THE CATALAN FUNDING MECHANISM

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Contents

Abstract

This paper sets out to analyse the Catalan Generalitat government's autonomous financing model, which is the product of the new Catalan Statute of 2006. Rather than a change in the region's financing model, this new Statute defines a cluster or series of financing models that are open to a broad array of possible interpretations, which range from a soft approach to several fiscal federalism mechanisms (in the case of a generous interpretation by the Spanish central government) to the reinforcement of the central government's discretionary powers to allocate the resources of the common regime autonomous communities (in the case of a stricter interpretation by the Spanish central government).

Thus, the improvement or even deterioration of the Generalitat's autonomous financing in the future depends on the play of political majorities in the State and regional parliaments in Madrid and Barcelona, respectively. The hopes invested in the new Catalan Statute's ability to insulate the region's financing in the future from possible hostile absolute majorities in Madrid's Chamber of Deputies (the most popular justification among Catalan political parties and social forces for a new autonomy statute) seem to fade in view of the final text.

> *"Carlism is not a pure dynastic and regressive movement, as well-paid Liberal historians have claimed. It is a free and popular*

movement in defence of traditions, much more liberal and regionalist than the official absorbing liberalism copied from the French revolution. The Carlists defended the finest Spanish legal traditions: the "Foral" systems. They represented the great homeland as the sum of local homelands, with their own peculiarities and traditions. There is no other country in Europe like Spain, which has so many vestiges of ancient populations and popular forms that History has destroyed. In France they were the Bretons and in Spain, in a much broader and national manner, the defenders of King Carlos.

The Carlist tradition had several authentically popular, national, country, small landowner and clerical bases, while liberalism was personified in militarism, capitalism (the new merchants and speculators), the land-owning aristocrats, and secular interests."

Karl Marx, Revolutionary Spain (1868-1873), Editorial Zenit, 1929

"Where, as was, for example, true in Germany as early as 1928, the central and local authorities directly control the use of more than half the national income (according to an official German estimate then, 53 per cent) they control indirectly almost the whole economic life of the nation."

Friedrich A. Hayek, "Road to Serfdom" (1944)

When the State makes huge transfers among territories, the poor of the rich regions wind up paying the rich of the poor regions."

Finn Poschmann (1998)

"Government fiscal transfers are ineffective in stimulating economic growth: because of their structural character and large amount, the less developed regions rationally accept being permanently underdeveloped, for as long as the subsidies are permanent."

Desmet, K. and Ortuño, I (2001). "Rational underdevelopment", Banco de España

1.- Economic growth and fiscal flows

As a professor of economic theory, my interest in government financing issues, such as those we are examining here, stems from the growing importance and the impact on economic growth wielded by fiscal flows from central governments to regions. In this regard, Tables 1 and 4 show several economic indicators for a number of Spanish autonomous communities related to the creation and distribution of wealth in recent years: GDP per capita, worker productivity and disposable income per capita have grown at a slower pace in the Catalan economy than in Spain as a whole.

Many Catalan economists attribute this slower growth to the unequal contributions the Catalan economy makes to the rest of Spain, in accordance with what is commonly called "the Catalan fiscal deficit with the Spanish State" (Table 11). The widening gap between taxes the central government (the State and Social Security) collects each year in Catalonia and the monies Catalonia receives from the central government has become a source of capital outflow from the Catalan economy that has been acknowledged by practically all the political, economic and social forces in the region today. Hence, the need to review the region's relationship with Spain, i.e. bring it up to date through a new autonomy statute.

In the past ten years, Spain's common regime autonomy model has displayed several features of regional growth more characteristic of a unitary State than a decentralised one: official Eurostat statistics on

GDP per capita in Europe's 166 regions in 2002 (diagram 1) confirm the leading role Spain's autonomous communities play in the country's convergence with the EU. Yet, only Madrid, the Basque Country and Navarre have consolidated this speedy growth in recent years, while the other communities lag behind and some are even diverging from the European average. Thus, only the country's capital and the two autonomous communities with "foral" systems clearly converge within the European context, while Mediterranean communities have achieved almost zero convergence with Europe.

An analysis of GDP per capita in EU regions reveals clear differences in the larger States' models of regional convergence. Germany and Italy also display marked regional disparities, although their higher-income regions show quite a bit of uniformity: the bulk of their developed regions report levels 25% to 50% above the European average, while their political capitals do not rank particularly high in the standings, trailing behind the leading regions. In contrast, the results in France reflect its centralist State model *par excellence*: by 2001, the Paris region was already scored 165 on the index (from 153 in 1997), while all the remaining departments ranged from 103 to 83.

Although voices in Madrid declare in unison that Spain "is the most decentralised country in the world" and consequently attempt to block any movement towards revising the regional organisational model, Eurostat results clearly show that the country's regional convergence has been veering towards the French model in recent years, instead of showing results more typical of a federal State, such as Germany. A clear relationship between economic convergence and the regional fiscal balance with the Spanish central government can be inferred, yet the absence of data on regional fiscal balances after 1996 makes this impossible to prove empirically.

According to the only publication on fiscal balances based on official data issued by the State (*Las balanzas fiscales de las CCAA*, Castells et al, Ariel, 2000), the three communities that made the most progress in convergence between 1991 and 1996 either ran no fiscal deficit with the State (Madrid had a zero fiscal deficit with the State during this period) or had reasonably low deficits (the regions with autonomous tax systems known as the *Concierto Económico*, in which the fiscal deficit is 2% to 4% of the regional GDP), if cash flow criteria - the most appropriate kind, according to international economic literature – is taken into account during calculation. In contrast, the Catalan economy ran an overheated 7% GDP fiscal deficit during the same period, which has already been previously mentioned as a cumbersome burden on economic growth (chart 1).The fact that the Catalan fiscal deficit soared to 10.5% of its GDP (2001) between 1996 and 2001, the last year for which official data is available, allows us to observe a more than reasonable cause and effect relationship between higher fiscal deficits and slower economic growth.

2. Autonomous Spain: decentralising expenditure and centralising power

As recommended by the most basic literature on fiscal federalism, the easy way to ascertain or quantify a country's "federalness" is by examining whether the country is truly federal: observing the degree to which fiscal sovereignty is concentrated at the central or highest tier of government. Federalist countries are formed from the bottom up, not top down. The formation of the European Union and the US are examples of this, since they are higher political unions whose sovereignty is based on two core areas: fiscal and legal aspects, e.g., the Constitution of the State of Texas recognises its right to self-determination.

The Catalan Statute has followed the exact opposite path of amendments to major legal texts in federal states. An amendment of the federal constitution in the US requires the approval of each and every one of the 50 states, whereas the federal government has no say in the matter should Oklahoma or Tennessee wish to reform their own constitutions; this is why some states can levy or abolish taxes and establish the death penalty, for example. The EU constitution is going down a similar road, detained for a spell by its rejection in the French and Dutch referendums. In contrast, although the Catalan Parliament has already passed an amendment of its regional Statute, the final word belongs to the Spanish Chamber of Deputies, which may alter it as it sees fit.

Proof of federalism in Spain's case lies in the percentage of decentralised government revenue, i.e., the level of government that collects taxes. The central government's very able propaganda notwithstanding, federal intensity is not measured by the tier of government that winds up allocating public spending, a large portion of which may already be earmarked from the start. Like Spain, other more or less regionalised, unitary countries may end up transferring major amounts of current expenditure (civil servants wages, acquisition of current goods and services), however tax functions are reserved exclusively for the central government, which thus monopolises the management, collection, liquidation and inspection of each and every major tax.

The new Catalan Statute of 2006 does not greatly alter Catalan self-governance and financing. What I call the Moncloa Statute of 2006 (after the site where the final text was cobbled together) applies and follows the logic of the Catalan Statute of 1979: it expands a few symbolic issues and achieves a few new areas of jurisdiction, yet fails to change the financing system, which is still constrained, and well constrained, within an common regime autonomy statute.

Despite what is often parroted, common regime Spain is not among the world's most decentralised States, at least insofar as three features are concerned: 1) the autonomous communities' areas of jurisdiction and thus, power to implement their own policies with sufficient economic resources; 2) power-sharing with the State, since Spain lacks mechanisms, such as a regional senate or inter-governmental commissions, that are usually found in federations; and 3) guarantees for the legal defence of self-government, too often prey to the political vicissitudes that result in the wake of general elections.

In this regard, common regime Spain has not efficiently settled into the asymmetric patterns typical of pluri-national federations such as Belgium and Canada, or the patterns of Anglo-Saxon federalism, which tend to assign legislative and executive functions in matching areas to the same tiers of government, as Australia and Canada do. Neither has it established the cooperation and execution mechanisms of central European federalist states, such as Germany and Austria (Requejo, 2003).

When Spain is said to be "the most decentralised country in the world today", the real purpose is to prevent the autonomy model from developing and expanding. In fact, International Monetary Fund reports do not classify Spain as a federal state and instead include it in the group of unitary States "with a few federal traits". Table 2 shows the distribution of public spending by government level in Spain between 1980 and 2001. The ratio of public spending to GDP rose from 29% to 41%, in line with the clear trend of the government sector's increasing weight in the economy, typical of other developed countries as well. This hike allowed Spain's central government to maintain a steady level of economic intervention between 1980 and 2001, which only slipped from 26% to 25% of the GDP, thus offsetting the costs of the political decentralisation stemming from the transition to democracy, which plummeted from 90% of all public spending in 1980 to 60% in 2001.

