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Catalonia: The Quest for Independence from Spain

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Catalonia: The Quest for Independence from Spain

by

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Senior Honors Project

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I. Introduction

“It is a truth believed by nations around the world that their borders are God-given and immutable. It’s also false” (Editors n.pag). One region in the world where this quote rings most true is in Catalonia, an autonomous community of Spain. While Catalonia has been a part of Spain for centuries, the Catalan people long for independence and freedom from their long-time partner. Separatist views in Catalonia have gained worldwide attention as Catalans continue to ask for secession and now those with these sentiments constitute a greater proportion of the population than ever before. The question remains whether an independent Catalonia is likely, or even feasible.

This paper aims to explore the reasons behind the secessionist movement and the possibility of rearranging the borders of Spain to allow for an independent Catalonian state. Based upon my findings, I do not believe that Catalonia will be granted independence from the rest of Spain, although increasing pressure from Catalans will test this thesis over time.

In order to argue the infeasibility of an independent Catalonia, it is first necessary to understand the desires behind the secessionist movement and their evolution over time. After understanding the basis for separatist views, the Spanish government’s response to the Catalan people and their use of the Spanish Constitution is discussed. Current events, including a referendum set for 2014, are then looked at to support the conclusion that the Catalan people will not soon see independence. Since Spain is a member state of the European Union, it is necessary

to predict an independent Catalonia's position within the EU and its barriers to re-admission. Finally, the economic role of Catalonia is explored and the question arises whether an independent Catalonia is viable, or if the economic consequences would be too great.

II. Background

Catalonia is located in the northeast corner of Spain, bordered by Spain, Andorra, and France. The region is comprised of several different provinces, including Barcelona, Girona, Lleida, and Tarragona. Catalonia's population is approximately 7.5 million people, according to a 2012 population census. The autonomous community holds 16% of the total Spanish population, making it the second most populated community within Spain (Generalitat de Catalunya). Barcelona, the second largest city in Spain, acts as the region's capital. Looking to make predictions about the future of Catalonia as an independent nation, it is helpful to revisit the region's past to explain the large presence of Catalan nationalism today.

Secessionist desires within Catalonia stem largely from a history of persecution, namely of the Catalan language and culture. History has repeatedly attacked the identity of the Catalan people and its effects are still felt today. Although commonly believed to be a Spanish dialect, Catalan is recognized as one of four official languages within Spain. In fact, 93.8% of Catalan citizens affirmed that they understand Catalan (Generalitat de Catalunya). Catalan is not only spoken in Catalonia, but it is also used in the Valencian community, in the Balearic islands, in

the south of France, in Alghero, Italy, and is the official language in the country of Andorra. Many would be surprised to know that worldwide, there are nine million Catalan speakers and eleven million people who can understand the language. This makes Catalan the ninth most spoken language in all of the European Union.

Annually, around ten thousand titles are translated into Catalan, making it the tenth highest translated language in the entire world (Generalitat de Catalunya). Catalan actually resembles French more than Castilian Spanish, and was developed in the eighth and ninth centuries from the Latin language. The region of Catalonia and the Catalan language have a long history, but certain events are most helpful in explaining secessionist desires.

An attack on Catalan language has been repeated several times, making it a distinct and inseparable part of Catalonia's history. The most recent persecution of the Catalan language however, was with General Francisco Franco during his regime, 1939-1975. Taking over Barcelona after the Spanish Civil War, Franco's goal was to unite Spain and rid it of anything that differentiated people, including language. During this time, Catalan intellectuals and language speakers were persecuted. Any autonomy Catalonia enjoyed was revoked, Catalan nationalism was repressed, and the Catalan language was outlawed. Catalan disappeared from the educational system and several thousand nationalists were killed or exiled. All official and private use of Catalan was attacked and radio, television, and street names were changed to Castilian Spanish. This darkest period in Catalonia's history continued up until Franco's death in 1975, but today memories persist of his dictatorship and the effects it had on the Catalan people.

Following Franco's death in 1975, King Juan Carlos seized power and began to democratize Spain. The Spanish Constitution of 1978 emerged and so did Catalan as an individual language within Spain, and as the official language of Catalonia (Barcelona's Languages). Due to previous maltreatment, many people hold Catalan as a symbol of perseverance and strength because it was able to withstand three centuries of repression.

Many in Catalonia feel that Catalan deserves to be regarded as more of an official language within the European Union (EU) and should be put on par with Castilian Spanish. Given its prevalence, Catalan is comparable to Swedish, Czech, or the Danish language, all official EU languages (Mari 1). In Catalonia's history, the Spanish government has failed to defend or represent Catalan, so many Catalonian citizens feel they must instead. Many organizations within Catalonia are dedicated to increasing the international presence of Catalan. Since 2000, over one million people have immigrated to Catalonia, many being non-Catalan speakers. Catalans have taken on the challenge to teach their language to foreigners by beginning the Consortium for Language Normalization, a language-speaking program currently offering help to more than 100,000 people (Mari 2).

