

The Politics of Secession Movements: Institutional Change and Economic Crisis in Scotland and Catalonia

Jonathan Hopkin
Department of Government
London School of Economics and Political Science
Houghton St
London WC2A 2AE
J.R.Hopkin@lse.ac.uk

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Introduction: The Political Economy of Secessionist Movements

One consistent trend in post-war Europe has been a steady process of decentralization of political and administrative authority (Rodríguez-Pose and Gill, 2003) (Hooghe et al., 2010). Since the heyday of central government power in the mid-twentieth century, governments all across the advanced democratic world have been devolving powers to lower levels of political organization, whether the meso or regional level, or the local level. At the same time, the persistence of distinctive territorial and ethnic identities in many European nation states has generated a range of 'non-statewide' political parties that have won significant electoral support on the back of demands for greater self-government or even full independence. In two particular cases, Scotland and Catalonia, these movements have grown in strength since the global financial crisis to the extent that their push for independent statehood has become one of the key challenges facing the central governments in London and Madrid.

This paper examines the political economy of 'secessionist' or independence movements in advanced democracies through the prism of these two cases. It seeks to complement standard accounts that see such movements as either driven by ethnic identities and ambitious regional political entrepreneurs, or as responses to territorially distinctive economic interests. It will argue that such demands for independence are also a product of the dominance of market liberal ideas in contemporary Europe, in two ways. First, decentralizing reforms have been encouraged by market liberals as a way of undermining the regulatory and redistributive ambitions of the central state, creating the perfect conditions for the growth of pro-independence forces. Second, demands for independence prove politically successful in the context of the ideological drive for state retrenchment in the post-crisis period, as a disoriented electorate reacts to a situation of prolonged economic distress. In short, liberalization and decentralization have created the institutional and ideological conditions for a 'counter-movement,' to use Karl Polanyi's term, that appeals to an idea of national belonging to seek protection from economic turbulence. However, this counter-movement, like other forms of populist or protest politics in the post-crisis environment, generally lacks a coherent narrative of how national independence can challenge the disruptive power of the market.

The article proceeds as follows. First, I review existing theories of sub-state nationalism and decentralization, and show that they do a good job of

explaining why independence movements arise in particular regions, but are less successful in explaining why support for independence changes over time. Next, I examine why the support for independence has grown so rapidly in the post-crisis period in two important cases, Scotland and Catalonia. To do this I outline a complementary theory in which nationalist responses are generated by the consequences of liberalizing reforms, along the lines of Polanyi's thesis of the 'double movement.' I then present evidence from the Scottish and Catalan cases to show how the Polanyian account enhances our understanding of these important developments, before concluding.

Breaking Away: Explaining Sub-State Independence Movements

The growth of non-statewide political parties representing a particular territory and/or ethnic identity (for convenience 'regionalist parties'¹ in the rest of the paper), many of which have aspirations to transform their territories into separate independent states, has been a key feature of the last 30-40 years of European politics. The 'centre-periphery' cleavage has contributed to shaping the party systems of several European democracies, sometimes from their inception (Lipset and Rokkan, 1967), sometimes with the later emergence of regionalist forces to challenge the established statewide or national-level political parties (Winter and Türsan, 1998). The literature has produced three broad sets of explanations for the emergence of regionalist parties.

Much of the early work on territorial politics tended to emphasize the social bases of political cleavages (Lipset and Rokkan, 1967), (Rokkan, 1970), (Rose and Urwin, 1975), (Caramani, 2004). Scholars working in this tradition saw regional parties as expressions of distinctive cultural and linguistic identities, which resisted the imposition of uniform rules and institutions from the centre, and when successful were able to demand distinctive treatment and decentralizing reforms. The territorial shape of the state was therefore a reflection of the degree to which centralizing elites were able to override resistance from peripheral territories. Where centralization was less successful, a centre-periphery cleavage would generate distinctive regionalist political parties which would hinder the 'nationalization' of electoral competition (Caramani, 2004).

In response to this scholars working in a rational choice institutionalist framework focused on the role of formal institutional structures in determining the levels of territorial differentiation in party systems. For example, (Chhibber and Kollman, 2009) argued that decentralizing reforms create incentives for politicians to organize at the sub-state level because that is where the levers of power are. Other work showed how decentralizing reforms affect party organizations, by changing the incentive structures facing party actors and altering the functional usefulness of particular territorial structures (Van Biezen and Hopkin, 2006), (Hopkin, 2009).

A third strand of research focuses on economic interests. In the standard political economy framework, demands for decentralization respond to the interests of rich territories to protect themselves from the redistributive pressures imposed by the central state, whilst poorer territories demand more redistribution and support from the centre. More generally, pressures for decentralization reflect the declining usefulness of national states as organizing

units in a more globalized economy (Alesina and Spolaore, 2003). European integration, by offering territories an alternative to the nation state, encourages regions to demand separate states (Jolly, 2015).

