



"la Caixa" Foundation

Inequality and social contract

Outreach report

Evolution of wage gap between native-born and migrant youth in Spain

Cohort analysis during the Great Recession

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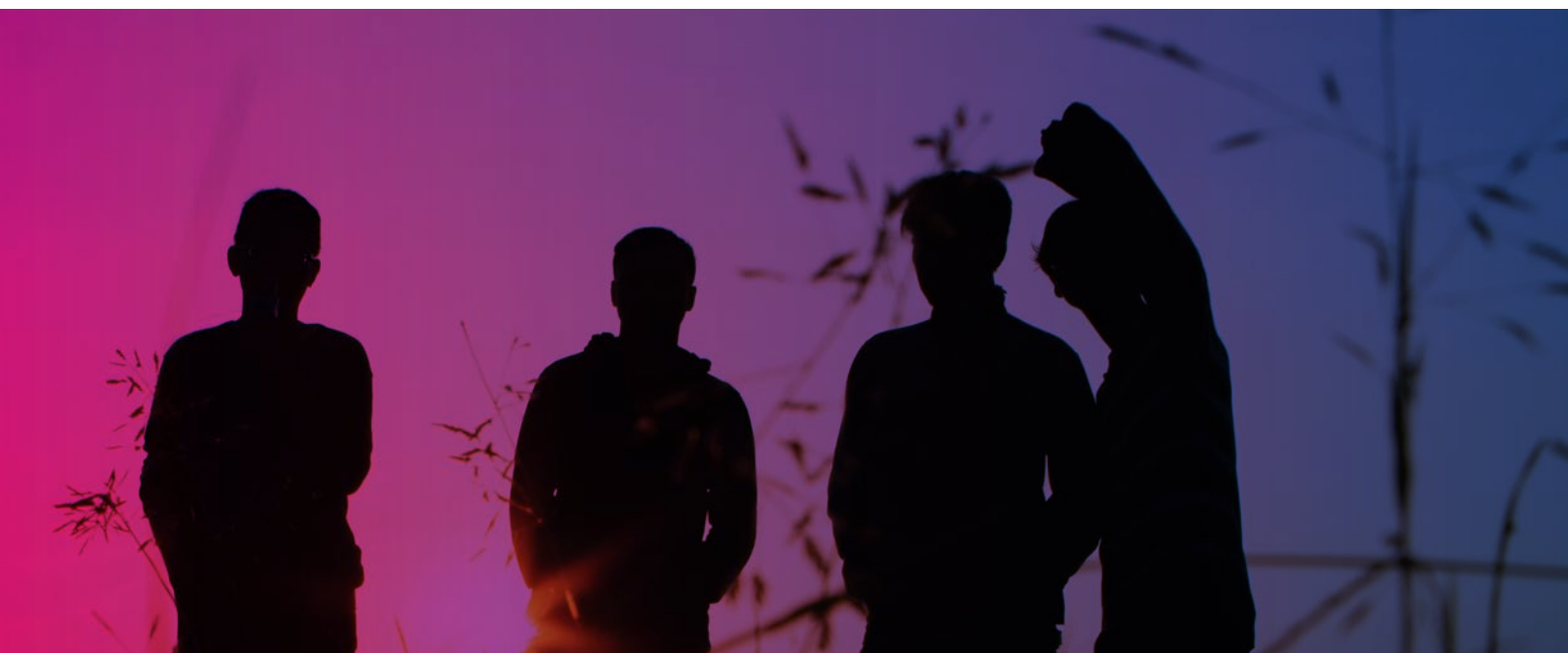
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Abstract

This paper explores the wage paths of young people who entered the labour market for the first time between 2007 and 2015. Their evolution shows that those who start their working lives during an economic crisis have lower wages than those who do so during upswings, and that these effects persist in the long run.

Educational attainment leads to separate impacts, although there are no differences by gender. The most affected in the short run are seemingly young people with basic education levels, whose wages fell substantially during the Great Recession, although a rise was noted during the recovery phase.

There are also differences among young people according to their place of birth: first, those born in Spain have lower wages than those born outside of Spain. Nonetheless, the gap is narrowing as a result of higher wage growth for native-born workers. Furthermore, those born in South America and Africa experience the biggest wage losses because they joined the labour market during a time of economic crisis.



Main ideas

1

The number of people born outside of Spain increased substantially since 2000 until becoming 15% of the resident population in 2020.

3

Those entering the labour market during an economic crisis have lower wages than those entering during an upswing. The annual entry wage in 2012 was 60% of the same wage in 2007.

5

Young people with low educational attainment – both natives and immigrants – experience the biggest wage losses from entering the labour market during a crisis. These annual wages are halved.

7

The impact of the crisis differed by region of origin. Young people born in South America and Africa experienced the greatest negative impact.

2

The Great Recession stopped young people from entering the labour market for the first time: the number of young people who joined the labour market was halved in just 5 years.

