Mercado de trabajo
Estudio de los problemas diferenciales del mercado laboral en España.

Comparación internacional
Comparativa internacional para comprender la singularidad española.

6 perspectivas para potenciar el empleo
Desde las cuales debe promoverse la creación de puestos de trabajo.

18 propuestas
Para contribuir a solucionar el problema de mercado de trabajo que sufre la economía española.

Unemployment in Developed Economies

Create Jobs
On May 31 and June 1 a group of experts gathered at the Future Trends Forum in Madrid, Spain to discuss the growing problem of unemployment in developed economies. The conversations and conclusions drawn centered largely upon the Spanish context with special attention to the role of those institutions that link government policy and economic interests. Peter Auer spoke to the German model. Professor Tan Khee Giap featured the role of the National Wages Council in Singapore as the central mediating institution. Professor Zvi Eckstein characterized the Israeli model as one that emphasizes a broad consensus on stable macroeconomic management. These institutions serve to promote shared prosperity in good times and shared sacrifice in bad times. Their effective performance will be essential to addressing the unemployment problem in Spain and beyond.

In the aftermath of the world financial crisis that began in the US at the end of 2007, the evolution of the "Great Recession" hit Spain hard with the fastest run-up in unemployment of any OECD country. The current situation is dire: among young adults 24 and younger, the unemployment rate is 40%; for those between ages 25-54, it is 19%; and while older workers between 25-54 have a relatively low unemployment rate (14%), they have a very low labor force participation rate (38%). In addition, 65% of the unemployed have been unemployed for at least 6 months and 45% for at least a year—also near the highest of any OECD country. This dire labor market stems from problems in the Spanish banking system and a decline in the federal government’s fiscal position that resulted from the coupling of lost revenues due to declining economic activity and increased social spending for the newly unemployed.

Spain has been more a victim than a cause of the global financial collapse. The crisis in Spain is not a case of the normal excess coming home to roost as in the U.S. and many other OECD nations. Spain had avoided many pitfalls that impacted other economies: its banks did not have much exposure to exotic financial instruments; the government’s financial position was strong in 2007 with government debt equaling only 30% of GDP, and taxes were aligned with expenditures as the government ran a budget surplus of 2.4%.

The Spanish problem prior to the collapse stemmed from a construction boom inspired by the global bubble in capital instigated in the United States that spread to the rest of the world. Like in Ireland and the U.S., a spike in home prices fueled a speculative bubble. The construction and real estate bubble in Ireland and Spain was exacerbated by both countries’ access to capital result-
ing from their membership in the European Monetary Union. European Union subsidies encouraged low interest rates. Cheap money flowed freely for long term investments. Optimism was contagious and belied warnings of bubbles and their consequent bursting.

While Spain’s housing bubble was similar to that of the U.S., Spain did not have the same capability to respond to the crisis. Unworthy investments, comparatively low rates of educational attainment, and low productivity vis-à-vis Eurozone partners made a swift recovery illusive. The rapid increase in unemployment after the crisis hit reflected the underlying weaknesses in its companies and banking system.

While Spain has made impressive investments in the education of recent generations, historically low rates of educational attainment hinder short term growth. In 2009, 64% of 25-34 year olds have attained a high school diploma, compared to only 30% of 55-64 year olds. According to the OECD, Spain lags behind OECD countries in vocational credentials with only 8% of the working population having completed vocational training (either through secondary school or post-secondary non-university training) compared to an OECD average of 30%. This coincides with a relatively high level of university graduates. Twenty five percent of 25-34 year olds hold a Bachelors degree, compared with a European average of 26%.

Despite its impressive recent investments in higher education, Spain still lags behind other advanced nations in research and development investment. In 1981, R&D spending in Spain was equivalent to just 0.4% of GDP, compared to 1.9% in France and 2.4% in the U.S. This share rose to 1% in 2004 and 1.4% in 2010 but still trails European and North American competitors, equaling just half of the U.S.’s 2.9%.

As the crisis deepened, Spain’s payments to the unemployed increased to represent 2.9% of GDP (in contrast to an OECD average of 0.95%). While this automatic stabilizer is a standard tool for fighting downturns, the government’s fiscal balance moved into the red and with a deficit that reached 11% of GDP by 2009. Meanwhile with the banks faltering, the government deficit growing, and Greece on the edge of default, the interest rates on Spanish debt rose to unsustainable levels. Other countries facing similar crises such as Argentina, Mexico, and South Korea have made large currency devaluations in order to increase output via cheap exports. However Spain’s presence in the Euro precludes this option.

Saddled by a deteriorating fiscal and employment climate Spain has been forced to make structural reforms at an unsustainable pace in order to meet pre-agreed upon EU requirements. Labor market deregulation and cuts in government spending have already taken a heavy toll on social solidarity. Further efforts to increase competitiveness via decreasing wages will be met with growing resistance.

Preserving social solidarity requires institutions that can effectively mediate between the interests of the overall economy and private citizens. According to Peter Auer, the German model is driven by formalized collaboration among social partners, having shifted in recent decades from a system that emphasizes unemployment benefits to a system that favors employment. The current structure mediates adjustment rather than simply contesting change. According to Professor Tan Khee Giap, in Singapore the National Wages Council acts as the central mediating institution providing voluntary regulation of wages in order to ensure shared prosperity and shared sacrifice during market downturns. According to Professor Zvi Eckstein, the Israeli model is characterized by sound macroeconomic management, including relatively low public and private sector debt, high capitalization and savings, a strong export sector, and price stability.

All these factors; the development of effective mediating institutions, careful macroeconomic management, and a strong export sector will be central to a sustained Spanish recovery. The most challenging political decisions will center around efforts to re-shift the balance between austerity, social protection and investment in education, research and development and other long term growth-oriented programs.
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INTRODUCTION AND CONTEXT: FROM THE GLOBAL FINANCIAL CRISIS TO SPAIN'S DIFFERENTIAL PROBLEM

Origin and development of the current financial crisis.
Unemployment in advanced economies.
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6. Human Capital, Training and Re-Training:
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SIX OUTLOOKS TO BOOST JOB CREATION

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   - Create an "entrepreneurship zone".
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CONCLUSIONS

REFERENCES AND BIBLIOGRAPHY
Introduction and Context: From the Global Financial Crisis to Spain’s Differential Problem.
Advanced economies are undergoing the worst economic crisis since the Second World War. The origin of this “great recession” is traced back to 2001 and its development is divided into three phases: The subprime financial crisis, its contagion to European financial institutions and its transformation into a sovereign debt crisis.

The first phase started in the summer of 2007 in the United States. However, to understand why the so-called subprime crisis arose, we need to go back to 2001, as Juan José Toribio (Toribio, 2008) points out. Back then, a series of events hit the world: The attack on the World Trade Center, the change in American geopolitical priorities and specific economic crises in certain countries, such as Argentina and Germany...

Seeking to resume economic growth, the US government reacted by increasing public spending. Then, the Federal Reserve reduced interest rates drastically in a very short time span, which had a negative impact on the margins of financial institutions. American banks, trying to keep up with results obtained in previous fiscal years, increased the amount of credit applications granted.

This reaction, together with the Clinton Administration’s stimulus policies to buy homes, made it easier to grant mortgages and real estate loans to barely solvent citizens. These mortgages were packaged and spread throughout the financial system in the US and globally via the so-called structured products. When the Federal Reserve increased interest rates to curb possible inflationary risks, the majority of borrowers could not meet their payment obligations, which in turn hurt banks and insurance companies.

The second phase started with the collapse of the investment bank Lehman Brothers in September of 2008. European banks had—until now—been isolated from the problem in the US, but now they were starting to lose value because of their exposure to subprime assets. Besides, many European institutions in Ireland and the UK suffered the consequences of being highly exposed to their own “toxic” real estate assets.

In Spain, house prices increased almost 200% from 1997 to 2007 because of low interest rates in the Eurozone, among other reasons. The result was a financial system highly exposed to over-valued real estate assets.

The effect of the global financial crisis was twofold. First, loans to businesses and individuals diminished, which translated into a recession in the main advanced economies. Second, the instability in the financial system led to government intervention—great sums of money were injected into the system and many institutions involved were even nationalized.

The heightened spending plus the role of automatic stabilizers increased the deficit and debt levels of the Greek, Irish and Portuguese economies. This is how the third phase of the current economic crisis started in early-2010: that of the sovereign debt crisis in the Eurozone countries. The risk of this debt becoming explosive and unpayable has led the Greek, Portuguese, Irish, Italian and Spanish economies to need bail out programs of different sorts.
One of the main consequences resulting from the global financial crisis was the recession suffered by many advanced economies in 2009, 2010 and 2011. This contraction of Gross Domestic Product (GDP) translated into a considerable increase in unemployment rates, as specified in Graph 1.

The evolution of unemployment has not been the same in all economies. Some countries, such as Spain and Greece, have seen unemployment rise quickly from 2007 to 2012. In other cases, such as Germany, unemployment has barely increased—it has even decreased in the period of time studied.

The stagnation of the economic recovery detected during the last few months of 2011 has led the OECD (OECD, 2011a) to warn about the need to promote active job creation policies. Without them, it assures, "structural problems affecting many labor markets cannot be overcome", such as the Spanish or Greek cases.

These measures, says the OECD, must be introduced regardless of the restrictions to public spending faced by various governments. This is the only way to standardize the behavior of labor markets globally and reduce the unusually high unemployment rates suffered by some economies.

The real estate, financial and sovereign debt crisis afflicting the world are particularly harmful to Spain and its labor market. Graph 2 compares GDP growth in Spain and the Eurozone from 2007 to 2012.

As you can see, the recession in Spain as measured in Gross Domestic Product is not any deeper than that felt in the Eurozone and its member states. However, when comparing unemployment data, the gap has become alarmingly wide, as seen in Graph 3.

The compared evolution of both indicators suggests the global financial crisis is having a differential effect on the Spanish economy in terms of higher unemployment. In the volatile and contractive environment of today, Spain is unable to create much needed jobs to resume "business as usual".

Given this context, the XVIII Future Trends Forum met to find solutions to Spain’s differential problem: The inefficiency of its labor market. This report gathers the main conclusions and considerations stemming from the discussions and analysis carried out by the speakers.

The first section delves into the current situation of the labor market in Spain, with an emphasis on lagging structural problems and the social effects they create. The second section compares the Spanish case to three successful international models: Germany, Singapore and Israel. Conclusions are drawn from their ability to create jobs in changing, global and increasingly competitive environments.

The third section analyzes job creation from six different standpoints: aggregate demand, labor market flexibilization, competitiveness, entrepreneurship, the so-called "fourth sector" and human capital.

Finally, the fourth section puts together, analyzes and develops the main economic policy proposals developed in the XVIII Future Trends Forum. The ultimate goal of this document, as Anthony Carnevale said, is to contribute to Spain "not wasting the crisis and undertaking, urgently, the reforms its economy needs".
Source: International Monetary Fund. World Economic Outlook. April 2012
Graph 2. GDP Comparison. 2007 – 2012.
Source: International Monetary Fund. World Economic Outlook. April 2012

Graph 3. Comparison of the Unemployment Rate. 2007 – 2012.
Source: International Monetary Fund. World Economic Outlook. April 2012
The Labor Market in Spain: Trend and Analysis
The high unemployment rates attained in Spain during the current crisis have kindled the interest of many commentators and mass media worldwide. The financial crisis has certainly shot up unemployment rates in the majority of countries, but the extent reached in Spain is particularly striking, especially by international comparisons. This is not surprising if we take into account that unemployment worldwide stands around 6.3%, while it has already reached 24.6% in Spain. However, some analyses show considerable knowledge gaps of Spanish history and labor market structure.

Certainly, an unemployment rate bordering 25% puts the Spanish labor market above all developed countries. However, the Spanish labor market reaches these figures in times of economic downturn. It happened in the early 1980s and in the first half of the 1990s. In both cases, the general unemployment rate hit a rate close to 25%. Therefore, the Spanish problem has structural roots, not specific to the current crisis, if you look at the past. The Spanish labor market is, just like other markets, very inefficient. The adjustment—at least initially—always focuses on quantities, instead of wages or prices in general.

Another striking characteristic of the Spanish labor market is the youth unemployment rate (under 25 years of age) which tops 50%. A look back at previous economic crises in Spain show these figures are not new either. Nevertheless, the high youth unemployment rate has been object of hundreds of analyses that have highlighted the severity of the youth unemployment problem in the Spanish economy. This interpretation is not appropriate. True, the youth unemployment rate grows exponentially when the Spanish economy slows down or contracts, but it is not entirely correct to say that Spain has a youth unemployment problem. In the OECD, the ratio of youth unemployment to general unemployment averages 2:1, approximately. Spain is no different. In countries with a youth unemployment problem, this ratio is above 2.5:1, or close to 3:1, which is not the case in Spain. A youth unemployment rate slightly above 50% corresponds to a general unemployment rate of 25%, which is the exact situation in Spain. Therefore, youth unemployment is not the issue. The issue is the high general unemployment rate, which is largely structural in nature.

