

# European Employment Strategy and Spanish Labour Market Policies

Ramon Ballester<sup>\*</sup>  
Departament d'Economia, Universitat de Girona

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## Abstract

The paper aim is to analyse the influence of the European Employment Strategy (EES) in the implementation of the Spanish labour market policies. The first part of the paper describes the evolution and content of the EES. In the second one, the definition of activation is also explained. In addition to that, the ways how the EES develops and promotes active labour market policies are examined.

The evolution of labour market policies in Spain and the current configuration of both active and passive policies are studied in the next three chapters. In these parts, the paper investigates to which extent the provisions of the EES have been implemented in Spain.

The paper shows that: i) activation has been rising in the European countries since the implementation of the EES; ii) this fact has also happened in relative terms (comparing the evolution of active to passive policies); iii) Spain has been one of the countries which has led these processes; iv) the EES seems to have been influencing the configuration of some parts of the Spanish labour market policies.

*Keywords:* activation, employment policies.

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<sup>\*</sup> Department of Economics. University of Girona. FCEE. Campus Montilivi. 17071 Girona, Catalonia, Spain. E-mail: ramon.ballester@udg.es

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## 1. Introduction

Ever since the two oil crises, unemployment has consolidated itself as one of the most important problems in capitalist countries. Unemployment rates have shifted from a situation of full employment to 8.6% for the Eurozone in the third quarter of 2004. The EU has recently introduced the fight against unemployment as one of its most important concerns.

Since 1997 the European Employment Strategy (EES) has transformed employment policies into a European issue through the Open Method of Coordination. The 2000 Lisbon summit set as an important objective making the European Union the most competitive and dynamic economy of the world as a way to regain full employment conditions. Unfortunately, employment policies implemented so far, based on a supply-side orientation, have not been appropriately coordinated with macroeconomic policies.

European welfare states have been put under pressure since the oil crises. Several factors have influenced and constrained them. While there does not seem to be any convergence between the four models of European welfare states (Nordic, Continental, Anglo-Saxon and Southern), two measures have been commonly implemented: budget control and activation. The latter is a word used to describe different policies with separate aims, but with a very important common component: work is increasingly considered to be a moral duty.

The Spanish labour market has registered several important changes since the end of Franco's dictatorship. Reforms in the labour market have been oriented mainly towards an increase in flexibility. Activation is the most recent instrument to be introduced into the Spanish labour market, whereas passive policies have been progressively reduced.

This paper is a first step in the process of comparing how activation has been understood and implemented in the four European welfare state models. To do so, Spain will be taken as a starting point. The paper follows in section two with the history, functioning and the economic logic of the EES, looking carefully to its problematical relationship with macroeconomic policies and its influence on different welfare state models. The third section studies the definition of the concept of activation, the pros and cons of active labour market policies, and the analysis of its relationship with concepts like workfare and to make work pay. It also examines the activation content of the EES. In the fourth part, the evolution of the Spanish labour market policies implemented since 1976 will be described, paying special attention to the most recent reforms. It will describe the current employment strategy too. In the fifth section, activation policies in Spain will be classified and explained, connecting them to the EES both in quantitative and qualitative terms. Section six studies the importance and chief characteristics of Spanish passive policies. It compares the importance of active and passive policies too. The last part of the paper is devoted to present the most important conclusions of the work.

## **2. Functioning of the EES: an economic perspective**

### **2.1. Origins and implementation of the EES**

The 1997's Treaty of Amsterdam and Luxembourg Jobs Summit launched the EES. This strategy was originally built upon four "pillars" defined in the Employment Guidelines (EG): employability, entrepreneurship, adaptability and equal opportunities. The Guidelines were to be designed by the Commission, approved by the European Council, and implemented by member states through the National Action Plans. Nowadays, employment policy is still a nation state matter but with a new important coordinated component at the European level.

The Lisbon European Council in March 2000 set some strategic goals for the European Union, to increase its competitiveness and to achieve full employment. In fact, the Lisbon Summit linked the EES to the broader economic and social agenda of the EU. It also introduced some benchmarks for the employment rates, furthered later at the 2001 Stockholm Council<sup>1</sup>.

In 2003, after the evaluation of the employment strategy in 2002 and the recommendations of the Employment Taskforce, there were three important changes affecting the EES. First, the original four pillars were developed and translated into ten titles ("result-oriented principles" or "commandments") with their own benchmarks and recommendations. Second, the Broad Economic Policy Guidelines (BEPG) and the EG were going to be jointly presented on a three-year basis, being the first one the 2003-05. Third and last, three overarching objectives were explicitly set: full employment; quality and productivity at work; social cohesion and inclusive labour markets.

The Brussels Summit of March 2005 passed a modification of this procedure (Council of the EU, 2005; European Commission, 2005a). From now on (April 2005), the BEPG and the EG will be integrated in a three years-based document, the Integrated Guidelines (IG). On the basis of the IG, member states will draw up, on their own responsibility, their own National Reform Program. On its side, the Commission will present a Community Lisbon Programme, covering all action to be taken at EU level. The Commission would annually propose updates to the IG and possibly country-specific recommendations.

The changes introduced in the functioning of the EES seem to have produced an increase in the coherence of the strategy by deepening the links and synergies with the rest of the policies of the EU, and also by widening the temporal scope of the measures applied (three years formulation instead of one year). Anyway, the main problem is the kind of economic policies implemented by the EU, their pro-market trend, and specially the Stability and Growth Pact (SGP) and the role of the European Central Bank (ECB).

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<sup>1</sup> The 2010 target for total employment rate is 70%; for female employment rate more than 60%; for older workers' employment rate is 50%. The intermediate benchmarks for 2005 are 67% for total employment and 57% for women. Nowadays it seems apparent that these intermediate objectives are not going to be met: in the 3rd quarter of 2004, the overall employment rate for the Euro-zone was 63.5% and the women employment rate was 54.9% (Harðarson and Romans, 2005).

Both of them are out of reach of this process of coordination and hamper the process of employment creation.

## **2.2. The EES: how to create employment in the EU**

Employment creation is nowadays an important aim for the EU. Two EU recent documents connected with the EES can be highlighted. The first one is the Wim Kok's Employment Taskforce Report (Kok, 2003). From its point of view the best way to create employment is to increase adaptability of workers and enterprises; to attract more people to the labour market; to invest in human capital; to ensure effective implementation of reforms. These ideas are in fact fully developed in the EES and can be partly traced back in previous documents of the EU like the Delors 1993 White Book or the conclusions of the 1994 Essen Summit.

The second paper is still more important: the Commission Document on the Lisbon Strategy Renewal (European Commission, 2005b). The document identifies ten cornerstone actions to enhance European economic performance. Three of them are very linked to employment policy: to attract more people into employment and modernise social protection systems; to improve the adaptability of workers and enterprises and the flexibility of the labour market; and to increase investment in human capital through better education and skills<sup>2</sup>. These notions are developed in the EES too and were picked up in the March 2005 European Council, in the conclusions 29 to 35 (Council of the EU, 2005).

A first analysis of the content of the current EES shows that the subordination of this strategy to the BEPG was already specified in the Amsterdam Treaty. In fact, the EES was born and is still working in a "permanent state of tension" between "economic" and "social" agents. The EES follows a clear pro-market trend (it is inspired by the pro-liberal BEPG) but allows some important social measures and objectives to be found in the guidelines (e.g. improving provisions for childcare, enhancing working conditions or securing a better integration of immigrant workers).

A supply-side approach can be clearly checked by analysing the most important objectives and measures contained in the guidelines. When examining the ten guidelines that have been adopted (Council of the EU, 2003) it is noticeable that the vast majority of policies are related to the supply side of the labour market (i.e. counselling; training and lifelong learning; increase of labour supply and promotion of active ageing; enhancing work attractiveness; augment flexible contract types to increase adaptability of the workforce). On the other hand, the demand side-orientated guidelines are limited in scope and affect mainly Small and Medium Enterprises by easing their financial, fiscal and administrative burdens and, affecting all kinds of firms, the design of new forms of work organisation.

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<sup>2</sup> The others are: to extend and deepen the internal market; to ensure open and competitive markets inside and outside; to improve European and national regulation; to expand and improve European infrastructure; to increase and improve investment in R+D; to facilitate innovation, the uptake of ICT and the sustainable use of resources; and to contribute to a strong European industrial base.

### **2.3. EES and macroeconomic policies of the EU: a misplaced relationship<sup>3</sup>**

There are other policies that indirectly influence the evolution of the labour market and, to be more precise, the ability to create employment. One of them is macroeconomic policies, which are based on three different elements: the BEPG, the fiscal policy and the monetary policy.

