

Des emplois pour les jeunes/Jobs for Youth **Spain**

Summary in English

The labour market performance of young people

The labour market situation of Spanish youth has improved considerably in recent years. Both the youth unemployment rate and the incidence of long-term unemployment among youth have more than halved over the past decade. The proportion of young people who have a job has increased by almost 50% over the same period. These achievements have occurred in the context of what is one of the most impressive employment growth records among EU countries: Spain has created more than 6 million net new jobs over the past decade, more than one third of total net employment gains in the EU-15.

Yet, there is still significant scope for improving the labour market situation of youth. The youth unemployment rate, at almost 18% in 2006, was well above the OECD average. Young women are particularly affected by unemployment – young Spanish women have one of the highest unemployment rates in the OECD. And, while the incidence of temporary work among employed youth has tended to decrease, it was still 55% in 2006, well above the corresponding OECD average of about 30%. As in other OECD countries, many youth enter the labour market with a temporary contract. However, Spain is unique in that youth tend to stay on temporary contracts for a very long period of time, interspersed with frequent unemployment spells when moving from one contract to the next.

Progress in further reducing youth unemployment and job precariousness is hampered by several factors. A first set involves the education system. One in four youth leave school with less than upper secondary education – which is regarded as the minimum level of basic skills to integrate in today's labour market – one of the highest drop-out rates among OECD countries. Early school dropouts are also likely to face significant difficulties throughout their careers. Moreover, the links between the education system and work are too weak and work-based learning is limited to students in vocational education – whose performance in terms of access to employment after leaving school is relatively good.

Second, unemployed youth receive limited support to find a job, particularly those who are the most disadvantaged (*e.g.* youth lacking basic skills, youth with behavioural problems, long-term unemployed or disabled). Third, until recently, employment regulations have contributed to the marked labour-market segmentation between

temporary and permanent jobs that characterises Spain labour market, thereby negatively affecting the career prospects and training opportunities of youth.

High growth rates in Spain offer the prospect of improved labour market performance for youth, provided that the above barriers are addressed effectively. This report provides reform options for meeting this challenge.

Recent reforms

Over the past few years, efforts to further raise educational attainment have been stepped up. Spanish youth are, on average, much better educated than their older counterparts. University attendance and graduation rates have risen considerably over the past two decades and the age of compulsory schooling was raised to 16 over the 1990s. A new reform was adopted in 2006. The Education Organic Law, approved in May, includes measures to address some of the main problems, notably the excessive school drop-out rate. Particular attention will be devoted to pedagogic support for children with learning difficulties, through increased funding for remedial programmes and reduced class size. Recognising the key role of pre-school education, particularly for youth from disadvantaged backgrounds, the government has decided to increase the number of nursery school places.

A reform aiming at improving the quality of the university system is also under discussion in Parliament. It seeks to ameliorate teaching and research through a transparent system of teacher recruitment based on merit. It also stresses the importance of promoting the mobility of teachers and researchers and allowing leaves of absence for exchanges with the private sector.

In addition, an important reform of employment regulations was adopted in 2006, with the aim of reducing labour market segmentation while keeping the high job creation momentum – the so-called Agreement to Improve Growth and Employment. The Agreement was the fruit of more than a year of negotiations between government, unions and employers. It comprises many provisions, notably time-limited subsidies for the conversion of temporary contracts into permanent ones, as well as financial incentives for hiring on permanent contracts. On the other hand, employment protection legislation on permanent contracts – one of the most stringent among OECD countries – remains practically unchanged. The Agreement also provides for a much-needed strengthening of the role of the labour inspectorate. This is crucial to reduce abuse of recourse to temporary contracts. Finally, the Agreement emphasises the need to modernise public employment services and evaluate their performance.

New reforms are needed

The 2006 reforms represent a positive and reassuring signal regarding the vitality of social dialogue in Spain. They also reveal consensus on some of the key factors that hamper further improvement in the quality of the education system and in reducing labour-market segmentation, which affects youth disproportionately. But the judgement of many Spanish economists and the OECD is that the reforms, though they have led to an increase in hiring via permanent contracts so far, will not provide a significant boost to

youth job prospects over the longer term. More needs to be done to improve the school-to-work transition.