4

People born outside of Spain have annual entry-level wages that are around 10% higher than the wages of those born in Spain. Although after one year, and with the same work experience, the wages of native-born people increase more than those of people born outside of Spain with the same experience. This difference is in favour of natives after five years.

6

The differences in wage paths are greater between natives and immigrants with higher educational attainment.

1 The number of people born outside of Spain increased substantially since 2000 until becoming 15% of the resident population in 2020

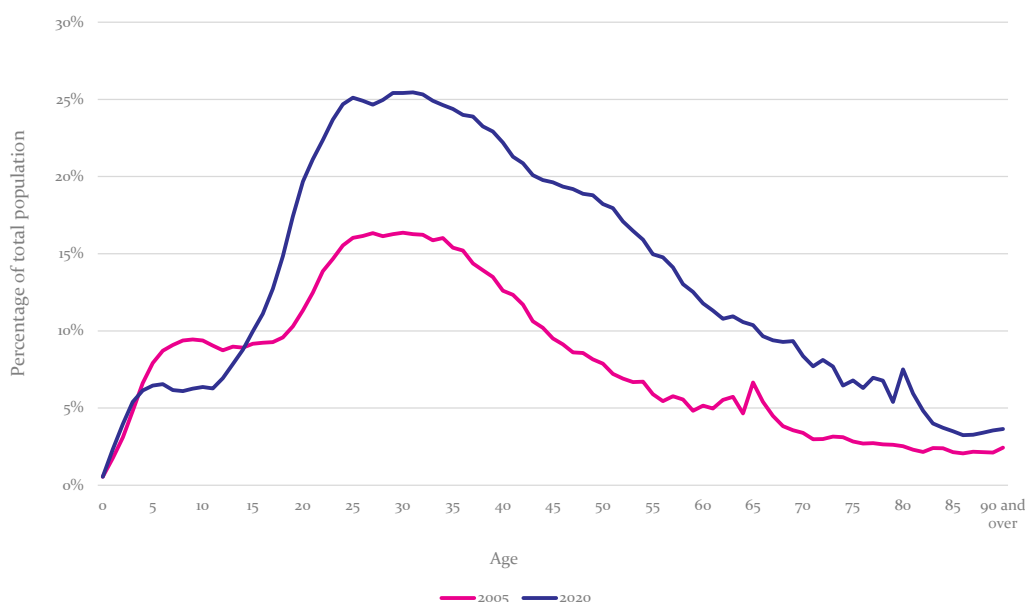
People born outside of Spain represented less than 5% of the population at the beginning of the 21st century. However, immigration flows have transformed Spanish society over the past two decades, so that by 2020 15% of the resident population in Spain was born outside of the country. In other words, Spanish society underwent a major change in its composition and behaviour in little more than a decade.

This percentage is one of the highest in the European Union. Excluding the islands (Cyprus and Malta) and Luxembourg from this calculation, Spain is the seventh country out of 27 where the foreign population represents the highest percentage.

It must also be remembered that the immigrant population is distributed heterogeneously according to age. The percentage of the immigrant population between 20 and 40 years of age is more than 20%, and increases to 25% for the 25-30 age group. The immigrant population therefore joins the cohorts of the Spanish-born population under 45 years of age whose size is reduced compared to previous generations. This helps to slightly alleviate the ageing of Spain.

Figure 1: People born outside of Spain exceed 20% of the population among those aged between 20 and 40

Percentage of the population born outside of Spain by age, 2005 and 2020



Source: population registers, INE.

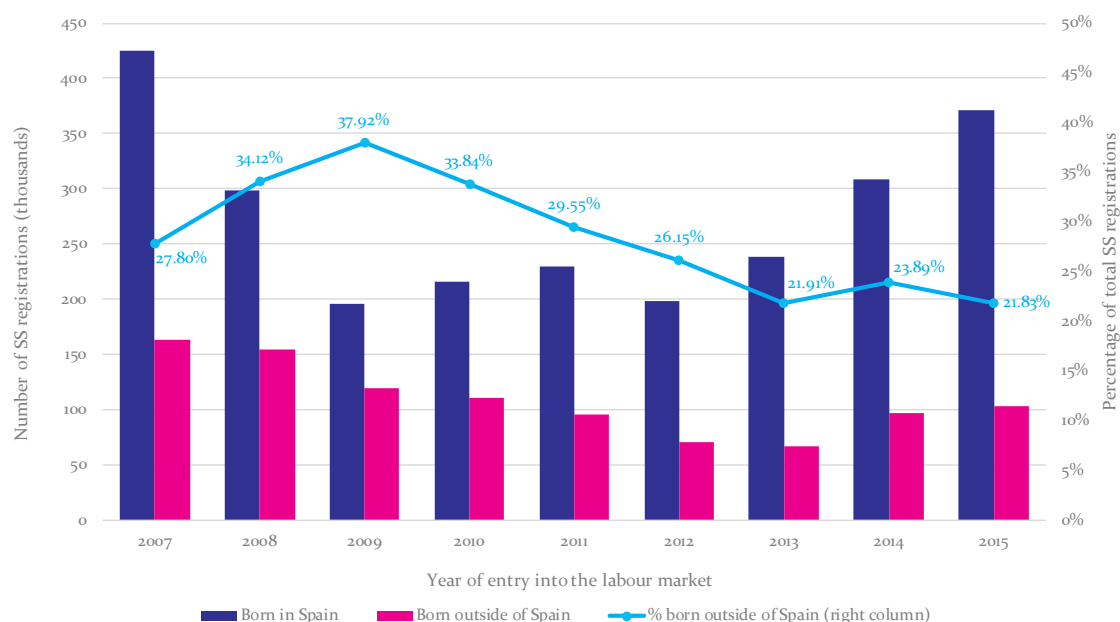
2 The Great Recession stopped young people from entering the labour market: the number of young people who joined the labour market was halved