1. An important characteristic of the BEPG is their deep pro-market bias (it is based on ideas like liberalisation, deregulation or privatisation). They are also rooted in the idea of “sound macroeconomic policies” (budget deficit and inflation control).
2. Fiscal policy at the EU level is based mainly on the SGP. The economic evolution of the EU has been hampered by the restrictive component of the pact, especially in situations of economic downturn. The SGP is actually being revised after its virtual collapse due to the German and French situation of permanent excessive deficit and the July 2004’s Court of Justice ruling. The European Council has just endorsed a modest reform of the Pact (Council of the EU, 2005). The reform softens one element of the SGP (excessive deficit procedure) while strengthening another (the deficit control in situations of economic prosperity). A second element of the EU fiscal policy is the European budget. This budget cannot play any important role because of its tiny size (approximately 1% of the EU GDP). So, it can act neither as a stabiliser in periods of economic crises nor as a tool for the development of the poorest zones of the EU. This problem is increasingly important due to the recent enlargement of the EU.
3. Monetary policy at the EMU is implemented by the ECB. The policy has been more restrictive than the American Federal Reserve’s policy during the downturn period originating in late 2000 – early 2001.

Summarising, the macroeconomic policies of the EU have had a restrictive bias in a situation of economic downturn. Hence, they have not been employment-friendly. Some very important changes in the SGP, the EU budget, the BEPG and the role and objectives of the ECB are needed to avoid this obstacle.

### **2.4. EES and welfare state models**

The EES tries to introduce some degree of common employment policy while preserving the autonomy of each member state to implement a specific policy.

The first thing to study is the impact of the EES on the different welfare state systems. Considering Esping-Andersen’s (1990) and Ferrera’s (1996) works and also the contribution of Begg et al.(2001) four models can be depicted in their traditional configuration:

1. Liberal or Anglo-Saxon (UK, Ireland): market efficiency leading the role of the welfare state; low levels of social expenditure; high importance of means-tested

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<sup>3</sup> This part is based on Ballester, Busquets and Guillén (2004).

- schemes; it shows high levels of income disparities; labour market regulation is designed to ensure equitable contracts between employers and employees.
2. Social-Democratic or Scandinavian (Denmark, Finland and Sweden): high levels of social expenditure; high importance of universalistic schemes; it shows low levels of income disparities; the regime is dedicated to securing individual social security through regulated labour markets.
  3. Corporatist or Continental (Austria, Belgium, France, Germany, Netherlands): average levels of social expenditure; high importance of occupational schemes; it shows average levels of income disparities; the model is devoted to maintaining and increasing living standards without altering the social order.
  4. Southern or Mediterranean (Greece, Italy, Portugal and Spain): low levels of social expenditure; high importance of occupational schemes; it shows high levels of income disparities; above average importance of family as income stabiliser; labour market regulations devoted to protecting the male breadwinner.

The influence of the EES on the member states seems to be quite strong on Continental and Mediterranean models. In the first case, countries are moving from a passive to an active model and from a family-based to an individual entitlement system. In the second, the starting point (low employment rates, low female participation) is quite the opposite of what is “normal” in the EU. The impact on the liberal model seems to be marginal (the main problem is quality of work). Finally, the Scandinavian model is very adequate, so the impact is going to be negligible there (de la Porte and Pochet, 2002).

A second element to think about is the virtual non-existence of EU funds for labour market policies. This is quite problematical for Southern, and especially Central and Eastern European countries, with lower levels of income and high levels of unemployment, who are obliged by the SGP and the BEPG to control public expenditure. All this can turn into a contradiction, since real measures for labour market integration require an increase in public expenditure (Serrano Pascual, 2004).

### **3. Definition and origins of activation**

#### **3.1. Definition of activation**

Activation has become one of the most important concepts used in contemporary politics. There is broad consensus across wide ideological borders in the political class to support activation policies. It can be an appealing concept to both Social-Democrats and Christian-Democrats (it is useful to integrate excluded people, to offer opportunities for participation, or to maintain the viability of the welfare state) and to liberals (it can be used to fight against dependency and parasitism). (Hvinden, 1999; Van Berkel and Hornemann Møller, 2002; Serrano Pascual, 2004)

Activation basically means the process of moving from a passive situation to an active one and is related to a broad range of policies (aims and instruments) directed at people receiving public benefits and/or being excluded from the labour market. It is characterised by a mix of incentives and disincentives, and it is based on the assumption that citizens behave rationally, reacting appropriately to external stimuli and always trying to maximise income.

When analysing the European Employment Strategy, we can use activation and active labour market policies (ALMP) as synonyms (Hvinden, 1999). ALMP first appeared in Nordic countries after the Second World War and included measures such as job brokerage, job subsidies and training measures. The objective was to stimulate the supply of or the demand for labour as well as to enhance the match between them. These active policies are opposed to passive labour market policies which ensure some income to people in situations of unemployment<sup>4</sup> (Fina, 2001). However, active and passive policies are not totally antithetical. On the one hand, passive policies include people in the “fields of consumption” and represent an indirect way to increase participation in society. On the other hand, active policies, when successful, increase clients’ resources (Van Berkel and Hornemann Møller, 2002).

Activation is connected with two important notions: workfare and to make work pay. The first concept was created in the United States of America during the 70s. Workfare means the introduction of work requirements for people claiming public income support. To be more precise, it implies that claimants could have their benefits reduced or even withdrawn if they do not participate in some kind of work or training program. In this context, activation requires a process of control and categorisation implying that all unemployed people “able to work” should be required to do so and that only people actively looking for a job deserve social benefits (Darmon, 2004; Serrano Pascual 2001, 2004). In other words, the essence of workfare can be summarised in two imperatives: the State should place those on the margins of the labour force in jobs, or induce them to find jobs; the unemployed should be obliged to take and remain in such job. Thus, workfare can be thought as the “punitive” and “paternalistic” part of activation (Standing, 1999). Another important idea to highlight is that workfare represents a way of thinking that has figured strongly for hundreds of years. The 1834 British Poor Law Amendment was a targeted system designed to reach only the deserving poor. We can also find traces of this debate on David Ricardo’s work.

To make work pay means that governments have to ensure that working is always a more interesting option than receiving social benefits. To be more precise, from this point of view, taxes and social benefits distort the market allocation of resources, creating then unemployment. Two important phenomena can be found here: the unemployment trap, appearing when unemployment benefits are so high related to the potential wage that discourage unemployed people to re-enter into the labour market;

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<sup>4</sup> This paper uses the classification of active and passive instruments designed by the OECD (OECD, Employment Outlook). It divides active instruments into five different categories: public employment services and administration; labour market training; youth measures; subsidised employment; measures for the disabled. There are two types of passive instruments: unemployment compensation and early retirement schemes.

the poverty trap, arising when the increase of income coming for the new job means the withdraw of social benefits and higher tax payments, meaning a fall in the real income (Employment Outlook, 1996). Hence, ALMP ought to consider the notion of make work pay to become really effective. It is nonsense to activate people if they do not have financial incentives to work (Kok, 2003).

### **3.2. Activation and unemployment**

The use of activation to combat unemployment has been justified using very distinct arguments (Boone and Van Ours, 2004; Fina, 2001; Geldof, 1999; Heikkilä, 1999; Lødemel and Trickey, 2000; Serrano Pascual, 2001 and 2004). A snapshot of the most important are:

1. To fight against “dependency”. This is based on an idea deeply rooted in conservative ideology: social benefits are excessively generous and therefore directly discourage people from actively looking for a job (another dangerous influence comes from taxes on jobs.) In other words, moving from welfare protection to work does not mean any significant increase in income. Passive policies, more than being a solution to the unemployment problem, are causing it. Active policies, on the contrary, change the expectations of individuals, making passive benefits less attractive. This approach is the closest to the make work pay concept. This explanation assumes two hypotheses: there are enough vacancies and these vacancies are available for every unemployed person (Recio and Banyuls, 2004). A more comprehensive approach can be found in Peters’ analysis of the benefits system interaction with ALMP (Peters et al., 2004). It remarks that transition from unemployment to work does not only depend on benefits and ALMP. There are other elements like the labour market situation, the existing care support facilities or even cultural factors.
2. To increase the competitiveness of the national economy. The rationale here is to subordinate social policy to the economic demand for higher flexibility in the labour market, and to improve the education and training of the workforce while lowering public expenditure.

First, there is a profound need to meet the changing conditions in the world of production (increase in the importance of services, decline of the Fordist system of production, rise in the importance of knowledge as a factor of production). We are living in a world of risk and instability, and people have to adapt to changing situations, to successfully manage several job transitions. The best way to do that is through a constant process of activation. The welfare state now helps people to manage risk, not to avoid it. Unemployment becomes a problem of the individual; the state’s role is to provide individuals with tools to improve their personal capital. The problem now is not how to increase employment, but rather employability.