What all these perspectives have in common is a relatively straightforward understanding of the causal relationships between economic interests, ethnic and social identities, and institutional arrangements. Economic interests are seen as unproblematic, ethnic identities as given, and institutional arrangements as incentive structures. However the variation in strength of regionalist parties across cases and over time is not particularly well predicted by these variables. The cases of Scotland and Catalonia, where referenda on independence have been held or demanded and support for separate statehood approaches 50 per cent of the electorate, emerged in very different circumstances, but at the same time. Scotland and Catalonia have very different economic interests, the former being a major net recipient of redistributive spending, the latter a major net contributor. Catalonia is peripheral within Spain, but closer to the core of the European economy. Scotland on the other hand is peripheral in both senses. Catalonia has been subject to the harsh economic adjustments imposed by Europe's Economic and Monetary Union (EMU), while Scotland has been able to operate in a more forgiving macroeconomic environment as part of the UK. In the UK, Scottish nationalism emerged in the context of a very centralized state, yet grew particularly after decentralization, and made spectacular gains after losing an independence referendum offered by the British government in London. In Spain, Catalan nationalism has a long tradition yet prospered in the post-Franco period despite enjoying extensive decentralization, and has made a shift to supporting independence despite the fierce opposition of the Spanish government in Madrid.

In short, standard accounts based on economic interests, institutional incentives and cultural roots do not do a very good job of explaining the dramatic growth of very similar pro-independence movements at the same time in these two cases. In the next section I outline an alternative approach drawing on the work of Karl Polanyi and recent scholarship on the political power of economic ideas. This approach examines how a very similar set of global economic conditions and economic policy ideas has encouraged the growth of the pro-independence movements in different contexts.

Regional Separatism and the Market: How Market Liberalism Weakens National States

The existing literature outlines some plausible drivers of demands for independence in European regions, but the two most striking recent examples of the phenomenon exhibit very different characteristics. However they do roughly respect a common temporal pattern. First come demands for self-government, followed by decentralizing reforms, and the entrenching of regionalist parties as governing elites at the sub-state level. Then, momentum towards independence started building up after the financial crisis, as central governments pushed through unpopular austerity measures in a context of economic stagnation and rising levels of sovereign debt.

Regional elites in Scotland and Catalonia have been able to lever the resulting voter anger in favour of independence as a solution to their economic

problems, even though the practical consequences of independence for economic policy would likely have been very different in the two cases. Scotland's bid for statehood would almost certainly reduce the resources available to a putative independent state, whereas in Catalonia it would likely increase them. Similarly, neither nationalist movement had any diagnosis of the causes of economic crisis and the slow pace of recovery, which could have been resolved by establishing an independent state, since key macroeconomic policy levers (especially monetary policy) would have remained outside of their control. This lack of clear economic thinking has not however hampered the success of these movements in mobilizing increased support for independence on the back of the economic crisis.

Here I argue that the push for independence is a function not of a shift in economic interests, which renders small states more viable – if anything it is the opposite. Instead, I will show how institutional changes and economic instability have created a political context in which nationalist movements are able to exploit popular distress to build a viable coalition for independent statehood. Most obviously, regional separatism can be seen as a protective reaction directed at the disruptive power of under-regulated markets, particularly since the financial crisis of the late 2000s. Moreover, the same market liberal thinking that is responsible for the economic crisis, also contributed to the push towards political decentralization across Europe. This process has given regionalist and pro-independence forces an institutional foothold from which to entrench their organizations and build popular support for their political agenda. In short, market liberalism, by first undermining the protective institutions of post-war welfare capitalism by fragmenting political authority, and then creating the conditions for financial instability and economic stagnation, has fed the growth of centrifugal forces that place pressure on established national states in Europe.

The first stage in this process was the drive towards decentralization that has accompanied the parallel trend of Europeanization, at the expense of the regulatory and redistributive powers of the national state. This is what Hooghe and Marks described as 'multi-level governance' (Hooghe et al., 2010, Hooghe and Marks, 2000). Although decentralization has responded to a variety of motivations, the idea of stripping powers from the central state and encouraging competition between jurisdictions is consistent with market liberal thinking, and decentralization has been actively encouraged by the same organizations and policy entrepreneurs that have advocated market liberal structural reforms in Europe and elsewhere (Treisman, 2007).

The growth of the 'meso' or regional level of government, alongside the increasingly supranational regulation of the economy, has 'hollowed out' national governments whose decisional autonomy was already under pressure from the increasingly global scale of much economic activity. National states are less and less able to cushion populations from the disruptions of the market economy, lacking the necessary fiscal and regulatory capacity (Rhodes, 1994). But multi-level governance does not for the most part involve a corresponding increase in capacity for the supranational or regional levels of administration. Instead, regional governments undermine the legitimacy of the central state to redistribute or regulate in ways that favour some regions over others, whilst regions are often too small a unit to effectively regulate markets or redistribute from economic winners to losers (Treisman, 2007).