Laws also exist to protect the Catalan language and aid its survival. For example, businesses in Catalonia must display their information in Catalan and they can be fined for not doing so, and doctors are also required to understand Catalan. Catalan is the official language in local government, regional courts, publicly owned corporations, and private companies subsidized by the Catalan government. Minimum quotas also exist to regulate Catalan television and radio programs. The

monumental Law of Linguistic Policy of 1998 reads, “Catalan should normally be used as the language of instruction in non-University education” (Miley 2).

While 98.9% of Catalan citizens understand Castilian Spanish, according to the Statistical Institute of Catalonia in 2007, children in state schools within Catalonia have class only in the Catalan language and can receive a maximum of three hours a week of Spanish (Generalitat de Catalunya; Govan). The Catalan people realize that education is one of the key ways to ensure the survival of Catalan. Overall, there are many attempts to promote the use of Catalan in all areas of life and to increase the relevance of Catalan on an international scale. It is easy to realize the significance of Catalan to its people and how the language represents an enduring spirit. Catalonia’s history of persecution sheds light onto secessionist desires within the region, but current events within Catalonia show the development of these desires within recent years.

III. Current Events

Recent events in Spain from this decade show the changing views of many Catalans and why some have embraced independence as the only remaining option. Following the Spanish constitution of 1978, Catalonia created its own Statute of Autonomy in 1979; however, the document had not been updated or revised since then. In 2006, Catalonia decided to create a new statute, which would give the region greater freedom in regards to taxation, judicial proceedings, and the status of Catalan. The statute, which declared Catalonia as a nation and Catalan as its language, was approved by Catalan and Spanish Parliaments originally, but was

later appealed by the Spanish Popular Party on grounds of unconstitutionality. Four years later, in 2010, the Constitutional Court of Spain decided to rewrite 14 articles of the statute and re-interpret 27.

One of the most influential decisions of the Constitutional Court was to declare that the reference to Catalonia as a nation in the statute's preamble had no legal weight because Spain is the only nation recognized by the constitution. Other revisions to the statute affected the status of the Catalan language compared to Castilian Spanish and the tax distribution system. Catalan citizens became increasingly offended with the court's decision and over one million citizens protested in Barcelona the day following the court's ruling.

Many citizens in Catalonia are fed up with the central government and its unwillingness to compromise. Some Catalan people blame Madrid for ills they face and that the central government does not and will not acknowledge a Spain that is multi-linguistic and nationalistic (The Economist). The tension between Madrid and Catalonia is even expressed in the historic match-up between two of Spain's most famous soccer teams, FC Barcelona and Real Madrid.

Catalonia feels that it bears the brunt of taxes within Spain, paying "at least \$15 billion more in tax revenues than it receives back in social spending or investments in infrastructure" (RT News). This disproportionate distribution of taxes causes Catalans to feel used and betrayed by the government. Catalans also blame Madrid for their financial woes in the recent financial crisis in Spain, which has led to increased animosity between the two regions.

Catalonia is one of Spain's richest and most highly industrialized parts, but it is also the most indebted. Twelve billion dollars (nine billion euros) was requested to aid Catalonia during the downturn (RT News). Although this is the largest bailout requested from any autonomous community within Spain, Catalans blame their desperate measures on the "fiscal looting" the central government performs by taking a disproportionate amount of taxes from Catalans and transferring them to poorer regions. According to the government in Barcelona, Catalonia experiences a net annual loss of eight percent of the region's GDP because of its high taxation (Editors). In 2005, Catalonia gave central Madrid eight point seven percent of its GDP in taxes, whereas Valencia contributed six point three percent and Madrid transferred five point six percent (White and Brun-Aguerre 4). This level of fiscal transfers is high when comparing Catalonia to other regions within Europe that owe tax money to their respective governments. One of the features in the 2006 Statute of Autonomy was the creation of a Catalan tax agency where Catalonia would be able to decide on a transfer amount to Spain. The Spanish regions of Navarre and the Basque country already have their own agencies (Alexopoulos et. al 2).

Record-high levels of unemployment plague Spain and have increased animosity between the two regions. From 2010-2012, Spain's total unemployment rate jumped from twenty point two percent to twenty five point two percent. The youth unemployment rate for citizens under the age of twenty-five rose from forty two point three percent in 2010 to a staggering fifty three point seven percent in 2012 (U.S. Bureau of Labor Statistics). The austerity measures imposed by the Spanish government are not absent in Catalonia and residents are hurt from

spending cuts and tax increases. It seems that Catalonia believes it could be better off financially and exist wholly without the involvement of Spain.

One can notice the impact of the Statute of Autonomy and the financial crisis by comparing secessionist support from previous years with today. In the past, instead of asking for outright independence, Catalans only wished for greater autonomy. Catalans wanted their culture and language to be respected and recognized as unique and different. They asked for their own tax agency where they would collect taxes and could then negotiate with Madrid on a transfer amount.

However, increasing amounts of Catalan citizens are turning to independence as the answer. As Artur Mas, the Generalitat of Catalonia, or head of government, said, "The breakdown in relations with Spain has become so serious that the only solution is a referendum" (RT News). Many Catalans share similar views. Dr. Jaume Franquesa, a native Catalan, expressed that separatists used to be considered "hot heads" and they were the minority, but now that has all changed. Because Madrid refuses to compromise and listen to Catalonia, many Catalans are fed up and offended (Franquesa). Since all fiscal reforms presented by Catalonia have been rejected and central Madrid refuses to grant increased autonomy to the region, Catalonia is asking for the right to decide its independence.

