

CATALONIA'S DESIRE FOR INDEPENDENCE: HISTORICAL CAUSES AND REALISTIC CONSEQUENCES OF A SECESSION FROM SPAIN¹

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Research purpose

Topicality

The recent departure of the United Kingdom from the European Union with effect from 31 January 2020 is just one of the events that inevitably causes us to examine the desire that exists in many states or regions to regain or reinforce their “national sovereignty”. In that regard, Catalonia is currently the region that has been the most vociferous in claiming its independence.

Aim of the discussion

The number of such states or regions and the diversity of their efforts to achieve independence inevitably lead us to question what the consequences would be for society, the economy and the overall future viability both of the area seceding from its country of origin and of the rest of the national state concerned, were those efforts to achieve their objective.

In the rest of this document, and especially in the long version of this contribution that can be found on the CD, the region of Catalonia will be used in order to examine the fundamental economic consequences that would result, were Catalonia to secede from Spanish sovereign territory.

Research objective

This article sets out to answer three questions, which will be examined below:

1. What are the historical and contemporary causes of the concerted efforts to achieve independence in Catalonia? (Chapter 1)
2. What is the economic structure of Catalonia compared to that of Spain as a whole? Does separating from Spain appear to be a sensible option for economic reasons, such as fundamentally different economic structures? (Chapter 2)

¹ The full text of the article „Der Wunsch Kataloniens nach Unabhängigkeit – Historische Ursachen und zu erwartende Konsequenzen einer Trennung von Spanien“ can be found on the CD attached to this journal.

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3. What would ultimately be the economic consequences of independence for Catalonia itself, but also for Spain? (Chapter 3)

1. Historical causes of the current efforts to achieve independence in Catalonia

The historical route that led to Catalonia's desire for national autonomy

Catalonia's economic and political emergence began in the year 1137, when the "Principat de Catalunya" joined forces with Aragon to form the new community of states known as the "Crown of Aragon". Catalunya duly became the commercial and cultural centre of the Crown of Aragon and thanks to its fleet of trading vessels, remained the most important trading nation in the Western Mediterranean until 1469.

A key date in the shared history of Catalonia and Spain is 1469. That was the year in which the "Catholic monarchs", Ferdinand of Aragon and Isabella of Castile, married, which meant that Castile, Aragon and Catalonia were united for the first time and Catalonia therefore became part of the centralised Spanish state. At that time, this already afforded special rights to the Catalans, due to their economic power.

An important watershed in the history of Catalonia was the Franco-Spanish war from 1635 to 1659. During the course of this chaotic period, Portugal and Catalonia declared their independence from the Spanish crown in 1640. Catalonia, however, was reconquered by the Spanish by 1652, furthermore losing those parts of its territory located north of the Pyrenees to France in 1659, under the terms of the Treaty of the Pyrenees.

The historically most important period suffered by Catalonia occurred as a result of the War of the Spanish Succession from 1701 to 1714: Catalonia supported the losing Habsburg Archduke Charles, against the Bourbon Philippe of Anjou: on 11 September 1714, after a 14-month siege that caused much suffering, a Franco-Spanish Bourbon army captured Barcelona. The occupying forces destroyed large parts of the city. In the unified state that resulted, Catalonia lost all of the special rights that had existed since 1469 and the Castilian language of the centralist state formally replaced Catalan, the language of Catalonia, as the official language. After the death of General Franco this date of the region's defeat on 11 September 1714 has become a national public holiday in Catalonia and has repeatedly been one of the key dates on which the region expresses its resistance against the Spanish state.

Whilst all of these events took place many years ago, another event still exerts a significant force driving many Catalans' resistance to Spain – the Spanish Civil War of 1936 to 1939.

During the Spanish Civil War, Catalonia, which sided with the Republicans, put up staunch resistance against the Fascists. As we all know, General Franco was ultimately victorious at the end of the Spanish Civil War: It was devastating for Catalonia that the fall of Barcelona, one of the last bastions of the Republic, sealed the victory of the

Fascists on 26 January 1939. The entire territory of Catalonia was occupied on 10 February.

During what came to be known as the “Blue Period” – the first five years of Franco’s fascist regime – many Catalans who had supported the Republicans for many years fell victim to major violent “purges”, consisting of general repression, torture and hundreds of thousands of executions. It is estimated that in the period following the Civil War, political prisoners numbered over 1.5 million.

Catalan newspapers and publications, together with the Catalan flag and national anthem, were prohibited and city and street names were hispanicised. For the second time since 1714, Castilian Spanish was once again designated the region’s official language, while the use of Catalan was prohibited.

