
Skill Mismatch: The New Challenge for Spain

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Abstract

As the Spanish economy recovers, rethinking education reform should be a top priority. Spanish workers are Europe's most overqualified, but also suffer from the greatest skill mismatch, lacking the skills necessary for their jobs.

Spanish tertiary education is poorly adapted to the needs of a knowledge-based economy and vocational training is insufficient. Out of sync with the labor market, it causes companies to struggle in finding employees with the right skills.

However, Spain does not have too many university-educated people as is commonly alleged. Rather, it lacks corresponding job opportunities. Spanish leaders must act to stimulate more entrepreneurship and encourage employers to expand their businesses, while also making sure that the publically funded education system gets better at meeting employers' demands for particular skills.

Meanwhile employers seem not to be doing enough themselves to counter these mismatches as they provide little specialized training to new employees. The relative lack of large corporations with the muscles to do so in the Spanish economy is an additional problem.

Also, Spanish workers face proportionally smaller wage hikes when they undertake further studies and, amid fierce competition for a scant number of graduate jobs, many end up taking unqualified jobs or leaving the country.

Spain is currently running the risk of creating further indignation among the millions who are trapped with excessive education on paper and inadequate skills in reality. This could trigger a renewed authoritarian wave if Spanish leaders do not properly recognize the magnitude and urgency of Spain's skill mismatch problem.

Introduction

As the Spanish economy seems to be recovering from the double-dip, it must urgently confront the alarming skill mismatch that it faces. This briefing reveals how Spanish workers are Europe's most overqualified, but also Europe's most underskilled.

The briefing explores these issues while suggesting how Spaniards might reimagine the way they educate themselves, pointing to the potential breakdown of social cohesion and a potential renewal of authoritarian political forces if they do not hastily act on the skill mismatch problem.

Overeducated yet underskilled

A 2016 article by Davia et. al. in *Social Science Research*, a journal, looks at overeducation in the EU in 2004-9 and finds that Spain had the most overeducation for males and the 4th most for women (trailing Italy, Greece, and Portugal). Overeducation is when a worker has a higher level of education than what is required for a certain job.

The northeastern regions of Spain (Basque Country, Navarra, Rioja, and Aragon) have particularly high rate of overeducation for men, whereas regions in the northwest (Galicia, Asturias, and Cantabria) have the highest rate for women, according to the above-mentioned article. Notably, Andalucia fares slightly better than most regions. A likely reason is that jobs in tourism discourage people from going to university and then returning to non-university level jobs.

However, an education mismatch is different from a skill mismatch. A 2017 article by Flisi et. al. for the European Commission, based on the OECD's Adult Skills Survey (PIAAC), agrees that Spain has the highest proportion of education mismatch out of 17 EU nations. Alarmingly, it also finds that Spain has the lowest proportion of skill mismatch, meaning that Spaniards do not possess the extra skills that their level of education would suggest that they possess, illustrated below:

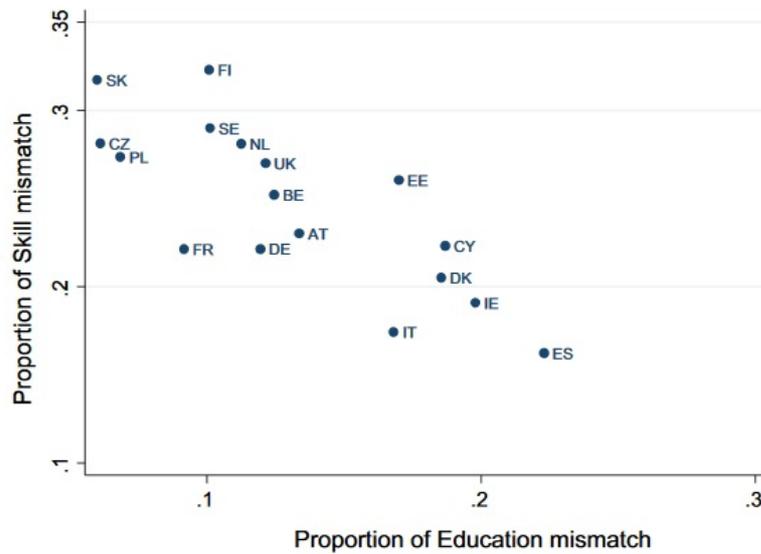


Fig. 1 Scatter plot of the proportion of individuals in a situation of skill mismatch only versus education mismatch only. Note The figure shows a scatter plot of the proportion of individuals with education mismatch only (x axis) and individuals with skill mismatch only (y axis)

