

# Promoting stronger and more sustainable growth for all people across Spain


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By **Bertrand Pluyaud** and **Adolfo Rodríguez-Vargas**, OECD Economics Department

Before the COVID-19 pandemic, the Spanish economy experienced a period of sustained and more balanced economic growth, less dependent on the construction sector, and with a healthier financial system. The pandemic and Russia's war of aggression against Ukraine were successive shocks that required strong government support to protect businesses and households, as noted in the 2023 Economic Survey of Spain. Output has recovered to its pre-pandemic level, and growth has held up well since the second half of 2022 and it is expected to remain solid in 2024.

## The recovery from the pandemic has been steady following the large fall of GDP in 2020

Gross Domestic Product, Volume, base 2019Q4 = 100

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Spain has also introduced several major reforms to address longstanding labour market issues, promote business growth and innovation, ensure pensions' sustainability, and boost vocational education. However, structural weaknesses remain that weigh down Spain's growth potential. The 2023 Economic Survey discusses policy options to tackle these issues in four areas.


# Addressing fiscal challenges

Government action was decisive for the recovery, but it was costly. Public debt, which was already high before the pandemic, has increased by 13 percent points of GDP since 2019. Sustained fiscal consolidation is required to keep debt on a downward path and to make room for ageing-related spending and growth-enhancing items, like education and green transition. This consolidation should rely on both mobilising additional revenues and on enhancing spending efficiency.

Increasing the relatively low tax intake should encompass gradually broadening the value added tax base and raising environment-related taxes, but also reducing tax avoidance and enhancing tax collection. Spending reviews should continue to be used to define growth-enhancing spending priorities, and evaluation of public policies should become the norm.

## Public debt remains high

Public debt, Maastricht definition, % of GDP

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Source: Eurostat.

## Raising productivity

Low investment in R&D, inefficient public spending on education and training, and an insufficient stock of ICT capital have dragged down productivity growth, which in the last decade has averaged 0.6% per year compared to 0.9% for the OECD. The share of innovative companies is also comparatively low. All this weighs on potential growth, which with rapid population ageing is expected to weaken even more.

Promoting collaboration and knowledge transfer between

businesses and universities, fostering entrepreneurship, reducing regulatory barriers, and improving regulation can increase innovation and business growth. Continuing with an effective implementation of the investment and reforms under the national Recovery, Transformation and Resilience Plan should remain a priority, as it can help overcome structural deficiencies and boost productivity.

## **Promoting opportunities for all people across Spain**

Despite recent improvements, income inequalities remain significant. Poverty is high compared to the OECD, and Spain has the highest child poverty rate in Western Europe, at 22%. This makes it urgent ensuring that public assistance is sufficient and reaches those who need it more. The survey recommends improving the targeting of social benefits, particularly towards poor families with children, boosting the take-up of the minimum income guarantee, and reducing administrative burdens for users.

Young people in Spain face a challenging transition to an independent, productive, and happy adult life. The risk of poverty among them is particularly high, although it has fallen. That is why the special topic of this survey is how can Spain increase opportunities for its young.


Educational and labour market outcomes have improved, but many young people still leave the education system with low education levels or skills, and youth labour-market integration remains difficult. The share of temporary contracts has decreased after the 2021 labour market reform, but it is still high. The survey recommends training teachers to identify and assist students at risk and maintaining support for students to enrol in vocational education, including by fostering the participation of SMEs to offer places. Furthermore, to ease school-to-work transitions it

encourages greater employer involvement in the design of university curricula, and improving access to financing for young entrepreneurs.

Housing is a pressing concern for many people in Spain, especially the young. To increase housing supply, the survey recommends expanding the very low stock of social rental housing and relaxing stringent rent controls.

## **Young people face high poverty risks**

Risk of poverty or social exclusion, %

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Note: OECD Europe includes European OECD countries and excludes Türkiye.

Source: INE.

## **Addressing environmental challenges**

Spain has made progress in the fight against climate change, as environmental protection expenditure has increased and renewable energies are becoming more prevalent in the energy mix. To keep reducing its dependence on fossil fuels, Spain should accelerate the shift towards greener transportation, improve storage and grid interconnections, and continue promoting renewable energies.


