

Spain in the EU

Also by Mary Farrell

EU AND WTO REGULATORY FRAMEWORKS: Complementarity or
Competition?

Spain in the EU

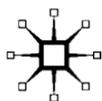
The Road to Economic Convergence

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Fue grande el alma castellana cuando se abrió a los cuatro vientos y se derramó por el mundo; luego cerró sus valvas y aún no hemos despertado.... ¿Está todo moribundo? No, el porvenir de la sociedad española espera dentro de nuestra sociedad histórica, en la intrahistoria, en el pueblo desconocido, y no surgirá potente hasta que lo despierten vientos y ventarrones del ambiente europeo.

Miguel De Unamuno, *En torno al casticismo*

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List of Abbreviations

AEAT	Agencia Estatal de Administración Tributaria
ALP	Activos liquidados en manos del público
CAP	Common Agricultural Policy
CCOO	Comisiones Obreras
CEC	Commission of the European Communities
CES	Consejo Económico y Social
CiU	Convergència i Unió
EC	European Community
ECB	European Central Bank
ECOFIN	Economic and Finance Ministers
EMI	European Monetary Institute
EMU	European Monetary Union
ERDF	European Regional Development Fund
ERM	Exchange Rate Mechanism
ESF	European Social Fund
EU	European Union
FCI	Fondo de Compensación Interterritorial
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GDFC	Gross Domestic Fixed Capital
GNP	Gross National Product
ICF	Inter-territorial Compensation Fund
INI	Instituto Nacional de Industria
INH	Instituto Nacional de Hidrocarburos
INEM	Instituto Nacional de Empleo
IRPF	Impuestos sobre la renta de personas físicas
LET	Ley del Estatuto de los Trabajadores
LOFCA	Ley Orgánica de Financiación de las Comunidades Autónomas
M&A	Mergers and Acquisitions
NAIRU	Non-accelerating inflationary rate of unemployment
RCA	Revealed Comparative Advantage
R&D	Research and Development

SEA	Single European Market
SEPI	Sociedad Estatal de Participaciones Industriales
SME	Small and Medium sized Enterprises
UGT	Unión General de Trabajadores
VAT	Value Added Tax

Introduction and Acknowledgements

The purpose of this book is to offer an account of how Spain developed within the context of its membership of the European Union up to the time when it joined with ten of the other member states to become a founding member of European monetary union on 1 January 1999, just 13 years after accession to the European Community. The book's focus is on the economic development and internationalisation of Spanish industry, the labour market with its ever-present challenge to reduce an unemployment rate that continually topped European levels, the regional development and diversity among the autonomous communities that were newly created by the 1978 Spanish Constitution, and the continual and often contradictory challenges to the public sector and economic policy generally. The basic framework of the modern democratic state that emerged in the aftermath of Francoism was set out in the new Constitution, and its practical realisation subsequently pursued as the authorities sought to create a public sector comparable in size and structure to that already well-established in the other European states.

Membership of the European Community was anticipated to bring benefits to the country on a number of fronts: the modernisation of the economic system and greater access by the national industry to the larger European market; modernisation of the political and institutional system, using the European model of democracy as the basis for the creation and consolidation of the new national democracy; and the opportunity to integrate Spain within international society, thereby giving recognition to the legitimacy of the new democracy. Moreover, the promised benefits were expected to raise the standard of living for the country as a whole in a gradual convergence to the European Community level of welfare. In essence, these varied outcomes suggested the requirement of a complex convergence of the economic, political and regional system within Spain in order to achieve levels of development comparable to the European average.

As the chapters that follow show, the gap between the actual level of Spanish economic development in the first half of the 1980s and that in the other advanced member states was quite significant. With

extremely high levels of inflation and an uncompetitive national industry long accustomed to government protection behind high tariff barriers, it was clear that convergence towards the European average could not be regarded as an automatic outcome liable to follow on from the mere fact of accession. Instead, closing the economic gap would require key strategic decisions to be made by the national authorities, and the implementation of a number of political options both before and after the entry date of membership.

Striving for convergence was never going to be easy, given the enormous difference in per capita income levels, the diversity of both intra-regional and inter-regional development, the persistent problems of inflation and unemployment that remained features of the Spanish economy long after the other European economies had recovered from economic crisis and structural changes to resume economic growth in the mid-1980s. Indeed, the enormity of the challenge became even more apparent in the years following accession and particularly as the European Union itself moved towards deeper levels of integration, from the Single Market programme to European monetary union. The chapters that follow will consider how Spain met these two challenges as it continued to seek closer economic convergence with its European partners.

The proposed monetary union seemed, in fact, to complicate matters considerably by introducing specific targets to be met by any country seeking to become a member of the euro-zone – the convergence criteria set down in the Maastricht Treaty on inflation, public sector deficits and national debt, interest rates and exchange rate stability certainly posed a new set of challenges for Spain. In practice, the nature of convergence changed, and it was no longer a question of how and when Spanish per capita income levels would rise to the level in other advanced member states. The goalposts had changed, and the national political authorities had to meet certain additional requirements in order to qualify for the next stage of European integration with the promise, but not the certainty of further economic progress. In the wake of the Maastricht Treaty, convergence was now defined in terms of certain macro-economic variables and required therefore that the government take much tighter control of the public finances, adopt a more neo-liberal market-oriented economic policy, and make strenuous efforts to reduce the size of the public sector even before the latter had grown to levels comparable with those of other European democracies.

This book offers an account of the path followed by Spain in its search for economic modernisation and progress on the one hand, and

on the other its desire to be a committed member of the European Union. Over the entire period, the country has benefited from this membership, and the national support and enthusiasm for European integration never wavered even during the worst periods of economic recession such as was witnessed in the early 1990s. Indeed, the pace of economic growth was only really established one year after monetary union, although the national authorities were already committed by the end of the 1980s to doing whatever was necessary to qualify for entry to the single currency.

The structure of the book was decided in part by the need to consider the convergence criteria established in the Maastricht Treaty, and therefore the chapters that follow consider how the Spanish authorities sought to meet the criteria. Other aspects of the national economic and political system, however, which were not included in the Maastricht Treaty, also need to be considered in the pursuit of convergence. Unemployment was regarded as one of the most difficult of the challenges facing the national authorities, and one that could derail successful efforts in other areas. Eventually, unemployment levels began to fall so that by mid-2000 the Spanish government was able to announce that the country needed to import labour to meet certain sectoral needs. Regional disparities continued to exist, although certain regions had made impressive strides forward to cap the European average per capita income levels. In fact, a mere 18 months after qualifying for monetary union, a *Financial Times* survey of Spain opened its report with the description of the country as 'optimistic, assertive, successful' (*FT*, 13 June 2000).

I would like to conclude this introduction by expressing my sincere thanks to a number of people whose help and support enabled this book to be written more or less on schedule. Firstly, the grant of a sabbatical from the University of North London freed up some time to concentrate upon the research and writing, and I am grateful to friends and colleagues in the School of Area and Language Studies for continued practical and moral support. I would also like to thank a number of people in both the UK and Spain for various assistance in the completion of this work: Agustín García Laso in the University of Salamanca provided some invaluable advice on Spanish language sources in the area as well as being a well-informed expert on the Spanish economy; Charo Parra Neches had both an impressive knowledge of Spanish history and the ability to bring it to life in the most fascinating manner, as well as possessing detailed knowledge of the best tapas bars in Madrid; Paz Campos provided an objective, and often

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