In spite of an unemployment situation similar to those of previous crises, and in spite of a youth unemployment rate within the OECD average when compared to the general unemployment rate, there are new phenomena to this crisis that will impact the future of Spain. First, many young people dropped out of school early to start work in the construction sector—which during the "Spanish golden decade" engaged a great amount
of workers at high wages. It will be an uphill battle for this generation of young people—which is currently broadly unemployed—to rejoin the labor market, which requires increasing levels of training and specialization, since they did not finish their schooling. Therefore, we will witness (and there are data validating this already) that many of these young people will go back to school. Unfortunately this solution will not be sought by the broad majority. In view of the prospects of finding gainful employment in the construction sector, coupled with low interest rates and the easy access to loans, many decided to purchase an over-priced home and move out of their parents’ house. These young people carry a burden, namely, the mortgage loan with which they purchased a highly over-priced home. Going back to school is more complicated in these cases because their financial obligations (which may extend 30 to 40 years) require them to continue earning an income. This effect is very different from the past. In previous expansionary periods in Spain, high interest rates stopped many young people from moving out and purchasing real estate, which led to a significant increase in the age young people left their parents’ homes. This trend was inverted, at least slightly, during the "golden decade". There is now yet another increase in the age of emancipation due to the difficulties young people are having in finding employment and the fact that some young people who moved out during the bubble have now returned home.

The Spanish labor market is defined by the very low geographical mobility of workers, its high degree of over-qualification (workers performing jobs for which they are excessively trained), a diminishing reward for the education received (the wage ratio of a college graduate versus lower education degree holders) and a swift increase of youth unemployment among college graduates during economic crises. In all these regards, Spanish figures are surprisingly different from the average of OECD countries.

The reasons behind this situation are as follows: production that is highly dependent on the construction sector, which generates demand for low-skilled labor; the small market share of rentals as a housing option in the real estate market, which fosters low levels of labor mobility; and institutions that make for poor and rigid functioning of the labor market. Without changing the essence of the institutions regulating the Spanish labor market (collective agreements, internal mobility, hiring and layoff regulation, active policies, etc.) the Spanish labor market will not close the gap separating it from the average of the OECD countries.

The outlook for the Spanish economy could be better if structural policies were adopted to solve the fundamental issues stated above, although there is no silver bullet. Reforming the education system, especially universities; promoting an entrepreneurial spirit and dignifying the businessperson as a generator of wealth and employment; interpreting business failure as an opportunity to learn and start a new venture, not as stigma; ensuring there is a universal, public education system for the first stages of life (0 to 3 years)—the stages yielding the highest social profitability—and preparing a comprehensive, consistent training system for young people who left school early for a job in the construction sector.
According to Juan José Dolado, Florentino Felgueroso and Marcel Jansen (Dolado, 2009), the Spanish labor market’s particular structure yields two types of workers. The insiders, who profit from the current status quo, are workers under open-ended employment contracts; and the outsiders are employees working under temporary contracts. The first group, as seen in Graph 5, has suffered the least from the current economic crisis. Their extraordinary legal protection—severance pay of 45 days per year worked when fired—makes them costly assets to let go.

Conversely, outsiders enjoy much less protection, rendering them easily dispensable. Thus, in times of economic downturn, they are the first to be let go from their companies. The rebound in temporary contracts between 2010 and 2011 also suggests that once the economy grows—however slightly—outsiders are the first to be hired.

One can gather from these data that the Spanish labor market is highly dependent on the economic cycle. Therefore, job creation and destruction in expansions and recessions are extremely volatile, as Professor José García Montalvo pointed out in the XVIII Future Trends Forum. This volatility is particularly evident in youth unemployment.

However, it is important to point out that despite a youth unemployment rate bordering 50%, Spain does not have a differential problem in this regard. The youth unemployment rate of most advanced economies is twice the general rate; a “rule” followed by Spain and one that impacts the labor market’s structural problem.

The reason for such high volatility in job creation is the adjustment mechanism of the Spanish labor market. As explained later, the Spanish economy makes adjustments to the labor market via number of jobs. It rarely makes adjustments to salaries and hours worked, due to rigid regulation and old-fashioned institutions.

The Spanish labor market faces three main issues: duality, lack of flexibility and low productivity. We will now analyze each of these issues.

Duality in the Spanish Labor Market

Drawing the parallel with stock management at a company, one may say that the Spanish labor market follows the FIFO (First In, First Out) scheme. This mechanism is extremely detrimental to the Spanish economy. It discourages employee training, hinders labor continuity of younger workers, and perpetuates in high positions workers whose preparation is less updated.

This fact has a negative impact on the aggregate productivity of the Spanish economy, since many highly prepared individuals cannot access the labor market. According to the International Monetary Fund, (IMF, 2012) duality is one of the greatest hindrances to Spain’s employment recovery.

Unemployment in Spain is not a recent problem. The Spanish economy bears structural unemployment that is well above the European average. Graph 4 compares the evolution of GDP and the unemployment rate in Spain since 1980.
Graph 4. GDP Evolution (right) and Unemployment Rate (left). Spain. 1980 – 2015.
Source: International Monetary Fund. World Economic Outlook. April 2012.

Graph 5. Quarterly Variation Rate of Employees per Type of Contract. Spain. 2004 - 2012
Source: Spanish National Institute of Statistics and own calculation.
The Spanish labor market adjusts itself chiefly by creating and destroying jobs. During recessions, because of institutional and regulatory rigidity, it is not possible to reduce wages and working hours to prevent employee layoff. These layoffs mainly affect temporary employees, as mentioned earlier.

This adjustment pattern goes against what happens in most advanced economies (Jimeno, 2011). When comparing the evolution of the Spanish and German unemployment rates, we find that flexibility in contracts and regulation in Germany have facilitated a reduction in the unemployment rate from 2007 to 2012. Graphs 6 and 7 compare both countries.

It is especially noteworthy how Germany’s unemployment rate even grew slightly in 2009 despite a contraction in GDP of some five points, thanks to the reduction in working hours agreed with the workers. This is an example of how adjustments via salaries and working hours keep the unemployment rate at bay even in deep recessions.

There are three main reasons behind the lack of flexibility in the Spanish labor market. First—until the recently approved labor reform—intracompany agreements were subject to the dictates of collective agreements, which constrained agreements between workers and employers.

Second, there is a distressing lack of worker mobility in Spain. As observed below, the XVIII Future Trends Forum strongly calls for the creation of incentives and aid to encourage workers to accept employment in other regions.

Finally, as clearly stated by several speakers in the forum, there is a severe disconnect between the training received by workers and the needs of companies. As Professor García-Montalvo rightly mentioned, university degrees used to be “insurance against unemployment”; this is no longer the case, particularly among young people.

Belén Romana, in attendance at the XVIII Future Trends Forum, finds that the problem lies in that Spanish universities do not teach basic professional skills to students. Therefore, this is not merely a problem of overqualification of the labor force, but rather, a problem of training not meeting labor market needs.
Graph 6. Working hours (left, bars) and unemployment rate (right, line). Germany.
Source: OECD, International Monetary Fund and own calculation.

Graph 7. Working hours (left, bars) and unemployment rate (right, line). Spain.
Source: OECD, International Monetary Fund and own calculation.
Source: OECD
Productivity of the Labor Market in Spain.

Productivity is usually defined as the amount produced divided by the resources used to produce it in a given period of time. Each body and institution studying this variable usually does so using a different benchmark. In this case, the OECD value has been used.

Graph 8 shows how productivity growth has evolved (measured as GDP divided per hour worked). What happens in Spain is counterintuitive. In times of prosperity, productivity diminishes or is maintained close to zero. In times of recession, productivity increases.

In view of this indicator, it may be concluded that in the period since 2001 Spain has produced "more with less". The truth, however, is that working hours are growing faster than GDP—which has even had negative growth in the last few years.

Other indicators are needed to complement this indicator’s analysis and obtain a broader view of Spanish workers’ capacity to create value added. On an annual basis, the World Heritage Foundation and the World Economic Forum put together a competitiveness index of all economies worldwide. In all of the three cases, the labor market’s ability to create wealth in each country is analyzed. Therefore, it is an optimal indicator of each economy’s productivity.

The Global Competitiveness Report, put together by the World Economic Forum, ranks Spain 119th worldwide in labor market efficiency. The Heritage Foundation, in its Index of Economic Freedom, ranks Spain 123rd worldwide in terms of how much leeway companies have to operate in the labor market.

Additionally, the Global Competitiveness Report includes a survey to businesspeople from various countries in which the greatest hindrances to their work are pointed out. In Spain, nearly 20% of interviewees acknowledge having problems with "the restrictive labor regulation in force".

Existing labor market institutions in Spain, together with the old-fashioned, complex regulation in force are hindering the ability of Spanish companies to compete globally. This fact is translating into greater volatility in the economic cycle and low job creation in times of moderate economic growth.

There is not one single economic policy that can solve these three problems in the short term. A package of measures to restructure and boost, not only the labor market, but the entire Spanish economy, is necessary.

Professor Garcia Montalvo proposes, first, a reform to the education system to make it more demanding and better adapted to the needs of companies. Second, he recommends encouraging entrepreneurship. Finally, he points out the importance of re-training workers with obsolete training or whose training is no longer marketable. The methods applied in other countries, such as Austria or Denmark, offer a fine example.

The three proposals, and others put forward by the members of the XVIII Future Trends Forum, will be analyzed in the fourth section of this report.
International Comparison: Three Success Cases.
The unemployment rate is the key indicator for the performance of a given economy during the “Great Recession,” which has followed the 2008 financial crisis. In Spain, unemployment had been at a historically low rate of 8% in mid-2007. However, in the aftermath of the collapse of the commercial real estate market unemployment increased rapidly, reaching 14% by the fourth quarter of 2008. By mid-2012, Spanish unemployment reached 25%, with youth unemployment approaching 50%.

In comparison to Spain, the economies of Germany, Israel and Singapore have fared much better. In Germany, as a result of significant reforms made during the first half of the decade, the unemployment rate has remained moderate in the aftermath of the global financial crisis, reaching only 7.6% in mid-2009 before falling to its current level of 5.6%. These economic reforms made the labor market more flexible, allowing reductions in worker hours and real wages rather than forcing plant closings and worker layoffs. More flexible labor contracts ensured that the unemployment rate increased only mildly, in turn adjusting downwards as the demand for German-made products increased. The flexibility of the labor market combined with the competitiveness of German exports allowed for a quick return to full employment after the crisis which stands in stark contrast to what we see in the case of Spain.

In Israel, unemployment has had a similar pattern to that of Germany. Israeli unemployment reached a historically low level of 7.4% at the end of the third quarter of 2008 from a rate of 13.6% at the end of 2003. In the aftermath of the global financial crisis, the unemployment rate spiked to 9.9% in mid-2009 but has now fallen to a moderate rate of 6.7%, the lowest level in more than two decades.

The Israeli labor market was made more flexible by a series of labor market interventions and reductions in unemployment benefits made between 2003 and 2005. These reforms made the labor market more flexible, and as a result firms and workers responded to the crisis by reducing worker hours and real wages rather than by plant closures or worker layoffs. As a result, in the aftermath of the global financial crisis, the unemployment rate increased by only 1.5% and then quickly adjusted downwards as both local and foreign demand for Israeli products increased. The flexibility and the competitiveness of the high-tech export industry helped the Israeli economy to rebound from the crisis and to return to high employment (low unemployment). This trend in unemployment also reflects the fact that there was no financial disruption of Israeli capital markets as well as the stability of demand for high-tech products in the aftermath of the crisis.
Singapore is also well known for its flexible labor markets and consistently low unemployment rate of between 2 and 3%. In 2008, the Singaporean unemployment number dropped to a historic low of 1.9% before increasing to 2.3% in the aftermath of the global financial crisis in 2009. What do German, Israeli and Singaporean unemployment trends have in common? How were these countries able to maintain relatively low unemployment when trade decreased by more than 10% in 2009? Given the scale of the export sector a large reduction in trade should have prompted a sharp increase in unemployment.

In all three of these economies, large export markets required flexible labor markets that could adapt to changing global conditions and compete with economies where labor protections are minimal. The strength of the export sector in both Germany and Israel was in part thanks to labor market reforms that increased competitiveness and served as the engine of growth prior to the crisis. Furthermore, neither of these countries experienced a significant drop in assets prices nor a banking crisis as has been the case with Spain.

In Spain, pre-crisis economic growth was driven by a real estate boom facilitated by low interest rates, loose regulation and high levels of household indebtedness. As a result, the economy was hit hard as the real estate sector contracted, large segments of financial markets malfunctioned, and inflexible labor laws prevented reductions in worker hours and instead forced large layoffs and plant closures.

In conclusion, the main lesson for Spain is the need to make reforms that will increase competitiveness and make the labor market more flexible. Spain should not waste the opportunities provided by this financial crisis to make these watershed reforms.
Making an international comparison is essential to understand the uniqueness of the Spanish labor market and learn from success cases. True, importing models or regulation does not guarantee the success of the measures adopted. However, it fuels reflection, ideas and proposals adapted to particularly complicated situations, as is the Spanish case.