Almost 590,000 young people under the age of 30 obtained a job for the first time in 2007, while almost 30% of those were born outside of Spain. During the period of economic crisis between 2008 and 2012, the number of people entering the labour market fell for the first time and reached a minimum of 270,000 people in 2012, which was less than half the number of people who had joined the labour market five years earlier. This fall was more pronounced, and subsequent recovery not as strong, for people born outside of Spain. The inflow into the labour market of young people born in Spain was therefore 12% lower in 2015 than in 2007, while that of those born outside of Spain was 36% lower.

It can be assumed that the reason for this fall was a decrease in the population of young people, given the smaller size of the most recent cohorts. Nonetheless, if we calculate the percentage of new entrants into the labour market out of the 16-29 year-olds in each year, the major impact of the crisis can also be seen. First-time entrants to the labour market accounted for 7% in 2007, while accounting for 3.7% in 2012.

Figure 2: Half the number of young people entered the labour market in 2012 compared to 2007

Number of first-time social security registrations by place of birth, and percentage of registrations of those born outside of Spain as a proportion of total, 2007-2015



Note: weighted data.

Source: compiled by the authors based on Spain's Continuous Work History Sample (MCVL), 2007-2015.

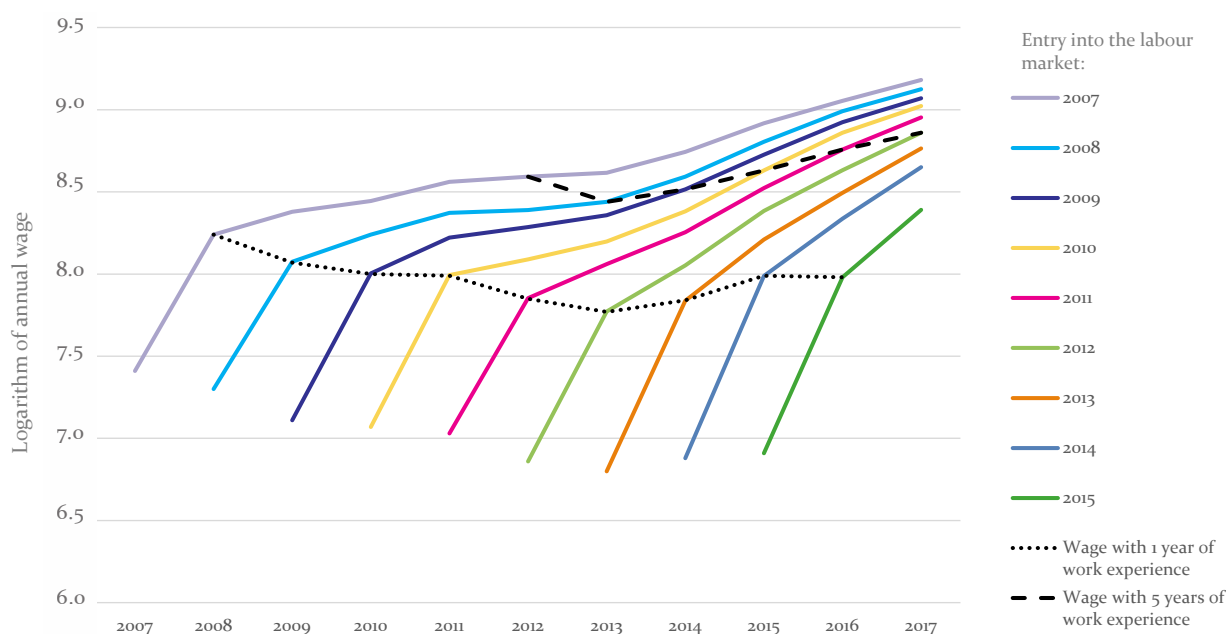
3 Those entering the labour market during a crisis have lower wages than those entering during an upswing

Based on the annual wage data for young people, the wage paths of 16-29 year-olds have been calculated according to the year of entering the labour market and length of potential experience. Each line in the figures that follow shows the wage trend of young people who entered the labour market between 2007 and 2015. Each point on the line represents the annual wage with one more year of work experience.

