

POLITICS

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I hope to make this kingdom flourish again

**CARLOS III (1716–1788)**  
King of Spain, reformist



**RENEWAL OF INSTITUTIONS  
AND THE STATE**

The Spanish Transition led to full democracy, founded on the Constitution of 1978. Nevertheless, the general public has become increasingly disenchanted with politics and politicians, political parties and institutions. The response to this must involve far-reaching reforms based on the greatest possible level of consensus.



## Resetting democracy

Spain does not need to throw overboard a democratic system that has functioned since 1978 and continues to work today. But the country does need to renew this system with profound reforms that will allow it to bring politics closer to the people, put an end to corruption, depoliticize certain institutions that should be independent, and provide Spain with a new structure, updating the format of the State of Autonomous Regions.



Andrés Ortega Klein  
EDITOR IN CHIEF

We have been talking about the need to renew Spain's political system for many years. But it has not been possible until now. During the last four years, having a government with an absolute majority has done little to foster such renewal; neither was it promoted by previous governments. Will this renewal be an easier task to perform at a time when the next Parliament will comprise multiple political parties? It might seem paradoxical, but the answer may well be a yes. This is evidenced by the support parties have given each other in local and regional governments with relative majorities of one kind or another in exchange for commitments to political reforms. Following the elections of May 24, of this year, Spain's big parties have accepted reasonably advanced measures on democratic regeneration. What was previously assumed impossible now seems possible. Civil society has called for a change. And the change is coming, although its scope still remains to be seen.

The gap between voters and representatives, along with the alienation of the general public from politics—currently a feature of almost all democracies in our context, although it is accentuated in Spain—have to be rectified. Following the crisis, Spain has gone from being a society with one of the lowest levels of dissatisfaction with democracy to having one of the highest levels in the EU, twenty points above the European average. Although surveys show a certain change in public opinion in recent times, with a growing number of people who want to leave economic and political pessimism behind them, this dissatisfaction is still very much felt by the majority. There is no reason to believe that an economic recovery that has been unequal in social terms will do anything to allay the demand for changes to the political system. Moreover, if these changes do not happen it is possible that the economic recovery will be weakened, as is feared by some entrepreneurs. Far-reaching changes are required, in people, in ways of working, and

in methods: this is what Ortega Y Gasset called *nuevos usos* (“new customs”) some hundred years back. A clear example of this is the Spanish Crown. With the abdication of King Juan Carlos I and the crowning of King Felipe VI, the arrival of new ways of doing things has led to a recovery in the popularity of the institution and its monarch. The Spanish people are calling for reforms, transformations, but not revolutions. Even the new, left-wing populist party *Podemos* has understood that.

### Political parties in the spotlight

If there is one thing that experts, entrepreneurs, and politicians all agree on, it is that Spain's political parties—at least its traditional parties—are at the epicenter of public disaffection and distaste toward politics and politicians in general. Once again, this situation isn't only happening in Spain, but it has been exacerbated by the way the political parties were designed during the Transition in order to reinforce them, since previously

they had hardly existed. Public disenchantment is also fed by an electoral system characterized by closed and blocked lists, cases of corruption that continually undermine democracy, electoral programs that are too often deliberately ignored (as opposed to broken due to changing circumstances), and a political language that is not the language of the average person on the street.

Despite the surge of bad feelings toward politicians and political parties, these are a necessary mechanism for the creation and implementation of collective will, for representation, in our democracy. However, in a connected society politicians must be open to new means of citizen participation in politics. We don't need to abolish representative democracy, but it does need to be put into effect (how many voters speak to their MP on a regular basis?) and improved, with the increased levels of participation and debate possible in the modern world. Politics, therefore, must be transformed into a big conversation—or series of conversations

—between the general public and their representatives in permanent interaction, as opposed to being something that happens only at election time.

One form of improving the way we select political representatives would be to allow party members and citizens in general to vote in primary elections or at party meetings for all candidates to elected roles, as well as reinforce their ability to choose by ensuring that this participation means more than simply voting from a set list. This would increase the accountability of our politicians. Through the natural course of events, or by means of party statutes, the system of primary elections to choose heads of lists is being implemented in almost all parties, although this has often been distorted by a lack of genuine competition. This underlines the need for a radical change in the laws governing political parties and in the electoral system—while maintaining a system that produces potential state governments.

With regard to corruption (which the

general public is no longer willing to tolerate), Spain needs to strengthen its controls in all spheres, with increased transparency in everything involving government authorities and their dealings with private actors. It would also help to reduce the current excessive number of *aforados* (politicians and other officials that enjoy special protection before the law). In Spain, almost eighteen thousand enjoy such protection in one form or another, and that's not including security forces, which enjoy partial protection.

### Reinforcing institutions

Resetting democracy also involves restoring the credibility of institutions. We have already mentioned the Crown. Parliament has been increasingly smothered by the weight of the executive government. It is necessary to restore the parliamentary system, reforming the regulations governing Spain's upper and lower houses in order to facilitate debates and bring them closer to the general public. Perhaps the protection of the figure



SPANISH CONGRESS HOUSE

The Chamber of Deputies, Spain's lower house of Parliament

From left:  
Pedro Sánchez,  
Pablo Iglesias,  
Vicente Vallés,  
Ana Pastor,  
Albert Rivera, and  
Soraya Sáenz de  
Santamaría attend  
the election debate  
organized by the  
Atresmedia



of the Prime Minister by means of the constructive vote of no confidence system is also excessive. With all of this and the question of trust (posed by the Prime Minister) there is little room for the true underlying political debate.

Similarly, we need to improve the quality of our legislation, which has to be amended following its approval on a regular basis, and generates ambiguities that have to be resolved by judges. Spain must give up its excessive use of decree laws, and perhaps strengthen the role of the Council of the State, not only prior to but also following the approval of a law, in order to avoid such deficiencies.

While we need to recover parliamentary politics, it is also necessary to depoliticize other institutions, which are often controlled by political parties or the government, starting with the Court of Auditors.