Source: Flisi et. al., based on OECD's PIAAC.

A low rate of overskilling aligns with the experiences of many employers in Spain as well as many Spaniards, young professionals in particular. Although they have graduate degrees, they are rejected by companies for a lack of appropriate skills. PIAAC data suggests that three out of four overqualified workers that have a higher education level than required are actually not more competent than workers with lower levels of education.

Spain institutionalizes this alarming mismatch as students gain knowledge that is not transferrable into skills that are needed for a particular job. The teaching at Spanish universities tends to be general and memory-based. To give a contrasting example, British universities tend to focus on the synthesis of information and analytical skills. In this day and age, much information can be found remotely within a matter of seconds, from anywhere. Critical analysis of said information, on the other hand, is harder to come by.

Flisi et. al. point out that the best-performing EU nations tend to have educational systems with strong vocational as well as academic tracks. For Spaniards who feel that an academic education is not for them, they could get vocational training with better quality and better employment opportunities if Spain were to take inspiration from northern Europe. In Finland and the Netherlands, for example, such training features clearer occupational paths and more specialization.

Education with little regard for the labor market

The significant rift between the substance of many academic degrees and the education and skills sought by employers in Spain is a fundamental problem. On the one hand, the personal freedom of students to choose what they want to specialize in for their future careers is critical to anyone who believes in the liberty of individuals. On the other hand, problems arise when a higher education such as the Spanish one, which is overwhelmingly funded by the state, supports students who educate themselves in fields where they will struggle to earn a salary.

A 2014 report by the Observatorio de Innovación en el Empleo (OIE) finds that only one of five Spanish university students expect to find employment in their field of study (the figure for students in vocational training is equally worrying: 19%). Additionally, a full 60% of Spanish companies believe students are less competent than their studies suggest. In particular, Spanish employers consider about 70% of university graduates to be insufficiently skilled both concerning languages and transversal skills, including dispute resolution, teamwork, and communication skills.

Paradoxically, about 90% of companies believe that teaching specific skills is the responsibility of the education system, but about half also believe that transversal skills lie outside of formal education. Only 3 out of 10 companies offer internal training programmes to recent recruits and only 2 out of 10 offer trainee programmes, according to the OIE. Such training is typically offered only by major companies, of which the Spanish economy observes a comparative shortage.