The second stage in this process is the prolonged economic downturn that has afflicted Europe since the global financial crisis of the late 2000s. This crisis has exposed national states' inability to guarantee prosperity to their populations in the market liberal era. The dominance of liberal ideas in the field of financial regulation contributed to the dangerous financial instability that provoked the near collapse of the banking system in 2007-8, and national or supranational levels of political organization failed to adequately address the resulting crisis. The emphasis in market liberal thinking on price stability and its hostility to public sector interventions in the economy have contributed to the slow pace of recovery from the crisis (Blyth, 2013). The failure to restore pre-crisis patterns of economic growth and the resulting stagnation in living standards has only further enhanced the plausibility of regional responses to economic uncertainty.

This interpretation leans heavily on Karl Polanyi's account of economic change and political reaction in *The Great Transformation* (Polanyi, 1944). Polanyi described the 'double movement' in 19th and early 20th century England whereby the expansion of the market driven by liberalization measures generated a societal response demanding protection from the market. In the English case, the 1834 Poor Law, the Corn Laws and the Gold Standard subjected labour, land and the means of exchange to unregulated market mechanisms, generating a 'counter-movement': 'a reaction against a dislocation which attacked the fabric of society' (1944, p. 130). This counter-movement took a variety of forms: reactionary impulses from the landed aristocracy, church and military, trade unionism and the cooperative movement, the socialist movements articulating working class demands for protection, liberal programmes of social amelioration, and so on. More broadly, the counter-movement in its different guises highlighted the impossibility of imposing on society a market system without a political response: it asserted 'the primacy of politics' against the 'primacy of economics' (Berman, 2006).

In the critical economic and social conditions of the 1920s and 1930s, the counter-movement took the form most virulently of fascism, Nazism (National Socialism) and social democracy, which despite their obvious differences 'all appealed to communal solidarity and the collective good' (Berman, 2006, p. 16). Whereas socialism was internationalist in orientation, both fascism and National Socialism drew heavily on a particular understanding of national identity to forge a response to untrammelled markets and the economic disruption they caused. They emphasised the legitimacy of the use of state power to control, condition and suppress markets, often doing so by demonizing the representative institutions of international finance capital. National Socialism exploited the disorientation of social groups who had seen their livelihoods and social identities undermined by rapid economic change, and who were receptive to a nationalistic appeal to state intervention for the protection of the community from the market.

Regionalist and pro-independence movements in contemporary Europe for the most part try to avoid the kinds of intolerant primordial appeals to ethnic purity characteristic of inter-war fascism and National Socialism. However, regionalism often combines an appeal to the protection of cultural and linguistic traditions threatened by rapid social and economic change with the offer of protective or compensatory economic measures. The demand for statehood in

itself implies the 'primacy of politics,' in that strong nationally/regionally defined political institutions are presented as a pre-requisite of economic prosperity, for instance by providing a means of protecting regionally important industries from the market. Moreover the cultural protectionism these movements offer can also be seen as a response to the threat that market forces pose to regional identities. Large-scale immigration, for example, can threaten the survival of regional languages and traditions, whilst capital mobility can provoke demographic decline due to outward migration. In short, regionalism can be interpreted as a counter-movement to the disruptive force of the market.

However, these regionalist responses to economic distress are flawed counter-movements in that they are likely to prove ineffective as protective responses to the market. In fact creating new, small political units may be an entirely counter-productive way of responding to the threats posed by the current economic context in Europe. Smaller units are, all else equal, less able to withstand the financial pressures of a world of capital mobility, and may struggle to backstop their financial sectors. A proliferation of new states will make policy coordination even more difficult, a problem that is already visible in the management of the euro crisis. Market liberals' hope that federalism will squeeze the public sector and lower taxes by promoting competition for investment between jurisdictions makes social protection more costly and difficult to achieve. In short, independence for small nations such as Scotland and Catalonia is a counter-intuitive response to challenges posed by globalization and Europeanization.

The rest of the paper will illustrate these points through brief accounts of the rise of the pro-independence movements in Scotland and Catalonia. In both cases, strong regionalist movements that initially aspired to self-government within the national state turned to the goal of independence in the aftermath of the global financial crisis. The sources of nationalism and demands for independence clearly precede the financial crisis, but the effects of the crisis, and in particular the imposition of austerity measures from the central government in response to serious fiscal problems, were the direct catalyst for the movement towards independence. A powerful economic shock that propagates through market mechanisms and government responses to fiscal stress, filtered through local conditions, can turn a regionalist movement into a secessionist movement.

