

## Spain

## Autonomy under fire

Tensions between indebted regions dedicated to defending their independence and a central government that wants to return power to the centre are being stoked by the euro crisis.

By David Gardner

The Spanish government, trapped in crossfire at the frontline of the battle for the euro, looks as if it is opening a second front – by using the crisis as pragmatic justification and political cover to roll back a highly devolved system of regional government that the ruling Partido Popular ideologically detests.

The centre-right PP, which won power last November, wants not only to shrink the state but also to recentralise it. The government of Mariano Rajoy has been dropping hints and throwing its weight around with regional governments – several of which need Madrid's help to pay their staff and refinance their debts.

"We are part of the state but we are treated as subjects not partners," Andreu Mas-Colell, finance chief in Catalonia's nationalist government, complained to the Financial Times days after a bruising meeting with Cristóbal Montoro, the Spanish finance minister, whom he said threatened to impose central control on regional governments that missed rigid new budget targets.

The stakes are high. The fermenting confrontation between the centre and the 17 regions is more than a subplot in the wider euro-drama. If mishandled, it could undermine the constitutional settlement that brought Spain out of the dictatorship of Francisco Franco into a vibrant democracy and stoke demands for Basque and Catalan independence that devolved government was supposed to prevent.

"We've been building the pillars of this new system for 30 years," says Carlos Aguirre, the Socialist economy and finance chief of the Basque government. "Before, it was OK to

### 'Madrid does have an agenda to recentralise, and replicating the EU mechanism internally gives it legitimacy'

change the tiles on the roof but no one dared touch the foundations. The fear now is that everyone wants to look at the foundations."

Yet the architectural design of devolution was flawed from inception. The emerging democracy faced the challenge of how to meet the historic demands of the Basques and Catalans, who governed themselves under the Second Republic defeated by Franco in the 1936-39 civil war, but whose sense of nationhood goes back centuries. For the Spanish nationalist right, pandering to the separatists Franco crushed, with their languages and culture, was anathema. For the Jacobin left, it was a parochial sideshow. The compromise, laid out in the 1978 constitution, was to offer ostensibly similar terms to everyone. Each region could become "autonomous" to disguise the restitution of rights to the "historic nationalities" – a neologistic detour around the incendiary word "nation", of which there could only be the one and indissoluble Spain.

Basque and Catalan autonomy bedded down quickly and other regions with singular features, such as Galicia, with its own language, or Andalusia with its distinct culture, acquired the physiognomy of self-government. But many regions found themselves with governments they had never asked for, which often became fiefs for local barons and vehicles of party patronage. The financial irresponsibility of some regions, mercilessly exposed by the present crisis, has led some to conclude devolution is an expensive luxury.

"Devolution was created to solve the Basque and Catalan problem, but those problems are actually getting worse and the cost of all this is no longer affordable," says a senior official in a PP-run regional government. Yet he admits there would be "radical resistance to any roll-back".

"The idea of recentralisation is just not possible in Catalonia," says a former adviser to José Luis Rodríguez Zapatero, the Socialist premier until last year. "The atmosphere there has changed totally. Sovereignty [separation] is under active discussion – and if there is one thing that will make that happen it would be an attempt to snatch back powers."

The fiscal argument over devolution is tangled and frequently tendentious. Often omitted in these polemics are the cost of services and the inadequate tax base to support them. The regions have to spend a lot, since public services such as health, education and care for the elderly fall to them. Revenue to pay for this was plentiful from property taxes during the pre-crisis building boom, to which many regions (as well as central government) grew addicted. But this dependence became structural after income tax was cut under the previous PP government of José María Aznar as well as Mr Zapatero's Socialists.

Now, amid a suffocating budget squeeze, all regions except the Basque Country and the adjoining province of Navarre, which raise their own taxes, are dependent on central funding, which many officials see Madrid using not only to impose austerity but also to eviscerate self-government.

