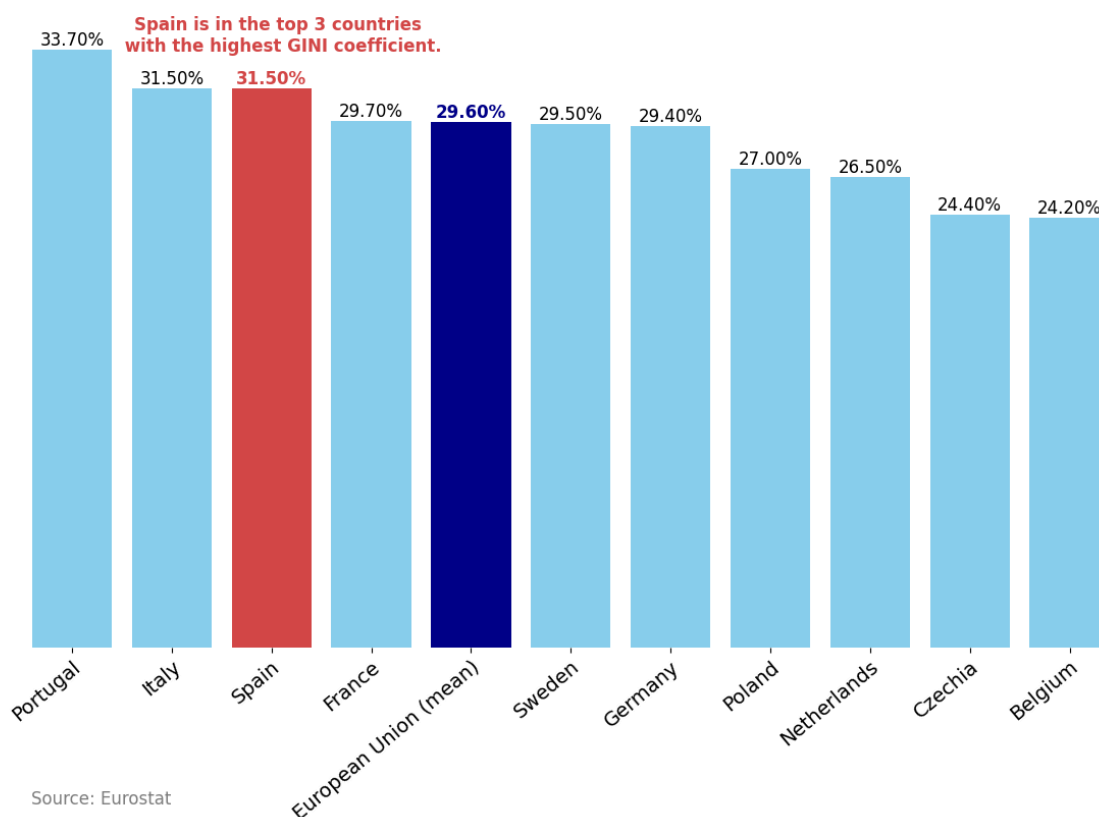


Spanish Generational Inequality

Introduction

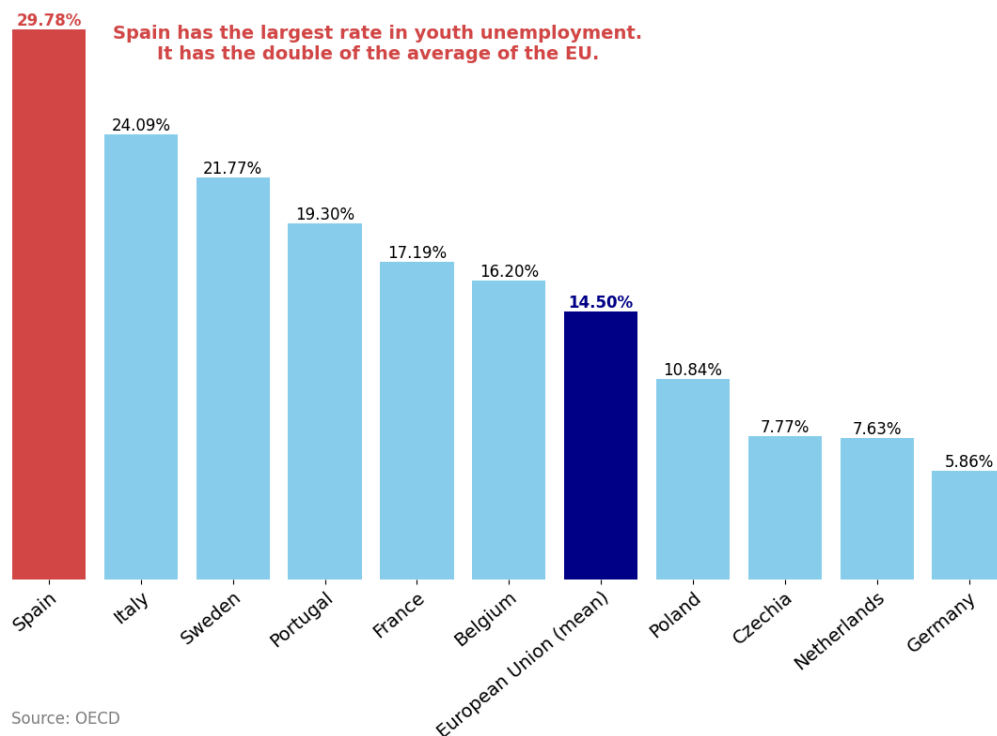
Spain ranks among the three countries with the highest income inequality among the ten most populous countries in Europe, standing nearly one point above the European average, as shown in the figure. The Gini coefficient, which measures income or wealth inequality within a population, ranges from 0 (perfect equality) to 1 (maximum inequality). It reflects how income is distributed in comparison to a perfectly equal distribution.