A more environment-friendly tax regime is also needed, as environmental tax revenue as a share of GDP is low compared to most OECD European countries. The base for environment-related taxation can be broadened, including by phasing out exemptions and gradually increasing the tax rate on emissions, while compensating partially and temporarily the most vulnerable.

Persistent drought in some regions has lowered water availability, and intense agriculture production has affected

water quality. These problems could be addressed through more efficient irrigation, reuse and recycling of waters, and a more sensible use of fertilizers.

## Improving water availability and quality is urgent

Groundwater stations with poor quality standards, %

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Note: Groundwater stations failing to meet the drinking water standard under the EU Nitrates Directive

Source: European Environment Agency (EEA).

Government action helped Spain to overcome two major successive shocks. Evidence-based public policies can also help to solve Spain's longstanding structural weaknesses to increase growth and raise wellbeing for all people across Spain.

## References



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# Maintaining and reinforcing achievements in Costa Rica

Stepping up structural reform efforts would be the best way to respond to challenges to reinforce achievements and seize new opportunities.

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# Improving economic opportunities for all in Belgium

Continuing labour market reforms, tackling inequity in education and supporting housing affordability would promote equal access to life chances in Belgium.

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# Reviving Italy's Growth

by Mauro Pisu and Tim Bulman, Italy Desk, OECD Economics Department

In Curno, 50 km north east of Milan, is the headquarters of Brembo, the Italian company supplying brakes for Teslas and Ferraris as well as for mass market cars and motorcycles.

Founded in 1961, its 255 employees generate over USD 3 billion of revenue from production facilities across 15 countries.

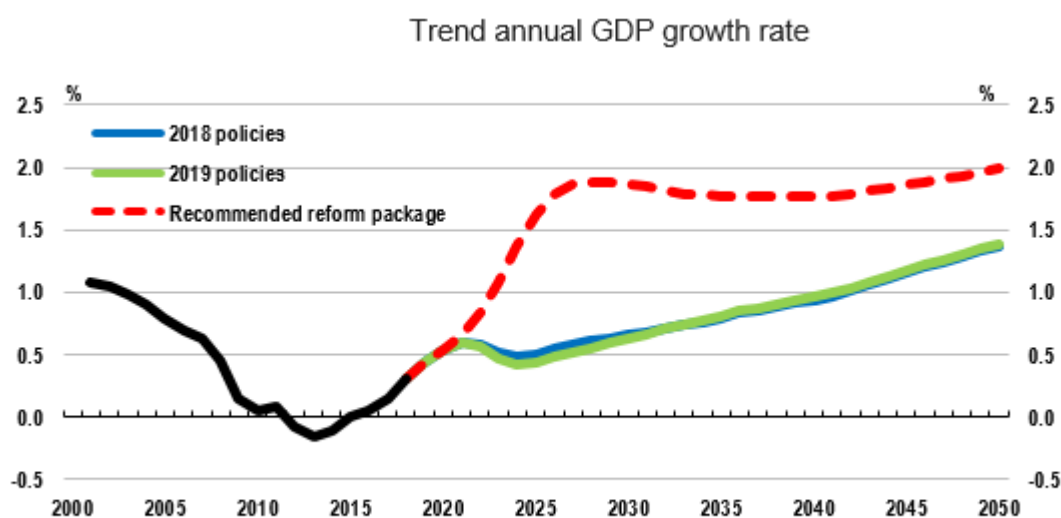
1500 km away,  
in Sicily's south-east, Gaetana Jacono runs the Valle dell'Acate winery. She is  
bringing to six generations of wine making tradition new  
production  
technologies and distribution approaches that are developing  
exports to large  
new markets.

Enterprises like Brembo and Valle dell'Acate have helped  
Italy in recent years gradually recover from its extended  
recession. These are  
mostly medium sized enterprises that are highly productive and  
have grown  
activity and created jobs through investment and exports,  
supported by  
government policies such as the Industry 4.0 programme or  
labour market and  
education reforms.