The entry wage is lower for those entering the labour market during times of crisis compared to those entering during times of growth. Young people who had their first work experience in 2012 and 2013 therefore received lower wages in their first year of work than those who entered during years of economic growth. It should be remembered that the youth unemployment rate in that biennium was more than 50%. The impact of the crisis carried over to the following years. With five years of work experience, those who entered the labour market in 2007-2009 had lower wages than those who entered in 2011-2012 and were therefore able to develop their career paths in a higher economic growth environment. These patterns can be observed for both men and women, with small differences between both groups.

Figure 3: Wage progression is lower for those who develop their initial years of employment during a period of crisis

Evolution of annual wage of people born in Spain by year of entry into the labour market, 2007-2017



Note: equivalent values of logarithm in wage terms are: 7 = €1,097, 8 = €2,981, 9 = €8,103, 10 = €22,026. Wages in real terms deflated by CPI in 2016.

Source: compiled by the authors based on Spain's Continuous Work History Sample (MCVL), 2007-2017.

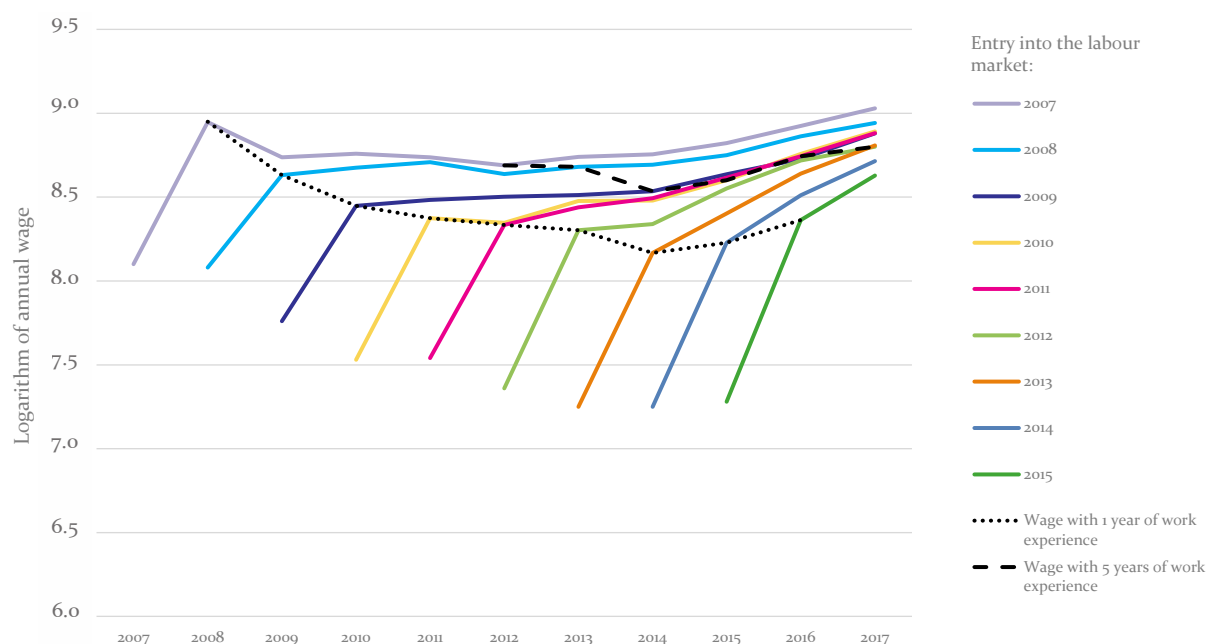
4 Young immigrants have entry-level wages that are around 10% higher than those born in Spain, but lower wage progression

People born outside of Spain share certain path aspects with those born in Spain and others that are different. If we compare the dotted line (wage with one year of experience) in Figure 3 and Figure 4, it can be seen that the levels are higher in the case of those born outside of Spain. This is explained by the fact that those born outside of Spain work more days during the year than those born in Spain (a difference of some 60 days), which may be related to later emancipation and family formation patterns than those of young Spaniards.

As in the case of young people born in Spain, the wages with one year of work experience of young immigrants who entered the labour market between 2009 and 2013 are substantially lower than those who entered in 2007. Nonetheless, the effect of the crisis was more pronounced than for those born in Spain. Similarly, the crisis also had long-term effects. With five years of work experience, wages are slightly higher for those who entered the labour market in the years 2012-2013. They therefore experienced this situation for less time although they started during a recession. In comparative terms, however, lower wage progression can be noted in the case of young immigrants. In other words, the difference between wages with five years and with one year of work experience is more favourable for Spaniards. As in the previous case, the patterns are similar for men and women, with minor differences between both groups.