GINI coefficient of the 10 most populated EU countries (2022)



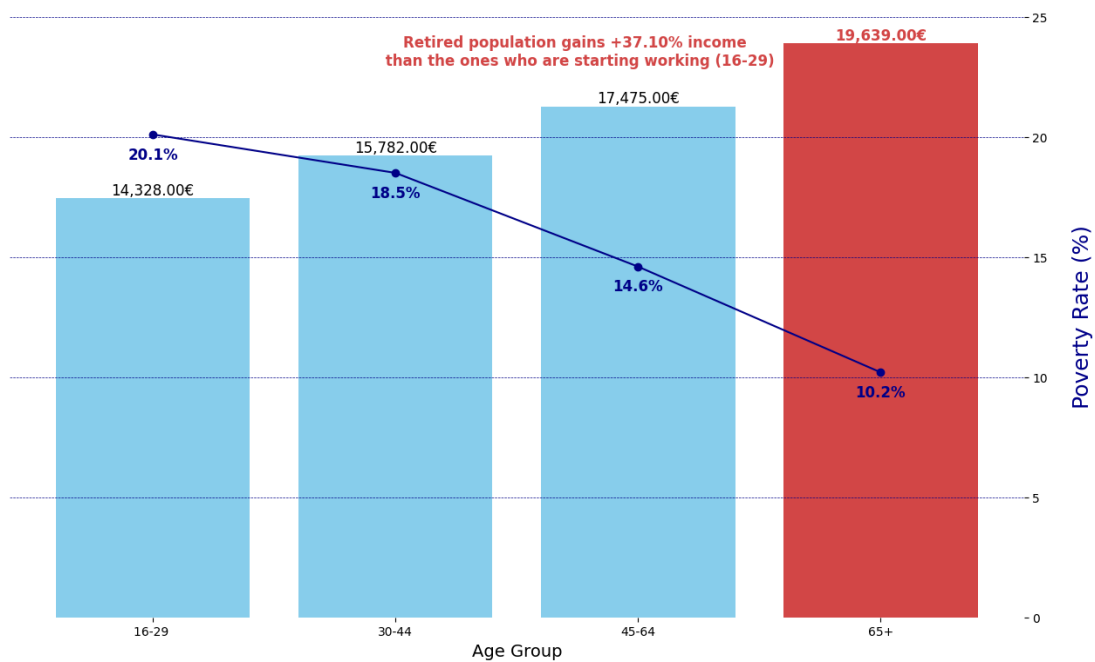
As we can see below, this high Gini coefficient is largely due to Spain's dubious honor as one of the leaders in youth unemployment within the European Union. Exactly, 29.78% of young Spaniards are unemployed—in other words, nearly 3 out of 10 young people are without a job. Also, this figure is twice as high as the EU average, highlighting a systemic issue within the Spanish labor market.

