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Labor Market

A study of the Spain's distinctive labor market problem.

International Comparison

An international comparison that highlights the singular nature of the Spanish unemployment problem.

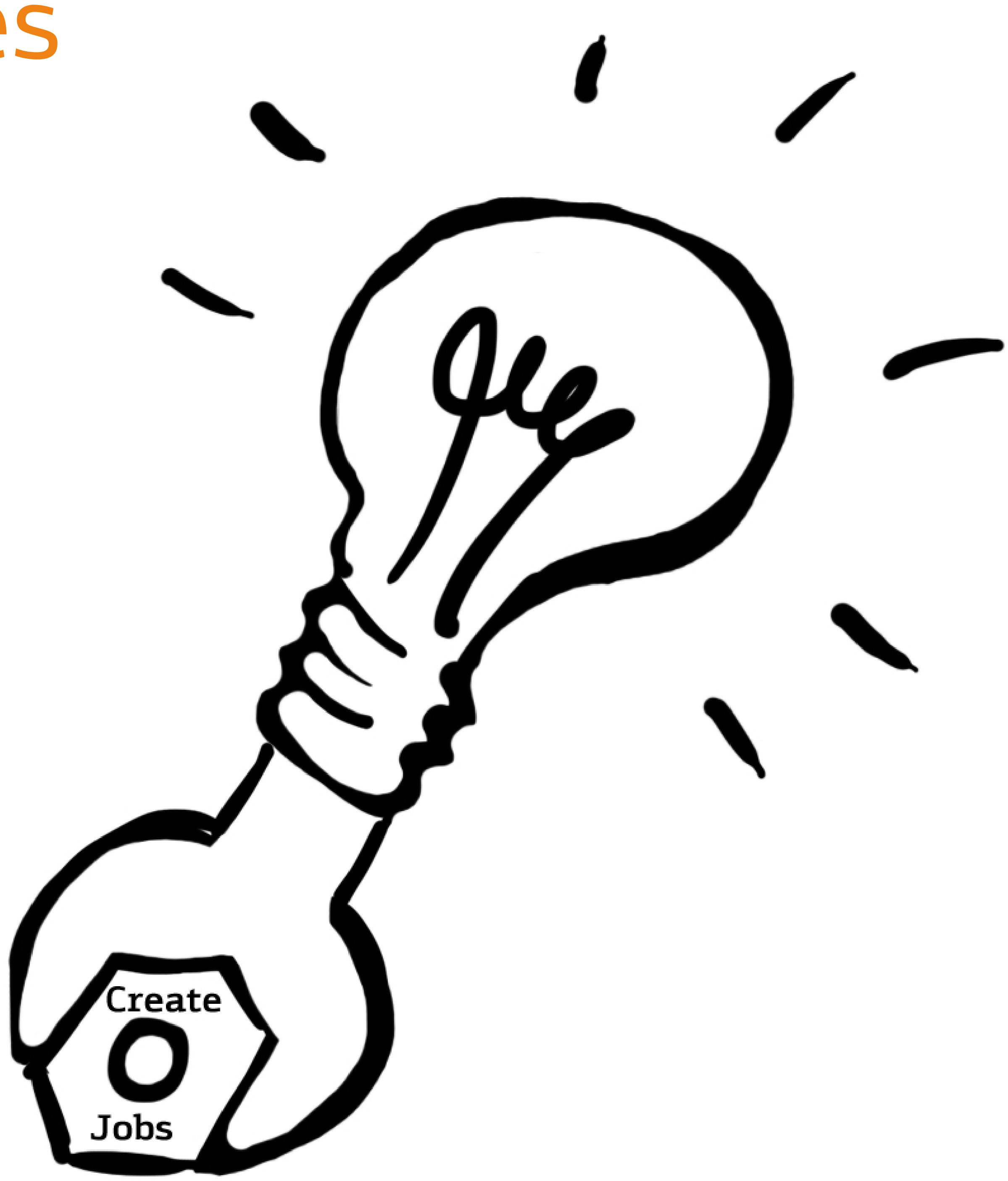
Six Perspectives on Job Creation

Which should be promoted to boost job creation.

18 Proposals

That aim to address the problems facing the Spanish labor market.

Unemployment in Developed Economies



PROLOGUE

The Roots of the Unemployment Problem in Spain

Dr. Anthony Carnevale
Director of Center on Education and the Workforce
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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 runup 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 resulting 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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INDEX

Introduction and Context: From the Global Financial Crisis to Spain's Differential Problem.

Origin and Development of the Current Financial Crisis

Advanced economies are undergoing the worst economic crisis since the Second World War. The origin of this "great recession" can be traced back to 2001, and its development can be divided into three phases: the subprime financial crisis, its spread 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 points out (Toribio, 2008). Back then, a series of events hit the world: the attacks on the World Trade Center, the consequent shift in American geopolitical priorities and specific economic crises in certain countries, such as Argentina and Germany.

In an effort to stimulate economic growth the US government reacted by increasing public spending. Concurrently, the Federal Reserve reduced interest rates drastically in a very short time span, which had a negative impact on banks' profitability. American banks, trying to keep up with results obtained in previous fiscal years, granted greater numbers of credit applications.

This combined with Clinton Administration home buying stimulus policies, made it easier to grant mortgages and real estate loans to less solvent applicants. These mortgages were packaged and spread throughout the US and global financial system via "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 of the financial crisis started with the collapse of the investment bank Lehman Brothers in September 2008. European banks, that had until then been isolated from the problem in the US, were now beginning to lose value because of their exposure to subprime assets. In addition, 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 by almost 200% from 1997 to 2007 due to 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, the availability of loans to businesses and individuals decreased, leading to a recession in the main advanced economies. Secondly, the instability in the financial system led to government intervention; great sums of money were injected into the system, and many institutions were nationalized.

The increased spending heightened the deficit and debt levels of the Greek, Irish and Portuguese economies, which led to the third phase of the current economic crisis, which started in early 2010: the Eurozone sovereign debt crisis. The risk of this debt becoming explosive and un-payable has required the Greek, Portuguese, Irish, Italian and Spanish economies to seek varying types of bail out programs.

Unemployment in Advanced Economies

One of the main consequences of 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—or even decreased in the period analyzed.

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, "structural problems affecting many labor markets (such as the Spanish or Greek cases) cannot be overcome."

Such measures, according to the OECD, must be introduced regardless of the restrictions on public spending faced by the relevant 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.

Contagion and Manifestation in the Spanish Economy

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

As illustrated, the recession in Spain as measured by Gross Domestic Product growth is only slightly more pronounced than the recession in other Eurozone countries. However, comparisons between Spanish and other Eurozone country unemployment rates, reveal alarmingly different situations, as seen in Graph 3.

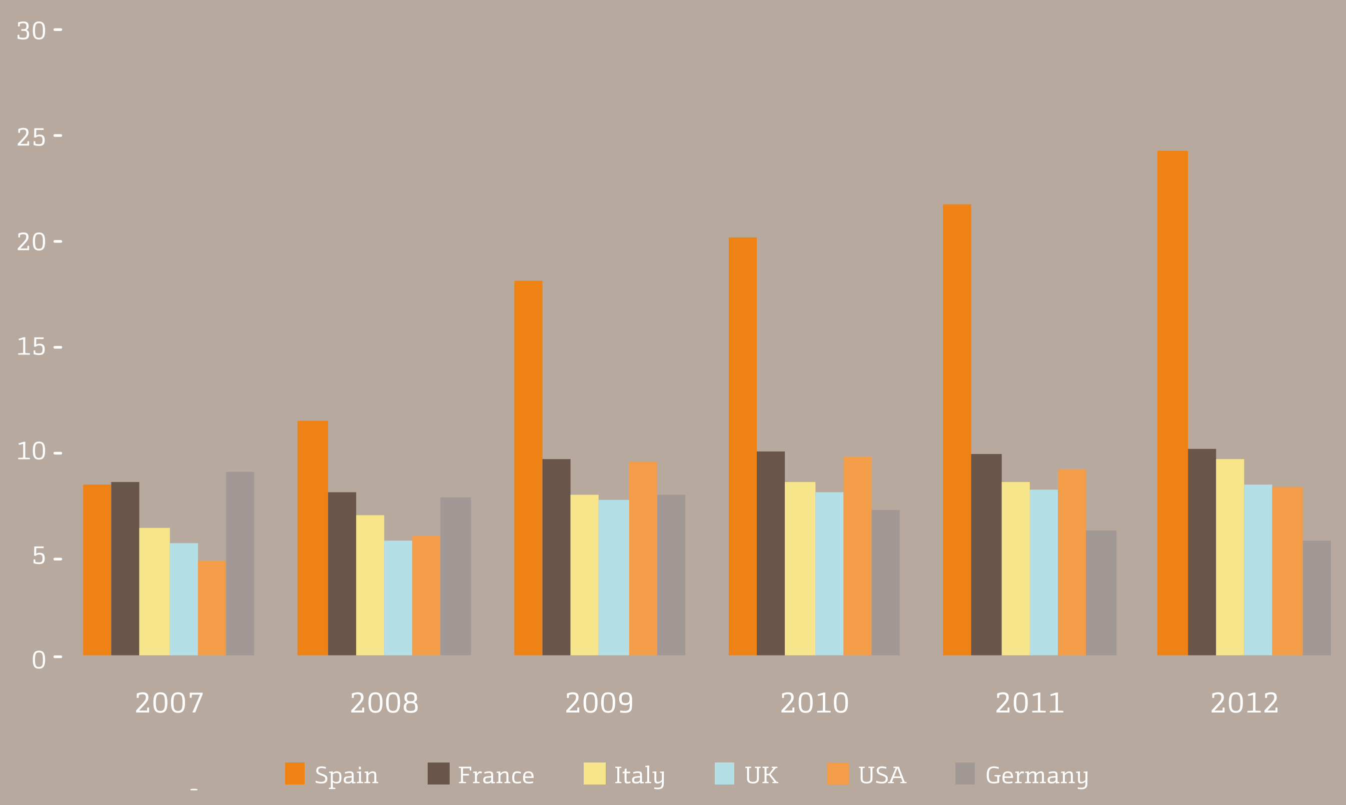
The compared evolution of both indicators suggests that the global financial crisis has had a differential effect on the Spanish economy in terms of unemployment. In today's constrictive and volatile environment, Spain has been unable to create much needed jobs to resume "business as usual".

Given this context, the XVIII Future Trends Forum met to find solutions to Spain's unemployment 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.

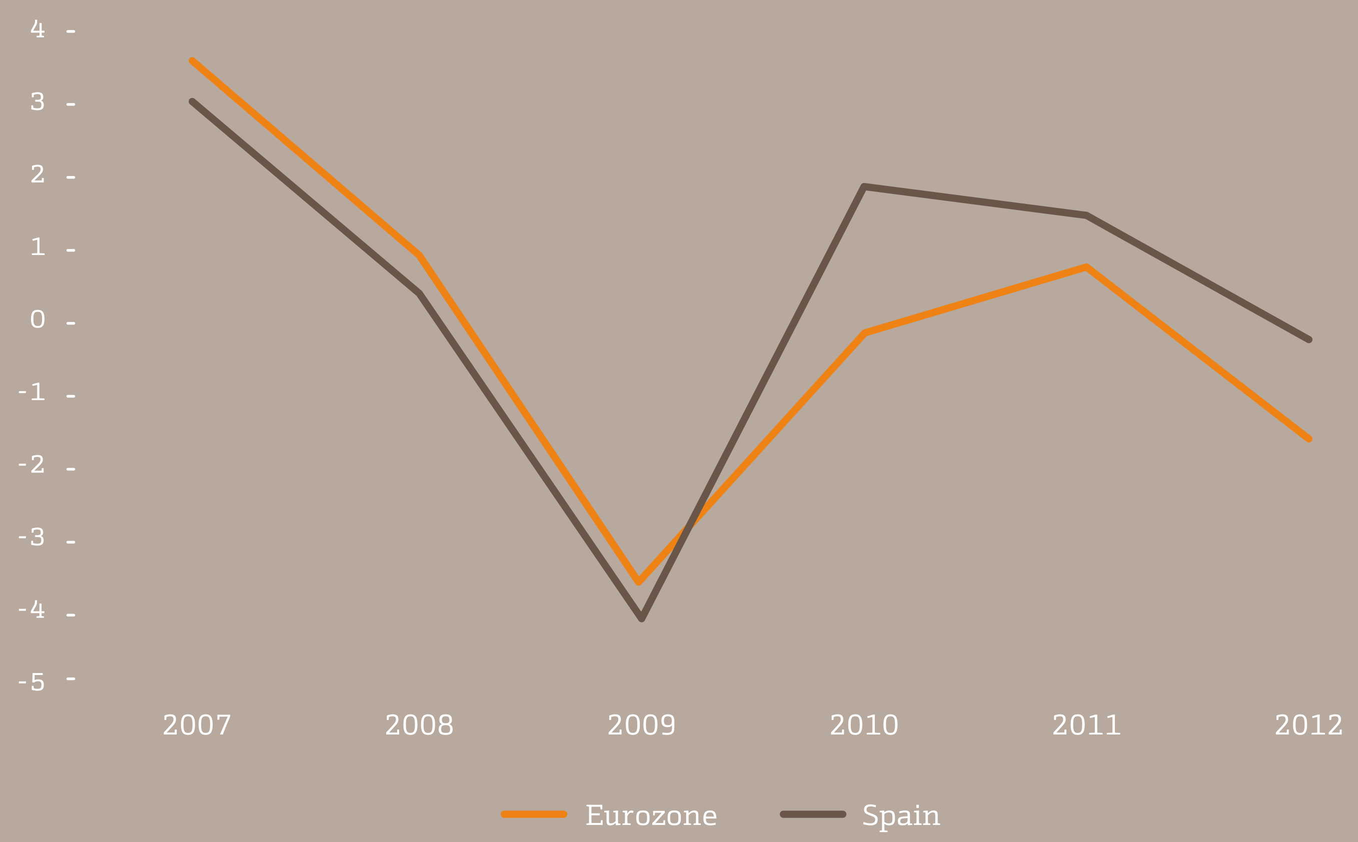
The first section delves into the current situation of the labor market in Spain, with an emphasis on lagging structural problems and their consequent social effects. The second section compares the Spanish case to three successful international models: Germany, Singapore and Israel and draws conclusions regarding 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 flexibility, competitiveness, entrepreneurship, the "fourth sector," and human capital.

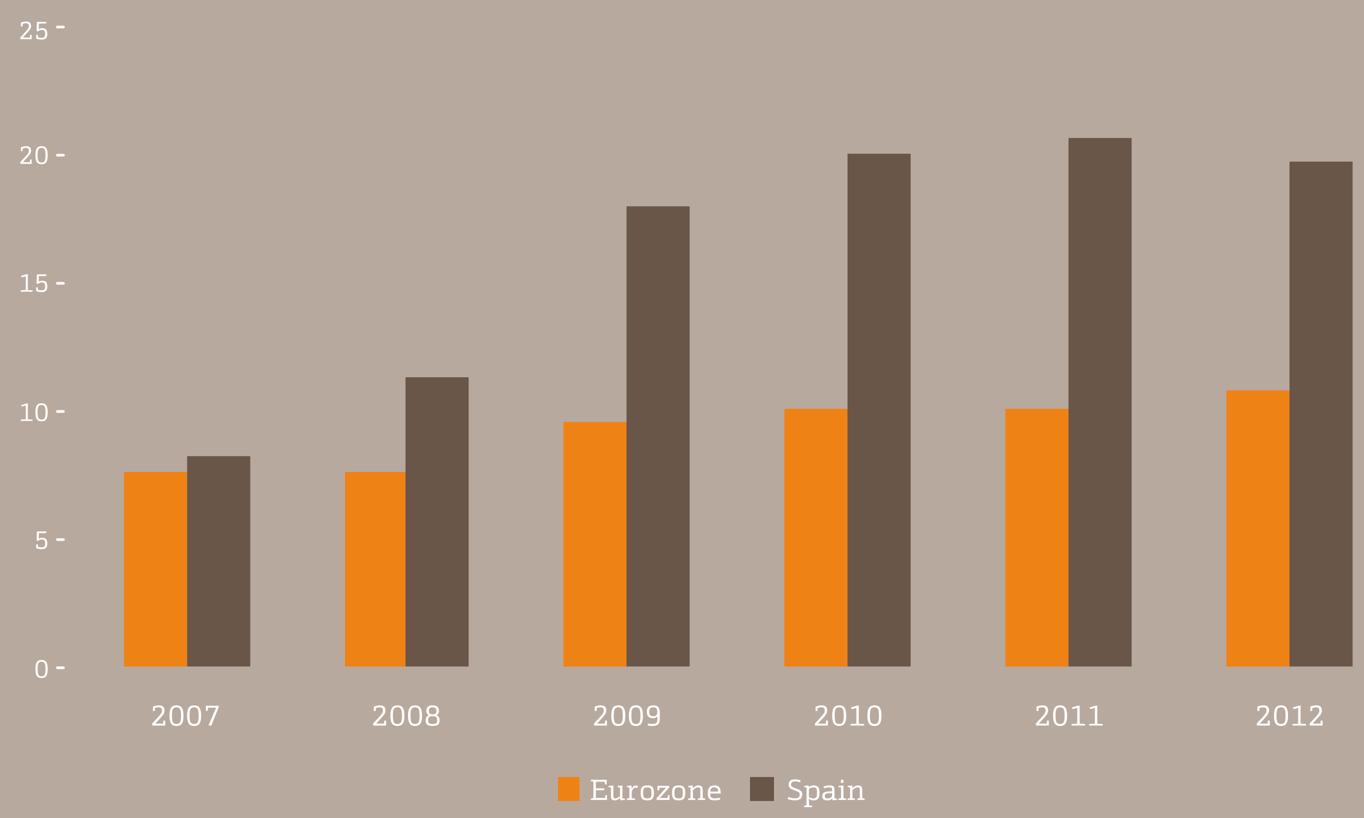
Finally, the fourth section assembles, analyzes and develops the main economic policy proposals developed in the XVIII Future Trends Forum. The ultimate goal of this document, as Anthony Carnevale said, is to contribute to Spain "not wasting the crisis but rather undertaking the reforms its economy needs".