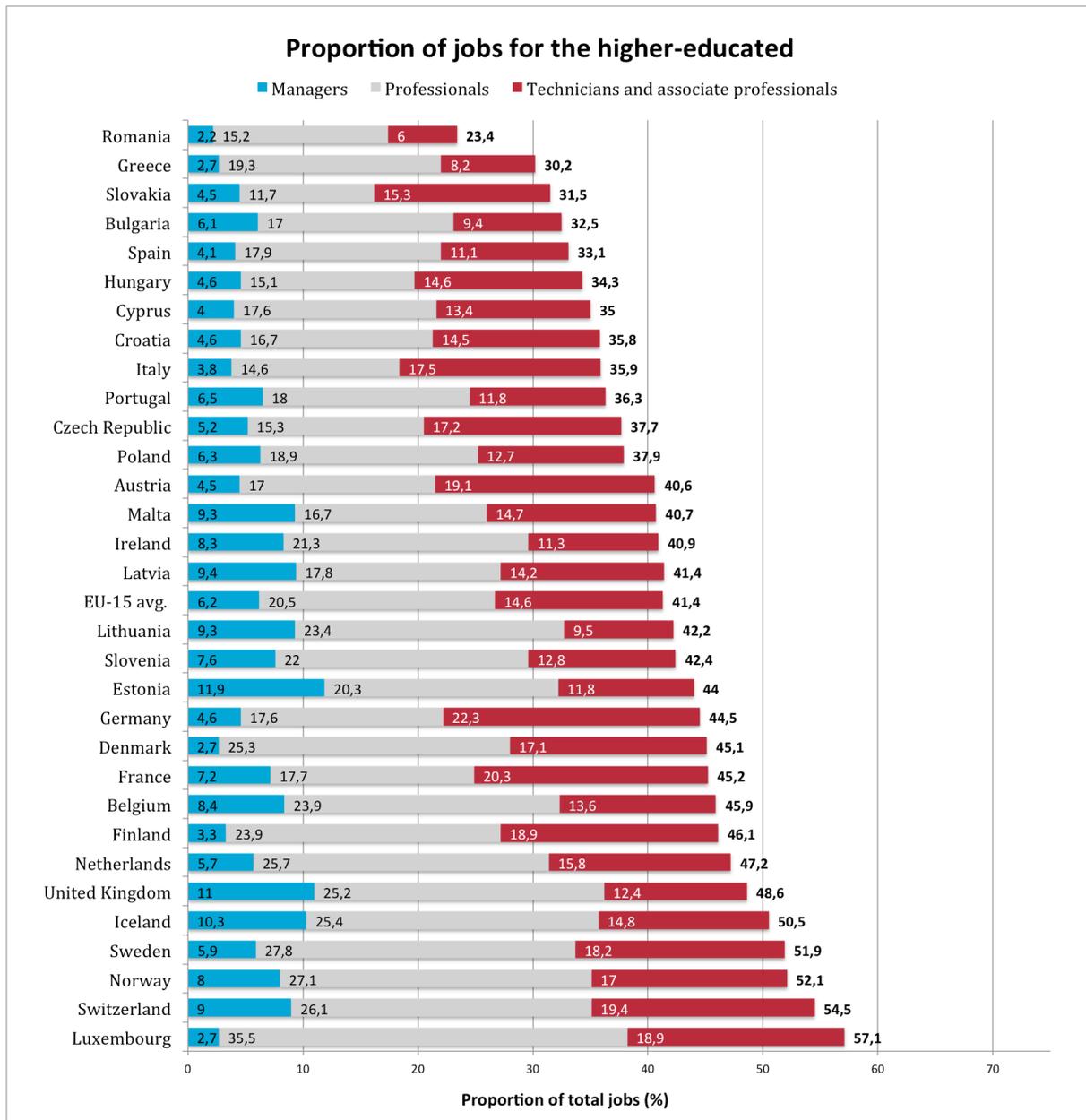
In other words, students might be doing themselves a disfavor by picking degrees that are not needed in the labor market and their knowledge is generally considered substandard by employers. However, employers are either unwilling or unable to recognize the situation for what it is and take action to correct it.

'Country of waiters' - Spain lacks qualified jobs

Mismatches in skill and education are not the only factors that matter. It is a common mistake to put all the blame on universities' poor attention to labor market needs; the number of graduate opportunities offered by employers is important, too.

The somewhat misleading popular notion that Spain is a 'country of waiters' often stems from resentment among young professionals who, despite having multiple degrees, get rejected along with dozens of peers when they apply for a graduate job. They take jobs in retail or hospitality to stay afloat, sharing their experiences with colleagues and building pessimism.

Spain actually has a common ratio of university-educated people to its overall population. What stands out is the rate of growth of this group in recent decades, as previously mentioned, and the number of graduate jobs available, as illustrated below:



Percentage of people working in ISCO-08 occupational groups 1, 2, and 3, respectively. Data for 2016.
Source: International Labour Organization/ILOSTAT

It is evident that Spain needs to generate more graduate jobs, especially given its general development as a modern society of knowledge. Contrary to the merits of such a society, Spain is running the risk of creating entrenched indignation as graduates fail to find meaningful work at their level of education. The resulting resentment is dangerous as it can easily lead to an even more forceful turn by the Spanish people to authoritarian leaders than recently seen.