Youth Unemployment Rate of the 10 most populated EU countries (2023)



As you can imagine, this is not a trivial problem. In this project, we will address inequality from a different perspective: the inequality between generations in Spain. This issue is one of the biggest challenges the country faces, as it translates into poverty and disparity, as illustrated in the following chart.

Average Annual Income and Poverty Rate by Age Group in Spain (2023)

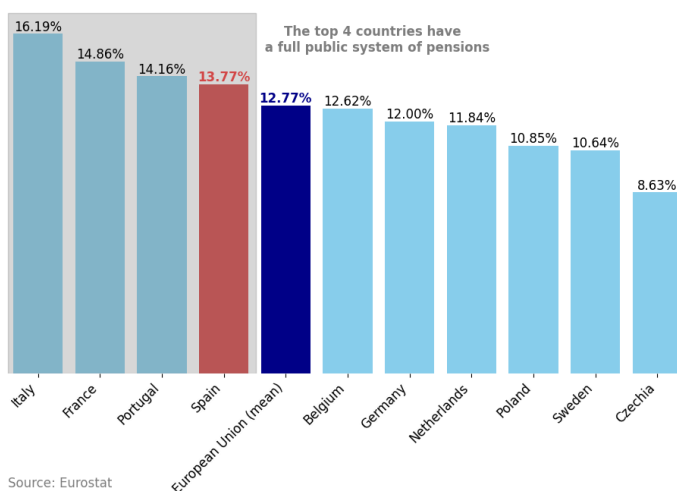


This figure highlights the economic challenges faced by younger workers in Spain. Their lower income compared to other age groups can be attributed to factors such as precarious job conditions and the low wages typical at these ages. However, there are two notable outliers: one is the poverty rate, which is nearly twice as high among younger generations compared to retirees; the other is the income gap of +37.1% between retired and younger generations. These discrepancies are the result of these following topics.

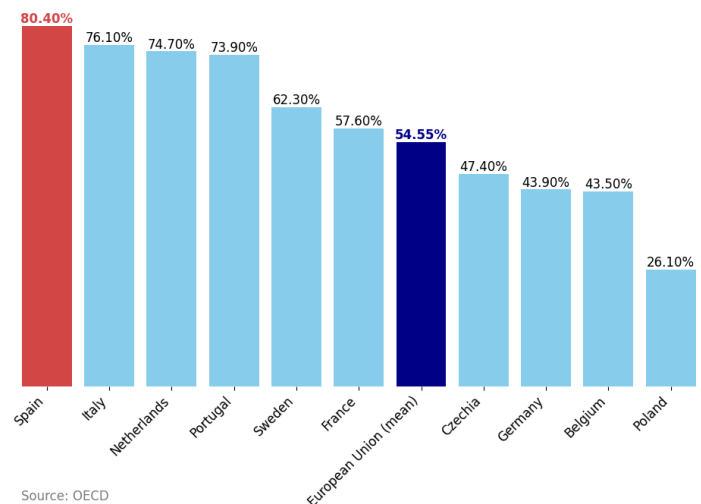
Main topics

As shown in the next picture, Spain is among the top four countries in the European Union in terms of pension spending. The countries ranked above it have similar public systems based on the pay-as-you-go model. In this system, the contributions of today's workers finance the pensions of today's retirees. However, this model has two main issues: it relies on the taxes and contributions of the current workforce and is under pressure from demographic changes, such as an aging population, low birth rates, and high life expectancy. These factors threaten the financial sustainability of the system. Additionally, Spain has the most generous pension replacement rate among the top 10 most populated European countries, exceeding the EU average by nearly 25 percentage points.

