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The State and Autonomous Communities in Spain: A Relationship that Complicates the Task of Reducing Public Deficit

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Abstract

The needs imposed by the economic, ideological and institutional crisis have brought along new functions for the public sector. Nevertheless, within this new scene, the intense decentralisation of financial issues, which is characteristic of the Spanish State, makes it bad-suited for prompt and efficient compliance with decisions taken by the organisations that compose the embryonic global financial governance system and hinders tasks such as the unavoidable reduction of public deficit difficult.

Keywords

Crisis, Regulated capitalism, State and global financial governance, Territorial structure of the State and reduction of public deficit in Spain.

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1. Introduction

The word crisis is, to say the least, amphibolous. As such it has two meanings; crisis signifies according to the Dictionary of Modern Spanish (Seco et al., 1999) a “difficult and delicate situation” and also “moment at which an important change takes place”.

The economic environment in which we have been living since 2008 has been so harsh that on various occasions we have been on the brink of total collapse, in particular since the bankruptcy of Lehman Brothers.

The gravity of the economic extremes reached has been exacerbated as the crisis was not only the outcome of economic causes in the strictest sense of the term, but also, in essence, was the final blow to a major loss of values which, as I have written (Cazorla Prieto, 2009) lead to “the loss of appreciation of the limits” and to “the dream of permanent prosperity” out of which we were suddenly awoken.

The economic crisis, in turn, is the cause of others of a different nature; it has brought about ideological and institutional ones of greater or lesser intensity.

From the ideological point of view, the political and economic capitalist system has resisted despite all the difficulties besieging it. However, it has done so with adjustments that are more than just subtle. I have already argued (Cazorla Prieto, 2009) that we are moving towards a capitalism that has been “reined in”, or expressed more precisely, “more regulated and with greater oversight”. Guadin (2010) wrote to this effect, that “the multipolar economic world being announced will lead to a new type of regulated capitalism” and Aghion (2010) refers “to the return to the regulatory State”.

It should be recognised nonetheless that this characterisation is taking form far more slowly than initially thought and obstacles are arising daily to such an extent that Quiniou (2010) is denouncing the “imposture of moral capitalism”.

In my opinion and despite everything, this new focus will end up imposing itself since the politico-economic capitalist system has no valid alternative opening in the wake of the problems we have been facing mainly since 2008.

Strong economic pressure, spurred by discernable changes, has also opened the gates to an institutional crisis.

As Kennedy wrote (2009): “The world of unfettered free market capitalism has come to an abrupt and staggering end and the State has had to intervene to take control both of the political and the economic situation”. Although this process is also going slower than initially expected, the State as a form of political organisation has drawn additional impetus from the fiscal stimulus policy and from the supervisory and regulatory proposals being imposed by the new situation.

Once the crisis was set off, relatively new organisations such as the G-20 or the Financial Stability Board (FSB) and other more traditional ones such as the International Monetary Fund and the European Council started to play an important role in the governance of the financial system or to strengthen that which they had played until then.

Although their role still has not been clearly defined and the overlaps and tensions between them are frequent, as highlighted in the G-20 meetings held 26 and 27 June last in Toronto and in Seoul 11 and 12 November, these organisations constitute the embryo of indispensable global financial governance; Fernández Rozas (2010) affirms with regards to this that: "The leaders of the club of rich and emerging countries, the G-20, have decided that this forum should convert into the main scenario for international economic cooperation". These new organisations have issued on successive occasions guidelines both of an economic nature - such as at the outset the measures called fiscal stimulus and later those to render public accounts healthier (Rogoff, 2010) - and of a politico-institutional nature concerning the new regulatory and supervisory steps that should be taken.

It can be seen then, that the current phase of the evolution of capitalism as a politico-economic system tends to reinforce State functions one way or another.

One example amongst others of this phenomenon can be found in the United States; Linde de Castro (2009) states that: "In the USA the authorities have gone through four action phases. The first phase, at the beginning of the year (2009) was to ensure liquidity ... In the second phase, they started to assist and intervene directly in financial entities, facilitating their purchase or takeover ... The third phase can be summarised as ... direct aid, nationalisations, participating in the capital of companies and providing guarantees ... The fourth phase can be summed up by (1) the stimulus package of nearly 800 000 million dollars ... and (2) approval of the programme called Public-Private Investment Program". No less true, furthermore, is the fact that this phenomena developed in a manner congruous with financial globalisation; it is undertaken by using the State as an instrument through which to channel the economic, supervisory or regulatory measures that emanate in greater or lesser detail from the entities that are starting to constitute the global financial governance system.