But Italy's recovery stalled in late 2018, before  
Italy could reverse the deep losses in incomes and well-being  
suffered during  
the extended recession. Overall, income per capita today is  
near its level in  
2000, and economy-wide productivity has been stagnant. This  
lack of progress  
has seen poverty rates rise, especially among the young and  
families. The  
OECD's latest projections are for GDP to contract by 0.2% in  
2019 and to expand  
by 0.5% in 2020.

What will it take to restart and extend Italy's  
recovery?

A clear multi-year reform programme to boost employment and productivity, while reducing steadily public debt, would lift average annual growth rates and improve inclusiveness. This is among the key policy insights of the OECD's 2019 Economic Survey of Italy, launched on 1 April 2019 by the OECD Secretary General and Italy's Minister of Finance. Compared current policies, this reform programme would raise growth rates by about 1.5 percentage points by 2030, expand employment and reduce inequalities.



Source: OECD (2019), *Economic Survey of Italy*, OECD Publishing, Paris

Increasing productivity growth is key. Boosting productivity will require enhancing competition in markets that are still protected, such as professional services and local public services; raising innovation and business dynamics, including through strengthening targeted incentives connected to the Industry 4.0 plan; removing incentives for SMEs to stay small and obstacles hampering their growth; and completing the reform of insolvency regime.

Among the reforms proposed in the *Survey*, those concerning the efficiency of public administration and justice system would have the largest impact on GDP growth

by strengthening the rule of law, thus supporting investment and productivity growth. The expansion of active labour market programmes and reducing social security contributions would also generate large benefits by boosting employment and social inclusion.

Reducing the public debt ratio by steadily raising the primary budget surplus to above 2% is essential to address the risk to the broader economy of the high public debt ratio. Lower interest rates have reduced interest payments on the public debt to a record low of 3.5% of GDP in 2018, which is however near what Italy spends on education.

Italy can raise the primary budget surplus by incorporating in the annual budget through and effective spending reviews that help rationalise current spending by reducing waste and reallocating resources towards more effective programmes. Closing the early retirement scheme introduced in 2019 would free resources to boost employment and opportunities for young people in addition to improving inter-generational equity. Implementing this programme would help Italy's successful enterprises develop and new enterprises to follow their path, generating opportunities for Italians across the country. A future blog will discuss how this reform programme can address the large disparities between the regions such as those around Brembo's headquarters and those around Valle dell'Acate.

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# Sweden's schools: lessons from history to build a better future

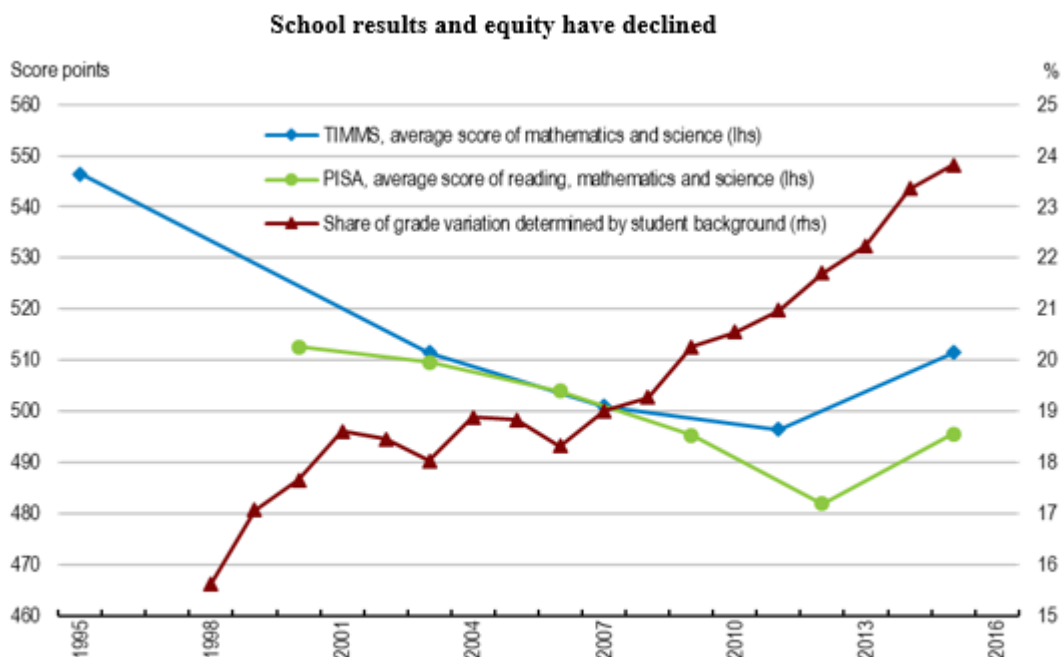
by Jon Pareliussen, Sweden Desk, OECD Economics Department

