

The relation Catalonia/Spain at the crossroads: financial and economic aspects of the scenarios ahead

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- **Some points about the economics of [fiscal] federalism and secession**
- **Catalonia and Spain: short historical and political background and economic aspects**
- **The Future (I): The Scenarios of Staying Together**
- **The Future (II): The Scenario of Secession**
- **A concluding remark**

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Some points about the economics of [fiscal] federalism and secession (I)

- 1) While the economics of [fiscal] federalism has a solid and well founded corpus of economic literature, the economics of secession is in its childhood.**
- 2) Trade-off between the benefits in terms of size (economies of scale, large domestic market, strength, mutual insurance) and the costs in terms of heterogeneity of preferences.**
- 3) Two crucial factors: openness of the economy and the democratic quality of institutions.**
- 4) Economic integration and political fragmentation.**

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Some points about the economics of [fiscal] federalism and secession (II)

**5) Federalism as a combination of shared rule and self-government rule.
Trying to have both the benefits of staying together and of diversity.**

**6) Federalism and country stability. Two crucial factors: the degree of
decentralisation and the quality of democracy and institutions.**

**7) Is there fiscal sovereignty when the territorial effects of markets
decisions largely exceed the boundaries of governments (either unitary,
federal or secessionist)?**

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Catalonia and Spain: short historical and political background and economic aspects (I)

1) Economic indicators of Catalonia and Spain (Table 1).

2) Some historical and political background:

- A historical problem of integration: economic and political factors**
- The basic goals of 'Catalanism' during a century and a half**
- The Democratic Constitution of 1978 and the end of the Franco dictatorship**

3) The 'State of Autonomies' (Tables 2 and 3 and Graphs 1 and 2).

Table 1
Economic Indicators (2012)

	Catalonia	Spain	% Cat/Spain
Population (January 2013)	7.547.000	47.060.000	16,0
GDP			
Total amount (million €)	198.633	1.051.204	18,9
Annual growth (%) (in real terms)	-1,0	-1,4	
Per capita (EU27=100) (PPP)	116,9	97,7	119,7
Per capita (EU15=100) (PPP)	106,7	89,0	
Sectorial Structure of GDP (%)			
Agriculture	1,3	2,5	
Industry	19,2	15,5	
Construction	7,1	8,3	
Services	64,2	65,4	
Taxes	8,3	8,3	
Total	100,0	100,0	
Good Exports			
Total amount (million €)	58.322	222.644	26,2
Variation (%)	5,7	4,0	
Employment			
Total employees (thousands)	2.889	17.282	16,7
Variation (%)	-6,2	-4,5	
Unemployment			
Total unemployment (thousands)	846	5.769	14,7
Unemployment Rate	22,6	25,0	
Last figures			
I trim. 2013	24,5	27,2	
IV trim. 2012	23,9	26,0	
Tourism			
Visitors (thousands)	15.534	57.701	26,9
Variation (%)	3,8	2,7	
Total expenditure (million €)	12.608	55.594	22,7
Variation (%)	13,8	5,7	

Source: Own elaboration from data IDESCAT and INE.

