



## CHAPTER IV: Proposals by the Círculo de Empresarios: Reforms for growth

The Círculo de Empresarios believes that to increase competitiveness and economic growth, accelerate employment and guarantee the future of the Social Security system, there must be new reforms to reduce the current high structural expenditure and strengthen fiscal consolidation.

The Círculo de Empresarios feels that this new reform momentum must be achieved through the following proposals:

- **An urgent reduction of the primary deficit.** To halt the growth of the Public Debt there must be a reduction in the public deficit and a surplus in the primary balance: to achieve this, the Government must initiate new structural reforms. At present, spending on pensions and unemployment benefits insurance eats up resources that would be better used in transforming our productive model.
- **Reforms in the Public Administrations.** Spain needs and Administration that spend less and does so better and more efficiently. In other words, the Administration must serve people and companies.

It is necessary to accelerate the savings program through measures proposed by CORA (Commission for the Reform of the Public Administrations). But these measures have not achieved any structural reform in the Public Administrations, and should thus be reconsidered so as to establish zero-based-budgeting in the services provided to citizens.



It is necessary to determine just how important the Public Administrations should be in the overall Spanish economy. In our opinion, they should account for between 35 and 40% of the GDP, which would give the Spanish economy the flexibility necessary to develop a new model for production and growth.

In addition, public management should be improved by introducing features similar to those used by private enterprise. For example:

- Reformulate the model of hiring, dismissing and paying public servants: making it similar to that of the private sector. It should be closer to the public sectors in other European Union countries, such as the UK, Denmark and Sweden.
  - Greater public-private collaboration in providing services and in developing professional training programs and promoting entrepreneurship, and in R&D&I.
  - Greater transparency and accountability in both the Central Administration and the regional autonomous communities and local governments.
- **Make progress in tax reform.** Increased tax revenues cannot be achieved just through economic recovery and by maintaining high taxes on the labor factor. The Círculo de Empresarios feels that tax reform must help create a stable, neutral and simple economic system, one that will develop competitiveness, economic growth and employment while reducing tax fraud. To do so, we propose:
- Reduce employers' contributions to Social Security by two points. Creating jobs means reducing these employers' contributions for both self-employed persons and employed workers, so as to make these employers' contributions closer to the average in the OECD countries.
  - Step up the fight against fraud. On the one hand, there should be more resources for tax inspections by the Internal Revenue Service, it should be faster, and there should be more severe sanctions that are given greater publicity, as is done in Norway and Holland. On the other hand, measures should be taken to make it more common to pay taxes by electronic means.
  - Speed up administrative and judicial rulings by introducing mechanisms for alternate resolution of tax litigation (arbitration in taxation matters or mediation) as is done in the UK, Portugal and Belgium.
  - Promote awareness about taxation and the responsibility of people toward the Welfare State, in light of the rising costs of these public services and benefits, and the challenges to their sustainability because of the aging Spanish population.
- **Pensions.** The worrisome increase in spending on pensions –due to an aging population, longer life expectancy, fewer affiliates of Social Security and the increase in the contributory pension– demand urgent new measures. Not only is spending on pensions growing, but the Social Security system currently takes in less money. This makes it necessary to finance the system by using resources from the Reserve Fund, some 8.4 billion euros in 2015. If this pace continues, it can be predicted that the Reserve Fund will disappear in 2019.



- The *Círculo de Empresarios* feels that the aging population is an unstoppable process: there is a low birth rate and a constant increase in dependency ratios, which makes it necessary to reform the pension system in a structural way, not a parametric way. The parametric reforms (postponing retirement age, requiring more years of contributions to calculate the pension, etc.), while they may help sustain the pension system, guarantee the pensions but not their monetary amount, and thus only delay a real solution to the problem.
  - It seems evident that without a structural reform of the system, the amount of the pensions will be progressively reduced. To guarantee decent benefits in the future, it is necessary to carry out a reform that –in the middle and short terms– will change the present system of sharing into a mixed system of sharing and capitalization based on three pillars: sharing, obligatory capitalization and voluntary capitalization. In this sense, tax reform is not moving toward the reforms that our pension system really needs.
- **Unemployment.** The high, prolonged rate of unemployment (expected to be 18.5% in 2019) puts a brake on growth and wealth in the Spanish economy. For this reason it is necessary to extend labor reform so as to create employment and avoid the loss of talent. This labor reform should include the following measures:
    - Rationalize and simplify the system of hiring by creating three kinds of contracts, for both part-time and full-time work: a contract of indefinite duration, a contract depending on company needs (for a set duration) and a youth contract (for training).
    - Severance payments should be the same for temporary and indefinite duration contracts, with 18 days for each year of work, as in countries like the UK, Portugal, Germany and Sweden.
    - Establish a more flexible part-time contract, with some lower Social Security costs for employers so they will be encouraged to use these contracts.
    - Make unemployment subsidies dependent on accepting offers of work.
    - Reformulate policies so that unemployed workers must demonstrate that they are actively seeking work, and make it easier for them to find it by giving them immediate training, in collaboration with the companies, as is the case in Germany, Denmark, and the UK.
    - Adopt specific measures to promote youth employment: dual training, incentive contracts and a guaranteed minimum wage that is linked to the training. These measures are already applied in countries like Germany, Australia, Holland and the UK.
    - Take steps toward establishing a greater connection between productivity and salaries. Wages in professional careers should be more closely tied to improvements in the productivity of each individual worker.
    - More internal flexibility in the labor relation: workers should have more mobility to carry out work in other jobs, even in different professional groups, thus making them more versatile.
- Respect for **education and health care.** There is still a need to apply new reforms, as the *Círculo de Empresarios* has suggested before, most recently in its publications analyzing the 2014 National Budget (PGE 2014) and in the Barometer of the *Círculos*.



- **Financing.**

- A lack of credit, a dependency upon bank financing, and higher taxes all make it necessary for companies to find new ways of raising money, as is common in the UK and Germany. The Administration should promote traditional or new instruments to reduce the time, procedures and costs of finding financing.
- Continue efforts to reduce late payment, principally by the Public Administrations, and to get both companies and the Administrations to comply with the payment deadlines law.

- **Spain needs to develop its industrial sector and stimulate growth of the size of its companies.** All this will help competitiveness, generate more stable employment of greater quality, and reinforce progress in the overseas sector.

- Create an optimum regulatory framework, one that is unified and stable, which will help reduce the time and cost of management and the legal uncertainty for companies. It is necessary to develop a coordinated program among all the Public Administrations, including the regional autonomous communities and the municipal governments, so they can speed up the permissions and licenses they award. There must be a greater and more uniform application of the Unity of the Market Law.
- In addition, it is necessary to eliminate obstacles of a bureaucratic, fiscal and labor nature: they prevent the creation and growth of Spanish companies. There should be no limit to the maximum size of a company that is eligible to receive stimulus measures.

- **To make Spanish companies more attractive to foreign investors,** and to create increased internal and exterior demand, it is necessary to improve legal certainty and make the Spanish economy more dynamic. This will allow Spain to become a platform for investment, and attract foreign companies to set up here. We must not fail to make use of our excellent geographical location, qualified work force, infrastructures, cultural links with Latin America, and the advantages of the European Economic Area to develop our overseas sector and take on the new challenges of the world economy.

**Independent of any electoral considerations, Spain still needs new reforms to shore up the economic recovery, accelerate job creation and carry out fiscal consolidation.**