Second, employers can make efficient adjustments to their staff in times of economic contraction, thanks to a flexible labor market. Therefore, when facing a sharp drop in GDP, it is not necessary to reduce headcount, but rather, cut working hours and salaries, to adapt to the temporary fall in demand.

The German model originates in the early 2000s. Back then, this labor market was rigid and inefficient, as a consequence of the reunification of the ”two Germanies” after the fall of the Berlin Wall. To overcome these problems and increase the economy’s global competitiveness, the government led by Gerhard Schröder put together a commission in charge of studying and improving the labor market workings.

It was the so-called Hartz Commission, chaired by Peter Hartz, HR Director of Volkswagen at the time. The recommendations presented by this commission were put into four laws: Hartz I, II, III and IV, enacted between 2002 and 2003 (Campos, 2012).

Hartz I, II and III focus on empowering private intermediaries, setting lower taxes and social security contributions for low-income jobs (so-called mini-jobs and midi-jobs) and providing seed capital to unemployed workers, to turn them into entrepreneurs.

Hartz IV was the most ambitious legislative reform of all. It merged unemployment benefits (Arbeitslosenhilfe) and living allowances (Sozialhilfe) into one lower payment. Receiving the aid was conditional to accepting any type of job—limited only by its legality. What’s more, local, regional and national placement agencies were merged into one single institution to facilitate worker mobility. Finally, flexible working hours (in number of hours per day and days worked per week) were included into collective agreements, which gave more freedom to employers and workers when agreeing on contract terms.

This set of reforms increased labor supply, since many former receivers of public aid joined the labor market. Once the flexible hiring and working structures became widespread, job creation rose dramatically, thereby reducing structural unemployment by nearly two points. (IMF, 2005 and 2011).

Despite these positive traits, Peter Auer says the German labor market is far from perfect. First, it has become a two-tier labor market. On one hand there are workers with highly advantageous, open-ended contracts. On the other hand, there are temporary contract citizens, working part-time or working the so-called mini-jobs and midi-jobs.

These two tiers have a geographical division too. East-West (and North-South) differences in contract terms and conditions, unemployment rates and quality of jobs take away from the homogeneity and unity of the German labor market. This happens on a sector-by-sector basis too. There is a highly competitive industrial sector with massive exporting capacity versus a scarcely competitive service sector with low wages and production.

Graph 9 shows both sides of the coin. On one side, more flexible contracts for so-called atypical jobs have favored the use of reduced hiring by employers to match sluggish demand during the recession. On the other side, this very flexibility has led to less hires via traditional, open-ended contracts, which are usually linked to higher protection for workers.
Source: Hans BöcklerStiftung
THE SINGAPOREAN CASE: PRODUCTIVITY AND LABOR COSTS.

The Singaporean labor market is one of the most efficient markets worldwide. Graph 10 shows its behavior, compared to Gross Domestic Product, since 2000. As you can see, even amidst the Asian crisis in the early 2000s, its unemployment rate was below 4%. The unemployment rate has not surpassed 3% in the current crisis, not even in 2009, when GDP contracted the most.

According to Professor Tan Khee Gap, from the Lee Kuan Yew School of Public Policy and participant in the XVIII Future Trends Forum, Singapore's success is based on two elements. First, the Singaporean economy has experienced a profound transformation in the last twenty years. It has changed from a barely competitive economy to a global reference. The data are unquestionable. According to the IMF, Singapore is today the third economy worldwide in per capita GDP, only behind Qatar and Luxembourg. The World Bank, in its Doing Business index (which measures how easy it is to conduct business in a given country) ranks Singapore number one. Something similar occurs when analyzing and comparing the city of Singapore against 64 other "global cities". Singapore is surpassed only by Zurich and Geneva. Most existing indices analyzing the competitiveness and investment appeal of Singapore rank it on the top, along other Asian economies, such as Hong Kong.

The second key element accounting for the positive evolution of unemployment in Singapore lies in the institutions. Singapore has a council made up of business people, workers and government to analyze and agree on labor market needs in each economic period. Therefore, the National Wages Council harmonizes relations between workers and employers, thanks to the government's mediation and the will to collaborate of all stakeholders, as pointed out by the United Nations (UN, 2012).

In times of recession, workers are asked (via the trade unions themselves) to reduce their salaries to lighten the burden of costs of employers. Likewise, in expansionary periods, employers are requested to compensate their workers with higher wages and bonuses.

The role of the government in this process is to facilitate relations between the two sides, while following one single axiom: Maximizing aggregate employment is more important than maximizing the wages of current workers.

According to Professor Tan Khee Gap, Singapore must urgently tackle the remaining challenges that face the labor market. The main challenge being the low relative productivity, measured as the sum of productivity of each sector of the economy, weighted by the labor force compared to GDP. The economy of Singapore has been ailing from this problem since the 1980s, as seen in Graph 11.

Productivity is key to the industrial development and microeconomic competitiveness of a country. Differences between GDP growth and productivity growth suggest there is room to improve the latter variable. As the Singaporean authorities rightly recognize, without greater productivity growth, it will be hard to maintain high economic growth rates and sustainably increase the average standard of life. (Ministry of Trade and Industry, 2006).
Graph 10. Evolution of GDP (right) and Unemployment Rate (left). Singapore. 2000 - 2015
Source: International Monetary Fund. World Economic Outlook. April 2012

Graph 11. Comparison between GDP and Productivity Evolution. Singapore.
Source: Ministry of Trade and Industry of Singapore, IMF and own calculation
THE ISRAELI CASE: JOB CREATION AND INVESTMENT IN NEW TECHNOLOGIES

From the available data on the evolution of GDP and the unemployment rate, one may gather that the Israeli labor market is relatively stable throughout the economic cycle. Unemployment has not either increased drastically during recessions or decreased in expansionary periods.

Since 2003 the Israeli economy has been able to drive down its structural unemployment rate drastically, despite relatively low GDP growth. Graph 12 compares the evolution of GDP and the unemployment rate in Israel from 2000 to date.

According to Professor Zvi Eckstein, member of the XVIII Future Trends Forum, there are four reasons accounting for such positive evolution—all linked to macroeconomics. First, the financial system has not suffered the debt bubble countries like Greece, Ireland or Portugal endure today. The public debt level (74% of GDP) is reasonable, and it has not grown too steeply in the last few periods. Banks are well capitalized and the savings rate (18%) is maintained relatively high.

Second, the public sector is healthy. According to the IMF, the average deficit level forecasted for 2012-2017 is -2.4% of Gross Domestic Product and public spending has been stable in the last few years—which puts Israel at a distance from peripheral European countries.

Third, its traditionally low current account deficit, and its surplus from 2003 to 2010 imply Israeli companies can successfully compete in international markets. Investments in new technologies have improved the economy’s competitiveness and increased exports—at an annual average rate of 6.3% from 1990 to 2012.

Finally, price stability supported by the Israeli Central Bank has made Israeli products more appealing abroad. Moreover, while the majority of advanced economies continue to have an aggressively expansionist monetary policy (including the implementation of new non-conventional measures) the Israeli Central Bank has returned to a 3% to 4% reference interest rate without driving prices up excessively, thereby suggesting this advantage could strengthen in the next few years.

Add to these four pillars the already mentioned “technological change” experienced by Israeli companies, reflected in their international footprint and the composition of their exports. Graph 13 shows the evolution of Israeli exports, broken down by innovation intensity, from 1995 to 2011.

Israel has become more competitive through highly intensive technological production. Its labor market is thriving and hirings have increased due to the development of these industries in the 1990s and 2000s.
Graph 13. Evolution of exports in Israel based on their technological content.
Source: CBS and Zvi Eckstein
Six Outlooks to Boost Job Creation.
Labor markets are an extremely complex topic, and an accurate understanding of them requires us to consider a variety of perspectives. The Bankinter session on this topic made important strides toward that goal.

Some of the relevant topics here include entrepreneurship, competitiveness, education, and the role of the recent financial crisis in Spain and in the eurozone, including considerations of aggregate demand.

Karen Wilson, from the OECD, offered some remarks on the importance of entrepreneurship in creating jobs in Spain. A lot of small businesses are not set to grow at all, and represent a kind of static petty entrepreneurship. But when a small business can and does grow, it can have a major impact on job creation. She cited figures about how much high growth firms – “gazelles” – are responsible for a lot of the job growth in Spain. The next question is to figure out how to encourage more of such firms in terms of a broader economic ecosystem.

Separate considerations were raised by Dr. Joel Kurtzman, who focused on the role of national competitiveness. He noted that when it comes to access to capital, Spain ranked only number 34 among surveyed countries. Spain is perhaps too reliant on banks, does not have strongly enough developed venture capital institutions, and perhaps Spain could make economic and labor market progress by strengthening its financial institutions.

Nonetheless the biggest short-term problem for Spain and the job market is aggregate demand. Both fiscal and monetary policies have placed very serious negative pressures on the Spanish labor market. Demand in Spain is falling for a few reasons: banks are engaged in disintermediation, there is capital flight, capital markets are becoming less European and more national, the ECB has pursued a relatively tight monetary policy, and fiscal pressures have required the Spanish government to raise some taxes and make some serious cuts in the budget. When all of those are taken together, it is the biggest negative shock to the Spanish labor market in recent memory.

One critical recommendation is simply that Spain needs to “stop the bleeding” by participating in an EU-wide plan for macroeconomic recovery, including a sustainable path forward for Spanish banking institutions. As of August 2012, it is not obvious that such a collective plan is in place or pending for the immediate future. Probably the Spanish labor market will not much recover until a broader European solution is in place.

So far the available solution on tap has been for Spain to accept a bailout and allow its budget to be ruled by the demands of “the Troika,” as has been the practice in the eurozone to date. Spain has been reluctant, although there is a good chance that such an arrangement will be in place by the time you are reading this. Prior experience with the other eurozone bailouts does not
indicate that such a course of action is likely to lead to success. Yet a better alternative – acceptable to the rest of the eurozone as well – remains elusive.

The Spanish labor market also needs to be more flexible. While Spain is often criticized for its welfare state spending, the reality is that the Spanish welfare state has in some regards been quite weak over the last decade (and earlier). The problem is that Spain has used labor market protection as a kind of substitute for a better and more comprehensive welfare state. Yet this same labor market protection has made wages stickier, has made firing and thus hiring more difficult, and it has exacerbated the problem of unemployment. The recent reforms of Spanish labor markets are probably a case of too little, too late. Evidence from the Nordic countries indicates that the best labor market protections often consist of relatively pure cash transfers, perhaps combined with retraining expenditures, rather than labor market protections. The labor market protections tend to discourage new jobs from being created.

Another issue is that Spanish higher education has not in every regard turned in a distinguished record. Among the top fifty universities of the world, only one of them is Spanish, namely the Polytechnic University of Catalonia, which is ranked at #41 by one survey. Yet improving these universities may be very difficult in a time of tight budgets.

Looking forward long-term reforms to competitiveness, Spain does not fare remarkably well in terms of the World Bank’s “Doing Business” index of competitiveness. For instance, for the ease of starting a new business, Spain ranks only #133 in the world, a very poor performance. The country also ranks poorly in terms of protecting the rights of investors, providing electricity, and collecting taxes in an orderly and effective manner.

Fixing these problems will require large-scale reforms in Spain, probably starting with Spanish culture itself. It’s not just a question of changing various laws, but rather culture, the law, and the economy must to some extent move in a broad lock-step.

The Spanish system of unemployment benefits also could be reformed. For instance paying out such benefits as an early “lump sum” decreases the incentive to stay unemployed, in order to keep collecting the benefits. By changing the marginal calculus of the worker in this fashion, aid can be offered while perhaps prompting the earlier return of workers to the active labor force.

Putting all of these pieces together, Spain appears to be at a critical moment in its economic history. It faces serious domestic structural problems, and it is currently dependent on a broader EU-wide set of reforms to the single currency and European banking regulation and oversight. Quite possibly neither sphere can yield success without cooperation from the other. There is a sequencing issue, a timing issue, and a more general sense that political options may be narrowing as the pain of “austerity” and all the structural changes becomes felt as increasingly biting.

On top of all this is that Spain must manage political and economic relations with its own provinces, not all of which accept the need for greater financial centralization within the country.

One final element needed in Spain will be that of leadership. That will mean laying out a new vision, a new set of requirements for domestic transparency, and a new way of thinking about how Spanish and European priorities will fit together and complement each other. Such a new vision must be sold to the Spanish elite, to the Spanish voters, to the provinces, and also to the broader European Union.

It is a truly important moment in the history of Spain and current problems in the labor market are but one reflection of the broader issues at stake.
Aggregate demand

Tyler Cowen said at the XVIII Future Trends Forum that any situation of high unemployment is made worse by a contraction of aggregate demand, as is currently the case in Spain. It is therefore essential to examine job creation by looking at the main aggregate data of domestic demand. We will do so from two perspectives: fiscal and monetary policies.

Fiscal policy
In January 2010, Olivier Blanchard and other economists from the International Monetary Fund (Blanchard, 2010) warned that advanced economies would face a major obstacle in resuming economic growth after the 2010 recession: lack of "fiscal space".

Time has proven them right. Falling revenues and increased public spending to alleviate the effect of recession on society have driven the national deficit and debt levels up, leaving governments with no leeway to introduce new stimuli. The big advanced economies, as illustrated in Graphs 14 and 15, are facing high public debt and deficit levels.