The populist false promise to help each and everyone beat the 'elitist system' that is holding them back would certainly attract many a resentful university graduate without a job if Spanish leaders do not properly recognize the magnitude and urgency of Spain's need to generate qualified work opportunities.

Generating more qualified work opportunities

An important root of the lack of qualified jobs on offer in Spain is its attitude towards new businesses. There is generally little added value to be had for highly specialized financial institutions and tech firms when setting up their operations in Spain. Despite a favorable climate and decent infrastructure, Spain has not attracted an equivalent of the Pearl River Delta or Silicon Valley, areas that are not only R&D powerhouses but also mental images of progress, where risk-taking and an entrepreneurial spirit are highly valued.

Three out of four Spaniards believe that Spain has little or no culture of enterprise that can generate entrepreneurs, according to a study by the Círculo de Empresarios. Although Spanish society appears to begin to better appreciate the importance of free enterprise in job creation at the expense of the state, there is a preference among young professionals for working in the civil service rather than becoming businessmen that is detrimental to job creation.

Also, the lack of a vibrant start-up scene to be compared to, for instance, Berlin, is telling, although the value of these scenes as indicators of actual prosperity and added employment can be exaggerated. A peek at the 2017 Doing Business index by the World Bank puts Spain in 32nd place.

A result of the limited number of graduate jobs is a considerable *talent flight* (fuga de talento). To give a non-business example, some British hospitals actively recruit Spanish doctors and nurses straight from Spanish universities, offering considerably more attractive wages and conditions.

Ultimately, to employ more higher-educated people in Spain, companies need to feel confident about the knowledge and skills that people gain through further education. Political leaders must encourage such confidence, for example by scrutinizing public universities more carefully and withdrawing funding when degrees are of questionable relevance for the job market. If there is demand from students to study such degrees, private universities are likely to supply them.

Conversely, political leaders are correct to encourage more training initiatives from companies, not only from major corporations but smaller ones, too. Such political action would further alleviate the structural mismatch between the skills demanded by companies and those supplied by the education system.

The wage premium delusion

Traditionally, the development towards a skills-based, technology-driven economy has generated a steadily rising demand for university-educated workers. A corresponding supply increase has typically mimicked this trend as people seek the wage premium - and generally more rewarding work - that tertiary education brings.

An OECD study finds that this proportional wage increase has risen in most countries except Spain and New Zealand, where tertiary education has seen exceptional expansion in the 90s and 00s. While there are still wage premiums to be had through tertiary education, they are typically smaller than in many other developed economies (Machin & McNally, 2007). Painting an even bleaker picture, an article by Dolado et al (2004) finds that there is a wage penalty for being overqualified in Spain (and Italy), which could mean that a bartender with a graduate degree earns less than a degree-less colleague.

Fortunately, since many overqualified Spaniards have left Spain since the latest economic crash, there is reason to believe that these tendencies are weaker at present, even though the crisis took a greater toll on unqualified jobs than qualified ones.

The abundance of university-educated people and the meagre wage premiums - or even wage drops - would suggest that there is an excess supply of graduates in the Spanish job market. As mentioned above, comparable EU countries have similar proportions of higher-educated people in their populations. Instead, the problem is a lack of graduate jobs.

Conclusion

The Spanish paradox is this: a lack of qualified jobs leads young people into postgraduate studies or a second undergraduate degree, where they seem to learn fewer skills than European counterparts, while employers in Spain reportedly struggle to find suitable people for their needs.

The skill mismatch must be countered by universities by paying better attention to the needs of employers as well as by employers themselves. Their relative disinterest in providing specialized training to new employees is alarming.

The widespread unemployment and collective disillusion that this paradox continues to create among Spanish workers are dangerous. Amid deteriorating social cohesion, the populist, authoritarian winds could easily return in a revitalized 15M movement, or perhaps even a far-right stir.

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