Pensions Expenditure by %GDP of the 10 most populated EU countries (2020)

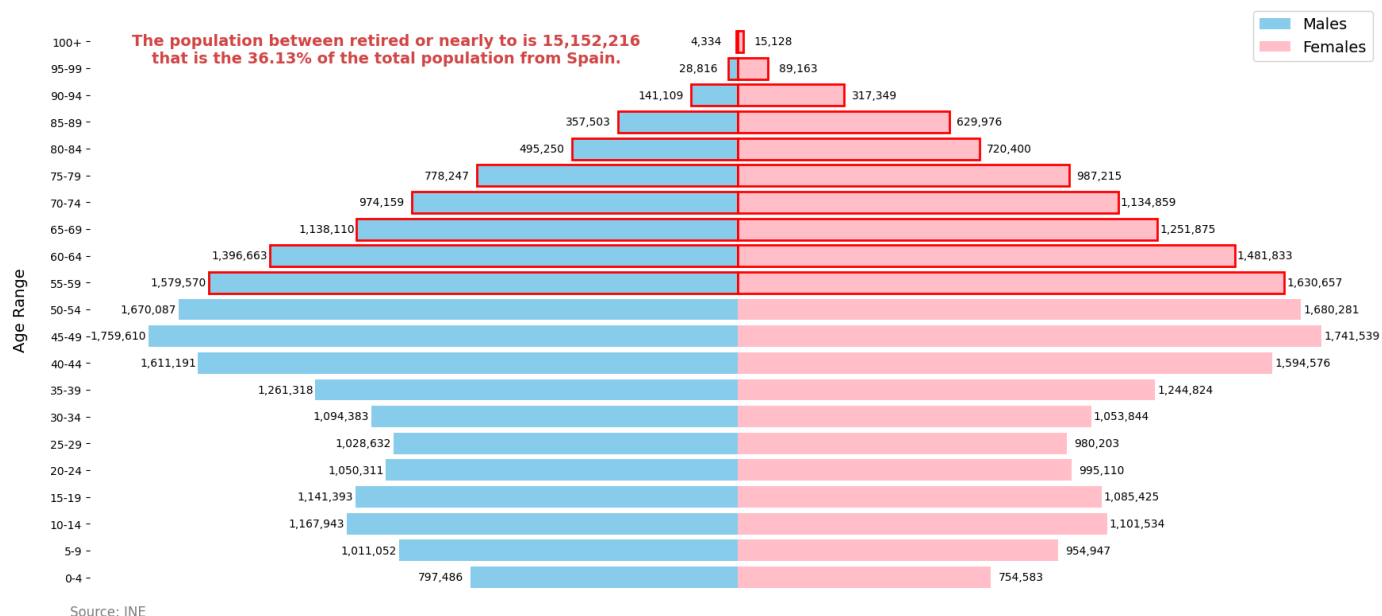


Pension Replacement% of last salary of the 10 most populated EU countries (2022)



Now, let's focus on the problems mentioned in the previous paragraph. As shown in the next image, the retired population, or those nearing retirement, represents a significant 36.13%. Additionally, the population concentration is highest between the ages of 40 and 55, a generation that will be approaching retirement in the next two decades. Consequently, the issue of demographic pressure on the pension system will worsen. Fewer people will be available to support retirees through their contributions, due to the low birth rate and reduced generational replacement, as evident in the lower sections of the population pyramid.