High debt levels translate into higher risk of national debt default, which in turn translates into paying higher interest rates when issuing debt on the markets. This phenomenon leads to increased public deficit, and therefore, renewed increases to government-issued debt.

High deficit levels and growing public debt impose limitations on countries; reducing their ability to implement Keynesian policies and increase aggregate demand and boost job creation. Only after a necessary fiscal consolidation process, which will end around 2015, may new, expansionary fiscal measures be implemented.

Monetary policy
Euro zone member states have transferred their monetary policy to the European Central Bank. Therefore, the countries most affected by the crisis no longer have the option of currency devaluation to regain competitiveness, increase exports and spur growth.

This option has been traditionally used by peripheral European countries to recover economic growth via the foreign sector. The Spanish peseta was devalued during the crisis in the 1990s with good results; it was a decisive contribution to the country’s recovery in the second half of the decade.

Despite this restriction, the European monetary policy cannot be considered conservative. The reference interest rate in the Euro zone is 0.75%. In the United States it is 0.25% and in the United Kingdom, 0.5%. The monetary policy could hardly be more expansive.

Since the beginning of the crisis, Central Banks from the world’s main economies have undertaken very aggressive monetary policies combining low interest rates with other “non-conventional” measures. Liquidity injections and special liquidity windows, along with the purchase of public debt by the issuing bank, are options that must continue to alleviate the effect of the recession and curb job destruction.
Source: International Monetary Fund. World Economic Outlook. April 2012

Graph 15. Evolution of public deficit. 2007 – 2015 (E)
Source: International Monetary Fund. World Economic Outlook. April 2012
Flexibility is a labor market organization model aiming to increase flexibility for companies and workers while maintaining high worker protection. Flexicurity is based on the three principles of the "golden triangle": flexibility built on adaptable, reliable contractual agreements, robust social protection for the unemployed and active reintegration policies.

In 2007, the European Commission included flexicurity as a ruling principle of the workings of the European labor market. To reach a 75% employment rate by 2020, European authorities designed a strategy including aggregate and national measures. One aggregate action proposed is creating an agenda of jobs and skills to reduce segmentation and facilitate job changing. This way, workers would be trained in skills they need at work, the quality and conditions of their work would improve and job creation would be promoted, as the European Commission itself points out (European Commission, 2007).

In addition, it is seen that it is necessary to improve and facilitate links between job seekers and job offerers, especially among people under thirty. Training, experience and analyzing one’s own career must help in bridging the gap between youth and general unemployment.

Regarding each country, the Commission proposes putting together an agenda of customized reforms based on its analysis missions to France, Finland, Sweden, Poland and Spain.

Unemployment benefits
There is extensive economic literature suggesting that the unemployment rate of an economy is determined by its evolution of GDP and the economic situation, but also by its regulation, collective negotiation and extent of unemployment benefits, among other factors.

Nickel (Nickel, 1998), Elmeskov et al. (Elmeskov, 1998) and Nunziata (Nunziata, 2002) find strong evidence establishing that the amount and duration of unemployment benefits increase the unemployment rate. The explanation of this phenomenon is quite simple: the higher the unemployment benefits, the bigger the incentive not to join the labor market.

Reforms undertaken in countries such as Germany, the Netherlands and Austria in recent years suggest that when reducing unemployment benefits, job supply increases in the short term, and it becomes easier for workers to join the labor market in expansionary periods.

Reducing unemployment benefits may seem contradictory to the doctrine of flexicurity, which advocates for greater worker protection. However, according to Blanchard (Blanchard, 2006), such a contradiction does not exist. An analysis of micro- and macroeconomic policies formulated more than a decade ago yields that it is important to increase worker protection, not job protection.

To this end, it is necessary to offer certain protection for the unemployed while pressing them strongly to accept new jobs. All this under the umbrella of a set of measures contributing to higher worker training and re-training.
According to Dan Finn, member of the XVIII Future Trends Forum, the solution could lie in a complete overhaul of unemployment benefits. Unemployment benefits would become employment insurance, aid granted on the condition of active job seeking and, even, job accepting. This would create the appropriate incentive to rate public and private institutions mediating in the labor market based on “the number of placements, rather than their budget management”.

Flexibility and entrepreneurship
The relationship between flexibility and entrepreneurship in the labor market must be analyzed from two points of view. On the one hand, lower hiring and layoff costs under more flexible regulation favor companies with high employee turnover rates—which is usually the case during the first steps of a company. Therefore, entrepreneurial activity would easily profit from leaner, simpler labor legislation.

On the other hand, most advanced economies have devised plans for workers to receive their unemployment benefits in full in one lump payment when they lose their jobs, as long as they use this sum of money to start up a new company. This policy favors turning unemployed workers into new employers.
FLEXIBLE LABOR MARKET

HIGH UNEMPLOYMENT PROTECTION

ACTIVE REINTEGRATION POLICIES
Competitiveness

As is the case with the concept of productivity, a nuanced, detailed definition of competitiveness is not easy to find. Competitiveness may be defined as the capacity of companies located in a certain country to bring the greatest satisfaction possible (quality- or price-wise) to customers around the world.

Spain and the main competitiveness indices
As implied from the definition above, it is not easy to measure competitiveness in a given country. There are three main publications that measure and compare the competitiveness of economies worldwide every year. They are the Doing Business Index put together by the World Bank, the Global Competitiveness Report, put together by the World Economic Forum and the Index of Economic Freedom of the Heritage Foundation. Spain's results of the last two years in the Doing Business Index are summarized in the following table:

The results show that it is tremendously hard to start new businesses in Spain. According to Doing Business, Spain ranks 133rd worldwide in this category. Spain is not very competitive in other areas such as investor protection, electricity supply and tax payment—although great improvements have been made in this last regard in the last year.

Results obtained by the World Bank are no different, in essence, from those of the other two institutions mentioned. Though, the results are striking from the World Economic Forum survey, which asks businesspeople in each and every country about the factors interfering most with their work. The following table gathers Spain's results in this survey.

Securing funding, excessive labor regulation and lack of governmental bureaucratic efficiency are three factors pointed out by businesspeople as being the greatest obstacles they need to overcome when doing business in Spain.

Competitiveness and business funding
According to Doing Business, Spain ranks 45th worldwide in terms of how easy it is to fund a business. This fact fits with the result of the World Economic Forum and the Heritage Foundation, pointing out to the difficulties of foreign investors to fund their projects in Spain.

Increasing business competitiveness requires huge investments in research and new technologies to facilitate lower-cost production or higher-quality, more appealing end products. Recovering competitiveness in Spain will be hardly achievable in today's situation, when the amount of loans granted to companies is minimal, as illustrated in Graph 17.

As Joel Kurtzman stated in the XVIII Future Trends Forum, improving Spain's competitiveness sustainably over time will be possible when loans to the private sector increase again. For this to happen, two conditions must be met. First, the financial system must successfully achieve its restructuring process. Second, the public sector must reduce its debt to avoid the crowding out of private sector loans.
### Obstacles in doing business in Spain

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>2012</th>
<th>2011</th>
<th>Variation</th>
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<tr>
<td>Starting a business</td>
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<td>148</td>
<td>15</td>
</tr>
<tr>
<td>Incorporation license</td>
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<td>39</td>
<td>1</td>
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<tr>
<td>Obtaining electricity supply</td>
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<tr>
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<td>Bankruptcy proceedings</td>
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#### Graph 16. Global Competitiveness Report
Obstacles in doing business in Spain.
Graph 17. Evolution of Credit in Spain. 2010 – April 2012

Graph 18. Percentage of companies by number of employees. 2011. Spain
Graph 19. Level of studies of entrepreneurs in Spain, 2011
Source: Global Entrepreneurship Monitor for Spain
Entrepreneurship and innovation

There are four different perspectives when analyzing job creation from the standpoint of entrepreneurship and innovation: the role of gazelle companies in job creation, the role of the public sector, the relationship between competitiveness and entrepreneurship and finally, the role of the education system in promoting entrepreneurial activities.

Gazelle companies and job creation
The idea that entrepreneurship creates job is widely spread. It is true, but there are certain nuances to that statement. In Spain, for example, more than fifty percent of existing companies have no employees on the payroll. Just 0.76% of companies employ more than 50 people, as illustrated in Graph 18.

Therefore, the goal should be to support new companies capable of creating the largest number of jobs possible. This is the case of so-called gazelle companies, as Karen Wilson said in the XVIII Future Trends Forum. This term refers to companies that grow at a fast pace (20% to 25% per year) even in times of crisis.

The Kaufman Foundation (Kaufman Foundation, 2010) found that 1% of the companies with the best results and highest growth in 2010 had created around 40% of jobs nationally in the United States. Therefore, the role of the public sector is not just to give incentives to entrepreneurship. Incentives and measures adopted must be geared towards increasing the number of new gazelle companies, which are highly effective in creating jobs and superiorly able to compete internationally.

The role of the public sector
According to the Spanish Association of Business Accountants and Managers (AECA by its Spanish acronym, 2012), the role of public administration in fostering entrepreneurship must focus on supporting new businesses, investing in technological innovation and must be resolved to support the knowledge society.

Therefore, the State must provide all indispensable services smoothly so that the projects of entrepreneurs come to fruition. For this, a three-pronged strategy is necessary: legal and business counsel, training and funding aid.

Barriers business people run into must be broken. It is necessary to create a legal and administrative framework to encourage the creation of high-growth companies and boost their competitiveness. The role of the State must be to design and establish a favorable environment for local start ups, and one that is appealing to foreign direct investment.
Competitiveness and entrepreneurship

The previous section mentioned how the World Bank saw the difficulties to start up new businesses as a weak spot in the Spanish economy; now we will analyze the reasons why Spain is ranked 133rd worldwide in ease of starting a business.

The Doing Business Index measures how easy—or hard—it is for a business person to start up a new business, based on four indicators: the number of procedures necessary, the number of days needed, total cost and minimum capital disbursed.

Spain is in line with the OECD average in two of the four indicators. The cost of procedures necessary to start up a business is 4.7% of the average per capita income, exactly the same as the OECD average. Regarding the minimum capital needed to create a new company, it amounts to 13.2% of the average per capita income, slightly below the OECD average of 14.1%.

However, economic policy still has much to do in the remaining two categories. The total procedures necessary to start a business in Spain is double the OECD average (10 versus 5). Moreover, carrying out these procedures takes 28 days on average, versus 12 in the OECD.

Education and entrepreneurship

Spain is traditionally not a country of entrepreneurs. Few people choose this career path. The trend is the result of environmental factors, but also, of an education system that does not encourage it, and even conveys distorted image of a businessperson’s job.

This image of business and entrepreneurship must end. Regarding Spain, the Global Entrepreneurship Monitor (GEM, 2011) insists on how entrepreneurs need suitable training for their job and to understand the technicalities behind their responsibilities.

Given the profile of entrepreneurs in Spain, business training must be included in all education levels and also beyond formal training. Graph 19 shows the distribution of new entrepreneurs based on their level of studies:

The members of the XVIII Future Trends Forum insisted that training in entrepreneurship is a key issue for Spain. The fact that most entrepreneurs have only finished primary school supports this consideration. Starting up a new company must appeal to individuals with higher education. And those who have not had access to higher education must be sufficiently prepared to run their business. This is the only path to becoming an economy of gazelle—not “tortoise”—companies.
The fourth sector and job creation

The fourth sector

For a few decades, the border between private companies, the public sector and social enterprises has blurred. Many social or environmental activities and new organizations created in the last few years mix public and private. The fourth sector includes all these activities, as laid out in the following diagram:

The Aspen Institute highlights two fundamental characteristics to classify an organization or activity in the fourth sector. First, its social purpose. The organization must be clearly committed to social action structuring its organizational dynamics. Second, business methods. The organization may conduct any legal business consistent with its social purpose and its share- or equity-holders’ responsibility.

Additionally, the Aspen Institute points out other social changes that have either taken place already or should take place (depending on each country) for this new business category to grow and develop. Labor and business legislation must adapt to embrace this new typology of organizations. Fiscal regulation must be more flexible to reward the social work undertaken, and the education system must train professionals aware of this new reality.

The fourth sector in the United States

The United States are the birthplace of the fourth sector. It is one of the countries that has adapted to this new reality first, supporting its inception, growth and development. To that end, legislation has been changed at all levels.

These changes affect the definition of social purpose, philanthropic donations by an organization, day-to-day operations, profit and dividend payout, the definition of private and public profits, capital and debt investments... a change that has given way to new organizations in this very sector, and also, to companies assessing workers and potential entrepreneurs seeking to start up a business in the fourth sector.

Because of this expansion, the size of the sector has grown non-stop for more than ten years. According to estimates by the organizations themselves, the fourth sector currently represents between 5% and 15% of GDP and it creates between 10% and 20% of jobs in the United States.

These employment and value added estimates are calculated based on the contribution of social enterprises, NGOs and civil and sustainable enterprises. Many of these business typologies are not yet present in Spain. However, as explained below, there are certain noteworthy cases, deserving our attention for their ability to create wealth and jobs.
For many years, the Basque Country has been known to put into practice appealing policies for the fourth sector. Consequently, it is a leading case for Spain and the rest of Europe.

