

The Economy of Catalonia

Questions and answers on
the economic impact of independence



Comissió d'Economia Catalana

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Preface to the English edition

This English translation of the original Catalan book* went to the publishers days after the mass celebration of Catalonia's national day on 11 September, when hundreds of thousands of men, women and children of all ages, backgrounds and beliefs, and from all economic sectors – workers, business people, pensioners, self-employed, unemployed – took to the streets, joyfully, enthusiastically and full of hope, creating a human mosaic of the Catalan flag in the form of a “v” to demonstrate their wish for Catalans to be able to vote to become a new State within Europe. The emotive images were seen worldwide. But what is the viability of an independent Catalonia?

The wish of the people can only be realised within a framework which is both juridically and economically viable. Alongside the mobilisation of the Catalan people many professionals are rigorously analysing this viability. This book forms part of that process, addressing some key economic issues. Juridically too, an independent Catalonia would fit into EU legislation and International law, but addressing this goes beyond the scope of the book.

* Original Catalan version “*Economia de Catalunya. Preguntes i respostes sobre l'impacte econòmic de la independència.*” Comissió d'Economia Catalana. Profit Editorial. 2014.

As a member of the Catalan Economy Committee of the Association of Economists of Catalonia and Coordinator of the Economists' Sector of the ANC (Assemblea Nacional Catalana) it is my pleasure to introduce this English edition, which will only be published electronically. It is an initiative of two sections of the ANC: Economists and Translators. It has been undertaken in the firm belief that answers to questions on the economic implications and viability of an independent Catalonia should reach as wide an audience as possible.

It is a privilege for an economist to witness the commitment of so many people working in many economic areas, wanting to spread their knowledge to contribute to the understanding of how we have reached the current situation, and the opportunities of Catalonia as an independent state.

I would like to end by thanking the following people for their goodwill, hard work and commitment in translating and/or reviewing a chapter or chapters: M. Eugènia Bentanachs (coordinator economists), Georgina Bryan- Brown, Monika Ferré, Jana Graham (coordinator translators), Jacqueline Hall, Mike Holt, Phillip Ortega, Josep Pedrol, Àngela Pous, Miquel Strubell, Jordi Vilanova.

The images of the “V” for voting and victory are very photogenic but this book adds professional rigour to the will of the people.

DAVID ROS SERRA
Member of the Catalan Economy Committee
of the Association of Economists of Catalonia and
Coordinator of the Economists' Sector of the ANC.

Preface

(Translated by Jordi Vilanova)

This collection of papers reflects the will of the Catalan Association of Economists and its members to participate actively in the debates in society and to do so from an open, plural, constructive perspective. I sincerely believe it is a responsibility we cannot eschew, and that, as economists and social analysts, the problems and concerns of society affect us very directly, especially since they are largely related to the economy. Collectively, this is not an easy task because of the difficulties inherent in the social sciences in presenting indisputable, unalloyed alternatives. Any contribution to the debate must therefore consider the diversity of outlooks and assume that, despite all efforts, the diagnosis of conflicts in society is often conditioned by ideological approaches. This should not imply a limitation to the determination of economists as a whole to collaborate, within their area of expertise, so that discussions are based on information which is as objective as possible, although we must admit there are uncertainties that cannot be elucidated, and can only be defined and contextualised imperfectly.

There is no doubt that one of the great debates in Catalan society today revolves around the so-called sovereignty process and the consequences of eventual statehood for Catalonia. Although it is essentially a problem

that lies in the political sphere, it is clear that the economy, or rather the economic consequences, whether positive or negative, draw much of the debate. That is why it is perfectly rational that the Catalan Economy Committee of the Association should echo the debate and, within the Corporation's own pluralistic approach and broader economic discipline, participate in the discussion addressing the major issues generated by the process from an economic perspective.

It is clear that throughout the text the central points of debate are: economic viability, the European Union, the Euro, the impact on trade, finance, business, debt and so on. Notwithstanding the range of topics covered and the number of economists who participated, it is hoped the conclusions set out here may be verified or challenged by contributions of others, with the conviction that the whole should be improved in the process. In this regard, I must sincerely thank the authors for the clarity of their positions, allowing the reader unversed in the field of economics to follow the reasoning and form an opinion on each of the topics covered. As the Dean of the Association of Economists of Catalonia, I extend my thanks for two reasons. Firstly, the willingness of the authors to participate in the Catalan Economy Committee's initiative, contributing with their knowledge to make the debate more rational, and secondly because, although the opinions included are obviously attributable only to the authors, I am convinced their quality and rigour lend prestige to the Association and benefit the whole of Catalan society.

JOAN B. CASAS
Dean of the Association of Economists of Catalonia

Introduction

(Translated by Jordi Vilanova)

Through this publication, which is an initiative of the Catalan Economy Committee, the Association of Economists of Catalonia has set itself the task of responding to the questions on the feasibility and the economic implications arising from an independent Catalonia.

Thus, an open call for papers was made to a broadly representative group of economists with differing views on the process and, as could not be otherwise, without excluding anybody. The participants were asked to analyse the main economic issues raised by the eventual independence of Catalonia according to their expertise. Most of the economists convened contributed to this publication with their views on the following issues:

- Deficits of the current economic framework and Catalonia's economic potential:
 - What are the major economic deficits in the relationship between Catalonia and Spain?
 - What is Catalonia's economic potential?
 - Would this potential improve with independence?
- Political and economic scenario preferred by the economists, and the need for instruments of state:

- What do the economists believe to be the preferable political and economic scenario for Catalonia?
- Are instruments of state necessary?
- Methodology to appraise the economic effects on the State of Catalonia's public deficit and GDP.
- Economic viability of an independent Catalonia.
- On how Catalonia would fit within Europe:
 - Would an independent Catalonia remain within the European Union?
 - Would an independent Catalonia keep the euro as its currency?
- Impact of independence on various macroeconomic areas:
 - Would an independent Catalonia have a viable financial system?
 - What would be the impact of the structures of state on employment?
 - Could pensions be paid?
 - Could welfare benefits be maintained or increased?
 - What taxation and public expenditure?
 - What debt and asset apportionment?
- Impact of independence on the business world:
 - Impact of a trade boycott on Catalan companies.
 - Impact on the number of companies and multinationals?

In order to secure the view of the membership, a survey was carried out enquiring about several important economic aspects of an independent Catalonia. 1,261 economists responded.

Far from claiming to be the single truth, the analysis and opinions that follow should be understood to be contributions from a professional institution, with the aim of enriching the discussion on a subject that currently interests much of the Catalan and Spanish populations. It should be kept in mind that economics is a social science and not an exact one. As is often said «Economics is one of the few sciences where the Nobel Prize may be awarded to two scientists who defend opposing positions.»

ORIOl AMAT and MODEST GUINJOAN,
Publication coordinators

1

The position of an independent Catalonia in the international context

Oriol Martinez Alòs-Moner and Vicent Pastor
(Translated by Mike Holt)

Introduction

The aim of this chapter is to discuss various features of the Catalan economy which form a basis for appreciating the solid foundation of its aim to break with the current status quo of political union with Spain. A separation process can never be free of costs, either for society or of course for the economy, but we accept the validity – including in the case of Catalonia – of professors Alesina and Spolaore’s argument (2003), that in contexts of trade integration (common markets) and the absence of armed conflict, the tendency is for countries to be formed on the basis of uniform circumstances. This is due to the high costs of determining the compensations necessary to overcome the heterogeneity inherent to large countries.

The process which began in Catalonia with the massive demonstration of 11 September 2012 and the subsequent elections of 25 November the same year aims for the citizens of Catalonia to decide in a democratic manner what political framework is to be used to organise Catalan society and the economy. From an economic point of view at least, this means focusing attention on how to increase the per capita GDP available in Catalonia (with the distribution of income and social benefits determined by the government in power at the time) while taking into account market volume. In this respect, it can be reasonably accurately stated that Catalonia’s

relationship with the rest of Spain has operated under an implicit contract whereby the profits made from the Spanish domestic market (a more or less contingent market) by Catalonia had to be partly returned to the Spanish State in exchange. We believe this status quo is a thing of the past.

Alongside this, the devolution process, involving a considerable transfer of powers from the Spanish central government to the Government of Catalonia, the Generalitat, in recent decades (basically from a demand point of view, in the areas of policing, justice, health, education and so on), has not been accompanied by a similar transfer in fiscal terms to meet the cost of running the functions transferred. This has contributed above all to the gradual increase in the indebtedness on the Generalitat's finances. The beginning of the global financial crisis (2007-2008) and the subsequent fall in public revenue made this deficit in the transfer of resources from the State to the Generalitat even clearer. All this is illustrated by two figures: the *infrastructure deficit* of 5.5% over the period 2007-2012 (taking this as the difference between central government spending on infrastructure in Catalonia and total spending in Spain given the proportion of Spanish GDP accounted for by Catalan GDP) and the *fiscal deficit*, has remained at about 8% over the last fifteen years.

To sum up, we therefore consider that, after repeated failures, the “compensation” mentioned above represents a phase which is now over. For this reason, we believe it is now particularly pertinent to highlight various features, all of them critical, in which the Catalan economy clearly shows a markedly European and international positioning. The different economic features discussed below – industrial fabric, exports, capacity for innovation, tourism and attractiveness to investment – are, as well as foundations of the Catalan economy, elements with which to leverage higher economic growth in a hypothetical Catalan State which is fully integrated into the international economy.

Competitiveness factors and the international positioning of Catalonia

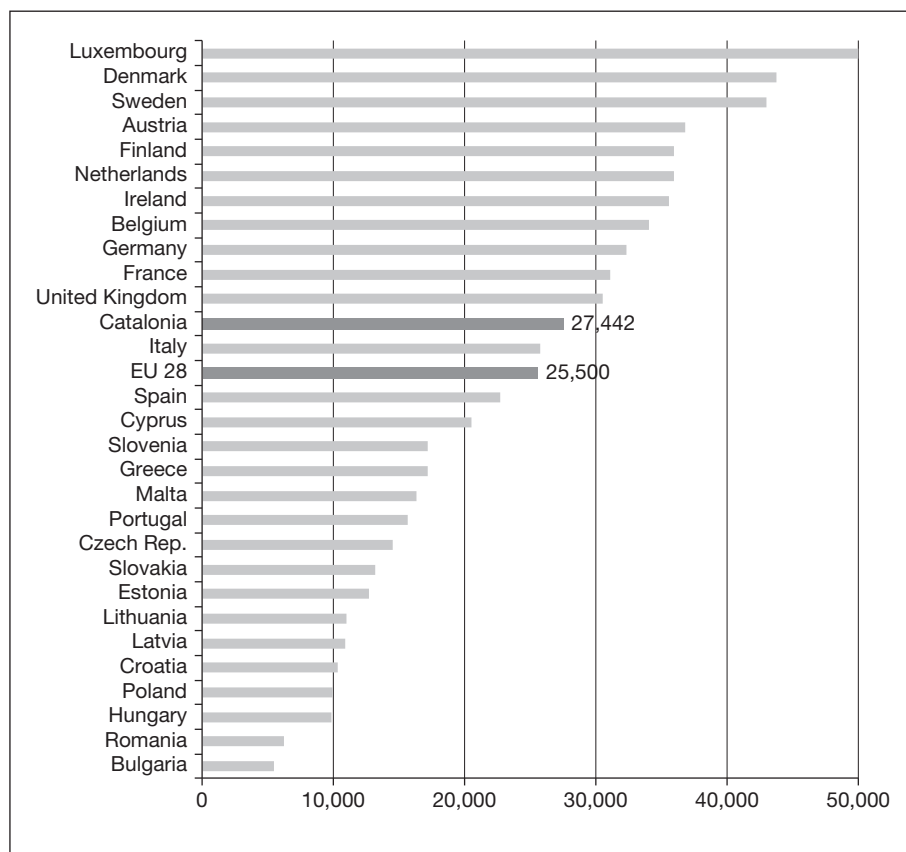
The Catalan economy in context

Catalonia is small, with a land area accounting for less than 1% of the EU-28. This places it on a similar level to that of the cooler States of the

United States such as Massachusetts, Maryland or Vermont, and also of important western European States such as Denmark, the Netherlands or Belgium. Nor does Catalonia have sufficient population to sustain high domestic demand, though it is bigger than those of thirteen European Union States, including Denmark, Finland and Ireland, and only slightly smaller than those of Austria and Sweden. Moreover, it is worth noting that belonging to the European Union, with a single market of 580 million inhabitants, makes the volume of the domestic market less important. To return to Alesina & Spolaore (2003) as regards the optimum size for a nation, they argue for the viability of medium-sized and small countries in a context of integrated trade (and a low risk of armed conflict), where the political size of a country does not determine that of its market or, by extension, its wealth.

The question mark over whether the new country could be part of European institutions should not be forgotten. On the other hand, it should be borne in mind that the final decision will be taken as a result of a process of negotiation between all sides according to the principles of mutual benefit and the lesser evil. By way of example, it is worth highlighting the study by Stiftung Wissenschaft und Politik (SWP, German Institute for International and Security Affairs), a private foundation that has advised the German government and parliament on foreign affairs for half a century. In its 2013 paper *Katalonien auf dem Weg in die Unabhängigkeit?* (Catalonia on the Way to Independence?) this research centre argues for a formula which involves the Catalans keeping the rights of European citizenship even if a hypothetical Catalonia were not initially in the EU.

The above-mentioned study by the SWP therefore makes it clear that Catalan independence is seen from abroad as a plausible option, and therefore one which requires a response, if nothing else to protect the interests of multinationals with major investments in the country. Companies like Volkswagen, Schneider Electric, BASF, Bayer or DOW will be the first to want to use their influence to ensure that their business is not affected, either during the transition process to an independent State or as a result of the process itself. Pursuing this logic, Catalonia will always have at least the four pillars of the European single market assured: free circulation of goods, services, capital and people. It will stay in the Eurozone and any disruption to business activities will be reduced to a minimum.



Source: The authors, based on EUROSTAT and IDESCAT data consulted in September 2013. Available at: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/> and <http://www.idescat.cat/en/>.

Note: The PCGDP of Luxembourg is not shown correctly in the graph: it is 83,600 euros.

Figure 1. Per capita GDP in Catalonia in euros compared with EU-28 countries (2012)

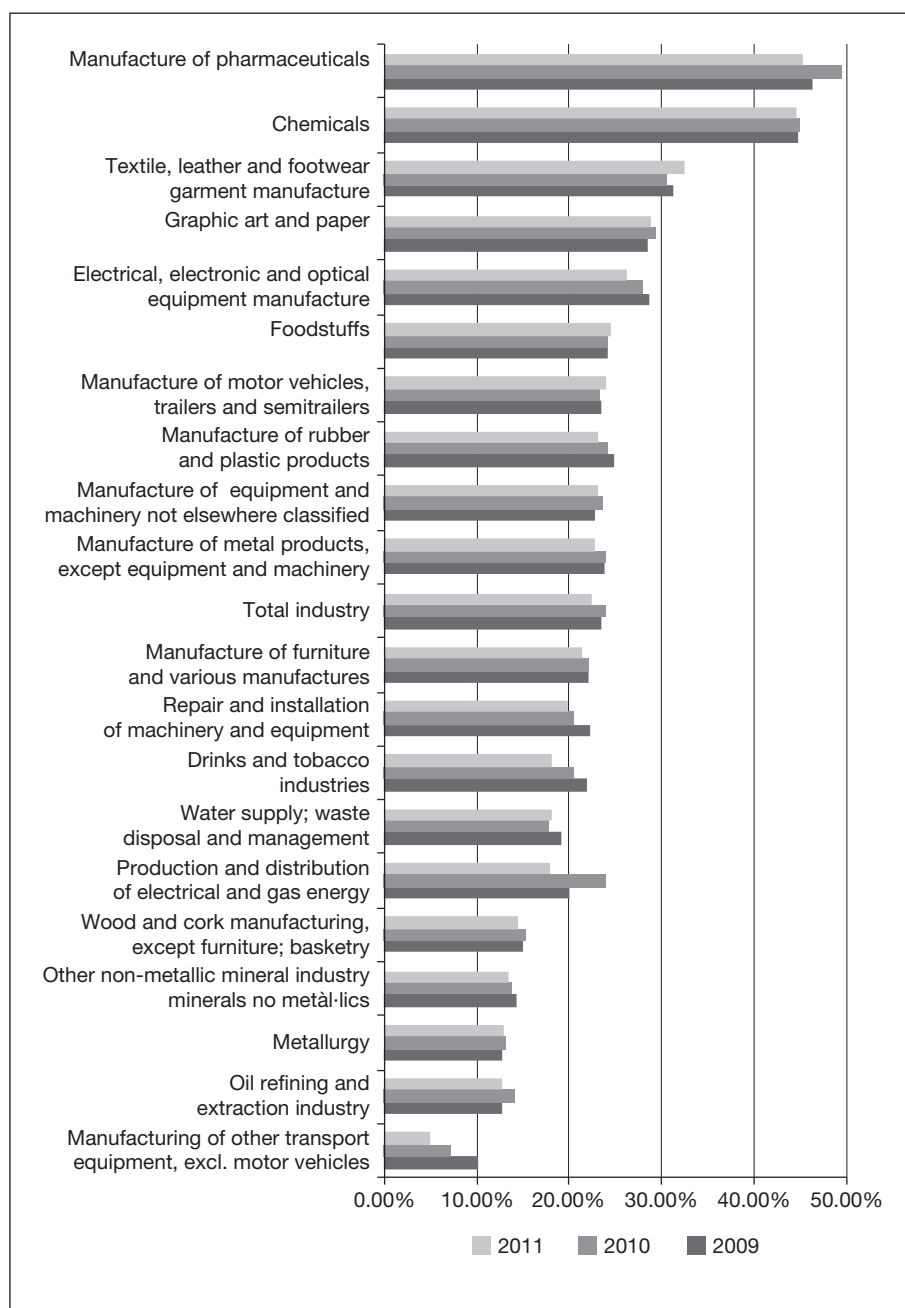
As regards GDP, according to figures for 2012 Catalonia would immediately be in twelfth position among EU economies, just above Finland (see figure 3) and far above countries like Portugal and the Czech Republic (both with a population of 105 million inhabitants, 40% more than Catalonia). In terms of pcGDP, figure 1 shows that the amount for Catalonia is 8% above the average for the EU 28 and Italy, and immediately below the three great economic powers on the continent, Germany, the United Kingdom and France. Catalonia's status as a developed economy is also illustrated by the statistics for the NUTS regions (EU Nomenclature of Territorial Units for Statistics) and in its per capita GDP in terms of PPP (Purchasing Power Parity). According to data from

2010, Catalonia was in 64th place out of 280 regions, and formed part of a second group which also included leading industrial regions like Hano-ver (Germany) or Veneto (Italy), and slightly above two regions with a strong industrial and trading tradition, Tuscany and Piedmont. However, it must be pointed out that Catalonia only achieved 154th place for accumulated average growth rate in the period from 2000 to 2010, as the strong figures for the first part of the decade were offset by the global financial crisis which began in 2007/2008. This crisis has had particularly devastating effects since 2009, in particular in the regions most exposed to cheap credit from the introduction of the euro onwards, as is the case of the south of the continent.

An industrial tradition with highly diversified sectors

Without ignoring the current difficult situation and the problems arising from it, it is fair to state that Catalonia today has not inconsiderable industrial muscle. In fact, in 2012 the industrial sector as a whole, including the services associated with production, accounted for 65% of gross value added (GVA), only behind the economies of central and eastern Europe (Poland, Lithuania, the Czech Republic and Latvia) which form the basis of the outsourcing of the value chain for German companies and those of other countries in western Europe, and ahead of Germany (61%), Italy (58%), Spain (58%) or France (53%). Thus, Catalonia accounts for nearly 23% of Spanish industrial GVA and, as shown in figure 2, stands out in two traditional industries, chemicals and pharmaceuticals, where the Catalan turnover represents nearly half (44%) the Spanish total. Moreover, in other traditional industries, electrical goods and equipment manufacturing, electronics and optics, paper and graphic art and textiles, leather and footwear, the share of Catalan industry within the total for Spain is also notable, varying between 26% and 32%.

Furthermore, the importance of Catalan production of motor vehicles and machinery is also considerable, accounting for nearly a quarter of the total for Spain and playing an important part in the country's international business, as described below. It is fair to say that this leading role in the sectors mentioned is due to the record of Catalan industry in terms of productivity, quality and innovation, which emerged in an industrial revolution which was almost unique in a southern European region. In



Source: The authors, based on the IDESCAT database, consulted in September 2013.
Available at <http://www.idescat.cat/en/>

Figure 2. The share of Catalan industry in the Spanish total by groups of activities in 2009-2011

fact, this combination of factors allowed Catalonia to join the small group of European regions to achieve relatively high levels of industrialisation before 1860.

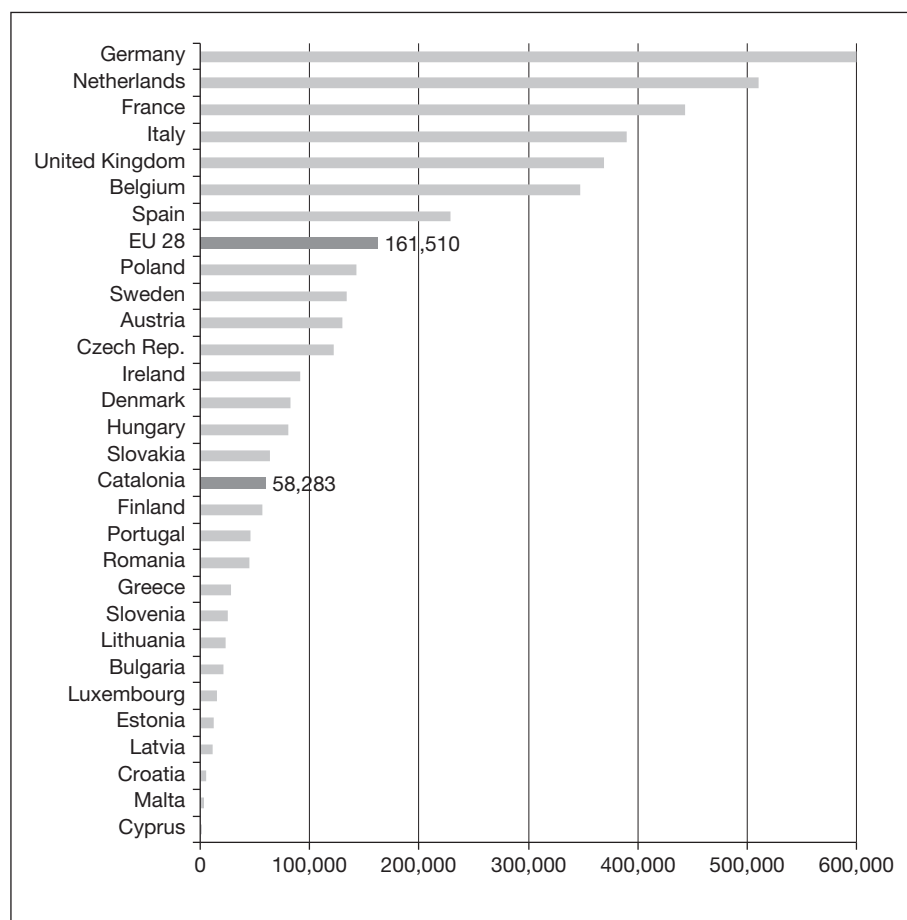
An international landmark in research based on specific areas of excellence

Another of the Catalan economy's assets is its capacity for innovation, especially in terms of the strength of its scientific base, with well-structured public finance but less pull from the private sector. Overall this gives rise to a paradox (Ferràs, 2008), with a high level of basic research and a private sector which basically produces goods with a medium technology content accounting for up to three quarters of all Catalonia's exports. One of the most spectacular figures is the fact that for the period 2006–2010 Catalonia alone produced 3% of all the world's academic publications, surpassing countries like Finland, Belgium or Austria, and bearing in mind that the Catalan population represents less than 0.1% of the world's population. This positioning is especially strong in two fields of technology with great potential in the short and medium term: bioscience and science related to the environment.

In other areas, Catalonia has three research centres among the thirty most prestigious centres in the world: the Catalan Institute of Photonic Sciences (ICFO), the Catalan Institution for Research and Advanced Studies (ICREA) and the Institute for High Energy Physics (IFAE). All this is the result of a determined public investment in RDI. In 2011 Catalonia invested 1.55% of its GDP, a higher rate than the Spanish average. Nevertheless, it should be noted that this percentage is lower than those of previous years as a result of the economic crisis and, in particular, of cut-backs at Spanish and Catalan levels of government. Moreover, as a result of Barcelona's power of attraction, Catalonia has an important place in the ICT/mobile industry, with the city hosting the World Mobile Congress at least for the period 2013–2018. The aim is to achieve a multiplier effect as the World Mobile Capital with its division into six "competence centres": mWallet, mSmart City, mHealth, mContent, mTravel and m4All.

A solid export sector with plenty of potential still to exploit

One of the consequences of Catalonia's industrial muscle, and at the same time an indicator of its level of international competitiveness, is its export capacity. In this respect, compared to leading exporting regions in southern Europe, Catalonia has a ratio of 7,700 euros of exports per inhabitant per year, far behind the leading region in Italy, Lombardy, with 9,600 euros, but closer to another benchmark "region", with a sim-



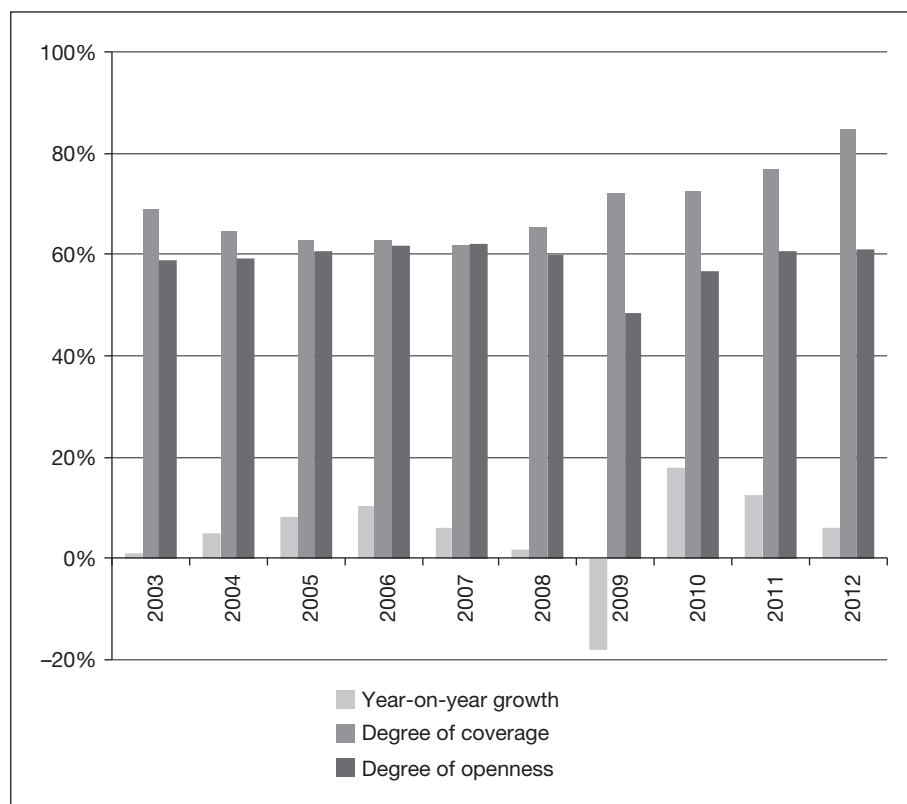
Source: The authors, based on EUROSTAT and IDESCAT data, consulted in September 2013. Available at <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/> and <http://www.idescat.cat/en/>.

Note: figures in million euros. The size of German exports is not shown in the figure; it is 1,095,176 million euros.

Figure 3. Comparison of exports in 2012, between Catalonia and EU-28 countries

ilar population to Catalonia and sharing a strong industrial tradition, triVeneto (bearing in mind that this is in fact a cluster of three regions) with 8,900 euros. Over the last decade, Catalonia has traditionally exported more than a quarter of the total for Spain, and in 2012 reached 26.2%, more than twice the total for the two exporting regions immediately below it in the ranking, Madrid and Andalusia, placing Catalonia in the middle range of the EU-28 for exports, above Finland, for example.

Catalonia's traditional ability to export the products it manufactures has been further reinforced in recent years. As shown in figure 4, annual rates of growth in exports were constantly positive in the period from 2003 to 2012, except for 2009 because of the effects of the global financial crisis on the main export markets. Futhermore, it is worth pointing



Source: The authors, based on ESTACOM-ICEX data, consulted in September 2012. Available at http://www.icex.es/icex/cda/controller/pagelCEX/0,10304,5518394_6764863_6735919_0_0_-1,00.html

Figure 4. Development of growth, degree of coverage and degree of openness of the Catalan export sector from 2003 to 2012

out that the accrued annual growth in this area was over 5% in the period from 2003 to 2012, a not insignificant figure, though it must be qualified by the fact that world exports grew by 12%, and those in the EU-27 by 8% (WTO), which indicates a slight loss of market share for Catalan exports as a whole.

Going into more detail, it is worth stressing, on the one hand, the traditional weight of the chemical and automotive and transport equipment industries, both of them almost completely dominated by foreign multinationals and which make up nearly a third of exports, and on the other the high growth in nearly all areas, in particular agri-food products, machinery and mechanical equipment and automotive and transport equipment.

Returning to figure 4, Catalonia can be seen to have increased its degree of openness (the sum of imports and exports as a proportion of GDP) slightly, fluctuating around 60% (16 percentage points above the Spanish average) and at a similar level to countries like Denmark, Finland or Israel, which is considerable bearing in mind that sales to the rest of Spain are not counted as exports in this analysis. One of the most significant trends, after the increase in exports, is the development of the degree of coverage (the percentage of imports which are paid for by exports), which has risen from 60% to 85% in the period 2003–2012. This is certainly due in part to the effects of the economic crisis, which have forced a drastic change in trade transactions: with a fall in imports of capital goods due to the decline in industrial investment and a fall in the demand for consumer goods due to the decrease in family consumption. However, if sales to the rest of Spain are taken into account, Catalonia could in fact have a positive balance of trade already, with all that this implies in terms of its ability to capitalise the economy. In relation to this, it should be pointed out that the Czech Republic, Poland and Austria, for example, have Germany as their main partner, accounting for 30% of their exports. As an independent State, Catalonia could have a similar proportion of its trade with Spain, and this is in fact the trend which has emerged in recent years. At the same time it could foster increased trading relations with France and other European countries like Italy, Austria and Germany, particularly on the basis of improved communications, an important factor here being the Euro-Mediterranean corridor. Furthermore, Catalan influ-

ence in emerging markets, especially North Africa and Latin America, is growing every year. These markets could be consolidated, and the influence of the Catalan economy there intensified, given the possibility of independent Catalan diplomacy (it may be pointed out here that Catalans make up around 3% of the Spanish diplomatic service), and this would be perfectly compatible with continuing to maintain partnerships on the basis of mutual benefit with the big Spanish companies in regulated sectors.

Tourism, a landmark sector and the spearhead of the Barcelona hub

The second pillar of today's Catalan economy, after exports, is tourism. This ability to attract foreign tourists is illustrated by the fact that 25% of the nearly 58 million foreign visitors to Spain in 2012 came to Catalonia, its top destination and also the one showing the most positive trend in the period 2011–2012, with 10% growth. These figures demonstrate the existence of a “commoditised” tourism (differentiated only by price, like that of the Costa Brava or the Costa Daurada), but also the explosion of brand Barcelona and growing diversification of tourist products around the country, focused on themes other than the traditional beach holidays: food and wine tourism, culture, adventure/sports, meetings and so on.

Barcelona ranks as the number four destination for international tourists, only behind the big three European capitals (London, Paris and Rome), with nearly six million visitors, and is also the one that has seen the highest growth between 2005 and 2012. Other figures for the tourist industry reveal the consolidation of brand Barcelona and, to a lesser extent, brand Catalonia as a whole. In 2012 Barcelona was visited by 2.4 million cruise passengers, making the city the top destination in the world after Florida's three Caribbean ports (Miami, Port Canaveral and Port Everglades). Forecasts for 2013 indicate that this figure is expected to reach 2.6 million, equalling the record set in 2011. It should be added that one of the positive externalities of cruises is the fact that they also open up a new market for intercontinental flights, which has emerged in the last five years with the start of direct flights to Chicago, Washington and Atlanta, among others.

Moreover, Barcelona is catching up with Madrid's figures for air traffic. According to the Spanish airports authority AENA, Madrid's traditional lead in the number of passengers, benefiting from the well-known advantages of being the capital (unlimited public investment, concentration of power and resources, location of company head offices, etc.), fell in 2013 to just five million (40 vs. 35). In this respect, and to situate the starting point, it should be borne in mind that over the last 15 years Barcelona-El Prat airport has fluctuated around 60% of the figures for Madrid-Barajas, a trend that has changed from 2010 onwards in a way that seems firm and solid according to the above-mentioned figures.

Above and beyond debates over the traditional rivalry between the two metropoli, the fact that it has an international air hub of the first order is an indicator both of the capacity of attraction of Barcelona/Catalonia, of the region and the economy, as a factor adding value *per se*. The fact that the number of direct flights to major cities around the world is increasing is another argument giving solidity to the Barcelona/Catalonia package, in its position as a region of central importance in southern Europe. This fact, which is certainly based on tourism, including the less desirable low-cost sector, is especially noteworthy because the Spanish government has always openly opted to protect Madrid's predominant role. The aim of this policy was, logically, to make Madrid-Barajas the only intercontinental hub in Spain, unlike, for example, Italy, where the intercontinental routes operated by the flag carrier Alitalia have been divided between Milan and Rome on the basis of a tacit recognition by Italian institutions of the difference between political centrality (Rome) and economic centrality (Milan).

Foreign direct investment as a guarantee of Catalonia's international position

Finally, the last pillar of the Catalan economy's international position is the commitment and long-term presence of the multinational companies that have opted to establish themselves in Catalonia, of which there are over 6,400 according to the last *Invest in Catalonia* count and which account for over 40% of the nearly 16,000 foreign firms operating in Spain as a whole (though it should be borne in mind that the fact that a company has a site in Catalonia does not mean it cannot have others in the rest of Spain). In

fact, the high proportion of multinational business on the Iberian peninsula concentrated in Catalonia is even more notable in the case of firms from the richest western economies. Over 50% of the companies from G7 countries have a site there, representing a total of 3,800 companies. For example, 86% of Japanese companies present in Spain operate at least in Catalonia, along with 67% of Italian firms, 63% of United States ones and 62% of French. The specific weight of multinationals is due largely to a tendency to serve an Iberian market of nearly 60 million consumers from the solid base of Catalonia, precisely because of the combination of factors discussed above, which is unique on the peninsula.

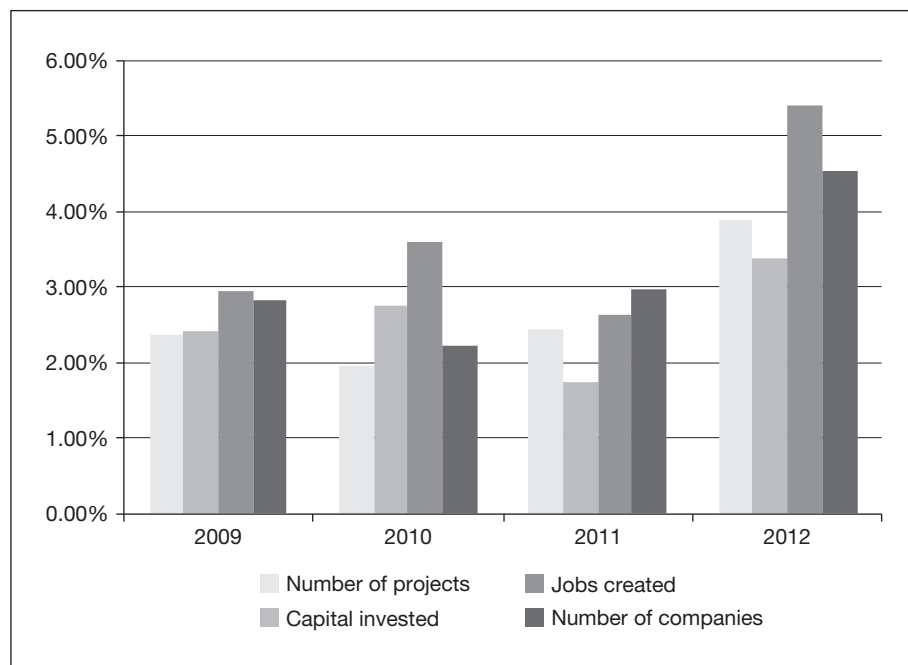
By way of example, in the chemical industry Catalonia hosts nearly half of the total for basic chemicals in Spain (transforming oil derivatives into basic chemicals like polyethylene, solvents, polymers and so on), based above all on the excellent logistics of the port of Tarragona, the leading petrochemical hub in southern Europe. On the other hand, in the plastics sector, where the need to serve end customers (packaging and food containers, piping, plastic bags and so on) *in situ* is more important than the scale of production, Catalonia accounts for 25%, which exactly matches Catalan industry in general. It seems obvious from the outset that the factors which have made Catalonia attractive as a base for foreign investment are not easily “commoditisable” around the Iberian peninsula. These factors begin with the logistical capacity discussed above (a combination of geography and hard and soft infrastructures), followed by the others already mentioned: diversification of industry and services, a qualified workforce, a traditional vocation for industry, the power of attraction of Barcelona and commercial openness.

With regard to the opportunity of devolved management of resources, it should be borne in mind how far this power of attraction of Catalonia has been possible in spite of the distinctly unsupportive policy of Spanish central government. This is illustrated by the figures given at the beginning regarding the infrastructure deficit. This has led, for example, to the fact that it is only a large-scale public-private mobilisation of the economies of the so-called Mediterranean Arc to apply pressure in Madrid and Brussels that has forced the Spanish government, nearly ten years late, to include budget allocations in the BOE, the official state journal, to finance the Euro-Mediterranean corridor, which once built will provide a vital link between the economic activities of the south and the Mediterranean coastline of the Iberian peninsula with the rest of continental western Europe,

and allow the formation of one of the ten principal world mega-regions revolving around the Lyon-Barcelona-Valencia axis.

Moving on, it is worth pursuing the analysis of how data on the stock of foreign investment are reflected, also positively, in a steady constant increase in Catalonia's share of total investments in western Europe for the period 2009-2012. Thus, according to the benchmark database for international investments, FDI Markets (part of the Financial Times group), as shown in figure 5, Catalonia has managed to gain in share among the regions it competes with in terms of being a base for the activities of international concerns:

- In terms of the number of projects, its share was up by 64% (from 2.36% to 3.88%), going from 73 projects in 2009 to 113 in 2012.
- In capital invested, the increase in its share was less than that in the number of projects, at 40%, but it should be emphasised that in 2012 Catalonia was the number one continental western European



Source: "FDI into Western Europe", FDI Markets, by the Financial Times Group, consulted in August 2013.

Figure 5. Share of foreign direct investment attracted by Catalonia of the total for western Europe between 2009 and 2012

- region in volume of inward investment, which reached nearly 3,000 million euros according to FDI Markets data.
- In terms of jobs created, there was a spectacular increase in its share, with Catalonia managing to practically double its share, up from 2.95% to a total of 5.39%.
 - Finally, there was also a considerable increase in the number of companies, of over 90%.

More recent data consolidate the clearly positive trend for the period 2009–2012, which would cast doubt on the prospect of any negative impact on economic activity in Catalonia arising from the internationalisation of the secession process. Thus, on the basis of the figures, the said process can in no way be considered as a negative input for the Catalan economy. Again according to FDI Markets, in the first six months of 2013 Catalonia attracted the second-highest volume of productive investment of any western European region, with nearly 2,000 million euros, only behind the south-east of the United Kingdom and ahead of, for example, Ireland, the south-west of the United Kingdom, the west of the Netherlands and the Madrid region itself; and ranked third for job creation.

Finally, it should be pointed out that the data included in this section are borne out by various rankings of international standing published over the last year:

- Catalonia came second in the 2012/2013 FDI Intelligence “Top 25 destinations for FDI strategy,” ranking;
- Barcelona came top in the 2012/2013 “Top 10 Southern European cities of the future,” ranking also by FDI Intelligence;
- Barcelona came in third place in the 2012 Cushman & Wakefield “Familiarity as a business location” ranking.

Conclusions

This chapter has reviewed the foundations on which the Catalan economy rests and which give solidity to its claim for a meaningful role in the international context, despite the inherent limiting factors in terms of

territory, population, domestic market and lack of raw materials and fossil fuels. These foundations can be summed up as industrial tradition and diversification, scientific excellence, exporting strength, a tourist industry that goes far beyond the domestic market, and finally the ability to attract foreign investment. These are foundations that give an independent Catalonia exceptional potential. To these factors must be added the European and international linkage of the Catalan economy and of Catalan society in general.

While accepting that no process of this kind comes at zero cost, we believe that a separate State solution which allowed the Catalan people to decide on how their tax resources, infrastructure and economic policy were managed would make it possible for the country to further develop a distinctive model which would maximise the potential of the Catalan economy in the years to come.

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2

Six comments on the economic viability of independence and two preliminary remarks

Antoni Castells
(Translated by Miquel Strubell)

Two preliminary remarks

First remark: on the instruments of State

I do not know what the definitive title of the publication for which this paper has been written will be. At one time there was talk of “our own State”, then later of “Catalonia-State». Frequent references are made to the “instruments of State”. To avoid confusion, I take it that basically what is being discussed is the viability of an independent Catalonia, and my contribution will focus on this issue. However, some might allege, on solid grounds, that one can have instruments of State without being independent: does the State of California have instruments of State? And others could maintain, also with good reason, that there are independent countries that have, in fact, given up some of the most iconic instruments of State: have the countries of the Eurozone not done so by dropping their currencies and their central banks?

One could also argue that having instruments of State is not in itself a sufficient guarantee of their effectiveness in a context of highly integrated economies. For there is a question which is, in reality, at least as important as having instruments of State, and that is having real autonomy to shape policy (State policy) in the face of the markets and the economy. And we could

also be confronted with the paradox of the emergence of new States, which obviously become independent with respect to other States, but which are increasingly less so as regards the market. That is, they may indeed have instruments of State, but these instruments are less and less effective.

This leads me to a first clarification: any reflection on the instruments of State to which Catalonia can aspire should be set against this backdrop. On the one hand, Catalonia needs instruments of State (let us put it like that) to design policies that are in the interests of Catalan society, for it is an observed and verifiable fact that the centralised, radial, Madrid-based model promoted by Spain (in its old obsession with adding economic power to political power) is not the model that suits Catalonia. But, on the other hand, in many areas we will only have authentic instruments of State if we share them with Europe, that is, if we move resolutely towards European political integration and the creation of a real European government.

Second remark: On the referendum

We are talking about instruments of State, and yet we have not yet decided if we want to be a State. It may indeed be appropriate to discuss this. It never hurts to enlighten ourselves about our future, and to help citizens to make their decisions with the greatest freedom and knowledge of the consequences of the various options. But we must be aware that right now the immediate objective (not the most important for many people, but the most immediate) is not independence but holding a referendum in which the citizens of Catalonia can have their say about the link with Spain.

Staging a referendum is a hugely difficult and complex matter. But it is the goal from which the Catalan institutions derive their greatest strength, the goal for which there are precedents that confer great authority (Scotland and Quebec), and for which support within Catalan society is strongest, most transversal and widespread. And above all, the very fact of holding the referendum implies the recognition of Catalonia as a political reality, the recognition of the sovereignty of the people of Catalonia to decide their future. So even if – hypothetically – a referendum were not on independence (if the question were not «independence, yes or no»), and if it did not mean immediate accession to independence, it would signify something at least as important: the acceptance of the «right to be independent».