The regional level of government did not yet exist in 1980, while in 2001, it was executing 26% of all public spending, the equivalent of 11% of Spain's GDP that year. Lastly, local governments were responsible for 10% of total public spending in 1980 (3% of the year's GDP) and 13% in 2001 (5% of the year's GDP). Local government spending/GDP ratios are much lower in Spain than in other federal States.

While in 2001, subnational (local and regional) government levels executed 39% of the country's total expenditure according to the Spanish Ministry of Finance, the OECD attributed only 32% of total expenditure to these two subnational levels (Jourmard and Kongsrud, 2003), based on data released by the governments themselves. This 32% is far from Denmark's 58%, Canada's 57%, Sweden's 44%, Japan's 41%, the US' 40%, Norway's 39%, and Germany's 37%, all for 2001. On page 49, the report's two authors recommend that the Spanish public sector improve official transparency, since time lags in releasing official data on public spending and tax collection obstruct the drafting of consolidated financial statements.

Spain's heavily centralised structure stands out even more clearly when examined from the point of view of tax collection by government level. Table 3 shows that the central government collected 86% of all taxes in Spain in 1998, the equivalent of 29% of Spain's GDP that year, and was still collecting 80% of all taxes in 2001, or 32% of the GDP. As noted, 2001's 32% is an even higher percentage of Spanish GDP than 1998's 29% was. Meanwhile, regional governments - the autonomous communities - collected 6% of all State taxes in 1988, or 2% of the year's GDP, and 12% of all taxes in 2001, or 6% of the year's GDP. Lastly, the percentage of total collection by local governments held steady - 8% between 1988 and 2001.

Hence, according to the Spanish Treasury, the two subnational (local and regional) levels of tax collection in Spain accounted for 20% of all collection in 2001. However, the OECD reports that these two tiers collected 18% of all taxes that year (Jourmard and Kongsrud, 2003), still lagging far behind Canada's 50%, the US' 40%, Denmark's and Ireland's 35% and Germany's 33%, for the same year.

3.- An unchanged financing model

The Moncloa financing model established in January 2006, which was not altered during the parliamentary process in Madrid in spring of that year, does not contain any structural changes in the fiscal relations between Catalonia and the Spanish State. Paragraph 1 of Article 206 in the new Catalan Statute states that the region's resources for financing its services and areas of jurisdiction are to be based on spending needs criteria, which assumes that Catalonia will follow the central government's lead in determining these needs within the framework of the General Council for Fiscal and Financial Policy and in accordance with the General Law on Autonomous Communities Financing (the LOFCA in Spanish) of 1980.

Catalonia had hoped the new statute would allow it to break with the multilateral negotiating framework, which the recently declared autonomous cities of Ceuta and Melilla have just joined. Historically, this negotiating framework has been quicksand for Catalonia's financial interests. According to Professor Guillem López-Casasnovas from Pompeu Fabra University (PFU), "It is impossible for Catalan criteria to prevail over this 17-member table: the central government of the day always forges a front against Catalan aspirations through the autonomous communities it controls."

On the other hand, several autonomous communities, e.g., Andalusia, waited for the conclusion of the Catalan reform process so as to be able to copy and counter-plan a good part of the new statute's financing articles. This is especially distressing, since the Popular Party (PP) has appealed a number of articles in the Catalan statute which it voted for in the Andalusian statute.

Javier Arenas, chairman of PP's Andalusian chapter, asserted that the Andalusian statute is totally constitutional and an "antidote to selfish nationalism". PFU law professor Albert Lamarca has compared the two statutes and analysed the articles the PP appealed before the Constitutional Court (CC).

Lamarca asserts that after stripping away all the articles referring to language, culture, historical rights and several other areas not covered in the Andalusian statute, 80% of the articles the PP appealed before the

CC were approved by the Chamber of Deputies in the Andalusian Statute of 2 November 2006. Most of these articles were modelled after the Catalan Statute, in many cases copied word-for-word, especially in the areas of justice and financing. The Catalan statute provides more detail in the area of jurisdiction, but the Andalusian statute contains even more articles than the Catalan statute does: 250 vs. 223.

The following are some of the almost 50 articles appealed before the CC that were copied word for word from the Catalan Statute: the first number refers to the Catalan text and the corresponding article in the Andalusian text comes after the dash: 7-5, 20.1-20.2, 21.2-21.2, 80.1-30.1, 82-131, 95-140 and 143.1 and 2, 96-143.4 and 5, 97.98 and 99-144, 101-146, 103-147, 105-149, 107-151, 122-78, 126.2-75.7, 127.2-68.2, 132.1-66, 135-76.3, 140.2.3.4 and 7-64.4.5.6 and 9, 141.2-81.2, 144.5-57.5, 146.1.a and b-69.1 and 4, 148.2-56.8, 149.2-56.9, 152-58, 154.2-58.4.5è, 157-70, 158.3-54.3, 160-60, 162-55, 169.2 and 3-64.7 and 8, 166-61, 170.1. and -63.1.1r, 170.2-63.2, 171.c-71, 172-53, 180-224, 182-87, 183-220, 185-233, 186-231, 187-234, 189-235, 191.1-238.1, 195-241, 204.1-181.2, 205-182, 210-184, 222-248, DA2-231.3, DA7-178, DF1-DF1, DF3-DF2.

Thus, for example, the Andalusian Statute requires the central government to prioritise population criteria when distributing public investment, in contrast to the Catalan Statute, which uses the ratio of regional GDP to State GDP. The State General Budgets of 2007 and 2008, which still allocate 25% of all public investment to regions, implement the Andalusian Statute (Andalusia receives 18.5%, which corresponds to its percentage of Spain's total population) and do not implement the Catalan Statute (Catalonia receives 14% of all public investment, although it generates 18.5% of the national GDP). And this is budgeted, not actual investment: from 2001 to 2006, only 70% of its budgeted investment was executed in Catalonia, while 125% of the Community of Madrid's budgeted investment was executed in 2006 (*El Periodico*, November 5, 2007).

Table 8 shows a comparison between Title VI on the region's financing in the new Catalan Statute and the major fiscal items budgeted in the Tinell Agreement of December 2003, the CiU's financial budget of January 2005 and the tripartite government budget of April 2005. Table 9 compares these same items with the Sau Statute of 1979, which was approved by 89% of the Catalan Parliament on September 30, 2005, and lastly, with the Moncloa Statute, approved in the referendum of June 18, 2006.

Of all the budgets shown in Table 8, the CiU budget, dubbed the *Acuerdo Económico*, is the one that most closely resembles the "foral" model, which has produced such good results in the Basque Country and Navarre in terms of both economic growth and expansion of social services. The Tinell Agreement contained several ambiguities in the section on finance, but was a decided step forward, compared with the model in effect at the time. Table 8 assesses the influence of the Socialist Party (PSOE) on financing, given that several basic issues were not resolved, such as the reduction in State transfers for the same amount as the increase in the share of State taxes (as in 2001) or in local financing.

Nonetheless, this budget still contained elements that signalled a change in financing model: the most interesting element explicitly set the cap for all taxes borne in Catalonia (including corporate income taxes) that the State tax office could appropriate at 50%. This quantitative measure was put forward in the hopes of effectively reducing the Catalan fiscal deficit, which the CiU's proposal for an economic agreement aspired to cap at 4% of Catalonia's annual GDP in the future. But pressure from the PSOE and its regional counterpart, the PSC, eliminated these two concrete numerical measures in the final stretch of statute negotiations in September 2005, in deference to the supposed "constitutionality of the text". We should bear in mind that in Germany, e.g., the federal constitution itself, not Länder constitutions, is empowered to set the criteria and percentages for distributing corporate income taxes, thus protecting the federal states' interests from possible centralising temptations by the central government.

As a result, Article 201.1 of the final draft of the Moncloa Statute contained an explicit reference to the LOFCA, while no such reference was included in the statute passed by the Catalan parliament: it would be too much to assume that there is a hierarchy in the new Catalan statute over the LOFCA in the drafting of the cited article, which establishes that "fiscal and financial relations between the State and Catalonia are regulated by the Constitution, by this Statute and by the Organic Law to which Article 157 of the Constitution refers".

It is hard to compare the 2006 Moncloa Statute with the 1979 Sau Statute on this point: the Sau text was very generic in the area of financing, because of the lack of experience in regional self-government at the time, which contrasts with the precise nature of the new statute's financing articles. The final gains are impossible to ascertain, since in the last resort, they depend on the sufficiency fund unilaterally established by the State, a sufficiency fund that several highly-placed State officials very soon claimed (just a few days after Artur Mas' collaboration in La Moncloa in late January 2006) would make Catalonia a net contributor in the end and not the net receiver it had always been (Miguel Ángel Fernández Ordóñez, *Expansión*, 26/01/2006).

4.- Solidarity determined solely by the State

Catalan President Jordi Pujol compared absolute majorities in Madrid's Chamber of Deputies to ice on the Baltic Sea: boats cannot sail when the sea freezes, in the same way that CiU cannot secure a larger share of self-government when it is not a decisive force in forming majorities in the Chamber, as it was between 1982 and 1993 and again between 2000 and 2004. When the ice melts, boats can go to sea and CiU can then add fish to its basket, as Pujol put it, which was possible when CiU paired with PSOE between 1993 and 1996 and with PP between 1996 and 2000.

