



## **ECONOMICS**

# **UNITY OF THE MARKET IN SPAIN AND THE PROPOSAL TO REFORM THE CATALAN STATUTE OF AUTONOMY**

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The current proposal to reform the Catalan Statute of Autonomy reveals a desire to replace the Spanish Constitution. In this it is unlike previous schemes put forward in the last century, such as the long series of texts and proposals published by *Unió Catalana* in 1931 under the title of *Elements per a l'estudi de l'Estatut de Catalunya* ('Elements for Analysis of the Statute of Catalonia'), the Statute of 1932, the *S'Agaró* Agreements promoted during the Civil War itself by *Tarradellas*, and the current Statute dating from 1979. None of these attempted to replace the constitution in force at the time, but this intention is undoubtedly enshrined in the current proposal as far as the unity of the market in Spain is concerned. As a result, there is a serious threat to the economic development of Spain and in particular of Catalonia itself.

### **Market Unity and Economic Development**

The relationship between market size and strong economic development has been apparent since the days of Adam Smith. Since then, this idea has been updated and developed further, most notably in an article that appeared in *The Economic Journal* in 1928, which presented the analytical work of Allyn Young on

the growing economic returns resulting from market expansion. Another perspective was provided by Marx in *Das Kapital*, as developed further by Coase, concluding with Stigler's article entitled 'The Division of Labour is Limited by the Extent of the Market', which appeared in the *Journal of Political Economy* in 1951. Nor must we forget Myrdal's work following *An American Dilemma: The Negro Problem and Modern Democracy*, which was published in 1944 (and which was based on Wicksell's essential work *Interest and Prices*, published in 1898).

The practical effects of this relationship can be seen in the disasters arising from economic nationalism in Europe in the aftermath of the Second World War, and associated with the Great Depression, as revealed by Kindleberger's studies. Samuelson, contemplating the dour situation of Europe after the War and comparing it to the minimal effects the War had had on the United States, declared that small European national markets were always confronted by Göring's dilemma between 'guns and butter', whilst in the case of the huge, integrated American market the possibilities were such that even during the Second World War, it could be said that the United States always had 'guns and the whole cow'.

The United States once again enjoyed this advantage during the Cold War. That was how Reagan won the Star Wars arms race. The United States was capable of sustaining the initiative and living well. The Soviet Union, on the other hand, could only follow suit at the cost of damaging its economy, as pointed out by the Russian Nobel Prize-winning physicist, Basov.

The great Catalan economist, Román Perpiñá Grau, wrote the following in his *De Economía Hispana* ('On the Spanish Economy') in 1936: 'In its short period of progress and development, the main and decisive factor in Spanish industry has been the small size of the Spanish market. Because the Spanish market is small, industrial costs are high; because it is small, it cannot be mechanized or rationalized; because it is small, transport systems are under-used and expensive; because it is small, industries have to be nurtured through protective measures and can only be developed by increasing this level of protection; because it is small, specialized industry is unable to establish firm roots; because it is small, the industry operates under poor credit conditions.' And for this reason, he stated, Catalan industry in particular has traditionally always been concerned about 'the development... [of the] domestic market' throughout the entire nation.

I propose to show that the economic policy underlying the proposal for a new Statute of Catalonia goes against the principle of market expansion, which is an essential condition for development. Catalonia will be the region hardest hit, but the effects will be felt throughout the whole of Spain, which will suffer considerable damage.

**“The proposal for a new Statute of Catalonia goes against the principle of market expansion, which is an essential condition for development. Catalonia will be the region hardest hit”**

Spain currently boasts an extremely well-balanced regional economy, as has been manifested beyond doubt by the statistics produced by Spanish economists. However, the fiscal system proposed in the Statute plans to withdraw the support provided to the regions via the Spanish fiscal system, which has proved itself

capable of achieving its goals year after year. The reason given is that the present system is considered to be detrimental to the material interests of Catalonia. But this does not take into account that any reduction in the purchasing power of vast swathes of the population in other Spanish regions means that the wider market for Catalan products, ranging from books to metals, is also reduced.

However, I shall not deal with the fiscal issue here, which can be analysed separately, except to mention the fact that should the Spanish Government wish to maintain public expenditure at the same level as today, the result would be an enormous deficit entirely incompatible with the Stability and Growth Pact, the bedrock of our recent development. Any attempt to remedy this situation through taxation should pay heed to the categorical assertions made by Larraz in his book *La Hacienda pública y el Estatuto Catalán* ('The Public Treasury and the Statute of Catalonia') published in 1932 by Editorial Ibérica: 'Should this method be adopted in order to maintain public services, the effort demanded of the poorer regions in this respect would be relatively larger than that of the richer regions', and this would be another error for Catalonia, because 'a region such as Catalonia, which is enjoying a period of significant economic development, should be interested in ensuring that the consumption capacity of the domestic market for its products is as high as possible. In this respect, logically, it must seek a policy with which to promote the wealth of the poor regions of arid Spain [...] in order to enhance consumption in the domestic market.' And Catalonia's economic activity is still more orientated towards the rest of Spain than it is towards countries other than Spain.