Serious, strong, and professionalized government authorities with a greater degree of transparency and motivation are an institutional asset to the rule of law. The problem in Spain

is first that such bodies are occupied by politicians as opposed to managed independently. Second, politics and high-level administrative bodies are too closely linked. Some 80 percent of the current members of Parliament are also civil servants. Far too often, politicians employ civil servants to perform political roles. This does not happen in the United Kingdom, Germany, or the Nordic countries. We must place much greater limits on the free appointment of staff. It should be an exception rather than the rule, as laid down by the Supreme Court.

Spain's justice system is not held in high regard either by the general public or by businesspeople—above all, due to its slowness and apparent politicization—despite the fact that Spain is the European country where there is the most pronounced separation between judicial, executive, and even legislative powers. This politicization is not found in our courts; rather, it lies in government bodies such as the General Council of the Judiciary and the Constitutional

Court, although the latter does not fully form part of the judicial system.

### The State of Autonomous Regions

A review of Spain's institutions should not be limited to central government. One defect in Spanish politics lies in its incapacity to recognize itself as a decentralized state depending on various hubs of decision-making. The complete absence of the institutions comprising Spain's Autonomous Regions in the process of state decisions is a defect in our decentralization: it leaves the regions on the margins of certain specific processes such as the reform of the statutes of autonomy or regional-sector conferences, with inequality of functions. Of the two principals involved in all decentralization toward a federal structure—shared government and self-government—Spain has only implemented the second. We are also lacking coordination between the Autonomous Regions themselves and between the Regions and central government, and at the same time we

have an upper house that is not particularly useful in terms of its current composition and mandate.

All of this is taking place alongside the loss of some vital structural elements in Spain, which, in turn, can be framed in the context of a more general loss of factors promoting cohesion in European society—and, perhaps, contemporary societies in general. In Spain, we have stopped getting to know our own country, with a geographic mobility rate of 3 percent, compared with 13 percent in the United States. Spain's elites (teachers, civil servants, professors) are no longer mobile, whether in the social, touristic, or business sense. This is even true of the military, where travel was one of its only positive aspects. Even Spain's politicians on different levels know increasingly little about each other. For example, leaders in the Autonomous Regions are less national than ever, and have become less familiar with Spanish politics on the national level.

Despite current criticism of the State of Autonomous Regions, it has been

successful in one aspect: in allowing unprecedented development throughout Spain. Ultimately, there has not been a redistribution of income among the classes, but there has been a redistribution of territory. But the prospects for controlling this problem are very complicated, since they involve conflicting trends: public opinion in favor of recentralization is growing, while support for the independence of Catalonia is also on the rise. Whatever funding Catalonia asks for, Madrid will also want, and come up against similar—though not identical—problems, and with the same concessions as those given to the Basque country and Navarre. Similarly, if Catalonia asks for certain concessions recognizing its identity (excepting questions of language), Andalusia will call for the same concessions or more.

Antón Costas, Chairman of the civic association, the Barcelona *Círculo de Economía*, is right when he points out that “the Catalan problem is the Spanish problem of the State of the Autonomous Regions.” In other words, even if Spain did not have the problem of Catalonia, it would still have other problems to solve as a country as a whole. We must design a country that provides more equality between its citizens, mechanisms for solidarity, and a better distribution of competencies and coordination. And while in Catalonia some surveys leading up to the elections due to take place on September 27 indicate that there are now fewer supporters for independence than for remaining in Spain, we cannot expect those elections to fulfil those results or adhere to the status quo.

### The state of Europe

The disenchantment with politics that has blossomed in Spain is partly based on the fact that Spaniards believe that an increasing number of decisions taken beyond the state level, outside of national politics, whether in the markets or in “Europe” (Brussels, Berlin or Frankfurt),

even though the Spanish government takes part in these decisions in a fully legitimate and democratic way. National democracy is being depleted, but without a European democracy in its stead. The solution lies not only in giving more powers to a European Parliament that citizens perceive as distant, but also in giving more powers to national Parliament on European issues, as is the case in Germany, Holland, and Denmark, for example.

### New social contract

There will be changes. And these changes will be fed to a large extent by the emergence of new parties. The acid test of this will come with any constitutional reform. And we are not talking about a specific reform but in general, in a country that has never known how to reform its constitutions—only to make new ones, often accompanying a change of regime.

In the end, what we are talking about is nothing more and nothing less than achieving a new social contract. The glue that has held this country together so well since the restoration of democracy is being degraded at the hands of disenchantment, a greater inequality of income and opportunities, the lack of prospects of many young people and other mature adults, the relative decline of the middle classes, and the deterioration of the welfare state.

We Spaniards are faced with the challenge of establishing a new social contract in the broadest sense of the term: that is to say, a project for a renewed country. This new social contract can only be achieved by means of a broad consensus of political, economic, and social actors, as was the case in the Transition. The context of political fragmentation, which we are experiencing (and may be consolidated during the next parliamentary term), will perhaps facilitate the necessary climate for updating and adapting this context to the new Spanish, European, and global situation, as well as with the needs and possibilities of our country.



## Javier Vega de Seoane

Chair of the business association,  
Círculo de Empresarios

## POINT

# A quality institutional framework

The goal of having a quality institutional framework at our disposal seems particularly important when we consider the magnitude of the economic challenges Spain faces. Such a framework also requires a stable model of state.

The institutional framework performs a crucial role in modern economies. Those countries that have a high-quality institutional framework enjoy high levels of income per capita and improved levels of welfare. There is a clear correlation between institutional quality and the competitiveness of nations.

High-quality institutions also allow the generation of social framework that minimizes inequalities of opportunity, the main component and root cause of the inequality suffered in our society. The existence of quality institutions generates an environment of legal security that facilitates the development of business, permits a more active dynamic in the sphere of economic transactions, and guarantees compliance with contracts and private property rights, all of which is conducive to saving, and national and foreign investment.

In the case of Spain in particular, the goal of having a quality institutional framework at our disposal seems particularly important when we consider the magnitude of the economic challenges Spain faces. Reducing unemployment to precrisis levels, the development of a business fabric allowing the creation of quality employment, and the adaptation of our production system to the accelerated technological changes imposed by global competition: these are just a few examples of the important economic challenges in store for our country. In order to overcome them, it is essential that we have the best of institutions at our disposal.

