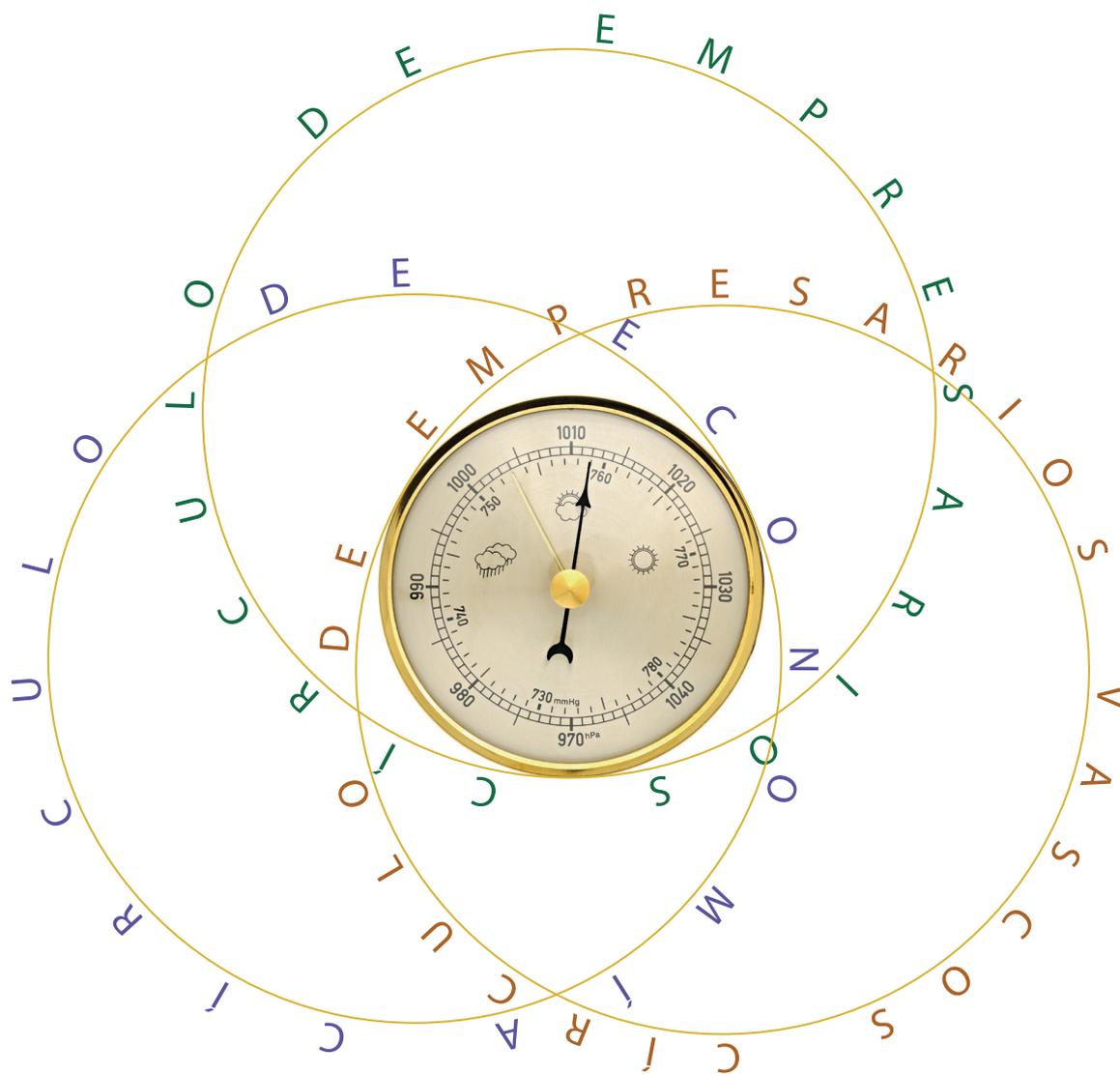
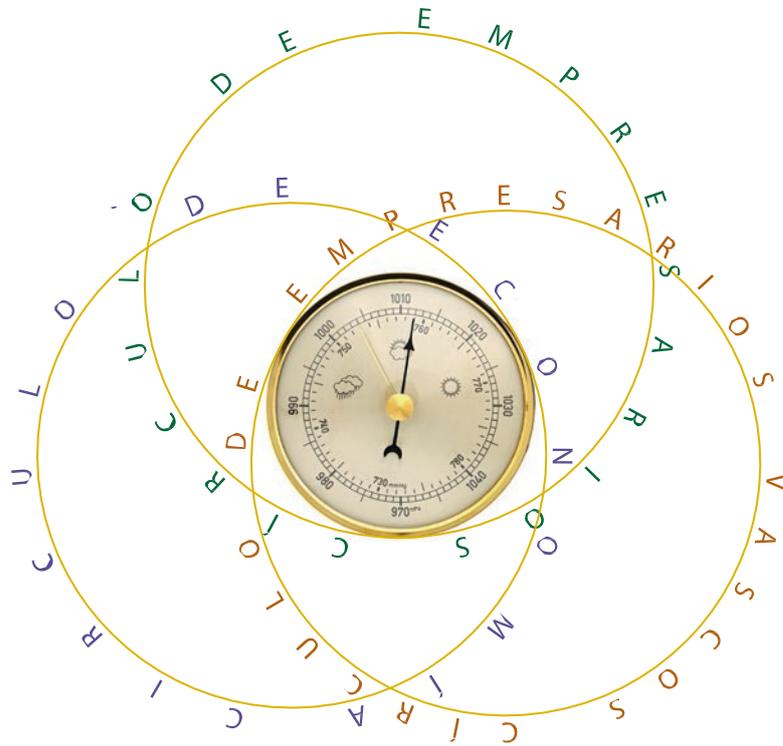


The Barometer of the Círculos 2017



The Barometer of the Círculos 2017



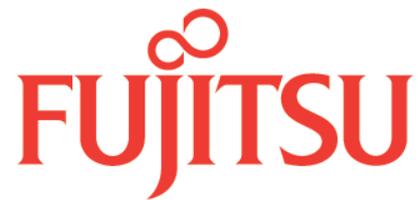


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Letter from the Círculos

The Barometer of the Círculos, now in its fourth edition, maintains its commitment to Spanish society to help resolve the imbalances that persist in the wake of the recent economic crisis. This objective is shared by the Círculo of Entrepreneurs, the Círculo of Economy and the Círculo of Basque Entrepreneurs, and has been since the 'Economy and Society' initiative was introduced in 2013.

Once again, the three institutions promoting this Barometer of the Círculos initiative have been supported by the Valencian Association of Entrepreneurs, the Galician Círculo of Entrepreneurs and the Institución Futuro think tank of Navarra.

The 2017 Barometer provides an analysis of the structure of the Spanish economy, setting out the competitive strengths and weaknesses of the prevailing economic and business climate. Missing, however, is the yearly survey of the Spanish business network, the reason for this being the existing political impasse and the absence of reform.

In addition to the analysis is a report on how our country is faring in the main international indicators of competitiveness and specific sector indices. And, for the first time, we include an analysis of the Social Progress Index and the Inclusive Growth and Development Report; these reveal the extent of social cohesion and the standard of welfare in our country compared to the situation in the major economies.

The conclusions reached by the Barometer of the Círculos form the basis of a series of recommendations about those areas of the economy and business that require the intervention of Public Administrations in addition to action that must be taken by the companies themselves. Several examples of good practice are cited, both in other countries and within the Spanish business framework; specifically, youth employment, dual professional training, entrepreneurship and a commitment to achieving growth.

The recommendations set out in 2017 Barometer reinforce the need to embark on a new period of reform. These reforms must have two objectives: to resolve the substantial problems afflicting Europe, such as high levels of unemployment and debt, and to promote competitiveness and foster a more international outlook in the new global reality. For this to happen, it is essential to achieve growth that is more sustainable and inclusive, and which will guarantee the continuation of the welfare state.

All members of the Círculos hope that, as in previous years, the 2017 Barometer will stimulate the necessary debate between the Government, social agents and civil society about how we can combine forces to develop a project that will give our country structure and cohesion.



Juan José Brugera
President Círculo de Economía



Javier Vega de Seoane
President Círculo de Empresarios



Jorge Sendagorta Gomendio
President Círculo de Empresarios Vascos

Executive summary

The economic recovery in Spain has been consolidated in the past two years with GDP growth of 3.2%, which is 1.7 times the average for the Eurozone and double the averages for Germany, France and Italy.

This recovery is, in part, a result of the transformation of the Spanish productive model which is being driven by foreign trade, whose importance has gone from 22.7% of GDP in 2009 to 33.2% in 2016.

Advances in the competitiveness of our economy have been achieved mostly through the reduction of unit labour costs compared to the main Eurozone economies. Our country's GDP levels have returned to those prior to the recession, but employment figures continue to present three major disparities:

- The rate of unemployment, at 18.6% by the end of 2016, is still double the average for the Eurozone.
- Private indebtedness (non-financial corporations) continues its downward trend, reaching 81.5% of GDP in 2016, but in contrast, public sector debt continues to grow (at 99.3% of GDP in 2016).
- The public deficit is being reduced steadily, but it remained at 4.3% of GDP in 2016.

Accordingly, Spain needs to continue transforming the bases of its growth with reforms that allow for improvements in education, innovation and entrepreneurial dynamism, thereby ensuring sustainable increases in productivity and revenue, and in how it adapts to the major socioeconomic changes that are taking place. As a result, generating economic growth in the medium and long term means the following measures need to be adopted:

- Create a stable and consensual education reform bill through a State Pact that addresses the new demands and competences required by the employment market.
- Adapt all institutional, business and educational areas to the digital transformation because of its positive effects on innovation and employment.
- Create stable and quality employment by linking salaries to productivity and improving the efficiency of the ongoing training of both workers and those who are unemployed.
- Boost the dynamism of the business sector through the design of a fiscal policy adapted to the new world stage, and eliminating red tape that has a negative impact on the creation and growth of companies.