Swedish schools entered the 1990s from a position of strength, as one of the top performers in early international school surveys, including the OECD Programme for International Student Assessment (PISA). School governance was centralised, and implemented locally by regional education boards. A suite of sweeping reforms in the early 1990s decentralised the school system from the central to the municipal level and introduced choice, competition and management by objectives. The general direction of reform was common to several OECD countries at the time, some of which perform well in international comparison.

However, the reforms seem to have contributed to weakening results in Sweden. Implementation was not optimal, as some municipalities were ill-prepared to take on the new tasks, and key stakeholders, notably among teachers and school principals, were opposing the new model. The reform design also had weaknesses. Regional education boards

were closed and municipalities were granted full autonomy over school funding, weakening governance structures considerably, at a time when the introduction of liberal entry for private (for-profit and non-profit) school providers would have called for stronger governance and control.

The latest vintage of PISA points to a brighter future for Sweden's schools. Average results improved, reflecting at least partly recent government interventions. However, today is no time for complacency, as Sweden's educational performance only climbed back to close to the OECD average. Inequalities across pupils and schools are widening, and children are increasingly segregated into schools with pupils from similar backgrounds. These developments are partially driven by broader societal trends, notably increasing income inequality and immigration. Nevertheless, the school system reinforces segregation instead of counteracting it, running the risk of depriving pupils of equal opportunities.



Source: OECD Economic Survey of Sweden (2019).

Against this backdrop, the

special chapter of the OECD Economic Survey of Sweden 2019 describes and analyses the challenges facing primary and lower secondary education in Sweden. A set of recommendations is outlined, focussing on three main areas:

- Economies of scale and the need for coordination calls for a partial recentralisation of some aspects of education policy. A centrally set minimum funding norm based on pupils' socio-economic characteristics would target funding better to needs and equity objectives. The norm should be non-binding and integrated in the existing system for cost- and income equalisation between municipalities, in line with established governance principles in Sweden. A regional arm of the central government governance structure should be re-built to enhance cooperation, improve skill development, promote continuous quality improvements, and instil accountability at every level of the school organisation.
- Competition and school choice can be powerful tools to improve school quality, but private interests in many cases differ from the interests of society as a whole. Effective regulation and governance therefore need to steer private providers to deliver for the public good. Ensuring that grades fairly represent pupils' skills and knowledge would reduce information asymmetries. Private schools' admission procedures need regulation to hold back school segregation. Municipalities should

adjust how they assign pupils to schools by promoting more socially mixed pupil groups while toning down the current strong focus on proximity. Investments in new school capacity can help counteract segregation, notably if coordination between municipalities and private providers improves.

- High-quality teachers are a school's most important asset, and Sweden faces teacher shortages. Teaching needs to become more attractive to recruit motivated and skilled students and retain high quality teachers in the profession. Better teacher education with a stronger research base and more teaching practice would help. Once in a job, teachers should face clearer career paths, incentives to progress, perform and take on challenging tasks as well as clear accountability for key outcomes, coupled with more cooperation, feedback and support between colleagues. A new regional arm of the central government governance structure should have a central role.

Sweden is now moving towards a new round of school reforms, largely along these lines. A clear lesson from the previous three decades of Swedish education history is that reforming complex systems, warranted or not, can also be a risky undertaking. The end result depends on reform design, implementation and intricate interactions within the system undergoing reform as well as with the external

environment.

