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The Impact of the European Union on Spain

Christine Ryan
Salve Regina University, christine.ryan@salve.edu

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The purpose of this paper is to examine the economic growth and prosperity that Spain has experienced as a result of its admission into the European Community in 1986. This thesis will provide a detailed history of the establishment of the EC, which later evolved into the European Union, and how it has contributed to the economic and political growth of Spain as one of its member states. When Spain entered into the European Community in 1986 it was one of the EC's poorest members. However, with the help of European integration Spain has evolved into a powerful country with a growing, stable economy comparable to members such as Italy, France, and Germany.

Plans for a united Europe began with the Treaty of Paris in 1951. At the time, many of the European countries were in fierce competition over the Ruhr Valley, a dominant supplier of coal located on the Ruhr River of West Germany. The solution to the problem came with the establishment of the European Coal and Steel Company (ECSC) composed of six European countries including France, West Germany, Italy, Belgium, the Netherlands, and Luxemburg (Smith, 153). Six years later the Treaties of Rome expanded on the idea of a united Europe with the establishment of the European Economic Community (EEC). The EEC opened up trade between countries by attempting to remove economic barriers and create a common market in which goods and services could be freely moved (Smith, 153). In addition, the treaty organized the European Atomic Energy Community, referred to as Euratom, that presented ways countries could work together on their development of nuclear energy. In 1967 the three organizations: the European Coal and Steel Company, the European Economic Community, and the European Atomic Energy Community merged together to form the European Community.

At first, the main concern of the European Community was the resolution of issues concerning economy and trade, however, as time passed, the EC grew to deal with nearly every issue concerning the countries' daily life including civil rights, security, employment rates, environmental policies, and, most importantly, globalization. In order to function as a whole, members of the European Community needed to agree jointly on decisions and comply with the enactment of common policies dealing with such matters as trade, employment, and agriculture. The European Community's main goal was to facilitate trade among EC members while creating policies to ensure the safety and security of its people. According to Norris Smith, "Europe is a continent with many different traditions and languages, but also with shared values…it fosters co-operation among the peoples of Europe, promoting unity while preserving diversity." (6).

The European Community began to grow with the admission of more member states starting with the admission of Denmark, Ireland, and the United Kingdom in 1973, and Greece in 1981. Finally, in 1986, Spain and Portugal were admitted into the EC. That same year, the European Community was focused on creating a single market to allow for the free movement of goods, services, and citizens throughout the member states. They began work on this project by passing the Single European Act (SEA), which required members to eliminate country barriers such as borders. Therefore, Spain had to adapt to its entry into the EC while simultaneously complying with the Single European Act.

Spain's entry into the European Community opened up the country to various opportunities for economic development, yet Spain's history of protectionism had to be abolished to comply with European integration. Historically, the country had originally

attempted a democracy at the end of the nineteenth century with the establishment of the First Republic in 1873, which was quickly overthrown by the end of the year. The Republic was attempted yet again with the establishment of the Second Republic in 1931. Although The Second Republic started out as one of the strongest democracies of its time, the country was soon split into many opposing factions. This led to growing political, economic, and social conflicts in Spain. These conflicts came to a head in 1936 with the Spanish Civil War. General Francisco Franco led the Nationalists with support from Benito Mussolini, the leader of Fascist Italy, along with Adolph Hitler, the leader of Nazi Germany. The Nationalists under General Franco were victorious in defeating the Loyalists in 1939, leaving Franco in charge of the country. Franco proclaimed himself generalisimo of the Spanish army, as well as Chief of State and Head of Government by the "grace of God". He reigned as the dictator of Spain until his death in 1975. Throughout his time in power Franco isolated the country from the rest of Europe. He set up economic barriers, broke ties with NATO and the UN, and devastated the Spanish economy.

When Franco died in November of 1975, King Juan Carlos I came to power as Head of State. Juan Carlos re-established the Spanish democracy by drafting a new constitution in 1976, and free elections took place the following year (Maurice Hamlin). In addition, he worked on improving civil rights for women and re-instituted religious freedom. Nine years later, when Spain was offered membership in the European Community, the EC promised to aid the country by supporting Spain's new democracy, facilitating political and economic development, and ensuring Spain's economic welfare (Farrell, 3). The European Community wished to support Spain's continued development

of a stable democracy as well as reconnect the country with the rest of Europe. It was obvious that Spain was one of the poorest members at the time of entry into the European Community. Its GDP was only twenty five percent while the European average was set at forty percent. The EC's plan was to help the country modernize in order to foster economic growth. One of the first examples of this modernization was the technology policy that was instituted as a way to help Spain achieve the technological development of neighboring countries.