It is true that the referendum is being discussed in terms that seem to point to the question being: «independence, yes or no».★ But during the battle to hold the referendum, the possibility of other options appearing should on no account be ruled out. One of these might in fact be some specific deal between Catalonia and Spain, reached inside Spain. Nevertheless we must immediately add that, at this point in time, it is up to Spain to say if it is in a position to make Catalonia an offer and that the acceptability of such a deal would depend on two key aspects: its contents and the guarantees that it would be fulfilled.

But we must keep it clear in our minds that the immediate objective is not independence (or some third way) but the referendum. The referendum constitutes, in its own right, a political objective of the first magnitude, and not just a means to achieve independence. And precisely because that objective will only be attained if everything is done in the right way, without mistakes or wrong moves, I am not sure that this is the time to bring the issue of the instruments of State to the fore: instead we should be working to enable the people of Catalonia to decide whether or not they want instruments of State, or less euphemistically, their own State. Any other course amounts to putting the cart before the horse and engaging less efficiently in the struggle that faces us right now.

Having said that, it is undoubtedly true that the debate on independence and its viability is on the table, that citizens have every right to know what their leaders think, and that institutions that play a leading role in society are duty-bound to present the views of those who may be supposed to have something to say on these subjects. In this context, it may be useful to express a few thoughts on the economic implications of independence.

Six comments on the economic viability of independence¹

1) Is an independent Catalonia economically viable?

Since the debate on the independence of Catalonia moved to the centre of the political stage the issue of economic feasibility has focused much of the attention. Before looking in a little more detail at the content of

1. For a more comprehensive treatment of this section, see Castells (2013).

the reasons that are emerging for and against, I would like to make three statements, almost in the form of hypotheses. The first is that an independent Catalonia would, of course, be economically viable. Why should it not be, when much smaller countries, with smaller potential and lower per capita income, and which are less diversified and much more dependent, are viable?

The second is that the problem, in any event, is not economic viability, but political viability, and it is the range of possible consequences of the political difficulties (everything from continued membership of the EU and the Eurozone to turbulence in financial markets) that might have very high, or even prohibitive, economic costs. The problem is what we might call the economic costs of the transition, which depend essentially, not on the transition in itself, but on the (friendly or conflict-ridden) way the process leading to independence unfolds. The difficulty, then, is political, not economic, viability. The conflict is essentially political. And indeed what usually happens is that those *politically* opposed to independence use the argument of economic non-viability to support their political stance. Similarly, of course, those who are *politically* favourable to independence often tend to underrate the economic difficulties that will have to be overcome.

The third statement I wish to make is that what is not viable is an economically isolated Catalonia. I prefer to use the term isolated, rather than independent, to avoid misunderstandings. But it must be stressed that an autarchic and supposedly self-sufficient Catalonia would not be viable. Economic viability – that is, a viability that does not involve a dramatic drop in our citizens' welfare and prosperity, as would happen if Catalonia were isolated from the international community – requires interdependence and internationalisation.

2) Catalonia's exports to the rest of Spain

The debate on the economic and financial viability of an independent Catalonia has hitherto focused primarily on the trade-off between the benefits of the presumed elimination of negative fiscal flows with the rest of Spain and the costs of the presumed slump in sales to the rest of the Spanish market.

Although the Spanish market has steadily declined in importance (especially since Spain joined the EU), it is still Catalonia's top commercial customer. It is not easy to analyse the potential effect of secession on Catalan exports to the rest of Spain and the impact on GDP, especially when even studies and reports by academics of acknowledged prestige are influenced by political feelings. Thus it should come as no surprise that Spanish authors tend to prophesy all kinds of disasters should independence be achieved, whereas Catalan authors tend instead to minimise the consequences. Despite this difficulty, it may be useful to summarise the main arguments and estimates that have been put on the table.

One negative consequence for trade is undoubtedly the so-called border effect, which predicts that, all other things being equal, the mere existence of a border very significantly lowers trade between neighbouring territories. Rodríguez Mora (2012) has calculated, for example, that this effect would slow down trade between Catalonia and Spain to the same levels as trade between Portugal and Spain (80% lower) and this would mean a drop in the overall GDP of Catalonia and the rest of Spain of around 3.3%, a percentage that can be broken down into a 9% fall-off in Catalan GDP and a 2.2% decline in Spain. This impact would be strictly due to the border effect: it does not allow for the possible effect of a boycott on the consumption of Catalan products.

However, other authors, like Paluzie (2009), Cuadras & Guinjoan (2011, 2012), Antràs (2012), Antràs & Ventura (2012) and Amat (2013) offer very different results. According to their estimates, the impact would be much less than this 9%, for a variety of reasons, first and foremost because the border effect does not arise overnight but is the result of multiple factors acting over the years. So a sudden 80% plunge in trade flows between Catalonia and Spain is quite unthinkable.

Secondly, though the Spanish market is still the top destination for Catalan exports, its share has been declining steadily in recent decades. In 2011, the destination of goods (excluding services) produced in Catalonia was as follows: the Catalan market absorbed 26.7% of sales, the rest of Spain took 34.5%, and the rest of the world took 38.8%. That is, an independent Catalonia would export 47.1% to the Spanish market and 52.9% to the rest of the world.

This 47.1% signifies a considerable degree of concentration, appreciably greater, for example, than the concentration of Ireland's exports to the USA and the UK, or Austria and the Czech Republic's to Germany. Nevertheless, the importance of the Spanish market has fallen greatly over the years and particularly fast in the last three or four years, because of the crisis. Thus its share has declined from 63.5% in 1995 to the aforementioned 47.1% in 2011, while that of the rest of the world has increased during the same period from 36.5% to 52.9%. In sixteen years, the Spanish market has lost 16.4 points as a destination for Catalan exports.

Finally, a third issue has to be considered. Exports are sales, whereas GDP is calculated in terms of value added, so a hypothetical drop in exports cannot automatically be converted into GDP since it depends on the composition of the exports and notably on the extent to which they incorporate a fraction of imported intermediate goods. Guinjoan & Cuadras have shown that any fall in Catalan exports is transferred to GDP by a factor of about two-thirds. For instance, if Catalonia's exports to Spain amounted to 30% of GDP and fell to 21% (a 30% reduction), the impact in GDP terms would be a reduction not of 9, but of 6 points (two-thirds of 9).

In the light of all this, these authors estimate that, in a highly negative scenario (a 50% drop in sales of consumer goods and 20% of sales to companies), the fall in GDP would be between 1.7% and 2.2%; in a moderate scenario, between 1.2% and 1.6%; and in a more favourable scenario, perhaps even under 1%.

In any event, these estimates are far lower than the catastrophic 9% decline prophesied by some people (and we are talking about the most highly qualified estimates that warrant academic recognition, not predictions which are mere expressions of political antagonism).

3) Fiscal flows with the rest of Spain

So, as regards the trade-off between the decline of commerce with Spain and the benefits of eliminating the fiscal deficit, rigorous studies seem to indicate that the negative impact on the fall in trade could be around 1.5% of GDP. Now let us consider the fiscal factor.

As is well known, estimating inter-territorial fiscal balances is a relatively complex methodological task, which calls for several assumptions to be made about the final impact of public spending and taxation. It also requires appropriate statistical indicators at the regional level. Despite these difficulties, we now have reasonably reliable estimates. In 2008, the Catalan and Spanish governments made estimates referring to 2005.² The results, while not identical, are quite similar. In both cases two approaches were used to allocate expenditure: benefit approach and cash-flow approach.³

Since then, the Spanish government has not released any more recent estimates. For its part, the Catalan government has regularly published its own. The latest were issued in 2013 and cover the 2005-2010 period. Table 1 provides six different calculations based on these data. For each approach (benefit and cash-flow approaches), there are two possibilities, according to whether the central government budget is “neutralised” or not (i.e., whether taxes and expenditure are, or are not, calculated «as if» the central government budget were balanced). The reason for «neutralisation» is to correct the effect of the deficit (or surplus) that could distort the results, because in years when the central government budget presents a deficit (or surplus) it would be possible, hypothetically, for all autonomous communities to have positive (or negative) net fiscal flows. Moreover, «neutralisation» can be done in two ways, using either the total expenditure or the total revenue of the Spanish government.

Consequently, there are six possible estimates, which are listed in Table 1. According to these estimates, Catalonia’s fiscal deficit in 2010 amounted to 3.0% of GDP (cash-flow approach) or 0.4% (benefit approach), if

2. See Departament d’Economia i Finances (2008) (Government of Catalonia) and Ministerio de Economía y Hacienda (2008) (Government of Spain). The Spanish government made estimates for all the Autonomous Regions and the Catalan government did so only for Catalonia. Both were published in 2008 and refer to 2005. Both were prepared by groups of independent experts. The Catalan government appointed a committee of distinguished scholars and experts. The Spanish government commissioned the work to the Institute of Fiscal Studies, which appointed a group of advisers, likewise renowned.

3. According to the cash-flow method, Catalonia’s fiscal deficit was 9.8% (Catalan government) or 8.7% (Spanish government) of GDP. According to the benefit method it was 7.4% (Catalan government) or 6.5% (Spanish government). These data are given without balancing (or «neutralising») the Spanish budget, which had a surplus that year.

	2005	2006	2007	2008	2009	2010
Estimate based on monetary flow						
Actual fiscal flows (no «neutralisation»)	-9.8 %	-10.3 %	-10.7 %	-5.7 %	-0.4 %	-3.0 %
“Neutralised” fiscal flows ¹						
Using total expenditure	-8.3 %	-7.9 %	-8.1 %	-8.5 %	-8.4 %	-8.5 %
Using total revenue	-8.8 %	-8.6 %	-8.9 %	-8.4 %	-6.3 %	-7.0 %
Estimate based on benefit flow						
Actual fiscal flows (no «neutralisation»)	-7.4 %	-8.0 %	-8.2 %	-3.2 %	2.1 %	-0.4 %
“Neutralised” fiscal flows ¹						
Using total expenditure	-6.0 %	-5.6 %	-5.6 %	-5.9 %	-5.8 %	-5.8 %
Using total revenue	-6.3 %	-6.1 %	-6.2 %	-5.3 %	-4.3 %	-4.8 %

1. «As if» the Spanish government budget were balanced.

Source: Author's calculations based on data from Ministerio de Economía y Hacienda (2008) and Departament d'Economia i Coneixement (2013).

**Table 1. Net fiscal flows between Catalonia and the rest of Spain
(% of Catalonia's GDP)**

the Spanish government deficit is not «neutralised». However, that year the deficit was very high and so the results vary greatly when they are «neutralised»: the fiscal deficit becomes 8.5% of GDP (cash-flow approach) or 5.8% (benefit approach) if we use the total expenditure, and 7.0% (cash-flow approach) or 4.8% (benefit approach) if we use total revenue.

So far we have presented the results. The estimates are relatively robust and the methodology – and even the data – are not really in dispute. The problems arise when we try to interpret these data and choose the most «valid» method. Which approach is better: cash-flow or benefit approach? Should the Spanish government budget be “neutralised” or not? And if it is, which total should be used: expenditure or revenue?

The answer to all these questions should certainly be that it depends on what is being analysed. But here we are talking about the potential benefits of Catalonia's secession, which is a sensitive point on which it is very hard to avoid interference from other factors. So, for those who are against independence, Catalonia's fiscal deficit is unquestionably a mere 0.4% of GDP (benefit approach, without neutralising), while for those in favour of independence, the only valid figure is 8.5% (“neutralised” cash-flow approach, using total expenditure). This explains the figure of

€16,500 million that «fly away» from the country each year which is so immensely popular in Catalonia.

As a matter of fact, political positions are not determined by the data or their interpretation but rather the opposite: predetermined political positions lead to the choice of the data that lend themselves best to defending them. It could be said, quite justifiably, that the work of academics and scholars is to introduce some rationality into the debate, so that people can take their decisions freely, with knowledge of the «pros» and «cons» of each alternative.

But I think that politically – and not just as a matter of academic thoroughness – it is also a mistake in Catalonia not to put all the cards on the table in this matter and to exhibit, time and again, only those estimates that show the fiscal deficit that is most detrimental to Catalonia. In the first place because there is no need to exaggerate the figures in order to justify the central aspect of our approach, which is that the fiscal deficit is manifestly excessive. What is more, exaggeration is harmful because it gives arguments to the other side that, by simply discrediting the figures used, cast doubt on the whole reasoning. Secondly, and most importantly, citizens should know all the facts before deciding – the favourable aspects, certainly, but also the difficulties. The enthusiasm citizens feel for a cause should not be based on ignorance or belief in some unreal paradise, but on the conviction that the cause is worth the efforts that are undoubtedly required to defend it. That is why it may be useful to make some comments about the meaning of each of the different ways of calculating the fiscal deficit.

Firstly, when we consider the question of «neutralisation» (should the expenditure and revenue of the central government be allocated «as if» the budget were balanced?), we need to distinguish between the short- and long-term effects. In the short term it makes more sense to use «non-neutralised» data. However, in the long term, if we bear in mind that the Spanish government budget tends to be balanced throughout the cycle as a whole, the «neutralised» data better reflect the permanent (or structural) effect of eliminating the fiscal deficit with the rest of Spain.

Consequently, an independent Catalonia's finances would certainly become more solid and sustainable over time. However, it is confusing to claim, as is often done, that the removal of this deficit would mean that the Catalan government's financial problems would disappear overnight

and there would be no need for cuts because we would immediately have €16,500 million more than we have today.

Secondly, the cash-flow approach and the benefit approach estimates explain different things and respond to different questions. And each one is valid and significant, depending on what we want to know. Benefit approach is more appropriate if the goal is to determine the effects of independence on deficit reduction (that of the Catalan government), because if Catalonia were to become independent, part of central government expenditure would have to be taken on by its own government.⁴ However, cash-flow approach would be the appropriate method if the objective were to study the impact on Catalonia's GDP, for, even though the government of Catalonia would incur expenditure that it does not now incur, the funds would not leave Catalonia as happens at present.

A third question is whether Spain's budget deficit (or surplus) should be «neutralised» on the basis of total expenditure or total revenue. The answer depends on how far the economic cycle affects public expenditure and revenue. Actually, what «neutralisation» tries to do is to determine the total amount of a balanced structural budget, once the cyclical effects regarding both expenditure and revenue are removed.

In normal times, we can consider that public revenue is more sensitive to the cycle and tends to adapt to total expenditure. That is why the figure used traditionally is total expenditure. Since, when there is a deficit, expenditure exceeds revenue; the resulting fiscal deficit is higher than when the alternative method is used. But these are not normal times, for the entire public sector is involved in a process of fiscal consolidation, which entails reducing structural (and not just cyclical) spending. So we assume that, if and when, the good times return, the «permanent» level of public expenditure will have decreased. In this case, total expenditure is probably not the most suitable figure, and a slightly more accurate estimate (perhaps somewhere between total expenditure and total revenue) should be used.

4. It is debatable whether this expenditure would be higher (because scale effects would be smaller) or lower (because the government of Catalonia would be more efficient, or would simply consider part of it unnecessary) than that attributed to Catalonia according to the benefit method.

Therefore, it seems reasonable to estimate that the long-term impact (for which «neutralisation» is appropriate) on Catalonia's GDP (for which the cash-flow approach is appropriate) of eliminating fiscal flows with the rest of Spain might be between 7.0% and 8.5% of GDP. But it also seems reasonable to calculate that the short-term impact (for which «neutralisation» is not appropriate) on the reduction of the Catalan government's deficit (for which the benefit approach is appropriate) could be around 0.4% of GDP.

In short, this means that in the long term, we can assume that the positive impact of the elimination of the fiscal deficit on public finances (Catalan government deficit reduction) would be between 4.8% and 5.8% of GDP and the positive impact on Catalonia's GDP would be between 7.0% and 8.5%. However, the short-term effect is smaller: around 0.4% in terms of public finances and 3.0% in terms of Catalonia's GDP growth (in all cases it would be a one-off effect).

4) Links with the EU and the Eurozone

A crucial issue in the debate about the viability of an independent Catalonia is what would happen with regard to Catalonia's links with the European Union and the Eurozone. Here again political stances have a great bearing on the interpretation of the treaties and regulations. According to the opponents of secession, an independent Catalonia would be automatically expelled from the EU and would find it very hard to return. Conversely, those in favour of independence tend to minimise the difficulties of staying inside (or of returning very quickly) and the costs of non-membership.

The fact is that it would be very hard for Catalonia and the Catalan economy to remain outside the EU and the Eurozone. Hence this is a point that should be considered very carefully when making any decisions. To start with we must distinguish between belonging to the Eurozone and belonging to the Community's single market because, in fact, whether or not an independent Catalonia were formally a member of the European Union, almost everyone would probably be interested in maintaining the current conditions. There are numerous European companies in Catalonia and very strong trade links, while a very high per-

centage of freight between Spain and the rest of Europe travels along the «Catalan corridor». Thus it seems unlikely that customs barriers would be raised again between Catalonia and EU countries or that the free movement of factors and products, as laid down in the treaties, would be eliminated.

However, Catalonia is not only a member of the EU but also of the Eurozone. And this brings us to one of the questions which has warranted closest attention, now, as in the past, in the cases for instance of Quebec and Scotland: the currency. What currency would an independent Catalonia have? Staying in the Eurozone is obviously the most favourable option and the one that Catalonia would strive to attain. But, if this were not possible, what would the alternative be: to create our own currency or to adopt the euro without belonging to the Eurozone (and therefore without any of the inherent rights that membership brings)?

This is a crucial issue and it must be pointed out that, since we are now in the euro, the costs of leaving it would be exorbitant. The access of Catalan banks to the liquidity mechanisms of the ECB (European Central Bank), which have been essential for survival in recent years, would be severely limited;⁵ the government of Catalonia would face insurmountable difficulties to finance its debt through the markets and, if excluded from the mechanisms provided by the Eurozone (the European Stability Mechanism), would probably be doomed to default; and if Catalonia's currency (assuming it adopted one) had to depreciate, as would be highly likely, it would be very difficult to repay the external debt (much of which would be in euros).

So we must be fully aware that being left outside the euro is quite simply not a sustainable scenario. And this is an issue that cannot be left out of the debate. The various options need to be examined, though we know that some are more likely than others. And of course the most favourable option is to remain inside the euro. But, unfortunately, this would not

5. See Jobst et al. (2012). Gali (2013) correctly points out that financial institutions do not need to have their headquarters in a euro zone country to access liquidity facilities provided by the ECB. They need only have branches there, as currently happens, for example, with British banks. However, these branches must be subject to the jurisdiction of a central bank in the euro zone (which must authorise them to operate) and the facilities received are in proportion to the part of the bank's balance sheet in that country.

be the only possible scenario in an independent Catalonia. The pros and cons of all of the possible outcomes must be carefully weighed up, for citizens have a right to be aware of them when deciding. Both in the future, should a referendum finally be held, and now, when they are choosing one option or the other, failure to analyse all the eventualities is quite simply a sign of immaturity, as ignoring reality always is.

It is true that this issue can have a decisive influence on a possible referendum and in possible negotiations between Catalonia and Spain. In other words, it could be argued that the fact that Catalonia knows it cannot remain outside the EU and the Eurozone makes it a hostage in any negotiation with Spain; and that, therefore, the only way to ensure that Catalonia can negotiate with any chance of success is either to deny the fact (we will not be left out of the EU) or to minimise its importance. This, to a large extent, is what is actually happening. But in practice denying reality is always ultimately counterproductive and weakens negotiating positions.

And above all, it is a mistake, because it is not Catalonia or Spain who will have the final say on whether an independent Catalonia stays in the EU (and in the euro, for if we stay in the EU, we will stay in the euro): it is the EU. And on this topic I think we can hypothesise, despite the inherent risks, that the EU's strategy (which will determine its pronouncements at every stage in the process) will be geared to attaining two goals (or priorities). The first is to try to prevent Catalonia from becoming independent and the second, if independence becomes inevitable, is to ensure that the costs are as low as possible.

It is not unrealistic to think that the EU's prime objective, for many reasons, is to try to stop Catalonia from becoming independent, because it would undoubtedly create a significant degree of instability, because it might trigger a domino effect, and because Catalan independence, first and foremost, would significantly undermine Spain's solvency and that could drive the euro into a serious crisis. However, if this is indeed the EU's prime objective, then it would be reasonable, at this stage in the process, for it to work in two directions. On the one hand, it could issue serious warnings that an independent Catalonia would find itself outside the EU (the stick) but on the other hand it could try to apply pressure on the Spanish government to propose an agreement that would deflate the independence movement in Catalonia (the carrot). That is, it could try

to prevent Spain's point-blank refusal to engage in any form of dialogue from making the independence movement unstoppable.

However – and here we enter the second phase of the game – if, despite these efforts, independence were to become inevitable, it is not unrealistic to think that the EU would seek to make sure it causes the least possible damage. After all, to try to prevent the greater of two evils is a perfectly reasonable standard of conduct in politics, and for the EU the greatest evil would be for Catalonia to achieve independence as a result of a harmful and hard conflict. This would mean agreement, negotiation, and maintaining normality as far as possible. It would also mean changing the European situation as little as possible. The reasons in favour of this are very similar to those previously mentioned: upheaval and instability are in no one's interests and, above all, an acrimonious, non-negotiated split would certainly be very harmful to Catalonia (and probably beyond its capabilities) and also extremely bad for Spain. The issue of debt distribution would be one of the key reasons for this.

In short, Catalonia cannot afford to stay out of the euro and the EU. This issue cannot be side-stepped or passed over in silence. But neither does this mean that Catalonia is inevitably a hostage to Spain in the negotiations. And the fact that it is not a hostage should not lead anyone, as sometimes seems to happen, to embark on a game in which each side appears to want to provoke the most extreme reactions from the opposing side. Far from it: it should lead to the belief that the conflict can only be solved through agreement and negotiation. Even in order to achieve independence.

5) Some further strategic issues

When we assess the viability of an independent Catalonia, at least three other points, apart from those mentioned above, call for in-depth analysis and the most accurate empirical estimates possible.

a) The impact of decision-making power on economic growth

Having decision-making power over economic policy instruments is decisive to growth. Indeed the Catalan economy has faced a problem that

is at least as important as the fiscal deficit, if not more so: the decisions taken by the Spanish State have too often failed to respond (quite the contrary in fact) to the needs of Catalan society. This has manifested itself with particular severity in the field of infrastructures but extends beyond it into many areas of economic policy. History shows us, quite simply, that the concentration of economic and political power has been an unvarying feature of Spanish policy and this has led to a radial and centralist economic model, based on Madrid.

Hence the importance that should be attached to the economic effects of political decision-making power in assessing the pros and cons of secession. The key factor is to ascertain how far this «decision-making power» could increase the tendential growth rate of Catalonia's GDP. Unlike the elimination of the fiscal deficit, which has a one-off impact, this effect is permanent. Some kind of table could be built to compare the effect on GDP of removing the fiscal deficit to the effect of having decision-making power in economic policy (assuming that such power would provide an additional boost to GDP growth, or spread, compared to the growth that would otherwise have been achieved).⁶ At the end of 15.7 years, for instance, Catalonia's GDP would be the same regardless of whether, in year zero, the fiscal deficit of 8% was eliminated and during this period the growth rate of GDP was 2.0% (one-off effect), or whether the fiscal deficit remained at 8% of GDP but the annual rate of growth increased to 2.5% over the same period.

Of course, other intermediate hypotheses combining the three variables could also be considered: the time required to equalise each of the effects; the additional GDP growth or spread provided by «decision-making power»; and the size of the reduction of the fiscal deficit. In a process as complex and difficult as the one we are analysing, in which it is hard to conceive of any outcome that is not the result of agreement and negotiation, it might be interesting to be able to play on the leeway this point offers.

6. One might say that eliminating the fiscal deficit would entail a parallel upward shift of the GDP line over time whereas having decision-making power would change the slope of the line. The question would then be to determine how many years it would take for the two lines to intersect.

b) The effects on markets, especially the financial market

el mercat financer

Catalonia's independence would undoubtedly lead to greater fragmentation between the Catalan and the Spanish markets, which are currently closely integrated. This would happen, of course, in the goods and services market (to which we have mainly referred when discussing the effect of independence on exports to the rest of Spain), but also in the capital and labour markets.

It is true that fragmentation is not an inevitable consequence of political independence. After all, in Europe we are moving increasingly towards market integration, though member States retain their political independence. But an integration process is not the same as a secession process. It is quite likely that independence would cause something like a border effect between Catalonia and the rest of Spain, not only in trade but also in all other markets. Moreover, the new State would probably wish to set up its own regulatory bodies and its own norms, so creating new differences and barriers. This would lead to greater fragmentation and also to less efficient markets for all concerned.

This argument, admittedly, can be countered by another one, in the opposite direction, because the new regulations set up by an independent Catalonia could promote «market efficiency» better than those currently in force in Spain. Actually, some markets in Spain, such as labour, certain services, and housing, still display a very significant lack of flexibility, and there is ample room for improved efficiency. There is no a priori reason, of course, to prophesy that the Catalan markets would be more efficient than Spain's. Be that as it may, we can assume that in this respect Catalonia's independence would have two opposite effects. On the one hand, the Spanish market would become more fragmented, and this has costs in terms of efficiency; and on the other hand, there are many fields in which the Spanish market is not a model of efficiency, and Catalan markets could perhaps be more so.

In the financial market, the effects of fragmentation would be very detrimental, and probably unsustainable. The Eurozone is immersed in a process of financial integration and anything that meant breaking this trend would have serious negative consequences for the Catalan financial system. We referred earlier to an issue that is interconnected with this one:

the consequences for our financial institutions of finding themselves outside the euro. But even if Catalonia were not left out of the euro, we would need to study very carefully whether, should the Spanish financial market become fragmented, an independent Catalonia could maintain its current financial weight, in terms of both the market and «capitality» (that is, centres of decision). Nor can we afford to overlook, in this context, the fact that the two leading financial institutions have assets (basically invested in the whole of Spain) which are greater (and in one case, far greater) than Catalonia's GDP, and that the deposits they raise elsewhere in Spain exceed those raised in Catalonia. This means that the Catalan financial system would be highly vulnerable, and the fragmentation of the Spanish financial market would make it hard for Catalonia's current financial weight to be sustained.

c) The distribution of assets and liabilities

The allocation of a portion of Spain's assets and liabilities to a new Catalan State would depend largely on the nature of the process leading up to its hypothetical independence. As we will point out in the final section, a friendly secession (or one that has at least been agreed upon in a civilised fashion) is not the same as a traumatic separation. This is especially true in a matter such as this, which can be settled only by negotiation, with each party not unnaturally defending what suits it best, or through arbitration by international institutions. On this issue, unlike the majority of other points we address, there is little room for analysis or recommendations, for once this stage is reached, the discussion will be basically a game of interests. And any argument in one direction could always be matched by an argument in the opposite direction. What can be done is to examine the experience derived from other cases (rather few and far between) and mark out the playing field.

The first major point to be dealt with is Spain's debt, which raises two important questions. One is how to decide the scope of the debt. Some authors, for instance, have suggested considering Bank of Spain's net position in the ECB, which is clearly one of indebtedness, since the Bank of Spain has borrowed from the European Central Bank as a result of the compensatory mechanisms arising from the TARGET2 system. The other question is which variable should be used to estimate Catalonia's share. The one that immediately springs to mind is population, but some

speak of the coefficient of central government spending in Catalonia (while others might propose GDP or taxes).

Secondly there is the Social Security system. On the one hand the distribution of the steadily shrinking reserve fund would have to be discussed but this raises a number of difficulties that are not easy to solve. The most important would undoubtedly be deciding which State takes responsibility for payments to present-day pensioners. A particularly sensitive point would be that of pensioners now living elsewhere in Spain but who spent their working lives in Catalonia, and vice versa.

The third major issue would be the distribution of State assets, both physical (facilities and infrastructures of all kinds) and financial (in various forms, including concession rights). Again, the key problems are defining their scope and the criteria for allocating Catalonia's share (which seem unlikely to be different from those used for the debt).

6) A friendly or unfriendly process?

When it comes to assessing the financial and economic effects of independence, the way independence is attained is of vital importance. To be sure, a secession process is never easy. It is never a chivalrous tournament. The central government will refuse, usually until it has no choice left, to even contemplate breaking up its territory. And territories that want to hold a referendum on self-determination usually take a long time to achieve it and must overcome numerous hurdles along the way.

But the effects obviously differ widely depending on whether independence is the result of an agreement between the two parties and its terms are negotiated in a friendly, or at least civilised, way (as is happening in the case of Scotland and the United Kingdom and happened, albeit to a lesser extent, in Quebec and Canada), or whether the secession is traumatic. «Traumatic» does not necessarily mean violent, but rather without dialogue, from highly polarised positions, with one side stubbornly refusing to sit down at the table and the other threatening to make unilateral declarations.

This is the current situation in the conflict between Catalonia and Spain: not only has there been no hint of dialogue of any kind, but the positions

of the two parties could not be further apart. The subject of controversy at present is not even independence but the referendum, and for the time being the doors seem tightly closed, not only to any agreement about its being held, but even to simple discussions about the proposal to hold it, which has the support of around 80% of Catalan citizens and their representatives.

Neither in Quebec or Scotland, of course, has the referendum process been short or easy or stress-free, but even so these two cases are poles apart from the current situation in Catalonia. And the difference between them has a marked impact, in economic and financial terms, on all the fields we have examined.

To start with it has an obvious effect on trade between Catalonia and the rest of Spain. Even if we acknowledge that a border effect may arise, it would never cause such a sharp fall in trade as hostility and boycotts, which have a feedback effect that is harmful to everyone. Secondly, reaching an amicable outcome (including agreement over the distribution of assets and debts) is crucial to the reaction of financial markets, as regards both the public and the private sectors. For the Catalan economy this is nothing less than a matter of survival. But it is also decisive for the Spanish economy, because Catalonia is the country's main economic region, and in the event of an acrimonious secession, it is not far-fetched to think that serious doubts could arise about Spain's solvency and financial viability. Finally, a friendly agreement is critical to the issue of the EU and the Eurozone. For, however the treaties are interpreted, a negotiated agreement would have to include a clear recommendation for Catalonia to remain in the EU and the Eurozone and this would make it easier for member States to reach a decision. A scenario marked by open conflict and pitched battles, on the other hand, would make it much more difficult for this point, which is vital to Catalonia's interests, to be successfully resolved.

In short, economic decisions are always largely determined by expectations about social and political stability, confidence in the institutional framework and the rule of law, and the extent to which creditors can feel sure that debts will be paid and contracts fulfilled. And in a scenario of independence, the way that independence is achieved is of vital relevance to all these factors.

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3

In or out of the European Union

3.1. Catalonia and the European Union

Francesc Granell
(Translated by Àngela Pous)

Introduction

Catalonia is one of Europe's 273 regions and it would not make any sense for an independent Catalonia not to belong to the European Union, considering both its tradition and its values and external economic relations. That's why we will analyse here whether it would be possible for Catalonia to remain within the EU on separating from Spain or to join the EU after seceding from it, and we will look at what allows it to form part of the EU at present and whether it could continue to use the euro.

Difficulty of conceiving of Catalonia outside the EU

Even the most radical pro-independence supporters agree that the idea of an independent Catalonia outside the European Union makes no sense, above all considering that Catalonia is at present an EU member as a part of Spain.

For the purposes of economic analysis, Catalonia is nothing exceptional but rather just one of the 273 territorial units of level NUTS 2 into which the EU is structured since the end of 2013.

Catalonia should form a part of Europe for historical, political and economic reasons.

The historical reasons are tied to Catalonia's Carolingian origin, even though, later, the Catalonia integrated into Spain lived for centuries with its back to Europe. Indeed, it did so until Spain joined what was then the European Community, on 1 January 1986, which helped to correct this anomaly.

The political reasons are based on democratic values and principles and on the rule of law, which are proclaimed in the Treaty on European Union, the Treaty on the Functioning of the European Union and the EU Charter of Fundamental Rights. Catalonia believes in all this, as it showed when voting massively in favour of the Spanish Constitution of 1978, which established the democratic rights under which Spain's society has been living since then, in line with European principles and values.

The reasons involving regional economic integration, without going into commercial or fiscal matters which lie outside the scope of this chapter, are a consequence of the fact that, in the globalisation era and considering Catalonia's geographical location, to stand outside the European economic territory with its 500 million people would make little sense because Catalonia does not have any special competitive advantages (oil, banking, etc.) such as those possessed by other European countries which have not joined the European Union (Norway, Switzerland...).

Upholding these three lines of arguments, the people who demonstrated and those who organised the demonstration of 11 September 2012 were right when they demanded that an independent Catalonia should form part of Europe. Likewise, the president of the Generalitat (the Catalan Government), Artur Mas, was right when he stated that, if Catalonia were not to form part of the EU, its independence would be quite problematic.

This having been said, and inasmuch as it is something that everybody agrees on, I will devote these pages to discussing, firstly, the historical, political and economic arguments explaining why an independent Catalonia outside the EU would make no sense. After that I will discuss the possibilities of an independent Catalonia continuing to be a member of the EU and of the Eurozone (just as it is at present as a part of Spain,

which is an EU member) and the possibilities of Catalonia becoming a member of the EU in the event that it ceases to form part of Spain (which is a member of the EU).

Arguments in favour of a Catalonia forming part of the EU

Historical reasons

In his prologue to the book *Catalunya dins la Unió Europea* (Catalonia inside the European Union) (Granell, 2002), the then president of the Catalan Government, Jordi Pujol, affirmed –further to what he had said in the conference he gave in Aachen in March 1985– that on 1 January 1986, on joining what was then the European Community, Catalonia had finally come home.

Aachen was the capital of the old Carolingian Empire, which gave birth to the Marca Hispanica (Spanish March), the embryo of the Catalan counties which later went on to form part of the Crown of Aragon. European federalists of the stature of Denis Rougemont consider the Carolingian Empire to be a notable forerunner of today's Europe following the disappearance of the Western Roman Empire. Within that empire, Tarraco –the Catalan city of Tarragona– played a key role in Hispania Citerior, the provincial division on which Rome had based the peninsular unity, making the Hispanic peninsula one of its most clearly defined geopolitical units, with set boundaries and some very special features (Vicens Vives, 1940).

This is not the time to make a review of history but it may be noted that the present-day Catalan territory has seen the passage of many of the civilisations that lie at the base of today's Europe and it has stood in the centre of many important European events.

The sectioning of Northern Catalonia and its cession to France was a result of the Thirty Years' War and the Treaty of the Pyrenees of 1659. Now, when the 300th anniversary of the 11 September of 1714 is being commemorated, it is of interest to note that the Treaty of Utrecht of 1713 did not mark the end of a war between Catalonia and Castile but rather of the War of the Spanish Succession, which was a European confrontation between the Habsburgs, the Dutch and the English, on one side, and the Bourbons who, in keeping with the tradition of Versailles, fostered absolutist regimes, on the other.

It should also be recalled that the Bourbon side's victory in the War of the Spanish Succession entailed, with the proclamation of the Decree of the New Plan, the creation of a single Spanish juridical nationality that did not distinguish between Catalans, Castilians, Aragonese, Valencians, Majorcans and Sardinians. It likewise entailed the unity of the Peninsular market, something which, as Pierre Vilar has so well explained, facilitated the growth of Catalonia and promoted the arts and sciences, culminating, in the times of Charles III, with the elimination of internal customs and with freedom of trade with the Americas. This was a favourable economic circumstance for Catalonia (Albareda, 1995 and 2002) and nothing similar had occurred with any intensity in the times of the Habsburgs, when the Peninsular parliaments did not achieve the harmonisation characteristic of the modern States that arose, as they are conceived today, from the Peace of Westphalia in 1648.

In the Napoleonic period, Catalonia was a French province, as it had previously been when Pau Claris pronounced Louis XIII of France to be Count of Barcelona at the end of the Thirty Years' War in 1641.

It was a Catalan, Laureà Figuerola, who created the peseta as the Spanish monetary unit with the intention, later foiled, of Spain's entering the «European» Latin Monetary Union.

These historical notes show that the territory which now forms Catalonia has always been the scene –in a more passive than active way– of significant events in Europe and that it cannot renounce this historic European past.

Lastly, this historical review cannot be concluded without recalling that the Catalans have taken an active part in movements which were forerunners of European integration following World War II and in institutional developments which have led to European integration as we know it today (Granell, Pou, Sanchez Ferriz, 2002)

Political reasons

The Catalan politicians of today have striven to progress along the path of European integration ever since Spain joined what was then the European Community (EC), just as Catalan groups opposing General Franco struggled –before Spain entered the EC– to achieve adhesion because they knew that, on joining the Community, the Franco regime would be

obliged to democratise Spain. The creation of the Institute of European Studies in Barcelona in 1951, the Spanish Committee of the European League of Economic Cooperation in 1956 and the manifesto of the leading Catalan economic entities in 1972, which stated that “the incorporation of Spain into the EEC as a full member is a historic demand”, are examples of the collective aspiration that was confirmed when all the political parties unanimously ratified the Treaty of Accession of Spain to the Communities (Cercle d’Economia, 1973).

The aspiration to be present in Europe has consequently been a political constant for Catalan society. Only a few dissident voices have been heard here in the 20th century, as when, during the European Council held in Barcelona in March 2002, demonstrations contrary to the present European model were organised by anti-globalisation groups opposed to “the Europe of capital” or, in 2005, when Òmnium Cultural expressed its opposition to Spain’s ratification of the Treaty establishing a Constitution for Europe, an expression of opinion that proved superfluous since the European Constitutional Treaty, which had been widely supported by Catalan citizens, did not go into force due to the negative results of the referendums in France and the Netherlands.

This “Catalan Europeanism” was highlighted by the president of the Catalan Government, Artur Mas, in his speech in Brussels to the “Friends of Europe” in November 2012, just before the elections in which he had hoped to obtain an absolute majority in the Parliament of Catalonia.

On the other hand, it should be noted that three contemporary Catalan politicians have endeavoured to achieve that not only the States but also the Regions should play a role in Europe. Lluís Maria Puig fought this battle in the Council of Europe, while Jordi Pujol and Pasqual Maragall did so in the context of the Community institutions. Jordi Pujol was the president of the Assembly of European Regions, which was the foremost lobby promoting the creation of the «Committee of the Regions» within the Maastricht Treaty of 1992. This committee was chaired by Pasqual Maragall from 1996 to 1998. In this way, albeit in a limited manner, the “regions” of the EU member States came to participate in the EU’s decision-making mechanisms.

The cities of the EU member States have also been winning a more active role in the life of Europe, which is so strongly marked by its purely Statish approach. In this respect, Joan Clos continued along the path that had been blazed by Pasqual Maragall.

The reasons for regional economic integration

For reasons connected with regional economic integration or disintegration, Catalonia cannot afford to be left out of the EU since 50% of its exterior sales are made in the rest of the Spanish market and, of the remaining 50% made outside Spain, 70% are made in the rest of the EU markets.

While Catalonia maintains a positive trade balance of over 20,000 million euros with the rest of Spain, it has a negative trade balance with the rest of the world, as is only natural if one considers its lack of raw materials and the role it has always played and continues to play as the «factory of Spain» within the «Spanish single market», no matter how much globalisation has come to nuance this reality.

Just as Spain's entry into the European Communities in 1986 had major static effects on trade creation and minor static effects on trade deviation, as well as dynamic effects on market expansion, increased competition, improved technology and increased foreign investment, among other aspects, Catalonia's separation from the EU and from the rest of Spain would have negative static and dynamic effects both on transactions with the rest of Spain and on those with the rest of the member countries of the EU. Just as was shown in the Cecchini report (Cecchini, 1987), when the Single Internal Market was created in 1992 by the Single European Act of 1987. Forming part of a large integrated market not only allows the expansion of trade (the static effect of trade creation) but also stimulates the economy as a whole.

Catalonia is discussing whether companies would relocate if it is left outside the EU. Some companies would leave, of course, while others would remain and still others would arrive to set up new operations. The ones leaving would be those that need to import inputs, which would be more expensive if Catalonia ceases to form part of the European Customs Union, and those whose reason for being here is to sell to the rest of Spain or to Latin America from the Spanish platform. The companies not leaving would be those that would continue to feel comfortable here once they overcome the always complicated border effect. Likewise, some companies linked to the demand of the new State and of Barcelona as its capital would surely find it interesting to establish a base in Catalonia instead of continuing to work from other places in Spain.

The question is, however, that there is a big difference between forming part of a market of 500 million consumers (that is to say, the present-day

Europe of the 28) and receiving the dynamic impulses of 7.5 million Catalans alone.

For this reason, the evaluation of an economy that does or does not form part of Spain and part of Europe can be made not only by considering the fiscal relations or the new parameters of public expenditure between Catalonia and Spain, as is usual, but also by analysing the dynamic effect on industrial, service and financial companies produced by a change of dimension of the frame of reference in which the companies currently installed in Catalonia are acting and the impact of being left institutionally outside the Eurozone and outside the European policies that benefit Catalonia (research in the context of the Research Framework Programmes, European fund resources, European Investment Bank financing, etc.), even though the fiscal balance between Catalonia and the EU is and will be unfavourable to Catalonia, which has a higher per capita income than the EU average.

The fact that Catalonia has been associated since 1988 with Baden-Württemberg, Lombardy and Rhône-Alpes, forming «The Four Engines for Europe», evidences the circumstance that Catalonia has always claimed a role as an economically developed area, consenting in consequence to contribute with its taxes to the regional policies in favour of poorer areas, even though the limited EU budget (only 1% of the national income) makes this negligible.

Could Catalonia maintain its current status as a member of the EU and of the euro if becomes independent from Spain?

According to the European Commission, the EU treaties cease to apply to territories that separate from a member State (Prodi, 2004). This means that an independent Catalonia would stop being part of the EU and its inhabitants would cease to hold «European citizenship» under the terms of the EU Treaty because this institutionalised citizenship is held only by the nationals of the EU member States.

The European integration process has been assigning more functions to the regions through the Committee of the Regions and by application of the principles of Subsidiarity and Proportionality. Accordingly, both the Parliament of Catalonia and the Catalan Government can now “speak

their mind» about European integration, either aligning themselves with the positions that the Spanish government defends in the European institutions, or opposing decisions that concern their level of competence. But this will no longer be so in the case of a Catalonia that gains its independence from Spain and that would consequently stand outside the EU, without participation in the institutional process of European integration.

The European Union is a union of States and, therefore, the participation of the European regions in the institutional process of integration can only take place through their respective States. If Catalonia separates from Spain, it could only be an EU member if it can become a State and if it can negotiate the process of readmission to the EU.

The emergence of a new State is not an impossibility in today's international society but Catalonia cannot invoke either the right to self-determination for having been colonized by the rest of Spain –as has been done at the United Nations by former colonies in Africa, the Caribbean or the Pacific with respect to France, the United Kingdom, the Netherlands or Portugal, nor can it invoke that such a situation has existed as the break-up of previously unitary socialist dictatorships for civil, racial or religious reasons (ex-USSR and ex-Yugoslavia). The separation of the Czech Republic and Slovakia to establish themselves as two states occurred before their accession to the EU in two separate negotiations. Likewise, the case of Greenland, which is sometimes invoked as a precedent of a region that separates to achieve greater freedom, has not given rise to an independent State but rather to a Danish Dependent Overseas Territory. For its part, when French Algeria became independent in 1962, it ceased to form part of the EEC, after having belonged to it while forming part of France.

An example for Catalonia could be the case of the future relationship of Scotland with the EU, but this is something as yet unresolved and the European institutions are awaiting an understanding between London and Edinburgh before starting up, if necessary, the process to allow the possible participation of Scotland in the EU.

Exclusion from the Eurozone would have a significant negative impact on a Catalonia left outside the EU. In such an event, the Catalan banks domiciled in Catalonia would be excluded from possible financing by the European Central Bank, both because Catalonia would not have a central bank in the Eurozone which could coordinate banking supervision with the ECB (European Central Bank) within the European Bank-

ing Union and because of a lack of guarantees (collateral) registered as securities belonging to EU countries which could be offered as sureties to access the ECB liquidity lines. This would lead to a credit strangling that would have a highly negative effect on the Catalan banks' financial capacity and that would make it even more difficult for Catalan companies and families to gain access to credit and for the Catalan Government to finance itself through the Catalan financial institutions.