Right from the start, the Basque public agency for innovation, Innobasque, has spearheaded this initiative. It has promoted new business initiatives focused on rendering social services under close public-private collaboration. This way they have covered needs in high demand to which the public administration may not tend sufficiently in the future (care for dependent persons, immigration, development aid, etc).

The fourth sector employs over a thousand people in the Basque country at present, and more than half of them are women. The equal distribution is maintained in management positions too: out of 222 existing positions, 124 are held by women. Data on created wealth and value are equally positive. The sector has earned more than €60 million over the last year including €24 million in subsidies.

The Emaús Foundation, the Servicios Sociales Integrados Group, Sport Mundi and Ulma are among the most important companies in this sector. All of them work in different areas but they have all collaborated in the creation of a network to enhance their synergies and facilitate the legislative and organizational change they need to grow and create wealth and jobs.

THE FOURTH SECTOR IN THE BASQUE COUNTRY
Human capital, training and retraining

The current status of the Spanish education system—before, during and after college—will be analyzed in this section. The relationship between the education system and the labor market will be studied, particularly, the re-training and on-the-job training systems.

The education system in Spain
An analysis of the formal education system in Spain, including the years prior to university and during higher education. Regarding school education, the PISA report sheds some light on Spain’s level of education.

Graph 20 shows the scores obtained by Spain in the latest PISA report. Spain is outside the top 30 for the three main indicators: Reading comprehension and competence in mathematics and science. Spain scores in all cases below the OECD average.

Regarding college education, Spain does not excel as a world power in any of the indices. According to Webometrics, there is only one Spanish university among the top 50 worldwide: The Polytechnic University of Catalonia (UPC) or BarcelonaTech, ranked 41st. If we widen the scope to the top 200 universities worldwide, there are three more Spanish centers: the Complutense University of Madrid (UCM), the Technical University of Madrid (UPM), and the University of Salamanca.

Most studies on the Spanish university system point to three big problems it must overcome to improve its quality and efficiency: high rates of academic inbreeding, low research levels and lack of ties to the labor market.

The education system and the labor market
The members of the XVIII Future Trends Forum heartily agreed on the need to adapt the education system to the demands of companies. The gap between companies and education centers is portrayed in Graph 21, built on OECD data.

The graph shows the ratio of workers between 25 and 29 years of age who are not studying, have completed higher education and are hired at a level 1-2 position (low qualification), compared to workers between 25 and 29 years of age who are not studying and have completed higher education. As you can see, the imbalance in Spain is the greatest of the OECD, both for men and women.

The data suggest an excess of qualification; but it first must be analyzed to understand whether this is a temporary or permanent phenomenon. Be it as it may, the Spanish education system must provide workers with the competencies and qualifications demanded by companies. A reform to vocational training is the first step in this direction, as explained in the fourth section of this report.
Re-training and lifelong learning in the labor market

Lifelong learning is defined as the process by which an individual is trained throughout his/her life, not only in school or university.

It was first applied to the European labor market in Denmark. The goal of this training system is to facilitate the retraining and continuous improvement of workers via funds provided by themselves, companies and the State.

The European Commission started a €7 billion program in 2007 to study, design and apply these lifelong education and training mechanisms in all member states. The Erasmus and Leonardo scholarships are part of this program and are only applicable to formal university or pre-university education.

Then there is the Grundtvig program and the like, directly focused on adult training. This program, citing the European Commission (European Commission, 2011), is a program focused on all “adult education methods where vocational training is not predominant, and organizations and centers providing or facilitating any type of learning opportunity for adults—be it formal, non formal or informal training—including all opportunities related to the initial and permanent training of workers”.

In a global market where workers need to hold different positions and profiles in all sorts of companies, re-training and lifelong training programs must become widespread. The experiences of countries such as Austria or Denmark may be useful due to their efficacy and effective funding which combines private and public funds.
Graph 20. PISA report. Spain’s Main Results.
Source: OECD. PISA report

Graph 21. Gap between the education system and the labor market. 2007
Source: José García Montalvo and the OECD.
18 Proposals to Overhaul the Labor Market in Spain
The first step to solving a problem is admitting you have one—otherwise it is very hard to solve it. So let’s begin by stating the problem: Spain has a structural employment problem, heightened by the current economic crisis, but otherwise independent from it. Even though it is essential for Spain to find an immediate solution to the economic bloodletting caused by the increased cost of sovereign debt, a thriving labor market will require radical reforms beyond economic recovery.

To date, the Spanish economy has followed a growth and contraction pattern similar to the rest of Europe over the last five years. However, the impact of the recession on unemployment figures has been dramatically higher in Spain. Whereas the unemployment rate in big European economies (and even the United States) has not surpassed 10%, in Spain, the figure has tripled and hit 25%, putting Spain at the tail end of the developed world. Although this is not the first time a sudden halt to the economy has triggered unemployment in Spain. It is not the first time either that the youth unemployment rate has been double the general rate. In fact, these systematic trends point to structural causes, which call for structural reforms.

Spanish and international experts gathered by the Bankinter Foundation of Innovation in June 2012 to analyze the issue of employment in Spain, pointed to three key areas (aside from the impact of the current economic crisis on lower aggregate demand): inefficiency of the labor market, human talent and the creation of new businesses.

A rigid labor market is a scourge to Spain’s competitiveness and its growth outlook. The World Economic Forum ranks Spain between positions 30 to 40 in competitiveness, well behind what one would expect from a country of this size and infrastructure. This is largely due to the inefficiency of the labor market, which falls behind 118 other countries. Spain is well behind competing economies in collective negotiations between employers and employees, flexibility of wages, ease of hirings and firings, and also productivity.

For instance, the Spanish labor market has a unique two-tier structure. There are the open-ended contract workers, object of high worker protection and costly to let go, and the temporary-contract workers, object of minimal worker protection. The Spanish collective negotiation system is biased to benefit the first group. It is very difficult to agree on reductions to wages and working hours of open-ended contract workers during adverse economic situations (unlike what happens in Germany and other European countries). As a consequence the only adjustment mechanism available is shedding jobs, which affects mainly—but in the long term not exclusively—the temporary workers.
Nor does Spain stand out for its education quality, and this entails competitive shortcomings in innovation and productivity. Although the percentage of schooling and participation in tertiary education are comparatively high, OECD studies put Spain below the average of developed countries in oral comprehension and competence in mathematics and science. According to the annual university ranking put together by the Chinese university Jiao Tong, no Spanish university is ranked among the best 200 universities worldwide and only 4 are in the top 300. My own analysis shows a very high correlation (over 40%) between the number of world-class universities in a country (based on its size), and its competitive index. A high quality education system is essential for productivity and to create innovation and new technologies.

Finally, the social and institutional environment in Spain do not favor starting up high-growth companies (which create net jobs in most developed economies), to the detriment of employment. The Global Entrepreneurship Monitor puts Spain behind the rest of advanced economies in growth prospects of new companies and percentage of start-ups with innovative products or international clients. And the World Bank ranks Spain 44th in ease of starting a business.

These three areas (rigid labor market, educational deficiencies and barriers to creating and growing companies) are co-responsible for Spain’s employment deficiencies. Any effort to solve structural, comparative deficiencies must work on all three fronts.

This is a watershed moment for the economy. Undoubtedly, this must be the greatest priority of all political and economic players. But the crisis must not veil pending competitiveness and employment issues. The future prosperity of Spanish society cannot be assured under the current social model. It is essential for all players to consider structural changes.

Reforms to the labor market could draw inspiration from the European concept of “flexicurity”, which grants greater flexibility to companies and establishes contingencies to unemployment benefits to encourage a proactive integration into the labor market. The duality of the Spanish labor market must end, and collective negotiation systems must be overhauled. The efficiency of the labor market would improve if there were mechanisms to facilitate worker mobility within Spain and the European Union. Finally, tax pressure should shift its weight from employment to consumption by reducing social security costs linked to employment and compensating them with increases to several consumption taxes.

Cuts to public spending should respect the critical competitiveness areas, such as education and research. But governance and financing systems should be reformed to allow for diverse approaches, reward excellence and make each and every institution accountable for its results. And immigration policies and careers in academia and research should be reformed to do away with any barrier to talent imported from the rest of the world.

Lastly, climbing positions in international rankings and becoming one of the most open environments worldwide for high-performing companies should be set as a national objective.
The business people, professors and researchers taking part in the XVIII Future Trends Forum have proposed a set of reforms to contribute to a solution to the labor market problem of the Spanish economy. The proposals, gathered in this document, are meant to be the starting point of a reasoned, calm discussion of economic policy. This discussion should take place in a government commission to analyze and formalize, to the greatest detail, each proposal in this document, and any other option put forward by economists or researchers of this problem.

In this commission (following the example of the Hartz Commission created in Germany in 2002) there would be politicians (from the party in power and all opposition parties), economists (of all profiles possible: scientists, communicators, professors...), researchers and business people.

A prior agreement guaranteeing the implementation of measures proposed during the internal discussion and analysis would be a prerequisite to its creation. Therefore, the government would commit to reforming the labor market, based on the considerations of the Commission, and the opposition would back each and every measure wholeheartedly. The objectives of the Commission would be grouped into two categories: short-term objectives, and mid- to long-term objectives. The first group would include measures to curb the present job destruction afflicting the Spanish economy. The second group would include actions to spur job creation, once internal demand and the economy as a whole recover their growth pace.

The original Hartz Commission proposed 13 modules for change. In this case, there are proposals in 18 areas where reforms and innovation must guide political action. Many measures do not strictly correspond to the labor market. However, links between job creation and other areas (such as macroeconomic stability or the education system) call for pushing for reform in other areas.

The XVIII Future Trends Forum team considers essential the establishment of a clear, truthful communication policy regarding the tasks of the Commission and the later reform project. Economic theory shows how citizenship engagement and understanding increase the efficacy of economic policy.

Therefore, business people, employees and the other players involved need to know firsthand what goals are sought with the various reforms, and what their cost will be. The proposals are grouped in five main areas: the foreign sector, education system, macroeconomic considerations, labor market, the fourth sector and entrepreneurship.

Create a Commission to reform the labor market that scrutinizes, adapts and develops the proposals resulting from the XVIII Future Trends Forum.
FOREIGN SECTOR

01 Promote, encourage and favor the development of Spain’s comparative advantages in the global market.

The Spanish economy has not traditionally been a major exporter. For years, the relatively low technological quality of products manufactured in Spain and high labor costs have minimized the appeal to foreign customers. Structural economic factors, as pointed out by the OECD (OECD, 2011b) seem to be the reason behind the major or minor exporting capacity of an economy.

Therefore, backing certain industries and exports of the Spanish economy cannot be done just through incentives or special regulatory provisions. Changes to the tax system, permits to establish new companies and hiring workers are needed.

According to the MIT Review (MIT, 2010), Spain has important technological comparative advantages in expanding sectors. The leadership and innovation skills of Spanish companies in the wind and solar energy industry, desalination, infrastructure building and management, high speed, the aerospace industry and biotechnology make of them international standouts.

Regarding brand visibility, there are important Spanish companies renowned worldwide in telecommunications, banking, tourism, fashion and design, agriculture, construction, energy...

For this technical knowledge and corporate visibility to become a lasting comparative advantage, the Spanish economy needs a set of structural reforms to make products more affordable and more appealing. A National Exports Plan is also necessary to align logistical and cost synergies between exporting companies, strengthen ties with certain regions of the world and bring SMEs into foreign trade.

This plan should outline the national export strategy for the period of 2012-2020. First, an analysis of markets and industries to be promoted must be carried out, as well as the specific measures needed to do so. According to the Strategic Opportunity and Risk index of the Spanish economy put together by the Elcano Royal Institute (Arahuetes, 2010), the main geographical areas with which Spain must associate are the Eurozone, Arab economies (Qatar, Saudi Arabia), some Asian countries (China, for example) and Eastern European economies.

Second, a list of difficulties faced by exporting Spanish companies should be made, and a guide of relevant solutions should be offered. Finally, realistic, measurable objectives, adaptable to the economic situation should be established. These objectives should frame the analysis of results and the evolution of the plan.

Aside from this structural approach, there are a few simple measures to promote sectors and industries and favor hiring in companies. For example, in any of the sectors mentioned, eliminating social security contributions for new employees hired by companies with strong exports. For one, this would be an incentive to hire new employees, capable of increasing the quality and quantity of aggregate production. For another, companies would reduce costs, and this “discount” could be passed on to clients.

02 Reposition the brand ‘Spain’ through a global communication campaign that highlights the comparative advantages listed in the first proposal.

Over the last few months the Government has made an obvious effort to relaunch the Spanish brand. In January 2012, 30 companies were chosen to work together on how to improve the image of Spain and its companies abroad. Most companies belong to sectors listed in the first proposal, and they are leaders in their fields.

Along with this “Spanish brand council”, the government has appointed Carlos Espinosa de los Monteros High Commissioner of the Spanish brand. His task will be to communicate Spain’s national economic power—beyond the current economic situation—and present the Spanish social and cultural reality.