Graph 1. Unemployment Rates 2007 – 2012.
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: Trends and Analysis.

Dr. José García Montalvo
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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 increased the unemployment rates in the majority of countries, but the extent reached in Spain is particularly striking, especially by international comparisons: unemployment worldwide stands around 6,3%, while unemployment in Spain stands around 24,6%.

Certainly, an unemployment rate bordering 25% puts the Spanish labor market above other developed countries. However, the Spanish labor market has reached this level during other economic downturns 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. The Spanish labor market is, like other markets, very inefficient. The adjustment—at least initially—always involves jobs, as opposed to wages.

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 shows that these figures are also not new. Nevertheless, the high youth unemployment rate has been the subject of hundreds of analyses that have highlighted the severity of the youth unemployment problem in Spain. This interpretation is not appropriate. While it is true that the youth unemployment rate grows exponentially when the Spanish economy slows down or contracts, 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. Spain is no different; a youth unemployment rate slightly above 50% corresponds to a general unemployment rate of 25%. In countries with a youth unemployment problem, this ratio is above 2.5:1, or close to 3:1. Therefore, youth unemployment is not the issue but rather the issue of 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" employed a great number of workers at high wages. Rejoining the labor market, which requires increasing levels of training and specialization, will be an uphill battle for this generation of young people who 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, a 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 previous expansionary periods in Spain, in which high interest rates prevented young people from moving out and purchasing real estate and instead increased the age at which young people left their parents' homes. This trend was inverted, at least slightly, during the "golden decade." However, now the age at which young people leave their parents' home has further increased 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, a 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 university graduate versus lower education degree holders) and a swift increase in youth unemployment among university 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: gross domestic product has traditionally been highly dependent on the construction sector, generating a strong demand for low-skilled labor; the small market share of rentals as a housing option in the real estate market has fostered low levels of labor mobility; and labor market institutions have impeded the proper 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 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 a stigma; ensuring access to public education 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 will all be key.


WORK

Unemployment in Spain is not a recent problem. The Spanish economy assumes a level of structural unemployment that is well above the European average. Graph 4 compares the evolution of GDP and the unemployment rate in Spain since 1980.

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 previously explained, the Spanish economy adjusts via number of jobs rather than through adjustments to salaries and hours worked, due to rigid regulation and antiquated 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

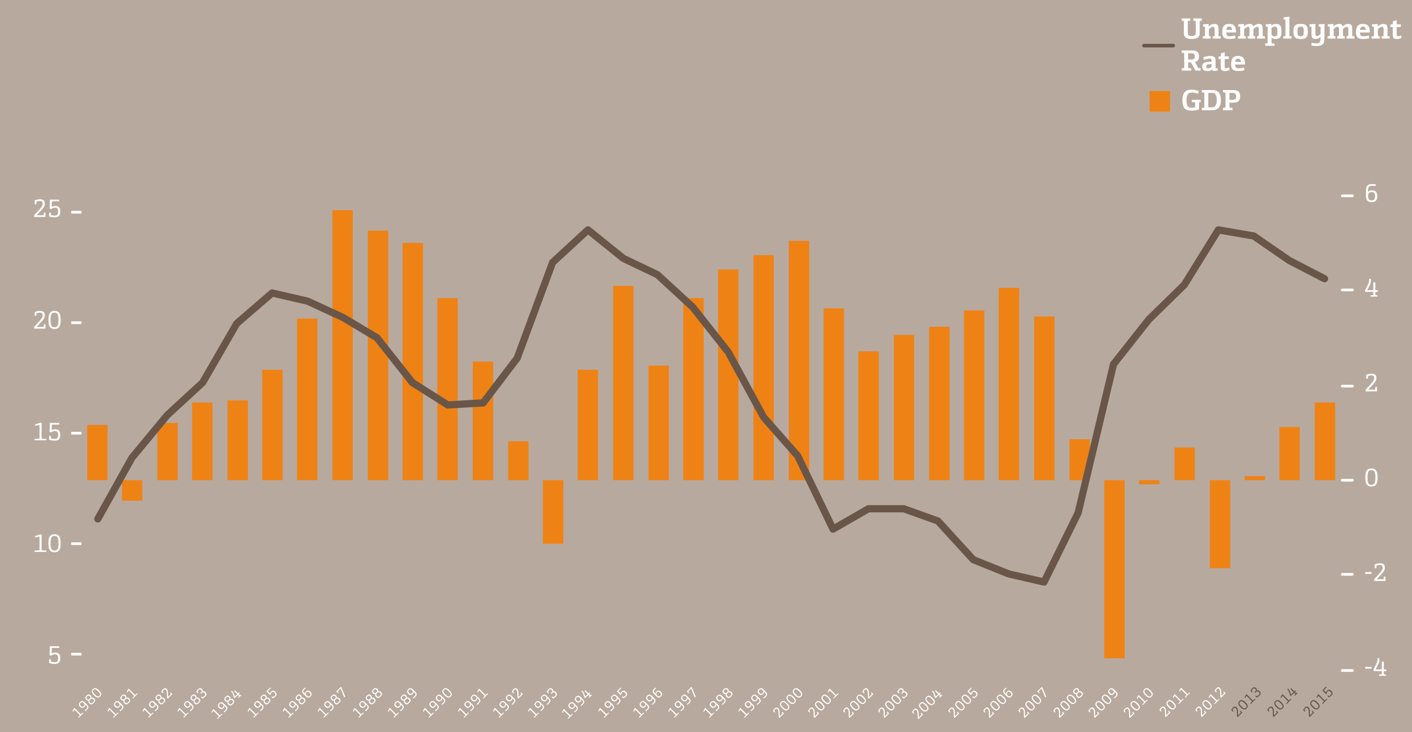
According to Juan José Dolado, Florentino Felgueroso and Marcel Jansen (Dolado, 2009), the Spanish labor market's particular structure yields two types of workers. The insiders, who profit from the current status quo, are workers under open-ended employment contracts; and the outsiders, who are employees 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.

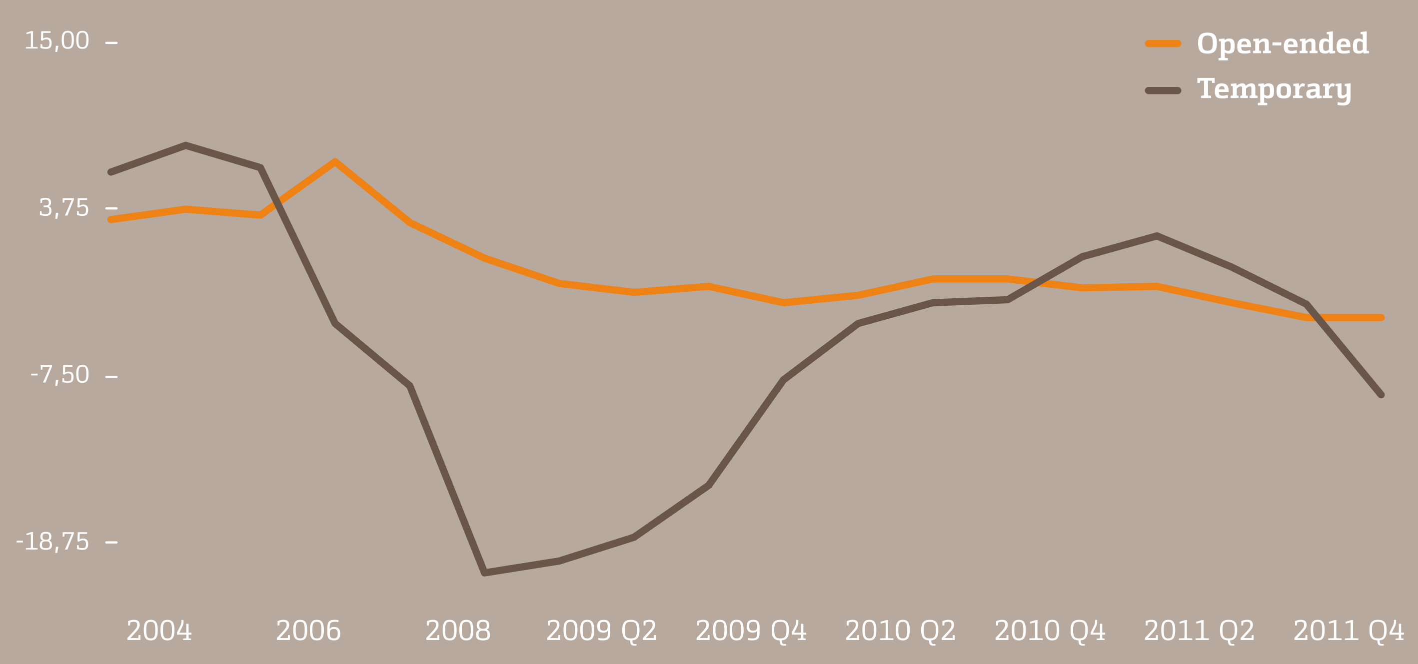
Conversely, outsiders enjoy much less protection, rendering them easily dispensable. Thus, in times of economic downturn, they are the first to be let go by their companies. The rebound in temporary contracts between 2010 and 2011 also suggests that once the economy grows—however slightly— outsiders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

Drawing the parallel with inventory management at a company, one may say that the Spanish labor market follows the LIFO (Last In, Last 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 up-to-date.

This phenomenon has a negative impact on the aggregate productivity of the Spanish economy, as 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.



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.

Flexibility of the Labor Market in Spain

The Spanish labor market adjusts 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 layoffs, which mainly affect temporary employees.

This adjustment pattern stands in contrast to adjustment patterns 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 has facilitated a reduction in the unemployment rate from 2007 to 2012. Graphs 6 and 7 compare both countries.

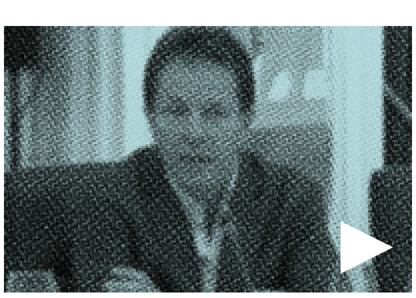
It is especially noteworthy how Germany's unemployment rate even grew slightly in 2009 despite a contraction in GDP of some five points, thanks to the reduction in working hours agreed with the workers. This is an example of how adjustments via salaries and working hours keep the unemployment rate at 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—intra-company agreements were subject to the dictates of collective agreements, which constrained agreements between workers and employers.

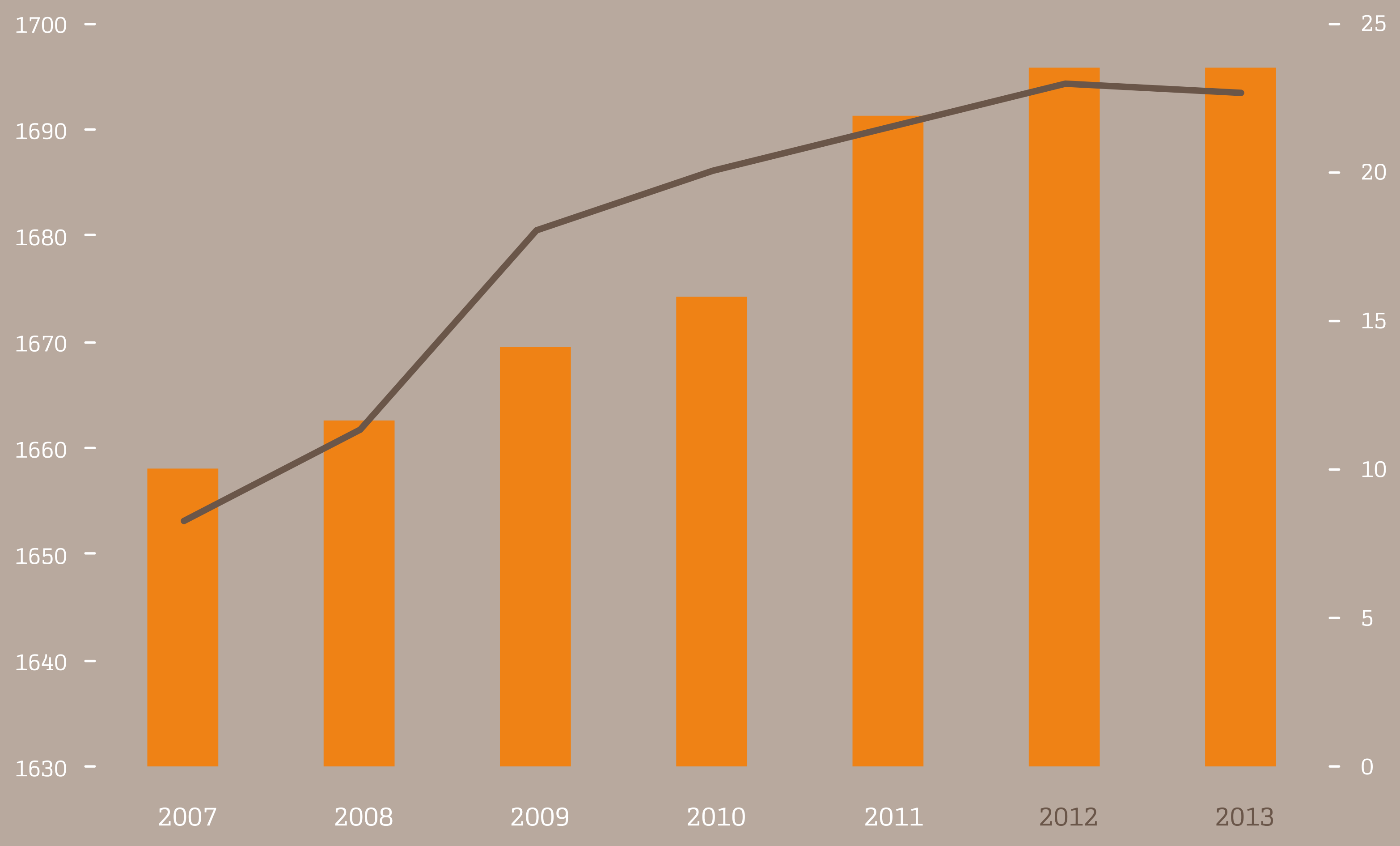
Second, there is a distressing lack of worker mobility in Spain. As observed below, the XVIII Future Trends Forum urges the creation of incentives and aid to encourage workers to accept employment in other regions.

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.