We have advanced a great deal in the creation of this institutional framework. The advent of a new democracy and the approval of the Constitution of 1978, the entry of Spain to the EU, processes of liberalization and deregula-

tion, privatizations, administrative decentralization and the modernization of public policies, the development of an universal health care system, education system, and social welfare: these are all fundamental components of the huge improvements undergone by Spain's institutional framework and welfare state. But there is still a great deal to be done in a context of global competition. According to the Index of Economic Freedom produced by the Heritage Foundation on an annual basis, which measures the quality of institutional frameworks and permits comparisons on an international level, Spain takes forty-sixth place on the world ranking, with a moderate level of economic freedom. In other words, we have many strengths but also some important weaknesses that must be corrected if we are to take maximum advantage of our capacity for growth and for improving the well-being of our society.

Currently, the greatest concern regarding Spain's institutional framework is without a doubt the generalized sense of mistrust toward the country's government—or rather, toward politics and politicians in general—which has taken hold of Spanish society. The corruption cases that have come to light in recent years have undermined the credibility of the political system as a whole.

Despite an increased appreciation of the figure of the entrepreneur, certain cases—even if they are isolated—generate mistrust in society toward those who have the social mission of creating wealth and employment, with the added extra of supporting the welfare state that we have all worked so hard to achieve. This means that it is necessary to standardize ethical behavior in the business world.

The growing disaffection among citizens toward the political class and leaders in general may have very negative repercussions, including for the economy. If this lack of confidence leads to an excessive fragmentation of the political map and a lack of citizen support for the common project, we will fail to give structure to society and the governability of the country will be placed in jeopardy. That kind of scenario would make it difficult to adopt the structural measures and reforms needed by the Spanish economy in order to mine all of its potential for growth and the creation of jobs, wealth, and well-being for society as a whole.

In order to rectify this situation, Spain needs to adopt measures to restore society's trust in its governors, as well as its institutional and business leaders. To this end, it is vital to increase transparency at all levels of government and enterprises and in all spheres of public, political, and private life.

Moreover, changes should be made to electoral legislation in order to advance toward a system in which the election of public representatives depends more directly on the votes cast by citizens and less on the central bodies of political parties, something our business association, the Círculo de Empresarios, has called for since its creation.

Establishing a quality institutional framework in Spain also requires a stable model of state, avoiding the dynamics of protest without real purpose that waste a lot of energy and generate emotional discord that distorts the necessary process of providing a structure for society. Consequently, the most urgent task on hand is to settle the model of autonomous regions once and for all, clearly defining the powers corresponding to the state and the Autonomous Regions respectively, seeking rational and fair formulas that will allow all parties to move forward in harmony, and avoiding the costly duplication of competences or fragmentation of the markets that ought to be eradicated as soon as possible. Justice is another sphere in need of clear improvements. If the purpose of a quality institutional framework is to

guarantee legal security in an effective way, the slowness of our justice system works against it. The measures introduced to improve arbitration and mediation are a step in the right direction. But the efficiency of Spain's judicial system must be increased further if we are to reduce the uncertainties surrounding wait times in the resolution of cases and increase legal security, with the attendant positive impacts on economic activity. Justice is one of the powers of the state, and its independence is and must be a right of all citizens.

The same can be said of regulatory bodies. These play a crucial role in the smooth running of the economy, as well as the effective defense of property rights and the rules governing the market. Regulators need to be fully independent from political powers and from agents in the sectors being regulated.

Furthermore, Spain's current regulation system is uncoordinated: there is an infinite number of agents endowed with a regulatory capacity. This, in practice, undermines market unity and economic freedom since it too often leads to interventionist regulations. Faced with this situation, what is required is some kind of coordination that can guarantee market unity and prevent excessive and counterproductive regulatory activity.

Problems in the regulatory framework also affect the labor market. The regulation of the labor market has propitiated a rigid model of labor relations. As a consequence, the labor market has not been able to adapt to new economic circumstances through the use of the internal flexibility measures adopted by other countries (changes to working hours, wages, functional mobility, etc.). The most recent reforms are undoubtedly a step in the right direction, although continuing high levels of unemployment in this country are justification enough for deeper reforms.

If these reforms are implemented, Spain's institutional framework will be notably improved. This would be of great help in ensuring that the Spanish economy can successfully deal with the biggest challenges it faces at this time.

## COUNTERPOINT

## Rolling back the participacy

The poor functioning of Spain's political parties has jeopardized the quality of our political elites, hampered by a system of incentives that rewards discreet loyalty, political inbreeding, and mediocrity and penalizes brilliance, innovation, and any questioning of the status quo.

The economic crisis has also increasingly felt like an institutional crisis to Spanish society. In reality, the model established in the Constitution of 1978 is still quite robust. But although the greater part of the institutional framework created during the Transition remains firm, certain elements are showing visible signs of wear and tear. The combination of a recession with an explosion of corruption scandals has transferred this political erosion into public opinion.

**Reining in the participacy**

The poor functioning of Spain's political parties is one of the most serious conditions suffered by our political system. Despite being funded in the main with public money, Spain's political parties have an almost all-encompassing power for self-regulation that has generally led to insufficient guarantees of internal democracy, along with an excessive power for the hierarchies governing the parties. This has jeopardized the quality of our political elites, who fail to properly address crises and renewal processes due to a system of incentives that rewards discreet loyalty, political inbreeding, and mediocrity and penalizes brilliance, innovation, and any questioning of the status quo. Meanwhile, a high level of opacity in their administration systems has proliferated the use of irregular funding mechanisms, which since the Transition have revealed themselves to be the main root cause of corrupt practices in our public system.

Reforms should guarantee both the common standards governing internal democracy in our political parties and the duration of Parliament, public contests for posts, and so on. They should also bring about open information on party accounts and all foundations with links to parties (which work as a cover for irregular funding), public supervision, and social monitoring.

It does not seem that the advantages (by no means clear) of a radical reform of the electoral system, on which there is no agreement, would justify the investment of so much energy on the part of society in the task. It would be reasonable, however, to open up and unblock candidate lists within our electoral system.