Second, ALMP raises the efficiency of the economy. It invests in human capital (increasing then productivity) and maintains the size of the labour force by keeping up competition for available jobs. It also may eliminate mismatching in

the labour market and have a screening function by reducing uncertainty about employability of applicants.

Third, passive policies can give money to the unemployed, but they cannot reduce unemployment levels. They were designed in the Fordist period, an era of high and stable employment levels. In situations of massive unemployment, traditional sources of financing the unemployment system (social contributions) tend to collapse. Hence, a move towards activation is justified.

Fourth, increasing social expenditure (i.e. passive labour market policy) also leads to an increase in inflation and a reduction in the competitiveness of the national economy. Active policies, on the contrary, can reduce public expenditure by lowering unemployment levels.

3. To assure the viability of the social model. The idea is to increase the participation rate in order to raise public income, decrease public expenditure, and contribute to the financial sustainability of the welfare state.
4. To avoid social exclusion. From this perspective, unemployment is caused mainly by structural factors. A major pathway to poverty in Europe seems to be a persistent lack of work, especially among the less skilled workers. Hence, intervention in the labour market is needed for redistributive reasons.

### **3.3. Is activation a panacea for employment creation?**

ALMP have some serious limitations in tackling unemployment (Begg et al., 2001; Fina, 2001; Lødemel, 2000; Peck and Theodore, 2000; Serrano Pascual, 2001; Van Berkel and Roche, 2002):

1. ALMP are necessary but they can only solve “limited” problems and have to be complemented by other policies. ALMP can improve conditions in the labour market, but would only operate correctly in an expansionary macroeconomic context.
2. ALMP can resolve situations of structural and frictional unemployment (it can solve problems of permanent or temporary mismatching). In circumstances of cyclical unemployment, only those ALMP instruments aimed at increasing the creation of employment (demand-side approach) can be really useful. But some difficulties arise when trying to implement this kind of measure (for example, a subsidy paid to a firm to hire a person receiving unemployment benefits):
  - a. The deadweight loss effect. Some people who are finally hired by enterprises would have probably found employment without the measure. There is a problem of selective recruitment, of creaming off.
  - b. The substitution effect. Some existing employees might be replaced by unemployed people, resulting in no net employment creation.
  - c. The displacing effect. Subsidies might be creating employment in one firm but reducing it in another, through an increase in the competitiveness of the first one caused by the subsidy and the new hiring (which distorts competition).

3. It is very important to look at the type of work or option being offered to the unemployed. Proposing a secondary labour market option (non-standard forms of employment) is not the same as proposing a stable job. It is necessary to move beyond “first-job” approaches.
4. The additional labour supply provided by ALMP can depress wages in the labour market, especially in low-income sectors. There is a risk of creating a poverty trap.
5. A cost-benefit analysis of activation measures is not necessarily favourable. There are two main types of evaluation of ALMP. The micro studies the impact of program participation on individuals’ employment and earnings, whilst the macro estimates the net effect on aggregate employment and unemployment. One important thing to underline is that activation instruments vary in the degree to which they are successful or effective. There seems to be a consensus for training and public employment services as the best tools, and for specific, intensive, well-targeted and short in duration programs<sup>5</sup>. Second, there is a risk of involuntary exclusion. In temporary schemes, when the program is over, clients run the risk of being unemployed again. In permanent schemes, there is a risk of marginalisation (lack of income improvement and institutionalised stigmatisation).

### 3.4. Activation in the EES

The current form of the EES disseminates activation instruments into different titles, mainly numbers 1 (*active and preventative measures*), 4 (*promote development of human capital and lifelong learning*); 5 (*increase labour supply and promote active ageing*); and 8 (*make work pay*). It also has connections with titles 6 (*gender equality*); and 7 (*combat discrimination*)<sup>6</sup>. An analysis of the guidelines (Council of the EU, 2003) shows five main instruments related to activation:

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<sup>5</sup> Martin and Grubb (2001) summarise the most important findings from the evaluation literature about the effectiveness of active measures for OECD. They support instruments like counselling, job-search assistance, public training programs, employment subsidies and subsidies for business start-ups. Kluge and Schmidt (2002), when analysing several previous studies for European countries, conclude that training is the best option. They also point at the fact that there is a positive correlation between tax wedge, employment protection, union density and ALMP. Boone and van Ours (2004) update data and use unemployment and employment-population rates. They find that training has the desired effects both on unemployment and employment-population rates; public employment services only affect unemployment, while subsidised jobs do not seem to have any effect. Marx (2001), when analysing the existing literature on job subsidies, underlines its low profile too. However, the author recommends linking job subsidies to job counselling and training to improve results. The author also points out that the twin problems of information and bureaucracy diminish the effectiveness of job subsidies.

<sup>6</sup> The proposal of the Integrated Guidelines (European Commission, 2005c) means a new configuration of the Employment Guidelines, with three blocks (attract and retain more people in employment and modernise social protection systems; improve adaptability of workers and enterprises and the flexibility of labour markets; increase investment in human capital through better education and skills) directly connected with the Lisbon Strategy Renewal and developed into eight guidelines. This package is going to be passed on June 2005 and implemented by member states on autumn 2005.

1. ensuring that all jobseekers benefit from an early identification of their needs and from services like advice guidance;
2. modernising and strengthening labour market institutions, in particular employment services;
3. implementing lifelong learning strategies, including the improvement of the quality and efficiency of training systems;
4. promoting active ageing, notably by fostering working conditions conducive to job retention and eliminating incentives for early exit, especially by reforming the early retirement schemes;
5. revising replacement rates and benefit durations, and ensuring effective benefit management, notably with respect to the link with effective job search.

There are also some quantitative objectives:

1. offering a new start before six months of unemployment in the case of young people and before twelve in the case of adults in the form of training, work practice or a job;
2. by 2010, having 25% of the long-term unemployed participating actively in a form of training, retraining, work practice or other employability measure, with the aim of achieving the average of the three most advanced member states;
3. by 2010, having at least 85% of 22-year-olds in the EU with upper secondary school completed;
4. achieving an average level of participation in lifelong learning of at least 12.5% of the adult working-age population in the EU;
5. increasing by five years, at the EU level, the effective average exit age from the labour market.

Hence, from the dominant activation perspective, workers are the ones who have to update their skills and enhance their companies' competitiveness; they are also the ones who should be encouraged to remain in the labour market for a longer period of time to sustain the constrained increase in government expenditure. On the other hand, the main task of governments is to facilitate the employability of the population. Some of the most important instruments are: promoting training of the workforce; increasing the incentives to remain in the labour market (i.e. by reducing pensions); and advising and counselling in job searches. Although title eight is devoted to make work pay measures, workfare elements can also be detected in this title, with guidelines like those of reviewing replacement rates and benefit duration or hardening existing link between benefit entitlement and active job search.

## 4. Labour market policies in Spain since 1975: the road to flexibilisation

### 4.1. Reforming the Spanish labour market

The pre-democratic labour system was characterised by the prohibition of trade unions; the setting of basic wages at a very low level; and the establishment of a quasi-tenured employment system (Muñoz de Bustillo, 2002; Segura, 2004). The Spanish labour market policy since 1975 has been based mainly on deregulation and flexibilisation, and also on a reduction of labour costs. Nowadays passive policies are not viewed positively, while activation has only been recently developed. Employment objectives have been subordinated to macroeconomic stability (González-Calvet, 2002).

The transition process established the framework and basis for the labour market legislation. Several laws can be emphasised: the 1978 Constitution recognised basic social and labour rights; the 1980 Workers' Statute organised the industrial model; the 1980 Basic Law on Employment regulated employment policies; and the 1984 Organic Law on Union Freedom regulated trade union activity (González-Calvet, 2002). The 2003 Law on Employment has replaced the former Basic Law on Employment.

In 1984 the socialist government passed one of the most important reforms of the Spanish labour market when it introduced temporary contracts. It was considered that the Spanish labour market was too rigid and the introduction of the temporary contracts the easiest way to increase flexibility. This reform was implemented in a context of severe economic recession and of growing unemployment (20.6%), and was intended to foster the creation and flexibilisation of employment; young people and long-term unemployed were the main objectives of the reform. There were two important elements of the reform: a gap was created between the cost of dismissal of temporary and permanent contracts, and the scope of temporary contracts was increased. Hence, the number of temporary contracts soared (up to 30%), resulting in an increase in labour market precariousness; it also helped to control the evolution of wages.

