto sobre bienes inmuebles</i> (real estate tax)
ICAC	<i>Instituto de Contabilidad y Auditoría de Cuentas</i> (Institute for Accounting and Auditing)
ICES	International Council for the Exploration of the Sea
ICID	International Commission on Irrigation and Drainage
ICT	Information and Communication Technology
IMF	International Monetary Fund
IMSERSO	<i>Instituto de Inmigración y Servicios Sociales</i> (national agency for migration and social services)
INE	<i>Instituto Nacional de Estadística</i> (National Statistics Institute)
INEM	<i>Instituto Nacional de Empleo</i> (National Agency for Employment)

INSALUD	<i>Instituto Nacional de la Salud</i> (National Health Institute)
NAIRU	Non-accelerating inflation rate of unemployment
NGO	Non-governmental organisation
OPA	<i>Oferta pública de adquisición</i> (take-over bid)
PER	<i>Plan de Empleo Rural</i> (special unemployment and investment regime for seasonal agricultural workers in Andalusia and Extremadura)
PES	Public employment service
PISA	Programme for International Student Assessment
PPP	Purchasing power parity
R&D	Research and Development
SCP	Stability and Convergence Programmes
SDC	<i>Servicio de Defensa de la Competencia</i> (Competition Service)
SME	Small and medium-sized enterprise
TDC	<i>Tribunal de Defensa de la Competencia</i> (Competition Tribunal)
UA	Unemployment assistance
UI	Unemployment insurance
UMTS	Universal Mobile Telephone Systems (third generation mobile telephone systems)
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States dollar
VAT	Value added tax

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Table of contents

Assessment and recommendations	9
I. Economic developments, the fiscal stance and prospects	21
Overview	21
Recent trends	23
Fiscal policy in the short run	40
Prospects	47
II. Medium and long-term fiscal policy challenges	51
Fiscal policy: being prudent, while ensuring flexibility	51
Increasing public sector efficiency has to remain a priority	55
The consequences of ageing: pension reform is more urgent than generally perceived	63
III. Structural reforms to sustain a strong performance	67
Labour markets	70
Education and R&D	80
Housing market	92
Competition policy	99
Financial markets	105
The benefits from deepening structural reforms	107
Sustainable development	108
IV. The economic impact of migration	127
Introduction	127
Migration stocks and flows	127
Migration policy: still in the making	134
Economic aspects of immigration	142
Integrating immigrants	154
Conclusions and recommendations	157
Notes	160
Glossary of acronyms	175
Bibliography	177



Annexes

I. Supporting material	184
II. The decentralisation and financing reform of autonomous communities and local authorities	188
III. Main measures of the personal income tax reform	192
IV. Rental supply and demand incentives	194
V. The effect of employment shifts on labour productivity growth and the contribution of immigration of non-EU foreigners	197
VI. Calendar of main economic events	200

**Boxes**

1. Risks to the outlook	49
2. Private rates of return from non-compulsory education	88
3. Analysis of rental supply and demand incentives	97
4. The integration of environmental concerns into government policy	110
5. EU-wide immigration policies	135
6. The new quota system for work permits	140
7. Projections of public pension expenditure	152
8. EU agricultural market access for South Mediterranean countries	154

Tables

1. Demand and output	23
2. Financial position of the economic sectors	24
3. Financial performance of non-financial firms	29
4. Productivity and real wage growth by sector	34
5. Inflation differential between Spain and the euro area	41
6. The fiscal consolidation process	44
7. General government accounts	45
8. Short-term prospects	48
9. Stability Programme 2002-06	52
10. Expenditure by level of government	53
11. Local government revenue in OECD countries with federal structure	57
12. Tax revenues in OECD countries	58
13. Evolution of health expenditure	61
14. Recommendations for further structural reforms	71
15. International comparison of unemployment benefits	75
16. Public expenditure on labour market policies	78
17. Educational attainment by age	81
18. Participation in education at typical ages	82
19. Student performance at age 15	83
20. Private rates of return on education	89
21. Household assets	94
22. Tenure and availability of housing	95
23. Main indicators: climate change	112
24. Performance indicators: waste	116
25. Treatment systems for waste in Spain	117