**A more independent justice system (at the top), capable of working faster**

The independence and professionalism that characterize the daily activity of Spanish courts and tribunals are not evident in the upper levels of our legal system. The General Council of the Judiciary, the governing body of our legal system, has fallen victim to a system of appointment via political quotas managed by political parties. Something similar could be said of the Constitutional Court, whose renewal is frequently blocked by the absence of political agreement. Reforms should impose rules guaranteeing an automatic implementation of appointment processes and requirements in terms of professionalism, an open application process, and independent assessments of aptitude. Justification should also be required to back up the proposal of candidates for appointment.

Meanwhile, a lack of agility hampers the public justice service in Spain, slowing down procedures and generating negative perceptions of the system among citizens. Although this is often treated as a problem of resources, the underlying reasons actually have to do with a jumbled scheme of competencies requiring rationalization.

**Governance and the true asymmetry of the State of Autonomous Regions**

Since 2008, the economic crisis has raised questions about the efficiency of the State of Autonomous Regions, highlighting duplications of functions and a penchant for emulation that tend to lead to soaring public expenditure. Four years later the secessionist movement exploded in Catalonia, casting doubt on the future validity of the model itself. According to surveys, Spain's citizens hold two antithetical views: on the one hand, we have the call for increased self-governance with a view to secession coming from a considerable sector of the Catalan and Basque populations; on the other, among the rest of the country there is a widespread demand for recentralization.

These antithetical visions serve to underline the deterioration of the territorial model created by the Constitution of 1978 and the various statutes of autonomy. It has become evident that the essentially "one size fits all" approach

of the system clashes with the existence of asymmetrical collective identities across Spain's different territories. During the intervening decades, institutional instruments populated by an extensive network of regional political elites have become firmly established in the Autonomous Regions. Their development has followed the logic of inter-regional emulation; in other words, "keeping up with the Joneses." The inertia generated by this situation constitutes one of the greatest barriers to the political and legal recognition of the asymmetry that characterizes Spain's territorial identities.

The response requires measures to rationalize the system, eradicating any overlapping functions and incentivizing the reabsorption of competencies by central government in certain cases, while strengthening the mechanisms for multilevel government (conferences of regional leaders, sectorial conferences, and so on) which are currently lacking. The debate in Spain's upper house on the territorial issue, which is so often postponed, would be a good place to start in harmonizing our model of a composite state.

Meanwhile, Spanish society must accept that the sustainability of its territorial model requires an individualized treatment of certain collective identities. The recognition of the plurinational reality of modern Spain, possibly within a federal framework, is a must if we are to achieve a harmonious integration of Spain's territories in the decades to come. Relations with certain regions (namely, Catalonia and the Basque country) should incorporate unique and bilateral elements, configuring a model essentially asymmetrical by its nature and, therefore, at odds with the uniformizing logic the country has been leaning toward throughout recent decades.

**Separating the state and the market**

The explosion of housing and financial bubbles opened the way for repeated criticism of the Spanish way of doing business. References to "mining elites," the deals sealed in the private boxes of sports stadiums, or "traditional capitalism," are used to describe scenarios of collusion in which important economic decisions have been made with little consideration for the competitive logic of the market,

instead being taken behind closed doors where political and business powers exchange favors. Dealing with this situation as part of any institutional regeneration process is an absolute must.

The interventionism of governments, coupled with Spain's participacy, has converted the country's constellation of regulators and supervisory bodies into spaces overrun by politics. There is a pressing need to fully guarantee competition in our markets. To this end, it is indispensable that we create a regulatory and supervisory body that is independent and professional, highly qualified, and armed with effective power to operate.

**A more transparent and intelligent public sector**

The reform of the public sector must begin by steering it away from one of its most serious pathologies: partisan colonization. Bodies that should be protected from electoral cycles in order to guarantee their stability and independence have been designed and managed using political criteria: the recently created independent tax authority is evidence of the problem. The management level of the public sector—both in direct government and in public bodies and enterprises—has been taken prisoner by parties and managed as their own domain.

**Should we reform the Constitution?**

Constitutional reform could in itself represent a vigorous tool for mobilizing the social energy to be invested in regenerating our institutions if—and only if—there is a basic shared vision and social and political consensus as there was during the Transition. In the absence of such circumstances in the near future, it may be more prudent to avoid this path, since it could lead to a senseless institutional Adamism. Limiting constitutional changes to the indispensable, minor adjustments needed to take the reforms forward that we have planned—and such adjustments would not be required in the majority of cases—seems to be the most sensible course of action. It will most likely be the redefinition of the territorial model that will require more adjustments of this kind.

Francisco Longo



Professor and Assistant Director-General at the ESADE Business & Law School

TALK ABOUT  
THE FUTURE

## José Antonio Llorente

President of LLORENTE &amp; CUENCA

**What do you and other businesspeople expect from politics over the next few years?**

There is a great disaffection between businesspeople and politicians, or between society and politics, because the general public expects politics to come from politicians. We want politicians to be capable of working in the general interest of the people and for the common good. Businesspeople see too many partisan interests and strategies affected by party politics, and that's why we call for a greater capacity for and commitment to reaching the agreements that are needed. Politics should be organized according to the interests of the general public, and those in authority should govern in line with those general interests. The top level of the business class is not happy with the situation, but we are also responsible since politics is a matter for everyone. Whether as individuals or organizations, citizens have to articulate a mechanism for participation. We shouldn't just point out what the government must do but also what we can do to help improve the country's situation and move it forward.

**What sectors do you think are a priority?**

All of them. Health, education, defense, foreign affairs, support for business development, and so on. The general public is not interested in partisan interests. The alternating nature of our system exists to manage common interests, and I think we have forgotten this fact.

**“Technology allows us to do things that were impossible twenty years ago. Soon, we will be able to vote on the allocation of resources. This kind of power is a great challenge that we must be able to manage”**

**What reforms are necessary?**

Democracy is facing some fundamental challenges. Our idea is one man, one vote. But on some questions we have decided that voting is not practical. Nevertheless, there is a great deal of pressure among citizens who would like politicians to intervene in a whole range of issues. “Technology allows us to do things that were impossible twenty years ago. Today, representatives look toward citizens in an intuitive way when they govern. Soon, technology will allow us to vote on the allocation of resources. This kind of power is a great challenge that we must be able to manage. In the economic sphere, the shareholders' AGM continues to be the highest level of management in a company, meeting once a year. These shareholders have changed many times over, since society has a level of mobility and capacity to generate an opinion that moves much faster than the systems that we have created to channel all of that. This is a great challenge. The speed at which public opinion takes one side or another on a particular issue, and the speed at which the justice system is able to resolve it, pose a huge dilemma. People want everything right now. This is something that we must respond to, since it generates a great deal of dissatisfaction and instability.

