



Ageing and Employment Policies

Spain

Vieillesse et politiques de l'emploi



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FOREWORD

Older people offer tremendous potential value to businesses, the economy and society. Unfortunately, they often represent an untapped and discriminated-against resource, as many public policy measures and private workplace practices pose serious barriers to work, both paid and unpaid. Many of these policies and practices are relics from a bygone era. There is a need to look beyond traditional stereotypes about ageing in order to benefit from the growing numbers of older citizens, many of whom would, in fact, choose to work for longer given appropriate policies and workplace practices.

The OECD has reported extensively on public pension and early retirement systems and the need for reforms of these systems to cope with population ageing. However, these reforms will not be enough to encourage later retirement and to reduce the risk of future labour shortages. Measures are also required to adapt wage-setting practices to greying workforces, to tackle age discrimination and negative attitudes to working at an older age, to improve job skills of older workers and their working conditions, and to better “activate” older job seekers. Relatively little is known about what countries have been, or should be doing, in these areas. Therefore, in spring 2001, the OECD Employment, Labour and Social Affairs Committee decided to carry out a thematic review of policies to improve labour market prospects for older workers covering both supply-side and demand-side aspects.

For the purpose of this thematic review, it was decided to define older workers as all workers aged 50 and over. The age of 50 is not meant to be a watershed in and of itself in terms of defining who is old and who is not. Perceptions about being old are inherently subjective and only loosely connected with chronological age. However, in many countries, the age of 50 marks the beginning of a decline in participation rates by age. Moreover, to facilitate international comparisons, it is preferable to refer to the same age group for all countries. Thus, all references to “older workers” in this report should be taken as shorthand for workers aged 50 and over (or in some cases, because of data constraints, workers aged 50 to 64), and should not be seen as implying that all workers in this group are “old” *per se*.

This report on Spain is the fourth in a series of around 20 OECD country reports that will be published as part of the older worker thematic review, which has been developed by Raymond Torres. It has been prepared by Raymond Torres and Steven Tobin with the technical and statistical assistance of Anne-Marie Gray, Clarisse Legendre, and Judy Zinnemann. The annex is based on a report prepared by Professor Alfonso Alba Ramirez (University Carlos III, Madrid). A draft of the report was discussed at a seminar in Madrid on 6 June 2002 on “Policies to Improve the Employment Prospects of Older Workers in Spain”, which was organised by the Ministry of Labour and Social Affairs. Discussants at the seminar included representatives of the national authorities, officials from regional governments, academic experts, as well as representatives from employers’ organisations. The final report, which incorporates the comments received at the seminar, is published in this volume on the responsibility of the Secretary-General of the OECD.

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This report is based on the proceedings of a seminar and is published in English only. However, a French translation of the Executive Summary and Recommendations has been included in this volume.

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

The challenge ahead: a rapid ageing process

In the past few decades, Spain has recorded a profound demographic change. Fertility rates have declined spectacularly and, today, are among the lowest in the world. At the same time, average life expectancy has increased significantly. Together, these two factors help to explain the rapid ageing process currently underway in Spain. By 2050, individuals aged 20-64 will represent only half of the total population compared with 62% today.

Initially, these trends had not been seen as posing major socio-economic problems. One reason is the mass unemployment which has long characterised the Spanish labour market: having more people (the retirees) leaving the labour market and less entering it (the youth) may have been regarded as one route to lower unemployment. There were pressures to encourage older workers (defined as individuals of age 50 to 64) to leave the labour market before the standard retirement age of 65. Subsequently, the employment-population ratio of older workers, at 47%, is more than 10 percentage points below the OECD average. However, concerns have emerged more recently regarding the economic impact of ageing, notably as regards the sustainability of the public pensions system and the number of workers required to support the swelling pool of retirees. The emergence of these concerns has also shed light on some of the challenges facing older workers who are disproportionately affected by long-term joblessness and relatively high rates of inactivity. Consequently, improving the skills and employability of older workers, and reducing disincentives they face to continue working, should become essential policy objectives. This study reviews progress made in meeting these challenges and considers areas where more policy action is needed.

Recent reforms in response to the demographic challenge

Important measures have been adopted to improve the employment rates of older workers. In particular, in early 2002, the government introduced a system of so-called “flexible retirement” following agreement with the social partners. Flexible retirement replaces a variety of pre-retirement measures and, as such, simplifies the retirement regime. Henceforth, under certain conditions (notably a minimum contribution period of 30 years), it is possible to retire between age 61 and 65. However, the system penalises “early retirement”: the pension is reduced by between 6 and 8% for each year of early retirement (*i.e.* at age 61, the pension would be between 24 and 32% lower than the full pension payable at age 65). One key condition attached to early retirement is that the worker should be unemployed for reasons “outside of his/her control” for at least six months prior to applying for early retirement.

A novelty of the new system is that the regulatory base used to calculate pension rights increases by 2% for each year of work after age 65 for individuals with a minimum contribution period of 35 years. In other words, retirement at age 65 is no longer compulsory and later retirement is even encouraged financially. In addition, financial incentives to combine part-time work with receipt of a partial pension have been introduced. The aim is to facilitate progressive transitions from work to retirement – instead of abrupt interruptions in activity as is often the case. Finally, the fiscal treatment of private pensions has been made more favourable and, according to government plans, should also raise incentives to work longer.

Action to support the demand for older workers has also been taken. For example, employers’ social security contributions for permanent contracts with workers over age 60 with at least five years seniority are reduced by 50% or more. In certain cases (*e.g.* employment of workers over age 65 with a minimum contribution period of 35 years) these contributions are entirely suppressed. Such provisions have been made available to employees, own account workers and self-employed individuals.

In 1997, in order to enhance hiring of unemployed older workers over age 45, severance pay for these individuals was reduced and employers’ social security contributions on permanent contracts offered to the same group have also been cut. Furthermore, as part of this 1997 reform process, since 2001 employers’ social security contributions have also been reduced to encourage the permanent hiring of workers 55 years and over.

More generally, attitudes are changing. There is a clear recognition that subsidising early retirement can be a counter-productive way of solving

youth unemployment problems and that obstacles to the employment of older workers must be removed. In general, better skills are rightly considered as the best way to improve the employability of older workers. This study examines how these broad policy objectives can be supported by complementary reform efforts.

Improving the incentives to continue working

As in other countries, there are cases where social benefits have discouraged the participation of older workers in the labour market. Until recently there existed a range of early retirement schemes (*e.g.* for cases of economic restructuring), with financial support from government. Since the 1st of January 2002, many of these schemes have been replaced by the system of “flexible retirement”. However, collective agreements (which can specify a compulsory age of retirement) need to be adapted – otherwise the new legislation might not have much effect in practice.

Moreover, at times, invalidity pensions have been granted with a certain laxity, especially in the face of worsening economic conditions. In this respect, it is important to note that the incidence of invalidity pensioners rises significantly after age 50. In addition, monitoring mechanisms and work-tests for those already declared invalid or on long-term sick leave are weak.

In the area of employment programmes, there is a special unemployment assistance scheme for unemployed people over age 52, which *de facto* acts as a bridge to the public pension. More fundamentally, the way public employment services (PES) operate is not efficient in “activating” unemployed individuals, in particular older ones. The most recent reform attempt of the unemployment benefit system, by addressing the issue, was a welcome step forward. However, many of proposed reforms have been repealed by the government, surrendering to pressure from unions and public unpopularity. There is some concern that the PES is still functioning as a mere provider of benefits, while job-search enforcement mechanisms do not function well. Enhancing the efficiency of active employment programmes is another major issue. The ongoing process of decentralising the PES to the autonomous regions has probably aggravated these problems: as in the case of non-contributory invalidity benefits where, though few in number, there is a separation between the administration of benefits (the regions) and payment (the Social Security).

Finally, there is room for further improving in-work benefits. This is particularly the case with sickness and disability benefits where the financial incentives to find a job are relatively limited. Moreover, where individuals are

able to combine benefits and labour activity, the beneficiary risks to lose his or her entitlements where the job experience proves unsuccessful.

In order to address these issues, the following policy avenues should be explored:

- *Ensure that the recently-introduced system of “flexible retirement” effectively halts the trend towards early retirement.* The “flexible pension” scheme is a major recent development. One important characteristic of this new scheme lies in the fact that, in case of retirement before age 65, benefits are adjusted according to an actuarial factor. This factor may have to be changed depending on individuals’ reaction. Furthermore, the unemployment period prior to receipt of a reduced pension should be used as an opportunity to find a new job – and not as an early retirement device.
- *Review the calculation of pension benefits.* The fact that limited pension rights can be acquired during the last years of employment (conversely, the initial years of employment give rise to disproportionately large pension rights) reduces the incentive to stay longer in the labour market.
- *Review with the social partners the extent to which collective agreements might impair the new legislation on “flexible retirement”.* Collective agreements often specify an age for compulsory retirement. These clauses should be reviewed in light of the new legislation.
- *Ensure that private pensions do not act as an implicit subsidy to early retirement.* The introduction of proper regulations on private pension schemes is a welcome development. These schemes enjoy a favourable tax treatment which, given the high progressivity of income taxes, explains why the main beneficiaries are high-income earners. The schemes should be made consistent with the new legislation to ensure that they do not act as a subsidised early retirement device.
- *Reform certain provisions of sickness and disability benefits.* To reduce the use of sickness and disability benefits as an early exit from the labour market, a lengthening of the period during which employers are financially responsible for sick leave may be required (the period is short at present). Also, regional administrations should be made financially responsible, at least partly, for non-contributory disability benefits. Indeed regions may have an incentive to shift case-loads from social assistance (which they pay for) into non-contributory disability (which they administer but do not pay for). Finally, work-tests on partial disability beneficiaries should be

introduced and employment programmes should be made available to them in order to help them find work.

- *Introduce in-work benefits for non-employed older workers who accept a job.* This could be done by allowing older unemployed workers who accept a job to keep the benefits for a certain period (the very low re-employment rate of older unemployed workers suggests little risk of dead-weight loss). Similar measures could be experimented with beneficiaries of invalidity pensions. Government proposals to introduce a negative income tax for low-pay individuals are a step in the right direction.
- *Strengthen “activation” elements available in unemployment benefits for older workers and review the role of public employment services.* The special unemployment benefits system for workers over age 52 needs to be reformed – all too often this special system is regarded as a pre-retirement scheme. This means that job counselling and training must be made available to older unemployed workers. In addition, job-search conditions to benefit receipt should be better enforced. This will require a major reform of the public employment service, including the recruitment of qualified personnel and a review of current practices. These institutional reforms could be usefully supported by further emphasis on make-work pay policies.

Enhancing the employability of older workers

Reforms of pensions, unemployment and other social benefits are not enough. They need to be accompanied by actions to remove demand-side obstacles. There is some evidence that seniority continues to play some role in wage determination. Seniority pay scales are meant to reward experience, but steep wage increases beyond a certain age may explain why certain firms encourage older workers to retire early.

In addition, employers’ perceptions appear to be particularly important in determining the employment patterns of older workers. There are indeed perceptions that productivity declines with age. Note, however, that there are no objective criteria that justify these perceptions. For example, the incidence of absences from work is not particularly high in the case of older workers. By contrast, there is evidence that older workers tend to be very committed to their job. This is why it is so important to combat negative perceptions and attitudes towards older workers.

Education and skills are also important elements affecting older workers and employment. The level of educational attainment and incidence of training for older workers are notably low and, furthermore, older workers are less educated than their younger counterparts, even within the same occupations. Admittedly, this would make retaining older workers somewhat less attractive than hiring younger, better educated and less well paid personnel. However, replacing older workers with younger ones should no longer be viewed as a useful route to improving the overall labour market situation.

In order to address these challenges and ensure better prospects for skill development and employability of older workers, the following policies should be considered:

- *Better target retention and recruitment subsidies.* Reduced social security contributions are available to employers who retain or hire older workers. The measure is currently very narrow in nature and may require better targeting: subsidies may not be needed to retain or hire high-educated individuals. Better targeting of the measures would help reduce their cost, thereby freeing resources for “active” employment programmes and training. This could include *e.g.* strengthening job-search support specifically designed for older workers suffering from long-term unemployment.
- *Identify best practices of firms which facilitate gradual retirement transitions, and reduce obstacles to part-time work.* To enhance the retention prospects of older workers and their ability to adapt to change, firms may reorganise working hours and facilitate job rotation. This may prove an effective way of reducing the erosion of skills and avoid redundancies of older workers. Social security contributions on part-time contracts should be brought in line with those applying to full-time contracts.
- *Reform the current firm-training system so that it provides better training opportunities for all, notably older workers.* The low employment rate of older workers is partly explained by their low level of educational attainment (relative to prime-age workers), which is aggravated by the weak training opportunities they enjoy. This requires: *a)* a review of funding mechanisms; *b)* better control on how the funds are spent and, in particular, ensuring that public funding reaches the really needy (notably women over age 50); and *c)* ensuring that training courses are certified. In this context, it will be important to monitor the most recent reforms and proposals to overhaul the current continue training system.

- *Review the current employment regulations regarding temporary work.* Despite recent reforms, the share of temporary employment remains high. Given the job precariousness and transitional barriers facing older workers, the high incidence of temporary contracts is intensifying the problem and increasing the likelihood that individuals exit employment. This suggests that further reforms may be needed to reduce obstacles to the conversion of fixed-term contracts into permanent ones.
- *Ensure that the age-profile of earnings is not excessively steep.* Though the role of seniority in wage determination has declined in recent years, evidence suggests that wages continue to grow with age. Social partners should discuss the delicate balance between rewarding experience and enhancing employment prospects of older workers.

RÉSUMÉ ET RECOMMANDATIONS

Le défi de l'avenir : le vieillissement rapide de la population

L'Espagne connaît depuis quelques décennies un profond changement démographique. Les taux de fécondité ont accusé un recul spectaculaire et sont aujourd'hui parmi les plus bas du monde. Dans le même temps, l'espérance de vie moyenne a sensiblement augmenté. La conjugaison de ces deux facteurs explique le phénomène de vieillissement rapide de sa population que connaît actuellement l'Espagne. D'ici 2050, les 20-64 ans ne représenteront plus que la moitié de la population totale, au lieu de 62 % aujourd'hui.

Au départ, ces phénomènes n'avaient pas paru poser de problèmes socioéconomiques majeurs. En effet, le marché du travail espagnol était depuis longtemps caractérisé par un chômage de masse, de sorte que l'accroissement des flux de sortie du marché du travail (départs à la retraite) et la diminution des flux d'entrée (les jeunes) ont pu être considérés comme des facteurs de réduction du chômage. La tendance était à encourager les travailleurs âgés (c'est-à-dire entre 50 et 64 ans) à quitter le marché du travail avant 65 ans, âge normal de la retraite, de sorte qu'aujourd'hui le ratio emploi-population des travailleurs âgés, 47 %, est inférieur de plus de 10 points à la moyenne de l'OCDE. Depuis quelque temps, cependant, on commence à s'inquiéter de l'impact économique du vieillissement, notamment en ce qui concerne la pérennité du régime public de retraite et le nombre de travailleurs nécessaire pour faire face à l'explosion des retraites. Cela a du même coup mis en lumière quelques-uns des problèmes auxquels sont confrontés les travailleurs âgés, qui sont plus que les autres touchés par le chômage de longue durée et des taux relativement élevés d'inactivité. C'est pourquoi améliorer les compétences et l'employabilité des travailleurs âgés et réduire les facteurs qui les dissuadent de rester en activité doivent désormais être pour les pouvoirs publics des objectifs primordiaux. Cette étude fait le point des avancées déjà réalisées et passe en revue les domaines où une action complémentaire s'impose.

Les réformes récemment mises en place pour répondre au défi démographique

D'importantes mesures ont été prises pour améliorer les taux d'emploi des travailleurs âgés. Le gouvernement a notamment mis en place au début de 2002, après accord avec les partenaires sociaux, un système de « retraite flexible ». Ce système, qui remplace toute une série de dispositifs de cessation anticipée d'activité, simplifie le régime des retraites. Dorénavant, sous certaines conditions (notamment une durée minimum de cotisation de 30 ans), il est possible de partir à la retraite entre 61 et 65 ans. Cependant, ces départs anticipés sont pénalisés en ce sens que la pension est réduite de 6 à 8 % par année d'anticipation (c'est-à-dire qu'à 61 ans la pension est inférieure de 24 à 32 % à la pension payable à 65 ans). Une condition clé pour bénéficier du départ anticipé est que le travailleur soit au chômage pour des raisons « indépendantes de sa volonté » depuis au moins six mois.

Une nouveauté de ce système est que l'assiette de calcul des droits à pension augmente de 2 % par année de travail au-delà de 65 ans pour les personnes ayant cotisé au minimum pendant 35 ans. En d'autres termes, il n'est plus obligatoire de partir à 65 ans, et une retraite plus tardive est même encouragée financièrement. En outre, des incitations financières ont été mises en place pour encourager le cumul d'un travail à temps partiel et d'une retraite partielle, ce qui devrait faciliter un passage progressif du travail à la retraite – au lieu d'une cessation brutale d'activité, comme c'est souvent le cas. Pour finir, un traitement fiscal favorable a été réservé aux plans de retraite privés, ce qui, dans l'idée du gouvernement, devrait aussi accroître l'incitation à travailler plus longtemps.

Des mesures ont par ailleurs été prises pour soutenir la demande de main-d'œuvre âgée : ainsi, pour les travailleurs titulaires d'un contrat permanent qui ont plus de 60 ans et au moins cinq ans d'ancienneté, les cotisations sociales patronales sont réduites de 50 %, voire plus. Dans certains cas (par exemple l'emploi de travailleurs de plus de 65 ans ayant cotisé au minimum 35 années) ces cotisations sont même entièrement supprimées. Ces dispositions sont valables non seulement pour les salariés mais aussi pour les travailleurs indépendants.

En 1997, en vue d'accroître les recrutements de chômeurs âgés de plus de 45 ans, on a réduit les primes de licenciement obligatoires pour cette catégorie, ainsi que les cotisations sociales patronales si les recrutements se font en contrat permanent. De plus, dans le cadre de cette réforme de 1997, les cotisations patronales ont été encore réduites depuis 2001 pour encourager le recrutement permanent de travailleurs de 55 ans et plus.

D'une façon générale, les attitudes évoluent. On se rend compte maintenant que subventionner les départs anticipés à la retraite peut être un moyen contreproductif de résoudre les problèmes de chômage des jeunes, et qu'il faut éliminer les obstacles à l'emploi des travailleurs âgés. On considère à juste titre que le meilleur moyen d'améliorer l'employabilité de cette catégorie de travailleurs est de développer leurs compétences. Cette étude examine comment des réformes complémentaires peuvent aider à réaliser ces objectifs.

Améliorer les incitations à la poursuite de l'activité

Comme dans d'autres pays, les transferts sociaux ont dans certains cas découragé l'activité des travailleurs âgés. Il existait jusqu'à une date récente toute une série de dispositifs de retraite anticipée (par exemple en cas de restructuration économique) subventionnés par l'État. Depuis le 1^{er} janvier 2002, beaucoup d'entre eux ont été remplacés par le système de « retraite flexible ». Toutefois, cela implique que l'on adapte les conventions collectives (qui peuvent fixer un âge de départ à la retraite obligatoire) – faute de quoi la nouvelle loi risquerait de ne pas avoir beaucoup d'application pratique.

Par ailleurs, les pensions d'invalidité ont parfois été accordées assez généreusement, surtout en période de difficultés économiques. A cet égard, il faut souligner que l'incidence des pensions d'invalidité augmente nettement après 50 ans. Qui plus est, les mécanismes de surveillance et de vérification de l'aptitude au travail des personnes en invalidité ou en congé de longue maladie sont très insuffisants.

Dans le domaine des programmes pour l'emploi, il existe pour les chômeurs de plus de 52 ans un régime spécial d'assistance chômage qui sert en fait de relais vers la retraite publique. Plus fondamentalement, le fonctionnement des services publics de l'emploi (SPE) n'est pas efficace pour l'« activation » des chômeurs, en particulier les chômeurs âgés. La dernière tentative de réforme du système de prestations de chômage, qui s'attaquait à ce problème, marquait un progrès. Toutefois, sous la pression des syndicats et de l'opinion publique, le gouvernement a dû renoncer à beaucoup des mesures proposées. Il est à craindre que le SPE continue de fonctionner comme simple pourvoyeur d'allocations, faute d'un bon fonctionnement des mécanismes de mise en application de la recherche d'emploi. Rendre les programmes actifs pour l'emploi plus efficaces est un autre problème majeur. Le processus de décentralisation du SPE vers les régions autonomes a probablement aggravé les difficultés, comme dans le cas des prestations d'invalidité non contributives qui,

bien qu'elles ne représentent pas un volume important, sont régies par des organismes différents selon qu'il s'agit de leur administration (les régions) ou de leur paiement (la sécurité sociale).

Enfin, les prestations subordonnées à l'exercice d'un emploi demandent encore à être améliorées. Dans le cas des prestations maladie et invalidité en particulier, les incitations financières à trouver un travail sont relativement limitées. De plus, lorsqu'un individu peut cumuler ces prestations avec la reprise d'une activité professionnelle, il risque de perdre ses droits si cette reprise se solde par un échec.

Face à ces différents problèmes, il convient d'explorer les pistes suivantes :

- *Faire en sorte que le système de « retraite flexible » récemment mis en place mette effectivement un point d'arrêt à la tendance à la cessation anticipée d'activité.* Le système de « retraite flexible » est l'un des éléments majeurs des réformes récentes. L'un de ses traits marquants est qu'en cas de cessation d'activité avant 65 ans, la pension est ajustée sur une base actuarielle. Ce facteur devra peut-être être modifié en fonction des réactions individuelles. Par ailleurs, la période de chômage exigée avant de pouvoir prétendre à cette pension réduite doit être considérée non comme un dispositif de préretraite mais comme une possibilité de retrouver un nouvel emploi.
- *Revoir le calcul des pensions de retraite.* Le fait que les droits à pension que l'on peut accumuler dans les dernières années d'emploi sont limités (et inversement que les premières années d'emploi ouvrent des droits à pension beaucoup plus élevés) réduit l'incitation à rester plus longtemps sur le marché du travail.
- *Examiner avec les partenaires sociaux la mesure dans laquelle les conventions collectives risquent d'entraver l'application de la nouvelle loi sur la « retraite flexible ».* Les conventions collectives fixent en effet souvent un âge obligatoire de départ à la retraite. De telles clauses seront à revoir en fonction de la nouvelle loi.
- *Veiller à ce que les retraites privées ne constituent pas une subvention implicite à une cessation anticipée d'activité.* La mise en place d'une réglementation adéquate pour les régimes de retraite privés est une bonne mesure. Ces régimes bénéficient d'une fiscalité favorable, ce qui, compte tenu de la forte progressivité de l'impôt sur

le revenu, explique pourquoi leurs principaux bénéficiaires sont des individus à haut revenu. Il y a lieu de les mettre en conformité avec la nouvelle législation afin d'éviter qu'ils soient utilisés comme dispositif de préretraites subventionné.

- *Réformer certaines dispositions relatives aux prestations maladie et invalidité.* Réduire l'utilisation des prestations maladie et invalidité comme moyen de sortie anticipée du marché du travail pourra nécessiter un allongement de la durée de prise en charge du congé de maladie par les employeurs (cette durée est actuellement courte). D'autre part, il faudra que les administrations régionales prennent en charge au moins en partie les prestations d'invalidité non contributives. Sinon, elles pourraient être tentées de transférer des dossiers de l'aide sociale (qui est à leur charge) à l'invalidité non contributive (qu'elles administrent mais ne financent pas). Enfin, il faudra mettre en place des vérifications de l'aptitude au travail des bénéficiaires de pensions d'invalidité partielles et de programmes pour l'emploi, afin de les aider à trouver du travail.
- *Mettre en place des prestations liées à l'emploi pour les chômeurs âgés qui acceptent un travail.* Cela peut consister à leur permettre de conserver pendant une certaine durée le bénéfice de leurs prestations en plus de leur salaire (le très faible taux de réemploi des chômeurs âgés permet de penser qu'il y a peu de risques d'un effet d'aubaine). Des mesures analogues pourraient être expérimentées pour les bénéficiaires de pensions d'invalidité. Le projet du gouvernement d'instituer un impôt sur le revenu négatif pour les bas salaires est un pas dans la bonne direction.
- *Renforcer les éléments « d'activation » que comporte le système de prestations de chômage applicable aux travailleurs âgés et revoir le rôle des services publics de l'emploi.* Le système spécial de prestations de chômage applicable aux travailleurs de plus de 52 ans demande à être réformé – il est beaucoup trop souvent considéré comme un système de préretraite. Cela veut dire que les conseils et la formation en vue de la recherche d'emploi doivent être accessibles aux chômeurs âgés. Par ailleurs, il faut mieux faire respecter l'obligation de recherche d'emploi qui conditionne le paiement des prestations. Cela impliquera une réforme importante du service public de l'emploi, avec notamment le recrutement de personnel qualifié et la remise en question des pratiques actuelles. Il serait par ailleurs bon d'accompagner ces réformes par un renforcement des mesures destinées à valoriser le travail.

Accroître encore l'employabilité des travailleurs âgés

Réformer les retraites, les allocations de chômage et autres prestations sociales ne suffit pas. Il faut parallèlement éliminer les obstacles du côté de la demande. Il s'avère que l'ancienneté continue à jouer un certain rôle dans la formation des salaires. Les échelles de salaire établies en fonction de l'ancienneté sont destinées à rémunérer l'expérience, mais la forte augmentation des rémunérations au-delà d'un certain âge explique peut-être pourquoi certaines entreprises incitent les travailleurs âgés à prendre une retraite anticipée.

Par ailleurs, certains préjugés des employeurs, comme l'idée que la productivité décroît avec l'âge, pèsent particulièrement sur l'emploi des travailleurs âgés. Or, il faut bien dire qu'aucun critère objectif ne justifie de telles idées. L'absentéisme par exemple n'est pas particulièrement élevé chez les travailleurs âgés. Au contraire, les faits montrent qu'ils tendent à être très dévoués à leur tâche. C'est pourquoi il est si important de combattre les idées fausses et les attitudes négatives à l'égard des travailleurs âgés.

Les niveaux d'instruction et de qualification sont d'autres facteurs importants qui pèsent sur l'emploi des travailleurs âgés. En effet, ces niveaux sont notoirement bas et, qui plus est, dans un même métier, le niveau de formation des travailleurs âgés est inférieur à celui des jeunes. Il faut reconnaître que, de ce fait, il peut être moins intéressant de conserver des travailleurs âgés que de recruter des personnes plus jeunes, plus instruites et que l'on paiera moins cher. Toutefois, le remplacement de travailleurs âgés par des jeunes ne peut plus être considéré comme un bon moyen d'améliorer la situation globale du marché du travail.