The need to adjust to unintended consequences as complex reforms progress is inevitable, but accurately identifying strengths, weaknesses and causality is challenging in hindsight, and even more in real time. Not knowing exactly where you are and how you got there reduces the likelihood of ending up where you want to be. Therefore, decision makers should integrate experimentation, quantitative research and evaluations into reform design in the next round of Swedish school reforms.

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# **The key to breaking cycle of poverty in Israel lies in education**

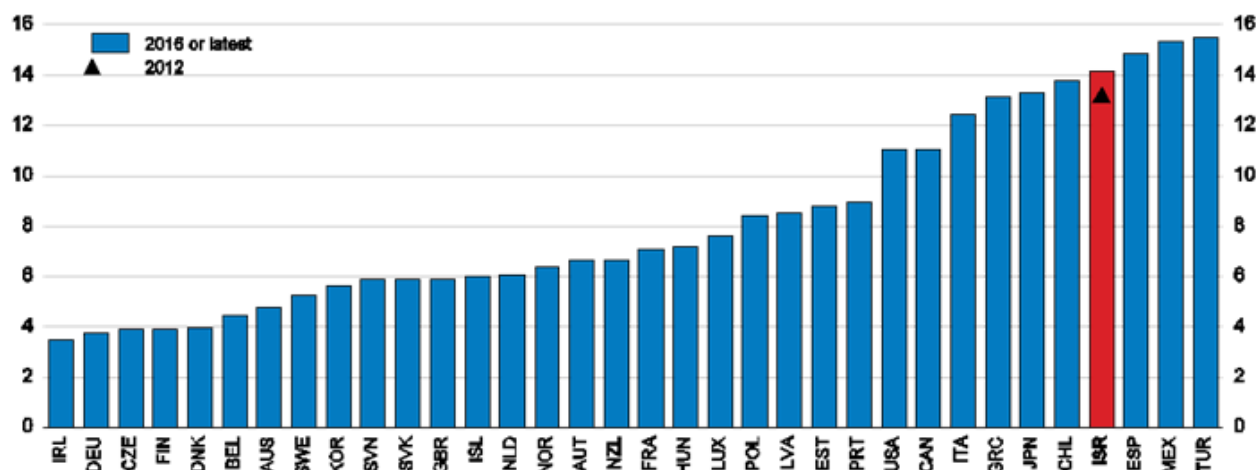
By Gabriel Machlica and Claude Giorno, Israel Desk, Economics Department

Inequality and relative poverty in Israel remain high, particularly among Arab-Israelis and Haredim (Ultra-Orthodox). Israel's social policy follows a "welfare-to-work" approach to tackle poverty in order to avoid measures that may harm work

incentives among the Haredi, who value the time dedicated to religious studies, and the Arabs, who have cultural barriers to female employment. The government's strategy of encouraging employment among previously non-working families has met with substantial success. The Israeli labour market has improved markedly, and more and more Haredim and Israeli-Arabs have been able to find jobs. Moreover, the average real income of poor households has risen by almost 3% annually in the last six years, while the average annual real income of wealthier households has increased by only 2.2%.

However, inequalities remain internationally high, and the current strategy without complementary steps has its limits. Many disadvantaged workers have been able to find jobs, but their families remain poor, since in most cases these jobs are low-paid. Indeed, the share of the working poor has risen in recent years and is comparatively high (**Figure 1**).