Article 206.3 states that the Catalan Generalitat's resources from its tax income "could be adjusted upward or downward" depending on its participation in adjustment and solidarity mechanisms. This definition is typical of the current financing model, in which the central government in power determines the common regime communities' spending needs. The central government's exclusive power to define the sufficiency fund means that it ends up determining the resources of the different communities: the Catalan Generalitat should have had a larger budget than the Andalusian Junta, judging by economic activity and taxes collected; this has always been the case and will not change in the future. Table 5 presents the relationship between the Generalitat's "basket" of taxes and the State sufficiency fund.

It would be very interesting and enlightening if the minutes of the Council for Fiscal and Financial Policy meetings were made public to see the arguments used to define regional spending needs; again, one runs into a lack of transparency here, as is the case with fiscal balances, profits from Catalan airports and State tax office inspections by territory. For example, the central government cited an increase from 40% to 58% in special taxes for the Generalitat, while the State tax office claimed the collection of these taxes in Catalonia fell 21%, from 977 to 777 million euros from 2003 to 2004 (www.mineco.es): how can this reduction be verified without a Catalan tax office with access to all the data collected?

Table 6 shows the resources linked to the Catalan financing system in 2003 and Table 7 the resources linked to the common regime financing system. The table does not include the inter-territorial compensation fund, sufficiency fund or European funds, nor does it include the central government's public investments and expenditure broken down by territory.

In 2002, e.g., Extremadura's fiscal capacity (taxes collected) per capita was almost half of Catalonia's: 40 as opposed to 77, with 100 representing the State average (Graph 2). The central government's intense redistribution process reached the extreme of turning the final status of per capita resources on its head, with Extremadura at 104 on the index, compared with Catalonia's 84 (the State average equalling 100). When the inter-territorial compensation fund (ICF), sufficiency fund and European funds are added, the index shows 144 for Extremadura in the end, compared with Catalonia's 84, since the latter has no share in any of these funds. As for Madrid, its insufficient autonomous financing is compensated year after year by State investments in its territory and the effect of the 400,000 central administration civil employees employed in the capital to such a degree that it has allowed the Madrilenian regional government to lower some of its inhabitants' taxes.

Point 3 of Article 206 in the new statute explicitly specifies that the State has the sole power to establish adjustment and solidarity levels, effectively eliminating any chance of bilateral relations between the State and the Generalitat, although this is envisaged in the Statute approved by the Catalan Parliament. Within the context of the Council for Fiscal and Financial Policy, the central government will continue to have the final say in determining the resources available to the Generalitat.

Point 5 of Article 206 of the new statute states that population and its density will be taken into account as the main variables in determining the spending needs in Paragraph 1, as has been the case until now. This means a slight improvement that now includes rectification by differential costs (higher inflation in Catalonia) and cites immigration, which is also higher in Catalonia. Unfortunately, however, only equity criteria are only explicitly considered and all the economic efficiency criteria Catalonia has always vindicated, such as the GDP or exports, are excluded. Hence, the model has stayed the same.

At any rate, the key question in assessing the value of the final text is whether the new statute shields the Generalitat's financing from a possible absolute majority in Madrid. If the Baltic Sea freezes over again, the Generalitat will once again find itself in short straits in terms of economic resources, despite the new Statute.

5.- Conditional tax office

Article 204 of the new Statute refers to the Catalan tax office. Point 1 assigns the management, collection, liquidation and inspection of all the Generalitat's regional taxes to a future Catalan tax office. Until now, the Directorate General of Taxes has been exercising these functions over regional taxes (inheritance tax, gifts tax, property transfer tax, gambling tax and property taxes) in the Generalitat, thus a simple change in address was effected shortly after the new statute entered into force - from the previously mentioned main directorate to a brand-new Catalan tax office.

Point 1 of Article 204 also establishes that by delegation the Catalan tax office will have the power to exercise the functions of administrating, collecting, liquidating and inspecting State taxes (VAT, personal income tax and special taxes; the corporate tax was again excluded from the basket of taxes assigned in the end), whenever the central government assigns the totality of these taxes to the Generalitat (100% assignment of the tax).

Although the door is not shut to the Catalan tax office exercising these functions over state taxes, this transcendental aspect of Catalan government financing will remain unchanged in the medium term, since the proposed new Catalan statute does not envisage assigning 100% of any of these taxes' collection to the Catalan government (although it seemed that the personal income tax would be completely assigned to the Generalitat in December 2005). Yet again, the unsalvageable restriction of having to duplicate the Catalan "basket" of taxes in all the other common regime communities (primarily owing to the frontal opposition of Andalusia's President Chaves) has made it impossible for the Catalan tax office to be created with a first major tax to help it along.

Although the personal income tax is a very expensive to manage, it is also the most unpopular, cumbersome and laborious to file and the most visible to taxpayers, much more so than the VAT, and the new statute does not allow the brand-new Catalan tax office to start out with a larger organisation than the General Directorate of Taxes had under the old statute. As was true for the almost 30 years of the old Sau Statute, the 100% assignment of a major tax's collection to the Generalitat someday will depend on the Catalan political parties' capacity to exert pressure on the Chamber of Deputies in Madrid.

Furthermore, point 2 of Article 204 consecrates the State tax office in Catalonia by explicitly and exclusively reserving the above functions of administrating, collecting, liquidating and inspecting state taxes for it. There is no variation or improvement in this article compared with Article 46.3 of the 1979 Sau Statute. However, Article 205.1 in the new Catalan Statute assigns the collection, liquidation and inspection of all major taxes borne in Catalonia to the Catalan tax office, with the exception of local taxes.

Article 204.2 also refers to the constitution of a joint partnership between State and Catalan tax agencies in a two-year period, a partnership that "may eventually be" transformed into a single Catalan tax administration if the central government magnanimously deems it appropriate. It states that the partnership "may become" a single tax administration, not that "it will become" a single tax administration. It also states that the Catalan tax office "may eventually" participate only jointly in a partnership with the State tax office, a partnership that may become the tax administration "in" (and not "of") Catalonia in the future. The new statute neither specifics concrete periods nor spells out the detailed function of this possible future partnership.

There are no international precedents for joint tax partnerships between central and regional governments with these traits, since regional governments in federal countries are accustomed to collecting most major taxes, as they do in Germany, where the regional Länder governments collect all major taxes, while the Berlin government only exclusively collects the special beer tax. In Quebec, all taxpayers submit two income tax declarations each year, one for the Canadian government and another for the Quebec government.

Regulatory capacity is a similar case. Article 203 of the Moncloa Statute reserves regulatory capacity for the State, which has the power to cede it to the Generalitat for partially assigned taxes. The 1979 Statute makes no reference to regulatory capacity, whereas the Statute approved last September 30 establishes the Generalitat's regulatory capacity over all state taxes borne by Catalonia. Even Antoni Zabalza, the PSOE government's former Secretary of the Treasury, criticised the timid final version of the new Catalan Statute in the area of fiscal responsibility, which made no significant progress on this crucial issue (*El País*, 06.03.2006).

6.- State public investment not guaranteed

Public investment is a cornerstone of a territory's economic growth, given the public sector's pronounced weight in the economy nowadays. Several years ago, the journal *Revista Econòmica de Catalunya* published an article on the economic impact of the 1992 Olympic

Games (n.18): public investments of 0.5 trillion PTA in infrastructures, along with the same amount of private investment, which generated a growth of 3.4 trillions pesetas in the Catalan GDP (through multiplier effects) in the years that followed.

The new Catalan Statute's third additional provision states that State infrastructure investments in Catalonia must be equal to the weight of the Catalan economy in the State GDP as a whole (18.5%), excluding the inter-territorial compensation fund (ICF). The new statute establishes a commitment period of only seven years, whereas this commitment was indefinite in the Catalan Parliament's Statute. Furthermore, the final draft eliminates any reference to compensation for the State's historical investment deficits in Catalonia, which the Catalan Chambers of Commerce has estimated to be more than 7.5 billion euros.

This additional provision contains another substantial modification of the text approved by the Catalan parliament: this 18.5% will be applied to the base of state investments only after the ICF is excluded. In 2006, the central government was slated to invest 12.467 billion euros in infrastructures, of which 2.306 (18.5%) would correspond to Catalonia if the new statute were rigorously applied. The ICF must be subtracted from this figure and in 2006, the ICF was small: only 1.159 billion euros. In Catalonia, 18.5% would be applied to the difference between investments and ICF: 11.308 billion in 2006, which would correspond to 2.091 billion.

On February 7, 2006, *El País* published an article commenting that the central government was considering multiplying the ICF in the coming years. President Zapatero now considers that "more weight must be given to the ICF because it is slated to become the solidarity fund *par* *excellence*". If the ICF is multiplied by three or four in the next few years, the chasm between State investments in Catalan infrastructures and the weight of the Catalan GDP in the state total will be formidable.