The idea of a global economy was difficult for the Spanish to accept since historically, Spain's economy was based largely on agriculture and the majority of jobs came from harvesting crops and raising cattle. However, when the country experienced an economic boom between 1960 and 1970, Spanish laborers moved their interests away from agriculture to industry where jobs were much more stable and money could be made fairly easily. Between the years 1977 and 1997, the percentage of farmers decreased from 22 percent to 9 percent. Admission to the European Community caused the country to adapt to more modern practices in order to keep up with EC members. The economy of Spain had been dominated mainly by small family run businesses that knew little about competing globally. Many of these firms were taken over by strong multinationals that saw Spain as an ideal location to do business. The country was still a place in which businesses could benefit from low labor costs while simultaneously operating in a European Community member state. During this transition, Spain's economic appearance changed immensely. In order to survive in the developing market, small businesses were forced to innovate and adapt to new technology if they wished to survive

among the towering multinationals. In her book, *Spain in the EU: The Road to Economic Convergence*, Mary Farrell writes,

> "In the Spanish case, the productive system had significant difficulties in adapting to the evolving global market because of inherent structural features associated with the blend of traditional manufacturing industry and a predominance of small firms with low levels of technological intensity" (21).

The Community diverted Spain's focus from its traditional major industries such as textiles, clothing, and food, to more advanced businesses focusing on global trade. Over the following decade many mergers began to take place. The first wave of takeovers was from 1986 until 1990, during which there was high activity in mergers. In 1989, Spain's currency, la peseta, was entered into the Exchange Rate of Mechanism of the European Monetary System. This gave the EC power over the currency while at the same time controlling Spain's price stability. It brought about the second wave of mergers from 1990 to 1997, which did not generate as much activity as the first wave although it did accelerate as a result of Spain's admission into the EMS, thus allowing the country to maintain both low labor costs and price stability.

As a new member of the European Community, Spain was naturally skeptical about accepting common policies. Consequently, when plans for a European Environmental Agency were proposed in January of 1989, Spain was opposed to the idea. This presented a problem since the proposal needed unanimous support to be passed.

Spain argued that the idea of a common environmental policy was too centralized, and it disliked the possibility of environmental inspectors parading through their country. Despite these objections, since the United Kingdom was the only country in agreement with Spain, the two were persuaded to comply with the regulation and the policy was passed the same year. What Spain feared most were the economic consequences of such unilateral measures.

The Maastricht Treaty was passed in 1992 under which the European Community became the European Union. The Union's structure was composed of three branches of government, comparable to that of the United States, including a legislative, executive, and judicial system. The legislature was made up of the Council of the European Union and the European Parliament whose responsibilities included democratic supervision of its member states as well as managing the financial budget (Smith, 9). The European Commission made up the executive branch, while the European Court of Justice was established as its judicial branch. The European Union was created as a democracy in which member states were allotted a number of representatives based on country population.

The Maastricht Treaty was created to tighten the Union's budget by reducing government spending. The treaty outlined four guidelines which member states were required to follow: their inflation rates had to be below 1.5%; their deficit could be no higher than 3% of their GDP; their currency had to remain stable; and their interest rates could not be higher than 2%. If countries failed to comply with these regulations, an infringement procedure would follow. In such a case, the policy would follow three stages. The first measure taken would be a letter sent to the member state explaining

what the country failed to do. Next, the Union would send a second letter outlining the arguments that they would present to the European Court of Justice. The last and final measure would be to refer the case to the ECJ. If the court ruled that the member state was not in compliance with the law, the country would be required to make the necessary changes in a timely manner.

Compliance with these regulations did not come cheaply, especially for countries with lower incomes. As a result, Spain pushed for a section to be written to control the high costs resulting from regulation compliance since the country feared being unable to pay such high amounts. This request brought about the Cohesion Fund of 1992 at the Edinburgh Summit. The fund was, "based on the argument that the community has an obligation to tackle regional disparities" (Newman, 114). The bill stated that 15.1 billion euros would be dispersed among the four cohesion countries: Spain, Greece, Portugal, and Ireland to help with project funding. The cohesion countries were those members with weaker economies who needed financial help from the European Union.