The 1988 general strike changed the trend temporarily. Trade unions were able to obtain some social achievements, like improved social benefits (González-Calvet, 2002; Laparra and García, 2003) but the signing of the Maastricht Treaty rearmed the liberal perspective of the socialist government by giving more room for stability and liberalisation. The 1992 and 1993 reforms of the unemployment benefits meant an important cut in the contributory scheme (*prestación por desempleo*). The main argument for these reforms was the rise in public expenditure devoted to unemployment benefits in the context of the implementation of the Maastricht Treaty. The qualifying period was augmented; the replacement rate and the duration of the payment were cut down; unemployment benefits will have, from these moment, to pay the income tax. Until 1993 unemployment subsidy (*subsidio por desempleo*) was improved but it has also been curtailed ever since (Cantó and Toharia, 2003). These reforms introduced a to make work pay component.

In 1994, in a period of intense economic crisis and with the unemployment rate peaking at 24%, the PSOE cabinet implemented the second most important labour market reform. The analysis was based on the assumption that the Spanish labour market was facing two important problems: it was too rigid and labour costs were excessively high. The reform was based on five main pillars: new forms of contracts were introduced (low-cost or high-flexible); deregulation of labour market was deepened (by easing labour mobility and working hour flexibility); dismissals were made more flexible by reducing the possibilities for nullifying a contract and cheaper by reducing transaction wages; temporary work agencies (*Empresas de Trabajo Temporal*, ETT) were introduced; and collective negotiation role was augmented (Ferreiro Aparicio, 2003; González-Calvet, 2002; Laparra and García, 2003; Muñoz de Bustillo, 2002; Segura, 2004).

1997 was the year of the third major labour reform. It was implemented by the right-wing Partido Popular with the support of the chief trade unions and employers' organisations. Unemployment and temporality rates were still very high (21.5% and 33.6% respectively). With this reform, flexibility was pursued alongside security. The prominent element of this reform was the Agreement for Permanent Employment. The idea was to enhance the competitiveness of Spanish firms by improving the quality of the labour market by reducing both temporality and rotation, whilst promoting continuous training. The agreement was implemented through several measures: a decrease in the number of temporary contracts; changes in the role of the ETT; an augment in the reasons for objective dismissals; and last but not least, the introduction of a new permanent contract, with lower dismissal costs than the existing one, and with tax benefits. This last contract was a "prototype", designed only to be applied to some groups (young, older and long-term unemployed) and to be revised four years later (Cachón and Palacio, 1999; Ferreiro Aparicio, 2003; González-Calvet, 2002; Laparra and García, 2003). The reform seems to have had some positive effects: as much as 80% of net employment created after the reform has been permanent employment, reversing the previous trend (Martín, 2004). It is worth to note that this reform of the labour market was linked to the Tripartite Agreement on Continuous Training.

The July's 2001 reform is another cornerstone. The basic objectives of the reform were to promote stable and indefinite contracts; to limit the abuse in the use of temporary contracts; to promote female, part-time and groups with special difficulties' employment. The reform increased flexibility by widening the applicability and scope of the new permanent contracts; by reducing dismissal costs for normal permanent contracts; and by flexibilising working times for part-time and discontinuous permanent workers. It also introduced a limited compensation for the sacking of temporary workers (Bertelsmann, 2005; González-Calvet, 2002; Laparra and García, 2003).

In May 2002, the PP tried to impose a new reform via a Royal Decree. The main aim was to reduce the number of unemployed receiving unemployment benefit for lengthy periods. The most important characteristics were: the unemployed people were forced to sign a written commitment with the employment office; the definition of suitable job was altered; unemployment protection was reduced for discontinuous permanent contracts; and interim wages were to be abolished (Bertelsmann, 2005;

Laparra and García, 2003). The June 2002 general strike eventually modified the governmental plans. When Aznar's government passed a law in the Spanish Parliament some of the original measures were rather modified. Both the written commitment and the definition of a suitable job were softened<sup>7</sup>.

This last reform is an excellent example of what workfare means. The two abovementioned elements of the reform imply that unemployed people should have to face now stricter rules connected with their unemployment benefits. They will have from now on both to look actively for a job and to have a narrower set of options for accepting a proposed job. Unemployment benefit is at risk if the unemployed person is not able or willing to accomplish these conditions. This reform also perfectly fits with the EES. To be more precise, title 8 (*Make work pay*) explicitly states (Council of the EU, 2003: 8): "... Member States will in particular review replacement rates and benefit duration; ensure effective benefit management, notably with respect to the link with effective job search ..."

## 4.2. Employment strategy in Spain

Employment policy in Spain is "framed" by the 2003 Law on Employment. This law tries to adapt Spanish employment policies to the new institutional environment (European policies, devolution to autonomous communities) and to the present situation of the labour market (high level of unemployment and temporality, insufficient rate of employment)<sup>8</sup>. The most important objective is to achieve full employment by increasing the efficiency of the labour market. The Law basically defines the meaning of ALMP as the set of schemes and measures of orientation, training and employment devoted to improve the employability of unemployed persons. It emphasises the importance of its preventative role and lists the priority groups (young people, women, older workers, handicapped people and immigrants). The law pays special attention to the role developed by the public employment services (the National Employment System); this system is decentralised and coordinated, and it has to guarantee the implementation of both active and passive schemes. The law defines the coordination between the active and the passive employment programs too, emphasising the fact that

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<sup>7</sup> In the definite version, unemployed people have to look actively for a job and to participate in measures to improve his/her employability. In this version, suitable job is defined as that one which coincides with the last activity carried by the applicant for at least 3 months. If the unemployed person is not able to find a suitable job, then he/she must accept another job, at the discretion of the employment service. Unemployed people should have to accept a job that would be less than 30 kilometres from their home or require a return journey of less than 2 hours; duration and working time of the contract will be taken into account (Bertelsmann, 2005).

<sup>8</sup> The Spanish unemployment rate in the 3rd quarter of 2004 was 10.6%; the EU-15's was 7.9% and the eurozone's was 8.6%. The employment rate for Spain was 61.3%, whilst for the Euro-zone and the EU-15 figures were 63.5% and 65.2% respectively. The share of employees with temporary contracts was 31.2% in Spain, 15.3% in the Euro-zone and 13.7% in the EU-15. The employment rate for women was 48.4% in Spain, 54.9% in the Euro-zone and 57.2% in the EU-15 (Harðarson and Romans, 2005). The 2004 NAP marked as objectives for 2005 61.1% for the total employment rate; 48.5% for the women and 41.7% for older workers.

people receiving subsidies have to participate in active measures, introducing then an important workfare element (BOE, 2003).

The Declaration in Favour of the Social Dialogue (DPDS, 2004), signed by the Spanish government and the most representative trade unions and employer's organisations is another significant document when analysing Spanish employment guiding principles. It is the framework for the negotiation of the next labour market reform. It depicts the basic axis of the public policies when trying to achieve the objectives marked in the Lisbon Summit (to promote growth and employment). The government has to redirect expenditure to consolidate the social welfare system, to back investment on human and physical capital and also to guarantee the transparency of the markets and economic freedom. To be more precise, the government has to focus investment on these fields: education and training; infrastructures; research, development and innovation; industrial and environmental policies. The Declaration also detects two chief problems of the Spanish labour market: low level of employment and high level of temporary contracts. Then, the two most important priorities are to increase the level of and to promote stability in employment. Others priority actions are: to improve the situation of women; to increase the efficiency of the employment services; to simplify procedures necessary to create firms; to increase investment in education, R&D and ICT.

Employment policy in Spain goes then hand in hand with the most important ideas contained in the EES. For example, four typical notions of the EES can be found in the Spanish strategy: the idea of increasing the efficiency of the labour market as a way to solve the problem of unemployment; the importance given to activation and especially to the role of the public employment systems; the need to increase human capital formation; and the necessity of linking active and passive schemes.

Two final considerations deserve to be introduced here. The first one is that from the inception of the EES, unemployment rate in Spain has been falling from 17.0% in 1997 to 10.6% in the third quarter of 2004 and employment has rocketed from 13.2 million to 17.1 respectively (EIE 2004 and Harôarson and Romans, 2005). When trying to link employment creation to the EES one important question has to be introduced here: which kind of employment has been created? The answer is a little bit disappointing: Recio and Banyuls (2004) show that the improvement in employment has been based on traditional and not modern sectors. Tourism, construction and social services like health or education had leaded the way. The Spanish productive system is still one characterised by low quality in employment and limited rise in productivity.

The last reflection is about the way unemployment is measured. The 1897/2000 Regulation of the European Commission changed the definition of unemployed. From now on, an unemployed person is someone who has registered into a public employment office and who is actively looking for a job (not only renewing administrative regulation). Obviously, this has reduced unemployment figures by throwing out people considered to be passive jobseekers (Garrido and Toharia, 2004). According to CCOO estimates, the gap between unemployed with the old and the new definition was about 350,000 people in the fourth quarter of 2004 (CCOO's website). Moreover, the May 2005 change in the definition of economic activity has increased the

number of the employed population in 3/5 of the total rise for the 1<sup>st</sup> quarter of 2005 whilst decreasing unemployment in 21,000 people (INE's website).