**Figure 1. The share of working poor is high**  
**A. Share of workers in poverty<sup>1</sup>**



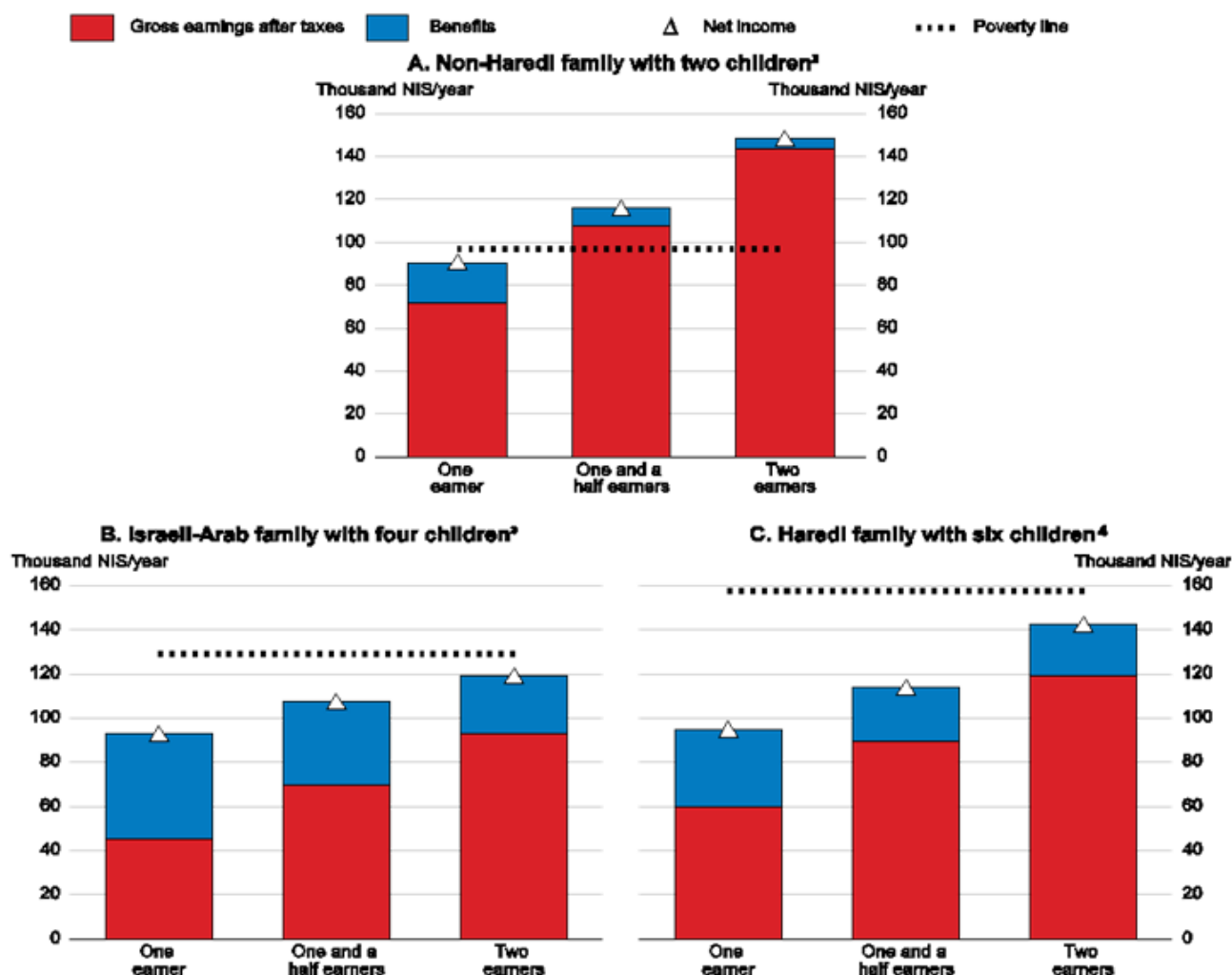
1. Those with income below the poverty line, living in households with a working-age head and at least one worker.  
Source: OECD (2017), *Income Distribution database*; National Insurance Institute

This is particularly true for the Haredim and Israeli-Arabs, who earn on average only 70% and almost 90% of the median hourly wage, respectively, mostly due to the differences in skills and typically have families with only one breadwinner. Given the current tax-transfer system and large number of

children in these households, especially in the Haredi community, even two full-time working spouses would not be enough to escape from poverty (**Figure 2**).

**Figure 2. Higher employment of Haredim and Israeli-Arabs may not be enough to lift them out of poverty**

Estimates of family income according to the numbers of earners and the community group<sup>1</sup>



1. One earner corresponds to a family with one earner, one and a half earner corresponds to two-earner family where one works full-time and the second half-time, and two earners corresponds to two-earner family where both work full-time.
2. Workers are assumed to earn 110% of the average wage.
3. Workers are assumed to earn 70% of the average wage.
4. Workers are assumed to earn 90% of the average wage.

