

Challenges for 2017

Miguel Cardoso

Diario ABC (España)

There are many challenges for 2017, but the most important economic ones can be summed up as maintaining growth, boosting employment and raising wages. As for the first of these challenges, the recovery will start to come up against increasing resistance. For example, on the external front the environment will start to be somewhat less favourable due to rising oil prices, lower exports to the UK (Brexit) and the fading of the positive effects of monetary policy. On the domestic front, demand that had been bottled up during the years of uncertainty is now nearly spent, while fiscal policy is set to become contractive, following two years of expansion.

As for employment, one of the main stumbling blocks will be the uncertainty surrounding the legal framework that businesses will have to face in the next few quarters. In particular, recent court rulings, together with the debate on labour reform in Congress, may increase uncertainty about hiring and investing. All the studies carried out on the effects of the labour reform point to it having had benefits that justify it being kept in place, while at the same time highlighting the inadequacy of the measures applied, especially to reduce temporary employment contracts and long-term unemployment.

Lastly, the most important challenge in the next few years will be to increase wages. In the short term, average wages will continue to fall. This is simply the consequence of a “composition effect”: workers finding employment do so at lower wages than those of workers already in employment. Once the high unemployment caused by the crisis has been absorbed, wage growth will be determined by the increase in labour productivity, which crucially depends on human capital. Here work will have to be done on two fronts. On the one hand, it is necessary to raise the quality of education and at the same time reduce the school drop-out rate. However, a large proportion of the labour force has already dropped out, and with a level of education ill-suited to businesses’ current needs. For these people, it is necessary to promote a modernisation of the active employment policies that will allow them to access better-paid jobs.

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