The government should build on the existing consensus to draw up an effective and coherent strategy for promoting youth employment. The strategy would ideally comprise four main components: ensuring that youth leave education with the skills required by the labour market; making the transition from school to work less abrupt; reducing labour market segmentation by ensuring that temporary work acts as a stepping stone to a good career rather than a trap; implementing a comprehensive activation strategy for unemployed youth.

Ensuring that youth leave education with the skills required in the labour market

In terms of the education system, the priority is, first and foremost, to reduce early school leaving, which sometimes happens at a very young age, *e.g.* before successful completion of compulsory education. Participation in early childhood education oriented to reduce the risk of early school leaving is limited for very young children. In particular, public provision of childcare for children aged under 3 is rare, resulting in exclusion of some of the children at highest risk, such as those with low-skilled immigrant parents or from low-income families.

In addition, there are few “second-chance” opportunities for early school dropouts. “Social guarantee” programmes provide a good framework for early school dropouts to develop basic skills needed to gain access to the labour market, but are less successful in giving these disadvantaged youth a chance to return to education. Similarly, *Escuelas Taller* and *Casas de Oficios* (programmes for long-term unemployed youth lacking basic skills) do not allow an easy return to mainstream education.

Second, more can be done to strengthen the links between the skills acquired in education and labour-market requirements. At present, few students choose to attend vocational secondary education despite the fact that labour demand is high for some of the fields taught in vocational schools. This calls for action to improve the attractiveness of vocational education. There are also grounds for improving the professional orientation and relevance of tertiary education. As many as six out of ten university graduates are employed in occupations which do not really utilise their qualifications – this is almost twice as high as the average for other European countries for which such data exist. More generally, the report finds considerable mismatch between the skills learnt in school and those required on the job, a situation that tends to persist beyond entry jobs.

To further improve the opportunities for youth to acquire the skills needed in the labour market, the following measures could be envisaged:

- *Increase participation in early childhood education and ensure sustained intervention.* Early childcare services could benefit from additional public help. Particular attention should be paid to ensure that these services reach children at the highest risk of dropping out of school.
- *Improve second-chance education opportunities for early school dropouts.* Students who obtain a certificate from social guarantee programmes should be provided with a possibility to go back to vocational or general education. Likewise, unemployed

youth graduating from vocational training programmes should be given a chance to return to mainstream education. Direct access to vocational education should be granted to those successfully graduating from *Escuelas Taller* and *Casas de Oficios*.

- *Ensure availability of apprenticeships in firms for all students attending vocational education.* Apprenticeships are much less developed in Spain than in other OECD countries. It is essential to ensure that in-work training is available to all students attending vocational education – as is done in countries like Germany. This requires greater participation of business associations in the design of curriculum. Particular attention should be paid to setting the apprenticeship wage at a level that reflects the training efforts of employers, thus ensuring that sufficient apprenticeship places are available.
- *Develop short-cycle university degrees and encourage attendance in those courses.* University studies need to be less theoretical and more closely related to the needs of the labour market. Short-cycle university degrees would help to achieve this, as experience of such courses in France shows.
- *Encourage greater links between university and the world of work.* This can be done by extending the requirement of a period of compulsory practice in a real labour market environment, as presently used in some areas such as medicine (in hospitals) and education (in schools). There is also room for developing exchanges between university researchers and the private sector and for opening up to the private sector the funding of university programmes.
- *Provide parents and youth with information on the labour market performance of different areas of study and education paths* – notably, vocational versus general secondary education or short versus long cycle at university, as well as various areas of university education. Strengthening guidance and counselling services at all levels of education would serve this purpose.
- *Evaluate teaching and research quality at university on a regular basis.* This measure is among the proposals put forward by the reform plan of university education currently under discussion in Parliament. Consideration should also be given to making public funding partly related to the outcomes of these evaluations.