26. Fees for extended producer responsibility schemes in Europe	118
27. Recovery and recycling rates and targets	119
28. Costs of composting in selected European countries	120
29. Main indicators for water withdrawal and land degradation	121
30. Immigration statistics in Spain	129
31. Regularisation processes	136
32. Annual quota for work permits in the 1990s	136
33. Work permits	138
34. Education level and type of employment: foreigners <i>versus</i> natives	143
35. Workers affiliated with the social security system	145
36. Unemployment rates of foreigners and natives	146
37. Fiscal impact of non-EU immigrants	150

Annexes

A1. Balance of payments	185
A2. Inflation decomposition: comparison between Spain and the euro area	186
A3. Greenhouse gas emissions and sectoral indicators	187
A4. Local governments' expenditure by function	190
A5. The effect of employment shifts on labour productivity growth and the contribution of immigration	199

Figures

1. Key indicators in international perspective	22
2. Output gap and economic activity indicators	25
3. Credit to households and asset prices	27
4. Household indebtedness	28
5. Competitiveness indicators and export performance	30
6. Contributions to GDP growth	31
7. Employment and unemployment: key features	33
8. Inflation decomposition for Spain and the euro area	37
9. Profit margins by sector	39
10. Consumer prices	40
11. The macroeconomic policy stance	41
12. Budget balances	43
13. Risks of a weaker European recovery	50
14. Decomposition of the business sector potential growth	68
15. Real GDP growth by sector	69
16. Public expenditure on active labour market policies and unemployment rates	79
17. Annual educational expenditure per student, 1999	84
18. Business R&D expenditure	90
19. Internet infrastructure	91
20. Housing market trends	93
21. Wealth developments linked to housing purchase/rental	98
22. Telecommunications prices	101
23. Medium-term effects of structural reforms	109
24. Greenhouse gas emissions	111
25. Application of efficient irrigation methods	124
26. Foreign population in selected OECD countries	128
27. Foreign population by nationality for the top 15 source countries	130
28. Length of stay of foreigners	131
29. Income differentials	132

30. Population projections for Spain and selected source countries	133
31. Population of selected source countries/regions, aged 15-44	133
32. Workers' remittances	153
33. Disadvantage in reading of 15 year-old children	157

Annexes

A1. Investment cycles	184
A2. Wealth developments linked to housing purchase/rental	195

BASIC STATISTICS OF SPAIN (2002)

THE LAND

Area (1 000 km ²):		Major cities (thousand inhabitants):	
Total	506.0	Madrid	3 017
Cultivated (1998)	185.1	Barcelona	1 527
		Valencia	762
		Seville	704

THE PEOPLE

In thousands:		Employment (thousands)	16 258
Population	41 838	Employment by sector (% of total):	
Net natural increase (2001)	45	Agriculture	5.9
Net migration (2001)	247	Industry	19.4
Number of inhabitants per km ²	82.7	Construction	11.8
		Services	62.9

PRODUCTION

Gross domestic product (GDP):		Gross fixed capital investment:	
Billion EUR	694	% of GDP	25.4
Per head (US\$)	15 631	Per head (US\$)	3 973

THE GOVERNMENT

% of GDP:		Composition of Parliament	
Consumption	17.6	(No. of seats, March 2000):	350
Revenue	38.5	Popular Party (PP)	182
Deficit	-0.1	Spanish Labour Socialist Party (PSOE)	125
Fixed investment (% of gross fixed capital formation)	13.1	Convergence and Union (CIU)	15
		Izquierda Unida (IU)	8
		Basque Nationalist Party (PNV)	7
		Other	13
		Next general elections: March 2004	

FOREIGN TRADE

Exports of goods and services (% of GDP)	28.5	Imports of goods and services (% of GDP)	30.0
Exports as a % of total goods exports:		Imports as a % of total goods imports:	
Foodstuffs	12.5	Foodstuffs	6.6
Other consumer goods	28.8	Other consumer goods	20.9
Energy	2.0	Energy	10.7
Other intermediate goods	44.6	Other intermediate goods	46.0
Capital goods	12.2	Capital goods	15.8

THE CURRENCY

Monetary unit: Euro		Currency units per US\$, average of daily figures:	
		Year 2002	1.0611
		February 2003	0.9276

Note: An international comparison of certain basic statistics is given in an annex table.

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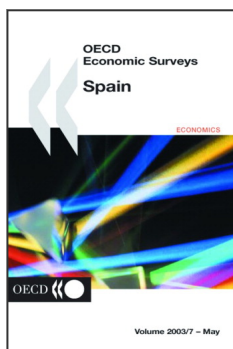
The economic situation and policies of Spain were reviewed by the Committee on 24 February 2003. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 27 March 2003.

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