A direct implication of this argument is that, in the absence of a strong economic and fiscal shock, the escalation to demands for independence would be less likely to take place. The two cases selected here both present ethnic distinctiveness and institutional preconditions for demanding further self-government, and the triggering effect of fiscal austerity. The Basque Country, by contrast, did not suffer the same degree of economic shock as Catalonia, protected as it is by its special fiscal arrangements – the *concierto económico* or 'economic agreement' – that allow it to keep most of the taxes raised in the region and pay an agreed amount on to the central state. Similarly, Wales does not have the same degree of devolved powers as Scotland and although it has ethnic distinctiveness, it is itself divided between cultural nationalism in Welsh-speaking areas and a strong 'Labourist' tradition in the former industrial areas. The rest of the paper therefore sets out to show how in the cases of Scotland and Catalonia the combination of ethnic/cultural and institutional distinctiveness

added to the economic and fiscal distress, and would provoke a push for independence.

Scotland: A Haven for Progressive Politics?

Scottish nationalism as a potent electoral force dates back to the early 1970s, when North Sea oil was first discovered (Collier, 2006) (Ross, 2008). Its principal vehicle, the Scottish National Party (SNP), had existed since 1934, but was outside Parliament until 1967, then made a major impact in the 1974 election, winning 11 seats at Westminster and polling around a third of the overall Scottish vote. Although this success coincided with similar breakthroughs for Welsh nationalists and Republican mobilization in Northern Ireland, suggesting a strongly 'identitarian' trend in British politics at that time (Keating, 2009), the SNP also emphasised the importance of North Sea oil and its potential to generate extra resources for Scotland, using the slogan "It's Scotland's Oil" (Rodríguez-Pose and Sandall, 2008). Nationalists argued that the UK's very centralized arrangements would deny Scotland its appropriate share of oil revenues,² and demanded devolution – the establishment of a Scottish parliament and administration with actual spending powers – although full independence was always the SNP's ultimate goal.

Although the SNP's initial electoral success precedes the Thatcherite liberalizing drive in the 1980s, its policy positions were inspired by socialist or social democratic thinking and can be seen as a reaction to global market turbulence (Hassan, 2009). The oil crisis and resulting financial instability of the early 1970s caused high unemployment and runaway inflation – 'stagflation' – and the SNP supported a typical post-war policy mix of industrial policy and redistributive government spending in opposition to the more liberal free market approach of the Heath government in London (although there was a more conservative wing of the party that was much less enamoured of this approach). Scottish independence would allow the country to take control of North Sea oil, and use government intervention to protect Scottish society from the ravages of the global energy market.

The SNP's success pushed the Labour government elected in 1974 to offer devolution: a Scottish parliament with limited policymaking capability. The Scotland Act of 1978 would have established such a parliament but a referendum held in March 1979, which delivered a narrow vote in favour, was inquorate and the bill was dropped (Bogdanor, 2001). The Labour government fell in part as a result of this and the decisive Conservative victory in the May 1979 election put devolution off the agenda for a generation. Margaret Thatcher's liberalizing zeal was deeply unpopular in Scotland (Johnston et al., 1988), though the main beneficiary of this unpopularity was Labour, formally favourable to devolution but mainly focused on winning power at the central government level in order to implement socialist and redistributive policies throughout the UK. As late as the 1950s, the Conservatives had won a majority of votes in Scotland, but by 1997 opposition to Thatcherite policies was so strong that the party was left with only one parliamentary seat there. The counter-movement largely took the form of support for UK-wide redistribution through the Labour party, though Labour was committed to devolution and support for a Scottish government was overwhelming (Hopkin and Bradbury, 2006).

After 1997 a further shift took place. The Blair government moved swiftly to establish a Scottish Parliament and Executive at Holyrood, this time with decisive support in a referendum, which had limited fiscal as well as wide-ranging legislative powers. Labour initially maintained its dominance of the Scottish political scene, governing for two terms with the support of the centrist Liberal Democrats. But by 2007 the tide had shifted and Labour's declining popularity offered an opening to the SNP, which edged ahead and formed a minority administration with its leader Alex Salmond as First Minister. The devolved institutions provided the SNP with a platform to push its pro-independence discourse and establish itself as the Scottish opposition to the UK central government led by Labour's Scottish leader Gordon Brown. The SNP presented itself as the alternative to 'New Labour' – the moderate pro-market stance of the Labour party. However the nationalist label also helped the SNP elide difficult policy dilemmas by claiming the mantle of representing the whole of Scotland.