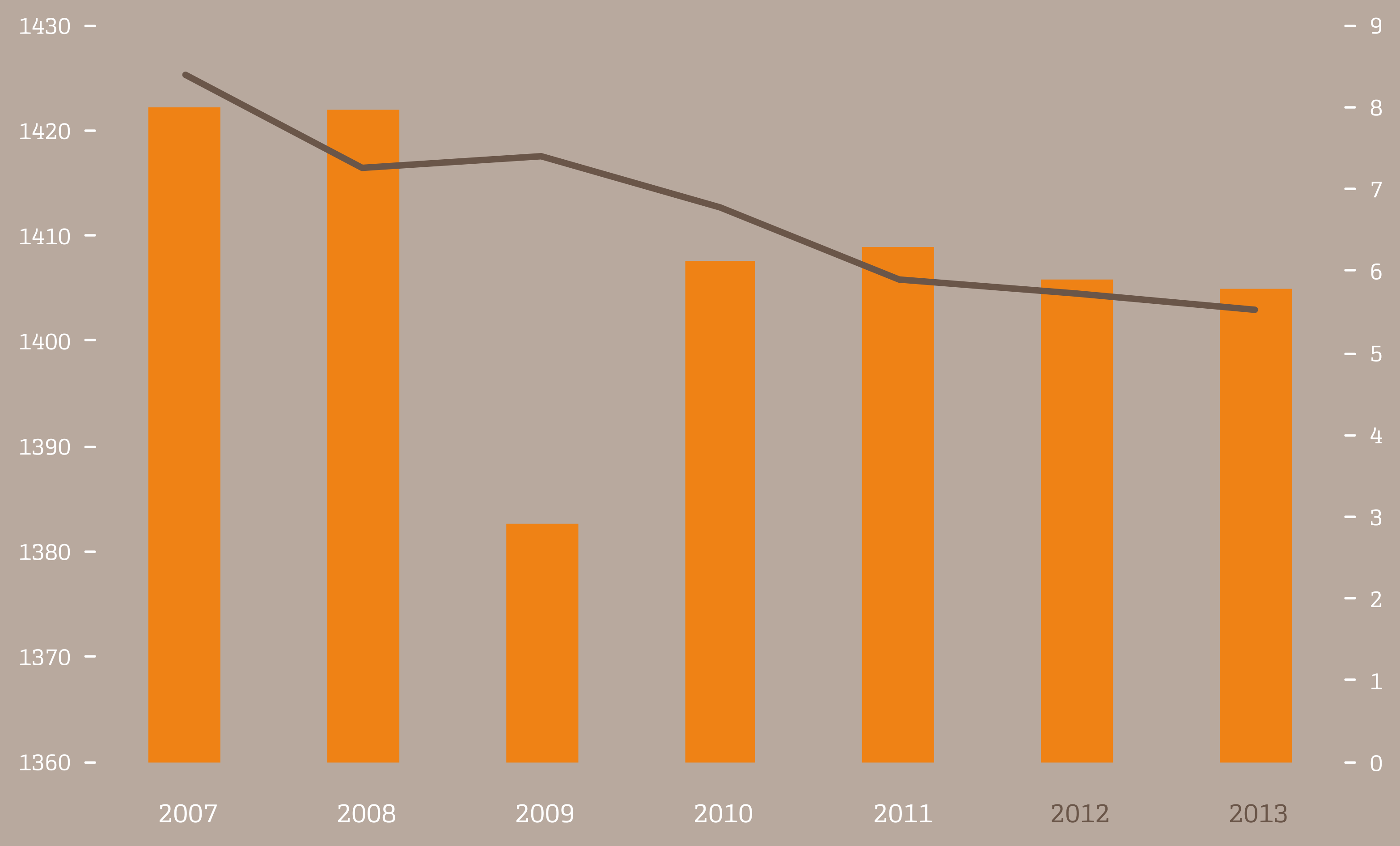
Belén Romana noted that the problem lies in that Spanish universities do not teach basic professional skills to students. Therefore, this is not merely a problem of over-qualification of the labor force, but rather, a problem of training not meeting labor market needs.



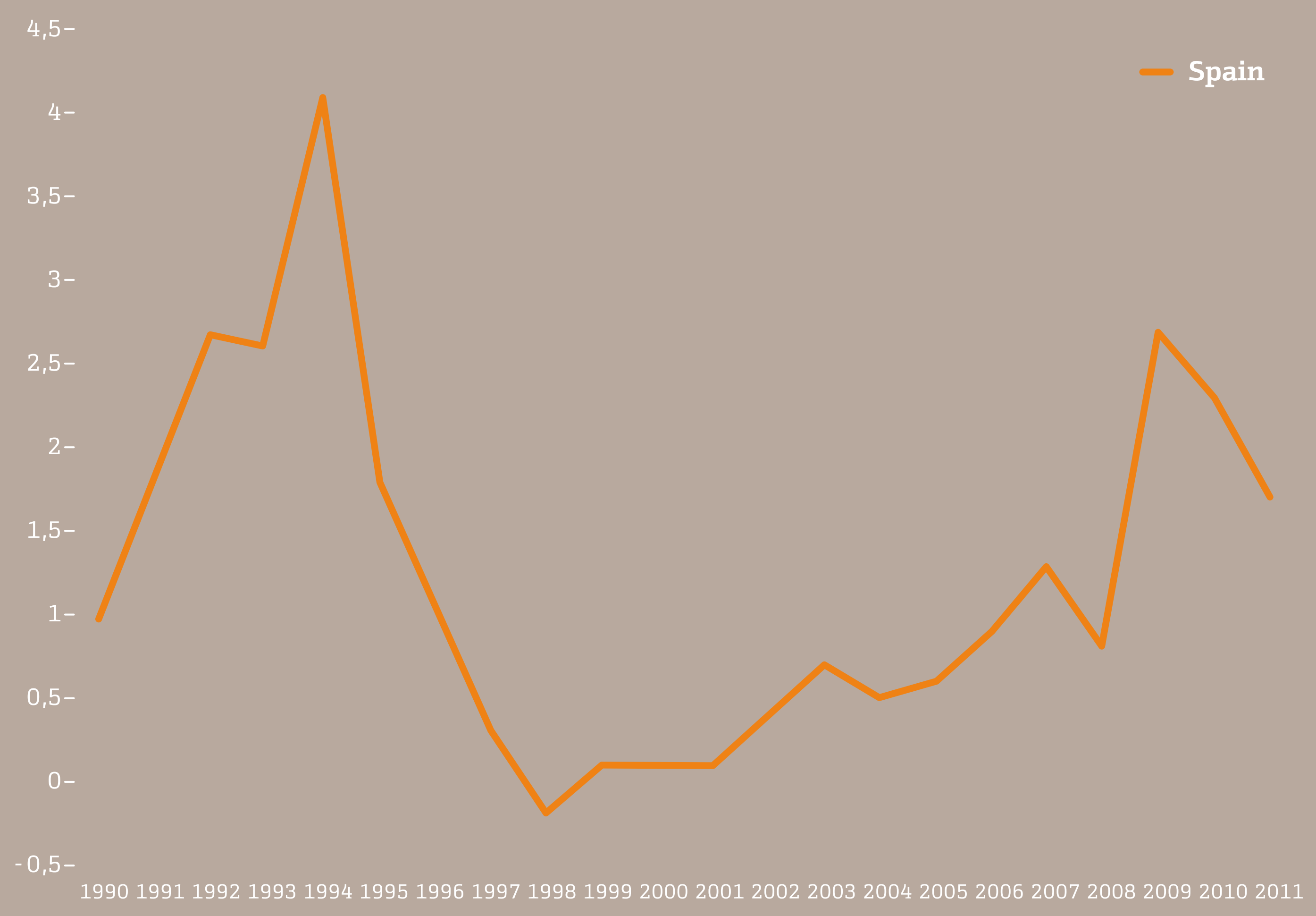
Development of Human Capital in Europe, by Peter Cheese



Graph 6. Working hours (left, bars) and unemployment rate (right, line). Spain.
Source: OECD, International Monetary Fund and own calculation.



Graph 7. Working hours (left, bars) and unemployment rate (right, line). Germany.
Source: OECD, International Monetary Fund and own calculation.



Graph 8. Evolution of Productivity Growth. 1990 – 2012. Spain
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. Each year, the Heritage Foundation and the World Economic Forum compile a competitiveness index of the world's economies worldwide that analyzes the labor market's ability to create wealth.

The Global Competitiveness Report, compiled 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.

In addition, the Global Competitiveness Report includes a survey of 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."

Existing labor market institutions in Spain, together with the antiquated, complex regulations are hindering the ability of Spanish companies to compete globally. This phenomenon results in greater volatility in the economic cycle and low levels of job creation during 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 also the entire Spanish economy is necessary.

Professor García-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 fine examples.

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.

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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 and then adjusted downwards as 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 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 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 understanding 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.

THE GERMAN CASE: FLEXIBILITY AND PREPARATION FOR THE CRISIS

The German labor market has become a model due to its positive trends during the current economic crisis. As illustrated in Graph 6, Germany's unemployment rate has gone down from 8.7% in 2007 to a forecasted 5.5% in 2012, according to the IMF. How is it possible, amidst a severe, global recession, for the German economy to create jobs?

According to Peter Auer, member of the XVIII Future Trends Forum, there are two answers to this question. First, Germany is the largest economy in the European Union, partly due to its exports. The close ties between its external sector and its thriving industry make for strong performance in recessionary periods, due to its decreased dependence on the domestic economic cycle.

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 drop in demand.

The German model originates from the early 2000s, prior to which its labor market was rigid and inefficient, as a consequence of the reunification of the "two Germanies." To overcome these problems and increase the economy's global competitiveness, the government led by Gerhard Schröder put together a commission charged with studying and improving the labor market's inner workings.

The resultant Hartz Commission, chaired by Peter Hartz, HR Director of Volkswagen at the time, produced recommendations which became the basis of four laws: Hartz I, II, III and IV, which were enacted between 2002 and 2003 (Campos, 2012).

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

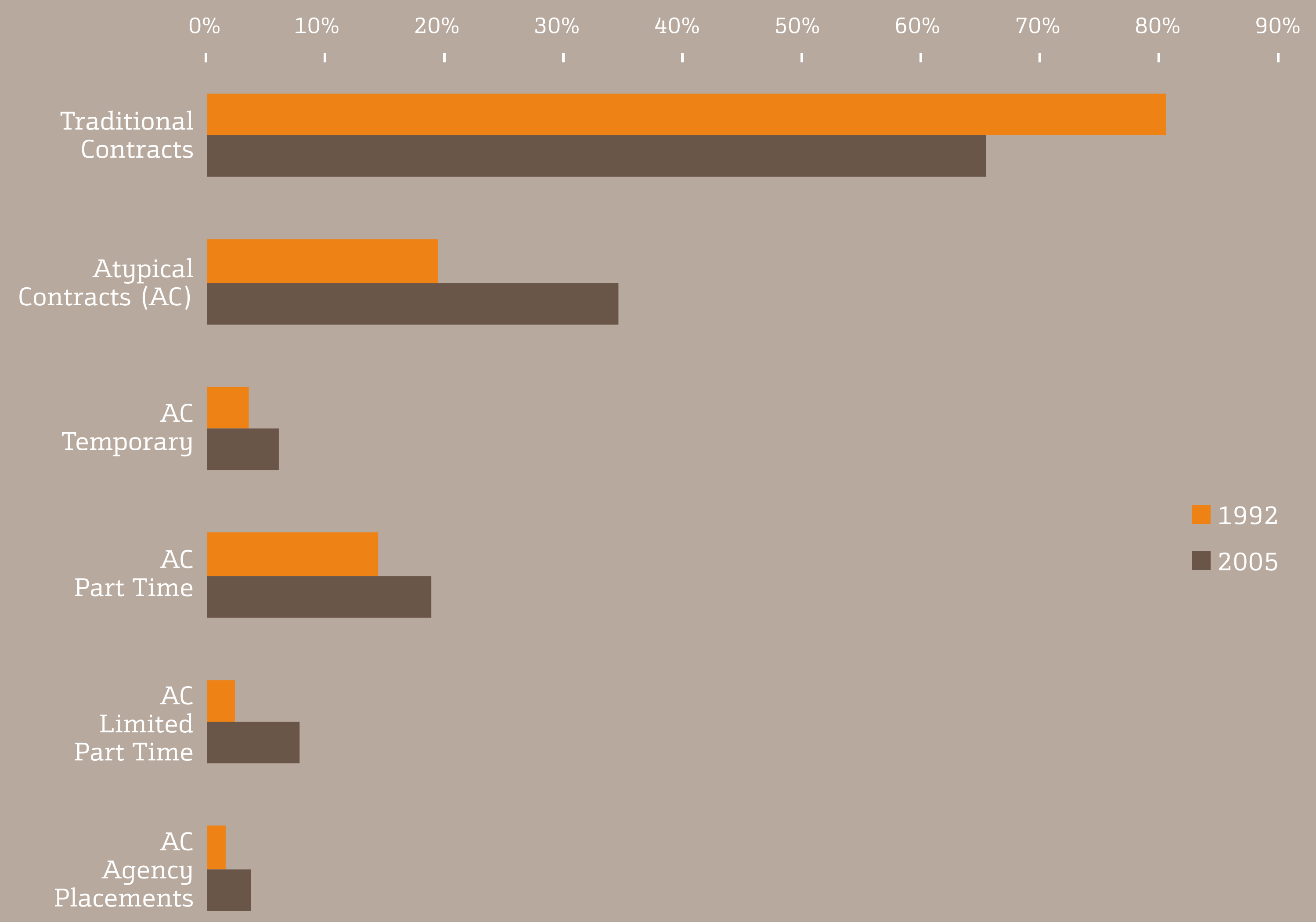
Hartz IV, the most ambitious legislative reform of all, merged unemployment benefits (Arbeitslosenhilfe) and living allowances (Sozialhilfe) into one lower payment. Receiving the aid was conditional to accepting any type of job—limited only by its legality. What's more, local, regional and national placement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

This set of reforms increased labor supply as many former recipients 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 notes the German labor market is far from perfect. First, it has become a two-tiered labor market in which many workers enjoy highly advantageous, open-ended contracts while a host of others work only part-time on temporary contracts in "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 detract from the homogeneity and unity of the German labor market. This happens on a sector-by-sector basis in which a highly competitive industrial sector with massive exporting capacity overshadows a scarcely competitive service sector with low wages and productivity.

Graph 9 shows both sides of the coin. On the one hand, 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 hand, this very flexibility has led to less hires via traditional, open-ended contracts, which are usually linked to higher protection for workers.



Graph 9. Evolution of Types of Contracts. 1992 – 2005.
Source: Hans BöcklerStiftung

THE CASE OF SINGAPORE: PRODUCTIVITY AND LABOR COSTS.

The Singaporean labor market is one of the most efficient markets worldwide. Graph 10 compares unemployment to Gross Domestic Product, since 2000. As seen, even in the context of the Asian crisis in the early 2000s, the 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 phenomena. First, the Singaporean economy has experienced profound changes in the last twenty years, transforming from a barely competitive economy to a global reference.

The data are unquestionable. According to the IMF, Singapore is today the third largest economy worldwide in terms of GDP per capita, 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.

When compared against 64 other "global cities," Singapore comes out only behind Zurich and Geneva. Most existing indices analyzing the competitiveness and investment appeal of Singapore rank it on top, among other Asian economies, such as Hong Kong.

The second key element accounting for the positive evolution of unemployment in Singapore lies in its institutions. Singapore has a National Wages Council consisting of business people, workers and government that analyzes and forges agreements on labor market needs in each economic period.

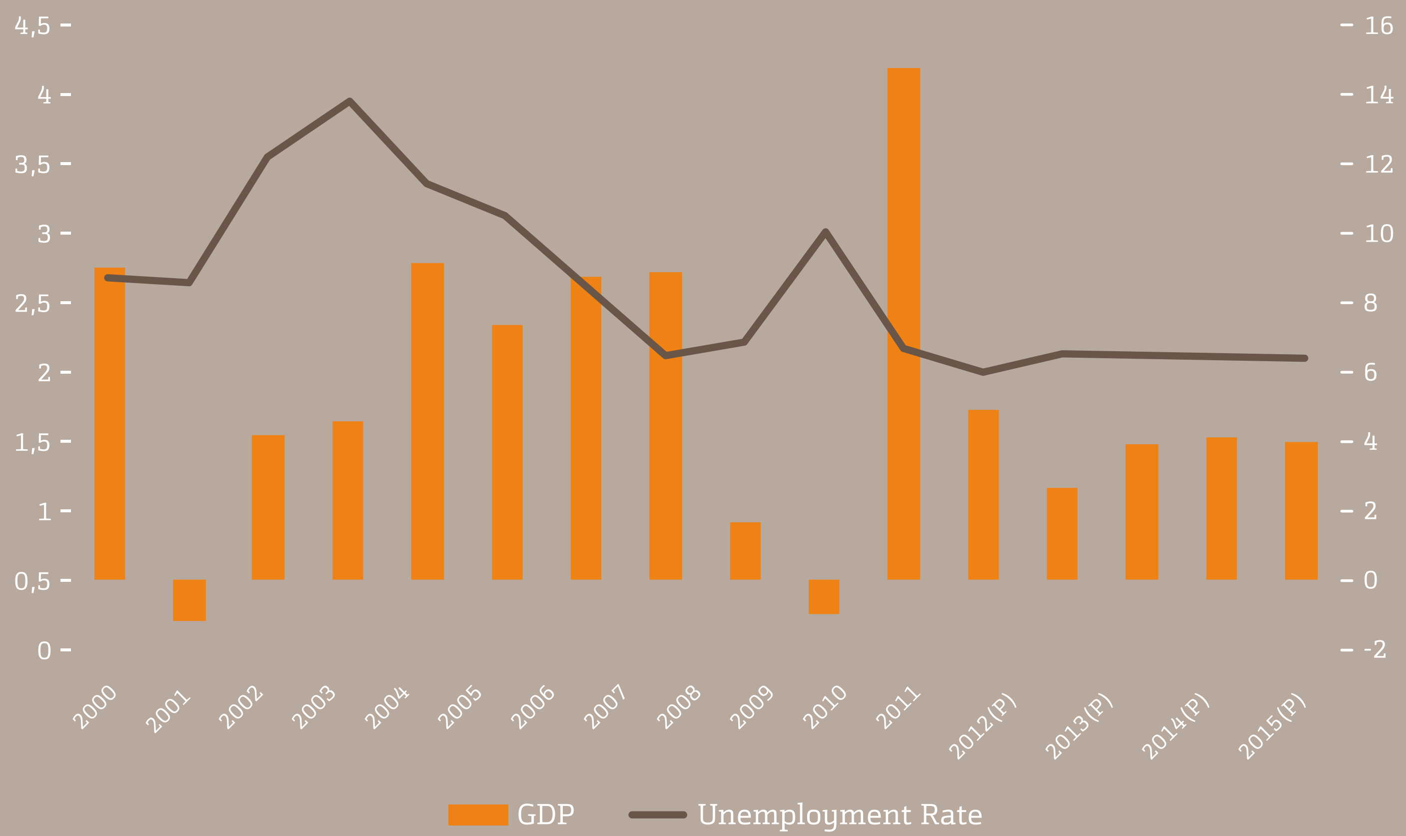
Therefore, the National Wages Council harmonizes relations between workers and employers, thanks to the government's mediation and the will of all stake holders to collaborate, as pointed out by the United Nations (UN, 2012).