Figure 4: The annual wages of young immigrants are higher than those of young Spaniards, but their medium- and long-term growth is lower

Evolution of annual wage of people born outside of Spain by year of entry into the labour market, 2007-2017



Source: compiled by the authors based on Spain's Continuous Work History Sample (MCVL), 2007-2017.

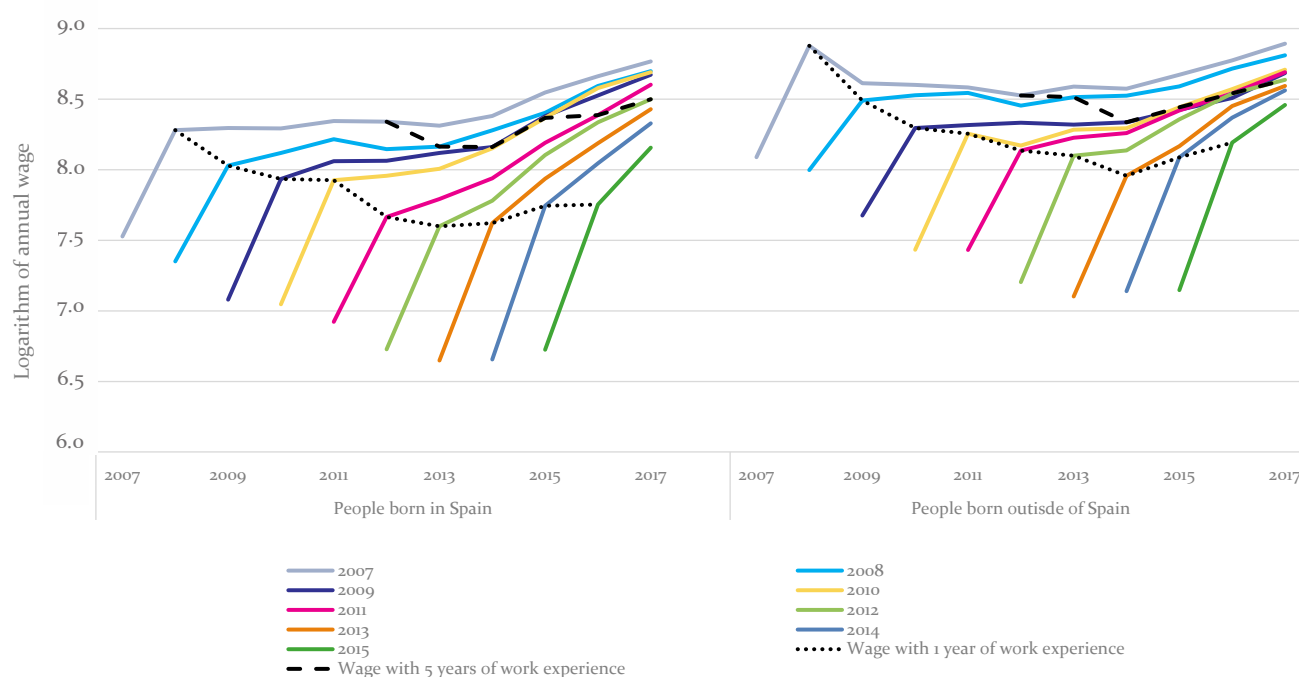
5 Young people with low educational attainment experience the biggest wage losses from entering the labour market during a crisis

In the case of both Spaniards and immigrants with low educational attainment, wages after one year of work experience fall for the cohorts that joined after 2007, although stagnation is observed between 2013 and 2015. For example, wages after one year of experience are lower for the cohort that entered in 2012 compared to those who entered in 2007, although this level is similar for the cohorts that joined later.

The entry wages of immigrants with basic education are higher than those of Spanish-born persons with the same level of education. Specifically, the entry wages of Spanish-born persons did not reach 4,000 euros per year in any of the years considered (remaining at around 2,000 euros between 2012 and 2014), while those of immigrants slightly exceeded 4,000 euros per year. Nonetheless, there are fewer differences between natives and immigrants with five years of work experience, predominantly due to a higher growth in annual wages for those born in Spain, with average wages close to 5,000 euros per year.

Figure 5: Differences between the wages of young immigrants and young Spaniards with low education attainment are greater in the first year of entry into the labour market

Evolution of annual wages of people with basic education by year of entry into the labour market and place of birth



Source: compiled by the authors based on Spain's Continuous Work History Sample (MCVL), 2007-2017.