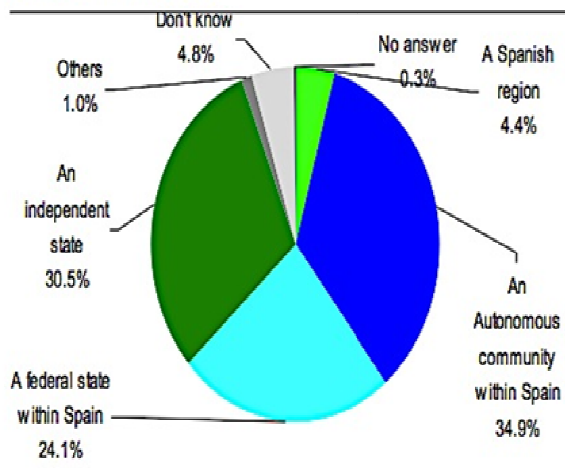
Recently, in 2007, support for an independent Catalonia was a mere fifteen percent (Editors). For the first time in Catalonia's history, in a 2012 survey from the Centre d'Estudis d'Opinio, fifty one point one percent of voters answered they would vote for independence when asked "If there was a referendum on independence,

what would you do?" (Cominetta 3). However, outright independence may still not be the popular choice.

The same survey asked respondents, "What do you think should be the relationship between Catalonia and Spain?" Only thirty four percent of the respondents answered that Catalonia should be an official independent state, whereas twenty eight point seven percent thought Catalonia should be a federal state within Spain, and twenty five point four percent answered Catalonia should remain an autonomous community within Spain (Cominetta 3). While only one third of survey respondents indicated that Catalonia should be independent, it is noteworthy that only one quarter of the respondents believe there should be no change in Catalonia's status.

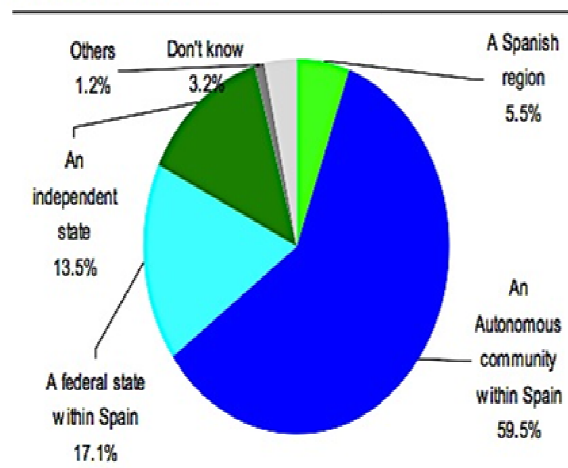
A survey compiled in October 2012 shows that seventy four point one percent of Catalans were in favor of holding a referendum to determine what their relationship with the rest of Spain should be in the future (White and Brun-Aguerre 2). These results are significant because three fourths of Catalan voters wish to re-assess their current relationship with Spain. It is also interesting to note the differences in survey responses between 2007-2011 from another source. As figure one illustrates, twenty four point six percent less survey respondents answered that Spain should remain an autonomous community in 2011, when compared with 2007. If nothing else, the survey results indicate a progressive dissatisfaction with the current situation in Catalonia, and if the upward trend continues, the proportion of citizens who desire an independent state will increase further to unprecedented levels.

Chart 3: "With respect to the Spanish state, you think Catalonia should be:", ICPS 2011



Source: ICPS 2011

Chart 4: "With respect to the Spanish state, you think Catalonia should be:" ICPS 2007



Source: ICSP 2007

Fig. 1. Catalan Citizens Show Increased Support for an Independent State from 2007-2011.

Cominetta, Matteo. "Can Catalonia Leave? Hardly." *UBS-Investment Research*. 18 October 2012. p 3. Web. 20 January 2013 <estatico.vozpopuli.com>.

Two political parties, the *Convergència i Unió* (CiU) and *Esquerra Republicana de Catalunya* (ERC), have become instrumental in the fight for secession. Artur Mas, the leader of the CiU, called snap elections in Catalonia in 2012 to consolidate support for the pro-independence movement. Mas' party was not able to recover a majority and lost twelve seats in Parliament, a reduction from sixty-two to fifty. However, the Republican Left party, the ERC, more than doubled its parliamentary seats, increasing its presence to twenty-one seats. Together, the CiU and the ERC gained a majority in Parliament, holding seventy-one of one hundred and thirty-five seats. For the first time, a majority has been given to parties in Catalonia that support the independence movement.

The two parties have come together in agreement that a referendum on secession will be held on November 9, 2014 and that Catalonia has the democratic

right to determine its sovereignty. In January 2013, the Parliament of Catalonia passed the Catalan Sovereignty Declaration, which states that Catalonia can decide its own political future. The Constitutional Court later suspended the declaration in May, but its passing was symbolic for the separatist cause. Even with continued resistance from Madrid, Catalan nationalism is at an all time high.