Pour remédier à ces problèmes et ouvrir de meilleures perspectives de développement des compétences et de l'employabilité des travailleurs âgés, il y a lieu d'envisager les pistes suivantes :

- *Mieux cibler les subventions pour le maintien en poste et le recrutement.* Les employeurs qui maintiennent en place ou recrutent des travailleurs âgés peuvent actuellement bénéficier de réductions de leurs charges sociales. Toutefois, cette mesure aurait besoin d'être mieux ciblée : les subventions ne sont pas forcément indispensables au maintien en place ou au recrutement de personnel à niveau d'instruction élevé. Mieux les cibler aiderait à en réduire le coût, ce qui dégagerait des moyens pour les programmes « actifs » pour l'emploi et la formation et permettrait par exemple de renforcer le soutien spécifique à la recherche d'emploi des travailleurs âgés au chômage depuis longtemps.

- *Recenser les meilleures pratiques des entreprises qui facilitent les départs progressifs à la retraite et réduisent les obstacles au travail à temps partiel.* Pour améliorer les perspectives de maintien en poste des travailleurs âgés et leur capacité d'adaptation à de nouvelles conditions de vie, les entreprises peuvent réorganiser les horaires de travail et faciliter la rotation du travail. Ce peut être un moyen efficace de limiter l'érosion des compétences et d'éviter le licenciement des travailleurs âgés. Les cotisations sociales applicables aux contrats à temps partiel devront suivre les mêmes règles que celles qui s'appliquent aux contrats à plein temps.
- *Réformer le système actuel de formation en entreprise de façon qu'il offre de meilleures possibilités de formation à tous, et notamment aux travailleurs âgés.* Le faible taux d'emploi des travailleurs âgés s'explique en partie par leur faible niveau d'instruction (par rapport aux travailleurs en âge de forte activité), facteur qui est encore aggravé par le peu de possibilités de formation qui leur sont offertes. Il faut donc *a)* revoir les mécanismes de financement ; *b)* mieux contrôler la façon dont les fonds sont dépensés et en particulier veiller à ce que les financements publics profitent effectivement aux plus défavorisés (notamment les femmes de plus de 50 ans) ; et *c)* veiller à ce que les cours de formation soient homologués. Dans ce contexte, il importera de surveiller l'application des dernières réformes et propositions pour réviser le système actuel de formation continue.
- *Revoir la réglementation actuelle du travail temporaire.* Malgré les réformes récentes, la part de l'emploi temporaire reste élevée. Compte tenu de la précarité de l'emploi et des obstacles auxquels sont confrontés les travailleurs âgés, la forte incidence des contrats temporaires amplifie le problème et accroît la probabilité que les individus quittent l'emploi. Autrement dit, d'autres réformes sont peut-être nécessaires pour réduire les obstacles à la conversion des contrats à durée déterminée en contrats permanents.
- *Faire en sorte que la montée des salaires en fonction de l'âge ne soit pas trop forte.* Même si le rôle de l'ancienneté dans la formation des salaires a perdu de l'importance depuis quelques années, ceux-ci continuent d'augmenter avec l'âge. Il faudrait donc que les partenaires sociaux examinent l'équilibre délicat à trouver entre la nécessité de rémunérer l'expérience et celle d'améliorer les perspectives d'emploi des travailleurs âgés.

INTRODUCTION

Over the past three decades, the demographic position of Spain has changed considerably. While three children per women was the norm in the 1960s, natality rates have declined dramatically – in 2002, the total fertility rate, at around 1.2, is among the lowest in the world. On the other hand, longevity has followed a marked upward trend and the average life expectancy has surpassed the OECD average. Consequently, the Spanish population is ageing rapidly, and the process is even faster than is the case in other OECD countries.

Until recently, these trends were not perceived as posing major socio-economic problems. One reason is that the largest cohorts had not reached retirement age. Another one is the mass unemployment which has long characterised the Spanish labour market: having more people (the retirees) leaving the labour market and less entering it (the youth) may have been regarded as an effective mechanism for reducing unemployment. There were pressures to encourage older workers to leave the labour market before the statutory retirement age of 65.

Recently, however, concern has been expressed about the economic impact of ageing, notably as regards the sustainability of the public pensions system (Boldrin *et al.*, 1999). More generally, population ageing is likely to reduce available labour resources, inducing a slow-down in economic activity. And, as unemployment has declined to more acceptable levels, labour shortages have emerged in certain occupations. Therefore, maintaining older workers in the labour market and improving their skills and employability should become an essential policy objective. The main purpose of this report is to reflect on the different avenues for reform that will need to be pursued in order to meet this objective.

In this study, older workers refer to individuals aged 50 and over. However, because of data availability problems, only the age group 50-64 is considered. Chapter 1 starts with an analysis of the demographic challenges and highlights the centrality of improving the employment prospects of older workers as the key to meeting the ageing challenge. Along those lines, Chapter 2 will review the current labour market situation of older workers. The

next three chapters explain how the current situation can be improved to address the challenges ahead. Chapter 3 discusses the extent to which reforms of social benefits may raise work incentives, thus encouraging older workers to participate in the labour market. But removing supply-side barriers is not enough. Action on the demand side is also needed. Thus Chapter 4 examines factors which negatively affect employers' attitudes towards older workers, and Chapter 5 looks at barriers that workers themselves face to employment. Finally, Chapter 6 discusses the importance of pushing ahead with reforms in a comprehensive manner and in close consultation with the various actors concerned, notably the social partners. It also offers a reflection on the pros and cons of alternative solutions, such as increased recourse to migration, and elaborates on the policy dilemmas involved.

Chapter 1

THE CHALLENGE AHEAD

1. The demographic realities

In recent years, OECD member countries have become increasingly sensitive to the changing demographic landscape. New perceptions reflect concern about the possible impact of ageing on pension systems and economic growth. With respect to Spain, the increase in the average age of the population is expected to be one of the most severe in OECD countries. In fact, the demographic reality is quite stark and requires important measures. The key factors behind the ageing process include declining fertility rates and rising life expectancy at birth. Though changes in immigration may help to mitigate the acceleration, the underlining trends remain unfavourable.

The total fertility rate has fallen from 2.9 in 1970 to 1.25 in 2001. The OECD and the EU area have followed similar patterns; however, the decline has been far less steep with fertility rates reaching 1.6 and 1.5, respectively, in 2001. In comparison, the total fertility rate in the United States has been gradually increasing since 1976.

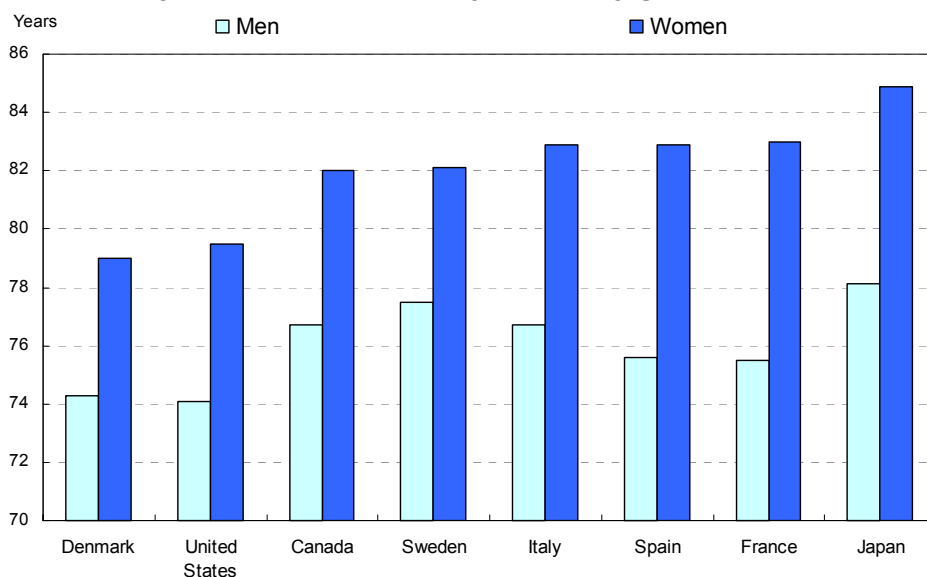
Complementing the unfavourable trends in fertility, life expectancy at birth in Spain has increased since 1970 by more than eight years for women and more than six years for men. Though the increases are in line with those experienced by the OECD and the European Union, Spain currently has one of the highest life expectancies at birth in the OECD area (Figure 1.1). In fact, in 2001 female life expectancy, at 82.9 years, was the third highest in the OECD area. Furthermore, life expectancy of men and women aged 60 currently stands at 84.8 and 80.0 years respectively.

These two factors combined have been key determinants behind the demographic transition. Of course, significant changes in immigration, through an immediate increase in the working-age population, can help to alleviate the pressures brought about by the unfavourable demographic trends.¹ In the case of

1 . The working-age population is conventionally defined as individuals aged 15 to 64. However, in most OECD countries most teenagers between 15 and

Spain there is room for manoeuvre. In fact, despite the recent spectacular increase in the number of immigrant flows, the stock of the resident foreign population stands at only 2.2% of the total population. However, any change in immigration policy will be moderated by political and social pressure. Indeed, the flow of immigrants into Spain is forecast to decline over the next few years and remain stable thereafter at less than 0.4% of total population (see the note at the bottom of Figure 1.2). Moreover, the magnitude of the impact immigration will have depends highly upon the demographic composition and labour market behaviour of immigrants.

Figure 1.1. Life expectancy at birth by gender, 2001



Source: OECD Health Data (2003).

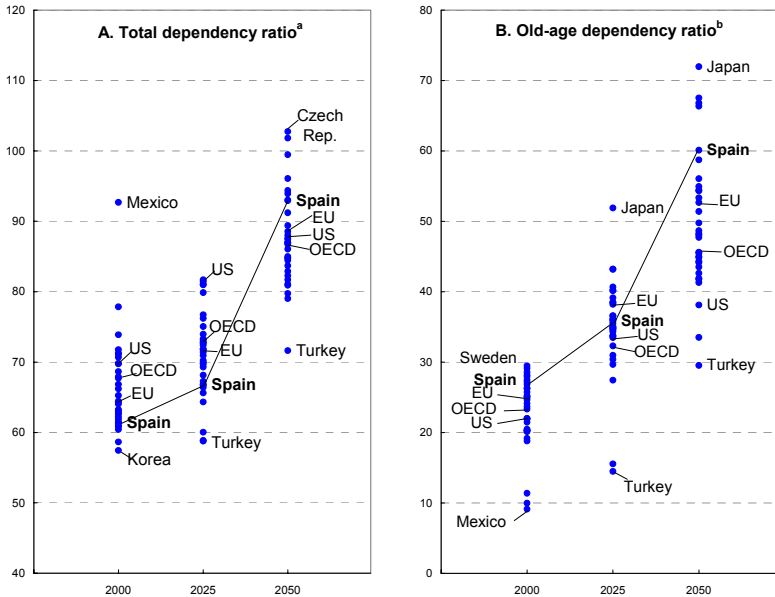
In light of these changing realities, the population composition in Spain is set to dramatically change over the next 50 years. The total dependency ratio is expected to increase moderately over the next 25 years, after which it is expected to rise rapidly from 63% to reach 93% in 2050 (Panel A, Figure 1.2).² This means that by 2050 the “dependent” population (individuals aged 65 and over and under the age of 20) and the working-age population will be of roughly equal size.

19 years of age attend school. Hence, for the purpose of this report, it was decided to exclude this group from the standard definition.

2. The total dependency ratio is the ratio of the sum of the population aged less than 20 and the population aged more than 65 to the population aged 20-64 (working-age population).

Additionally, a broad indicator of the rising burden that an older society may place on the working-age population is given by the old-age dependency ratio (Panel B), *i.e.* the ratio of the population aged 65 and over to the working-age population. In the case of Spain, the old-age dependency ratio is set to rise to above 60% by 2050 – more than twice its current level. This means that, by 2050, there will be less than two persons of working-age per person of age 65 and over (compared with about four persons of working-age per person of age 65 and over in 2002). Moreover, Figure 1.2 clearly illustrates that the situation facing Spain is more severe than is the case in many other OECD countries.³

Figure 1.2. Demographic dependency ratios, 2000-2050
Percentages



Note: The population projections assume that foreign immigrant flows into Spain will decline from approximately 360 000 persons in 2000 to 160 000 persons in 2005 and remain constant thereafter. The fertility rate is projected to increase gradually to reach 1.424 in 2020 and remain constant thereafter.

- a) Ratio of the sum of the population aged less than 20 and the population aged more than 65 to the population aged 20-64.
- b) Ratio of the population aged 65 and over to the population aged 20-64.

Source: National Projections; EUROSTAT Population Projections (1999 revision); and UN, *World Population Prospects 1950-2050* (2000 Revision), February 2001.

3 . The old-age dependency ratios for both the OECD and the EU area will also more than double between 2000 and 2050. However, for both the OECD and the US, the ratios remain below 50%, yielding a situation somewhat less severe than in Spain.

2. Potential economic and social repercussions

The demographic changes underway are expected to exert pressure on key socio-economic variables. First, as illustrated by Figure 1.2, the population composition is expected to undergo changes that will most certainly create, among other things, intergenerational tensions (Longman, 1987). If the old-age dependency ratio reaches its forecast level of 60% by 2050, individuals over the age of 65 will represent nearly 38% of the population aged 20 and over compared to just over 21% in 2003. Furthermore, the proportion of the labour force over the age of 50 will increase to almost 28% in 2050, reaching a high of 31% in 2030 (Table 1.1). With a growing share of labour resources concentrated in the age group 50 to 64 the average age of the labour force is expected to rise from 37 years in 2000 to 40 in 2050.⁴ Future generations of younger individuals may have to bear the brunt of any financial requirements that stem from the expected swell of retirees and elderly people. Moreover, overall well-being is said to decline when an increasing share of resources are utilised to support an ageing, and perhaps less healthy population.

Table 1.1. **Labour force composition by age**^a
Percentage of the labour force

Age	2000	2020	2050
< 30	29.8	19.3	20.8
50 +	20.1	28.7	27.7
55 +	10.8	15.6	16.4
60 +	4.1	5.7	7.0
Average age of the labour force	36.8	40.3	39.8

a) The assumption is that participation rates by five-year age groups and gender remain constant at their 2000 level.

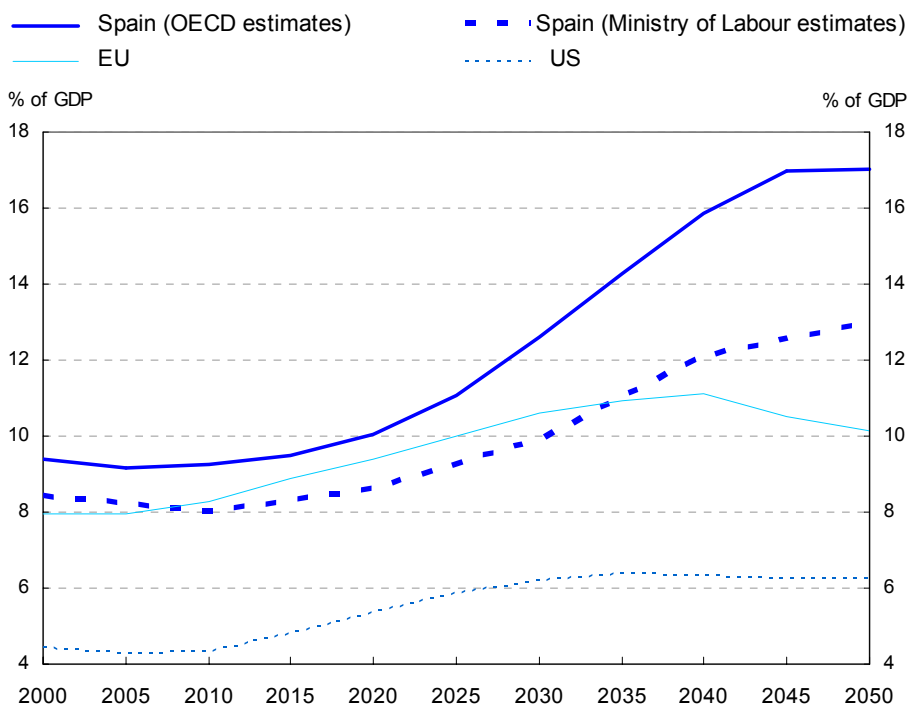
Source: *OECD Labour Force Statistics*.

Second, the current demographic trends will have their most immediate and visible financial impact on the funding of the pension scheme. Pension expenditures as a percentage of GDP are expected to remain stable over the near term but they will progressively increase from about 2010. And, by 2050 pension expenditures are expected to increase between 5 percentage points of GDP (according to the Ministry of Labour) and nearly 8 percentage points

4. The average age of the labour force was calculated using the weighted average of five-year age groups and gender using the midpoint of each five-year grouping as a reference.

of GDP (source OECD) – dramatic increases by any standard (Figure 1.3).⁵ In contrast, expenditures in the EU area are forecast to rise very little from their current level, peaking at 11.5% of GDP in 2040 and modestly declining thereafter to reach 10% of GDP in 2050. For the United States, pension expenditures as a percentage of GDP also show little sign of upward pressure, reaching just over 6% of GDP in 2030 and remaining relatively stable thereafter.

Figure 1.3. Public pension expenditure projections, 2000-2050^a



a) EU figures exclude Austria, Finland, Germany and Greece.

Source: OECD (2001a), *Economic Outlook*, No. 69, June, and Ministerio de Trabajo y Asuntos Sociales (2002).

5. The OECD projections were made on the basis of similar macroeconomic and demographic assumptions in each OECD country, allowing for meaningful international comparison. For details regarding these projections see OECD (2001a), *Economic Outlook*. Estimations from the Spanish Ministry of Labour were undertaken using different cost and demographic projections than those of the OECD. See *Stability Programme Update 2002-2006*.

The expected increase in public expenditures associated with population ageing is not restricted to pension schemes. It has been argued that steady increases in the average age of a population systematically and even dramatically increase care needs and health-care costs, with large impacts on health-care systems. OECD estimates suggest that the age-related spending of health and long-term care are far from non-negligible. In fact, if spending by age groups remains stable over the next 50 years, the increased number of individuals 65 and over will automatically add between 0.75 percentage points and 1.5 percentage points to health expenditures as a percentage of GDP, excluding long-term care for the elderly. Estimates including long-term care for the elderly, in countries where the demographic transition is less severe than in Spain, are projected to increase public health expenditures as a percentage of GDP by as much as 3 percentage points by 2050. Changing family structure may also have serious implications for government spending. Many countries are already struggling with finding the appropriate balance between home care and institutional care for the sick or infirm elderly and this may be exacerbated as their numbers rise relative to the number of younger people able to care for them. In total, the “automatic” effect of ageing on government spending in Spain may be as high as 11 percentage points of GDP.⁶

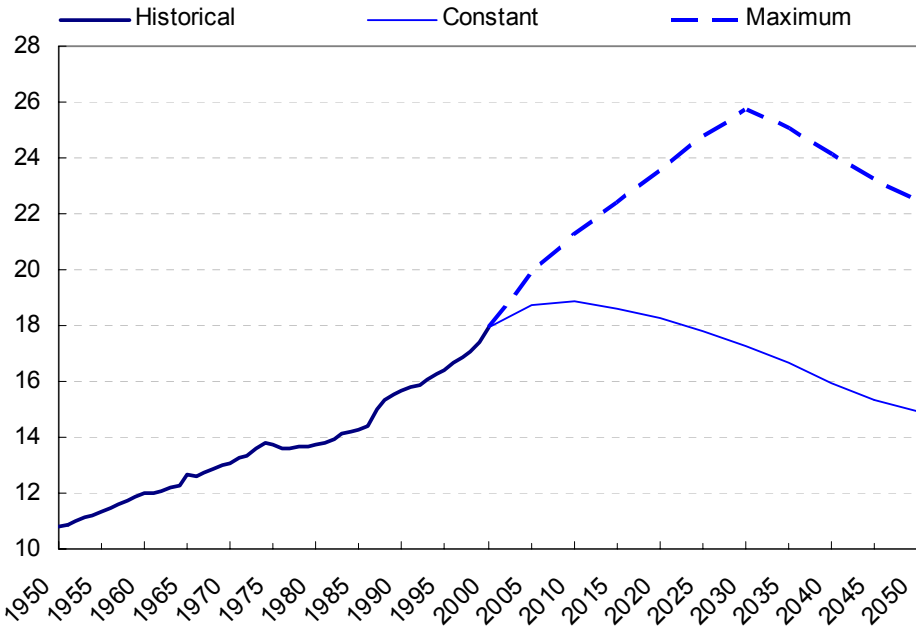
True, Fries (1980) argues that with increases in life expectancy people are healthier and at each age require and use less health-care resources. Moreover, it is often argued that the most significant share of an individual’s lifetime health-care costs is often incurred in the final three years of life, regardless of age. Nonetheless, even healthier, longer living individuals who may suffer from fewer chronic illnesses may require more health-care services such as joint replacements or treatments related to Alzheimer’s. Estimates may therefore need to better reflect changing health-care costs in the context of population ageing. In the case of Spain, given the intense process of population ageing, changes in the requirements of health-care provisions will be important to monitor and bear in mind. At any rate, the expected increases in public pension expenditures alone are significant enough to merit serious concern.

6 . This is an estimate based upon an 8 percentage point increase in pension expenditures and a 3 percentage points increase in health care related expenditures (including long-term care for the elderly).

3. Key factor behind the projections: the labour market behaviour of older workers

One key dimension behind the above projections is the labour market participation of all groups, notably older workers. This will determine the extent to which population ageing affects labour force and economic growth. Clearly, the shrinking number of individuals aged 20 to 64 will affect the stock of active individuals. Indeed, the future size of the labour force will depend not only on demographic changes but also how participation rates change over time – which is not easy to predict. With a growing share of the labour force aged 50 years and older, the participation rates of older workers will be of particular importance. Therefore, in order to gauge the possible impact of ageing on labour force growth, two scenarios have been developed. The first, “constant” scenario assumes that current participation rates by five-year age groups and gender remain constant. The second, “maximum” scenario applies the maximum participation rates in the OECD area by five-year age groups and gender from 2030 through to 2050 with a gradual adjustment from current participation rates to reach the maximum in 2030 (Figure 1.4).

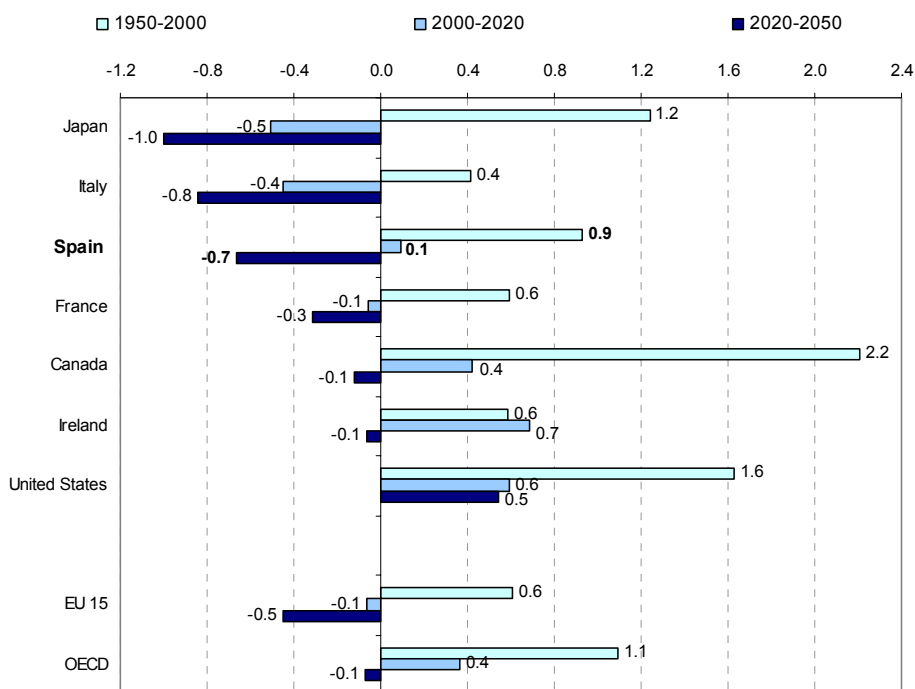
Figure 1.4. Labour force growth scenarios, 1950-2050



Source: OECD estimates.

The two scenarios have very different implications for the size of the labour force over the next half-century. If participation rates remain constant over the next 50 years, the labour force pool would fall to just under 15 million persons by 2050 – a decline of 3 million persons compared to 2000. The decline is most severe between 2020 and 2050, where the labour force would decline, on average, by 0.7% per year compared to positive average annual growth of nearly 1% over the past five decades (Figure 1.5). Slowdowns in labour force growth are also expected for the OECD and the EU areas but the magnitudes of the declines are expected to be less severe than is the case with Spain.

Figure 1.5. Labour force growth in selected OECD countries, 1950-2050^a
Average annual growth – “constant” scenario



a) Labour force levels after 2000 are estimated by assuming that participation rates by five-year age groups and gender remain constant at their 2000 level.

Source: OECD Labour Force Statistics; National Projections; EUROSTAT Population Projections (1999 revision); and UN, *World Population Prospects 1950-2050* (2000 Revision), February 2001.

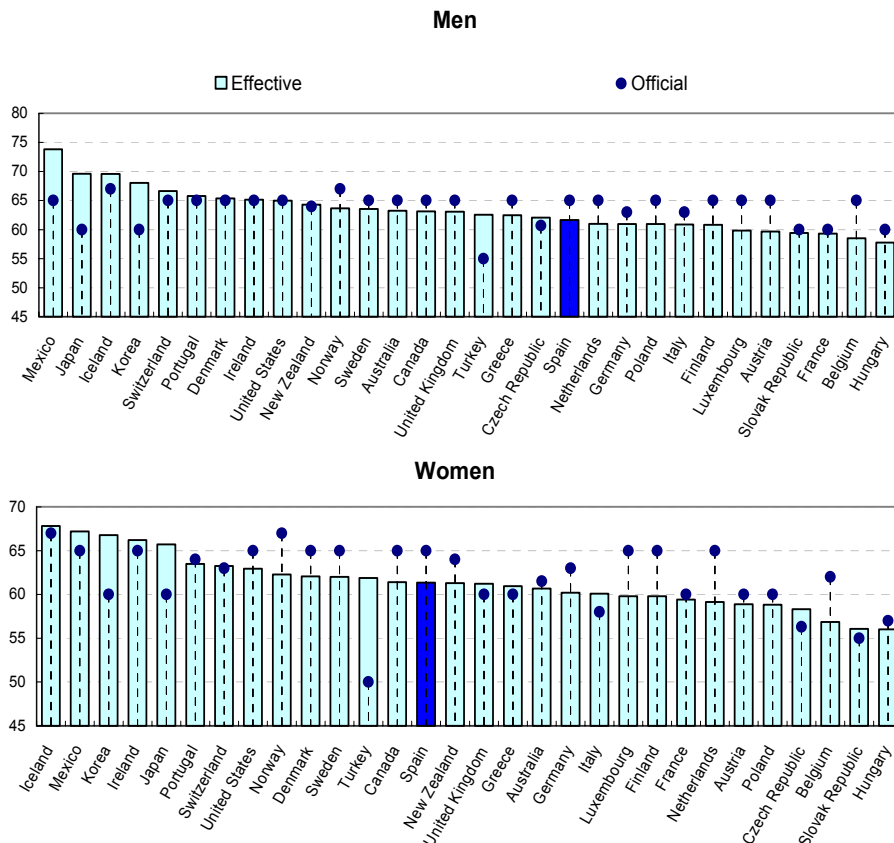
This is in stark contrast to the “maximum” scenario where the labour force has the potential to grow by nearly 4.5 million persons – which represents a difference in the total labour pool of 7.5 million persons. Consequently, raising participation rates in Spain is an issue of serious concern. Moreover, the large difference between the constant and maximum scenarios indicates that there is considerable scope to raise participation rates in Spain. Such efforts would limit the extent of the eventual decline in the labour force and its resulting impact on economic growth.