Although the new Catalan statute is already in force, Catalonia only received 13.9% of the State's regional investments in autonomous communities in 2007, the equivalent of 2.958 billion euros, according to the State General Budgets (SGB). Thus, in the first year of the Statute's application, direct State investments in Catalonia declined in comparison with 2006 (with a budgeted investment of 14.6% in Catalonia), the lowest amount in the past six years. Despite these figures, when the State Ministry of the Economy and the Treasury and the Catalan Ministry of Economy and Finance presented the project for the 2007 SGB in October 2006, they contended that the new statute had been scrupulously fulfilled. However, other voices protested that the third additional provision had not been fulfilled, since they do not agree with the State-proposed definition of infrastructure investment (Barcelona Chamber of Commerce). Minister Antoni Castells ended up recognising this publicly in July 2007.

If the concept of investment that appears in the third additional provision is interpreted literally, i.e., the potential region investments that figure in the SGB, Catalonia should have received a total of 4.012 billion (18.5%) in 2007. However, the SGB only envisages infrastructure investments by the Ministries of Public Works and the Environment and capital transfers to finance transport and environmental infrastructures (excluding the ICF). According to this restrictive definition of infrastructure investment, Catalonia received 3.195 billion, however, only 2.604 billion, almost the same amount as in 2006, corresponded to infrastructure investments by the Ministries of Public Works and the Environment, since the remaining 591 million was included in different entries that can hardly be considered infrastructure investment.

The State concluded that it lived up to the Statute's third additional provision under this restrictive definition of infrastructures, which overlooks energy, telecommunications, logistical, cultural, social, health, scientific, technological telecommunications and housing infrastructures. It is totally arbitrary to consider only transport and environmental infrastructure investments and thus, the difference between the two interpretations represented a loss of 1.054 billion in infrastructure investments for Catalonia in 2007, part of which could have been allocated to improve Catalan railways, which would alleviate the suffering of the many people who customarily use them in their daily commutes.

On the other hand, the State is committed to investing in Andalusia according to its population. The definition that has been applied to Catalonia will not be used in this case and all potential regional investments will be taken into account. Different criteria will be applied in Andalusia (population) than in Catalonia (GDP) and calculations will be made on two different bases: Andalusia will receive all the State's potential regional investments, whereas Catalonia will only receive potential regional investments by the Ministries of Public Works and the Environment, aggravated by the different treatment given to capital transfers and the ICF. One might rather cruelly say that the Catalans would have been better off with the Andalusian provision. Instead of receiving 13.9% of the State's total investments, Catalonia would have received 16% (the weight of the Catalan population within the State), which would have meant an additional 456 million.

7.- The imprecise ordinality principle

The German Constitutional Court's 2004 ruling on the principles governing fiscal flows related to territorial solidarity between federal states sheds light on the debate over the new autonomous financing model. In effect, the Court said that the German federal states "should implement the distribution system they wish, but should not alter the existing order between the states before and after the redistribution process", i.e., if Bavaria contributes more to the common treasury one year, no other payer or payee state should surpasses it in volume of resources available after the distribution process. Table 4 shows how Catalonia dropped from the fourth-ranked generator of wealth (GDP per capita) to ninth-ranked in distribution of wealth in 2004 when purchasing power parity (disposable income per capita) is taken into consideration.

Article 206.5 introduced an ordinality principle that attempted to limit excess Catalan inter-territorial solidarity in practice: "The State must ensure that the application of adjustment mechanisms does not alter, in any case, Catalonia's position in the income per capita ranking of autonomous communities before adjustment."

However, in February 2006, Guillem López warned of a slight but decisive correction of this article during its journey through Moncloa: that this ordinality principle must be defined in real terms, i.e., taking all the communities' price levels into account. If per capita income is not expressed in purchasing power parity (e.g., taking into account that prices in Barcelona are 30% higher than in Badajoz, according to the FUNCAS), then the "dike of containment" for financing the Generalitat this article was intended to be will no longer act as an effective safeguard, since by not considering Catalonia's price differential within the context of the country as a whole, the drop in the ranking is less drastic: from fourth to fifth place instead of fourth to ninth place.

Conclusion: New financing for Catalonia? Too many unknowns

The evolution of the Spanish autonomous state in upcoming years will be shaped by the concrete deployment of the new autonomy statutes that have already been approved. The development of the new Catalan statute, as has been the case historically in autonomous Spain, will set the standard for future developments in the common regime communities, both the so-called historical communities as well as the others, the most enthusiastic defenders of "coffee for everyone". Furthermore, the deliberately long and winding process that drafting the new Catalan statute entailed proved fatal to an enhanced level of self-government: pressure and costs mounted during each day of delay in its approval and in the end, it was rejected in favour of insufficient progress.

It is hard to venture an accurate opinion on the possibilities awaiting the Generalitat's autonomous financing: academics can only point out the sketchy details on the following points to date:

- The regulatory prevalence of statutory articles over what should be the new autonomous communities' financing law (the LOFCA).
- The highly interpretative ambiguity in the details of a number of provisions inserted into the statutes, such as the one in the ordinality clause.

- The constitutionality - or unconstitutionality - of foreseeable demands for minimum conditions for direct state investment in some territories, e.g., Catalonia.

- The definition of adjustment mechanisms and limits to solidarity, in order to reduce the central government's traditional degree of discretion in this area.

The foregoing explains why judging the potential progress of the new autonomy statutes is risky and demonstrates how little progress has been made towards the grand federal arrangement that was meant to provide stability to the Spanish autonomous state, contrary to what some voices assert. The fact that open conflicts over the new Catalan Statute exist in the heart of the Constitutional Court, a court with few federalising tendencies, demonstrates how very little value the new Catalan statute may eventually have.

Furthermore, contrary to the case of competential frameworks, there are far fewer specifics on the financing question in the new Catalan Statute: the exhaustive definitive breakdown of the Generalitat's competences does not correspond to a clear specification of the contents on new financing, many points of which can be interpreted differently according to respective positions of political strength.

This is especially serious as regards the State's on-going discretion in the area of territorial redistribution and the existing confusion between greater fiscal co-responsibility and simple percentage increases in the share of state taxes: since no regional tax agencies exist to collect these taxes, the regional share of the VAT or personal income tax is completely virtual, which may lead to a scenario in which these percentages rise and regional budgets are cut, according to declarations by Miguel Angel Fernández Ordóñez, Secretary of the Treasury, shortly after the

Moncloa negotiations between the PSOE and the CiU of January 2006, which concluded the long statutory debate: "The state sufficiency fund will turn negative for Catalonia" (*Expansión*, 26.01.2006).

According to the Generalitat's consultative body, the Consell Consultiu (by a majority 4 to 3 vote in early September 2005: PSC-PSOE+PP+ICV vs. CiU+ERC), fiscal flows between territories are the State's exclusive and excluding competence. Logically, the central government does not wish to discuss these fiscal flows with a historical community in bilateral negotiations, but would rather prefer to frame its discussions multilaterally, in order to dilute the hypothetical commitments acquired.

In the most frequent fiscal federalism schemes, citizens are the ones who pay taxes of course, yet they do so in two jurisdictions - central and territorial - each one of which holds originary taxation powers not derived from an *ad hoc* transfer regime granted on the basis of assumed, fictitious shares of taxes collected by a sole unitary, centralized fiscal power.

A federal arrangement has an *a priori* bilateral content and all generalisations to other territories must be effected *a posteriori*; the former arrangement is not usually subordinated to the latter. One knows beforehand that not everything depends on redistributive mechanisms not defined by the Senate as a territorial chamber, but rather by the Council for Fiscal and Financial Policy's executive power, over which the central government prevails by virtue of an absolute majority. The financing envisaged in the new Catalan Statute continues in the vein of the earlier model, which is closer to decentralised public spending and further from an effective distribution of tax revenue that can be considered minimally federal.

Catalonia has had many negative encounters with the central government's arbitrary use of its discretionary powers in the past 25 years: regardless of party in power, the State has always promulgated all types of modulating rules to suit its own interests at all times, a deliberately complex machine behind an assumed territorial redistribution that is extremely opaque and whose goals are hard to evaluate. The truth is that more public monies end up being invested in current expenditure than in infrastructure investments and job creation, instead of stimulating private employment.

In Guillem López's opinion, the LOFCA is "the reflection of a Big Brother who centrally estimates peripheral spending needs according to his discretion, with a marketed objectivity formulated on the basis of a series of variables defined by pressure from each region (from orographic to rural conditions, including dispersion) and measured by doubtful empirical approaches". As he contended in 2006, "In the absence of a previous pact on the LOFCA, autonomous financing in the new Catalan Statute is only window dressing".

Lastly, I agree with Antoni Zabalaza (2007), who considers that rather than changing the Generalitat's financing model, the new Catalan Statute defines a cluster or series of financing models wide open to a very broad array of possible interpretations that range from a loose approach to fiscal federalism mechanisms (in case of a generous interpretation by the central government) to a reinforcement of the central government's discretional powers over the distribution of the common regime communities' resources (in the case of a more restrictive interpretation).

Thus, depending on how political majorities in the parliaments of Madrid and Barcelona play out, the Generalitat's autonomous financing may improve or even deteriorate in the future. The new Catalan Statute's hopes to shield the Generalitat's financing from possible hostile absolute majorities in Madrid's Chamber of Deputies (this being the most common justification among Catalan political parties and social agents for drafting a new autonomy statute) have amounted to very little, in view of the final text.