**Do you think the Catalan issue will have an impact on Spain's image?**

In the markets that I work in, the Catalan issue generates surprise, incredulity, and stupor. In Latin America there is a very acute national conscience and this problem makes no sense to them.

**What is the “eighth sense” you write of?**

It has to do with today's society, since we now expect communicators to know how to listen to and understand the context we live in. These days, effective communication is not synonymous with providing information but rather with conversation and participation.

## Antonio Garrigues

Honorary President of Garrigues

A renewal of the political class—even the business class—is a good thing.

**What has happened to politics?**

Between the unemployment, corruption, the indifference of the PSOE, the indifference of the PP, and the general immobility of the government, people have become sick of the traditional parties and this has allowed new parties to emerge. Where a space becomes vacant, something will always come along to fill it. If the traditional parties start to do things a bit better, and connect better with the general public, they will be able to partially recover that space.

**How do you regard the public's disenchantment with politics?**

The disenchantment of the general public with the political establishment is a worldwide phenomenon and not just something particular to Spain. We are living in an especially difficult time as a consequence of a crisis that is neverending, and this eventually affects the credibility of the political class because the number of people who feel they have been hurt is constantly increasing. Therefore, we have to convince politicians that they must do something—and that something can be done—to recover their credibility. This society has demonstrated a resilience in the face of the crisis like no other society in the world, given that the crisis in Spain has been tremendously deep.

**Is far-reaching constitutional reform necessary?**

The Constitution must be reformed in order to deal with some very significant problems, including our territorial model. No one should doubt this fact or let it frighten

**“We have shut down cultural dialogue, we have shut down business dialogue to a certain extent, and now we are shutting down all other kinds of dialogue, little by little”**

them. Now what we need is a minimum level of consensus. It would be brilliant if this could simultaneously encourage a culture of dialogue, which is currently at an all-time low. We might be able to reach a consensus on education, health, justice and a whole host of other issues, and the general public would be really happy about that.

**Does the change of king and the style of the monarchy signpost the path to follow?**

The fact that the change of king has generated a very positive assessment of the institution of the monarchy in a very short space of time demonstrates that we are living in an era where institutions must undergo renewal, along with the people who direct those institutions. Above all, this is due to the fact who we are living in a digital society, and while older generations may consider themselves to be more or less wise, we do not belong to this age. I think it is a positive thing for Spain to have a young person leading the opposition, a young monarch.

**How would you approach the Catalan question?**

The thing that has exacerbated the Catalan issue is the political establishment. I think it's fantastic for a community to defend its identity, its language, its culture, and I very much admire the Catalan culture, language, and search for an identity. Democracy doesn't mean everyone being in agreement; it means agreeing to disagree. Nevertheless, the problem right now isn't that there is no political dialogue (although it's true that there is none) but that there isn't any other kind of dialogue either. We have shut down cultural dialogue, we have shut down business dialogue to a certain extent, and now we are shutting down all other forms of dialogues, little by little. It is unimaginable that Catalonia wants to live independently from Spain and on the margins of Europe. There must be formulas that can generate understanding, and that is why a constitutional reform would be the ideal medium for finding new common ground right now. We have to open up new paths.

## THE BUSINESS PERSPECTIVE

## BROAD PACTS

In general, businesspeople are cautious when talking about politics, and these interviews took place before a general election. What does Spain's business community ask from politics over the next five to ten years? First, it calls for stability, broad pacts, and, above all, "that we avoid taking a step backwards," says **Iñaki Ereño, CEO of Sanitas**, who believes that the role of politics is to "design the future, have a vision, and set out where this country should be within the next thirty to forty years, as well as thinking about how to avoid a repetition of current unemployment rates during the next five years." Business also craves predictability. "Being predictable means doing what you said you'd do and, above all, making sure that it is possible," **Carlos González Bosch, President of Grupo Cofares**, points out.

According to **Juan Chinchilla, Director-General of Lenovo**, "If they want to be able to undertake a transformation and renewal in order to meet the needs of the country, Spain's political institutions must be capable of anticipating changes to the local and international context, as well as their short- and long-term consequences. Short-term measures adopted to deal with temporary discontent could make us much less competitive in the long run. We have technology at our fingertips that could offer society very comprehensive data analysis and the possibility of much greater interaction with the political class. Let's make use of it."

**Amuda Goueli, CEO of Destinia**, is of the opinion that "the problem in Spain is that people only look at the short term: we engage in short-term thinking. A project gets started and then abandoned halfway through. Then a new government comes along and changes it all back again. Ultimately, there is no national proj-

ect. And this has to end in failure over the long-term. There is no other outcome." Many of the businesspeople interviewed agreed on this need for a long term vision, including **Andrés Arizkorreta, CEO of CAF**, who believes that "Spain that needs to establish clear, strict rules to promote international cooperation, innovation, technological development, an education system that is coherent with the current context, and so on. These are basic issues and should not depend on who is in government."

**Jorge Sendagorta, President of SENER**, cites the government of the Basque Country as an example to follow: "Politics exists to resolve the country's problems. So let's do that. Although it hasn't always been that way, the Basque government currently has a very pragmatic approach to citizens' problems, which it almost always prioritizes above all else. And that would be my number one desire for change."

**María José Álvarez, Vice-President of Grupo Eulen**, considers that "companies should be able to survive regardless of political changes. We have to be agile enough to adapt to the country's political situation, no matter how much it affects the market. Businesses cannot just focus on getting what they want from politics. Either you have sufficient capacity to adapt or you die."

**Aner Garmendia, Director-General of EGA Master**, says that what businesspeople ask of politics is "stability and less uncertainty. The most worrying thing for businesses is not knowing what the environment will be like over the medium term, with continual changes to tax policy, grants, standards and regulations, and so on. Politicians need to reach agreements to achieve a stable environment so that we know what situation we're going to have to operate in."