Catalonia’s current status as an autonomous community

Following the death of General Franco in 1975, Spain became a democratic state and became significantly more federal. Today, Spain is subdivided into 17 autonomous communities, each with its regional parliament and government. Nevertheless, Article 2 of the Spanish Constitution of 1978 associates the right of autonomy with the principle of the “indissoluble” unity of the Spanish nation. This means that autonomy in the sense of secession from the Spanish state is explicitly excluded.

Furthermore, and to the anger of the regions, Article 149 of the Constitution specifies many competences that shall remain the sole preserve of the centralised state. Financial policy is one of the main areas that spark off the battle for autonomy between Catalonia and the central Spanish government – the fact that the region is a net contributor but the central government takes charge of all revenues and their distribution is causing Catalonia in particular to feel severely disadvantaged from a financial point of view.

What is more, the central government enjoys full sovereignty in terms of administration, which means that any changes to administrative structures – and therefore explicitly to the statutes governing autonomy, and the quantities of funds devolved – can only be enacted through the government of Spain.

It is, however, possible to observe that since 1978, Spain’s regions have become increasingly successful in expanding their competences within the regime of autonomy.

In Spain, from 2006 onwards, the notion of federalism has gained significant ground. This was the year in which negotiated and ratified reforms to the statutes of autonomy were to have afforded greater rights and decision-making competences to Catalonia in particular.

This relaxation in the relationship between Catalonia and the central state was reversed in 2010 by the right-wing conservative party Partido Popular, which submitted a complaint to Spain’s Constitutional Court against autonomy agreements, which it

regarded as too far-reaching. The Constitutional Court, for its part, upheld the complaint submitted by the party, the aim of which was to counter the reforms.

It was at that point that the most recent fundamental disagreements between Catalonia and the centralised state fuelled and leading to the referendum on the independence of Catalonia on 1 October 2017. On the grounds of Article 2 of the Constitution of Spain, that referendum was deemed in breach of the Constitution and the entire process associated with the efforts to achieve independence designated a criminal act, culminating in Catalonia's autonomy being suspended by the central government for a short time on 17 October 2017 and to severe penalties of up to 13 years' imprisonment for those who initiated the referendum.

2. Key economic data of Catalonia and Spain – a comparison

In the section below, we will set out to examine the extent to which the economic conditions would favour Catalonia's independence or make it appear achievable.

A comparison of the economic power and economic structure of Catalonia and Spain

The long version of this article on the enclosed CD provides a comparative analysis of some absolute and relative economic key performance indicators.

The key outcomes of that analysis are that though 20% of Spain's economic power can be attributed to Catalonia, the fact that the region is home to only 16% of Spain's population means that this does not form a relevant argument to justify a secession. The same thing applies if we examine direct investment from abroad: at 17%, these are in line with the region's share of the population and are even less than its share in the country's gross national product.

At EUR 31,000, Catalonia's GDP per capita is actually significantly greater than that of Spain, which stands at EUR 26,000. If, on the one hand, we take account of the fact that this is a purely arithmetical average in terms of value creation, it becomes clear that in statistical terms, the "income per head" of a region can increase due to, for example, major companies or banks having moved into the area, without this having any actual effect on the citizens themselves. Furthermore, companies may also move away from the region at short notice, for example if the region were to detach itself from the national state.

An analysis of the economic structure, gross value creation, and economic growth shows that the make-up of Catalonia and that of Spain are remarkably homogeneous.

The problem of government debt

Spain's overall government debt lies at just under 90% of the country's GDP. Logically, if Catalonia were to secede from Spain, Catalonia would become responsible for a proportion of that debt.

In addition, Catalonia itself is the most highly indebted region of Spain, its debt amounting to 35% of the region's GDP.

As a result of a secession and Catalonia's subsequent assumption of around 16% to 19% of overall government debt (depending on the formula used to determine that percentage, whether it is based on the region's share of the population or the proportion of Spain's GDP for which it is responsible), the burden of debt assumed by Catalonia in the event of its secession from the central Spanish state would increase by around 235% to 280%, which means it would increase to around 100% of Catalonia's gross domestic product.

Foreign trade

Another key economic indicator is that of foreign trade. Catalonia has a significantly greater orientation towards foreign trade than Spain, in relation to its economic performance. Catalonia has also recorded a slightly higher export surplus compared to its imports. If we examine the contribution of external trade in relation to GDP, that figure is at 3% for Spain and 5.8% for Catalonia. Furthermore, Spain's exports are by 10% higher than its imports, while Catalonia's exports exceed its imports by 18%.