On September 11, 2013, hundreds of thousands of Catalans linked hands and formed a human chain stretching for more than two hundred and fifty miles to protest for the right to vote on independence. The movement was followed by a demand to hold a referendum on independence by the end of 2014 (Goodman). A pro-independence vote would make it increasingly difficult for Madrid to ignore Catalonia and may push the central government into negotiations similar to what Catalonia hoped to achieve in the 2006 Statute of Autonomy. Catalans hope that protesting will increase the pressure on central Madrid and draw international attention to their cause.

Separatists in Catalonia aim to draw support for their cause from other European countries that have faced similar experiences or are currently fighting for secession. On September 18, 2014, Scotland will vote on whether it wishes to become independent from the UK (Black). Although British Prime Minister David Cameron is against an independent Scottish state, he is giving Scottish people the right to determine their sovereignty. Catalans have referred to the Scottish case as an example of what they want and how the vote could be organized.

Catalans also used Lithuania's 1989 human chain protest against Soviet rule as inspiration for their human chain on September 11, 2013. However, Lithuania

attempted to distance itself from the Catalan example when Lithuania's Foreign Ministry said it has "concerns over the tendentious and erroneous interpretation" of the events in Lithuania and added that the independence issue in Spain "should be resolved according to democratic and legal measures that exist within the country, respecting the constitution" (Perez and Moffett).

The previously mentioned reasons highlight the development of Catalan nationalism over the past three centuries. A long history of independence followed by persecution, fiscal looting, and no cooperation or recognition from Madrid make up the separatist views in Catalonia. Although increasing numbers of Catalans show support for independence, many obstacles remain before secessionism can be realized. The remainder of this paper is devoted to investigating the impediments that stand in the way of an independent Catalonian state. One of the main barriers Catalonia must overcome is the resistance of the central government in Madrid.

IV. The Spanish Government

The central government in Madrid is opposed to an independent Catalonia. Madrid claims that Catalonia has more autonomy already than most places in Europe. Catalonia is the only Spanish region to have its own police force and the region has considerable autonomy in regional authority, culture, education, health, and transportation (Goodman). Second, a referendum on independence would be unconstitutional according to the Spanish government.

Although the regional Catalan government claims to be holding its referendum on independence in 2014, Madrid has responded that it will not

recognize a pro-independence vote. Currently, Catalonia is officially listed as an autonomous community within Spain, and according to the Spanish Constitution, a referendum can only be initiated by the central government in Madrid (Burrige). Article 149 of the Spanish Constitution gives Madrid “exclusive competence” on the initiation and legality of referendums (Cominetta 2). Even if Artur Mas holds the referendum anyway, which he claims he will do, a pro-independence outcome will not be valid under the Spanish constitution.

Article Two of the Spanish Constitution of 1978 reads, “The Constitution is based on the indissoluble unity of the Spanish nation, the common and indivisible country of all Spaniards...” (Congreso de los Diputados 10). Since secession is not allowed, the constitution itself would need to be revised before the vote took place. According to Enrique Alvarez, a professor of constitutional law at Madrid’s University of King Juan Carlos, “You’d have to reform the constitution, and both of the major parties have made it clear they aren’t willing to do that” (Abend). Article one hundred and sixty-eight of the Spanish constitution details a lengthy amendment process. A constitutional amendment requires “a two-thirds majority in both chambers of the Cortes Generales, the dissolution of the Cortes Generales and a general election, and the re-approval of the amendment by two-thirds majority in both chambers of the newly elected Cortes Generales” (Alexopoulos et. al 4). This extensive and rigid process presents an obvious obstacle for Catalonia. If Catalonia decides to hold a referendum on independence in November 2014, it will be in direct conflict with the Spanish government and constitution.

Another legal option for Catalonia would be to call for a consultation on independence, which is not regarded as a referendum under Catalan law. However, Madrid has already warned Catalonia that it will appeal to the Spanish Constitutional Court to suspend this law if Catalonia attempts to secure a vote in this fashion (Alexopoulos et. al 4).

Artur Mas claims that, “if we (Catalonia) can do it through a referendum authorized by the Spanish government, good, but if the government turns its back and doesn’t authorize any kind of referendum or consultation, well, we’ll have to do it just the same” (Abend). Although Artur Mas and many Catalans plan to hold the vote regardless of Madrid’s warning, they should be concerned about potential implications. Holding an illegal referendum in Spain gives Madrid the power to suspend the Catalan government. According to Article one hundred and fifty-five of the Spanish Constitution, a regional government can face suspension if it does not comply with constitutional law or acts against the general interests of Spain (Cominetta 2). Separatists in Catalonia should be concerned about potentially disastrous consequences if they continue with an illegal referendum. In reference to Catalan secession, Prime Minister Mariano Rajoy said, “ties cannot be broken without huge...economic, political, and social costs” (RT News). Third, in addition to violating constitutional law, Madrid does not want to open the door to independence for other Spanish regions.

If Catalonia gained independence, Madrid would not be able to stop other regions from asking for secession as well. The Basque region in northern Spain and part of Southwestern France is of particular concern. Basque residents speak

Euskera, another official language within Spain that barely resembles Castilian Spanish. During Franco's regime, Euskera was banned in 1959 and Basques suffered mistreatment (Fastenberg). A recent poll put out by the regional government showed around one-third of Spanish Basques support independence (Roman and Catan).