## THE RECOVERY

"Some of the more astute people that were around during the Transition entered into a much deeper discussion than we do now. They talked about a national project; they talked about what we needed to do, and we are a product of that conversation about what we should do. How are we going to build our future without analyzing what we ought to do?" muses **Nilo García, CEO of Grupo Crambo**. "Here we have big problems with social unemployment: as robotics evolves, there are increasingly few jobs and all this also ties in with the existence of a more intelligent, complex society. But we also need increasingly intelligent and complex people to create these more intelligent and complex jobs."

There is a certain level of optimism regarding the economic situation, albeit tinged with caution since, as **José Longás, CEO of BSH Electrodomésticos España**, puts it, "Spain's biggest structural problems are still there." He goes on to list three of these: "our very oversized state," in which "mediocrity is given the same value as merit," and "everyone thinks they have a right to a grant, or some assistance, with very few duties attached." He adds: "We are witnessing what becomes of a speculative economy as opposed to a productive one."

**Luis Miguel Gilpérez, President of Telefónica España**, claims that his company "is a pretty reliable gauge of what's happening in the economy. We've seen over a year of steady growth. We are selling primary commodities that are beginning to compete with the consumption of basic goods. And this is symptomatic. We are seeing how things are improving every day." "Morale is notably a great deal higher in the business world. People can see that we are successfully exiting the crisis and growing at a pace that was unimaginable two years ago. Now it is important that

we work together to protect this renaissance," **Antón Valero, President of Dow Chemical**, points out.

While in general the business world supports the labor reform, employment figures are nevertheless seen to be very worrying. For some businesspeople, such as **Carlos Guri, Director-General of Simyo**, "we have lurched too often from an unsustainable social democracy to an unsympathetic neoliberalism or neoconservatism. Now is the time to move in the direction of a good blend of social market economics that can maintain the balance between those two currents."

## POLITICAL REGENERATION

**Santiago Íñiguez, Dean of the Instituto de Empresa (IE) Business School**, thinks that "politics is undergoing a regeneration, and there is ever more

transparency, accountability, and responsibility. Everyone knows about the cases of corruption. These happen in all countries. The important thing is for there to be transparency, and mechanisms for reporting such cases and ensuring accountability. Spanish politics is improving in this respect." **Tomás Fuertes, President of ElPozo and Grupo Fuertes**, comments that we ask politicians "to be honest, hardworking and useful. But instead they look after their own interests. It is crucial that there is a spirit of reconciliation, a will to listen and understand. It is good to compare and contrast ideas and projects, but hostility and attacks between parties will get us nowhere."

Political regeneration is also linked to the quality of our politicians. There is a certain agreement among businesspeople that politicians need to be paid better in order to attract the

very best. "Politics is badly paid. We need to pay well if we want to attract decent people," says **Fernando Carro, CEO of Arvato** (Bertelsmann Spain). He is in agreement with **Teresa García-Milà, Director of the Barcelona Graduate School of Economics**, who believes that "we need to revive the idea of the politician as someone who is at the service of the country and, therefore, needs to be paid properly. I don't think that these wages should be reduced if we want to attract the best politicians and public servants. Salaries should be competitive. If we pay more, we can demand more."

But with regard to regeneration, "what we are talking about in the end is the administration of justice, the very functioning of Parliament, and the disengagement of citizens with their political representatives, which is strongly linked to the vital need for

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electoral reform and an effective fight against the pervasive proliferation of corruption, a cancer in the system that corrodes people's overall trust in politicians," affirms **Josep Piqué, CEO of OHL**. "We have been talking about democratic regeneration for far too many years without truly dealing with the matter."

And this regeneration clearly involves the need to fight corruption. How can this be done? "Amending the law on the financing of political parties would be an important step in preventing some of this corruption," highlights **Teresa García-Milà**.

## DESIRE FOR STABILITY

The fear, aptly put by **Josep Piqué**, is that "politics could hinder the recovery." This goes back to the "concept of stability, which is essential to the business and economic world" referred to previously. "The business world is interested in stability, judicial security, clear policies, and long-term approaches. What most scares investment is not knowing what it can cling to. If we enter a phase of governance difficulties, unstable coalitions, and weak governments—and this is a possibility—then more uncertainty and mistrust will be generated, and a lack of trust can result in a contraction of economic activity."

**Tomás Pascual, President of Calidad Pascual**, also calls for stability: "when the government says one thing and then the next government says the opposite, this generates a great deal of uncertainty for investors. Stability is one of the main criteria that policy should be based on. At the moment, what Spain needs is a general reform of state administration. I don't know if this also means that we should reform the constitution but there is no way we can keep doing politics and administration the same way as we did forty years ago. Businesses have changed, and those that haven't changed have disappeared. The pace of politics and administration should

match the pace of businesses, keeping in line with the needs of clients or consumers and technologies." This stability, states **García-Milà**, "should come with a certain margin for changing people in the roles involving most responsibility while maintaining the same main body of administrative staff. There should be changes in political priorities, but not at all levels and every time a new government comes in. It is important that we create a more stable and professionalized structure in public management and administration and among our politicians so that they are accountable for their actions in the public sphere."

**Federico González, CEO of NH Hotel Group**, believes that "politics needs to contribute the framework within which institutions can work: it has to be capable of calming the waters and eliminating any background noise or problems. All societies experience conflict. Politics has to help channel these conflicts so that they are resolved in a reasonable way and in the right forums." **Francisco Román, President of Vodafone España**, hopes for "a government that is capable of continuing to create wealth and tackle our two main economic problems as a society: the burden of public debt, which has replaced private debt and our pressing unemployment problem."

And they are all for national pacts. "There are problems that surpass the level of party politics—the issue of education, the economic crisis we have endured—which require broad partnerships," says **Carro**, with a nod toward Germany. "Having experienced a huge crisis like the one we have just gone through, a Grand Coalition would be just what this country needs." Nevertheless, he adds, "everyone who knows about politics tells me that this is absolutely unthinkable, impossible, and that it just doesn't fit with the Spanish mentality." The only state-level pact that

has been reached had to do with Europe, "and, clearly, it's really good," says **Javier Targhetta, CEO of Atlantic Copper**. "Among other things, state pacts should be required on industrial policy and, more generally, on economic policy." The main priority is education and a reform of the justice system. "Justice that is done ten years too late is no justice at all. Our courts suffer from a lack of resources and standards," **Rafael Fontana, President of Cuatrecasas, Gonçalves Pereira**, underlines.

