

# The Catalonia-Spain Impasse: Why Elections May Not Be Enough

The standoff between Spain and the leaders of Catalonia, its autonomous northeastern region, has worsened in recent days. A new future awaits the region after December 21, the date Spanish Prime Minister Mariano Rajoy has set for elections for the regional government. Fresh elections could pave the way to peaceful co-existence, experts say — although the social and economic impact of the standoff likely will continue well into the future.

Knowledge@Wharton gathered insights about the Catalonia-Spain impasse from Wharton management professor Mauro Guillen, Wharton finance professor Joao Gomes, Penn School of Arts and Sciences professor of political science Brendan O’Leary, and Becquer Seguin, assistant professor of Iberian Studies at Johns Hopkins University. (Gomes and Seguin shared their views on the Knowledge@Wharton show on Wharton Business Radio on SiriusXM channel 111. Listen to the complete podcast at the top of this page.)

## **Economic Advantage**

In recent months, Catalonia has faced heightened political upheaval, triggering violent street clashes between protestors and riot police that injured hundreds. On Sunday, Catalonia’s former president, Carles Puigdemont, and four ministers of his ousted government surrendered to Belgian police after Spain had issued an arrest warrant for them. However, a Belgian court released them later in the day on condition that they attend court hearings. Puigdemont and his ministers had fled to Brussels last Monday fearing arrest. The previous Friday, Rajoy had dismissed the Catalan government after it declared independence, backed by an October 1 referendum that Spain had said was illegal.

Catalonia’s tensions with Spain are centuries old, noted Gomes, who earlier in his career served as an advisor to the industry ministry of Portugal, Spain’s neighbor. It has been has “an unwilling partner of Spain” since the time it became part of Spain in the 15<sup>th</sup> century. In living memory, Catalonians felt “particularly oppressed” during the regime of Spanish dictator Francisco Franco (1939-1975), which they saw as undermining the Catalan language and culture, Gomes added.

“That festered and is a big part of the need for self-affirmation Catalonians have at this time.”

In recent times, though, that unease grew as Spain’s economy struggled and unemployment rose, said Gomes, although Spain’s economy has now begun to improve. “[Catalonia] is a part of Spain that is actually doing better than the average” in Spain. “[It] is unwilling to share its wealth with the rest of Spain. It feels a lot of its tax income is being used to prop up other parts of Spain.”

Catalonia accounts for about 6% of Spain’s territory, but its 7.45 million people make up 16% of Spain’s population and its economic size of 215 billion euros (\$250 billion) accounts for more than a fifth of Spain’s GDP, according to a *Guardian* report. Its unemployment rate of 13.2% is lower than the Spain’s overall rate of 17.2%, while its per capita income of 28,590 euros (\$33,190) is higher than the national average.

*“Now that there is free trade throughout Europe, Catalan-based firms, both local and multinational, have an advantage in the Spanish market.”—Mauro Guillen*

According to Guillen, who is also director of Wharton’s Lauder Institute, there is no case for Catalonia to resist sharing its gains with other parts of Spain. He noted that “solidarity among regions” is an important constitutional principle in all European countries and in the U.S. “Those who are richer should help those that are poorer through fiscal redistribution.”

Guillen said the most important economic advantage Catalonia has is that its biggest market is the rest of Spain. “[Companies based in Catalan] are successful because for many years they could operate in a protected market, learned consumer preferences, and realized how best to sell in it,” he added. “Now that there is free trade throughout Europe, Catalan-based firms, both local and multinational, have an advantage in the Spanish market. This dynamic also happened in the U.K., Germany, France and the U.S. throughout their respective economic histories.”

“The formal issue is not about gains or losses, though it may drive some people’s analysis,” noted O’Leary. “What triggered the onset of the crisis was [Spain’s] constitutional court’s decision to block a previously politically negotiated and

agreed extension in Catalan autonomy." His recommendation: "Going back to the origins of the crisis would be a wise idea."

## **No Popular Mandate**

There exists little or no room for a negotiated settlement of the Catalan independence question, Guillen said, citing several reasons. "First of all, with its actions, the former Catalan government was representing less than half of all Catalans," he said. "They could maintain a parliamentary majority only because the allocation of seats privileges the small towns over the larger ones." It became a difficult situation when the Catalan government decided to formulate policies, including a call for independence, that did not have majority support, he added.

Guillen explained how matters soon got out of hand. "The Catalan government declared independence without having a popular mandate to do so, and was diverting financial resources away from various social programs towards the organization of the referendum and preparing the ground for a new state," he said. "No constitution in Europe allows for that. Neither do the U.S. or Canadian constitutions."