- Increase efficiency in the management of Public Administration offices, boosting greater accountability and increased public-private collaboration.
- Involve more and more companies in the development of initiatives and good practices that contribute to increases in youth employment, professional training and intrapreneurship.

Achieving this will depend on dialogue and consensus between different political parties, social agents and institutional and civil society representatives.

In this context, the Barometer of the Círculos has drawn up an analysis of the competitiveness of the Spanish economy as an indication of its capacity to resolve imbalances and generate more sustainable and inclusive economic growth in both the medium and long term.

STRUCTURE OF THE BAROMETER OF THE CÍRCULOS

The fourth edition of the Barometer presents and organises information from the main international indicators of competitiveness and draws comparisons with the Spanish economy. The main sources of information used are the Global Competitiveness Report from the World Economic Forum, the World Competitiveness Yearbook of IMD and Doing Business by the World Bank. Also, the results of 24 international sector indicators have been reviewed that compare more specific aspects of the Spanish business sector. In comparison to the three previous editions, no online survey has been carried out or in-depth interviews with Spanish business leaders, due to the political impasse and the absence of reforms.

The 2017 Barometer¹ also provides examples of good international practices and good business practices in Spain with regard to dual professional training, youth employment, corporate growth and intrapreneurship.

The Barometer is organised around five aspects:

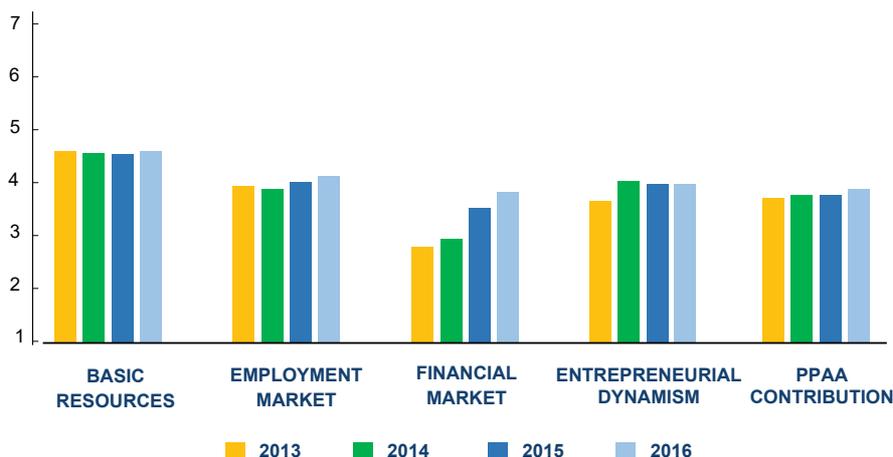
- The perception of Spain as a market and centre of production in the global context and its market dynamism.
- The potential of basic resources in physical infrastructure, human capital and technology as the base for future growth.
- The assessment of the employment and financial markets.

1. Annex 2: good international practices identified in the previous editions of the Barometer

Average scores by sections. International Competitiveness Indexes, 2013 - 2016

Source: Global Competitiveness Report (WEF), 2016, World Competitiveness Yearbook (IMD), 2017 y Doing Business (Banco Mundial), 2017.

Note: The range of valuations runs from 1 to 7. The middle point is 4.



- Analysis of the factors that determine the dynamism of the business sector, such as entrepreneurship and the functioning of the goods and services markets.
- The contribution made by public administrations with regard to the development of a competitive environment.

In each of these, the comparative rating of the Spanish economy with regard to the most important aspects of the international indicators of competitiveness are identified, with a total of 48 variables analysed (annex 3 has a list and definitions of these variables).

Finally, the 2017 Barometer contains a series of recommendations aimed at boosting competitiveness and generating sustainable and inclusive growth that can guarantee the sustainability of the Welfare State.

SUMMARY OF THE RESULTS

The average ratings obtained by the Spanish economy with regard to the main pillars of competitiveness are relatively low.

Only “natural resources” receives ratings above the average (4.5 on a scale of 1 to 7), mostly due to the high rating of physical infrastructure. The “financial market” and the “contribution by Public Administrations” obtains the worst score (both with a 3.8 in 2016), although with steady improvement with regard to the former. Of note, is the improvement in the ratings for all categories in comparison to 2015.

MARKET DYNAMISM

With a slight moderation in the pace of growth, expectations for positive growth in 2017 remain at a rate of between 2.8% and 3%.

Spanish companies continue to improve their external competitiveness, and Spain maintains its capacity to attract foreign investment.

Foreign investors see the size of the market, access to other markets and geographical location as Spain’s main attractions, but also point to labour costs and skills and the quality of the physical infrastructure.

BASIC RESOURCES

The quality of the physical infrastructure, mainly those related to transport, is one of the main competitive advantages of the Spanish economy. In the past few years, there has been a slight decrease in ratings for this, explained in part by the reduction in spending on maintenance and improvements.

International best practice would suggest improved planning and institutional design with regard to taking decisions on the investment, finance and maintenance of infrastructure, as well as moving forward in the development of intermodal connections.

With regard to the field of education, Spain continues to face shortcomings that affect all levels, in spite of the recent positive evolution in a few of the variables. In international comparative studies, Spain obtains ratings above the average for the OECD with regard to the availability of qualified engineers and the quality of its business schools. However, Spain is below average in areas such as:

- The quality of the educational system, with regard to primary, secondary and further education.
- In-house company training.
- Dual vocational training.
- The language knowledge.

Other important issues in the field of education include the high degree of early school leavers and the mismatch between graduate skills and the needs of employers and businesses.

In previous editions of the Barometer, measures to deal with this mismatch have been identified, such as the development of study programmes that are more flexible, adapted to the real needs of businesses, and the need to promote dual professional training, with positive effects leading to higher employability potential.

With regard to innovation, a slight advance in certain aspects has been observed in recent years, but Spain continues to rank behind the average for the OECD in:

- Technological cooperation and absorption.
- Capabilities for innovation.
- The ability to attract world-class researchers and scientists.
- The level of investment in R&D.

The urgent need to promote private investment in R&D has been highlighted, for example, through improved public-private cooperation and with better tax incentives, as in France. Digital development is also a key topic and one in which Spain's performance is below the European average in terms of human capital with digital capabilities, connectivity and the use of the internet. These are gaining increased importance in the labour market, which require action in order to decrease the existing mismatch between capabilities and requirements.

EMPLOYMENT MARKET

Although there has been a clear improvement with regard to this area in the past few years (above all after the 2012 labour market reform), comparative analysis of the main employment market variables from 2016 shows certain imbalances. Spain is below the OECD average with regard to the relationship between salaries and productivity, redundancy costs, hiring and firing practices and company-employee relations.

However, Spain ranks highly with regard to the availability of skilled labour, and, above all, in flexibility concerning determining salaries.

Unemployment continues to be one of the main issues facing our country. Previous editions of the Barometer have shown the importance of continuing to provide the employment market with the necessary flexibility and dynamism, advocating the design of efficient active employment policies and the adjustment of education adapted to the needs of the market in order to increase the employability of talent. All of this would be in the positive and long-term interests of advancing work productivity.

THE FINANCIAL MARKET

The Spanish financial market has recovered its capacity to supply credit, but still without reaching pre-recession levels. A structural deficiency remains in the capacity of the system to generate non-banking finance.

Small and medium-sized companies are facing major difficulties in order to get access to financing, principally of the non-banking variety, and they are the ones who are suffering to a greater degree the consequences of failure to comply with payment deadlines.

ENTREPRENEURIAL DYNAMISM

Spain is performing extremely well in terms of competitiveness and market liberalisation. However, ratings are inferior to averages in the OECD in terms of entrepreneurship and how easy it is to set up a company due to excessive red tape and the existence of administrative barriers. The reduced size of companies in Spain is another factor that limits, to a certain degree, their development

In order to boost improvement with regard to these deficiencies, in previous editions of the Barometer, we've highlighted the need to promote entrepreneurship in the educational system and through the establishment of support measures, as well as the promotion of intrapreneurship within companies. It is also necessary to deal with excessive bureaucracy.

THE CONTRIBUTION MADE BY PUBLIC ADMINISTRATIONS

The contribution of Public Administrations is the area that received the lowest ratings by the business environment. The size of the Administration is considered excessive, it is managed inefficiently with regard to public spending, and regulations impose excessive burdens on citizens and companies.

The relative valuation with regard to the Spanish institutional area in comparison to other OECD countries is:

- Similar with regard to aspects related to legal guarantees for the development of private activity, such as trade barriers, investor protection and the resolution of contractual disputes.
- Inferior in relation to the impact of the Administration in the functioning of the economy: efficiency with regard to public spending, taxes and the burden of regulation.
- Inferior in relation to the functioning of Justice and the degree of corruption.

International experience throws up examples of how to improve the management of both human and material public resources. Successful courses of action in other countries include the reduction in the size of the Civil Service, improvements in the management of public employment, bringing it more in line with the private sector, the development and efficient use of technology and the redistribution of territorial competences.

Introduction

In previous editions of the Barometer, there was a growing optimism for the positive evolution of the Spanish economy in the short term and, at the same time, a concern for the lack of reforms for resolving the structural deficiencies that hamper our potential for growth in the medium to long term.

The recent evolution of Spanish GDP confirms positive short-term expectations, as it has exceeded the growth levels of 3% in the past few years, above the average for the Eurozone (see picture 1). Spain has reached GDP levels prior to the recession, although with a lower level of employment.