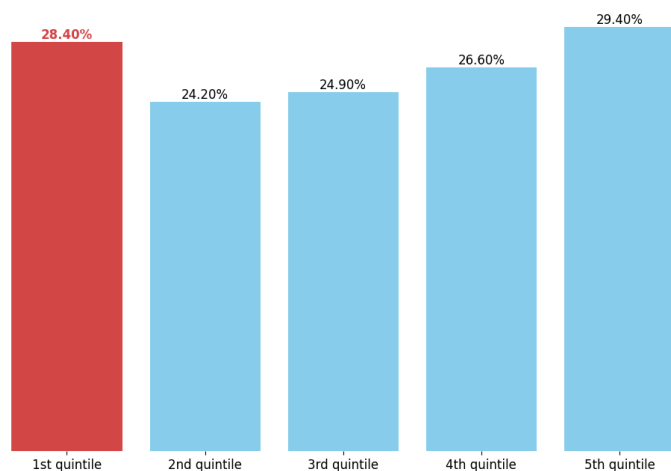
Spanish Demographic Pyramid 2023



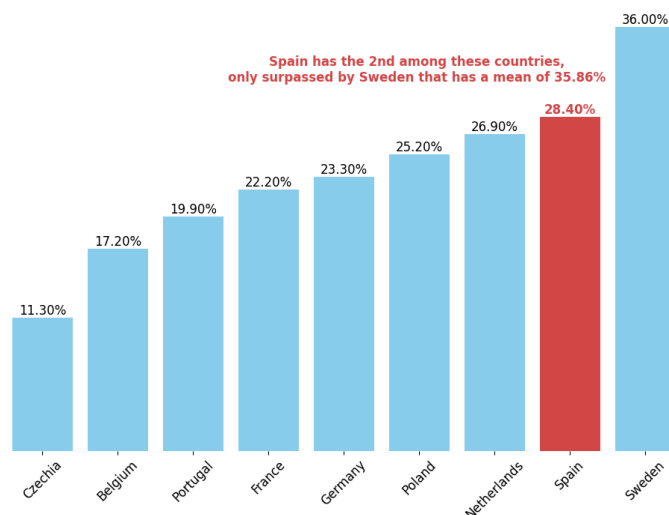
On the other hand, there is the issue of taxes and contributions. As we can see in the next bar chart, the poorest quintile of Spaniards pays a higher percentage of taxes than the next two quintiles. In fact, the difference in taxes paid between the poorest quintile and the richest is only 1 percentage point. As discussed previously with the third figure, the poorest quintile is typically the youngest group. This disparity is largely due to taxes such as VAT (which in Spain is 21%) and social security contributions.

When compared to other EU countries, Spain has the second-highest tax burden for the first quintile as a percentage of gross income, surpassed only by Sweden, which has an average of 35.86%.

% Taxes Paid based on the Gross Income by Quintiles in Spain (2020)