Both measures are on the right track. However, there are two elements missing which would contribute decisively to the repositioning of the brand ‘Spain’. The first element pertains to the robustness and quality of institutions. Politicians must step out of the spotlight so that institutions and their representatives may step in. Appointments must be done on the basis of merit, ability, and expertise in the field in question.
Como han señalado en repetidas ocasiones As Professors Garicano (Garicano, 2012) and Fernández-Villaverde (Fernández-Villaverde, 2012) have mentioned repeatedly, stronger institutions must go hand in hand with the strictest control of corruption. Investigations and resignations must be part of any proceeding in which the accused is found guilty and is holder of prominent public or private sector positions. Finally, the Government and its representatives must make an effort to convey credible, truthful, cohesive messages, planning national needs in the long term. Therefore, recuperation of credibility by part of the institutions is the first step toward the global revaluation of the Spanish brand.

The second step affects the group of people in charge of strengthening the Spanish brand abroad. Besides businesspeople and the High Commissioner’s team, the involvement of great international experts in brand positioning is missing. Professor Andy Stalman (Stalman, 2012) shares this view. Just as jurists or researchers are requested for legal or economic issues, the best experts in the field need to be engaged in repositioning the Spanish brand.

Improving the brand ‘Spain’ goes beyond an image issue. Economic theory shows how an important portion of our risk premium is determined by the image the country conveys to the world (Gómez Bengoechea, 2012). Therefore, it is a commitment to the survival and recovery of this country. Promoting institutions, promoting our shared strengths and conveying this convincingly to the world is the best way to show how Spain is making use of the crisis to revamp itself and become more competitive.

Reform and simplify Spanish legislation to favor foreign investment and market unity.

According to the World Bank, Spain is one of the most expensive countries to do business in the world. Shorter delays and greater simplicity for foreign companies interested in investing in Spain must be part of a governmental strategy to finance the creation of new jobs.

Following the approach of the World Bank’s Doing Business index, some simple reforms are proposed to make Spain more appealing to foreign investors. The first reform is reducing the time it takes to obtain electricity for a business; currently, it takes 101 days. The second is increasing protection for investors through more detailed information and legal certainty in case of fraud.

The third reform proposed is simplifying and reducing the number of procedures necessary to file taxes. Currently, 187 hours on average are required to file and pay a company’s taxes. Finally, taking the enforcement of a contract to the courts takes a very long time: 515 days.

Objectives have been set for the four variables. The proposals are: reducing by 50% the time it takes to obtain electricity, increasing by 50% shareholder protection, as per the index put together by the World Bank, reducing the hours (down to 100) to file taxes, and limiting the time waited for the courts to enforce a contract’s fulfillment to 365 days.

By accomplishing these objectives Spain would climb from position 44th to 27th in ease of doing business. Add to these measures others regarding starting up new businesses (examined in proposal seventeen), and Spain could even reach position 19th. All this thanks to simple, swiftly approved reforms that would make of Spain a more attractive economy to foreign investors.

Regarding market unity, legal reforms must be undertaken to level differences between autonomous communities and provinces, at least from a “business” perspective. Differences in taxes, requirements for starting businesses and opening schedules or production conditions restrict a company’s ability to grow in Spain.

Legal differences may reduce a company’s ability to obtain economies of scale, which is translated into higher costs and prices. Special requirements from each Autonomous Community or province can even force changes in tags or the product itself. Lack of regulatory consistency also impacts negatively on worker and capital mobility, as Rocío Albert and Rogelio Biazzi suggest (Albert, 2009).

Clear consensus on the terms and rules of the game by which foreign companies will have to abide when playing in Spain is necessary. According to Albert and Biazzi, both the Autonomous Communities and the State will have to implement measures to recover market unity.

Spanish Autonomous Communities must voluntarily and unilaterally acknowledge the validity of other autonomous communities’ rules in their territory regarding access to markets of goods and services, starting and doing business, or paying tariffs and taxes.
DOING BUSINESS IN SPAIN

Position in 2012

44th

OBJECTIVES OF REFORMS

50% reduction in the time to obtain electricity supply.

50% increase in the index of shareholders' protection.

Paying taxes: reducing paperwork from 8 to 6 procedures.

Paying taxes: reducing hours needed to 100.

Contract enforcement: in less than 365 days.

Opening businesses: reducing paperwork and hours needed.

DOING BUSINESS IN SPAIN

Position after the reforms

14th
Even if this initiative were to be implemented unilaterally by a minority of autonomous communities, a chain reaction would be expected, and some differences and barriers to market unity would disappear.

The State Administration should create an agency to put together a how-to guide including good governance principles. Additionally, regional rules would be evaluated and advised on how to improve their programs and simplify regulation.

This agency would be an information center on competences and institutional oversight, put into effect through a publication or website gathering all information available on the regulation of autonomous communities. This mechanism would be available for domestic and foreign investors who would have all information readily, simply and reliably available before making a business decision.

EDUCATION SYSTEM

04 Reform the education system by making it more similar to the Anglo-Saxon system. Favor training in skills.

Spain has a severe education problem. Results in standardized tests show two severe downfalls in the system. The first one is the scarcity of students with outstanding results. The second is the small percentage of students who continue studying after compulsory schooling.

These problems limit a country’s ability to grow in the mid and long term. Economic research shows how 100 points in the PISA tests equal an additional 2% in annual growth, approximately. Therefore, reforming the education system is urgent; not just for social but for economic reasons too. A six-pillar reform is proposed which is based on that of the Applied Economics Studies Foundation this year (FEDEA by its Spanish acronym, 2012).

a. Kindergarten education
Professor García-Montalvo stressed this point in his initial remarks during the XVIII Future Trends Forum. Existing studies show how early stimulation and development of non-cognitive skills are essential to a student’s future learning and shaping of their skills.

b. Professors, career and results
Professors must receive sufficient training. Their scholarly merits and teaching skills must be evaluated as part of their initial training. Moreover, to analyze their career progress, their value added, not just the results obtained by the students, must be taken into account.

c. Tending to specific needs
Greater flexibility, at all levels, is in demand when tending to specific needs. Special students are entitled to joining the various education phases at different speeds. It has been said once and again: not all students have to start primary school at the same age, for example. Take brilliant students, a clear division (in micro-classes or specialized centers) must be allowed so that they can develop their skills faster without being “held back” by their fellow students.

d. Effort and reward
Effort, merit and the dedication of students cannot be substituted in their education process. Raising awareness among parents and centers regarding how full dedication is the only road to satisfactory results is needed. There must be common tests at the end of the various education phases, and based on the grade obtained, they shall open or close doors to special centers, programs and scholarships.

e. Vocational training
The percentage of vocational training students in Spain is much lower than in the rest of European countries. As explained in proposal number 5, the issue is the limited number of students interested in this track, and the lack of ties between vocational training and the world of business and its needs. Besides, lack of adequate funding makes this education track less appealing and effective.
f. University: Independence and companies

Universities must have greater independence to manage their degrees, professors and researchers as their results improve. Common evaluations and analysis are needed to guarantee a demanding education and quality of results obtained. Moreover, greater ties between companies and universities are needed. Following the Anglo-Saxon model, content must be closely coordinated with the actual work students will seek once they graduate.

The reform of the education system must be rigorously evaluated. The government must plainly show the results of regulatory changes and their effect on students and results. This is the only way to improve the quality of education year by year, and guarantee Spain’s future growth in human capital.

05 Encourage an education in vocational training. Create more favorable fiscal frameworks for those who decide to hire from-or pursue—this option.

As mentioned in the section above, vocational training in Spain suffers from two big problems: lack of ties with businesses and the limited number of students interested in this track. According to the analysis by Florentino Felgueroso (Felgueroso, 2011), a reform is proposed to solve these two problems. Such reform would bring the Spanish system closer to the systems of Switzerland, Austria, Germany and Denmark.

The Swiss vocational training system is known as a “dual system”, since it combines education at the school or center with paid training at a company. According to the OECD paper titled Education at a Glance (OECD, 2011c), 60% of secondary school students in Switzerland follow dual vocational training tracks. In Spain, approximately 43% of students choose vocational training tracks, and only 2% choose dual tracks.

The dual system offers two great advantages. First, it prepares students to enter the labor market, both in theory and in practice. Second, it adapts to the needs of companies, guaranteeing the optimal level of training they need. This might explain why youth unemployment in Switzerland is among the lowest in Europe.

The main advantage of the dual system is the gradual and early transition from school to the labor market. This way, at the end of secondary school, students already have some degree of professional experience, not just some knowledge and a supporting diploma.

For this system to be really effective, companies, social agents and education centers need to be in agreement. Coordination is key to guarantee useful learning in both worlds, and a rewarding and useful experience for students and business people. The main challenge is to offer training tracks appealing for companies in the short and long term.

Along with this structural change proposal for vocational training, it must be pointed out that the Government has already initiated some changes to the current system. The reform announced a few weeks ago includes new degrees, increased part-time attendance training, and shy attempts at dual training systems are made for students over 20 years of age.

Additionally, a more flexible training offer adapts better to the demands of the socioeconomic environment. Part-time courses towards vocational training degrees for adults have increased to make access to these studies easier, and centers are allowed to “organize training programs for young adults over 17 years of age who dropped out of school early, to facilitate their integration into the labor market.”

While these reforms and proposals come to fruition, it is essential to establish incentives and bonuses to facilitate the integration of current vocational training students into the labor market in the short term. Removing or reducing social security contributions of workers with a degree in vocational training is an interesting option.
MACROECONOMIC CONSIDERATIONS

Adjust the public deficit reduction schedule to make it more feasible and minimize its effect on aggregate demand.

In 2011, Spain’s public deficit was 8.4% of GDP. The year before, it was 9.3%. In both cases, it was well over the 3% of GDP limit set by the Maastricht Accord. High deficit translates into more public debt at increasingly higher interest rates. The cycle closes with interest payments that once again increase the deficit and debt issuance.

To break this cycle, the Government must reduce the deficit via the two variables it controls directly: public spending and taxes. Cutting public spending and raising taxes both have a contractive effect on GDP, which slows down the recovery and has negative impacts on job creation.

To keep the schedule agreed upon by Spain and its European partners, the Spanish deficit should shrink to 6.3% of GDP by 2012, down to 5.4% of GDP by 2013 and 2.8% of GDP by 2014. Given these circumstances, the goal is twofold. First, to slow down the consolidation schedule as much as possible, and second, to consolidate public finances with the lightest impact possible on GDP.

Spain faces a significant barrier to adhering to the deficit schedule: wary investors. A delayed fulfillment of the objectives agreed upon with Brussels would have a tremendously negative effect on interest paid on national debt.

The best option would be to agree on a new schedule with Brussels to extend until 2015 the deadline to reduce the deficit to the acceptable 3% of GDP mark. This would legitimize the Spanish adjustments and minimize their negative effects on interest paid on national debt. Moreover, it would provide the government more leeway thereby giving it a more feasible objective, much less demanding than the present one.

Changing the public deficit reduction calendar is "out of reach" for the Government on its own. It depends on the government and its agreement with Brussels. What the government can decide, however, is how to cut the public deficit. The first option is cutting public spending as much as possible, since, as a consequence, GDP contracts less than after increasing taxes.

To cut public spending intelligently and effectively, the creation of a Fiscal and Budgetary Policy council is proposed. Similar to those in Sweden and the United Kingdom, this council would analyze expense items and propose reductions to the least useful of which, so national job and wealth creation are the least harmed when those expenses are cut.

Creating this body is a requirement imposed by the European Commission and the International Monetary Fund as part of the bailout program to the Spanish financial system. Putting it to work must be done immediately, since it is urgent for the State to cut non-productive spending as part of the budget consolidation strategy. After the latest VAT increase, raising taxes must be restricted. Its contractive effect is to be avoided as much as possible.

Promote the creation of eurobonds to mutualize sovereign risk within the Eurozone, as a counterbalance for the austerity measures needed.

Eurobonds are public debt bonds issued by eurozone member states as a group. If they are created, the principal and the interest would be paid collectively, regardless of the original bond issuer. This means the eurozone would issue public debt as if it were a country.

The process to mutualize debt in the eurozone would benefit countries paying high interest rates on their debt, and it would hurt countries paying less to issue their bonds. Therefore, the goal would be to stabilize public debt markets for countries—namely Spain, Ireland, Italy, Portugal or Greece—facing funding problems. Eurobonds would provide additional security to compensate for the cost of austerity measures in their economies.

Among all proposals to create a eurobond system, the most feasible and smart proposal has been put forward by Jakob von Weizsäcker and Jacques Delpla (Von Weizsäcker, 2010, 2011). Their proposal contemplates creating two categories of eurobonds: blue and red. Blue bonds could be issued to finance debt up to 60% of GDP. Beyond that threshold, only national red bonds could be issued, with the subsequent increased interest. For countries with high debt-to-GDP ratios, such as Italy or Greece, mutualizing their debt up to 60% of GDP would be a great incentive to make fiscal adjustments.
Graph 23. Alternative schedules to reduce public deficit 2010 - 2015
Source: Government of Spain, European Commission and own calculation.
Once again, creating the eurobond does not depend solely on the Spanish government. There is still great skepticism in certain countries (such as Austria or Germany) of the European Union. They believe countries affected by the debt crisis would be less pressed to reduce their deficit and implement the reforms their economies need.