Appendix: the macroeconomic effects of the Catalan fiscal deficit with the Spanish State

The years between 1997 and 2003 were characterised by a dearth of official statistical data on State investment and public spending by territory. If we consider the principle "transparency equals democracy" to be basic, the PP did very little honour to its self-proclaimed status as a liberal party; adding fuel to the fire is the fact that the central tax office (which boasts one of the world's finest software systems) does indeed control taxpayers' wages, interests, dividends and rents down to the last penny; however, anyone visiting the Ministry's website to see where 259 billion euros were spent last year will discover that this information is not available.

Harvard University publishes the fiscal balances between all 50 US states and the federal government each year, an excellent, 120-page booklet that includes a 15-year time series, specifies the amounts collected and breaks down federal government spending and investment in each state by type. A basic, preliminary step even before publishing fiscal balances would consist in obliging State ministries to release a territorialised report on actual, rather than budgeted investment and public spending each year based on information about its recognised obligations. This information should be available on the Internet and its publication date announced in advance: e.g., the Eurostat scrupulously fulfils its publication schedule for official statistics.

There is a century-old tradition of studies in Catalonia on the region's fiscal relations with the Spanish State[1]: Francesc Flos (1896), Guillem Graell (1902), Joan Crexells (1923), Josep Llord (1927), Carles Pi Sunyer (1929-1959), Ramon Trias Fargas (1960), Jacint Ros Hombravella (1966 and 1974 with Joan Sardà), Josep Maria Bricall (1978), Antoni Castells and Martí Parellada (1983), Arcadi Oliveres (1991), Montserrat Colldeforns (1995), Esther Martínez and Guillem López-Casasnovas (2000) among others, all tried to estimate Catalonia's contribution to the Spanish State. This question is much more pressing nowadays since, if public spending scarcely reached 10% of the Spanish GDP in 1975, today the Spanish public sector controls a major part of the wealth generated in this developed country (40% of the GDP in 2003). By the same token, the public sector also has enormous regulatory powers, to the point in which its complicity or indifference can favour or harm entire economic sectors and territories (Tremosa, 2004a).

However, these types of studies are much more recent in the rest of Spain, the most rigorous work to date being *Las balanzas fiscales de las CCAA, 1991-1996* (Castells et al, 2000). The first PSOE government commissioned the Institute for Fiscal Studies to conduct this voluminous study, which released all the public information needed to calculate fiscal balances based on different general interventions. However, the

[1] For a historical view of Catalonia's fiscal deficit with the Spanish State during the twentieth century, see Francesc Roca's article in Revista Econòmica de Catalunya (2000).

Institute would decline to publish it under the PP government and it would be put out by the Ariel publishing house in the end.

It is curious to observe how institutions in Madrid (the press, private foundations and ministries) never refer to this rigorous study, since it is the only one that uses liquidated information from the central government's general interventions. Furthermore, it is also the only study that uses the two internationally accepted criteria for calculating fiscal balances related to the distribution of central government expenditure and public investment in the community that houses the State capital, i.e., the so-called monetary flow and benefit criteria or approaches. Strangely enough, Madrid only releases fiscal balances based on benefit criteria, which always results in a much more favourable outcome for the country's capital than monetary flow criteria does.

In calculating the fiscal balance of the Autonomous Community of Madrid (ACM) with the State, we must first purify the "host effect" on taxes collected: many companies have factories in other autonomous communities, yet their fiscal headquarters are in Madrid and their taxes allocated to that autonomous government. For example, the tax office collected 57.372 billion euros from Madrid in 2003 or 45% of the total 127.963 billion collected; this percentage is much higher than the 17.53% the ACM contributed to the Spanish GDP in 2003, according to the Spanish National Institute of Statistics. Hence, the risk exists that more taxes may be allocated to the ACM than those actually contributed.

But the main source of discrepancy in the ACM's fiscal balances derives from the methodology used to calculate them and refers to the State's allocation of public spending in Madrid. According to monetary flow criteria, public expenditure is assigned to the territory where it is effectively spent: e.g., if the Teatro Real is constructed in Madrid, its cost must be integrally assigned to the ACM. However, according to benefit criteria, public spending is distributed among the territories of all citizens who benefit from it: if the Teatro Real is for all Spaniards, its cost must be shared by all autonomous communities.

Therefore, the ACM's fiscal deficit with the central public sector is calculated solely on the basis of benefit criteria, which involves "centrifuging" a large part of the public expenditure actually spent within its territory to the other communities. This brings to mind the major public infrastructure investments in the capital and the cost of wages for Madrid's 400,000 civil employees. Not assigning a larger part of all this public spending to the ACM (where most of it is actually spent) and sharing it out among other communities is what allows Madrid to achieve a fiscal deficit, one, strangely enough, always slightly higher than Catalonia's (Alcaide and Alcaide, 2001, 2002, 2003). We should also bear in mind that using benefit criteria call for hypotheses on the beneficiaries of public spending in the capital. And both Castells (2000) as well as De la Fuente (2001) respectively warned that "establishing hypotheses on beneficiaries can be a perilous task" and that "an overly-eager application of benefit criteria is highly counter-productive, since it makes fiscal balances hard to interpret and dangerously heightens subjectivity".

In the midst of methodological debates on the best criteria or approach to use in calculating fiscal balances, it is interesting to note the stance of a group of academics summoned by the Catalan Generalitat in January 2005 (Generalitat de Catalunya, 2005:) *La balança fiscal de*

Catalunya amb l'Administració Central)[2], which issued its opinion on the matter. The use of one or the other approach depends on the goals of the analysis one wishes to conduct: the monetary flow approach attempts to measure the economic impact generated by public sector activity in a territory, whereas the benefit flow approach attempts to calculate how spending policies affect individual well-being. Therefore, monetary flow criteria is more correct, accurate and rigorous in analysing the influence of public sector action on a region's economic growth, whereas benefit flow criteria would be used to attempt to analyse public sector action in redistributive terms.

How can Catalonia interpret the total opacity of the PP government in this context during the past eight years, with respect to data on different general interventions, even though individual mandates for calculating and releasing public fiscal balance were included in the State of the Nation resolutions issued by the Chamber of Deputies in 1998 and 1999? How can Catalonia interpret the assignment of information solely and eternally to private foundations in Madrid (the FUNCAS), which concocts it in such a way that Madrid always figures as the "champion of inter-territorial solidarity", without even specifying the calculation methodology? Guillem López-Casasnovas was right (2004) when he said, "Tell me why you want to know fiscal balances and I will tell you the most convenient methodology".

However, if we analyse the autonomous communities' fiscal balances with the central public sector on the basis of the monetary flow

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[2] *"Grup de treball per a l'actualització de la balança fiscal de Catalunya. Part Catalana de la Comissió Mixta de Valoracions Administració de l'Estat-Generalitat de Catalunya". The members of this group are: Núria Bosch, Joan F. Corona, Joan Carles Costas, Marta Espasa, Guillem López, Eduard Rius, Joan Ramon Rovira, Xavier Sala-i-Martín, Joaquim Solé Vilanova, Ramon Tremosa, Maite Vilalta, Maties Vives amd Antoni Zabalza.*

method of calculation, Castells, Bosch, Barberán, Ruiz-Huerta et al's work, cited earlier, presents a balance more compatible with Spain's unequal regional evolution in recent years: from 1991 to 1996, the EURAM (the Mediterranean Euroregion that includes Catalonia, the Community of Valencia and the Balearics) figured as the main net contributor of resources (Catalonia with -7% of its annual average GDP, the Balearics with -7.5% and the Community of Valencia with -2.5%); Navarre and the Basque Country were also net contributors during the entire period (-3.5% and -1.5% respectively); and Madrid's fiscal deficit with the central public sector was only -0.09%. Antoni Castells, the Generalitat's current Minister of the Economy, estimates the Catalan fiscal deficit to be between 8 and 9% of the annual Catalan GDP, whereas Alcaide and Alcaide (2003, 2004) put it between 10% and 10.5% of the Catalan GDP for 2002 and 2003. Regardless of who is right, is there not a clear relationship between the excess drainage and economic stagnation?

In Spain, however, the only fiscal balances for the years between 1995 and 2003 were published by the FUNCAS and the authors never describe the methodology used for calculating the regional fiscal balances they present, a question especially relevant in Madrid's case. As the authors themselves affirmed in the 2002 edition, their imputations of State expenditures were based on provincial and autonomous GAV, "a debatable, yet necessary method, because of the lack of information from the Office of the State Comptroller, which only publishes liquidated data at the aggregated State level" (page 30).

Thus, in the FUNCAS' 2003 edition, the authors cut their own estimations of the Catalan fiscal deficit in comparison with the 2002 edition without offering any justification. Likewise, references to the Office of the State Comptroller and the lack of available official data were dropped from the brief methodological note furnished, asserting that FUNCAS' regional statistics team, which was responsible for this research, assumes that several estimations made to complete the closing of the regional economic balance have components of personal opinion" (page 5). The denial of official liquidated information on the central government's investment performance by territory will keep feeding the Catalan belief that fiscal balances are the best-kept secret in the Kingdom.

