

Abstract

The benefits implied by changing the growth model are at the heart of the heated political and economic debate in Spain. Increases in productivity and the reallocation of employment towards more innovative sectors are defended as the panacea for most of the ills afflicting the Spanish economy. In this paper we use a DSGE model with price rigidities, and labour market search frictions a la Mortensen-Pissarides, to assess the effects of the change in the growth model on unemployment. In so doing, we assume that the vigorous demand shock which has been mostly responsible for recent economic growth in Spain will be successfully substituted by a productivity shock as the main driver of Spain's economic growth in the future. So we assume that we actually succeed in the so called "change in the growth model". We show that whatever the benefits that this change might bring to the Spanish economy, the time span needed to bring the unemployment rate down to the European average actually increases. We then analyze the impact of several reforms in the labour market and evaluate their interaction with the new growth model. We conclude that changes in the economic structure do not make labour reforms any less necessary, but rather the opposite if we want to shorten employment recovery significantly.

Keywords: productivity, labour market, general equilibrium.

JEL Classification: E24, E27, E65.