## 5. Activation in Spain

### 5.1. Comparing the importance of ALMP: Spain vs. the EU

The successive Spanish governments have focused their labour market efforts more on increasing flexibility than on activating unemployed people (Chozas, 2000; González-Calvet, 2002).

Country/year	1990-92	1993-95	1996-98	1999-2001	2002	99-01/90-92	99-01/93-95
Denmark	1.45	1.91	1.71	1.69	n.a.	1.17	0.88
Finland	1.39	1.66	1.54	1.06	1.01	0.76	0.64
Sweden	2.08	3.01	2.12	1.51	1.40	0.73	0.50
France	0.89	1.29	1.33	1.33	1.25	1.49	1.03
Germany	1.37	1.45	1.31	1.24	1.18	0.91	0.85
Netherlands	1.09	1.38	1.55	1.71	1.85	1.57	1.24
Ireland	1.50	1.52	1.66	1.14	n.a.	0.76	0.75
UK	0.61	0.57	0.41	0.36	0.36	0.58	0.63
Italy	0.54	1.47	0.69	0.60	0.57	1.11	0.41
Portugal	0.75	0.78	0.80	0.71	n.a.	0.95	0.91
<b>Spain</b>	<b>0.70</b>	<b>0.65</b>	<b>0.62</b>	<b>0.92</b>	<b>0.87</b>	<b>1.33</b>	<b>1.41</b>
<b>mean</b>	<b>1.12</b>	<b>1.43</b>	<b>1.25</b>	<b>1.11</b>	<b>n.a.</b>	<b>0.99</b>	<b>0.78</b>
Coeff variation	0.42	0.47	0.43	0.39	0.61	0.93	0.83
Spain to mean	0.38	0.54	0.51	0.17	0.13	0.45	0.32
<i>Scandinavian</i>	<i>1.64</i>	<i>2.19</i>	<i>1.79</i>	<i>1.42</i>	<i>n.a.</i>	<i>0.87</i>	<i>0.65</i>
<i>Continental</i>	<i>1.12</i>	<i>1.37</i>	<i>1.40</i>	<i>1.43</i>	<i>1.43</i>	<i>1.28</i>	<i>1.04</i>
<i>Anglo-Saxon</i>	<i>1.06</i>	<i>1.05</i>	<i>1.04</i>	<i>0.75</i>	<i>n.a.</i>	<i>0.71</i>	<i>0.72</i>
<i>Southern</i>	<i>0.66</i>	<i>0.97</i>	<i>0.70</i>	<i>0.75</i>	<i>n.a.</i>	<i>1.12</i>	<i>0.77</i>

Notes: no data for Denmark in 1991 and 2001; for Finland and Germany in 1991; for Sweden in 1990; for Ireland in 1992 and 1998 to 2000; for UK in 1990 and 1992; for Italy in 1990, and also for PES since 1999; for Portugal in 2001. Source: author's analysis, based on *OECD Employment Outlook*, several years.

Table 1: Evolution of ALMP expenditure (1990-2002, as % of GDP, selected countries and models of welfare state)

Table 1 analyses the evolution of ALMP expenditure from 1990 to 2002, using triennial means. Two different moments are compared. In the penultimate column the ratio 1999-2001 to 1990-92 is calculated; hence, the evolution for the whole period can

be studied (there are no data for some countries in 2002)<sup>9</sup>. In the last column, the ratio 1999-2001 to 1993-95 is found. This can be used as a proxy to study the influence of the EES, provided that 1999-2001 is the first three years period with the EES taking place and 1993-95 is the last one without the EES. While there not seems to be any important convergence phenomenon in ALMP expenditure (the coefficient of variation has no significant movement) Spain is leading the increase in funds devoted to this kind of policies and coming closer to the average. Scandinavian (despite of falling figures) and Continental countries show the highest levels of expenditure, whereas Southern and Anglo-Saxon countries show the lowest one.

To obtain a more accurate indicator of the importance of ALMP expenditure two extra factors need to be introduced: the unemployment rate and the total government expenditure. Given a specific level of expenditure in ALMP (in relative terms to GDP), the greater the unemployment rate and the greater the level of total expenditure, the lower the real effort in combating unemployment via ALMP. Hence, a new indicator (intensity) is presented:

$$\text{Intensity} = (\text{expenditure in ALMP}/\text{total expenditure}) \\ * (1/\text{unemployment rate}) * 100$$

Country/year	1990-92	1993-95	1996-98	1999-2001	2002	99-01/90-92	99-01/93-95
Denmark	31.88	38.93	53.07	67.02	n.a.	2.10	1.72
Finland	34.42	16.22	21.29	21.81	22.15	0.63	1.34
Sweden	85.15	46.94	39.25	45.18	49.09	0.53	0.96
France	18.63	20.24	20.85	26.43	26.91	1.42	1.31
Germany	57.14	37.04	28.88	32.58	29.55	0.57	0.88
Netherlands	35.50	39.47	65.45	132.16	138.22	3.72	3.35
Ireland	23.28	24.89	46.00	74.42	n.a.	3.20	2.99
UK	16.47	13.55	14.16	16.67	16.89	1.01	1.23
Italy	11.21	24.47	11.57	12.04	13.19	1.07	0.49
Portugal	38.08	25.43	27.59	36.81	n.a.	0.97	1.45
<b>Spain</b>	<b>11.34</b>	<b>7.26</b>	<b>8.69</b>	<b>19.99</b>	<b>19.13</b>	<b>1.76</b>	<b>2.75</b>
<b>mean</b>	<b>33.01</b>	<b>26.77</b>	<b>30.62</b>	<b>44.10</b>	<b>n.a.</b>	<b>1.34</b>	<b>1.65</b>
Coeff. variation	0.67	0.46	0.60	0.80	1.05	1.20	1.73
Spain to mean	0.66	0.73	0.72	0.55	0.51	0.83	0.75
<i>Scandinavian</i>	<i>50.48</i>	<i>34.03</i>	<i>37.87</i>	<i>44.67</i>	<i>n.a.</i>	<i>0.88</i>	<i>1.31</i>
<i>Continental</i>	<i>37.09</i>	<i>32.25</i>	<i>38.39</i>	<i>63.73</i>	<i>64.89</i>	<i>1.72</i>	<i>1.98</i>
<i>Anglo-Saxon</i>	<i>19.88</i>	<i>19.22</i>	<i>30.08</i>	<i>45.55</i>	<i>n.a.</i>	<i>2.29</i>	<i>2.37</i>
<i>Southern</i>	<i>20.21</i>	<i>19.05</i>	<i>15.95</i>	<i>22.94</i>	<i>n.a.</i>	<i>1.14</i>	<i>1.20</i>

Source: author's analysis, based on *OECD Economic Outlook* and *OECD Employment Outlook*

Table 2: Evolution of intensity on ALMP expenditure (1990-2002, selected countries and models of welfare state)

<sup>9</sup> Denmark, Finland and Sweden for the Scandinavian model; France, Germany and the Netherlands for the continental; Ireland and the United Kingdom for the Anglo-Saxon model; Italy, Portugal and Spain for the Southern;

Several conclusions can be drawn from the information provided by Table 2. First, if we look at the coefficient of variation, there not seems to be any real convergence on ALMP (it has been increasing since 1993-95). Second, in spite of this, there is a strong tendency to increase the intensity of ALMP, especially since the inception of the EES, with the Netherlands, Ireland, Denmark and Spain leading the way, and only 3 out of 11 countries decreasing ALMP. Third, Spain and the rest of Southern European countries show poor levels of ALMP expenditure, whereas Continental countries are leading the way.

## 5.2. Comparing the type of ALMP: Spain vs. the EU

This section is devoted to study which are the most important ALMP schemes.