Picture 1
GDP annual change (%), Spain and Eurozone, 2016

Source:

Eurostat and OECD, 2016

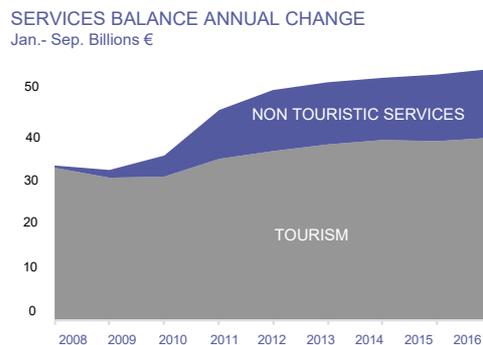
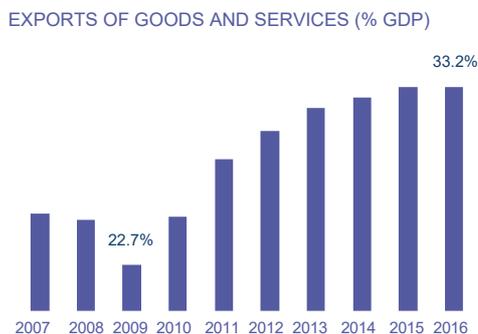
(* Provisonal values, based on the first 3 quarters change

The rise in GDP composition shows a transformation of the bases for growth based on the Spanish productive model being driven by foreign trade, in which the following can be highlighted:

- Its relative importance has gone from 22.7% of GDP in 2009 to 33.2% in 2016.
- Spain has been one of the few advanced nations that has managed to maintain its goods export market quota since 2007 in comparison to the world total (1.71%).
- Spain has remained in 18th position in the ranking for the top exporting countries.

- In 2016, the number of Spanish exporting companies grew to 148,794 (5% of the Spanish business sector), 51.3% more than in 2007, of which 33.5% were regular exporters².

The positive performance of tourism has been important, but revenue from non-tourism service exports has increased notably (transport, telecommunications and professional services, among others), increasing by 8% to el 3Q 2016, providing 25.5% of the services balance surplus.



Picture 2

External sector in Spain, 2008 - 2016

Sources:

- Left: Circulo de Empresarios based on INE, 2017

- Right: Circulo de Empresarios based on BoS, 2017

In spite of these evident signs of recovery, three major economic imbalances still persist, the resolution of which will require additional improvements in competitiveness.

- Unemployment still remains at socially unacceptable levels, in spite of its reduction in the past few years.

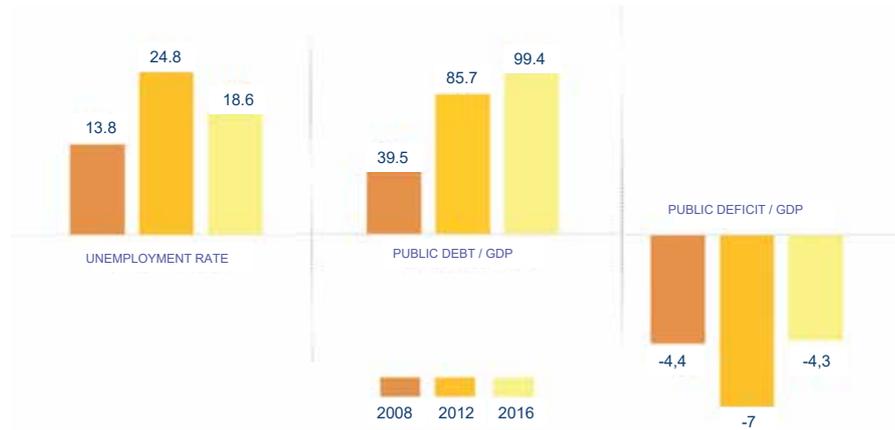
- Private debt has shown signs of improvement, but public debt is failing to fall.
- The public deficit, is showing slight signs of positive improvement.

2. Companies that have been exporting the last 4 years

Picture 3

Imbalances of the Spanish economy, 2012 -2016

Source:
INE, Bank of Spain and
Ministry of Finance
(*) Without financial support
programme



Picture 4

Main rankings of international competitiveness, 2016

Note: the rankings of the
Doing Business have
implemented a
methodological change in
2015

SSSource: Circulo de
Empresarios based on Global
Competitiveness Report
(WEF), 2016, World
Competitiveness Yearbook
(IMD), 2017 and Doing
Business (World Bank), 2017.



The Barometer of the Círculos analyses the degree of competitiveness of the Spanish economy as an indicator of its capacity to resolve these imbalances and to generate economic growth that is more sustainable and inclusive in the medium and long term. In 2016 (see picture 4) Spain held a position in the main international competitiveness rankings (between positions 32 and 34) that is equivalent to its classification according to its levels of income per capita (position 33), but inferior to the one that it corresponds to if its economic size on the world ranking scale (position number 14, according to its nominal GDP) is taken into consideration. Since 2011, our country has improved its position in the three main rankings, although it hasn't regained its classification ratings prior to the recession.

Breaking down these global competitiveness indexes into its main components, it is obvious that Spain has:

- A strong relative advantage in terms of the quality of its infrastructure (in 12th place).
- Pronounced relative disadvantages in the functioning of its commodities markets (position number 54), institutions (55), employment market (69) and financial market (71).

The 2017 Barometer looks in depth at these competitiveness components of the Spanish economy, providing an assessment on its main competitive strengths and weaknesses. At the same time, new examples of good international practices have been put forward that, together with those from previous editions (see the list in Annex 2), provide concrete proposals for the improvement of the Spanish business sector. Finally, the recommendations provided by the Círculos are grouped together in order to bring them in line with the most advanced economies in terms of competitiveness.

SOCIAL PROGRESS INDICATORS

The competitiveness ratings don't directly include aspects that affect the degree of societal progress as a whole, such as inclusive growth or equality of opportunities. Achieving these goals is on the agenda of several international institutions given their importance in terms of social cohesion. The Barometer of the Círculos, focusing on the competitiveness of the Spanish economy, has incorporated in this edition, the analysis of this socioeconomic dimension with the aim of highlighting the need to achieve a sustainable and inclusive degree of growth.

Organisations such as the World Economic Forum or the Social Progress Imperative have developed ratings that measure the degree of social progress in a variety of countries. Spain obtained a good rating in the Social Progress Index, in comparison with the rating for the World Economic Forum.

The Social Progress Index classifies countries according to three pillars (basic human needs, foundations for welfare and opportunities), each

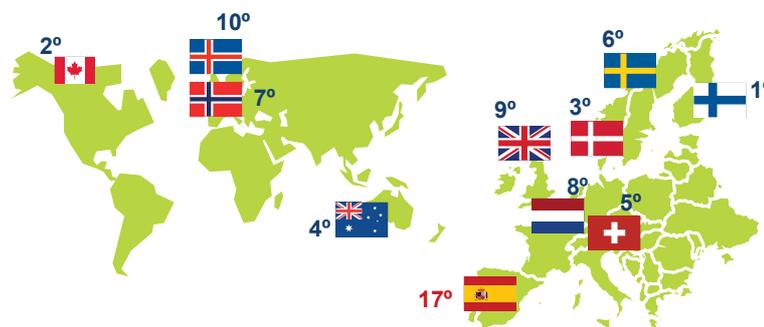
one composed of four sub-pillars. Finland has the highest rating of the 133 economies that have been analysed, while Spain is ranked 17, ahead of France (18) the United States (19) or Italy (24). However, the performance of our country is good in terms of health and welfare (3) and access to basic knowledge; however, it isn't in terms of personal freedom and choice (29) and housing (24) (see picture 5).

On the other hand, the Inclusive Development Index (by the WEF) measures three basic pillars: growth and development (productivity, per capita GDP, health and employment), inclusion (the degree of inequality in levels of income and wealth and levels of poverty) and intergenerational equity (savings, spending on education, public debt and the degree of dependence). Among the 29 countries considered advanced economies, Spain is ranked 26, only ahead of Italy, Portugal and Greece. Norway is in the number-one position for this classification (see picture 6).

SOCIAL PROGRESS INDEX (SPI), 2016:

17/133

TOP 10



Picture 5

Ranking of Spain by pillars in the Social Progress Index, 2016

Source: *Círculo de Empresarios based on Social Progress Index, 2016*

RESULTS BY AREAS

BASIC HUMAN NEEDS

| | |
|----------------------------------|-----|
| Nutrition and basic medical care | 13° |
| Water and sanitation | 6° |
| Shelter | 24° |
| Personal Safety | 23° |

FOUNDATIONS OF WELLBEING

| | |
|--|-----|
| Access to basic knowledge | 3° |
| Access to information and communications | 23° |
| Health and wellness | 3° |
| Environmental quality | 3° |

OPPORTUNITY

| | |
|------------------------------|-----|
| Personal rights | 23° |
| Personal freedom and choice | 29° |
| Tolerance and inclusion | 12° |
| Access to advanced education | 19° |

RANKING SPAIN

| |
|-----|
| 22° |
| 13° |
| 6° |
| 24° |
| 23° |
| 6° |
| 3° |
| 23° |
| 3° |
| 3° |
| 18° |
| 23° |
| 29° |
| 12° |
| 19° |

THE BEST POSITIONED COUNTRY

| |
|----------------|
| DENMARK |
| Finland |
| Australia |
| Denmark |
| Czech Rep. |
| NORWAY |
| Japan |
| Norway |
| Japan |
| Sweden |
| CANADA |
| N.Zealand |
| Finland |
| Iceland |
| Canada |

Picture 6

Ranking of advanced countries in Inclusive Development Index, 2017

(1) Min. score – (7) Max. score

* Average score of 29 advanced countries

Source: *Círculo de Empresarios based on Inclusive Development Index 2017, WEF*

WORLD RANKING TOP 10 PAÍSES

- 80% OF TOP 10 IS LOCATED IN EUROPE
- CORRELATION BETWEEN IDI AND GDP GLOBAL RANKING IS 75%



RANKING AND SCORE OF SPAIN (1-7) IDI RANKING 29

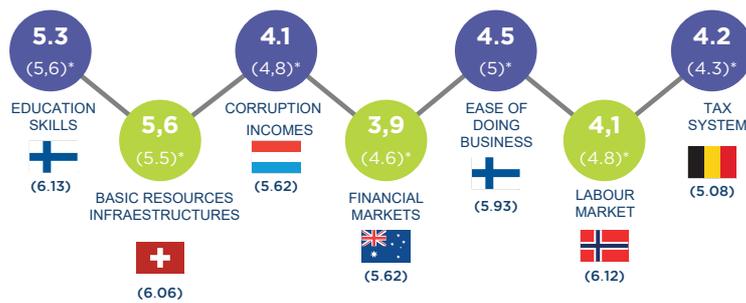
ADVANCED COUNTRIES* AND THE BEST COUNTRY



* NOTA MEDIA 29 ECONOMÍAS AVANZADAS

PILLARS OF THE INCLUSIVE GROWTH

SCORE OF SPAIN (1-7) AND AVERAGE SCORE OF 29 ADVANCED COUNTRIES / THE BEST COUNTRY



Recommendations

Basic resources

INFRASTRUCTURE

Spain has recently experienced a sharp decline in infrastructure investment, which fell from 5.1% of GDP in 2009 (55,030.7 million euros) to 1.9% in 2016 (23,432 million euros). This represents a drop of 57.4%, and is a long way below the European average (2.7%), reflecting a lack of a long-term strategy and vision. The situation is in marked contrast to that of Germany or France, which, throughout the crisis, have both maintained consistent levels of annual investment: around 62,000 and 79,000 million euros, respectively.

