

1. Executive summary

The Spanish economy has displayed an extraordinary dynamism during the last fifteen years, in the way of high and sustained growth rates. That extended growth stage, based on an economic model where Spain has generated its most recent development, seems to have ended. The complicated international situation, both financial as well as macroeconomic, has sped up the adjustment of our economy, subjected to important imbalances accumulated during the last years.

In all, and as Círculo has been discussing and anticipating in previous documents¹, we must face the urgent need for a change in the competitiveness paradigm of the Spanish economy. After the outstanding quantitative gap experienced since the mid 90s, it is essential to achieve the qualitative gap which would allow to lay solid foundations for a long term growth in our economy. This gap demands a model change which must consider the development and the permanent knowledge use as a fundamental element in the value creation in our economy, so as to guarantee the competitiveness of our market profitable system. In the process, the company is necessarily the fundamental topic, the activating agent by means of transforming its business process. But that task is non-viable without the involvement of civil society and the Public Administrations boost.

The international evidence shows the way that the knowledge creation, transmission and use enable productivity improvements, and therefore, solid economies. We can see, for example, that the first positions in the worldwide competitiveness ranking are held by countries which have been able to make innovation and technological advance the engine of their competitiveness

¹ See “La calidad institucional, elemento básico para garantizar la competitividad: sistema judicial y organismos reguladores”, Círculo de Empresarios, July 2008; “Una Universidad al servicio de la sociedad”, Círculo de Empresarios, December 2007; “Formación Profesional: una necesidad para la empresa”, Círculo de Empresarios, March 2007; “Hacia un nuevo sistema educativo. Bases para la mejora de la enseñanza obligatoria”, Círculo de Empresarios, July 2006; “España ante el nuevo paradigma de la competitividad”, Círculo de Empresarios, July 2005.

and economic growth, when faced with permanent economic challenges due to imbalanced markets. Spain, on the other hand, has suffered a permanent position loss in that ranking, precisely because of the obsolescence level of a competitive pattern distant from the knowledge economy premises.

We must face strategic decisions, since what is decided is where we want to be within 20 or 30 years, besides what we must do and how we must perform effective action plans in order to achieve it. That large temporary horizon must not, however, leads us to conformisms nor misunderstandings. We must go into action immediately, and the present situation problems should be only understood as a incentive to undertake deep reforms. The most appropriate strategy should focus efforts on those areas related to knowledge economy which either have a great traction ability over other areas in its way to this economic model, or either show clearer competitive advantages for our country.

Fortunately, we have other countries experiences which have preceded us into such transformation. Comparative analysis of the Spanish economy against the most competitive economies and the most successful countries in the knowledge economy make the identification of the main action areas easier, being these those where Spain suffers outstanding weakness. Those areas belong to three basic mainstays of any economic model based on knowledge.

In first place, the education and training system, natural sphere for the human resources development, as well as for enterprising and innovative spirit. In spite of the huge improvements of the past decades, especially what refers to University entrance by a broad strata of society, education in Spain suffers today an important lack of connection against the needs of an economic and social environment in permanent transformation. We are still far away from the continuous training pattern demanded by the knowledge society, which represents a key success in countries such as Finland or South Korea.

In second place, the knowledge economy leans on the existence of innovative and competitive technological markets, directed to value and welfare creation for all the society. In those markets, the access to innovation activities would not be exclusive of the chain value items, but small

competitive agents in several links of the chain should help value creation through the own market coordination and the intermediaries action. This, obviously, does not exclude public participation. On the contrary, that participation has been determinant in other countries success. But it really demands a different approach of the one we find in Spain. It specifically demands a greater stress on the *ex before and ex post* evaluation of projects and results. So it is not a matter of only resources; it is a matter of an efficient use of them.

Finally, in third place the infrastructures, not only physical, but also logical. New technologies, including information and communications technologies (TICs), are irreplaceable components in knowledge transmission. In the same way, they are technologies that involve as well as generate more knowledge. This is why it is so important for any developing economy to have adequate TIC infrastructures, that encourage to spread such technologies in the value creation process. But physical infrastructures are necessary but not enough. Knowledge and innovation are network developing process, with the participation of many agents –universities, research centres, scientists, companies, enterprising, etc.-. Logical infrastructures therefore are needed in order to give extension and density to these networks. Unfortunately, Spain is still inadequate in both kind of infrastructures.

Círculo de Empresarios' proposals on the matter gather round those three performance spheres and under a basic premise: flexibility in the all-round vision frame. Spanish economy suffers several strictness –in the labour market and in other key innovation markets- that obstruct and impede the evolution towards a more modern productive pattern. These strictness limit the necessary margin to encourage research and innovation activity that would finally lead to new formulas in the creation of greater added value.

Concerning the education and training sphere, the proposals are those related to the three documents published on the matter by Círculo during the last two-year period. In this sense, the first basic step should be the whole society awareness of the importance of education as a leading element to a more competitive economy based on knowledge as well as social cohesion and equal opportunities higher rates. Political consensus and social stability could be determinant to achieve this target. Special stress in addition should

be made on permanent training, that is, on continuous skills and knowledge updating through lifetime, with more new technologies aimed to teaching methods.

In order to achieve this, powers development should be sought in compulsory education as to keep on learning and training; in vocational training we must seek the adaptation of education and degrees catalogue to the needs of an increasingly competitive economy and society; and at University we should look forward not only to knowledge spreading and implementation or to scientist and professional training, but also to help companies in order to increase their productivity and competitiveness. At the same time, this requires an effort on behalf of companies in their employees training, effort that would be easier due to the reduction of the current labour market inflexibility.

Three are the roads which must be developed in order to promote a technological market and a competitive innovation system. In first place, a regulatory framework improvement, which is currently too restrictive and too burdensome. Labour market inflexibilities hinder companies' organizational changes, so necessary in an innovation environment. Other regulations discourage the creation of enterprises, and therefore, restrain innovation. Undoubtedly, a more competitive and flexible environment will stimulate the research of a higher degree of efficiency, this is, a technological and innovative advance which is stronger and more powerful in value creation terms. In second place, the construction of an appropriate and stimulating financial framework around innovation essential activities and technological advance, as well as transferring all this to value creation. Finally, a financing improvement devoted to research and innovation, both private –for example, through the development of venture capital markets-, as public –through a careful efficiency evaluation of the resources management-.

In the end, concerning infrastructures, efficient steps must be taken by administrations in three areas. On the one hand, a favourable fiscal and regulatory framework should be created for the extending of a data network with an adequate software to deal with an increasingly demand of quality services at competitive prices. In second place, Public Administrations should be requested to incorporate in their domestic and foreign processing management the many efficiency possibilities that arise from the new

technologies appropriate use (*e-government*). Finally, Public Administrations should get involved and definitely committed to promote Business associations (*clusters*) and innovation and research networks, which means collaboration with private sector in knowledge creation, transmission and management leading to productivity profits more likely of an economic model with a greater added value in its productivity processes.

In summary, the above proposals objective is not another than generating value for the Spanish economy. Innovation, new technologies and processing implementation, spreading of TICs or social awareness on the importance of knowledge economy are not an end by themselves. They are necessary resources in the aiming of a clear target: to increase the competitive capacity of the Spanish economy and its growth potential by means of encouraging the ability of generating added value.