The 2008 financial crisis had a major impact on Scottish politics and provided a major boost to the SNP. Initially, the bailout of the financial services industry (of particular interest to Scotland given that the Royal Bank of Scotland was the recipient of the biggest rescue package) and the stimulus package implemented by the UK Labour government suggested that the central government in London was offering the real economy some protection from the turbulence in the financial system. However the crisis and the resulting downturn seriously damaged the credibility of the Labour government and it was soundly defeated in the 2010 election, to be replaced by a Conservative government in coalition with the Liberal Democrats (Baldini and Hopkin, 2012). The Conservatives immediately reversed the fiscal strategy, imposing significant cuts in public spending, cuts which through the effect of the 'Barnett formula' were automatically applied to the Scottish Executive's budget too (Scott and Mooney, 2009)³. These cuts were deeply unpopular in Scotland and highlighted that devolution had not dealt with the country's lack of fiscal autonomy (Mellett, 2012).

The austerity measures imposed by the Cameron government presented the SNP with an opportunity to push for independence as the logical solution to the impossibility of the Scottish Executive and Parliament adopting stronger protective measures. Despite Scotland voting decisively for a more expansionary fiscal stance in the 2010 general election, a minority position was imposed on it. The SNP could therefore argue that only an independent Scotland, able to make its own fiscal policy, could provide an effective protective response to the economic crisis. This appeal was successful even though the Conservatives, the party responsible for austerity, had little support to lose in Scotland. The SNP made significant gains in the 2011 Scottish elections – growing from 31 to 44 per cent of the vote and winning an absolute majority of seats – at the expense mainly of Labour and the Liberal Democrats (McCrone, 2012). The SNP's signature policy was to demand a referendum on independence, and the party's victory implied that a protective response to the economic crisis could potentially be organized within Scotland itself, rather than by waiting for a supportive majority to emerge in the rest of the UK.

Once the SNP had negotiated the terms of a referendum with the Conservative-Liberal Democrat government in London, the debate on how to

respond to economic crisis shifted in favour of institutional change that would favour a specifically Scottish response, rather than a passive acceptance of whatever policies were preferred by a UK-wide and Tory-led Westminster majority. The Liberal Democrats were discredited by their participation in an unpopular coalition government in London, whilst Labour found itself in the awkward position of defending constitutional continuity as an ineffective opposition with little obvious prospect of returning to power. Polls had long suggested a majority against independence, but the referendum campaign built substantial momentum behind the SNP position, which continued after the vote itself confirmed a narrow majority of Scottish voters favoured remaining within the Union (Paterson, 2015). The 2015 general election produced a dramatic transformation in Scottish representation at Westminster, with Labour, long the dominant party in the country, almost wiped out and the SNP taking 50 per cent of the vote and all but three of the 59 parliamentary seats.

Scotland's shift towards nationalism and the momentum towards independence has been articulated in part as a response to the economic crisis and the perceived reluctance of Westminster to follow the kinds of social and economic policies preferred by Scottish voters, who systematically favour higher levels of social protection than those in the rest of the UK. The SNP's discourse has focused on the potential of an independent state to run its own affairs by drawing on its control of North Sea oil, using these resources to boost the Scottish economy. Faced with a market liberal and 'austere' Conservative government in London, which has focused on spending cuts as the main response to economic distress, and the inability of the UK Labour party to adopt a clear anti-austerity position (Mitchell, 2015), a nationalist response constitutes a protective counter-movement, which if given the institutional capacity could cushion society from market disruptions through a more interventionist and redistributive state. The nationalist response is all the stronger given the decline of statewide social democracy – in this case the UK Labour party – leaving independence as the more attractive alternative to the market liberal policy mix imposed by the Conservative government.

However the economic logic of the nationalist position is flawed. The SNP's proposal for independence (*Scotland's Future: Your Guide to an Independent Scotland*, 2014) adopted a confused approach to monetary policy, advocating remaining part of the UK monetary system, but without clearly articulating how this would interact with the other macroeconomic levers an independent state would possess. Moreover its projections for the revenues of the future state were criticized as being overly optimistic, criticisms that appeared vindicated by the collapse of the oil price soon after the referendum. Finally, a campaign promise to use Scotland's limited fiscal powers to raise the top rate of income tax ran into immediate difficulty, with the Scottish Executive recognizing the real risk of high earning individuals leaving Scotland thereby undermining the country's revenue base⁴. This episode emphasised the limitations of the pro-independence discourse. The strong social demand for protection against economic disruption has bolstered the Scottish nationalist movement, but the country's putative status as a small peripheral state with no real monetary or fiscal autonomy shows the limitations of independence as an answer to economic problems.

This dilemma became even more acute with the UK vote to leave the European Union in the June 2016 referendum. In Scotland, as in London and Northern Ireland, a large majority voted to remain in the EU, threatening a deep constitutional crisis, as the UK government is now committed to respecting the referendum mandate, even though constitutional practice deriving from the devolution settlement is inconsistent with EU exit. An immediate reaction to the vote was the suggestion from Scottish nationalists that a second referendum to keep Scotland in the EU could be held, on the grounds that Scottish voters choose to remain in the UK on the assumption that it would remain in the EU⁵. The prospect of 'Brexit', with the resulting suspension of European employment and welfare rights and threats to EU funding for research and infrastructure, can only exacerbate the demand for a new political settlement to meet Scottish demands for greater social protection.