Allocating funds for infrastructure is essential in order to generate economic development, create employment and boost competitiveness, welfare and territorial cohesion. In the case of Spain, every million euros invested engenders an average of 14 direct and indirect jobs, and leaves a 50% fiscal footprint on the total investment.

Our country is in a good position in terms of certain transport infrastructure (high-capacity road network, high-speed railway network, airports, ports). However, despite the necessary fiscal consolidation, it is important to maintain existing infrastructure and promote new investment that will enable Spain, in view of its geographical location, to become a hub for logistics and the localisation of business operations. In Spain, only 5% of goods are transported by rail, which is far below the European Union average of 18%. It is also necessary to cover gaps in the funding of infrastructure and equipment for public consumption (water, health, education, etc.), as well as to respond to the challenges of a global economy, such as the management of natural resources, urban mobility and demographic changes.

- Agree on a State Pact that is stable and has a long-term vision, without excluding the possibility of a public-private partnership, as is the case in the United Kingdom and France. This strategy would make it possible to maintain the quality of existing infrastructure as well as developing new projects that meet Spain's socioeconomic needs and comply with European regulations.
- Overhaul water infrastructure, improving the wastewater treatment and recycling.
- Promote measures for renovating buildings, following European regulations on energy efficiency and using Sweden and Denmark as examples.

- Boost intermodal transportation and re-think the way infrastructure is managed, mainly with regard to the transport of goods by rail-ports, thus bolstering Spain's aspirations to become a global logistical hub.
- Forge ahead with projects for electric and gas interconnections with Europe to improve the safety of the supply and to realise the potential of alternative energies.
- Encourage investment in urban mobility and redevelopment, and in the capacity of our cities to adapt to new technologies, as has occurred in Japan, the United Kingdom and France.

EDUCATION

Spain leads the EU in the number of people leaving education early, the 2016 figure being 19.4% of young people – double the EU average of 10.8%. In terms of the level of studies reached by young people aged between 25 and 34, only 34.7% achieved a level equivalent to *EGB* (16.5% in the EU). This figure rises to 59% when taking into account the number of people who gave up their studies after *Bachillerato*, and only 22% have a Professional Training (FP) qualification, as opposed to 61% in Germany and 63% in Austria.

This reality in education limits the future prospects and employability of young Spanish people, a fact that is reflected in the youth unemployment figure for Spain: 41.5%, and much higher than the European average (17.3%). Although our education system has managed to reduce the number of people leaving education early, it is still unable to achieve levels similar to those of our European partners, much less provide the knowledge, skills and abilities required by a more global and digitalised economy.

OECD projections up to 2020 state that roughly two-thirds of jobs generated in the EU will require a professional training qualification. The Spanish education system must respond to this challenge, as take-up of dual FP is very low: 3% compared to 60% in Germany.

However, digital transformation is bringing about changes and engendering new products, new types of design, new production and distribution methods and new means of accessing knowledge.

According to the *World Economic Forum*, 65% of children beginning primary education now will have jobs that do not exist today. Furthermore, young people finishing their studies today will have to update their skills between 10 and 14 times during their working lives, and will require a high capacity for learning. Our educational model must respond to these new needs with greater innovation and creativity. We need to train our young people to acquire new skills and abilities, such as collaboration and team work, time management, and the capacity to find, filter and prioritise information, so that they are acclimatised to a labour market that is in a permanent state of flux.

It is clear that the extent of academic failure and youth unemployment, together with an altered perception of traditional employment with regard to background and professional skills, require an educational reform that is stable, long-term and is arrived at by an agreed State Pact. Our education system must be predicated on the core elements of enterprise, ethics, merit, effort, creativity, communication skills and knowledge of languages.

Core education

- Reduce the school drop-out rate after ESO by putting in place detection and prevention measures, promoting students' involvement in the planning of their professional career and smoothing the transition between educational pathways, such as in Denmark, Switzerland and Germany.
- Re-design the system of scholarships and grants, which are currently linked to academic achievement, so that there are no economic or financial barriers to prevent students with good skills from accessing education. This will reinforce the commitment to equal opportunities.
- Promote the following at all levels of education: an enterprising spirit, the social value of the entrepreneur, social responsibility, the recognition of failure as a part of learning and better training in economic and financial issues.
- Honour the work of teachers and recognise the importance of their role in improving competitiveness and the wellbeing of society, by establishing a variable remuneration that rewards dedication and teaching quality.
- Invest in the continuous training of teachers in view of the new technological and professional requirements of the market, following the experience of Finland.

- Reinforce the importance of learning languages. This is particularly true for English, which should be spoken to a reasonably good level by all students, as in the Netherlands.
- Improve training in digital skills across all levels of education by encouraging the use and practical application of information technology, as is the case in the United Kingdom.
- Engender in young people a career-minded approach. Do this in a coordinated way that involves all parties involved in their learning (schools, teachers, businesses and families), and make this a compulsory part of the syllabus, as in Germany, Austria and Switzerland.
- Create an independent accreditation body for centres of learning that is based on excellence, as in Germany.
- Following the experience of the Comunidad de Madrid, publish the results obtained by schools and training centres in entrance tests, thus making it possible to assess their quality.
- Increase the educational provision of intermediate-level FP, bringing it into line with European reference countries, in terms of both the number of qualifications by professional group and the number of places. More than 353,000 new places will be needed in order to reach the European average, in which Austria, the Netherlands and Switzerland lead the way.
- Standardise the criteria for validating university syllabuses in the different Autonomous Communities. This would encourage geographical mobility among students.
- Offer subjects specifically related to FP as options in ESO in order to encourage students to take this path, as happens in Norway.

Dual FP

- Promote dual FP by following the experience of Germany, Austria and Switzerland in creating an efficient system of grants and/or training loans, with more resources and better integration of businesses within the education system.
- Define a common standard regulatory framework in all Autonomous Communities to make it easier for dual FP training to be offered by large companies. This will guarantee the application of the major quality criteria by the training companies involved: a training salary, the selection of candidates by the companies,

and high-standard teaching as a result of having certified trainers. It will also ensure that the criteria are applied flexibly, and are therefore adapted to the needs of the company, as occurs in Germany and Denmark.

- Fully involve the company in the creation and adaptation of educational content. To provide business associations with the capacity to develop and update training syllabuses more quickly and effectively, and in less than one year, such as in Germany, Switzerland and Denmark. To create an independent organisation around sectors or professional groups in order to identify new needs in the labour markets, as occurs in Norway and Holland.
- Facilitate the roll-out of Dual FP in small- and medium-sized companies, with support measures (financial help, advice, flexibility) for those that lack the infrastructure and resources necessary (shared training centres), as is the case in Germany or Switzerland.

KNOWLEDGE ECONOMY AND DIGITAL TRANSFORMATION

Competitiveness in Spain requires investment in research and technological development (R & D), talent with knowledge and innovative skills, and a business network capable of adapting and creating products and services that meet the needs of the market and society. Furthermore, our future growth is determined by our capacity to exploit the potential of knowledge dissemination, the engine that fuelled the increase in productivity throughout much of the last century.

In Spain, in 2015, total R & D spend was 1.2% of GDP, which is a long way from the 2% target set by the Commission for 2020. Our greatest differential with the EU concerns private sector investment; this was 0.61%, compared with 1.31% in the EU and 1.74% in the OECD.

In terms of innovation, Spain belongs to the group of countries showing 'moderate' behaviour, according to the *EU Innovation Scoreboard 2016*, along with Cyprus, Italy, Portugal and Greece, and others. At the same time, since 2015, Spain has moved back 1 position to 20th in the EU28. This is due to the contraction of investment by companies in R & D, and to the small number of small- and medium-sized companies that are innovating new processes, products and forms of marketing, and which are working with each other or with institutions to develop innovation programmes. In Spain, there is little public-private partnership, since public R & D financed by private companies represents 0.037% of GDP (0.052% in the EU). As a reflection of this reality, Spain is 28th (out of 128) in the *Global Innovation Index 2016 (INSEAD)*. This index is headed by Switzerland, Sweden and the United Kingdom.

Another factor that negatively influences innovative behaviour in our country is the poor coordination between central government and the Autonomous Communities with regard to R & D. Innovative companies, particularly very small ones, are required to operate in a fragmented environment that includes numerous institutions and initiatives at regional and national level.

In the sphere of digital innovation, the new technological revolution directly impacts on Public Administrations, companies and citizens by creating a new ecosystem. Adapting to this environment in the right way will have positive effects on productivity, competitiveness and the internationalisation of our country.

Thus, the use of digital technologies is a key factor in social and economic transformation; this is reflected by the gradual change in our way of life, and in the way we connect, work and generate value. At the same time, these technologies make it easier to develop new solutions that are accessible and affordable for a greater number of people, covering basic needs in essential areas such as health and education, and financial and energy services.