A terrorist group, known as ETA, was formed in the Basque region in 1959 to promote an independent Basque state. Its violent history began in 1961 when ETA attempted to derail a train with politicians aboard. In four years, ETA was responsible for eight hundred and twenty nine deaths in its quest for separation (Roman and Catan). Although ETA officially declared a cease-fire in September 2010, many are concerned about the legitimacy of the peace offering (Fastenberg). Given the violent history of ETA, it would be unwise to offer legal separation to only Catalonia in fear of retaliation from the North.

The response from central Madrid has been clear from the beginning. The Spanish government is unwilling to make an exception for Catalonia, so Catalan separatists must face the constitution and issues of legality. Madrid also has concerns about other regions in Spain, which may try to secede following Catalonia. Unfortunately for Catalans, the European Union is another obstacle blocking the possibility of independence.

V. The European Union

Spain has been a member of the European Union since 1986 and Catalonia hopes to retain EU membership if it secedes. However, Catalonia will not be allowed

to remain a current member in the Union if it becomes independent; it would have to reapply for admission. Spanish Foreign Minister, Jose Manuel Garcia-Margallo, claims an independent Catalonia would need to “bid farewell to the European Union” (RT News). In a similar statement, the vice president of the European Commission stated, “If one part of a territory of a member state decides to separate, the separated part isn’t a member of the European Union” (Perez and Moffett). Similarly, the European Commission President, Jose Manuel Barroso, confirmed that Scotland would need to reapply to the EU should it separate from the UK (Perez and Moffett).

While Artur Mas and the separatists seem to think rejoining the EU will be easy, it is actually a difficult task. In fact, it took Spain nine years to gain admission to the EU after applying in 1977. According to EU legislation, an applicant country must abide by Article 6 (1) of the Treaty on European Union (TEU). An absolute majority is required in the Commission and European Parliament and then the European Council must come to a unanimous decision. Once an applicant country has been accepted into the EU and has demonstrated it follows the Copenhagen criteria, lengthy negotiations begin between the EU and the hopeful member (European Union). If Catalonia were to withdraw from Spain, it could face a long battle for accession.

Further, there is rumor that Spain would attempt to block Catalonia’s goal of gaining readmission. Every member in the European Council must approve an applicant before accession is granted. Therefore, Spain would be in a position to veto Catalonia and prevent it from rejoining. While Spain may not be able to block

Catalonia forever, it could hinder its ability to join for several years. Rejoining the EU presents another obstacle for Catalonia to overcome if it wants to realize independence. Although the Spanish government and the EU impede Catalonia's chances of independence, Artur Mas and fellow Catalans believe they can be self-supportive.

VI. Economic Implications of an Independent State

Catalonia is easily one of Spain's wealthiest and most highly industrialized regions, with a long history of international commerce (BBC News). Compared with other members of the euro zone, Catalonia's GDP per capita is slightly below the average, but is one fifth higher than the per capita income of the remainder of Spain (Alexopoulos et. al 5). In a typical year, Catalonia is responsible for one fifth of Spain's entire economy (Goodman). In 2009, Catalonia made up eighteen point six percent of Spain's GDP (White and Brun-Aguerre 1). The area is also responsible for thirty percent of all Spanish exports, selling mostly to other EU members in the common market. (Editors). Figure two lists Catalonia's contributions to Spanish exports in various industries. It becomes obvious that Catalonia's export market is significantly linked to Spain's economy.

Exhibit 5: Catalonia's contribution to Spain's exports

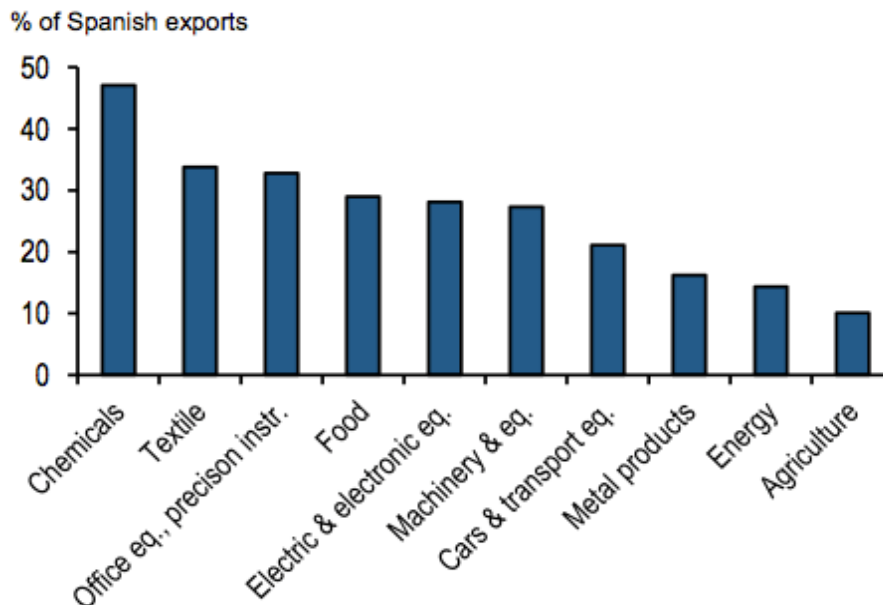


Fig. 2. A Breakdown of Catalonia's Exports. Alexopoulos et al. "Catalonia's Choice." Credit Suisse. 19 November 2012. p 5. Web. 24 February 2014 <www.vozbcn.com>.