Of course, the labour market participation of the current younger generation is a staggering improvement compared to previous generations. The improving attitudes of women towards (and access to) the labour market coupled with better educational attainment have played an important role. Therefore, the participation rates of future generations of older workers should increase. However, this will be far from sufficient in addressing the challenges ahead. As will be argued in this report, policy action is needed to raise the participation rates of all workers but in particular those of current and future generations of older workers. Chapter 2 will review in more detail the current labour market situation of older workers and identify areas for improvement.

Key issue: addressing the trend towards early retirement

The extent to which older workers can be mobilised also depends on how long they remain in the labour force before retiring. Until recently, as in many other European countries, early retirement in Spain was viewed as an effective mechanism for reducing high unemployment, especially among the youth. To achieve this end, various early retirement schemes were introduced that have played a significant role in the decisions of older people to continue working. Consequently, since the early 1970s the average effective age of retirement has declined by nearly seven years for men and ten years for women. In 2002, the average effective age of retirement for men and women at 61 years of age ranked 19th and 14th, respectively, in the OECD (Figure 1.6). There is a serious risk that if the situation deteriorates further and older workers continue earlier exits from the labour force, low participation rates will persist. In this context, the welfare system is central to the reform process in encouraging older workers to continue participating in the labour market before retiring. Chapter 3 will review the role of the welfare system and the inherent disincentives older workers face to remain employed.

Figure 1.6. Average effective age of retirement versus official age, 2002^a



a) The average effective age of retirement is derived from the observed decline in participation rates over a five-year period for successive cohorts of workers (by five-year age groups) aged 40 and over.

Source: OECD estimates.

Chapter 2

CURRENT LABOUR MARKET SITUATION OF OLDER WORKERS

In a dynamic labour market, the ability to remain employed is not an easy task. And despite the fact that the Spanish labour market has improved dramatically over the past few decades, many challenges remain. In particular, the current labour market situation for older workers, especially older women needs redressing. The purpose of this chapter is therefore to identify areas where action to improve the labour market outcomes of older people is possible. This will not only meet social and equity objectives, but it should also improve labour market outcomes more generally which will be a necessary step to help address the future challenges posed by an ageing society, which were described in the previous chapter.

1. The Spanish labour market – recent historical context

It is important to appreciate that less than 30 years ago Spain underwent a political and economic transformation of sizeable magnitude. In the middle of the 1970s, the country was hit by a major economic crisis. An outdated, heavily protected industrial structure, combined with the first oil-price shock took the country unprepared. Moreover, the country underwent a major political transition which was associated with a certain degree of economic uncertainty and hesitation on the part of employers to invest and create jobs. The result was a dramatic aggravation of the labour market situation: unemployment increased uninterruptedly from about 3% in 1974 to over 20% in 1985.

However, accession to the EU in 1986 was accompanied with an encouraging reduction in unemployment. This was achieved through several waves of reforms, starting with the introduction of fixed-term contracts in 1984, and following with several attempts to reform employment protection legislation, reduce labour costs and make wages more responsive to the

changing economic conditions.⁷ However, reflecting the slowdown of the early 1990s, unemployment surged once again, reaching a historical peak in 1994. The unemployment rate has since resumed a spectacular downward trend: over the past seven years, it has declined by more than 10 percentage points with more than 3 million net new jobs created, a remarkable performance by all standards.

2. The labour market situation of older workers

As pointed out in the previous chapter, encouraging higher participation rates is a necessary step in addressing the demographic challenges of ageing and, to a broader extent, improving economic outcomes. In this context, older persons represent an untapped resource and therefore, promoting employment among current and future generations of older workers will be an avenue of the utmost importance.

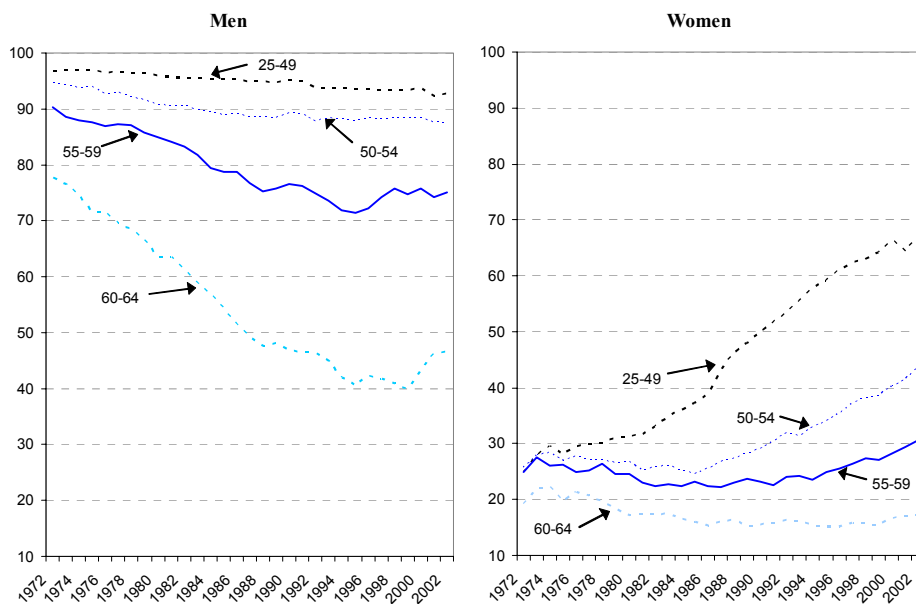
A. Participation rates of older male workers have tended to fall, while those of women have increased

Labour force participation rates for men have declined by almost 13 percentage points since the early 1970s (Figure 2.1). The decline has been most dramatic for men aged 55 to 59 and 60 to 64 where the participation rates have declined over 15 and 31 percentage points, respectively. The participation rates of men aged 25 to 49 and 50 to 54 have also declined but modestly so. They remain high at about 90%. The rise in participation rates of women has been spectacular; particularly impressive is the rise in participation rates for women aged 25 to 49 from 25% in the early 1970s to 67% in 2002.⁸ Activity rates of women aged 50 to 54 have increased by 18 percentage points over the last 30 years. However, for women aged 55 and above the results have been less encouraging. Only since 1994 have the participation rates of women aged 55 to 59 increased above their 1972 level. And, for women aged 60 to 64, participation rates have remained more or less stagnant at 16% for the past 20 years.

7. The improved situation also reflects the broader economic strategy which was adopted in connection with accession to the European Union. A discussion of this strategy can be found in Larre and Torres (1991).

8. However, given the traditionally low labour market participation of women, the gender gap in participation rates persists, especially for older individuals. This will be discussed in more detail later in the chapter.

Figure 2.1. Participation rates by gender and age, 1972-2002



Source: OECD Labour Force Statistics.

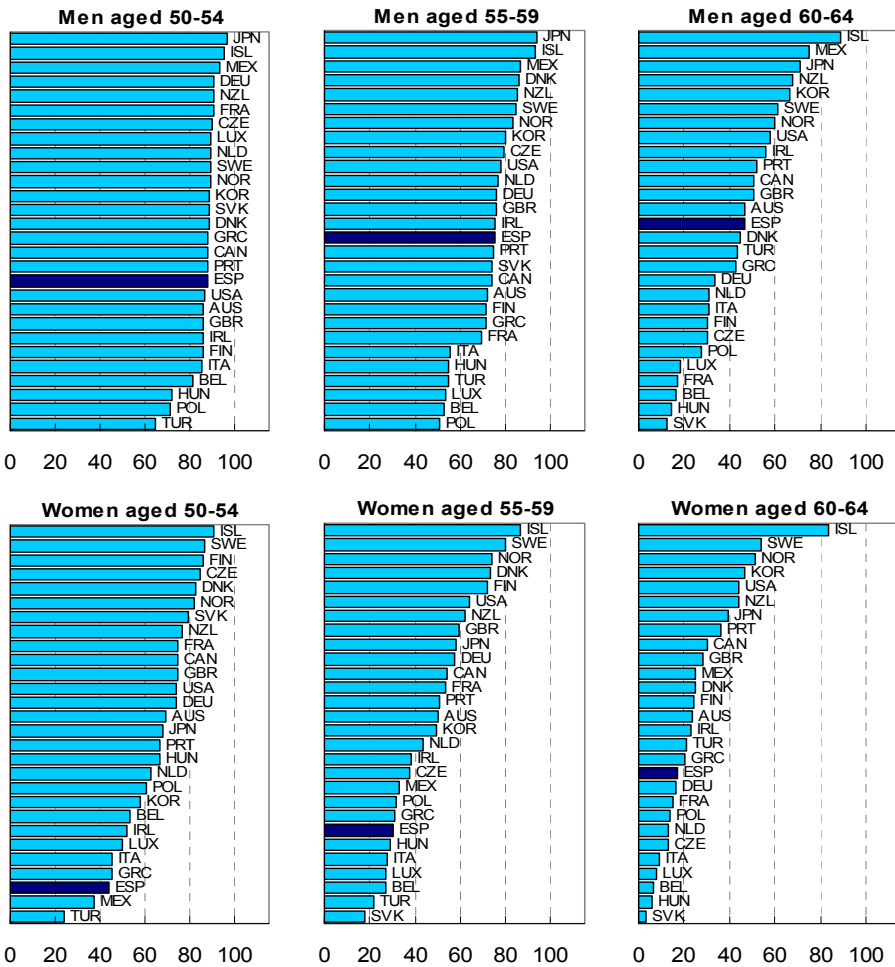
In considering the current state of participation rates in Spain, two important factors emerge. First, despite the fact that participation rates of men 55 and above have improved since 1994, the decline of more than 20 percentage points over the past 30 years is troubling. As a result, male participation rates in Spain are comparably low (Figure 2.2). Second, though the labour market participation of women has changed considerably since the early 1970s, current participation rates of all women, especially older women, still lie below the OECD average (Figure 2.2). So clearly there is room for manoeuvre in terms of raising the labour market participation of older men and women in Spain.

B. *Despite recent improvements, the employment rate of older workers remains low*

Achieving higher rates of labour force participation among older people is only part of the battle in coping with population ageing: the extent to which people who participate are actually employed will also play a fundamental role. Between the early 1970s and early 1990s the employment rates of prime-age and older males fell considerably – both reaching historic lows in 1994. A rebound in economic activity in the early 1990s has figured prominently in the more recent improvement of male employment rates.

The employment rate of prime-age women has been increasing steadily since the early 1980s whereas improvements for older women coincided *only* with the most recent economic upturn and thus did not begin to improve until the mid-1990s. Despite the recent improvements in both older male and female employment rates, in Spain they remain low compared to other countries. In particular, employment rates of older women are among the lowest in the OECD area (Figure 2.3).

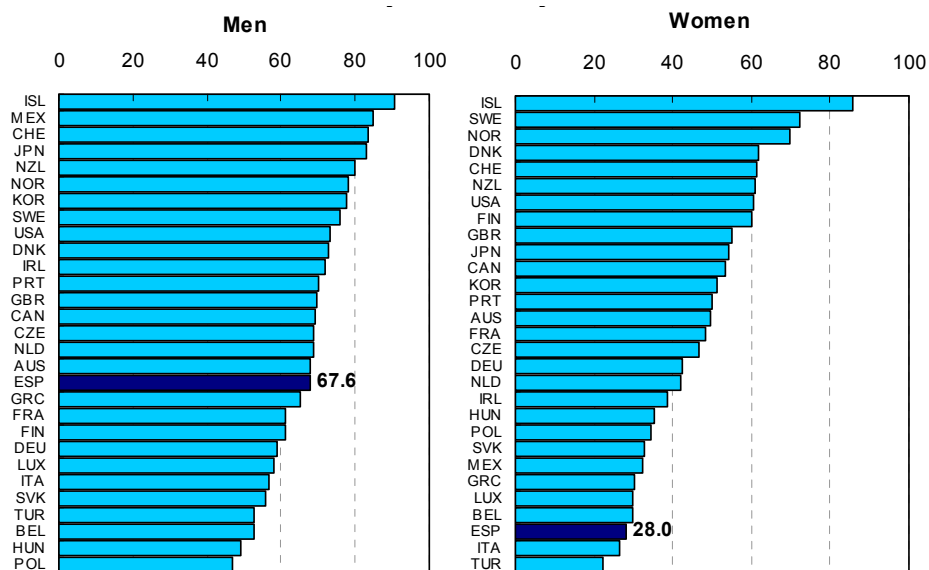
Figure 2.2. Participation rates of older workers in selected OECD countries, 2002
Percentages



Source: OECD Labour Force Statistics.

Figure 2.3. **Employment rates of older workers (50-64)**
in selected OECD countries, 2002^a

Percentages



a) Data for Austria and the Netherlands refer to 2001.

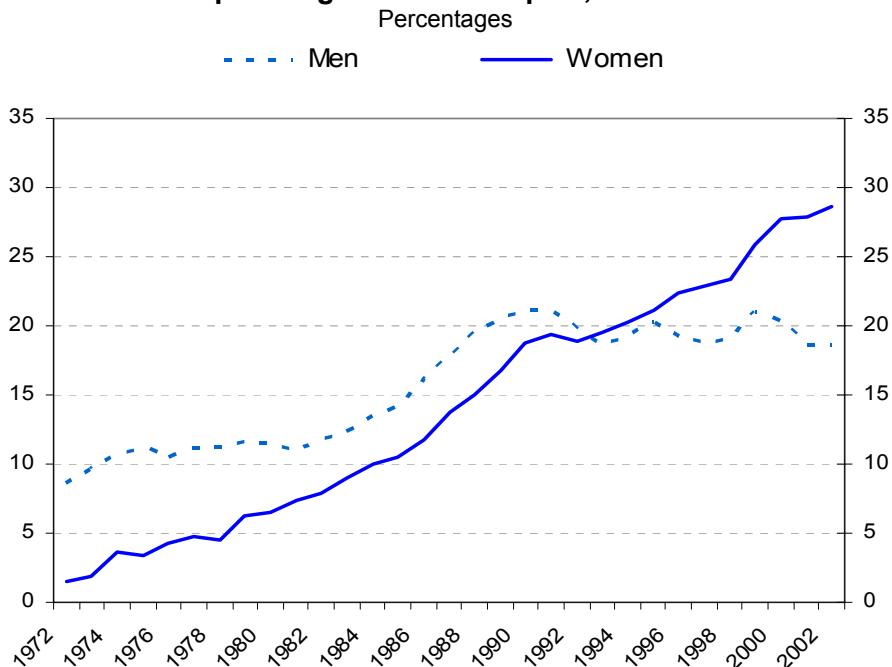
Source: *OECD Labour Force Statistics*.

Furthermore, the employment rates of older workers in Spain have increased at a slower rate than prime-age workers and consequently, the employment gap between older and prime-age workers has widened (Figure 2.4). Though the gap between older and prime-age males has remained relatively stable since 1990, older males still have employment to population ratios nearly 20 percentage points below their prime-age counterparts. The situation is especially concerning for older women: for this group, the employment gap has increased more or less uninterruptedly since 1972, reaching nearly 30 percentage points in 2002. Consequently, the employment rate of older females is currently a little more than half the rate of prime-age women.

It is also interesting to note that, within the older worker age category, there is a steep progressive decline in employment rates by age sub-group (Table 2.1). In fact, for men aged 50 to 54 the employment population ratio is relatively high at 82.8%, nearly twice that of men aged 60 to 64. Women experience a similar progressive decline with employment

rates dropping to as low as 15.7% for women aged 60 to 64. In addition, within each five-year age group, the employment rates of women are less than half the rate of their male counterparts.

Figure 2.4. Differences in employment rates between older and prime-age workers in Spain, 1972-2002



Source: OECD Labour Force Statistics.

Table 2.1. Employment rates of older workers by five-year age groups in Spain, 2002

	Total	Men	Women
50-54	60.3	82.8	38.4
55-59	48.5	70.5	27.5
60-64	29.2	44.0	15.7

Source: OECD Labour Force Statistics.

C. Better gender balance and higher educational attainment will improve employment of older workers, but this is not enough

It is sometimes argued that the current, relatively low employment rates of older workers is mainly attributable to the fact that new generations have different attitudes towards work compared with older ones – the “cohort” effect.⁹ Subsequently, as younger generations age, the employment gap would eventually disappear between older and prime-age groups. Alternatively, the employment gap between generations is said to be a behavioural outcome, *i.e.* a proneness to withdraw early from the labour market. In the latter case, the employment gap is likely to persist or may even aggravate (see Box 2.1).

Box 2.1. Assessing the factors behind low employment rates of older workers in Spain

The labour market participation of younger cohorts tends to be higher than is the case of earlier generations. There are two main reasons for this: *i)* older women have a different attitude towards work than younger ones, and *ii)* on average, older workers are less educated than younger ones – which, given the fact that high-educated workers are more often employed than their low-educated counterparts, would automatically contribute to the observed employment gap. According to this view, gender and educational developments should gradually translate into higher employment rates for older workers.

This view is, however, too optimistic. Indeed, evidence suggests that other forces are pushing older workers to withdraw from the labour market (see also Chapter 3) – and, in the absence of additional reforms, these forces are likely to outweigh any positive cohort effects. A summary of an analysis of transition probabilities over the period 1987-1997 reveals that (Tables A and B):

- *older workers are more likely to lose their job*: during the period under analysis, on average, 11% of older workers employed in any given year had left employment the year after. The figure is less than 7% in the case of prime-age workers.
- *once they lose their job, older workers are more likely to leave the labour market altogether* (only one-quarter become unemployed). By contrast, two-thirds of the prime-age workers who lose their job become unemployed, *i.e.* they remain “active”.
- *it is difficult for unemployed older workers to find a job*: only 18% of unemployed older workers manage to find a job, compared with over 27% in the case of unemployed prime-age workers.

9. This is especially true for women in Spain, whose attitudes towards work have resulted in a progressive rise in their participation rate.

- *an insignificant proportion of inactive people age 50-64 go back to the labour market (almost 97% remain inactive).*
- *these age-profiles hold true for both sexes as well as different levels of educational attainment. Older women and men are more likely to lose their job than their prime-age counterparts. Also, older workers with a high level of educational attainment have a higher probability of losing their job and leaving the labour market than is the case of their prime-age (high-educated) counterparts.*

In order to assess the relative importance of “cohort” versus “early retirement” effects, an econometric analysis of employment transitions has been carried out. Education and gender come out as significant factors behind observed employment patterns, which can be taken as evidence in support of the cohort effect. However, workers’ age exerts a significant effect on the probability of leaving employment (early retirement effect). See Annex A for further details.

Table A. Transition employment probabilities for older workers (age 50-64)

Situation in year t	Total			Men			Women		
	Empl.	Unempl.	Inact.	Empl.	Unempl.	Inact.	Empl.	Unempl.	Inact.
Employed	88.9	2.7	8.4	88.9	3.1	7.9	88.8	1.6	9.6
Unemployed	18.4	56.9	24.7	21.4	56.4	22.2	9.8	58.2	32.0
Inactive	2.2	1.0	96.8	2.4	1.5	96.1	2.1	0.8	97.1

Table B. Transition employment probabilities for workers aged 30-49

Situation in year t	Total			Men			Women		
	Empl.	Unempl.	Inact.	Empl.	Unempl.	Inact.	Empl.	Unempl.	Inact.
Employed	93.3	4.4	2.3	94.5	4.4	1.1	90.6	4.6	4.8
Unemployed	27.3	60.6	12.1	38.2	56.8	5.0	17.0	64.2	18.8
Inactive	5.8	5.3	88.9	11.9	9.5	78.6	5.3	4.9	89.9

D. *The incidence of temporary employment is high, while part-time is not common practice*

There is a delicate balance between increased labour market flexibility on the one hand and reducing job precariousness on the other. Labour market flexibility through wider recourse to temporary and part-time employment lead to an increase in the discretionary powers of employers in terms of working hours and dismissal. On the other hand, temporary and part-time work in fact help to accommodate work and family responsibilities and smooth work-retirement transitions. This is often regarded as a useful tool to raise the labour market participation of women and older workers.

In Spain, the improved employment situation and reforms have helped spur growth in part-time and temporary employment. Since 1990 the incidence of part-time employment has increased from 4.9% to reach 8.3% in 2002. In 1999, further impediments to part-time work, especially for older workers, were suppressed.¹⁰ Despite these efforts, the incidence of part-time employment for older workers has declined and, in comparison to the OECD, is quite low (Table 2.2). For older men it is the lowest in the OECD area and nearly six times lower than the OECD average. As well, for older women the incidence of part-time employment is among the lowest in the OECD area.

Table 2.2. Part-time work by gender and age, 2002
Percentages

	Men				Women			
	25-49	50-54	55-59	60-64	25-49	50-54	55-59	60-64
Australia	10.5	10.8	15.3	21.4	38.4	35.0	40.3	47.4
Austria	2.2	2.2	4.0	12.0	29.0	23.1	29.4	41.4
Belgium	4.6	6.2	12.7	13.8	32.2	39.5	33.4	48.6
Canada	4.7	5.0	8.8	13.9	21.0	23.2	28.6	37.3
Denmark	4.8	3.0	5.9	16.8	15.4	16.7	21.9	28.5
France	4.0	4.5	7.9	15.2	22.9	23.7	30.4	37.7
Germany	4.0	2.8	5.1	12.8	36.6	37.1	40.4	55.1
Greece	2.5	2.9	2.6	3.3	10.0	10.0	8.7	12.8
Ireland	3.8	6.9	7.8	13.6	30.7	46.1	49.2	51.1
Italy	4.1	5.1	6.8	8.2	23.7	26.6	27.6	24.6
Japan	7.9	9.8	11.8	25.8	39.0	43.4	42.7	50.0
Korea	3.1	5.6	7.8	12.2	9.1	9.6	12.6	14.8
Luxembourg	2.1	1.0	2.8	1.6	29.8	29.0	33.5	48.5
Mexico	4.2	5.6	6.3	8.9	24.4	30.4	33.5	38.2
Netherlands	5.5	8.0	13.7	36.2	55.9	64.8	66.7	80.3
New Zealand	5.1	6.7	9.3	16.8	32.3	30.7	38.2	46.3
Norway	4.4	5.3	5.8	12.3	27.6	28.7	35.9	43.1
Poland	4.2	6.7	12.8	24.7	14.3	12.6	23.0	47.6
Portugal	2.0	3.6	5.9	12.7	9.4	14.7	26.8	35.8
Slovak Republic	0.7	1.6	2.0	3.8	1.7	3.4	10.0	32.6
Spain	1.9	1.2	1.2	2.4	15.3	17.4	17.2	16.5
Sweden	4.4	4.9	6.7	18.1	16.4	16.3	20.6	32.6
Turkey	2.9	4.9	5.9	8.6	12.9	15.7	18.2	20.7
United Kingdom	3.7	4.8	10.4	17.2	36.9	38.9	48.7	66.2
United States	2.8	2.4	4.3	11.5	13.5	11.7	13.1	22.6

Source: OECD Labour Force Statistics.

10. Indeed, new legislation has equalised pension rights of part-timers with those of their full-time counterparts (see Chapter 4 for more detail).

Reforms carried out in 1984 also created wide possibilities for recruiting under temporary (or short-term) contracts – which until then was very restricted. The reforms have met with a certain success, at least in the short-run. In 2002, the incidence of temporary employment reached 14% for older workers and 29% for prime-age workers – the highest figure in the OECD area for prime-age workers and second highest for older workers (Table 2.3). In fact, there is some concern that the high share of temporary employment reflects employers’ reluctance to convert fixed-term contracts into permanent ones.

Table 2.3. Temporary work by age and gender, 2002
Percentages of declared status

	Age 25-49			Age 50-64		
	Total	Men	Women	Total	Men	Women
Austria	3.1	2.4	3.9	1.5	1.2	2.0
Belgium	5.8	3.5	8.7	3.6	2.7	5.2
Canada	9.5	8.6	10.4	8.5	8.5	8.6
Czech Republic	5.7	4.9	6.5	8.9	6.5	11.9
Denmark	6.9	4.2	9.6	4.1	3.8	4.5
Finland	14.3	9.7	18.9	7.3	5.9	8.5
France	11.6	9.4	14.1	5.4	4.1	6.8
Germany	7.2	6.8	7.6	4.1	4.0	4.2
Greece	10.1	8.7	12.0	7.3	6.3	9.7
Hungary	6.7	7.3	6.0	4.8	5.3	4.2
Ireland	3.2	2.5	3.9	3.6	2.1	5.6
Italy	8.9	7.1	11.3	5.7	5.6	5.9
Japan	10.5	4.0	20.2	12.8	6.5	22.9
Luxembourg	3.3	2.8	3.9	2.1	1.0	4.0
Mexico	17.6	22.3	9.1	19.0	23.5	7.0
Netherlands	10.5	8.6	12.8	5.4	3.0	9.3
Norway	8.6	6.2	11.3	3.4	2.6	4.3
Portugal	19.2	18.1	20.4	10.3	8.1	13.1
Slovak Republic	3.5	4.0	3.1	5.0	4.5	5.7
Spain	29.1	27.2	32.0	14.3	13.7	15.6
Sweden	12.4	9.7	15.0	6.4	6.1	6.6
Turkey	14.1	13.6	16.3	21.7	19.3	41.3
United Kingdom	4.9	3.9	6.0	5.0	4.6	5.4

Source: OECD Labour Force Statistics.

To help ease the transition from temporary to permanent employment, in April 1997 an agreement between the unions and the employers' confederation (*Acuerdo Interconfederal para la Estabilidad del Empleo*) established lower firing costs for permanent contracts. Since then, several reforms have helped supplement the 1997 agreement. As a result, since 1996 permanent employment grew by 30% compared to just over 17% for temporary employment over the same period. However, the incidence of temporary employment has displayed some resilience. The relatively high incidence of short-term contracts, and resulting turnover rate, increases the risk that less-educated individuals, notably older workers, fall into unemployment or even inactivity.¹¹ The reform process in this area thus requires further examination.