The digital transformation is also having an impact on the labour market, with the appearance of new types of jobs and the demand for new skills and abilities. According to the OECD, on average a quarter of workers perceive an imbalance between their own skills and those required by their job, a figure that rises to a third in Spain. Adapting talent to this reality would make it possible to increase productivity and salaries, thus making the jobs of a higher standard and more inclusive. This means it is necessary to re-think and re-design our education system and continuous training programme. Future jobs will be essentially related to production, distribution and the transformation of knowledge; this will lead to a rise in the demand for STEM profiles (*Science, Technology, Engineering and Mathematics*) at a double-digit pace up to 2020 (*Randstad 2015*). By contrast, Spain has experienced a drop in the number of people enrolling on these kinds of degree courses, such as in engineering, where the number of enrolments has fallen 24% since 2003.

Finally, the small size of our business network is linked to the digitalisation of our economy. Thus, among small companies with fewer than 10 employees (95.8% of the Spanish business network), 74.5% have computers and 70.7% have internet access; of these, only 31.5% companies have a website.

Innovative institutional framework

- Transform the CDTI (Centre for the Development of Industrial Technology) into a public-private entity with a national scope, involving a large number of businesses. Its function would be to design a long-term (10-year) strategy for the Spanish system, covering science, technology and innovation, and following Israel's example. It would choose and develop those areas to be given priority in terms of innovation; it would also manage funding and generate synergies between universities, business schools and businesses.
- Develop a national Scientific and Technological Infrastructure Map (ICTS) through better coordination between central government and the Autonomous Communities.
- Give greater autonomy and strategic guidance to the Public Research Institutions (OPI), to universities and their research departments. At the same time, introduce assessment mechanisms for the allocation and management of resources according to their results.
- Initiate the process of integrating technology centres, science and technology parks and business incubators to make them into clusters of innovation and excellence.
- Adapt the infrastructure to the technological changes that will facilitate the development of new businesses and growth opportunities, and improve their quality and accessibility.
- Encourage applied research according to the needs of society, with financing programmes and public-private partnership; all of this requires a better connection between businesses, universities and R&D centres.

Business innovation

- Encourage partnerships between businesses and groups and institutions connected with higher education or research by creating clusters, such as in the Basque country.
- Limit the guarantees required in order to receive financing for R&D&I projects, especially for startups, and small- and medium-sized companies.
- Speed up the granting of technological certifications by the Spanish Innovation Certification Agency (ACIE).
- Include as deductible expenses the costs of the certification process for companies developing R&D&I projects.

- Enable the simultaneous application of tax deductions and rebates to companies in general, irrespective of their size.
- Promote a knowledge society and encourage the creation and exploitation of products and services with a high added value by updating deductions, changing the present limits for compensation and linking this more flexibly to staffing levels.

Innovative talent

- Create stable and unique systems that are specifically geared towards retaining and attracting talent, and which will assist in setting up skills centres for multinationals in Spain.
- Boost the recruitment of young research talent by changing the structure of a research career in the public sector, introducing promotion schemes and encouraging mobility between institutions or between the public and private sector. Promote the use of the scientific visa (*EU Blue Card*), which makes it possible to attract talent in research and innovation from across the world.
- Encourage more young technology researchers or managers to join the private sector, with a view to creating innovation in products or processes. Because of the smaller size of our companies, these young people will have greater support and supervision by universities and research institutes, and will have access to public sector grants for a period of time.

Digital transformation

- Design and promote a cross-disciplinary State Pact for Digitalisation that has a long-term vision. Involved in this pact should be the main agents and experts in this area, sharing the common objective of adapting our country to the new economic and social reality that is emerging from the digital transformation. It will require all actions undertaken by the relevant Administrations, Ministries and private-sector agents to be coordinated from the Prime Minister's office.
- Create a Digital Office attached to the Prime Minister's office. This should be led by an independent expert under the authority of the 'High Commissioner for Digitalisation', with responsibility for developing the Digitalisation Pact by designing, overseeing and assessing its implementation and the decisions taken by the

various Ministerial Departments involved. At the same time, this office must guarantee market unity in the skills transferred to the Autonomous Communities and generate a digital ecosystem among the different levels of Public Administrations.

- Coordinate national measures with those of the 2020 European Digitalisation Strategy.
- Prioritise the transformation of the education system to adapt it to the new Digital Society, thus gradually closing the gap between the options pupils choose and companies' requirements.
- Reinforce the intensive and responsible use of new digital technologies in all levels of Public Administration. This will make it easier for them to modernise and will make them more efficient in the management and supply of services.
- Encourage the introduction and use of digital technology in small- and medium-sized companies. Facilitate access by technology SMEs to R&D resources and assistance, in order to help them develop and provide technological solutions for large companies.

Labour

Spain's greatest challenge is to reduce its unemployment rate, which stands at 18.75% of the active population; this is triple the OECD average (6.2%) and double that of the Eurozone (9.5%). In terms of our labour market, the rate for structural unemployment, despite the advances that resulted from labour reforms, still stands between 14% and 16%. Furthermore, it is of a highly temporary nature, has little flexibility, unfavourable taxation and ineffective employment policies – both passive and active.

It is true that economic recovery, along with the effects of labour reform, have led to the creation of 1.6 million jobs since 2014. However, the levels of long-term unemployment (54.3% of the total) and youth unemployment (41.5% of all active young people under the age of 25) give cause for concern. This situation is one of the main defects of our labour market, and it has direct implications for the employability of the active population and their economic situation, and indirectly affects the economy and social welfare overall. Approximately one in every two young Spanish people has no job, which puts our country 30 points above others such as Germany, the Netherlands and Austria (with rates of around 7-10.5%).

In addition, youth unemployment is mainly concentrated among young people with little training or professional experience. The most vulnerable of these are the individuals who gave up their studies without completing secondary education, who do not work and who do not receive any type of training. In Spain, they represent 22.8% of youths between the ages of 15 and 19, compared with 14.5% in the OECD.

Spain's temporary employment rate stands at 25.1%, in contrast to countries such as the United Kingdom (6.2%), Austria (9.1%) or Germany (13.1%). The main reasons for this are the effect of tourism on the service sectors and our labour legislation, which determines that the cost of dismissal is different for workers on an indefinite contract and those on a temporary one. This has a negative effect on productivity, geographical labour mobility, salary progression, the development of intensive activities in physical and technological capital, and on the fertility rate, among other aspects.

Spain is the only OECD country to experience a sharp fall in employment during the crisis, while at the same time, the number of working hours increased per person in employment. By contrast, in Germany, which experienced a greater shrinkage in its GDP in 2009, the change to working hours enabled jobs to be created. This highlights the lack of flexibility within our labour market prior to the labour reform of 2012.

Finally, job creation is hampered by the high tax burden on labour that is experienced by Spanish companies, which have to assume over 80% of the total cost of social security contributions. In the United Kingdom, Germany, the Netherlands and Ireland, however, payment of these is distributed more evenly between the employer and employee.

In conclusion, the deficiencies in our labour market, along with those affecting our productive framework, our education system and institutional framework, require new reforms that will drive forward the creation of stable and quality employment. It is therefore essential to improve the present labour relations model so that it is equipped to respond to the new era of globalisation and digital transformation.

- Modernise the recruitment system, rationalising and simplifying it by setting out a menu of three main types of contract that can apply to both part-time and full-time posts: indefinite, variable according to specific business needs (of a specified length) and youth contracts (for training purposes).

- Standardise payments for termination of both temporary and indefinite contracts, and reduce their costs by converging with the levels of countries with lower rates of temporary employment and unemployment, such as the United Kingdom, Germany and Switzerland. Also, for new contracts, introduce a mixed system of severance payments, establishing an individual savings account of periodic contributions that the companies are in charge of. The quantity would be smaller in the first few years, in the case of an open-ended contract, using the 'Austrian backpack' as a reference.
- Establish a mixed system of collective bargaining that is adapted to the company (in terms of salaries and hours) and to sector agreements (in terms of minimum wage, training and pension funds or maternity allowance), following the experience of Denmark. This would make it possible to link productivity with salaries, taking into account the differences in competitiveness and size that exist between different companies in the same sector.
- Boost internal flexibility in the labour market by promoting greater functional mobility for workers, including those in different professional groups and at different levels of training or functional versatility, and by reducing the need for standardisation and administrative requirements.
- Re-draft active policies by making a commitment to be active and searching for work, and encourage the unemployed to be more employable through a greater public-private partnership. Companies must gain skills in how to design, manage and finance training programmes for their workers, such as in Germany, Denmark and the United Kingdom. This would lead to effective professional rehabilitation and enable them to work in sectors that need to increase their workforce.
- Support young unemployed people and the long-term unemployed by increasing the length of time that they are able to claim loans and unemployment benefit, and make this period conditional on their accepting offers of work and training.
- Adopt specific measures to promote youth employment, many of which are already in place in Germany, the Netherlands and the United Kingdom:
 - Encourage young people to be more employable through dual training programmes, both professional and through universities. These must be designed and developed in a coordinated way by the different social partners within a common framework.
 - Incentivise non-labour practices in companies by facilitating the signing of agreements between companies and the Spanish Public Employment Service (SEPE). The possibility of signing these agreements with private employment agencies would also help them to be used more widely.
 - Develop programmes and activities that aim to give young people guidance and help them gain professional qualifications.
 - Establish an interprofessional minimum salary that is specifically linked to training for young people with few qualifications, in a similar way to the systems in place in the United Kingdom, Germany, etc.
 - Incentivise public bodies to create job clubs on the internet, such as in Sweden.
 - Promote the recruitment of young people via the new system proposed by the Círculos. This involves a 'contract to integrate youths (between 16 and 18 years old) into the labour market', over a maximum period of three years and with the possibility of being extended indefinitely.
- Recommend that a greater number of companies take part in the Strategy for Entrepreneurship and Youth Employment programme that was set up in March 2013 by the Ministry of Employment and Social Security.
- Introduce business initiatives similar to *InCharge*, which was founded by 25 German companies to increase opportunities for young unemployed people in the European labour market, through employment bureaus, mentoring programmes, training, internships and job opportunities from companies.

Financing

Financing plays a key and necessary role in the life cycle of companies, affecting aspects such as how they are created and grow, their R&D&I activities and the internationalisation process they undergo.