Making the transition from school to work less abrupt

Compared with their OECD counterparts, Spanish students have limited contact with the labour market before they finish school. Few of them combine work and study, and there are relatively few internship opportunities. Evidence from other OECD countries highlights the benefits of combining study with part-time work, in terms of post-education labour market outcomes.

“Training contracts” – *contratos de formación* (for those with high-school qualifications) and *contratos en prácticas* (for university graduates) – are another way to help youth enter the labour market. Aimed at fostering work-based learning, these contracts are subject to specific minimum pay conditions. Notably, the salary of a young person on a *contrato de formación* is set in collective agreements and cannot be lower than the national minimum wage. For *contratos en prácticas*, pay must be equivalent to at least 60% of the negotiated wage for the profession concerned over the first year of contract, progressing to 75% over the second year. Employers receive a lump-sum per hour of training provided and, if they retain the trainee on a permanent contract, they

benefit from a lump-sum reduction in social security contributions for a period of four years.

However, take-up of these contracts is relatively low. For *contratos en prácticas*, this may be due to the fact that they are in direct competition with non-formal grants for university graduates (*becas no-convenidas*) that have been increasingly used in Spain as a way to fill regular job vacancies. For employers, it is likely that non-formal grants provide a more flexible screening device than training contracts – since they do not have a legal foundation, employers do not have to pay social security contributions and are not subject to employment protection legislation (unlike training contracts, which are subject to both). There are cases where youth prefer a *beca* to a *contrato en práctica* because the former confers a higher *status* than the latter. While *contratos en prácticas* can be used to hire youth holding any tertiary qualification, *becas* are opened to youth who have followed the academic route only and are assigned after a competitive selection process.

More generally, evidence from other OECD countries points to potential dead-weight losses for contracts targeted solely on age – in this case, on youth. Such contracts may also create threshold effects and may stigmatize beneficiaries. Promoting hiring of youth on ordinary contracts is preferable, with age-specific contracts targeted more closely on youth with particular disadvantages – e.g. youth lacking basic skills, with disabilities, long-term unemployed.

As a result, the following actions are recommended:

- *Broaden the use of internships at the graduate level and involve employers in their design.* This could be done by simplifying their use for firms and involving the firms in the design of internships. Such internships have proved successful in the case of the post-graduate courses with work-based practice organised by the Universities of Madrid and Barcelona, in cooperation with local employers. Students spend half of the time working in a firm and the other half at university, attending classes relevant to the professional environment of the firm where the work experience is taking place. The programme is entirely financed by participating employers, although there is no employment relationship between students and the firm and students receive a study grant rather than a salary. The professional content of the course and practice is such that many students are hired by the firm where they have worked during the programme.
- *Target training contracts on disadvantaged youth.* Disadvantaged youth qualifying for these contracts should include long-term unemployed youth, unemployed school dropouts, other youth lacking basic skills and disabled youth. Some of these groups are already entitled to sign *contratos de formación* – they should be made the sole target in order to reduce deadweight losses. Specific regions or depressed areas could also be a target. The training wage should be set in a way that it accounts for the employer's training effort – particularly in view of the focus on disadvantaged youth.
- *Prevent the recruitment of students under non-formal grants (becas no-convenidas), but recognize the need for a flexible screening device.* Employers have been hiring young graduates on *becas no-convenidas*, thus showing interest for flexible screening devices. While *becas no-convenidas* should be outlawed as they do not have a legal contractual basis, thereby leading to abuses, the need for a way of testing young people's skills must be recognised. A longer trial period, within the framework of

reforming employment protection legislation, could well serve this purpose (see below).

Reducing labour market segmentation by ensuring that temporary work acts as a stepping stone to a good career rather than a trap

The main demand-side obstacle to better youth employment prospects lies with the way employment regulations are shaped. Wages, on the other hand, do not appear to be a major obstacle to recruitment in general. In particular, minimum wages remain relatively low in Spain, notwithstanding their recent increase.

Employers tend to hire on temporary contracts those youth whose productivity is not immediately observable. As a result, for a number of youth temporary employment is a good entry path to the labour market. This is the case for youth who enter the labour market with adequate skills and get a chance to prove their productivity on relatively long temporary contracts. For others, however, temporary jobs can be a trap. Only one in five young people move from a temporary job to a permanent one each year, a rate which is well below the European average. And almost 60% of contracts lasting less than seven days in 2004 were signed with workers aged under 30. This short duration provides very little incentive for training and slim opportunities for youth to show their productivity and acquire a career.