Nevertheless, these findings do not constitute a positive argument that could be used to justify the region seceding from Spain.

3. The economic consequences of Catalanian state autonomy

Even in the long version of this article on the accompanying CD, it is not possible to provide a comprehensive analysis of the possible economic consequences, were Catalonia to become independent.

To that extent, explanations on that topic have been limited to six aspects that are regarded as especially significant and that are the subject of intense discussions in Catalonia itself. In this version of the article, we will provide a heavily truncated discussion of those aspects:

- Loss of EU membership
- Loss of the euro
- An increase in government debt
- A decline in tax revenues
- Increasing economic and political costs
- Political and societal destabilisation

3.1. Consequences for Catalonia

Loss of EU membership and of the common currency, the euro

It is self-evident that the loss of its EU membership that would automatically occur following secession from Spain would have a devastating effect on a large part of Catalonia's trade and exports, due to its inability to access the EU's internal market. Around 67% of Catalonia's exports are sold to other EU member states and around 62% of the region's imports come from the EU.

This is aggravated by the fact that Catalonia would also be excluded with immediate effect from all of the various customs unions, free trade agreements and economic partnership agreements that the EU has concluded with over 100 countries to date.

Alongside the effects on trade, the other fundamental freedoms afforded by the EU's internal market (TFEU, Section 3) are of considerable importance for the economic success of the region. For example, Catalonia would not only lose the free movement of goods, but also the free movement of services, the free movement of persons and the free movement of capital with the European Union.

Any thought that after gaining its autonomy, Catalonia would quickly apply for accession to the EU is not a valid one – it is obvious that Spain would not approve Catalonia's admission to the EU.

In such a scenario, companies would consider very carefully, whether they would stay on in Catalonia or move their headquarters and production facilities onto EU territory, which, in this case, would simply require them to relocate to the Spanish side of the border with Catalonia. This, in turn, would not serve to encourage ongoing direct investment by foreign companies in Catalonia and could even cause such investment to decrease.

All of the above would logically result in a significant drop in tax revenues from all types of taxation (corporation taxes, wage and income tax and excise duties). A more detailed explanation of all this can be found in the long version of this article that is available on the enclosed CD.

The loss of EU membership would also entail the loss of the common currency. Catalonia would then need to develop its own central bank and introduce a new currency. The question then arises as to the ability of any such new currency to hold its value, as it will not yet have acquired any confidence on the financial markets. A devaluation and resulting increases in the cost of imported goods would then be a likely scenario. The positive effect derived from the fact that a devaluation would make Catalonia's exports more affordable would be significantly reduced or entirely cancelled out by the country's lastingly worsened export opportunities being no more a member state of the EU.

Catalonia's economy would also suffer the initial burden imposed by the interest rate rises that would probably occur from any drive to devalue its currency.

The "umbrella" provided by the ECB would also no longer be available – no banking supervision and no protective shields, no programmes for the purchase of government bonds or favourable loans to central banks in periods of liquidity imbalance, over-indebtedness or in a major recession, of the type that the ECB put into action in the aftermath of the US real estate and financial markets crisis.

An increase in government debt and a loss of creditworthiness

The need for Catalonia to take responsibility for a yet-to-be-determined part of Spain's overall debt would, in the event that it were to secede from Spain, cause Catalonia's indebtedness to increase to as much as 100% of its GDP. The subsequent need to service that debt by making interest payments would constitute a massive burden on the state budget and would in turn lead to two follow-on problems – the investment capacity of the state would decrease, while the interest burden would increase. This is also problematic to the extent that the interest and the repayments of the outstanding state debt need to continue being paid in euros (or other foreign currencies). A shortage of foreign currency would lead to a devaluation of the currency, which in turn would require even more state budgetary resources, in order to service renewed rises in interest rate and repayment costs arising from foreign debt in the country's own currency. As a result of the devaluation, import costs would then increase further, leading to the country ending up in a prolonged vicious circle.

All of the above would, by their nature, lead to an impairment of the country's creditworthiness, i.e. the international rating agencies would reduce Catalonia's credit rating and/or the rating of its government bonds, causing interest rates to rise once more, further limiting the financial budget to manoeuvre of the state (and also of others).

All of these scenarios would also be exacerbated by the fall in tax revenues referred to above. The relevant causal chains can be found in the long version of this article, which is available on the CD.

Additional political and social costs

National independence will give rise to a wide variety of additional costs.