Table 10 shows the projected results of a reduction of the Catalan fiscal deficit with the Spanish State for 2010. Economic literature suggests different techniques for quantifying the impact of public spending programmes: e.g., Nordhaus' study (2002) quantified the economic cost to the US of the war with Iraq, Abadie and Gardeazábal's (2001) studied the impact of terrorism on the Basque economy, Sosvilla et al's (2001) examined the impact of EU aid on the Aragonese economy, Sosvilla and Herce (1998 and 1999) studied the impact of subsidies from EU funds on the Spanish economy and finally, Herce and Sosvilla's (2002) quantified the economic effects of railway investments in Spain for 2007.

This section summarises the contents of a recently published article in the journal *Applied Economics* (Pons and Tremosa, 2005), which presented a simulation of growth for the prospective Catalan economy, completing the previously conducted analysis of the Catalan fiscal deficit's impact. If the volume of the Catalan deficit from 1995 to 1998 had been invested in infrastructures, the Catalan GDP in 2000 would have been 32% higher (Ros, Tremosa and Pons, 2003); furthermore, the Catalan economy reached a fiscal pressure of 39% of the Catalan GDP in 1998, whereas public expenditure only amounted to 30.5% of the

Catalan GDP, which allows the Catalan public sector's situation to be defined as "persistent atrophy" (Ros, Tremosa and Pons, 2002).

In the late 1980s, a series of studies began to surface in economic literature that analysed the importance of public infrastructures in national and regional productivity. Most of these studies were based on calculating production elasticity with respect to public capital by means of a production function, normally a Cobb-Douglas. However, studies that obtain production elasticity with respect to public capital via a uni-equational production function estimation have been subject to a barrage of methodological criticism. One of the main limitations to this approach is that it excludes the possible presence of feedback effects among the variables it considers, which may be important in the long run, since it overlooks the possible existence of a simultaneous relationship between growth in production and growth in public capital.

To overcome this limitation, economic literature suggests the use of multi-equation time series techniques (VAR models) that incorporate the GDP, use, private capital and public capital. These models successfully capture the relationships produced over time among these variables by means of impulse-response functions. Dynamic feedback effects are essential to estimating the relationships between public capital and the model's other variables, since they allow us to consider the effects of public capital on the GDP, employment and private capital; by the same token it also allows us to estimate these variables' effect on the growth of public capital in a feedback process.

Different methodologies can be used to calculate elasticity in the impact of rising public investment on the GDP. The methodology used in this section, based on VAR models, provides higher elasticities than those obtained by other methodologies. Even so, many authors believe it is the best methodology for conducting these types of simulations of economic growth, since it takes feedback effects among the model's variables into consideration. This effect may be considerable and this elasticity might be underestimated, if not taken in account.

Therefore, this study has considered gross GDP variables at constant prices, employment, private capital and public capital. The statistical information refers to the Catalan economy and the period between 1965 and 1999 was used to estimate the model. Information on product and employment was obtained from the *Renta Nacional de España y su distribución provincial*, published by the BBVA Foundation. The private and public capital series are based on *El stock de capital en España y sus comunidades autónomas*, by the same source. In the latter case, the values for public and private capital in the Catalan economy for 1999 were extrapolated on the basis of these variables' values for Spain as a whole.

This is not an overly lengthy time series, a circumstance aggravated by the fact that the BBVA Foundation's production and employment data is biennial in nature. However, most studies used in this kind of research refer to the Spanish economy and as mentioned previously, also feature this limitation and use time series similar to those used here (both in terms of the period considered as well as the way in which they refer to the availability of observations). Therefore, once the VAR model was estimated, a series of simulations were conducted on the growth of the Catalan economy and the series on the GDP at constant prices and employment devised by the Catalan Statistics Institute were used to conduct them[3].

The Catalan economy would probably come a step closer to the more developed regions of the European Union in terms of GDP per capita (expressed in terms of purchasing power parity, (PPP)) in the case of the optimistic scenario, take a step backward in the case of the pessimistic scenario and stay the same as now, matching the current average GDP per capita of the UE-15, in the case of the intermediate scenario (according to the EUROSTAT, Catalonia's GDP per capita in PPP was rated 99 in 2000, when 100 is considered the UE-15 average). Yet, if a substantial reduction of the fiscal deficit were to take place each year in the 2002-2010 period, the previously mentioned VAR model estimates indicate that the Catalan economy would be in a much better position by the end of the period, in terms of production (Table 8), employment (Table 9), and productivity.

In the case of the intermediate scenario, if the Catalan fiscal deficit with the Spanish State were reduced by 1% of the GDP each year in the 2002-2010 period, Catalonia's GDP per capita would be 9.8% higher in 2010; if reduced by 3%, the GDP per capita would be 32.1% higher; and if reduced by 5%, the GDP per capita would be 58.3% higher.

In short, should there be no reduction of the fiscal deficit, the Catalan economy would grow in accordance with the intermediate scenario and this growth would not be very far from the average growth of UE-15 countries. Catalonia will only be able to make considerable

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[3] *This statistical infomration on the Catalan economy was obtained from the http://www.idescat.es website.*

progress in closing the gap with more dynamic EU regions if it can substantially reduce the fiscal deficit with the Spanish State.

Thus, given the above assumptions, if the fiscal deficit were reduced by 1% of the GDP each year (bearing in mind that the fiscal deficit has oscillated between 8% and 10% in recent years), Catalonia might score 108 and 112 on the GDP per capita index in 2010, compared to 100 as the UE-15 average. If the fiscal deficit were reduced by 3% of the annual GDP, the Catalan GDP per inhabitant would be around 120-130 (20%-30% above the UE-15 average). Finally, if the reduction equalled 5% of the GDP, GDP per inhabitant would be between 135 and 150 on the index. The greater growth in the Catalan economy that would result from a reduced fiscal deficit would allow the region to reach GDP per capita (PPP) levels similar to higher European regions'. Table 9 shows several of the regions Catalonia might approach, and in some cases surpass, in each one of the three scenarios of a reduced Catalan fiscal deficit with the Spanish State.

Table 1
Evolution in the GDP and disposable income per capita

	GDP per capita in purchase power parity. 100=the average of the 166 regions in the UE-15.		**Gross disposable household income per capita State average = 100**	
	1997	**2002**	**1995**	**2002**
Madrid	101	112.4	119	120
Basque Country	94	104.8	120	124

Navarre	97	104.2	124	122
Catalonia	**100**	**100.9**	**117**	**112**
Balearic Islands	101	97.9	124	121
Community of Valencia	76	79.9	96	97
Spanish State	80	84.7	100	100

Sources: Eurostat, National Institute of Statistics.

Table 2 **Distribution of public expenditure in Spain by level of government**				
	1980		**2001**	
	% of the total	**% GDP**	**% of the total**	**% GDP**
Central government (The State and Social Security)	90	26	61	25
Regional governments (autonomous communities)	-	-	26	11
Local governments (municipal and provincial councils)	10	3	13	5
Total	**100**	**29**	**100**	**41**

Sources: Ministry of the Treasury, "La Descentralización del gasto público en España". Ministry of Public Administrations, "Informe Económico-Financiero de las Administraciones Territoriales".

Table 3 **Distribution of tax collection in Spain by level of government**				
	1988		**2001**	
	% of the total	**% GDP**	**% of the total**	**% GDP**
Central government (State and Social Security)	86	29	80	32
Regional governments (autonomous communities)	6	2	12	6
Local governments (municipal and provincial councils)	8	3	8	4
Total	**100**	**34**	**100**	**40**

Sources: Ministry of the Treasury, "La Descentralización del gasto público en España". Ministry of Public Administrations, "Informe Económico-Financiero de las Administraciones Territoriales".

Table 4 From GDP per capita to disposable income per capita 2004			
GDP per capita		**Disposable income per capita in purchasing power parity**	
1.- Madrid	131	1.- Madrid	119
2.- Navarre	126	2.- Basque Country	117
3.- Basque Country	125	3.- Navarre	116
4.- Catalonia	**120**	4.- Aragon	114
5.- Balearic Islands	113	5.- Rioja	113
6.- Rioja	109	6.- Castile and Leon	112
7.- Aragon	107	7.- Balearic Islands	108
8.- Cantabria	97	8.- Ceuta and Melilla	107
9.- Castile and Leon	94	**9.- Catalonia**	**106**
10.- Community of Valencia	93	10.- Cantabria	104
11.- Canary Islands	92	11.- Castile – La Mancha	97
12.- Ceuta and Melilla	90	12.- Community of Valencia	95
13.- Asturias	86	13.- Canary Islands	94
14.- Murcia	84	14.- Asturias	92
15.- Galicia	80	15.- Galicia	89
16.- Castile – La Mancha	78	16.- Murcia	86
17.- Andalusia	77	17.- Andalusia	85
18.- Extremadura	67	18.- Extremadura	84

Sources: National Institute of Statistics, FUNCAS.

<table>
<tr><th colspan="2">Table 5
Resources of the Catalan Generalitat:
its share of the State sufficiency fund and taxes</th></tr>
<tr><td>Sau Statute (1979)
LOFCA Revision (2001)</td><td>Moncloa Statute (2006)</td></tr>
<tr><td>VAT: 35%</td><td>VAT: 50%</td></tr>
<tr><td>Personal income tax: 33%</td><td>Personal income tax: 50%</td></tr>
<tr><td>Excise duties: 40%</td><td>Excise duties: 58%</td></tr>
<tr><td></td><td><u>NEGATIVE STATE SUFFICIENCY FUND*</u>

“<u>There will be more than enough money</u>” to cover the Generalitat’s budget with the percentage of its share of taxes in 2006.

