

BASQUE ECONOMIC AGREEMENT

Self-government for Economic Development

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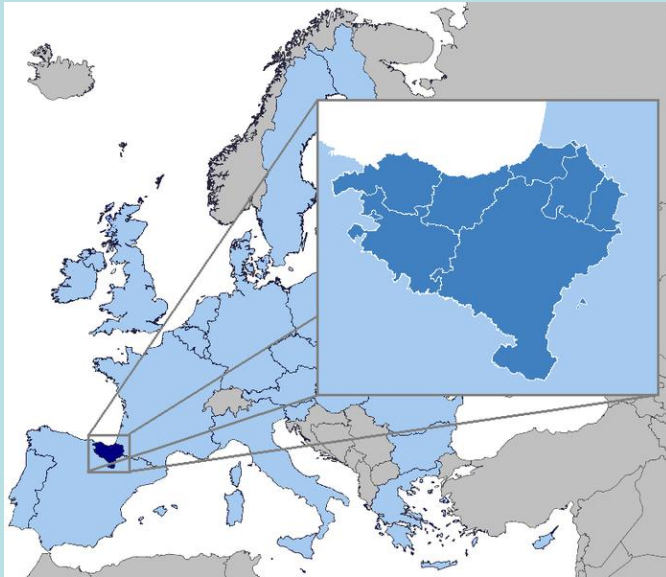
Introduction

- The Kingdom of Spain, as many other kingdoms, formed through marriages, conquests, ...
- For instance, in 1210 Iberia looked like this



Source:
http://es.wikipedia.org/wiki/Archivo:Castilla_1210.png

Basque Country-Euskal Herria



- Although not far from our days most of encyclopaedias stated that the Basque Country spread at both sides of the Pyrenees and it was the home of Basque Language-Euskara, due to different political pressures, now you can find a much more restricted definition of it (linking it to the Basque Autonomous Community in Spain or to the Northern Basque Country in France). Encyclopaedia Britannica is not an exception of this.
- Nevertheless, wikipedia says that:
 - **Basque Country** ([Basque](#): *Euskal Herria*) is the name given to the home of the [Basque people](#) in the western [Pyrenees](#) that spans the border between [France](#) and [Spain](#) on the [Atlantic](#) coast.
 - It comprises the [Autonomous Communities](#) of the [Basque Country](#) and [Navarre](#) in Spain and the [Northern Basque Country](#) in France.
- Nowadays:
 - Araba, Biscay-Bizkaia and Gipuzkoa joined in the Basque Autonomous Community, Navarre conformed a different Autonomous Community; both in the Kingdom of Spain.
 - Lapurdi, Zuberoa and Behenafarroa belong to France.

Source:

http://en.wikipedia.org/wiki/Basque_Country_%28greater_region%29

History: The Foral Period

- No historical/political evidences before the XI Century.
- Araba and Gipuzkoa were incorporated to the Kingdom of Castile in the year 1200.
- Bizkaia joined Castile in 1379.
- The southern part of the Kingdom of Navarre was conquered by “Fernando el Católico”, King of Castile, in 1512.

History: The Foral Period

- The Kings of Castile were accepted as the lords of the 3 provinces (Araba, Biscay and Gipuzkoa), with the condition that each King or Queen should promise under oath, to keep three guarantees:
 - 1st. To respect the traditional former Basque Laws (“Foruak: Fueros”-Old Laws/Charters)
 - 2nd. Basque citizens should not have to serve, compulsory, in the Spanish Army.
 - 3rd. The Kingdom of Castile didn’t collect taxes in the Foral Territories.



Besamanos de la Jura de los Fueros por el Rey Fernando 'El Católico'. Author: Francisco de Mendieta.