Catalonia: From Autonomy to the 'Process'

The Catalan case displays important differences to Scotland but it shares an almost parallel development of a strong regionalist movement which initially aspired to self-government within the national state turning to the goal of independence in the wake of the global financial crisis and its economic and fiscal consequences.

Catalonia, like Scotland, is a territory which has a history of independent statehood (most notably under the Crown of Aragon) but became subsumed under the umbrella of a large nation state and consigned to a relatively peripheral role within that state, at least politically (Díez Medrano, 1995), (Keating, 1996), (Moreno, 2001). Unlike Scotland, Catalonia has mostly been more prosperous than the central regions of Spain, and its geographical location makes it closer to the European core than other Spanish regions. As a result Catalan nationalists' economic policy goals have generally been more liberal in orientation than those of their Scottish counterparts, and the dominant Catalan nationalist party for most of the post-Franco era has been a clearly bourgeois centrist party with strong connections to the business community, *Convergència Democràtica de Catalunya* (Walker, 1991) (Moreno et al., 1998). The left in Catalonia was historically very strong and as well as the recently dominant social democratic tradition, there was also a tradition of communism and anarchism. In the immediate post-Franco period the hegemonic party of the left was the Catalan Socialist Party (PSC), which was affiliated with the statewide Socialist Party (PSOE), although it maintained a formally separate identity (Colomé, 1989, Méndez Lago, 2000, Hopkin, 2009). Until the 2000s, Catalan nationalism dominated the right (with the Spanish conservative *Partido Popular* (PP) lacking in support in Catalonia) whilst the left was integrated into a broad statewide social democratic project. The Catalan left therefore backed the growth of a welfare state which redistributed resources from richer regions, such as Catalonia, to poorer areas, largely in the South (Bosch and Durán, 2008), where the PSOE used state resources to entrench its dominance.

Unlike in Scotland, the Catalan nationalists quickly took control of the devolved political institutions (the *Generalitat*) from their inception. The nationalist coalition led by *Convergència* won the first regional elections in 1980 and were able to cement their power by associating themselves with Catalan

identity and Catalonia's status as an autonomous region, even though in Spanish legislative elections the PSC was the largest party, in a pattern known as 'dual voting' (Montero and Font, 1991). However by the 2000s this pattern shifted reflecting a growth in nationalist identity amongst younger generations of voters and the decline of the demographic base of the PSC – older blue-collar workers, often originating from other poorer regions in Southern Spain. A change in leadership in the PSC and an opportunity to unseat *Convergència* from the *Generalitat* led to a centre-left alliance between the Socialists and an emerging radical left nationalism known as Republican Catalan Left (ERC). The big winners from this alliance was the Catalan left, which gained vote share and began to challenge *Convergència's* dominance of the nationalist political space. This signaled a shift in Catalan nationalism towards the left: away from an essentially conservative movement based on business interests and rural voters and towards a younger, more urban and progressive nationalism.

With the financial crisis of the late 2000s these trends accelerated sharply. The collapse of the real estate bubble in Spain cut off credit and led to a dramatic increase in unemployment (Royo, 2009). After the expiry of the stimulus package passed by the Zapatero government in 2008-9, fiscal policy became contractionary, with EU-mandated cuts to public spending and tax hikes (Matthijs, 2014). By 2011 the Southern Eurozone had entered a banking and sovereign debt crisis, and the ECB response was to push Southern governments to quickly reverse budget deficits and impose painful spending cuts alongside mostly unpopular liberalizing reforms, particularly of the labour market (Hopkin, 2015). In sum, economic turbulence in the Eurozone policy framework left the Spanish population exposed to a brutal readjustment with little space for protective measures (Matthijs, 2016).

Catalonia, whilst not exceptionally exposed to these changes, still underwent a sharp contraction of output and an increase in unemployment (Orriols and Rodon, 2016), although its banking sector was in better shape than in many other parts of Spain. Spain's request for European funds to rescue its banking sector necessitated cuts to public spending which affected all regions, including Catalonia. Unlike in other regions, these austerity measures were seen as an imposition not from Europe, but from Madrid, and Catalonia's status as a major net contributor to Spain's central government budget (Castells, 2014) provoked particular resentment⁶. Many Catalans regarded these contributions as illegitimate, given the Catalan government's own financial problems, with the largest debt of any regional government in Spain⁷. Catalonia's centre-right government (led by *Convergència*) was committed to an austerity programme to reduce the region's deficit, leading to unpopular cuts to services, that the Catalan President Artur Mas blamed on the central government⁸.