In that light, the functional strengthening of the State that I am alluding to is not autonomous; it did not arise from a decision taken exclusively and in isolation by the States by virtue of their sovereign powers. As I have written elsewhere (Cazorla Prieto, 2010): "The functional strengthening of the State is imposed to a large extent, and as such is limited, heteronomous and arises mainly from outside imposition and not from the autonomous decision by the State in general, and even more markedly if possible, the States that form part of the G-20, that is to say those in control of an extremely high percentage of world GDP, act driven by and according to the guidelines imposed by the organisations belonging to global financial governance, amongst which stand out the G-20".

This entails that, while it is evident that the State assumes during this new stage greater functional strength widening the scope in which it acts and the instruments used to do so, this functional opening up is not in a significant portion autonomous, but limited from the outside by the organisations of global financial governance. As Rizzi (2010) wrote: "the jitters caused by capital markets – from Lehman Brothers to Athens – are only the most current reflection of the weakness of States in the global era. The umpteenth image of their structural inability to cope with transnational challenges, which are nothing new, but which are now spreading, multiplying and becoming more complicated. The state level is impotent or inefficient against them".

Unquestionably then "States have increased their functions, becoming more interventionist and participating more intensely in nearly all facets of financial life. But they do so less freely, more constrained by all types of requirements that originate from the outside entities that are known to us.

In brief, the new functional strengthening of the State is greatly in response to the fact that it is converting due to the vicissitudes of the crisis into a conduit of what has previously been decided in the scenarios of global financial governance" (Cazorla Prieto, 2010).

When exercising the functions that global financial governance imposes on them, States have little room to decide for themselves, their decisional scope being restricted by outside requirements. States in theory can turn a deaf eye to such demands; officially speaking, but not materially. The consequences of conduct that conflicted with those demands would be so dire that autonomous state action would be extremely costly within the framework of the financial globalisation in which we find ourselves. The negative consequences could range from the imposition of political and even economic sanctions, as demanded by the European Central Bank in its proposals of 10 June 2010 for countries which do not meet the goals of the Stability and Growth Plan, to refusing access by the State in question to certain forms of aid or international bailouts, and the impossibility or utmost difficulty for that State to gain access to markets in order to obtain the corresponding financing.

The organisational structure and politico-institutional configuration of States is of redoubled economic significance when facing the new functions or previously existing but now strengthened ones that the crisis has started to impose on States and the limits to the autonomy those States have to undertake these functions to develop them in line with the demands coming from the organisations that make up the incipient global financial governance.

Leaving aside the economic cost that the greater or lesser complexity of that politico-administrative structure might suppose and which as regards to Spain has given rise, amongst others, to the recent and significant statements of the President of the Spanish Employer's Organisation for Big Distribution Companies, Juan Manuel de Mingo (Llorente, 2010): "We cannot afford to finance a Central Administration and that of 17 states, with their specific standards, lack of coordination, exorbitant debt and a multiplying of civil servants without functions. We are not sufficiently rich to maintain a structure with such diverse dynamics that seriously imperil market unity and move towards growing interventionism".

If we leave this aside, the growing economic significance of the organisational structure and the politico - institutional composition of the States resides in the fact that there are different classes of state organisational structures which can be more or less appropriate as a conduit of the economic demands that stem from what I call global financial governance, be it at a world or regional level.

The appropriateness to which I am referring depends mainly on the degree of political and administrative complexity of the States.

Briefly, not all States are equally positioned to adapt to the rules being imposed by global financial governance, especially in the wake of the crisis we are facing.

Consequently, a factor which should be assessed economically with regard to "the greater or lesser efficiency of the implementation of supranational financial agreements, is the ability of the competent state organisations to swiftly adopt the decisions entailed by the implementation of these agreements, in other words; the greater or lesser political and regulatory capacity to react of the relevant organs of state when facing exterior financial requirements" (Cazorla Prieto, 2010).

The issue I am raising does not stem so much from the more or less decentralised general structure adopted by the State in question. The issue, it seems to me, lies more in how the strictly economic and financial jurisprudence is organised in the State, and whether mechanisms exist to guarantee within the framework of the state prompt and efficient economic and financial management to deal with the requirements coming from the organisations of incipient global financial governance in its different forms.

2. Brief reference to the structure of the Spanish State

It is hardly necessary to point out that one of the principal characteristics of the 1978 Constitution was the territorial organisation of the Spanish State into Autonomous Communities, in accordance with the rules, in certain points imprecise and open to interpretation, established by title VIII.

With the passing of time, the opportunities for wide decentralisation - political, economic in general and financial in particular - that the mentioned text latently contained, have greatly increased, being patent in numerous legal rulings. To such an extent that Rodríguez Bereijo (2009), former President of the Constitutional Court, wrote: “The greatest problem currently facing our constitutional State is not, in my opinion, that of ‘increasing self government’ by means of reforming the statutory provisions of the Autonomous Communities, the transfer or delegation of jurisdiction of article 150.2 CE or even by means of the reforming of the Constitution according to a model of ‘asymmetric’ federalism as claimed by some. The true challenge to the Constitution and the State that spawned from it is how to avoid risks of fragmentation in a territorial organisation model so dangerously open that it appears to have no confines and to threaten through centrifugation the State so laboriously constructed over the years”.