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

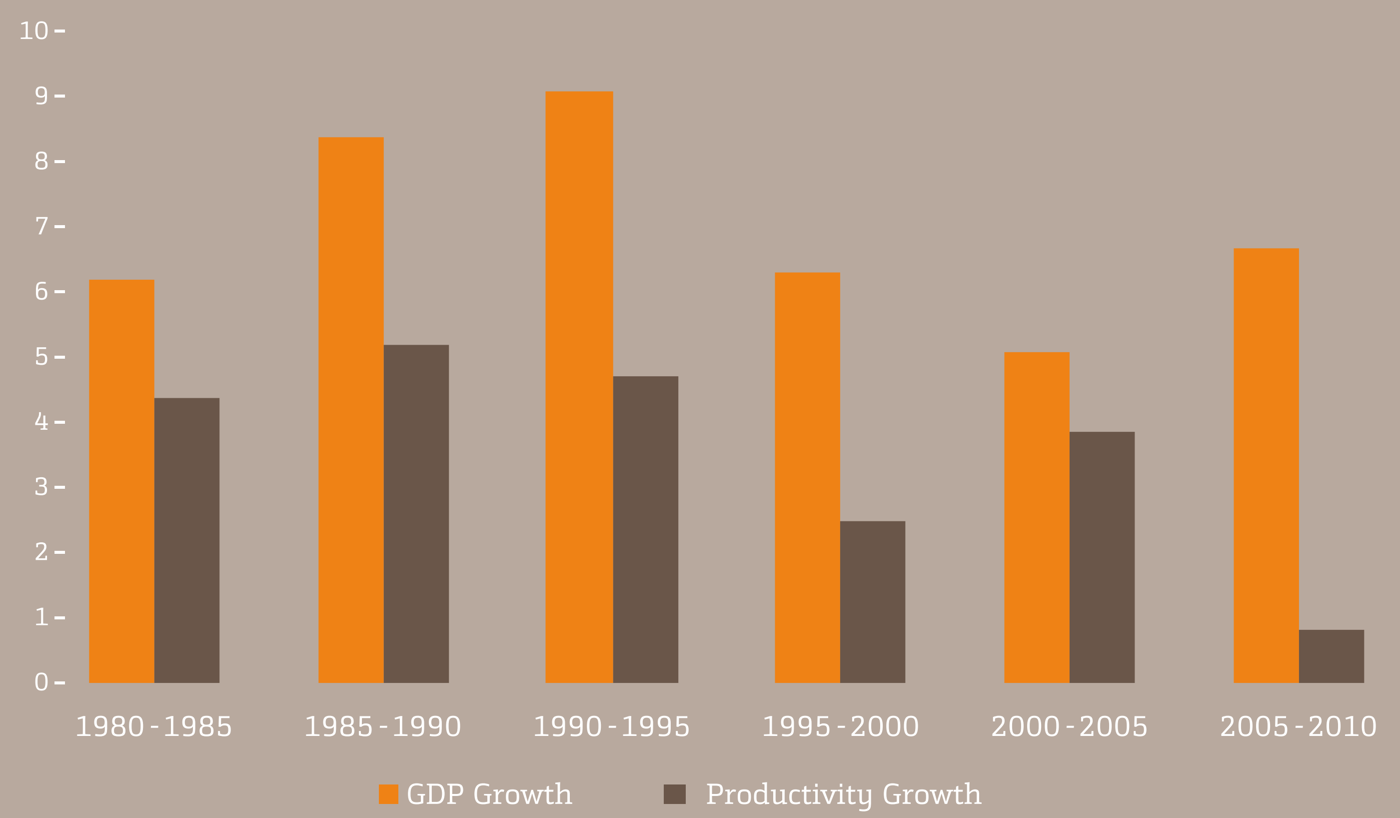
The role of the government in this process is to facilitate relations between the two sides, while following one single axiom: maximizing aggregate employment is more important than maximizing the wages of current workers.

According to Professor Tan Khee Gap, Singapore must urgently tackle the remaining challenges that face its labor market. The main challenge is relatively low productivity growth, 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 living standards. (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 conclude that the Israeli labor market remains stable throughout all points of the economic cycle: unemployment has neither increased drastically during recessions nor decreased significantly in expansionary periods.

Since 2003 the Israeli economy has decreased structural unemployment, 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 from the debt bubble likes countries such as Greece, Ireland or Portugal. 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 relatively high.

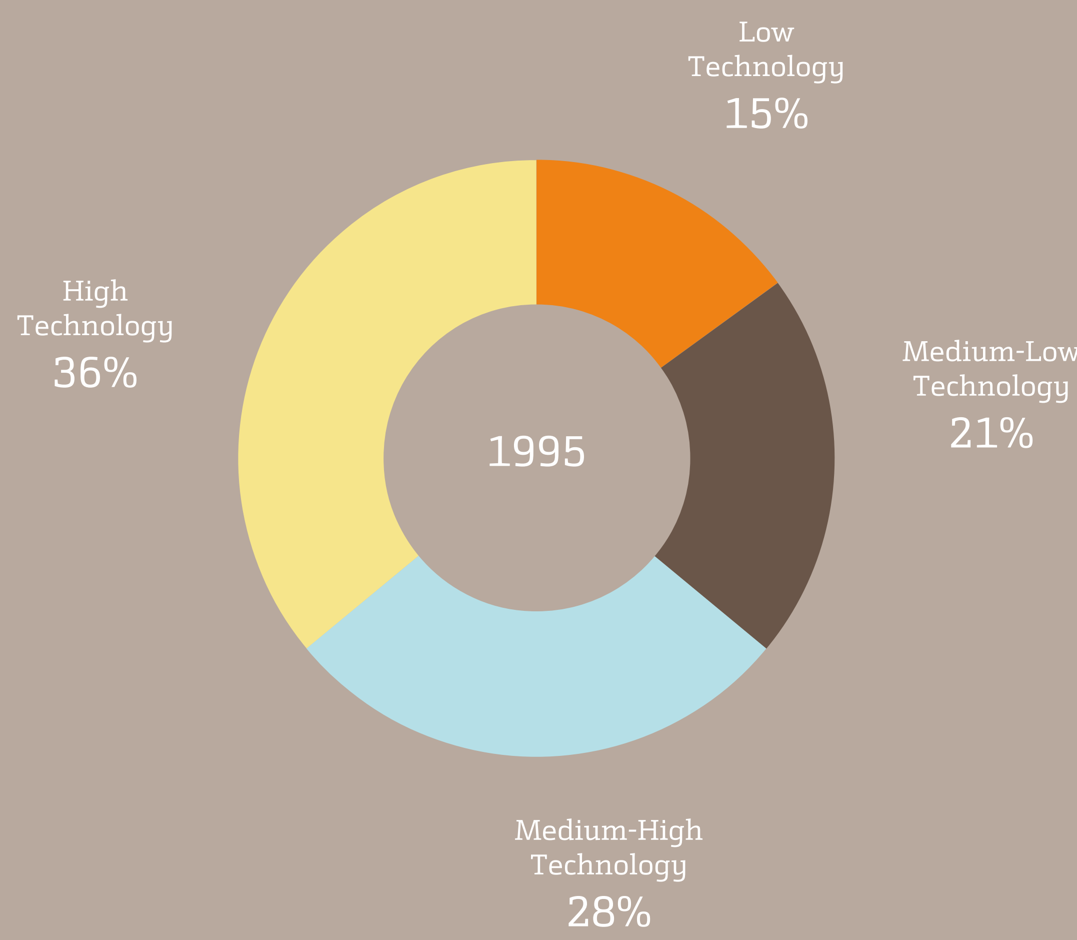
Second, the public sector is healthy. According to the IMF, the average deficit level forecasted for 2012-2017 is -2.4% of Gross Domestic Product, and public spending has been stable in the last few years, putting Israel at a distance from peripheral European countries in terms of indebtedness.

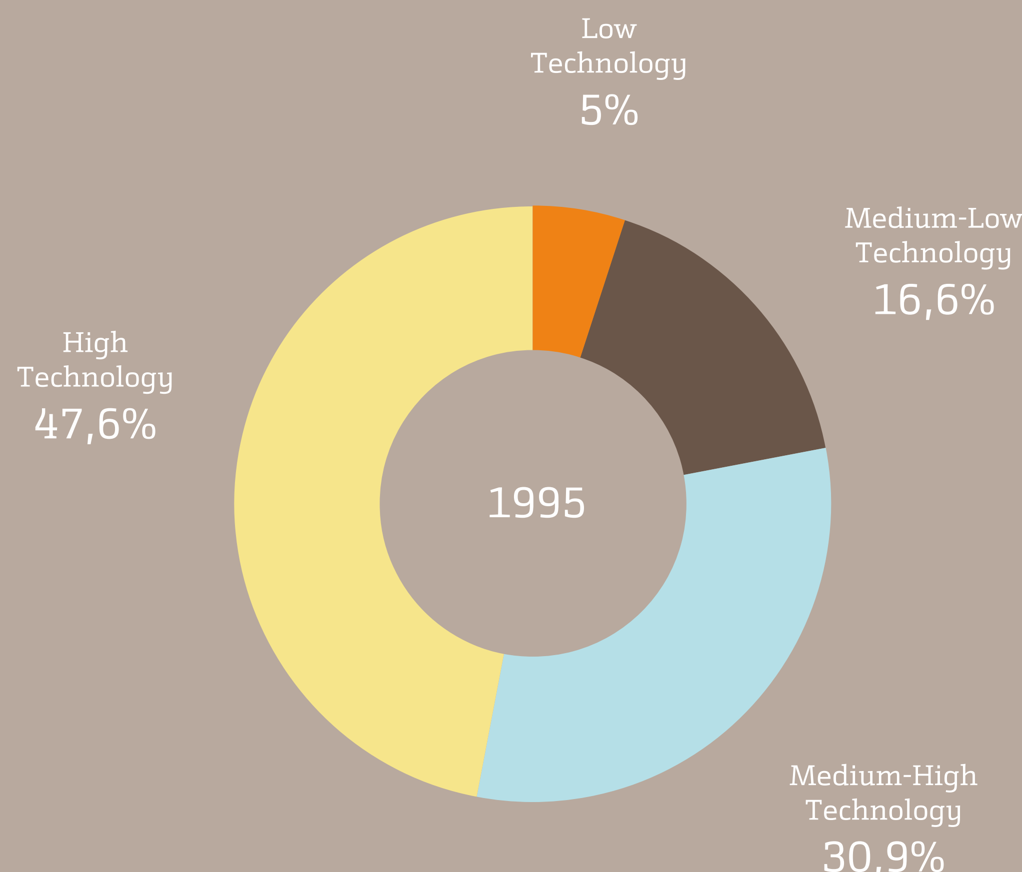
Third, its traditionally low current account deficit, and its surplus from 2003 to 2010 suggest that Israeli companies can successfully compete in international markets. Investments in new technologies have improved the economy's competitiveness and increased exports—at an annual average rate of 6.3%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

In addition to these four pillars, the already mentioned "technological change" experienced by Israeli companies, which is reflected in their international footprint and the composition of their exports has been key to the country's macroeconomic resilience. Graph 13 shows the evolution of Israeli exports, broken down by innovation intensity, from 1995 to 2011.

Through its highly intensive technological production, Israel has become more competitive. Its labor market is thriving, and the hiring of workers has increased due to the development of these industries over the past 20 years.





Graph 13. Evolution of exports in Israel based on their technological content.
Source: CBS and Zvi Eckstein

Six Perspectives on Job Creation.

Dr. Tyler Cowen
Professor of Economics
George Mason University
USA

Labor markets are an extremely complex topic, and an accurate understanding of them requires us to consider a variety of perspectives. The FTF session on this topic made important strides toward that goal.

Some of the relevant topics here include entrepreneurship, competitiveness, education, the role of the recent financial crisis in Spain and in the Eurozone, and 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 a highly developed concentration of venture capital institutions, and perhaps 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 these factors are amassed, the total outcome is 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 this publication goes to print. 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.

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.

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.

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 become felt as increasingly biting.

On top of all this is the fact 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.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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 warned that advanced economies would face a major obstacle in resuming economic growth after the 2010 recession: lack of "fiscal space" (Blanchard, 2010).

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 higher interest rate premiums when issuing debt on the markets. This phenomenon leads to an increased public deficit facilitated by 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.

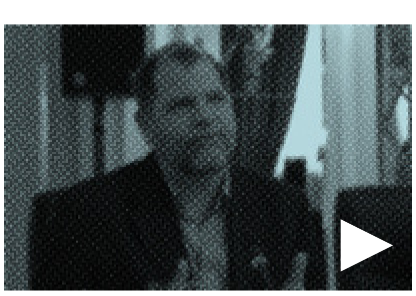
Monetary policy

Eurozone 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 external 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.

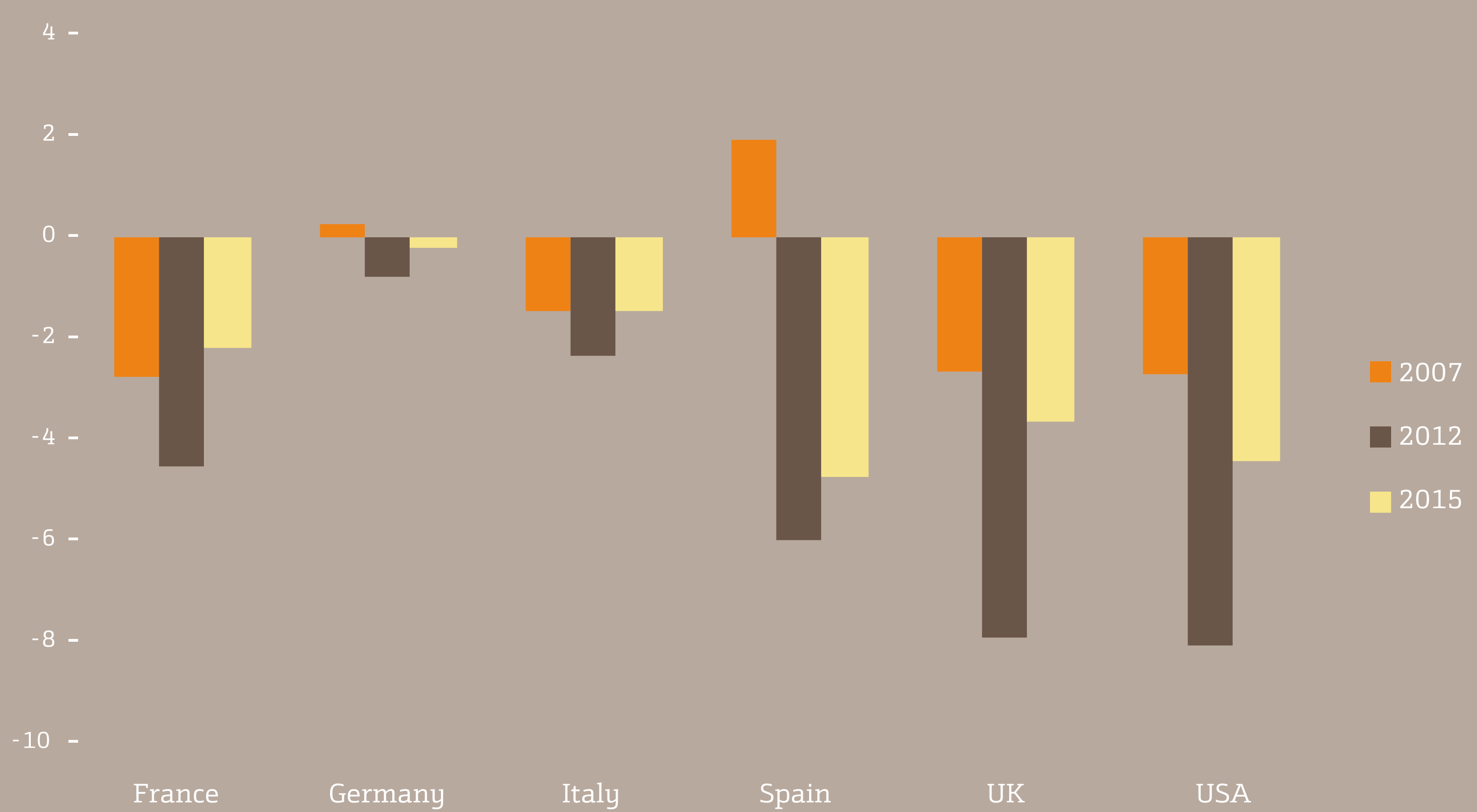
Despite this restriction, European monetary policy cannot be considered conservative. The reference interest rate in the Eurozone is 0,75%. In the United States it is 0,25%, and in the United Kingdom, 0,5%. Monetary policy could hardly be more expansive.