In Spain the political backlash of the crisis was initially to force the PSOE out of power in Madrid, delivering an absolute majority to the Partido Popular. But in Catalonia, where the PP was historically deeply unpopular due to its association with the centralist Spanish nationalism of the Franco era, the political response to the crisis was a sharp shift towards a preference for independence. After a huge demonstration in favour of statehood on the Catalan national day (*diada*) in 2012, *Convergència* changed its official position from support for further decentralization to demands for a referendum on independence. This was an effective way of shifting attention away from the

regional government's responsibility for its own fiscal situation (and some embarrassing corruption scandals involving leading *Convergència* figures (Orriols and Rodon, 2016)) and highlighting the region's lack of fiscal autonomy as the main reason for painful austerity measures. The shift to a pro-independence position encouraged Catalans to see the Spanish government, rather than the bewildering turbulence of financial markets, as the source of economic distress.

This opened a phase in which the referendum, the 'process' of achieving independence and the slogan of 'the right to decide' have dominated political debate in Catalonia. *Convergència's* move was a response to the growth of the left nationalism of ERC and others such as the nationalist and anti-capitalist CUP. Nationalists blamed the impact of the crisis on the corruption of the Spanish political elite and mobilized resentment around policies of territorial redistribution and Catalonia's so-called 'fiscal deficit with the Spanish state' (its net fiscal contribution). Whilst *Convergència* emphasised the benefits to Catalonia of freeing itself from a corrupt, bureaucratic and intrusive Spanish state, left nationalists emphasised the potential for radical progressive politics in an independent Catalonia (Elias, 2015). Either way, these very different political forces converged in arguing that a protective response to the economic crisis could potentially be organized within Catalonia itself, rather than through burden-sharing with the rest of Spain.

The changes in the nationalist camp in Catalan politics cannot be reduced to the crisis and its social ramifications, since a number of important shifts in Spanish and Catalan politics had pushed towards greater support for independence. The rejection by the Spanish Constitutional Court of key features of the revised Catalan Statute of Autonomy was a source of great frustration, and the coming of age of a more culturally Catalan generation of voters, who had been educated in the post-Franco era, both pushed in that direction. But the crisis followed by harsh austerity was an important catalyst. Survey data is consistent with this hypothesis. First of all, support for independence leapt around the time of the financial crisis, from only just over 15 per cent at the end of 2006, to 44 per cent by autumn 2012 (Elias, 2015), a step change that is difficult to explain in terms of more long and medium-term developments. Second, support for independence, traditionally associated with urban intellectual elites, grew significantly amongst the working class electorate in greater Barcelona (Serrano, 2013), the group most affected by the crisis. Support for independence was strongly correlated with left and centre-left political views (Serrano, 2013), in other words, amongst voters most favourable to redistribution and social protection.

A major consequence of this push for independence has been to redraw the Catalan party system. Like in Scotland, the main casualty of the rise of nationalism has been statewide social democracy. The PSC, like the Scottish Labour Party, has sunk into irrelevance despite being the largest Catalan party in general elections for most of the post-Franco period. The party opened the doors to nationalist hegemony of the left by reaching a coalition agreement with ERC to govern the *Generalitat* in 2003, a choice that ultimately favoured its coalition partner and increased the pressure on *Convergència* to adopt a more radical position on independence. With the emergence of the 'process' the PSC has been left marginalized with only an aging electorate of Spanish-speaking working

class voters, and has failed to capture the imagination particularly of younger left-wing voters facing unemployment and other social challenges, and who increasingly see independence as a way of enhancing social provision in Catalonia. In a context of austerity measures imposed by Madrid on the regions, the PSC did not prove able to offer Catalans any credible protection from the turbulence in the global and European financial systems.

However just as in Scotland the nationalist counter-movement is a seriously flawed project. The nationalist parties, with the exception of the CUP, do not contemplate leaving the euro, and have little to say about the austere macroeconomic policies and liberal regulatory reforms imposed by the European Commission and European Central Bank. Instead the EMU framework is broadly accepted and blame apportioned to the Spanish central government, whose failure to regulate out of control financial institutions was clearly a contributory factor to the depth of the crisis, but which cannot be held responsible for the euro crisis more broadly. By demanding an independent Catalan state operating within the existing monetary and fiscal framework of EMU, nationalists are missing the point. An example of how independence is of limited usefulness in resolving the crisis is the Catalan governments' serious financial problems, which have led to its debt being downgraded to junk status. Without the backstop of the Spanish state, which enjoy the status of being 'too big to fail', Catalonia would have serious difficulties financing its activities.

