



Regional autonomy movements in Europe - also about finances

- Beyond the Catalan referendum, independence movements in Europe seem to enjoy a revival. But calls for greater autonomy or even secession are not just about cultural identity - financial discrepancies between regions also play a major role. Unsurprisingly, most of the regions with strong separatist tendencies are amongst the wealthiest in their respective countries. Calls for (more) independence seem to be loudest when national financial equalization mechanisms lead to results that are perceived as disproportional, such as in Spain or Italy.

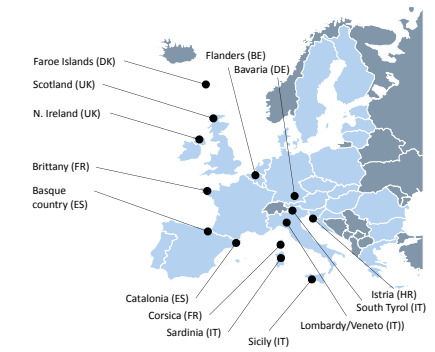
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Not only in Catalonia

The political escalation in Spain that followed Catalonia's (unconstitutional) independence referendum early October has been a reminder: even in a Europe with (almost) no borders and a single market, calls for more regional autonomy have not silenced. Only a few weeks after the Catalan crisis unfold, an overwhelming majority of voters opted for greater autonomy in the wealthy Northern-Italian provinces of Lombardy and Veneto. Three years ago, Scotland decided in a contested referendum to stay within the UK. But that was before the Brexit vote, and there are concerns that a second Scottish referendum might be held if the UK leaves the EU with unfavorable terms. And after all, what is the Brexit vote itself than a call for more "regional" self-determination?

Figure 1: European autonomy/separatist movements (selected)

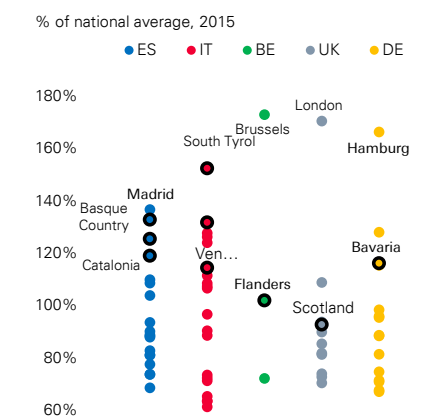


Source: Deutsche Bank

It's about finances (and redistribution), too

It is important to note, though, that most independence movements in Europe do not seek outright secession but rather greater regional autonomy within their respective nation-states. Underlying motives may vary between regions and include cultural, language-related, historical and other "emotional" aspects. But more often than not, public finances and the distribution of fiscal revenues play a key role as well. It therefore seems no coincidence that calls for more independence are often loudest in the most prosperous regions.

Figure 2: Per capita income - regions with autonomy movements versus other parts of country



Source: Deutsche Bank, Eurostat

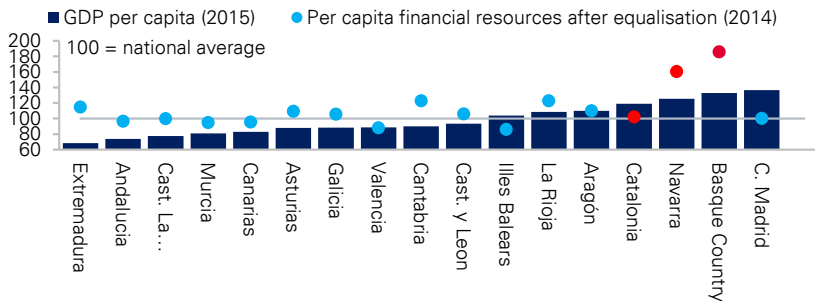
Among Spanish regions, the Basque Country and Navarre — for decades haunted by separatist violence — rank second and third in terms of per capita income, right after Madrid (see lower chart). Catalonia follows in fourth place. Also in Italy, regions with strong independence movements lead the ranks. Lombardy has the second largest income per capita, right after South Tyrol (which already is partly autonomous and historically had strong separatist support). Veneto ranks sixth. Belgium is deeply divided between the French-speaking Wallonian and Dutch-speaking Flemish. In Flanders, with per capita income substantially higher than in Wallonia,¹ the separatist New Flemish Alliance is the strongest political force. Scotland's income per capita is at 93% of the UK's national average, but the latter

¹ Brussels, the largely francophone capital has a special status.



is pushed up strongly by London (170%). Scotland follows London, the South-East and East of England as the fourth richest region. In Germany, income divergence increased after the German reunification. Excluding the city states of Hamburg and Bremen, Bavaria is the most prosperous state per capita.²

Figure 3: Spain: asymmetry between regions with/without fiscal autonomy



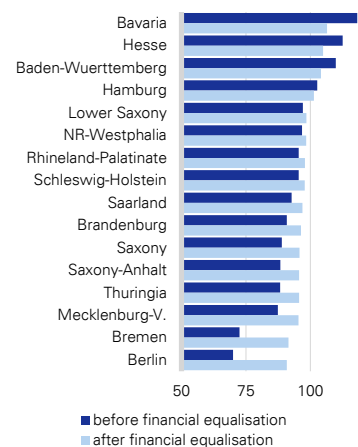
Source: Deutsche Bank, Ministry of Finance and Civil Service/de la Fuente et al. (2014), Eurostat

But while in Catalonia, Lombardy, Flanders and Scotland, independence movements enjoy broad public support (even though not necessarily by the majority), the Bavarian Party has no real political weight. The same applies to separatists in France such as in Brittany as well "Basque" and "Catalan" areas on the border with Spain. The strong independence movement in Corsica is a main exception.

To understand these differences it might help to have a look at the national fiscal equalization schemes. In Italy, five regions (including South Tyrol) have autonomy status but this does not apply to Lombardy and Veneto. At the same time, Lombardy and Veneto are among the highest net payers per capita in the interregional fiscal transfers. In Spain, the Basque Country and Navarre have a special autonomy status, which exempts them from the Spanish equalization scheme. For Catalonia, however, the fiscal transfer of revenues between regions leads to a changed ranking in terms of per capita financial resources after equalization. Unsurprisingly, preserving the ranking has been a key Catalan demand (but denied by the constitutional court in 2010). This contrasts with the situation e.g. in Germany. Also here, a high level of financial integration between the federal states is reflected in a substantial redistribution of tax revenues. However, through the strong representation of the German states in national politics, net contributors have warranted that the German equalization scheme does not lead to a changed ranking of relative fiscal capacities (see figure opposite). This last example illustrates that in dealing with separatist sentiment, fiscal concessions may sometimes be a price worth paying.

Figure 4: Germany - no change in relative ranking of fiscal capacity after equalisation

% of per capita average, values for unweighted population, incl. municipal taxes (2015)



Source: Deutsche Bank, Federal Ministry of Finance

² For a detailed discussion, see [Deutsche Bank \(2014\): "Better off on their own? Economic aspects of regional autonomy and independence movements in Europe"](#).



Appendix 1

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