Mr Montoro has made clear that governments seeking help to refinance their debts through the new €18bn liquidity fund for the regions will have to accept strict conditionality of the type the EU enforces on



**Inflammatory talk: firemen in Barcelona protest against austerity measures. The ruling Partido Popular has dropped hints about curbing the power regions such as Catalonia acquired following Franco's dictatorship**

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bailed-out eurozone members such as Greece or Portugal. The finance minister has even been heard to joke about sending in "Men in Black" from Madrid, rather than Brussels and Frankfurt, to administer regional governments. Madrid, moreover, is reserving the breathing space Brussels recently gave Spain to reduce its budget deficit entirely for central government spending, imposing even more stringent targets on the regions.

"The government thinks it can do with us what the EU is doing with central governments," says Mr Mas-Colell. Heriberto Padrol, who advises Catalan premier Artur Mas on plans for greater fiscal autonomy, says: "In my view they do have an agenda to recentralise and replicating the EU mechanism internally gives it a sort of legitimacy."

While no one disputes that there are costly overlaps and duplication in the devolution model, the government shows little sign of differentiating on quality of spending. All parties are guilty of clientelism, but

the PP more than most. The PP now runs 11 of the regional governments, which owe half the total of €140bn in regional debts and have public payroll costs far in excess of the average. The Basque and Catalan wage bills are forecast to be 20 and 24 per cent respectively of this year's budget, whereas those of PP-run Valencia or Galicia are both about 38 per cent. "The only employment office in Spain that works at the moment is the Partido Popular," a PP regional government official remarks.

Indeed, when critics pan regional extravagance it is Valencia's government, with its baronial rule and baroque corruption scandals, that they inevitably excoriate. It is no accident that a regional government-linked Valencian bank is at the core of Bankia, the nationalised lender at the heart of the banking crisis. Valencia was an exemplar of regional savings banks, or *cajas*, pumping up the housing bubble. It has 23 per cent of Spain's stock of 800,000 unsold new houses. "The equation of *cajas* and regions was a way of printing money," says José Ignacio Torre-

blanca of the European Council on Foreign Relations.

Yet the debate about the future of devolution is becoming much harsher than the judgments about its record and is set to pit Spanish nationalists against Basque and Catalan nationalists campaigning for more independence. The former believe the present, open-ended federal system will make Spain a residual state with a weak central government – a sort of Hispanic Switzerland. The latter are being tempted into believing that Spain is holding back their future.

While the Basques have usually been seen as the biggest threat to unity because of the now ended violent campaign of Eta separatists, it is the Catalan sovereignty debate that has now turned radical. The turning point came two years ago when the constitutional court in Madrid watered down reforms to enhance autonomy approved by both the Catalan and Spanish parliaments.

The Catalan government wants the right to collect its own taxes like the Basques – a right it rejected 30 years ago. That generation of Catalan nationalists sneered at the Basques for resurrecting quasi-feudal rights to underpin their fiscal autonomy. "They called it a relic," recalls Inigo Urkullu, president of the mainstream Basque Nationalist party. "But 30 years later they've realised what a vital tool it is – it's thanks to that we were able to reconstruct our economy and build self-government."

The Basque economy is industrially diverse and export-oriented, supported by sound banks and high research and development spending. With fiscal autonomy, the government has kept its debt and budget deficit under control, providing good education and public services, but transferring about eight times less per capita to the Spanish fiscal pot than Catalonia.

Catalonia, by contrast, with an economy the size of Portugal's, has the heaviest debt burden of any region – €41.8bn, with €13.5bn maturing this year. While demanding fiscal autonomy, the Catalan government announced last month it would have to seek fiscal rescue from Madrid.

Catalan officials and economists say they would be solvent were it not that they transfer €18bn a year, or about 9 per cent of economic output, to Madrid – an amount they complain exceeds the demands of equitable transfer to poorer regions. "We can't have a situation where we are the fifth [region] in per capita income, but we end up being ninth after the share-out," says Mr Padrol. He underlines that the clamour for independence has travelled from the political fringe to "the people who wear ties" because "either you control your own resources or as a country you're dead".

"The Catalan government wants to be a region with the attributes of a state, but what we want doesn't fit into Spain any more," says Salvador García-Ruiz, an economist and separatist. Since he expects Madrid not only to reject any new fiscal powers for Catalonia but use the present crisis to reclaim powers its government already has, he believes Catalans will eventually vote to secede from Spain.