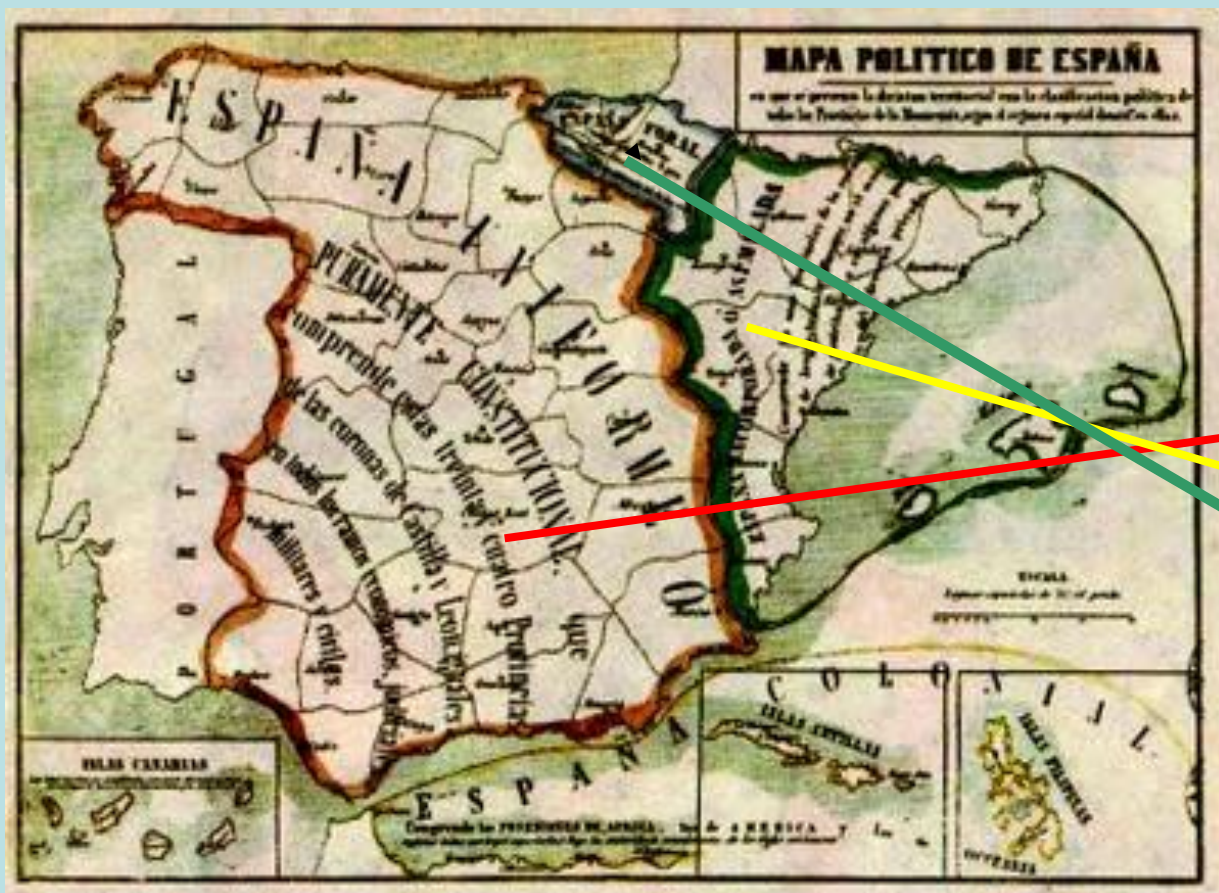
People kissed King’s hand after swearing to respect the old laws.

Source:

http://www.bizkaia.net/lehendakaritza/bisita_birtuala/dfb_vr_ca/pages/ph14.htm

History: End of the Foral Period

- Map of Iberia after the Foral Period.



History: The “Economic Agreement” (1876 - 1936)

- **In 1876, the King of Spain (Alfonso XII), abolished the Basque “Fueros”, after three military defeats.**
- **This abolishment meant:**
 - **The end of military and fiscal exemptions for the 3 Basque Provinces (Araba, Biscay and Gipuzkoa: A+B+G)**
 - **The cancellation of the inland customs, between the Basque Country and Spain**
- **The only FORMER RIGHT kept by the 3 Basque Territories was the FISCAL AUTONOMY. This right was materialized in the FIRST “ECONOMIC AGREEMENT”, signed in 1878.**

History: The “Economic Agreement” (1876 - 1936)

- The “Economic Agreement” was kept with a similar content for a period of 60 years.**
- After the Agreement of 1878, new Agreements between the 3 Provincial Governments (A+B+G) and the Spanish Government were signed in 1887, 1894, 1906 and 1925.**