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Table 2

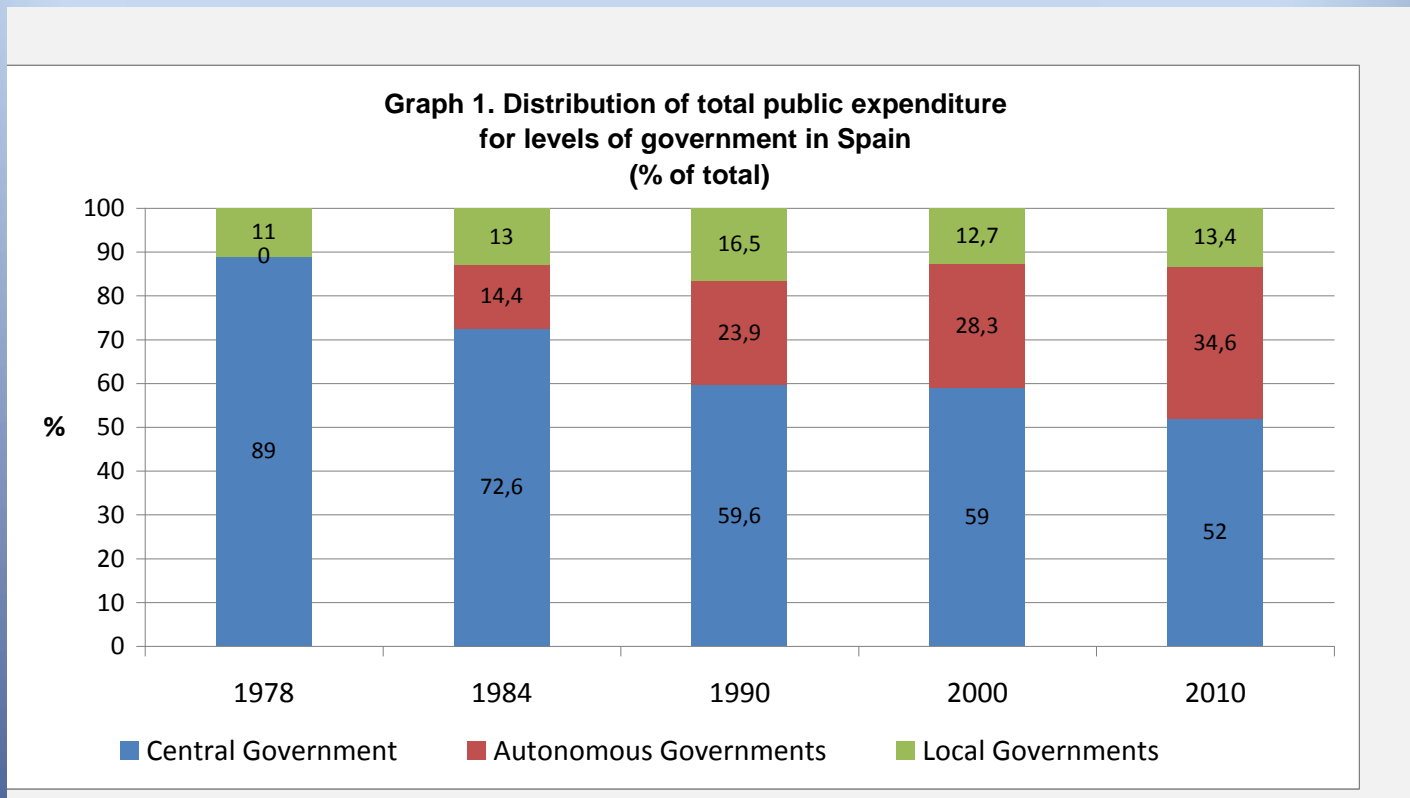
Distribution of total public expenditure for levels of government in Spain (1978-2010) (% of total)

	1978	1984	1990	2000	2002	2006	2007	2008	2009	2010(P)
Central Government	89,0	72,6	59,6	59,0	54,7	50,7	50,0	50,0	50,4	52,0
<i>Central Administration</i>	39,1	31,9	26,2	25,7	24,4	22,2	21,7	21,4	20,7	20,4
<i>Social Security Administration</i>	49,9	40,7	33,4	33,3	30,3	28,5	28,3	28,6	29,7	31,6
Autonomous Governments	-	14,4	23,9	28,3	32,3	35,9	35,9	36,4	35,7	34,6
Local Governments	11,0	13,0	16,5	12,7	13,0	13,4	14,1	13,6	13,8	13,4
Total public sector expenditure	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	99,9	100,0

Source: Own elaboration from data of the *Intervención General de la Administración del Estado*.

(P) Provisional.

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Table 3

Expenditure of Generalitat of Catalonia by functions (% of total)