Country/type	Employment services	Training	Youth	Subsidised employment	Disabled
Denmark (*)	7.6	54.4	6.3	10.8	21.5
Finland	11.8	29.7	16.8	32.7	7.9
Sweden	26.4	20.7	1.4	15.0	35.7
France	14.4	18.4	32.0	28	7.2
Germany	19.5	27.1	8.5	18.6	25.4
Netherlands	15.1	32.4	2.2	17.8	31.9
Ireland (+)	21.1	14	15.8	46.5	2.6
UK	46	5.4	35.1	8.1	5.4
Italy (=)	n.a.	8.8	35.1	56.1	n.a.
Portugal (*)	18.0	24.6	36.1	14.8	6.6
<b>Spain</b>	<b>10.3</b>	<b>25.3</b>	<b>6.9</b>	<b>51.7</b>	<b>3.4</b>
<b>Mean</b>	<b>19.0</b>	<b>23.7</b>	<b>17.8</b>	<b>27.3</b>	<b>14.8</b>

Notes: (\*) Year 2000; (+) year 2001; (=) employment services and disabled people figures not available for Italy. Source: *OECD Employment Outlook*

Table 3: Expenditure in active labour market policies by type (2002, otherwise indicated)

As is it shown in Table 3, Spain, compared to other EU countries, concentrates funding on subsidised employment, whilst training is very close to the mean and youth and disable spending are undeveloped. The employment services category is still registering quite a low profile. This element is rather important, because OECD countries have two different trends when implementing active policies (García Serrano, 2000): the first one, a move from direct employment creation to subsidising jobs in the private sector; the second one, the increase of funds for job search assistance and counselling, two of the most important functions of the employment services. Spain is still lacking this second kind of investment.

### 5.3. Active labour market programs in Spain

ALMP in Spain can be grouped into three different main blocks: Public employment services, training schemes and subsidised employment (Alujas Ruiz, 2002; CES, 2005a Sáez, 2000):

1. Employment services still play a poor role. They are related to Guideline 1 of the EES (*active and preventative measures for the unemployed and inactive*). This first component of the ALMP in Spain is divided into three different parts:
  - 1.1. Public employment services (PES), pivoting around the INEM (*Instituto Nacional de Empleo*, National Employment Institute). Autonomous Communities have their own employment offices (MTAS, 2003)<sup>10</sup>. The PES i.e. register unemployed people looking for a job; pre-select the most appropriate people for the existing vacancies; give information to firms and unemployed people about employment and training measures; design and follow-up the written commitment of the unemployed; and provide orientation to unemployed people through interviews, with special attention to problematical groups. In 2003, the PES registered only 15% of the contracts. In 2003, employability measures were carried out with 1,410,700 unemployed people; 76% of these cases were of a preventative nature. There were 1,942,400 measures: 56.2% were guidance or advice; 22.3% training; 11.4% direct assistance for employment in the public sector work of social interest; and 3.6% a combination of training and employment (MTAS, NAP 2004).
  - 1.2. Non-profit employment agencies. Their objective is to help unemployed people to find a job and firms to hire people. They cannot obtain profits from their activities. They depend on local and regional governments and professional organisations.
  - 1.3. *Empresas de Trabajo Temporal* (ETT). In 2003, there were more than 300 ETT in Spain, which “concluded” 1,815,000 contracts.
2. Training schemes are structured upon several schemes devoted to some special groups (Alujas Ruiz, 2002). They are directly linked to the fourth employment guideline (*promote the development of human capital and lifelong learning*) (MTAS, NAP 2003). Three different schemes can be emphasised:

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<sup>10</sup> Ever since 1994 there has been a process of devolution of the public employment services to the autonomous communities (regions). Regions can manage the national programs but also their own schemes. It is also worth to notice the implementation of the Regional Employment Pacts (REP), signed by the respective government, trade unions and employers’ organisations. The REP develops the specific schemes for employment and, in some cases, for economic development of the territory (they include measures connected with industrial or regional policy). Instruments included in the REP are in fact quite close to the Spanish employment strategy: promotion of permanent employment and of self-employment; investment in permanent training, especially in vocational training; improvement in the functioning of the public employment service. Some autonomous communities also include instruments like the promotion of the social economy or the use of the reduction of working time as a way to increase employment (Aragón and Rocha, 2003).

- 2.1. The most important one is based on the *Programa Nacional de Formación Profesional* (PNFP, National Vocational Training Program). Its main aims are to ensure a more skilled population, improve matching between the supply of and the demand for labour, and obtain greater coherence in the vocational training system (MTAS, 2003). This means increasing the coherence between three subsystems: vocational oriented secondary education, professional vocational training and lifelong training (Alujas Ruiz, 2002).

The first element is part of the “normal” Spanish educational system. Free and compulsory schooling ends at 16 years of age. Vocational oriented secondary school (VOSS) is an alternative to the high school option oriented towards university studies (“bachillerato”). There are 142 occupational diplomas. In year 2003-04, there were 466,000 students in the VOSS and 635,000 in the “bachillerato”<sup>11</sup> (MEC web site). Figures also show a mixed picture: on the one hand, there has been an important increase in the relative number of students but, on the other hand, there is no significant rise in the rate of people who has successfully completed at least higher secondary education (MTAS, *NAP 2004*).

The second component is devoted to the insertion and re-insertion of unemployed people through re-training. Efforts are concentrated on problematical groups like the young, low-skilled or long-term unemployed. The programs offered are articulated with information provided by the public employment system.

The third piece is lifelong learning. Spain has been traditionally characterised by an absence of training by firms. Nowadays, this subsystem is based on two agreements: the first one (*Tripartito*, National Foundation for Training in Employment) signed by the government, employers’ organisations and trade unions; the second one (*3er Acuerdo Nacional para la Formación Continua, ANFC, 3rd National Agreement for Lifelong Training*), signed only by employers’ organisations and trade unions. People who have passed through the training programs have sharply increased from 273,000 in 1993 to 1,627,500 in 2001, and formation plans have rocketed from 692 in 1993 to 7,796 in 2003 (CES, 2005a). Training by firms is promoted by reductions in social security contributions for companies which train their employees, providing special advantageous treatment for small- and medium-sized companies (MTAS, 2003; MTAS, *NAP 2004*).

- 2.2. A secondary element of the training system in Spain is the *Escuelas Taller y Casas de Oficios* (Craft School-Workshops). It is a special scheme because students combine training and work, and hence learn a profession. Participants were 39,400 in 2003. The *Talleres de Empleo*, dedicated to the

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<sup>11</sup> The *Programas de Garantía Social* (Social Guarantee Programs) are programmes comprising measures aimed at young people in the 16-21 age group that have not achieved the minimum objectives of compulsory schooling. The measures are of three types: work-introduction schemes, combined training/work and vocational workshops. In 2003-04, there were 42,500 people in this program.

unemployed over 25 years of age with problems finding a job in the normal labour market registered 23,800 people in 2003 (ETCO's site).

3. Subsidised employment. This is the part of the ALMP in Spain most directly connected with guidelines 5 (*increase labour supply and promote active ageing*) and 8 (*make work pay*) and indirectly connected with Guidelines 6 (*gender equality*) and 7 (*combat discrimination*).

- 3.1. Private employment.

In 2004, there were 18 different types of subsidised private contracts. They covered distinct issues, including problematic groups (i.e. the long term unemployed, women, the unemployed over 45 years of age as well as those over 55); social insertion (marginalised people, women who have been victims of domestic violence, disabled people); insertion of young people; transforming temporary contracts into indefinite contracts; promoting active ageing; and maternal leave. Subsidies range from 20% to 100% and usually cover from 12 to 24 months. In 2003, there were 630,600 indefinite subsidised contracts: i.e. 380,000 conversion to indefinite contracts; 137,000 women; 80,000 older workers (CES, 2005a).

- 3.2. Support to entrepreneurship

Several programs can be found here i.e. subsidies for self-employment and support for the creation of cooperatives and workers' partnerships (*Sociedades Anónimas Laborales*, SAL). In 2003, for example, there were 78,000 people receiving a preferential loan and 30,800 jobs in cooperatives were created with people capitalising their employment benefits (MTAS, NAP 2004).

- 3.3. Public employment.

This part of the ALMP in Spain is mainly based on the collaboration of the public employment services with, on the one hand, town councils and, on the other hand, the state, regional governments and universities. The idea is to create employment in areas of social interest. In 2002, there were 50,000 contracts with town councils, 5,300 with the rest of the civil service, and also 100,000 of the agrarian sector in Andalusia and Extremadura (MTAS, 2003)<sup>12</sup>.

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<sup>12</sup> There is one interesting assessment of the Spanish ALMP: the 2004 Impact Evaluation of the EES in the Spanish Autonomous Communities (quoted in CES, 2005a). It points at the fact that participants in the programs take advantage from participation, but there are important differences coming from participants: long term unemployed and people receiving unemployment benefits seem to be really benefited from participation. Furthermore, the effectiveness of measures is limited by the tiny size of Spanish PES. When analysing continuous training, it underlines its positive role; the positive correlation between previous studies and success in finding employment; and the importance of the regional economic dynamic. When studying employment subsidies, the report remarks two things: first, they have contributed to lower the temporality rate; second, the low mortality rate (10%) of subsidised permanent contracts.

#### 5.4. Activation in Spain and the EES

This relationship can first be analysed by looking at the NAPs presented by the Spanish government since 1998. This task is pretty difficult given the changes the EU has introduced in the EES guidelines and the content of the NAPs (the Spanish government has improved the information and details contained in these documents).