On a national level and in addition to the need, as mentioned above, to create a central bank of its own and to create a new currency of its own, which would be a costly undertaking, it would also be necessary to create new police units, possibly an army, a functional system of national taxation, including tax administration and, on a more general level, to put in place fully-fledged national administrative structures and to develop and fund its own social insurance system, legal system, etc.

Further economic and political costs would be associated with aspects of international significance such as the loss of all existing representations abroad. Replacing these would be a costly undertaking. What is more, the country would also lose its membership of all international organisations of any type and would therefore need to enter into negotiations to rejoin those organisations and pay the membership fees.

If the economic situation worsened, increases in social security contributions, transfer charges and possible subsidies for purposes such as keeping companies in the country, would follow.

The unfulfilled expectations of its citizens would destabilise Catalonia on a long-term basis – unemployment in Catalonia, at over 14%, is already high. Independence would

not be capable of solving the unemployment problem. As explained above, the reason for this is that there is a very real danger that companies will leave the country – especially major companies that are strong performers in terms of value creation. Each additional economic decline would immediately trigger an increase in unemployment and all of its associated problems with regard to maintaining political and social harmony, which must be regarded as significantly more fragile in Spain than in many other countries in Europe.

3.2. Consequences for Spain

Generally speaking, the risks for Spain that would arise if Catalonia were to secede seem to be significantly lower and more manageable:

Though Spain does stand to lose around 20% of its economic power, that effect could be significantly reduced once Catalonia became independent, due to the fact that companies may decide to relocate their headquarters and production facilities from Catalonia to Spain. Not only would this create jobs in Spain, but it would also bring about an increase in tax revenues, due to increases not only in corporation tax revenues and also in wage and income tax revenues. Increased employment could then give rise to an increase in consumer spending, thereby increasing indirect tax revenues as well. A Spanish economy that was undergoing an upswing as a result of these factors could then also attract increasing amounts of direct investment, or lead to direct investments formerly destined for Catalonia being diverted to Spain.

What must be regarded as more critical is the loss of creditworthiness that Spain is expected to suffer if Catalonia were to secede – rating agencies would downgrade Spain due to the loss of Catalonia, which is one of the country’s commercially important regions. Spain’s state budget would therefore be required to bear the interest rate burden on the state debt, which already equates to around 90% of the country’s GDP. That percentage would also not be reduced if part of the state’s debt were to be reassigned to Catalonia, as Spain’s GDP would also reduce to a corresponding degree.

A further problematic area would be the political signal that Catalonian independence would send to other secession movements inside Spain. The Basque county in particular is home to an historically deeply embedded independence movement, which even led to the separatist group ETA waging an armed struggle for independence against the Spanish state for many years. Other regions of Spain too could also feel emboldened to go down Catalonia’s “road to freedom” – at least until the predicted negative consequences of secession made their presence felt.

4. Conclusion and outlook

From an historical perspective, Catalonia’s desire for independence is very deeply embedded and is being fuelled and further consolidated not only by the region’s current confrontations with the central government that have resulted from aspirations for autonomy being denied and from the temporary full removal of its autonomy in the aftermath of the referendum on autonomy, but also by the long terms of imprisonment being handed down at present to the initiators of the independence referendum.

Parallel to this, a comparative analysis of key economic indicators does not reveal any clear-cut economic rationale for independence. Instead, the economic consequences of independence are expected to be long-term and may even pose an existential threat, especially to Catalonia itself.

To that extent, it would be in the interests of both parties if it were possible to make rapid progress towards sustainable agreements to develop a stronger federal structure in Spain, which would serve to mitigate the historically latent, but currently explosive, discontent felt by Catalans towards Spain's central government.

In that regard, academics and, above all, the press and all social media will face the task of providing serious information about the consequences of a secession and sustainably disseminating that information amongst the population on a massive scale.

The field must not be left open to populists, who, by means of naive slogans, conjure up misleading images of future scenarios, this being something we have witnessed in the case of others, a typical example being the British politician, Nigel Farage, who did precisely that during the run-up to Brexit. For as long as figures of that type present their audiences with lies and fairy tales that lack any theoretical foundation, promising the "best future ever" if only the paternalism exerted by an overarching political tier – in the United Kingdom's case, by the EU, or in Catalonia's case, by Spain – could be brought to an end, people and entire states may well find themselves descending into an economic abyss.

The reality is different: in times characterised by high mobility amongst production factors, combined with major competitors or even geo-strategically powerful hegemonic states such as the USA or China, small entities that are not affiliated to networks (this applies to companies as well as states) do not face a brilliant future – quite the opposite.