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Investiture Address to the Council of State

Luis M. Linde
Governor

Mr Chairman of the Council, Council Members, Lawyers, ladies and gentlemen,

First I would like to thank Landelino Lavilla and Miguel Herrero for having agreed to be my sponsors in the ceremony today. It is a great honour for me to take up office as an ex officio member of the Council of State, the highest-ranking advisory body of the Government and one of the oldest institutions in Spain.

As we all know, this is a time of serious difficulties for the Spanish economy, but the same applies to the construction of Europe. These difficulties are now actually the main subject of my work as Governor of the Banco de España and as a member of the Governing Council of the European Central Bank. It will come as no surprise to you that the topic I have chosen to speak on is the outlook for Monetary Union and for the European Union as a whole, the broad framework of reference against which our problems are addressed and resolved.

For decades we have been witnessing a progressive consolidation of the idea of unity as the best path available for building the future of Europeans. Admittedly, in most instances progress has been laborious. And it is also true that the most important qualitative steps, including most notably the creation of the euro, have been more the exception than the rule. Undeniably, however, viewed from a historical perspective, the European project has progressed substantially.

Yet at present there is a growing negative perception in some circles which tends to see Europe, its institutions and its methods of working as a factor of risk not only for the economic welfare of its citizens but also for the international community beyond the EU. What reasons underlie this change of perception and what challenges do they pose for those of us who believe in the need for more, not less, Europe?

In times of crisis the underlying structures of economies and societies undergo a level of tension which ultimately exposes their cracks and weaknesses. The European sovereign debt crisis has been no exception.

It is likely that the origin of the current crisis has more to do with the difficulty of governments in accepting the requirements derived from membership of a Monetary Union than with the structural weaknesses of that Union. In any event, the crisis has revealed that the foundations designed twenty years ago in the Maastricht Treaty to sustain the edifice of the euro need to be strengthened if we wish to ensure its stability.

But the stability of the euro requires measures which go beyond the institutions agreed at Maastricht.

Different member countries of the Monetary Union, including Spain, are facing serious difficulties in controlling and relieving the tensions besetting their economies. This task is unlikely to meet with lasting success if it is not part of a broader process to define and agree on what may be termed “the model of economic coexistence” of the member countries of the euro area and of the EU as a whole. This model will inevitably become increasingly a model of political coexistence.

A cornerstone of that future model will be the financial system and will entail a degree of integration in our banking systems on a par with that achieved in the area of monetary policy, with three main components.

The first is the establishment of a single European banking supervisor. As in the case of monetary policy, the new authority would combine the necessary centralisation of the most important, or most overarching, decisions with a reasonable degree of decentralisation enabling full advantage to be taken of national supervisors' experience and knowledge. The second component is a common deposit guarantee system which, as in the case of the supervisor, should combine centralisation and national features. Third, the design should also include an integrated mechanism for dealing with non-viable institutions.

But irrespective of whatever agreements may be reached on the financing of the common deposit guarantee fund and of the resolution mechanism, these two new components of the system cannot be fully effective without the support of a financing arrangement which can only be made possible, in one way or another, by greater fiscal integration. And that is extremely complex political territory.

The range of options between the current situation and the opposite extreme (the latter characterised by a single fiscal authority, a common Treasury and a centralised budget) is wide. I wish only to comment on two matters I consider important.

First, any strategy designed to move towards greater fiscal integration has to combine ceding national sovereignty with some pooling of financial risks, known as mutualisation of sovereign risks.

Second, the ceding of sovereignty in the fiscal area touches on particularly sensitive political issues. This means that the process has to be accompanied by ongoing efforts to inform public opinion and achieve transparency.

Some weeks ago the euro area Heads of State or Government and the European Council adopted a number of decisions, including some directly affecting the matters I have referred to here. There unquestionably remains much to be done, but the path embarked on a few weeks ago significantly contributes to the continuity of the euro area.

The success or failure of the euro area will not, for the European Union, be just one more incident on a path undertaken more than half a century ago.

It is not realistic to consider the euro area failing (failure can take various forms) while all else remains the same. The failure of the euro area would mean that the European countries would have to brake sharply and change direction drastically, at least in any foreseeable time horizon.

On the contrary, the success of the euro area and its continuity will decisively boost European unity. This is the position and the perspective defended by Spain and there are many reasons to believe that the euro area can negotiate the current crisis and continue to act as one of the lynchpins of the European political process.

Allow me to conclude by expressing my desire to be of use to the Council and, to this end, I offer my cooperation in the important tasks entrusted to it.

Thank you for your presence here today and for your attention.