Since the end of 2014, the conditions for accessing financing in Spain have become much more favourable, mainly due to lower interest rates and the

recovery of internal debt. This is highlighted by the amount of new credit extended to companies involving sums under a million euros, which has grown by 16% since 2014. The most recent survey carried out by the BCE (European Central Bank), in November 2016, reveals that 9% of SMEs questioned found it difficult to access financing, compared to 30% in 2012. In their turn, the crisis and the development of alternative sources of financing have enabled companies to reduce their dependence on bank credit from 78% in 2010 to the current figure of 70%. Despite this, the present percentage is still very high compared to Germany (55%), France (45%) and the United Kingdom (35%).

In our country, alternative sources of financing still have a limited role. Specifically, since the Alternative Fixed-Income Market (MARF) was set up in 2012, it has channelled 3,650 million euros in company issues, and its future [development] is dependent on the number of companies with the capacity to meet its access requirements. In 2016, the average sales of companies operating in MARF exceeded 50 million euros, taking into account that only 0.1% of companies in our productive network turn over more than 50 million euros, in Spain, this would mean only 3,000 potential companies that could have issues processed in this market.

However, in the securities market (in terms of the outstanding balance), Spain represents 12% of the total volume, compared with the United Kingdom and the Netherlands with 29% and 18%, respectively (IEF 2015). Greater development of this market would help improve efficiency in allocating resources and diversifying risk, reducing the cost of capital and driving growth, both in the economy and within our companies.

In this new financial environment, which is marked by interest rates that are at an all-time low and greater regulatory requirements, companies must correctly manage the structure of their borrowings in order to access financing more easily and drive growth. For their part, the economic authorities should adopt a series of measures, such as:

- Establish a single regulatory code that is more transparent, and which protects both consumers and investors effectively.
- Revise bank regulations with regard to business financing, so that capital requirements do not affect the availability of loans to small- and medium-sized companies, on the basis of accounts that are duly audited, in an 'abbreviated' form where necessary. Furthermore, the same criteria should be applied to the stress tests applied to bank assets.

- Encourage the use of, and reduce the costs associated with, non-banking financial instruments: debt funds, capital risk funds, MARF and the Alternative Stock Market (MAB). The development of alternative sources of financing should be accompanied by greater transparency and information on the advantages and possible risks associated with their use.
- Simplify and standardise the regulatory framework for the securities market. This would improve access to information as well as the quality of it, and would attract new investors, following the experience of the United Kingdom and the Netherlands.
- Reconsider the limitations of crowdfunding, following the model of the United States, taking into account the differences in materia financiera de both countries.
- Bring Spain's Venture Capital Law into line with European regulations.
- Comply effectively with regulations on repayment terms, both those from Public Administrations as well as large companies, by checking during the audit that payments of invoices have been effected and by establishing a sanction system, following the model in France.
- Increase the flexibility of debt deferment policies with the Public Administration.

Business dynamism

Our country needs new measures that will guarantee market unity, that promote compliance with the Law on Payment Terms, drive the internationalisation of our companies, encourage entrepreneurialism and enable viable companies to survive within the framework of a modern and dynamic economic system.

Market unity

- Drive efficiency and transparency in the assessment of how rigorously the Autonomous Communities are complying with the Law on Market Unity by the Quality Assessment Agency (the Ministry of Finance and Public Administrations), with the aim of avoiding duplication in administrative procedures for companies and citizens.

Internationalisation

- Improve financing for export companies via credit insurance, joint-risk programmes with financial entities through the Spanish Export Credit Agency

- (CESCE), the promotion of mutual guarantee companies via ad hoc government guarantees, and the development and monitoring of alternative financing channels.
- Give ICEX (Spain Export and Investment) more resources and strengthen the role of economic diplomacy.

Entrepreneurship

- Promote financing via business angels and legal persons:
 - 1% tax on capital gains for start-ups, for acquisitions made up to the fifth year and with a minimum ownership of 2 years.
 - Integration of capital losses by Personal Income Tax (IRPF), with a limit of 150,000 euros/year, the surplus of the loss being absorbed over the following 4 years.
- Promote alternative means of financing with the creation of an Entrepreneurship Fund, using public-private seed capital to develop small companies.
- Creation of a new system for calculating Social Security contributions for startups that is linked to the volume of business, up to 100,000 euros of annual turnover, and in proportion to this for the first 3 years.

Cooperation and business concentration

- Revive the tax deduction on merger goodwill, which disappeared on 1 January 2015.

Insolvency

- Correct the notion of the Treasury and Social Security department being perceived as preferential creditors.
- Remove the inheritance of debt with the Treasury and Social Security department on buying business units.
- Authorise the Treasury and Social Security department to negotiate in the pre-insolvency phase, along with the rest of the creditors.
- Allow agreements to be reached with reduced majorities in insolvency proceedings.
- Regulate and professionalise the role of the insolvency administrator, as in the United Kingdom.
- Speed up procedural and judicial processes, and encourage arbitration and mediation in the interests of achieving greater legal certainty.

MEDIUM-SIZED COMPANIES

The crisis highlighted the small average size of our business network, with the number of micro-enterprises and small companies (those with fewer than 50 employees) standing at 99.3% in 2016, compared with 99.2% in 2010. Of the rest, 0.6% are medium-sized (with between 50 and 250 employees) and 0.1% are large. These figures contrast with those of Germany and the United Kingdom, where micro-enterprises are outnumbered by small and medium-sized companies.

Despite representing only 0.7% of our business network, medium and large-sized companies in Spain generate 55.2% of Gross Value Added and 40.7% of jobs. Staffing adjustment(s) during the crisis was less marked in larger companies. The crisis had a greater effect on micro-enterprises and small companies in terms of jobs, with a reduction of 25%, compared with 20% in medium-sized companies and 6% in large-sized companies. If Spain had had the same structure as the United Kingdom during the crisis, over 500,000 jobs would have been saved. Similarly, job recovery is more more noticeable in larger companies, with the number of employees in large companies increasing by 6.6% since 2013, and by 3.9% in medium-sized companies.

Similarly, work productivity increases with company size – with medium- and large-sized companies recording higher Gross Value Added per employee. Our medium- and large-sized have productivity that is comparable to that of their counterparts in Germany, the United Kingdom and the United States. In some cases, it is greater for medium-sized companies compared with those in the U.S., and greater for large companies compared with Germany and the United Kingdom. Thus, if the Spanish business network were the same average size as that of Germany, our aggregate productivity would rise to 13%. This would generate 15,000 new companies (12,000 medium-sized) and 400,000 new jobs.

Consequently, medium-sized companies make a positive contribution to a country's growth and economic stability, through their greater productivity, their stabler job opportunities, and their easier and lower-cost accesses to financing. All of this highlights their predisposition to expand abroad, innovate, embrace new technology, and develop, retain and attract talent. Furthermore, a business network with a greater average size makes it easier for countries to adapt more flexibly to the new global challenges of a geoeconomic, geopolitical, demographic and technological nature. This is why

Spanish companies need to increase in size, and, in turn, why it is necessary to put in place specific measures in all areas of our economy. Specifically, in Spain there are tax, labour and bureaucratic measures/policies that act as a disincentive to growth. If a company employs more than 50 people and/or has a certain turnover [figure] (6 million euros) or number of assets, it is faced with a new set of obligations. These lessen their incentive to become medium-sized companies, and reduce their competitiveness and the chance of using their own funds for financing. Raising these thresholds would change the knock-on effect, leading to growth in the average size of our business network.

Labour

- The decision to establish a works council must be agreed by 100 or more employees, as a benchmark figure.
- Reduce the composition and number of paid union officials in the works councils of medium-sized companies (up to 250 employees).

Tax

- Raise the turnover threshold for Company Tax instalments and VAT payments, as well as for joining the Large Taxpayer Unit, from 6 to 20 million euros.
- Minimise the burden of Inheritance Tax, thus making it easier for the business project/venture to continue and for the families at the front of the company to survive, following the example of Austria, Norway and Canada.
- Drive growth and business capitalisation, increasing tax benefits for those entities that reinvest profits (for example, reintroducing the system of tax breaks for reinvestments).

Administrative issues:

- Establish a new 'abbreviated' audit for companies that comply with two of the following three conditions/circumstances: assets of between 2.85 and 4 million euros, turnover of between 5.7 and 8 million euros, and/or fewer than 50 employees.
- Make more mainstream the use of the one-stop shop system when dealing with government, as in Sweden, Denmark and Austria.

Cooperation and business concentration

- Encourage new support programmes for companies, using as a reference Cre- 100do,

which facilitates access to experts in areas such as human resources and technological innovation.

- Identify and define maps showing spaces for opportunity and scope in the sectors of activity.
- Introduce a form of specific deduction for the costs incurred by small- and medium-sized companies undergoing mergers.

Financing

- Revise banking regulations with regard to business financing, so that capital requirements do not affect the availability of loans to small- and medium-sized companies.

TAX

Following the reforms of 2014 and 2015, our tax system continues to have some tax rates and social security contributions above the average within the OECD and the eurozone. This increased pressure on labour and savings has not resulted in higher tax revenue (37.9% of GDP in 2016 compared to 44.9% in the EU). Of particular concern is the behaviour of indirect taxation, which, in the case of VAT, stands at 6.5% of GDP, slightly above Italy (6.2%), and a long way below the majority of European countries such as Finland (9.1%), Sweden (9.1%) or Portugal (8.6%). This reduced VAT income is partly explained by instances of fraud and the black economy, which in Spain reached 18.2% of GDP in 2015, according to estimates by Friedrich Schneider. Other reasons are the high level of unemployment and self-employment, the lack of fiscal awareness and education/knowledge, and the low competitiveness of our tax system (Spain occupying 28th position from 35 countries listed in the Tax Competitiveness Index 2017).

Spain continues to need new tax reform measures that will lead to an increase in tax revenue, not by creating new taxes or raising existing ones but by broadening tax bases, imposing the least possible tax burden on work and savings, improving contributors' knowledge and understanding of tax and battling against the black economy and fraud.