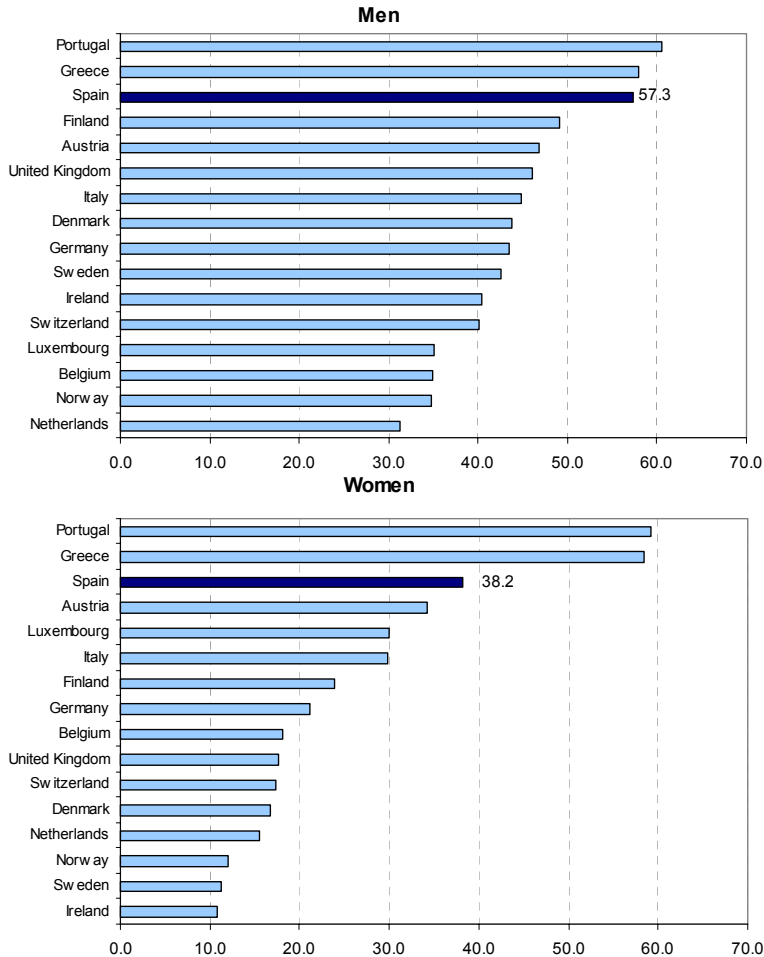
E. Older workers are over-represented in manual occupations and sectors exposed to health and safety hazards

Future employment prospects for older workers will be influenced by the type of jobs they can attain and their workplace environment. In comparison to other European countries, the share of older workers in Spain employed in “manual” occupations is the third highest next to Portugal and Greece (Figure 2.5). For older men the share reaches 57% and for older women – at more than 38% – is far from non-negligible.¹² This is important in the context of employment and re-employment prospects since the share of manual occupations in total employment has fallen from nearly 52% to 45% in the past ten years alone. This is perhaps one reason why, as discussed in Box 2.1, the chances that older workers find a new job and return to employment are relatively difficult. To increase the employment chances of older workers – older men in particular – issues related to skills and re-employability may need redressing. Moreover, an issue of particular concern in Spain is the number of older workers who suffer from health problems. Heavy exposure to health and safety hazards may lead to a disproportionate reliance on sickness and disability schemes – an issue to be raised in more detail in Chapter 3. And there is evidence that such health and safety hazards are relatively high in Spain, notably in certain sectors, such as construction.

11 . For a detailed discussion of the effects temporary and fixed-term contracts have on the labour market see Dolado *et al.* (2002).

12 . In 2003, “manual” occupations accounted for more than 50% of total employment for older workers compared to 42% for prime-age workers.

Figure 2.5. Share of older workers in “manual” occupations, 2002^a



a) Manual occupations include skilled agricultural and fishery workers, craft and related trades workers, plant and machine operators, and assemblers and elementary occupations.

Source: *European Labour Force Statistics*.

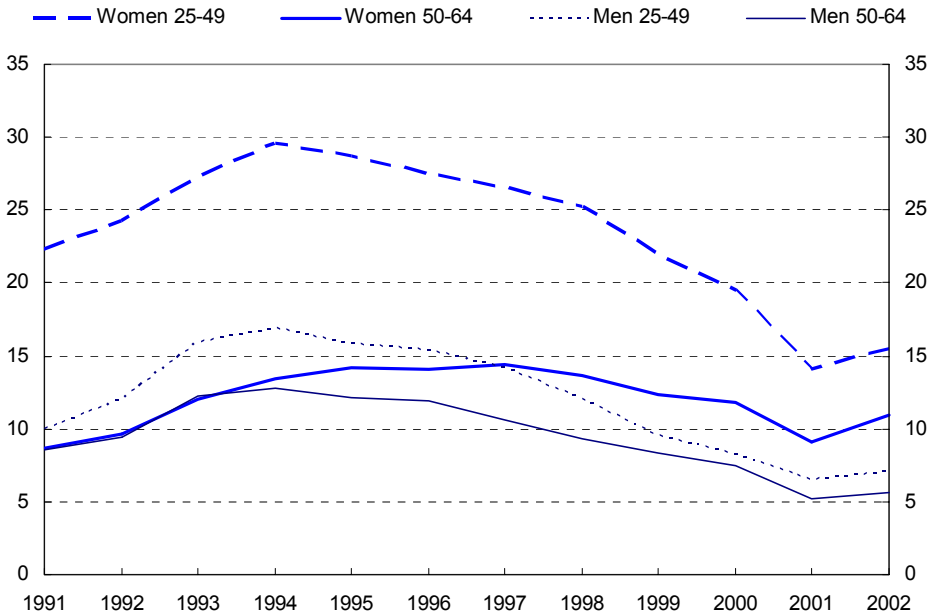
3. Non-employment among older workers: characteristics and trends

While ensuring that older workers remain employed is a major policy requirement, it is also important to mobilise those older individuals of working-age who are either unemployed or inactive. This section examines the characteristics of these individuals and describes recent trends in unemployment, long-term unemployment and labour market inactivity among older workers.

A. Unemployment for older workers has declined, though it remains high for women

The Spanish labour market has long been characterised by what has been termed “mass unemployment”. All age groups, including older workers, have been affected by unemployment. However, the unemployment rate has resumed a significant downward trend since the mid-1990s. As shown in Figure 2.6, despite a slight upturn in 2002, the unemployment rates of all age groups and gender have significantly declined since 1994.¹³ The unemployment rates of older workers have also improved recently, having followed a pattern similar to that of prime-age individuals. There are marked differences by gender: unemployment among older male workers is lower than is the case for their female counterparts. Though significant, it is lower than the difference present among prime-age workers.

Figure 2.6. Unemployment rates by gender and age, 1991-2002



Source: OECD Labour Force Statistics.

13 . In 2001, the Spanish Labour Force Survey introduced a new methodology for measuring unemployment. To facilitate comparisons through time, data using this new methodology have been revised back to 1991.

Despite these overall improvements, there is some concern that the true degree of labour-market slack among older workers is underestimated: many older workers who can work may have moved to welfare schemes such as sickness, disability and social assistance benefits. Moreover, compared to the rest of the OECD, the unemployment rate of both older men and women, at 5.2% and 9.2%, respectively, is still high (Figure 2.7).¹⁴ Finally, the extent and persistence of long-term unemployment among older unemployed workers are problematic in Spain. The incidence of long-term unemployment represents over 50% of declared durations for older men and more than 60% in the case of older women.¹⁵ These figures are nearly 20 percentage points higher compared with the share of long-term unemployment among prime-aged individuals.

Since the re-employment chances of older workers is low and many risk becoming unemployed for longer durations, the reasons they become unemployed may have important policy implications. More than 40% of unemployed older workers left their last job because either they were on a temporary contract which had not been renewed or the contract had ended (Figure 2.8). This shows that there is link between the extent of temporary employment and flows in and out of the labour market. Figure 2.8 also underscores the problem of unemployment duration: 30% of older unemployed workers had left their last job more than three years ago. Importantly, dismissal is a factor which grows with age. For example, between 10% and 20% of older unemployed workers had been dismissed, compared with about 8% in the case of prime-aged unemployed workers.

B. Labour market inactivity rises rapidly with age, mainly because of early retirement and sickness

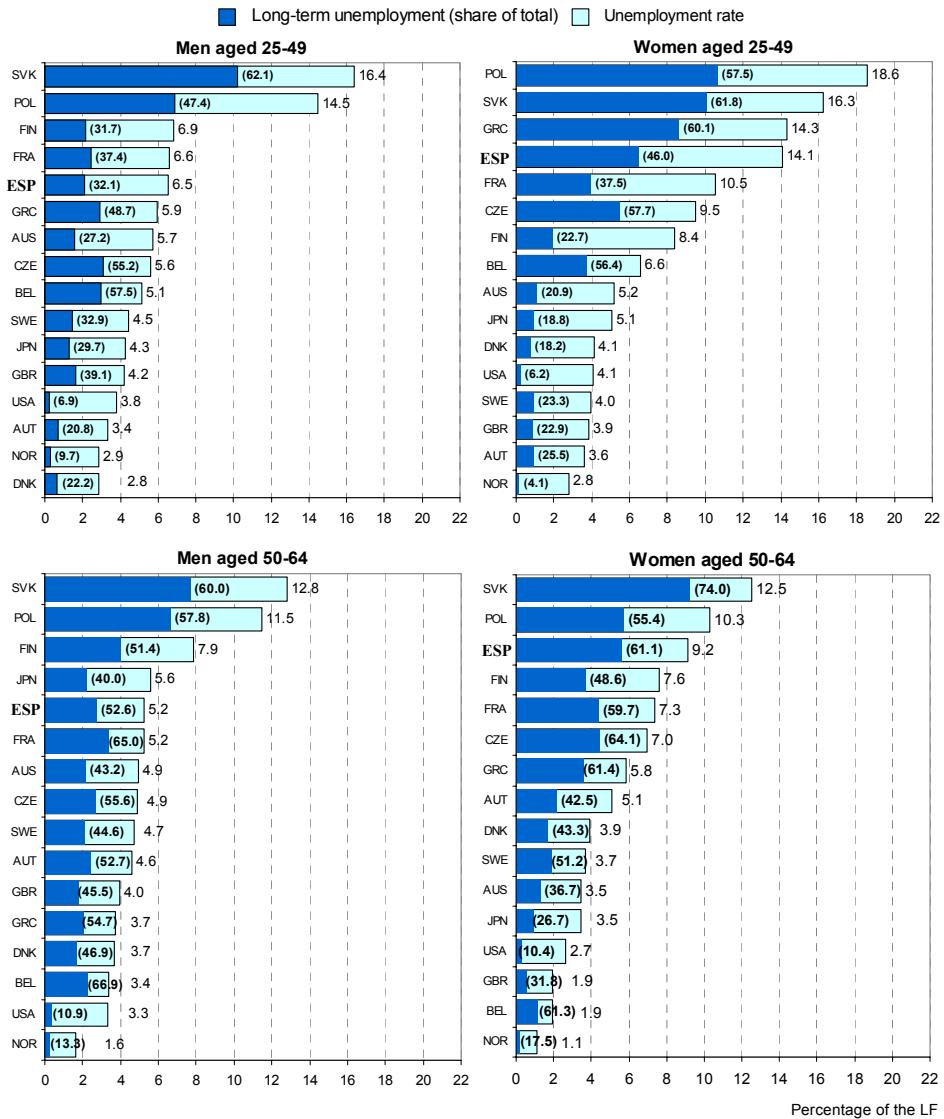
Addressing inactivity will be an important element of any strategy which attempts to raise employment of older workers. Indeed, as in most other OECD countries, the incidence of labour market inactivity increases continuously with age (Figure 2.9). The inactivity-age profile is especially steep for women. At age 50, practically 50% of all women do not participate in the labour market and the inactivity rate rises steadily – 95% of all women aged 65 do not participate in the labour market. For older men, the inactivity rate increases from 10% at age 50, to nearly 90% at age 65.

14. It is not possible to provide 2002 data, as only the age group 55 and above was available at the time of drafting.

15. In Spain, the share of long-term unemployment in total unemployment fell from 55% in 1995 to just over 42% in 2001.

Figure 2.7. Unemployment rates and duration by gender and age, 2001^{a,b}

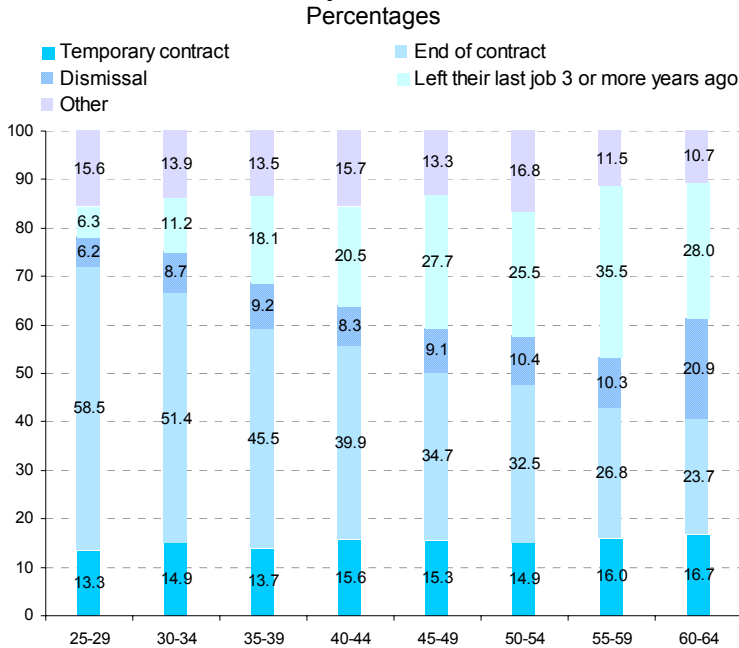
Percentages (share of long-term unemployment)



- a) Long-term unemployment is defined as unemployment for one year or longer (as a percentage of total declared durations).
- b) Data for Australia, Japan and the United States refer to individuals aged 25-54 and 55-64, respectively.

Source: OECD Labour Force Statistics and European Labour Force Statistics.

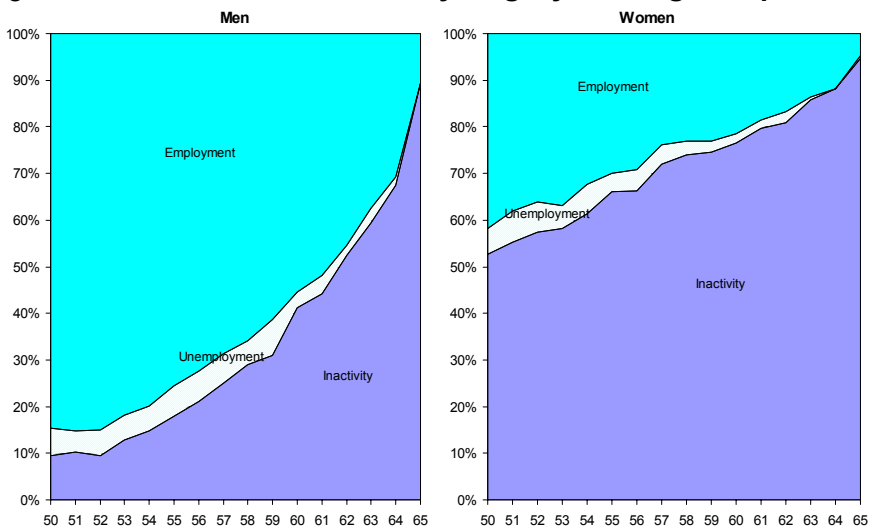
Figure 2.8. Reasons why unemployed people left their last job in Spain, 2003^a



a) Only those unemployed who left their job less than three years ago are classified.

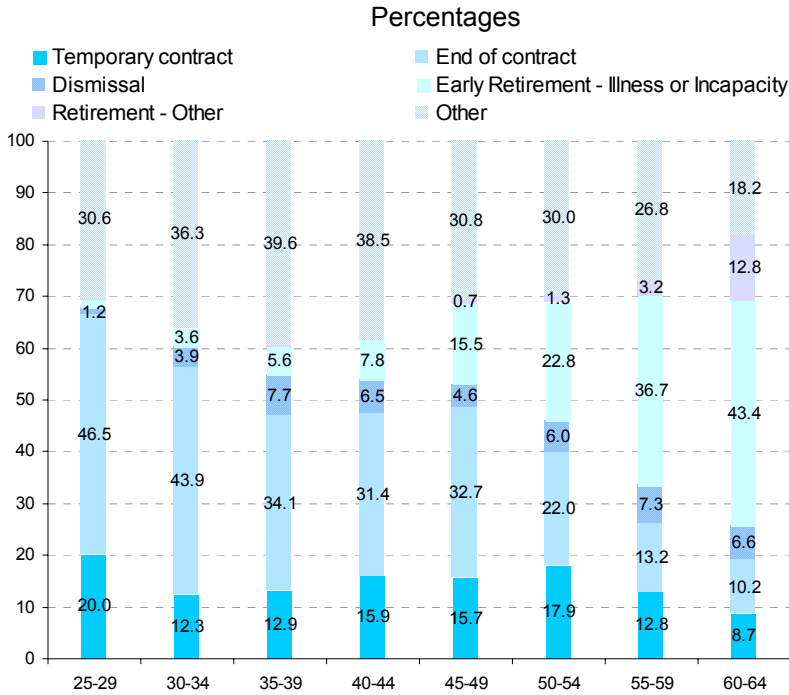
Source: National Statistics Institute, Spain.

Figure 2.9. Labour market status by single year of age in Spain, 2001



Source: European Labour Force Statistics.

Figure 2.10. Reasons why inactive persons left their last job by age, 2003^{a,b}



- a) Excludes individuals who became inactive more than three years ago.
 b) Other includes personal reasons.

Source: National Statistics Institute, Spain.

Interestingly, among older individuals who became inactive in the past three years, an increasing share did so because of early retirement, incapacity or illness – more than 43% for the group 60-64 (Figure 2.10). But termination of fixed-term contracts is another important reason why individuals exit the labour market.

C. Many non-employed individuals of age 50-64 can be mobilised and would like to work

In order to measure the extent to which these older inactive (and unemployed) individuals represent an untapped employment resource, estimates of mobilisable labour resources have been carried out. These estimates are based on measures of excess inactivity and excess unemployment –“excess” being the difference between the non-employment rate of a specific country and non-employment in the benchmark country, *i.e.* the third best performing country in the OECD area (Table 2.4).

Table 2.4. **Mobilisable labour resources, 2001^a**

Percentages

	Mobilisable labour resources	Forms of non-employment		Mobilisable labour by age group		
		Excess inactivity	Excess unemployment	15-24	25-49	50-64
Turkey	35.1	32.7	2.4	10.4	18.2	6.5
Italy	21.0	19.0	2.1	1.9	9.0	10.2
Mexico	19.8	19.8	0.0	5.4	11.2	3.2
Slovak Republic	19.2	9.7	9.5	5.8	6.1	7.3
Poland	18.1	10.8	7.3	2.2	7.8	8.1
Greece	17.8	15.2	2.6	1.5	7.3	9.0
Hungary	17.7	17.7	0.0	1.7	6.3	9.7
Spain	16.6	14.0	2.6	0.9	8.8	6.9
Luxembourg	14.4	14.4	0.0	0.1	5.4	8.9
Belgium	14.3	14.3	0.1	0.7	4.2	9.4
Austria ^b	12.1	12.1	0.0	1.0	2.7	8.3
Germany	11.7	10.0	1.7	0.9	3.2	7.6
Ireland	10.6	10.6	0.0	0.3	5.3	5.0
Australia	10.4	10.3	0.2	0.6	5.3	4.5
France	9.9	7.8	2.1	0.4	3.5	6.0
Netherlands	9.8	9.8	0.0	0.2	3.2	6.4
Czech Republic	8.9	7.3	1.7	1.3	2.1	5.5
United Kingdom	8.1	8.1	0.0	0.8	3.5	3.8
Finland	7.6	5.8	1.8	0.8	2.5	4.3
Canada	7.5	6.8	0.7	0.6	3.2	3.8
Japan	7.0	7.0	0.0	0.3	4.6	2.1
Portugal	6.9	6.9	0.0	0.5	2.1	4.2
United States	6.6	6.6	0.0	0.7	3.7	2.3
Denmark	4.4	4.4	0.0	0.0	1.5	2.8
Switzerland	3.0	3.0	0.0	0.5	1.7	0.8
Sweden	2.9	2.9	0.0	0.2	1.5	1.1
Norway	2.8	2.8	0.0	0.0	1.8	1.0
Iceland	0.0	0.0	0.0	0.0	0.0	0.0
<i>OECD^c</i>	<i>12.3</i>	<i>11.3</i>	<i>1.0</i>	<i>1.9</i>	<i>7.2</i>	<i>3.3</i>

a) Mobilisable labour resource is the sum of excess inactivity and excess unemployment. Youth (ages 15-24) enrolled in school were not included in the calculation of excess inactivity or excess unemployment, even if they were classified as inactive or unemployed by the national labour force survey.

b) The data for Austria refers to year 2000.

c) Population-weighted average for the 28 countries shown above.

Source: OECD (2003a), *Employment Outlook*, September 2003.

It emerges that, in Spain, 16.6% of the working-age population would be mobilisable. The figure is relatively high and as is the case in most countries, excess inactivity, at 14%, figures most prominently. Importantly, individuals aged 50 to 64 account for more than 42% of the total mobilisable labour resources in Spain (and women account for nearly 72% of the total). It is also useful to bear in mind that up to a third of inactive individuals of age 55-64 would in fact like to work, if the right conditions were in place (OECD, 2003a).

4. Gender dimensions

Considerable progress has been made in facilitating the active participation of women in the labour market. The end of the Franco regime and the new constitution of 1978 guaranteed gender equality and eliminated some prior forms of gender discrimination. In 1983, the *Instituto de la Mujer* was created to promote and foster better conditions for women in political, cultural, economic and social life. Since then, the scope of the agency has been broadened and today, for example, it even engages in training programmes. There have been numerous other reform efforts to encourage equal opportunities. For example, between 1986 and 1993 all autonomous communities have created their own institutions and have made efforts towards greater gender equality. More generally, better education opportunities have been achieved and attitudes have changed.

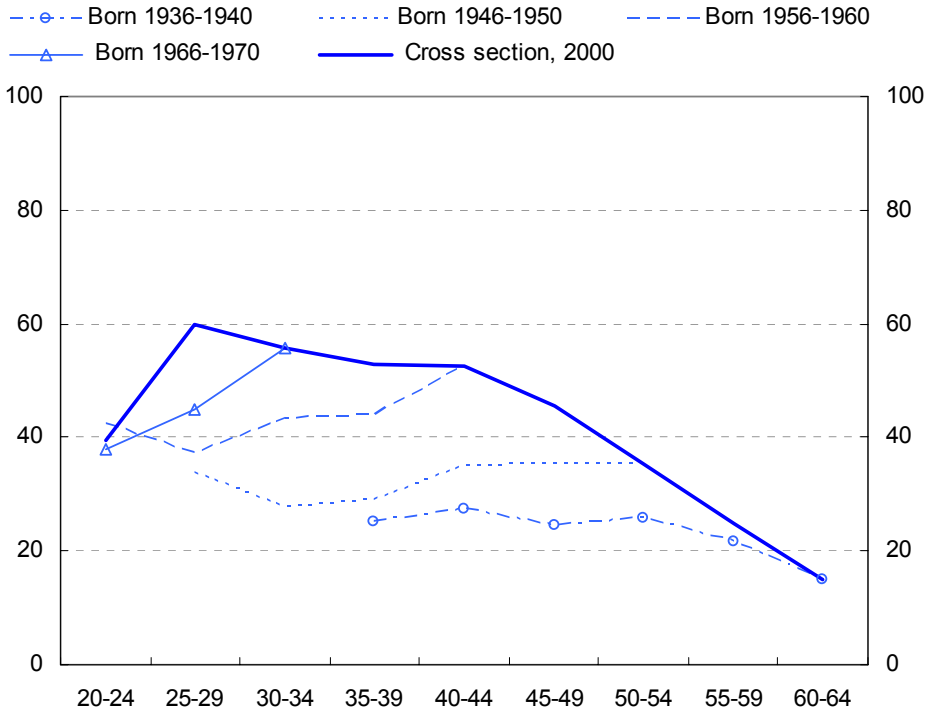
Consequently, during the last twenty years, there has been a big change in the employment status of women in Spain. For starters, there has been a significant increase – more than 20 percentage points – in the share of women holding a tertiary degree. Furthermore, the employment rate of women aged 15 to 64 has steadily increased since 1980: from 29% to more than 45% in 2002.

However, the changes that have taken place have not been sizeable enough to suppress the gender gap in employment. Furthermore, Figure 2.11 reveals that the age-employment profile for women in Spain is characterised by a left-hand peak and reflects a situation where many women either withdraw permanently from employment after marriage or childbirth or confine their subsequent paid employment to intermittent episodes (OECD, 2002a).¹⁶ In analysing the barriers older workers face to employment, it is apparent that women, both older and prime-age, are faced with an even tougher challenge.

16 . As discussed earlier, it is also the result of a “cohort effect” whereby women belonging to older cohorts have lower participation rates than younger women.

Figure 2.11. Age-employment profile of women in Spain, 2000

Cross-cohort comparisons of employment rates by age^a



a) The chart combines cross-sectional data by age and gender for the year 2000 with “synthetic cohort” data for women belonging to selected age cohorts. In the absence of longitudinal data that follow the same women over the life-cycle, synthetic cohort data were constructed by combining cross-sectional data at five-year intervals. This allowed the employment rates of four cohorts of women to be followed over time, despite being unable to follow individual members of these cohorts.

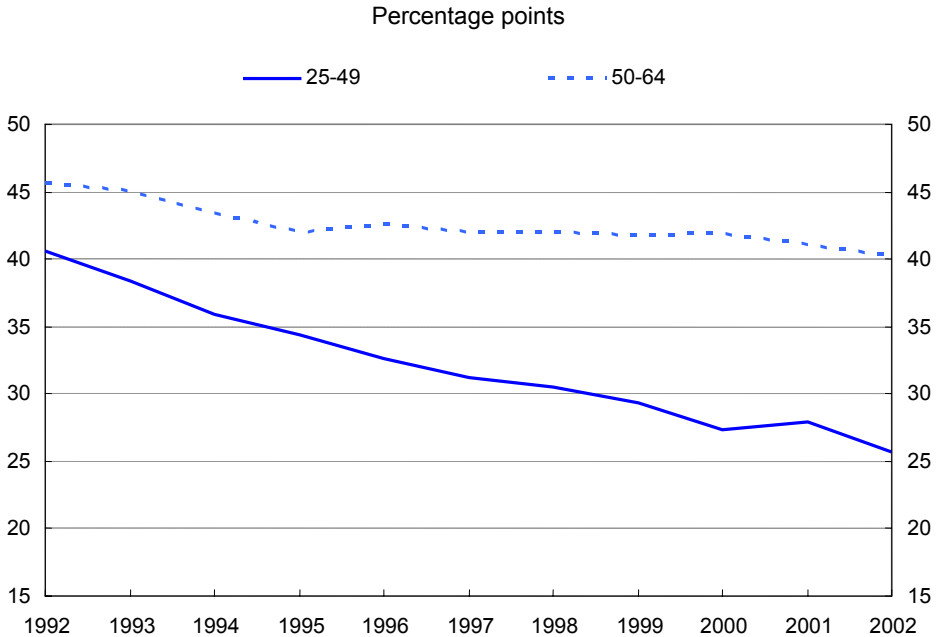
Source: OECD Labour Force Statistics and European Labour Force Statistics.