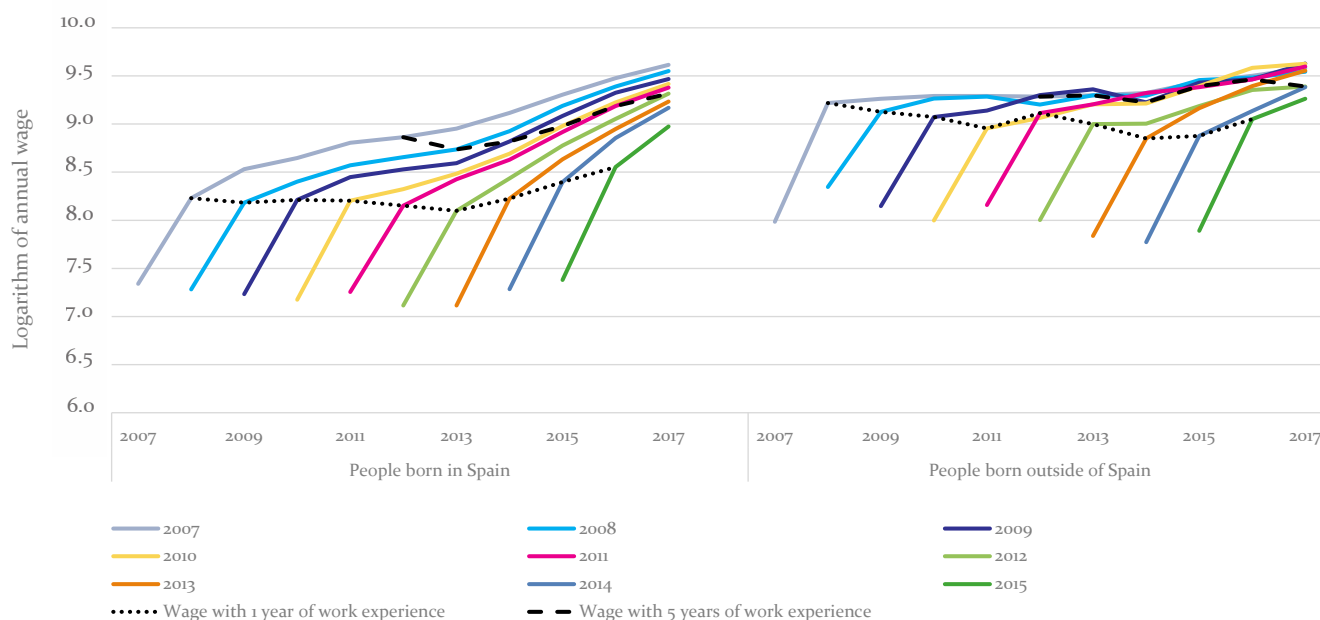
6 The differences in wage paths are greater between natives and immigrants with higher educational attainment

When it comes to young university graduates born in Spain, wages with one year of work experience remain stable for the cohorts that entered the labour market between 2007 and 2012, and increase slightly thereafter when the economic situation improves. Stability can also be observed throughout the period considered for those born outside of Spain, although wage levels are higher.

In the case of wages corresponding to five years of work experience, growth is again observed from 2012 onwards for young people born in Spain. In contrast, no such increase can be observed for immigrants. In this case, wages with one and five years of work experience are similar, regardless of the year of entry into the labour market, and this may reflect greater difficulties for this group to obtain better jobs.

Figure 6: Wages of young skilled migrants barely increase with work experience

Changes in annual wages of university graduates by year of entry into the labour market and place of birth, 2007-2017



Source: compiled by the authors based on Spain's Continuous Work History Sample (MCVL), 2007-2017.