Obviously, Catalonia could continue to use the euro on a de facto basis as is the case in Montenegro, Kosovo or micro-States such as Andorra, San Marino, Monaco and the Vatican; but Catalonia would lose the full rights it now holds to use the euro as a member of the euro area.

Moreover, in a union of States like the EU, an independent Catalonia could not continue to be an institutional member unless it could become a European State, and as things stand today it is not clear that Catalonia could become such an independent State since it forms part of the constitutional Spain, which was formed in a democratic way with broad support of the Catalan population and which joined the European Community in a process and under terms that were accepted by the people and the political parties in a totally democratic way.

Would it be easy for Catalonia to re-enter the EU if it ceases to be an EU member as a result of its independence process?

Catalonia cannot afford to be left out of the EU because its strong economic and social links with the 28 States (including Spain) would suffer the effects of the separation at least during the long transition process leading up to its readmission.

In an independence process that is not agreed on with the rest of the member countries of the European Union –including Spain–, the possibilities of re-joining the EU would be very slim even though the present-day Catalonia is already a member of the EU as a region of an EU member State, simply because any member State could veto the candidature since unanimity is required in this intergovernmental area.

The EU has not established any internal enlargement process to allow the re-entry of a previously separated part of a member State and, according to

the Copenhagen criteria, which establish the terms for EU enlargements, a Catalan State which, having become independent, has institutionally left the EU, and which seeks to be readmitted as a member, would have to submit its candidature for accession, complying with the terms established in Article 49 of the Treaty on European Union, as well as those of Article 6 (called the Copenhagen Criteria for having been approved by European Council in the Danish capital in June 1993).

Catalonia meets all these requirements, namely:

- a) The existence of institutions that guarantee democracy, the rule of law and respect for human rights and minorities.
- b) The existence of a viable market economy able to cope with the competition and with the market forces within the EU.
- c) The capacity to assume the obligations arising from the accession, with respect to the European rules (the *Acquis Communautaire* or Community Acquis), as well as the goals of Political Union.
- d) The Madrid European Council of June 1995 added to these conditions the ability to become fully integrated in the EU's system of governance.

Accordingly, within this framework, the problem for Catalonia would not be to comply with these admission criteria, since it already does so as a Spanish European region integrated in the EU's standards and rules, but rather to succeed in being accepted for the start of negotiations on accession as a member, in order to join the European institutions with the weight that may be agreed on. This would require that the Council, by unanimity of all the present EU member States, without exception, should approve Catalonia's request for accession and that it should instruct the European Commission to start performing the pertinent technical analyses, to draft an opinion analysing whether the candidate complies with the admissibility criteria and whether any serious structural problems exist, and to report to the Council on the weight that the new member State should have within the institutions of the enlarged EU.

On reaching this point, a screening is carried out on the degree of the candidate State's compliance with the European rules and on its administrative capacity to adapt itself to the EU *Acquis*, which is divided into thirty chapters for the purpose of analysis. These chapters come to be

closed, one by one, with the unanimity of the member States in each case and involve customs union; free movement of goods, persons and capital; common rules, Community policies, etc. (Granell, 1995).

No matter how closely Catalonia already complies with the European regulations as a part of Spain, an admission negotiation would be unavoidable because it would be necessary to establish, in the chapters relating to the European institutions, the weight that the new State entering the EU would have in them. That is to say, it would be necessary to establish such aspects as the number of members in the European Parliament according to population, voting rights in the Council, the inclusion of Catalan as an official language, Catalonia's share in the capital of the European Investment Bank, etc. Catalonia would also have to negotiate its inclusion in the respective bodies and mechanisms in order to participate fully in the Community decision-making processes, choosing national representatives who are well prepared for participation in the Community structures.

It is obvious that many of the chapters into which the possible negotiation for Catalonia's accession to the EU would be divided, would be easy to negotiate, since Catalonia complies fully with the European standards and rules as a Spanish European region. The EU, however, would have to make sure that, in the cases in which the European rules take the form of Directives that are to be implemented in each country, and that have been implemented in Madrid up to now, the respective technical bodies capable of doing so exist in Catalonia.

Other technical aspects for which negotiation is also inevitable relate to corresponding bodies in Catalonia for certain controls of the Community standards which are carried out at present by Madrid, and to bodies authorised for mutual assistance between governments, etc.

The Treaty on accession could not include repeals of the European *Acquis* but the acceding country may request time frames and transitory periods to adapt itself to European rules or to establish the mechanisms and bodies necessary to implement EU rules.

The technical problems are not unsolvable but the big question is political: would the present EU member States accept, with the unanimity required for these cases, the start of negotiations on accession with Catalonia in order to enter the technical phase of these negotiations?

This issue would not only affect a possible negotiation on accession as a full member of the EU but even a second-level negotiation to participate

in the European Economic Area, which also requires the unanimity of the current EU members. The only possible negotiation without unanimity would be a commercial treaty, but this would not give Catalonia the status of a European State.

Could Catalonia achieve the status of European State in order to join the EU?

Catalonia is European from a geographical and historical standpoint but can it become a European State, since this is the first requirement for requesting entry into the EU?

The EU treaties do not define what a State is, even though the Lisbon Treaty makes it clear that the EU is based on States and citizens (the status of European citizen is inherent to being a citizen of an EU member State). Catalonia can claim that it has what the United Nations Charter establishes as necessary to be a State: population, territory and government (even though the latter's competences are partial) and consideration could consequently be given to becoming a State by means of a Unilateral Declaration of Independence, but the important thing in order to have legitimacy as a State in the international community is not to have declared one's independence unilaterally but to be recognised as an independent State and to be a member of the United Nations.

This is only possible if the UN General Assembly accepts by a 2/3 majority a proposal of admission approved by the Security Council. At least two of the five permanent members of the Security Council with veto rights have stated that they would not support independence because this is an internal issue of Spain. Other States with potentially secessionist regions would not be willing to support Catalan independence either. Given these adverse circumstances and lacking the support of some of the major powers, it appears impossible for the question of Catalonia's admission to be discussed by the United Nations General Assembly.

The European Treaties do not set the condition of being a member of the United Nations or of any other international organisation in order to become a member of the EU but it is unthinkable that the EU—which is the main contributor to the UN's humanitarian actions—would accept a country as a member of the European Club without its being a member of the UN.

It suffices to recall the countries or territories which do not belong to the UN today to understand that this is not the appropriate path for Catalonia to follow: the Vatican (which is an observer), Kosovo, Taiwan (which was replaced by the People's Republic of China in 1971), Ossetia, Palestine, Western Sahara, Northern Cyprus, Somaliland, Transnistria, Abkhazia and Nagorno-Karabakh. Some of them declared their independence unilaterally and some have even been recognised as States by some countries (as in the case of Taiwan, which is recognised by the beneficiaries of its development aid). I believe it is unthinkable for Catalonia to follow such examples. In its case, not belonging to the United Nations would imply not only that it could not request admission to the EU as a State, but also that its path would be cut off towards becoming a member of the foremost agencies of the "United Nations' Family", such membership being absolutely necessary to participate fully in international life, which is essential in today's world.

Conclusions

An independent Catalonia cannot aspire to continue being a member of the EU if it is not recognised as a State by all the EU member States. To begin the negotiations on admission to the EU, Catalonia would need the unanimous approval of its request for accession and, in order to submit the request, it needs to be a «European State» in addition to complying with the «Copenhagen Criteria».

The experience of previous negotiations on accession shows that Catalonia complies with the European *Acquis*, but negotiation is still necessary to evaluate the weight that Catalonia should have in the European institutions and to provide the EU with the assurance that Catalonia could organise itself to comply with its European obligations.

Since Catalonia cannot afford to be marginalised from the EU, the euro, the United Nations or other international bodies from the time of its declaration of independence, what it needs, before taking up new challenges in this area, is to achieve that none of the present-day member States of the European Union opposes its request for admission to the EU, which Catalonia will have left on separating from Spain, and it must strive to achieve the necessary support for Catalonia's recognition as a "normal State" in international society in the capacity of a country hold-

ing the status of member of the United Nations and of the major international organisations standing in the centre of the globalisation process.

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3.2. In or out of the European Union. What we have said about this.

Miquel Puig
(Translated by Àngela Pous)

Introduction

The aim of this paper is to analyse and evaluate the role that has been played by economists, at a specific moment in history, in the public debate on whether or not an independent Catalonia would form part of the European Union and what the consequences would be.

Over the course of 2012, as the pro-independence movement began to appear increasingly in the media, particularly between the rally of 11 September and the elections to the Parliament of Catalonia, this issue became the centre of the political debate. Economists played a prominent, but by no means decisive, role in this process.

Scope of analysis

I have no intention of analysing everything that was published but rather only what I consider a representative sample, confined to the following:

- The series of 29 articles published in *La Vanguardia* between 14 October and 23 November 2012. It featured the contributions of a total of 37 economists, who were selected by that newspaper with the aim of providing its customary balance of the various political leanings. This substantial number of contributors and the process by which they were selected are what give this series of articles, in my opinion, a representative value.
- A study published by the Wilson Initiative on its website, entitled “Europe, Oh Europa”, which appeared on 13 November 2012.
- The studies dealing with this matter that were published by the Instituto de Estudios Económicos (IEE) (Institute of Economic Studies) within the document “La cuestión catalana, hoy» (The Catalan question today) (presented on 22 November 2012 in Madrid and on 14 March 2012 in Barcelona), by Fernandez Navarrete, Clemente Polo and Joaquin Trigo; and the overall presentation by IEE, on its website.

This series of contributions to the public debate showed a marked electoral tone since they were presented within the forty days previous to the elections to the Parliament of Catalonia (25 November 2012).

To set these opinions in their context, I will also mention the statements of Spanish politicians (most of which were made during the aforementioned period), as well as the opinions of two experts on EU enlargements and the set of documents published by the British government on Scottish independence («Scotland Analysis»).

Political context

It was not the economists but rather the politicians who put the issue on the table. We may consider that the first to do so was the central government’s delegate in Catalonia, Llanos de Luna, who stated the following to COPE radio on 7 April 2012:

«Catalonia would be automatically left out of the European Union [...] The hypothetically independent Catalonia would have to request admission to the European Union and, in the best of all cases, assuming moreover that no one

were to veto the request, experts estimate that it would take about five years to join the EU. That means that every Catalan product would be paying customs duties that, according to experts, would entail a 40% increase in their price. Consequently, to talk so much about independence without clearly explaining the immense impoverishment that it would entail for Catalonia seems to me to be a disservice and I think it is being advocated by people who do not love Catalonia».

In view of its date, we may consider this statement to be a preamble to the debate that forms the subject of this chapter. Specifically, it is a preamble that clearly presents what would become the debate's three central postulates:

1. An independent Catalonia would be born outside the European Union and would have to request admission to the EU.
2. The admission process would be slow and subject to the veto of any member State.
3. Meanwhile, Catalonia's products would be considered those of a third State and would consequently be subject to the Common Customs Tariff.

From here on I will refer to these three points as the «postulates» of the debate.

These postulates would be repeated time and time again by politicians opposed to independence in order to advise against it. Some examples of this repetition follow:

- The Minister of Foreign Affairs in the Spanish Parliament (11 October 2012), whose words were summarised in a news report of the daily paper *El Mundo* in this way:

Garcia-Margallo also took the opportunity to warn the Catalan authorities that the hypothetical independence of Catalonia would leave it outside the European Union.

«Whatever they say, outside of Europe there is no salvation», the Minister warned, adding that to leave the European Union is «extremely easy» but to get into it is «extremely difficult».⁷

- Francesc de Carreras wrote the following in *La Vanguardia* (18 October 2012):

7. I have corroborated in the Gazette of the Spanish Parliament that the report quotes the Minister's words correctly.

«This whole process, even in the event that no State opposes Catalonia's accession, is slow and laborious, taking no less than three or four years. If any State wants to add additional conditions to the accession, as is often the case, the process would draw out even longer [...] During this transition towards the European Union, Catalan goods, services, companies and capital would have to pay the same tariffs that are paid by Russian, Argentine and Japanese products to be sold in any member State».

- Duran i Lleida stated the following on ABC Punto Radio on 30 October 2012:

«I know Catalonia has sufficient economic and demographic weight to subsist [independently]; but not outside the European Union. I don't want Catalonia to be like Kosovo.»

Lastly, for the sake of brevity, it is important to point out that this would be the only argument of the candidate Navarro and one of the two arguments of the candidate Sánchez-Camacho (the other one would be that the referendum should include the entire population of Spain) in reply to the insistent question of the third participant in the electoral debate on 8tv (16 November 2012), Artur Mas, with respect to their positions on the so called «right to decide». Specifically, both mentioned that Catalonia would be born outside the European Union, that it would have to request admission and that such admission would depend on its unanimous approval. Moreover, both candidates explicitly mentioned Article 49 of the EU Treaty (Navarro at minute 34 and Sánchez-Camacho at minutes 39 and 46).

The voice of the experts

Before listening to the economists, it would be useful to hear the voice of some experts on EU enlargements.

To begin with, Francesc Granell. His first contribution comes from an interview on the CatalanTV channel 3/24 on 25 September 2012 (just before the period under consideration here). After making evident his experience as director of negotiations on the accession of Finland, he limited himself to pointing out the following:

I believe we would be left out of the EU and would have to request to be readmitted, and that would be a problematic process [...] Agreement would have to be reached on it».

In November 2012, Granell expressed his opinion in greater detail in a lecture given at the Economists' Association. A summary appears on the Association's website:

For Catalonia to be recognised as a State, all the EU countries must ratify such status and, naturally enough, that is something that Spain would not do.»

In short, Granell agreed with the first two postulates: Catalonia would be born outside the European Union and Spain could veto its admission. Indeed, he considered it highly probable that Spain would veto it.

The second expert we will consider here is the Oxford academic Graham Avery, a senior adviser of the European Policy Centre, an Honorary Director-General of the European Commission and a participant in several EU enlargement processes. At the request of the British Parliament, on 17 October 2012 he expressed his opinion on how Scotland's independence would affect its status in the EU. A summary of his words is given below:

In the debate on Scottish independence, it is natural that opponents tend to exaggerate the difficulties of EU membership, while proponents tend to minimise them. This note tries to address the subject as objectively as possible. In summary it argues that:

- *Arrangements for Scotland's EU membership would need to be in place simultaneously with independence.*
- *Scotland's 5 million people, having been members of the EU for 40 years, have acquired rights as European citizens.*
- *For practical and political reasons they could not be asked to leave the EU and apply for readmission.*
- *Negotiations on the terms of membership would take place in the period between the referendum and the planned date of independence.*
- *The EU would adopt a simplified procedure for the negotiations, not the traditional procedure followed for the accession of non-member countries.*

Consequently, unlike Granell, Avery does not take a legalistic approach but rather a practical one. For him, Scotland would be born a member of the EU because independence would be postponed until a simplified accession process has been completed to avoid the complications of an intermediate situation for all parties involved.

To what extent is Avery's opinion applicable to the case of Catalonia? From the standpoint of the EU rules and of mutual interests, the two

cases are identical. That is to say, according to Avery, a simplified procedure would be applied to Catalonia and, for “practical and political reasons”, Catalonia could not be asked to leave the EU and request readmission, for which reason there should be agreement on the terms of accession at the time of its formal independence. However, Avery does not consider the possibility of a veto on Scotland’s accession.

Accordingly, while both experts think that Catalonia’s adhesion to the EU would not be automatic and would have to be negotiated, they differ on the first postulate. Avery says that Scotland would be born inside the EU while Granell says that Catalonia would be born outside of it. The reason for this discrepancy is not the interpretation of the Community rules, nor the slow pace of the negotiation process but rather what they see as the probability of a member State exercising its veto.

The British government’s opinion

As a third «expert», it would be worthwhile to consider the compilation of studies published by the British government on the effect that independence would have on Scotland and on the rest of the United Kingdom. This compilation’s title is «Scotland Analysis». What interests us here is Part 1 and Part 4. It should be pointed out that the government’s aim is to show that independence would be harmful for the Scots and, in this respect, the reports repeat the formula that autonomy is better than independence («devolution offers people in Scotland the best of both worlds»).

The first study (February 2013) examines the legal implications of independence. The following points are what interest us here:

- An independent Scotland would have to negotiate the terms of accession to the EU, which would have to be approved by all the member States. Nothing is said about the duration of the negotiation period.
- The foremost difficulty of the negotiation is that it would be hard for the EU to accept that Scotland can maintain the British opt-outs, that is to say, not using the euro, the «British rebate» and exclusion from the Schengen Area.

The fourth study (July 2013) focuses on the economic impact of independence. Essentially, it presents four arguments to show that independence would be harmful to the Scottish economy:

- The regulatory fragmentation that would follow independence and that would progressively emerge despite the application of Community law on both sides of the border: double VAT returns, licenses, regulations, etc..
- The fragmentation of the infrastructure policy, considered highly favourable to Scotland due to its off-centre location.
- The fragmentation of the knowledge base, because the British government stimulates universities and research centres to work together with companies located throughout the whole territory.
- The loss of some institutions that the government claims to be outstanding in terms of promoting competitiveness. By way of example, the government emphasizes that, according to the World Bank, the United Kingdom is the seventh economy in terms of ease of doing business, or according to the World Economic Forum, the thirteenth in terms of the quality of its institutions.

With respect to what interests us here, the position of the British government is that Scotland would have to negotiate accession to the EU and that it would not have any difficulties other than to avoid the euro, Schengen and a contribution to the Community coffers and that Scottish exports would not be taxed by the Common Customs Tariff at any time.

Series of articles in *La Vanguardia*

Of the total of 29 articles, only six directly confronted the issues raised by Llanos de Luna. The following table summarises the positions expressed by the authors of those articles:

	Outside the EU?	Consequences?
Heribert Padrol (15/10/12)	NO	NO
Oriol Amat (16/10/12)	NO	NO
Francesc Balcells (7/11/12)	MAYBE	NO
Juan Francisco Rubio (9/11/12)	MAYBE	YES
Collective (18/11/12)	MAYBE	NO
Casimir de Dalmau (20/11/12)	NO/MAYBE	NO

For the first two experts listed in the table the hypothesis of Catalonia leaving the EU and negotiating its readmission is as unthinkable as for Avery, so they question the first «postulate» (and, consequently, the others). Let's see what these two people have to say:

Heribert Padrol:

I think it's nonsensical to think that Spain, as a result of a hypothetical tantrum and not of a rational strategic reflection, could induce its partners to allow it to exercise a possible veto on Catalonia's continued presence in the EU (...) Applying game theory and taking into account that the opinion of the Community institutions would bear great weight in a possible scenario of mutual and joint damage, such an exit of Catalonia from the Union is not in any way foreseeable."

Oriol Amat:

The expulsion of Catalonia by the EU is not a realistic scenario if we bear in mind that Catalonia is a net contributor and one of the most pro-Europe nations».

Now let's analyse the opinions of the economists who make no reference to the possibility of Catalonia being either inside or outside the European Union.

We may consider their common starting point to be clearly expressed in the joint article of fifteen economists⁸ (which we call the "Collective"):

In our role as economists, we do not consider it appropriate to comment on whether or not independence would automatically mean that Catalonia would leave the EU, since this is a matter of a legal and political nature».

Of much greater interest are the opinions on the consequences of possible temporary exclusion from the European Union. Let's begin with two articles that minimized these consequences, the first one by Francesc Balcells and the second the Collective one:

Francesc Balcells:

The key point here is how an independent Catalonia arranges its relations with the EU, the Eurozone and Spain. [...] Obviously, the maintenance of these relations would be, in part, beyond Catalonia's control and there is a high risk of a Spanish veto on its continuity as a member. If this is the case, we

8. Alicia Adserà, Oriol Amat, Enriqueta Aragonés, Germà Bel, Núria Bosch, Ramon Caminal, Xavier Cuadras, Marta Espasa, Francesc Granell, Modest Guinjoan, Elisenda Paluzie, Alfred Pastor, Clara Ponsatí, Miquel Puig, Jacint Ros.

would have to find alternative solutions which, if well organised, could be equally satisfactory for the markets. If one has to be outside the European Union, why not try to replicate other commercial agreements that the Union has with countries such as Switzerland or Norway?»

Collective:

With respect to the EU, the imposition of tariffs or other trade barriers on Catalan exports would run up against the interests of all the multinational companies –Spanish or not– that are based in Catalonia [...] The only reasonable scenario in the hypothesis of a Catalonia that does not belong to the EU is the maintenance of the status quo: the free movement of goods, persons and capital between these two areas. One thing is not incompatible with the other and there are some precedents to support it. Consequently, we consider that there is no basis in fact for the predictions that have sometimes been made to the effect that Catalonia's exit from the EU would have a negative impact on the Catalan economy due to trade with the EU being legally obstructed».

Each using very different words, the authors say there is no connection between the juridical-political and the economic spheres, belonging or not belonging to the EU, and the maintenance of the free movement of goods, persons and capital. With respect to the three postulates established by Llanos de Luna, what these authors do is to deny the third one without questioning the first two.

J. F. Rubio took the opposite approach, upholding the unity of all three:

«Not belonging to the EU would increase tariffs and bring down wages to preserve competitiveness, with the consequent cost for the Catalans' welfare».

I find it more difficult to interpret the article by Casimir Dalmau, which includes the following key phrases:

An independent Catalonia's request for accession is a hypothesis that has not yet been posed. Neither do we know whether it ever will be [...] The fact is that someone will have to explain that, except in children's stories, a non-Europe limbo simply does not exist».

On the one hand, he appears to accept the possibility of a Catalonia outside the EU; but on the other, he seems to imply that he does not think that such a situation would translate into harm for Catalonia, but he does not explicitly say whether this would be so because the situation would be brief or because a satisfactory solution would be arranged in the interim period.

Other Economists

The other two contributions by economists that we will consider here were both presented at the Cercle d'Economia (Economy Circle), with differing degrees of expectation. Chronologically, the first one is that of the Wilson Initiative, which is formed by six highly reputed academic economists⁹. all of whom hold doctorates from Harvard or MIT and are practising university professors or the equivalent in leading institutions (Harvard, Princeton, Columbia, London School of Economics) and CREi (Centre de Reserca en Economia internacional-the Barcelona based Research Centre in international Economy). The Wilson Initiative website appeared on 12 November 2012 and the next day a study appeared there under the title of «Europe, Oh Europe», which dealt directly with the topic that concerns us here.

After remarking that the future, with or without independence, is full of uncertainties, they analysed the hypothetical scenario of a Catalonia that is born outside the EU and whose accession to the Union is vetoed by Spain. They did not consider that this would necessarily entail the imposition of tariffs either:

“However, to remain in the single market and to maintain the free movement of goods (that is to say, in order not to pay tariffs), Catalonia would not need to form part of the EU. All it would have to do is to sign bilateral agreements like those which Switzerland has. The treaties say that bilateral agreements without common institutions do not require unanimity, but only a qualified majority (TFEU, Art. 207 and 218). Consequently, if Spain tries to use its vote to veto Catalonia’s accession to the single market and to the free movement of goods, it won’t be able to do so».

Now let’s go on to the second contribution, from the Instituto de Estudios Económicos (the Institute of Economic Studies), an affiliate of the CEOE (Confederación española de organizaciones empresariales- the Confederation of Employers and Industries of Spain). Entitled “The Catalan Question Today”, it was presented in Madrid on 22 November 2012, three days before the elections. We include five excerpts: from the IEE website, from Fernández Navarrete, Clemente Polo and Joaquín Trigo, in that order:

IEE website:

Catalonia’s independence would leave it outside the EU for an indefinite period [...] The independence of Catalonia would subject the country to three

9. Pol Antràs, Carles Boix, Jordi Galí, Gerard Padró, Xavier Sala and Jaume Ventura.

economic shocks, any one of which, alone, would suffice to knock over even the most prosperous economy. The first one would be the shock caused by its exit from a country with which it has shared institutions and markets for several hundred years. The second one would be its exit from the economic and political area of the European Union. And the third would be a consequence of the second: its exit from the Eurozone.»

Donato Fernández Navarrete:

«Could an independent Catalonia remain in the EU? The answer is definitely no [...] It is not unreasonable to think that Catalonia would have to wait at least 30 years to form part of the EU...»

Clemente Polo:

«[...] Catalonia would be excluded from the EU for a decade or more in the best of all cases.»

«Catalonia's exports to the EU would plunge on being taxed by the EU Common Tariff. «

Joaquín Trigo:

Accession to the EU is a slow process for all. Even for applicants coming from a member country. It requires unanimity, compliance with the requirements and a lot of time to achieve it. Catalonia's accession to the EU, on the basis of how long it has taken the countries that have joined it most recently, could call for between 8 and 14 years.»

With respect to what we are dealing with here, we can sum up this topic by saying that the IEE publication concurs with the people who consider that the three postulates form a whole, namely, that Catalonia would be born outside the EU, that the negotiation to re-join the EU would be slow and subject to veto, and that meanwhile Catalonia's exports would be considered to come from a third country.

Conclusions

In the period immediately preceding the autonomous regional elections of November 2012, the economic impact of independence on the basis of Catalonia's relationship with the EU became one of the main topics of the political debate. The politicians opposed to independence built up a narrative

based on three elements: Catalonia would need to go through an accession process; it would be a slow process and subject to veto; and Catalonia's economic transactions would be hampered for the duration of the process.

In response to this political approach, economists expressed divergent and, to a large extent, contradictory opinions. As usual, the differences stemmed more from the questions which were to be answered than from the arguments which were put forward to answer them. These questions were the following:

- Would Catalonia automatically be a member of the EU?
- Would the economic links between Catalonia and the EU be hampered?

The economists who took part in this debate can be classified into three groups:

- The prophets of doom. This group took a legalistic stance with respect to the first question above, in line with the expert Granell. Additionally, they ignore the possibility of there being any alternative to third-country status for a Catalonia that were not to be a member of the EU, and this led them accept the prediction that the Common Customs' Tariff would be applied to Catalan exports. This group includes Juan Francisco Rubio and the authors of the IEE publication.
- The denialists. This group aligned itself with the position of the expert Avery: "For political and practical reasons» the Catalans, who have been EU members for some twenty years and who «have acquired rights as European citizens», could not be required «to leave the EU and to request readmission.» This group includes Heribert Padrol, Oriol Amat and Casimir de Dalmau.
- The cautious. Like the previous group, this one considered it unthinkable that there would be any interruption in the free movement of goods, persons and capital, but they analysed the scenario in which Catalonia's accession to the EU were to be vetoed by Spain. In the event of such veto, they showed that there are political and legal mechanisms to achieve the desired results and they predicted that such mechanisms would be applied. This group includes Francesc Balcells, the fifteen economists of the Collective article (including Granell himself) and the six economists of the Wilson Initiative.

In my opinion, an impartial reading of the contributions of the experts considered here leads us to the following conclusions:

- Catalonia would be born inside the EU unless Spain (or some other country) were to veto its accession. In the absence of a veto, the negotiation with the EU should be carried out at the same time as the negotiation of the terms of independence and would be much easier than the latter. In this respect, the statements about the slowness of the process should be seen as part of an intimidating discourse but lacking any other foundation.
- In the event of a veto, it would be in the interest of both parties (and particularly all the multinational companies established in Catalonia) to associate Catalonia with the EU by means of a bilateral treaty, assuring the maintenance of the free movement of goods, persons and capital. In this respect, it is noteworthy that the British government does not take for granted that Scotland would be born in the EU, but, on the other hand, it does not contemplate the possibility that the Common Customs Tariff could be applied to the Scots.

Obviously, the probability of Spain's exercising or not its right to veto Catalonia can only be appraised subjectively. The doom and gloom economists believe that there is a high probability, while the denialists think it would be low. However, the doom and gloom group add that the veto would have significant economic implications. The cautious economists have convincingly established that such a deduction has no legal foundation and that a solution would be found, because doing so would benefit everyone and harm no one.

To move ahead with the debate, the doom and gloom economists should adopt a stance with respect to this argument: do they deny that the free movement of goods, persons and capital could be maintained between Catalonia and the EU in the event of a veto? And if so, why?

If they do not adopt a position with respect to this point, they would be abandoning the field of play and, consequently, losing the game.

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4

In or out of the euro

4.1. An independent State and the euro¹⁰

Jordi Galí

(Translated by Miquel Strubell)

Introduction

A major uncertainty regarding the eventual establishment of a Catalan state is its fit inside Europe. Specifically, many Catalans wonder if this new scenario would be compatible with continuing to enjoy the economic benefits (and, of course, suffering from the disadvantages as well!) associated with our current status of citizens of a member state of the European Union (EU) and the Eurozone. The article «Europe Oh Europe» by the Wilson Initiative (www.wilson.cat) dealt some time back with the implications of having a State in relation to the fundamental economic rights guaranteed by the EU: the free movement of goods, capital and people. The aim of this paper is to analyse different scenarios as regards the use of the euro in a hypothetically independent Catalonia and the enjoyment by its residents of the benefits linked to the Eurozone.

10. An earlier version of this paper was published as GALÍ, J. (2013) «Estat propi i euro», Col·lectiu Wilson (blog), 19 March. (“An independent State and the Euro” Wilson Initiative)

First of all, a brief consideration. In principle the right to self-determination includes the possibility of deciding on monetary arrangements that the economy of a Catalan sovereign State would have to adopt. Although the long-term prosperity of a country should be independent of the currency it uses (at least, so long as it adopts a reasonable monetary policy), the behaviour of the economy in the short term is heavily influenced by the interest rate, exchange rates and the availability of banking credit, variables that all depend on the monetary arrangements adopted by a country and on its monetary policy. Among these arrangements are the establishment of a new currency and the setting-up of its own monetary system. This is the option chosen by the vast majority of countries. However, in the case of Catalonia there seems to be a social consensus, also shared by parliamentary political forces, on the desire to keep the euro as our currency and not adopt a monetary policy of our own, delegating it instead to the Central Bank (ECB). The discussion of the pros and cons of this option is largely outside the scope of this article. Moreover, this discussion cannot be held in abstract terms, i.e., without considering the fact that Catalonia today belongs to the Eurozone, and the development and adoption of a monetary system by a country (whether it is new or not) always requires a complicated transition and potentially significant risks in the short term; such factors certainly limit the appeal of giving up the euro in the case of current-day Catalonia. So I shall take for granted that the ultimate goal is to keep Catalonia inside the current monetary regime, i.e., with the euro as its only official currency and its monetary policy delegated to the ECB. The problem then is: what options would an independent Catalonia have of achieving this?

Of necessity the answer to this question depends on the scenario arising from the hypothetical process of the constitution of the State itself. Moreover, in shaping these scenarios, no-one can forget that Catalan citizens have belonged to the EU for more than a quarter of a century, and to the Eurozone since its commencement. So the circumstances of the admission process of Catalonia as a member State of the EU and the Eurozone are *exceptional* and hardly comparable to the cases of admission of non-members. These considerations lead me to distinguish between four possible scenarios, from most to least favourable.

Analysis of possible scenarios

Scenario No. 1: Full integration, simultaneous to the establishment of the State

In this scenario, and in a situation not foreseen in the European Treaties, the EU would take the political decision of accepting Catalonia as a full member of the EU from the moment of its establishment as an independent State.¹¹ By extension, and given the remarkable nature (not planned, but not precluded, by the Treaties) of this internal enlargement, we would expect Catalonia to be automatically admitted as a member State of the Eurozone. In this scenario Catalonia would never stop being part of the EU or the Eurozone. For Catalan citizens and companies operating in Catalonia, as well as for foreigners (whether European or not) having economic relations with it, independence would have no visible effect on monetary matters: the euro would continue to be used as the official currency for payment and as the usual accounting unit when establishing prices and setting monetary obligations in all kinds of contracts. The only difference with the current situation in the monetary field would be the existence of a central bank for Catalonia, which we can call the Bank of Catalonia (BC). This body, independent of government, would take on the (limited) functions that the national central banks have in the Eurozone, that is, mainly, cooperation with the European Central Bank (ECB) in the implementation of monetary policy and in the supervisory tasks of the financial system, as well as the management of banking resolution processes. As a national central bank, the BC would be represented in the ECB's Governing Council, the decision-making body for monetary policy in the Eurozone (which is expected to play an increasingly important role in financial supervision). Banks established in Catalonia, and meeting the requirements for becoming counterparties, would continue to enjoy access to ECB liquidity, although they would do so through the BC, instead of the Banco de España (BE). This change would not be important in practice, since the conditions of this fund-

11. This is the scenario recommended for Scotland in Graham Avery's report on «The foreign policy implications of and for a separate Scotland», published as Document HC 643 by the UK Parliament. <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmfaff/writev/643/m05.htm>

ing (interest rates, deadlines, warranties...) are fixed by the EBC uniformly throughout the Eurozone.¹²

Scenario No. 2: Integration after the establishment of the independent State, but with de facto continuity

In this scenario, the new Catalan State would not be formally and simultaneously admitted as a member of the EU on its establishment. In the monetary field this would mean that Catalonia would not officially be a member State of the Eurozone, as this requires membership of the EU. Admission to the EU and, indirectly, to the Eurozone would occur only after a negotiation process which, given the extraordinary circumstances mentioned above, should be able to be simplified and fast.¹³ In this context, it would make sense, and be beneficial for all parties involved, for the EU to agree on the de facto continuity of all existing rights and obligations of Catalan citizens and companies operating in Catalonia (and, consequently, those of non-Catalan citizens and businesses that have relations with them) during the transitional period, between the establishment of the State and its formal admission. This continuity would be guaranteed if the EU continued to treat Catalonia as part of Spain, while recognizing at the same time the legitimacy of the government of the Catalan State already established to negotiate a fast-tracked full integration. Thus, the formal admission process of the new country would be detached from the rights of citizens and businesses, which would remain intact during the transition. This «extension» of the current economic system would have to include monetary aspects in a straightforward way. In this way, though Catalonia would not formally be a member State of the Eurozone during this transitional period, the euro would still be the

12. The only exception, which corresponds to the Emergency Liquidity Mechanism (usually known by its acronym ELA), can be activated promptly in an exceptional situation of a bank's liquidity crisis when it cannot access normal funding mechanisms (on account of lack of acceptable asset guarantors, for example). In such a case, the national central bank of the jurisdiction, where the entity in question is based, can activate this freely, but taking on board the risk of losses

13. The pragmatism displayed by the EU in cases not provided for in the Treaty was evident with the reunification of Germany in October 1990, which amounted to the formal integration of the 16 million citizens of East Germany, a country with an economic structure marked by over 40 years of central planning, and with laws and institutions hardly equivalent to those of the EU.

official currency and financial institutions based in Catalonia would continue to have access to Euro-system funding mechanisms (possibly through the BE) and to the payment mechanism (TARGET2). At the end of the transitional period, and at the moment of formal integration, the BC would take over the functions of the national central bank within the Euro-system. From a practical standpoint, the only difference in this scenario in monetary matters, compared to the previous one, would be that during the transitional period and until formal admission, the BC would not be represented on the ECB Governing Council (and, presumably, the new Catalan State would not have formal representation in other EU governing bodies), and the BE would retain (limited) functions in implementing monetary policy and banking supervision.

Scenario No. 3: An EU admission veto

In this third scenario, admission to the EU would be postponed indefinitely after the establishment of the Catalan independent State, possibly as a result of a Spanish veto.¹⁴ As explained in the article «Europe Oh Europe» by the Wilson Initiative, (<http://wilson.cat/en/comunicats-conjunts/item/197-europa-europa/197-europa-europa.html>) the most important feature of this scenario would be the preservation of the rights of free movement of goods, capital and people for Catalan citizens and companies operating in Catalonia, as well as those of citizens and foreign firms with which they maintain economic relations. Fortunately, and despite what many think, these rights are not restricted to the EU and there are various ways of articulating them (the case of Switzerland is perhaps the best example in this regard). Moreover, no-one would be keener than the EU to preserve the reciprocity of these rights, given the quantitative and qualitative importance of the Catalan market and the presence of a large number of European companies based in Catalonia.

What would the consequences of this scenario be in the monetary field? As in the second scenario, EU non-admission means that Catalonia would not be a member State of the Eurozone either. But that does not

14. Spain's endearing Foreign Minister García-Margallo has already announced publicly that the expulsion of Catalonia would be «eternal,» presumably on account of the will of the country he represents. (19/09/2012)
<http://www.lavanguardia.com/politica/20120919/54350572042/margallo-catalunya-fuera-ue-eternamente.html>

mean that Catalonia would have to give up the euro as its official currency. The new State could choose to keep the euro as its official currency in regular transactions, instead of setting up its own currency and monetary policy. This situation would not be unprecedented: there are several countries that do not belong to the EU (nor therefore to the Eurozone) that have the euro as their official currency (Monaco, San Marino, the Vatican, Andorra, Montenegro and Kosovo, to name those located in Europe). The main function of the BC in this scenario would be as a banking supervisor. Moreover, financial institutions operating in Catalonia could access ECB liquidity through those parent companies, subsidiaries or branches established in Eurozone member countries that meet the requirements to be counterparties. It is important to emphasize that these requirements do not include the parent bank having its headquarters in the Eurozone¹⁵; in actual fact, many banks outside the Eurozone, some of which are not even European, regularly take part in ECB financing operations through subsidiaries and branches located in the Eurozone.¹⁶ The main requirement for taking part is to be «financially solvent» and to be subject to supervision by the competent national authorities within the EU or the European Economic Area or, in the case of banks established as companies outside this area, to a supervision, the standards of which, are comparable to theirs.

Nevertheless, in this scenario a formal articulation of the relationship between Catalonia and the Eurozone would be desirable (and beneficial for all parties involved), and it could take the form of a «monetary agreement» between the EU and Catalonia. Presumably an agreement of this kind would not require unanimity of EU countries and, therefore, could not be vetoed by any member State. The monetary agreement with the Principality of Monaco (an important financial centre that does not belong to the EU or the Eurozone, although it has the euro as its sole official currency) is, despite the difference in circumstances, a useful reference. In addition to «blessing» the use of the euro in the Principality, it ensures the banks established there have access to ECB funding mecha-

15. Conditions for access to ECB credit mechanisms are described in Chapter 2 of the publication «The implementation of monetary policy in the euro area: General Documentation on Eurosystem Monetary Policy Instruments and Procedures», ECB, November 2011. <https://www.ecb.europa.eu/pub/pdf/other/gendoc201109en.pdf>

16. See <http://www.ecb.int/stats/money/mfi/general/html/elegass.en.html> for a list of registered financial institutions subject to minimum reserve requirements, a condition for entities potentially wishing to become counterparties with the ECB.

nisms and the European interbank payment and securities settlement infrastructure known as TARGET2. In return, Monaco undertakes to adopt all EU legislation on banking supervision and regulation, and measures against money laundering.

From a financial point of view, the situation described in this scenario could be extended over a long period, but it probably would not desirable as a permanent solution. A country with the economic scale of Catalonia is fully capable of setting up its own monetary system, with its own currency and monetary policy, which can be adjusted independently according to the economic conditions (unemployment, inflation) in the country at any given moment in time. This is indeed the chosen option for EU countries like the UK, Sweden and Denmark which, although there is no obstacle to their joining the Eurozone, prefer to keep their monetary autonomy. This will probably also end up being the option chosen (at least for a long time) by some of the countries of Central and Eastern Europe that currently remain outside the euro. The problem with this option in the Catalan case is the transition. In the current circumstances of economic weakness and heavy public and private debt, the mere thought of the creation of its own monetary system could generate expectations of the depreciation of the future currency, which would lead to a massive outflow of capital. In a more favourable future context, however, and with a meticulous preparation of the process, including the establishment of a monetary policy framework to ensure the full independence of the BC and its commitment to price stability, this transition ought to be totally feasible and have limited costs.¹⁷

Scenario No. 4: Spain's departure from the Eurozone

Though this scenario may seem unlikely today, I don't think we should completely rule out such a possibility in the coming years, if the economic situation does not improve and the unemployment rate fails to decrease or continues to increase. The departure from the Eurozone of Greece or Portugal would merely increase the likelihood of this scenario. From the standpoint of Catalonia and its currency options, Spain's departure from the Eurozone before Catalonia establishes its own State,

17. Especially if it were reinforced by institutional mechanisms ensuring sound public finances for the new State.

would create a serious dilemma, since, were Catalonia to be pulled out of the Eurozone by Spain, the difficulties and costs of re-joining it in the near future could be significant. First, because three monetary transitions would be needed, each of which would be full of uncertainties and a possible source of instability: the euro to the «new peseta», and then to the new currency set up after independence, and from the new currency back to the euro. The latter transition would begin after Catalonia's admission as a full member of the EU and, presumably, would have to follow the normal procedure for Eurozone admission, which entails compliance with the so-called «convergence criteria». To put it another way: in this scenario Catalonia would not be able to claim that it already belongs to the Eurozone with the euro as its currency, as part of extraordinary circumstances justifying a fast-track admission procedure. Faced with this dilemma, we should consider the option of constituting our own State at the same time that Spain leaves the euro, thus keeping the latter as Catalonia's official currency. In fact, in a deterioration of the Spanish economy, leading to an increase in the likelihood of its leaving the euro zone, the announcement by the Government and Parliament of Catalonia of their commitment to declare independence and to keep the euro as the official currency (should that contingency come about) could have soothing effects on the Catalan financial system, in circumstances that would certainly be very difficult.

Conclusions

For practical purposes, it is important to note that, regardless of which scenario actually comes about, the new Catalan State would need its own central bank, a Bank of Catalonia, that would have to take responsibility for banking supervision (in all scenarios) and the implementation of the ECB's monetary policy or the design and implementation of its own monetary policy (depending on the scenario). The development of an embryonic BC and the training of personnel to carry out their tasks should be among the priorities of the policy of developing «state structures» announced by the Catalan government.

Finally, I would like to reflect more generally and go beyond the monetary matters on which this article focuses. In a cooperative setting, in which neither party aims to deliberately harm the other, any initial cost

arising from the integration of a hypothetical Catalan State to Europe and the world would be negligible and, in any event, transient. We can say that it could almost be ignored when weighing the costs and benefits of independence. Discarding an armed conflict, the communications and transport infrastructure could continue to operate unchanged. Moreover, with the cooperation of all parties involved and a reasonable time scale for preparation, nothing need prevent the full continuity, at least de facto, of the current framework of economic and financial relations, and the rights and duties associated with it. This is the main argument of the article «Europe, Oh Europe» in relation to the three above-mentioned freedoms, and it also extends to monetary matters. In terms of the scenarios described above and in the face of a «fait accompli» – the establishment of Catalonia as an independent State with a clear desire to be part of the EU and the Eurozone – it seems clear that the first scenario would be in everyone's interest. Given that there is no reason to think that, for example, the third scenario would be better than the second one, for one or more of the parties involved (Catalonia, Spain or the EU), why choose the third scenario when the first two are feasible (provided the political will is there)? And since it seems clear that the first scenario would be preferable to the second one for all parties involved, why not choose it from the outset?

An uncompromising and uncooperative attitude on the part of Spain after Catalonia's declaration of independence seems difficult to imagine, as it would have important political and economic costs, and no advantage other than the (possible) satisfaction of punishing Catalonia and its citizens for having chosen freedom. Among other things, it should be clear that a hostile attitude would close the door to any negotiations in good faith on the distribution of the debt built up by the «Kingdom of Spain».

If this is indeed the case, why not make it clear then from the very start that the roadmap to be followed, if the Catalan people end up deciding that Catalonia is to become a new State, should be the one least damaging for all stakeholders?

I think there is only one answer to this question: to intimidate the Catalan population and reduce support for the pro-independence cause.

For many years and until recently, we have repeatedly heard the cry of the Spanish political establishment against the distortion that terrorism created in the political process in the Basque Country, by introducing an

element of coercion and intimidation that prevented an open debate and the expression of the interests and desires of the Basque citizens. Paradoxically, in the face of a peaceful, democratic process like the one initiated by Catalan society, the very same establishment uses all available means and acts on all possible fronts, with one aim: to deprive Catalans of the possibility freely to decide their future without unjustified coercion, threats or fears.