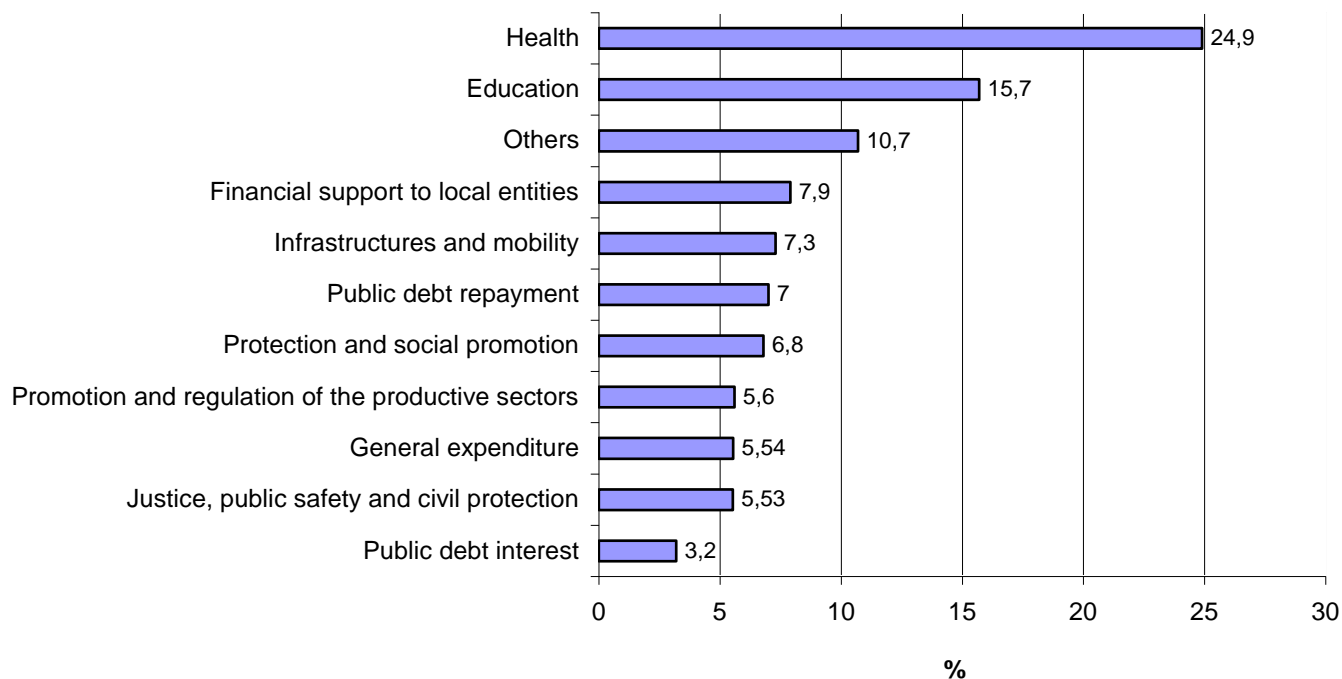
	2008		2012	
	% of total	% of total	% of total	% of total
General expenditure	7,2	6,9	5,0	4,3
Justice, public safety and civil protection	5,7	5,5	6,3	5,3
Health	27,2	26,2	28,0	23,8
Education	17,2	16,6	17,3	14,8
Infrastructures and mobility	8,6	8,3	7,5	6,4
Protection and social promotion	6,1	5,9	8,6	7,3
Promotion and regulation of the productive sectors	5,3	5,2	8,2	7,0
Financial support to local entities	9,5	9,1	9,2	7,8
Others*	13,2	12,7	9,9	8,5
Public debt interest		2,0		5,4
Public debt repayment		1,7		9,4
<i>Total without debt interest and debt repayment</i>	<i>100,0</i>		<i>100,0</i>	
Total amount without debt interest and debt repayment (million €)	33.493,8		31.538,7	
<i>Total with debt interest and debt repayment</i>		<i>100,0</i>		<i>100,0</i>
Total amount with debt interest and debt repayment (million €)		34.750,0		37.032,5

Source: Own elaboration from data Generalitat de Catalunya

* Includes environment, information and knowledge society and telecommunications, housing, research, culture and sports.

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**Graph 2. Expenditure of Generalitat of Catalonia by functions
(% of total) (average 2008-12)**



Source: Own elaboration from data Generalitat de Catalunya.

* Includes environment, information and knowledge society and telecommunications, housing, research, culture and sports.

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Catalonia and Spain: short historical and political background and economic aspects (II)

4) Financing system of the Generalitat of Catalonia (Tables 4, 5 and 6 and Graph 3).

5) The break-up of the constitutional agreement.

6) The calls for a referendum.