History: Economic Agreement and Republic

- In 1932 a Republic was established in Spain which recognized Statutes of Autonomy to 3 regions: the Basque Country (A+B+G), Catalonia and Galicia.**
- In 1936, once the Civil War had started, a Basque Statute of Autonomy (the first one in history) was approved and a new “Economic Agreement” was included in it.**

History: Economic Agreement and Dictatorship

- The General Franco's dictatorship meant the end of their Economic Agreement for Bizkaia and Gipuzkoa.
- After conquering the Basque Country, General Franco declared Bizkaia and Gipuzkoa as "treacherous provinces" and cancelled their "Economic Agreement".
- For Araba (and Navarre) the Agreement was maintained as they have supported his insurgence.

History: Economic Agreement and Democracy

- The democratic Spanish Constitution of 1978 guarantees and protects the “historical rights” of the Basque Country.
- As a consequence: IN 1979 THE ECONOMIC AGREEMENT WAS EXTENDED TO ALL THE BASQUE PROVINCES, BY THE NEW STATUTE OF AUTONOMY OF THE BASQUE COUNTRY (A+B+G).
- Navarre updated its Economy Treaty (Convenio Económico) in 1982.
(http://www.navarra.es/home_en/Navarra/Asi+es+Navarra/Autogobierno/El+convenio+economico.htm).

Signature of the Economic Agreement

- Jaime García Añoveros (Spanish Minister of Treasury) and Pedro Luis Uriarte (Basque Minister of Economy and Treasury).



Source: <http://blogs.deia.com/ekoberri/2011/02/20/el-concierto-economico-de-1981-supero-escollos-muy-dificiles-ii/#more-483>

Consequences

- The Economic Agreement of the Basque Autonomous Community was signed with the Basque Government, but it is exercised by each of the 3 Foral Territories (A+B+G).
- Navarre updated as well its Economic Treaty.
- Therefore, there are 5 Treasury Departments in the Kingdom of Spain:
 - The 3 Forals ones (A+B+G).
 - The Navarre one (By the way: Navarre is self defined as Foral Community).
 - The Department of the Central Government which extends its competences all throw the rest of the Kingdom of Spain.

Economic Agreement and Economic Treaty

- Both the Economic Agreement of the Basque Autonomous Community and the Economic Treaty of Navarre are very similar in historical roots, competences and operational matters.
- From now on, we will describe the Economic Agreement of the Basque Autonomous Community but it can be understood that general issues are shared by both.

Economic Agreement

- *“The Economic Agreement is a pact between the Basque Country and the rest of Spain. It basically says that all taxes (except social security contributions) belong to the Basque Country and that the Basque Country will annually pay a Quota to the Central Government as a compensation for its expenditures in the Basque Country.”* Zubiri (2010).
- The 1980 “Economic Agreement” had 56 articles, 5 Additional Dispositions, 7 Transitory Dispositions, 1 Derogatory Disposition and 2 Final Dispositions.
- It was approved in January 1981 by the Spanish Government, the Basque Government and the Provincial Parliaments of Araba, Bizkaia and Gipuzkoa.
- In May 1981 it was approved by the Spanish Parliament, for a period of 20 years.
- In 2002, a new “Economic Agreement”, the 8th, was negotiated and approved.
- In 2007, it was updated again and adapted to some European legislation.

Economic Agreement

- The 1980 “Economic Agreement” was defined as a PACT between the two sides of the Joint Negotiating Commission.
- The accompanying Law had only a single article to be accepted or rejected, by the Spanish Parliament, without possibility of amendment of the Pact reached in the “Joint Negotiating Commission”.

Economic Agreement

- Two basic principles are in the root of the basque economic autonomy:

1st) “For the proper exercise of its powers and funding, the Basque Country will have its own Autonomous Treasury”.

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2nd) “The tax relations between the State (Spain) and the Basque Country will be regulated by the traditional ‘foral’ system of Economic Agreement...”

(Source: Basque Statute of Autonomy. Organic Law of December 18, 1979. Articles 40 and 41.)