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4.2. In or out of the euro: certainties and uncertainties

Miquel Puig
(Translated by Miquel Strubell)

Introduction

The aim of this paper is to make a reasoned analysis of the consequences that Catalonia's independence would have on its currency, distinguishing between those that we can be reasonably confident about and those that depend on decisions about which any forecast will be basically subjective. Essentially, I think the element of discrimination is whether or not they affect non-Spanish economic interests.

Independence framework

I will suppose that the independence of Catalonia takes place in an institutional framework similar or identical to the current one, i.e., Spain is integrated in the European Union and the euro. I will further suppose that the political parties that lead this independence of Catalonia pursue maximum integration of the new country in the EU, and keeping the euro as its own currency.

In these circumstances, the analysis must be based on three determining factors:

- a) The process would affect a State – Spain – which is a member of the European Union (hereinafter, EU) and the Eurozone. We have little doubt that Spain, after the breakup, will be considered for all intents and purposes to be the same State and would thus retain all the rights and obligations of the predecessor state (HM Government 2013a). However, the population loss would entail, for example, the recalculation of the number of MPs of each member State. The seceding State, Catalonia, would be regarded as a new State which, in order to join the EU, would have to first go through a formal process of negotiation with the EU institutions (HM Government 2013a). Particularly relevant is Article 49 of the Treaty on European Union (TEU), which requires that the admission of a new State be ratified by every member State.
- b) The process would affect a State – Spain – with a public debt approaching 100% and a foreign debt also close to 100% of GDP before the split, with difficulties in refinancing them both and, therefore, subject to informal intervention by the so-called «troika» (EU, ECB and IMF). The new State would be born with a slightly higher ratio of government debt to GDP.
- c) The process would affect a country – Catalonia –, with a significant industrial base formed in large measure by multinational companies, most from EU member countries, with a strong presence of systemic banks. Whether or not these banks are based in Catalonia is only marginally relevant.

These three elements allow us to affirm that the EU institutions would closely supervise the process. Firstly, they would do so to try and safeguard the interests of member countries and, secondly, because neither Spain nor Catalonia could prevent it, as both depend on EU support to finance their respective deficits and to refinance debt.

Specifically, this supervision would have three objectives:

- a) To avoid or at least limit the interference the process might have in trade and financial flows between establishments based in Catalonia and abroad. In particular, the supervision would aim to

prevent or limit damage to the multinational companies that are based in Catalonia or depend on their supplies and their market.

- b) To ensure or maximize the chances of loans on Spanish public and private sectors being recovered.
- c) To avoid financial instability in the Eurozone.

Thus we can be reasonably confident that the independence process would be internationalised and supervised. This view, which I believe to be the only realistic one, steers us away from most of the scenarios which political analyses of independence draw, in which Spain and Catalonia would make autonomous decisions.

To veto or not to veto, that is the question

Opponents of Catalonia becoming independent tend to greatly emphasise a hypothetical Spanish (or third country) veto on Catalonia's accession to the EU. According to such views, the veto is almost certain. Other opinions question or even minimise the likelihood of veto. I have described these views in another chapter of this collection, calling them respectively «doom and gloomers» and «denialists.»

In my view, a Spanish veto is far from certain, amongst other things because independence would require a wide-ranging agreement between the two parties that would be laid down by the mediating institutions and it is conceivable that the disappearance of the veto would be on the list of mutual compensations.

If the veto did not materialize, in the opinion of Graham Avery, both formal independence and EU accession would be likely to take place simultaneously. The agreement on the ownership of assets and liabilities, transfers of personnel and powers and a thousand other matters that would have to be thrashed out in a detailed agreement between Spain and Catalonia would require more time than the actual decision to join the EU because, to paraphrase Avery, the Catalans would have been EU citizens for nearly thirty years, because for political and practical reasons they could not be asked to leave the EU and then ask for readmission, and because Catalonia already applies EU legislation, which is the main stumbling-block in the accession process. In this regard, statements often

made by opponents of independence that the accession of Catalonia will take years or even decades (because that is what accession processes have historically taken) do not stand up to scrutiny.

As for the euro, in this scenario we must remember that the EU requires new members to adopt this currency. Thus, we can conclude that in the absence of a Spanish (or other) veto, in all likelihood the independent Catalonia would be a member of the EU and the Eurozone from the first minute of its existence.

Let us now consider what would happen were Spain to veto Catalonia's accession to the EU. Though this possibility does not seem certain, it does seem very likely to me. Firstly, because Article 49 TEU would undoubtedly allow Spain to exercise it and, secondly, because this veto may be the psychological mechanism Spanish public opinion would need to accept that its government sign an agreement on independence. Thirdly because, (as we will see), this veto could prove to be acceptable both to the mediating organisations and to the new State without too many problems.

In this case, Catalonia would be born outside the EU and accession would be delayed indefinitely. However, the mediating institutions would impose a solution that would guarantee its three aims explained above. This would require the following:

- An agreement between Catalonia and the EU to guarantee the free movement of goods, capital and people. This treaty would be necessary to safeguard the interests of multinational companies in Catalonia, particularly large industrial and banking firms, and would operate from the first day of independence. This agreement would include the entry of Catalonia into the Schengen area for practical reasons.
- A monetary union agreement between Catalonia and the EU to guarantee and regulate the continuity of the circulation of the euro in the territory and to allow the macroeconomic and financial monitoring of Catalonia by EU Community institutions.
- An agreement between Catalonia and Spain – the independence agreement –, which would determine the distribution of the assets and liabilities of Spain in order to maximize the probability of creditors recovering their loans.

Let me make a short comment on the first and third agreements before dwelling on the second, which is the core of this paper.

The agreement on free movement of goods, capital and people is essential to prevent Catalonia's departure from the EU having a negative impact on multinational firms operating in Catalonia. In my opinion, the economic interests of these companies are the most important at stake, so these would become the real interests of the European countries, with Germany at the helm, without ruling out the role of the big Spanish banks in modulating the decisions of the EU institutions, and ultimately those of Spain itself.

Spain's position as regards this agreement between Catalonia and the EU would most probably be ambiguous. On the one hand, the major Spanish companies would press for it, because, for them, the alternative would be at least as catastrophic, if not more, than for the multinationals from the rest of the EU operating in Catalonia. On the other hand, the Spanish State might want to demonstrate an uncompromising attitude for the benefit of Spanish public opinion. In spite of this, the result would be clear, as the agreement would be taken by a qualified majority (TFEU, Art. 207) and is not therefore subject to a Spanish veto.

As for the agreement to share the liabilities of the predecessor Spain, I don't think we can doubt that, despite its bilateral nature, it would be determined by maximizing the likelihood of recovery by creditors. This would, of course, be the point of view of the mediating organisations. As for Spain, it would agree with that position, since the disappearance of Catalonia's fiscal deficit would mean that the new country would be in a better kick-off position than Spain. As for the representatives of the Catalan State prior to its proclamation, I fear they would not have much leeway.

Three criteria are often mentioned for allocating Spanish debt: GDP, population and the historical weight of Spanish investments in Catalonia (Bosch, 2013). Following the reasoning above, the criterion used would certainly be the most burdensome for Catalonia, which is the first one.

Monetary union

Now let us consider the impact on the relationship between Catalonia and the euro in the scenario of independence with a veto on EU membership.

Following the British government's analysis for the Scottish case (HM Government, 2013b), the alternatives facing Catalonia would be:

- To continue to use the euro unilaterally without an agreement with the EU («euroisation»).
- To continue to use the euro thanks to an agreement with the EU (“monetary union agreement”).
- To set up a new currency.

The first alternative has been examined by authors both favourable and opposed to independence (e.g., Wilson 2012, Polo 2012). Although both the EU and the new State would favour Catalonia continuing to use the euro, this solution would not be at all optimal for either of the two sides. From a Catalan perspective, the new State would find it difficult to convince financial markets of its ability to maintain the currency since, in principle, the monetary basis would be determined by the balance of payments. From the standpoint of the EU, doubts about Catalan solvency could jeopardize the stability of the euro, bearing in mind its industrial importance and the presence of systemic banks. Finally, concerns about the stability of this solution would lead to uncertainty in the forecasts of multinationals with interests in Catalonia. For these reasons, both sides would prefer the permanence of the euro to be in the context of a monetary union agreement.

There is little to say about the third option, which is the worst for multinational firms with interests in Catalonia. Although it offers obvious advantages in the form of monetary autonomy and the ability to devalue, it is not to be found on the independence agenda, it would go against the interests of the multinationals in Catalonia and it would distance Catalonia's membership, since the adoption of the euro is a condition for EU accession.

In my opinion, giving up the euro, both by the new State and by Spain (the latter is a possibility that cannot be ruled out) makes sense only as a complement of the restructuring of foreign debt. From this point of view, it goes without saying that, whether or not Spain leaves the euro, organisations mediating the process of Catalan independence would force this new State to stay in the euro. I think that we cannot completely rule out a scenario in which the new State keeping the euro, along with the debt inherited from Spain, is the price of independence, in the

context of a Spain that leaves the first and restructures the second.

Be that as it may, there is no alternative to monetary union. In practice, this would be an agreement dictated by the EU, that the new State would sign (once again without much leeway), that would be approved by a qualified majority, that Spain would accept with the same ambiguity as we have described above, and that would begin to operate simultaneously with independence. In accordance with the objectives of the EU explained above, the terms of the agreement would establish mechanisms that would guarantee in their eyes that the new State would not become a source of instability for the Eurozone and would maximise the probability of recovering the foreign loans that the new State took responsibility for. Essentially, these mechanisms can be summarized as follows:

- Supervision and control over the new country's fiscal policy, with the main aim of eliminating deficit.
- Supervision and monitoring of the financial system. In practice, it is hoped that the systemic banks («La Caixa» and Sabadell) would come under the direct supervision of the ECB and that the new country's supervision of all other financial institutions would be strictly supervised by EU institutions.

In short, monetary union agreement between the EU and the new State would become a mechanism for permanent supervision of the former over the latter. Catalonia would therefore change from being an Autonomous Region of Spain belonging to the EU to being an independent country protected by it, and without real autonomy with regard to macroeconomic and financial policy. I suspect that this limitation would not unduly concern the Catalans; in fact, quite the opposite. In contrast, Spanish public opinion could interpret this solution as a humiliation of the new State. This dual property is what I think makes it very likely.

Conclusions

Contrary to what is often argued, the Catalan independence process would be a process supervised by the EU, which would dictate, in practice, the fundamental terms of the agreement.

In any case, we can only expect that the free movement of goods, people and capital between the new State and the EU would be kept without a break, because this would be, in essence, the aim of the EU institutions, most member States and multinational firms with interests in Catalonia.

For the same reason, we can only expect that the new State would continue to use the euro and Catalan banks would continue to have access to financing by the ECB.

The distribution of Spain's public liabilities would be implemented so as to maximize the chances of loans being recovered.

The basic uncertainty in the process consists of the Spanish veto (or that of a third country). In the absence of a veto the accession of the new EU State could coincide with the formal adoption of independence. In the event of a veto, the new State would stay outside the EU indefinitely and would become associated with the EU through one or more agreements which, de facto, would mean the EU would impose policies on the new State.

The differences between the two scenarios are basically aesthetic. In both cases, the new State would be partially supervised by EU institutions. Should the new State join the EU, it would be represented in the governing bodies (Parliament, the governing council of the ECB and the European Council); whereas it would not in the case of association. The fact that association would be regarded as a humiliation for the new State, without affecting in the least the economic and financial interests at stake, is what makes it a very likely scenario.

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5

The financial system of an independent Catalonia.

**Anton Gasol and Xavier Segura
(Translated by Jana Graham)**

*Besides the desirable “legal” way, there are other
“legitimate” options for exercising the right of self-
determination. The Catalan question has numerous
European dimensions. The EU and its member States may
reach a point where they view a negotiated separation as
preferable to a state of permanent instability.*

KAI-OLAF LANG, HEAD OF RESEARCH AT THE
GERMAN INSTITUTE FOR INTERNATIONAL AND
SECURITY AFFAIRS

Introduction

The prospect of the majority of the people of Catalonia deciding to govern themselves in full freedom and sovereignty requires the appropriate State structures to be set up. These include the institutions, tools and markets whose prime purpose is to put economic agents interested in lending or investing capital in contact with those who need capital (companies, families, and the public sector) in order to start up new businesses or expand existing ones, acquire assets or issue securities. This task of in-

termination, which is performed by the set of institutions that make up the financial system, is considered fundamental to the transformation of the primary securities issued by institutional investors into indirect financial assets, which are better suited to the preferences of savers, and to guaranteeing payment mechanisms in the economy by means of efficient management (Maroto, 1994).

The financial system of a Catalan State must include the financial tools or assets, the institutions or intermediaries, and the financial markets themselves. The greater the flow of savings that are generated and channelled into productive investment and the more closely such investment matches individual preferences, the greater the efficiency of the transfer process will be.

When a new State is formed by the separation of a nation that aspires to sovereignty from the State to which it belonged, it is difficult to engage in serious discussion about the new State's financial system without taking into account both the economic, financial, institutional, and regulatory context of the parent State and the economic and financial potential of the new one. Other factors that cannot be overlooked are existing financial aid programmes and their implications, and the architecture of financial regulation. With this in mind it is important to bear in mind the assets of both communities and the procedure for sharing out assets and liabilities. This is a key factor for, if the process is carried out with common sense and in a just and balanced way, as is desirable, it can also facilitate recognition by all international authorities, notably the executive organs of the EU (European Union). On the basis of this assumption, the goal of formalising the financial system of the new State, with its own functional structure, its constituent institutions and the markets which enable it to operate, seems, not only feasible, but relatively easy to attain.

It should be stressed, however, that the effective and rational viability of the hypothetical segregation of the Catalan financial system from the system that currently provides its framework of reference – the Spanish system as a whole – is closely linked to the context in which that segregation is carried out, the manifest willingness of both parties to cooperate being crucial.

We should avoid thinking that this last premise is overly naïve and unrealistic. On the contrary, it seems legitimate – even though Cipolla (1988) has made us aware that stupid behaviour (defined as behaviour which

harms both parties involved) is much more likely than we usually think possible – to be confident that such will not be the case here because the evidence that any scenario other than agreement would inevitably be detrimental to both parties is sufficiently clear to avert the sort of stupidity the brilliant Italian economic historian defined in such a masterly fashion.

Another premise that must be established from the start in any discussion of the possible creation of a new State of Catalonia, seen from the viewpoint of the financial system, is that Catalonia would continue to form part of the EU.

Thus the contents of the memorandum about the procedure and conditions for Scotland remaining in the European Union, which Graham Avery, a distinguished academic and leading expert on Community themes, drew up at the request of the British parliament¹⁸, would be equally relevant to Catalonia. The memorandum, in a nutshell, stated in very objective terms that arrangements for Scotland's EU membership should be in place simultaneously with its declaration of independence. Negotiations on the terms of membership would take place in the period between the referendum and the planned date of independence. The EU would adopt a simplified procedure for the negotiations, not the traditional procedure followed for the accession of non-member countries. One of the arguments is that Scotland – like Catalonia – has been a member of the EU for decades and its citizens have acquired rights as European citizens.¹⁹ For practical and political reasons, moreover, it would not be logical for them to be expelled and then apply straight away for re-admission.

Another condition, besides remaining in the EU, seems vital to assuring the feasibility of the financial system of an independent Catalonia, and that is continued membership of the European Monetary Union. This means that not only must the euro be the currency of the new Catalan State but Catalonia must stay in the Eurozone.

18. HC 643 *The foreign policy implications of and for a separate Scotland*, session 2012-13, 17 October: <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmfaff/writev/643/m05.htm>

19. Sagarra, E. (2013) subscribes to this theory and says that Catalan nationals, by virtue of the nationality of Spanish origin which they already possessed, will enable them to “maintain everywhere the full status of citizens of the European Union”, “with all their rights and responsibilities, within and outside of the EU”.

The Catalan financial system

The Catalan financial system will not be unconnected to the international context or, especially, the European context, particularly with regard to regulation and supervision, because it will be influenced by the international and European norms and principles that govern the operation of national financial systems. Indeed we should ask ourselves, first and foremost, whether it makes sense, in a European perspective, to refer to the Catalan financial system, or any other system, as sufficiently well-defined in its own right since it will lack a currency of its own, and this is one of the salient distinguishing marks of any financial system.

The fact that a European banking union, involving the creation of a single supervisory authority, a single resolution mechanism and a single deposit guarantee scheme, is being set up makes it clear that the concept of a “national financial system” is on the road to obsolescence, even if progress is slower than one might wish. This being so, it is also obvious, with a view to the future, that there is little point in envisaging potential conflicts over sovereignty between the hypothetical new Catalan State and Spain, especially if we assume, as we do throughout this article, that both will remain in the European Union and the Economic and Monetary Union, which is where, at the end of the day, effective sovereignty over the joint European financial system will reside.

Against this background, national central banks, who lost much of their influence and importance when monetary policy was transferred to the European Central Bank (ECB), will experience a further decline in a relatively short time with the disappearance of their other major historical function: supervision.

Structures, institutions and markets

Even in this new, ECB-dominated scenario, one of the State structures to be adopted by Catalonia is a Catalan central bank (Banc de Catalunya), which will have to belong to the ESCB (European System of Central Banks), the system through which the ECB carries out its functions. Though in a not too distant future these functions will extend to supervision, they have focused until now chiefly on monetary policy and have

consisted basically of defining and implementing the monetary policy of the Eurozone with the prime aim of keeping prices stable throughout the zone, carrying out foreign exchange transactions, promoting the smooth operation of the payments system in the Eurozone, and issuing legal tender.

So, just as the Bank of Spain is currently part of this system, so a future Catalan central bank would have to belong to it too. At the time of its creation, the latter should benefit as far as possible from the know-how built up by the Bank of Spain as a member of the ECSB. It also goes without saying that, in order to perform its role, it would need to be able to draw on whatever proportion of the resources currently at the disposal of the Bank of Spain is stipulated in the secession agreement.

It would also be good thing – and this is valid for all new Catalan state structures – to take advantage of the creation of a State *ex novo* to set up the most modern, streamlined and efficient structures possible and to avoid the error of replicating, albeit on a smaller scale, the structures of parent institutions.

Obviously, just as the Bank of Spain currently exercises control over Spanish depository institutions – banks, savings banks, credit unions, loan companies and the Instituto de Crédito Oficial (ICO, Official Credit Institute) –, the new Catalan central bank would have to do the same, supervising the equivalent bodies with headquarters in Catalonia until such time as supervision at European Central Bank level becomes a reality. The location of the headquarters should be the criterion for assigning financial institutions to their respective States, though the flows generated by the financial system are so complex that it would initially be hard to establish a clear and unequivocal link between financial institutions and States.

One of the circumstances that make it difficult to establish this link is the fact that all financial activity in a given territory is not, of course, generated by financial institutions that have their headquarters there. It is equally clear that the activity generated by financial institutions with headquarters in a particular State, country or region usually extends far beyond the territory in question. Typical examples are the leading bank in the Spanish financial system, Santander, which manages a greater volume of assets outside Spain than inside, and the top-ranking Catalan bank, CaixaBank, which also does more business outside Catalonia than within it.

Financial institutions with headquarters*²⁰ in Catalonia: banks, savings banks and credit unions

In Catalonia, savings banks (caixes) have played a much more important role in the past than the country's banks proper. In recent years, however, a radical change has been sparked off by the crisis in the financial system and has led, on the one hand, to the conversion of savings banks into banks and, on the other, to the disappearance of many others which have been absorbed by banking groups with headquarters outside Catalonia.

In this respect it is enlightening to take a brief look at how the map of the Catalan financial system has changed in recent years in terms of the financial institutions which have their headquarters there.

A summary will be found in Table 1 of the situation of Catalan financial institutions at the end of 2009.

In the following paragraphs we outline the most notable changes in the configuration of the Catalan financial system from 2009 to the present.

– Catalunya Banc

- Merger of Caixa Catalunya, Caixa Tarragona and Caixa Manresa (March 2010)
- 12,052 million euros in government bailouts
- 66% of the capital owned by the FROB (Fondo de Reestructuración Ordenada Bancaria – Fund for Orderly Bank Restructuring) (December 2012)
- 32.4% of the capital owned by the FGDEC (Fondo de Garantía de Depósitos de Entidades de Crédito – Deposit Guarantee Fund of Credit Institutions) arising from the liquidation proposal made to the holders of hybrids.
- 1.2% of the capital owned by holders of hybrids who did not accept the liquidation proposal.
- 0.45% of the capital in the bank's own treasury shares

20. Translator's note: the word «headquarters», as used in this article, can refer to the international head office or, in some cases, to the head office for Spain.

SAVINGS BANKS	Total assets (in millions of euros)	Employees	Offices
Caixa d'Estalvis i Pensions de Barcelona	252,759	25,689	5,318
Caixa d'Estalvis de Catalunya	61,888	6,537	1,155
Caixa d'Estalvis del Penedès	22,817	2,824	633
Caixa d'Estalvis de Sabadell	13,308	1,817	359
Caixa d'Estalvis de Terrassa	12,516	1,447	286
Caixa d'Estalvis de Tarragona	10,890	1,412	302
Caixa d'Estalvis Laietana	8,911	1,083	264
Caixa d'Estalvis de Girona	7,802	1,104	229
Caixa d'Estalvis de Manresa	6,551	813	149
Caixa d'Estalvis de Manlleu	2,638	492	101
Total Catalan Savings Banks	400,080	43,218	8,796

BANKS	Total assets (in millions of euros)	Employees	Offices
Banc Sabadell	81,583	9,466	1,180
Deutsche Bank, SAE	16,103	2,538	250
General Electric Capital Bank	2,299	478	9
Banc de la Petita i Mitjana Empresa	687	232	22
Fibanc	514	199	4
Microbank de la Caixa	245	12	1
Privat Bank	99	56	3
Total banks with headquarters in Catalonia	101,530	12,981	1,469

CREDIT UNIONS	Total assets (in millions of euros)	Employees	Offices
Caixa de Crèdit d'Enginyers	1,773	272	14
Caixa d'Arquitectes	949	177	28
Caixa Rural de Guissona	327	21	3
Caixa Rural «Sant Fortunat» de Castellldans	9	4	1
Total Credit Unions with headquarters in Catalonia	3,058	474	46

Sources: CECA, AEB and UNNAC*

Table 1. Financial institutions with headquarters in Catalonia 31/12/2009

*. Translator's note: CECA: Spanish Confederation of Savings Banks; AEB: Spanish Banking Association; UNNAC: National Union of Credit Cooperatives.

- The bank was put up for auction twice, unsuccessfully; a third auction is expected to be held in November 2013
- **CaixaBank**
 - Took over Caixa Girona (November 2010)
 - Acquired Bankpyme (September 2011)
 - Acquired Grupo Banca Cívica (March 2012)
 - Banco de Valencia was adjudicated to it by the FROB (December 2012)
 - The banks that have become part of CaixaBank have received 5,498 million euros in government bailouts.
- **Banc Sabadell**
 - Acquired 100% of Banco Guipuzcoano (2010)
 - CAM (Caixa de Ahorro del Mediterráneo) was adjudicated to it by the FROB (December 2011)
 - In April 2013 won the auction for Banco Gallego, which was also owned by the FROB.
 - Components of the Banc Sabadell group have received 5,494 million euros in government bailouts.
- **Caixa Sabadell, Caixa Terrassa and Caixa Manlleu** merged to form UNNIM in March 2010. Later the FROB acquired 100% of the capital of UNNIM, which was adjudicated to BBVA (Banco Bilbao Vizcaya Argentaria) in March 2012. This process required 953 million euros in government money.
- **Caixa Penedès** merged with Caja Murcia, Sa Nostra and Caja Granada in June 2010 to form Banco Mare Nostrum. The new bank has received 1,645 million euros in bailouts and 65% of its capital is currently controlled by the FROB.
- **Caixa Laietana** merged with Caja Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Roja and Caja Insular de Canarias in June 2010 to create BFA (Banco Financero y de Ahorros), which controls 100% of Bankia. Bankia has received 22,424 million euros in bailouts and 68% of its capital is controlled by the FROB.

As far as Catalan credit unions are concerned, the only change to report during this period is that the Caixa Rural Sant Fortunat de Castellans

became part of the newly created Caja Rural de Burgos, Fuentepelayo, Segovia and Castellans, with headquarters in Segovia.

All these movements have drastically changed the composition of the Catalan financial system, as can be seen in Table 2, which shows the position at the end of 2012.

BANCS	Total assets (in millions of euros)	Employees	Offices
Caixabank	348,294	31,355	6,215
Banc Sabadell	157,841	14,291	1,857
Catalunya Banc	74,104	6,684	1,163
Banco Mediolanum	1,302	197	3
General Electric Capital Bank	949	287	-
Nuevo Microbank	419	14	1
Privat Bank Degroof	118	48	3
Total banks with headquarters in Catalonia	583,027	52,876	9,242

CREDIT UNIONS	Total assets (in millions of)	Employees	Offices
Caixa de Crèdit d'Enginyers	2,211	306	15
Caixa d'Arquitectes	1,291	165	26
Caixa Rural de Guissona	427	26	4
Total Credit Unions with headquarters in Catalonia.	3,929	497	45

Sources: CECA, AEB and UNNAC.

Table 2. Financial institutions with headquarters in Catalonia 31/12/2012

If we consider all financial institutions with headquarters in Catalonia together – banks, savings banks and credit unions –, the evolution of the last three years reveals that the system at the end of 2009, which comprised 21 institutions (10 savings banks, 7 banks and 4 Credit Unions) with assets of 504,668 million euros, 56,673 employees and 10,311 offices, had been replaced, by the end of 2012, by a new system formed by 10 institutions (7 banks and 3 Credit Unions), with assets of 586,956 million euros, 53,373 employees and 9,287 offices. In other words, the number of institutions had more than halved since the end of 2009, assets

had risen by 16.3%, staff had been cut by 5.8%, and the number of offices by 10%. Even so, the restructuring of financial institutions with headquarters in Catalonia is not yet complete, the most significant unknown factor being the future of Catalunya Banc.

Other financial institutions in Catalonia

Besides the depository institutions just mentioned, there are other credit institutions in Catalonia which are under the supervision of the Spanish Central Bank, such as loan companies or official credit institutions. Under the latter heading falls the Spanish Instituto de Crédito Oficial and in Catalonia the ICF (Institut Català de Finances). In the case of Catalonia's hypothetical secession from Spain, the ICF would become the representative body of the new State's official bank.

But another whole series of institutions and bodies, apart from credit institutions, are also part of the financial system of any developed country. These include collective investment institutions, institutions related to the stock market and securities, insurance companies and other financial intermediaries. Thus when designing the structures necessary for the creation of a new State, provision must be made for setting up government bodies to supervise the activities of such intermediaries.

The organisation that oversees collective investment institutions and matters to do with the stock exchange and securities at Spanish level is the CNMV (Comisión Nacional del Mercado de Valores - National Stock Market Commission). An analogous body would have to be set up in Catalonia. Given that there is no organisation with sufficient scope to form the basis for the creation of a Catalan stock market commission, it would be sensible to do this by applying criteria equivalent to those proposed for the creation of a Catalan national bank, in other words, to draw on the structures, resources and experience of the CNMV in stock market supervision when it comes to dealing with the portion allocated to Catalonia under the secession agreements.

The same does not apply to insurance companies – supervised in Spain by the Dirección General de Seguros (General Directorate of Insurance) – and other financial intermediaries – controlled in Spain by the Dirección General del Tesoro y Política Financera (General Directorate of

the Treasury and Financial Policy) – because in this field Catalonia’s Ministry of the Economy and Knowledge already includes a Direcció General de Política Financera, Assegurances i Tresor (General Directorate of Financial Policy, Insurance and the Treasury) which would provide the basis for the new State structures to cover this need.

Furthermore, Barcelona already has a stock exchange, the Borsa de Barcelona, with a tradition dating back to the Middle Ages. Today, as part of the BME group (Bolsas y Mercados Españoles – Spanish Stock Exchanges and Markets), it plays a key role thanks to its electronic trading capability and real-time access to all world markets. The Borsa de Barcelona will be a very important asset when it comes to endowing a future Catalan State with the necessary financial structures because it will guarantee that Catalonia is present in, and permanently connected to, the totally globalised security markets.

Conclusions

All is possible in life but not all is feasible. It is perfectly legitimate for a nation to aspire to full sovereignty over all the aspects of State power (legislative, executive, judiciary and defence) and, of course, over economic power as well (economic, fiscal, monetary and financial policy). In democratic societies, power is vested in institutions which alone possess the *auctoritas* to wield this *potestas*. Thus institutions, which are made up of people, come to embody sovereignty. But, however strong the desire for sovereignty, the context must be taken into account, notably the restrictions affecting the nation in question, in our case Catalonia, which is affected by restrictions related to Spain, the State from which it aspires to become independent, if that is the desire of the majority of the Catalan population.

We designed this chapter with a long preamble explaining that our working hypothesis is that the State of Catalonia will remain in the European Union and the Eurozone. For this to be possible, both Catalonia and Spain must be able to face up to the situation arising from the separation with assurances of their future viability. So, if a majority of the people of Catalonia declared themselves in favour of independence, it would be necessary – in our view – for the two parties to initiate frank, open, transparent negotiations which, once concluded, would enable them to

go to Brussels and say that they had decided, by mutual agreement, to constitute two States. The just settlement arising from these negotiations is precisely what would make each State viable. Only in this way, as we see it, is it possible for Catalonia and the rest of Spain to stay in the Eurozone. The same assumptions seem essential to ensure the viability of the financial system of an independent Catalonia. This whole line of reasoning is backed up by the figures and comments in the Appendix to this chapter which is posted on the web site of the Col·legi d'Economistes de Catalunya (Catalan Association of Economists) in the section devoted to the Catalan Economy Commission.

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Appendix

This article is complemented by the Appendix posted on the website of the Catalan Association of Economists in the Catalan Economy Commission section. The contents are as follows:

- The economic-financial context: main indicators.
 - The economy and finances of Spain.
 - Government debt by subsectors.
 - Government bailout loans to banks.
- The euro system and Eurozone money market: TARGET2
- Catalonia:
 - The economy
 - The finances of the Generalitat (government of Catalonia): indebtedness and financing..
 - Sovereign *ratings* : considerations.
- Public capital stock: Spain and Catalonia.
- The European financial assistance programme for Spain: implications.
- International and European financial architecture: conditioning factors.
 - Regulation and supervision.
 - European financial architecture.
 - The banking union.

6

Structures of state and their impact on labour

Josep Pedrol

(Translated by Josep Pedrol and M. Eugènia Bentanachs)

Introduction

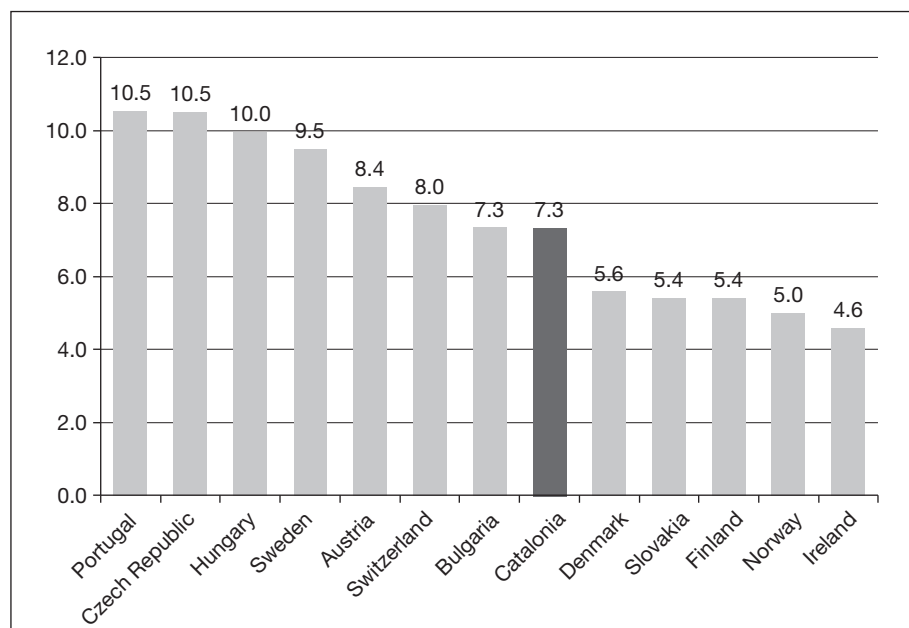
The establishment of a Catalan independent State will require structures of state, which implies an increase in the number of workers in the public sector. The amount of increase will depend on many variables. Some are known, such as the initial situation of the personnel of the Generalitat (Government of Catalonia), and others will not be known until the political structure of the new independent State is defined.

The purpose of this chapter is to estimate the increase of labour in the public sector. The first section compares the size of the Catalan public sector with European countries of similar population and per capita income within the context of Spain.

The second section analyses the jobs of a future Catalan State Administration within the current Spanish context and the structure of the Generalitat. It gauges the number of workers that the Catalan Government will need to deal with the new situation of an Independent State within the context of Europe.

The Catalan Public Sector in the European and Spanish context

Studying a future Catalan State is very difficult, because we are analysing a new situation, which is not comparable to Catalonia as part of Spain. Points of reference are needed and the most suitable would seem to be European countries of similar dimensions. In the European Economic Region there are 12 countries with a total population between 4 and 10 million inhabitants (see figure 1).

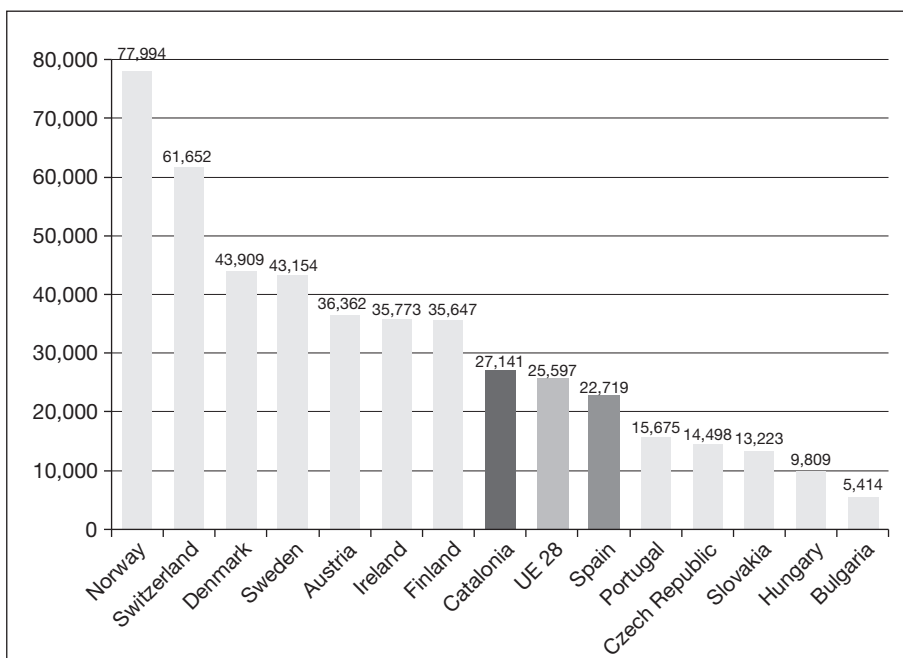


Source: EUROSTAT 2012

Figure 1. Population of countries in the European Economic Region with between 4 and 10 million inhabitants (data in millions of inhabitants in 2012)

Comparing the per capita GDP of these countries (figure 2) Catalonia is slightly above Spain and the European Union average and well above a group of five countries with a considerably lower per capita income.

It is said that a small country has very high costs for structures of state which could throw doubt on its viability. This hypothesis is based on the fact that, in a small country, the cost of public sector workers



Source: EUROSTAT 2012.

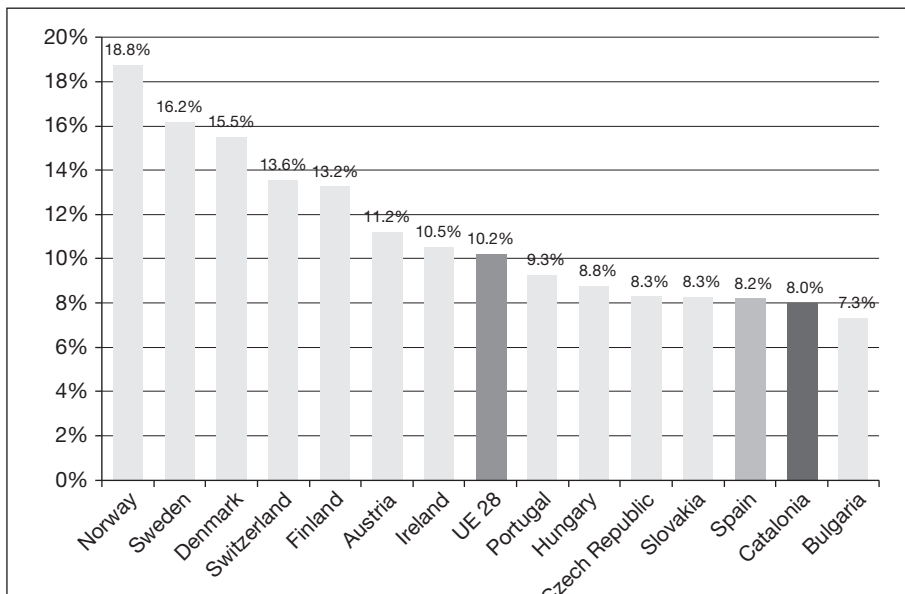
Figure 2. GDP per capita of the European Economic Region countries with a population between 4 and 10 million inhabitants (year 2012)

would be higher than the amount that can be afforded by the wealth generated

by the country, so that cuts elsewhere would be necessary, meaning that the country could not be fully developed as independent State.

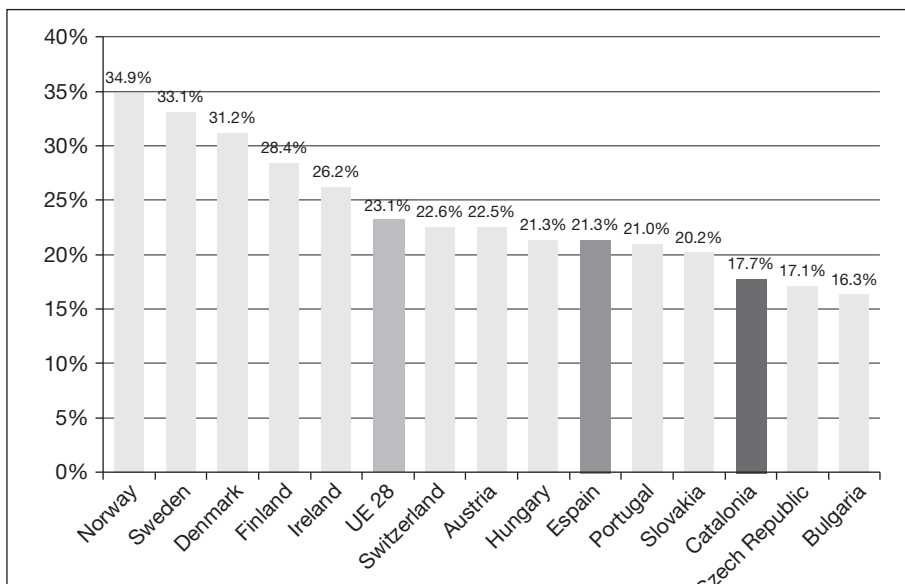
Figure 3 compares the number of workers in the public sector with the total population. This table shows the number of public sector workers, encompassing Public Administration, Education, Health and Social Services, including both public and private sectors. That is to say, for example, that a worker in a Voluntary Aided school is included as a worker in the public sector. The study shows that Catalonia has the lowest number of public sector workers after Bulgaria.

Next, that same number of public sector workers is compared again, but this time with the total number of workers of the country (see figure 4). Catalonia has the lowest proportion of public workers after Bulgaria and the Czech Republic.



Source: EUROSTAT 2012, INE 2012.

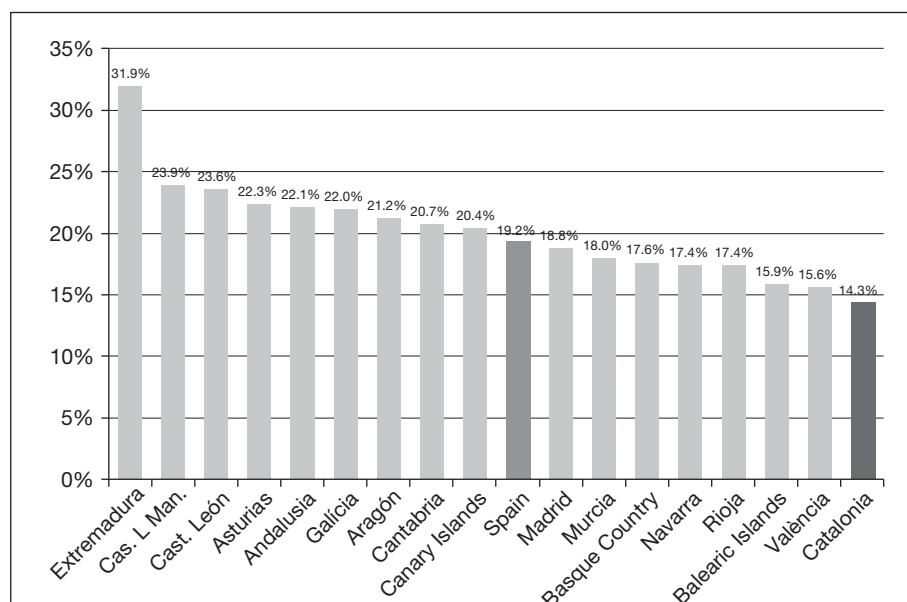
Figure 3. Public sector workers in the countries of the European Economic Region with a population between 4 and 10 million inhabitants (percentage of the total population for 2012)



Source: EUROSTAT 2012, INE 2012.

Figure 4. Public sector workers in the countries of the European Economic Region with a population between 4 and 10 million inhabitants (data from 2012 percentage of total number of workers)

Next, there is the same data in figure 5 but for Spain. Catalonia is compared with the Spanish average and that of the other Autonomous Regions, As the recent economic crisis is affecting jobs in the private sector more than in the public sector, we decided to give the average of the last 8 years, between 2005 & 2012. Catalonia is in the last position for public employees, with a percentage of 14.3%, well below the Spanish average of 19.2%.

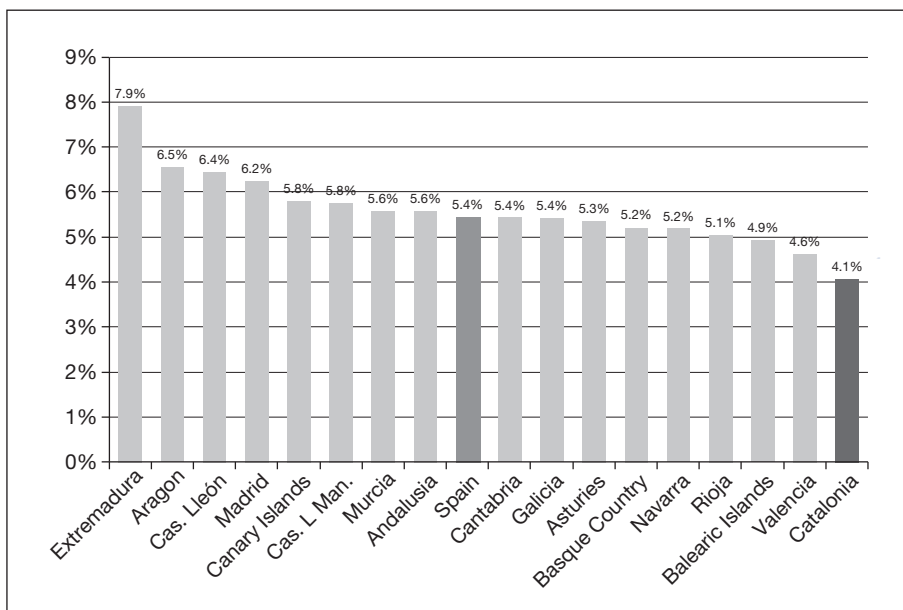


Source: Self-development from yearly INE-EPA 2005-2012.