**“The fiscal system of the new Statute fails to realize that any reduction in the purchasing power of other Spanish regions means that the wider market for numerous Catalan products is also reduced”**

Catalonia is not exactly Rhineland-Westphalia nor, to go back over our past history, is it the sugar and tobacco-exporting Cuba of 1898. Ignoring all this will be truly damaging to Catalonia. In this respect, I would like to take the liberty of quoting Carlos Pi Sunyer, who, in his book *L'aptitud econòmica de Catalunya* ('The Economic Capacity of Catalonia'), observes - and is right to observe - that 'if our economic status is not due [...] to natural riches, or geographical situation or luck, or privilege, it must necessarily derive from the human factor.' In view of the fact that the proposed Statute has enjoyed the support of a considerable number of Catalan businessmen, something has failed with regard to that 'human factor that has never ceased to be ready to act' in Catalonia. If this failure means that we have to take away what for Carlos Pi Sunyer is the sole factor that sustains the Catalan economy, then decadence is obviously all that lies in store for the region, and this, of course, will undoubtedly damage the entire nation.

### **Attacks on the Unity of the Market: General Considerations**

The proposed new Statute forms part of a tradition that began in Mexico (1917) and in Germany (1919), and after the Second World War resulted in constitutional texts impregnated with interventionist and Keynesian directives that tended to increase public expenditure and extend the authority and presence of the State within the economy and within society as a whole. At the same time, these texts barely introduced any of the legal guarantees required by an economy based on

a smoothly operating market, including those that ensure the maintenance of a balanced budget and controls over public expenditure.

**“The new Statute promotes an obsolete economic model that is highly interventionist and fails to provide the guarantees required by a market economy”**

The economic model proposed by the new Statute is, therefore, outdated and obsolete. There are numerous examples showing this clearly: Articles 21 to 27, which plainly reveal a desire for a far-reaching Welfare State; Article 48, which refers to the role of the public authorities in promoting the use of public transport; Paragraph 3 of Article 46 regarding the environment, and the considerable degree of intervention authorized by Paragraph 4 when it refers to the search for ‘a balanced distribution of the various productive sectors, services of general interest and communication networks throughout the territory’ on the part of Catalan economic policymakers, measures that might asphyxiate free business initiative; and those articles that refer to ‘the provision of land’ (Art. 47), to the savings banks (Art. 120), to the credit system, to the banking system, insurance and mutual funds that do not form part of the social security system (Art. 126), to stock exchanges and other markets (Art. 145), to the system that controls certificates of origin and geographical indications (Art. 128), and to industry, handicrafts, metrological control and hallmarking of metals (Art. 139), which grant the Generalitat (the Catalan Regional Government), ‘shared authority over the planning of industry in accordance with the principles established by the State in terms of general economic planning’.

**“Under the new Statute, the Generalitat will have powers of intervention and planning that would appear more typical of countries such as China, Cuba or North Korea”**

Article 152 refers to the planning, organization and promotion of economic activity, and its provisions could grant the Generalitat powers that would appear to be more typical of countries such as China, Cuba and North Korea. The same occurs in the case of Article 162, which provides for intervention in public health. These provisions are based on Social Democratic principles that are entirely outdated, and that have been discredited and dropped in practically every country in the world.

This series of measures, which clearly plan to increase political intervention in economic life, will have serious consequences with regard to investment. It is absurd to believe otherwise. They will undoubtedly erode the unity of the Spanish market, which will be left fragmented: one part of Spain, almost the entire country, will be attractive to investment; the other, Catalonia, will be characterized by the arbitrary decisions of the public authorities. What is more, the risk of corruption, which usually accompanies arbitrary intervention of this kind, will also be very high. Conditions such as these certainly do not attract responsible investors.

**Attacks on the Unity of the Market: an Inventory**

The Preamble to the Statute states: ‘The present Statute establishes that: [...] Seven: Catalan law is given preference in terms of application’, a principle that is

enshrined and extended in Article 5: the ‘unique status of the Generalitat in relation to civil law [...] and the institutional system’.