The NAPs seem to reflect that the Spanish government has concentrated its efforts on a group of policies devoted to:

- a) Improving the functioning of the Public Employment Services, which has meant, since the 1998 Report: the decentralisation of this service (returning it to the *regions*); focusing on problematical groups; using a centralised system of information (the SYSPE program) and the personalisation of the service (through individual interviews and counselling). It is worth noting that the vast majority of these measures seem to have been adopted as a direct influence of EU guidelines.
- b) Improving the running of the vocational training system. Since 1998, several projects have been introduced: providing distinct services for people under 25 (for whom training is the most appropriate option) and for people over 25 (access to work and vocational training combined); the introduction of the *Talleres de Empleo* (Craft Workshop Schools); the creation of the National System of Qualifications and Vocational Training; the inception of the *Renta activa de inserción* (Active Job Seeker's Benefit); and the extension of continuing training to new groups (self-employed and partners in co-operatives). One of the most important elements connected with training, the National Vocational Training Programme, has been implemented since 1996. But the same trend identified in the Public Employment Services seems to be true here: the Spanish government is adapting its policy to the European framework.
- c) Increasing the number and types of subsidies. This appears to be the least correlated element. The Spanish government has used some guidelines (i.e. reducing taxes on labour) to implement its particular policy in this field. The plethora of incentives being progressively introduced are more related to problems of the Spanish labour market (high level of temporality, low level of part-time jobs, existence of problematical groups – the long-term unemployed, youth, women) than to the implementation of the EES (the EU has only recently introduced temporality as a problem).

A second factor to consider here is the recommendations addressed by the Commission to individual member states from 2000 to 2004. In spite of a potential spurious use of this tool (the Commission can keep a tight rein on some countries when trying to bargain something in a different field) it can still be a useful tool to assess the degree of compliance with the EES, as well as the problems detected by the Commission in the labour market. Spain, with 26 recommendations (13 related to activation) is situated in the upper part of the ranking, showing a relatively high level of problems related to active policies. The mean for the 11 countries studied are 20.7 and 10.3 respectively. Southern countries show the worst results, whereas Anglo-Saxon and

Scandinavian countries are the best placed. For the Spanish case, the type of recommendations associated with activation have usually been focused on the efficiency of the public employment services, the need to improve vocational and continuing training (as a part of a strategy based on lifelong learning), and the necessity to reduce early school leaving. Since 2003 several new proposals have been introduced, reducing the high share of fixed-term contracts and increasing the participation and efficiency of active labour market measures devoted to disadvantaged people, especially young people, the long-term unemployed and disabled people. Consequently, there seems to be an unambiguous link between those elements listed as problematical by the EU and those considered as a priority by the Spanish government<sup>13</sup>.

## 6. Passive policies in the Spanish labour market

The Spanish unemployment benefit system has two elements: the unemployment insurance (*prestación por desempleo*) and the unemployment assistance (*subsidio por desempleo*). The first one is contributory based, whereas the second one is not. The Spanish model is an example of a professional model moving towards a universal one (Cantó and Toharia, 2003)<sup>14</sup>. The chief characteristics of the Spanish unemployment system are depicted in Table 4.

To analyse the importance of the passive system, the gross replacement rates of unemployment benefits for the eleven countries of the study are used first. Spain is located in the middle part (replacement rate in the Spanish case is 31%, and the mean for the eleven countries is 35% in year 2002). When using net replacement rates, a slightly different pattern appears: the Spanish short-term unemployed face better conditions than the average whereas the long-term unemployed face worse conditions. For the first situation, Spanish figure is 78.5% while the average for the eleven countries is 75.2%. In the second case, the overall rates for people not receiving social assistance are 31% for the Spanish case and 55% for the mean of the eleven countries; when receiving social assistance figures are 51% and 65% respectively. Thus, the Spanish passive system cannot be blamed for being very generous<sup>15</sup>.

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<sup>13</sup> A more detailed analysis of the recommendations can be found in Ballester (2004).

<sup>14</sup> The professional or German model is contributory based (focused then on workers) and it is based on the idea of income substitution. It does not intend to redistribute income between different groups. The universal or Anglo-Saxon model tries to redistribute income and is also set to guarantee some level of income to the entire population. It is financed both by contributions and by taxes. This model has also been partially adopted by Scandinavian countries. In fact, the vast majority of existing models are a mix of these two pure ones (Cantó and Toharia, 2003).

<sup>15</sup> The net replacement rate for short-time unemployed is defined as the non-weighted mean for people earning 67% of APW and 100% of APW. Author's analysis based on OECD, *Benefits and wages 2004*.

Concepts	Characteristics of the Spanish system
Basic principles	o UI and UA: Compulsory social insurance scheme
Field of application	o UI: Employed workers included in Social Security system o UA: Workers exhausted entitlement UI + Workers no entitlement UI + others
Conditions (activation)	o UI: Be capable to work and look actively a job + endorse a compromise of activity + be at disposal of employment office (accept job and participate in training programs) o UA: To have not refused a job proposal either a training program
Minimum qualifying period (for UI)	o 360 days during last 6 years
Benefits (determining factors)	o UI: related to contributions paid (depending on earnings and number of contribution years)
Benefits (reference earnings and ceiling)	o UI: Employees' contribution during last 180 days immediately preceding unemployment. Maximum level of contributions. o UA: 75% of the minimum wage
Benefits (rates and ceiling)	o UI: 70% of earnings for the first 180 days; 60% afterwards. Minimum: 75% of minimum wage if no dependant children; 100% if dependant children (from July 2004, 80% or 107% respectively of the Public Indicator of Multiple Effects Income –IPREM-). Maximum: 170% to 220% of minimum wage according to number of dependant children (from July 2004, 175% to 225% of the IPREM) . o UA: 75% of the minimum wage (from July 2004, 80% of the IPREM). Special condition for people over 45.
Benefits (duration)	o UI: Depending on contribution period over preceding 6 years. Between 4 months (12 to 18 months of contribution) and 2 years (more than 72 months of contribution). o UA: Normal: 6 months, with 2 possible extensions of 6 months periods. Special condition for workers over 45. In case of workers over 52, is possible extension to age of retirement
Benefits (capitalisation for UI)	o It can be capitalised to participate in cooperatives, workers' partnerships or for self-employment
Early retirement system	o Partial retirement from age 60 (with proportional reduction of benefit) + workers (aged 55) in restructuring sectors. Workers must meet all conditions except age criterion

Note: UI: Unemployment insurance (*prestación por desempleo*); UA: unemployment assistance (*subsidio de desempleo*). Source: INEM's site and MISSOC (2004)

Table 4: The Spanish unemployment system (situation on 1st January 2004, otherwise indicated)

The importance of the Spanish unemployment benefit system can be also assessed using the intensity indicator. When looking at the Spanish figures, one important caveat has to be introduced: social policies in Spain are undeveloped. In 2001 the importance of social protection (ratio social protection expenditure to GDP) was 27.3% for the EU-15 and only 20.1% for Spain (in fact, this gap has risen since 1980). In per head terms, figures were respectively 6,405 and 3,253 euros. This fact can partly explain why unemployment benefits seem to be so important in Spain when using the indicator unemployment benefits expenditure to total social expenditure; the Spanish figure in 2001 was 12.9% and the EU-15 was 6.2%. The problem is focused on the extreme low level of expenditure on fields like family and children (8.0% for the EU-15 and only 2.6% for Spain) and housing and social exclusion (3.6% and 1.7% respectively) (European Commission, 2004). Another important characteristic of the Spanish welfare system is that is mainly financed through employers' social contributions: in 2002, 53.9% of social protection expenditure in Spain was financed by social contributions payments by employers while the figure was only 38.9% for the EU-15; on the other

hand, taxes were financing the 36.8% of social expenditure in the EU-15 but only 27.1% in Spain (CES 2005b)

The other important factor explaining the importance of unemployment subsidies in Spain is the different levels of unemployment rate, 10.6% and 7.4% respectively (European Commission, EIE 2004).