Figure 5. Percentage of public sector employees in the Autonomous Regions and Spain in relation to the total of employees (average of years 2005-2012)

Finally, we compare the actual data of public workers in Spanish Public Administration. Figure 6 shows the percentage for Catalonia compared with the other Spanish Autonomous Regions and the Spanish average. We know this data²¹ exactly, because it is published bi-annually by the Central Register of Personnel of the Ministry of Finance and Public Administration.

21. Note that data in figures 6 and 3 are different because the latter reflects the number of employees in the whole public sector, which includes Public Administration, Education, Healthcare, and Social Services, both public and private.



Source: Personnel Central Register, 2012, INE 2012.

Figure 6. Spanish public administration employees (state, regional, local and universities) in relation to the total population (percentage of total of population for year 2012)

Catalonia is the Autonomous Region with the lowest proportion of public workers, followed by Valencia and the Balearic Islands. It should be noted that these are the three regions of the Mediterranean Arc that also suffer a high fiscal deficit.

It is a fact that Catalonia has a low provision of public sector workers, particularly in relation to GNP, as well as low public worker salaries compared with the total employee salaries. These two data are, taking into account the mean difference, the lowest in Spain. (Pérez *et al.*, 2011).

Figure 7 shows that the number of workers in the public sector of the Autonomous Regions and those in the public sector of Local Administration is reasonably proportional to the total population of all Spanish regions except for Extremadura.

On the other hand, when analysing the proportion of workers in the Spanish Central Administration, very different data is found.

Population	Total public sector		State public sector		Autonomous Reg. public sector		Local adm. public sector		University public sector	
	Workers.	% pop	Workers.	% pop	Workers.	% pop	Workers.	% pop	Workers.	% pop
Spain	47,265,321	5.43 %	561,066	1.19 %	1,307,343	2.77 %	549,807	1.16 %	148,905	0.32 %
Andalusia	8,449,985	5.57 %	92,577	1.10 %	238,909	2.83 %	113,369	1.34 %	25,571	0.30 %
Catalonia	7,570,908	4.05 %	30,136	0.40 %	165,092	2.18 %	86,657	1.14 %	25,091	0.33 %
Madrid	6,498,560	6.25 %	167,197	2.57 %	154,530	2.38 %	55,511	0.85 %	28,760	0.44 %
Valencia	5,129,266	4.63 %	38,489	0.75 %	127,824	2.49 %	53,221	1.04 %	17,845	0.35 %
Galicia	2,781,498	5.41 %	29,092	1.05 %	87,026	3.13 %	26,725	0.96 %	7,708	0.28 %
Castilla y León	2,546,078	6.45 %	39,602	1.56 %	85,671	3.36 %	30,565	1.20 %	8,383	0.33 %
Basque country	2,193,093	5.21 %	13,072	0.60 %	67,488	3.08 %	27,469	1.25 %	6,296	0.29 %
Cast. la Mancha	2,121,888	5.75 %	19,236	0.91 %	66,790	3.15 %	32,884	1.55 %	3,163	0.15 %
Canary Islands	2,118,344	5.79 %	25,543	1.21 %	59,948	2.83 %	32,549	1.54 %	4,625	0.22 %
Murcia	1,474,449	5.57 %	17,582	1.19 %	47,028	3.19 %	12,692	0.86 %	4,851	0.33 %
Aragon	1,349,467	6.54 %	23,165	1.72 %	42,319	3.14 %	17,763	1.32 %	5,073	0.38 %
Balearic Islands	1,119,439	4.93 %	11,208	1.00 %	27,947	2.50 %	14,233	1.27 %	1,747	0.16 %
Extremadura	1,108,130	7.92 %	13,810	1.25 %	46,484	4.19 %	24,576	2.22 %	2,843	0.26 %
Asturias	1,077,360	5.34 %	10,692	0.99 %	34,744	3.22 %	9,310	0.86 %	2,823	0.26 %
Navarra	644,566	5.18 %	4,542	0.70 %	23,095	3.58 %	4,372	0.68 %	1,359	0.21 %
Cantabria	593,861	5.43 %	5,361	0.90 %	19,555	3.29 %	5,495	0.93 %	1,819	0.31 %
La Rioja	323,609	5.05 %	3,355	1.04 %	9,884	3.05 %	2,416	0.75 %	691	0.21 %
Ceuta	84,018	11.67 %	8,185	9.74 %	1,504	1.79 %	0		119	0.14 %
Melilla	80,802	12.21 %	8,222	10.18 %	1,505	1.86 %	0		138	0.17 %

Source: Central Personnel Record of Ministry of Finance and Public Administration (01/01/2013), INE (National Institute of Statistics) 2012.

Figure 7. Spanish public administration workers (state, autonomous regions, local and universities) (01/01/2013)

It is very obvious that Madrid has a much higher figure and Catalonia has a much lower figure than the other regions. This is yet more evidence that the establishment of state structures for an independent Catalonia will lead to a considerable creation of public positions in Catalonia.

We cannot end this presentation without pointing out that Catalonia has five times fewer workers in State Administration than Madrid and three times fewer than Andalusia. These, however, are not offset by the number of workers belonging to the Catalan Autonomous Region Administration, because there are still proportionally fewer workers in Catalonia than in Andalusia and in Madrid.

Catalonia has more jobs in the private sector for what are, strictly speaking, public sector activities, such as education and health, but there are also other factors that explain this situation in Catalonia. One of these is the funding model. For more than 30 years Catalonia has suffered deficiencies in the assessment of transfers of funds between the Spanish State and the Generalitat. In 1985 Ramon Trias Fargas made this clear, denouncing disloyalties of the Spanish government concerning agreements regarding the basic economic burden (Trias, 1985).

After comparing Catalonia with similar European countries and, in the context of other Spanish regions, we conclude that the Catalan public sector is small in size, that it has the strength to grow and that it should grow.

The Spanish State public sector in Catalonia and the new Catalan State

In this second part we study the jobs that the Generalitat of Catalonia would have to create to cope with having the full powers of an independent and self-sufficient State within the European context.

A prior comment is needed, as, having confirmed in the previous section that the staff of the Generalitat will increase, we also anticipate that the increase will not be very large. As of December 2012, the number of Generalitat workers was 160,925, of which 72,334 were in education and 36,867 in health. These two areas represent 68% of the Generalitat's total staff. It is very possible that independence will not entail a signifi-

cant increase either in the number of schools and teachers, or in the number of hospitals and doctors.

We cannot quantify exactly how many jobs will be created because, to do so, it would be necessary to specify the type of state structures to be created. Therefore, we will quantify the potential new jobs in terms of activity areas and show a possible range by giving a minimum value in column A and a maximum value in column B.

We have considered the total number of state workers in Spain. In Figure 7 we had a total of 561,066 workers in the Spanish State. We then added the 9,625 posted abroad, resulting in a total of 570,691 state workers, which is reflected in Column 1 of Figure 8.

From this total workforce we calculate the proportion corresponding to Catalonia. We assume that a minimum of 16% and a maximum of 19% of the Spanish workforce corresponds to Catalonia. For general public services it is suitable to use the 16% variable, as this corresponds to the Catalan population as a proportion of the Spanish total. It is desirable for the Catalan Administration to be more efficient than the Spanish Administration and, therefore, we could consider a ratio under 16%, but it is also true that a small country has fewer economies of scale. As a maximum reference figure we have used 19% because this is the percentage of Catalonia GDP of the Spanish total and so represents the reference data for the provision of services correlated with income. Otherwise, in specific sections, we have adjusted the figure based on other known data. We have compared the compatibility and complementarity of these estimated figures with the current staff of the Generalitat.

In the first two columns of Figure 8, we can see, at the top, data of state workers in the whole of Spain, and, below this, data of the Autonomous Region of Catalonia. In the third column we have the data corresponding to the staff of the Generalitat. We have focused on the staff of the Generalitat, including public bodies but excluding the staff of public companies, consortia and foundations because it is difficult to compare them on a territorial basis. At the top of the lower part of the third column, a figure of 160,925 workers appears, showing a difference of 4,167 workers compared with the figure of 165,092 appearing next to it in column 2 which corresponds to Spanish State records. We understand that this discrepancy is due to the methodological criteria used, which includes temporary workers in the Spanish data.

	Spain	Catalonia	Generalitat	Variation		Total new State	
	Data CRP		Catalonia	A (0,16)	B (0,19)	A (0,16)	B (0,19)
STATE ADMINISTRATION	570,691	30,136	0	51,043	71,596	211,968	232,521
General State Adm.	227,814	13,860	0	15,663	21,604	140,885	146,826
Ministries	120,666	12,180		3,286	6,906	19,307	22,927
Non-university teaching staff	6,897			1,104	1,310	73,438	73,644
Prisons	24,343					0	0
Social Security	29,479			4,107	4,877	4,107	4,877
National Heritage	1,381			221	262	221	262
Tax Office	26,976			4,316	5,125	4,316	5,125
State agencies	15,034	1,680		2,144	2,546	2,144	2,546
Health institutions	3,038			486	577	37,353	37,444
Security forces	147,170	6,933	0	4,000	5,500	26,015	27,515
Civil Guard	79,264			1,500	2,200	1,500	2,200
National Police	67,906			2,500	3,300	24,515	25,315
Armed Forces	124,561	1,722		18,296	29,274	18,296	29,274
Justice Adm.	24,441	2,191		5,611	6,344	19,299	20,032
Public bodies	46,705	5,430		7,473	8,874	7,473	8,874
AUT. REGIONS ADM.	1,307,343	165,092	160,925	160,925	160,925	0	0
Regional ministries	222,954	30,285	16,021	16,021	16,021		
Non-university teaching staff	527,469	71,001	72,334	72,334	72,334		
Health institutions	492,779	39,089	36,867	36,867	36,867		
Justice Adm.	37,719	7,407	13,688	13,688	13,688		
Security forces	26,422	17,310	22,015	22,015	22,015		
Total State + aut. regions	1,878,034	195,228	160,925	211,968	232,521	211,968	232,521

Source: CRP (Central Register of Personnel) of the Ministry of Finance and Public Administration. (December 2012) Generalitat de Catalunya, public employment analysis (December 2012).

**Figure 8. Workers in Spanish and Catalan public administration.
Variation forecast for Catalonia in two scenarios**

Columns 4 and 5, with the title *variation* represent the increase in the number of workers for the Generalitat expressed as a number ranging from A to B for each department. Columns 6 and 7 represent the total national staff of the new State, a total ranging between 211,968 and 232,521.

Next, we analyse in detail the increase in staff in columns 4 and 5 (Variation) of Figure 8:

- **Ministries:** the staff of government ministries would to be increased by between 3,286 to 6,906 workers. This represents all the tasks related to the structures of state that will increase slightly when assuming the full competences of a State. These are: diplomacy, state management, regulation and supervision, etc. These figures are the result of subtracting from the estimate of between 19,307 and 22,927 workers in the Spanish public sector the current 16,021 workers in the Catalan government ministries (column 3)
- **Non-university teaching staff:** the increase would be between 1,104 and 1,310 for positions needed in a new State –supervisory staff and national school staff, for instance, schools for civil servants belonging to state bodies (diplomats, etc.)..
- **Social Security:** would have between 4,107 and 4,877 workers. This includes management, the National Institute of Social Security and the Treasury of Social Security.
- **National Heritage:** between 221 and 262 people.
- **Tax Office:** would have between 4,316 and 5,125 workers, in addition to the 1,000 current workers in the Catalan Tax office, which manages its own taxes.
- **State agencies:** between 2,144 and 2,546 workers, including a national agency for research, air safety, etc...
- **Central management and supervision of health care:** accounting for about 486 and 577 workers.
- **Security forces:** it will be necessary to control the borders, for people and goods. The National Police currently undertakes immigration control, that is control of people, and the Civil Guard undertakes customs control, that is control of goods. We must also take into account the typical tasks of States with regard to security, such as police intelligence, terrorism and international relations. We estimate 4,000 to 5,500 new posts, as there are currently in Catalonia 6,933 workers for these state bodies.

- **Armed Forces:** in the form of army, National Guard or military police, needed to ensure the security of the territory, an estimated 18,296 to 29,274 people. These figures are proportionally low compared with Spain but are proportional to the size of armed forces in Europe, as stated in the annual data publication of the European Defence Agency (2011) regarding the military and civilian staff of European countries. The reference data are the minimum and maximum average that we get after concluding that army personnel is approximately 2.5 to 4 people per thousand inhabitants of the country. The armed forces staff of the following countries is: Slovakia: 20,435, Bulgaria: 37,272 Austria: 35,848, Sweden: 20,565 and Hungary: 24,633.
- **Administration of Justice:** the increase would be between 5,611 and 6,344 workers for the state structure and the increase of staff necessary to modernize and adapt the Catalan legal system to the level required for a modern democracy. The Catalan Administration includes prisons in this section. In December 2012 this amounted to 3,408 workers.
- **State public sector of public bodies and organisations:** we estimate an amount of between 7,473 and 8,874 workers. As an example of the number of staff accounted for by these bodies, the staff of the Central Bank of Spain, at the end of 2012 was 2,620 workers (Bank of Spain, 2012).
- **Total:** the previous concepts listed amount to a range of between 51,043 and 71,596 new jobs to be created by the central government of Catalonia to meet the needs of a state structure. In round figures this is between 51,000 and 71,000.

A state created in the 21st century is expected to be modern and efficient. If it is to be so in Catalonia, it is to be hoped that the increase in new jobs would be at the lower end of the proposed range.

We should keep in mind that the jobs to be created by the Generalitat are not the same thing as those to be created in the public sector. To know the latter, the number of paid off Spanish State's civil servants with permanent residence in Catalonia must be deducted from the former.

Finally, it is important to note that, given the high level of unemployment affecting Catalonia, there is no reason for any imbalances in the

Catalan labour market in order to create these new jobs in the public sector.

Conclusions

After comparing Catalonia with other European countries with similar population and per capita income, we draw the conclusion that Catalonia has a small public sector with plenty of scope for growth. If we limit the comparison to Spain, we see that in Catalonia there are considerably fewer workers in the central state structure and, therefore, the creation of a new State should imply a significant increase of civil servants in Catalonia.

Analysing the staff of the Generalitat and comparing areas of activity with the Spanish public sector, we draw the conclusion that a Catalan State Administration could create between 51,000 and 71,000 jobs. The precision of this figure depends on the type of state structures to be built.

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7

Tax revenue and public spending

Núria Bosch and Marta Espasa
(Translated by M. Eugènia Bentanachs)

Introduction

This chapter deals with the viability of public finances in an independent Catalan State. To study this matter, we have estimated, on the one hand, the public revenues that would potentially be generated if Catalonia were to become a new State and the additional expenses that would be assumed by the Generalitat (Government of Catalonia) due either to competences which are currently held by the Spanish State or the creation of Catalonia's own state structures. The main conclusion reached here is that the public finance of an independent Catalonia would be completely viable and would allow the required funding of the current welfare state.²²

Additional revenue of Catalonia as a State

The Catalan people currently pay taxes to the Spanish State, to the Generalitat and to the local governments. Taxes paid to the Spanish State return, in part, to Catalonia as public spending made directly by the Spanish central government or as funds transferred to the Generalitat, to local governments

22. The results presented here have been taken from prior studies made by the authors, specifically Bosch (2013) and Bosch and Espasa (2012).

and to the private sector. Another part of these taxes, however, never returns to Catalonia, being allocated to the funding of the Spanish State's general expenses and to solidarity with other Autonomous Regions of Spain.

In order to determine the amount of additional revenue that Catalonia would obtain if it were to become a State, it is assumed that the present tax system and fiscal pressure are maintained. On this basis, the additional revenue obtained by Catalonia would be from the taxes that the Catalans currently pay to the Spanish State, less the transfers of funds made by the Spanish State to the Generalitat and to the Catalan local governments, since such transfers would naturally cease to be made. These transfers are recorded here as a new expenditure to be assumed by the Generalitat, since it will have to cover them.

The data forming the basis of this study have been obtained from the calculation of the fiscal balance between Catalonia and the Spanish public sector in the period 2006–2009. Consequently, the additional funds that Catalonia would have obtained in these years, if it had been an independent State, have been estimated in accordance with the hypotheses of the study, as explained below.

The methodology used to estimate the additional revenue that Catalonia would obtain is based on the territorialisation of public revenue according to what is known as the flow criterion. According to this method, revenue is assigned to the territory where the economic capacity subject to taxation is located. This is the system that most clearly determines the tax revenue which is generated in Catalonia in consideration of its income, wealth or consumption, regardless of who ultimately bears the tax burden or of where the tax collection takes place, since these factors depend on how the tax administration is organised.

In accordance with this methodology, the various types of taxes have been allocated to Catalonia in the following way:

- Revenue generated by personal income tax: according to the percentage represented by the Spanish State's part of the tax-payable figure in Catalonia versus the figure for Spain's Autonomous Regions under the common system.
- Revenue generated by corporate tax: according to the amount of the gross operating surplus in Catalonia versus the figure for Spain's Autonomous Regions under the common system.

- Non-resident income tax: according to the amount collected in Catalonia versus the figure for Spain's Autonomous Regions under the common system.
- Civil servant contribution payments: according to the number of members of the civil servant mutual associations in Catalonia versus the overall figure.
- VAT: according to the indicator of final consumption estimated by INE (Spanish National Statistics Institute) for the regional allocation of VAT to Catalonia.
- Special taxes: according to the indexes prepared by INE for the regional allocation of these taxes to Catalonia.
- Tax on insurance premiums: according to the value of the premiums contracted in Catalonia versus the overall amount.
- Taxes on foreign trade and deduction and levy on sugar and iso-glucose: according to the final consumption of Catalan households versus the overall amount.
- Fees and other revenue: according to Catalonia's GDP.
- Revenue of Spanish State autonomous bodies, Spanish State agencies and other public bodies: according to Catalonia's GDP.
- Income from Social Security contributions: according to the amount collected in Catalonia versus the overall figure.
- Other revenue from Social Security: according to Catalonia's GDP.
- Operating income from public companies, including Spanish State ports and AENA (Spanish Airports and Air Navigation): the revenue from the Catalan ports has been allocated to Catalonia in this study; in the case of AENA, the revenue corresponding to the percentage of passengers at the Catalan airports has been territorialised.

Table 1 shows the additional revenue that Catalonia would obtain as an independent State according to the hypotheses of the study and the calculation method that has been applied. There is a notable drop in revenue as from 2008 due to the economic crisis: while additional revenue has been calculated to the amount of 49,270 million euros in 2006 and 53,915 million euros in 2007, this revenue fell to 46,920 million euros in 2008 and to 40,877 million euros in 2009.

	2006	2007	2008	2009
Direct taxes	17,676	20,809	15,750	11,715
Personal Income tax	9,488	11,024	9,587	6,901
Corporate tax	7,836	9,358	5,756	4,393
Non-residents income tax	275	341	317	329
Civil servant contributions	77	86	90	92
Indirect taxes	9,688	9,623	7,876	6,014
VAT	7,204	6,850	5,208	3,615
Special taxes	1,916	2,183	2,089	1,863
Tax on insurance premiums	286	290	305	304
Foreign trade	281	300	273	231
Deduction and levy on sugar and isoglucose	1	–	1	1
Fees and other revenue	738	757	1,201	2,191
Revenue from Spanish State autonomous bodies, Spanish State agencies and other bodies	224	231	250	270
Revenue from Social Security contributions	22,890	24,573	25,590	24,908
Other Social Security revenue	351	275	293	312
Public companies revenue	700	799	812	783
Subtotal	52,267	57,067	51,772	46,193
(–) Less transfers to public administrations	2,997	3,152	4,852	5,316
Total	49,270	53,915	46,920	40,877

Source: Bosch (2013) and Bosch and Espasa (2012).

Table 1. Additional revenue for Catalonia as an independent State
(data in million euros)

Additional expenses arising from Catalonia's status as a new State

If Catalonia were an independent State, the Generalitat would have to take over some competences that are currently held by the Spanish State (e.g., scholarships) or that are specific to statehood (e.g. foreign policy). This section of the study presents an approximate calculation of the increased spending which would have been entailed by the assumption of all these functions in the period 2006–2009. To calculate this amount, we used the estimates contained in the study of the fiscal balance between Catalonia and the Spanish central public sector for 2006–2009, which was prepared by the Generalitat in 2012, since these estimates provide highly detailed information on the volume and composition of the Spanish State's spending in Catalonia (e.g., the payment of pensions) and of the spending which, without being made directly in Catalan territory, could benefit the Catalans (e.g., spending

associated with foreign policy). In this calculation, it is also assumed that the current level of the Spanish State's spending and public services in Catalonia would be maintained. Obviously, an independent Catalonia would have no obligation to assume these public spending standards, but the application of this hypothesis has been considered appropriate for estimation purposes.

In the calculation of fiscal balances, the flow approach allocates expenditure to the territory in which it is materialised regardless of where the final beneficiaries of the expenditure are located. Consequently, the expense is allocated where personnel are located, where common goods and services are used, where transfers are received and where investments are made. With the flow of benefits approach, spending is allocated to the territory where the beneficiary resides, regardless of where the public service is provided or where the investment is made. In this case, it is necessary to establish hypotheses on the territorial scope of the beneficiaries and on the quantification of the benefits which they receive from the respective goods and services.

Generally, the figures provided by the flow approach have been used to calculate the additional expenses that the Generalitat would have to assume. In the case of pure public goods like defence or foreign policy, however, figures obtained by the flow of benefits method have been used.

Here, each spending programme of the Spanish State's budget is studied to determine whether the Generalitat, as the government of an independent State, would have to assume it or not and, if it has to, to what extent. It should be noted that the Generalitat would not have to assume many of the services currently provided by the Spanish State because it already has such services in place and, at the present time, there is clearly an overlapping and duplication. This is the case, for example, of the expense associated with the Spanish Instituto de la Mujer (Institute for Women) since the Institut de les Dones (Catalan Institute for Women) already exists.

Justice, defence, public safety, prisons and foreign policy are basic public services. In some of these fields, some aspects of the Spanish State's functions would have to be assumed by the Generalitat. In the case of justice, the main item in terms of volume of spending that has not already been transferred to the Generalitat is the «courts and public prosecutor» programme, in which the principal aspect is the payment of wages and salaries of staff who have not yet been transferred to the Autonomous Regions, i.e., judges, court clerks and prosecutors, among others. In this case, we have considered the additional expense for the Generalitat to be the value determined by the flow

method, that is to say, the expense made directly by the Spanish State to Catalonia for this item.

With respect to the defence service, it should be kept in mind that this is a pure public good, characterised by a joint offer and the impossibility of excluding citizens based on price. Because of these features, all citizens benefit equally regardless of where they reside and regardless of where the troops are located. Consequently, we have considered that the estimate that best reflects the cost of the defence service in Catalonia is provided by the flow of benefits criterion. Since it is assumed that the Catalan government would act similarly to the Spanish government and that the same amount of per capita funds would be allocated, the amount assigned for the defence programme of Catalonia is based on its population compared with that of Spain. This same reasoning has been applied to assign the cost of foreign policy.

Public safety and the prison system are also basic services of a State. In this respect, since prisons are a service that has already been fully transferred to the Generalitat, no additional cost needs to be allocated. Accordingly, it only remains to allocate the cost for public safety, which is the expenditure currently linked to the Police corps and to the Civil Guard. Since, in this case as well, competences in police matters have already been transferred to Catalonia, the indicator that best expresses the additional cost involved is the one obtained by applying the flow criterion, that is to say, by considering the expenditure which the Spanish State makes directly in Catalonia in this area.

A second group of spending policies, which are currently carried out by the Spanish State and which would have to be assumed by the Generalitat, are those relating to social protection and promotion. This group of expenses includes the pension programmes (for civil servants of the Spanish State, military staff, non-contributory pensions, etc.), social services and social promotion, employment promotion, access to housing and building promotion, and management and administration of the Social Security. It should be noted that for this item it has been assumed that the Generalitat takes over the commitments undertaken by the Spanish State with all these groups. Most of these programmes are structured in the form of direct transfers so the flow criterion is applied to estimate the amount of expenditure that the cost of this set of programmes would entail for the Generalitat. The additional expense is the amount of these transfers.

A third group of spending policies carried out by the State involves those linked to the production of preferred public goods and particularly the ex-

penditure made in health, education and culture. In this case it is considered that these are competences which have already been fully transferred to the Generalitat, so there is no reason to allocate the expenditure that the Spanish State currently makes in these fields and these expenses are not taken into consideration, except in two instances. Firstly, within the field of education, the programme of scholarships and student grants is considered, since it is a competence that has not yet been transferred to the Autonomous Regions and continues to be held by the Spanish State. To estimate the value of this expenditure, we consider directly the amount of the scholarships and grants that the Spanish State awards to Catalan students. The second exception involves health, a field in which the main spending programme is hospital care for the armed forces. To be consistent with the treatment given to the rest of the programmes relating to national defence, it has been considered appropriate to estimate the additional expense that this service would entail for the Generalitat in the same way that the other defence-related programmes have been estimated.

A fourth group of spending policies specific to a State and which are currently being carried out for Catalonia by the Spanish State, are those of an economic nature. Within this category there are actions relating to the various economic sectors, to infrastructures and to transport, and actions linked to research, development and innovation. In this case, the expense made directly by the Spanish State in Catalan territory, which is consequently that derived from a territorial assignment by the flow criterion, has been considered an additional expense for the Generalitat.

Lastly, there is the group of spending policies classified as general actions, which includes programmes for senior management, services of a general nature, financial and tax administration, transfers to other public administrations and public debt.

Under the heading of «senior management» there are programmes such as those involving the function of Head of the Spanish State, legislative activity, external control of the public sector, and the Function of Head of the Spanish Government, among others. No additional expense has been allocated for these programmes since the Generalitat already has in place the organisation specific to a government possessing executive, legislative and control powers. As for «services of a general nature», the programme with the largest volume of spending is the «peripheral administration of the Spanish State». Obviously, there is no reason to assess any amount for this service since, once again, the Generalitat already has its own offices throughout the Catalan ter-

ritory. The same applies to the programmes relating to «financial and tax administration». Of course, some of these services may possibly require strengthening, but they will not need to be implemented.

As for transfers to other administrations, only the transfers made by the Spanish State to the Catalan local governments should be counted as additional expenditure since there would no longer be any basis for counting the expenditure in the form of autonomous regional funding that is granted to the Generalitat. In 2009, the transfers to local governments increased substantially as a result of the «Plan E» (the «Spanish Plan for Stimulating the Economy and Employment»). In this paper, we have decided not to consider this Plan as an additional expense to be assumed by the Generalitat because of its purely conjunctural nature.

It has been considered that Catalonia should bear part of the Spanish State's public debt, entailing the assumption of an annual funding cost for the payment of interest. Specifically, part of the financial cost of the Spanish State's debt is allocated to Catalonia. This amount is calculated on the basis of the proportion of the Spanish State's expenditure in Catalonia according to the flow criterion in the period 2002–2005 versus the total annual financial cost of the debt. That is to say, it is considered that only the debt corresponding to the expenditure made directly in Catalonia in the period 2002–2005 is assumed since this interest involved is the result of an expenditure that was made in the past.

Apart from the Spanish State's expenditure, the spending incurred by other Spanish State public bodies and entities should be counted. Specifically, from the whole conglomeration of Spanish State autonomous bodies, Spanish State agencies and other public bodies, those considered necessary to structure an independent Catalan State have been taken into account. Accordingly, we have considered the expenditure made in Catalonia by AEAT (the Spanish State Tax Administration Agency) since Catalonia would require the necessary means to manage and collect taxes. These means can be equivalent to those which AEAT currently possesses in Catalonia. A similar reasoning has been applied in the case of CSIC (the Spanish National Research Council), assuming that Catalonia would continue to invest in research.

A detailed study of the group of agencies and organisations shows that more than half of its total expenditure corresponds to FEAGA (Spanish Agrarian Guarantee Fund), whose function is to distribute the EAGGF (European Agricultural Guidance and Guarantee Fund) resources among Spain's Au-

tonomous Regions. This body is not an additional cost for the Generalitat since its mission is to manage the funds of the common agricultural policy.

Apart from these bodies, there are others which operate in Catalonia as well but with a very small budget and in many cases the Generalitat already has similar bodies or entities. This would be the case, for instance, of the Institut de les Dones (Catalan Institute for Women) and the Institut Nacional d'Estadística (Catalan National Institute for Statistics), among others. Accordingly, in these cases no expenditure is assigned.²³

The third administration to be considered is Social Security and its bodies. This administration is completely centralised at present so we must consider the expenditure that the assumption of this competence would entail for the Generalitat. We have assumed that the current level of benefits and, consequently, the current level of spending would be maintained. For this reason, inasmuch as this spending is highly territorialised, the estimation of the expenditure for the Generalitat would be based on the expenditure currently made by the Social Security Administration and its bodies in Catalonia according to the flow criterion. This means basically that the current amount of economic benefits granted by the Social Security in Catalonia should be calculated.

This study also includes the public companies which are conceived to create large investment projects and which help to increase significantly the stock of public capital. In this case we have considered that the increased expenditure for the Generalitat should match the direct investments made by these companies in Catalonia.

Table 2 shows the results of the estimation made according to the aforementioned criteria. As may be seen, between 2006 and 2009 the additional expenses to be assumed by the Generalitat would have increased considerably—from 30,304 million euros in 2006 to 38,870 million euros in 2009. The main causes of the increase would have been the increased funds required by the Public Employment Service to pay out unemployment benefits and the expansive policy deployed to fight the economic crisis. Accordingly, the expenditure to be assumed varies year by year, depending on the policy of

23. It should be noted that the Spanish central administration has more than 70 autonomous bodies and that all together they represent only 5% of the Spanish central public sector's total expenditure. Consequently, the effect of not taking into consideration some of these bodies is negligible. Moreover, in most cases there is already an equivalent body in Catalonia and so at present the Catalans are merely defraying the cost of duplication.

	2006	2007	2008	2009
Spanish State expenditure policies				
Basic public services	1,957	2,147	2,245	1,651
Justice	142	104	99	82
Defence	1,225	1,328	1,406	1,332
Public safety and penal institutions	468	585	605	99
Foreign affairs	122	130	135	138
Social protection and promotion	1,081	1,166	1,153	894
Pensions	794	832	875	558
Social services and social promotion	72	104	111	101
Promotion of employment	2	2	2	0
Housing access and promotion of building	207	224	160	231
Social Security management and administration	6	4	5	4
Production of preferred public goods	116	131	155	177
Health (Armed forces hospital care)	37	40	38	38
Education (scholarships)	79	91	117	139
Culture	0	0	0	0
Economic activities	1,406	1,604	1,850	2,425
Agriculture, fishing and foodstuffs	78	62	86	144
Industry and energy	7	8	27	42
Commerce, tourism and SMEs	17	15	14	13
Transport subsidies	382	242	263	353
Infrastructures	689	980	1,147	1,387
Research, development and innovation	225	290	306	479
Other economic activities	8	7	7	7
Activities of a general nature	3,992	4,245	4,433	4,619
Senior management	0	0	0	0
Services of a general nature	0	0	0	0
Financial and tax administration	0	0	0	0
Transfers to other public administrations (local governments)	2,474	2,825	2,879	2,894
Public debt	1,518	1,420	1,554	1,725
Total Spanish State	8,551	9,294	9,836	9,701
Public bodies and entities				
AEAT (Spanish State Tax Administration Agency)	212	224	239	236
CSIC (Spanish National Research Council)	97	114	59	187
Total public bodies and entities	309	338	298	423

	2006	2007	2008	2009
Social Security and its bodies				
Gen. Treasury of Soc. Sec. and management entities	15,037	16,203	17,142	18,076
Ind. Acc. and Occup. Illnesses Mutual Funds	1,053	1,294	1,580	1,434
Public Employment Service	3,383	3,596	4,167	6,617
Salary Guarantee Fund	93	109	132	174
General Judicial Mutual Fund	8	8	9	10
Social Institute of the Armed Forces	22	22	23	24
General Mutual Fund of Spanish State Civil Servants	125	132	136	141
Total Social Security	19,721	21,364	23,189	26,476
Investment by public companies				
AENA (Spanish Airports and Air Navigation)	485	723	686	554
ACESA (Ebro Basin Water Company)	28	57	84	
AQUAMED (Mediterranean Basin Water Company)	3	1	4	17
Baix Llobregat Water Purifier Plant	41	0	0	0
GIF/ADIF (Railway Infrastructure Management Company)	905	826	930	1,134
Ports de l'Estat (Spanish State Ports)	250	162	170	147
Societat Estatal d'Infraestructures Agràries del Nord Est SA	39	20	19	12
SEITTSA (Spanish State Company for Land Transport Infrastructures)		88	150	257
Total Investment by public companies	1,723	1,848	2,016	2,205
Total additional spending	30,304	32,844	35,339	38,870

Source: Bosch (2013) and Bosch and Espasa (2012).

**Table 2. Additional expenses for Catalonia as an independent State
(in million euros)**

the Spanish State, and is based on the assumption that the same level and structure of expenditure and public services are maintained. Of course, clearly enough there is no reason why an independent Catalonia should necessarily apply these models of public expenditure.

Viability of an independent Catalonia's public finance

Having calculated the additional revenue and expenses that Catalonia would have as an independent State, we can now look at the fiscal gain that would

be obtained. Table 3 shows that the additional revenues exceed the expenditures in all the years considered. The balance (fiscal gain obtained as an independent State) varies depending on the economic situation. For instance, the gain would have been 21,071 million euros in 2007 but only 2,007 million euros in 2009 (mainly as the result of the decreased tax revenues and of the increased expenses linked to unemployment benefits and to the countercyclical measures taken by the Spanish central government).

These figures show the self-financing capacity of the Catalan government and its capability of maintaining the welfare state.

This having been said, it may be noted that to the aforementioned gain should be added the gain entailed by ceasing to contribute to the financing of the Spanish State's budgetary deficit burden. The existence of a budgetary deficit implies that the public sector gets into debt – a debt which must be repaid sooner or later through taxation. In short, a deficit today means more taxes tomorrow. If the burden of the budgetary deficit is taken into consideration on calculating the fiscal balance, it must also be considered that this burden will cease to be assumed by Catalonia on attaining independence.

Accordingly, to the gain obtained in 2008 and 2009 must be added the gain derived from not having to assume the burden of the Spanish State's budgetary deficit. This means that the fiscal gain would rise to 17,205 million and 17,625 million euros in 2008 and 2009, respectively ²⁴ (Table 3). By contrast, the Spanish central public sector's budget showed a surplus in the years 2006 and 2007.

Since there are years of prosperity and years of crisis in the period considered, the average values of the additional income and expenses and of the fiscal gain for the period 2006–2009 express the structural trend better. Catalonia as an independent State would consequently have additional revenues of about 49,000 million euros (25% of the GDP) and additional expenses of about 35,000 million euros (18% of the GDP). This represents a gain of about 14,000 million euros (7% of the GDP). If the gain obtained by ceasing to contribute to the financing of the Spanish State's budgetary deficit is added to this gain, the total gain would be over 16,000 million euros (8.5% of the GDP).

24. It should be noted that the Spanish State's budgetary deficit in 2009 totalled 8.58% of Spain's GDP, the highest figure reached in recent times.

	2006	2007	2008	2009
1. Additional revenue	49,270	53,915	46,920	40,877
2. Additional spending	30,304	32,844	35,339	38,870
3. Fiscal gain (1-2)	18,966	21,071	11,581	2,007
4. Termination of the Spanish government deficit burden (**)	-4,486	-5,249	5,624	15,618
Total fiscal gain (3+4)	14,480	15,822	17,205	17,625

Table 3a. Fiscal gain of an independent Catalonia (*) (figures in million euros)

	2006	2007	2008	2009	Average 2006- 2009	% as per GDP
1. Additional revenue	52,452	55,541	47,201	40,877	49,018	25.1
2. Additional spending	32,261	33,835	35,551	38,870	35,129	18.0
3. Fiscal gain(1-2)	20,191	21,707	11,650	2,007	13,889	7.1
4. Termination of the Spanish government deficit burden (**)	-4,776	-5,407	5,658	15,618	2,773	1.4
Total fiscal gain (3+4)	15,415	16,299	17,308	17,625	16,662	8.5

(*) From this gain it would be necessary to deduct the monetary contributions that Catalonia would have to make to the international bodies to which it were to belong, such as the EU or the IMF.

(**) The Spanish government had a surplus in 2006 and 2007. Source: Bosch (2013) and Bosch and Espasa (2012).

**Table 3b. Fiscal gain of an independent Catalonia
(*) (figures in constant million euros)**

Two last remarks are in order. Firstly, the fiscal gain that has been calculated does not match the figures for Catalonia's fiscal deficit with the Spanish State's central administration. This is due to the fact that the additional expenses which have been determined are not exactly the same as those calculated in the fiscal balance. The reason for this, as previously mentioned, is that some Spanish State expenditures have not been counted because they derive from a duplication of competences which are already exercised at present by the Generalitat.

The second remark has to do with the contributions that Catalonia would have to make to the international bodies (EU, IMF, etc.) to which it would belong. In particular, Catalonia's balance with the EU has been negative from the beginning (1986) as opposed to the positive balance maintained by the Spanish State. According to the Catalan Ministry of Economy and Knowledge, the average annual fiscal balance of Catalonia

with the EU in the period 2007–2013 was 0.72% of its GDP. This represents an annual contribution of about 1,400 million euros. Consequently, this negative balance with the EU should be deducted from the fiscal gain that would be obtained by an independent Catalonia.

It should be noted in any case that the results of this study are not substantially affected by the fact that not all these contributions are taken into consideration.

Conclusions

This paper gives an approximate analysis of Catalonia's viability as an independent State from the standpoint of its public finance. We have calculated the additional revenue that Catalonia would obtain if it did not have to pay taxes to the Spanish State, and the additional expenditure that Catalonia would have to assume due to either the expenses derived from competences currently held by the Spanish State or the brand new expenses to be assumed by Catalonia as an independent State, such as those for foreign policy.

To calculate these additional revenues and expenses, we based ourselves on the level and structure of the Spanish State's public expenses and revenues in the period 2006–2009 since it is assumed that part of these items would have to be transferred to Catalonia. For this reason, the results of this study are conditioned by these aspects.

The main conclusions to be drawn from this study are set out below:

If Catalonia had been an independent State in the period 2006–2009 and had maintained the same tax system and the same fiscal pressure as were applied by the Spanish State, the Catalan government would have collected an additional average yearly amount of 49,018 million euros.

Likewise, if Catalonia were to assume some new competences –in some cases because they are specific to statehood (such as foreign policy) and in others because they had not been previously decentralised by the Spanish State (such as the payment of pensions)–, the cost of such additional expenses in the period under consideration would have been an average yearly amount of 35,129 million euros.

Consequently, the fiscal gain of an independent Catalonia is estimated at a yearly average of 13,889 million euros, which would be equivalent to

7.1% of its GDP. This gain would be obtained while maintaining the current welfare state, that is to say, taking Social Security into consideration. Accordingly, Catalonia could maintain and even raise the level of these services.

It should be kept in mind that this fiscal gain would have a multiplier effect on the Catalan economy, since it could be used to increase public expenditure or to reduce the taxation level. The increase in public spending or the tax cuts would increase consumption and/or investment, exerting in turn a positive effect on productive capacity and creating new jobs.

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8

Debt and distribution of assets ²⁵

David Ros and Roger Fatjó
(Translated by Phillip Ortega)

Introduction

In view of the possibility that Catalonia may become a new State, it is necessary to consider how large the public debt of the Generalitat de Catalunya (Catalonia's Government) may be and what part of the Spanish State's debt should be inherited by Catalonia. Obviously enough, a knowledge of the debt situation is necessary to determine how it may affect the new Catalan State and to allow the new State to begin its existence with sufficient assurance of economic, political and institutional viability.

The debt and its foreseeable evolution are quantified in the first part of this study.

Since we are convinced that the matter under consideration should be approached in the light of International Law, we will refer here to the rules on the succession of States with respect to assets, archives and debts.

25. Acknowledgements: To Albert Pont, for clarifying for us the effectiveness of the Vienna Convention of 1983, which we have carefully studied. It provides juridical security for the approach he takes to the distribution of the Spanish State's assets in Chapter 13 of his book *Delenda est Hispania*; to Xavier Escura for his comment on the property derived from looting, theft, illegitimate compulsion, etc.; to M. Eugènia Bentanachs for the linguistic correction of this paper; and to the economists Àlex Furest and Xavier Codina for their critical comments, which have allowed this study's improvement.

More particularly, these rules will be discussed in the second part of this paper.

Debt is often studied per se without taking into consideration that the distribution of rights and obligations entails the distribution of assets. In the third part of this study we will consider various criteria for the distribution of assets according to the different types of property.

Last of all, we will take a look at the various scenarios of negotiation.

Determination of debt

Debt of the Spanish State's public sector

Net debt of the Spanish Central Administration	
2000	297,121
2001	297,685
2002	303,707
2003	302,625
2004	314,084
2005	313,704
2006	308,145
2007	300,266
2008	349,927
2009	468,356
2010	532,484
2011	605,129
2012	700,014
2013 1st Q	733,456

Source: Own work based on data from the Bank of Spain.

Table 1. Debt of the Spanish public sector 2000-2013. Net debt in financial assets of the Spanish Central Administration (data in million euros)

Two methods are commonly used to determine the debt of the Spanish public sector: the outstanding total liabilities method and the Protocol on the Excessive Deficit Procedure (EDP). The EDP is commonly used for the analysis of State deficits²⁶ and this is method that we will use in

26. The definition of debt according to the EDP is governed by Regulation (EC) No. 479/2009 of 25 May 2009, which refers to the ESA. This regulation obliges the EU Member States to send the data of this definition of debt by subsectors to the European Commission and specifically to Eurostat.

this study. The difference between the two methods lies primarily in the fact that the EDP does not include the Public Administrations' liabilities in the possession of other Administrations, the commercial loans between Administrations or other trade accounts outstanding.²⁷ Moreover, since the total sum of the State sector's debt includes the interadministrative debt (the Autonomous Regions Liquidity Fund or FLA, the supplier payments plans and the loans to the Social Security), we deduct these amounts to determine the Spanish Central Administration's net debt in financial assets²⁸ (see Table 1).

Debt of the Generalitat

The forecast on 31 December 2013 (keeping in mind that this paper was written in September of that year) may be inferred from the «Financial-Economic Plan» submitted by the Generalitat to the Spanish Ministry of Finance and Public Administrations,²⁹ which estimated that the debt could reach a figure of about 65,500 million euros. This figure will probably prove to be higher, however, as a result of the new target deficit approved by the Spanish Government. It may also be increased by the deficit and its financing (which is achieved in reality by extending the Budgets), and by a second phase of the supplier payments financing plan and other events that may occur before the close of the year (see Table 2).

Generalitat	
2008	18,070
2009	22,514
2010	31,741
2011	41,912
2012	50,045
2013*	65,500

Note: Forecast for 2013 calculated in September 2013. Source: Generalitat.

Table 2. Debt of the Generalitat³⁰

27. See the «Nota metodológica» (Methodological Note) published by the Bank of Spain in annex to the *Boletín estadístico* (Statistical Bulletin).

28. Bank of Spain. <http://www.bde.es/webbde/es/estadis/infoest/htmls/notametpde.pdf>

29. <http://www.minhap.gob.es/Documentacion/Publico/PortalVarios/Financiacion-Territorial/Autonomica/PEFCCAA/PEF%202013%20CATALU%C3%91A%202013.pdf>

30. The data include the Generalitat, ESA companies and universities.

Aside from the debt, consideration should be given to the financial commitments for future years of the Catalan Ministries of Town and Country Planning; Justice, and Education, respectively, derived from the building of public infrastructures and facilities, as well as the commitments undertaken for future years by the Catalan Health Service (CatSalut) and by the Catalan Institute for Assistance and Social Services (ICASS). Indebtedness is not considered by the EDP method but the budgetary allocation for meeting payments should be taken into account in the budgets of the respective years (see Table 3).