Implementation of eurobonds would be tremendously positive for the Spanish economy, in any case. First, interest paid on new national debt would decrease, and public deficit would be lower too. Second, the pace of adjustments to the public sector could be softer, thereby reducing the contractionary effect on GDP and limiting job destruction.

08 Recapitalization of institutions and injection of funds by the European Central Bank to increase liquidity in the financial system.

At the time the XVIII Future Trends Forum meeting took place, the situation of the Spanish financial system was very fragile, but Spain had not yet needed aid from the European Union and the IMF to continue to operate normally. Given the context at the time, proposals were made to recapitalize the financial system with European and national funds, accelerating a sector’s restructuring process that had started in 2010.

On June 9, 2012, the Minister of Economy and Competitiveness, Luis de Guindos, announced that the Spanish financial system would be funded with up to €100bn from European funds. In exchange, the European Commission and the International Monetary Fund would set the terms financial institutions would have to abide by. These terms are specific measures and reforms that must be applied to push the recovery of the financial sector and facilitate credit to citizens and companies.

This set of measures, largely in line with the XVIII Future Trends Forum proposals, is structured in three categories: conditions for bailed out banks, cross-sectional conditions for the entire financial system, and conditions for the government.

Conditions for bailed out banks include creating a Bad Bank to separate assets of affected institutions, write down the loss of preferential shares and reform boards of directors of institutions affected, with politicians stepping down from board positions.

Conditions for the entire system seek to increase solvency ratios, reform regulatory and oversight bodies and set new provisions on credit portfolios. Measures applied to the system and to each institution seek to strengthen the financial system and make credit flow again in the medium term.

Regarding conditions or recommendations for the government, the utmost compliance with the excessive deficit procedure is requested under the terms explained above and adjusting to the agreed schedule.

In addition, Spanish authorities must present a plan to strengthen credit flow outside the banking sector, including venture capital funds. This set of measures responds to the current needs of the financial sector. However, to maximize its effect, some mistakes should be avoided throughout the process.

Lack of precision, slowness and continuous contradictions between bodies leading the process takes credibility away from the bailout. To restructure and recapitalize financial institutions effectively and convincingly, the execution must be swift and clearly communicated, to avoid panic among citizens and investors.

Therefore, both the European Union and the Spanish government must announce a medium- to long-term plan for the Spanish financial system. This plan must establish clear priorities and alternative scenarios. Financial institutions and citizens need a clear, stable framework to make investment and consumer decisions.
Accelerate the deleveraging process of the private sector by encouraging increased consumption and investment by private citizens and businesses.

The total debt ratio of the Spanish economy (public and private sectors) amounts to 350% of GDP approximately. This means Spain is facing a long, costly debt deleveraging process. As Martin Wolf (Wolf, 2012) points out, this translates into smaller investments by companies and reduced consumption by citizens.

The greatest share of private debt in Spain is channeled through the financial system. Therefore, winding down, consolidating and recapitalizing financial institutions, as cited in the 8th proposal, should contribute decisively to lighten the burden of private debt on the economy.

There is an unquestionable connection between private debt, banking problems and real estate prices in Spain. Easier access to housing resulting from a fall in prices should accelerate the debt deleveraging process of the Spanish economy through the financial system.

There are two options to limit the effects of deleveraging and accelerate the process: capital transfers, and bankruptcy or default by companies and citizens. First, capital transfers refer to the sale of assets currently held by over-indebted companies and citizens to self-financed [companies and citizens]. Tax exemptions on asset transfers could encourage deleveraging.

For bankrupt or defaulting companies and citizens, there are two options. First, to pass a new bankruptcy law so that individual citizens may avail themselves of a default payment system similar to that of companies. This process would reduce private debt in part and it would be manageable at an aggregate level. The problem is that it would have a negative effect on the financial system, where the average default rate is already close to 10%.

The second option is to simulate the effect of joint bankruptcy through higher inflation. High inflation would entail negative real interest rates and stimulate investments in real assets. The problem with this option is how to increase the inflation rate amidst the current recession. The dependence of Spain from the European Central Bank and lack of an independent currency drastically limit these options. In fact, given the situation, a deflationist scenario is more feasible than an inflationist scenario.

Although any of these systems may accelerate debt deleveraging in the private sector, we are facing a slow, costly process whose repercussions are difficult to soften. Restructuring public or private debt must go hand in hand with fiscal stimulus for those who undertake it. They are complementary—not alternative—measures.

THE FOURTH SECTOR

Establish tax incentives for companies, workers and sponsors in “fourth-sector” economic activities.

The main problem of the fourth sector at present is its elusive definition. This is a nascent, growing ecosystem, still not recorded explicitly by legislation in many countries, as is the case in Spain. So the first point would be to create a legal framework appropriate for companies in the fourth sector. Then, specific fiscal incentive systems could be put into place.

To do so, the first step is defining the sector itself. According to relevant legislation in seven American States, it can be said that fourth sector companies offer products or services at special prices to low income communities or individuals; they empower citizens with economic opportunities beyond employment in traditional companies; they conserve the environment, improve citizens’ health, promote the arts and knowledge, increase the flow of credit to social enterprises, or advocate for any other social benefit.

Within these legal boundaries, it would be fully justifiable, from an economic standpoint, to remove some taxes and reduce others to companies doing business in the fourth sector. Their socially responsible, constructive activity should be rewarded with lower contributions to the Treasury.

For incentives to be structured fairly and responsibly, a registry of fourth sector companies must be put together. This is the only way, after a case-by-case study, to validate an institution’s classification under the fourth sector and be rightfully entitled to aid and designed incentive programs.
Fiscal incentives must work in two directions. First, they must be geared to already existing fourth-sector companies. After being registered, they would be entitled to a reduced corporate tax rate and to hiring workers under lower social security contributions.

Second, incentives to create new companies in the fourth sector must be established. To do so, the amount to be paid when incorporating a company must be lower. A new type of company—or an adaptation of an existing category—could be desirable for companies deserving better conditions for their social work.

Another fine measure to boost the sector’s development and growth would be national, state-supported networks, following the example of the Basque Country or the United States.

THE LABOR MARKET

11. Empower and foster private intermediaries in the labor market. Favor its collaboration with the national employment system through contracts for specific actions and tax cuts.

Temporary work agencies in Spain take part in roughly 14% of placements in the labor market—compared to only 3% of public employment services. Based on these data, any temporary work agency—and any company, for that matter—was granted in 2011 the possibility of becoming a labor market intermediary through a simple, responsible declaration.

The law passed in January 2012 specified that services rendered by employment agencies would be free for workers. Agencies would act as labor market intermediaries, including services such as career coaching, professional information and staff hiring.

Regarding their relationship with public authorities, they can act independently or in collaboration with Public Employment Services. Their operation must be authorized by the National Public Employment Service.

All these reforms bring Spain closer to the reality of Germany or Austria. However, interaction between these companies and the public employment system is still minimal. According to the agencies themselves, in spite of having already signed agreements with public authorities, they are not applied because the funding for the programs is not specified.

Even though the labor reform introduced in early 2012 attempts to solve this problem, it is still necessary to develop and harmonize the regulation of private employment agencies. Regulation must facilitate simple, effective collaboration with public institutions, guarantee legal protection for stakeholders and establish a clear, stable funding system.

The public employment system needs to modernize to make the job of private employment agencies simpler and more effective. This demands greater collaboration between autonomous communities, updating their digital services, and greater connection with companies. The public employment system’s low rate of placements is an unequivocal sign of the urgent reforms needed.

12. Simplify the current labor laws and create a new “single contract”, with increasing severance pay per year worked.

There are 16 types of contract in Spain. Simplifying the types of contracts would eliminate some of the differences between open-ended and temporary contracts, and simplify relations between employers and employees. According to the proposal put together by one hundred Spanish economists (FEDEA, 2009), creating the “single contract” would be the most appropriate solution to this problem.

There are three different components in the single contract proposal. The first is an employment contract with severance pay that increases based on seniority. The second is eliminating most types of temporary contracts, and the third is eliminating the regular, indefinite contract.
A contract with rising severance pay is an open-ended contract very similar to the temporary contract in the beginning, but over time it acquires the characteristics of an open-ended contract. There are many advantages to this system. First, all contracts would be open-ended, so the legal protection would extend to temporary contract workers. This would eliminate the incentive for temporary contracts.

Introducing a new contract would respect the protection of current open-ended contract workers, so no rights are lost. The only difference is that the greater seniority, the greater the protection.

Finally, a dual scale based on the fairness or unfairness of the dismissal is proposed. Severance pay for fair dismissals would be 8 days per year worked, plus 2 extra days per year worked up to a maximum of twenty days. Severance pay for unfair dismissals would be 12 days per year worked, plus 3 extra days per year worked up to a maximum of 33 days per year worked.

Eliminating temporary contracts would not increase dismissal costs. The baseline for rising severance pay contracts would be similar to the existing baseline for conventional temporary contracts today. Both modalities could peacefully coexist, although rising severance pay contracts would expand while traditional temporary contracts would decrease over time because of the incentives established.

Finally, the traditional, open-ended contract would not exist for new hires, although rights acquired from contracts currently in force would be maintained. This would eradicate the 45 days per year worked severance—excessively high in comparison with countries worldwide.

As illustrated in Graph 5, duality is a big problem of the labor market, and it has not been tackled by any labor reform recently. All attempts have focused on introducing new contracts or modifying some existing contracts. The results of these small tweaks have been poor so far.

Empirical evidence suggests both SMEs and big companies use temporary contracts as the cheapest form of internal flexibility in times of crisis. A viable, useful alternative to change this habit is urgent for employees and employers. Financially and legally, the single contract is the best path to reach this goal.

Separate severance pay from unemployment benefits.

When a worker is dismissed, he/she receives financial compensation. The amount of this compensation depends on the type of contract, the time the worker had been employed by the company and other terms that could have been agreed on at the beginning of their employment relationship. At the same time, the worker is now unemployed, for which he/she receives unemployment benefits from the State.

This mechanism means double compensation for the worker, who receives money from two sources (from the company and from the State) at the same time. It is a significant problem for the worker, who may go through both forms of benefit before finding employment again.

It is nonetheless paradoxical that the State is subsidizing workers who, despite being unemployed, have received a handsome severance package from their last employer.

A solution to this two-sided problem would be to temporarily separate severance pay from unemployment benefits. So for example, unemployment benefits would only be paid once severance pay is "used up". The way to calculate when would result from dividing the total amount received by the monthly unemployment pay to be received.

This accomplishes two goals. First, the worker’s basic financial needs are covered for a longer period of time. Second, the State would start disbursing unemployment benefits later, and in many cases it may not have to pay; provided that the worker finds a new job before the severance pay is used up.
At an aggregate level, this measure would have a very positive impact. For one, there would be a clear incentive for public employment services to reduce periods of unemployment to lower costs. For another, the State would drastically reduce unemployment benefits in general, a heavy line item in public spending.

Lowered spending on unemployment benefits would have an additional effect on the public deficit by reducing it, and, therefore, public accounts would be further consolidated and public sector debt would shrink.

14 Redesign existing active employment policies in Spain and gear them towards reducing youth unemployment.

"Active employment policies" aim to help unemployed workers find jobs quickly. The last labor reform approved by the government did not have a marked effect on these policies, which are crucial to fight youth unemployment in Spain, as Samuel Bentolila points out (Bentolila, 2012a).

Once again labor reform reverts to subsidies as the main hiring incentive. This is a mistake, given the many existing subsidies for all types of hirings. The main problem of the existing subsidy system in Spanish regulation is that these subsidies target very broad groups of workers. This has two effects on job creation. First, the "dead weight" effect, which subsidizes hirings that would be made anyway; and then the substitution effect, which transfers subsidized hirings to non-subsidized hirings.

As Bentolila correctly states, it is therefore necessary to limit the use of subsidies to training contracts. Also, it is essential to increase spending to train the unemployed. Most unemployed workers in Spain come from the real estate sector, which, foreseeably, will not grow in the near future.

The Spanish economy needs to provide additional training to low-skilled unemployed workers. Their re-training process is the key to finding employment faster and shrinking the structural unemployment rate of the economy.

Training needs are especially urgent for the youth. Many young unemployed workers dropped out of school at the peak of the expansion. Policies to achieve their re-training are even more crucial in these cases.

Some measures that could improve their situation would include linking training and apprenticeship contracts to formal vocational training (following the Swiss or German dual training systems, explained above), encouraging formally going back to school to complete their secondary education (through grants, aid and discounts), or establishing a differential, minimum wage for students under 18 years old.

As explained in the third section, the global market is increasingly demanding, and workers will have to face a changing environment and varying jobs. This means re-training and lifelong learning programs are needed. The State must undertake active employment policies to prepare workers to fulfill the needs of companies. Subsidies can only "hide" the problem. The truth is that there are many unemployed workers in Spain who are not attractive to hiring companies.
Revamp unemployment benefits to limit its negative impact on job creation and worker mobility.

