

THE INDEPENDENCE OF CATALONIA: THE ECONOMIC VIABILITY

By Xavier Sala-i-Martin, Columbia University and UPF

Translated by Eva Guler

*** THIS SCRIPT HAS BEEN PREPARED FOR A CONFERENCE AT THE OMMIUM CULTURAL ***

Once upon a time, there was a country with a 6 million population, with an area of 40,000 square kilometres. The country had as next door neighbour's two big European powers, traditionally colonists, whose languages were a constant threat to the existence of the local language. The auto-governed population was being forced to speak and use two (or more) languages. The capita growth of this country was high, one of the highest of the world, a complete economic success.

Is this science fiction or reality?

When we speak about the independence of Catalonia, the first question that a non-economist individual would ask me (being an economist myself) is "if Catalonia would be viable" to sustain itself as an independent nation. If Catalonia would not be viable as an independent economy, the description on the first paragraph would be science fiction and therefore it would not exist. But, the country that I have described is an actual fact and it is a country that exists and it is independent: I am talking about Switzerland.

Switzerland has a 6 million population and approximately 40,000 square kilometres. Switzerland borders with Germany and France, two European powers, traditionally colonists and the local language, the Swiss-German (which is different to German) is being threatened by the French and German languages (and Italian as well, which is spoken by a very small minority in the south of the country). So, before we even begin to talk, you can see that the arguments given against the viability of Catalonia as an independent nation are basically erroneous: if Switzerland is viable (and not only it is but it is also the second richest country of the world) why wouldn't Catalonia be, if also, our country is not up in a range of mountains, has a sea port and it has an easier access to the rest of the world?

In this script, I will try to analyse the arguments that the anti-independents use to demonstrate that Catalonia is not viable as an independent country.

The most common argument is "*Catalonia is too small to be able to become an independent nation*". The truth is that no serious economist can agree with this statement. There is no economic theory that says that a country must be of a minimum size to be viable or that bigger countries in size are more viable than small ones. If this theory exists, it would be totally wrong because, in the world we live in, the expenditure per capita or the economic growth figure of a country cannot be related to the size of a country (measured, for example, by area and/or population). It is simply false that larger countries are more economically successful. If not, then why do we find amongst the

poorest countries of the world, such big countries like China, India and Russia? And how come we find, in among the richest countries of the world, countries like Belgium, Holland and Switzerland?

Another argument against independence is that *“a country can not prosper without natural resources like land, gas or petroleum, and Catalonia doesn't have any”*. This theory is also completely false. For example, Japan or the “miraculous tigers” from East Asia (Hong Kong, Taiwan, South Korea and Singapore) are not producers of petroleum or natural gas, and the fertile land to which they have access to, is very limited, (actually, both Hong Kong and Singapore are one city countries!). Saying this, the economic growth accomplished by these countries during the last decades has been spectacular.¹

Even more, if we apply this argument to our text, it is true that Catalonia, even though it has a great quantity of fertile land, does not produce some of those natural resources... but neither does Spain. So, independence would not bring any loss in this instance.

Also, there are economic arguments that lead you to conclude that to have natural resources can be a bad thing for the long-term growth (the economists named this phenomenon “Dutch Decease”). The argument can be summarised this way: when a country has a lot of natural resources (for example, petroleum) it dedicates a great quantity of resources to develop that particular sector and it tends to forget other sectors. In particular, it tends to forget the innovative and technological sectors, which generate the technological changes that guarantee long-term growth. So, these countries that are specialists in the production of petroleum and other primary materials do not focus on educating the population or adopting modern technologies and finish up by being poorer than they would have been without petroleum. The typical examples of countries that have suffered from this “Dutch Decease” are Mexico and especially Venezuela, countries that have become poorer after discovering rich petroleum banks.

This is a very attractive argument and we have shown examples, which support this theory. The truth is that is when we analyse all the countries in the world at the same time (instead of just looking at Mexico and Venezuela) we will realise that there is no relationship between the wealth of having natural resources and economic growth (on the other side of the argument we will find examples given that the most richest African countries are South Africa and Botswana, two rich countries in natural resources, specifically in gold and diamonds). So, it is not true that to have natural resources would be good, but neither can be said that it could be necessarily bad.

The usage of natural resources, obviously, is a necessity if you want to gain economic growth. And, if one doesn't have them, these can be obtained by other methods. The most logical and normal way of doing it is to do it by international trading, and not through political submission. And even more, to belong to a small country is favourable because it is an incentive to the government and all economics agents to compete and improve because the alternate protectionism is not an option. The problems that nowadays the Spanish government face today over the very famous “artilleros” created during the alienated Spain from the Franco era, a Catalonian state would have never have had it. A Catalonian state, logically, would be one that is open to trading with all the countries of the world (including Spain).

A third argument against the economic viability of Catalonia is this: *“Isn't it enough to compete with Paris, London, New York or Hong Kong, that now you also want to compete*

¹ And this is true even when we take into account the financial crisis that some (not all) of them countries have been trough recently.

with Madrid”? This statement is also totally wrong. Catalanian businesses are already competing with the ones in Spain; we may or may not be the same political unit. The interstate competition is as big as the international one. Who does the reader think the Costa Brava hotels compete with? They compete with the Italian hotels, the Moroccan hotels and the Greek hotels, but the biggest competition comes from Spanish hotels in the south of Spain (Costa del Sol) and even from hotels from the coast of Tarragona (Costa Dorada) which are in the same Catalanian state.

So, the independence of Catalonia would not bring a very substantial increase in competition to the one we already face. And if, there was an increase, it would be very favourable, as an economist and as a user, we should always applaud any new competition due to its tendency to bring better quality and lower prices on products and services.