	Generalitat			CatSalut			ICASS		
	2014	Resta d'anualitats	T. Generalitat	2014	Resta d'anualitats	T. CatSalut	2014	Resta d'anualitats	T. ICASS
Chap. II	382,844	9,286,059	9,668,903	81,174	1,831,237	1,912,411	15,999	454,048	470,047
Chap. IV	593,323	22,958,483	23,551,806	20,126	165,238	185,364			
Chap. VI	554,149	2,126,000	2,680,149	46,233	207,946	254,179	578	1,686	2,264
Chap. VII	397,520	1,455,504	1,853,024	45,016	819,304	864,320	1,217	1,986	3,203
Chap. VIII	232,879	849,564	1,082,443	21,125	261,427	282,552			
Total			38,836,325			3,498,826			475,514

Thousand euros

Source: Own work based on the report of the Public Audit Office for Catalonia on the General Account of the Generalitat for 2010.³¹

Table 3. Expense commitments undertaken for future years

What part of the Spanish public sector's debt should rightly be inherited by the new Catalan State?

In the separation of States, the distribution of the debt has no other purpose than to assure its collection by the predecessor State's creditors. Both the new State and the predecessor State should appear before the world with sufficient financial credibility to assure their respective economic activities on a normal basis and the normal provision of services. Albert Pont has stated that International Law³² bases the distribution of

31. The Public Audit Office for Catalonia (Sindicatura de Comptes) recommends that an exhaustive study should be carried out on the situation of the expense commitments undertaken for future years. Dissenting opinion of the Board Member Jordi Pons i Novell on the General Account of 2010.

32. International Law is based on the general principles of law, customs, jurisprudence, practice and the Treaties. See the legislative annex at the end of this paper. A large

the State's property and debts on various principles of universal application such as equity, proportionality and economic capacity. It must be trusted that, because Catalonia is in Europe, the negotiation of its separation can unfold as befits two modern States subject to International Law. If no voluntary negotiation takes place between subjects with full rights, without further formality, however, the intervention of the jurisdiction provided in International Law will evidently be required.

In both cases –negotiation or the intervention of arbitrators or judges– it will be necessary to deal with the criteria for allocation of the debt. It should be determined whether the debt will be distributed according to the percentage of the population or the GDP of Catalonia, by direct allocation or by any other criterion that may be deemed appropriate. On the basis of its population, 16% of the debt would be the amount that should be taken up by Catalonia, and on the basis of the GDP, 19.8%.

The criterion of distributing the predecessor State's debts according to each territory's economic weight within the overall economy is often applied³³ and this would probably be the approach that would prevail for Catalonia.

The applicable criterion should be determined by negotiation or arbitration. Likewise, it may be considered that the criterion to be applied in the distribution of the debt will probably be the one to be applied in the distribution of assets.

The special case of Social Security

According to data from the Bank of Spain, Spanish Social Security is at once both the creditor and the debtor of the Spanish State. In the first quarter of 2013, Social Security had a debt with the State of 17,188 million euros and at the same time it was a creditor for public debt to the amount of 60,201 million euros. The balance between the Spanish State and Social Security was favourable to the latter to the amount of 43,013 million euros (see Table 4).

Since the balance is in favour of Social Security, the question of having to distribute any debt other than that of Spain's Central Administration is not considered.

part of what is said here with respect to the distribution of assets and debt is based on the model of distribution of property presented by Albert Pont in his book *Delenda est Hispania*, p. 447 et seq.

33. Albert Pont (2012:479).

Debts between the Spanish State and Social Security	
Public debt held by Social Security	60,201
Debt of Social Security with the Spanish State	17,188
Balance in favour of Social Security	43,013

Source: Own work.

Table 4. Debts between the Spanish State and Social Security

The debt of the local governments

Even though the economic situation of some local governments is complex, these Administrations are complying with the Law on Financial Stability and Sustainability and they remain within the limits set for the deficit year after year. The financial debt of the local governments would not entail any additional debt to be assumed by the new Catalan State.

Foreseeable evolution in 2013

We envisage that the debt of the Spanish State will continue to follow the same trend for the rest of 2013 as during the first part of the year and this allows us to estimate (by the adjusted EDP criterion previously described) that the debt of Spain's Central Administration for this year will be approximately 833,782 million euros.

Likewise, as mentioned above, the projection of Catalonia's debt for the same period will foreseeably be somewhat more than 65,500 million euros.

Consequently, in the best case Catalonia would be responsible for a debt of approximately 198,905 million euros, and in the worst case for a debt of about 230,589 million euros (see Table 5).

Debt on 31/12/2013*			
	Debt	By population	By GDP
Spanish State	833,782	133,405	165,089
Generalitat	65,500	65,500	65,500
		198,905	230,589

Table 5. Catalonia's debt by distribution criteria

*Note for the English edition: This table was compiled in August 2013. The real figures for 31 December 2013 were significantly lower. The authors are currently preparing a new article with

It may be asked whether the new Catalan State would be confronted with a debt equivalent to that specific to the Generalitat plus the debt derived from distributing the Spanish State's debt. The answer is no because it is not a matter of mere addition. We must analyse this issue since it involves a distribution of debts and property within the framework of the International Law regulating the separation of States, and until now we have only considered debt.

The consolidation of the debt in the broad sense of the term

In this section, to quantify the debt of Catalonia and its commitments for future years, consolidation is made of the Spanish State's debt that is attributable to Catalonia before deduction of the assets referred to in Part 3 of Table 10.

To obtain an overall view of the dimension of the debt with which the new Catalan State may be confronted, in Table 6 we consolidate the debt derived

Consolidation of the debt. Forecast on 31/12/2013			
		By population	By GDP
a	Debt of the Spanish State attributable to Catalonia	133,405	165,089
b	Determinable assets (Part 2, Table 10)	-55,585	-58,278
c	Attributable net debt of the Spanish State before deducting other assets (Part 3, Table 10) (a-b)	77,820	106,811
d	Percentage of the Spanish State's debt attributable as per Catalonia's GDP	37.46	51.41
e	Generalitat's debt as per EDP	65,500	65,500
f	Generalitat's commitments for future years* See earlier note by the authors	42,810	42,810
g	Total debt of Catalonia (including commitments for future years (e+f))	108,310	108,310
h	Percentage of the Generalitat's debt (including commitments)	52.13	52.13
i	Total debt in the broad sense (Spanish State's debt attributable before deducting other assets + Catalonia's debt + Catalonia's commitments for future years) (c+g)	186,130	215,121
	Percentage of the Generalitat's debt in the broad sense before deducting other assets to be distributed	89.59	103.54

Table 6. Consolidation of the debt

from the Spanish State, the debt already possessed by Catalonia and the commitments that the Generalitat has undertaken for future years.³⁴

The debt of the new Catalan State, in the worst scenario considered, would be 103%, which would lie in the high range of debt as per EU-27.³⁵

If the comparative criterion is strictly that of the EDP, the debt at the birth of the new Catalan State would be lower than those of Belgium, Ireland, Greece, Italy, Portugal, France and the United Kingdom.

Just as is explained further on, it should be kept in mind that we have not been able to identify and quantify an extremely large amount of assets to which Catalonia would be duly entitled in the distribution of the assets of the predecessor State. In the event in which such assets were to be quantified and distributed appropriately, Catalonia would find itself in an enviable situation since its debt would not then exceed 53% of its GDP. We should not get ahead of ourselves in drawing conclusions, however, so now we will consider the rules applicable to this matter.

The regulatory framework of the succession of States in matters of property, archives and debts

Regulatory framework

The distribution of property and debts of the State shall be agreed on by means of an international treaty. The Vienna Convention on the Law of Treaties of 1969, which is in force, is applicable. Also applicable are the General Principles of Law. Fundamental rules are the principle of good faith, the prohibition of threat and of the use of force to establish international treaties, etc. Likewise, the principle of unjust enrichment is applicable.

Negotiation will be necessary for both parties. The lack of agreement would oblige Catalonia to disregard the Spanish State's public debt insofar as agreement were not to be reached, or what is the same, the lack of agreement on the matter of debt would be the event that would, in itself, oblige negotiation.

34. Authors' Note for English edition: According to the Direcció General d'Anàlisi i Seguiment de les Finances Públiques (General Directorate for analysis and monitoring Public Finances), a large part of this extra financial debt was converted into financial debt in 2013

35. See Eurostat.

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data.

The main source of International Law that regulates this matter is the Vienna Convention of 1983 (hereafter called VC83).

VC83 has not been ratified by all the States, nor will it probably ever be, since it establishes a system which is favourable to the States attaining independence and which harms the interests of the powers in respect of the decolonisation process. VC83 is not a treaty that obliges some parties to conduct themselves in any specific way, but rather it is a general codification treaty providing rules of customary character based on international custom, which are of obligatory compliance and which assert the predominance of the will of the parties, the proportional and equitable distribution of property and debts, territoriality and the allocation of property, among other aspects.

Despite the fact that VC83 is not in force since it has not been ratified by all the States, it is the only legal instrument that provides all the rules of International Law on the distribution of property, archives and debts of the State. This Convention has gone through a very long regulation process that includes the studies of the United Nations International Law Commission as well as the observations of each of the States. It also includes the thinking of the internationalist doctrine. Accordingly, it may be used by the International Court of Justice to ground judicial decisions.

On the part of the Spanish State, some voices have questioned the effectiveness of VC83³⁶ due to the fact that it has not been ratified by all the States. As Albert Pont states, however, «... the fact that it is not in force on a point of form does not mean that some of its provisions do not have legal effects per se. All its provisions which are of customary character have legal effects by the mere fact of their being rules accepted by all the States with international practice, regardless of whether they have been codified in a text or not». «The circumstance of its not being in force does not mean that two States cannot mutually agree to apply it in a particular case for want of any other specific regulation on the matter». «Nothing prevents the States from agreeing on something else because their will comes first». «In any case, we have to consider it positively. VC83 is not in force for either Spain or Catalonia. Neither of the two can demand its compliance by the other party without

36. It is interesting to consider the various opinions of professors of constitutional law on this matter in the article «Una Cataluña independiente se quedaría con los bienes que el Estado tiene en su territorio» (An independent Catalonia would keep all the property that the Spanish State has in its territory). *El Confidencial*. 1 October 2012.

<http://www.elconfidencial.com/espana/2012/10/01/una-cataluna-independiente-se-quedaria-con-los-bienes-que-el-estado-tiene-en-su-territorio---106459>.

that party's consent. No one can prevent Catalonia from assuming the title to all the public property of the Spanish State situated in Catalonia. This is a customary rule and, consequently, it is applied directly».

A highly significant consequence derives from whether or not negotiation takes place: for as long as Spain were not to recognise the new State of Catalonia, it would not be possible to negotiate any distribution of anything and, therefore, each of the parties would assume its own debt. This would be 60,500 million euros (24.1% of the GDP) in the case of Catalonia, and 833,782 million euros in the case of Spain, according to the criterion of the Excessive Debt Protocol (99.1% of the GDP of Spain without Catalonia).

«No State debt of the predecessor State shall pass to the newly independent State»

Obviously, both the predecessor State and the successor State are objectively interested in reaching an agreement since both of them need to maintain a legal security in their international relations and in the continuity of their mercantile and financial relations.

In the debate under way at present in Catalonia, there is talk of a proportional distribution of the debt. Nevertheless, in relation to the separation of States, the assumption of debt has limitations that should be considered.

VC83 affirms categorically that «no State debt of the predecessor State shall pass to the newly independent State unless an agreement between them provides otherwise in view of the link between the State debt of the predecessor State connected with its activity in the territory to which the succession of States relates and the property, rights and interests which pass to the newly independent State.»³⁷ It would be interesting to determine which part of the debt would be specifically attributable to Catalonia by reason of territory.

Another principle that should be considered is that, according to VC83, fundamental economic equilibria of the newly independent State shall not be jeopardised.

37. Article 38.1 of the Vienna Convention of 1983.

Principles of distribution of assets

*«It is not admissible for some territories to assume all the debt while others keep all the assets of the predecessor State».*³⁸ Accordingly, in the separation treaty the aim is to study and determine the debts and property that Catalonia will assume and those which will be kept by the predecessor State.

The principles that are usually considered in such cases are those of the permanent sovereignty over economic resources; territoriality; the historical contribution; the restitution of property for reparation of looting, illegitimate compulsion or unjust enrichment; non-compensation; the criterion of reference and of author on distributing artistic or cultural legacies; the principles of reciprocity and, in particular, a fundamental principle: negotiation.

Special mention should be made of how property should be distributed according to the Vienna Convention of 1983 in its Articles 15.1 and 17.1:

«Article 15.1. When the successor State is a newly independent State:

- a) Immovable State property of the predecessor State situated in the territory to which the succession of States relates shall pass to the successor State;
- b) Immovable property, having belonged to the territory to which the succession of States relates, situated outside it and having become State property of the predecessor State during the period of dependence, shall pass to the successor State;
- c) Immovable State property of the predecessor State other than that mentioned in subparagraph (b) and situated outside the territory to which the succession of States relates, to the creation of which the dependent territory has contributed, shall pass to the successor State in proportion to the contribution of the dependent territory;
- d) Movable State property of the predecessor State connected with the activity of the predecessor State in respect of the territory to which the succession of States relates shall pass to the successor State;
- e) Movable property, having belonged to the territory to which the succession of States relates and having become State property of the predecessor State during the period of dependence, shall pass to the successor State;
- f) Movable State property of the predecessor State, other than the prop-

38. Albert Pont (2012:479).

erty mentioned in subparagraphs (d) and (e), to the creation of which the dependent territory has contributed, shall pass to the successor State in proportion to the contribution of the dependent territory.»

Disputes

At the request of either of the parties, disputes shall be settled by means of a consultation and negotiation process. If no agreement is reached on the dispute either of the parties may submit the dispute to a conciliation procedure before the United Nations Secretary-General. If no agreement is reached in this way, the dispute may be submitted to the International Court of Justice and also to arbitration, or to any other procedure for the settlement of disputes.

Some notes on the distribution of assets. Property and criteria to be considered

Property and rights to be considered

Public property: property intended for public use and service which is situated in the territory of the successor State would be assigned directly without any type of compensation to the new State (the maritime land area, the beaches, the territorial sea, the natural resources of the economic area and of the continental shelf, the air space, the radio electric space, the roads, paths, canals, rivers, torrents, ports; the buildings in which are accommodated the services, offices or appurtenances of the bodies of the State or of its autonomous agencies; and also the buildings which belong exclusively to the State and are intended for some public service or for the promotion of wealth, as would be the case of those of defence, as well as mines of which the concession has not yet been granted).

Private property or heritage property: the private property and rights or heritage property and rights of the State situated in the territory of the successor State which are not in the public domain shall be transmitted directly, without any type of compensation to the new State. This would be the case of the State-owned companies and of the rights of any nature which are derived from heritage property and rights (as in the case of airport infrastructures: AENA, Catalan airports; railway infrastructures: ADIF, RENFE; ground infrastructures; also tenancy rights, securities and titles representing shares and partnership units in the capital of mercantile companies or issued bonds, as well as futures contracts; intangible property rights; and the rights of any nature derived from the title of heritage property and rights).

Immovable property of the State concentrated in the Autonomous Region of Madrid and also in other autonomous regions: It should be considered here that the immovable property of the predecessor State situated outside the successor State, such property having been created with the contribution of the successor State within the framework of contribution through the payment of taxes or of the public debt, would pass to the successor State proportionally to its contribution. The greater part of the administrative buildings of the Spanish State are situated in the Autonomous Region of Madrid; it would be absurd for that autonomous region to be awarded the property of the State as a whole simply because the headquarters of most of the ministries and bodies of the State are located there. A similar procedure would have to apply to the public property under concession.

The valuation of the immovable property of the State might appear to be unfeasible or of immense scope. It is indeed of immense scope but it is not unfeasible. If the State were not to provide the pertinent data, information on the square metres of space of each facility is available at the Directorate General for the Cadastre, which is attached to the Spanish Ministry of Finance and Public Administrations. The price per square metre of space is determinable in the area concerned. The construction year is also available. Consequently, this item can be calculated.

Extraterritorial buildings: On the basis of the Vienna Convention of 1983, the immovable property of the predecessor State situated outside the territory will pass to the successor State proportionally to the contribution of the dependent territory; this would be the case of the diplomatic delegations, the consulates, the offices of cultural services and of tourism promotion, the headquarters of public companies and entities, the ministerial representations, the scientific bases, etc.

Property of the State and Public Treasury: The Property of the State shall be distributed between the successor States proportionally to the economic magnitude of each territory, and the Public Treasury and other public assets shall be distributed in the same way. Consideration should be given to the 10 Royal Palaces, the 13 monasteries and convents, the works of art (in this respect, priority consideration should be given to the collections and legacies of Catalan authors and those relating to Catalonia).³⁹

39. BDE. <http://www.patrimonionacional.es/getdoc/0068d179-dd0e-4ba7-8116-d970a92a5d81/Ley-23-82-consolidado.aspx>.

With respect to the Public Treasury, the data published by the Bank of Spain may be taken as a basis for consideration (see Table 7).

Bank of Spain. Public Treasury	
Reserve assets and other assets in foreign currency	approx. value in million euros
A. Reserve assets	35,633
Convertible currencies. Securities	20,884
Convertible currencies. Currency and deposits	446
Reserve position in the IMF	2,259
SDR	3,061
Monetary gold (including gold loans)	8,984
Other reserve assets	-2
B. Other assets in foreign currency	2,246
	37,879

Source: Bank of Spain. September 2013.⁴⁰

Taula 7. Reserve assets and other assets in foreign currency

Consideration should also be given to the Treasury Bonds for the purchase of quality securities of the banking system and the debt issues of ICO (the Official Credit Institute) should be studied as well.

Movable property of the State. Special mention of military material

On a general basis, the State movable property of the predecessor State, other than that which has been previously mentioned, passes to the successor States in equitable proportions.

Special mention should be made of military material, above all considering that there are unliquidated purchases which form part of the debt incurred and that these transactions are in progress.

Indeed, military material is an important expense in the State budgets. It is difficult to quantify these assets with the means at our disposal but the amount of the PEAS (Special Armament Programmes) awaiting execution is known.

At the present time there are armament programmes under way up to the year 2022 for the amount of 33,000 million euros.

40. BDE. <http://www.bde.es/webbde/es/estadis/bpagos/temple.pdf>.

Social Security Reserve Fund

On considering the debt of the Spanish State from the standpoint of the EDP, it was seen that Social Security is the State's debtor to the amount of 17,188 million euros. Consequently, if the Social Security's debt to the Spanish State is deducted from the total amount of the Social Security Reserve Fund, 62,862 million euros⁴¹ (and it should be recalled that 97% of the Fund is invested in Spanish public debt at 3, 5 and 10 or more years), the mathematically distributable remainder would be 45,674 million euros. In this case we consider that the historical contribution criterion should be applied. In the last 12 years, Catalonia's historical contribution has been 74%. We have calculated this percentage on the basis of the «Informe sobre les aportacions de Catalunya a la Seguretat Social» (Report on Catalonia's contributions to Social Security) prepared by the Generalitat.⁴² According to this criterion, to Catalonia would correspond the amount of 33,799 million euros of the Reserve Fund after deduction of the Social Security's debt to the Spanish State (see Table 8).

	Distribution criterion		
	Population	GDP	Contribution last 12 years
Net SS Reserve Fund	16 %	20 %	74 %
45.674	7,308	9,043	33,799

Source: Own work.

Table 8. Distribution of the Social Security Reserve Fund

Archives, documentary holdings, databases, files, computer programs.

Archives and documentary holdings

We are of the opinion that this subject should not be considered in this paper since Catalan society has dealt with it extensively in connection with the issue of the so-called «Salamanca papers». Nevertheless, it is evident that, according to what is provided in Part 3 of VC83, all the archives and documentary holdings relating to Catalonia should be restituted.

41. Social Security. Informe a las Cortes (Report to the Spanish Parliament) 2012. <http://www.seg-social.es/prdi00/groups/public/documents/binario/175936.pdf>.

42. Generalitat. http://premsa.gencat.cat/pres_fsvp/docs/2012/10/11/12/27/4bf8175f-f498-4a94-9446-a3393307047d.pdf. The authors of this book have written a specific article, which is soon to be published, describing in detail how this percentage has been calculated.

Databases and their respective computer programs

As previously mentioned, both the new Catalan State and the predecessor State should appear before the world with the capacity to assure, in a normal way, their respective economic activities and provisioning of services.

The elements that should assure citizens of the continuity and normality in the provision of services include, among others, the fiscal data of the Spanish State (that is to say, of the AEAT – the Spanish State Tax Administration Agency), and the data on Pensions, which are administered by Social Security.

These data are «live» information that changes day by day and that is drawn from computerised historical information. In the beginnings of the new Catalan State, it will be indispensable that the predecessor State should comply with the plans established for the transfer of archives to the successor State,⁴³ in the interest of both States and in that of their respective citizens.

Moreover, it should be noted that today, in our computerised world, data can only be conceived in conjunction with access to the respective computer programs that process them.

Special consideration of the fiscal deficit and of the breaches of law which it may involve

Competitiveness fund

The competitiveness fund is intended for the autonomous regions which have a per capita financing that is below average or under their fiscal capacity index. The fund's aim is to reduce the differences in per capita resources and to incentivise fiscal autonomy and capacity. This fund is distributed among the beneficiary autonomous regions –which include Catalonia– adjusted according to their relative population. The Spanish State's debt to Catalonia on 31 December 2012 was 836 million euros.⁴⁴

43. Article 20 VC1983. «For the purposes of the articles in the present Part, 'State archives of the predecessor State' means all documents of whatever date and kind, produced or received by the predecessor State in the exercise of its functions which, at the date of the succession of States, belonged to the predecessor State according to its internal law and were preserved by it directly or under its control as archives for whatever purpose.»

44. *La Vanguardia*. 03/12/2013.

Investments according to Additional Provision 3 of the Autonomy Statute of Catalonia

In order to correct the shortage of infrastructures in Catalonia, Additional Provision 3 of the Autonomy Statute of Catalonia provides that, for a period of seven years, the Spanish State's investments in infrastructures in Catalonia must equal Catalonia's percentage of the GDP with respect to the total.

The deviations that were budgeted between 2007 and 2011 were of 1,119 million euros; with respect to performance between 2007 and 2009, the deviations totalled 971 million euros, a figure that would reach the sum of 1,690 million euros in 2013⁴⁵ according to the forecasts of the Generalitat⁴⁵ (see Table 9).

Interest on the respective debts

The interest on the debts under study here should be considered.

Property from illegitimate compulsion, fiscal deficit, privatisations and other grievances...

The limited length of this article and the complexity of the subject prevent us from dealing with some topics that will surely be on the negotiation table. Accordingly, we will confine ourselves here to a brief mention of these points:

Property from looting, theft, illegitimate compulsion, etc.

Many historians have written about this subject and the reader is referred to some of them.⁴⁶

45. Author's note: When this book was in press, the Catalan Government made public a report with the figures for the «the Spanish State's institutional disloyalty to Catalonia», which it quantified at 9,375.70 million euros (5,748.00 million euros were for infrastructures; 672.60 million euros were for reduction of assigned revenue; 1,715.20 million euros were for measures representing increased expense, and 1,239.90 million euros were for decreased expenditure).

46. Xavier Escura i Dalmau, historian. He is the author of the book *La història indignada dels catalans. Sobre el desenaix català i altres impotències hispanes*. (The Outrageous History of Catalonia. On Catalonia not fitting in and other Spanish incapacities). Sant Cugat del Vallès, 2013.

To get a rough idea of the scope of the immense looting of Catalonia which goes

Xavier Escura, for his part, has written about this subject in this book and summarises the situation in this way:

«It is very hard to value and quantify the colossal theft and looting which the Catalans have suffered since the military occupation of Catalonia in 1714, that is to say, from the time of the Decree of the New Plan, which deployed the provisions on the ‘right of conquest’ of the new Bourbon military regime, to the later prohibitions and confiscations of all kinds based on the laws imposed by the Primo de Rivera dictatorship (1923–1930) and which increased notoriously under the Franco regime (1939–75) and have been maintained in a more nuanced and irregular way to the present day. To this should be added the ‘fiscal looting’, the systematic economic suffocation and the lack of Spanish State investment in the Catalan territory, as well as the Spanish State’s political-legal measures preventing any moderating or corrective change in discriminatory rules that are based, in short, on an initial ‘right of conquest’.

«This valuation and quantification –without counting the ‘fiscal looting’ and macroeconomic depredation which are confirmed by data available to all– are difficult to make because, beyond the evident moral and intangible losses and damages that have so greatly encumbered the normal natural development of Catalonia’s culture, economy and life, there are immense direct and indirect material losses and damages derived from this long repression: the requisitioning of infrastructures; the destruction of markets and jobs; the ruin of a tremendous number of people, entities and institutions, and much more.»

Grievances affecting the Catalan economy (the Spanish State’s subsidy policy)

Albert Pont is of the opinion that «the distribution of the property of the Spanish State should also consider other matters such as the unequal distribution of public aid to certain economic sectors, including industry

beyond the fiscal and macroeconomic spheres with which we have been dealing, Xavier Escura recommends two essential books:

1– Benet, Josep: *Catalunya sota el règim franquista. Informe sobre la persecució de la llengua i la cultura catalanes pel règim del general Franco* (Catalonia under the Francoist Regime. Report on the Persecution of the Catalan Language and Culture by the Regime of General Franco) Edicions Catalanes de París, 1973; and 2– Ferrer i Gironès, Francesc: *La persecució política de la llengua catalana* (The Political Persecution of the Catalan Language). Ed. 62. Barcelona, 1985.

Forecasts						Million euros
	2007	2008	2009	2010	2011	Cumulative 2007-2011
Calculation base	21,335	24,073	24,948	24,085	16,918	
% GDP	18.85 %	18.72 %	18.72 %	18.64 %	18.59 %	
Total investments as per Autonomy Statute	4,022	4,506	4,670	4,489	3,145	
Allocations to Catalonia						
-Initial budget	3,549	3,742	3,925	3,843	2,743	
-Initial budget ¹	0	565	800	165		
Tolls	66	81	82	81	72	
Pending	407	118	-136	400	330	1,119
Settlements						
	2007	2008	2009	Cumulative 2007-2009		
Calculation base	19,681	21,791	22,529			
% GDP	18.85 %	18.72 %	18.72 %			
Total investments as per Autonomy Statute	3,710	4,079	4,217			
Investment implemented	3,153	3,411	3,938			
Tolls	62	69	68			
Assignment to 2007 of investments 2008 ²	160	-160				
Resolution ³	335					
Pending	0	759	211	971		

1. Investment resolutions additional to those initially foreseen of 12 February 2008 of the Generalitat-Spanish State Bilateral Commission's Infrastructures and Facilities Working Group; of 24 February 2009 of the Generalitat-Spanish State Bilateral Commission, and of 8 November 2010 of the Spanish Ministry of Economy and Finance and of the Catalan Ministry of Economy and Knowledge.

2. According to Clause 6 of the Methodology of Additional Provision 3a of the Autonomy Statute of Catalonia and the Resolution of the Spanish Council of Ministers of 22 February 2008, 160.27 million euros of capital transfers acknowledged for 2008 should be applied to the settlement of 2007.

3. Resolution of 8 November 2010 of the Spanish Ministry of Economy and Finance and of the Catalan Ministry of Economy and Knowledge.

Source: Own work based on information from the Generalitat.

Table 9. Public investment of the Spanish State in Catalonia in compliance with Additional Provision 3 of the Autonomy Statute

47. <http://www20.gencat.cat/portal/site/economia/menuitem.6135b456613b7f9af813ae92b0c0e1a0/?vgnextoid=f4efc0d74f289210VgnVCM1000008d0c1e0aRCRD&vgnextchannel=f4efc0d74f289210VgnVCM1000008d0c1e0aRCRD&vgnextfmt=default>.

and services. A single example will suffice: of the 33,304 million euros in subsidies distributed to industrial companies and services between 2004 and 2009, Catalonia received 138.6 million euros. This figure represents 0.42% of the total amount granted, while Catalonia's economic weight is equivalent to 20% of the GDP of the entire Spanish State. This means that in the period under consideration, Catalonia has failed to receive almost 6,800 million euros. Even so, other iniquities of the system that have not been taken into account in the calculation cannot be excluded.⁴⁸

Analysis of the sectors favoured by the public company privatisation process since 1985

A series of privatisations of public companies took place as from 1985. These companies belonged to the public entities INI, TENEO, SEPI, SEPPA and AIE, etc. Although this subject also goes beyond the scope of this paper, it would be well to point out the sectors that were favoured by this process.⁴⁹

The fiscal deficit in itself, which has been precisely quantified in the last 16 years, is of 230,779 million euros according to the monetary flow criterion in the last 25 years.

Beyond all doubt, the rationale of one of the various causes that is prompting Catalan society to propose at present an independent State for Catalonia lies in the grievance that has been determined by the calculation of the fiscal deficit, on the basis of the results of the fiscal balance of Catalonia with the Spanish central public sector as published for both 2006–2009 and 2010 by the Catalan Ministry of Economy and Knowledge.⁵⁰ We will not enter the controversy, which has been analysed in depth by other authors, on the benefit flow and monetary flow criteria. Suffice it to say that, according to the recent study of the Balance of 2010, the fiscal deficit for 2010 was 16,543 million euros as per the monetary flow criterion and 11,258 million euros as per the benefit flow criterion.

48. Albert Pont (2012:472).

49. See: <http://www.sepi.es/default.aspx?cmd=0001&IdContainer=46&lang=&idLanguage=&idContraste=>

50. [http://www20.gencat.cat/docs/economia/70_Economia_SP_Financament/arxius/05%2021%20Balan%C3%A7a%20fiscal%202010c%20\(llarg\).pdf](http://www20.gencat.cat/docs/economia/70_Economia_SP_Financament/arxius/05%2021%20Balan%C3%A7a%20fiscal%202010c%20(llarg).pdf).

Possible negotiation scenarios

What part of Spain's debt would Catalonia have to pay? Would Catalonia really have to pay anything? What would be the weight of this debt on the new Catalan State?

Various possibilities should be considered

a. No obligation for Catalonia to pay

«No State debt of the predecessor State shall pass to the newly independent State». Consequently, this would be a literal interpretation of Article 38.1 of the Vienna Convention of 1983.

b. Debt in exchange for fiscal deficit

The calculation is simple: if the fiscal deficit of 1986–2010 totalling 230,779 million euros is deducted from the part of the Spanish State's debt which Catalonia would assume according to the GDP (165,089 million euros), the Spanish State would be the debtor to Catalonia for the amount of 65,690 million euros.

c. Debt versus distributable assets

Part 1 of Table 10 shows what part of the Spanish State's debt would correspond to Catalonia according to the population and GDP criteria.

Part 2 of the table shows the assets of determinable value which would partly compensate the debt, so according to the population and GDP criteria, the balance would be respectively 77,820 or 106,811 million euros.

Part 3 of the table shows the assets to whose value we do not have access. The value of this asset is truly immense and in many cases it is quantifiable if one has access to the pertinent information. Indeed, it is important to have such access since the valuation of this is essential for the distribution of assets.

Part 4 of the table refers to assets derived from looting, theft, compulsion, etc., representing extremely large losses and very serious damages suffered by Catalan society for many years. The valuation and quantification of this property is very difficult.

With respect to the privatisations of public companies which are listed in Part 5 of the table, it is a highly complex matter to analyse the enrichment of specific sectors to the detriment of the Catalan general interests which have taken place with the privatisations as from 1985.

Part 1. Debt (forecast end 2013)	By population	By GDP	Applicable criterion & remarks	Remarks
833,782	133,405	165,089		
Part 2. Distributable assets, property, rights	Determinable amount			
Public Treasury (Gold, currency, SDR, others) (37.879)	6,061	7,500		
Special Armament Programmes (PEAS) in progress (33.000)	5,280	6,534		
Social Security Reserve Fund	33,799	33,799	Historical contribution 74%	
Competitiveness Fund	836	836	Direct amount	
Investments as per Add. Prov.3a not budgeted.	1,119	1,119	Direct amount	
Investments as per Add.Prov.3a not implemented. Forecast 2013	1,690	1,690	Direct amount	
Investments policy. Minimum value	6,800	6,800	Aid not granted to Catalonia in 5 years as per GDP	
Partial total amount to be compensated	55,585	58,278		
Part 3. Distributable assets, property, rights	Value to be determined			
Immovable property of the Spanish State concentrated in the Region of Madrid	Value to be determined		Proportional to Catalonia's contribution	Valuation based on surface area or location
Public property under concession	Value to be determined		Proportional to Catalonia's contribution	Valuation of each concession
Extraterritorial buildings	Value to be determined		Proportional to Catalonia's contribution	Material distribution can be negotiated
Spanish State Property. Palaces and monasteries	Value to be determined		Proportional to Catalonia's economic importance	
Art collections	Value to be determined		Author criterion, relation to Catalonia and contribution	
Quality bonds purchased from banking system	Value to be determined		Proportional to Catalonia's contribution	
Movable property of the Spanish State	Value to be determined		Proportional to Catalonia's contribution	
Military armament	Value to be determined		Proportional to Catalonia's contribution	Material distribution can be negotiated
Part 4. Property from looting, theft, compulsion...	Ingenys danyats i perjudicis		Very difficult valuation and quantification	Deserves involvement of historians
Part 5. Privatisations of public companies	It is very complex to analyse the enrichment of specific sectors to the detriment of Catalan interests			

Source: Own work.

Table 10. Debt and assets to be considered in the distribution

Even if it were only possible to evaluate a substantial part of the assets of Part 3 of the table, the balance of the distributable assets would surely be large enough to compensate more than 100% of the part of the debt corresponding to Catalonia.

As may be inferred, the negotiators will be faced with no easy job but what is clear indeed is that, if the negotiation of the assets is undertaken, the debt that may be inherited from the predecessor State will not entail any problem for the new Catalan State with respect to beginning its existence with a healthy economy.

d. Possibility of repudiating the debt

We Catalans are orderly people and we consider that it is essential to settle suitably the matter of the debt in order for the new State to have the desired financial credibility once its existence begins. Nevertheless, it should be pointed out here that many of the investments that have been made by the Spanish State are unproductive and to many of them opposition has been voiced by both the Catalan civil society and the Catalan business organisations.

When a people have been obliged to incur a debt so that others may profit from it, such debt is considered immoral, illegitimate and hateful, and it may therefore be repudiated by the people on whom it was unjustly imposed.

Conclusions

This chapter has analysed the possible magnitude of the Generalitat's public debt and the part of the Spanish State's debt that Catalonia would have to inherit. A review has also been made of the rules on the succession of States in matters of property, archives and debts, and of the various negotiation scenarios. On the basis of these analyses, it may be deduced that:

- The debt of the new Catalan State, in the least favourable of the scenarios analysed, would be 103% of the GDP.
- The negotiation of assets and liabilities should lead to a notable reduction in this percentage.
- In the best of all cases, Catalonia's debt, without any inheritance of

the Spanish debt, would be 52%⁵¹ of the GDP (including commitments for future years). This is far below the European average.

- International Law is the framework to be considered and it provides assurance of a negotiated solution.
- Until such time as negotiations begin, there are many factors in favour of the repudiation of the debt.

Afterword

Does freedom have a price? How will all this end?

In the determination of Catalonia's debt, we believe we have gone beyond the criterion used by the EU by applying the EDP method and also by including the commitments for future years. Likewise, we have analysed the implications of International Law on the separation of States. Lastly, we consider that the data we have presented are accurate.

Now, we would like to express a few personal thoughts:

- International Law clearly states that «No State debt of the predecessor State shall pass to the newly independent State». If we are covered by International Law, why should we relinquish this right? Why should we pay?
- For centuries the looting of Catalonia has been so large –in macroeconomic figures and in suffering (as has been so well and succinctly described above by the historian Xavier Escura)–, that we can only ask: why must we pay a debt that is considered immoral, illegitimate and hateful?

If there is no reason why Catalonia should pay, if Catalonia may repudiate the debt, serious negotiation is in order as would be fitting for two

51. Authors' note for the English edition: This article was written in August 2013 based in part on information published by the Generalitat and in part on a report by the Audit Office [Sindicatura de Comptes]. During the course of 2014, after publication of the book, the Direcció General d'Anàlisi i Seguiment de les Finances Públiques, let us know that multi-year expenditure had already been included in the financial debt. According to their calculations, in the case of a "no negotiation" scenario, the Generalitat's debt would be around 15% of GDP

States that form part of 21st-century Europe. Without negotiation, there is no reason why Catalonia should assume any debt.

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9

Pensions in an independent Catalonia

Núria Bosch and Marta Espasa
(Translated by Miquel Strubell)

Introduction

This chapter aims to show that, if Catalonia were to become independent, it could cover the cost of payments to pensioners and other groups because the number of contributors is high, owing to its economic activity, and the volume of contributions is sufficient to cover the cost. We show that pensions and other benefits are less sustainable, in fact, if Catalonia is part of Spain, than if it is a State in its own right. To analyse this issue we present, on the one hand, the income obtained by the Spanish Social Security General Treasury (Tesorería General de la Seguridad Social) in Catalonia in the form of contributions and, on the other, the Treasury's expenditure in the form of benefits, including those for retirement, unemployment, widowhood, sickness, and so on.⁵² The chapter has four sections, the first of which is this brief introduction. The second section examines the main components of Social Security contributions and pensions, and in the third calculations are carried out to demonstrate the viability of the pensions system in an independent Catalonia. Finally, the main conclusions are drawn.

52. The results presented are taken from Bosch (2013)

Social Security contributions, pensions and other benefits

Social Security contributions can be considered a special tax levied on the labour factor. In accordance with the regulations, they are paid by both employers and workers. They are earmarked taxes because there is a link between the Social Security contributions people pay throughout their working lives and the social benefits they receive after retirement.

Social Security contributions can be broken down into the general scheme and various special schemes (self-employed, farmers, seafarers, domestic workers, coal miners, etc.). They also vary depending on the type of contingency they are intended to cover: common contingencies, occupational accidents and illnesses, unemployment, contributions to the Severance Indemnity Fund (FOGASA - Fondo de Garantía Salarial) and vocational training.

Civil servants also come in for different treatment, having their own mutual companies that are funded through specific contributions.

The way contributions are shared out between employers and employees varies according to the type of contribution scheme and the type of contingency. The full cost of contributions to cover occupational accidents and illnesses and FOGASA is paid by the employer; in all other cases it is shared between employers and employees.

Social Security contributions are collected in their entirety by the Social Security General Treasury, except in the case of civil servants' mutual companies, where they are paid to the relevant company.

It is worth pointing out that the accounting records enable us to know with great accuracy in what area contributions have been made. More specifically, the contribution account codes indicate the location of the workplace where both employers and employees pay their contributions. This means that the centralised payments made by nationwide companies do not prevent identification of the places where they originated. Thus the location of the workplaces that bear the burden of contributions is known, regardless of where the employers' headquarters are.

Pensions and other benefits make up the bulk of Social Security costs. As is the case with contributions, the Spanish Ministry of Labour and Social Security publishes the geographical distribution of the implementation of budget expenditure of the Social Security General Treasury and its managing agencies. Thus the full territorial distribution of each type of

benefit is known. It is common knowledge that the most important benefits include retirement pensions and benefits for the unemployed, the disabled, widows and orphans.

The viability of pensions

One of the messages one hears in circles opposed to an independent Catalonia is that it will not have enough resources to cover the pensions of its pensioners. This claim can arouse significant concern and unease as it runs contrary to the fundamental right of every citizen to receive a pension after contributing throughout their working life to make this right effective. It should also be borne in mind that the recipients of any kind of social benefit are highly vulnerable on account of their particular circumstances.

Moreover, lack of information and ignorance about the issue of pension payments in an independent State lead some citizens to reason as follows: I have made my Social Security payments to the Spanish government all my life in order to receive a retirement pension and this money is now in a fund that is under the aegis of the Spanish government. So, if Catalonia becomes independent from the rest of Spain, will I lose the money that has been paid into the fund?

The proliferation of such messages makes it necessary to offer certain clarifications in order to avoid misunderstandings.

First we should note that the current pension system in Spain, as in most developed countries, is a PAYG (Pay-As-You-Go) system (similar to the UK PAYE, pay-as-you-earn). This means that current pensions are paid out of the contributions being made by workers who are now active. It is a mistake to think that pensioners are paid from a fund formed by the capitalisation of all the contributions they made throughout their working lives: in fact the amounts they paid in when they were working were used to cover the pensions of those who were retired at the time. So if Catalonia becomes independent, Catalan workers will pay for the pensions of retirees through their Social Security contributions.

Secondly, an independent Catalonia will be able to finance all Social Security benefits (pensions, unemployment, etc.). In order to substantiate this claim, we have to calculate the overall income and expenditure of the Social Security system, including the Social Security General Treas-

ury and its managing agencies (autonomous bodies that manage social benefits, such as the one in charge of unemployment benefits), and mutual companies such as that of Spanish civil servants, MUFACE (Mutualidad General de Funcionarios Civiles del Estado – The Mutual Health Insurance Company for Spanish Civil Servants).

Table 1 shows that the accrued balance of the Social Security in Catalonia over the period 1995–2010, i.e. the difference between revenue and expenditure, amounted to a surplus of €3,286 per inhabitant in real terms, while in the rest of Spain there was a per capita deficit of €2,177. During those sixteen years, the rest of Spain had eleven years of deficit and only five of surplus (2003 to 2007). In contrast, Catalonia had a deficit only in 1995, 1996, 2009 and 2010, as a result of the crisis, which caused a sharp rise in unemployment benefits and a fall in the amount of contributions (see Table 2).

		Catalonia	Spain without Catalonia	Spain
Millions of € (real prices 2010)	1995-2010	24,774	–86,332	–61,558
€ per inhabitant (real prices 2010)	1995-2010	3,286	–2,177	–1,304

Source: Budget settlements of the Social Security system and of autonomous bodies, State agencies and other public bodies, and Spanish Statistical Office (INE - Instituto Nacional de Estadística). *Departament d'Economia i Coneixement (2012): *Informe sobre les aportacions de Catalunya a la Seguretat Social*.

Table 1. Accrued balance of the Social Security system, 1995-2010
Balance = Income – Expenditure.

	Catalonia	Spain without Catalonia	Spain		Catalonia	Spain without Catalonia	Spain
1995	–1,045	–12,176	–13,221	2003	3,092	1,121	4,213
1996	–358	–9,284	–9,642	2004	2,807	931	3,739
1997	678	–4,315	–3,637	2005	2,957	1,346	4,303
1998	1,050	–4,194	–3,144	2006	3,536	2,628	6,165
1999	1,690	–4,439	–2,749	2007	3,379	1,634	5,013
2000	2,197	–3,197	–1,000	2008	2,591	–2,596	–5
2001	2,727	–126	2,601	2009	–1,252	–21,932	–23,183
2002	2,866	–5,418	–2,552	2010	–2,142	–26,317	–28,459

Source: Budget settlements of the Social Security system and of autonomous bodies, State agencies and other public bodies, and Spanish Statistical Office (INE - Instituto Nacional de Estadística). Departament d'Economia i Coneixement (2012): *Informe sobre les aportacions de Catalunya a la Seguretat Social*.

Table 2. Annual balance of the Social Security system
Balance = Income - Expenditure. € million (real prices 2010)

Having said that, it is also important to underline that Catalonia's deficit, in relative terms, is far smaller than that of the rest of Spain. Thus, as can be seen in Table 3, Catalonia's average Social Security deficit in 2009–10 was €450 per capita in real terms, while in the rest of Spain it was as high as €1,217. So whether there is a surplus or a deficit, these figures show that Catalonia is a net contributor to the Social Security system elsewhere in Spain, i.e. the contributions of Catalan workers help fund the pensions of retirees in other parts of Spain, and not the other way round.