Catalonia will become a <u>net contributor</u> to the State sufficiency fund</td></tr>
<tr><td colspan="2">Most likely final outcome: similar economic resources for the Generalitat</td></tr>
<tr><td><u>POSITIVE STATE SUFFICIENCY FUND</u>

<u>Money is always lacking</u> to cover the Generalitat’s budget with the percentage of its share of taxes.

Catalonia had always been a <u>net receptor</u> of the State sufficiency fund</td><td></td></tr>
</table>

Source: “Estatut, aeroports i ports de peix al cove” (2006), Ramon Tremosa i Balcells

**** Miguel Ángel Fernández Ordóñez, Secretary of the Treasury: “El fondo de suficiencia estatal pasará a ser negativo para Cataluña” (Expansión, 26.01.2006)***

Table 6 Resources linked to Catalonia's autonomous financing system 2003		
	Billion euros	**% variation 2003/2002**
Personal income tax, 33%	**3.541**	**6.3%**
VAT, 35%	**2.741**	**9.9%**
Excise duties	**1.367**	**4.4%**
Alcohol and derived beverages, 40% = 81		2.3%
Tobacco, 40% = 404		9.1%
Hydrocarbons, 40% = 724		1.6%
Electricity, 100% = 158		7.7%
Traditionally assigned taxes	**3.107**	**20.9%**
Wealth tax = 274		12.6%
Inheritance and gift tax = 390		18.1%
Property transfer tax = 1.213		17.1%
Official documents tax = 866		35.2%
Gambling taxes = 287		-7.2%
Regulatory taxes	**98**	**6.8%**
Transport taxes	**246**	**8.5%**
TOTAL FISCAL REVENUE (1)	**11.249**	**10.7%**
State sufficiency fund	**2.058**	**7.5%**
Social Security guarantee fund	36	1.1%
TOTAL TRANSFERS FROM THE STATE (2)	**2.093**	**7.4%**
TOTAL RESOURCES (1+2)	**13.342**	**10.2%**
Catalan GDP, 2.003 billion euros	**156.272**	
Percentage of the Generalitat's total resources over Catalan GDP	**8.53%**	

Sources: Nota d'Economia, 82 (2005) and Idescat.

Table 7
Resources linked to the common regime autonomous financing system*
2003

	Billion €	€ / inhabitant	Index = 100 State average
1.- Extremadura	2.336	2,175	123
2.- Castile and Leon	5.163	2,075	118
3.- La Rioja	605	2,105	116
4.- Cantabria	1.124	2,045	116
5.- Aragon	2.503	2,035	115
6.- Asturias	2.140	1,990	113
7.- Galicia	5.445	1,979	112
8.- Castile-la Mancha	3.510	1,933	110
9.- Andalusia	13.489	1,773	101
10.- Canary Islands	3.245	1,713	97
11.- Catalonia	**11.355**	**1,694**	**96**
12.- Murcia	2.051	1,616	92
13.- Community of Valencia	7.187	1,608	91
14.- Madrid	8.739	1,528	87
15.- Balearic Islands	1.414	1,492	85
Total	**70.306**	**1,763**	**100**

**** The inter-territorial compensation fund, sufficiency fund, and European funds, which raised Extremadura's index to 142 in 2002, are not included in these resources.***

**** These resources also exclude State investment or public expenditure by territory, which accentuates the differences in favour of some territories and compensates several insufficiencies in autonomous financing per capita (Madrid).***

Source: Nota d'Economia, 82 (2005).

Table 8 Comparison of financing proposals			
	Catalan Government April 2005 Articulated proposal	**CiU's proposal** January 2005 Articulated proposal	**Tinell Arrangement** December 2003 A government agreement between PSC-PSOE, ERC and ICV
Reference to the LOFCA	No reference	No reference	No reference
Catalan contribution	Based on an assessment of State services (Art. 5) and the solidarity quota (Art. 7): in no cases can the State attribute over 50% of Catalan taxes to itself	Contribution quota	Based on the Generalitat's spending needs (ap. 6). Assessment of the contribution to State services and solidarity (Sect. 3)
Tax Office	All regional and transferred taxes (Art. 4)	All taxes accrued in Catalonia (Art. 1, Chap. 2)	Regional, transferred and shared (Sect. 3)
Regulatory capacity (total or shared)	All taxes borne in Catalonia (Art. 3.2)	All taxes accrued in Catalonia (art. 2, Chap. 2)	All taxes borne in Catalonia (Sect. 4)
Taxes transferred to the Generalitat	A minimum of 50% of all taxes accrued and collected in Catalonia (Art. 5)	A share in all taxes accrued in Catalonia, as well as revenue from the regional tax regime (Art. 1, Chap. 4)	A share of all taxes Sect. 4)
Mixed commission	Bilateral body, notwithstanding agreements undertaken by the Generalitat in the Council for Fiscal and Financial Policy (CFFP) (Art. 10)	Bilateral negotiating body (Art. 1, Chap. 3)	Bilateral negotiating body (Sect. 2)
Local treasuries (institutional loyalty)	Compensation for legislative changes (art 19.3) and improper financing competences (Art 19.5)	The Generalitat's exclusive competence in local financing (Art. 1, Chap. 6)	No reference
State investments in Catalonia	State investment proportional to the Catalan share of the Spanish GDP and compensation for accumulated deficits (single a.d.)	No reference	State investment proportional to the Catalan share of the Spanish GDP and compensation for accumulated deficits (Sect. 7)
Reduction of the Catalan fiscal	Equalisation to the fiscal deficit of EU territories with	A cap on the Catalan fiscal	Equalisation to the fiscal deficit of EU territories with

deficit with the Spanish State	revenue similar to Catalonia's in 10 years. Results similar to the *Concierto Económico* in 15 years (Art. 8)	deficit of 4% of the Catalan GDP each year (Art. 3.3, Chap. 1)	revenue similar to Catalonia's in 10 years. (sect. 9). Results similar to the *Concierto Económico* (Sect. 5) in 15 years.
Fiscal effort	Overall private prices will be taken into account for public services (Art. 7.2)	No reference	Excess public prices and tolls paid in Catalonia are calculated (Sect. 8)

Source: "Estatut, aeroports i ports de peix al cove" (2006), Ramon Tremosa i Balcells.

Table 9
Comparison of financing chapters in the Catalan Statutes

	Moncloa Statute **Approved in a referendum in June 2006** **49% participation** **(74% of all votes in favour and 27% against)**	**Catalan Parliament Statute** **Approved on 30.09.2005** **89% of all votes in favour (CiU, PSC, ERC and ICV) and 11% against (PP)**	**Sau Statute** **Approved in a referendum in June 1979** **62% participation** **(89% of all votes in favour and 11% against)**
Reference to the LOFCA	Explicit reference to the Organic Law cited in Article 157.3 of the Spanish Constitution (Art. 201.1)	No reference. Principle of the pre-eminence of the Catalan Statute over State legislation (Art 202.4)	The Generalitat's financial competences are adjusted to the Organic Law cited in Article 157.3 of the Spanish Constitution (7th Add.Prov.)
Catalan contributio n	Based on the Generalitat's spending needs: resources will be adjusted upward or downward to contribute to solidarity (Art. 206.1), which is to be solely determined by the State (Art. 206.3)	Based on the assessment of State services and the solidarity quota (Art. 207, 208, 209 and 210)	The average between population and fiscal effort, measured by personal income tax collected in Catalonia (Art. 45.a)
Catalan Tax Office	Regional taxes and by delegation of the State, only totally transferred State taxes (Art. 204.1). Joint tax office consortium "may be" transformed into a single tax administration (Art. 204.1)	All taxes borne in Catalonia except local taxes (Art. 205.1)	Regional taxes (Art. 46.1)
Regulatory capacity	Regional taxes and by delegation of the State, only totally transferred taxes (Art. 203.2). State discretion to transfer it in partially transferred taxes.	All taxes borne in Catalonia (Art. 204.2)	Regional taxes (Art. 46.1)
Taxes transferred to the Generalitat	50% personal income tax, 50% VAT and 58% excise duties: hydrocarbons, tobacco and alcohol (8th, 9th, and 10th Add. Prov.)	A percentage is attributed to the State to finance its services (Art. 208)	Property, inheritance, gift, estate, official documents and gambling taxes (6th Add. Prov.)
Mixed State-Generalitat Commissio n. Functions	To agree on the scope and conditions of Article 206 (Art. 210.2)	To determine the Catalan contribution to State finances and update the Generalitat's financing (Art. 214.2)	To set a percentage of Catalonia's share of the total State collection of direct and indirect taxes (3rd Trans. Prov.)
Mixed State-Generalitat Commissio n.	The State only has to disagree with the Generalitat (2nd Add. Prov.)	Clause that automatically extends the previous model in case of disagreement (Art. 212.2). Bilateral conflict resolution	No reference