A. Labour force participation of older women remains low

Over the past 20 years, the participation rates of older and prime-age men have declined, while at the same time, women have considerably increased their participation in the labour market. This is especially true for prime-age women whose participation has more than doubled from 31% in 1980 to just over 67% in 2002. On the other hand, the participation rate of older females, having increased to only 31% in 2002 (from 23% in 1980) remains relatively low. The decline in male participation rates and

subsequent rise for women has resulted in a spectacular reduction in the gap between male and female participation rates, especially for prime-age women (Figure 2.12). However, at 40% and 25%, respectively, the current gap in activity rates is still high.

Figure 2.12. Gender gap in participation rates by age group, 1992-2002



Source: OECD Labour Force Statistics.

B. The gender gap in employment rates is high by OECD standards

Despite the marked improvements in the employment rate of women over the past 20 years, the gender gap in employment continues to be very high. This is true for both young and older workers. In 2002, for prime-age workers, male employment rates were higher than women’s by nearly 30 percentage points, the 5th highest difference in the OECD area. The employment gap between older men and older women approaches 40 percentage points – the largest gap in the OECD area.

C. *High unemployment amongst older women persists*

In the early 1980s, the unemployment rate of prime-age women was close to that of men. This continued until about 1985 when the unemployment rates of men and women began to diverge. Accession to the European Union in 1986, combined with an improved economic situation, was accompanied with an encouraging reduction in unemployment, but for men only. Given the marked increase in female participation rates, which outweighed higher employment rates, the unemployment rate of prime-age women continued to increase through the slowdown of the early 1990s, reaching a peak of nearly 30% in 1994. Since that time the gap has narrowed to some extent but the unemployment rate of prime-age women is still more than twice that of men. Older women have fared slightly better. In fact, until 1990 the unemployment rate of older females was lower than their male counterparts. However, much like prime-age women, the unemployment rate of older females increased more or less uninterruptedly between 1980 and 1997. Consequently, since 1990, the unemployment rate of older males dipped below that of older females. This difference – 4 percentage points – has persisted more or less since 1998. When formulating policies directed towards the mobilisation of older workers, the issue of gender merits special consideration.

Chapter 3

PROTECTING PEOPLE WHILE ENHANCING WORK INCENTIVES: THE ROLE OF THE WELFARE SYSTEM

Supply-side factors are important explanations of the low employment rates of older people. Individual decisions to work depend on benefit levels and eligibility criteria in public pension schemes. But they are also shaped by social security systems, unemployment benefits, and tax rules for individual pension schemes. Therefore, public authorities can have a large impact on the behaviour of individual older workers and employers.

Striking the right balance between guaranteeing an adequate income for older workers, while not undermining work incentives, is a challenge facing all OECD countries. The purpose of this chapter is to examine the adequacy of the current income support arrangements for older workers in Spain and to assess the likely impact of these arrangements on work incentives and retirement decisions of older workers.

1. Public old-age pensions¹⁷

In Spain, the pension system includes old-age, invalidity and survivors' benefits and has two tiers. The first tier is public and covers the entire population. The second tier, which is private, is still relatively small. The public pension system includes a compulsory contributory insurance scheme, based on pay-as-you-go rules and a non-contributory scheme for persons not entitled to the contributory scheme.

17 . For a detailed description of the pension system, see OECD (2001*b*).

A. *The current pension system – overview*

The contributory scheme is operated by the Social Security (*Instituto Nacional de la Seguridad Social*) and by the Central Government. The scheme operated by the Social Security covers all workers except members of the armed forces and the central civil service. In Social Security, each worker is assigned to one of six schemes. The first and most important of them, the general scheme, covers most employees (including employees of local government and social security). Five special schemes cover farmers and farm workers, the self-employed, seamen, miners and domestic workers. Members of the armed forces and the central civil service are covered by a special scheme (*Régimen de Clases Pasivas del Estado*) operated by the Central Government.

In the contributory scheme operated by the Social Security, the level of pensions depends on earnings and is calculated as a percentage of the “regulatory base” according to the number of years contributed. As of 1 January 2002, the regulatory base is calculated by dividing the contribution base – the monthly earned income over the 15 years prior to retirement – by 210.¹⁸ Retirement pensions in Spain under this contributory system are, as a general rule, awarded to workers aged 65 having contributed for at least 15 years. Individuals who have contributed for this minimum period are entitled to 50% of the regulatory base. This rate increases by 3% for each additional year of contribution between 15 years and 25 years and, by 2% for any additional year of contribution above 26 years. Consequently, persons retiring at age 65 and having contributed for 35 years receive 100% of the regulatory base. Pensions are capped: in 2003, the maximum pension was 28 978 euros (annually). They are indexed to inflation and subject to tax like other earned income. However, the pensions are exempt from unemployment insurance and social security contributions.

In the general scheme employees and employers pay 35.85%. It is worth noting that in the majority of countries, pensions are computed on the basis of earnings over an entire working life and not just the latter part of it. For a full career (35 years of contribution), the replacement rate can reach 95% at age 65, and the number of contribution years giving entitlement to a full pension is 35 years or more.

The non-contributory scheme provides a flat-rate benefit to low-income persons over age 65 or disabled who are not entitled to a contributory pension. In 2000, its annual amount for a single person was equivalent to

18. Only the previous 24 months of the monthly earned income are not adjusted according to the Consumer Price Index. Furthermore, there are currently minimum (similar to the minimum wage) and maximum contribution bases. However, these maxima are being phased out.

approximately 22% of the average wage. The gap between the contributory and non-contributory benefits is being maintained in order to encourage people to contribute. A large proportion of retirees, over one-third, receive only a minimum pension. The contributory scheme also guarantees a minimum benefit for workers with at least 15 years of contribution but whose entitlements are limited because of their low contributions. If the calculated pension benefit is lower than the minimum pension, there is a supplement called *Complementos a Mínimos* to reach the minimum pension level. The level of this minimum oscillates between approximately 28% and 38% of the average gross wage, depending on age and family circumstances and is means-tested.

B. Recent reforms to penalise early exits and encourage later retirement

The government has embarked on a series of reforms starting in 1997 with the implementation of the recommendations of the Toledo Pact concluded in 1995. The most recent reform – a new “flexible retirement” system – came into force on 1 January 2002 (*Ley 25/2002*), following an agreement signed in April 2001. The aim is to effectively increase the working life of older individuals in an attempt to arrest the upward trend in pension expenditures (Box 3.1). Furthermore, in the national agreement on pensions signed in 2001, there were discussions that the period of earnings on which the retirement pension is based should be increased from the present 15 years. However, in May 2003, any planned changes to the method of calculating pensions or further reform of any kind were postponed until 2004.

Box 3.1. The new “flexible retirement” system

Incentives to retire later: For those working over the age of 65, the coefficient applied to the regulatory base for the calculation of their final pension will be raised by 2% for each extra year of work, with no age limit. This applies to persons who have contributed for at least 35 years.

Exemptions from social security contributions for workers over age 65: Workers aged 65 and over (who have contributed for 35 years) and their employers are now exempt from paying social security contributions, except those relating to temporary incapacity. This clause also applies to self-employed workers.

Early retirement: This possibility, which was previously restricted to employees who had started to contribute before 1 January 1967, has been extended to all workers provided that they have contributed for at least 30 years and have been unemployed for at least six months for reasons outside their control. For this group, early retirement can be taken from the age of 61. It must be noted that in all cases, early retirement is penalised by reducing the coefficients associated with the pension calculation.

Retaining older workers: Employers are now eligible for a 50% or more reduction in social security contributions for employees over the age of 60 who have five years of seniority and are employed on permanent contracts. The reduction increases by 10% per year. Thus, the contributions are reduced by 60% for workers aged 61 in 2003 and by the age of 65 could reach 100%.

Flexible retirement: Individuals taking retirement can now combine their pensions with earned income. The amount of the pension will be reduced proportionately to the time spent at work relative to full-time work.

Redundancy: Companies that dismiss workers over 55 years of age for reasons of economic restructuring (*Expedientes de Regulación de Empleo*) must pay the pension contributions until workers reach the age of 61.

C. *Remaining early retirement options*

The average age of withdrawal from the labour force has stabilised in recent years, perhaps helped by the series of recent pension reforms. However, this is no reason to relax the reform process. Indeed, as the government has emphasised, there is a need to increase the working life of older individuals. Furthermore, there are reasons to fear that the average age of withdrawal from the labour force might resume its downward trend unless alternative routes to early exit are tackled:

- One of the most important elements of the recent reform allows employees to take retirement from age 61 if they have contributed for at least 30 years and have been unemployed for the last six months for reasons “out of their control”. However, the pension is then reduced by a rate of 6% to 8% per year of pre-retirement, depending on the number of contribution years, making a total reduction of 32% for a worker that has contributed for 30 years. Nonetheless, when considering all pension regimes, 35% of new pensioners had retired early in 2001.
- The treatment of central government employees is also very generous regarding pensions: these employees may retire at age 60 without any penalty if they have contributed for at least 30 years. Since 1984, the number of early retirees has amounted to about a third of the number of civil servants that entered the pension scheme.
- Several other arrangements, usually in the event of corporate restructuring, permit early retirement or pre-retirement. Most retirements in such cases are the subject of negotiated agreements

between the social partners under redundancy procedures (*Expedientes de Regulación de Empleo*). The agreements, whose features vary, are supported through a variety of schemes (Box 3.2).

Box 3.2. Types of pre-retirement

Industrial restructuring: There are two types of pre-retirement under this scheme. Workers aged 55 to 60 affected by industrial restructuring receive from the National Institute of Employment (*Instituto Nacional de Empleo*, INEM) contributory unemployment benefits for two years and welfare benefits for three years. At the same time, the company continues to pay up to 80% of the average gross wage of these workers over the six months prior to pre-retirement. For workers aged 60 to 65 years, the scheme differs in that the company pays up to 75% of the previous wage, and the government provides a subsidy calculated on the basis of a reduced pension.

Subsidies prior to ordinary retirement, applicable to companies in crisis: Workers over 60 years of age may receive an income of 75% of the basic income on which social security contributions are calculated, with the company paying 60% and government the remaining 40%.

“Industry law” (*Ley de Industria*) scheme: This applies to companies subject to an “industrial promotion” programme. Workers aged 52 to 60 receive contributory unemployment benefits from INEM and, after two years, welfare benefits and supplements agreed with their employer. Workers aged 60 to 65 receive benefits prior to ordinary retirement.

Coal mining scheme: Workers aged 52 years and over are entitled to contributory unemployment benefits for two years, upon which they receive welfare benefits. As a supplement, the Ministry tops up the workers’ income to 78% of their previous gross wage.

Social plans: Pre-retirement may be introduced as part of a redundancy procedure for workers aged 52 to 60 years. If they have paid the relevant contributions for over six years, they are entitled to two years of contributory unemployment benefit, and then receive welfare benefits. Their income is a combination of compensation from the employer, unemployment benefit and state subsidies.

Pre-retirement without state subsidies (except unemployment benefit and pensions): This is based on individual or group agreements between a large company – often in the banking sector – and older workers. It is normally funded from the reserves or profits of the company, but it is estimated that the long-term saving for the employer arising from one pre-retirement can allow approximately two young workers to be recruited.

D. Pension incentives and replacement rates: an international comparison

Pensions can be benchmarked against those available in other countries by assessing their relative generosity and likely impact on retirement decisions. In Figure 3.1, two indicators are shown for a range of countries, including Spain. The first is the net replacement rates for selected OECD countries. Clearly, high replacement rates provide a greater incentive to retire, all else equal, than low replacement rates. But retirement decisions will also depend on the present value of future pension benefits, *i.e.* pension wealth, that would be lost if retirement is postponed. Thus, even if replacement rates were only modest, workers may still choose to retire rather than work an additional year if continuing to work would effectively result in a large drop in their pension wealth. Thus, in panel B of Figure 3.1, the change in net pension wealth at each age associated with working one additional year, relative to former earnings, is also shown. If positive, it implies that workers face an incentive to continue working whereas if negative there is a disincentive. In all cases, it is assumed that workers in each country have contributed continuously to the pension system since the age of 20. Based on these two indicators, the following observations can be made:

- In comparison with other OECD countries, the net replacement rate in Spain is high. Of course, these replacement rates refer to public pensions only, including in some cases, publicly-mandated occupational pensions. Therefore, actual replacement rates would be somewhat higher in those countries, such as the United States, where the coverage of private pension plans is quite important. In Spain the private pension system is still little developed. Nevertheless, even including these private pension plans would probably not lead to the gap being eliminated completely between these countries and Spain.
- For most countries there is a significant drop in net pension wealth from working one additional year after the official age of retirement (or somewhat earlier). This is especially true in the case of Spain (and Italy) where the loss in pension wealth is most pronounced at the age of 65. However, even before the official age of retirement, estimates by the OECD indicate that, for workers with low earnings (equivalent to the minimum wage), a career extending beyond age 60 significantly reduces pension wealth, imposing *de facto* a heavy “implicit tax” on

working longer. A similar phenomenon affects those careers that extend beyond age 62 if they have already contributed for more than 40 years (including those earning the mean wage). In this case, the cut in the replacement rate to offset smaller contributions is reduced to 6%, and it cannot be applied at all if the pension is a minimum benefit.

- The new flexible retirement system has helped to alter work disincentives for older workers. In particular, as mentioned above, for individuals working over the age of 65, the earnings base for the calculation of their final pension will be raised for each extra year of work, with no age limit.¹⁹ And, as previously mentioned, the new “flexible system” allows individuals to combine pension receipt with part-time work. However, the relatively generous pension benefit calculation in Spain, which allows rapid accrual of pension rights early in a career might still encourage early retirement for certain categories of workers.

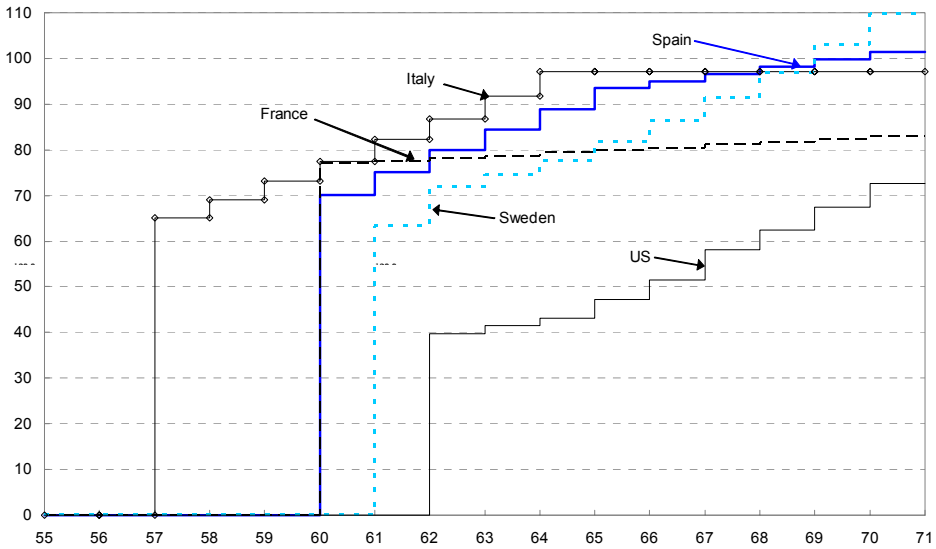
In sum, the Spanish government has made marked progress in addressing the problems of the current pension system. In particular, the introduction of the flexible retirement scheme marks an important and valuable step in the right direction. However, the magnitude of the problems associated with the demographic changes should not be underestimated. In Sweden, for example, where the participation rates of older workers is already among the highest in OECD countries, much has been done in the context of developing a more flexible retirement system (Box 3.3). Many of the OECD countries are facing the same problems, and further reform is needed, including in Spain. There are plans to revise further the pension system in 2004 and it would be useful in this context to address the problems of rapid accrual of pension rights early in the career, as well as possibilities of early receipt of pension benefits still available in the system.

19 . As already mentioned, this applies to persons who have contributed for at least 35 years.

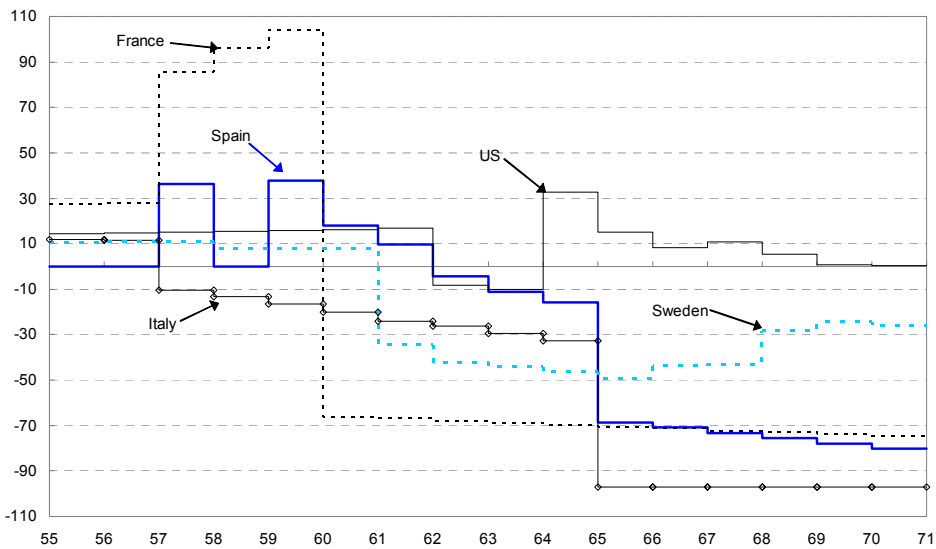
Figure 3.1. Pension and work incentives in selected OECD countries^a

Percentages

Panel A. Net replacement rates



Panel B. Change in pension wealth from working an additional year



a) For workers earning the equivalent of Average Production Worker (APW) earnings in each country. For France, the data refer to gross rather than net figures.

Source: OECD estimates.

Box 3.3. The Swedish flexible old-age pension system

Reasons behind the reform: In 1999, Sweden introduced a new public old-age pension system. The reason for reforming the public pension system was twofold. First of all, the system had become too costly and the reform was a necessary step to control fiscal pressures mainly arising from large cohorts leaving the labour market and increasing life expectancy. Secondly, to increase the number of people contributing to the system and thus fund the rising public expenditures, incentives to work had to be improved and thus the link between lifetime earnings and pension entitlements had to be strengthened. A closer link between contributions and pension entitlements was also a way to ensure greater fairness between individuals such that a person with a longer work record would receive a correspondingly higher pension entitlement than a person with a shorter work record, all else equal. Thus, the reasons for reforming the public pension system were not unlike those emerging in Spain.

Main elements of the reform: The new pension system can, in broad terms, be characterised as a switch from a defined benefit to a defined contribution scheme. The system consists of an earnings-related pension and a minimum guaranteed pension. In turn, the earnings-related pension consists of a defined contribution PAYG component and a defined contribution pre-funded component. The total contribution amounts to 18.5% of income and income up to the ceiling will generate pension rights.²⁰

Increasing flexibility: From the age of 61 onwards, it is possible to work and draw a pension at the same time. The pension can be drawn at 100% or partially in steps at 75%, 50% or 25% and combined with full-time or part-time work. Since there is no longer a stipulated retirement age, pension entitlements can be earned for an indefinite period. However, the minimum guaranteed pension benefit cannot, in contrast to the earnings-related pension, be drawn before the age of 65.

Actuarial calculations: By switching to a new formula based on lifelong earnings instead of the 15 best years out of 30, incentives to work and to maximise earnings while in work have increased. New pension entitlements will always be accrued on any pensionable income. Therefore, if a person continues or re-enters employment after retirement, the pension will increase. The calculation of new entitlements takes into account the shorter remaining life expectancy when new entitlements are converted to pension, thus the age at which new pension credits are earned affects the pension level as well.

Source: OECD (2003c), Ageing and Employment Policies, Sweden.

20. The earnings-related pension is autonomous in relation to the state budget with a contribution of 16%. The pre-funded system is based on the remaining 2.5% of the contribution and individuals choose from a large number of mutual funds how their contributions should be invested.

2. The private pensions system is still underdeveloped

Only since 1988 are firms and individuals allowed to take out voluntary pension plans with financial institutions. The funded pension schemes are not directly affected by the process of population ageing and in Spain these are still relatively new and little developed. In 1999, the estimated volume of private savings in the different private pension plans was about 20% of GDP. In many countries such as the United States, the United Kingdom and Canada, the private pension system plays a fundamental role in providing retirement income and topping-up the public pension system. For example, Canada's third tier of the retirement income system, private pensions and savings, consists of a number of schemes to which individuals can enhance their own retirement income – many of which have built-in tax incentives (Box 3.4).

Box 3.4. Private pensions and savings plans in Canada

Registered Retirement Savings Plans (RRSPs): RRSPs are individual, personally managed savings plans. Savings in an RRSP receive tax assistance – contributions are tax deductible and investment income is not taxed as it is earned. The tax is paid when funds are withdrawn from these plans. An RRSP fund may be invested in a range of financial products and investment vehicles, including savings accounts, equity investments, Canada Savings Bonds, term deposits, guaranteed investment certificates, and mutual funds. An RRSP can be set up through most financial institutions – banks, credit unions, trust companies, mutual fund companies, insurance companies, and investment dealers or brokerage firms. Even self-directed RRSPs are an option that allows the contributor to directly manage his or her own investments including stocks.

Group Registered Retirement Savings Plans (Group RRSPs): Some employers offer a group RRSP. It is similar to an individual RRSP except that the employer deducts the contribution from the individual's pay cheque and deposits it into an RRSP.

Employer pension plans: There are two principal types of employer pension plans – defined benefit plans and defined contribution plans. Contributions are tax deductible.

Deferred Profit-Sharing Plans (DPSP): A deferred profit-sharing plan is set up by an employer for employees. The employer makes contributions based on the company's profits up to a specified maximum. Like employer pension plans and RRSPs, savings in a DPSP are tax-assisted. The contributions and investment income remain tax-sheltered until amounts are paid out of the plan. When employees retire, they may receive a lump-sum payment, transfer the funds to an RRSP or Registered Retirement Income Fund, or use them to purchase an annuity.

Private pension schemes have been supported as part of the Toledo Pact of 1995 and further measures adopted in 2000. There are special tax advantages for investing in these schemes:

- income arising from these schemes enjoy deferred taxation;
- there are provisions to foster the portability of benefits, to ensure that benefits are maintained even when workers leave the firm. Moreover, measures have been taken to ensure that pensions are guaranteed in case of business failure – indeed, the financial commitments arising from corporate pension schemes are being removed from firms' accounts.

Despite these measures and the rapid increase in the number of private pension funds over the past ten years or so, corporate pension funds are still underdeveloped in Spain – they cover 3 to 5% of total employment. One reason is that small firms find it difficult (and complex) to set up a corporate pension plan. More fundamentally, given the low level of their wages, many employees cannot afford contributing to a private pension plan, especially in view of the existence of a reasonable pension under the public pension pillar. This is also why the main beneficiaries of private pension plans are high-income workers. For this group, some concern has been expressed about whether the tax treatment of pension plans will in fact translate into an implicit subsidy for early retirement. In sum, there is probably scope for developing private pensions in Spain. However, this should be done in a manner which does not act as a subsidy to early retirement.

3. Alternative pathways to early retirement

A. Sickness and disability benefits – a relatively effective coverage

Spain has a well-established disability pension system, which serves one of its main purposes, namely to protect people against the risk of work incapacity due to either common sickness or work accident. This is important in Spain where a significant share of workers is exposed to more labour intensive occupations and exposure to health and safety hazards is relatively high in certain sectors. In the early 1990s, a non-contributory element was added, thereby improving the coverage of the system. Moreover, disability and sickness benefits are relatively well integrated – ensuring adequate connection between the two pillars. And efforts have been made to reinforce control and monitoring (notably by strengthening the role of Disability Assessment Teams).

Altogether, Spain has made significant progress towards providing effective coverage against disability risks (Box 3.5). Furthermore, the improved coverage has not had a major financial impact: in 1999, expenditure on sickness and disability benefits (including also work injury benefits) represented about 2.25% of GDP, *i.e.* about the same as the OECD average.

Box 3.5. Key characteristics of Spanish sickness and disability benefits

In order to shed light on the strengths and potential weaknesses of the disability benefits in terms of ensuring adequate work incentives for older people, it is useful to describe the main characteristics of the system.

In general, to be granted a disability benefit, an individual must first be on sick leave:

- Sickness benefits are available to all workers who have contributed at least six months within the five years prior to illness (except in the case of work accidents which are available independently of the contribution period).
- Benefit level: there is a waiting period of three days. Then, from the 4th to the 21st day of sick leave, 60% of the basic salary is provided by the employer. Thereafter, compensation represents 75% of the basic salary and is paid by Social Security. In case of work accidents, compensation is 75% of the total salary (including overtime pay), as from the first day of sick leave. Importantly, it is not possible to combine sickness benefits with work, even part-time.
- Duration of benefits: 12 months with possible extension of six additional months.
- Certification and monitoring is ensured by a doctor from Social Security (or a Mutual Work Fund).

Once on sick leave, the individual can request invalidity status. There are two main types of invalidity benefits: contributory benefits (granted on condition that social security contributions have been paid for more than a given period) and non-contributory benefits. Eligibility conditions and the level of benefits under the contributory part are as follows:

- The minimum “rate” of invalidity under a contributory benefit is 33% (this implies that work capacity is one-third lower than normal). In the case of “partial *invalidity* for the usual occupation”, work capacity is lost by at least one third, but the main job can still be performed. In the case of “permanent total *incapacity*” the worker is unable to perform the usual occupation but can in principle move to another job. However, “absolute *incapacity*” is presumed (by definition) to be inconsistent with any work, although it is not forbidden. Incapacity (both total and absolute) gives rise to a pension which is provided without any limit (other than those established as part of the medical assessment).

- When the cause of invalidity is not a work accident, the minimum contribution period for a person 55 years old is about 8.75 years preceding sick leave, with the number of required contribution years increasing with age.²¹ In case of work accident, no contribution period is required.
- Medical assessment for invalidity is carried out by the “incapacity assessment teams” which belong to Social Security.
- It is possible to combine receipt of an invalidity pension and a job under two conditions: *a*) the occupation has to be different from the one which originated invalidity and *b*) it has to be consistent with the health situation of the beneficiary. In the case of professional illness, prior authorisation from Social Security is required. However, absolute disability is presumed (by definition) to be inconsistent with any work.