The general elections of 2015 and 2016 left Spain with no coherent parliamentary majority, just as the Catalan elections of 2015 left *Convergència* dependent on the support of the far-left CUP in the Catalan Parliament. This institutional paralysis has made concrete steps towards secession even more difficult to achieve, whilst at the same time hindering attempts to find a stable negotiated solution. The Spanish economy remains burdened by heavy levels of debt at both the national and regional level which, given the regulatory framework of EMU membership, require severe constraints on public spending. The restrictions on the use of public resources for social protection, and the absence of policy levers at the national or regional level to promote growth, provide fertile ground for a protective counter-movement, which if given the institutional capacity could cushion society from market disruptions through a more interventionist and redistributive state. The political parties promoting the independence 'process' in Catalonia, as well as appealing to the distinctive cultural and linguistic identity of Catalans, are also offering voters hope for an end to austerity.

Conclusions

This paper has presented an account of the political economy of pro-independence movements in post-crisis Europe which sees demands for statehood as part of a 'counter-movement' against the economic upheavals caused by an inadequately regulated global financial system and the imposition of tough austerity policies. Nationalist movements which had already entrenched themselves in the devolved institutions created over the past decades saw the economic crisis as an opportunity to push for independence, arguing that statehood would provide a space for policies to improve living standards and

protect the national communities from economic threats better than existing national states have been able to do.

The 'hollowing out' of national states and their inability to respond to the crisis have effectively made the nationalist case far more plausible. Part of the reason for the failure of the national state to address the crisis is the timid attitude of mainstream social democratic parties, which have offered little in the way of an alternative economic strategy, limiting themselves to supporting and applying austerity policies recommended by central bankers and international economic organizations. The growth of nationalism in Scotland and Catalonia has come largely at the expense of such mainstream parties, i.e. the UK Labour Party and the Catalan Socialist Party.

However the paradox here is that by reducing the scale of political organization to that of a small state, rather than by participating in broader coalition building within a largely national state, nationalist movements are unlikely to gain much capacity to resolve their regions' economic problems. Indeed their notional strategies are likely to make matters worse: by remaining within broader currency unions without any real influence on central bank decision-making, these putative new states would be even less able to influence financial conditions. Moreover, by pushing for fiscal decentralization the opportunity to share burdens with a larger unit is lost, whilst the new states would risk loss of revenue if they attempted to adopt progressive fiscal and social policies without coordinating with their neighbours.

This suggests that rational political mobilization around unproblematic material interests is not a useful template for understanding the resurgence of regional separatism in post-crisis Europe. Instead, the appeal of a narrower but more cohesive national community as a way of counter-acting the threats posed by a volatile global economy is more an emotional than a materialistic response. This exposes the risks of the trends towards liberalization and decentralization in contemporary Europe. The European project and the growth of regional authority have weakened the state institutions of 'embedded liberalism' that held societies together during the thirty glorious years of the post-war era (Ruggie, 1982), (Matthijs, 2016).

Rather than conforming to a technocratic form of governance of an increasingly unstable market system, a large section of European society has responded by demanding a return to some form of 'primacy of politics.' But this return of politics is not necessarily a predictable or manageable process, particularly where it is driven by emotional appeals to national identity. At their most troubling, these appeals blame outsiders – usually immigrants – for their economic problems. But the rise of regional separatism, by weakening the mobilizing capacity of social democracy and fragmenting political authority still further, is only likely to exacerbate the political challenges of countering unfettered markets.

Notes

¹ The term 'regionalist' is rejected by non-statewide parties that aspire to nationhood, whilst 'sub-national' is also rejected by implying a statewide

national unity that such parties challenge. However, 'regionalist' is more widely used and understood in the scholarly literature and beyond.

² Around 90 per cent of the oil lay off the shore of Scotland.

³ The Barnett formula is the method used for calculating the share of government spending allocated to the component countries of the UK. (England, Scotland, Wales, Northern Ireland).

⁴ 'Holyrood election: Nicola Sturgeon 'still wants' 50p income tax rate', BBC News, 24 March 2016 <http://www.bbc.com/news/uk-scotland-scotland-politics-35886879>

⁵ 'Brexit: Nicola Sturgeon says second Scottish independence vote 'highly likely'', BBC, 24 June 2016 <http://www.bbc.com/news/uk-scotland-scotland-politics-36621030>

⁶ 'Spain: Hollow Victory', *Financial Times* 27 November 2012 <https://www.ft.com/content/9a1502e2-37cd-11e2-8edf-00144feabdc0>

⁷ 'UPDATE 1-Spain struggles to meet regions' 36 bln-euro debts', *Reuters* 23 May 2012 <http://www.reuters.com/article/spain-regions-idUSL5E8GNEXO20120523>

⁸ 'Mas: "Con la mitad del déficit fiscal, Cataluña no necesitaría los recortes"', *El Periódico (Extremadura)*, 25 July 2012 http://www.elperiodicoextremadura.com/noticias/espana/mas-con-mitad-deficit-fiscal-cataluna-no-necesitaria-recortes_669765.html

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