

The Economy of Catalonia

Questions and answers on
the economic impact of independence



Comissió d'Economia Catalana

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EXECUTIVE SUMMARY

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Conclusions: economic certainties and political question marks

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(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.