

June, 4<sup>th</sup> 2010

### **Ten structural reforms to overcome the crisis**

- 1. Restructure the financial system so that credit flows.** The absorption of real estate assets by banks paralyzes credit to the real sector and postpones the adjustment in the real estate market. The buffer representing the extra provisions that required the Bank of Spain has been virtually exhausted. Damaged assets should be recognized and provisioned, if possible, using the FROB, whose implementation it is still too slow. Institutions with solvency problems should be restructured.
- 2. Consolidate the fiscal accounts leveraging the necessary budget cuts to increase the efficiency of public administration** (removing overlaps and duplication of administrations, streamlining bureaucratic procedures, encouraging productivity of public servers, and promoting public-private partnerships to improve efficiency). Postpone public investments of dubious social return. The public sector has to lead by example of austerity, starting with restrain in its wages. Attempts to protect uncompetitive sectors fail to medium and long term, and will cost a lot of money to the taxpayer.
- 3. Transforming the labor market.** We must end the unjust and inefficient duality between permanent and temporary contracts. We have to move to a unique permanent labor contract (where severance pay increases by seniority and in accordance with the international environment, for example). We must boost work part-time work, and reform the unemployment subsidy encouraging job search and between firms and geographical mobility. We must reform collective bargaining that has become an obstacle for improving productivity.
- 4. Restore the damaged rental market** (this would be the best stimulus for real estate sector) ensuring the full legal security to property. Without this the absorption of unsold housing stock and recovery of the real state sector will be very slow.
- 5. Reforming the pension system** to make it viable in the long term through a combination of increased effort in contributions, pension adjustment, lengthening of the average retirement age and reducing drastically early retirement.
- 6. Reforming the judicial system** to increase efficiency and reduce the burdensome (direct and indirect) legal costs for economic activity.

- 7. Progress in reforming the education system** with the values of rigor, initiative, transparency of results, autonomy and competition among centers. A decisive push in learning English is needed. Human capital is crucial to be competitive in today's world.
  
- 8. Promote an ambitious package of measures to raise productivity** in a sustainable manner:
  - a. Increasing competition in the services sector. Pay particular attention to commerce and energy sectors.
  - b. Reforming the sector regulators to reach effective independence and sufficient technical capability.
  - c. Simplify the organization of management of R&D funds and granting aid based on competitive projects evaluated by international panels.
  - d. Encourage restructuring, innovation and internationalization in the real sector by helping
    - i. Advanced firms to join and stay in the world technology frontier;
    - ii. SMEs to approach the technological frontier and increase productivity through a " Renewal Plan " to improve overall management methods, technology adoption, scale and internationalization;
    - iii. The integration of companies in the fragmented international chain value.
  
- 9. Establishing a coherent long-term energy policy.**
  
- 10. Reform the bureaucratic organization of the scientific-technical system and University**, its governance mechanisms and funding, so that it promotes accountability and excellence.