Source: OECD calculations using the OECD Tax-Benefit Model. See OECD (2018), OECD Economic Surveys: Israel 2018, OECD Publishing, Paris, [http://dx.doi.org/10.1787/eco\\_surveys-isr-2018-en](http://dx.doi.org/10.1787/eco_surveys-isr-2018-en) for more details.

Therefore the current government strategy should be accompanied by additional measures. Extensive poverty in Israeli society is to a significant extent due to the wide dispersion of skills. The government should improve the education outcomes of the disadvantaged groups to boost their future productivity and wages. As the *2018 OECD Survey on*

*Israel* argues, the education system needs to become more inclusive by giving all children opportunities for good-quality education to improve their skills. The government should also focus on programmes for adults who have already left initial education without proper skills. In addition, it should further expand in-work benefits to boost take-home pay of the average eligible worker.

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# **The refugee crisis: a challenge but also an opportunity for improving policies to integrate immigrants into the Dutch labour market**

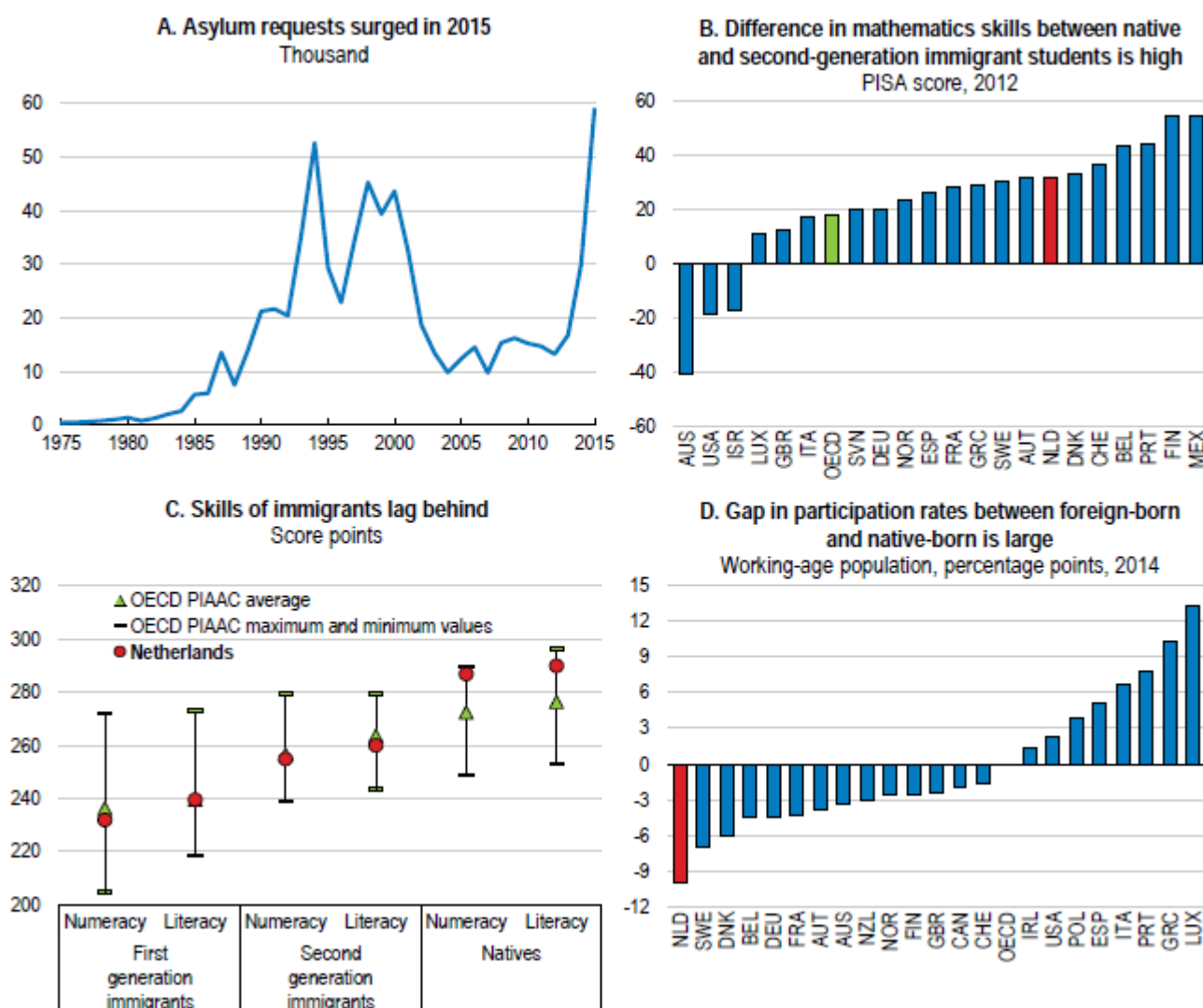
**By Gabor Fulop, Analyst, & Rafal Kierzenkowski, Senior Economist**