Spain has relied heavily on the cohesion policy since it was passed in 1992. The cohesion policy refers to the Cohesion Fund as well as to the four EU Structural Funds, including Objectives 1 and 2. Under Objective 1, financial assistance was provided to regions in which the Gross Domestic Product was less than 75 percent of the European Union's average. Spain received an average of 37.7 million euros of economic assistance under Objective 1, accounting for 84 percent of the country's total cohesion funding. The two regions of Spain that benefited the most from this policy were Andalusia and Extremadura. However, under Objective 2, more prosperous cities such as Madrid, Cataluna, and Pais Vasco profited as well. Between the years of 2000 and 2004, Spain

received nearly a quarter of the European Union's cohesion funding. This percentage increased by approximately 1 percent each year. The cohesion funding led to strong economic growth in the county and helped Spain assimilate with other European Union member states (Salmon, 103), yet the growth of Spain's economy under the cohesion policy was not always steady. Although the country experienced some backtracking over the years, Spain's economy experienced substantial economic development as a result of the policy's financial aid. The policy not only benefited the country as a whole, but also reached out to poorer regions of Spain that were allotted funding under Objective 1 of the Structural Funding Program.

The first assistance from Cohesion funding came in 1993. Spain was brought to the European Court of Justice on charges of noncompliance with the environmental law for the protection of wild birds. Spain allegedly failed to protect *Las Marismas de Santona*, a marsh that was home to various wild birds. Spain corrected the problem throughout the following years by enlisting financial help from the European Union under the Cohesion Fund and succeeded in turning the marsh into a suitable wild bird protection area in a total of six years. In addition, Spain was able to meet all of the new regulations set by the Maastricht Treaty in sufficient time with the aid of Cohesion funding.

Later in 1993, the European Union successfully removed all border barriers allowing for the free movement of people, goods, and services throughout the EU member states. The European Union promised that through integration, they would help Spain catch up with its surrounding countries. In accordance with the Single European Act of 1987, the European Union's goal was to "reduce economic and social disparities

between richer and poorer regions" (Farrell, 7). When admitted in 1986, Spain's unemployment rate was at 21.6 percent compared to the EU's average of 9.9 percent, while its inflation was around 9 percent, more than double the Union's average. It was evident, that Spain had a long way to go before achieving the EU's average economic level, yet they remained optimistic. The European Union set goals for Spain to raise their GDP and lower the unemployment rate while reducing their inflation. Spain agreed to continue their participation in the European Monetary Union in order to achieve the growth they were promised.

The European Union further expanded in 1995 by allowing Austria, Finland, and Sweden admission, bringing the total number of member states to fifteen. The following year the Stability and Growth Pact was passed. This pact instructed members to reduce their deficit in order to maintain currency stability. The European Union, wishing to facilitate free trade, realized that the best way to do this was with a common currency. In 1999, the "euro" was released to international financial institutions. Almost all of the member states favored the idea, with compliance from twelve of the European Union countries including Spain. However, three member states Denmark, Sweden, and the United Kingdom wished to keep their own currency. On the first of January 2002 the currency was officially placed into circulation. The EU exercised some leniency with phasing out previous currencies and allowed member states to set their own date when each country's currency would no longer be accepted. Spaniards were given until June to transfer their pesetas into euros. The creation of a single currency placed more pressure on Spain to maintain economic growth since any pause would result in political and economic consequences that would strain government finances.

In 2001, the EU passed the Treaty of Nice, which amended the voting process to allow smaller member nations, like Spain, more of a voice in the Union legislature. However, Spain was no longer viewed as a small, weak member after the European Union admitted 10 new members, Lithuania, Latvia, Estonia, Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Cyprus, and Malta in 2003. Many of these countries had weaker economies than Spain, which meant that they would be receiving a substantial amount of EU funding, therefore reducing the amount allotted to Spain. The admission of these poorer eastern European countries shifted Spain's status from a poor country to that of a middle-income country thereby creating a noteworthy shift in the distribution cohesion funding (Salmon, 101). The European Union had to reevaluate its distribution of funding to allot more financial help for poorer countries such as Lithuania and Estonia. This lead to a new budget proposal in 2004 from the European Commission. The proposal, submitted on July 14, outlined five new regulations for Structural Funding which included strengthening the Cohesion Funding as well as focusing on the main goals of the policy- to decrease economic disparities among members of the European Union. The new proposal greatly influenced Spain, which prior to admission received nearly a quarter of the Cohesion Funding. Spain therefore had many changes to which it had to adapt. Foremost, of course, was that the amount of EU funding to the country was expected to be cut in half. Originally accounting for 1 percent of Spain's GDP, the funding would decrease to only 0.5 percent. In addition, the number of regions benefiting under Objective 1 of the Structural Funding Plan would reduce greatly and, most likely, evolve to include only Andalusia and Extremadura.