Economic Agreement

- The Basque Autonomous Treasury has a singular structure: The holder of the fiscal and tax power, for historical reasons, is not the Basque Government, but the 3 Historical Territories Governments (“Foru Aldundiak-Diputaciones Forales” of Araba, Gipuzkoa and Biscay):
 - “The competent Institutions of the Historical Territories may maintain, establish and regulate within its territory, its tax system”.
 - “The imposition, administration, payment, inspection, review and collection of taxes that integrate the tax system of the Historical Territories is managed by the respective Provincial Parliaments”.

(Source: Basque Economic Agreement 2002. Article 1.)

Economic Agreement

- THE “ECONOMIC AGREEMENT” IS BASED IN 5 GENERAL PRINCIPLES:
 1. Respect to the solidarity, in the manner prescribed in the Spanish Constitution and the Basque Statute of Autonomy.
 2. Attention to the general tax structure of the Kingdom of Spain.
 3. Coordination, tax harmonization and cooperation with the Kingdom of Spain, in accordance with the rules of the Economic Agreement.
 4. Coordination, tax harmonization and mutual collaboration among the three Historical Territories (A+B+G), following the rules approved by the Basque Parliament.
 5. Submission to the international treaties and agreements signed and ratified by Spain.

(Source: Basque Economic Agreement 2002. Article 2.)

Economic Agreement

- And, specially, **the Historical Territories, WILL MAINTAIN AN OVERALL GLOBAL TAX BURDEN (FISCAL PRESSURE) EQUIVALENT TO THAT OF THE REST OF SPAIN ...** which means that there exists the possibility of establishing a different level of tax rates on direct taxes than that of Spain, but not on indirect taxes (i.e. VAT), to avoid economic distortions.

Economic Agreement

- The Economic Agreement says that:
 - **All the taxes belong to the Basque Autonomous Community** (through the Historical Territories).
 - Basque Autonomous Country (through the Historical Territories) will **pay a Quota** to the State (Spain) to fund all the **services provided by the Spanish Government** (which are the competences held by it) and a **solidarity fund** created to help those Spanish regions which are above some societal and demographical rates.

Economic Autonomy

Agreement-Fiscal

- In the Basque Autonomous Community besides the (light) Spanish Central Administration there are 3 levels of Public Sector:
 - Basque Government and Parliament
 - 3 Provincial Governments (Aldundiak-Diputaciones) and 3 Parliaments (Batzar Nagusiak-Juntas Generales)
 - Municipalities

Economic Autonomy

Agreement-Fiscal

- Although the Economic Agreement is signed between the Basque Autonomous Community and the Spanish Kingdom, due to historical reasons, the taxes are ruled and collected by the Historical Territories.
- The Basque Parliament has the power to harmonize those taxes if necessary by means of a law.
- The Historical Territories fund the Basque Government, the municipalities and their own budgets. They also pay the quota to the central Government.

Economic Autonomy

Agreement-Fiscal

- Specifically, the Economic Agreement establishes:
 - The taxes that belong to the Historical Territories: Agreed Taxes.
 - Which taxpayers have to pay to each Tax Authority (Foral or Spanish) or how to divide them if they have to pay to both: Points of Connection.
 - The autonomy of the Historical Territories to rule the taxes.

Economic Autonomy

Agreement-Fiscal

- **All the taxes are agreed (Fiscal Autonomy) except these ones:**
 - Taxes:
 - Custom Duties.
 - Withholding tax on wages of State employees.
 - Withholding tax on interests of the Debt issued by the State (Spain), or any Autonomous Community or municipality in common territory (Spain) or Navarre.
 - User Fees and Public Prices:
 - User fees, Public Fees and other revenue linked to the expenditures made by the central administration.
 - Social Security Contributions.

Economic Agreement-Points of Connection

- In **Personal Income Tax**, the Historical Territories tax the worldwide income of residents in the Basque Autonomous Community and the income earned in the Basque Autonomous Community by non residents in it but in Spain.
- In the **Corporation Income Tax**, small firms are taxed by Historical Territories and large firms pay according relative sales done in the Basque Autonomous Community.
- The **Inheritance and Gift Tax** is paid by residents and owners of real properties to the Historical Territories.
- **Vat** is paid according to the origin principle.
- The Basque Country collects the **manufacturing excises** when the liability arises in the Basques Territories.
- The **Tax on Certain Means of Transport** is paid by vehicles registered in the Basque Country. The **Tax on Retail Sales of Certain Mineral Oils** is applied in establishments located in Basque Territory, and the **Tax on Insurance Premiums** is charged on risks insured in the Basque Country. **The Gaming Duties** apply to gambling activities in the Basque Country.