## **The Netherlands Desk, Country Studies, OECD Economics Department**

The ongoing refugee crisis in Europe has particularly affected the Netherlands. Asylum requests surged in 2015 to nearly 60 000 (Panel A), more than three times the yearly average of 2010-14. This is a significant challenge for the authorities, who need to provide decent housing and help these people finding a job for the time they will stay in the Netherlands as refugees, which could be much longer than expected. Getting work is key for refugees to develop social contacts and economic independence, and acquiring new skills could be helpful for those refugees who eventually return to their own country. Therefore, good policies to facilitate the labour market integration for migrants are critical.

The past record of integrating immigrants is mixed. Although at about the OECD average, the skills of first- and second-generation immigrants are well below those of natives and below those of immigrants in the best performing OECD countries (Panels B and C). In parallel, the gap in labour force participation—those who have jobs or are looking for a job—between first-generation immigrants and natives is the largest in the OECD (Panel D). Many policies that would support job prospects of immigrants would also benefit refugees. Studies of past inflows of refugees show that the proportion of those of working age participating in the labour market is around 45% after being five years in the Netherlands (Vluchtelingenwerk, 2014), which is much lower than the 80% of natives.

**Skills and labour market outcomes of immigrants  
are weak**



**Source:** Statistics Netherlands (2016), “Asylum requests” in Population, *Statline*, January; OECD (2013), *PISA 2012 Database*; OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*; and OECD (2015), “Employment, unemployment and participation rates by sex and place of birth”, *OECD International Migration Statistics (database)*, October.

The 2016 *Economic Survey* of the Netherlands highlights the following reforms for improving the labour market integration of immigrants, which could also benefit refugees:

## 1. Ensuring high equity of compulsory education

Raising the quality of early childhood education and care would help immigrant children, including by improving language proficiency. Stepping up training would provide teachers with the tools to work with students with disadvantaged

backgrounds, and reflecting such skills in wages would attract more qualified teachers. Raising student mobility between tracks at secondary schools would foster the development of skills, including for students with immigrant background, and would avoid those with low socio-economic background being trapped in low-qualified jobs.

## **2. Recognising and upgrading skill sets**

Better recognition of foreign qualifications and informal skills would help immigrants to find work that matches their skills. Creating programmes that combine work experience and on-the-job training beyond formal education, especially for immigrants with low qualifications, would help them to demonstrate and upgrade their informal skills. Developing language courses would also support access to jobs.

## **3. Promoting job search and recruitment**

Further lowering the cap on severance payments would make permanent contracts more attractive to employers, which would help refugees and immigrants to find jobs and to support their skills because permanent work tends to come with more skill development. The government has recently increased the earned income tax credit for lower income-earners, which is welcome. Further reduction of effective tax rates on labour income would sharpen incentives to get a job. Reinstating an equal employment policy would help to overcome discrimination on the basis of race or ethnicity.

Whereas the refugee crisis poses an immediate challenge, it also provides an incentive to improve labour market integration policies of immigrants. This would result in better job prospects benefiting all parties involved, the migrants and the Netherlands.

## **References**

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