**“Catalonia, dominated by the principles of intervention and arbitrary decision-making, to which we would have to add corruption as a probable consequence, will be shunned by good investors”**

To this we should add the provisions of Paragraph 3 Article 33 which states that, ‘So as to guarantee the right to linguistic choice, judges and magistrates, public prosecutors, notaries, property and business registrars, employees at the Civil Registry and staff working for the justice administration must, in order to provide their services in Catalonia, accredit [...] the fact that they have an adequate and sufficiently high level in the official languages (Catalan and Spanish), thus enabling them to exercise the functions associated with their position or responsibility.’ To this may be added the provisions of Article 147 in relation to notaries and public registrars. Article 129 also states that ‘the Generalitat has exclusive authority with regard to civil law, which includes defining the system of sources’, as well as ‘regulating extra-contractual obligations and the various kinds of contractual obligations’, except for a series of matters that have practically nothing to do with economic activity.

Article 6 refers to the Catalan language, whose degree of imposition is as follows: ‘All persons in Catalonia have [...] the duty to know the two official languages. The public authorities of Catalonia must establish the measures required in order to [...] ensure the fulfilment of this duty.’ This will lead to an increase in costs and business delocalization from Catalonia because, after all, if a businessman or an important official has to learn another language, he will naturally prefer to study English or, if he already knows it, German, French, or even Chinese.

**“The linguistic policy will increase costs and affect employment: Catalonia’s capacity for attracting companies will be compromised by the regulations concerning use of the language”**

Article 34 indicates that ‘bodies, companies and establishments open to the general public in Catalonia are subject to the linguistic obligations established by law’, which means that the free movement of persons, capital and economic activity will grind to a halt, with an obvious effect in terms of eroding the unity of the market.

The damage caused by Paragraph 3 of Article 35 to free movement is not insignificant. For example, a company owner in the tourism industry who wishes to operate on the Costa Brava would find problems hiring a good cook. Such workers have sufficient salaries to send their children to university, and in Catalonia they would have to accept the fact that ‘lecturers [...] at university centres have [...] the right to express themselves orally in Catalan.’ If this puts them off, their children would have to study at a university outside Catalonia. As Juan Fuster has proved in his studies on tourism, being close to their children is an essential factor for those working in the tourist industry. Similar circumstances and attitudes will arise in all kinds of activities. Contracting highly specialized labour in

Catalonia could become a problem: what would otherwise be ideal locations in Catalonia will be compromised.

Article 36 has some extremely serious consequences. Paragraph 1 states the following: ‘The public authorities in Catalonia must design public policies in accordance with the governing principles established by the Constitution and this Statute.’ Given that the Statute’s principles are largely different, not to say contrary, to those of the Constitution, who would dare enter this quagmire of intentions? The damage it will do to the market is evident, not least of all because Paragraph 1 of Article 45 states that ‘the public authorities must adopt the measures required to promote the economic progress and social progress of Catalonia and its citizens, based on the principles of solidarity, cohesion, sustainable development and equal opportunity’. No mention is made of respect for property or the free market. The disparity with regard to the rest of Spain is significant.

**“When it comes to public policy, the new Statute says nothing about respect for property and the free market. The disparity with regard to the rest of Spain is significant”**

However, Paragraph 4 of Article 45 goes even further than this: ‘The Generalitat must promote the creation of a Catalan labour-relations forum based on the specific productive and business situation in Catalonia.’ This may entail the break-up of general Spanish conditions of labour. To this we must add Article 165, which establishes the Generalitat’s shared responsibility in ‘the planning of the social security system’, and Article 166, which states that ‘the Generalitat has exclusive authority within the area of social services’.

Add to this Paragraph 5 of Article 45, which places restrictions on what should be an all-embracing business spirit, as exists throughout the rest of Spain. The paragraph begins thus: ‘The Generalitat must promote business activity and the entrepreneurial spirit, bearing in mind the social responsibility of the business sector...’ This is a dangerous stance on a fundamental question, which is accompanied by a paragraph that any economist would consider enigmatic: ‘The Generalitat [...] must provide special protection for the productive economy’. What is that, we might ask? Overlooking the definitive contributions made by Bresciani Turrone in *Metroeconomica*, are we returning to the concepts of ‘productive economy’ and ‘speculative economy’? Does a textile businessman who acquires cotton on the futures market or what is known as the barter trade, form part of the productive economy or part of the speculative economy? As we economists know, all this has a very clear origin in Marx. In order to remove the adjective ‘productive’ from the economy, those who drafted the new Statute should have read a marvellous work by Bernard Shaw, *The Intelligent Woman’s Guide to Socialism and Capitalism*.

**“The new Statute returns to a form of protectionism based on intensive support for the Catalan language. Just consider the difficulties and cost increases for companies outside Catalonia entailed by the compulsory distribution of products labelled in Catalan”**

In Paragraph 8 of this same Article 45 we find another example of interventionism: ‘The Generalitat [...] must promote the social contributions of [savings banks]... to the economic and social strategies of the various territories of Catalonia.’