The 2006 reform strengthens controls by the labour inspectorate. Reducing legal abuse of temporary contracts is indeed important. The Labour Code was also amended to tighten the rules concerning the renewal and overall duration of temporary contracts. As a result of this change, those workers with at least two consecutive contracts on the same post, covering more than 24 months within a period of 30 months, will be entitled to a permanent contract.

In addition, a lump-sum subsidy has been introduced for the hiring of youth on permanent contracts – the subsidy is limited to a four-year period. The lump-sum subsidy was also provided for those conversions of temporary contracts into permanent ones which happened by the end of 2006. These measures are likely to increase the incidence of permanent contracts among employed youth. Also, given that the subsidy takes the form of a lump-sum payment (and is not proportional to the wage), it may limit deadweight losses – indeed the subsidy is proportionately smaller for high-paid jobs, which are more often filled with permanent contracts than is the case with low-paid jobs.

These measures have already started to bear some fruits. Over the six months following the reform, the number of permanent contracts signed with youth has seen a significant rise compared to the same period in previous years. This is a very positive outcome confirming that the reform, partly by its design, is having an immediate and positive effect. However, it is less clear whether the positive effects of the measures can be sustained in the longer term. In addition, the reform is costly for the public purse – the various subsidies are estimated to amount to close to 0.2% of GDP, presently financed with surpluses from the unemployment benefit system and the social guarantee fund. Further reforms may therefore be needed in order to consolidate the gains achieved with the 2006 measures, while maintaining the strong employment dynamism of recent years. Among the reform options that are put forward, the first three require some regulatory

changes but maintain the current degree of employment protection legislation. The last two reform options provide more radical alternatives.

- *Achieve greater convergence in the treatment of temporary versus permanent contracts.* At present, dismissal compensation for temporary contracts is eight days of pay per year of seniority, compared with 33 days in the case of “unfair” dismissal for permanent contracts. Reducing the difference in severance costs between the two types of contracts would improve employers’ incentives to provide more stable jobs to youth – by either converting temporary contracts into permanent ones, or recruiting directly under permanent contracts. One way of achieving this would be to i) ensure that dismissal compensation for both types of contracts is of 20 days per year of seniority – *i.e.* the current entitlement in the event of individual, “fair” dismissal for objective reasons – and ii) simplify procedures so as to avoid that employers pay “unfair” compensation for dismissals which are justified on economic or individual grounds. This would be in line with the recommendations of the Reassessed OECD Jobs Strategy.
- *Increase the length of the trial period in permanent contracts.* The current statutory trial period in permanent contracts –two-three months for low-skilled workers and six months for skilled ones – is among the lowest in the OECD and shorter lengths are often negotiated in collective agreements. Raising it –for instance, to about ten months as in Denmark – would make employers less reluctant to hire inexperienced youth under permanent contracts and could prove a crucial boost to hiring. Indeed, evidence provided in this report shows that employers are relatively less reluctant to provide a permanent arrangement to a young person who had some experience in the firm, than to external candidates.
- *Make sure that the principle by which hiring on temporary contract is only possible for specific needs of a temporary nature is fulfilled.* This can be done through more frequent and more accurate labour inspections, as envisaged in the 2006 reform.
- *Make severance costs and administrative procedures more predictable.* This would reduce employers’ reluctance to hire under permanent contracts, or provide a permanent contract on expiration of a temporary one. A radical solution to raise the predictability of dismissal costs would be to move towards a system of individual severance accounts, as exists in Austria. For Spain, this would require a more legally enforceable distinction between unfair (discriminatory) and fair (all other grounds) dismissals. Workers are still protected against unfair dismissal in a system with individual severance accounts. But in the event of fair dismissal they have the right to use their individual account balance.
- *Move towards experience rating of unemployment insurance premia and a single contract.* This would constitute a radical change from the present system of dismissal protection but would imply that those firms which are more prone to dismiss workers would have to pay higher contributions to the unemployment benefit system. The most problematic aspect of such a change in Spain would be that in an experience rating-type system, the distinction between temporary and permanent would no longer exist and all workers would be entitled to the same compensation in case of dismissal.