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.



The Relationship between Aggregate Demand and Structural Unemployment in the Spanish Economic Crisis, by Tyler Cowen

Graph 14. Evolution of public debt. 2007 – 2015 (E).
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 in the Labor Market

The flexibility of the labor market has been approached from three points of view: the role of flexicurity in Europe, the role of unemployment benefits and the relationship between entrepreneurship and job creation.

The Role of National Competitiveness in Job Creation, by Joel Kurtzman

Flexicurity

Flexicurity is a labor market 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 inner 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. In 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 has been noted links between job seekers and job providers need to be improved and actively facilitated, especially among workers 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 developing 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 not only by the evolution of its GDP and economic situation, but also by its regulation, collective bargaining and extent of unemployment benefits, among other factors.

Nickel, Elmeskov and Nunziata find strong evidence establishing that the amount and duration of unemployment benefits increase the unemployment rate (Nickel, 1998) (Elmeskov, 1998) (Nunziata, 2002). 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, such a contradiction does not exist (Blanchard, 2006). An analysis of micro- and macroeconomic policies formulated more than a decade ago suggests 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 to accept new jobs, all of 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 that the unemployed worker actively seeks (and even accepts) a new job. Concurrently, public and private mediating institutions should be rated according to "the number of placements they make, rather than how they manage their budgets."

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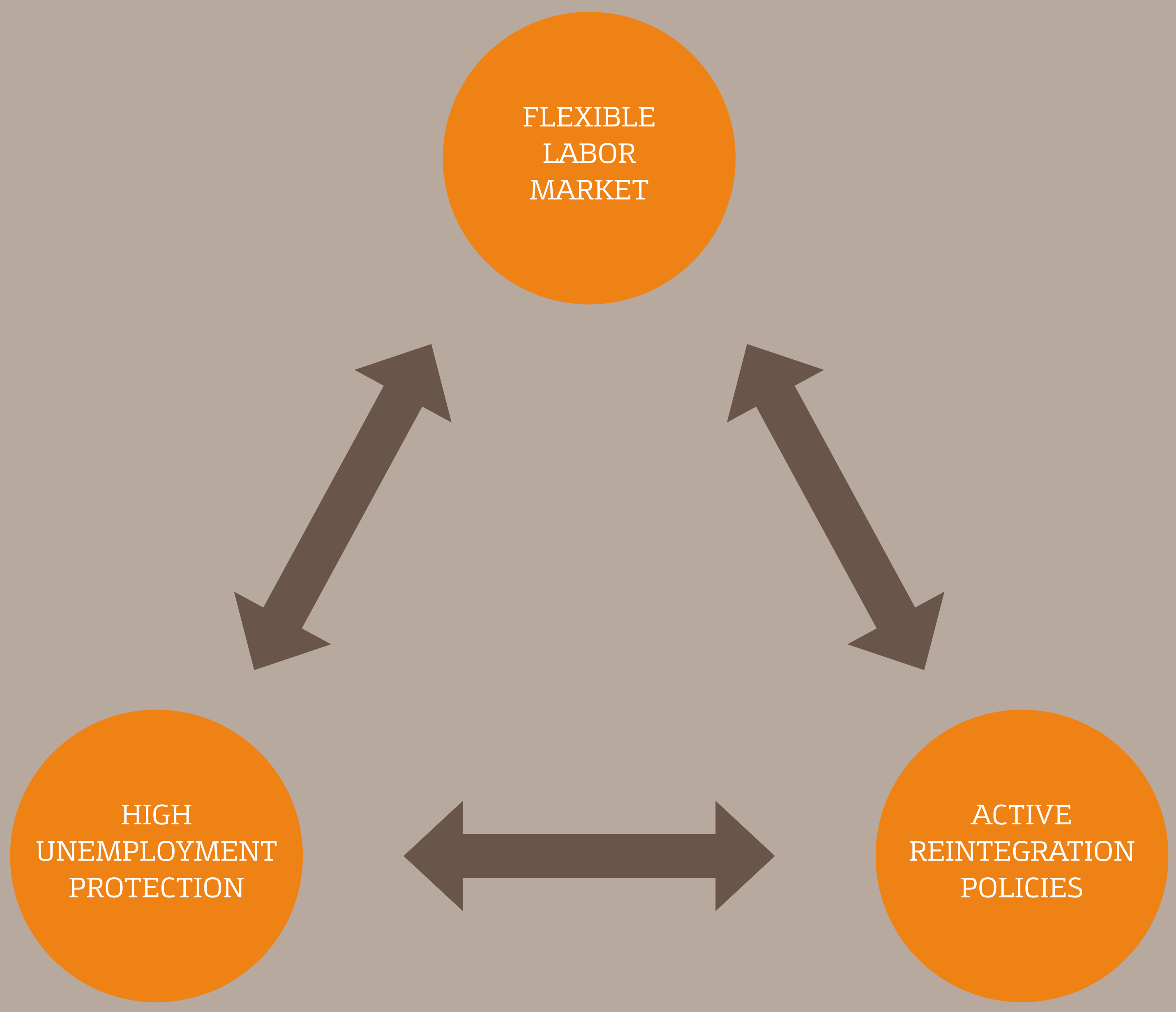
Flexibility and entrepreneurship

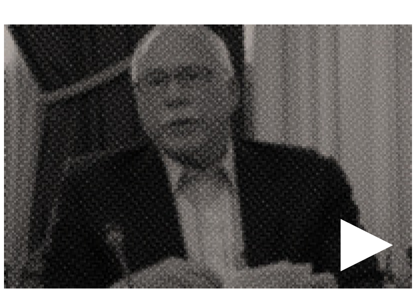
The relationship between flexibility and entrepreneurship in the labor market must be analyzed from two points of view. On the one hand, lower hiring and layoff costs under more flexible regulation favor companies with high employee turnover rates—which is usually the case during the early years of a company's life. 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.



The Role of National Competitiveness in Job Creation, by Joel Kurtzman

Spain's Performance on the Main Competitiveness Indices

As implied in 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. They include the Doing Business Index compiled by the World Bank, the Global Competitiveness Report, compiled by the World Economic Forum, and the Index of Economic Freedom compiled by the Heritage Foundation. Spain's results from the last two years in the Doing Business Index are summarized in the following table:

The results underscore the difficulty of starting new businesses in Spain. According to Doing Business, Spain ranks 133rd worldwide. In addition, 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 area in the last year).

Results obtained by the World Bank do not differ significantly from the results obtained by the World Economic Forum and the Heritage Foundation. The results of the World Economic Forum Competitiveness Index, which surveys business people on the leading obstacles to doing business, may be found in the following table.

Securing funding, excessive labor regulation and lack of bureaucratic efficiency are three factors highlighted by businesspeople as the greatest obstacles faced when doing business in Spain.

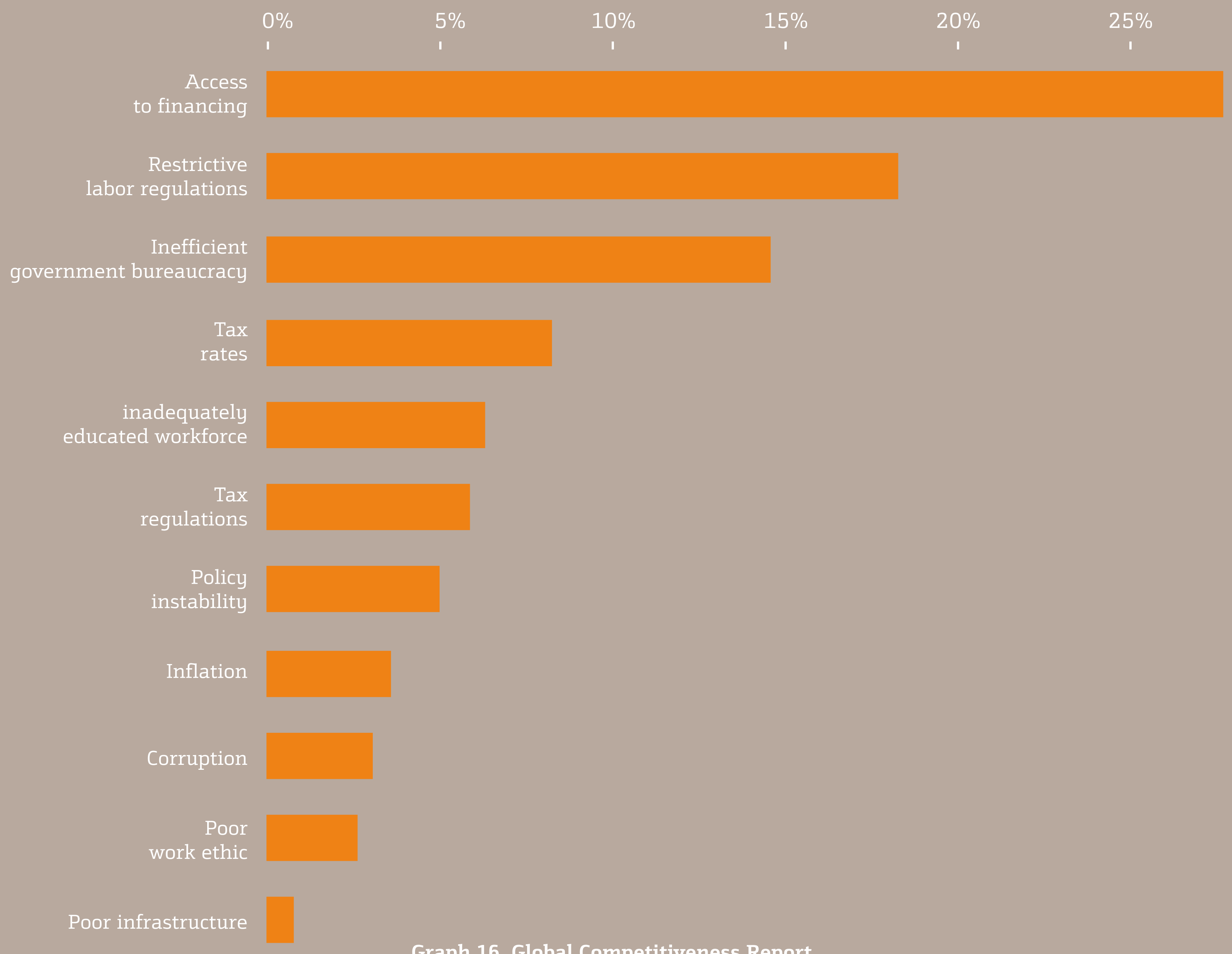
Competitiveness and Business Financing

According to Doing Business, Spain ranks 45th worldwide in terms of the ease of doing business. This squares with the results of the World Economic Forum and the Heritage Foundation, underscoring the difficulties faced by foreign investors in their efforts to fund projects in Spain.

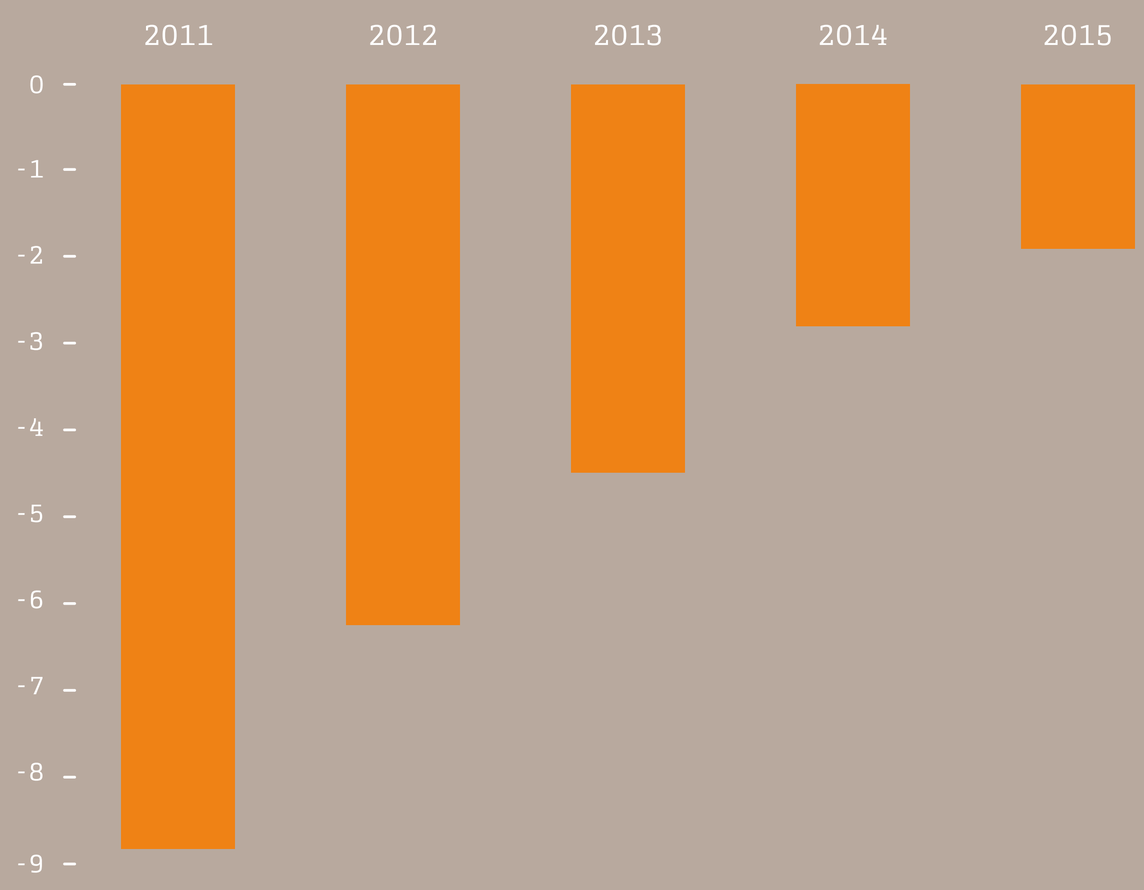
Increasing business competitiveness requires huge investments in research and new technologies to facilitate lower-cost production and higher-quality end products. Recovering competitiveness in Spain will be difficult given today's situation, as financing available to companies is minimal (Graph 17).

As Joel Kurtzman stated in the XVIII Future Trends Forum, improving Spain's competitiveness sustainably over time will be possible when private sector financing recovers. For this to happen, two conditions must be met. First, the financial system must successfully restructure. Secondly, the public sector must reduce its debt load to avoid crowding out private sector loans.