Would a normal public transport company, such as ALSA for example, be prevented from operating in Catalonia as a result of Article 48? Its text states the following: ‘The public authorities must promote transport and communication policies based on criteria of sustainability, which encourage the use of public transport.’ Does this mean that Enatcar will reappear in Catalonia, along with an internal public railway network? Article 169, headed Transport, accentuates this risk.

Article 50 returns to a form of protectionism based on intensive support for the Catalan and Aranese languages, with the consequent increase in costs this entails. Consider Paragraph 4: ‘The public authorities must ensure that the information that appears on labelling and packaging, and in instructions for use in products distributed in Catalonia, should at least be in Catalan.’ This is much easier for a business located in Catalonia than in Andalusia. Another curious aspect is the additional cost borne by people who have dealings with the Catalan Administration, because if they wish a communication received in Catalan to be sent in Spanish, they must request it only after receiving the first Catalan version, according to Paragraph 5 of this article.

Paragraphs 1, 2 and 3 of Article 95 on the Supreme Court of Justice of Catalonia also go against the unity of the market, by making Catalonia’s Supreme Court the final court of appeal for ‘legal proceedings initiated in Catalonia’.

**“The culmination of Catalan judicial organization in the form of the Supreme Court of Justice of Catalonia, combined with the pretension of granting Catalan law preference over any other kind, will cause a decisive fragmentation of market unity”**

The same principle applies in Paragraph 2 of Article 110: ‘When it comes to the exclusive authority of the Generalitat, Catalan law is the law that shall be applied within Catalan territory, enjoying precedence over any other kind.’ The provisions of Article 111, 112 and 113 also deal with this point. However, the starkest example of this approach is presented in Article 114 regarding policy on development: ‘In this respect, in accordance with the laws approved by Parliament, the Generalitat may grant subsidies paid for out of its own funds.’ Leaving aside the provisions of other paragraphs regarding development, which are often protectionist and designed to grant preference to companies within the region, is it possible dispute the fact that this destroys the unity of the market?

And what can we possibly say about Article 116 regarding the Generalitat’s authority over agriculture and livestock, Article 117 on water resources or Article 119 on fishing? This differentiating approach is of special importance when it comes to analysing the exclusive authority of the Generalitat over trade and trade fairs in Article 121, such as Section a): ‘the administrative conditions and requirements needed for [the] ... exercise [of trade and trade fairs]...’; or Section b): ‘The administrative regulation of all forms of selling and all forms of trade, as well as promotional sales and selling at a loss’; or Section c): ‘The regulation of trad-

ing hours'. The whole of Article 121 establishes special conditions for Catalonia, conditions that go against the unity of the Spanish market.

And what about Article 123, devoted to the Generalitat's exclusive authority over consumers?

Article 125 regulates the regime that applies to professionals, who may well find themselves with obstacles in Catalonia that do not exist in the rest of Spain. The disruption caused in this respect will be considerable.

In view of the way the Spanish electricity market is structured, the new powers granted to the Generalitat with regard to energy must be viewed with considerable concern: 'The Generalitat shall share authority with regard to [...] the regulation of energy production, storage and transport activities.'

Particularly serious, insofar as it destroys the unity of the national labour market, is Article 138 on immigration, which begins thus: 'The Generalitat shall have exclusive authority with regard to the system for receiving and integrating immigrants.' The labour market is complicated still further by the provisions of Article 170, based on aspects such as those that derive from the Generalitat's executive authority, including: 'the creation of its own labour-relations framework'; 'the management of passive policies, including the management of unemployment benefits and the recognition and payment of other benefits'; and 'the Generalitat shall have exclusive authority over official inspection activities in the field of employment'. The latter breaks the unity of the Labour Inspectorate, with the corresponding consequences for the unity of the Spanish market.

In Article 140 we read that 'the Generalitat has exclusive authority over ports, airports, heliports and other transport infrastructures located in Catalonia that are not classified as being of general interest by State law'. Transport is a basic aspect of market unity.

Furthermore, in Article 157 we find that 'The Generalitat has exclusive authority over the regulation of advertising activities.'

**“The new Statute seems to be impregnated with an unhealthy particularism: in order to ‘live apart’ it accepts the idea of living in much worse conditions”**

### Conclusion

In his address to the Constituent Parliamentary Assembly of 13 May 1932, in the debate on the Statute of Catalonia, Ortega y Gasset said the following: 'The Catalan problem is an ordinary case of particularist nationalism.' And he went on to explain that this particularist form of nationalism has an emotional component –it is no accident that all forms of nationalism are born of romanticism– 'that drives it to live apart'. This living apart encourages it to break up the market and, in short, live in worse conditions. It is a sadomasochistic tendency that leads the advocates of this kind of nationalism to live apart, even though it may only be at an economic level. It encourages them to live in worse conditions and to worsen the conditions in which others have to live. This is something that must be highlighted in the present circumstances.