The Catalan Economy
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The functioning of the financing model

1 PLAYERS IN THE MODEL

The players participating in the financing model are the Spanish State, which collects taxes from all the territories, and 15 autonomous communities. They include the whole of Spain, except for the Basque Country and Navarre, in contrast with the "common regime". These two communities have a separate regime. In particular, their financing system enables them to manage, collect and settle the taxes paid by their citizens.

2 THE RESOURCES OF THE MODEL

Tax income

Most of the resources that are part of the financing model derive from taxes contributed by the autonomous communities:

- Partially assigned taxes: 50% personal income tax, 50% VAT, 58% excise duties

- Fully assigned taxes: wealth tax, inheritance and gift tax, property transfer and stamp duty, gambling taxes, special tax on certain means of transport and a tranche of the tax on hydrocarbons.

The tax income that the autonomous communities contribute to the common fund of the financing model is known as **tax capacity.**

Not included in the financing model are company taxes (retained by the State) and taxes levied by the autonomous communities themselves, which account for a very small part of their income (in the case of Catalonia, approximately 5%).

Additional resources supplied by the State

As the collection of taxes that are part of the financing model is insufficient to finance the basic services provided by the autonomous communities, the State contributes resources to the model by means of three funds:

- Guarantee Fund for essential public services (GF): this fund seeks to ensure uniform access to the basic services -namely health care, education and social services- to all citizens regardless of their place of residence. The different sub-funds enclosed in GF are distributed based on the so-called "adjusted population" indicator[1], which accounts for the expenditure needs from each autonomous community. The resources for this fund are:

    o Horizontal fund: 75% of tax revenues assigned to the autonomous communities.

    o Vertical fund: additional transfer from the Central Government that is set to evolve in line with the observed growth of the State's tax income.

- Global Sufficiency Fund: the aim is to ensure that no community loses from the status quo, that is, it prevents any autonomous community from losing resources in absolute terms with regard to the previous model. This fund receives a State contribution that is updated annually also in accordance with the tax income of the State.

- Convergence funds: these funds are financed also with a State contribution and include two funds: The Competitiveness Fund (it partially compensates the communities that receive the least for what they contribute) and the Cooperation Fund (this benefits the relatively poor communities or those with a less dense population). These funds come into effect based on a high-complex redistribution system.

1. This indicator is gauged as a weighted average of seven variables: population (30%), area (1.8%), dispersion (0.6%), insularity (0.6%), equivalent protected population (38%), population aged 65 years or above (8.5%) and population up to 16 years of age (20.5%).

3 FUNCTIONING OF THE MODEL

To ascertain the effect of applying the different funds on the tax capacity of the autonomous communities and the resources eventually received by them, we can look at the results of the financing model in 2013 (last year with available figures, as the settlement of each year is carried out with a two-year delay): **(See Step 1)**

Catalonia stands 17.9% above the average of the autonomous communities under the common regime (100). It is the second autonomous community with the most tax resources per capita contributed.

(See Step 2)

If Catalonia previously had 17.9% more tax resources than average, with the application of the Guarantee Fund it is only 3% above average and it drops to ninth place.

Step 1: Tax capacity

REGION	TAX CAPACITY €M	€ PER CAPITA	INDEX	RANKING
Madrid	17,163	2,642	135.6	1
Catalonia	**17,362**	**2,298**	**117.9**	**2**
Balearics	2,552	2,296	117.8	3
Cantabria	1,323	2,236	114.7	4
Aragon	2,993	2,222	114.0	5
Asturias	2,227	2,085	107.0	6
Rioja	657	2,040	104.7	7
Castile-Leon	4,975	1,974	101.3	8
Galicia	5,039	1,822	93.5	9
Valencia	9,230	1,805	92.6	10
Castile-la Mancha	3,529	1,680	86.2	11
Murcia	2,418	1,643	84.3	12
Andalusia	13,126	1,555	79.8	13
Extremadura	1,636	1,482	76.0	14
Canary Islands	1,773	837	42.9	15
TOTAL	**86,003**	**1,949**	**100.0**	

Step 2: . Resources received after applying the Guarantee Fund (GF)

REGION	RESOURCES AFTER GF €M	€ PER CAPITA	INDEX	RANKING
Aragon	3,105	2,305	108.6	1
Castile-Leon	5,731	2,274	107.1	2
Asturias	2,411	2,257	106.3	3
Madrid	14,509	2,234	105.2	4
Galicia	6,137	2,219	104.5	5
Cantabria	1,310	2,213	104.3	6
Balearics	2,448	2,202	103.7	7
La Rioja	708	2,198	103.5	8
Catalonia	**16,522**	**2,187**	**103.0**	**9**
Castile-la Mancha	4,514	2,148	101.2	10
Extremadura	2,340	2,120	99.8	11
Valencia	10,341	2,022	95.2	12
Murcia	2,967	2,016	94.9	13
Andalusia	16,672	1,975	93.0	14
Canary Islands	3,969	1,873	88.2	15
TOTAL	**93,684**	**2,123**	**100.0**	

(See Step 3)
Once the Sufficiency Fund mechanism is in place, Catalonia drops to tenth position, standing 2.2% below the average of the autonomous communities (excluding the Basque Country and Navarre).

(See Step 4)
The Convergence Funds modify the relative final positions. The resources received by Catalonia after applying the model stand 2.5% below the average of the autonomous communities under the common regime. Catalonia continues in tenth position with regard to the other communities, but the distance to the average is now wider.

