

CHAPTER V

CONCLUSION

European Monetary Union claimed to be mechanism to bring development and economic benefits looked like a failed economic strategy. The idea that integration can create resilient and powerful economy has put into question now. The biggest question then asked in this research is **why is the implementation of EMU combined with domestic policies of Spain failed to solve ongoing crisis and instead worsen the situation?** To answer that, research has found that there are three key reason why crisis happened in which EMU partially responsible for.

Findings within this research have shown that indeed economic crisis partially caused by incomplete integration model used in EMU. First reason is EMU lack of control over fiscal policies has create a situation of uncontrollable fiscal policy made by state government. The implications should not be crisis, however given anomaly happened with financial system which create global recession lead to global financial crisis, government impacted with crisis are forced to take risk. Excessive spending become a problem and increased debt level of Spain to above limit of 60% imposed by EMU. However, Spain also desperately need to spend money to save failing banks and stimulate consumption while maintaining welfare. This lack of control over fiscal structure then prolong Spain economic crisis even turned it into sovereign debt crisis.

Second factor still related to first factor. However, the difference is that second factor is more about lack of coordination. as fiscal policies still fully under authority of state government, state government does not need to discuss their fiscal plan to ECB. However, that resulted in discord between expansionary fiscal policy of Spain and monetary policy of ECB which resulted in different reaction from market. Raise of interest rate stimulate more savings to ensure availability of capital, however it cannot stimulate consumption which Spain wanted especially since they hoped that their expansionary fiscal policies can maintain aggregate demand not only for supplying capital to failing banks. Thus, discord of policy create a situation where desired result cannot be achieved as both policies are not complimenting each other.

Then we come the last reason, liberalization of market and government lack of control. This happened because Spain financial institutions already prone to crisis proven by historically experiencing two crisis after democratization now fall into another crisis. This is because now financial system in Spain has become too liberal and out of government control. Government unable to control most of policies made for banking system as it was mostly under control of ECB and Spain only hold small degree of control due to lots of deregulation before entering EMU and during seven years of adjustment process.

All of those findings come to one answer. Joining EMU does not give Spain economy resilience and prosperity promised in the economic integration. Instead, joining EMU make Spain economy especially financial system vulnerable and unsustainable in long term. Thus, EMU is indeed responsible for causing and prolonging economic crisis in Spain.

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