Individuals of working-age who are not eligible for contributive pensions may be entitled to a non-contributive benefit:

- The minimum rate of invalidity, at 65%, is twice as high as for contributory pensions.
- The benefit level differs across regions and averages about half the minimum wage (or about 240 euros monthly). Moreover, non-contributory benefits are subject to an income test carried out yearly and, therefore, any labour income has to be deducted from the benefit.
- Review and monitoring of the invalidity situation is carried out by health authorities at the regional level (Autonomous Communities) – the body in charge of this, therefore, is not the same as that for contributive pensions. However, non-contributory invalidity pensions are funded by the Social Security.

Older workers are over-represented among disability beneficiaries

However, as in other OECD countries, invalidity benefits have been sometimes used as a channel to exit the labour market. This was particularly the case between the mid-1970s and the mid-1980s, a period characterised by rapidly rising unemployment; during this period, the number of invalidity pension beneficiaries grew spectacularly. Following a series of reforms adopted since the mid-1980s, the rise in the number of beneficiaries has been halted. Still, nearly 800 000 people of working-age receive an invalidity pension in

21 . Moreover, during the ten years preceding sick leave, at least one and a half years of contributions are required. In the case of younger workers the required period is shorter.

Spain, *i.e.* about 4.7% of the labour force. Two-thirds of these beneficiaries are aged 50-64. Moreover, as Chapter 2 illustrated, more than 43% of older workers aged 60 to 64 retire early due to illness or incapacity.

Concern about invalidity pensions in the context of this study arises for two main reasons. First, given the recent reform of the pension system and the progressive suppression of subsidised early retirement schemes, there is renewed risk that invalidity benefits might be used as a system to exit the labour market. Second, it is important that those presently receiving benefits and who can perform certain occupations have an incentive to accept a suitable job opportunity.

The number of older workers who are granted disability status may rise rapidly in coming years

As a result of the introduction of the flexible retirement system (which in principle makes early retirement more costly to both employers and workers), there may be increasing pressures to use disability benefits as an alternative route to early labour market exit. These pressures may be all the more difficult to resist because of certain features of the current disability pension system.

First, the costs borne by employers in case a worker takes sick leave (which, as discussed in Box 3.5) is the first step to enter disability benefits) are relatively low by international comparison. Indeed, employers cover 60% of the basic wage for only the first 18 days of sick benefits.

Second, though the monitoring role of the “assessment team” has been reinforced, the minimum rate of disability which gives rise to benefits, at 33%, is low. As a result, it may be difficult to deny access to benefits in cases of relatively moderate disability situations.²²

Third, and perhaps more importantly, non-contributory pensions are administered by regional governments, though funding comes from Social Security, *i.e.* central government. Since regions can administer these benefits while they are not responsible directly for the cost of their decisions, they may not have much incentive to reduce the number of case-loads. Moreover, since regions are financially responsible for social assistance benefits, they may be inclined to grant non-contributory disability benefits with a certain leniency to avoid paying social assistance benefits out of their own purse.

22. So far, the relatively high percentage of claims which are rejected by the assessment teams suggests that invalidity status is being granted with care.

The current system makes re-employment of disabled older workers very difficult

The employment rate of older workers with a disability status is one of the lowest in OECD. The reason is that the re-employment chances for disabled older workers are very low. Several factors account for the low re-employment rate of disabled older workers. First, there are relatively few active programmes available to the disabled. Second, the financial incentives to find a job are relatively limited. Moreover, where individuals are able to combine benefits and labour activity, they risk losing their entitlements in case the job experience is unsuccessful. In the case of non-contributive pensions, the income-test implies that benefits are withdrawn euro for euro in case the beneficiary finds a job. Finally, unlike other countries, notably Denmark and the United Kingdom, there are no special in-work benefits or negative income taxes available to the disabled who accept a job.

Reflecting this inertia, and the likely continued inflows into disability arising from the ageing process, it can be hypothesised that, unless action is taken, the stock of disability pensioners older than 50 will rise.

B. Unemployment benefit systems

Older workers are relatively well covered by unemployment benefits. The result is that the vast majority of them receive either insurance or assistance benefits, compared with less than one half in the case of unemployed workers of prime-age. Moreover, it seems that job-search requirements are not applied very rigorously to unemployed individuals over a certain age (Box 3.6).

Some of the provisions of the unemployment benefit and assistance programme clearly act as a bridge to retirement. To effectively increase the working life of older individuals, including unemployed ones, the disincentives to continue working embedded in the unemployment benefit systems need to be re-examined as part of the reform process.

Consequently, in an attempt to mobilise labour supply, amend employment protection and enhance overall employability in line with the European employment strategy, the government introduced reforms to the unemployment benefit system in December 2002 (Box 3.7). Of special interest to older workers is the provision to allow workers over 52 to combine unemployment benefits and regular work income (*Ley 45/2002*, 12 December 2002).

The reform of the unemployment benefit system was necessary since changing the pension system and the disincentives to continue working are not sufficient. Moreover, reforms of the sickness and disability and, unemployment benefits systems should address not only their interaction but more specifically the extent to which they are utilised as pathways to early retirement. At the same time,

however, the main thrust of the welfare system – social protection – must not be forgotten. Reforms therefore have to be wide-ranging, coherent and must address all pillars of the welfare system.

Box 3.6. Structure of unemployment benefits for older workers

Unemployed persons in Spain are covered by two successive benefit systems. The first is a contributory unemployment insurance benefit system paid to a registered unemployed person aged 16-65, who is available and actively seeking work, and who did not leave the previous job voluntarily. Benefits are calculated as follows: 70% of reference earnings (average gross earnings over the last six months) for a maximum period of six months, then 60% of reference earnings for the remaining period. The benefit duration can last from four to 24 months depending on the number of months contributed.

Once individuals have exhausted their entitlement to the contributory benefit system, they are entitled to an assistance benefit scheme (gross benefits are calculated at a flat rate of 75% of minimum wage). Benefit duration can range from three to 30 months. Conditions for receipt include:

- With dependants: those aged 16-65 who have exhausted their entitlement to contributory benefit; those with no entitlement to contributory benefit, but who paid contributions for three months.
- Without dependants: those older than 45 who have exhausted their entitlement to contributory benefit for at least six months; those with no entitlement to contributory benefit, but who paid contributions for six months.

In addition, there are special provisions regarding older workers. Besides the unemployment insurance benefit, there is a special unemployment assistance benefit for unemployed workers over age 52:

- To be eligible for unemployment assistance benefits, unemployed workers over age 52 must be actively looking for a job and be registered in the employment office. The benefit is means-tested (income must be less than 75% of the minimum wage). In addition, the worker must have: *a*) contributed to the unemployment system for at least six years (over the entire career), *b*) contributed to the pension system the required minimum and, *c*) exhausted any rights to unemployment insurance.
- These benefits are provided until the beneficiary has access to a retirement pension, the maximum duration is therefore 14 years, *i.e.* from age 52 to 65. On the other hand, the level of benefits is relatively low – 75% of the minimum wage. In November 2002, there were more than 142 000 recipients of the unemployment assistance benefit for workers over age 52.
- Beneficiaries who take a job lose their benefits entirely, *i.e.*, there is no earnings “disregard”.

Finally, in 2000, an “active insertion income” was introduced. It applies to individuals over age 45 that have exhausted social benefits. Benefits are subject to an income test. Moreover, beneficiaries are required to participate in a reinsertion programme under the auspices of employment services.

Box 3.7. Recent reforms of unemployment benefits

Written commitment: In order to receive unemployment benefits, unemployed people must make a written commitment to accept all proposals that help them to find jobs as well as agree on a set of occupations for which the individual job-search requirement applies.

Acceptance of suitable employment: Unemployed people must accept the offer of a “suitable job” or risk losing their benefits. A suitable job is considered to be one which is the same occupation as the one previously performed by the applicant for a period of three to 12 months at any time in their working life or is in accordance with his or her training. If unemployed people fail to find such a job within 12 months, jobs deemed acceptable by the public employment service must be accepted.

Geographical mobility: Unemployed people must accept a job that is less than 30 kilometres from their home and requires a return journey of less than 25% of the time at work, providing that the journey does not cost more than 20% of the wages.

Income restrictions: Unemployed people who receive income from assets and investments will not receive unemployment benefit assistance.

Special provision for women: There will be a one-year reduction of 100% in social security contributions for women returning to employment in the two years following childbirth.

Combining work and benefit receipt: Persons over the age of 52 may receive unemployment benefit and work at the same time. They will receive 50% of normal benefit and the employer will supplement their wages.

Active integration income: The programme to help integrate unemployed persons into the labour market, “integration contract” scheme, is expanded to cover all persons over the age of 45 who have been unemployed for one month. It is also applicable to people with disabilities, returning emigrants, women who have been victims of domestic violence and some agricultural workers from Andalucía and Extremadura.

Benefit receipt and status (salarios de tramitación): In the event of reinstatement following unfair or unjustified dismissal, companies are still responsible to pay the lost wages of a dismissed worker. However, they can now avoid paying them by accepting from the start that the dismissal is unjustified, and paying the appropriate legal compensation.

Abolition of the special subsidy for unemployed agricultural workers (popularly known as Rural Employment Plan – PER): In Andalucía and Extremadura, this will be gradually phased out. A new agricultural unemployment benefit is being introduced for all regions, though with major reductions. The employers must pay the contributions, gradually increasing over the next few years. However, agricultural workers in Andalucía and Extremadura will have special access to Active Integration Income.

Chapter 4

REMOVING DEMAND-SIDE BARRIERS

Enhancing work incentives embedded in social protection systems, important as it is, will not be enough. Action is also needed to ensure that employers have an interest in retaining and recruiting older workers. This raises issues of how wages are determined – and whether seniority wages act as obstacles to the employment of older workers. Likewise, employer attitudes and perceptions play a fundamental role in determining the employment outcomes of older workers. And, employment regulations, social security contributions and part-time work opportunities are also key demand-side considerations. The purpose of this chapter is to examine these issues and identify areas where further reform may be needed.

1. Addressing firms' attitudes towards older workers

Some of the demand-side barriers older workers face are found in employer practices that encompass the hiring, retaining and training of older workers but also more generally in their attitudes towards this group. As such, the role of government to change attitudes and perceptions is an indirect one. However, together with social partners, government can help change outcomes.

One important issue is age discrimination in employment. As early as 1978, the Spanish Constitution prohibited discrimination in work for reasons of age and sex. A provision also appears in the Workers' Statute of 1980. In November 2000, the European Council unanimously adopted a new directive requiring equal treatment in employment and occupation in the areas of sexual orientation, religion, disability and age. The timetable for the introduction of legislation regarding age discrimination is set for 31 December 2006. Despite the presence of legislation, some studies indicate the possible presence of age discrimination in the recruitment, promotion, training and status of older workers in several countries, including Spain (Drury, 1997). Indeed, though legislation sends an important signal that discrimination will not be tolerated, it is not sufficient. The fact is, for example, that older workers continue to be

over-represented in layoff plans. And, although this is not necessarily indicative of age discrimination, more efforts are needed to change the attitudes of firms towards older workers.

First, in the past few decades, in many OECD countries the labour market participation of older workers was adversely affected by the view that more people (the retirees) leaving the labour market and less entering it (the youth) was an effective mechanism for reducing unemployment, especially among the youth. As a result, there were pressures to encourage workers over age 50 to leave the labour market before the statutory retirement age of 65. However, there is a clear recognition now, as evidenced by the new pension reform discussed in Chapter 3, that subsidising early retirement can be a counter-productive way of solving unemployment problems.

Second, a range of negative attitudes – more so misinformed stereotypes – continue to plague older workers. Often they are viewed as being less productive, lacking flexibility, prone to ill-health and so forth. Note, however, that there are few objective criteria that justify any of these perceptions. Moreover, though a significant share of inactive individuals appears to have left their last job for health reasons, the incidence of absences from work is not particularly high in the case of older workers. In 2001, only 2.3% of older workers in Spain missed work completely during the reference week, compared to 2.6% in the case of workers aged 25 to 49. An insignificant number of older workers – 0.2% – worked fewer hours than normal because of illness or injury.

It is useful to mention recent initiatives from certain countries which are facing the same problems as Spain. In Finland, for example, the National Programme on Ageing Workers appears to have been successful in influencing general attitudes, partly by raising awareness through media but also through promotions directed at the workplace (Ministry of Social Affairs and Health, 2002). For example, some positive trends can be seen in the increased share of managers having undertaken age-management training. In the United Kingdom, the Age Positive campaign seeks to recognise and influence the attitudes and practices of both employers and their staff towards older workers. The advantages of diversity and flexibility in working practices are promoted through a group of “champion employers” who have effectively demonstrated leadership in these areas. More generally, measures taken to address attitudes need to infiltrate the workplace at various hierarchical levels. It is indeed very important that long-term measures are taken in order to change attitudes among all stakeholders in the workplace.

2. Reforming employment regulations

Spain has long suffered from very protective legislation regarding dismissal and overall protection remains among the strictest in the OECD.²³ And, it has been argued that such strict employment protection has been a major factor behind Spain's high unemployment. However, the relationship between employment protection legislation and employment is complex. On the one hand, strict legislation can help strengthen employer-employee attachments and raise incentives to invest in workers' skills. On the other hand, such legislation can make employers reluctant to hire new workers and this could affect disproportionately vulnerable groups, such as older workers. This is why Spain has proceeded with several waves of reform in this area.

A. *Increased recourse to temporary employment*

Reform efforts carried out in 1984 created wider possibilities for recruiting under temporary (or short-term) contracts – which until then was possible but only in the case of specific tasks of a short-term nature. The novelty in the 1984 legislation was to make it possible for employers to offer a fixed-term contract to perform a job of a definite or indefinite duration. Fixed-term contracts could be renewed up to a maximum of three years – significantly longer than the OECD average. Importantly, these contracts did not benefit from any financial incentive. By contrast special fixed-term contracts were created for younger workers, and employers offering these contracts were entitled to a reduction in social security contributions.

Reforms were met with some success, at least initially ...

The reform led to some positive results during the second half of the 1980s.²⁴ Total hiring increased from less than half a million in 1984 to over 2 million in 1990. Although the improved employment situation also reflects the broader economic strategy which was adopted in connection with accession to the European Union, the majority of these new hires were carried out under (non-subsidised) fixed-term contracts. In fact, between 1987 and 1991 alone,

23 . The OECD has ranked countries according to the strictness of employment protection governing individual dismissals, based on a combination of several different factors such as the notice period involved, the amount of severance pay and the definition of unfair dismissals (OECD, 1999a).

24 . For a detailed analysis of the labour market impact of fixed-term contracts, see Segura *et al.* (1991).

temporary employment grew by more than 1.7 million, compared to a loss of permanent employment of some 270 000. By 1991, the incidence of temporary employment grew to more than 32% compared to 15% in 1987.

...but have since created a marked duality in the labour market

With the onset of recession in the early 1990s, the co-existence of different rules for temporary and permanent contracts generated a marked duality in the labour market: workers on temporary contracts were used as a buffer in the face of change. At the time, firms were allowed to dismiss fixed-term contract workers with little or no severance payments and without advanced notice to unions or the Ministry of Labour. As a result, job turnover in Spain increased and as Chapter 2 demonstrated, in 2003, nearly 45% of older workers were unemployed for reasons associated with temporary contracts or the end of a contract.

In particular, this highlights the labour market duality between older workers on fixed-term contracts and those who have permanent contracts. Older workers on temporary contracts are especially vulnerable to shocks. Of course, younger workers are also affected by the duality between temporary and permanent contracts but the situation is especially concerning for older workers whose re-employment chances are significantly lower compared to prime-age workers.

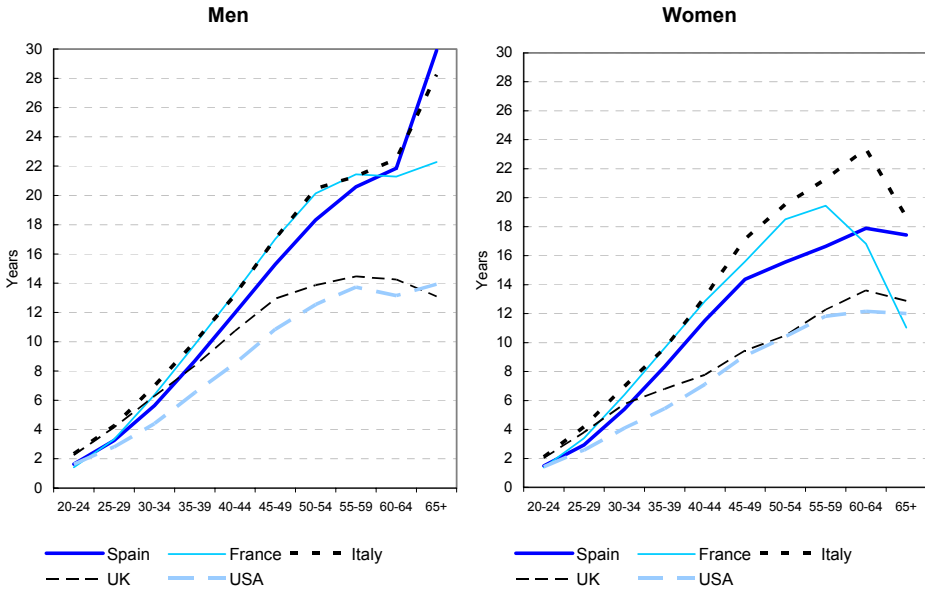
Nevertheless job tenure has remained high

Despite the increased recourse to temporary employment, average job tenure in Spain is comparably high. In 2001 – virtually unchanged since 1992 – more than 59% of older workers in Spain had job tenure of more than 15 years compared to 54% on average in the European Union. For men, average job tenure steadily increases with age and peaks at nearly 30 years (Figure 4.1). For women, average job tenure is much lower than for men in all age groups which may be partly explained by career breaks reflecting family circumstances. Still, average job tenure, which peaks at 18 years for women aged 60 to 64, is relatively high. These patterns are strikingly different to the average job tenure witnessed in the United States and the United Kingdom where labour markets are said to be more fluid and lacking the level of employment protection that prevails in Spain, Italy and France.

The fact that job tenure has remained high, despite the fact that many older workers may lose their job as a result of non renewal of temporary

contracts shows that the re-employment chances of older workers are low: older workers who become unemployed or inactive tend to find alternative pathways to retirement or become long-term unemployed. By contrast, those older workers who are on permanent contracts tend to enjoy high tenure and therefore have a high probability of staying in employment – thus the peculiar shape of the tenure curve shown in Figure 4.1.

Figure 4.1. Average job tenure of employees in selected OECD countries, 2000



Source: OECD Labour Force Statistics and European Labour Force Statistics.

B. Recent reforms have reduced somewhat employment protection legislation for older workers

Re-employment problems of unemployed persons in general, and older workers in particular, has been one motivation behind attempts to reform the rules governing permanent contracts while at the same time promoting the stable hiring of disadvantaged groups. The reform process of May 1997 entailed a reduction in employment protection rules on permanent contracts for “disadvantaged workers”, including those above the age of 45 (Box 4.1).²⁵

25 . In the 1997 reform, disadvantaged workers are very broadly defined and include youth, those above age 45, the long-term unemployed and temporary

Box 4.1. Characteristics of indefinite contracts for employees over age 45

In 1997, a contract for the promotion of employment of indefinite-duration was introduced. The new contract is available to certain vulnerable groups, including unemployed workers aged over age 45. The advantages for employers to recruit under these contracts are as follows:

Lower dismissal costs: Dismissal of individuals hired under the new contract entails a severance pay of 33 days per year of seniority (compared with 45 days in the standard employment contract) with a maximum of 24 months (while in the standard contract the maximum is 42 months).

Reduced social security contributions: Employers' social security contributions are reduced for workers over 45 years of age. When the employee is aged 45 to 54, the contribution rate is reduced by half in the first year, and 45% thereafter. In the case of employees aged 55 to 65, the reduction rate is 55% during the first year and 50% thereafter. Hiring of unemployed women (over age 45) under these contracts entails a further 10 percentage point reduction in social contributions.

The contract has met with some success. About 65 712 such contracts were registered in 2001 along with 70 502 additional contracts recorded between January and November 2002. Moreover, while unemployment of older workers has long been insensitive to improved labour market circumstances, it has tended to decline since the 1997 reform.

More generally, the rules governing job contracts and social security contributions were changed as follows:

- Severance payments in the event of unjustified dismissal were reduced from 45 days pay per year of service (with a maximum of 42 months pay) to 33 days pay per year of service (with a maximum of 24 months pay).
- Severance payments in the event of justified dismissals remained unchanged at 20 days pay per year of service (with a maximum of 12 months pay). However, the reform attempts to further clarify when employers are allowed to dismiss workers for “fair” reasons. Nonetheless, deciding when a dismissal is considered “fair” (*procedente*) or “unjustified” (*improcedente*) is still very complex.

workers whose contract would be converted into a permanent one during a specified period.

- Social security contributions on permanent contracts have been lowered.
- The reform aims at penalising the use of fixed-term contracts. The cases where such contracts can be used have been reduced, the maximum duration of the contract has been shortened, and the government retains the right to increase social contributions on them.
- Finally, a subsidy for the conversion of temporary contracts into permanent ones has been provided in the form of a 5 percentage point reduction in employers' social security contributions. The subsidy is provided for a maximum period of two years.

In sum, these reforms may have increased the re-employment chances of unemployed older workers. The cut in social security contributions for the conversion of temporary contracts into indefinite ones may have also helped improve employer-employee attachments. However, the reforms will not be enough to address the relatively high incidence of temporary work that prevails in Spain. As Chapter 2 demonstrated, the incidence of temporary work remains significantly large – nearly 2.5 times the EU average for prime-age and older workers. And, though any initiatives to reform employment protection practices must confront difficult trade-offs, to improve the current situation in Spain more reform is required.

Foremost on the agenda should be the reform of dismissal regulations, especially for older workers. This might help provide a long-lasting incentive for the conversion of temporary contracts into permanent ones. Until 2001, only two types of temporary contracts included financial compensation for dismissal. However, most temporary contracts now attract such compensation, though this is equivalent to eight days of pay per year of service, compared with 33 days of pay per year for workers on open-ended contracts. Furthermore, the length of notice for termination for workers on temporary contracts is only 15 days if they have worked for more than one year with the same employer (compared with 30 days for those on permanent contracts with no restriction on length of service). Otherwise, temporary contract holders may be given no notice at all of dismissal, leading to a high level of insecurity among such employees. This is problematic, since, as noted, older workers employed under temporary contracts are especially vulnerable to early exits from the labour market. In this respect, recent reforms in Austria provide an interesting example on how to balance the need for greater flexibility with that of job security (Box 4.2).

Box 4.2. Labour market measures in the context of pension reform in Austria

On 5 July 2000, the Austrian parliament passed a reform of the pension system that included provisions to increase entry age for early retirement, reduce pensions for early retirement, and modify conditions for entitlement to invalidity and disability pensions. A series of labour market measures were adopted as well:

Dismissal disincentives: Employers who dismiss an employee over the age of 50, who has been employed for at least ten years, have to make payments to the unemployment insurance system. This payment starts at 0.2% of the employee's gross income at age 50 and increases with every three years of age up to the maximum of the current employer's contribution to unemployment insurance (3% of gross income). Additionally, if the employer does not report the dismissal of older workers to the National Employment Service (AMS), the disincentive payment increases by 30%.

Early warning system: Companies are now obliged to report to the AMS all dismissals of workers over the age of 50 who have been employed in that company for at least six months at the time of the dismissal. The AMS must take measures to find employment for the worker concerned.

Contesting dismissals: The employment contracts adjustment act (*Arbeitsvertragsrechts-Anpassungsgesetz, AVRAG*) is amended to provide new rules on employment protection for older workers. Older employees who have been employed in the same company (five employees or less) for at least six months may now contest a dismissal in the courts within one week of the dismissal's announcement. The dismissal is regarded as "socially unjustified" if it injures the "essential interests" of the employee.

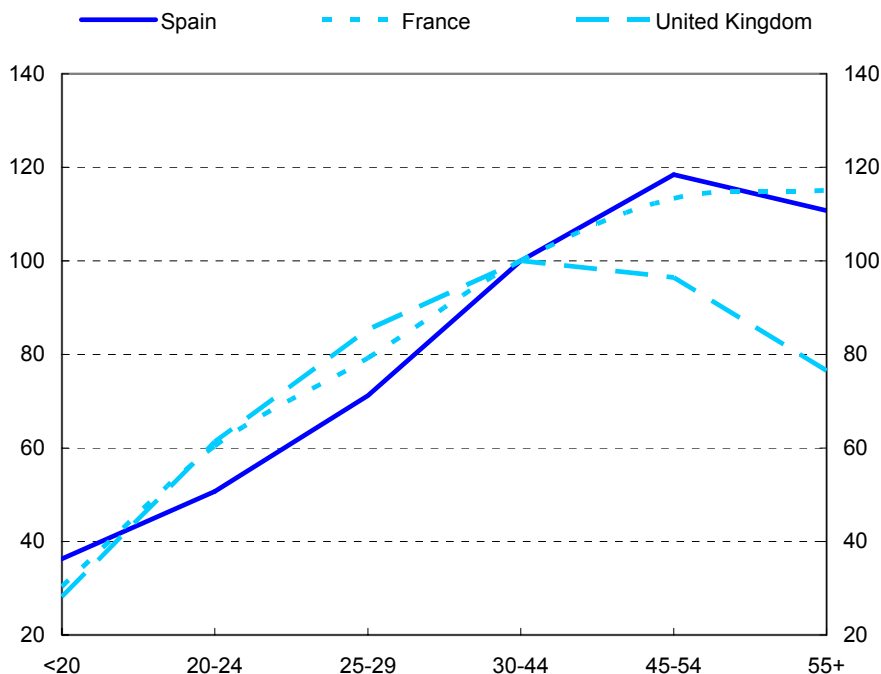
3. Addressing the steep age-profile of earnings

In many countries, wages tend to grow with age – a pattern that may reflect productivity gains associated with experience. However, the age-profile of earnings may also be the result of an implicit contract between the employer and the employee. Accordingly, wages would grow with seniority in order to enhance employee's commitment to the firm. Beyond a certain age, however, the wage would exceed the employee's productivity, which would explain employers' incentive to encourage early retirement. In such a context, the age of retirement is determined jointly with the age pattern of earnings.

In the case of Spain, the age-profile of earnings is indeed very steep, which might contribute to explaining early retirement patterns. As in other countries, earnings tend to peak near age 50. However, the subsequent decline in earnings for individuals 55 and over is not so pronounced in Spain, especially

as compared to countries such as the United Kingdom (Figure 4.2). On average, workers aged 50-54 earn nearly 80% more than employees aged 25-29 and still 40% more relative to the 30-34 age group. Moreover, despite some decline in earnings for groups close to retirement age, workers aged 55 and over earn more than their prime-age counterparts. It should also be stressed that the average level of educational attainment of older workers is low compared with younger generations – this reflects the spectacular improvement in educational attainment recorded over the past three decades (see Chapter 5). Therefore, observed wage differentials may in fact understate the true age-profile of earnings. On the other hand, two factors may artificially raise the average relative earnings of older workers. First, the participation rate of older women is relatively low – which, given that (on average) women earn less than men, would “increase” observed average earnings for older workers. Second, less educated individuals tend to withdraw from the labour market earlier than better educated ones, also “raising” average earnings of older workers. However, controlling for gender and level of education does not change much the pattern of earnings shown in Figure 4.2.

