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Fiscal Crisis and the Balkanization of Spain: Which Way Forward?

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European Union is not the only multinational polity whose unity is threatened by the Eurozone crisis. Austerity policies of successive Spanish governments, combined with the perceived lack of fiscal autonomy, are adding fuel to the separatist movement that has been [gathering steam](#) in Catalonia. The breach facing Spain's political elites simultaneously presents a threat and an opportunity. Clumsy handling of the crisis might permanently tip the scales in the direction of separatism. On the other hand, a creative solution to current problems might put Spain on sounder fiscal footing, while at the same time facilitating state unity.

The Shape of the Problem

Unlike some of the other countries hit hard by the crisis (Greece, Ireland, Portugal), Spain is a de facto federal state. This means that austerity cannot work if it is initiated only by the central government in Madrid, particularly since the country's 17 regions [account for almost 40% of total public spending](#). Catalonia and Valencia have been major contributors to Spain's fiscal woes, with their combined public debt amounting to [60% of all](#) sub-state liabilities.

Concerned with the fiscal state of Autonomous Communities, earlier in the year the central government [passed a law](#) giving it significant discretion over the finances of its 17 regions. More pointedly, Spain's Minister of Finance, Cristóbal Montoro, [has suggested](#) that the recent bailout package requested by the Catalan government will come with greater central control over Catalonia's public purse. Andreu Mas-Colell, the region's Minister of Economy, is [worried](#) that the central government will use the economic crisis [as a pretext](#) to clamp down on Catalonia's autonomy. At the same time, the Catalan government, headed by the centre-right Convergence and Union, will soon [demand](#) much more fiscal freedom than it currently has.

Some Catalan politicians also allege that the central government has reneged on the previous deal with Catalonia concerning Madrid's investment in the region. While the Socialist government of Jose Luis Zapatero (2004-2011) refused to grant the Catalan government full fiscal autonomy such as that [enjoyed by the Basque Country](#) and Navarra, it promised to ramp up its investment in Catalonia to the equivalent of the region's share in Spanish GDP. Now, Catalan nationalist politicians claim, the Conservative government [has broken](#) this promise. Moreover, the 2009 reform of the fiscal transfer system, which should have improved Catalonia's relative position, is now considered to have [perpetuated the status quo](#). Taking these claims at face value, one could conclude that Catalonia's efforts to improve its economic position during the preceding decade have come to virtually nothing.

All this might not be a problem if Catalonia was a federal unit like any other. But Catalonia is also a homeland for the Catalan nation. For years, Catalan elites have been pointing to the disparity between Catalonia's contribution to the central government's budget, and the investment that the region gets from Madrid. The spokesperson for Catalonia's President Artur Mas recently articulated Catalan grievances [thus](#): "Spain is a backpack that is too heavy for us to keep carrying. It's costing us our development." During the years of prosperity, this discourse about a besieged Catalan nation might have rung somewhat hollow. However, since the beginning of the crisis, the real and obvious material costs felt by the Catalan population gave such objections a lot more traction, even if many Catalans [remain cautious](#) about the prospects of independence.

Balkanization, Iberian Style

Whether Spain's central government is motivated by the desire to reduce the autonomy of minority regions such as Catalonia is beside the point. What is more important is that the central government's actions might be perceived as restricting the power of Autonomous Communities. This is a familiar pattern, one that was at work in another multinational state during the 1980s – the former Yugoslavia.

Balkanization is a term usually used to describe the political fragmentation of nationally heterogeneous states. However, the breakup of Yugoslavia in the early 1990s was preceded by attempts at re-centralization of what was a highly decentralized federal state. The separatist sentiment in wealthier republics, notably Slovenia, was increasing in part because the central government was attempting to take back [some of its fiscal and monetary powers](#). While some central politicians were seeking to reduce the autonomy of the federal units for ideological reasons, others viewed re-centralization as a remedy for what ended up being a decade-long economic crisis. Spain's policy makers should heed the lessons of Yugoslavia.

One of the most dangerous moves that politicians in multinational states can make is to extend autonomy to minority nations and then turn back the clock. When, in June of 2010, Spain's Constitutional Tribunal [struck down](#) some of the provisions of Catalonia's new Statute of Autonomy (adopted in 2006), thereby curtailing some of the sought after powers, over a million people [demonstrated](#) in the streets of Barcelona. These events gave a boost to the already [growing separatist sentiment](#). At this point, reducing Catalonia's autonomy would provide more fuel to secession-minded nationalists. Even if mainstream Catalan politicians have little appetite for independence, political posturing and threats have a way of getting out of hand.

Thus, Spain finds itself at the proverbial crossroads. The fiscal crisis is serious and external pressures make most options short of severe austerity improbable. At the same time, recentralization that may seem necessary in this case might, in the extreme, lead to secession of the industrial heartland of the country. Right now, Catalonia [needs Spain](#) at least as much as Spain needs Catalonia, making such an outcome unlikely. Yet, if Madrid continues to mishandle the crisis, and if it underestimates the nature and ferocity of Catalan nationalist sentiment, radical options might become feasible even for the more moderate Catalan elites.

What Is To Be Done?

Fortunately, due to key demographic and institutional differences, Mariano Rajoy has options that were not available to Yugoslav politicians in the 1980s. Instead of a uniform recentralization of the state, which would antagonize Catalonia's political elites and the population in general, Rajoy's government should adopt a flexible program of simultaneous centralization and decentralization. It should consolidate its hold over the majority-inhabited regions such as Valencia, Murcia, and others in the interest of medium- and long-term fiscal stability.

While there are constitutional obstacles to such a process, legislative creativity has always been the hallmark of Spanish political classes. They periodically extended, and at times curtailed, the freedom of Spain's regions without open constitutional change. Indeed, officials in some Castilian-speaking Autonomous Communities have already asked the central government to [take back](#) some of the previously devolved policy competencies. These proved to be very costly, directly contributing to the dire state of regional fiscal affairs. While such demands may be mere political posturing, they could be used as political capital by the central state elites.

At the same time, Madrid should consider granting Catalonia close to full fiscal autonomy of the kind enjoyed by the Basque Country and Navarra. In the long term, this would ensure that Catalonia would have sufficient funds to fund its own policies. Moreover, [research](#) has shown that regions which have full control over their own finances tend to be more frugal than those with softer budget constraints resulting from dependence on central governments. Most importantly from the 'national unity' standpoint, such extension of autonomy would take the wind out of the separatist movement and the [economic argument](#) in favour of Catalonia's independence.

How feasible is this proposal? Certainly, there are some important institutional and political barriers to it. For one, asymmetric autonomy would entail a *de facto*, if not *de jure*, upgrading of special status for Catalonia. On the other hand, by ignoring Catalan demands for greater fiscal autonomy, and especially by taking back some of the already devolved powers, Madrid would be taking a bigger gamble than at any time in the post-Franco era.

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