**José Sevilla, CEO of Bankia**, considers that "it is important that there are sufficient majorities in Parliament to allow the government to work properly. And this is very likely to be the subject of much discussion in coming years. Political parties have to have mechanisms that allow them to reach agreements, and be capable of forming partnerships and coalitions to govern the country. They have to be willing to facilitate consensus and decision-making." **Jesús Encinar, President of idealista.com**, predicts the opposite: "there will very likely be a period of political instability with elections every two years and few reforms, as has happened in Italy. The scope of reforms will be limited to structural elements."

## CATALONIA AND ITS PLACE

In the lead-up to the Catalan elections of September 27, businesspeople working through various groups or platforms have belatedly announced themselves to be against independence, a fact that has resulted in widespread concern. **José Luis Bonet, President of Freixenet and Spain's Chamber of Commerce**, is one of the businesspeople who was quickest to voice a firm rejection of independence. How can the situation be resolved? "By talking and reaching agreements, taking into account that Catalonia is—and should continue to be—a vital part of Spain. There is a long way to go because there are

a lot of people in Catalonia who do not agree with me, and that is a legitimate stance since ultimately we have to respect other people's opinions. But we have to try to convince people that the best thing for Catalonia is to continue to be an essential part of Spain. We have to talk if we are going to reach an agreement."

**Rafael Fontana**, who forms part of **Puente Aéreo**, a group of businesspeople trying to bring Catalonia and the rest of Spain together, is of the following opinion: "Dialogue is always the best route. We are trying to create as many bridges as possible between Catalonia and the rest of Spain within the current regulatory framework. We must not shut ourselves off without listening to the other side. Some things have to be changed. Catalonia's problem is a Spanish problem. We must reach an understanding, reach agreements, and build all the bridges required. Unilateral decisions will get us nowhere."

**Ángel del Valle, Executive President of Duro Felguera**, sees it as a priority that, "once Spain has been pacified, once a logical agreement has been reached for Spain as a whole," we should "seek equality within the

country in terms of taxes, health, and justice in all of Spain's autonomous regions."

"Since the tripartite agreement we've done nothing but go backward in economic, business, and social terms," says **Elena Gómez del Pozuelo, President of Adigital, Womalia and BebedeParis**, who has been living in Catalonia for twenty-seven years. "There has been a movement against the worldwide tendency to become ever more global, instead working to fragment the country and become something smaller instead of taking advantage of our strength and size as a country. It is true that there are things that require reform, but three years ago, with the country at breaking point, was not the time to do it. Now politicians can get around the table and achieve a better balance, and make sure that the autonomous regions can get their acts together somewhat so that they don't have to be given quite so much, although this should start with Madrid, since it has shouldered the greatest burden. It is true that funding for the autonomous regions could be better distributed."

"There is strength in unity, and that is very important in a bigger, in-

creasingly global environment," says **Enrique Tellado, CEO of EVO Banco**. "Within the existing legal framework, we should look at how things can be worked out while always respecting the law. If the law does not allow certain decisions to be taken, then we need to look at whether such laws can be changed and take the necessary decisions based on that."

**Juan Pedro Moreno, CEO of Accenture Iberia**, tells us that "redefining the way our state government works, our territorial model, is something that I dream about someone proposing, and recently this is the reflection that I take away from the whole Catalan dispute. I do not at all agree with the idea of a Catalan split. On the one hand, I am in favor of applying the law, and not letting them do anything that cannot legally be done. On the other, I wonder what the root causes of all this might be. Perhaps we should all reflect on whether we agree that, following thirty-five years of transfers of resources and assistance to regions such as Andalusia, Extremadura, or Galicia, growth in their regional GDP and per capita income have been aligned to the extent that one might hope. We have to give, but we also have to make demands, and today our model is





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not defined in a way that means that the regions only receive assistance when their growth figures justify it. If such transfers cannot be justified, they should be reduced: that way, perhaps everyone would feel a little bit more comfortable.”

So it isn't just about Catalonia. There is a need to streamline government authorities, in particular at the regional level. “This crisis has led to the creation of five million unemployed people and the loss of one million businesses, and despite that our civil servants and governments have remained just as they were. One interview in the journal *Capital* claimed that “in Madrid either the city council or regional government are surplus to requirements.” I agree entirely,” states **Antonio Catalán, President of AC Hotels**. “It doesn't make sense for everything to be done in duplicate, in triplicate, with provincial councils. We can't exactly be geniuses in civil society in this country, given that we have all borne the brunt of this crisis and our politicians are just where they were before. I look at Spain's Tourist Board, and Chapter 1 of the budget accounts for 80 percent of the spending. At the last meeting of the board they told me that there are eight hundred people working in the tourism institute *Turespaña*. What are those eight hundred people doing in *Turespaña* if the whole issue is being transferred to the regional level? It makes no sense whatsoever.” “Strategies on the management of public resources have been scattered across the various regions of Spain to such an extent that we have become inefficient,” says **José Marcial, Director-General\* of the Tourism Agency of the Balearic Islands**, speaking for the tourism sector. “If we do not manage to communicate a single, coherent message about Spain as a brand, with a smart partnership between the different actors, we will be making inefficient use of the scant resources we have at our disposal.” According to **José Longás**,

“this country of forty-five million inhabitants is over fragmented in so many ways. There are 2,100 laws, decrees, etc. on the environment alone in Spain—and that's not counting municipal regulations. A country like Spain cannot be maintained at such a level of complexity. This is a problem to do with the design of our state.”

**José Luis Manzanera, President of Ayesa**, states a similar view, commenting that “politicians put their party before society. The basic role of the state should be to promote social justice, as opposed to defending an oversized government structure by means of laws or inventing unnecessary positions and controls that slow the country down and hamper private initiative just so this structure can be maintained. All superfluous regulations should be abolished. Why should one need authorization from the city council, the provincial council, the regional government of Madrid and so on in order to get an environmental permit? These are absurd obstacles.” In **Manzanera's** view, “people have been taken in by the boom years. We think we are rich, and we transmit a culture based on the idea that we have a right to everything—a wage, free health care, the right not to be fired from a job and keep that job forever, and so on—based on the mere fact of being born in Spain. Freedom of expression can be guaranteed because it doesn't cost anything, but the rest of these rights do have a cost. Where does this money come from, and who pays it out? Before, it was Europe that paid; then it was the banks with their loans; but now either we have to generate wealth or there's no money for that. What are our duties?” he muses.