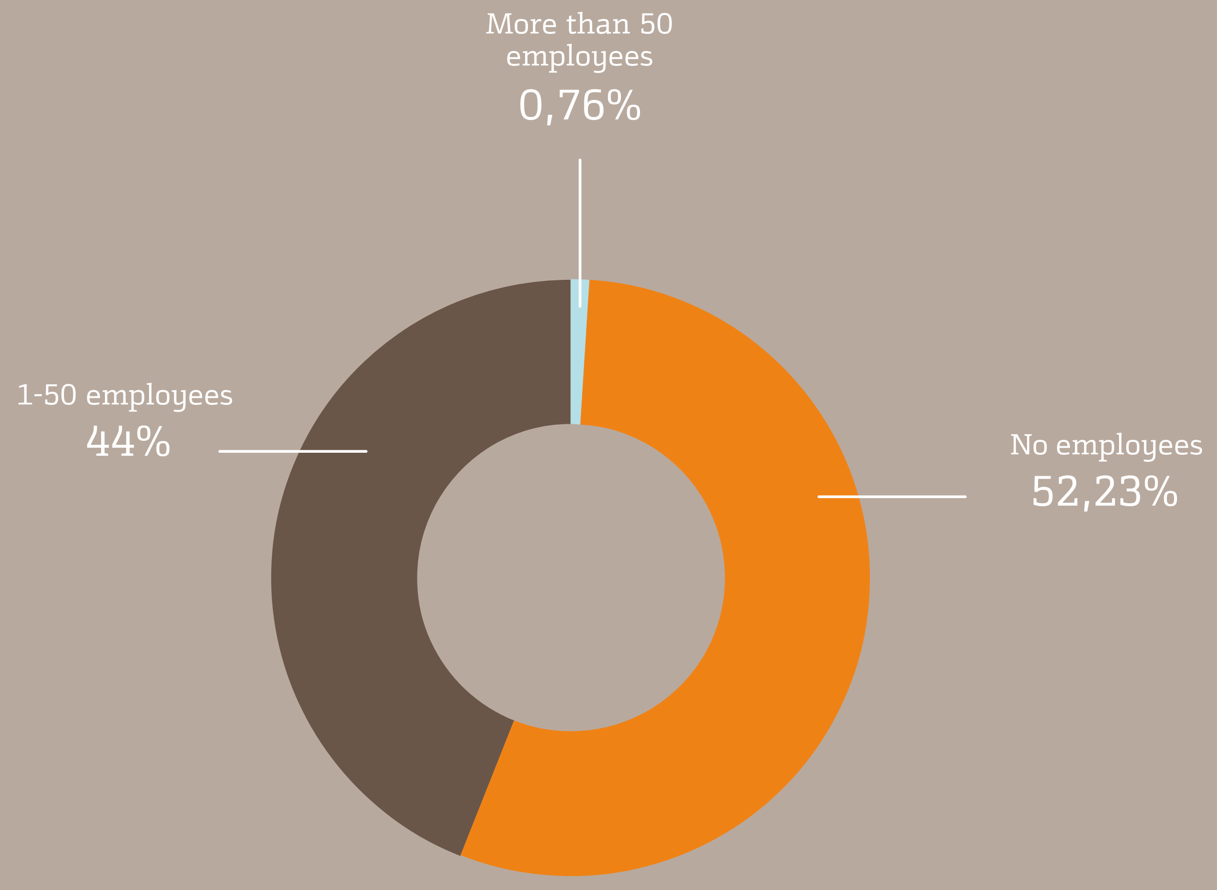
	2012	2011	Variation
Starting a business	133	148	15
Incorporation license	38	39	1
Obtaining electricity supply	69	70	1
Property Registry	56	45	-11
Securing funding	48	45	-3
Investors' protection	97	93	-4
Paying taxes	48	76	28
Foreign trade	55	57	2
Contract enforcement	54	53	-1
Bankruptcy proceedings	20	21	1



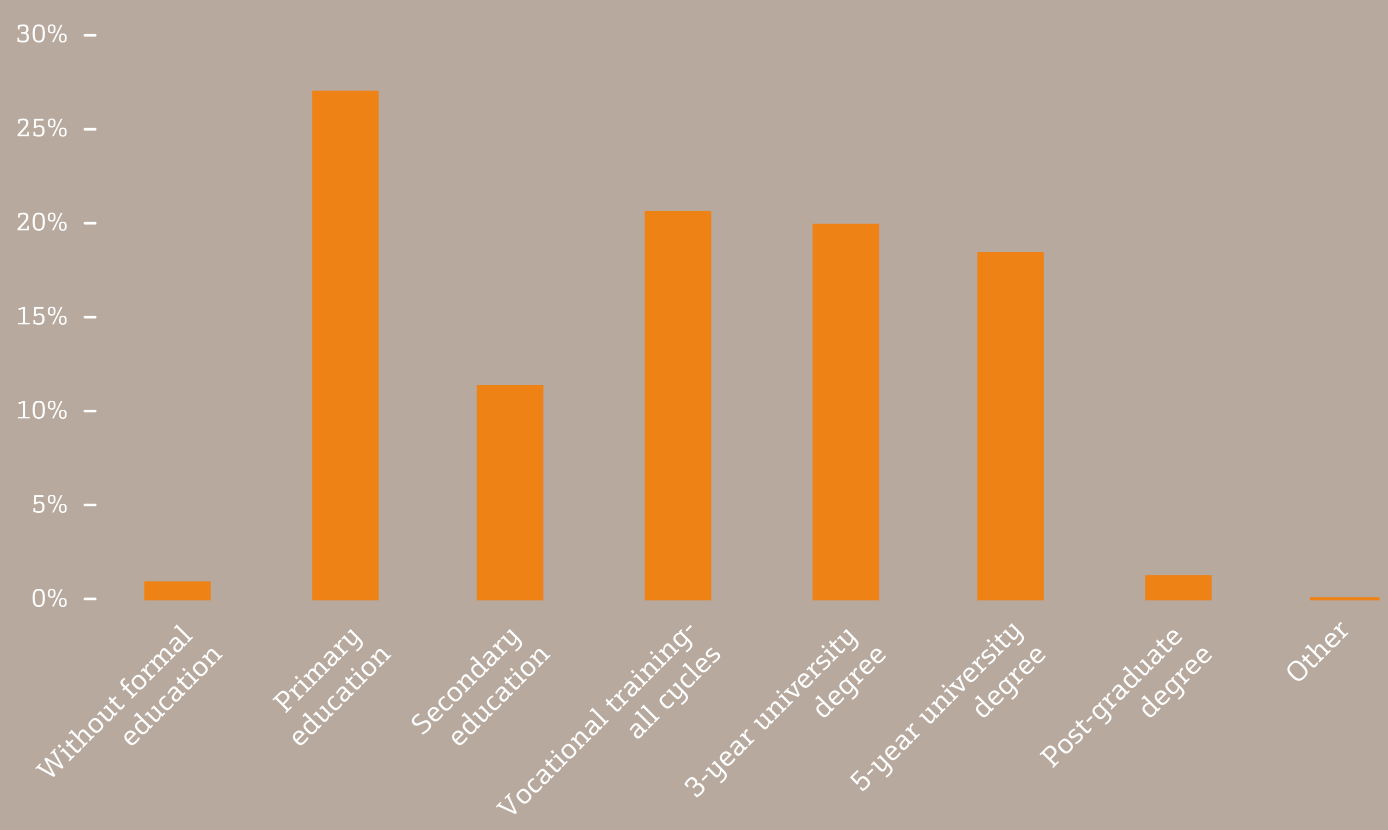
Graph 16. Global Competitiveness Report.
Obstacles in doing business in Spain.



Graph 17. Evolution of Credit in Spain. 2010 – April 2012
Source: Own calculation based on data from the Bank of Spain. Statistical Gazette. June 2012.



Graph 18. Percentage of companies by number of employees. 2011. Spain
Source: Spanish National Statistics Institute. Spanish Central Directory of Companies 2011



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 the role of the education system in promoting entrepreneurial activities.

The Role of Entrepreneurship in Job Creation, by Karen Wilson

Gazelle Companies and Job Creation

The idea that entrepreneurship creates jobs is widely accepted, although there are certain nuances to this 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, companies that grow at a fast pace (20% to 25% per year) even in times of crisis.

Kauffman Foundation research has found that 1% of the companies were responsible for around 40% of jobs created in the United States (Kauffman Foundation, 2010). 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

The role of the public sector

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

The State must provide all indispensable services so that the projects of entrepreneurs come to fruition. For this, a three-pronged strategy is necessary: legal and business counsel, training and financing. Barriers to business creation must be broken, and a legal and administrative framework that encourages the creation of high-growth companies must be put in place.

Competitiveness and Entrepreneurship

The previous section mentioned how the World Bank views the difficulties associated with starting a 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. The minimum capital needed to create a new company is 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 number of 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 average OECD country.

Education and Entrepreneurship

With few people choosing entrepreneurship as a career path, Spain is not a country of entrepreneurs. This trend not only results from environmental factors, but also from an education system that transmits a distorted image of business people, further discouraging entrepreneurship. This image of business and entrepreneurship must change, and entrepreneurs must be provided with suitable training (Global Entrepreneurship Monitor, 2011). In order to redress the deficit of proper training for entrepreneurs, business training should be included in the curriculum for all education levels. 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 levels of 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

Over the past few decades, the boundary between private companies, the public sector and social enterprises has become 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 a social cause; and second, business methods, the organization may conduct any legal business consistent with its social purpose and its shareholders' interest.

In addition, the Aspen Institute points out other social changes that have either taken place already or should take place (depending on the country) so that this new category of businesses can grow and develop: labor and business legislation must adapt to embrace this new category of organization; fiscal regulation must reward the social work undertaken, and the education system must ensure that professionals become aware of this new phenomenon.

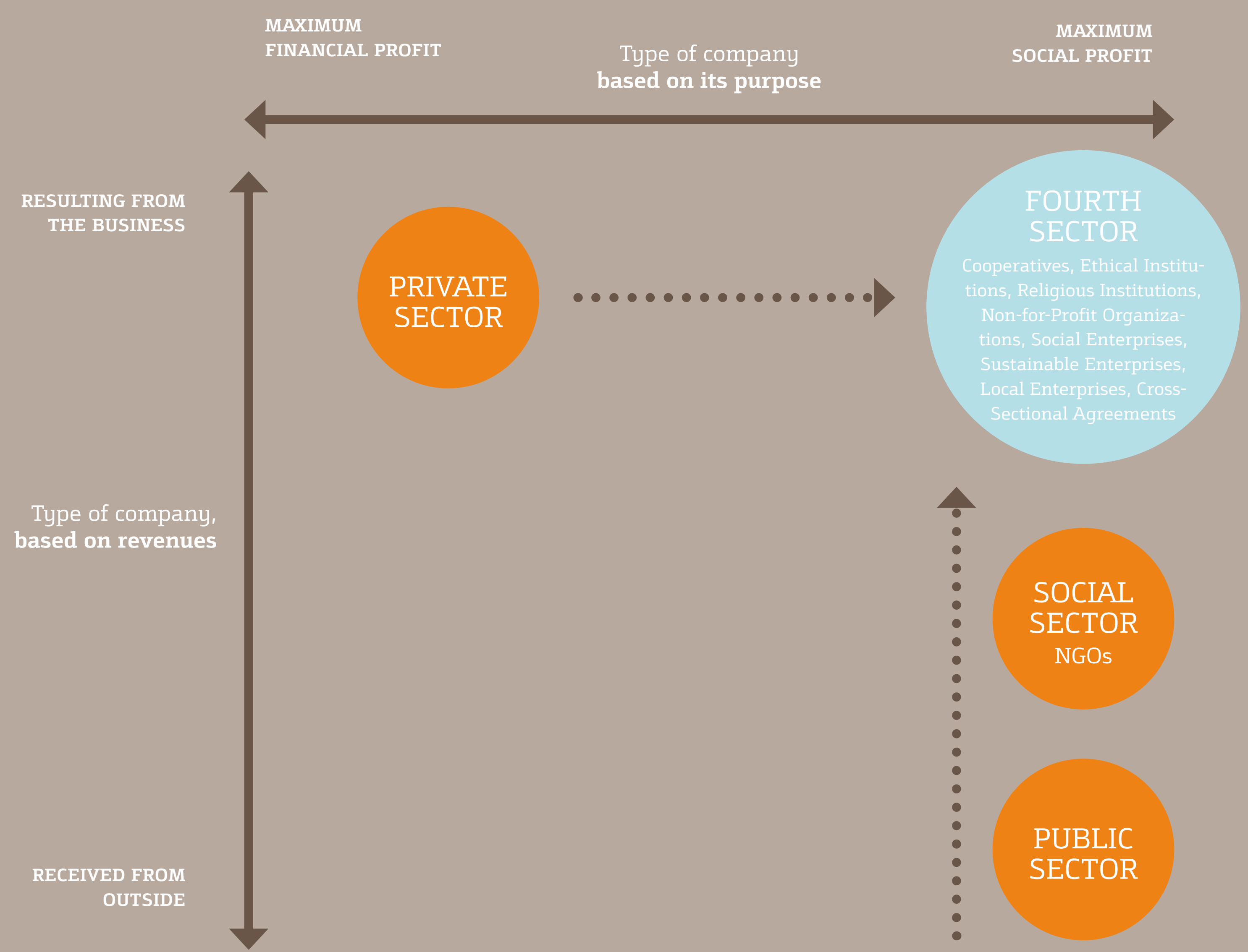
The Fourth Sector in the United States

The United States is the birthplace of the fourth sector. It is one of the first countries to have adapted its regulatory system to this new reality and by doing so has supported its inception, growth and development.

Legislation has been changed at all levels, and the changes affect the definition of social purpose, philanthropic donations, day-to-day operations, profit and dividend payout, the definition of private and public profits, and the definition of capital and debt investments. These changes have given way to new organizations and companies as well as potential entrepreneurs seeking to start up businesses in the fourth sector.

Due to this expansion, the size of the sector has grown for more than ten years. According to estimates by the organizations themselves, the fourth sector currently represents between 5% and 15% of GDP and 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 types of businesses are not yet present in Spain. As explained below, there are certain noteworthy cases that deserve our attention for their ability to create wealth and jobs



THE FOURTH SECTOR IN THE BASQUE COUNTRY

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..

Human Capital, Training and Retraining

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

The Education System in Spain

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

Regarding university 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) (BarcelonaTech) ranks 41st. When the scope is widened to the top 200 universities worldwide, the Complutense University of Madrid (UCM), the Technical University of Madrid (UPM), and the University of Salamanca are also noted.

Most studies on the Spanish university system highlight three big problems that must be overcome to improve 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 the education system is portrayed in Graph 21 which is based 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 have been hired for low qualification work, compared to workers between 25 and 29 years of age who are not studying and have completed higher education. As the graph indicates, the imbalance in Spain is the greatest of the OECD, both for men and women.

The data suggests an excess of qualified workers, but first we must be understand whether this is a temporary or permanent phenomenon. The Spanish education system must provide workers with the competencies and qualifications demanded by companies. Reforming the system to include vocational training would be a step in this direction, as explained in the fourth section of this report.

Re-training and Lifelong Learning in the Labor Market

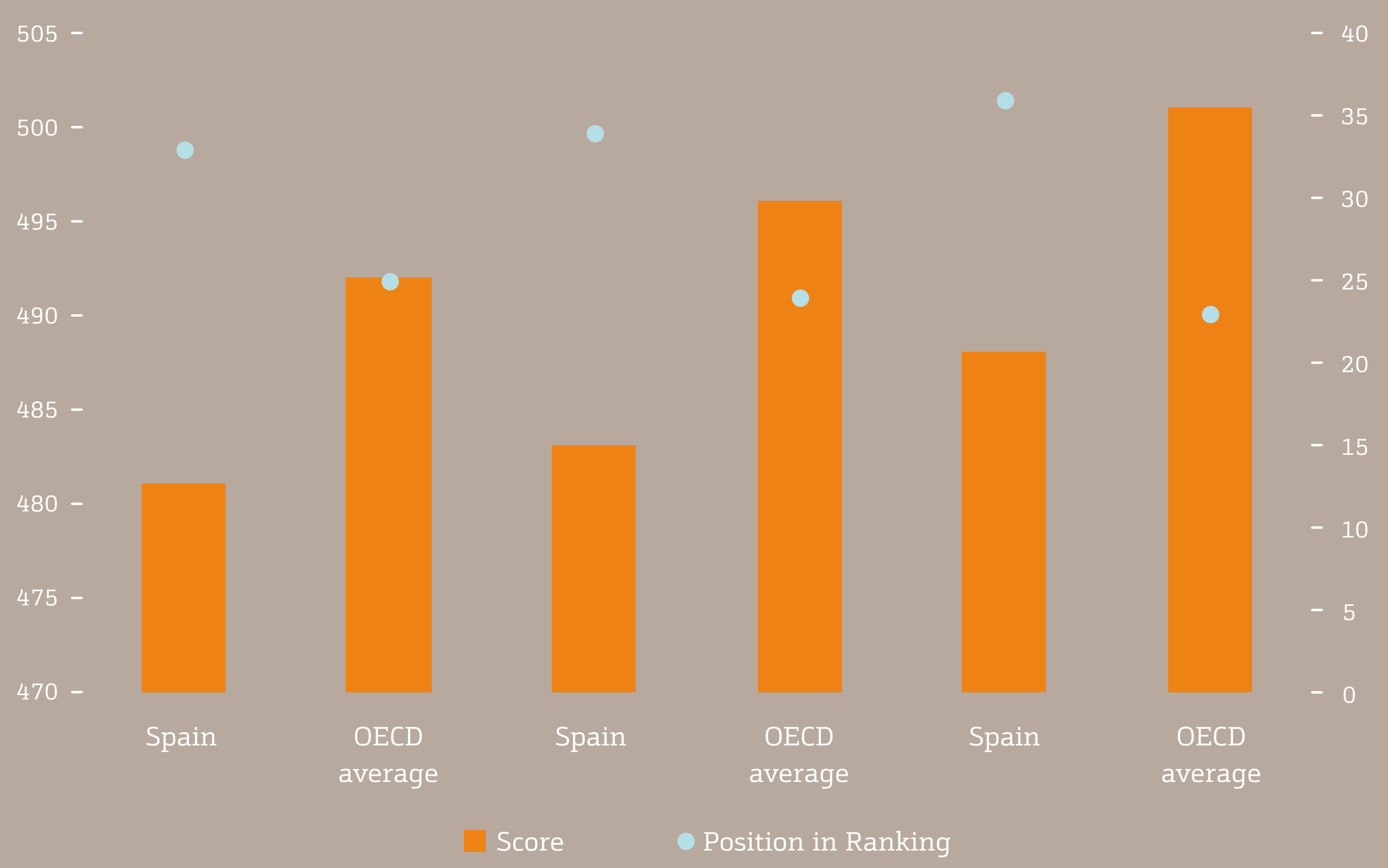
Lifelong learning is defined as the process by which an individual is trained throughout his or her life, not only in school or university, but also in the workplace or other related forums.