The most popular export destinations of Catalan products are the EU countries of France, Italy, Germany, and Portugal. A large percentage of Catalan products are also distributed to the rest of Spain, who would become an importer of Catalan products following Catalan independence. Behind France, the Spanish regions of Andalucía, Aragon, and Valencia use the most Catalan products (K.N.C). In fact, in 2005, products sold to the rest of Spain equaled almost thirty six percent of Catalonia's GDP (Comerford, Myers, and Mora 15). Figure three on the next page shows the main importers of Catalan products and demonstrates Catalonia's dependence on the rest of Spain in the export market.

Exhibit 6: Catalonia's key export markets

% of total

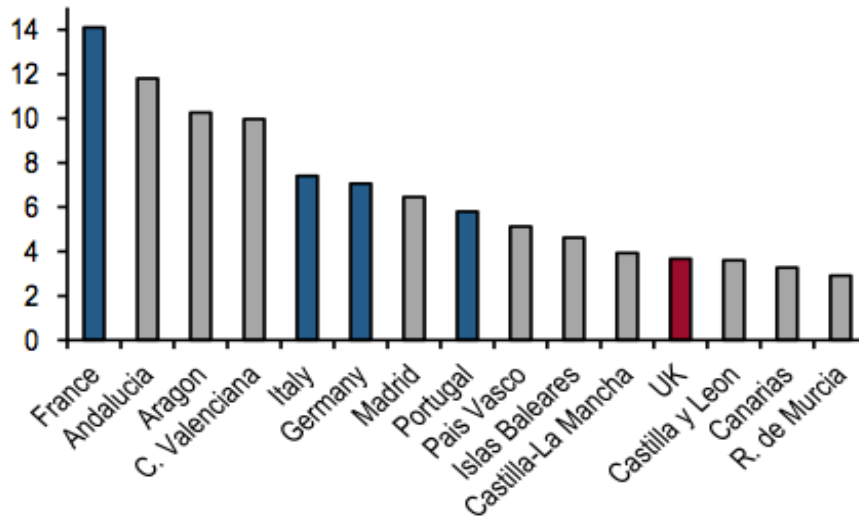


Fig. 3. Catalonia's Main Importers. Alexopoulos et al. "Catalonia's Choice." *Credit Suisse*. 19 November 2012. p 5. Web. 24 February 2014 <www.vozbcn.com>.

Many believe that Catalonia would be able to survive as an independent state because of its growing export market. Catalonia experienced export growth of five percent in 2012 to reach a record-high of fifty eight point two billion euros, outranking the growth rates of Germany, France, the Netherlands, and Finland (Wharton University of Pennsylvania). However, Spain would be one of Catalonia's main importers upon independence, demonstrated by the gray bars in figure three.

If Catalonia were to secede, it is possible that Spanish regions would boycott Catalan products in retaliation for secession. If one looks at other secessions within history, such as the Czech and Slovak Republics or Slovenia and Croatia, trade fell between the two newly separated nations between one third and two thirds in the first years after separation (Alexopoulos et. al 7). If this trend is accurate for

Catalonia, its citizens can expect a large segment of the export market to disappear, at least initially.

In addition to trade falling with Spain, Catalonia should expect a trade decline in its other export markets as well. A revisit to figure three shows that, besides Spain, Catalonia's main export markets include all EU member states. Since Catalonia will lose EU membership with secession, it will face tariffs in trading with all of its current main trading partners. Trade would automatically become more expensive for Catalan exporters and it would likely fall.

Consequently, disinvestment by businesses headquartered in the region is another concern. Since Catalonia would automatically lose EU membership, businesses in Catalonia would not be able to benefit from EU policies. It is advantageous for businesses to headquarter in a member state of the EU because of the goal of an internal market within the EU. To promote the idea of a unitary marketplace, the EU has eliminated all import/export duties between member states and features the free movement of labor, capital, and services. Between member states there are no trade barriers, workers are free to enter or reside in any member state without restriction, companies can establish themselves for free in any one of the member states, and capital is free to move amongst the member states (Moussis n.pag). All companies in Catalonia would automatically lose these advantages with secession and would face tariffs, so there is a fear many will leave the area and relocate in another member state, namely Spain.

A Spanish media group, Grupo Planeta, is Catalonia's ninth largest company, and Chairman Jose Manuel Lara claims that, "if Catalonia were independent, Grupo

Planeta would have to leave” (Moulds and Tremlett). Several other large regional headquarters exist in Barcelona, including Seat, Nissan, and Nestle. While many business owners have not made public statements surrounding the issue, there are rumors that many businesses would leave the area. Josep Pique, Chairman of Vueling airlines, made similar comments to Jose Manuel Lara and alluded to many private conversations where business owners in Barcelona have plans to leave following independence (Moulds and Tremlett).