Economic Autonomy

Agreement-Tax

- **Direct Taxes (Full autonomy):**
 - **Personal Income Tax:** Full Autonomy except in capital income and capital gains withholding rates. The withholding tax rate on capital income and capital gains is established by the State. All the other components of the tax are freely decided by the Foral Governments.
 - **Wealth tax:** Full Autonomy.
 - **Corporation Income Tax:** Full Autonomy for firms subject to Basque Tax Laws.
 - **Non Residents:** Full Autonomy in the case of non residents with a permanent establishment in the *Basque Territories*. None in other case.
 - **Inheritance and Gift taxes:** Full Autonomy.

Economic Autonomy

Agreement-Tax

- **Indirect Taxes:**
 - **VAT:** Filing and payment forms. The *Historical Territories* may also set payment deadlines, which shall not be substantially different from those set by the State.
 - **Capital Transfer Tax and Stamp Duty:** Full Autonomy except in cases of certain company operations, bills of exchange and documents used in their stead or serving the purposes of a draft, which shall be regulated by States' legislation.
 - **Insurance Premiums Tax:** Filing and payment forms. The *Historical Territories* may also set payment deadlines which shall not be substantially different from those set by the State.
 - **Excises** (Alcohol and Alcoholic Beverages, Intermediate Products, also a tax on alcohol, Beer, Mineral Oils and Manufactured Tobacco, Electricity and Certain Means of Transport.): In the Excise Duty on Certain Means of Transport, the Historical Territories can increase up to 15 points the tax rate set by the State (Spain). In the rest, filing, payment forms and payment deadlines which shall not be substantially different from those set by the State.
 - **Excise Duty on Retail Sales of Certain Mineral Oils:** Tax rates within an interval established by the State.
 - **Gaming Duties:** Full Autonomy with the restriction that taxable events and taxable persons shall be those established at any given time by the State.

Economic Agreement- Harmonization Principles

- The Economic Agreement :
 - Must respect the International Agreements or Treaties signed by The Kingdom of Spain.
 - Should not distort the competence among firms or free movement among regions in the Kingdom of Spain.
 - Should establish a fiscal pressure (tax to GDP) in the Basque Autonomous Community that has to be equivalent to that of the rest of the Kingdom of Spain.
- The last two ones have created some conflicts between Central Government and the Basque Autonomous Community (or its Historical Territories) because they are not so easy to be defined.

Economic Agreement-Conflicts with the Central Government

- The corporation taxes have usually remained in Basque Autonomous Community and Navarre lower than the Spanish ones.
- Central Government has brought into court those of the Basque Autonomous Community, but, surprisingly?, not those of Navarre. One reason for that (not the only one) could be that the Foral Rules are not laws (Laws are produced at Central or Autonomous Parliaments) and Navarre, as a single province community, produces laws and not foral rules.

Economic Agreement-The Quota

- The Quota is the amount of money paid to the Central Government for the expenditures on behalf of the residents in the Basque Autonomous Community in those competences that are held by Spain (non assumed charges by the Basque Autonomous Community).

$$Q = SE - SR - D$$

- SE is the expenditure of the Central Government that benefits the residents of the Basque Autonomous Community.
- SR is the revenue obtained in the Basque Autonomous Community by the Central Government.
- D is the part of the Central Government Deficit imputable to the non assumed charges.