At the Círculos we understand that these new measures will accelerate the process of fiscal consolidation, and speed up economic growth and help create quality jobs. At the same time, they would also drive the competitiveness of our country, the growth of our businesses, the attraction of investment and talent, and the development of innovation. Taken as a whole, this new tax reform would help maintain our Welfare State and underpin social equity.

Legal certainty, transparency and neutrality

- Gain stability and predictability in the Government's application and interpretation of the tax system, in order to provide legal certainty for national and international investors, and for companies and citizens alike.
- Improve transparency and access to information about how different taxes are collected and about how they are earmarked, such as in New Zealand, Sweden and Norway.
- Simplify the tax system, abolishing taxes and improving the way regulations are drafted, i.e. with clearer and simpler laws and regulations, such as in the United Kingdom. This would also help reduce litigation rates.
- Standardise the tax treatment of economic activities undertaken by natural and legal persons, bringing Personal Income Tax more in line with Company Tax, and the tax base closer to the accounting profit .
- Apply the principle of joint-responsibility for tax concerning spending decisions and its implications for revenue.

A more competitive tax system

- Simplify the Spanish tax system, which has reached a level of complexity that has a negative effect on legal certainty, economic efficiency and management costs for both the Government and the people. It will be necessary to:
 - Abolish taxes. The tax authorities of the various public administrations have created a multiplicity of tax figures which overlap one another without dovetailing and which are frequently applied to the same taxable activities and areas.
 - Simplify the drafting of tax legislation by means of simpler laws that eliminate unnecessary requirements and have clearer rules.
 - Lessen the indirect tax burden that is imposed on companies, reducing to a reasonable degree the obligation to provide information, the time taken for tax inspections and the time periods and methods for resolving conflicts, and strengthening the possibility of reaching formal agreements with the Tax Authority.
- Establish a single lower rate of Company Tax, at around 20%, and create a series of tax

benefits comparable to the more competitive countries in the EU, such as Sweden, the United Kingdom and the Netherlands.

- Simplify the way VAT is structured and reallocate those goods which are subject to the general and to the lower rate, following the model used in most EU countries, and in particular in Austria and Germany.
- For Social Security contributions, reduce the burden on the employer and, at the same time, move gradually towards a contributory scheme with a more balanced distribution that ensures the adequacy and sustainability of the pensions system, as occurs in Germany, Austria and the United Kingdom.
- For Personal Income Tax (IRPF), the greatest revenue that results from expanding tax bases and employment will bring marginal tax rates more in line with the average within the OECD or eurozone.
- Minimise the burden of Inheritance and Gift Tax, which is an overtaxation of savings, by adjusting its maximum rate to the OECD average (15%).
- Abolish Wealth Tax, which is a form of taxation that has almost disappeared in the OECD, in countries such as Austria, Canada or Sweden.
- Reduce the administrative burden that is imposed on companies by rationalizing the amount of information required, the time taken for tax inspections and the time periods and methods for resolving conflicts, and strengthening the possibility of reaching formal agreements with the Tax Authority, following the experience of the Netherlands and New Zealand.
- Extend tax benefits to companies that reinvest profits, introduce special Personal Income Tax schemes to foster the retention and attraction of talent and set up skills centres for multinationals in Spain. Also, promote tax measures that encourage the expatriation of staff in line with the internationalisation of Spanish companies.
- Bring an end to the exit tax, which has been applied since 1 January 2015, as it is a disincentive for entrepreneurs to launch start-ups that promote technology and innovation.
- Improve the efficiency of the Tax Authority and its relationship with taxpayers:

- Promote collaboration between the taxpayer and the Tax Authority. The latter needs to be cooperative with taxpayers who meet their obligations by following models that have been very successful in the more advanced countries in Europe (for example, the United Kingdom).
- Encourage the Tax Authority to use plainer and more accessible language in its dealings with the taxpayer.
- Create tax procedures that foster the exchange of information and reduce the need for taxpayers to take the initiative, as is currently the case.
- Promote improved coordination between the Directorate-General for Taxes and the Tax Agency.
- Accelerate conflict resolution by administrative and judicial means, introducing mechanisms aimed at finding alternative solutions in tax disputes that are stabler and easier to predict (tax arbitration or mediation), following the experience of the United Kingdom, Portugal and Belgium, and by providing the Public Administration with more resources and means.
- Rearrange the tax authorities of the State, Autonomous Communities and Local Entities. Jurisdiction, both in legislation and in the management of business taxation, should fall exclusively to the State in order to facilitate market unity. As a result of this, business decisions will not become distorted by the more than 70 regional and local taxes, with the huge management costs that this brings.
- Promote fiscal education in order to make people aware of their joint responsibility to the Welfare State. It is right that they should know the costs of public services and benefits, and the challenge of sustaining these in light of our ageing population.

Fight against the black economy and fraud

- Promote knowledge and understanding of our collective tax responsibility towards the Welfare State, as is the case in Sweden, Chile and Japan.
- Prioritise available resources, boosting research activity and the Exchange of information between Administrations.
- Increase the resources for Tax Agency inspections, which would expedite the process.
- Provide tax incentives to allow creativity to emerge, as in France, and tighten sanctions, as in Norway and the Netherlands.
- Adopt measures designed to make the payment of commercial transactions through electronic means more widespread, as in Nordic countries.
- Modify the payment system that is based on the incentive of tax inspections, and instead encourage the keeping of good records by applying the threat of strict sanctions.

Contribution of the Public Administrations

Spain has a high public deficit which hampers any efforts to make further improvements in our growth and competitiveness. After ending 2016 with a deficit that was lower than that agreed with Brussels (4.33% vs. 4.6%), our country needs to aim this year for 3.1%. Furthermore, the structural deficit, which eliminates the cyclical element of the economy with regard to public accounts, stands at 3.8%, according to the European Commission; this is 2.7 points higher than the eurozone average and above 2012 levels (-3.3%). The scenario of fiscal consolidation is impeded by the primary budget balance, the Central Government and Social Security deficits, and the high level of debt.

The primary deficit for the group of Public Administrations, which deducts the service from the public debt, was 2% of GDP in 2016 (Treasury, 2017). This is a long way from the recommendations of the OECD, which considers that in order to accelerate the rhythm of fiscal consolidation, it is necessary to generate, in a stable and continuous way, a primary surplus of at least 1%.

Despite the fact that in 2016 Spain's nominal GDP grew by 3.6%, public debt continues unchecked, largely because of the behaviour of the Autonomous Communities, whose debt represents a third of the total increase. Total public debt amounts to 100% of GDP, of which the Central Government represents 75.2%, the Autonomous Communities 21.1% , Local Authorities 2.4% and Social Security 1.3%. Since 2007, the public debt of the Autonomous Communities has risen most sharply: 480.5% compared with 200% for the Central Government's public debt.

If total public spending went down slightly in 2016 (as far as 42.4% of GDP), and remains below the EU average (46.6%), the necessary fiscal consolidation and compliance with the excessive deficit procedure requires our Public Administrations to improve in efficiency, transparency and responsibility in terms of budgetary implementation. Since 2007, the Autonomous Communities' production costs have risen from 19.5% of GDP to 21.3% in 2014, mainly because of the upward movement of labour costs of public-sector employees, which increased by 1 pp of GDP in this period (OECD 2015).

The budgets of the Autonomous Communities and the way they are implemented suffer from a lack of transparency and homogeneity. Of the 10 Autonomous Communities analysed by the Treasury, 8 have budgets which do not provide clear, adequate and regularly updated information on their expenditure items.

Our Social Security system is constrained by, among other factors, an ageing population and an increase in life expectancy within Spanish society. Increased pension costs, among other social expenditure, puts at risk the sustainability of the Welfare State. Since 2007, the ratio of contributing/pensioners has fallen steadily from 2.71% to 2.26%, and the amount of the average pension has risen to 35.2%. The increase in spending on pensions, along with insufficient revenues, means it has been necessary to finance the system using the Reserve Fund; since 2012, the sum of 67,337 million euros has been taken from this fund. Currently, the balance of the fund stands at 15,020 million¹ (1.35% of GDP). To continue the arrangement at this rate means that the Reserve Fund will become empty this year. In fact, in 2017, the projected Social Security deficit of 1.4% of GDP will be financed by using the Reserve Fund and by means of a loan of 10,192 million euros from the Treasury.

This situation highlights the need to undertake a structural reform of our pensions system. The parametric reforms that have been approved so far (raising the retirement age, extending the number of contribution years required in order to receive a pension, etc.), do help to maintain the system, but do not guarantee a particular pension amount, and in fact delay finding a solution to the problem.

Spain needs a Government that can guarantee the continued existence of the Welfare State, using fewer resources, with greater quality and efficiency, and which is in the service of both civilians and companies. There have been positive steps taken by the Commission for the Reform of Public Administrations (CORA), which until May 2016 had implemented 86.94% of the 222 proposed measures. This represented a saving estimated by the Government to be 34,974 million euros (82.2% of the total) for the group of Public Administrations and within the implementation period. Similarly, it is essential to increase transparency within our Government, make further advances in the struggle against corruption, and create a regulatory framework that is simple, stable and planned, and which fosters economic growth and equity.

Spain needs to improve the mechanism and efficiency of our judicial system. A country's competitiveness is linked to its institutional legal framework, of which observance of the law and judicial certainty are both essential elements. Its unsystematic functionality generates extra costs which rebound on the whole of society, in turn stifling dynamism and economic growth.

Specifically, it has negative implications for creation, growth and the extent to which a company is able to specialise.

International comparison shows deficiencies at a structural level in our justice system, particularly relating to the length of time taken for judicial processes and the almost non-existence of alternative methods for resolving disputes. It takes 325 days to resolve civil cases at first instance in Spain (CEPEJ 2016), above the EU average (237). In terms of judicial independence, only 31% of Spanish people rate this positively, compared with 86% in Denmark and 81% in Finland (*The 2017 EU Justice Scoreboard, 2017*).

As regards an understanding of the judicial independence of companies, according to the *EU Justice Scoreboard (2017)*, Spain is in 18th place within the EU28, and Finland, Sweden and Ireland are at the top. Globally, Finland and New Zealand lead this index, while our country is in 65th position out of 138 countries (WEF, 2016).

