

# Investing in Catalonia: Bricks, Bolts and Highways

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## Abstract

*The recently announced departure of several multinational companies from Catalonia has opened a frank debate about our ability to compete and where our competitive advantages and future potential might lie. Historical and cultural factors make Catalonia and Spain difficult markets to invest in, in terms of legal security, educational levels, especially in science, and commercial structure, in which a high level of protectionism is in place because of banks' industrial holdings and political clientelism. Poor telecommunications infrastructure is the most obvious example of these failings, and a strong disincentive for technology companies to invest here. A rentier mindset is prevalent rather than a pro-active, risk-taking approach.*



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Spain 2014. The eyes of retired president of Extremadura Rodríguez Ibarra flit between his blood pressure monitor and the Samsung-Sony LCD screening images of spent nuclear waste rods from all Europe stashed a half-kilometre deep into his hills. The University of Salamanca launches its Worldwide Masters in Prison Studies (partners, CopPrivat and Cajas Unidas Españolas), internships available at Europe's newest, biggest detention centre in nearby Sierra de la Peña de Francia. On the coast, RussoDei Leisure Industries signs the death warrant of embattled labour syndicate COUGT by successfully deunionising nursing services to the conglomerate's 325,000 Age d'Or cardholders. Barcelona City Hall secures its long-sought schools funding accord with Serveis d'Escorts i Xofers SA, whose bodyguards and multiethnic masseuses guarantee their international clients a safe and sensuous visit to the Paris of the Mediterranean.

Not too fanciful, considering the present scenario. Francesc Sanuy, on Onda Cero radio last week blamed the Spanish government for failing to invest in Catalonia, leaving it with high transport costs and utility supplies more expensive than in the rest of Spain. If investment doesn't come in, future prosperity will be "based on the three P's: los purines, los peajes y la prostitución". Or take Pujol's celebrated comment that Catalonia will become a bunch of pensioners waited on by immigrants who pay the social security to keep us in clover.

## **Just how bad is it?**

When Michael Porter visited Barcelona four years ago to promote his cluster theories, the talk was all about growth. But as Britain saw in the stop-go economy of the 60s and 70s, whole sectors, entire industrial clusters can disappear almost overnight. Textiles and the car industry are already collapsing here. A year after the Lear layoffs, only 40% of workers have found a new job.

In my view, Samsung has behaved perfectly reasonably, and hasn't attempted to extract more grants from the authorities in order to stay, nor entered into conflict with the unions. One point to note is that the increase in land value of the Samsung site in itself is an incentive for the company to uproot and take the land sales profits with it.

But the problem is not just the multinationals leaving, but the host of suppliers floundering in their wake, some of which will adapt and survive, others won't. In the case of Samsung leaving for instance, this means local suppliers such as: Herms, making cases for back-projector screens (50 workers, and Herms took on another 15 to satisfy Samsung contracts); Cibu, providing maintenance; Detersa's plastic injection mouldings; and packaging from Cartonajes Petit. Any stand-alones?

## **What the experts say**

As commentator Manel Pérez observes, "In Barcelona the authorities, unions and general public have reacted with indignation to the kind of [corporate] conduct which in the US is considered an inherent part of capitalism." Tell that to America's General Motors workers. But he has a point: we expect companies to be paternalistic here, partly because of our protectionist habits. Foment del Treball's Joan Rosell says not to worry, that these departures don't upset the apple cart, that we should continue to focus on industry. And compete in terms of low wages? The high-value, high-tech grail is out of reach because of one big shortcoming – education.

## **Education**

Dresden is no longer low-cost, but chip maker AMD is locating there, creating 1,000 direct jobs and another thousand indirect jobs. Why? Two reasons. Firstly, a 500m euro grant and 700m soft credit arranged by the regional government. This has been a major point of debate in the Samsung withdrawal —that the Generalitat gave over 3 million in aid. This is a drop in the ocean:

Tony Blair gave 100 million to Samsung to locate in the UK, and the tax holiday for Volkswagen in Slovakia until 2007 will amount to many millions—an interesting point in EU law.

But secondly, AMD executives cite education levels, especially at the local universities. We had a golden opportunity to invest in training and science over the past decade, with tens of millions in EU grants from Europe, squandered here by the administration which either pocketed the spoils or offered low-grade computing classes no more useful than the Microsoft ‘Help’ features. When I see industry minister Josep Maria Rañé these days, I want to weep: this man sat in the opposition benches recording all the cases of training fund abuse, and now in power, it’s he who has to answer for the vacuum in technical skills.

The schools have little idea of hard science. The execution of Lluís Companys is a notorious episode for sure, but hardly anyone knows of the execution of Francesc Ferrer i Guàrdia, held as a scapegoat of the Tragic Week events, but in truth a visionary educationalist who saw the value of science for a rapidly industrialising people. His execution sent a message round Spain which still echoes today: education is the remit of the church, and beware anyone who wishes to instill a dialectic, rationalist system. In my experience as a history teacher in a Barcelona secondary school, supposedly secular, I was advised to avoid Darwin, Luther and the Reformation. At least in the USA these ideological battles are fought in the open; here, there is a tacit understanding that children should not ask awkward questions nor be disabused of their comfortable myths.

Most Catalan teenagers have never heated a test tube or seen a tickertape machine, and the school system remains fixated with language policy. Visit the ERC web page on education policy, and language issues dominate while science and mathematics barely merit a mention. As an investor, I don’t care what language physics is taught in, so long as it’s taught. Laws of motion are linguistically impartial.