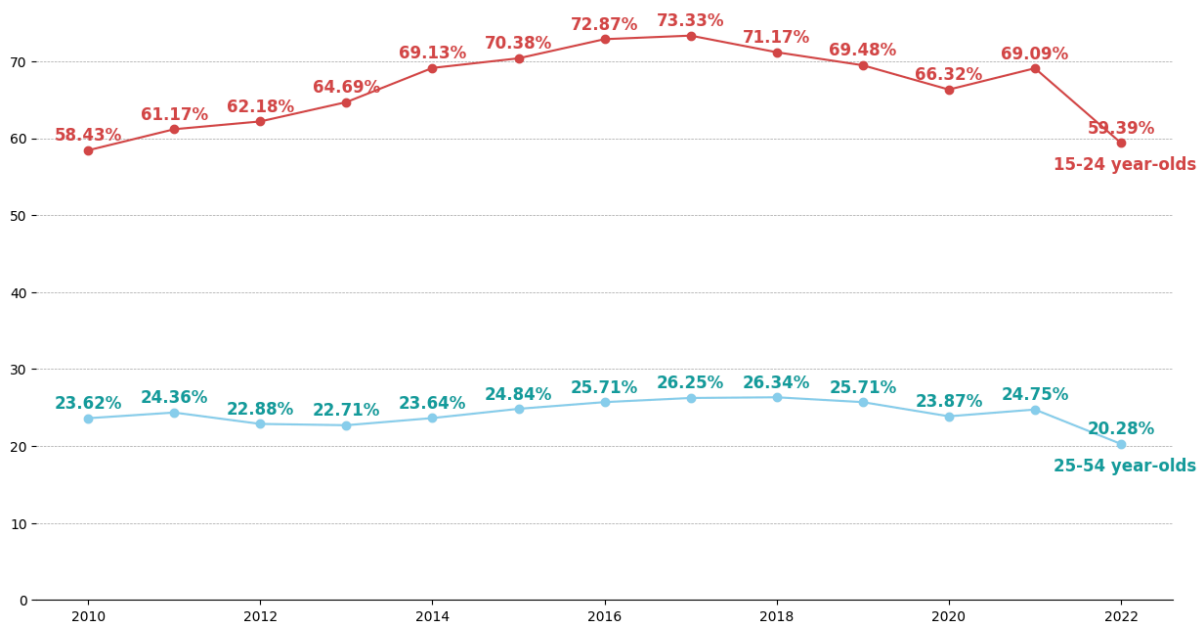


% Taxes Paid by the First Quintile of Gross Income by Country (2020)



On the other hand, as companies shift toward digitalization and retiring their workforces, there is a growing need for new skilled labor to fill positions in these emerging industries. This could present a great opportunity for young people to secure stable jobs, but unfortunately, the reality is quite different. Young workers face more precarious working conditions than previous generations, as illustrated below.

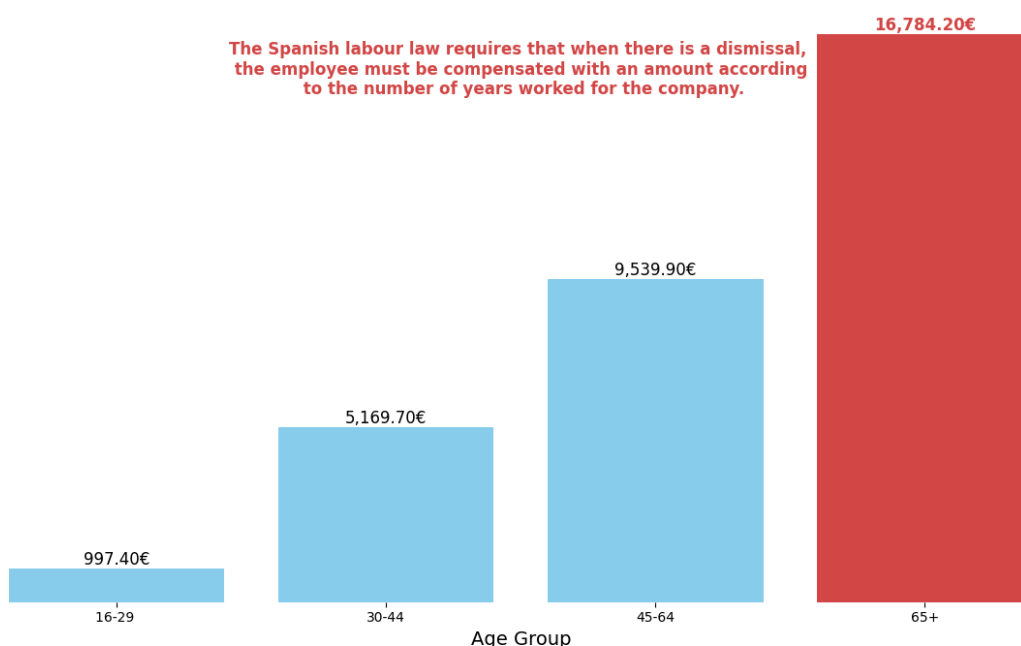
Temporary Employment Rate by Age Group in Spain (2010-2022)



Source: OECD

Each year, there is a gap of 35-45% in the temporary employment rate within this age range. This is largely due to temporary employment agencies—companies that specialize in recruiting workers for temporary positions with other businesses that need to fill specific roles. These agencies act as intermediaries, managing the selection, recruitment, and labor administration of employees. The reason companies rely on these agencies is as follows.