Table 4
Revenues of Generalitat of Catalonia¹ (2012)

	Million €	%
1. Tax revenues	17.942,4	73,7
1.1. <i>Own Taxes</i>	379,2	1,6
1.2. <i>Fully Ceded Taxes</i>	2.728,4	11,2
Inheritance Tax	197,6	0,8
Wealth Tax	240,4	1,0
Real Estate Transactions Tax	1.221,1	5,0
Gamble Tax	254,0	1,0
Vehicles Sales Tax	114,2	0,5
Retail Hydrocarbons Tax ²	390,0	1,6
Energy Tax	311,1	1,3
1.3. <i>Shared Taxes</i>	14.834,8	61,0
Personal Income Tax	7.664,1	31,5
Value Added Tax	5.219,3	21,4
Tobacco Excise	857,7	3,5
Alcohol Excise	123,2	0,5
Hydrocarbons Excise	983,0	4,0
Excise adjustment	-12,5	-0,1
2. Grants	1.935,1	8,0
2.1. <i>From Central Government³</i>	1.789,9	7,4
Global Sufficiency Fund	1.765,1	7,3
Fundamental Public Services Guarantee Fund	-1.065,5	-4,4
Adjustment for previous years	1.090,3	4,5
2.2. <i>Other Grants</i>	145,2	0,6
3. Other revenues⁴	4.455,5	18,3
Total non-financial revenues	24.333,0	100,0

Source: Own elaboration from data Generalitat de Catalunya.

1 Budgetary previsions.

2 Surcharge over the central government excise.

3 Not includes Competitiveness Fund.

4 Includes income from assets, pass through grants from central government to local governments, capital grants from central government and other minor reveunes.

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Table 5
Generalitat of Catalonia Debt (2003-2012)

	% of GDP
2003	7,4
2004	7,7
2005	8,6
2006	8,1
2007	8,0
2008	10,4
2009	13,1
2010	17,8
2011	21,1
2012	25,4

Source: Own elaboration from data Banco de España.

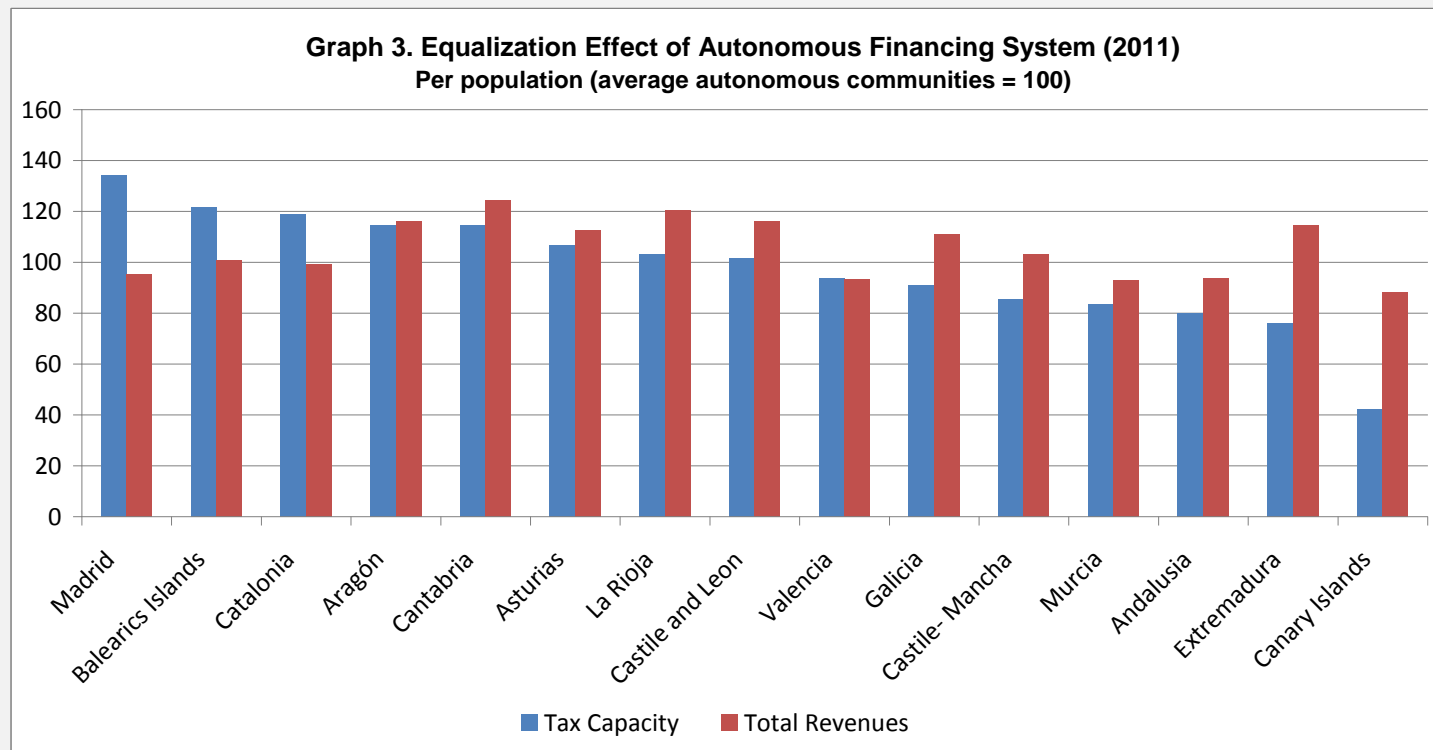
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Table 6
Equalization Effect of Autonomous Financing System