If large multinational corporations exit Catalonia, Catalan employment will suffer. In an area already plagued with extremely high unemployment, the statistics would only get worse if companies chose to leave and trading levels fell. Due to lower trade levels, added tariffs, withdrawal of multinational corporations, and unemployment effects in Catalonia, Credit Suisse estimates that Catalan GDP could fall by one-fifth if independent, consequently lowering per capita income (Alexopoulos et. al 7).

A complicated math study from the University of Edinburgh provides additional considerations of Catalan independence. This study claims that one of the biggest costs of secession would be the rise in mediocrity in Catalan firms (Comerford, Myers, and Mora 22). If Catalonia became independent, firms would no longer compete directly with Spain. Mediocre firms in Catalonia would be considered local and they would be shielded from inter-Spain competition. Firms that would normally be driven out of business now may be able to survive inefficiently (Comerford, Myers, and Mora 22).

Catalonia claims that it pays more in tax revenues to the central government than it receives back in social spending or infrastructure, and that its citizens' money is often sent to the poorer regions of Spain. Those wanting independence from Spain believe that Catalonia would be better off if it could keep the money it usually sends off to Madrid in its fiscal transfer. If independent, Catalonia would be able to keep all of its revenue, but it would have to provide services that are currently supported by the central government.

Such services may include administration, defense, security, etc. (White and Brun-Aguerre 4). The question remains how much these social services would cost and if they would eat up all of the savings Catalonia would realize by being in charge of its taxes. A report by JP Morgan gives such estimates using data from the 2005 budget of the Spanish government. According to the report, "In 2005, the Spanish government spent one hundred and thirty three point two billion euros in public services for the entire economy. As sixteen percent of the population lived in Catalonia at the time...[we] could assume that a proportional share of the government spending was allocated to this region, or twenty one point five billion euros" (White and Brun-Aguerre 4). The report points out that it is unclear where Catalonia would choose to spend its money and it may not spend a proportional amount on its population.

Based upon a proportional amount of the Spanish budget needed to provide public services to Catalan citizens, JP Morgan hypothesizes that the necessary amount would equate to five point eight percent of Catalonia's GDP. Consequently, Catalonia would only be able to realize close to three percent of the budget transfers

they send off to Madrid when we assume an annual regional transfer of eight percent to the Spanish government. While this number is higher than what Catalans currently see, it is much less than the eight point seven percent the average Catalan would expect. If the JP Morgan estimates are accurate for Catalonia, providing necessary services to Catalan citizens would cancel out more than half of the tax money Catalonia would save.

Another consideration for Catalonia is its level of debt. If Catalonia seceded, it could not count on financial help from Spain or the Eurozone. Catalonia would have to bid farewell to both the European Central Bank (ECB) and the European Stability Mechanism (ESM). If unemployment continued to soar, businesses left the area, and household spending fell as a result, it would be unlikely to expect investment activity in Catalonia. Investors may be wary of Catalonia's ability to survive without the rest of Spain and the EU, at least directly following independence. Catalonia may have a very difficult time attracting capital to the region and may not be able to sell off its debt. The uncertainty surrounding the Catalan economy would be compounded if Catalonia needed to develop a new currency upon exiting the EU.

It is not clear whether Catalonia would establish a new currency or not following independence. Catalonia would not be considered part of the euro area once it lost EU membership. There are principalities that use the euro and are not EU member states, including Monaco, San Marino, Vatican City, and Andorra. These areas can officially use the euro as their currency through monetary agreements with the EU (European Commission). If the EU is willing to negotiate with an independent Catalonia, it may be able to make a similar agreement to use the euro

as its national currency. A second option for Catalonia would be to use the euro as a de facto currency, like Andorra did for years before the construction of its monetary agreement with the EU (European Commission). In this scenario, the euro would have no legal status in Catalonia, but it would be used in place of a domestic Catalan currency. Although a plausible option, an analysis of de facto euroisation is beyond the scope of this paper.

Nevertheless, it is useful to speculate the consequences of establishing a new Catalan currency. This may be a realistic option for Catalonia if the EU is unwilling to create a monetary agreement with Catalonia and it loses access to the ECB and ESM. The ESM provides financial assistance to EU member states, such as providing loans and purchasing debt. If Catalonia loses access to these, as well as the Spanish bailout fund, it may develop a new currency and print its own money.

Creating a new currency from scratch would prove difficult for Catalonia. It is safe to assume that foreign investors would not have much confidence in a brand new currency from a country that was the highest indebted Spanish region, had rising unemployment, and faced disinvestment from businesses. Since Catalonia's exports will suffer from decreased trade, its current account will worsen, depreciating the new Catalan currency and making it weaker against the euro. Even though depreciation can be helpful in making exports cheaper, Catalonia may not regain all of its export power.

