

# SPAIN'S PARADOX OF PLENTY

**TRIBUNE**  
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In 1934, early in his famous *Study of History*, Arnold Toynbee hypothesised that it is not abundance but the challenge of scarcity that, by eliciting an appropriate response, leads human societies to progress. In fairness, some of Toynbee's ideas have found little support in subsequent social studies, yet this challenge-and-response concept aligns neatly to the well-established phenomenon we know today as the *Paradox of Plenty*.

Privileged sources of wealth (such as natural resources) favour those who control them – for example through the state's coercive power – while crowding out other economic activities. Therefore, particularly where institutional quality is low (ie, where public institutions are dominated by specific elites and pressure groups), easy money fuels widespread graft and diverts to political infighting efforts that otherwise would be devoted to productive activities. Hence, the economic performance of resource-rich countries is often worse than that of otherwise comparable, resource-poor economies – especially when their institutions are of low quality.

European solidarity mechanisms have artificially brought abundance to countries that operate within the single market but are subject to local institutions of very different qualities – thus creating a sort of natural experiment. For many years the EU has been remarkably generous to its poorest members, first through its cohesion funds (eg, it has been estimated that just the cohesion funds Spain received since joining the EU in 1986

already more than triple the entire Marshall Plan) and then via ECB debt purchases. Sadly, in countries whose institutions were already of low quality – primarily in Southern (Portugal, Spain, Italy, Greece...) and Eastern Europe (Bulgaria, Romania, Hungary, Poland...) –

fied over time, partially to smooth out conflict, partially out of concern about the consequences of removing this economic dope. Thus, EU subsidies fuel Southern and Eastern Europe's institutional corruption just as, under other circumstances, oil wells would.

It is largely thanks to European generosity that Spain's institutions can afford, against every market imperative, to bleed dry its Catalan Countries (Catalonia, Valencia, Mallorca) through huge fiscal deficits in order to finance pork-barrel politics in other regions. The reason is obvious. Climate, geography and entrepreneurial tradition make the Catalan Countries, on Spain's Mediterranean shore, especially attractive to market forces so, left to their own devices, they would logically attract most of Iberia's economic activity while the peninsula's centre and west depopulate. Since political power often follows economic growth, clipping these regions' wings is the price to preserve Spain's *statu quo*; yet these policies' cost in terms of inefficiency and welfare loss is huge... And would become unbearable if European aid were not available.

Now, however, dark clouds are gathering on the horizon. For years European aid seemed costless since, no matter how much money the ECB printed, no inflation ensued... But the mirage is now over, and inflation has returned with a vengeance. It is just a matter of time before taxpayers in the most productive EU countries start to wonder why they are financing their increasingly corrupt southern (and eastern) neighbours... Then, perhaps, scarcity will teach Spain how self-defeating it is to clip the wings of its most dynamic regions: Toynbee might have smiled.



The facade of the Bank of Spain, in Madrid. ACN

this money has all-too-often been wasted in unproductive investments and corrupt practices financing fast-growing patronage networks. Hence, these countries' institutional quality and productive efficiency respective to northwestern European standards have not only failed to improve but gradually decayed since they joined the EU.

Spain's economy, for example, is utterly dependent on ECB's cheap credit while its inefficiency is such that it still suffers the highest unemployment level in Europe bar Greece. Meanwhile, the EU's generosity has intensi-