	Per population (average auton.comm.= 100)						Per adjusted population (average auton.comm.= 100)		
	2007		2009		2011		2009		
	Tax Capacity	Total Revenues	Tax Capacity	Total Revenues	Tax Capacity	Total Revenues	Tax Capacity	Total Revenues	Total Revenues
Catalonia	121,1	94,0	119,2	102,3	119,1	99,4	120,7	103,6	
Galicia	84,7	115,0	88,3	107,3	91,2	110,9	83,2	101,1	
Andalusia	79,2	102,1	79,8	92,3	79,9	93,9	81,1	93,8	
Asturias	100,3	114,9	103,4	108,8	106,6	112,6	99,8	105,0	
Cantabria	102,4	117,0	112,7	117,8	114,4	124,4	112,9	118,1	
La Rioja	101,4	117,1	102,0	110,8	103,2	120,7	100,7	109,4	
Murcia	79,9	90,5	84,4	94,3	83,5	93,1	86,2	96,3	
Valencia	96,4	88,9	92,8	92,8	93,7	93,6	94,5	94,6	
Aragón	112,4	115,2	113,3	110,2	114,6	116,3	107,7	104,8	
Castile-Mancha	79,9	108,6	85,3	101,6	85,4	103,4	80,8	96,2	
Canary Islands	42,7	96,6	46,3	87,3	42,2	88,3	44,7	84,3	
Extremadura	67,8	126,2	73,8	111,6	76,2	114,5	69,6	105,3	
Balearics Islands	126,9	78,7	121,6	99,3	121,7	100,8	121,7	99,4	
Madrid	142,8	89,4	137,3	102,2	134,2	95,4	145,9	108,6	
Castile and Leon	95,2	119,7	99,0	112,2	101,5	116,3	92,3	104,6	
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Own elaboration from data Ministerio de Hacienda y Administraciones Públicas.

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Source: Own elaboration from data Ministerio de Hacienda y Administraciones Públicas.

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The Future (I): The Staying Together Scenarios

1) Four scenarios ahead: centralist revision of constitutional benchmark, federalist reform, special deal for Catalonia, secession.

2) The staying together scenarios (I): Main points of the agenda of the generalized federalist option.

3) The staying together scenarios (I): The option of the special deal for Catalonia. Some key points:

- The acknowledgment of ‘the right to decide’**
- The language**
- The financial aspects**

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The Future (II): The Secession Scenario

- 1) The Catalan exports to Spain.**
- 2) Fiscal flows of Catalonia with the rest of Spain (Table 7).**
- 3) Other relevant issues:**
 - The potential benefits of having the political decision power**
 - The costs of the potential exit of the EU and the Euro zone**
 - The effects of the fragmentation of the Spanish market**
 - The allocation of debts and assets of the Spanish state**

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Table 7

Net fiscal flows of Catalonia with the rest of Spain (% of Catalan GDP)

	2005	2006	2007	2008	2009	2010
Cash-Flow Approach						
Actual Fiscal Flows (without 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%
Benefit Approach						
Actual Fiscal Flows (without 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%

Source: Own elaboration from data Generalitat de Catalunya.

1 'As if' the central government budget was balanced.

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A concluding remark

- **The end of a cycle in the relationship Catalonia/Spain**
- **Immediate point in the agenda: referendum or independence?**
- **The different scenarios ahead**
- **Economic and financial aspects as a decisive factor**
- **A crucial point: a friendly or an unfriendly process**