

Outlook 2017: «It's politics, stupid!»

During the 1992 Presidential campaign in the United States, James Carville, Bill Clinton's lead strategist, coined the famous saying «it's the economy, stupid!» to make sure debate focused on the economic situation while, in his speeches, President Bush concentrated on achievements in foreign policy, such as the victory by the US and its allies in the Gulf War. The phrase became very popular in the US and is currently used, with some variations, to underline what is truly important in an issue. For the economic outlook of 2017, we have no doubt: it is politics.

The cover of this *Monthly Report* features the four large capital cities where political events will undoubtedly determine our economic future in 2017: Washington D.C., London, Berlin and Paris.

In Washington D.C. we will discover the stance to be adopted by President Trump's administration. Ironically, it would be better if he does not keep his electoral promises. Now close to full employment, the US economy does not need such a strong fiscal impulse as the one endorsed by Trump during his campaign while in trade, imposing import duties on goods from China and Mexico would more than likely trigger trade wars that would be extremely costly for the world economy. Fortunately we do not expect either to come about. Now that he has been elected, Trump has started to tone down his discourse and we expect the administration to adopt a pragmatic stance under the influence of the Republican Party's more moderate wing. The reaction by financial markets in the last few weeks, generally positive, confirms that this is the most widely held hypothesis but it would be useful if the first steps taken by the new administration could bear this out.

In London, the British government is about to fire the opening salvo in negotiations to leave the EU by triggering Article 50 of the Lisbon Treaty. This process looks like being lengthy and complex but it would be in the best interests of all those concerned to minimise any damage caused by uncertainty and the final agreement reached. The UK is unlikely to be able to remain in the single market while it refuses to accept the free movement of people but the ideal solution would be some middle ground that allows the country access to the single market under reasonable terms. For this to be the case, the UK will surely have to grant concessions in its control of European immigration.

Berlin and Paris will form new governments after the French go to the polls in May and the Germans in September. Both elections, together with those of the Netherlands and surely also Italy, will be yet another test for the rise in populism and euro-scepticism. There is no doubt that the European project needs good leadership from both countries. To be able to count on such leadership, both governments must be committed to Europe and have a clear electoral mandate to fulfil this commitment. Current circumstances advise against an overly pro-European discourse but it is vital to instil enthusiasm once again in the European project. The EU cannot allow itself to be perceived as essentially the guardian of fiscal orthodoxy.

In Spain, the formation of a government has represented a very positive step but the political challenge to be tackled in 2017 is still substantial: to demonstrate that governability and important agreements are possible, for example in the area of labour, education and also in the territorial sphere, in spite of the new context of political fragmentation. To achieve such ends requires dialogue, concessions, agreement and finding a compromise that can be accepted by the majority. In other words, Politics with a capital P.

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