		Catalonia	Spain without Catalonia	Spain
Millions of € (real 2010 prices)	2009-2010	–3,394	–48,248	–51,642
€ per inhabitant (real 2010 prices)	2009-2010	–450	–1,217	–1,094

Source: Budget settlements of the Social Security system and of autonomous bodies, State agencies and other public bodies, and Spanish Statistical Office (INE - Instituto Nacional de Estadística). Departament d'Economia i Coneixement (2012): *Informe sobre les aportacions de Catalunya a la Seguretat Social*.

Table 3. Accrued balance of the Social Security system, 2009-2010
Balance = Income - Expenditure.

Conclusions

The analysis we have carried out contains a reassuring message for Catalan citizens facing the prospect of Catalonia becoming an independent country: Catalonia clearly has sufficient economic potential to finance pensions. In fact the data show that there is greater cause for concern if it continues to form part of Spain.

Another quite different question is the sustainability of the pensions system in the long term, given that it depends on demographic and labour market factors. One of the main challenges faced by the public pensions system is obviously that there are more and more retired people because they live longer as a result of increased life expectancy after retirement age. We also need to keep in mind that over the next decade the baby boom generation will retire, and, if current trends continue, they will do so with a high life expectancy. So, given the current PAYG system, people who are active in the labour market will have to fund pensions for an increasing number of retirees. It is important to recall that other factors also have a direct impact on viability, including the later age at which

citizens tend to join the labour market and the high unemployment rates we are undergoing at present. All these factors highlight the need for a thorough overhaul of the pensions system. In this context, Catalonia, as a new State, will have to analyse the long-term sustainability of our system and look for solutions to the problem.

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10

Independence and boycott

Xavier Cuadras Morató and Modest Guinjoan
(Translated by Jana Graham)

Introduction

The independence of a country (Catalonia for example) is a project of eminently political nature which can only be suitably evaluated by applying political criteria. Considered in this light, the only thing that really matters is that the largest possible majority of Catalans should decide democratically whether it is preferable to build their own political project or to keep forming part of the political project they currently share with the Spanish. In our opinion, this should be the central point of the debate on this issue.

Nevertheless, economists have too often played the main role in discussions about independence. It seems that the principal area of controversy between those in favour and those against the secession process hinges, in our view wrongly, on the economic consequences of the creation of an independent Catalan State, on the size of the “independence dividend” which would come from no longer having to transfer funds every year from the Catalan economy to Spain (the so called fiscal deficit) or the consequences that a declaration of independence would possibly have on the economic relations that Catalan businesses maintain with the rest of the world. These aspects of a hypothetical independence and many others

in the economic, social and cultural fields may be useful in the debate, but we should not lose sight of the fact that this debate is essentially political.

In fact, to avoid falling into the trap of basing the discussion about Catalan independence solely on economics, we have only to remember that there are economic and political explanations for the increase in the number of independent States worldwide, as demonstrated by Alsina and Spolaore (2003)⁵³. According to these authors, the forces responsible for the increase in the number of countries in the world are: a) the process of economic globalisation and the increased trade openness of countries, b) the decrease in armed conflict as a way of solving disputes at an international level, and c) the spread of democratic systems as a form of political organisation. Looking at it from this point of view, perhaps we should not be too surprised by the appearance of powerful pro-independence political movements in some European countries, as is the case of Catalonia. When all is said and done, Europe is a profoundly democratic and economically open society and one of the places in the world where humanity has made major progress in the peaceful resolution of political conflicts. So, from this point of view, the Catalan aspiration towards independence would not be the outdated and outmoded movement that is often represented, but rather a logical consequence of major underlying processes occurring at international level.

Is a trade boycott likely?

A number of business people, executives and economists, among others, point out that one of the foremost threats to the Catalan economy, in the case of a hypothetical secession, would have to do with the trade relations between Catalonia and Spain. It should be remembered that the Spanish market continues to be by far the Catalan companies' main customer.⁵⁴ Could an independence process spoil this trade relationship?

53. Other distinguished economists who have contributed to the debate, looking at things from a distance, include Robert Barro ("Small is Beautiful" 1991), Gary Becker ("Break-up of Countries. No Economic Disaster" 2012), Casey Mulligan ("A Time for More Nations" 2012) and Robert Vaubel ("Political Economy of Secession in the European Union" 2013), to name a few.)

54. The data of the Catalan Input-Output Table for the year 2005 show that 22.5% of added value produced in Catalonia goes to the Spanish market. The Catalan market accounted for 50.4% and the rest of the world 18.1%. The data of more recent input-

Even though, in theory, there is no economic or business reason for independence to lead inevitably to a change in commercial ties between Catalonia and Spain, it is quite true that these ties could be affected by emotional issues arising in the wake of the political and media reactions which a conflict of this nature could produce. Without looking further afield, we already have an example of this kind of reaction in the trade boycott against some specific Catalan products which began to take place in some areas of Spain in 2005, following the approval of the draft of the new Autonomy Statute by the Catalan Parliament (Generalitat) and its subsequent negotiation with the Spanish Government and the Spanish political parties.

In our opinion, the possibility of a large-scale boycott of Catalan products should not be considered a particularly serious threat to our economy in the event that an independence process were to begin, for at least three different reasons. Firstly, because such a boycott is unlikely. The calling of a boycott is never without cost since trade relations generate benefits for all parties involved. Breaking these relations must have a price, not just for the victim of the boycott but also for whoever conducts it. This means that any large-scale boycott could lead to a free-riding problem, similar to what economists associate with the provision of public goods. Since no one could be excluded from the boycott's "benefits" (that is to say, the reprisals against the Catalan economy), even without taking part in the boycott directly, everyone would prefer to hold it without having to pay the resulting costs and this would be an obstacle to the effective mobilisation of boycotters.

Secondly, a boycott would not be a very effective way for Spain to achieve its political objective. In response to a hypothetical declaration of independence, a boycott would probably turn out to be counterproductive for the instigators. Indeed, it is easy to imagine that the social support for the independence of Catalonia would increase on finding that the Catalans' democratic decisions were to be received with such hostility in Spain, and this would be just the opposite of what those making the threats of this type would want to achieve. Moreover, after the

output tables are not available but, if we assume that the Catalan market remains at around 60% (as it has since 1987) and we extrapolate the trend in Catalan exports to Spanish markets and to the rest of the world, it may be concluded that the Spanish market would now represent only 18.3% of the added value produced in Catalonia.

declaration of independence, the boycott would no longer be able to accomplish its main purpose. The only reason for the boycott would then be to take reprisal, so in this case it would be much more difficult to maintain it over time.

Lastly, boycotts of this nature tend to have a very limited scope and often affect only a few products of wide consumption that are particularly representative or emblematic of the country concerned, such as Catalan cava (sparkling wine) in 2005. Similarly, French wine has been subject to boycotts on various occasions when consumers in some countries wished to protest against specific political actions of France, which they considered harmful to them. A study of numerous international examples, however, allows us to state that the vast majority of the products exported by countries are rarely subject to politically motivated boycotts of the type we are dealing with here.

If there is a boycott, what effects would it have?

Despite the considerations made in the previous section concerning the economic nature of trade relations, it must be recognised that commerce often has ideological, political and even emotional dimensions as well. Therefore it makes good sense to analyse the possibility that Catalonia's independence and the political conflict that it would entail could trigger a commercial boycott against Catalan products in the Spanish market. As previously mentioned, this is by no means a remote possibility, as was seen in 2005 when, in the midst of negotiations on the new Autonomy Statute of Catalonia, various leaders of Spanish public opinion called for action of this type. In our book *Sense Espanya (Without Spain)* (2011), we deal in depth with the subject of commercial boycotts against countries, both conceptually and through a study of specific cases. This book focuses on an appraisal of the repercussions, for the Catalan economy and companies, of a hypothetical boycott waged by some sectors of Spanish society.

Our analysis of the economic consequences of such a boycott starts with the fact that it would affect, as is only natural, the commercial dimension of the economy and would imply a change in the trade flows between Catalonia and Spain. In general terms, the organisation of a boycott against Catalan products would have two effects on bilateral trade. In the

first place, the exports of Catalan companies to the Spanish market would clearly be reduced. Secondly, a process of substituting imports from Spain could arise in Catalonia as a result of a counter-boycott of Spanish products. Indeed, it may well be imagined that the Catalans, faced with a political conflict like the one considered here, would show the same social reactions as the Spanish. Consequently, the most reasonable working hypothesis is that the boycott would be symmetrical. The boycott's strictly commercial effects would have consequences for the economic activity and the generation of added value in Catalonia and such consequences should be quantified. In other words, the specific question to be answered is this: what would be the effect on the Catalan GDP of a politically motivated trade boycott carried out by some sectors of the Spanish market?

Essentially, what the aforementioned book does is to compare two situations of the Catalan economy in 2005.⁵⁵ These two situations are, on the one hand, the *real* Catalan economy, as described in the official statistics and specifically in the input-output table and, on the other hand, a *simulated* Catalan economy which takes into account the economic effects derived from the changes produced by a hypothetical independence. These changes, as stated earlier, centre on the reduction of Catalan exports to Spain (thus reducing production, added value and jobs) and on the substitution of imports from Spain (entailing contributions in the opposite direction)..

One obvious difficulty when presenting the results of this analysis is that it is impossible to determine, even approximately, the effective extent of such a boycott, that is to say, the specific reduction in exports to Spain. In the book "Sense Espanya" we describe the available evidence on which the determination of this variable could be based, taking into account existing opinion polls, comparative experiences at an international level and the Spanish boycott episode of 2005, but it remains impossible to establish unequivocally the real extent of a possible boycott. For this reason we present the results of our simulation with its full range of possibilities, including all possible scenarios, under the hypothesis that the

55. All the details of the calculation method can be found in the article by Cuadras Morató and Guinjoan entitled "Una aproximació a l'impacte sobre el VAB català de la reducció dels fluxos comercials entre Catalunya i la resta d'Espanya" (An approximation to the impact on the Catalan GVA of the reduction of trade flows between Catalonia and the rest of Spain), *Revista Econòmica de Catalunya* 2012).

boycott would have a more pronounced effect on goods addressed to consumers than on those addressed to companies (investment goods or intermediate goods) The results of this analysis are presented in Table 1.

GDP		Impact of a boycott on sales to end customers (%)										
Impact of a boycott on sales to companies (%)		0	10	20	30	40	50	60	70	80	90	100
	0	0.0	-0.4	-0.9	1.3	-1.7	-2.2	-2.6	-3.0	-3.5	-3.9	-4.3
	10		-1.6	-2.0	-2.4	-2.9	-3.3	-3.8	-4.2	-4.6	-5.1	-5.5
	20			-3.2	-3.6	-4.0	-4.5	-4.9	-5.4	-5.8	-6.3	-6.7
	30				-4.8	-5.2	-5.7	-6.1	-6.6	-7.0	-7.5	-7.9
	40					-6.4	-6.9	-7.3	-7.8	-8.2	-8.7	-9.1
	50						-8.1	-8.5	-9.0	-9.4	-9.9	-10.3
	60							-9.8	-10.2	-10.7	-11.1	-11.6
	70								-11.5	-11.9	-12.4	-12.9
	80									-13.2	-13.7	-14.2
	90										-15.0	-15.5
	100											-16.8

Source: Guinjoan and Cuadras Morató *Sense Espanya*, 2011.

Table 1. Reduction of the Catalan GDP as a result of a trade boycott (in %)

A simple example can show how this table may be interpreted. If we adopt a cautious attitude inasmuch as a declaration of independence would be an unprecedented situation, we may consider a particularly catastrophic scenario such as a 40% reduction in sales of consumer goods and a 20% reduction in sales to companies in the Spanish market. Table 1 shows that, in such a case, there would be a 4% reduction in the Catalan GDP. It cannot be denied that such a reduction is quite considerable but it should be compared to the fiscal deficit, that is to say, the annual transfer that Catalonia had heretofore been making to Spain for tax purposes. If we take into account that the latest studies show this deficit to be 8.6% of the average Catalan GDP for the period 2002-2012, not even a scenario as catastrophic and improbable as the one considered here could justify the fear of a massive boycott as a convincing argument to dissuade the people who are in favour of independence.

What's more, we also think there are reasons to believe that the calculations we have just presented are absolute maximums. Firstly, it should be noted that they are based on data for the year 2005 and that everything

indicates that the relative magnitude of exports to the Spanish market has steadily declined since then. Secondly, we are supposing, in a very simplistic way, that companies would not adapt in any way to the problem posed by the reduction in sales to the Spanish market. History has shown that business people always strive to respond actively to new challenges and changes, so we have no doubt that companies would react in this way in the case at hand, seeking new markets for their products and modifying their business strategies to adjust to the new situation. On these lines, professors Pol Antràs and Jaume Ventura have recently made some estimates based on the possibility that companies would react to a boycott by increasing exports to other countries, which is something they could achieve by reducing prices to make them sufficiently attractive. According to the calculations of these experts, in the period of maximum intensity of the boycott, the resulting reduction in trade would be between 1.2% and 1.6% of the Catalan GDP.⁵⁶

Boycott and companies

Of course, for individual companies, the circumstance of being subjected to a boycott, however small it may be, is highly inconvenient even though a boycott is not especially different in nature from many other situations in which the vagaries of political life affect business activity, such as an increase in VAT or a rise in the cost of private credit due to the public deficit. Faced with such events, companies have no alternative but to adapt to them. In fact, one of the great assets of Catalan business people is their capacity to respond to big challenges and to emerge from them stronger than they were before.

As is only natural, business people are alert to all the possible consequences of the political process taking place in the country and, generally speaking, the statements they make in public in this regard are cautious and rather few. This is something normal. Their role in society is to generate wealth, while politics is a job to be carried out by politicians, in accordance with

56. Pol Antràs and Jaume Ventura. Dos més dos són mil. Els efectes comercials de la independència, 2012. (Two and two are a thousand. The effects of independence on trade.) This article can be found in English at www.wilson.cat/en/comunicats-conjunts/item/215-dos-m%C3%A9s-dos-s%C3%B3n-mil-els-efectes-comercials-de-la-independ%C3%A8ncia.html

the will of the people. The great majority of the Catalan business people think that getting involved in political battles would distract them from their main job, which is to create and develop competitive businesses. Of course, it cannot be expected that business people would be unconcerned about the possibility of a boycott against their company in particular, or about the natural uncertainty associated with the sovereignty process. The best way of facing this situation, however, is surely the intelligent reply given by Pedro Bonet, director of communication at Freixenet. When asked if he were worried about a possible boycott, he said: “Our job is to make good cava and we sell it in 145 countries.”⁵⁷

Boycott and the political economy of independence

Although the aggregate results of a boycott’s effects are quite significant, they are not sufficient to allow an analysis of the political support stemming from purely economic motives that the independence project may have. It would be necessary to go beyond this and to conduct a detailed study of how the costs and benefits of independence would be distributed among the various social groups and of how this distribution would influence these groups’ political attitudes. For example, assuming that the costs of independence would be mainly concentrated in a few companies that are very closely linked to the Spanish market, it may be thought that the political opposition to independence would be relatively scant, at least in quantitative terms. This would be all the more so if it is considered that the potential beneficiaries, who are all the taxpayers who would gain from lower taxes and better public services, form the much larger group. Despite this, however, at least according to the study by Mancur Olson (*The Logic of Collective Action*), it is precisely small groups with strong interests who have the biggest incentives and capacity to organise themselves in defence of these interests and not the more numerous groups whose interests are much more dispersed. Consequently, it is not surprising that, within Catalan society, influential campaigns are constantly under way in defence of the status quo – campaigns that, in the name of some purported general interests of the country, actually seek to protect the interests – the legitimate interests, it goes without saying – of certain very specific groups.

57. See the article in the daily paper Ara at www.ara.cat/economia/Freixenet-sobre-linependentiste-dediquem-paisos_0_777522379.html

Conclusions

The independence of Catalonia would have two very obvious positive effects that would arise, respectively, from the elimination of the fiscal deficit which Catalonia is suffering, and from the ability to apply economic policies which are better suited to the Catalan companies' needs and preferences. At the same time, however, it is true that some Catalan companies depend largely on their exports to the Spanish market and these exports could be affected, for example, by a trade boycott by consumers. The figures presented in this article show that the reduction of exports to Spain would have to be of a catastrophic and, consequently, totally unthinkable magnitude in order for it to be able to cancel out the positive fiscal benefits. Additionally, considering the existing relationship between some of the main economic growth factors of a country and the level of public expenses (the construction and maintenance of infrastructures, the school and university systems, and business research and innovation programmes are three good examples), it would not be too bold to claim that independence and the elimination of the fiscal deficit would allow not only an increase of the disposable income in Catalonia in the short term but also an improvement of this income's growth prospects in the medium term.

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11

Impact on the number of companies and multinationals

Francesc Raventós
(Translated by Jacqueline Hall)

Introduction

The mere possibility of Catalonia becoming a State generates fierce controversy because of the economic repercussions and the deep emotions involved. Those in favour of statehood for Catalonia highlight all the possible advantages while those against do the opposite. In the methodological field, few prior studies have been identified and the debate, despite its far-reaching economic implications, focuses primarily on ideology and feelings. It is impossible, in my view, to quantify the impact of Catalan independence on companies because both rational and emotional factors are at play. What we can do is single out a few notions and facts that may assist us in reaching certain conclusions.

This chapter seeks to propose answers to questions such as: If Catalonia became a separate State, how would that affect the firms already present there? Would companies, especially multinationals, relocate? What future impact would it have on the creation of new businesses and the ability to attract investment?

There is some consensus that the effects of Catalonia becoming a State in the EU (European Union) would be beneficial to it in the middle- or long-term, as is the case for other EU States of similar size: Sweden,

Denmark, Finland, Austria, the Netherlands, or other States such as Switzerland. The chief difficulty would be the complex transition period during which Catalonia would cease to be an autonomous community of Spain and become a State in its own right.

In this chapter we will try to discover how firms would greet Catalonia's transition to statehood. What would be their degree of satisfaction, anxiety or indifference? And, if they saw it as a major drawback, what would be the chance of relocations, a fall off in future investment, or the ability to attract new companies?

To find the answers we must weigh up rational factors based on the impact on turnover, the profit and loss account and fixed capital investments, but also the possible effects linked to corporate image or pressure from the rest of Spain. As already mentioned, emotional factors cannot be underestimated: not only are they unpredictable in themselves but they can also give rise to totally unexpected situations.

The process leading to statehood for Catalonia

The process that would lead to Catalonia becoming a separate State is a key aspect of the present analysis.

There are basically three possible scenarios. In the first, agreement would be reached with the Spanish central government to allow Catalans to be consulted about whether they want a State of their own or not. If the outcome of this democratic consultation were affirmative, both sides would agree on a transition process so that the handover could take place in an orderly manner. This is the United Kingdom–Scotland model and is highly improbable.

In the second possible scenario, no agreement would be reached with the Spanish central government but some way would be found within Catalonia to enable a democratic consultation to take place. If the verdict were clearly positive, the Generalitat (Catalan Parliament) would proclaim independence. This would generate considerable tension and the Spanish government would find itself under pressure from international organisations, the EU, and major Spanish and Catalan multinationals, as well as facing the operational need to solve the very severe problems created. This could induce the Spanish government to over-

come its deep-seated resistance and negotiate a settlement that would include Catalan membership of the EU or some equivalent formula. This scenario, which would require the parties to agree to a long transitional period, is the one that seems most likely at present, provided the consultation takes place. It is also the hypothesis on which the present reflection is based.

The third possible scenario would arise if the Generalitat, totally disregarding the Spanish government, were to make a unilateral declaration of independence and no subsequent agreement were reached. This scenario seems highly improbable because the situation created would be catastrophic for both Spain and Catalonia. We need only ask ourselves a few questions to see how impossible it would be. Would Spain take on the entire public debt of €950,000 million? How would the risk premium be affected by the ensuing chaos? How would Spain and Catalonia finance the budget deficit and expired loans? If a boycott of Catalan products were organised in Spain, would there not also be a boycott of Spanish goods in Catalonia? Would major Spanish firms, such as Telefónica, Santander Bank or El Corte Inglés, be willing to lose the Catalan portion of their market? Unless some fairly ingenious solutions were found to these issues, the results for both Catalonia and Spain would be disastrous. Moreover could the EU, which already faces numerous conflicts, permit the kindling of such a vast conflagration, which might cause the euro, and indeed the EU itself, to totter? I rule out this hypothesis.

The size of companies in Catalonia

The structure of the Catalan economy is clearly based on SMEs (small and medium enterprises). Of the 602,161 companies registered in 2012, 339,345 had no employees, 31,089 had between 10 and 199, and 2,144 had 200 employees or more (IDESCAT, 2013).

Since the 100 largest Catalan companies have a joint turnover of €160,000 million, it is vital to study what role they might play. In Table 1 we list the ten largest companies, which together have a turnover of €76,827m.

2012				
	Company	Sector	Sales (€m)	
1	GasNatural Fenosa	Gas	29,904	
2	LaCaixa Group	Finance	13,770	
3	SEAT	Automobile	6,485	Foreign subsidiary
4	Banco Sabadell	Finance	5,362	
5	Celsa Group	Steel	4,500	
6	Abertis	Motorways	3,948	
7	eDreamsOdigeo	Tourism	3,900	
8	CatalanaOccidente Group	Insurance	3,070	
9	VolkswagenAudi	Automobile	2,947	Foreign subsidiary
10	Nissan	Automobile	2,941	Foreign subsidiary

Source: compiled from *Expansión*, 2013.

Table1. Companies with the largest turnover which have headquarters in Catalonia

Table 2 shows a selection of ten major Catalan companies which manufacture well-known brands of consumer products and have a turnover of €11,200 million between them.

2012				
Ranking	Company	Sector	Sales (€m)	
11	Planeta Group	Publishing	2,859	
24	Agrolimen	Food	1,555	
26	Puig	Perfumery	1,488	
37	Danone Spain	Food	1,099	
38	Vueling	Air transport	1,091	
49	Damm	Beverages	900	
63	Casa Tarradellas	Food	729	
86	Borges	Food	519	
88	Freixenet	Beverages	513	
97	FIATC	Insurance	448	

Source: compiled from *Expansión*, 2013.

Table 2. Largest Catalan consumer product manufacturers

Markets

Catalan companies export an increasingly large proportion of their output. Analysis of sales to the rest of Spain reveals a steady decline in the relative importance of the Spanish market. Catalonia exported goods-worth €58,282 million to foreign countries in 2012, a figure well in excess of sales to the Spanish market, which amounted to €49,026 million(see Table 3).

Year	Rest of Spain	Rest of the world	Total	% to Spain
2012	49,026	58,252	10,7278	45.70
2011	49,389	55,525	10,4914	47.08
2010	48,623	48,666	97,289	49.98
2005	47,867	42,703	90,570	52.85
2000	44,644	33,796	78,440	56.91
1995	31,387	17,711	49,098	63.93

Table 3. Sales from Catalonia to the rest of Spain and foreign countries (in € millions)

If goods both produced and consumed in Catalonia are taken into account, sales to the rest of Spain make up about 36% of total Catalan output, with a tendency to fall off.

Modest Guinjoan and Xavier Cuadras(2012) consider that the best indicator of the dependency of Catalan economic activity on the Spanish market is value added percentage. Input-output tables for Catalonia in 2005 indicate that 59.3% of Catalan products and services are consumed in Catalonia itself, 22.6% are sold elsewhere in Spain, and 18.1% are exported.

Export companies

There were 43,176 export companies in Catalonia in 2011, of which 11,498 exported goods worth over €50,000. The top thousand accounted for 81% of total exports. These companies belong to a wide range of sectors, reflecting the variety of Catalan businesses.

The companies that occupy the top ten positions in Catalonia for the export of goods are: Seat, Nissan, Roca, Mango, Puig, Seda de Barcelona (LSB), Grífols, Torraspapel, Werfen Life Group and Esteve. Each sold goods worth at least €500 million abroad and together they accounted for 20% of Catalan exports in 2011. The firms ranked between 11 and 100 are mostly large industrial firms whose exports are worth between €100 million and €500 million and who account for 27.4% of total exports. And finally there are the medium export firms, ranked between 101 and 1,000, which generate 34% of exports (Poveda, 2012).

Types of products

Catalan GDP (gross domestic product) was €207,762 million in 2012. If we deduct net taxes on products, the figures by sector are as follows:

Agriculture, livestock and fisheries	1,908
Industry	39,999
Construction	16,255
Services	<u>133,313</u>
Total gross added value	191,475 million €

In view of the importance of the service sector, closer attention is warranted to its various subsectors. The annual survey of the service sector carried out by the INE (Instituto Nacional de Estadística) gives the turnover data shown in Table 4 (note that the figures refer to revenue, not added value).

	Millions of euros
Wholesale trade and intermediaries,except motor vehicles	76,181
Retail trade,except motor vehicles and motorcycles	38,969
Transport and storage	20,435
Saleand repair of motor vehicles and motorcycles	17,133
Professional, scientific and technical activities	15,563
Information and communication	13,327
Administrative and support service activities	11,239
Accommodation and food service activities	11,004
Real estate activities	5,240
Arts, entertainment and recreation	650
Other services	369
Total turnover	210,110

Source:IDESCAT.

Table 4.Service sector turnover in Catalonia in 2010

Spanish and multinational firms operating in Catalonia

A key aspect to consider in our analysis is the presence in Catalonia of numerous Spanish companies, for whom the Catalan market represents between 15% and 25% of the Spanish market as a whole. The ten Spanish firms with the largest turnover are: Telefónica, Repsol, Santander Bank, Endesa,Iberdrola,ACS Group,CEPSA, BBVA, Mercadona and El Corte Inglés.Most of them are present on a large scale in Catalonia.

Specific consideration of foreign investments and multinationals

In 2012 there were 5,100 foreign companies in Catalonia, 63% of whose capital was predominantly foreign.To give an idea of their importance, suffice it to say that 2% of foreign industrial companies provided jobs to 23% of the workforce while 6% of them were responsible for 43% of Catalan exports.

Foreign investment in industrial companies in Catalonia in 2012 amounted to €1,300m. This is 23.8% of the total amount invested in

Spain, and appreciably more than the average for the last 10 years, which was €1,005 million (*Expansión*, 2013).

Many of the foreign multinationals in Catalonia are industrial enterprises with substantial fixed assets there. Consequently, they would need very powerful motives to move away. It would be easier, on the other hand, for them to transfer their Spanish headquarters out of Catalonia and of course to halt investments. In any event, such decisions are taken in the light of purely rational criteria, strictly in order to further the firm's interests. The shareholders of many multinationals and large companies include international investment funds whose only concern is profitability: other factors, as long as they are not detrimental, are of minor importance (Tugores, 2012).

In recent years certain multinationals have moved their headquarters from Catalonia to Madrid, responding to the pull of the capital and more attractive taxation for individuals. Among them are Merck (2007), Abbott (2010), Deutsche Bank (2010), Ausonia (2012), Cobega (2012), Schlecker (2013) and Procter & Gamble. In all likelihood the new situation will cause the number of such moves to rise.

Multinationals, like other companies, need political, economic and social stability. In order to run their business successfully, they must also avoid uncertainty as far as possible. For that reason it is important for the period of uncertainty generated by the independence process to be as short as possible.

When will foreign multinationals start worrying about Catalonia becoming a separate State and how concerned will they be? They are undoubtedly following the process very closely. Their policy, for the time being, will be to wait and see. It is vital in the interim for the process to evolve in a peaceful and democratic way and for Catalonia's intentions to include EU membership and respect for existing commitments. If things can be done on the basis of agreement and with the greatest possible celerity, this will help allay any fears that may arise. Catalonia is attractive to foreign investors. Indeed, once the independence process is consolidated, it could provide a good platform for attracting foreign capital and stimulating new investment.

Ideological, non-economic factors

Throughout the process, close attention must be paid to psychological factors and feelings. Strong anti-Catalan feelings have arisen in other parts of Spain in recent years, along with fierce opposition to Catalonia becoming a State in its own right. This is harmful: we must proceed with caution, striving to enlighten and persuade and to avoid provocation. Even so, it is more than likely that the feelings stirred up by certain sectors, political groups and sectors of the press will fire stern resistance to the independence process and a boycott of everything that smacks of Catalonia. We must bear in mind that all Spanish political structures, the Spanish government, the majority of political parties, the media, and Spanish civil society are bitterly hostile to the process that could lead Catalonia to statehood.

In Catalonia itself, prominent business people have displayed caution and avoided taking a stand. Only José Manuel Lara, the owner of the major publishing house Planeta, has threatened to move his firm away.

The entire process will, of course, be followed with concern by the EU and the United States administration, for whom it inevitably adds a new complication to the many already on their agendas. Should the need arise, however, they would react to prevent the emergence of non-democratic situations liable to undermine stability. It is more than likely that they would ultimately intervene, either directly or indirectly.

Other factors to bear in mind

By becoming a separate State, Catalonia could concentrate its efforts on the areas of greatest interest to it. When the centre of decision-making is close at hand, it is easier to provide efficient economic stimuli and, as a new State, Catalonia could design a more flexible, streamlined and business-friendly administration and an attractive fiscal policy.

Catalonia is an interesting country for foreign investors: it has a market of 7.5 million inhabitants with a fairly high level of income; its dynamism and potential for innovation are acknowledged throughout the world; it is an open, enterprising society with a geographically strategic location. These advantages, if accompanied by an administration that offers attractive policies, could encourage companies to locate their headquarters or centre of production here.

Conclusions

After considering how companies operating in Catalonia might be affected by the country's accession to statehood, we may summarise our conclusions in the following eight points.

First. The hypothesis which provided our point of departure was that, after analysing the different options, the Spanish government and Catalonia would fail to agree over a consultation that could permit Catalonia to become a separate State. If the consultation were held despite the central government's opposition and the response were affirmative, the Catalan institutions would make a unilateral declaration of independence. If the consultation could not be held, a plebiscitary election would be called and, should the independence option win, this too would lead to a proclamation of independence. A highly tense situation would arise but pressure from international organisations, the EU and large companies, along with the vital necessity of solving the very serious problems raised for both sides, would eventually lead to some negotiated settlement, notwithstanding the Spanish government's strong reluctance. This settlement, among other things, would provide for continued Catalan membership in the EU, or some equivalent formula. No other outcomes of the independence process have been considered because all seem highly improbable.

Second. It is very difficult to quantify the economic repercussions of the process on Catalan companies because of the deep feelings the issue arouses among Spanish and Catalan consumers alike and the political pressure these feelings could generate. Guinjoan and Cuadras (2012) anticipate that between 3% and 6% of Catalan GDP would be affected by a possible boycott but that the falloff would be more than made up for by the elimination of the fiscal deficit. Other economists opposed to the independence process include Mikel Buesa, who estimates that Catalan exports to Spain would drop by 40% to 60%, and José Luis Feito, who believes Catalonia would face total disaster, because it would have to leave the EU, perhaps abandon the euro, devalue its currency sharply, set up customs and tariff barriers, and be unable to obtain outside financing (Instituto de Estudios Económicos, 2012).

Third. In order to evaluate how the pressure on companies would affect the Catalan economy, we must concentrate on those that would feel the consequences most severely because of their size or the scope of their

activities in the Spanish market. With this in mind, the following data warrant attention.

SMEs are unquestionably a dominant feature of Catalonia's economic structure: only 2,144 firms have 200 employees or more. The 100 largest companies have a joint turnover of €160,000 million. But it is precisely these larger companies that exert most influence on sales to the rest of Spain and they are capable of reacting to avoid any significant downward trend.

The value of Catalonia's foreign exports in 2012 outpaced its sales to the Spanish market by a wide margin. This margin, moreover, is steadily growing over time. If we take goods that are both made and consumed in Catalonia into account as well, sales from Catalonia to the rest of Spain made up 36% of total output, with a tendency to decline. If criteria based on added value are used, sales to the rest of Spain, in 2005, were 22.6% of the total.

The leading Spanish companies have a firm foothold in Catalonia, which accounts for approximately 15%–25% of their sales to the Spanish market as a whole. They will be keen not to lose these sales. Catalonia, of course, also buys from the rest of Spain, and any reciprocal boycott would also lead to a fall in the purchase of Spanish goods.

In short, Catalan companies span a broad range of sectors, producing branded and unbranded consumer goods, industrial goods, energy and a wide array of services. Some are multinationals under foreign, Spanish or Catalan ownership which export their products; others are simply Catalan companies that operate only in Spain. This sectorial diversity, the worldwide image of many brands, and the declining importance of sales to the Spanish market mean that the consequences of independence, though negative, would not be especially serious or long-lasting, provided Catalonia, formally or informally, stayed in the EU.

Which sectors or companies would bear the brunt if some kind of boycott took place or Spaniards felt reluctant to buy «Catalan products»? A few well-known firms that manufacture products with a strong Catalan identity would probably be most seriously affected. Catalan cava, notably that produced by Codorniu and Freixenet, has been a target of past boycotts. The food products of Casa Tarradellas have also suffered occasionally. Such campaigns are based on emotions and are short-lived, though they can leave their mark. To simplify we might say that the sectors most

likely to be in the firing line are certain branded consumer goods, transportation, tourism from other parts of Spain, and banks, notably Caixa-Bank and Banc de Sabadell. Some companies have already shown foresight by taking preliminary steps in case the process should lead to Catalan statehood. But whatever the outcome, it is difficult to make a quantitative estimate of the negative effects of the overall process.

A more serious situation could arise if the aversion towards «all things Catalan» attained such proportions that Spanish consumers began to investigate the origin of everyday or durable consumer goods, industrial products or even services. The same aversion might be shared by certain business people or chief buyers but in any case it could not last long. Firms buy products and services when it is in their interest to do so: quality and profit and loss statements are what counts, seldom reactions based on feelings.

Fourth. To carry on a successful business, companies need stability and shun uncertainty as far as they can. They usually reach decisions in a rational way, invariably in the light of their own interests. But in the case of Catalonia, we have to take into account not only the rational, business-orientated factors, but also the psychological and emotional factors which the independence process may arouse among many Spanish consumers, as well as pressure from political spheres and the media.

Fifth. In Catalonia there are 3,200 firms under majority foreign ownership but it is the decision of the 100 largest about possible relocation that will prove crucial. Just 2% of foreign industrial companies employed 23% of the working population while 6% accounted for 43% of Catalan exports. We may be sure that these companies are keeping a very close watch on the independence process and weighing up its possible impact on their businesses. In the short term they will pursue a «wait and see» policy, until more concrete developments enable them to assess the situation more accurately. Only if the overall conjuncture were seriously detrimental would they consider relocating.

Six. The upheaval and uncertainty caused by the independence process would unquestionably hurt companies in the initial stages and would leave scars. But, according to a widely held opinion, Catalan membership in the EU would, in the long term, bring advantages and a higher standard of living, as happens in other European countries of comparable size. The changeover would offer a good opportunity to correct defects and adapt the model of society to the new times. The Catalan adminis-

tration could be made less cumbersome and more adaptable, while fiscal policies and incentives conducive to drawing firms and investments could be designed. Many companies, for instance, have their headquarters in Ireland because corporation tax there is 12.5% of profits. The difficulty stems from the complexity of the transition period during which Catalonia would stop being an autonomous community within Spain and become a State in its own right. During this time, other factors, both positive and negative, apart from those already mentioned, will have to be taken into consideration.

Seven. Attention must also be paid to the highly significant repercussions the Catalan independence process would have on the Spanish economy. All the macroeconomic variables would be affected, including GDP, government debt, the budget, fiscal revenue, the administrative structure, exports, the balance of payments deficit and level of income. The impact on the Spanish economy must be assessed so as to try to alleviate it and set up an appropriate transition period. The divorce, or separation, could have positive effects if it created a strong incentive for Spain to launch an in-depth political, economic and cultural regeneration.

Eight. In order to minimise the possible adverse consequences, it is crucial for the process to unfold in a peaceful and democratic way and for Catalonia to seek membership in the EU and stand by prior commitments. In view of the importance of the issue, the period of uncertainty should be kept as short as possible, which means that the citizens of Catalonia should be consulted at the earliest opportunity. Both sides should consistently act with moderation, while the process is underway and once it is completed, fostering constructive dialogue and mutual understanding, while agreements based on reason should be sought to facilitate the transition and reduce harmful effects as far as possible. It is also important to try to rebuild as many bridges as possible with a view to future cooperation that would be beneficial to the citizens of both countries.

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12

Impact of an independent Catalonia: the economists' view

Àngel Hermosilla
(Translated by Monika Ferré)

Introduction

This chapter contains the views of the group of economists who form *The Catalan Association of Economists* (Col·legi d'Economistes de Catalunya) concerning Catalonia's future in relation to Spain and the consequences that might arise in the case of Catalonia becoming an independent State. It considers different aspects (relation to the European Union, economic feasibility, the impact on the Catalan economy...). It is a highly qualified opinion given the relationship between the economy and the subject, especially considering the broad professional and social base of these economists in many fields of everyday life. Their views were collected in a survey designed for this purpose.

The documentary base of the chapter is the 1,261 responses obtained from a survey containing 15 questions, electronically submitted on three occasions between 17 September and 1 October 2013⁵⁸. The survey was sent to the 6,060 members of *The Catalan Association of Economists* and

58. We acknowledge and thank J. B. Casas, O. Amat, M. Guinjoan and Ll. Santaló for designing the questionnaire and the technical services of *The Catalan Association of Economists* for administering the survey.

the sample represents 20.8% of its total membership. As for the employment status of the participants, the majority of responses are from business people and/or the self-employed and employees: 45.9% and 38.8% of the total sample, respectively, as shown in Figure 1. The rest are unemployed and pensioners. As for place of residence, 82.5% of the responses are from economists living in Barcelona.

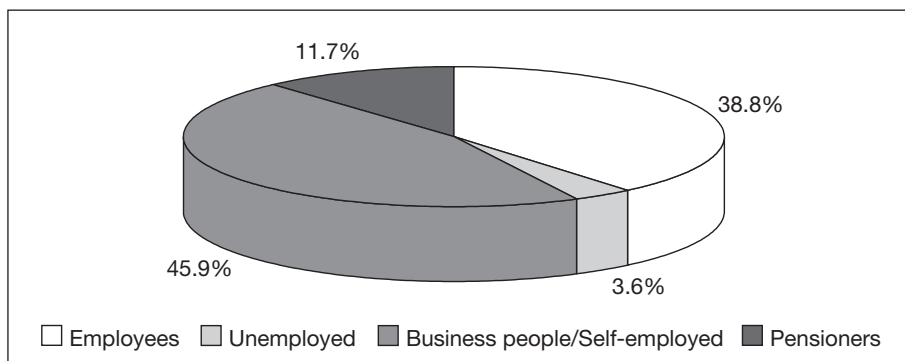


Figure 1. Sample profile by employment status (% of total)

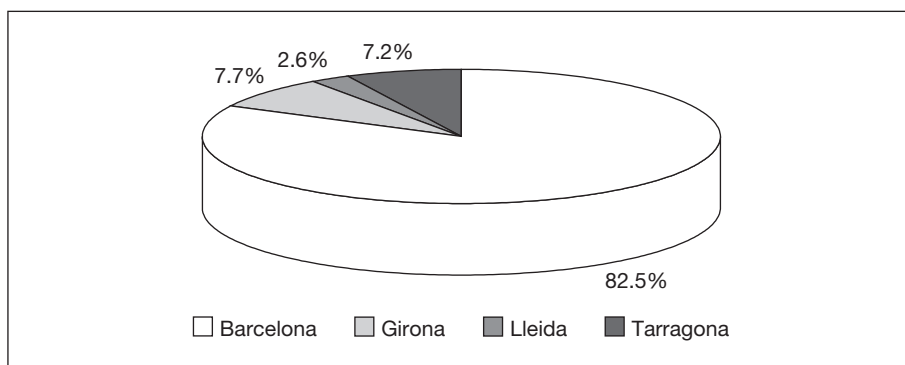


Figure 2. Sample profile according to place of residence (% of total)

Future of Catalonia within Spain

53.7% of the economists taking part in the survey opted for an independent State for Catalonia as the best solution for its future political and economic relationship with the rest of the Spain, as shown in Figure 3.

The second choice is divided equally between maintaining the State of the Autonomous Regions, but with a Fiscal Pact similar to that of the Basque Country and a federal model, alternatives chosen respectively by 19.6% and 19.5% of the members. Only 4.5% opted to maintain the current organisation of the State and 2.0% to increase the centralisation of the Spanish Government.

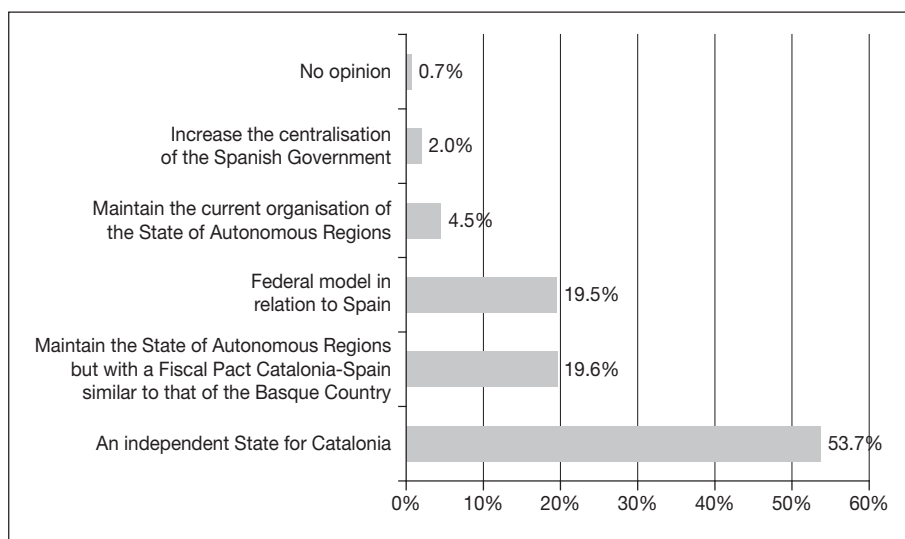


Figure 3. What do you think is the best solution for Catalonia's future regarding the political and economic relationship with the rest of Spain? (% of total)

The majority of all groups, irrespective of their employment status, opted for an independent State for Catalonia as the best solution. As seen in Figure 4, unemployed economists are most in favour of this option, followed by pensioners and employees. Maintaining the State of Autonomous Regions with a Fiscal Pact similar to that of the Basque Country is especially favoured by business people and/or the self-employed. The federal model is most popular with pensioners and employees.

Figure 5 shows the influence of the place of residence, with a majority of all areas in favour of an independent Catalonia as a future option in relation to the rest of Spain. This is particularly so in the case of the economists of Girona. On the other hand, the option of maintaining the State of Autonomous Regions with a Fiscal Pact similar to that of the Basque Country is mainly supported by the members from Tarragona. The federal model has been chosen mainly by the Barcelona members.