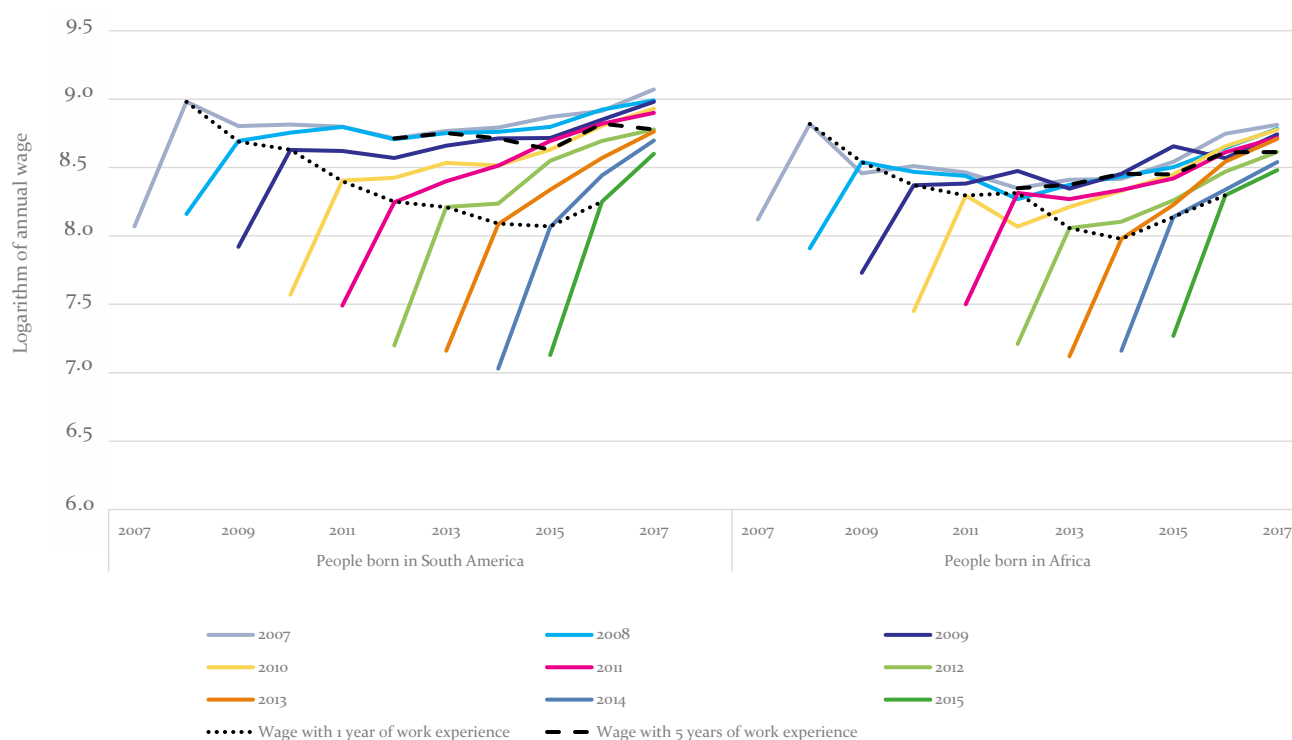
7 The impact of the crisis differed by region of origin. Young people born in South America and Africa experienced the greatest negative impact

The labour market entry wages of young people born in South America have fallen since 2008. With one year of work experience, the wages of those who obtained their first job in 2007 are higher than those of the cohorts that entered in the later period (2008-2015). On the other hand, wages with five years of work experience are similar for all cohorts under review. It can therefore be concluded that the most recent cohorts manage to recover from a lower entry wage. In other words, they experience higher wage growth than the cohorts that entered the labour market at the beginning of the Great Recession.

The greatest effect of the crisis that began in 2008 can be observed among young people born in Africa, as they experienced a significant reduction in their entry wages. In the same way as among those born in South America, the highest wages with one year of work experience were reached in the 2007 cohort and then decrease. Nonetheless, the recovery of wages with five years of experience can also be observed.

Figure 7: Young people born in Africa and South America experienced the biggest falls in wages as a result of the Great Recession

Evolution of annual wages of people residing in Spain and born in South America and Africa by year of entry into the labour market, 2007-2017



Source: compiled by the authors based on Spain's Continuous Work History Sample (MCVL), 2007-2017.

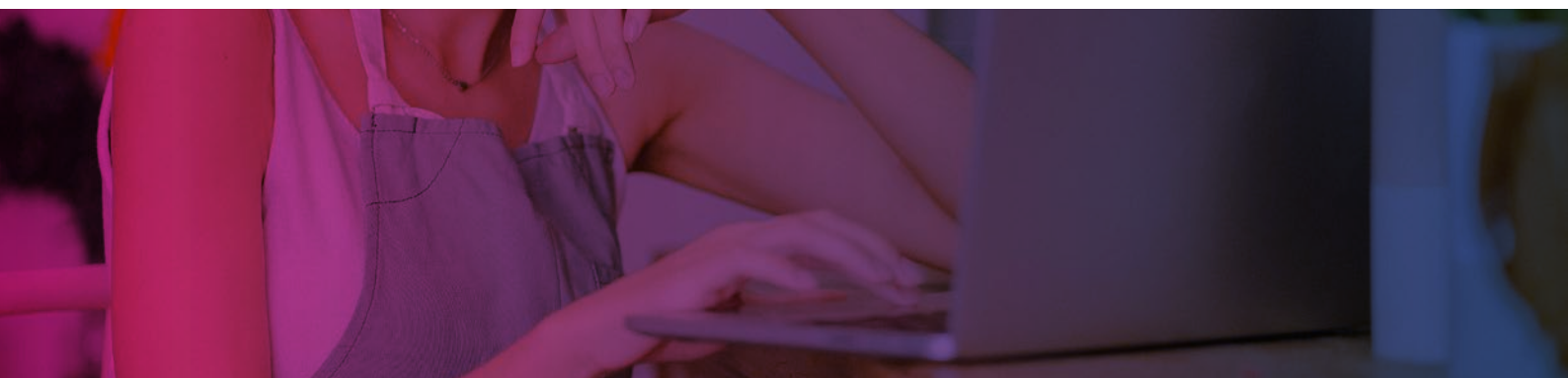
Conclusions

The crisis situation during the Great Recession has had a major impact on young people. First, it has limited their entry into the labour market; in other words, it has made it difficult for those without work experience to join. Second, those who manage to enter the labour market do so at lower wages, and these remain at lower levels than those who obtain their first job within a context of economic growth.

