

# In Spain, wages for unskilled youths now the same as in the late 1990s

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## **The Bank of Spain warns that the young are bearing the brunt of the effects of the 2008 economic crisis**

The [economic crisis in Spain](#) has been punishing for young people's pockets. Those with lower educational attainment are earning the same as their peers did at the end of the 1990s, while qualified youths are on lower annual salaries than their counterparts were a decade ago.

The Bank of Spain has confirmed this situation after carrying out a study on purchasing power over a 30-year period, factoring in inflation.

Until now, each generation had earned more than the last

The high rate of unemployment and a drop in working hours go some way to explaining the phenomenon. But the Bank of Spain warns that nothing will improve unless specific measures are taken to support the young who are taking the brunt of the [changes in the labor market](#), which is compounded by the rising cost of rent.

Whether skilled or unskilled, young Spaniards are earning less than people their same age did 10 years ago, according to a study based on Social Security data that has just been presented by Bank of Spain Governor Pablo Hernández de Cos at the University College of Financial Studies in Madrid (Cunef).

Hernández de Cos noted that, in general terms, each generation has earned more than the last, with the downturn of the 1990s scarcely affecting this trend. But things changed with the economic crisis of 2008, when all demographic groups saw a drop in their salaries, particularly young, low-skilled workers. "The less qualified youths experienced the biggest drop in their total annual income," said Hernández de Cos.

The governor noted that those born in 1987 and with low educational attainment are now earning an average of 20% less than those in the same age bracket did a decade ago - the first instance of such a phenomenon in 30 years.

"The patterns of recruitment and redundancy have hardly changed."

PABLO HERNÁNDEZ DE COS, BANK OF SPAIN GOVERNOR

This scenario is repeated with low-skilled workers who are no longer so young, such as those born in 1977 and who are now in their 40s - a demographic that also earns less than those born in 1967 did at the same point in their lives.

The data shows [high rates of unemployment and a high turnover](#), which in turn means workers are putting in fewer hours and earning less. The evolution of salaries runs parallel to the evolution of per capita GDP with inflation taken into account.

What this indicates is that the average Spaniard is 13% less wealthy than if the crisis had not occurred and growth had continued at the same rate as during the 1995-2006 period. Instead, Spaniards have actually returned to income levels of the year 2000. And, according to the Bank of Spain, the wages of low-skilled youths have retreated further, to the late 1990s. Now, at age 30, they earn less than 30-year-olds did 10 years ago and almost the same as 30-year-olds earned 20 years ago, which means that [two decades of purchasing power have been lost](#). Exacerbating the situation is the fact that young people now have to spend more on rent, a situation that the Bank of Spain has condemned.

There has been a similar throwback regarding the salaries of skilled workers. A highly qualified 40-year-old will earn around 20% less than someone in that demographic earned 10 years ago.

One of the reasons that the situation for young people has deteriorated is the existing labor market regulations, which make it is easier for companies to [lay off their younger or temporary workers](#) than to make salary adjustments, something which generally affects older employees with long-term contracts, more experience and higher wages. The governor is now trying to raise awareness among the young that the current legislation leads to a very unequal intergenerational playing field.

### **A slow recovery**

While the recovery should gradually take things back to the previous paradigm, the governor warns that this reversion is happening at a slower pace among the younger demographic. There are several reasons for this, the first being that a period of unemployment at the start of a person's working life has lifelong repercussions on their income.

Secondly, the skills of the unemployed no longer match the skills required in the workplace, a situation which is exacerbated by [long-term unemployment](#) prevalent among those with few qualifications, making them less employable.

Thirdly, according to the governor, "The shortening of temporary contracts in recent years is aggravating the problem. The conditions in which young people are accessing the job market are worse than in neighboring countries," he added, pointing to the fact that in Spain the rate of temporary youth employment stands at 70% compared to an average of 52.6% in the eurozone.

Finally, structural developments such as [globalization, digitalization and robotics](#) could be playing a role. "The fact that companies have less need to establish stable relations with certain employees has led to a shortening of contracts and an increase in part-time work," said Hernández, who did, however, point out that the new collaborative platforms could lead to the incorporation of young workers as the hours are more flexible.

Despite the fact the younger generation is relatively qualified, Hernández de Cos concluded that the crisis has made it "hard to gain experience in the first years of a person's career."

### **BANK OF SPAIN'S SOLUTIONS**

In his address, Governor Pablo Hernández de Cos said it was crucial to identify policies to help the young, and he called for intergenerational equality, not just concerning pensions but also the employment framework.

The Bank of Spain maintains that salary rigidity benefits older employees who earn more and who are more expensive to make redundant, while it has an adverse effect on the younger generation as, being the cheapest to lay off, they take the brunt of internal adjustments. "The patterns of recruitment and redundancy have hardly changed," said Hernández de Cos. "Both basically focus on temporary workers."

The governor believes that the solution lies in making recruitment on long-term contracts more attractive while assuring the necessary flexibility to adjust labor costs in the case of a negative impact. With regard to minimum wages or bonuses, the governor suggested that their potential depended on tax considerations. He also said they should not adversely affect recruitment.

Finally, the governor referred to education and the fact that levels, although improved, are still lagging behind those in neighboring countries. "Our students are getting relatively low grades in standard international exams," he pointed out while drawing attention to the elevated school dropout rate. His recommendations in this field include evaluating and reinforcing vocational training.

English version by [Heather Galloway](#).y.

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**Antonio Maqueda**  
**Heather Galloway**

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