Unemployment benefits are necessary and beneficial to any economy, and even more so in Spain, plagued by high unemployment. Thanks to these benefits, citizens may maintain their consumption levels and an adequate lifestyle. Along with this positive effect, there are less obvious macro- and microeconomic consequences that need to be evaluated, reviewed and restructured.

As mentioned once again by Bentolila (Bentolila, 2012b), the government has set a 5.4% decrease in unemployment benefits paid as a macroeconomic goal for 2012. A 4.6% increase had taken place through May. This figure compromises the goal of reducing unemployment benefits (and, therefore, the deficit) in the following years. A €13.764 billion reduction is expected between 2012 and 2014.

At a microeconomic level, the effects of excessively high unemployment benefits on the inclination of unemployed workers to find new employment are widely known to be demotivating. Setting the right benefit level is therefore essential to creating the appropriate structure of incentives among unemployed workers and control spending as an automatic stabilizer.

The labor reform recently approved by the government reduces the amount of benefits and makes collecting them harder. These reforms, which are on the right track, may be summarized as follows.

The first regulatory advancement is the reduction of contributory unemployment benefits. Prior regulation guaranteed 60% of the salary from the 7th to the 24th month. This rate will now be cut to 50%. Furthermore, there are cuts to coverage to unemployed workers who have used up contributive benefits or who do not reach the minimum required.

Economic studies have many times looked at the effect of reducing unemployment benefits on the unemployment rate. According to a paper by José María Arranz and Juan Muro (Arranz, 2004), it is estimated that cutting benefits paid by the government will reduce hirings among workers unemployed for 1 to 6 months. The exact opposite applies to the long-term unemployed.

The second regulatory advancement affects how receiving unemployment benefits is managed. New requirements are more demanding and require the worker to prove he/she is actively seeking employment. Additionally, the payment of unemployment benefits will be cancelled when there are sufficient signs of fraud.

However, there is still room for improvement in the recently approved labor reform to redesign unemployment benefits. First, passive policies should be directly connected to active policies. Reforms and changes proposed in the previous section regarding the management of active employment policies should bring more workers into the labor market.

Second, reducing amounts paid, and separating severance pay from unemployment pay should increase the supply of labor. As explained in section two, this is what happened in Germany. And even though unemployment made a slight rebound in the short term, structural unemployment shrank by more than two points in the medium term.

Finally, receiving the full unemployment pay in one lump payment right after being dismissed on the condition of creating a company is another successful mechanism employed by many countries, but rarely in Spain.
Create a new "entrepreneurship zone" where start-ups and new entrepreneurs may profit from easier regulation and incentives to create companies.

Building useful, productive and globally competitive entrepreneurship zones is the obsession of many governments and public institutions worldwide. There are a series of indispensable actions to guarantee successful geographical entrepreneurship areas and conditions to promote flourishing, small, innovative companies.

The first one is usually widely disregarded. The great innovation hubs of the world (Silicon Valley, Boston…) are located close to the best technical universities, as Irving Wladawsky-Berger (Wladawsky-Berger, 2011) points out (Silicon Valley to Stanford and Berkeley; Boston to Harvard and the Massachusetts Institute of Technology).

It is not required for an entrepreneurship zone to be concentrated in one area close to a great university. However, ties and connections with engineers, researchers and entrepreneurs who are leaders in different fields are essential. In this regard, establishing agreements with the pioneering centers of Spain in engineering and research (Universidad Politécnica de Cataluña, Universidad Politécnica de Madrid…) is the key for the development of pioneering, global companies.

Along with this structural focus—which will require time and a mindset change in both the university and the government before it bears fruit—there are measures that simplify how new companies work and spur their growth beyond the difficult economy they face now.

An entrepreneurship plan must be drafted, analyzing the status quo of this sector in Spain and pointing out budget and sector priorities. This plan must set different time horizons and tackle problems that are hindering the development of innovative Spanish companies in the short and medium term. The plan will focus on four groups of measures: tax system, public assessment and advice offices, creation of a network of entrepreneurs and business financing.

First, the tax system: recently created companies operating in strategic sectors for the Spanish economy (new technologies, training, energy, infrastructure…) must have access to reduced corporate and VAT tax rates. Likewise, they must be able to hire new employees without paying their social security contributions.

Second, there are public offices to assess and advise entrepreneurs throughout most of Spain, but they must improve their workings and usefulness. Aside from helping design and evaluate business plans—which they already do—, they need to be the meeting point between universities and entrepreneurs. They must actively try to involve researchers, financial backers and public administration in truly interesting projects.

Third, the State must create incentives, promote and even regularly sponsor national and international meetings of businesspeople, researchers, university professors and angel investors. These types of gatherings are generally organized by the entrepreneurs themselves or by business incubators, but they must become the hallmark of the Spanish brand.

If done correctly, they will foster the growth and development of companies supported by financial backers and the latest knowledge cultivated in this country. The close relationship between players in the business innovation process is one of the keys to success of other entrepreneurship zones worldwide.

Fourth, there must be preferential funds readily available for innovative projects in Spain in strategic sectors, as set by the entrepreneurship plan. This financing must be channeled through public entrepreneurship offices. They will be guarantors to financial institutions and angel investors for sufficiently attractive projects.

The ICO (Official Spanish Credit Institute) lines of credit have traditionally financed these types of operations in Spain. The main reason why they haven’t worked at their best is the lack of truly interesting projects that could potentially yield profits. ICO lines for entrepreneurs must therefore continue to exist. The entrepreneurship plan proposed in this section should stimulate strong projects potentially financeable through these funds and private capital.

These measures should contribute to the emergence of an ecosystem of entrepreneurs nation-wide. There are more and more cities and countries having innovative structure not necessarily located on the same area. Spain has comparative advantages in sectors expanding globally. Creating better conditions for entrepreneurs is essential for world-class, job-creating companies to flourish.
TAXATION

- Reduced rates
  - Corporate tax
  - VAT

- Reduction to Soc. Sec. Contributions

ADVISEMENT OFFICES

- Active role
- Meeting point
- Increased financing

MONTHLY GATHERINGS

- Researchers
- Business people
- Financial backers

FINANCING

- Guarantees
- ICO credit lines
17 **Redesign the legal incentive system to create new companies.**

Reduce bureaucratic processes that constrain entrepreneurship in Spain.

As it has been said time and again throughout this document, Spain is ranked 133rd in ease of starting a business. This position draws attention to a concerning situation: Spain is one of the countries where opening a business is the hardest—leaving aside problems such as securing financing or hiring workers.

As it has been already mentioned, according to Doing Business, Spain requires 10 procedures, 28 days, 4.7% of one’s income to pay for the procedures and 13.2% of one’s income to fund the company. These figures are in contrast with the OECD average, which is 5 procedures, 12 days, 4.7% in cost of procedures and 14.1% of the initial capital out of pocket.

These are the ten procedures necessary to create a company in Spain: obtaining the certificate of the company’s name, opening a bank account, recording the incorporation at a notary public, presenting the start-up statement at the Treasury, obtaining the certifying tax document from the Autonomous Community, adding the company to the Registry of Businesses, authenticating the company books, obtaining the start-up certificate from the city council, registering employees with social security, and finally, registering with the corresponding delegation of the Regional Labor or Industrial Council.

Only two out of ten procedures do not concern public administration: opening a bank account and obtaining the certificate from the notary public. This means that the remaining eight could be done in one single appointment, once the other two had been completed.

Creating a single place to carry out all procedures involving Public Administrations is the best solution to this problem. Then, while all forms and procedures are processed, the entrepreneur could start operating normally, with a provisional certificate.

18 **Agree on having compulsory training in entrepreneurship with all Spanish universities, adapted to the conditions and needs of each branch of training offered.**

Nowadays roughly all university degrees offer courses on economics and business administration. However, few degree tracks study entrepreneurship separately. In fact, this subject is almost exclusively confined to degrees in business administration and management.

Sociologically, entrepreneurship is traditionally seen poorly in Spain. This is highlighted by the results of the Global Entrepreneurship Monitor. Reverting this trend is slow and requires training and effort by part of public administration and universities.

Offering modules or full courses in all university or vocational training degrees explaining the basic concepts of entrepreneurship are essential to correcting this stigma. Teaching entrepreneurship must adapt to each training environment, showing the options and paths available to students in their fields.

However, we cannot wishfully think that just by including a subject on entrepreneurship in formal education that companies will automatically start to emerge. Changing the education mindset is necessary, but not enough. Correcting the factors restraining entrepreneurship and improving the conditions businesspeople deal with are the best incentives to promote new companies.
Business people, professors and researchers taking part in the XVIII Future Trends Forum propose a set of reforms to contribute to a solution to the labor market problem of the Spanish economy.

These proposals are based on a thorough analysis of the labor market situation in Spain, a study of particularly successful cases (such as Germany, Israel and Singapore) and six perspectives to approach job creation.

The Spanish economy is suffering the consequences of a dysfunctional labor market. Due to great labor duality, an alarming lack of flexibility in the employer-employee relationship and low productivity, structural unemployment is high and worsened by the current economic downturn.

Germany’s legal reforms, implemented 10 years ago, are a model for the Spanish economy. The German labor market is extremely flexible, favoring adjustments to working hours and wages, instead of layoffs. Thanks to the standardization of novel types of contracts (mini-jobs, midi-jobs...), its structural unemployment has shrank by approximately two points.

The smooth working of the Singaporean labor market can be attributed to two factors. One, its investment and economic appeal, and two, its labor institutions. The National Wages Council is a mediator between employers, employees and the government. The goal of all parties involved is to maximize job creation, rather than maximize wages for current workers.

The positive trends of the Israeli job market is due to its healthy macroeconomic situation and the role of its foreign sector. Healthy public finances and the price control exerted by the Central Bank contribute to a thriving business environment. Moreover, its technological exports boost aggregate demand and job creation.

Growth of aggregate demand is vital to reducing the unemployment rate. Legal and structural reforms need economic growth to maximize their effect on job creation.

The Spanish labor market is one of the most rigid markets worldwide. Introducing flexicurity schemes, revamping unemployment benefits and promoting entrepreneurship among the unemployed are essential for job creation in the Spanish economy.

Creating companies, securing funding, excessive labor regulation and governmental bureaucratic inefficiency are the four main barriers pointed out by business people as being the greatest obstacles to doing business in Spain. To be more competitive, Spain must implement reforms that help business people in these four aspects.

To create jobs through entrepreneurship and innovation, gazelle companies need to grow, the role of the public sector must be proactive and the education system must support entrepreneurial activities.

Because of its ability to grow and create jobs, the fourth sector must grow strong in the Spanish economy. According to estimates by the organizations themselves, the fourth sector currently represents between 5% and 15% of GDP and it creates between 10% and 20% of jobs in the United States.

Spain has a severe education problem. Results of standardized tests show two severe downfalls in the system. Reforming all levels of the education system and favoring worker lifelong learning and re-training are necessary to sustainably create high-quality jobs over time.
The 18 proposals of the XVIII Future Trends Forum to revert the current status quo of the Spanish labor market are the following:

**CREATE A COMMISSION TO REFORM THE LABOR MARKET**

**FOREIGN SECTOR**

1. Promote, encourage and favor the development of Spain’s comparative advantages in the global market.

2. Reposition the brand ‘Spain’ through a global communication campaign that highlights the comparative advantages listed in the first proposal.

3. Reform and simplify Spanish legislation to favor foreign investment and market unity.

**EDUCATION SYSTEM**

4. Reform the education system by making it more similar to the Anglo-Saxon system. Favor training in skills.

5. Encourage an education in vocational training. Create more favorable fiscal frameworks for those who decide to hire from—or pursue—this option.

**MACROECONOMIC CONSIDERATIONS**

6. Adjust the public deficit reduction schedule to make it more feasible and minimize its effect on aggregate demand.

7. Promote the creation of eurobonds to mutualize sovereign risk within the Eurozone, as a counterbalance for the austerity measures needed.

**THE LABOR MARKET**

8. Recapitalization of institutions and injection of funds by the European Central Bank to increase liquidity in the financial system.

9. Accelerate the deleveraging process of the private sector by encouraging increased consumption and investment by private citizens and businesses.

**THE FOURTH SECTOR**

10. Establish tax incentives for companies, workers and sponsors in ‘fourth-sector’ economic activities.

11. Empower and foster private intermediaries in the labor market. Favor its collaboration with the national employment system through contracts for specific actions and tax cuts.

12. Simplify the current labor laws and create a new ‘single contract’, with increasing severance pay per year worked.

13. Separate severance pay from unemployment benefits.

14. Redesign existing active employment policies in Spain and gear them towards reducing youth unemployment.

15. Revamp unemployment benefits to limit its negative impact on job creation and worker mobility.

**ENTREPRENEURSHIP**

16. Create a new "entrepreneurship zone" where start-ups and new entrepreneurs may profit from easier regulation and incentives to create companies.

17. Redesign the legal incentive system to create new companies. Reduce bureaucratic processes that constrain entrepreneurship in Spain.

18. Agree on having compulsory training in entrepreneurship with all Spanish universities, adapted to the conditions and needs of each branch of training offered.
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