

GLOBAL INSIGHT

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# Spain shows faith in the gospel of reform

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By Quentin Peel in Santiago de Compostela

In the early Middle Ages, countless thousands of Christian pilgrims beat a path every year across the mountains of northern Spain to a small town in windswept Galicia, where they believed the body of the apostle St James was buried.

It was an extraordinary demonstration of faith in an unlikely story, according to which two devoted followers had brought the corpse of Jesus's disciple from Palestine to the Atlantic coast of Spain. It became the greatest destination for Christian pilgrims outside Jerusalem and Rome.

Santiago de Compostela was the scene this weekend of a rather different sort of pilgrimage but one that shared the common themes of austerity, faith and hope.

The secular centre of attraction was Wolfgang Schäuble, Germany's workaholic finance minister, who chose the May Day weekend to attend a seminar on the future of Europe organised by the Konrad Adenauer foundation.

His presence in Spain brought not only a posse of television crews and journalists but also the Spanish deputy prime minister, the economy minister and the foreign minister. They were determined to persuade him of their devotion to the cause of rescuing the Spanish economy and the eurozone from a new run in the financial markets.

Mr Schäuble, a Protestant lawyer by profession as well as a persuasive politician who dominates the dealings of European finance ministers, might seem an unlikely alternative to St James as a harbinger of hope for embattled Spain. Yet that is precisely how he was presented in the Spanish media.

He came to hear about the Spanish government's plans to curb its deficit and cut its debts, revive competitiveness, rescue its ailing banks and return to the path of sustainable growth. He might have been listening to a hymn from his own songbook.

Neither he nor Luis de Guindos, his Spanish counterpart, was preaching a sermon of austerity alone. Both held out the fervent hope that "sustainable growth" was the destination, not just pain.

“Fiscal consolidation is a necessary precondition for economic growth,” said Mr de Guindos. “Sustainable growth” was Mr Schäuble’s own ambition. The German-inspired “fiscal pact” of budget discipline and debt restraint for the eurozone was essential to guarantee it, he said.

But Spain was not coming to Mr Schäuble with a begging bowl – far from it. The message from Madrid was of a reform programme that was positively Teutonic in its self-discipline. Mr de Guindos was adamant he was not going to ask for money from the eurozone rescue funds to bail out his banks. It was the German who insisted that austerity was not an end in itself, but a stepping stone to recovery.

“I want to see a little bit more self-confidence in Europe,” he declared. “We are not the only problem in the world. I hate to be treated for the past two years as if we were the only threat to global economic stability.”

Both sides seemed conscious of the need to improve their communications and adapt their messages to the markets. Mr Schäuble was not simply banging an austerity drum, and Mr de Guindos was not simply begging for cash.

In private, the German finance minister did ask some searching questions about the Spanish plans to shake up the banking sector, force through consolidation, and ringfence the bad property debts weighing down the provincial cajas. In public, he did not give a hint of doubt.

Indeed, Mr Schäuble’s faith is firm in the rightness of the European venture. “If we didn’t have European integration, we would have to invent it,” he declared.

His hope was in growth, which would be the subject of the next European summit in June, although it had been on the agenda long before the present French presidential election.

As for the euro itself: “Of course, we were not able to find a perfect solution from the start. But if it doesn’t work, we will correct it. If we had waited until it was 100 per cent perfect, we would never have started.”

Some might call the system too bureaucratic, he admitted. The markets still needed convincing. But “we must not be too pessimistic. If we had told you two years ago what we would deliver in the fiscal pact, you would not have believed it.”

It was an appropriate place to deliver a message of extraordinary faith, even if some might still think it an unlikely story.

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