Severance Payment by Age Group in Spain (2023)



Source: INE

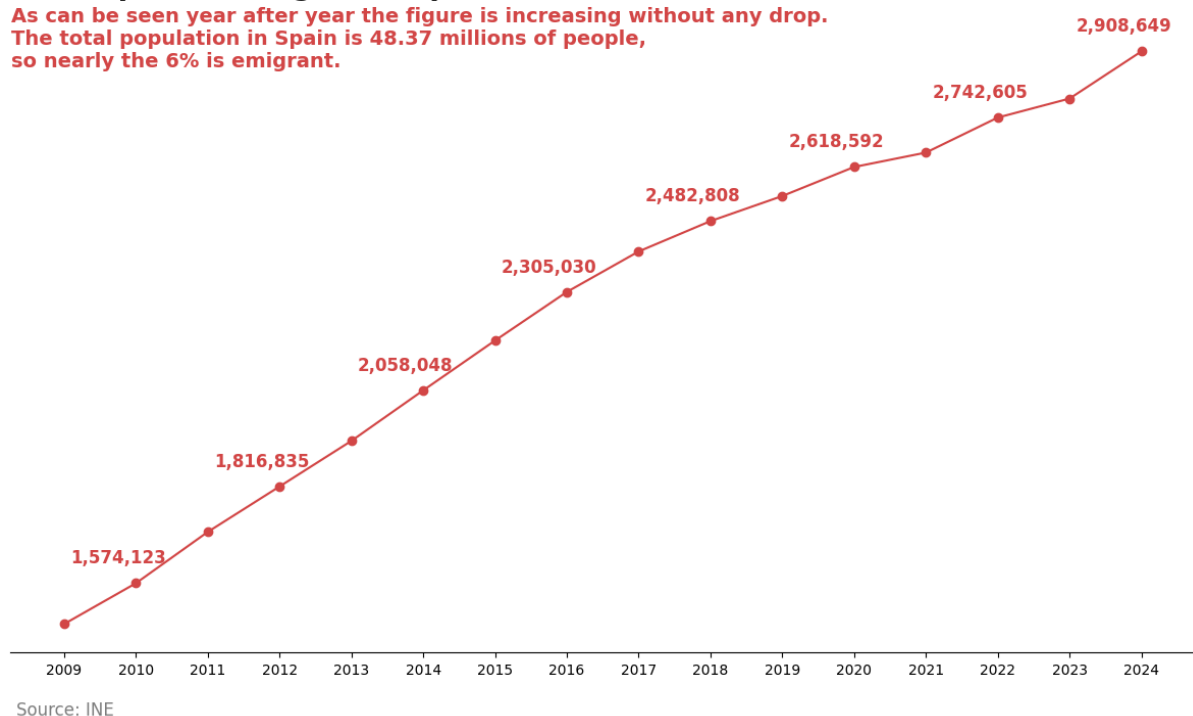
Under Spanish labor law, when an employee is dismissed, they must be compensated based on the number of years they have worked. As a result, dismissing an employee who has been with the company for a long time can be costly from a managerial perspective. To avoid this, companies often hire young people through temporary employment agencies, paying these agencies to handle the recruitment. This way, companies can avoid having to pay large severance fees in the future. The agencies legally employ the young workers and operate under a special status that exempts them from the general labor laws.

Conclusion

Due to these issues in the Spanish job market, the number of emigrants has increased over the past decade.

Total Spanish Emigrant Population (2009-2024)

As can be seen year after year the figure is increasing without any drop.
The total population in Spain is 48.37 millions of people,
so nearly the 6% is emigrant.



In conclusion, Spain faces significant challenges related to generational inequality and the job market, but there are potential solutions to address these issues. To tackle temporary employment, one possible solution could be to implement an Austrian Rucksack system—an employee compensation system that accumulates employer contributions into an individual account for the worker, which can be accessed in the event of dismissal or retirement.

To alleviate the pressure on the public pension system, a sovereign wealth fund could be established, similar to those in countries like Sweden or Denmark, to supplement the existing system. As shown in the final graph, an ETF that replicates such a fund has maintained a stable Compound Annual Growth Rate (CAGR) of 3.58%.

ENOR Historical Close Prices (10 Years)



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