The annual entry wages of young people born outside of Spain are higher than those born in Spain, due to the fact that the former work more days per year. But the crisis has had a greater impact on them, as they have greater difficulties in employability, the fall in entry wages is greater and wage progression is slower.

Entry wages for young people with low educational attainment were almost halved for those who entered the labour market between 2012 and 2014 (both Spaniards and immigrants). In contrast, those for young university graduates fell by less than 10% (for both Spaniards and immigrants). The wage improvement is higher among young Spaniards (whether they have low or high skills) with five years of work experience.

Our results indicate the need for policies that can help young people to enter the labour market, especially those with lower educational attainment. Such policies should be the same for both natives and immigrants. Nonetheless, the long-term path suggests that the chances of promotion are lower for immigrants, so that it would be appropriate to establish specific measures for this group, especially for people born in South America and Africa.



Proposed actions

1

The key role of education in cushioning the negative effects of the recession suggests the importance of training both before and after entry into the labour market.

2

Young people need to be offered first contact opportunities with the labour market in order to reduce their likelihood of unemployment and exclusion.

3

These opportunities should be targeted as a matter of priority to the least skilled young people, as they also suffer most from falling wages.

4

Follow-up should go beyond labour market entry to improve promotion opportunities. It is young immigrants who face the greatest difficulties in this regard.

5

Counselling to identify training gaps and information on sectors with better future prospects can help to improve working conditions.

6

A system of continuous training for workers is vital to facilitate the transition between productive sectors.

7

Guiding companies on the appropriate use of training contracts can be a useful tool to improve the working conditions of young people.

8

Reducing the precariousness of entry-level working conditions can help to improve the working careers of young people.

Study characteristics

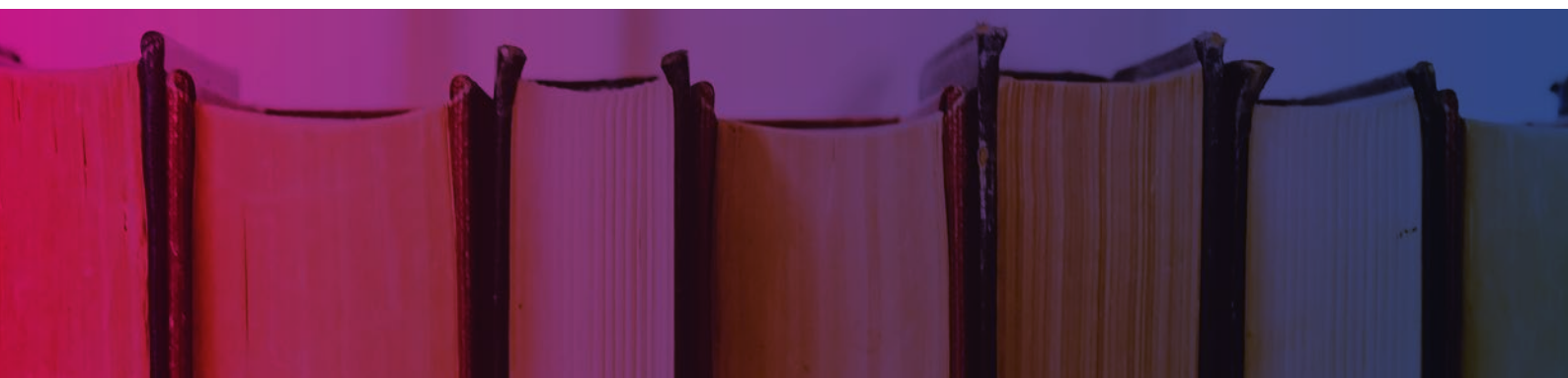
This research focuses on exploring the period 2007-2017. It can therefore not take into account the consequences of the crisis linked to covid-19. Nonetheless, its results help to foresee a strong long-term impact on young people entering the labour market in 2020-2021. Moreover, those who were trying to consolidate their paths in that period are also likely to suffer negative effects. Similarly, young people born outside of Spain are more likely to be affected than those born in Spain.

It should also be borne in mind that the study analyses annual wages, which may increase by wage growth per se or by the number of days worked. Unfortunately, the data do not allow for the calculation of an hourly wage to distinguish the effect of each of these factors.



References

Oreopoulos, Philip; Von Wachter Till and Heisz, Andrew (2012). "The Short- and Long-Term Career Effects of Graduating in a Recession". In: *American Economic Journal: Applied Economics*, 4 (1): 1-29. <https://doi.org/10.1257/app.4.1.1>.





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