Disagreements		(5th Add. Prov.)	
State investment in Catalonia	Proportional to the Catalan weight in the Spanish GDP for 7 years, excluding the ICF (3rd Add. Prov.)	State investment proportional to the share of GDP and compensation for accumulated deficits (6th Add. Disp.)	No reference
Reduction of the Catalan fiscal deficit with the Spanish State	No reference	Equalisation to EU regions with revenue similar to Catalonia's in 10 years (7th Add. Prov.). Results similar to the foral model in 15 years (8th Add. Prov.)	No reference
Fiscal effort	No specification of the concept: "The cited adjustment and solidarity levels shall be determined by the State"	Private prices will be taken into account for public services (Art. 210.2)	Measured by average personal income tax collected in Catalonia (a. 45.a)

Source: "Estatut, aeroports i ports de peix al cove" (2006), Ramon Tremosa i Balcells

Table 10 Fiscal flows and economic growth. 2010				
Annual reduction in the Catalan fiscal deficit with the State public sector	**No reduction**	**1%/GDP**	**3%/GDP**	**5%/GDP**
Catalan GDP per capita (PPP) (UE-15=100)	97-101	108-112	120-130	135-150
European regions with similar indices (2000)	Rheinhald-Pfalz (97) Saarland (97) Bratislava (98) East Wales (98) Balearics (98) Eastern Scotland (100) Umbria (101)	Liguria (108) East Anglia (109) Hampshire (109) Madrid (110) North Rhein-Westphalia (109) Flemish Brabant (112)	Piedmont (120) Prague (121) Baden-Württemberg (122) Aosta Valley (123) Groningen (124) Bayern (124) Antwerp (125) Hesse (129) Emilia Romagna (129)	Lombardy (135) Trentino-Alto Adige(136) Utrecht (140) Bremen (143) Uusimaa (143) Stockholm (147) Darmstadt (149)

Source: Applied Economics, 37 (2005), Jordi Pons and Ramon Tremosa

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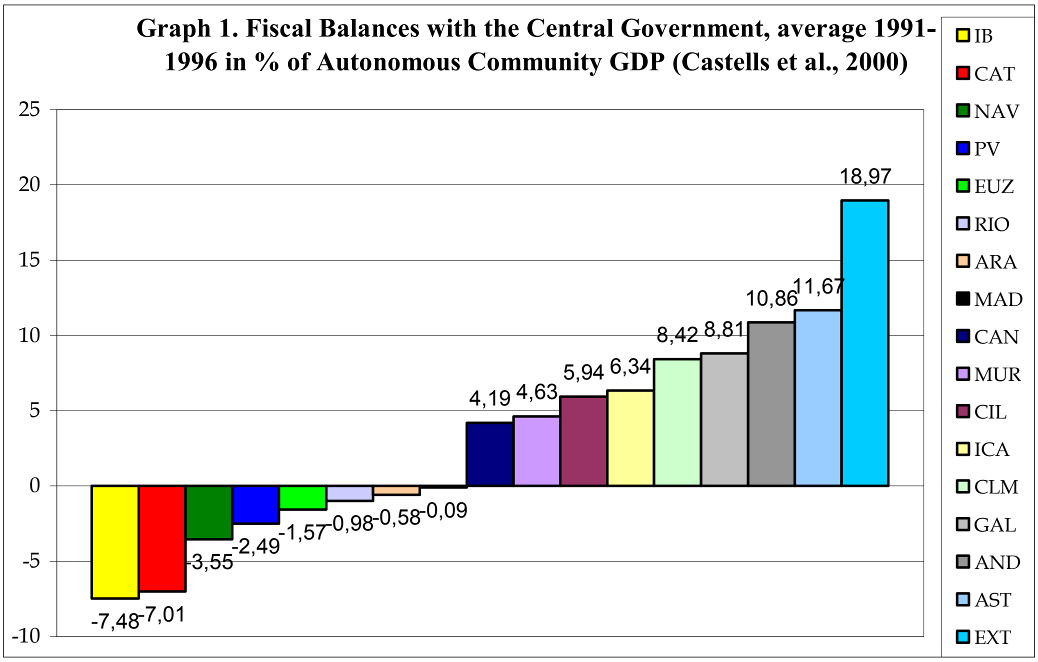
Table 11 Catalan fiscal deficit with the Spanish State			
Year	**Billons of current pesetas**	**Billion of current euros**	**Percentage GDP (%)**
1986	453	2.724	7.7%
1987	544	3.270	8.2%
1988	559	3.357	7.4%
1989	772	4.641	9.0%
1990	853	5.129	9.0%
1991	934	5.615	8.9%
1992	837	5.028	7.4%
1993	507	3.046	4.4%
1994	746	4.485	6.0%
1995	761	4.575	5.6%
1996	915	5.500	6.4%
1997	1,268	7.619	8.5%
1998	1,285	7.725	8.1%
1999	1,585	9.524	8.7%
2000	1,826	10.972	9.3%
2001	1,881	11.307	9.2%

Source: Generalitat de Catalonia



Graph 1. Fiscal Balances with the Central Government, average 1991-1996 in % of Autonomous Community GDP (Castells et al., 2000)
25
20
15
10
5
0
-5
-10
-7,48
-7,01
-3,55
-2,49
-1,57
-0,98
-0,58
-0,09
4,19
4,63
5,94
6,34
8,42
8,81
10,86
11,67
18,97
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CAN
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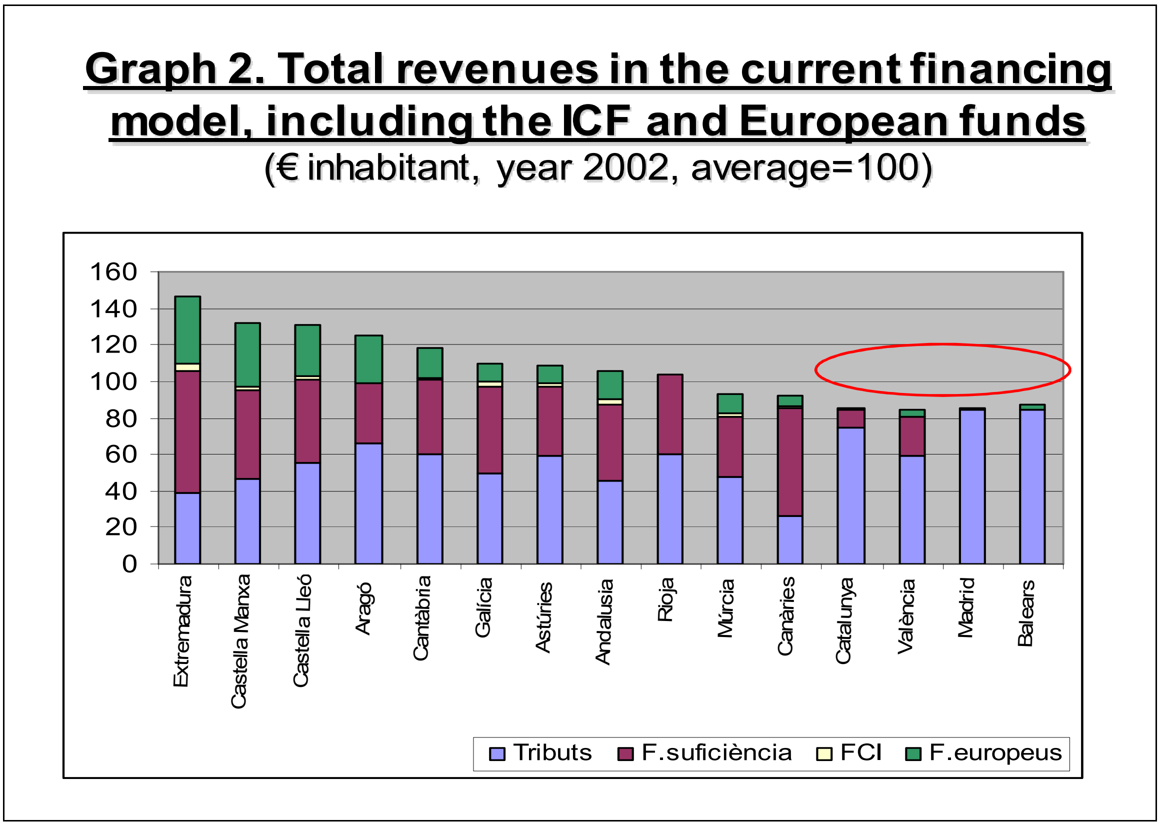
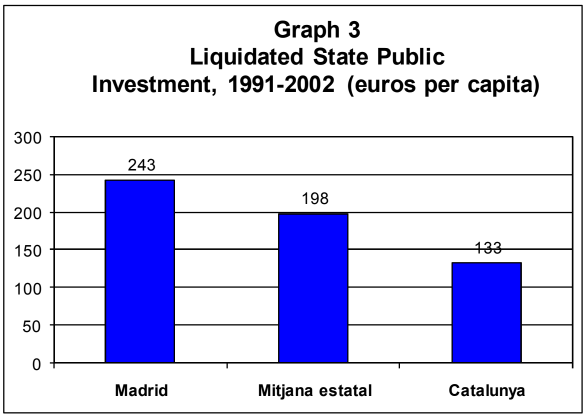
CLM
GAL
AND
AST
EXT



Source: Núria Bosch, University of Barcelona.



Source: Marta Espasa, University of Barcelona.

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