This change in Cohesion Funding is not expected to get better for Spain in the future since the European Union will most likely continue to offer membership to countries with economies much weaker than that of Spain. It has been predicted that in the coming years, the European Union will allow countries such as Romania and Bulgaria admission, weakening Spain's financial aid even more. Spain, therefore, must look for ways to strengthen its own economy and begin to stand alone, without reliance on Cohesion Funding, since its stake is quickly depreciating. The country must look for new strategies for development and tactics to maintain a stable economy. According to Keith Salmon, professor at the University of Hertfordshire, in the United Kingdom,

> "For Spain, and for some regions within Spain in particular, a new transition awaits…Adapting to European enlargement, a new funding relationship with Europe, and a reformed cohesion policy will require a rethinking of Spanish development policy if the momentum of convergence is to be maintained" (121).

It is likely that in the coming years Spain will receive only one third of its original allotment of Cohesion Funding. The country must look for ways to sustain economic independence by creating new strategies for development. In order to maintain stable economic growth, the country must continue to adapt to its status as a middle-income EU member by adjusting to neighboring economic practices, cutting costs whenever possible, and continuing to maximize economic profits.

As a result, Spain has been successful in eliciting innovative ways to strengthen its economy. Since oil prices have become a concern for Spaniards as well as Europeans, beginning in the late 1970's efforts have been made to find alternative sources of energy that are more cost efficient. Solar power has always been an option but was never feasible until the recent development of heliostats. Fred Peace of New Scientist magazine explains,

> "The sun is collected by some 300 units called heliostats, each one with 70 square meters of glass mirror. The heliostats track the sun as it crosses the sky, reflecting its rays up to a ceramic heat absorber with an area of only a few square meters mounted on a 100-meter tower. The surface of the silicon-carbide absorber reaches a temperature of 1000° C, while air blown through its honeycomb structure is heated to 680° C. The hot air then passes down the tower to a heat exchanger, where it generates steam that drives a conventional turbine generator delivering up to 1 megawatt of electrical power."

Spain is one of the sunniest countries in Europe, and, therefore, a key player in this new energy plan. In March of 2004, the SolAir project began in Almeria, a coastal city where the sun's rays are extremely powerful. The Spanish government agreed to the project in response to financial targets set by the European Union (Pearce, 2).

The country's attempts to maintain a stable democracy and continue with economic growth have been advanced through further European assimilation. At the start

of this year Spain passed two new policies that coincide greatly with the rest of the European Union. The first change was made in the workday schedule. Traditionally, the Spanish workday was characterized by *la siesta*, an extended lunch break, usually lasting three to four hours, during which the workers returned home for a substantial lunch and quick power nap. This emerged out of the agricultural lifestyle once typical to Spain. Farmers worked in the hot sun beginning in the early morning hours and were forced to take a break to cool off during the hours when the sun was at its strongest. Although over the years the economy began to shift and employment moved to industrial jobs, the tradition remained. Recently however, economists have stated that the *siesta* places a strain on the country's ability to compete in the global marketplace. The National Commission for Rationalization of Spanish Work Schedules and Normalization With Those of Other Countries of the European Union lobbied for the new policy, arguing that the breakup in the workday promoted lower labor productivity. In addition, the longer workday resulted in less family time and decreased hours of night sleep. The commission reported that Spaniards sleep forty minutes less than other Europeans. As a result the Plan Concilia, led by Jordi Sevilla, Minister of Public Administration, was adopted in January of 2006. The Spanish lunch break shrunk from three hours to one for all employed civil servants (Owen, 1). The Spanish government hopes this change will allow for greater work productivity, better relations with multinational corporations, as well as a stronger workday. However, the new policy has experienced some backlash. Gerald Owen of the Economist reports,

> "Necessity, both economic and familial, will bring a change such as Plan Concilia sooner or later. But I mourn the loss of distinct customs such as the siesta. With the tidal wave carrying us all to homogenization, one can foresee a time when we can no longer visit a truly foreign country—when from Timbuktu to Baghdad to Barcelona, the whole world will be having hurried half-hour lunches underneath office tower complexes in pseudo-multicultural "food courts"(2).