A lifelong learning program was first put in place in Denmark with the goal of facilitating retraining and continuous improvement of workers via company, state, and private worker funds.

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

The Grundtvig Program focuses specifically on adult training in cases in which "adult education methods and vocational training is not predominant through organizations and centers providing any type of learning opportunity for adults—be it formal or informal—including all opportunities related to the initial and permanent training of workers" (European Commission, 2011).

In a global market in which workers will hold many different positions in many companies, re-training and lifelong training programs must become widespread. The experiences of countries such as Austria or Denmark, which have drawn on both public and private funds provide useful examples.



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

Dr. Ángel Cabrera
President of George Mason University
Trustee of the Bankinter Foundation of Innovation

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, that has been heightened by the current economic crisis, but is 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 been tripled, hitting nearly 25% and putting Spain at the tail end of the developed world. This is not the first time a sudden halt to the economy has triggered high unemployment in Spain, and it is not the first time that the youth unemployment rate has been double that of the general rate. These systematic trends point to structural causes, which call for structural reforms.

In June 2012, the Bankinter Innovation Foundation gathered Spanish and international experts to analyze the issue of employment in Spain. The discussion highlighted 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 its size and infrastructure. This is largely due to the inefficiency of the labor market, which falls behind 118 other countries. Spain falls well behind competing economies in collective bargaining between employers and employees, flexibility of wages, ease of hiring and firing, and productivity.

For instance, the Spanish labor market has a unique two-tier structure, with open-ended contract workers subject to higher protection and costly to let go, while temporary-contract workers enjoy minimal worker protection. The Spanish collective bargaining system is biased to benefit the first group, and 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—temporary workers.

Nor does Spain stand out for the quality of its education system, and this entails competitive shortcomings in innovation and productivity. Although the percentage of schooling and participation in tertiary education is 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 compiled by the Chinese Jiao Tong University, 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 doing business.

These three areas (a rigid labor market, educational deficiencies and barriers to creating high growth companies) are 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 in the labor market. The duality of the Spanish labor market must end, and collective bargaining 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 by increasing to several consumption taxes.

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

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

The business people, professors and researchers who took part in the XVIII Future Trends Forum have proposed a set of reforms to contribute to a solution to the unemployment problem in the Spanish economy. The proposals, laid out in this document, are meant to be the starting point of a reasoned discussion on economic policy.

This discussion should take place in a government commission that would 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.

This commission (following the example of the Hartz Commission created in Germany in 2002) would consist of politicians (from the party in power and all opposition parties), economists, scientists, researchers and business people.

A prior agreement guaranteeing the implementation of measures proposed during the internal discussion and analysis would be a prerequisite for 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 category would include measures to curb the present job destruction. The second category would include actions to spur job creation, once internal demand and the economy as a whole recover their pace of growth.

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 and the education system call for the implementation of reforms in other areas.

The XVIII Future Trends Forum team considers the establishment of a clear, honest communication effort regarding the tasks of the Commission and the reform project essential. Economic theory has proven that citizen engagement increases the efficacy of economic policy. Therefore, business people, employees and the other players involved need to know firsthand what goals and trade-offs associated with each of the various reforms. The proposals are grouped in five main areas: the external sector, the education system, macroeconomic considerations, the labor market, the fourth sector, and policies to support entrepreneurship.

EXTERNAL 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 high labor costs and relatively low technological quality of products manufactured in Spain and have limited their appeal to foreign customers. Structural economic factors, as highlighted by the OECD, limit the exporting capacity of the Spanish economy (OECD, 2011b).

Bolstering certain industries and exports cannot be carried out simply through incentives or special regulatory provisions but will require broad changes in the tax system, as wells a permits to establish new companies and hire new workers.

According to the MIT Review, Spain has important technological comparative advantages in expanding sectors (MIT, 2010). The leadership and innovation savvy of Spanish companies in the wind and solar energy, desalination, infrastructure building and management, high speed train, aerospace, and biotechnology industries make of them international standouts. Moreover Spanish telecommunications, banking, tourism, fashion, design, agriculture, construction, energy companies enjoy a special brand visibility. For this technical knowledge and corporate visibility to become a lasting comparative advantage, the Spanish economy needs to implement the structural reforms that will make its products more affordable and more appealing.

A National Export Plan would also align logistical and cost synergies between exporting companies, strengthen ties with certain regions of the world and bring SMEs into export sector. Towards this a goal, a plan outlining the national export strategy for the period from 2012 to 2020 could analyze the markets and industries to be promoted as well as specify the measures needed to do so. A list of difficulties faced by exporting 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.

According to the Strategic Opportunity and Risk index compiled by the Real Instituto El Cano, the main geographical areas with which Spain should engage include Eurozone economies, Arab economies (Qatar, Saudi Arabia), Asian countries such as China and Eastern European economies (Arahuetes, 2010).

In addition, a few simple measures to promote key sectors and favor hiring such as eliminating social security contributions for new employees hired by companies with strong exports could be put in place. This would incentivize hiring as well as improve the quality and quantity of aggregate production.

02 Reposition the brand 'Spain' through a global communications 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 selected to work on improving the image of Spain and its companies abroad. Most companies belong to sectors listed in the first proposal and are leaders in their fields.

Along with this "Spanish Brand Council," the government has appointed Carlos Espinosa de los Monteros as High Commissioner of the Spanish brand. His task will be to communicate Spain's 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 Spanish brand. 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, and appointments should be made on the basis of merit, ability, and expertise in the field in question.

As Professors Garicano and Fernández-Villaverde have mentioned repeatedly, stronger institutions must go hand in hand with the strictest control of corruption (Garicano, Fernández-Villaverde 2012). Investigations and resignations must be part of any proceeding in which the holder of a prominent public or private sector position is accused and found guilty. The Government and its representatives must make an effort to convey credible, truthful, cohesive messages, serving the long term interests of the country. Recuperation of credibility by government institutions is the first step toward the global rebuilding of the Spanish brand.

The second step affects the group of people in charge of strengthening the Spanish brand abroad. In addition to businesspeople and the High Commissioner's team, successful repositioning of the Spanish brand will require the involvement of international experts in brand positioning. Professor Andy Stalman shares this view (Stalman, 2012). 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 Spanish brand is more than just an image issue. Economic theory has proven that an important portion of the risk premium is determined by the image the country conveys to the world (Gómez Bengoechea, 2012). Promoting institutions and shared strengths and conveying this convincingly to the world will be the best way to show that Spain is making use of the crisis to revamp its image and improve its competitiveness. .

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

According to the World Bank, Spain is an expensive country for doing business. 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.

In line with the World Bank's Doing Business Index, some simple reforms have been 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 the case of fraud. The third 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). The final reform would involve improving the ease of enforcing contracts (currently it takes an average of 515 days to enforce a contract in the courts).

Objectives have been set for the four variables. The proposals include reducing by 50% the time it takes to obtain electricity, increasing by 50% shareholder protection, reducing the hours required to file taxes (down to 100), and limiting the time waited to enforce a contract in court to 365 days.

Through these reforms Spain would climb from position 44th to 27th in the ease of doing business. Add these measures to others regarding the ease of registering a new business (examined in proposal seventeen), and Spain could reach position 19, and all this thanks to simple, swiftly- approved reforms that would make Spain a more attractive economy for foreign investors.

Regarding market unity, legal reforms must be undertaken to reduce the differences between autonomous communities and provinces, at least from a "doing business" perspective. Differences in taxes, requirements for starting businesses and the typical hours of operation restrict a company's ability to work across regions in Spain. In addition, special requirements from each Autonomous Community or province can even force changes in the label or the product itself.

Such barriers reduce a company's ability to attain economies of scale, resulting in higher costs and prices, while lack of regulatory consistency also limits worker mobility, as Rocío Albert and Rogelio Biazzi suggest (Albert, 2009).

A clear consensus on the terms and rules of the game by which foreign companies will have to abide will be essential. Both the autonomous communities and the state will have to implement measures to ensure consistency in regulation across all regions (Albert, 2009).

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

Spanish autonomous communities must voluntarily and unilaterally acknowledge the validity of other autonomous community rules regarding access to markets of goods and services, registering a business, and paying tariffs and taxes. If this initiative were to be implemented unilaterally by only a minority of autonomous communities, a chain reaction would occur eliminating certain inconsistencies and barriers to market unity.

Towards this end, the government should create an agency to compile a "how-to guide" that would include good governance principles. This agency could evaluate existing regulation and advise on simplifications and improvements. In addition, this agency could serve as a clearing house on autonomous region regulation, competencies and institutional oversight, providing this information via the internet to domestic and foreign investors.

EDUCATION SYSTEM

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

Spain has a severe education problem. Results in standardized tests show two striking failures in the system. The first 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 middle-to-long term. Economic research has proven that 100 points on the PISA exams can equal an additional 2% in annual GDP growth. Therefore, reforming the education system is essential not just for social but also for economic reasons. A six-pillar reform, based on the Applied Economics Studies Foundation report, is presented below (FEDEA, 2012).

a. Early Childhood 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 the shaping of their skills.

b. Professors, Careers and Results
Teachers must receive sufficient training. Their scholarly merits and teaching skills must be evaluated as part of their initial training and their value added, as opposed to just the results obtained by the students.

c. Addressing Specific Needs
Greater flexibility, at all levels, is required when addressing students' specific needs. Different students should be allowed to progress through the education system at different speeds. Gifted and talented students should be granted access to an advanced track (via micro-classes or specialized centers) so that they can develop their skills faster without being "held back" by their fellow students.

d. Effort and Reward
Effort, merit and student dedication to learning have no substitute. Raising awareness of the importance of 100% dedication among parents and schools is the only road to satisfactory results. Regular tests must be conducted at the end of each academic period to determine student eligibility for participation in special centers, programs and scholarships.

e. Vocational Training
The percentage of students in vocational training programs in Spain is much lower than in the rest of Europe. As explained later in Proposal 5, the problem centers around the limited number of students interested in this track and the lack of an explicit link between vocational training programs and the business world. In addition, the lack of funding allocated to vocational training programs diminishes their effectiveness and appeal.

f. University: Independence and Integration with the Business World

While a common system of evaluation is essential to guarantee an appropriate level of rigor universities must have greater independence to manage their degree programs, their faculty, and their research programs. Moreover, in the tradition of the Anglo-Saxon model, university curriculums and skill development programs need to be better integrated with the fast-changing business world.

The reform of the education system must be rigorously evaluated and documented. The government must show the results of changes implemented and their impact on student results. This is the only way to improve the quality of education year by year, and guarantee the development of human capital for Spain's future.

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 above, vocational training in Spain suffers from two limitations: lack of proper integration with the business world and the small number of students interested in this track. According to Florentino Felgueroso, a reform has been proposed to solve these two problems (Felgueroso, 2011). Such a 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" combining school-based education with paid in-company training. According to the OECD paper "Education at a Glance," 60% of secondary school students in Switzerland enroll in dual vocational training tracks (OECD, 2011c). 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 that the training students receive is relevant to the current needs of the workforce. This might explain why youth unemployment in Switzerland is among the lowest in Europe.

Another advantage of the dual system is the early and phased transition from school to the labor market, such that at the end of secondary school, students have already obtained professional experience, as opposed to just knowledge and a supporting diploma.

However, for such a system to be effective, companies, social service providers and educational institutions need to be in agreement. Coordination is key to guaranteeing useful training in both "worlds," and a rewarding and useful experience for students and business people. The main challenge is to offer training tracks that are appealing for companies in the short and long term.

In addition to this proposal for vocational training, it should be noted that the Government has already initiated some changes to the current system. The reform includes new degree programs, increased part-time training programs, and an abbreviated attempt to put in place a dual training program for students over 20 years of age.

Additionally, a more flexible array of training programs is more compatible with the demands of the socioeconomic environment. Part-time vocational degree programs have increased access to education, while educational institutions have begun 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."

As these reforms and proposals come to fruition, it will be essential to establish incentives to ensure students currently pursuing vocational training are integrated into the labor market in the short term. Removing or reducing the social security contributions of workers with vocational training degrees could be an interesting option.

MACROECONOMIC CONSIDERATIONS

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

In 2011, Spain's budget deficit was equivalent to 8,4% of GDP, down from 9,3% in 2010. In both cases, it was well over the 3% limit set by the Maastricht Accord. High deficits translate into higher financing rates with unmanageable interest payments eventually leading to increased debt issuance and higher even higher deficits.

To break this cycle, the Government must reduce the deficit via the two variables over which it has direct control: public spending and taxes. Public spending cuts and tax increases both have a contractive effect on GDP, which in turn slows the recovery and has a negative impact on job creation.

In order to meet agreed upon debt reduction targets, Spain must reduce its deficit to 6,3% of GDP by the end 2012, to 5,4% of GDP by the end 2013, and to 2,8% of GDP by the end of 2014. Spain should slow the pace of its debt reduction schedule in order to "stop the bleeding" while consolidating public finances in a way that has the lightest possible impact on GDP.

Failing to meet deficit reduction targets in the time period agreed upon with Brussels will spook investors leading to higher risk premiums paid on the national debt. The best option is thus to set out a new schedule with Brussels that extends the debt reduction target of 3% of GDP to 2015. This would limit the collateral damage on GDP growth posed by austerity measures, legitimize delayed reductions in the eyes of investors and minimize any consequent increase in the country risk premium.

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, as GDP growth contracts less due to spending cuts than it does due to tax increases.

In order to cut public spending intelligently and effectively, we propose the creation of a Fiscal and Budgetary Policy Council. Similar to those bodies put in place in Sweden and the United Kingdom, this council would analyze expense items and propose reductions to the least useful of which, in order to have the least possible adverse effect on job and wealth creation.

Creating this body is a requirement imposed by the European Commission and the International Monetary Fund (IMF) as part of the bailout program to the Spanish financial system. Putting it to work should be done immediately, as cutting non-productive spending is essential to the budget consolidation strategy. In light of the recent Value Added Tax increase, raising taxes should be restricted.

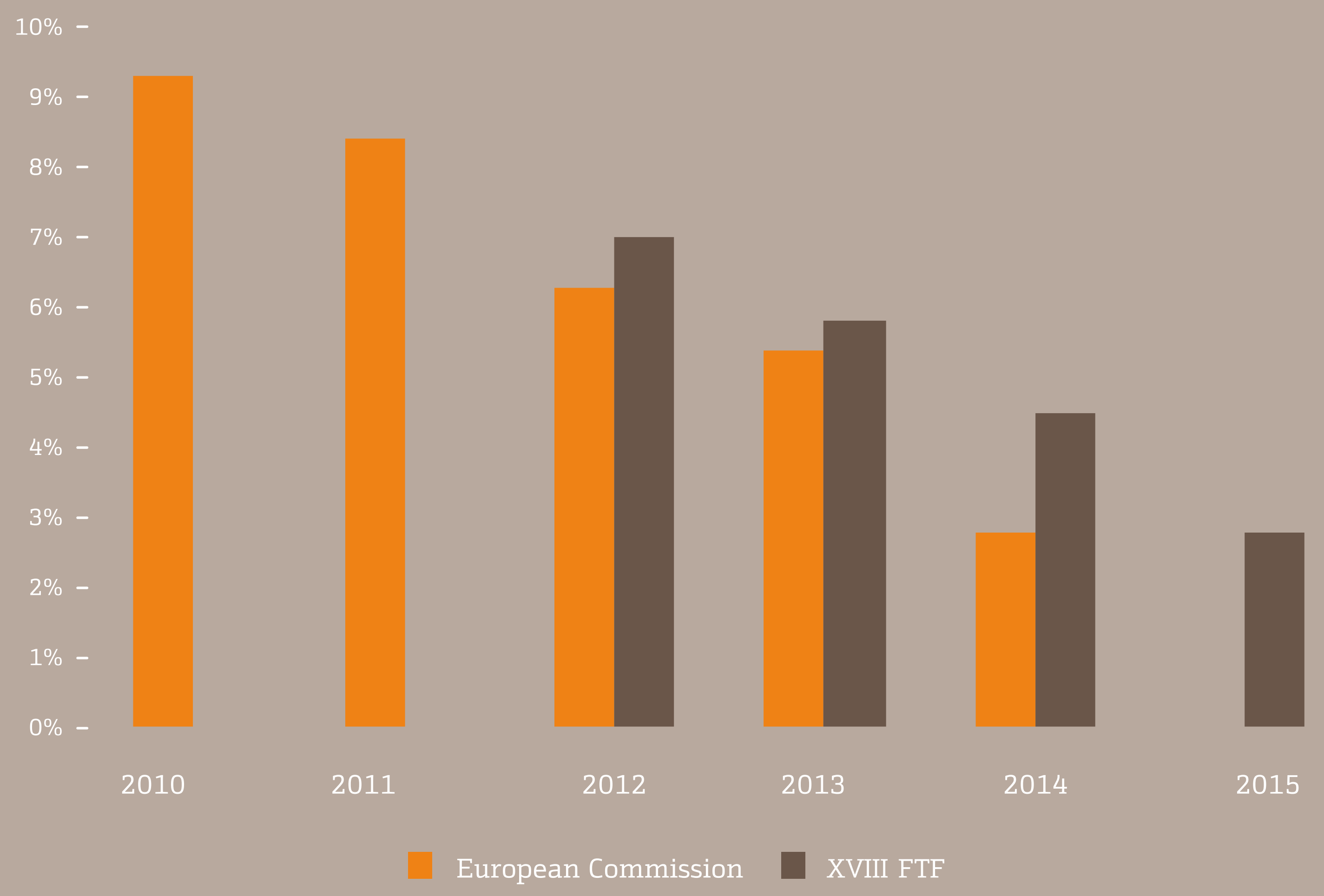
07 Promote the creation of eurobonds to mutualize sovereign risk within the Eurozone, as a counterbalance for the austerity measures needed.