Implementing a comprehensive activation strategy for unemployed youth

Few non-employed teenagers and young adults receive unemployment insurance benefits, unemployment assistance or other forms of welfare support. As a result, benefit

dependence is only likely to arise for older youth aged 25-29. On the other hand, the effectiveness of employment services provided to unemployed youth should be improved.

At present, INEM (*Instituto Nacional de Empleo*) offers various re-employment services to registered youth. However, little evaluation of these programmes exists. Two training programmes (*Escuelas Taller* and *Casas de Oficios*) are subject to continuous monitoring and follow-up of participants, but these involve just over 3% of unemployed youth.

Co-operation with private agencies in the provision of re-employment and training services is almost non-existent and direct job creation initiatives involve exclusively jobs in the public sector or with non-profit organisations. In addition, when private agencies provide services – such as initial interviews – they are not evaluated on results. For instance, at the moment, only communities and public administrations can submit proposals for setting up an *Escuela Taller* or *Casa de Oficio* and the activities carried out are limited to those of public/social utility. Partly because of these constraints, the number of *Casas de Oficios* centres has decreased considerably over time. Similarly, direct job creation never involves subsidised jobs in the private sector, despite the fact that this can be effective, as experience in the United Kingdom within the New Deal for Young People programme shows.

The rigorous evaluation of programmes launched at the time of the 2006 reform should be used as a starting point for a much needed overhaul of the Public Employment Service (PES). It should also highlight examples of good and bad practices existing at the local level. Evaluating the cost-effectiveness of existing and envisaged measures is also key, especially in light of the existing budgetary restrictions applying to the Spanish PES. While much of the implementation of labour market policies is decentralised, autonomous communities did not participate in the discussions leading to the 2006 reform. The following actions are recommended:

- *Ensure greater co-operation between autonomous communities (which have responsibility for activation programmes) and the INEM (which provides benefits).* Cooperation is indeed needed in order to ensure that services are provided to the young unemployed in an integrated manner and as part of an effective “mutual obligations” approach. While this is problematic for teenagers and young adults who rarely qualify for unemployment benefits, it is important for 25 to 29-year-olds who represent a large group among unemployment benefit recipients.
- *Ensure that effective employment services for unemployed youth are provided at an early stage.* Youth should participate in intensive, personalised interviews with employment counsellors. After a period of unsuccessful job-search of between three to six months, youth should be provided with an opportunity to i) participate in a well-designed programme; ii) work as part of a targeted subsidised scheme; or iii) go back to school. As part of this approach, a programme targeted on long-term unemployed youth could be created.
- *Remuneration schemes of PES personnel as well as private providers must reflect placement success* but also provide the right incentives to place the most disadvantaged youth. Adequate staff resources should be provided to the PES to implement such a strategy.

- *Encourage unemployed youth to register with the PES even when they are not entitled to unemployment benefits.* Some of the programmes offered – *Escuelas Taller* or *Casas de Oficios* – are available for very young people without qualification but few of these young people are registered as unemployed with the PES as they rarely qualify for unemployment benefits.
- *Extend the scope of Escuelas Taller and Casas de Oficios.* For a programme to be funded, it has to be related to activities of public interest and/or utility and has to be provided by a public body or a non-profit organisation. Relaxing one or both of these constraints for authorisation to set up a training centre may increase the number of centres and places available. Besides, more co-operation with the private sector may facilitate placement after the course ends.
- *Set up rigorous evaluations of services provided by both INEM and private providers.* Very little evaluation of labour market programmes is carried out at the moment. Much more needs to be done with the aim of maintaining only services that are cost-effective.
- *Set up pilot studies at the local level for new measures introduced.* This would serve the double objective of studying the effects of policies before they are implemented at the national level as well as improving co-operation between the central government and autonomous communities.

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