There is the possibility that Catalonia could be forced into sovereign debt default if it cannot repay its debt that was covered by the twelve billion dollar bailout fund (Deo, Donovan and Hatheway 7). A report by UBS analyzes the impact

of 'breaking-up' with the euro, and although the report is intended to analyze the consequences of a weak country leaving the euro, it can be applied loosely to the Catalan example. The report draws attention to the possibility of corporate default. When the currency change is applied to corporations, they will also default if they carry debt abroad and begin receiving revenue in the new Catalan currency, which would be significantly weaker against the euro (Deo, Donovan and Hatheway 7).

Since the new Catalan currency is expected to be much weaker against the euro, bank runs are a serious possibility. Depositors in Catalan banks may attempt to withdraw their accounts before the funds are converted into the new currency. As UBS points out, "the obvious response of anyone with exposure to the secessionist banking system is to withdraw money from the bank as quickly as possible" (Deo, Donovan and Hatheway 8). Businesses and individuals may attempt to do this and businesses may be exposed to currency risk (Cominetta 6). Depending on the amount of depreciation the new currency faces, Catalonian stockholders could gain nothing.

Many say that Catalonia could devalue its currency in an attempt to make its exports more competitive. Devaluing the Catalan currency would make its exports cheaper and may make up for a portion of the trade imbalance it will face. However, as UBS points out, the EU and the countries that make up the Eurozone will probably not be thrilled at the secession of Catalonia. Therefore, it would not be unlikely for the EU to match the devaluation with a tariff on imported Catalan products. In fact, the European Commission has responded to this issue, stating it will "compensate" for devaluation in the currency of a seceded country, implying a tariff would be

applied to all Catalan products to match the devaluation (Deo, Donovan and Hatheway 9). Catalonia should also take care in devaluing its currency as this can lead to potential inflation.

Considering the above information, UBS estimates that in the first year of secession, it will cost between nine thousand five hundred euros and eleven thousand five hundred euros per person. In the years following independence, this number may drop to three or four thousand euros per person. These figures include the results of currency depreciation, sovereign and corporate default, decreased trade, tariffs imposed by the EU, bank runs, and potential bank system failure (Deo, Donovan and Hatheway 11). While these are rough estimates and were designed to show the impact of a weak country leaving the EU, they show the devastating effects secession may have. Even if the preceding numbers are not accurate for Catalonia, all of the previously mentioned items are serious concerns for the region if they would choose to split from Spain. Coupled with disinvestment, potential unemployment, inflation, and trade barriers, it seems Catalonia will face several initial shocks following independence.

VII. Conclusion

This report began with a search to find the reasons behind secessionist desires within Catalonia. A long history of cultural persecution, especially of the Catalan language, provided a foundation of Catalan nationalism that has existed for centuries. Coupled with the reversal of the 2006 Statute of Autonomy, Catalonia's inter-regional transfers to Madrid, the recent financial crisis, and the Spanish

government's unwillingness to negotiate with Catalonia, it is not a mystery why some Catalans wish to sever their ties with Spain. Recent events within the last decade have ignited secessionist demands and separatists now make up a larger percentage of the Catalan population than ever before.

Although more Catalans are turning to independence as the only remaining option, several things impede Catalonia's chances of becoming an independent state. The central government has already declared a referendum on secession unconstitutional and a constitutional amendment is highly unlikely. Other regions within Spain, especially the Basque country, may desire secession as well if secession is granted to Catalonia; therefore, Catalan independence could start a new wave of secessionist demands. Catalonia would automatically be ousted from the European Union, the European Central Bank, and the European Stability Mechanism. Trade would likely fall after independence due to tariffs and a potential boycott of Catalan products. . Multi-national corporations may relocate to benefit from EU policy and mediocre firms may find it worthwhile to stay in business. Catalonia would save tax revenue it normally sends to Madrid, but would need to provide social services to Catalan citizens under a cloud of debt. Finally, if Catalonia needed to create a new currency, it would face enormous economic implications.

Returning to the original thesis written in the introduction, I do not believe Catalonia will realize independence, at least not in the next few years. Although Catalan nationalism is rising, the monetary and social costs of secession are too great. It is difficult to judge whether Catalans realize all of the implications secession would bring, or if they are willing to bear the consequences to gain independence.

UBS, Credit Suisse, and JP Morgan all agree that the most likely outcome is an eventual negotiation between Catalonia and Madrid, and full independence is unlikely. If Catalans continue to pressure the central government, Catalonia will become harder to ignore and it would be in Spain's best interest to compromise. Catalonia is gaining worldwide attention and it continues to look for support throughout Europe for its cause.

Catalonia desires greater autonomy, so an agreement may be reached between Madrid and Catalonia that would create a tax agency within Catalonia and give the language of Catalan more recognition, similar to the requests made in the 2006 Statute of Autonomy. That may be enough to retain Catalonia and dampen requests for independence.

Catalonia's quest for independence leaves one with many questions about the future. The issue of independence is interlaced with cultural, political, and economical considerations. Will a referendum on independence be held on November 9, 2014, or will the central government prevent a vote? If the vote is held and a majority declares independence, how will the Spanish government react? And, if the Spanish government makes no attempt to compromise with Catalonia, will other European countries come to Catalonia's aid or will the secessionist movement become even more popular? While many things remain uncertain about the future of Catalonia and Spain, it is clear that Catalan nationalism is at an all time high and the world will be watching as the quest for Catalan independence unfolds.

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