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. The goal would be to stabilize public debt markets for countries facing problems, such as Spain, Ireland, Italy, Portugal and Greece. Eurobonds would provide additional security to compensate for the cost of austerity measures in their respective economies.

Of all the proposals around the eurobond, the smartest and most feasible is that of Jakob von Weizsäcker and Jacques Delpla (Von Weizsäcker, 2010, 2011). Their proposal suggests creating two categories of eurobonds: blue and red. Blue bonds would be the eurobonds themselves, and red bonds would be the equivalent to national bonds.

Blue bonds could be issued to finance debt burdens equivalent to 60% of GDP. Beyond that threshold, only national red bonds could be issued, at greater interest rates. For countries with high debt-to-GDP ratios, such as Italy or Greece, the possibility of mutualizing a debt burden equivalent to 60% of GDP would serve as 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, and there is still great skepticism in such countries as Austria and Germany who believe that countries suffering from the debt crisis would be less pressed to reduce their deficits and implement needed reforms.

Implementation of eurobonds would be tremendously positive for the Spanish economy, under any circumstances, with the effect that interest paid on newly issued as well as outstanding debt would decrease. In addition, the existence of a eurobond would allow for a slower pace of adjustment, thereby reducing the contractive effect on GDP growth 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 the sector's restructuring process that was started in 2010.

On June 9, 2012, the Minister of Economy and Competitiveness, Luis de Guindos, announced that the Spanish financial system would be supported with up to €100 billion in European funds. In exchange, the European Commission and the International Monetary Fund would set the terms by which financial institutions would have to abide. 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, writing down the loss of preferential shares and reforming 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 and schedule explained above.

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 and stable framework to make investments and consumer decisions.

09 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 faces a long and costly debt deleveraging process. As Martin Wolf points out, this translates into smaller investments by companies and reduced consumption by citizens (Wolf, 2012).

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 relationship between private debt holdings, banking problems and real estate prices in Spain. Easier access to housing resulting from a fall in prices could accelerate the debt deleveraging process of the Spanish economy through the financial system.

Two options exist to limit the negative effects of deleveraging and accelerate the process: capital transfers, and bankruptcy or default by companies and citizens. Capital transfers refer to the sale of assets currently held by over-indebted companies and citizens to solvent companies and citizens. Tax exemptions on asset transfers could encourage this kind of deleveraging.

For companies and citizens in bankruptcy or default, a new bankruptcy law that would free individual citizens from continued payments after defaulting on a loan would reduce private debt holdings and would be manageable at an aggregate level. However, this would have a negative effect on the financial system, where the average default rate is already close to 10%.

The second option would be to simulate the effect of joint bankruptcy through higher inflation. Higher inflation would mean negative real interest rates and would stimulate investments in real assets. The problem with this option would be how to increase the inflation rate in the context of the current recession. In addition, Spain's presence in the European Monetary Union and adherence to European Central Bank-led monetary policy basically preclude the debt reduction through inflation option. Moreover, given the situation, a deflationist scenario is more likely than an inflationist scenario.

While any of these systems could accelerate debt deleveraging in the private sector, the process is likely to be slow and costly with repercussions that will be difficult to mitigate. Restructuring public or private debt must go hand in hand with fiscal stimulus: they are complementary—not alternative—measures.

THE FOURTH SECTOR

10 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. Therefore, the first recommendation would be to create a legal framework appropriate for fourth sector companies. Following this, 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, fourth sector companies offer products or services at special prices to low income communities or individuals, empower citizens with economic opportunities beyond employment in traditional companies, 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 justifiable, from an economic standpoint, to reduce or remove certain tax obligations for 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 should be assembled. This is the only way, after a case-by-case study, to validate an institution's classification as a fourth sector company and ensure its entitlement to aid and incentive programs.

Fiscal incentives must work in two directions: they must be geared to already existing fourth-sector companies, whom after being registered, would be entitled to a reduced corporate tax rate and to lower social security contributions per worker. At the same time, incentives to create new companies in the fourth sector should be established. In order to stimulate this kind of activity, incorporation fees for fourth sector companies should be reduced.

Another measure to boost the sector's development would be national, state-supported networks, in line with the model in the Basque Country or in the United States.

THE LABOR MARKET

11 Empower and foster private intermediaries in the labor market. Support their 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, compared to only 3% of public employment services. Based on this data, any temporary work agency—or 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. Their operation must be authorized by the National Public Employment Service, but they can act independently or in collaboration with Public Employment Services.

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. The agencies themselves note that in spite of having already signed agreements with the public authorities, the agreements have not been applied as the funding for the programs has still not been specified.

Even though the labor reform introduced in early 2012 attempts to solve this problem, the regulation of private employment agencies must still be developed and harmonized so that it may facilitate simple, effective collaboration with public institutions, guarantee legal protection for stakeholders and establish a clear, stable funding mechanism.

The public employment system needs to be modernized to make the job of private employment agencies simpler and more effective. This demands greater collaboration between autonomous communities (who need to update their digital services) and greater collaboration 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 contracts 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 a group of 100 Spanish economists, creating the "single contract" would be the most appropriate solution to this problem (FEDEA, 2009).

There are three different components to the single contract proposal: creating an employment contract with severance pay that increases based on seniority, eliminating most types of temporary contracts, and eliminating the regular, indefinite contract.

A contract with rising severance pay is an open-ended contract similar to the temporary contract initially that over time comes to acquire 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, which would in turn eliminate the incentive for temporary contracts.

Introducing a new contract would respect the protection of current open-ended contract workers, with the only difference that workers with greater seniority would enjoy greater protection.

Finally, a dual scale, based on the fairness or unfairness of the dismissal should be put in place. Severance pay for fair dismissals would be eight days per year worked, plus two extra days per year worked up to a maximum of 20 days. Severance pay for unfair dismissals would be 12 days per year worked, plus three extra days per year worked up to a maximum of 33 days.

CONTRACT REFORM

Single Contract: Rising Severance Pay	**Elimination of Existing Contracts**
Fair Dismissal 8 days + 2 days/ year worked ≤ 20 days	**Temporary** **Open-ended**
Unfair Dismissal 12 days + 3 days/year worked ≤ 33 days	

Eliminating temporary contracts would not increase dismissal costs, as the baseline for rising severance pay contracts would be similar to the existing baseline for conventional temporary contracts today. Both modalities could 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. Providing a viable alternative is urgent for both employees and employers. Financially and legally, the single contract is the best path to reach this goal.

13 Separate severance pay from unemployment benefits.

When a worker is dismissed, he or she receives financial compensation. The amount of this compensation depends on the type of contract, the time duration for which the worker had been employed and other terms that could have been agreed on at the beginning of his or her employment relationship. At the same time, the worker is now unemployed, for which he or 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) simultaneously. It is problematic for the worker, who may exhaust both forms of benefit before finding employment again, while it is paradoxical that the State subsidizes 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. For example, unemployment benefits would only be paid once severance pay has been exhausted. 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. Secondly, 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 exhausted.

At an aggregate level, this measure would have a very positive impact, providing a clear incentive for public employment services to reduce periods of unemployment to lower costs, while allowing the State to drastically reduce unemployment benefits in general, a heavy line item in public spending.

Lowered spending on unemployment benefits would further reduce the public deficit with the effect of consolidating public accounts and shrinking public sector debt.

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 hiring. 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 hiring that would be done anyway; and secondly, the substitution effect, which transfers subsidized hiring to non-subsidized hiring.

As Bentolila correctly states, the use of subsidies should be limited to training contracts, while spending on training on the unemployed should be increased. Most unemployed workers in Spain come from the real estate sector, which is not likely to grow in the near future. The Spanish economy therefore needs to provide additional training to low-skilled, unemployed workers. Their re-training will be key to their ability to find employment faster and which would in turn serve to reduce structural unemployment.

Many young unemployed workers dropped out of school at the peak of the expansion. Policies to facilitate their re-training are even more crucial in these cases. Some measures that could improve their situation include linking training and apprenticeship contracts to formal vocational training (following the Swiss or German dual training systems), encouraging their return to school to complete their secondary education (through grants, aid and discounts), and 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 will only disguise the problem—the fact that many of the unemployed in Spain are not attractive to companies.

15 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, which is plagued by high unemployment. While thanks to these benefits, citizens may maintain their consumption levels and an adequate lifestyle, there exist less obvious macro- and micro-economic consequences that need to be evaluated, reviewed and restructured.

As mentioned once again by Bentolila, the government has set as a macroeconomic goal for 2012 a 5.4% decrease in unemployment benefits (Bentolila, 2012b). In spite of this, unemployment benefits had increased by 4,6% as of May, further undermining the goal of reducing unemployment benefits (and therefore the deficit). 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 de-motivating. Setting the right benefit level is therefore essential to controlling spending and to creating the appropriate structure of incentives among unemployed workers.

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

Numerous economic studies have analyzed the effect of reducing unemployment benefits on the unemployment rate. A paper by José María Arranz and Juan Muro, estimates that cutting benefits paid by the government will reduce hiring among workers unemployed for 1 to 6 months (Arranz, 2004). The exact opposite applies to the long-term unemployed.

The second regulatory improvement affects the management of unemployment benefit distribution. New requirements are more demanding and require the worker to prove he or she is actively seeking employment. Additionally, the payment of unemployment benefits will be cancelled when there are sufficient signs of fraud.

In spite of these changes, there is still room for improvement in unemployment benefits. First, what are "passive" policies should be made "active" policies. The changes proposed in the previous section regarding "active" employment policies would bring more workers into the labor market.

Secondly, reducing the size of the payment and separating severance pay from unemployment pay would increase the number of individuals returning to the workplace, as was the case in Germany. Even though unemployment increased slightly 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 that has been employed by many countries, but rarely in Spain.

ENTREPRENEURSHIP

16 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 has become a preoccupation of many governments and public institutions worldwide. A series of indispensable actions that guarantee the development of successful geographical entrepreneurship zone must be put in place.

While sometimes disregarded, the great innovation hubs of the world (Silicon Valley, Boston...) are often located in the vicinity of leading technical universities, as Irving Wladawsky-Berger points out. Silicon Valley is close to Stanford and Berkeley, while Boston is close to Harvard and the Massachusetts Institute of Technology (Wladawsky-Berger, 2011).

An entrepreneurship zone does not have to be concentrated in an 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 in engineering and research such as the Universidad Politécnica de Cataluña and the Universidad Politécnica de Madrid will be key for the development of pioneering, global companies.

Along with this structural approach, which will require time and a mindset change in both the university and the government, other measures that simplify how new companies work and spur their growth beyond the difficult economy they face now must also be considered.

An entrepreneurship plan that analyzes the current state of the sector and identifies budget and sector priorities should be drafted. This plan should set different time horizons and tackle problems that are hindering the development of innovative Spanish companies in the short and medium term. The plan should focus on four categories of measures: the tax system, public assessment and advisory offices, the creation of a network of entrepreneurs and business financing.

Under a new tax regime, recently created companies operating in strategic sectors such as new technologies, human capital training, energy, infrastructure could have access to reduced corporate and VAT tax rates. Likewise, they should also be able to hire new employees without paying their social security contributions.

Secondly, public offices that assess and advise entrepreneurs should be reformed throughout Spain. Aside from helping to design and evaluate business plans, these entities should serve as the meeting point between universities and entrepreneurs, involving researchers, financial backers and public administration in truly interesting projects.

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

If carried out correctly, such gatherings will foster the growth and development of companies supported by financial backers and the latest knowledge cultivated in Spain. The close relationship between the various 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 strategic sectors, as set by the entrepreneurship plan. This financing could be channeled through public entrepreneurship offices who will act as guarantors of 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 have had limited effectiveness is the lack of truly interesting projects that could potentially yield large returns. ICO lines of credit for entrepreneurs should continue to exist, and focus on those innovative projects stimulated by the Entrepreneurship Plan who are potentially financeable through these funds and private capital.

These measures would contribute to the emergence of an ecosystem of entrepreneurs nation-wide. More and more cities and countries have developed similar systems whose locus points are not necessarily located in the same area. Spain enjoys a comparative advantage those sectors who are currently expanding globally, and creating better conditions for entrepreneurs will be essential to their continued development as well as the creation of additional world-class, job-creating companies.

NATIONAL ENTREPRENEURSHIP PLAN

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 has been said time and again throughout this document, Spain ranks 133rd in the ease of starting a business. This position reflects a troubling set of circumstances. Spain is one of the countries in which opening a business is the hardest, apart from such problems as securing financing or hiring workers.

As has already been 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 stand in contrast with the OECD average—5 procedures, 12 days, 4,7% in cost of procedures and 14,1% of the initial capital out of pocket.

The ten procedures necessary to create a company in Spain include the following: 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 handled in one single appointment, once the other two had been completed.

Creating a single place to carry out all procedures involving the public administration is the best solution to this problem. While all forms and procedures were being 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.

Currently, roughly all university degrees offer courses in economics and business administration. However, few degree tracks offer courses on entrepreneurship, which is almost exclusively confined to degrees in business administration and management.

Entrepreneurship as a vocation is traditionally seen poorly within the Spanish society, as highlighted by the Global Entrepreneurship Monitor. Reverting this trend will be slow and will require training and effort by the public administration and universities.

Offering modules or full courses in all university and vocational training degrees that explain the basic concepts of entrepreneurship will be essential to correcting this stigma. Teaching entrepreneurship must adapt to each training environment, showing the options and paths available to students in their particular field.

However, we cannot assume that the inclusion of entrepreneurship training in formal education will result in the emergence of new companies. Changing the education mindset is necessary, but not enough. Correcting the factors restraining entrepreneurship and improving the conditions for businesspeople is the best way of incentivizing and promoting new companies.

Conclusions

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 on job creation.

The Spanish economy is suffering the consequences of a dysfunctional labor market. Due to 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, should be a model for the Spanish economy. The German labor market is extremely flexible, favoring adjustments to working hours and wages, as opposed to worker layoffs. Thanks to the standardization of new types of contracts (mini-jobs, midi-jobs), its structural unemployment has shrank by approximately two percentage 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 mediates 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 trend of the Israeli job market is due to its healthy macroeconomic situation and the role of its external sector. Healthy public finances and conservative monetary policy 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 mechanisms, revamping unemployment benefits and promoting entrepreneurship among the unemployed are essential for job creation.

Creating companies, securing funding, excessive labor market regulation and governmental bureaucratic inefficiency are the four main barriers identified by business people as 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 emerge. The public sector must play a proactive role, and the education system must support entrepreneurial activity.

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

Spain lags behind other industrialized countries in education. Standardized test results reveal two severe downfalls in the system. Reforming all levels of the education system and favoring worker lifelong learning and re-training will be necessary to sustain 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 THAT SCRUTINIZES, ADAPTS AND DEVELOPS THE PROPOSALS RESULTING FROM THE XVIII FUTURE TRENDS FORUM.

EXTERNAL SECTOR

1. Promote, encourage and support 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 similar to the Anglo-Saxon system. Support 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 undertaken.

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.

THE LABOR MARKET

11. Empower and foster private intermediaries in the labor market. Support their 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 subject of training offered.

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