Opinion polls suggest he may be right but mainstream Catalan nationalists, like their Basque counterparts, have long blown hot and cold on independence. The Rajoy government looks set to test this pragmatic ambiguity to the limit and to uncover the hard-wiring of nationalist determination.

"Catalonia is not going to go away," says Mr Mas-Colell. "We have our history, our language and our culture – we survived Franco so we will survive this."

### Regions in the red

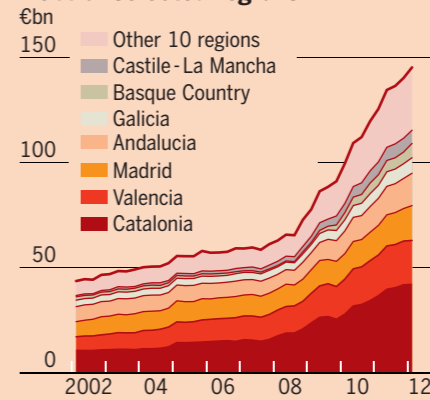
Figures on map: debt as % of GDP (Q1, 2012)



GDP growth, 2011 (annual % change)

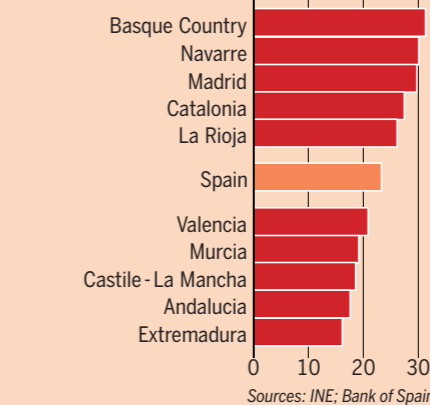


### Debt of selected regions



### GDP per capita, selected regions

In relation to national average, 2011 (€'000)



### Leadership race

## A new voice for Basque separatism

The Basque Country is already gearing up for an election that could be called as soon as this autumn and the separatists, the radical nationalist or *abertzale* left, are more confident than they have ever been. One reason is the popularity of their candidate for Lehendakari, or president of the autonomous government, Laura Mintegi, a well-known writer, doctor in psychology and professor of literature.

Unlike Arnaldo Otegi, the Basque Gerry Adams who is still in jail, Ms Mintegi has no known connection to Eta, the armed separatist group that this year ended its already fizzling campaign of violence. While Mr Otegi and his political colleagues deserve credit for getting the gunmen to stand down, Ms Mintegi is more electable.

Her Bildu coalition won more seats than the mainstream nationalist PNV

in municipal and general elections last year. This was partly in reaction to the decade-long ban on its predecessor, Batasuna, which had close ties to Eta. That era is over, says Ms Mintegi. "Using violence for political ends is unthinkable, absolutely finished; we want to live in peace."

Even separatist Basques tend to be proud of the achievements of self-government and Ms Mintegi is no different. "Things have been done differently here," she says, "but it has never been enough and now it's exhausted". The crisis in the eurozone highlights the shortcomings of even extensive autonomy, by taking decision-making further from the people it affects and prompting the centre-right Partido Popular government of Mariano Rajoy to curb regional power.

"Decisions need to be taken here, not

in Berlin," says Ms Mintegi. "If the PP tries to roll back devolution that could be positive for us – I sometimes joke that we don't have to leave [Spain]; they're going to leave us."

Basque separatism's new standard-bearer realises she is up against a formidable machine in the PNV and admits similarities between Bildu's economic programme and the Socialists who now run the Basque government. Coalition may be an option, she says.

Asked if a government led by her would take part in a national pact to deal with Spain's economic emergency, she says: "Yes, we would be up for it, but not if it meant more of the same. We can't have thousands of people being thrown on the scrapheap [of unemployment] every day. It's obscene."

### Speed read

● **Fragmented finances** The laxity of some regions, exposed by the euro crisis, has led some to conclude devolution is an expensive luxury

● **Price of power** Often omitted from the polemics over devolution are the cost to the regions of services and the inadequate tax base to support them

● **Austerity bites** Madrid is reserving for central government the breathing space Brussels recently gave Spain to reduce its budget deficit, imposing even more stringent targets on the regions

### On the web

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