Leaving this general diagnosis of the organisational structure of the Spanish State, that I share, to focus on the economic and financial aspects, the development of the structure since its conception in 1978 has been characterised amongst other points by:

a) A substantial increase in the public spending of the autonomous communities compared to a levelling out of that of the state (see the data that appear in the Boletín Estadístico of the Bank of Spain, June 2010).

b) Full jurisdiction of the Autonomous Communities over public spending (Casana, 2009).

This point should cover the jurisdiction of the Parliaments of the Autonomous Communities to approve their own Budgets, limited only by the economic and legal obligations imposed by the Constitution, the Organic Law for the Financing of Autonomous Communities and their own internal regulations.

c) The significant jurisdictional capacities held by the Autonomous Communities concerning a highly relevant part of the Spanish financial sector, that of the Savings Banks, as inferred by the recent works by Ontiveros et al., (2010) and Ariño (2010).

d) The jurisdictional capacities of certain Autonomous Communities (Catalonia, Basque Country and Valencia) for organised securities markets located in their respective territories.

Spain, therefore, has a highly decentralised state, from the economic and financial points of view, which could place it in a disadvantageous position to undertake the role of acting as conduit of the economic and financial guidelines imposed by either world or nationwide organisations that compose the newly formed global financial governance.

In effect, when complying with the guidelines, the Spanish State has to deal with the Autonomous Communities which, owing to their important economic and financial jurisdictional capacities, can become a hurdle preventing the State from complying with the demands imposed on it from outside, which could suppose the above mentioned adverse consequences.

From there, in turn, emerges the fact that coordination of the Spanish State's relations with the Autonomous Communities is crucial when tackling such an important problem in the current world and especially European economic context, as is the reduction of public deficit.

3. The reduction of the Spanish public deficit and the autonomous communities

3.1. Background

Fear of a new financial bubble – in this case representing the debt the States need to issue or renew as a consequence of the staggering deficits they have had to run up in order to respect the policy of economic stimulus promoted at the time by the organisations that make up financial globalisation governance, especially the G20 – has spread throughout the European Union, international financial organisations and financial markets in general. To this effect Attali (2010) after mentioning the United States and Japan warned that "in Europe as well, public debt, which has just reached vertiginous levels, can only grow further".

In Spain, the State, after many hesitations and with the rope of the financial markets nearly around its neck, was obliged to adopt an adjustment path of 50 000 million Euros, which was approved by the European Commission on 17 March 2010 and by the European Council on 26 April 2010; then the European Council on 17 June demanded a further cut in public spending of 8,000 million Euros, equivalent to 0.75% of GDP, a measure which was confirmed by the Ecofin meeting held on 13 July 2010. The goal imposed from the outside – from the European Union, legally and politically speaking, and from financial markets in purely economic terms – is clear and categorical: trim public accounts and return to a situation of acceptable deficit.

Despite the fact that this situation could already be seen coming at the end of 2009 and the beginning of 2010, seven Autonomous Communities approved 2010 Budgets with an increase in public spending. There were Catalonia, Castilla-La Mancha, the Community of Valencia, La Rioja, Navarra and the Canaries. Notice that amongst this group there are Autonomous Communities of different political colours.

One case that stands out from the others is that of Catalonia. In the Budget Law of this Autonomous Community for 2010 (Law 25/2009, 23 December), the forecast deficit amounted to €7,600 million, approximately 3.12 percent of the Catalan GDP. Non financial spending increased in this Community by 5.75 percent, investments by 2.55 percent and current expenditure by 6 percent!

Related to the problem of the increase in public spending in some Autonomous Communities and budget deficits that arise from it and alongside the decrease in income in the current crisis period, is the issue of the increase in public debt required to finance it all.

The outstanding debt of the Autonomous Communities in March 2010 totalled 9 percent of Spanish GDP. Between the first quarter of 2009 and that of 2010 autonomous debt shot up 28.41 percent, going from 73,687 to 94,621 million Euros. Furthermore, the problem gets worse: according to the Boletín Estadístico of the Bank of Spain, August 2010, the debt of the Autonomous Communities increased 26.5 percent in the second semester of this year in respect to the same period last year, until it reached the substantial figure of 104,083 million Euros.