Finally, a lack of ethics and corruption impinge directly on the sustainability of the Welfare State, as they divert public resources from essential areas such as education or innovation, or else lead to poor management of the same when contracts are

awarded that cannot be justified on the grounds of economic efficiency. This situation is a huge hindrance to productivity and to the generation of more sustainable and inclusive growth, given that the economic cost amounts to 1% of GDP (Schneider 2015).

Spain is not a corrupt country; according to the results of the Barometer of International Corruption of Transparency, the percentage of genuine cases of corruption is 5%, a level comparable to Germany, France and the Netherlands. However, the existence of unethical behaviours and the corrupt practices that occur within different areas of society fuel the perception that they are widespread. Thus, our country has generated a disaffection towards our institutions that is reflected in a loss of trust in our politicians and social and business representatives. It is therefore necessary to reinforce basic principles such as transparency, responsibility and accountability without damaging the economic freedom that characterises countries with low levels of corruption.

Efficiency and quality of public service

- Re-define regional and local administration by reducing the number of local authorities or re-shaping their structure: eliminating Councils, centralizing services, achieving economies of scale, and fostering partnership between the associations that share services and facilities.
 - Strengthen the mechanisms for coordinating and collaborating with the Autonomous Communities in order to avoid disparate criteria being applied in different parts of the Spanish territory with regard to domestic trade, use of services or environmental policy.
 - Promote the declaration of responsibility and of positive administrative silence.
 - Encourage public-private partnership in the supply of services, outsourcing activities undertaken by Public Administrations that could be carried out jointly with the private sector. This would generate improvements in cost efficiency and in the quality of services, as well as greater flexibility and the capacity to adapt quickly to the changes that will continue to occur in our society.
- Assess the economic policies proposed by Public Administrations and political parties and improve transparency and accountability, following the example of institutions in the Netherlands, the United Kingdom and Sweden. This would require an independent autonomous body to be set up, with a president appointed by Parliament for a non-re-electable period of ten years. This organisation would involve the Office of Economic Policy and the Court of Auditors, and would be responsible for checking and publishing the accounts of all Autonomous Communities and dependent entities (projected as well as completed) in a report that combines all revenues and spending across the entire network of Administrations.
 - Amend the Public Employee Statute by building mobility, flexibility and incentives into existing contracts and approving a new legal framework for new contracts. This would need to be closer to the private sector model in terms of recruitment, dismissal or remuneration so as to be on a par with the public sector model used in countries such as the United Kingdom, Denmark or Sweden. Reserve the status of civil servant for positions of responsibility within Public Administrations, whose stability and Independence are necessary to the proper functioning of institutions, as occurs in Sweden and the United Kingdom.
 - Revive the spirit of public service in order to achieve an administration that is in the service of citizens and which commits resources efficiently and effectively to social policies, which minimises administration costs and prioritises spending policy.

Social Security and pensions

Short-term measures

- In terms of spending
 - Create notional accounts that record the payments made by each individual contributor and the income from their working life, calculated using a notional rate linked to a macro-economic variable, such as in Sweden and Italy. The advantage of this mechanism is that it gives a clearer understanding of the financial system, as it establishes a closer link between contributions and pensions. It also

creates greater awareness and transparency in terms of individuals' possible future income, thus making it easier to plan and make saving decisions.

– Gradually increase the number of qualifying years that are used as a basis for calculating the retirement pension, extending this period to cover the individual's entire working life. This parametric measure would increase the proportionality of the system, that is, the link between the pension collected and the contributions made, such as in Austria, Finland, Portugal and Sweden.

– Discourage early retirement and encourage voluntary extension of the working life for those over the age of 67, because of both the positive effect this will have on the active population and the reduced pensions cost. This measure reflects a new socio-economic reality that is characterised by, among other factors, improvements in life expectancy and living conditions, the delay in joining the labour market and greater automation and the digitalisation of jobs.

– Link the reassessment of pensions to productivity, following the experience in Sweden.

– Aim to have Public Administrations operating at maximum efficiency, deploying resources with improved transparency and accountability, and to higher standards, providing services and public aid using private-sector mechanisms. Spain needs a Government that is in the service of taxpayers and which is able to guarantee the continued existence of our Welfare State.

- In terms of revenue

– Finance all non-contributory pensions through the General State Budget, undertaking a tax reform that will support job creation, assist the launch and growth of companies and reduce the size of the black economy. These measures would lead to an increase in funds raised to finance the pensions.

– If the limits on contributory pensionable salary were raised, this would bring more revenue into the system; however, it is necessary to consider the impact of this on job creation, on our companies' growth and on their productivity. The increase

in salary costs that would result from this measure would have very negative consequences on employment, particularly for the Spanish economy: 99.3% of its business network is made up of small- and medium-sized companies. The decision to abolish wage caps (maximum and minimum) must meet the needs of the worker, and this means introducing a system of notional accounts and no limit on the maximum pension.

- Formulate a new Social Security contributions scheme by trying to find a better balance between the contribution made by the employee and the employer, as occurs in the United Kingdom, Austria, the Netherlands and Germany.

- Introduce fiscal measures designed to incentivise private savings, especially with regard to pension plans.

- Support measures for new mothers and which help integrate women into the labour market by strengthening the reform concerning parental leave, tax breaks for families and pre-school (aged 0-3 years) childcare arrangements.

- Encourage greater understanding of personal finance and about saving for the future, making people aware of the responsibility they share with the Welfare State.

Long-term measures

- Gradually transform the present redistribution system into a mixed system based on three bases (redistribution, compulsory capitalisation and voluntary capitalisation), in order to guarantee worthwhile long-term benefits, as is the case in Sweden.

– The first base would aim to provide a minimum standard of living with a basic pension. This would function as a state system of redistributive pension with notional accounts, topped up by non-contributory pensions.

– The second base would be a system of compulsory capitalisation which both employers and employees would pay into. The objective would be to bring the pension closer to the standard of living that they enjoyed during their working life

– The third base would be more similar to the present system of voluntary contributions using pension plans and pension funds. It would be driven by a more incentivised fiscal treatment than is currently the case, the objective being to top up the pensions of those who take this savings option.

- The redistributive element would need to be adjusted to make it more financially sound. Incentives would need to be introduced in order to extend people's working lives, as well as new formulas for calculating the earnings base that take into account most of the individual's working life. A reform of this type would follow five essential principles:
 - A system that promotes personal responsibility as an essential element which ensures that adequate provisions are made for an individual's retirement. A pension system must be based not only on individual freedom but on standards of fairness regarding the burden endured by different generations and on the protection that it offers the less advantaged. The system must aspire to achieve a balance between the two concepts: freedom, so that each person can take the decisions that will affect their future by virtue of their current savings capacity; and fairness, by accommodating those whose savings capability is limited or non-existent.
 - A simple system that can be understood by all, which clarifies the roles of the State, companies and workers.
 - A system that is easy to finance and which does not have negative macro-economic consequences.
 - A system that is sustainable.
 - A system that is maintained by social consensus that is broad and long-lasting.
- Diversify Reserve Fund investments, following the example of Norway. This would mean including public revenue from other countries as well as private fixed income, initially with a residual percentage that could be increased progressively until it one day incorporates a percentage of variable income. This would ensure the fund's continued survival and would increase its return on investments.

Quicker and more certain justice

- Drive efficiency in the management of spending on justice by properly coordinating all the Administrations concerned and by encouraging the Judiciary to be more involved.
- Create an independent agency with its own budget that can plan and execute, in agreement with the Administrations, the General Council of the Judiciary (CGPJ) and the Public Prosecutor, a technological strategy for the justice system in Spain.
- Introduce suitable ICT approaches and systems that make it possible to assess instances of judicial activity, setting up a system of objectives and incentives based on results, particularly regarding quality and timing.
- Reduce the large numbers of litigation cases by improving the quality of standard, particularly in administration, by encouraging alternative methods of resolving disputes, such as arbitration and mediation, and by imposing costs for abuse of the criminal justice system. In contentious-administrative actions, Administrations would be penalised for imposing fines and/or sanctions that are overturned by the courts. This would require an independent monitoring body to be set up with the necessary competence.
- Regulate collective lawsuits, as occurs in civil and administrative domains, so that claims that have the same origin or relate to the same cause are grouped together.
- Improve legal certainty by finalizing the reforms to the Penal Code which relate to legal persons, setting out clear and open criteria.
- Ensure compliance with Article 301 of the Criminal Prosecution Law, which sets out that summary proceedings will be secret until the oral trial has begun, with certain exceptions.

Business ethics

- Companies, together with politicians, Public Administrations and members of the public, must act ethically and in a responsible manner.

- Companies, beyond the legitimate quest for profit, must promote training and equal opportunities for their employees, and must show commitment toward their suppliers and clients. They must also formulate policies that are geared towards social responsibility.
- In the business world, it is essential to always be guided by ethical behaviour and the promotion of values such as cohesion, transparency and good management practices.

Fight against corruption

- Develop an overall strategy for fighting corruption as a result of a political consensus in which, among other measures, new codes of ethics are established in public service, immunity and privileges are reduced and the Public Sector Contracts Law is updated followed the European directive on public tendering.
- Guarantee the constitutional principle of presumption of innocence until the defendant's guilt is legally established by means of a robust ruling. Where this occurs, pardons will not be applied in cases of corruption.
- Approve as a matter of urgency the Regulations of the Transparency Law, and make these widely known.

- Establish a Privacy Law for complainants, following the whistle-blowing system that is now widespread in businesses. This ensures legal security for individuals who wish to bring the public's attention to instances of fraud and corruption.
- Employers and business associations must report unethical attitudes and behaviours. They should introduce codes of conduct, monitoring mechanisms, checks and sanctions, as well as systems for reporting cases internally. These are widespread in most of listed companies in the United Kingdom and France.
- Introduce at all levels of education ideas and materials related to ethics, values, transparency, integrity and the prevention of corruption.

The Barometer
of the Círculos
2017

