

A federal Spain within a federal Europe would offer the best solution for Catalonia

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The issue of European integration has played an important role in the debate over Catalan independence.

Francesc Trillas writes that an independent Catalonia would have competing motivations in the sense that closer European integration would potentially undermine its independence, but stepping back from European integration would have a damaging effect on its ability to trade with other European states. He argues that pushing for a federal Spain within a federal Europe would offer Catalonia the best solution.



The costs and benefits of secession for a relatively rich region like Catalonia cannot be disentangled from the the issue of European federalism. By such federalism, I mean democratic (and not technocratic) common decisions applied to a selection of key policies for countries in the Eurozone, along the lines of the proposal for a [budget commission](#) by Thomas Piketty. That would imply the *de facto* elimination of national borders on these issues.

An [article](#) by the economist Rodriguez Mora and co-authors illustrates the 'border effect' in international trade. If Catalonia were to secede and a new border was created, exchange with the rest of Spain would decline to a level similar to that between Portugal and Spain. The article calculates that the cost of this decline in trade would reach 9 per cent of GDP, which is more than the fiscal deficit that Catalonia would save relative to the rest of Spain. The authors also find that the border effect is in general substantial between pairs of European countries, even in the context of the single market and the currency union.

Critics have said that the reduction in trade between Catalonia and the rest of Spain would take time, and even in the long run it is hard to imagine that Spaniards would lose the ability to interact with Catalans (who speak Spanish and do not have any personal reason not to trade with Spaniards), and that any decline would be compensated for by increased trade with other (presumably European) countries.



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But trade is not something that just happens without institutional pre-conditions. If the gradual reduction in trade with the rest of Spain is compensated for by an increase in trade with the rest of the EU, it would mean (unless one thinks that trade does not need supporting mechanisms) that relations with the rest of the EU would have to include institutions that facilitate the volume of trade that Catalonia has built with Spain over centuries.

Within Spain, these institutions have included a common language, taxes, currency, army, movement, soccer league, TV channels, large firms, songs, jokes, friendships and cultural projects. With Europe, it does not need to be the exact same mechanisms, but some common institutions beyond the existing ones (and beyond the Champions League) would be necessary. It seems reasonable to expect that the EU would provide a starting platform for it. It is

plausible to think that Catalonia can free ride on some institutions and enjoy their benefits without being a member of the EU, although some of the benefits are difficult to enjoy without being a Member State (financial support programmes, antitrust policy, banking credit). It seems more likely that, for enjoying the trading benefits of a more integrated market, Catalonia would be asked to contribute to its costs, assuming that all other Member States accepted the new country after secession.

But then, if all these institutions and a more integrated European market are established, it will presumably also include the rest of Spain (for simplicity, let's just call it 'Spain'). To be stable and acceptable for workers and regions whose income streams will be more uncertain, and to promote a balanced pattern of demand across Europe, the new market will need to be accompanied by increased interpersonal and interregional transfers. These transfers will need to be substantial, because the starting point would be, according to the World Bank's Branko Milanovic in his book [The Haves and the Have-Nots: A Brief and Idiosyncratic History of Global Inequality](#), the difference between the richest and poorest country. In the EU this stands at a ratio of 4 to 1, compared to 2 to 1 in the US between its states, or also 2 to 1 between the autonomous communities in current Spain (see table below, in which income per capita is expressed in index numbers).