In this respect, there is a general call for government authorities to be streamlined. **Javier Ruiz de Azcárate, President of Catenon**, is of the opinion that “the best thing that could

happen in politics is for Spain's political structure to be reduced to a minimum, with a drastic cut in spending and minimum possible intervention, acting solely in the spheres of health, education, infrastructure, and legal certainty.” “Citizens and businesses pay the price of an inefficient, oversized, top-heavy public administration with their time, money, and opportunities,” says **Benito Vázquez, CEO of Everis**. “Developing e-government in Spain is a must in the current context, but there is no political will to make it happen.” Moreover, “our public administration continues to have an unwieldy structure. It is tremendously negative for Spain that a foreign investor needs a month to get their national ID card,” points out **Joan Roca, Executive Vice-President of Roca Junyent**.

### REFORMING INSTITUTIONS

In the first place, this applies to political parties. “It is clear that there is a crisis of confidence among citizens directed at traditional political parties and institutions, which are very strongly linked to political parties,” says **Josep Piqué**. This applies to their funding, and to the need for open lists of candidates, given that “it doesn't seem reasonable for three people in a party to decide who we vote for, and it would force politicians to make a little bit more effort,” adds **Teresa García-Milà**. This does not mean doing away with the parties altogether. The major parties are in need of regeneration, but “without political parties we won't get anywhere,” claims **Carro**.

The Spanish monarchy “has made important changes and is, of course, a good example in that respect,” **Bernardo Velázquez, CEO of Acerinox**, tells us. “We cannot live at a remove from society. Everyone, whatever their sector, needs to keep a finger on the pulse, find out what's happening: if not, they

lose touch with reality. The issue of corruption is an important one, as is consolidating and streamlining our system. Just as we employ modern communication devices or systems, and systems to consolidate service providers in general, the same should happen in politics. We have too many city councils, too many regional councils, too many provincial councils, too much central government. In other words, we are following a great many systems at the same time, and these should be centralized or federalized—but not both at once.”

### BETTER-QUALITY LAWS

There is a problem that is brought up time and time again in these conversations: that of the quality of the laws made in this country. For example, **Ricardo Gómez-Barreda, Senior Partner at Garrigues**, points out that “frankly, Spanish tax law leaves a great deal to be desired when it comes to legislative technique, and is subject to such continual change and to-ing and fro-ing that it is completely impossible to reach an agreement between taxpayers and our Tax Office as to what the legislative body wants at any particular time. Unfortunately, despite having first-rate legal services, Spain produces some wholly standard laws that are, moreover, subject to a staggering level of instability. This leads to a lack of legal certainty, and conflict over the long term, with negative impacts on both taxpayers and tax authorities. One of the changes that ought to take place,” he proposes, “is for technical reviews of legislation carried out by the Council of the State, for example, to also take place after Parliament has approved the law. This second technical review of the legislation, which some might think of as antidemocratic, would be one way of ensuring that the laws approved by our Parliament were of a better end quality. It is absolutely essential for there to be less legisla-

tion, and for the legislation there is to undergo a more prolonged thought process and review. There is often so much uncertainty over the application of regulation that multinational groups have decided to move to a different country where they actually know how a particular operation is going to be taxed. I would insist that on many occasions certainty is worth more than savings.”

“We are terrible at making laws in Spain for a great many reasons,” says **Fernando Santiago, President of the Spanish General Association of Administrative Agents**, citing the example of the latest tax cuts implemented halfway through the year: “A very good measure but badly legislated.” He adds, “When you look at the vast quantity of legislation and the impossibility of complying with it all, you can see that what we have is poor legislation. Good legislation is legislation that people can comply with and that doesn't encourage fraud.”

**Tomás Pascual** comments: “It won't do to have so many laws,” or, it is clear, “a different set of laws for each autonomous region and geographical area.” **Graham Johnson, CEO of Connectis**, is of a similar opinion: “The great variations in the regulations applicable in each region of the country are without a doubt a disincentive to investment. We should eliminate this barrier so that doing business in Spain will be easier.” Was the labor reform well executed? As we have said, the majority of businesspeople would say that it was, although they would have preferred it to be even more far-reaching. **Javier Targhetta** would like to see “another ingredient of employment flexibility, that of partial employment, which doesn't exist here. Another commendable measure (to be employed on a temporary basis and very selectively) would be some kind of direct policy on employment to incentivize certain jobs in specific sectors and in the regions suffering

the most brutal unemployment levels,” while he also emphasizes that he does not believe in “or, at least, prioritize making staff dismissal any easier.” Nevertheless, “it is another matter for judges to be in charge of deciding whether a redundancy procedure is appropriate without the means to pass judgement on a company's need to make redundancies based on their economic situation. That's madness.” **Rodrigo Martín, President of Randstad Spain**, supports the reform, although he would also introduce new aspects and considers that “the lack of legal certainty faced by enterprises when taking a redundancy procedure through the courts is barbaric, because such proceedings are more subject to interpretation than ever before.”

**Joan Roca** adds another dimension: “Spain's endemic problem”, he says, “lies in the lack of social debate that takes place before a law is approved. In contrast to what happens in other countries in Europe, in Spain we always have the debate after the law has been approved and based on the outcome. Very often no one knows much about the contents of the law because there has been no debate, and this lack of knowledge is what leads to discontent following its approval.”

Naturally, the sectors subject to regulation call for what **Luis Miguel Gilpérez, President of Telefónica España**, terms “well-defined regulatory frameworks and policies. We are subject to a very strict regulatory framework. We can't ask for there to be a different framework, but we can ask for clear rules to be defined that everyone can comply with and then maintain the same rules over a prolonged period of time. Investments do not mature immediately, so we need to know what we will be facing in the future, and that must be clearly defined.” The future: we always have to look to the future. We have to think long term.

\*At the time of the interview