Continuing the same theme, another argument against the independence is that “ *to leave Spain would be suicidal because Spain is our biggest market for the Catalanian businesses*”. But the question is: Why? Why would the Spanish people buy our own cava and spend their summer holidays in the Costa Brava? Because they love us like good compatriots that they are? Or maybe because given the price and quality of our product that is the best they can do? Clearly the true answer is this last one. So if independence does not affect the price and quality we offer now, then the Catalanian markets would not lose.

It's a fact that the biggest international market is your neighbouring country. The biggest market for Mexico is the United States of America. The biggest market for Taiwan is China and the biggest market for France is Germany. Does the reader think that in reality that this then is a favourable argument for Mexico to be the 51st state of the United States of America?

There are some people that claim “*the dissolution of countries at the present time, is against the current trend in a time when Europe is nearing a one common currency, a one fiscal system, a one military unit and a one political unit. To speak about separatism and independence at the end of the 20th century is old-fashion and it is out of tone*”. I think that this quote is not acceptable for several reasons. First, it is not true that there is a trend at the end of the 20th century to create a great super government like the European one. In fact, in 1946 there were 74 countries in the world and in 1995 there was 192. So, if there is a trend in the world it is not the reduction of the number of countries but it is exactly the opposite, therefore the evidence in which this is based is simply false. Secondly, the theory is based on the presumption that one political and one economic unit are beneficial (and, to go against the current trend is bad). Personally, I have enormous doubts about the wishful European project, based on the creation of one bureaucratic superstructure that will end up sinking all European economies. And thirdly, it is not necessary to venture into economic cooperation with the rest of the European countries from Spain. It can be perfectly done from Catalonia.

Finally, the most feared argument: “*to obtain the independence, we need a war and this would be more costly that any other economic benefit that you could get out of it; can't you see what happened in Bosnia with the disintegration of the old Yugoslavia*”? This is half true and half false. It's true that the independence is not wanted if the price we have to pay to obtain it is a war. But what it is not true is that the only way of obtaining independence would be through war. Historically there has been two ways about drawing borders: war and monarchy marriages. This last one has not fully disappeared yet, but monarchy marriage is not used together with a political goal. The war, on the contrary, is still being used. But we find ourselves in the 21st century and we should need to have faith in freedom and a civilised democracy. Plus, the history of the last 20th century can bring some optimism in giving us many examples of countries like Slovakia, Estonia,

Leetonia, Lithuania and many more old soviet republics that have achieved the independence in a very peaceful way.

Economic progress is gained by a creative population willing to work, a legal system that guarantees investors property rights, incentives to companies to innovate and to adopt new technology. An educational system which helps the population to be more productive and a good government who encourages internal and external trading and never sinks a productive economy with excessive taxes, with a fair bureaucracy and intolerable corruption and maintains a fiscal and monetary stability. From this point of view, the independence would not be a positive one if, a supposed government and Catalonian institutions, would not demonstrate their capability to fulfil the above points or if these could actually be worse than the ones from a Spanish government. Today we do not know how a Catalonian government would do it. What we know for certain is that the way it has been done previously and how the Spanish government is currently doing it. And the truth is that the cards dealt are not in favour of the Spanish people.

Recent history shows us that the independence of Catalonia is more and more viable every day. Some recent studies show that the increase of international trading is linked with economic viability of new countries. The argument is that international trading is a good substitute to a political union as an enlarging tool from the markets and as the international markets keep growing, is less necessary to have a large country to be able to sell the products in a way that when the international trading increases, so to the independent tendencies. In an article previously written at Harvard University, professors Alesina and Wackier have demonstrated that in the 20th century recent history these tendencies are confirmed, which means that, not only the independence of Catalonia is possible but is positively possible.

With what I have written, I have tried to leave aside the nationalism and patriotism to exclusively focus in the economic viability of a Catalonian state. I am not saying that the independence would be a wish come true (this would be a different topic)² or that there are non-economic arguments that need to be looked up when we ask for it. What I am definitely saying is that there should not be **any doubts** about the independence being **completely achievable** from an economic point of view.

² An important economic argument that needs to be used when you weigh the costs and benefits of independence is the fiscal deficit. The recent study from "L'Institut d'Estudis Autònoms" estimate that the Catalonian fiscal deficit in respect to Spain during the 90's has been of approximately 900,000 millions of pesetas (even though the current tendency has decreased, the amount continues to be spectacular). What does this mean? Well, the Catalonians pay certain taxes to Madrid. From these taxes, a quantity comes back to Catalonia for public expenses, social benefits, etc. Another quantity but, it stays in Madrid and never comes back. This is the Catalonian fiscal deficit, and all these money adds up to, during the 90's, at around 900,000 millions of pesetas. To understand how much 900,000 millions of pesetas mean, divide this amount by a 6 million population and the total would be of 150,000 pesetas per person. This means that a typical Catalonian family with 4 members (father, mother and 2 children) pay every year 600,000 pesetas to Madrid that never comes back. Can the readers please ask themselves what would they do with 600,000 pesetas extra every year? : Go to Disney World (the one in Florida, not the one in Paris) all the family every summer? To buy a bigger house (600,000 pesetas every year are 50,000 pesetas every month that can be used to ask for a loan for a bigger and more luxurious property)? Or to buy a car worth 1.2 millions of pesetas every two years? Or to buy a BMW every five years? A lot of things can be done with 600,000 pesetas every year, can't they? Well, forget it because this money is not coming back to Catalonia... and this is a very important economic cost.

The main benefit is this sham, they tell us, is the interregional solidarity. But one thing is solidarity and the thing is that they steal your wallet for your pocket.