

## Luis de Guindos: Integration and convergence - from the peseta to the euro

Remarks by Mr Luis de Guindos, Vice-President of the European Central Bank, at an event in honour of the 40th anniversary of the Spanish constitution, organised by the Spanish Ministry of Economy, Madrid, 18 December 2018.

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This month marks 40 years since Spain began writing the most optimistic chapter of its history<sup>1</sup>. On 6 December 1978 the Spanish people did more than just vote in favour of a democratic country that would uphold the values of the rule of law and equality. Our support for the constitution also laid the foundations for Spain to modernise its economy and become an integrated part of the European family.

In addition to safeguarding fundamental rights and civil liberties, Section 38 of the constitution states that “free enterprise is recognised within the framework of a market economy” and confirms that the public authorities guarantee its exercise. In practical terms, this meant Spain would align itself with the western model of parliamentary democracy, based on a market economy and free competition and underpinned by the social rule of law. A little more than a year later, negotiations began for Spain to join the European Economic Community, a historic milestone that would be achieved in 1986.

But this wasn’t an easy road to follow. The first years of our democracy were marked by economic difficulties, partly resulting from the international crises linked to sharp oil price increases and the lack of an anchor for inflation expectations in most developed countries.

Nevertheless, this new Spain, democratic and integrated into Europe, never stopped looking outwards. Trade and financial flows and the movement of capital increased, and exports and imports rose from accounting for roughly 35% of GDP in 1986 to 66% in 2017.

These steps towards modernisation would never have been possible without a society that was convinced of the fact that Europe represented prosperity and the future. The pro-European nature of civil society united Spaniards more strongly than their ideologies or political affiliations, and this sentiment has held firm despite the difficulties people experienced during the financial crisis.

A recent survey by the Elcano Royal Institute shows that eight out of ten Spaniards believe that opening up markets provides Spanish businesses with good opportunities<sup>2</sup>. This is resounding proof that Spain benefits from the European Union in general, and the Economic and Monetary Union created by the euro area in particular.

The annual growth in per capita income between 1977 and 1985, one year before Spain joined the EU, was 0.7%, well below the 1.8% enjoyed by the countries that would go on to form the euro area. However, between 1986 and 1998, before the euro was introduced, Spain’s per capita income grew at an extraordinary annual rate of 2.7%, above the average for future euro area countries of 2.1%.

The arrival of the euro also had a positive effect on growth, in spite of the serious difficulties during the crisis. Since 1999, GDP per capita has been growing at 1.2%, which is 0.1% higher than in the other euro area countries and much higher than during the early years of our democracy.

Recently, some people have tried to blame the euro for the length of the financial crisis in Spain and have advocated control over monetary policy interest rates and exchange rates. What they

often forget is that being a member of the euro area enables Spanish households and businesses to benefit from lower real interest rates, lower inflation rates and reduced macroeconomic volatility, all of which boost productive investments and make a vital contribution to the sustainability of public finances.

Furthermore, it is not true that structural currency devaluations solve economic crises. Devaluations are short-term measures. In the long term, the competitive boost they provide is eroded by the higher inflation they cause. And, in a complex system of global production chains like the one we have today, devaluations can make it harder for businesses to plan. The euro is also the second-most important currency in the international monetary system<sup>3</sup>, which strengthens Spain's credibility in a global context.

It's true that the crisis revealed significant institutional shortcomings in the structure of the monetary union, but it's equally true that European countries have taken this on board and carried out substantial reforms. The banking union represents one of the greatest achievements of European integration. Banks are now supervised at the European level, which enables risks that transcend national borders to be identified. Completing the banking union, in particular by setting up a European deposit insurance scheme, should be a priority for national governments.

If we look back 40 years, it's clear that Spain today is a more prosperous and modern country. However, we must not forget that much remains to be done. Improving the functioning of the labour market is still an outstanding issue – more than 3 million people remain unemployed, and the youth unemployment rate is still above 30%. But there are grounds for optimism.

Following the collapse in GDP during the hard years of recession, Spain, supported by the European Central Bank's measures, has reached an annual growth rate of 2.8% over the last five years, well above the European average. Spurred by the need to search for new markets during the years in which domestic demand tightened<sup>4</sup>, Spanish businesses have managed to find opportunities overseas and many are now global leaders in their sectors.

Spanish society has worked very hard to return to economic growth after almost a decade marked by the crisis, and it has done so while remaining true to its commitment to Europe. 40 years ago the Spanish people voted for a better country – one that was democratic, open and modern. The 1978 constitution and the process of European integration have enabled us to make this better country a reality.

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<sup>1</sup> The text was published as an op-ed in *Expansión* on 6 December 2018.

<sup>2</sup> See the survey entitled "Europe as seen from Spain and France" (*Europa vista desde España y Francia*), Elcano Royal Institute, March 2018.

<sup>3</sup> See "The international role of the euro", ECB interim report, June 2018.

<sup>4</sup> See *Almunia, Miquel, Pol Antràs, David Lopez-Rodriguez, and Eduardo Morales. 2018. "Venting Out: Exports during a Domestic Slump"*.