Meanwhile, surveys continue to indicate that Catalan voters are split on the independence question, Guillen noted. "Thus, it is not a situation that lends itself easily to declaring independence, which is an irreversible decision."

Notwithstanding the claims made by Catalanian leaders, their call for independence has the support of between 40% and a little above 50% of its people, and not an "overwhelming majority," Gomes said. He noted that while Catalanian leaders seem determined to push ahead with their independence movement, the Spanish government has been "very heavy-handed" in its response, worsening the divide in the process. "I've rarely seen such brinkmanship in modern, democratic governments," he added. On its part, the Spanish government was slow to react, although some say it was just being cautious, Guillen noted.

## **The Use of 'Article 155'**

O'Leary, however, felt there is room for negotiations. "It is unlikely that the Madrid government would accept external mediation, but there are many legal and political figures in Spain who could perform an objective mediation role," he

said.

Under some specific conditions, such as if Spain drops the charges against Puigdemont and his ministers, it would make room for negotiation between the two sides, according to Seguin. Spain dropping the charges against Puigdemont and his ministers “would be an elementary confidence-building measure,” said O’Leary.

Rajoy’s government could revoke or substantially scale back the application of a constitutional provision – Article 155 – that allows the Madrid government absolute powers over state institutions in Catalonia. “Catalans would see that as at least a step back from the precipice that Madrid has been pushing their fellow Catalans toward,” O’Leary noted.

Rajoy, who last week also dismissed the head of Catalonia’s autonomous police force, has argued for “a complete use” of Article 155, Seguin pointed out. “Article 155 is effectively like a blank check for the Spanish government to control Catalonia,” he added. Gomes was not optimistic that Rajoy would agree to scale back Article 155. “It is not going to happen,” he said.

*“I’ve rarely seen such brinkmanship in modern, democratic governments.” –Joao Gomes*

On another note, Seguin said Catalonia also does not like that it has less fiscal autonomy than some other Spanish regions such as Basque Country and Navarre. If the Spanish constitution is rewritten to correct that anomaly, Puigdemont and other Catalanian leaders “would be willing to negotiate,” he added.

Spain would find it hard to make a case to drop the charges against Puigdemont and his ministers to make way for negotiations, according to Guillen. “This is a difficult issue. No country in Europe or North America would have tolerated what the Catalan government has done over the last three or four years,” he said. “The desire for independence among a certain segment of the population is no justification for wreaking havoc on democratic practices and the economy.”

Significantly, in the midst of all that, Spain’s judicial branch is independent, and it is acting on its own accord and following established procedures, Guillen noted. However, while some people feel the judicial action was overdue, others believe it

is arbitrary, and that divide “adds more tension to the situation,” he added.

## **International Support**

“[Puigdemont’s] only real, legal option is ... to gather international support for some kind of Catalan state and independence for legitimacy,” said Seguin. However, the European Union would back Spain as it is a member-country, and Catalonia wouldn’t find that support even from the United Nations, he added.

“The EU has no choice but to support the Spanish government,” said Guillen, pointing out that each constitution of EU member countries is part of EU law. “Moreover, the EU does not want nationalist movements to prosper.” The EU may have wanted to exert some influence in the matter had it turned violent, “but so far, violence has been minimal,” he added.

“The EU’s member-states invariably back their fellow member-states when there is a clash between a member-state and a region,” said O’Leary. “Nevertheless, many Europeans are shocked at the Madrid government’s use of force to suppress a peaceful referendum, and some may be quietly advising the Madrid government of the short-term, and long-term, damage that Spain is doing to its image as a post-dictatorship democracy.”

Gomes also said “a big weakness” in Puigdemont’s strategy is that “there is just no way to get international support” for his cause, “unless he is able to escalate this to some sort of obvious civil unrest where people realize that they need some outside intervention.”

*“It is difficult to believe that elections will easily resolve matters.”-Brendan O’Leary*

It appears that a wholly refreshed political environment is required for any solution to emerge. “The time now is for an election at the Catalan level, focused not on the issue of independence but on all of the other issues affecting the region, including employment, social programs, education, etc.,” said Guillen. “A new parliament will elect a new head of government in Catalonia, and hopefully there will be four years of governing, as opposed to mobilization and agitation.”

The December elections could recast the coalition between center-right and center-left parties, said Seguin. The snap elections have forced the center-left

party to rethink its association with Puigdemont and the center-right party, he added. A grand left-wing coalition for independence is emerging, although it would continue to negotiate with the center-right party, he noted. Grand coalitions have traditionally had a privileged status in Spain, and the coalition could get more votes than the individual parties would each get on their own, he noted.