Economic Agreement-The Quota

- SE, SR and D are not calculated directly but with an imputation method.
- Instead of referring those values to the real expenditure, revenues or deficit related to the Basque Autonomous Community, it was agreed to use the general figures of Spanish Budget and multiplied them by an index, which value is 6,24%.
- It is said that the value of the index was established in 6,24% because in the time of the signature of the agreement that was the weight of the (Economy of the) Basque Autonomous Community in the (Economy of the) Kingdom of Spain.
- So, to calculate SE, it is taken what the Spanish Government spends in all Spain in competences not assumed by the Basque Autonomous Community and multiply it by 6,24%.
- To calculate SR, they are taken all the revenues that the Spanish Government gets in all Kingdom of Spain and multiply it by 6,24%.
- The same applies to the deficit.
- To get the Net Quota Payable to the Central Government there are some deductions and compensations.
- The Quota is not determined every year, but they are approved five-year Quota Acts.

Economic Quota

Agreement-The

- It should be noticed that, every year, the Quota is a function of Spanish Budget, and it not depends on the amount of money that Basque Historical Territories could collect throw taxes. So, if the Spanish Budget were expansive and crisis reduced taxes...

**All the risk is taken by the Basque
Autonomous Community**

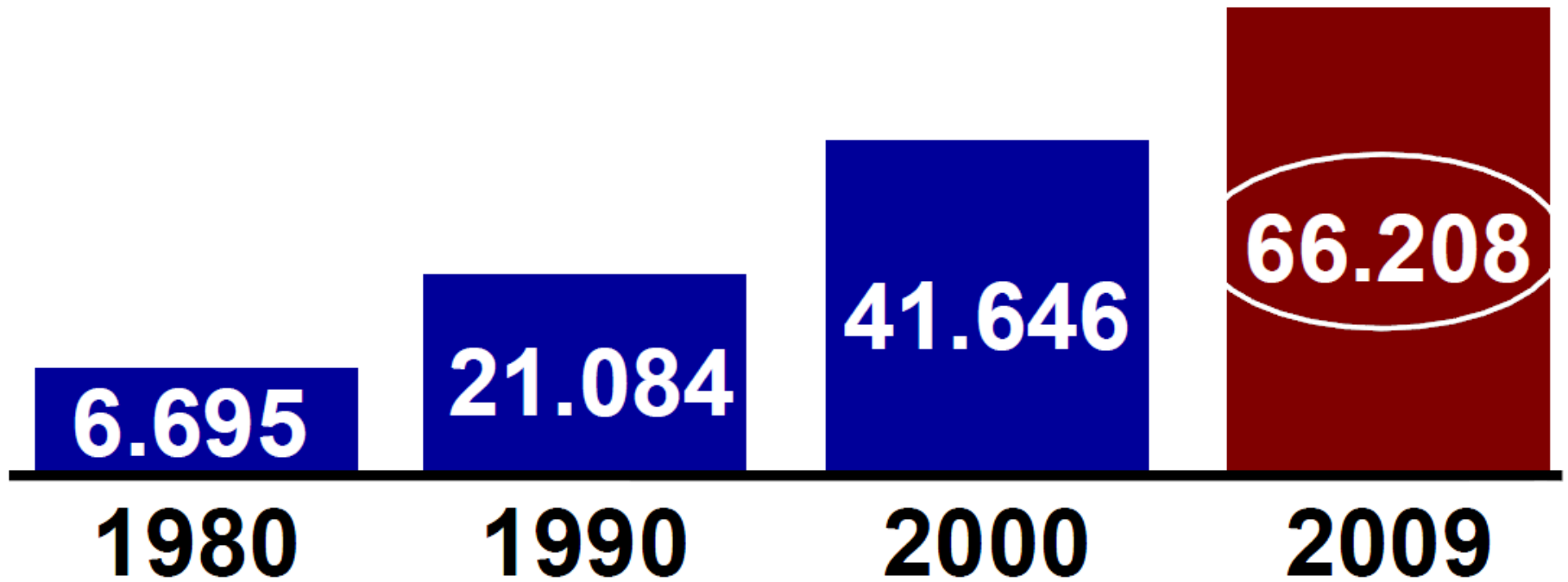
Economic Agreement and Economic Development

- At the time that the Economic Agreement was signed:
 - Basque Autonomous Country was suffering a heavy economic crisis with an unemployment higher than 25% in some industrial villages, a very low income (85% of the EU average), very bad infrastructures and increasing cultural impoverishment.
 - Violence (3 ETAs).