Step 3: Resources after applying the Sufficiency Fund (SF)

REGION	RESOURCES AFTER SF €M	€ PER CAPITA	INDEX	RANKING
Cantabria	1,609	2,719	134.1	1
La Rioja	824	2,560	126.2	2
Extremadura	2,723	2,467	121.6	3
Aragon	3,273	2,430	119.8	4
Castile-Leon	6,112	2,426	119.6	5
Asturias	2,508	2,348	115.8	6
Galicia	6,382	2,307	113.8	7
Castile-la Mancha	4,591	2,185	107.7	8
Madrid	12,927	1,990	98.1	9
Catalonia	**14,989**	**1,984**	**97.8**	**10**
Andalusia	16,380	1,941	95.7	11
Murcia	2,791	1,896	93.5	12
Canary Islands	3,788	1,788	88.2	13
Valencia	8,847	1,730	85.3	14
Balearics	1,754	1,578	77.8	15
TOTAL	**89,499**	**2,028**	**100.0**	

Step 4: . Resources after applying the Convergence Funds (CF)

REGION	RESOURCES AFTER CF €M	€ PER CAPITA	INDEX	RANKING
Cantabria	1.664	2.811	132,1	1
La Rioja	851	2.644	124,3	2
Extremadura	2.839	2.572	120,9	3
Castile-Leon	6.343	2.517	118,3	4
Aragon	3.315	2.461	115,7	5
Asturias	2.609	2.442	114,8	6
Galicia	6.644	2.402	112,9	7
Castile-la Mancha	4.798	2.284	107,3	8
Balearics	2.340	2.105	98,9	9
Catalonia	**15.674**	**2.075**	**97,5**	**10**
Madrid	13.166	2.027	95,3	11
Andalusia	16.800	1.990	93,6	12
Murcia	2.922	1.985	93,3	13
Valencia	9.927	1.941	91,2	14
Canary Islands	3.991	1.884	88,5	15
TOTAL	**93.883**	**2.128**	**100,0**	

Impact of the cost of living

The cost of living differential is an essential variable when analysing the significance of the resources received by each autonomous community via the financing model. In this regard, the Government of Catalonia recently commissioned the study 'Estimates of purchasing power parities for the Spanish Autonomous Communities' to a team formed by the researchers Jaume García (professor of Applied Economics of the UPF), Josep Lluís Raymond (professor of the Fundamentals of Economic Analysis of the UAB), Àlex Costa (technical staff of the Barcelona City Council) and Xavier López (technical staff of the Generalitat of Catalonia)[2].

If we apply the purchasing power parities to the results of the financing model in 2013, the resources received by Catalonia drop from tenth to fourteenth position.

4 EVOLUTION OF THE RESULTS OF THE FINANCING MODEL

2009 This was the first year of application of the financing model. Catalonia was the third community in tax capacity (it contributed resources per capita 19.2% more than the average) and the eighth in resources received (2.3% above average). It is the only year in which Catalonia exceeds the average of the autonomous communities in resources received.

2010 Catalonia holds third position in tax capacity (18.5% above average), but comes in tenth place in resources received (1.1% points below average)

2011 As in the previous year, Catalonia holds third position in tax capacity (19.1% above average), but comes in tenth place in resources received (0.6% points below average), thus consolidating the trend of 2010.

2012 Catalonia continues to hold third position in tax capacity (19.7% above average), but drops again to tenth place in resources received (0.3% points below average).

2013 As shown previously, the last year with settled accounts Catalonia stands for fourth consecutive year below average in resources received. For the first time, Catalonia is the second autonomous community in resources contributed although it continues to hold tenth place following the workings of the financing scheme.

REGION	€ PER CAPITA	INDEX	RANKING
Extremadura	2,811	132.1	1
Castile-Leon	2,644	124.3	2
La Rioja	2,572	120.9	3
Asturias	2,517	118.3	4
Cantabria	2,461	115.7	5
Aragon	2,442	114.8	6
Galicia	2,402	112.9	7
Castile-la Mancha	2,284	107.3	8
Canary Islands	2,105	98.9	9
Andalusia	2,075	97.5	10
Balearics	2,027	95.3	11
Valencia	1,990	93.6	12
Murcia	1,985	93.3	13
Catalonia	**1,941**	**91.2**	**14**
Madrid	1,884	88.5	15
TOTAL	**2,128**	**100.0**	

5 A GENERAL CONSIDERATION: THE ORDINALITY PRINCIPLE

Once given the total resources that go to the autonomous communities (determining this total is a major and contentious issue), it makes sense that communities with higher GNP per capita contribute more than those with lower GNP per capita. But the presence of reversals in the ordering of resources per capita received relative to the ordering of resources per capita contributed is not justified.

Accepting that the resources per capita (in purchasing power parity) received for the financing of the welfare state public services should be the same across autonomous communities with independence of place of residence, it remains true that the resources needed for the proper functioning of the productive apparatus (for example, infrastructures) are correlated with GNP, and this is turn with tax capacity. It follows that an ordinality principle should hold: the orderings derived from the contributions to the financing model must be the same than the orderings derived from the resources received from the financing model. ■

2. The study "Estimates of purchasing power parities for the Spanish Autonomous Communities" is available in the following link: http://economia.gencat.cat/web/.content/70_economia_catalana/arxius/colleccions/monografies/M_17_2015.pdf