## **Economic Fallout**

Meanwhile, the economy is bracing for impact. Seguin pointed to the ominous warnings in the November 2017 Financial Stability Report that Spain's central bank, the Bank of Spain, released last week. "In the most severe and prolonged scenario of tensions, GDP would fall in cumulative terms by somewhat more than 2.55 pp (percentage points) between end-2017 and 2019," the central bank wrote. "They serve to evidence the significant economic risks and costs of the situation caused by the independence initiatives in Catalonia." However, "any prompt return to normal could mitigate the incidence of the risks for the economy," the report added.

The independence movement has already taken its toll on Catalonia's business environment. Some 1,500 businesses have moved their headquarters from Barcelona, although that does not mean they have moved their entire operations out, said Seguin. Among them are a half-dozen big-name companies such as Spanish drug maker Oryzon Genomics, a *Bloomberg* report noted.

"Barcelona is a crucial motor in the Spanish economy, and so is Catalonia," said O'Leary. "The likely damage is to foreign direct investment." Catalonia accounts for about \$37 billion in foreign investment, or a quarter of the inward investments in Spain, according to the *Guardian* report cited earlier.

## **Moving Pieces**

O'Leary is not convinced that the election results would produce a permanent solution. "If the elections are free and fair, they can only produce three outcomes," he said. "[One would be] an improved legislative majority for those in favor of secession, which would be a deeply embarrassing failure for Madrid's coercive strategy. Alternatively, [would be] a victory for those who want to remain in Spain, but it would likely be a narrow victory, which would still leave many estranged Catalans. Lastly, a dead-heat, which is close to where we are.

Therefore, it is difficult to believe that elections will easily resolve matters.”

It is not clear which way the election would go, Gomes said. On the one hand, Rajoy hopes for a better outcome than in the December 2015 elections, when his party failed to secure a majority. On the other hand, Catalonians who oppose a heavy-handed Madrid government might vote for independence.

Gomes also pointed to a dilemma that the pro-independence parties in Catalonia now face – do they participate or not in an election called by Rajoy’s government, whose authority they have refused to recognize? At the same time, Rajoy may succeed in creating a divide among the pro-independence parties in Catalonia, he added. “Both parties to this conflict are just gambling on things they don’t really know.”

*“At the end of the day, the Catalan independence movement will be forced to back down.”-Becquer Seguin*

According to Gomes, Rajoy has “to figure out a way of coming up with an immediate promise of some greater autonomy.” That could be a concession on some key feature of the demands made by the Catalanian pro-independence parties, which could “take away some of their energy and some of their motivation to stay together,” he said. If Rajoy is not able to achieve that, he is taking a “huge risk” with the December elections, which could end up exacerbating tensions, he added.

### **‘Tensions Could Skyrocket’**

Between now and the elections, with Madrid running Catalonia, “the tensions would only rise,” said Gomes. Both he and Seguin said they expected the election result to be roughly the same of what it was two years ago. Seguin expected a majority of more than 50% for the pro-independence parties. However, that would not necessarily mean they win 50% of the popular vote, which is necessary for it to claim a more legitimate mandate within Catalonia, he pointed out. In that eventuality, “tensions could skyrocket,” he warned.

To be sure, many Catalonians are caught in the middle of a conflict they would rather not have, said Seguin. “Even the referendum that had a ‘yes’ or a ‘no’ vote to it really doesn’t capture the plurality of opinion and sentiment there is in

Catalonia," he said. "At the end of the day, the Catalan independence movement will be forced to back down," he predicted.

"If the pro-Madrid parties win the elections, they have to decide between a benevolent and coercive response to their victory," said O'Leary. "If the Catalan secessionists win, I would expect them to shift to a sustained civil disobedience campaign. A wise Madrid government would seek private mediation as soon as possible, and quickly offer Catalonia a variation on the [extension of autonomy that the] court foolishly struck down, and offer to put that to a referendum."

The Catalan issue could diminish over time, but it will not disappear or go dormant, according to Guillen. "Hard-core nationalist sentiment among a minority of Catalans will continue in the future, the same way that it is still alive in Quebec or in various parts of Europe," he said. "The hope is that the December election will help a majority of the population and of the political parties focus on the more pressing issues of employment, the economy, social programs and the like."

Guillen said he is "optimistic in that the pro-independence parties are starting to realize that the conditions for actual independence are not present." He hoped that after elections, all sides start taking initial steps to restore normalcy, although he expected that "the process of healing and reconciliation will take years."

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