Figure 4.2. Age-profile of earnings, 1995
Average gross annual earnings = 100



Source: European Structure of Earnings Statistics (1995).

Collective agreements are one factor behind observed wage patterns. As in other OECD countries, wage determination in Spain is strongly influenced by collective agreements – these agreements cover practically 80% of all employees. In the past, seniority was a major component of agreed wages, thereby contributing to the steep age-profile of earnings. Over the past few years, seniority has been playing a less important role in wage determination. Still, about 80% of collective agreements include seniority clauses. Moreover, this has been replaced by pay scales based on professional categories which in practice may act as a seniority bonus. These pay scales are available to more than 60% of all the workers covered by collective agreements.

In addition, almost half of all collective agreements (covering 54% of all employees) include retirement provisions. In some of these agreements, a specific age of compulsory retirement is stipulated. In the other cases, retirement is encouraged financially. In view of the ageing challenge, it seems important to examine seniority and retirement provisions available in collective agreements. Obviously, social partners should play a key role in this area.

4. Incentives to recruit and retain older workers

One way of improving employment prospects for workers with low skills, especially older workers, is by making it more attractive to employers to hire and retain these workers.²⁶ This is typically achieved by providing employers subsidies that reduce the cost of hiring or retaining older workers. These wage subsidies can take various forms.

One approach is to promote the recruitment of older individuals who are either unemployed or inactive. It can take the forms of direct wage subsidies or social security contribution reductions for hiring these individuals. Indeed, social security contributions represent a significant cost of recruitment. This is especially true in Spain where the employer's social security contribution rate as a percentage of the gross wage – 30.6% in 2001 – is among the highest in the OECD area. A number of OECD countries have implemented such schemes for which the level of generosity and eligibility conditions varies (Box 4.3).

26 . Of course, directly addressing the skill deficiencies and long-term joblessness of older workers is imperative.

Box 4.3. Employment subsidy schemes for older workers in selected OECD countries

Austria: The employer's contribution to unemployment insurance are halved for recruitments of individuals between 50 and 55 years of age and are entirely suppressed for recruitments of workers over age 55. This subsidy is one part of Austria's Bonus-Malus system, where the "malus" is a penalty payment for dismissing a worker over the age of 50.

Belgium: The government has introduced a set of priorities that include reducing social security contributions by EUR 250 million to promote the hiring of individuals over age 50.

Denmark: Under the Service Jobs Scheme, municipalities hiring individuals who are more than 48 years old and have been unemployed for at least 18 months are paid an indefinite wage subsidy of DKK 100 000 per year.

France: Companies hiring unemployed person aged 50 or above can take advantage of the "Contract to promote employment" (*Contrat Initiative Emploi*). The subsidy consists of a total reduction in employer's social security contributions for the part of wages corresponding to the level of the minimum wage. The subsidy is normally paid for 24 months for a permanent employment contract and indefinitely in the case of a person aged 50-64 who has been either unemployed or on social assistance for more than one year or is disabled.

Germany: There is an "integration" subsidy (*Eingliederungszuschüsse*) available for hiring long-term unemployed persons aged 55 and over. The subsidy corresponds to 50% of wages.

Sweden: the Special Employment Subsidies programme encourages employers to recruit persons above 57 years who have been unemployed for at least two years. The subsidy is paid to employers during a maximum period of 24 months and up to 75% of the wage costs. The subsidy can represent up to half the average salary for a full-time worker.

Reducing social security contributions can also be an effective means by which to retain older workers. Under the new flexible retirement system in Spain, employers are now eligible for a 50% reduction in social security contributions for workers over the age of 60 who have five years of seniority and are employed on permanent contracts. The reduction increases by 10 percentage points every year, so that in 2003 the reduction represents 60% for workers aged 61. This new measure is a step in the right direction and the focus on older workers is to be welcomed. More efforts, especially in terms of recruiting older worker are required. And, though these subsidies do not directly address the problem of low wages for many discouraged older workers, wage subsidies may help older workers to remain in jobs or to find new ones if unemployed. For some, this may be the result of taking up a low-paid job after retiring from a job in which their former wage was much higher.

This can also go a long way in lowering psychological and other barriers to hiring and retaining older workers. At the same time, there is evidence that job placement alone will not be sufficient. Additional measures to increase the participation of these workers in training and other learning activities – the focus of the following chapter – might help to improve their long-run earnings potential. There is also an issue of whether the fact that such subsidies are targeted to all older workers will fuel age stereotypes. Clearly more evaluation is needed in this area. But it should be stressed that, as much as possible, wage subsidies should be targeted to those older workers who are the hardest to place – rather than older workers at large. Targeting will also help reduce deadweight.

5. Widening the opportunities for part-time work

Some argue that part-time contracts, most of which involve women, lead to an increase in the discretionary powers of employers and force the employees to be more flexible in their working hours. And it is true that part-time work is not always a voluntary decision of the worker. However, there are grounds to believe that part-time work, by introducing the important element of flexibility, in fact helps to accommodate work and family responsibilities. It is often regarded as a useful tool to raise the labour market participation of women. This may be especially important in Spain, where the vast majority of older women are inactive.

In the 1990s, the government reforms of the labour market also set out to increase the low incidence of part-time work. Consequently, a series of reforms were carried out in the mid-1990s and most recently in 1999 and 2001 that suppressed certain impediments to part-time work. The most recent legislation equalised pension rights of part-timers with those of their full-time counterparts (before, pension rights for part-timers were less than proportional to working hours). Reforms in 2001 ensured that social protection rights between part-time and full-time contracts were similar. In addition, social security contributions on part-time jobs under a permanent contract can be reduced temporarily. Finally, recent legislation has introduced flexibility in the definition of working hours of part-time workers. These reforms coupled with strong employment growth have helped spur growth in part-time employment.

However, as demonstrated in Chapter 2, the incidence of part-time work in Spain remains relatively low, especially for older workers. The incidence of part-time employment for males aged 50 to 64, at 1.6%, is the lowest rate in the OECD area and nearly six times lower than the OECD average. And, for older women, the incidence of part-time employment is more

than half that of the OECD and EU averages. Consequently, despite the wave of reforms introduced over the past seven or more years, further reform is required. For example, the employers' part of the unemployment contribution rate for part-time temporary contracts remains one percentage point higher than is the case for full-time contracts.²⁷ For older workers, widening the opportunities to undertake more part-time work can be regarded as a useful tool to facilitate gradual transitions from work to retirement.

6. Working environment must adapt to accommodate older workers

Working conditions of older workers is an issue of particular concern in many OECD countries (OECD 2003*c*, 2003*d* and 2003*e*). The situation confronting Spain, where older workers are over-represented in manual occupations and sectors, notably construction, exposed to health and safety hazards, is no different. Moreover, there appears to be a disproportionate share of older workers exiting the labour market for reasons of illness or disability. Two important issues arise in this context:

- measures to improve working time flexibility and job rotation and wider possibilities for a second career will be especially beneficial to older workers who want to work, though differently. For instance, it is important to note that in countries like Switzerland a high proportion of older workers continue working after age 60, the majority of them as self-employed or independent workers – in many cases these are second careers. More generally, the overall approach should focus on individual ability and not stereotype by age.
- efforts to improve working conditions generally should act as a preventative measure, with beneficial effects to all workers, older workers in particular. Making jobs less arduous should reduce the risk that all workers, notably older ones, exit the labour market for reasons of poor health.

Recent initiatives from Belgium and Sweden are interesting cases in point. In 2002, the Belgian Ministry of Employment and Pensions established a fund with the intention of promoting quality working conditions for workers aged 55 and over. It is financed through social security contributions and grants

27 . Contributions on part-time permanent contracts are equivalent to full-time contracts.

subsidies to employers who undertake actions to improve working conditions for these older workers. In Sweden, the government has established an 11-point programme for better health in working life which includes measures for a better working environment.

In general, working conditions that accommodate the needs of a growing number of older workers should help reverse the tendency to exit the labour market earlier than what is deemed required.

Chapter 5

HELPING OLDER WORKERS TO FIND JOBS AND TO CONTINUE WORKING

The extent to which older workers will be in a position to stay longer in the labour market depends crucially on their employability. It is therefore important that these older workers have an opportunity to maintain and develop their skills. But, more generally, this is an issue of lifelong learning: workers should have an incentive to invest in their human capital at all ages, so as to avoid their skills being eroded. Given the process of ageing populations and skill-biased technological change, the situation for older workers may worsen in the coming years unless effective actions are taken now. Success in this area depends crucially on the availability of well-functioning education, training and skill development systems.

Moreover, it is important that unemployed older workers be given a possibility to go back to the labour market. This means that active labour market programmes should be made available to them in an effective manner. This chapter will analyse strategies to enhance the employability of older workers to help them confront the challenges they face to employment and re-employment.

1. The trend – improvements in educational attainment

Education plays a key role in providing individuals with the knowledge, skills and competencies to access employment and participate effectively in the labour market and more generally, society. Moreover, there is compelling evidence that human capital and formal education should increase productivity and foster growth in the long-run.

Over the past few decades, the education system in Spain has undergone major changes. In particular, Spain has implemented a decentralised strategy that transferred authority in the field of education to regional and local levels. More fundamentally, a rapid improvement in educational attainment has taken place, notably as regards the incidence of post-compulsory education. This has been accompanied by a spectacular increase in female educational attainment. Given that educational attainment has been rising rapidly among the younger generations, there is likely to be a dramatic improvement in the average education level of older workers in the future.

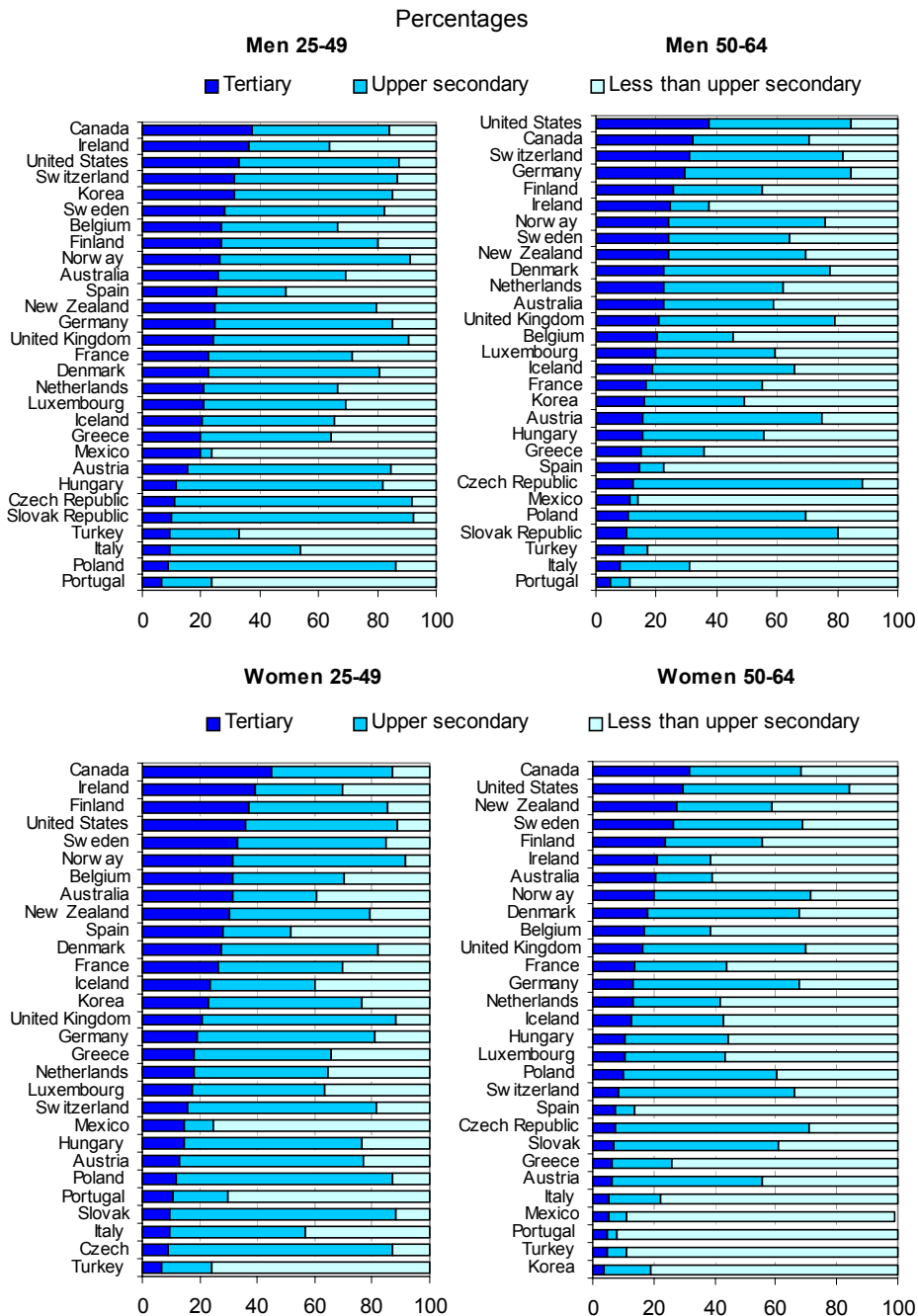
At present, however, less than 25% of older men and less than 15% of older women have attained at least an upper secondary level of education (Figure 5.1). Compared to other countries in the OECD, educational attainment of older workers in Spain is among the lowest.

This is an important issue since participation rates generally rise with educational attainment. In fact, for older workers the gap in participation rates between tertiary and less than upper secondary educational attainment is almost always positive in the OECD area.²⁸ Education levels also affect employment and unemployment rates (Table 5.1). Within each age group labour force participation and employment rates increase with educational attainment – while unemployment rates decline.²⁹ Direct efforts to raise educational levels to improve labour market outcomes for all workers, especially in the context of an ageing society, deserves special consideration.

28 . Of the 27 countries for which data is available, only Turkey and Korea have participation rates which are higher among older workers with low educational attainment than is the case for their higher-educated counterparts.

29 . Between upper secondary and tertiary educational attainment the unemployment rate in fact increases for women aged 60 to 64 – the only exception.

Figure 5.1. Educational levels in OECD countries by gender and age, 2001



Source: OECD (2002b), *Education at a Glance – OECD Indicators*, Paris.

Table 5.1. Labour market outcomes and educational attainment of older workers by gender and age in Spain, 2001^a

Percentages

	Labour force participation			Employment rates			Unemployment rates			
	Low	Med	High	Low	Med	High	Low	Med	High	
Men	50-54	85.7	88.0	95.3	80.6	84.7	93.9	6.0	3.8	1.5
	55-59	72.1	74.9	83.2	67.1	71.9	81.3	7.0	4.0	2.3
	60-64	44.6	42.8	58.1	42.1	41.0	56.8	5.6	4.4	2.2
Women	50-54	34.9	57.6	78.1	30.5	51.7	76.3	12.6	10.3	2.3
	55-59	25.0	40.3	68.1	22.3	38.1	66.3	10.9	5.4	2.7
	60-64	14.6	34.7	41.5	13.7	33.6	38.6	6.4	3.3	7.1

a) "Low" refers to less than upper secondary, "Med" to medium upper secondary and non-tertiary, and "High" refers to tertiary level of educational attainment.

Source: OECD (2001c), *Education at a Glance – OECD Indicators*, Paris.

2. Upgrading the skills of older workers

Raising the formal education levels of older workers is a problem not easily solved. However, adult learning can help facilitate and foster skill development among these workers. Indeed, adult learning and training can play a fundamental role in addressing the lack of formal education opportunities for the adult working population. It can also promote employment stability by sustaining and increasing employability. In particular, adult learning can significantly enhance worker flexibility, wages and firm profits (OECD, 2001d and 2001e).³⁰

A. Incidence of training among older workers is particularly low

According to the European Labour Force Survey, the overall incidence of training is the second lowest among the countries for which data are available (Table 5.2). Moreover, the percentage of older people who received training in the past four weeks was less than 1%.

30. Continuous education and training is also associated with various non-economic benefits such as better health and wider societal benefits.

Table 5.2. Incidence of training by age and type in selected European countries, 2001^a
Percentage of population

	Age 25-49				Age 50-64			
	Classroom	Work and Work/Classroom combined	Other	Total	Classroom	Work and Work/Classroom combined	Other	Total
Austria	2.8	2.6	4.4	9.8	0.4	0.5	1.6	2.5
Belgium	5.8	2.0	0.4	8.1	2.2	0.7	0.3	3.2
Czech Republic	2.6	1.2	3.6	7.5	0.4	0.8	1.9	3.0
Denmark	17.9	3.6	0.6	22.1	8.6	2.5	0.4	11.5
Finland	13.1	8.6	1.8	23.4	4.7	5.6	0.6	10.9
Germany	4.7	2.8	0.4	7.9	0.7	0.9	0.1	1.7
Hungary	3.0	0.5	1.2	4.7	0.2	0.2	0.1	0.5
Iceland	20.7	5.6	0.5	26.8	11.6	4.6	0.7	16.9
Ireland	4.0	3.5	1.7	9.2	1.4	1.4	1.1	3.8
Italy	5.0	0.6	0.4	6.1	0.5	0.2	0.1	0.9
Luxembourg	3.6	2.8	3.2	9.6	0.8	1.0	0.9	2.8
Netherlands	1.6	9.0	2.2	12.8	0.2	3.4	0.6	4.2
Norway	8.7	3.9	0.3	12.9	4.9	3.2	0.1	8.2
Slovak Republic	1.4	1.7	6.9	9.9	0.3	0.9	5.7	6.8
Spain	5.0	0.3	1.3	6.6	0.7	0.0	0.1	0.9
Sweden	11.9	6.1	3.1	21.1	3.7	5.2	3.0	11.8
United Kingdom	7.7	8.5	2.8	18.9	3.2	5.0	1.3	9.5

a) The question on training was stated as "Have you received some education or training in the past 4 weeks?".

Source: *European Labour Force Statistics*.

Since the expected returns to education and training diminish with age, it is not surprising to witness vast differences in the incidence of training between older and prime-age workers throughout European countries. However, the case of Spain is particularly troublesome: the gap between older and prime-age cohorts – a magnitude of seven – is more pronounced than in other countries. Furthermore, not only is the overall incidence of training extremely low but the occurrence of job-related training and work/class-room combined training for older workers is almost non-existent in Spain. And, for prime-age workers, the incidence of work and work/class-room combined training is more than eight times lower compared to the EU average.

One factor which may account for the relatively low incidence of training in Spain is the relatively high proportion of temporary workers: firms have little incentive to invest in the human capital of temporary workers. However, there may also be more systematic factors at work. And it will be important to address them, as it is increasingly acknowledged that improving the career prospects of older workers through education and training is a key policy issue required to meet the challenge posed by technological change and population ageing.

B. The adult learning system in Spain

In Spain, there are two official agencies involved in adult education at the central government Ministry level – Education and Labour. The National Skills Institute was established to achieve the goals established in the programme which include monitoring, developing, accrediting and integrating skills.

The vocational education and training system can be broken down into three interdependent target areas: *i)* initial-youth education and vocational training, *ii)* continuing training for employed individuals and *iii)* training for the unemployed.

Initial education and vocational training

This is administered and funded by the Ministry of Education and Culture (MEC – *Ministerio de Educación y Cultura*) and the autonomous communities. Funding is provided by the aforementioned bodies as well as through EU structural funds and private funding. Initial training comprises regulated vocational training for youth and adults which encompasses mostly literacy courses, language class and preparatory courses including vocational

training for first-time job seekers that lack academic and/or professional qualifications. It also includes general basic training for the working population, whether employed or unemployed, to complete other training programmes. There is also the system of social guarantee programmes (PGS – *Programa de Garantía Social*) for the school-age population who lack academic and/or professional qualifications.

Continuing training

Continuing vocational training covers all training activities undertaken by companies, workers and their respective organisations. Training of this nature is aimed at enhancing skills and qualifications and retraining workers. The agreement is funded through a training levy on companies and workers through their social security contributions, as well as by EU structural funds and other private contributions.

In December 2000, employers and unions signed the third National Agreement on Continuing Training (ANFC – *Acuerdo Nacional de Formación Continua*) that will be in force until 2004. The agreement marks the renewal of an institutional framework of vocational training for employed people. This follows the agreements signed in 1992 and December 1996 which radically overhauled the institutional, legal and financial framework of continuing training in Spain. The first two agreements were administered by the bipartite Foundation for Continuing Training (FORCEM – *Fundación para la Formación Continua*). However, in June 2001, as part of the framework laid out in the third ANFC, the government established the Tripartite Foundation for Training in Employment (TFTE – *Fundación Tripartita para la Formación en el Empleo*), which will manage the training initiatives in Spain – effectively replacing FORCEM. The public administration (through INEM) will now actively participate alongside employers' organisations and trade unions.

The main responsibility of the TFTE is to promote and disseminate continuing training among employers and workers. As part of the reform process, the Sub-directorate-General for Continuing Training (*Subdirección General de Formación Continua*) was created to, among other things, assess and analyse applications for continuing training as well as to plan, monitor and assess the system.

Training for unemployed people

Training for unemployed people is administered by the Ministry of Labour and Social Affairs through the National Employment Institute and is regulated by the National Vocational Training and Occupational Integration Plan (Plan FIP – *Plan Nacional de Formación y Inserción Profesional*).³¹ The framework of Plan FIP provides for the following types of training: vocational training for unemployed persons receiving unemployment benefits; vocational training for unemployed persons who have previously worked (young people or persons above the age of 25 who have experienced a long duration of unemployment); and vocational training for persons with specific work-entry difficulties (disabled people, migrants and other disadvantaged groups).

Programme administration and monitoring

Despite these reforms and new institutional set-up, the overall incidence of training remains low. There are concrete and very positive cases of integration and joint work between education and labour sectors, especially at the Autonomous Community level. However, at the National Central administration level there appears to be a lack of co-ordination and some degree of redundancy, under utilisation and overlapping is observed (OECD, 2003b). One apparent cause seems to stem from the absence of a central co-ordinating entity for policies, supply and modes of operation in terms of adult education. In Sweden, as in Denmark, Finland, Norway and the United Kingdom, there is a broader vision of the concept of lifelong learning which is often made explicit under one single document or policy. These countries focus on ensuring adequate learning opportunities for all adults. Furthermore, the social partners often play a significant role. In Sweden, for example, the social partners carry out considerable work with regard to outreach activities and orientation courses. This work has succeeded in motivating people that otherwise would not have taken on further studies (Box 5.1).

31. There is also the public employment training programme for training workshops and crafts training centres (*Programa Público de Empleo-Formación de Escuelas Taller y Casas de Oficio*).

Box 5.1. Swedish approach to adult learning

Objectives

- Redistribution and growth underlie the policy for supporting adult learning.
- Bridging educational gaps, promoting economic growth, strengthening democracy and satisfying the wishes of individuals are main objectives.

Reform measures

- The Adult Education Initiative (1997-2002). Overall goal was to raise the educational attainment of adults who lack knowledge on secondary level with flexible provision of upper secondary education (90 000 places annually reaching 800 000 by 2002).
- New parliament goals and strategies for adult learning (2001): focus on more flexible support for individual learning, adjusting content and form to more individual needs, requirements and support.
- Broad range of financial assistance with special grants for the unemployed, special study assistance in the form of grants and loans for those who take a leave of absence from work.
- Since 2002, advanced vocational education is a regular part of the education and training system.

Financing mechanisms

- Study allowances for university, college or other post secondary education, folk high schools, municipal adult education and other forms equivalent to compulsory and secondary school.
- New study grant (2003) for those with greatest needs and for those with disabilities.
- Labour market policy financed by the state. Educational grants to support participants whilst studying.
- In-service training and competence development in working life partly funded by EU structural funds.
- New state funding for municipal adult education and Folk High Schools for 2003-2005.

Outcomes measurement: Follow-up and evaluation of publicly funded adult education is the responsibility of different agencies for the various forms of education.

There also appears to be very little evidence of the presence of a “culture of evaluation”. The presence of evaluation is mostly of the school type and fundamentally academic in its emphasis, as opposed to more comprehensive and widely encompassing expressions of evaluation, oriented at unravelling the impacts of adult education upon labour activity, through the combination of both qualitative and quantitative approaches.

Most policies in Spain seem to emerge from the supply side where inputs are largely defined by those involved in the provision or in the funding of adult education efforts. This ultimately results in a low degree of personalization and individualisation of the services supplied. A main objective of FORCEM was to capture inputs from the demand side and co-ordinating action between the various adult education stakeholders. In general, the management of the continuing training system has widely been considered positive. However, the effectiveness of the FORCEM, in particular its ability to address demand side issues, was in doubt. Consequently, the establishment of the Tripartite Foundation for Training in Employment and subsequent replacement of FORCEM was a welcome change. Moreover, the government is currently proposing a thorough reform of the system and the Sub-directorate-General for Continuing Training will be central in the management and delivery of the new system.

Sub-directorate General for Continuing Training – the new management model

Under the new system, the central government has exclusive authority to set regulations and this should facilitate dialogue between central government and the autonomous regions. The new model attempts to promote the collaboration between companies, social partners and other public or private bodies in the delivery of continuing training as well as place greater emphasis on SMEs, an important source of employment in Spain (Box 5.2).

C. *Approaches to improve training outcomes for older workers*

To enhance the training opportunities for older workers, it is important to address both supply (employers) and demand-side (employees) factors affecting inequalities. Consequently, policy efforts must address such things as the financial disincentives of employers but also the motivation of older workers to take-up training.

Box 5.2. Recent training initiatives by Sub-directorate General for Continuing Training

Financing: Employers pay 0.7% of payroll, 0.35%, is used to pay for continuing training initiatives for workers, and the remaining 0.35% for the vocational training of the unemployed.

Company continuing training initiatives: One feature of this initiative is the Individual Training Permit which enables workers who want to improve their personal and occupational skills to train towards an officially recognized qualification, at no cost to the firm. Moreover, all companies which offer training to their workers will enjoy reductions in social security contributions. The reductions will be greater for smaller firms. In addition, new companies and those which open new places of work will benefit from the reductions and credits when they take on workers for whom social security contributions for vocational training have to be paid.

Operating contracts (contratos programa) for training workers: Training will continue to be promoted through the main employers' organizations and trade unions. It will be run at a national level through operating contracts endorsed by the National Employment Institute (INEM).