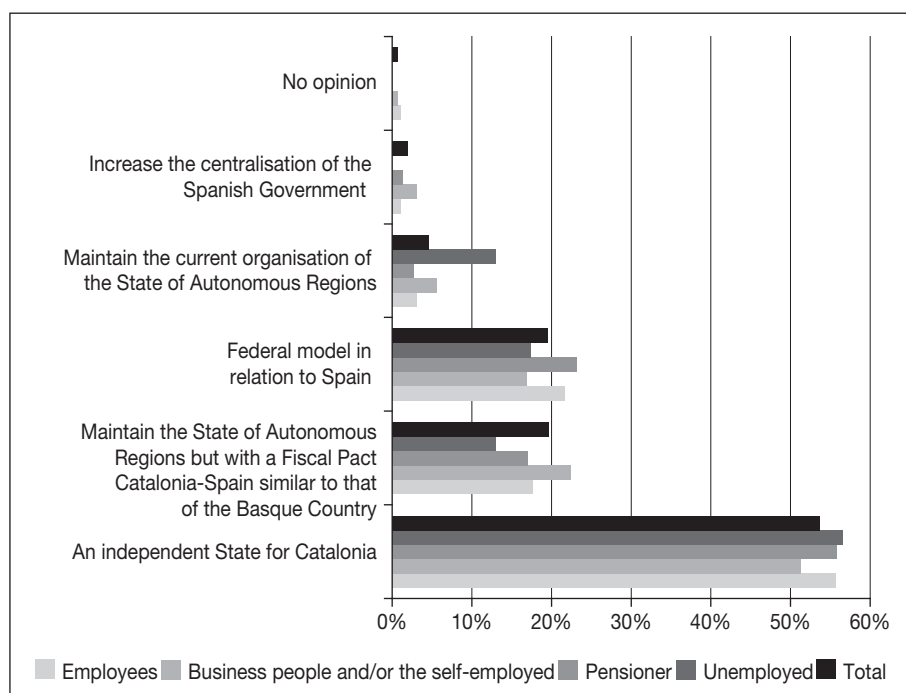


Figure 4. What do you think is the best solution for Catalonia's future regarding its political and economic relationship with the rest of Spain (according to employment status)? (% of total)

Catalonia within the European Union

Figure 6 shows that 73.1% of the economists think that a Catalan State would find its fit in the European Union, in contrast to the 21.6% who think it would not. 5.3% don't express an opinion. Irrespective of their employment status or place of residence, most members consider that a Catalan State would fit into the European community. This is particularly so for employees who are not located in the Barcelona area, especially those living in Lleida. Business people and/or the self-employed and those living in Barcelona are the most critical.

As Figure 7 shows, half the members consider that a Catalan State would be viable even if not within the European Union. 43.6% do not share this view and think it would only be feasible within the EU. The unemployed and those living in Girona are the groups who most favour viability even outside the EU (58.7% and 60.8% respectively), whereas pen-

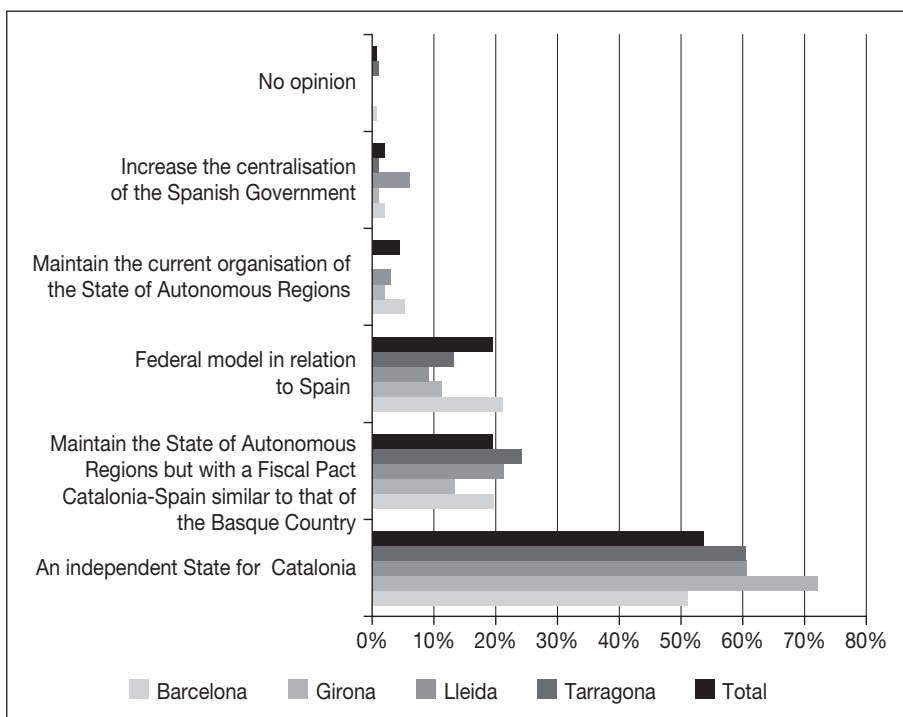


Figure 5. What do you think is the best solution for Catalonia's future regarding the political and economic relationship with the rest of Spain? (according to place of residence) (% of total)

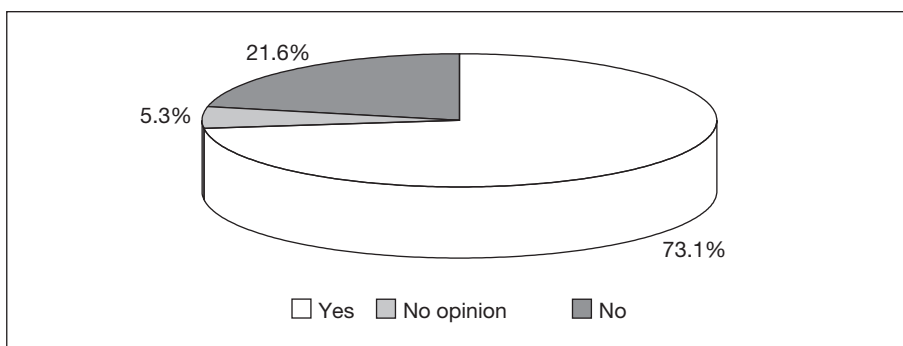


Figure 6. Do you think a Catalan State would fit into the European Union? (% of total)

sioners, business people and/or the self-employed (45.6% and 45.3%, respectively), and those living in Tarragona (48.4%) are the most critical.

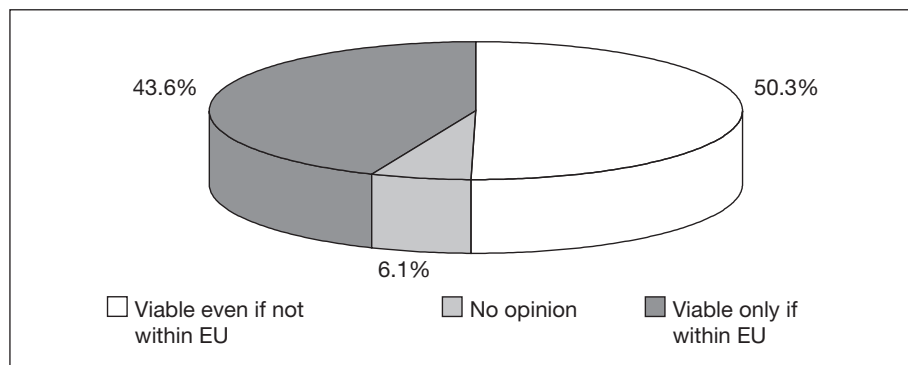


Figure 7. In which of these situations do you think a Catalan State is viable?
(% of total)

Economic effects

Economic viability

As Figure 8 shows, 71.1% of economists believe that a Catalan State is economically viable, compared with 24.4% thinking the opposite. Only 4.5% do not express an opinion. Although a majority of all groups consider a Catalan State viable from the economic point of view, employees (75.9%) and those from Girona and Lleida (84.5% and 81.8%, respectively) are those most in agreement. The unemployed economists, business people and/or the self-employed (30.4% and 29.2%, respectively), and those living in Barcelona (26.3%) are those who least believe in the viability of an independent Catalan State.

On the other hand, as shown in Figure 9, almost all members who think that the future of Catalonia lies in becoming an independent State believe, as is logical, that this is feasible from an economic point of view. Of those who prefer to maintain the State of Autonomous Regions but with a Fiscal Pact similar to that of the Basque Country, 57.9% consider that a Catalan State is not economically viable, compared with 42.1% who do. Supporters of a federal model are more in favour of the economic viability of a Catalan State (54.7% versus 45.3%).

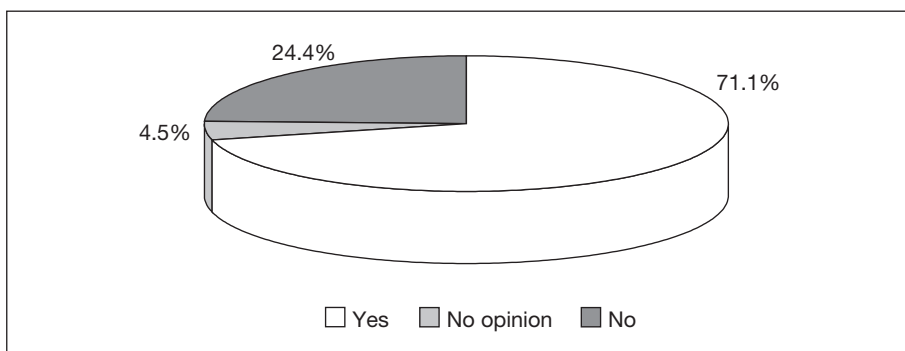


Figure 8. Do you think a Catalan State is economically viable? (% of total)

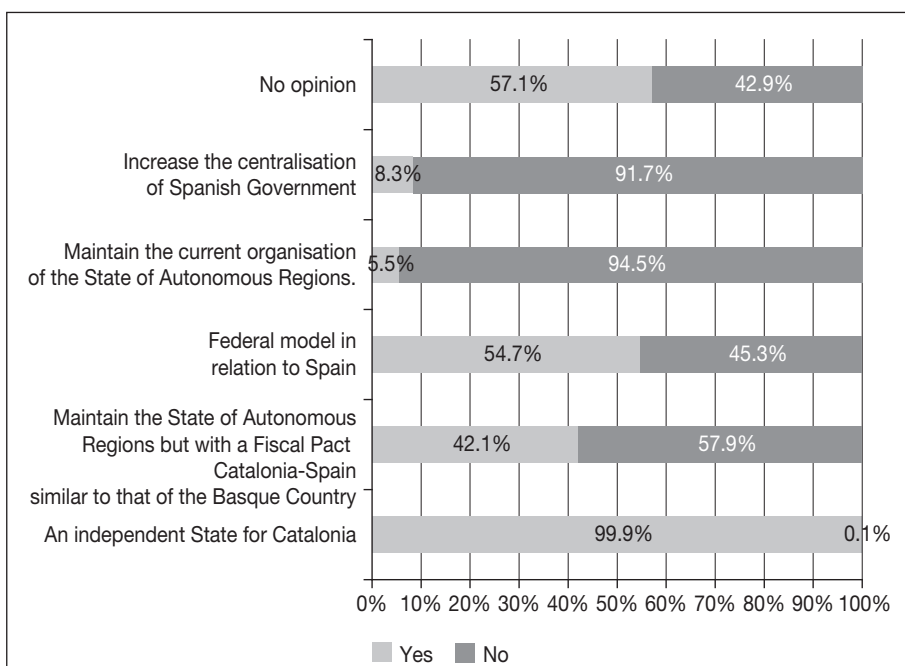


Figure 9. Do you think a Catalan state is economically viable, according to the opinion of Catalonia's future within Spain? (% of total)

Impact on the Catalan economy

In the members' opinion a Catalan State will have a negative impact on the Catalan economy in the short term, but this will reverse and become positive in the long term. As Figure 10 shows, 59.4% of economists think that the impact of a Catalan State will be unfavourable for the Catalan economy in the short term, while 28.0% believe it will have little relevance and 12.6% think it will be positive. However, in the long-term, 72.8% of them consider that the impact will be favourable, while only 15.4% consider it will be negative and 11.8% that it will be not very significant.

In the short term, the most optimistic groups are the unemployed and those living in Lleida, whereas the most pessimistic are the employees. This last group, together with those living in Lleida and Girona are the most optimistic in the long-term and the most critical are the unemployed, business people and/or the self-employed and those living in Barcelona.

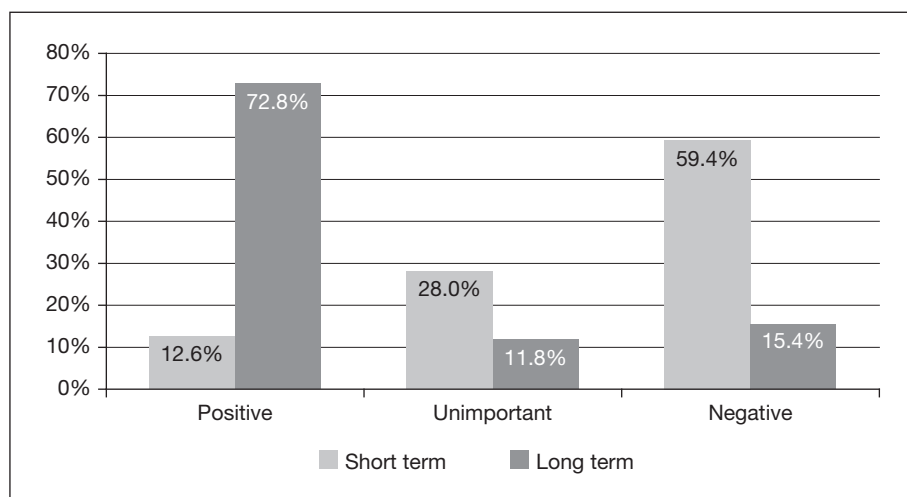


Figure 10. Impact on the Catalan economy in a Catalan State (% of total)

If we consider the groups according to their opinion regarding the future of Catalonia and its relationship with Spain, they mostly think that the impact on the Catalan economy of a Catalan State will be negative in the short term. Of these the group supporting an independent State is the most optimistic, even though those who think it will have a negative ef-

fect still predominate. In the long term, however, these are all optimistic, as are those who prefer a federal model and those who wish to keep the State of Autonomous Regions with a Fiscal Pact similar to that of the Basque Country.

Impact on the accounts of the Generalitat (Government of Catalonia)

Finances of the Generalitat

According to Figure 11, 67.6% of economists think that the finances of the Government of Catalonia would improve if there were a Catalan State. 28.4% do not agree and 4.0% have no opinion. All members, regardless of their professional status and place of residence, think that the existence of a Catalan State would enable an improvement in the finances of the Government. This is particularly so among employees (72.2%) and economists located in Girona (83.5%). The most critical are the unemployed, business people and/or self-employed (34.8 and 33.2%, respectively), and those who live in Barcelona (30.7%).

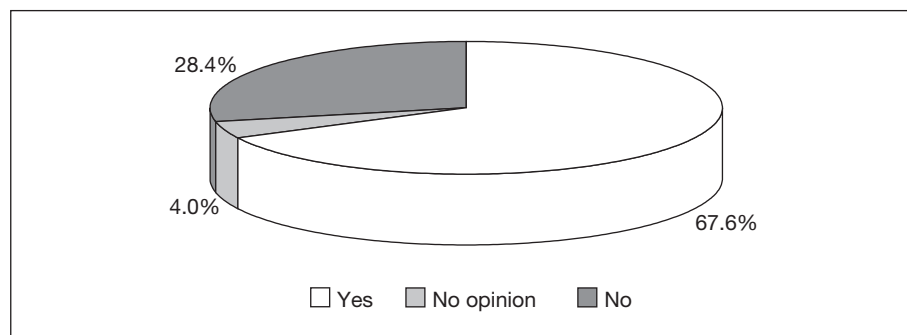


Figure 11. Do you think the finances of the Generalitat would improve with a Catalan State? (% of total)

Indebtedness/deficit of the Generalitat

As shown in Figure 12, 56.9% of economists believe that the existence of a Catalan State would enable the reduction of the current indebtedness/deficit of the Generalitat more rapidly than any other

alternative. This is not supported by 37.4% of the members. 5.7% do not express an opinion. All groups show optimism about the possible debt/deficit reduction, especially pensioners (63.9%) and those living in Girona (71.1%). However, business people and/or the self-employed and the unemployed (40.8% and 39.1%, respectively) and those living in Lleida and Barcelona (39.4% and 39.3% respectively) are more critical.

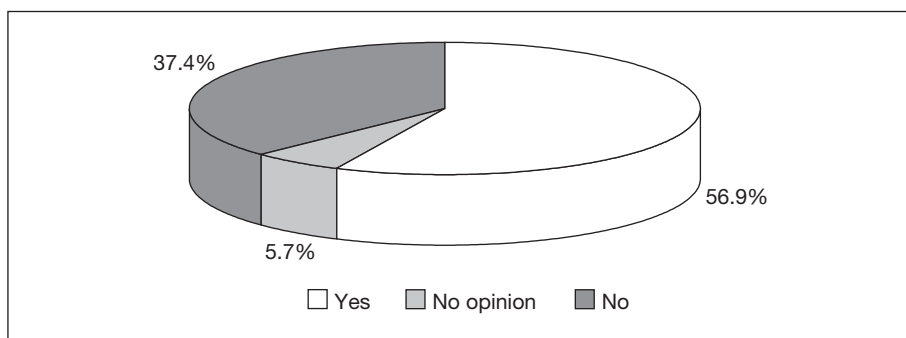


Figure 12. Do you think the existence of a Catalan State would allow a faster reduction of the current indebtedness /deficit of the Generalitat, rather than any other alternative? (% of total)

Impact on companies

Improvement of the production model

As highlighted in Figure 13, 63.8% of the economists think that the existence of a Catalan State would speed up improvement of the Catalan production model, while 31.5% think it would not. 4.7% express no opinion. The idea that a Catalan State will benefit the Catalan production model predominates in all groups, especially employees and pensioners (66.9 and 66.0%, respectively) and those living in Girona (82.5%). On the other hand, business people and/or self-employed (35.4%) and members located in Barcelona (34.0%) are the most critical.

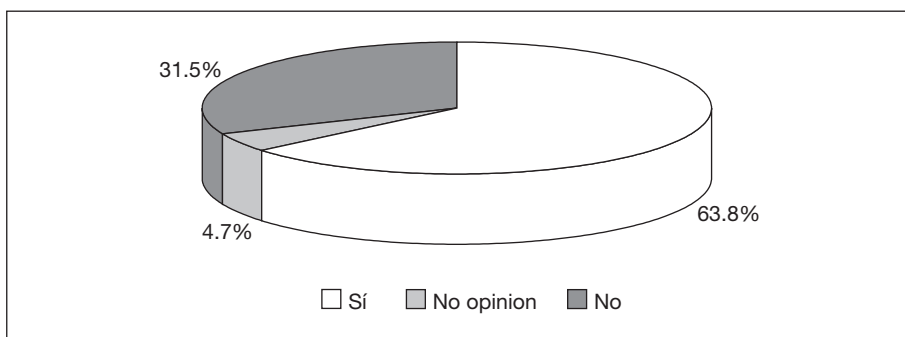


Figure 13. Do you think that the existence of a Catalan State would speed up improvement of the Catalan production model? (% of total)

Trade boycott by the rest of Spain

89.5% of the economists believe that, if Catalonia were a State, the rest of Spain would boycott Catalan products and services. Figure 14 shows that 60.1% of these consider the boycott would be easily surmountable, while 29.4% consider that it would be very damaging for the Catalan economy. Only 8.4% think there would not be any trade boycott, while 2.1% express no opinion. All groups, regardless of their employment status and their place of residence, highlight the possible consequence of a trade boycott on Catalan products and services by the rest of the Spanish State in the case of a Catalan State.

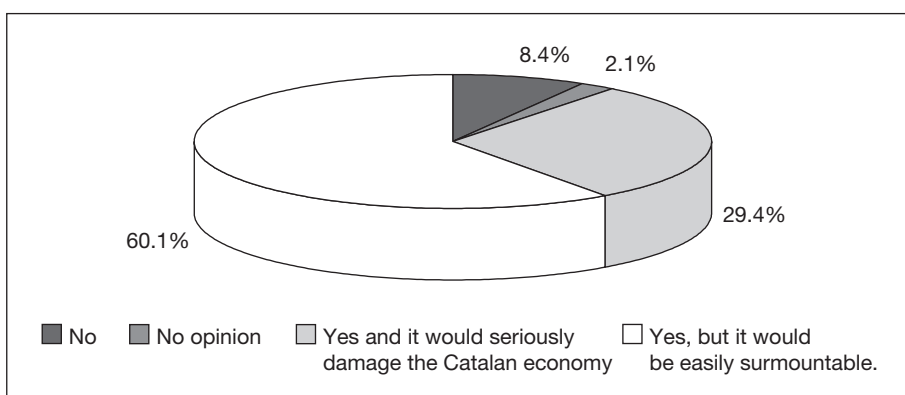


Figure 14. In the case of Catalonia being a State, do you think the rest of Spain would boycott Catalan products/services? (% of total)

More specifically, 94.6% of pensioners believe there would be a trade boycott, but it is also the group which most considers that it would be easily surmountable (75.5%). The most pessimistic are the business people and/or self-employed, where 89.3% think there would be a boycott and 35.1% think it would be very disadvantageous for the Catalan economy. The unemployed economists are the most optimistic, since 15.2% believe there would be no trade boycott.

Taking into account the place of residence, members from Lleida and Barcelona are the most convinced of a trade boycott in the case of Catalonia being a State (90.9% and 90.2% respectively), although in Lleida they also believe that it would be easily overcome, as do 67.0% of those living in Girona. Finally, Tarragona members are the most optimistic, as 15.4% believe there would be no boycott.

Business investment

As Figure 15 reveals, if Catalonia were a State, economists think that business investments in Catalonia would vary according to their origin. 45.8% believe that multinational companies would maintain their investments in Catalonia. Of the remainder slightly over a quarter, consider they would reduce investments and a 24.5% think they would increase. In the case of Spanish investing companies, about 70% of members think these would decrease their investments in Catalonia, whereas 24.9% believe they would maintain the same level. Finally, economists believe that, if Catalonia were a State, Catalan companies would invest just as much (44.5%) or even more (42.5%). Only 10.6% think they would reduce their investments.

If Catalonia were a State, those most optimistic with regard to companies increasing their investments, regardless of the origin of the investing companies, are the unemployed and the residents of Girona. Business people and/or the self-employed and those located in Barcelona are the most pessimistic. Pensioners and residents of Lleida tend to believe that investments would be maintained as before.

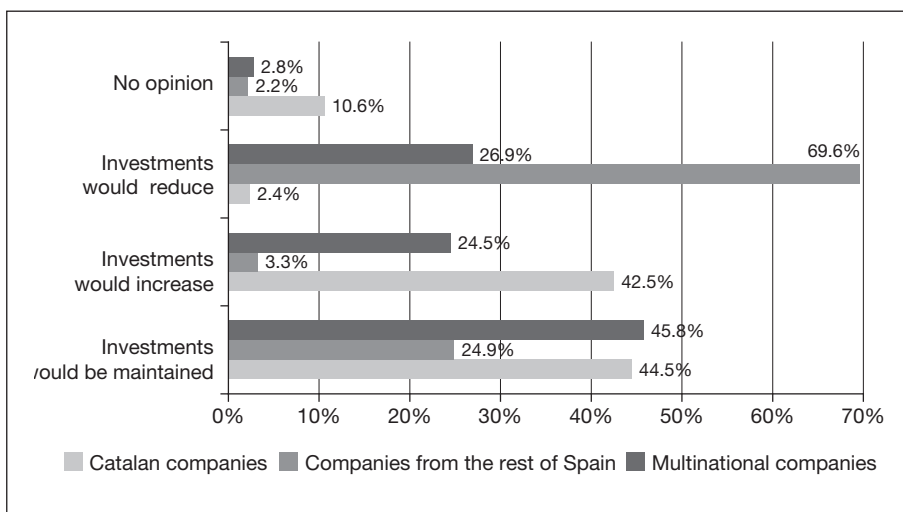


Figure 15. In the case of Catalonia being a State, what impact do you think it would have on business investment in Catalonia? (% of total)

Impact on society

Social cohesion

57.8% of economists think that the process of creating a Catalan State would not cause the breakdown of social cohesion in Catalonia, as shown in Figure 16. Nevertheless, 37.8% believe it could, while 4.4% do not know. Although these views are broadly held by all groups, pensioners (63.9%) and residents of Lleida and Tarragona (69.7% and 67.0% respectively) most believe that such a process would not cause the breakdown of social cohesion. On the other hand, business people and/or the self-employed and those located in Barcelona are those who most indicate that rupture may occur. When taking into account opinions expressed on the future of Catalonia within the Spanish State, the predominant idea is that the process of creating a Catalan State could cause the breakdown of social cohesion in Catalonia. This is not true of those who are in favour of an independent State. Those who want to increase the degree of centralisation of the Spanish government and those who want to maintain the current organisation of the State of Autonomous Regions form part of the first group. In the group favouring an independent State only 10.4% think there could be a social breakdown.

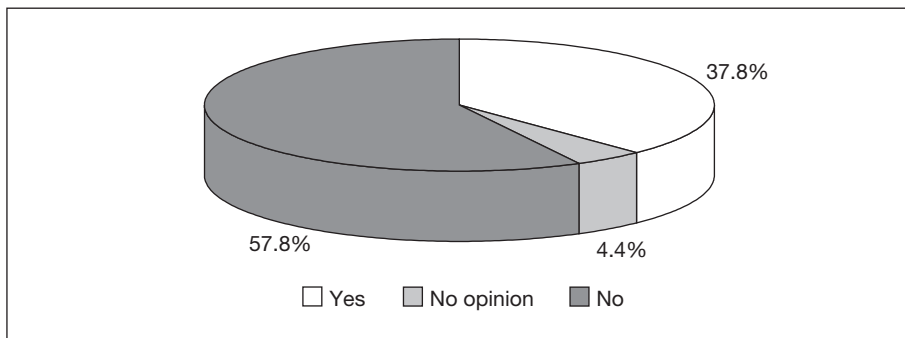


Figure 16. Do you think that the process of creating a Catalan State could cause a breakdown of social cohesion in Catalonia? (% of total)

Pensions

62.3% of economists think that a possible Catalan State will affect people's pensions, compared with 27.9% who believe it will have no effect, as reflected in Figure 17. 9.8% do not know. Within the first group opinions are divided: 37.1% think that the effects would be positive, 25.2% negative.

Based on employment status, employees are the most optimistic with regard to the potential effects of a Catalan State on pensions (39.3%), while business people and/or the self-employed and the unemployed are the more pessimistic (29.7% and 28.3%, respectively). It is worth noting that pensioners are those foreseeing no effects (38.8%).

Taking into account the place of residence, the economists located in Girona are the group who show the most positive expectations regarding pensions in the case of a Catalan State (48.5%), in contrast with those in Barcelona (26.3%). The economists located in Lleida are those who most consider there will be no effect (36.4%).

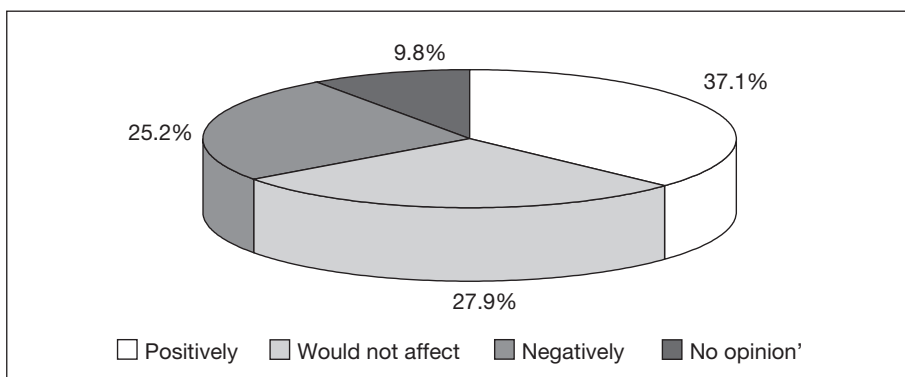


Figure 17. How do you think the existence of a Catalan State would affect people's pensions? (% of total)

Impact on their profession

As Figure 18 shows, 54.8% of economists believe that the establishment of a Catalan State may have an impact on their area of professional activity, while 38.4% think it would not and 6.8% express no opinion. The effect of this impact is not clear: 29.0% of members foresee a positive effect, but 25.8% suggest it may be negative.

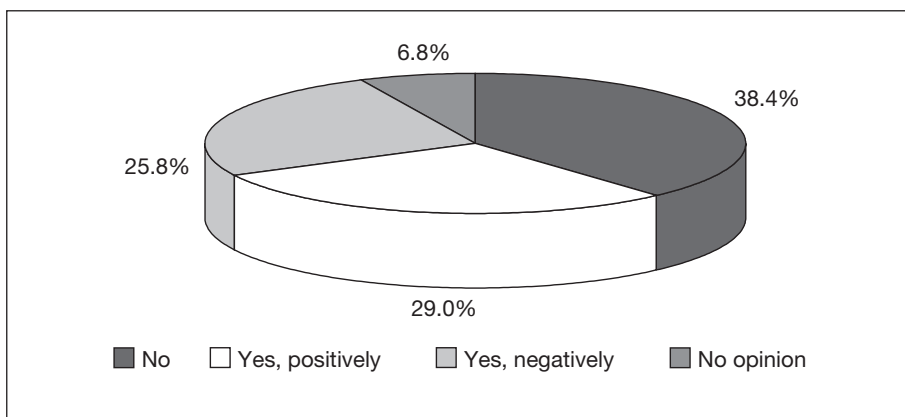


Figure 18. Do you think the establishment of a Catalan State may have an impact on your professional activity? (% of total)

Based on employment status, in the case of a Catalan State, the unemployed are those who most foresee possible consequences for them pro-

professionally and 47.8% believe it would be positive. On the other hand the group of business people and/or the self-employed shows the highest percentage of negative effects (29.7%).

Finally, based on the place of residence, Tarragona has the highest proportion of economists who do not foresee any impact on their professional activity due to the establishment of a Catalan State. Members located in Lleida and Girona are those who most expect positive effects.

Conclusions

This chapter has presented the data from the survey administered to members of the Catalan Association of Economists. The main conclusions are as follows:

- Just over half the economists favour an independent State for Catalonia as the best option for the future relationship with Spain. Opinions regarding the alternative to this possibility are divided between maintaining the State of the Autonomous Regions but with a Fiscal Pact similar to that of the Basque Country and a federal model (19.6% and 19.5% respectively).
- Most economists believe that a Catalan State would find its fit in the European Union. Half of them also consider that it would be viable outside it with 40.6% thinking it would only be viable as part of it.
- Most economists think that a Catalan State would be economically viable. They think that, in the short term, there would be a negative impact, or no impact, on the Catalan economy but, in long term, the effects would be favourable.
- If there were a Catalan State, a significant proportion of the economists think that the finances of the Generalitat of Catalonia would improve and its indebtedness /deficit could be reduced more quickly.
- The members think that the existence of a Catalan State would speed up improvement of the production model of Catalonia, but would cause a boycott by the rest of Spain on Catalan products and services. However, they also think this would be easily surmountable.

- Slightly less than half the economists think that, if Catalonia were a State, the investments of multinational companies would remain the same, but about 70% think that those relating to the rest of Spain would reduce. Investments by Catalan companies would either remain stable or increase.
- Almost 60% of members believe that the process of creating a Catalan State would not cause the breakdown of social cohesion in Catalonia.
- Most economists believe that the existence of a Catalan State would affect pensions, either positively (37.0%) or negatively (25.2%).
- Slightly over half the members consider that the establishment of a Catalan State may have an impact on their area of professional activity, either positively (29.0%) or negatively (25.8%).
- With regard to the different groups, those most in favour of everything concerning a Catalan State (formation, feasibility, fitting into Europe, economic and social impact...) are the employees, those located in the province of Girona and, logically, those who favour an independent State. On the other hand, the most critical are the business people and/or the self-employed, those located in Barcelona, the supporters of increasing the degree of centralisation of the Spanish government and of maintaining the current organisation of the State of Autonomous Regions. It is worth noting that the opinions of the groups committed to maintaining the State of Autonomous Regions with a Fiscal Pact similar to that of the Basque Country and those in favour of a federal model in relation to Spain differ depending on the issues.

13

Conclusions: economic certainties and political question marks

Oriol Amat and Modest Guinjoan
(Translated by Mike Holt)

As stated in the preface by the Dean of the Association of Economists of Catalonia and the introduction, the aim of this publication is to give answers to questions we are asking ourselves about the viability and economic implications of a hypothetical independent Catalonia. To sum up, there follows a brief outline of the main conclusions reached by the authors contributing, which make it possible to point to economic certainties but also raise questions, essentially arising from political uncertainties.

What are the main economic deficits in the current relationship between Catalonia and Spain? Oriol Martinez Alòs-Moner and Vicent Pastor identify a deficit in infrastructures amounting to 5.5 % of GDP due to insufficient investment in Catalonia by the Spanish government. Another deficit is fiscal. This has remained steady at around 8% over the last 15 years and represents about 16,000 million euros every year. These deficits have a highly negative impact on the possibilities of growth to generate greater welfare in Catalonia.

What is the economic potential of Catalonia? Would this potential improve with independence? Oriol Martinez Alòs-Moner and Vicent Pastor, and also Francesc Raventós, argue that there are various foundations (industrial tradition and diversification, scientific excellence, export strength, the tourist industry, the ability to attract foreign invest-

ment, European and international position) which give a Catalan State extraordinary potential. They also consider, agreeing with the authors of the book to which they refer in this respect, that independence would enable the Catalans to decide how to manage their tax resources, infrastructure and economic policy, which would maximise the potential of the Catalan economy.

What do economists think is the best political and economic scenario for Catalonia? The survey coordinated by Àngel Hermosilla reveals that the most popular scenario is that of an independent State (preferred by 53.7% of economists). Next come the option of a fiscal pact (19.6%) and a federal model (19.5%). On the other hand, the options of keeping the present form of the Spanish State with Autonomous Regions and increasing centralisation attract only marginal support (4.5% and 2%, respectively).

Are instruments of state needed? According to Antoni Castells, Catalonia needs the instruments of a state in order to pursue the right policies for Catalan society, as the centralised, radial, Madrid-based model promoted and implemented by the Spanish government is not appropriate to Catalonia.

What method should be used to assess the economic effects of independence on the public deficit and GDP? Antoni Castells argues that the flow and flow of benefits methods explain different things and provide answers to different questions:

- The flow of benefits is appropriate if the aim is to determine the effects of independence on the reduction of the Catalan government's public deficit, because if Catalonia became an independent State part of existing central government spending would have to be taken over by the government of Catalonia.
- On the other hand, the flow method would be the appropriate one if the aim were to study the impact on Catalan GDP, because even though the Catalan government would have to take on spending it does not currently undertake, the money would not flow out of Catalonia as it does at present.

Is independence economically viable? Like all the other authors referred to, Antoni Castells argues that Catalonia could clearly be economically viable just as much smaller countries already are despite their

having less potential and less per capita income, and being less diversified and much more dependent than Catalonia.

His opinion regarding the economic viability of Catalonia is shared by 71.1% of the members of the Association of Economists surveyed. Moreover, 72.8% believe that independence would have a positive impact on the Catalan economy.

Would an independent Catalonia be part of the European Union?

There is a consensus on the need for Catalonia to remain in the EU to assure its viability as an independent State. There is also a broad consensus that this is a political issue rather than an economic one. Francesc Granell believes it is essential for Catalonia, before taking on any other challenges, do its best to ensure that no EU member opposes a Catalan application for membership of the union, or opposes recognition of Catalonia as a “normal State” in the international community and as a member of the United Nations.

Miquel Puig concludes that Catalonia would be born within the EU. He also considers that in the event of a Spanish veto it would be in the interests of both sides (and in particular that of the multinationals operating in Catalonia) for Catalonia to be associated with the EU through a bilateral treaty guaranteeing the continued free circulation of goods, services, people and capital. In this respect, it should be remembered that an important recent development was the opening by the European Commission of negotiations for a free trade association agreement with Kosovo; under the Treaty of Lisbon, such an agreement does not need to be approved by member States and therefore none of them can veto it.

Antoni Castells envisages two phases in the EU’s reaction:

- First phase: the EU will attempt to prevent Catalan independence because it will cause instability and make Spain less solvent. The EU will therefore warn that an independent Catalonia would be left outside the EU (the stick) and will meanwhile pressure the Spanish government to offer a pact that makes it possible to deflate the separatist bubble in Catalonia (the carrot). Thus, it will try to stop the Spanish government from refusing dialogue of any kind and so making independence unstoppable.
- Second phase: if independence became inevitable, the EU would try to ensure it caused as little damage as possible. A rupture on bad terms rather than an agreed one would be highly damaging to Cat-

alonia, but also to Spain; among other fundamental issues, in the sharing out of debt.

In this respect, 73.1% of the economists surveyed believed that a Catalan State would find a place in the European Union and 50.3% considered that Catalonia would remain viable even if it were not in the European Union.

Would an independent Catalonia be part of the euro? There is also a broad consensus on the wish to keep the euro as a currency and to forgo an independent monetary policy, delegating this to the European Central Bank. Jordi Galí suggests that in a scenario of cooperation, where neither side sets out to deliberately harm the other, any initial cost arising from the fit of a possible Catalan State within Europe and the world would be insignificant, and in any case transitory. Moreover, with the cooperation of all sides and a reasonable time for preparation, there should be nothing to prevent full continuity within the framework of existing economic and financial relations and the rights and duties associated with them. Likewise, Miquel Puig envisages that a new Catalan State would carry on using the euro.

Would an independent Catalonia have a viable financial system? Anton Gasol and Xavier Segura state that to have a viable financial system within the framework of an independent Catalonia, it is essential for Catalonia to belong to the European Union and remain as a member of the Eurozone.

What impact would new state structures have on employment? Josep Pedrol compares Catalonia with other European countries with similar populations and per capita incomes, and concludes that Catalonia has a small public sector with plenty of scope for growth. He assesses the workforce of the Catalan government, comparing it with the Spanish central government public sector in terms of areas of activity, and suggests that a Catalan State could create between 51,000 and 71,000 jobs, depending on the types of national structure it decided to construct.

How would tax revenue and public spending stand? Could the welfare state be kept at the same level or even improved? Núria Bosch and Marta Espasa measure the potential public revenue which would be generated in Catalonia if it were to become a new State, together with the additional expenditure the Catalan government would have to undertake. If

Catalonia had been an independent State in the period 2006–09 and had the same tax system and fiscal pressure as Spain, the Catalan government would have collected an average of 49,018 million euros more every year. If it had had to take on new powers, the cost of the additional expenditure would have been 35,129 million euros a year, on average.

Consequently, they estimate the fiscal gain for an independent Catalonia to be 13,889 million euros a year, on average, equivalent to 7.1% of GDP. This gain would be obtained while keeping up the existing welfare state, i.e. also including social security. Catalonia could therefore maintain and even improve the level of these services.

This fiscal gain would generate a multiplier effect for the Catalan economy, as it could be used to raise public spending or reduce taxes. An increase in public spending and/or a tax cut would boost consumption and/or investment, which would have a positive effect on the country's output, so creating new jobs. Bosch and Espasa therefore conclude that public finances in an independent Catalonia would be perfectly viable and would allow the welfare state to be maintained in its present form.

This assessment is in line with the majority opinion according to the results of the survey of members of the Association of Economists. 67.6% of them also thought that the finances of the Catalan government would improve if a Catalan State existed.

What are the prospects for debt and the sharing out of assets?

David Ros and Roger Fatjó analysed the possible size of the Catalan government's public debt, as well as that part of the Spanish national debt that would be inherited by Catalonia. They conclude that the indebtedness of the new Catalan State would stand at between 52% of GDP, if it did not inherit Spanish debt, and 103% of GDP in the worst-case scenarios explored, depending on the result of negotiations over the sharing out of assets and liabilities.

Castells also considers that an independent Catalonia would have more solid, sustainable finances in the long term. However, he warns against the commonly-voiced claim that doing away with the fiscal deficit would solve the Catalan government's financial problems overnight, stating that this only encourages confusion.

In line with this, 56.9% of the economists surveyed thought that, in an independent Catalonia, the government could reduce its debts more quickly.

Could pensions be paid? Núria Bosch and Marta Espasa show that old-age pensions and other comparable benefits would actually be more sustainable in an independent Catalonia than in the rest of Spain, because its economic activity means that the number of contributors is high in relation to the number of pensioners, so that contributions would cover the cost of pensions. They also discuss the long-term sustainability of the pension system, which depends on factors related to population and the job market. These factors point to a need for a thorough overhaul of the system in order to guarantee its sustainability in the long term.

As regards the opinion of the economists surveyed, a majority of them think that independence for Catalonia would have a beneficial impact on pensions.

Could Catalonia cope with a trade boycott of its companies? Xavier Cuadras and Modest Guinjoan assess the impact of a possible boycott in different scenarios according to their severity. A boycott could harm Catalan firms that sell mainly to the Spanish market. However, any boycott would have to be on an unthinkable level to cancel out the positive impact of independence in fiscal terms. As one of the principal benefits of independence, they point to the possibility of implementing economic policies which are better suited to the needs of the productive sector, which would improve growth prospects for the Catalan economy as a whole.

Antoni Castells envisages a fall in trade of 1.5% of GDP, easily compensated by the elimination of the fiscal deficit. Overall, the positive impact of independence would lead to GDP growth of around 3% in the short term and between 7% and 8.5% in the long term.

The members of the Association of Economists surveyed are of the opinion that the existence of a Catalan State would accelerate improvements in the country's productive model. The majority of them think that there would be trade boycott of Catalan goods and services by the rest of Spain. However, 60.1% think such a boycott would be easy to cope with.

What would the impact be on the number of multinational and other companies? Francesc Raventós argues that in view of the high diversity of sectors, an international image featuring many different

brands and a declining proportion of sales to the Spanish market, the negative consequences of independence would not be particularly serious or long-lasting.

Regarding the survey of the Association of Economists, the majority feel that investments by companies from the rest of Spain would fall. On the other hand, investments by Catalan companies and foreign multinationals would either remain steady or actually increase.

Final conclusion. Taken together, the different contributions express a certainty that an independent Catalonia would be economically viable. There is also a broad consensus that becoming an independent State would bring advantages and greater welfare for Catalonia.

Nevertheless, there are also question marks. The consequences of independence for both Catalonia and Spain, especially in the short term, would depend heavily on how several essential issues are resolved. These include the referendum or consultation, the relationship with the European Union, the currency and the sharing out of assets and debt. To minimise the possible adverse consequences both for Catalonia and for Spain, it is of key importance that the process takes place in a peaceful, democratic, negotiated way and with the aim of staying in the EU. The period of uncertainty must be kept short, settling the matter of consulting the citizens of Catalonia the sooner the better. Constructive dialogue, negotiation and agreement, even to achieve independence, are essential to protect fully the interests of all sides.

Information about the authors

Oriol Amat. Doctor of Economics, Professor of Financial Economics and Accounting at the University Pompeu Fabra (Barcelona).

Núria Bosch. Doctor of Economics. Professor of Public Economy at the University of Barcelona. Member of the IEB (Barcelona Institute of Economy).

Antoni Castells. Doctor of Economics, Professor of Public Finance at the University of Barcelona. Ex-minister for Economy in the Catalan Government (Generalitat).

Xavier Cuadras Morató. Doctor of Economics, lecturer in the Department of Economics and Business at the University Pompeu Fabra and Director of the School of International Trade.

Marta Espasa Queralt. Doctor of Economics, lecturer in Public Finance at the University of Barcelona, member of the IEB (Barcelona Institute of Economy).

Roger Fatjó i Magem. Economist.

Jordi Galí. Doctor of Economics, Director of CREA (International Economy Research Centre) at the University Pompeu Fabra and of the Barcelona Graduate School of Economics.

Anton Gasol. Doctor of Economics, financial analyst.

Francesc Granell. Doctor of Economics, Professor of International Economic Organisation at the University of Barcelona, Honorary General Director of the European Commission.

Modest Guinjoan. Doctor of Economics, managing partner of Barcelona Economics SL.

Àngel Hermosilla. Association of Catalan Economists and Autonomous University of Barcelona.

Oriol Martinez Alòs-Moner. Economist, specialist in FDI (foreign direct investment) and international trade.

Vicent Pastor. Economist, specialist in the management of International Projects and R+D+i (Research, Development and Innovation).

Josep Pedrol. Economist and post-graduate in European Integration, University of Barcelona and Autonomous University of Barcelona.

Miquel Puig. Doctor of Economics. Former university teacher, manager in the public and private sector, business consultant. Currently manages a consortium of university services.

Francesc Raventós. Economist. Former Dean of the Association of Catalan Economists.

David Ros i Serra. Economist. Auditor, Treasurer and Secretary of Local Administration. General Treasurer of the Municipal Council of Sant Cugat del Vallès.

Xavier Segura. Economist. Member of the consultancy TRACIS.