Table: Richest and poorest jurisdictions in the US, EU and Spain

	<i>Poorest jurisdiction</i>	<i>Average</i>	<i>Richest jurisdiction</i>	<i>Ratio</i>
United States	66 (Mississippi, W. Virginia)	100 (Rhode Island)	137 (Connecticut, Delaware)	2 to 1
European Union	36 (Bulgaria, Romania)	100 (Spain)	140 (Netherlands)	4 to 1
Spain	73 (Extremadura)	100 (Castille and Leon) (Catalonia: 130)	137 (Basque Country)	2 to 1

Note: The table is based on income per capita. The average jurisdictions in the US, EU and Spain are given a value of 100, with the poorest and richest jurisdictions shown as index numbers relative to the other values. Catalonia is shown for ease of reference. The ratio indicated is an approximate ratio of the difference between the richest and poorest jurisdictions. Source: Branko Milanovic; Spanish Statistical Office

Since Catalonia is above the average mean income in the EU, it would be a net contributor in Europe, as it is a net contributor to the Spanish budget today. Whether having to pay more into the EU than it would get out would be equal to or less than its current net contribution to the Spanish budget is not clear. What is certain is that the total 'elimination' of Catalonia's fiscal deficit would not seem plausible in a more integrated Europe.

Then why separate from Spain if only to meet it again in a more united Europe and continue on with a fiscal deficit (this time to the EU, instead of Spain)? Some say it is because of the opportunity to build better institutions. But good institutions take time to establish, not least because there are significant [transaction costs](#) in a transition period. If we cannot become like the Portuguese in a day, we will not become like the Danish overnight either. Actually, we need to work hard on this, because according to the only study that I know of on the [institutional quality of government](#) of European regions, Catalonia has the lowest quality of government of any region in Spain. Even if we do this hard work and in the end become like the Danish, because under Spain we risk becoming like Maduro's Venezuela (if I am interpreting some secessionist rhetoric correctly), with all due respect, something else may happen.

If we join the rest of Spain in a more integrated Europe with freedom of movement, presumably many Spaniards will get fed up with their own institutions and will want to emigrate to Catalonia, which will still be geographically close, at

least. We will probably still share many cultural commonalities (even more than with the Portuguese), but income per capita will be much higher because of much better institutional quality. Different income levels with a similar culture and close proximity facilitate immigration. We may end up with a population composition that makes us even more similar to Spain than at the beginning, contradicting one of the supposed benefits of independence – namely, that very different preferences for public goods can be satisfied.

But perhaps I am going too fast, and I am solving [Rodrik's trilemma](#) in my preferred idiosyncratic way: forget the nation state, and promote democracy and economic integration. Others may prefer to keep nation states and to abandon the project of deeper EU integration, but then they should not expect to trade much more with other European countries. Instead, they would have to build an economic strategy based on something else – A hidden natural resource? Fiscal haven? Privileged relationship with an emerging superpower? Protectionist regression?

Since secession in a more integrated EU does not seem to make much sense (as more and more secessionists acknowledge, at least in private), the true costs of secession for Catalonia are the costs of favouring the wrong solutions (in my view) to Rodrik's trilemma: either sticking to a nation state in globally integrated but deregulated markets which compromise democracy (in order to attract investments without international cooperation, taxes and regulatory standards would be constrained to be low: then the cost is inequality), or sticking to the nation state with democracy but without access to integrated markets, which may be the preferred option of a rupturist left or a populist and protectionist right (and then the cost is inefficiency).

Making the right choice for Catalonia, as I see it, with Rodrik's trilemma in Europe, involves supporting, for efficiency and equity reasons, a rapid transition to a federal Europe within a federal Spain. More policies will need to be commonly and democratically decided in Europe to support a common fiscal policy, a banking union and mutualised debt. Other policies can remain at the level of the Member States or at a lower level, and in those Member States where there are strong and diverse national identities, these will have to be accommodated using the instruments of successful federal democracies. Federalism can combine institutional innovation and diversity with common policies, including [international capital taxation](#) that can raise funds for income and regional transfers, as well as for government infrastructure projects.

A modern democratic, as opposed to technocratic, European federalism must create the mechanisms to share sovereignty and at the same time facilitate institutional innovation and flexibility in the context of the challenges of the twenty-first century. A more integrated and cohesive Europe will then be an enormous contribution to world cooperation, able to promote peace and correct global market failures and inequalities.



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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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