The problem of the debt is not limited to certain Autonomous Communities it affects all of them to a greater or lesser extent. At the head of those indebted stands Catalonia, with €25,079 million of debt; followed by the Autonomous Community of Valencia with €15,356 million and that of Madrid with €11,712 million of debt. The least indebted are La Rioja with debt amounting to €627 million and Cantabria with debt totalling €595 million, followed by the Principality of Asturias with €1,077 million, Extremadura €1,085 million and Navarra €1,495 million (see the Boletín Estadístico of the Bank of Spain, June 2010).

As can be appreciated, the problem of the increase in debt of the autonomous entities - in times of suprastate requirements to get the public accounts into shape - is general, irrespective therefore of the political affiliation of the Autonomous Community in question. This phenomenon is of growing concerns to markets and to the organisations that represent global financial governance.

There is furthermore the Organic Law 3/2009, of 18 December, that modifies Law 8/1980, of 22 September, Organic Law for the Financing of the Autonomous Communities. The Organic Law 3/2009, of 18 December, contains a single transitory proviso that is important in relation to the subject we are focusing on. This transitory proviso refers to "authorisations of credit operations" in its second and third paragraphs establishing that: "Exceptionally and exclusively for the period 2009 and 2010, should, as a consequence of extraordinary economic circumstances, it be necessary to guarantee the covering of fundamental public services, credit operations for a period of greater than a year and no greater than five years can be arranged without application of the restriction foreseen in paragraph two a) of the fourteenth article of the Organic Law 8/1980 of 22 September, Financing of the Autonomous Communities", by virtue of which the total amount of credit should be allocated exclusively to investments.

The Autonomous Communities should amortise these operations within a period of five years; this circumstance can be taken into account when setting the stability target.

However contradictory it may be with current economic demands, this important legislative amendment opens the door to greater autonomous debts, so contrary to the measures that Community organisations are requiring from Spain. It should be stressed, furthermore, that the loose wording of the reformed precept also leaves to door open to, as opposed to in the previous tenor of the precept, allocating the new debt to current expenditure and not investment.

Given, on the one hand the current situation and outlook of autonomous public spending, the autonomous budget deficits and the correlating indebtedness, and on the other the demands of the adjustment path for public accounts presented by the European Commission and laid out in the Royal Decree 8/2010, 20 May, by which extraordinary measures were adopted to reduce public deficit, the Spanish State could easily find itself faced by the dilemma of contradictory demands: the supra-statal outside ones and the infra-statal autonomous ones.

3.2. The institutional difficulties faced by the State to reduce the deficit of the autonomous communities

The State, aware of this problem which derives from the distribution of power brought about by its territorial structuring, wished to evade it by means of the Council for Fiscal and Financial Policy.

As can be read in a communiqué published on the corresponding days:"Yesterday, (Monday 22 March 2010), the Government took advantage of the meeting of the Council for Fiscal and Financial Policy to ask the Communities to pull their weight to reduce their costs and consequently be coherent with the goal of reducing the deficit of public administrations as a whole to 3% of GDP in 2013. Indeed, in this meeting the Government was seeking the complicity of the autonomous governments for their austerity plan that Zapatero sent to Brussels and whose key measure is none other than a 50,000 million Euros cut in spending, 10,000 million Euros of which should come from municipalities and autonomous communities." (García, 2010).

Finally, and after procrastination and delays, the Council for Fiscal and Financial Policy, on which both the State government and the governments of the Autonomous Communities sit, approved in its meeting of 15 June 2010, strongly pressured by the demands of the European Council on nearly coinciding dates, an additional €11,000 million reduction in the autonomous deficit on top of that already foreseen for 2010 and 2011. All with the aim of reducing the deficit of the autonomous communities to 2.4 % of GDP in 2010 and 1.3 % in 2011.

4. Conclusion

The experience lived in Spain over the past months has revealed the difficulties in reaching an agreement with the autonomous communities in the field of deficit reduction, and the time taken to achieve it has underlined the problem that the Spanish State has to be able to swiftly guarantee compliance with the economic and financial requirements that might come from the organisations that form global financial governance. In other words, the Spanish State, given its territorial structure, is not at the best of starting points to act as conduit for certain requirements that may come from suprastatal politico-financial organisations, one of the most characterising roles of the current State.

Various alternatives can be considered to tackle this situation. From the most complicated, that of undertaking constitutional reforms to redefine the distribution of jurisdictional capacities between the State and the autonomous communities in Spain, passing through legislative amendments based on strengthened understanding of general interest in the sharing out of jurisdictional capacities between them (Jiménez de Parga, 2010), to other easier ones, more of a political nature than a legal one.

In the last instance and in my opinion, it would be a case of reinforcing institutional loyalty in economic and financial issues conveyed in an agreement between political parties to undertake without delays or obstructions, the requirements that come from what I have called the organisations that compose the system of embryonic global financial governance.

This way the "quality of institutions" in Spain would improve (Alonso and Garcimartín, 2010), an issue which is currently of ever more economic significance.

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