A second social policy that has been instituted this year is banning smoking from public places including hospitals, schools, offices, shops and transportation systems. The Spanish parliament passed the new regulation in December of 2005, and it went into effect January 1, 2006. The policy states that structures that take up more than 100 square meters of land must set aside an area apart from the rest of the building in which occupants may smoke. Buildings occupying less space must put up signs designating buildings as smoking or non-smoking. Cigarette smoking is currently Spain's leading cause of death, accounting for an average of 50,000 deaths per year (*In your eyes*, 1). Spain is one of the European Union's largest cigarette consumers. The idea of banning smoking has been a popular concern of EU members; similar bans have gone into effect in countries such as Italy, Ireland, and Norway.

Although the country has been forced to stand on its own, it has been successful in maintaining its position as a middle-income country and continues its economic growth. In 2004, Spain announced its position as the leading EU member in the rise of employment of women. Spain's average for the number of women workers reported a

4.6 percent rise in 2004 in comparison to the EU average of 1.1 percent (Euroresidentes, 2004). Spain's gross domestic product was measured at 955.1 billion dollars in 2005 becoming the seventh largest organization for Economic Cooperation and Development (US Department of State). The country's per capita GDP was recorded at 25, 200 dollars, 78 percent of the European Union's average. Although lower than several countries, Spain remains ahead of Italy, Portugal, Greece and the Eastern European countries. Positive economic signs are that Cataluna is currently one of Europe's major industrial centers. Spain is Europe's fourth largest manufacturing country (Andalucia.com). While, Spain remains the world's largest producer of olive oil, the once agriculturally based economy has turned into one based around services, which account for 67 percent of the employment, with industries at 28.7, while agriculture only accounts for 3.4 percent. The major industries of Spain include insurance, electronics, and financial services, with tourism bringing in the highest amount of revenue.

While the future looks bright for Spain, the country still has some challenges to face. First, the unemployment rate, currently 10.1 percent is still fairly high, (the European Union's average is 9.4 percent). The country must search for ways to solve this problem by providing more jobs for the unemployed and creating incentives for employment. Second, the country's technology is still somewhat behind the European Union's standard. Josephine Quintero explains, "Over 90 percent of Spanish industrial plants are out of date and need replacing"(Andalucia.com). In the future, Spain must continue to look for ways to innovate and be able to adapt to new technologies. Aside from technology, as time passes the country must continue to adapt to the changing economic and financial policies of the European Union as well as changing social

policies (Andalucia.com). Finally, the country of Spain must continue to suppress its internal terrorist group ETA to protect the safety and security of its people. ETA refers to the terrorist organization formed in 1959 by Basque Nationalists fighting for an independent Basque homeland. These threats seem to be lessening however, with the recent agreement for a permanent ceasefire from the group in March of 2006. BBC news released the story on March 22, 2006 stating, “In a statement released to Basque media, the group said its objective now was "to promote a democratic process in the Basque country" (bbcnews.com). A member of ETA was quoted as saying, “At the end of this process, Basque citizens will be able to have a voice and the power to decide their future… Ending the conflict, here and now, is possible. This is the desire and the will of ETA." The ceasefire came into effect March 24, 2006 and currently remains in place.

In conclusion, the Spanish economy has been strengthened immensely as a result of admission into the European Union. The country that began as a lower income member state has developed into a middle-income economy that continues to grow. With the help of Cohesion Funding, Spain has successfully raised its GDP, lowered its public debt, reduced inflation, and decreased its unemployment rate by 10 percent (US Department of State). However, the road to European convergence was not always a smooth one. The country experienced bumps along the way, losing its advantage in higher Cohesion Funding with the addition of poorer member nations in 2002. In order for European Union integration to occur the country has been forced to comply with EU political, economic, and social regulations, which at times conflicted with Spanish traditions. Spain along with eleven of its fellow member states accepted the euro in 1999 and was forced to do away with its currency of the peseta by 2000. In addition,

integration has continued in recent years with the abolition of the traditional siesta in order to adapt further to the growing global economic homogenization occurring throughout, not only Europe, but also the rest of the world. However these compromises have proven to be worthwhile as Spain continues to grow and remain a powerful European country.

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