

Fiscal deficit **versus** fiscal fraud

In the debate on the independence of Catalonia in recent years the figure of 16 billion euros of the fiscal deficit with the Spanish central government has sometimes been likened to tax fraud, claiming that it also amounts to 16 billion. But are these quantities really equivalent? In fact, far from it, as the alleged amount of tax fraud in Catalonia is not reliable.

The figure of 16 billion euros in fiscal deficit comes from a calculation made with standard international methodology using the monetary flow approach by the government of Catalonia, which gives an annual average of 8% of gross domestic product (GDP). It is a valid figure, and remains remarkably steady over recent years. And the Catalan government will raise its revenue by this amount with independence.

The estimation of the amount of tax fraud is not so reliable. The calculation is based on the estimation of the shadow economy. As a hidden phenomenon, the measure has a large margin of error using any method of calculation. Thus, there is considerable variation in the estimates of the shadow economy. The estimated figure of 16 billion euros tax fraud is at the high end of estimates. Usually the average tax burden is applied on the figures of the

black economy to arrive at the total.

But this does not take into account that part of the hidden economy would disappear if it were to emerge. Neither are considered the costs of implementing new means of detecting the shadow economy. In fact, the problem of tax fraud is more or less the same all over the world. It would be more realistic to reduce tax fraud to the level achieved, for example, in Austria and

Overall, the impact of the shadow economy is lower in developed countries.

Denmark. Overall, the impact of the shadow economy is lower in developed countries. Thus, the Catalan government tax revenue could rise by around 2% of GDP, about four billion euros, assuming the same estimate of the black economy, a very imprecise figure. It is true that the costs of additional structures for an independent state should be deducted from the 16 billion fiscal deficit to arrive at the net tax

gain, but in any case this gives a figure much higher than the 2% of GDP.

One of the objectives of the new Catalan state should be the fight against tax fraud, for reasons of fairness and economic efficiency. The Catalan Republic will be able to perform better than the Spanish state in this struggle. So far political pressures have interfered in combating tax fraud. With independence it will be easier to adopt the best laws and controls to minimize fraud.

And what about tax avoidance, which also undermines fairness, and takes advantage of legal loopholes? That can be counteracted by changing laws. Small countries are more agile in changing regulations. However, insofar as it involves international transactions, it must be solved at the global level. Some progress has been made, but much remains to be done.

Though also very imprecise, the estimates of tax avoidance are lower than tax fraud. Thus, with independence the huge fiscal deficit with the Spanish state, which since 1986 represents about 64,000 euros for each citizen who lives in Catalonia, will be eliminated and a more effective fight against tax fraud and avoidance, much lower quantitatively, but also important, could be carried out.

RANDOM THOUGHTS

TERRY PARRIS Writer

The darling buds of **May**

Flowers, flowers, flowers. Oh, what sweet thoughts rise up for me at the word 'May'! It takes me back to when I was 15, living in Scotland, and at school. I had my first boyfriend, an intelligent boy given to illustrating his letters to me. In class he sent me quotations from Shakespeare, and the one I shall always remember is from Sonnet 18:

'Shall I compare thee to a summer's day?
Thou art more lovely and more temperate

Rough winds do shake the darling buds of May...'

I don't know if you, dear reader, remember your first romantic thoughts, and how wonderful they were. Today there are flowers everywhere – in the countryside, gardens, parks, among the trees. Nature exploding!

And 'flowers' lead me on to an important question. Have you ever been still enough, with time enough, to bend down and look at

the face of a flower, gently, but with concentration? Try. Take, for example, pansies. They are all different. I'm looking at some now. Look at the outer edge of purple, watch how it shades into yellow and ends in purple again. Take another pansy, see the outer edge of white dissolve into deep purple in the centre. The centres are always encircled to lead the bees inside. What rapturous gifts nature gives us, if we would only look and see!

VERBA DOCENT, EXEMPLA TRAHUNT NEIL STOKES nstokes@cataloniatoday.cat



"I made it clear to Spanish media that I did not advocate independence for Catalonia, but that the people of Catalonia should decide that for themselves." Dana Rohrabacher, US Congressman

The Republican representative was in hot water for comments made on a trip to Catalonia in which he appeared to support Catalan independence. And even if he had, so what?