Country/year	1990-92	1993-95	1996-98	1999-2001	2002	99-01/90-92	99-01/93-95
Denmark	103.08	103.44	118.06	123.10	n.a.	1.19	1.19
Finland	62.65	44.66	42.81	44.59	45.18	0.71	1.00
Sweden	51.91	41.58	38.88	40.58	36.82	0.78	0.98
France	40.46	30.57	28.30	33.34	38.96	0.82	1.09
Germany	64.25	63.55	53.57	52.90	53.34	0.82	0.83
Netherlands	78.59	89.12	134.98	143.47	128.51	1.83	1.61
Ireland	48.43	46.40	67.07	45.70	n.a.	0.94	0.98
UK	25.65	37.45	34.82	25.40	18.76	0.99	0.68
Italy	18.91	17.52	13.92	12.70	14.58	0.67	0.73
Portugal	25.72	31.84	29.10	44.33	n.a.	1.72	1.39
<b>Spain</b>	<b>45.81</b>	<b>32.18</b>	<b>25.19</b>	<b>29.29</b>	<b>34.08</b>	<b>0.64</b>	<b>0.91</b>
<b>mean</b>	<b>51.41</b>	<b>48.94</b>	<b>53.33</b>	<b>54.13</b>	<b>n.a.</b>	<b>1.05</b>	<b>1.11</b>
Coeff. variation	0.49	0.54	0.73	0.76	0.77	1.56	1.41
Spain to mean	0.11	0.34	0.53	0.46	0.26	4.21	1.34
<i>Scandinavian</i>	<i>72.55</i>	<i>63.23</i>	<i>66.58</i>	<i>69.42</i>	<i>n.a.</i>	<i>0.96</i>	<i>1.10</i>
<i>Continental</i>	<i>61.10</i>	<i>61.08</i>	<i>72.28</i>	<i>76.57</i>	<i>73.60</i>	<i>1.25</i>	<i>1.25</i>
<i>Anglo-Saxon</i>	<i>37.04</i>	<i>41.92</i>	<i>50.94</i>	<i>35.55</i>	<i>n.a.</i>	<i>0.96</i>	<i>0.85</i>
<i>Southern</i>	<i>30.15</i>	<i>27.18</i>	<i>22.73</i>	<i>28.77</i>	<i>n.a.</i>	<i>0.95</i>	<i>1.06</i>

Notes: No data available for Denmark years 1991 and 2001; Finland and Germany. 1991; Sweden. 1990; Ireland 1992 and 1997 to 2000; UK. 1990 and 1992; Portugal. 2001. Source: author's analysis. based on *OECD Economic Outlook* and *OECD Employment Outlook*.

Table 5: Evolution of intensity on passive expenditure (1990-2002. selected countries)

Table 5 illustrates that there is no process of convergence in the use of passive policies; the coefficient of variation has been increasing since 1990-92. On the one hand the ratio for the 11 selected countries has moved from 51.41 in 1990-92 and 48.94 in 1993-95 to 54.13 in 1999-2001. On the other hand only 4 out of 11 countries have increased their relative effort on passive policies during the period 1993-95 to 1999-2001. Spain shows a noticeable trend towards a decrease in the use of passive policies. Continental and Scandinavian countries have the highest levels whereas Southern show the lowest ones.

The last step of the empirical analysis is to compare the evolution of passive and active policies. The ratio active to passive expenditure is used to measure this evolution (Table 6).

There seems to emerge a process of convergence (in relative terms) towards activation. First, the coefficient of variation has decreased from 0.62 in 1990-92 to 0.37 in 1999-2001. Second, the ratio for the 11 selected countries has moved from 0.70 in 1990-92 and 0.63 in 1993-95 to 0.84 in 1999-2001. Additionally, 9 out of 11 countries have increased their relative effort on active policies since the inception of the EES.

Spain shows a very impressive record converging to the mean. Only the Netherlands has surpassed Spain, but the difference is extremely tiny if we compare the 1999-2001' situation with the 1993-95' one. In comparative terms, there no seems to be significant differences between models, but Anglo-Saxon and Southern countries are on the top (mainly because of the low level of passive expenditure).

Country/year	1990-92	1993-95	1996-98	1999-2001	2002	99-01/90-92	99-01/93-95
Denmark	0.31	0.38	0.45	0.54	n.a.	1.76	1.45
Finland	0.55	0.36	0.50	0.49	0.49	0.89	1.35
Sweden	1.64	1.13	1.01	1.11	1.33	0.68	0.99
France	0.46	0.66	0.74	0.79	0.69	1.72	1.20
Germany	0.89	0.58	0.54	0.62	0.55	0.69	1.06
Netherlands	0.45	0.44	0.48	0.92	1.08	2.04	2.08
Ireland	0.48	0.54	0.69	1.63	n.a.	3.39	3.04
UK	0.64	0.36	0.41	0.66	0.90	1.02	1.81
Italy	0.59	1.40	0.83	0.95	0.90	1.60	0.68
Portugal	1.48	0.80	0.95	0.83	n.a.	0.56	1.04
<b>Spain</b>	<b>0.25</b>	<b>0.23</b>	<b>0.35</b>	<b>0.68</b>	<b>0.56</b>	<b>2.76</b>	<b>3.03</b>
<b>mean</b>	<b>0.70</b>	<b>0.63</b>	<b>0.63</b>	<b>0.84</b>	<b>n.a.</b>	<b>1.19</b>	<b>1.34</b>
Coeff. variation	0.65	0.57	0.36	0.38	n.a.	0.59	0.67
Spain to mean	0.65	0.64	0.45	0.19	n.a.	0.29	0.29
<i>Scandinavian</i>	<i>0.83</i>	<i>0.62</i>	<i>0.65</i>	<i>0.72</i>	<i>n.a.</i>	<i>0.86</i>	<i>1.15</i>
<i>Continental</i>	<i>0.60</i>	<i>0.56</i>	<i>0.59</i>	<i>0.78</i>	<i>0.77</i>	<i>1.29</i>	<i>1.38</i>
<i>Anglo-Saxon</i>	<i>0.56</i>	<i>0.45</i>	<i>0.55</i>	<i>1.14</i>	<i>n.a.</i>	<i>2.04</i>	<i>2.54</i>
<i>Southern</i>	<i>0.77</i>	<i>0.81</i>	<i>0.71</i>	<i>0.82</i>	<i>n.a.</i>	<i>1.06</i>	<i>1.02</i>

Source: author's analysis. based on *OECD Economic Outlook* and *OECD Employment Outlook*

Table 6: Evolution of the relative importance of passive labour market policies expenditure (active expenditure to passive expenditure, 1990-2002, selected countries)

## 7. Concluding remarks

The paper has summarised some important notions connecting activation and the EES. The first one asserts that activation is a “fuzzy” concept with distinct origins and objectives but with wide political consensus. In this paper the labour-market definition of activation has been adopted, given that it is very close to the EES orientation. Activation means the process of passing from a passive to an active situation in the labour market. It has important connections with concepts like workfare or to make work pay.

The second one states that activation can be a useful tool to manage unemployment but it is not a panacea. It has to be combined with others policies (like macroeconomic) in order to achieve positive results, because unemployment is not only connected with the labour market itself. Activation has to be based on well-funded. high

quality and focused schemes. First job approaches closest to workfare must be avoided provided they could decrease human capital accumulation.

Finally the configuration of the EES has evolved since its creation in 1997. Employment policy in the European Union is based on ideas contained in the renewed Lisbon Strategy like attracting more people into employment, improving the adaptability of workers (and firms), and increasing investment in human capital. It is characterised by a supply-side approach and by its subordination to the pro-liberal BEPG. Activation is one of its most important aims and instruments and it is concreted on several quantitative objectives. It is developed in several EES' guidelines (mainly first, fourth, fifth and eighth). The EES appears to have had distinct effects on the different welfare state models and its efficiency is hampered by the subordination to the macroeconomic policies of the EU.

The paper has also recorded the fact that from the mid-70s to the mid-90s Spain suffered one of the poorest records in the European labour market. Increases in unemployment and temporality were the two most important elements of this negative evolution. Labour market policies were (and still are) oriented towards an increase in flexibility, deregulation and control of labour costs.

The empirical part of the paper, when analysing the evolution of active and passive policies at the EU level, has used a sample of 11 EU member countries representing the four welfare states models. It shows that there has been an important quantitative increase in the use of activation measures since the inception of the EES, whilst the evolution of the importance of passive policies has not been so clear.

The paper also demonstrates that activation has only recently been introduced as a tool to combat unemployment in the Spanish labour market. Although it has been increasing at a very fast pace it is not yet important as it is in other EU countries. It is clearly subsidised employment oriented and with low levels of guidance and assistance (the public employment system is undeveloped). Activation policies in Spain seem to be following the EES and the EU recommendations. Passive policies have been progressively curtailed in Spain since mid-80s, whereas workfare and to make work pay measures have been expanded. Spain shows one of the most impressive records in the relative evolution of active to passive measures since the inception of the EES.

Further research has to be carried out in the Spanish labour market. The two most important points are: studying the discourse of politicians and theorists concerning the labour market and how those ideas have been implemented (and their relationship with the EES); analysing the influence of labour market policies on this market (have the reforms really transformed it?; what has been its quantitative and qualitative impact?).

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