In Britain, trainee teachers are often given a book called ‘Why Children Fail’, warning them of how pupils turn off when they get bad marks. This book is absolutely unnecessary in the Mediterranean, where children are not allowed to fail. They are not externally assessed until their school-leaving year, by which time they have all kinds of misconceptions about their abilities. This distorts the whole job market, and leads to mediocrity.

Streaming in maths and science is essential, otherwise the pupils who are able to grasp calculus will be held back by long-division stragglers. This lack of selection and mediocrity filters into the university system, where tutors complain that half their first-year pharmacists, for instance, have little grasp of organic chemistry.

The universities themselves, a few exceptional departments beside, are lamentable. Endogamia is the euphemism, and there’s no will or leadership to do anything about it. An Ivy League or an Oxbridge has the calibre to attract companies needing talent, but Spain as a whole keeps its academia at the civil servant level.

Class and status enter into the educational equation too, where ‘titulitis’—the obsession with gaining a supposedly prestigious qualification—means that those who have the time and money

collect third-rate ‘masters’ degrees while those with talent but few resources are passed over in the job market. Professions overweigh trades by an alarming degree. Spain is a country with too many lawyers and too few electricians.

## **What’s left?**

Can Catalonia thrive on tourism? Can we become Florida? Tourism is notoriously volatile. Lower priced holiday destinations in Bulgaria, Croatia, Egypt, Greece, Turkey and Tunisia are already taking tourism from Catalonia, stuck at 14.4m tourists a year, the losses taken up by Spanish tourists to Catalonia, which also has its ceiling Hotels are 7% down on bed-nights from 2002, and last-minute booking tendencies mean lower value tourism. Congress hosting is an obvious area for growth, but it’s a cyclical market, and causes chaos in hotel booking. Satisfying peak demand means low hotel occupancy in lean weeks and high overheads.

The biggest question-mark over a tourism model is the environmental cost, where taxpayers carry the can for pollution and degradation. An interesting example is Cambrils, where the Ajuntament has initially rejected a 180 million euro development project proposed by George Soros’ Medgroup to build 520 residencies around a golf course. Local tax raised would not be enough to service the amenities.

## **Wild west ethics**

Legal uncertainty is another reason not to invest. Soros was at the point of bidding for the Tibidabo amusement park four years ago, but withdrew when he discovered that City Hall could claim the site after auction at the hammer price, which is exactly what happened. One has to accept that many foreign firms cannot operate in a Spanish judicial climate. A Dutch company which wanted to locate in Barcelona withdrew because it could not avoid making a black-money deal on an office purchase, and the agent said this was the way things work. The company statutes expressly forbid such deals, so the company moved elsewhere.

Portugal is similar in many ways. Here’s a report by the McKinsey Global Institute for the Portuguese government, part of Lisbon’s effort to overcome barriers to productivity. It says that tax evasion by Portuguese companies is the greatest obstacle to productivity, and restricts market entry by competitive companies and foreign investors. The Portugal 2010 strategy programme aims to increase Portuguese GDP to EU average by 2010 and make the country one of the most attractive investment centres in the EU.

The first part of the McKinsey report cites “informality, that is the failure by companies to comply with fiscal, social and environmental obligations, is responsible for 28% of the productivity differential between domestic companies and their counterparts in five benchmark European countries.” McKinsey says “informality” enables less productive companies to stay in the market because they enjoy advantages over the rest: “Local companies are more productive than foreign companies but analysed after taxation they are less competitive. This makes it impossible for

more productive companies to win market share from less productive ones.” A race downhill through poor governance, in other words.

## **Protectionism**

The biggest disincentive for foreign investors is obviously lack of opportunities. The best indicator of this in Spain is the outrageous profit levels attained by inefficient, low-risk banks on the back of oligopoly industrial holdings. Banks here have more power than some governments. An example. I am a skilled mechanic and want to set up a vehicle inspection centre. Regulations – 22 pages of them – mean that the level of investment required is only attainable by a large company, preferably with in-house lawyers and an insurance division. That’s why MOT testing is dominated by AGBAR and its banking partners, and they employ poorly motivated, ill trained staff to exploit a concession only the big operators can assume

The banking sector here is not just risk-averse, it’s actively hostile to a liberal economy, with far too many industrial holdings to allow open, competitive markets. Protectionism is ingrained. Instead of high velocity capital we have judicial incertitude and inertia.

## **Junk telecoms**

Another reason why I’d hesitate to invest here is the telecoms network, an opportunity wasted by Telefónica’s adventurism in Latin America while the infrastructure at home rots. Where’s the cable in Barcelona? Two years ago, when I asked Menta, they couldn’t even show me a city map. We’re left with unreliable, false-broadband ADSL.

## **Consumer spending, an unknown**

In Barcelona, home-owning takes up 65% of household income. Spaniards have built up debts of half a billion euros – the highest rise ever, says the Bank of Spain. Indebtedness rose by 15 percent to September last year. So if you’re going for the consumer market, the tip is to build big brands for major market share. Levi’s succeeded in this here ten years ago, aided by what the advertising industry recognises as a remarkably homogenous, conformist market in Spain.

## **Tips for punters**

Maragall says biotechnology. I’d say selective, low impact rural tourism. Design, say others. Bunkum. Design is a commodity, and talent is universal. Better to consolidate a technical area like audio visuals, my best bet for 2014. But unless the fundamentals are there – secure legal rights protecting my property, intellectual or material, good education and higher-trust management, we’ll be digging in those fuel rods and patrolling those prisons as Europe’s junkyard.