Complementary initiatives to training: Complementary initiatives such as research and industry studies will continue to be financed by the INEM and supported technically by the State Foundation

Fiscal policy and institutional arrangements favouring cost-sharing among private parties can increase the incentives to invest in education and training. Moreover, it can target disadvantaged groups more easily, given that training gaps are due to market failures only partially (OECD, 2003a).

OECD experience demonstrates that several mechanisms exist for encouraging training take-up while addressing economic and financial barriers. These include tax arrangements for enterprises, grant schemes and special funds for enterprises, pay-back clauses and apprenticeships, working-time and training-time accounts, loan schemes, tax incentives for individuals, subsidies to individuals, individual learning accounts and training leaves and part-time study (OECD, 2003a). However, policy design is crucial and few empirical evaluations exist of these schemes and, those available are limited to descriptive statistics. Moreover, though these schemes encourage overall training, very little emphasis has been placed on the training needs of older workers – something that will have to change, especially in Spain, in the face of population ageing. And, new policy efforts should include evaluation mechanisms in their design to ensure effectiveness.

Despite the limited scope of existing evaluations, it seems that some lessons can be learnt regarding the design and content of programmes. First of

all, teaching methods should be based on prior learning (formal and non-formal) and should, as much as possible, be adapted to suit the needs of older workers. Traditional classroom methodology may no longer be applicable. In Norway, for example, the government is allocating money to develop new teaching methods targeted at adults. Second, recognition of non-formal competencies and informal learning can go a long way in facilitating the advancement of adult education, especially as older workers are concerned. This could, for example, lead to a shortening of course length or to exemption from particular examinations or tests. Non-formal competencies can be acquired through activities in voluntary organisations, work experience, domestic work or otherwise. Third, allowing adults the necessary study leave is, of course, another important element. In this context, the government has an important role to play. Finally, it should be stressed that success in improving skills of older workers depends on the existence of a well-functioning training system which serves workers at all ages. This is the best way to ensure that skills are updated regularly.

3. Providing incentives to older workers to enter employment

A. Increased emphasis on active labour market programmes

Direct efforts to raise educational levels and continued emphasis on vocational and education training are important steps for improving labour market outcomes especially in the context of an ageing society. More specific efforts are needed to ensure that unemployed older workers remain in the labour market and find a job. In this context, active labour market programmes (ALMP) play a vital role.

During the 1980s and early 1990s, high levels of unemployment in most OECD countries, especially in Spain, brought about large increases in public spending on unemployment benefits. At the same time, considerable attention was given to ALMP designed to facilitate the job search process, foster employment growth and reduce unemployment. In 1992, OECD Labour Ministers endorsed “a long-term strategy for a progressive shift from passive to active labour market measures and related social policies”.

In Spain, considerable effort has been made to shift labour market policies towards a more active stance. Since 1997 nearly every component of ALMP spending has dramatically increased as a percentage of GDP. As a result, ALMP spending as a percentage of GDP has risen to 0.85% in 2002, up from 0.51% in 1997. Subsidised employment at 0.44% of GDP in 2002, accounts for

more than half of all expenditures on active programmes. The marked increases in active labour market programmes have certainly played a significant role in improving the unemployment situation, and labour market functioning in Spain. Still, concern has been expressed that programmes could be made more effective. In particular, there is room for further helping unemployed older workers who are at risk of becoming discouraged and detached from the labour market.

The role of the public employment service (PES)

In this context, the public employment service (PES) can be further revitalised. There are cases where unemployed older workers do not receive much attention on the part of the PES – on the grounds that they are difficult to place. Regulation and practice exempt certain older workers from job-search requirements. And, more generally, there is still ground for improving the functions of the PES.

At the moment, the Spanish PES is undergoing a process of decentralisation. In the event, autonomous regions will have the competence to administer ALMP – while benefits will continue to be paid by the Social Security system. In this new system, it will be important to improve the effectiveness of programmes through a mix of prevention and cure tactics which has proved to be successful in several countries (OECD, 2002f). This means reducing existing information barriers in the labour market. High-quality job matching and related employment services, with effective use of information technology, should help to further empower older people who are able to search effectively themselves. As well, “interventions” in the unemployment spell, designed to ensure continued effective job search should be part of the strategy. These can include regular short interviews, intensive interviews, individual action plans, reporting and review of job-search efforts, referrals to vacant jobs by the PES and short job-search training courses. This is important since older workers are at a greater risk of entering long-term unemployment. Furthermore, these interventions should bring the job seeker into regular contact with vacant jobs and correct ineffective job search strategies.

As well, creating performance incentives within the PES for the successful job placement of individuals confronting barriers to employment, such as older workers, could go a long way in increasing emphasis on the needs of older workers and in turn improving their labour market outcomes. For example, in the United Kingdom, Jobcentres are allocated points for a successful job placement. Given the large number of older people receiving incapacity benefits in the United Kingdom, Jobcentres who successfully place

an older incapacity benefit recipient into employment are awarded 12 points – the highest possible. In Switzerland, financial incentives have been introduced to improve the efficiency of the active labour market policies within the cantons and they have become an integral part of the PES.

In-work benefits and make work pay – better targeting

Make work pay policies refer to those schemes which aim at encouraging job-search on the part of benefit recipients. These policies, which effectively operate as a subsidy to low-paid work, are of two different types. Some of the schemes reduce the cost to the employer of hiring low-paid workers, e.g. through reduced social security contributions on low wages.³² Other schemes improve the financial incentive for individuals to accept work. One prominent example of such a scheme targeted to older workers is the New Deal 50+ programme in the United Kingdom (Box 5.3).

Box 5.3. The New Deal 50+ in the United Kingdom

A series of New Deal programmes was introduced in the United Kingdom as part of the Government's Welfare to Work strategy in 1997.

Eligibility: Volunteer programme available for individuals aged 50 and over who have been receiving benefits for the past six months, and are currently in receipt of Income Support; Jobseeker's Allowance; Incapacity Benefit; Severe Disability Allowance or any combination of these benefits.

Non-pecuniary benefits: Entrants into the programme have their own Personal Advisor at the local Jobcentre. The personal advisor helps with preparing their CVs and letters of application; refers entrants to training courses before the job application process and helps provide self-confidence.

Financial Incentives: Until recently, the Employment Credit paid directly to the older worker a sum of GBP 60 a week tax free or GBP 40 a week tax free for part-time work. It was payable through the Personal Advisor in three stages and for up to 52 weeks. There have been recent modifications to the Employment Credit which will now fall under the umbrella of the Working Tax Credit. The amount received will now depend on family income.

Training: A Training Grant of up to GBP 1,500 is available upon taking up employment and can be used towards improving existing skills or to learn new skills to help remain employed.

32 . See Section 4, Chapter 4.

Over the past few years, several other countries have introduced schemes to “make work pay”. Some examples of well known schemes in OECD countries are the Wage Cost Reduction Scheme in France, the Earned Income Tax Credit (EITC) in the United States as well as the Working Tax Credit (WTC) in the United Kingdom. The schemes are not targeted at older workers in particular but could, nevertheless, serve as a model for an older worker in-work benefit scheme in Spain. Or, as in the case of the New Deal programme in the United Kingdom, marketing efforts could be directed towards older workers that make them aware of the benefits of such schemes.

It is difficult to evaluate the effects of making work pay policies on overall employment. They must be financed by increased taxes elsewhere and/or cuts in public spending, which themselves might have negative effects on employment. However, recent evaluations of wage subsidies indicate that they are likely to be more effective and cost-efficient when specifically targeted (Martin and Grubb, 2001). Furthermore, making work pay policies are not a panacea. The likely effectiveness of making work pay policies depends to a great extent upon a number of framework conditions. The interaction with the welfare system is important for assessing the effectiveness of these schemes. Finally, though these systems may improve job incentives for groups at-risk, they will not be enough to help maintain these individuals in work and give them opportunities to increase their skills and competencies. Nonetheless, the consensus is that the existing schemes do yield worthwhile employment gains for the groups that are targeted but the costs of any such in-work benefit system would have to be carefully assessed.

Chapter 6

POLICY COHERENCE AND DILEMMAS

1. Stable macroeconomic framework

Enhancing the employability of older workers and tackling the economic impacts of ageing requires, among other things, a broad range of coherent policy actions as well as a stable environment in which to implement the necessary reforms. To this end, a stable macroeconomic framework, notably sound public finances, is an essential prerequisite for encouraging growth, sustaining overall improvements in labour market performance and providing an environment where the full benefits of reform can be achieved.

Macroeconomic conditions have improved considerably in Spain in recent years. Debt to GDP ratios have been declining since 1996 and the budget deficit has been reduced and eventually a balanced budget was achieved in 2002 and 2003. Continued fiscal responsibility will be important for managing the expected pressures coming from increased pension payments and health-care spending; but sound fiscal policy can also help spur investment and promote sustainable growth. Furthermore, core inflation is stable and recent efforts to moderate price and wage inflation expectations should contribute to preserve a stable framework for prosperity.

2. Greater policy coherence

To boost employment chances for older workers, a well-functioning labour market must be in place in the first instance. The OECD *Jobs Strategy* provides a blueprint for reform in this area (OECD, 1999b). What is important is to act on all fronts, encompassing reforms of product and labour markets. In addition, attention has to be paid to the interactions and complementarities between policies. For example, it is clear that the “return” to active labour market policies will be all the higher when demand-side barriers to employment (e.g. hiring and firing costs) are addressed and when product markets are

dynamic and responsive to new business opportunities. Government and social partners should pursue discussions of how to deepen the reform of employment regulations, while also ensuring adequate income support for job losers.

In the case of older workers, it is especially important to ensure greater coherence of reforms of different types of welfare benefits. Public pensions can create disincentives and, in recent years, have tended to discourage the participation of older workers in the labour market. But ensuring that public pensions do not encourage early retirement may not be very effective if alternative paths to early exit from the labour market are available. Thus, sickness, disability and unemployment benefits have sometimes acted as pathways to an early exit from the labour market. Consequently, not only must disincentives be removed but also the risk that individuals continuously move from one welfare system to another needs to be addressed. To avoid a carousel effect between benefit systems, reforms have to be wide-ranging and coherent. This does not mean that the level of benefits should be reduced: the real issue is how to ensure that older workers who can work do not enter welfare benefit schemes and withdraw from the labour market.

Ensuring that older persons, who can work, effectively look for a job becomes of paramount importance in this respect. This is why it is urgent to enhance the effectiveness of active labour market policies and improve the functioning of public employment services. Until recently, as in other countries, public employment services have tended to focus attention on re-employment of younger or prime-age workers. Quality employment services need to be made available to these workers and, in turn, unemployed individuals should be required to look for a job or make efforts to enhance their employability.

This should go hand-in-hand with putting in place a well-functioning system of job-related training so as to ensure that lifelong learning becomes a reality for all. Programmes carefully targeted and monitored at displaced unskilled workers can help but are far from sufficient. Given the rapid improvement in educational attainment in Spain, future generations of older workers will have better chances of prolonging their career. Still, it is important to put in place effective systems that maintain and upgrade the skills acquired through initial education. This is the best guarantee against the risk that firms continue to target layoffs on older workers. Changes in wage and employment regulations and firm practices are also needed: indeed the challenge is to complement supply-side reforms (pension, early retirement and other social protection schemes) with demand-side ones.

Closer co-operation between the social partners and government bodies is essential to the reform process. The Toledo Pact on pension reform,

which paved the way for the adoption of the “flexible retirement” system, is a successful recent example. Continued co-operation will be fundamental in adopting and enforcing the required reforms. It should also help address complex issues such as how to reconcile work and family life; how to reform seniority wage systems, firm-training provisions; and adapt work organisation to the changing demographic realities.

3. Helping older workers while also fighting age stereotypes

One of the most difficult dilemmas facing policy-makers is how to improve the employment prospects for older workers while at the same time fighting the very age stereotypes which sometimes explain firms’ perceptions and behaviour.

All too often, and despite available evidence, there is a perception that workers are less productive as they get older. This, combined with other factors such as seniority wage increases and the availability of subsidised schemes for early retirement, would explain why older workers are over-represented in layoffs. It also makes it difficult for unemployed older workers to find a new job. It is therefore important to fight these stereotypes. However, at the same time, reduced social security contributions are applied on the retention and hiring of older workers. This raises the question of whether such policies nurture negative age stereotypes, and underlines the need for an evaluation of these specific policies.

4. Alternative ways to boost participation and employment: the role of immigration and promotion of gender equality in the labour market

A. Is immigration an alternative?

As stressed above, many of the reforms which are recommended as part of a strategy to raise the employment rate of older workers will take time and involve complex trade-offs. This is why some analysts have put forward that greater recourse to immigration could offer an interesting alternative.

Greater immigration is already happening: over the past decade, Spain has witnessed a spectacular increase in the number of foreign workers. These workers tend to be of prime-age and are often employed in low-skilled occupations such as agriculture, personal services and construction. They have therefore helped reduce a number of labour shortages. And, as the experience of countries with a longer tradition in this area, immigration could help instil economic dynamism. A

recent study of foreign nationals in Spain revealed that their employment rates were more than 15 percentage points higher than nationals.³³

However, greater immigration should not be regarded as a substitute for the labour market and social protection reforms outlined in this report. First, second-generation immigrants often imitate the demographic behaviour of nationals. Second, and more fundamentally, reforms are needed to improve the functioning of labour markets and, in their absence, it is unlikely that the employment rate in general, and that of older workers in particular, will catch up with that of the best performing countries. Third, immigrants are often lacking suitable qualifications and consequently, tend to suffer from problems of long-term joblessness. They are often on temporary contracts or no contracts at all. Consequently, the working conditions and pay of foreign nationals is often quite poor. And finally, the extent to which immigration may be used as an effective mechanism is also constrained by political and social pressures.

Therefore, immigration policy should be accompanied with a set of coherent policies to improve the functioning of the labour market and social protection. Provided that is the case, an increase in immigration, accompanied with efforts to integrate immigrants in the economy and society, can serve as a useful complementary tool to help alleviate the pressures from ageing (OECD, 2001g).

B. Women, employment and raising fertility

The rapid increase in the participation rate of women is another major dimension of the changing labour market in Spain. The future should see further improvements in this area. Indeed, educational attainment of younger female cohorts is as high, if not higher, than is the case for their male counterparts. And better education tends to be associated with higher employment.

Nevertheless, even well-educated women continue to face difficulties in entering the labour market and acquiring a career. This is particularly the case for young mothers, who are especially sensitive to issues of work family balance. Recently, the government introduced an in-work benefit for second earners – which should go some way in improving the financial incentive to participate in the labour market. Providing wider possibilities for part-time work and creating quality child-care facilities should also be emphasised as part of the strategy. This also raises more fundamental issues of how to promote gender equality in the labour market.

33. “La Inserción Laboral de las Personas Inmigradas en Cataluña”, Centre Estudis i recerca sindical, December 2002.

ANNEX

LABOUR MARKET TRANSITIONS OF OLDER WORKERS: AN ECONOMETRIC ANALYSIS

The purpose of this annex is to shed light on the determinants of transitions from work to retirement for older workers in Spain. The model used to estimate these transitions is first presented. The econometric results are then discussed.

1. A multinomial logit model

In the parametric analysis undertaken in this section, we use a multinomial logit model to investigate the effect of demographic characteristics and labour market conditions on labour force transitions. To analyse transitions between employment, inactivity and unemployment, we estimate the following multinomial logit model:

$$\lambda_{ij} [f_{ij}(a,t); x] = \exp(f_{ij}(a,t) + \beta_{ij}'x) / 1 + \sum_{j=1,2} \exp(f_{mj}(a,t) + \beta_{mj}'x), i \neq j$$

where λ_{ij} is the conditional probability of a transition from state i to state j , in a given year; f_{ij} is a function of age and the time trend; x is a vector of covariates observed for each individual at the initial year; and β is a vector of parameters to be estimated. The indicated specification implies independence of the three possible labour force states, taken one at a time as the base category in the multinomial regressions. This means that the estimated effect of a specific variable on change of state is obtained relative to its effect on the conditional probability of remaining in the base state.

In the function f_{ij} age, age squared, time, time squared, two dummies for persons aged 59 and 64 respectively, and their interaction with time are included. The variables contained in the vector of covariates x differ across regressions, depending on the state considered at the initial year. Explanatory variables have been grouped in four categories.

- i. *Demographic and household characteristics.* Education dummies (primary or less, lower secondary, academic upper secondary, vocational upper secondary, university first level and university second level); a dummy for marital status; and number of members in the household older than 16. All these variables are common to the three multinomial regressions.

- ii. *Variables related to labour force attachment.* To study transitions of employed workers several dummies variables have been created. If the worker reported less working hours in the reference week than usual, the possible factors behind this situation are given (*i.e.* labour conflict, employment adjustment or illness). Also, the possibility that the work week was longer than usual is taken into account. Different work arrangements are considered (employer, other self-employed, and wage and salary workers, broken down by public/private sector and temporary/permanent contract). For analysing transitions of unemployed workers, three dummies are considered, reflecting three possible situations with respect to the public employment service (registered receiving benefits, registered without receiving benefits, and not registered); five dummies were also created for duration of the non-employment spell (time since last job); and five dummies for reasons for job loss or non-employment status (end of a fixed-term contract, lay-off, early retirement, other reason for retirement, and other reasons).³⁴
- iii. *Variables related to the current or previous job.* For transitions from employment, we consider tenure in the current job in years; dummies for four ranges of working hours; dummies for five industries (farming/fishing, mining/manufacturing, construction, trade/hotel/restaurant, and “other services”). For transitions from unemployment or inactivity, the latter two sets of categorical variables refer to the previous job, and tenure in that previous job was also included in the regressions.³⁵
- iv. *Other variables.* Dummies for autonomous regions, and the unemployment rate in autonomous regions for the period 1987-1997. The latter variable is deemed to pick up the state of the local labour market as well as the business cycle effect on labour market transitions of older workers. Also, given that the data come from every possible rotating panel of the Labour Force Survey between 1987 and 1997, a variable that refers to the specific panel is included. This variable does not interfere with time in years because four panels start each year, one per quarter.

34 . In the Labour Force Survey, each non-employed worker is asked to indicate how long he/she has been looking for a job and when the person left the last job. The latter variable is used here.

35 . Tenure in the current or previous job is reported in months for durations of less than one year, and in years for longer durations.

2. Estimation results

As suggested earlier, the database takes into account the fact that each worker stays in the Labour Force Survey sample for a maximum of six quarters – every quarter a sixth of the sample is renovated. All possible rotating panels from 1987 to 1997 have been created for the purposes of this analysis. Then, by looking at the labour force status of workers at the first and fifth interview (which are therefore separated by one year periods), it is possible to study labour market transitions for one-year periods.

Table A.1 presents the multinomial logit estimates of transitions of older workers (aged 50-69) from employment to either inactivity or unemployment. Estimates of age variables confirm that transitions to inactivity increase significantly at ages 60 and 65. Controlling for the two spikes of the hazard rate from employment, the age profile of the transition to unemployment is concave, and the age profile of the transition to inactivity is convex.

Higher education reduces the probability of moving from employment to either inactivity or unemployment. Married persons are more likely to make a transition from employment to inactivity and, less likely to make a transition to unemployment. Men are more likely to become unemployed and less likely to become inactive. The finding that married persons are more likely to exit employment to become inactive is somewhat surprising in the light of evidence for other countries.³⁶

The coefficients on the variables that proxy labour force attachment have the expected signs. The dummies equal one if the workweek was shorter than usual – for the reasons given above. Workers who at the first interview suffered from health problems are very likely to be out of the labour force one year later. Likewise, temporary workers exhibit a much higher probability of becoming unemployed or inactive compared with permanent workers.

36. For instance, in similar analysis for the United States., Peracchi and Welch (1994) and Blau (1994) find that married men are less likely to exit full-time work to become inactive.

**Table A.1. Multinomial logit estimates for transition rates
from employment, age 50-69**

From employment	To unemployment		To inactivity	
	Coeff.	z	Coeff.	z
Age	0,5500	3,00	-0,4510	5,91
Age square/100	-0,5042	3,09	0,5310	8,14
Age=59	0,0563	0,23	0,4486	3,91
Age=64	-2,7367	1,93	1,8441	17,97
Sample panel	0,0151	0,68	-0,0088	0,70
Time	0,1067	1,03	0,1433	2,48
Time square	-0,0156	2,43	-0,0103	2,92
Time*Age=59	0,0084	0,19	-0,0081	0,40
Time*Age=64	0,3575	1,80	0,0214	1,20
No education	0,1495	0,81	0,1177	1,14
Primary	0,0152	0,08	0,0598	0,60
Lower secondary	-0,1543	0,73	-0,1058	0,91
Upper secondary vocational				
Upper secondary academic	-0,3608	1,44	-0,2532	1,96
First level university	-0,4068	1,61	-0,3854	3,18
Second level university	-0,8501	2,85	-0,6912	5,39
# Household adult members	0,0027	0,69	0,0018	0,83
Married	-0,1818	2,42	0,2242	5,49
Man	0,6988	8,93	-0,2337	6,48
Worked fewer hours than usual because of:				
Labour conflict	0,8186	2,71	0,1045	0,37
Employment adjustment	1,5276	4,00	1,4873	6,70
Illness	0,1535	1,22	1,6390	34,27
Worked more hours than usual	-0,2130	0,54	0,0354	0,19
Employer	-1,4050	7,39	-0,8357	10,52
Other self-employed ^a	-1,0215	11,96	-0,3903	9,11
Wage and salary worker:				
Temporary public	1,2392	9,69	0,8308	5,74
Permanent public	-1,6187	10,29	0,0569	1,19
Temporary private	0,6881	8,97	0,5902	9,15
Permanent private				
Tenure (in years)	-0,1205	14,85	-0,0119	2,91
Tenure square	0,0020	10,11	0,0003	3,73
Workweek:				
<35 hours	-0,0932	0,85	0,4340	9,10
35-39 hours	-0,2892	2,18	-0,0138	0,25
40 hours				
>40 hours	-0,1814	2,68	-0,2260	5,86
Regional unemployment rate	-0,0042	0,32	-0,0010	0,14
Constant	-19,3586	3,65	6,0288	2,57

a) Includes self-employed without employees, family workers and others.
Number of observations = 76 368; LR chi2(106) = 12 501.89; Prob>chi2=0.000;
Pseudo R2=0.1988.

Source: OECD estimates.

Job characteristics also have significant effects on transition probabilities. Compared to private sector workers with a permanent contract, both employers and self-employed workers without employees are less likely to move to either inactivity or unemployment. By industry, mining/manufacturing workers are more likely to become inactive, and construction workers are more likely to become unemployed; meanwhile those in “other services” exhibit a lower probability to leave the labour force or enter unemployment. The quadratic specification of tenure in the current job shows that it reduces, although at a decreasing rate, the probabilities of becoming non-employed. Furthermore, workers with a workweek of more than 40 hours are less likely to become either unemployed or inactive.

These results indicate that job characteristics matter in explaining exits from employment status. In particular, the higher probability of mining/manufacturing workers to become inactive may be related to specific early retirement incentives available in these sectors.

Regional dummies tend to be significant, as far as the transition from employment to inactivity is concerned. For instance, it can be inferred that Galicia is the region where the transition to inactivity is the lowest. The region-specific unemployment rate – which covers the period 1987-1997 – is attached with insignificant coefficients.

When the former results are compared with those for middle-aged workers (see Table A.2), some differences can be observed. For example, education plays a much stronger role in keeping people in employment among prime-age workers than is the case with their older counterparts. On the other hand, working fewer hours than usual is a good predictor of non-employment status for both prime-aged workers and older workers.

Transitions from unemployment have also been estimated (results not shown here). We find that that unemployed men aged 59 or 64 in the initial year are more likely to either stay unemployed or move to inactivity than is the case at other ages. Education plays a very modest or insignificant role in these regressions, for both older and prime-age workers. Dummies for duration of the unemployment spell show the usual effects on the probabilities for leaving unemployment.

**Table A.2. Multinomial logit estimates for transition rates
from employment, age 30-49**

From employment	To unemployment		To inactivity	
	Coeff.	z	Coeff.	z
Age	-0,0014	0,03	-0,2100	3,34
Age square/100	-0,0136	0,22	0,2766	3,47
Age=30	0,2786	2,12	-0,2001	1,02
Age=49	0,4933	2,54	0,0852	0,40
Sample panel	0,0100	0,83	0,0294	1,81
Time	0,1504	2,68	-0,0674	0,91
Time square	-0,0138	4,27	-0,0031	0,73
Time*Age=30	-0,0659	3,05	0,0373	1,18
Time*Age=49	-0,0655	2,09	-0,0086	0,26
No education	0,4324	6,18	0,6300	6,09
Primary	0,2191	3,76	0,4813	5,31
Lower secondary	0,1246	2,04	0,2589	2,72
Upper secondary vocational				
Upper secondary academic	-0,0779	1,04	0,1627	1,48
First level university	-0,5318	5,73	-0,3619	2,94
Second level university	-0,5444	5,98	-0,3494	2,69
# Household adult members	0,0012	0,56	-0,0004	0,15
Married	-0,3727	11,42	0,2513	5,06
Man	-0,0946	2,90	-1,4830	35,10
Worked fewer hours than usual because of:				
Labour conflict	0,4709	2,14	0,1516	0,39
Employment adjustment	1,5981	6,40	1,6151	4,60
Illness	0,4891	5,52	2,2005	33,08
Worked more hours than usual	-0,0922	0,58	-0,7671	2,60
Employer	-1,4285	11,56	-0,2891	2,51
Other self-employed^a	-0,7470	15,30	0,0759	1,45
Wage and salary worker:				
Temporary public	0,8375	13,14	0,1021	0,93
Permanent public	-1,6050	18,17	-0,7834	9,60
Temporary private	0,5754	14,53	0,3551	6,21
Permanent private				
Tenure (in years)	-0,1920	27,39	-0,1079	13,52
Tenure square	0,0049	18,30	0,0028	9,47
Workweek :				
<35 hours	0,0387	0,76	0,6860	13,53
35-39 hours	-0,1838	2,85	-0,0052	0,07
40 hours				
>40 hours	-0,1720	4,63	0,0115	0,23
Regional unemployment rate	-0,0099	1,45	-0,0233	2,56
Constant	-2,9600	2,56	-0,8773	0,57

a) Includes self-employed without employees, family workers and others.
Number of observations =157 427; LR chi2(106)=14 522; Prob>chi2=0.000;
Pseudo R2=0.1700

Note: The equations also include regional and sectoral effects (not shown in the tables).
Source: OECD estimates.

Because the timing of the transitions from unemployment is probably related to receipt of unemployment benefits, an attempt has been made to control for workers' relation with the employment office. What emerges is that workers not registered with the employment office are significantly more likely to make a transition to either employment or inactivity.³⁷

Regarding transitions from inactivity, time since last job emerges as a significant variable: the longer people stay out of the labour market, the lower the re-employment probability. This happens for both older and prime-age workers. Moreover, being married reduces the transition from inactivity to either employment or unemployment.

37. The effect of unemployment benefit on transitions from unemployment is likely to be biased downward if some workers report not to be receiving benefits as a result of delays in the administrative process for benefit entitlement.

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