

EDITORIAL

POTENTIAL GDP, A CRUCIAL BUT UNCLEAR CONCEPT

With this May issue of 2013, the "la Caixa" *Monthly Report* is embarking on a new journey after more than 33 years of uninterrupted presence as a steadfast observatory of the economic situation in Spain and abroad.

In this new phase, the *Monthly Report* (MR) has changed its form and content in an attempt to offer society a better service, in line with the needs of the time in terms of content and the potential of new media in terms of form.

The new MR has enhanced its analysis of the economic environment, each month examining some of the most crucial issues in the Focus sections. Focus articles aim to illustrate and discuss, in some detail, rather more specialized but important subjects that complement the analysis of trends revealed by key economic and financial data and the presentation of the economic outlook.

Our analysis of the overall situation is now more concise. The typography used for the different headings makes it easier to scan these sections while the sidelines, which used to perform this function, are now used to increase the graphic information provided, following the well-known maxim that, on many occasions, a picture is worth a thousand words.

These changes in content are accompanied by a new format for the Report. Its new, more modular structure makes it easier to read isolated sections without sacrificing overall unity.

In the very near future, this new format should also help towards the Report's simultaneous publication on paper and online, making the whole process much faster and more flexible and thereby encouraging use of the online version. In this respect, its modular format is crucial.

The choice of the Dossier's theme is always a decisive factor when producing each *Monthly Report*. For this issue, which is very special, the theme chosen is particularly appropriate and opportune: the concept of potential GDP, the difficulties in measuring this accurately and its impact on the design and execution of economic policies.

On this occasion, this Editorial has run out of space to outline or sum up the main ideas covered by the Dossier. All I can do is recommend you read it. However perhaps, by way of conclusion, it would be worth pointing out two key ideas which the articles have suggested to me.

The first is that, given the huge difficulties created by the economic crisis, it is important not to lose sight of those factors that determine an economy's potential to grow. There is no better way to successfully direct the vital reforms that must be adopted in the short term than by bearing in mind the ultimate objectives of economic and social policy and the key factors that result in a good standard of living and progress in the long term.

The second is that we economists must, once again, be relatively humble. The concept of potential GDP has a huge impact on economic policies, both in determining the room for fiscal and monetary policies to adopt a more expansionary stance as well as in assessing the structural or cyclical nature of budget imbalances.

Unfortunately, as shown by the articles in this Dossier and in spite of the huge effort by several generations of economists, we still only have highly imprecise measures of such an important concept. Consequently, in practical terms the more caution the better and those responsible for the *res publica* would do well to complement their examination of large macroeconomic aggregates (GDP, potential GDP, output gap) with a healthy dose of common sense and first-hand knowledge of the real situation.

Jordi Gual
Chief Economist
30 April 2013