Economic Agreement and Economic Development

- Since then:

EVOLUTION OF GDP (Mill. €)



Economic Agreement and Economic Development

- Zubiri (2010), includes this table in his book on the Economic Agreement:

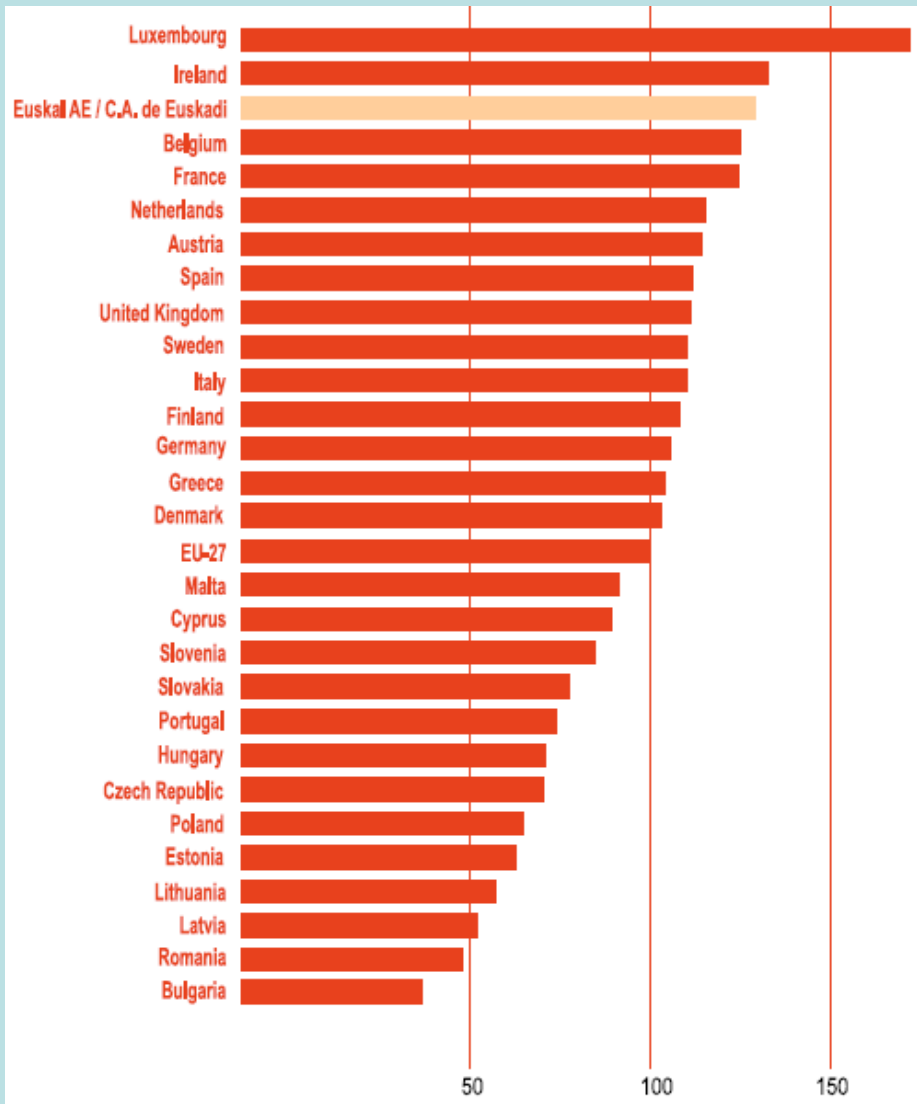
Table 2: Composition of the Gross Value Added¹ (GVA) in the Basque Country, Spain and the EU27 (2008)

Branch of Activity	Composition of GVA			Share of the BC in the GVA of Spain
	Basque Country (BC)	Spain	European Union 27	
Agriculture, hunting, forestry and fishing	1.0	2.6	1.8	2.4
Industry	29.4	17.0	20.1	10.9
Construction	9.6	11.4	6.4	5.3
Services	60.0	69.0	71.7	5.5
TOTAL	100	100	100	6.3

¹ GVA is equal to GDP less indirect taxes

Source: National Statistics Institute, *INE*, Regional Accounts (www.ine.es) and Eurostat (epp.eurostat.ec.europa.eu)

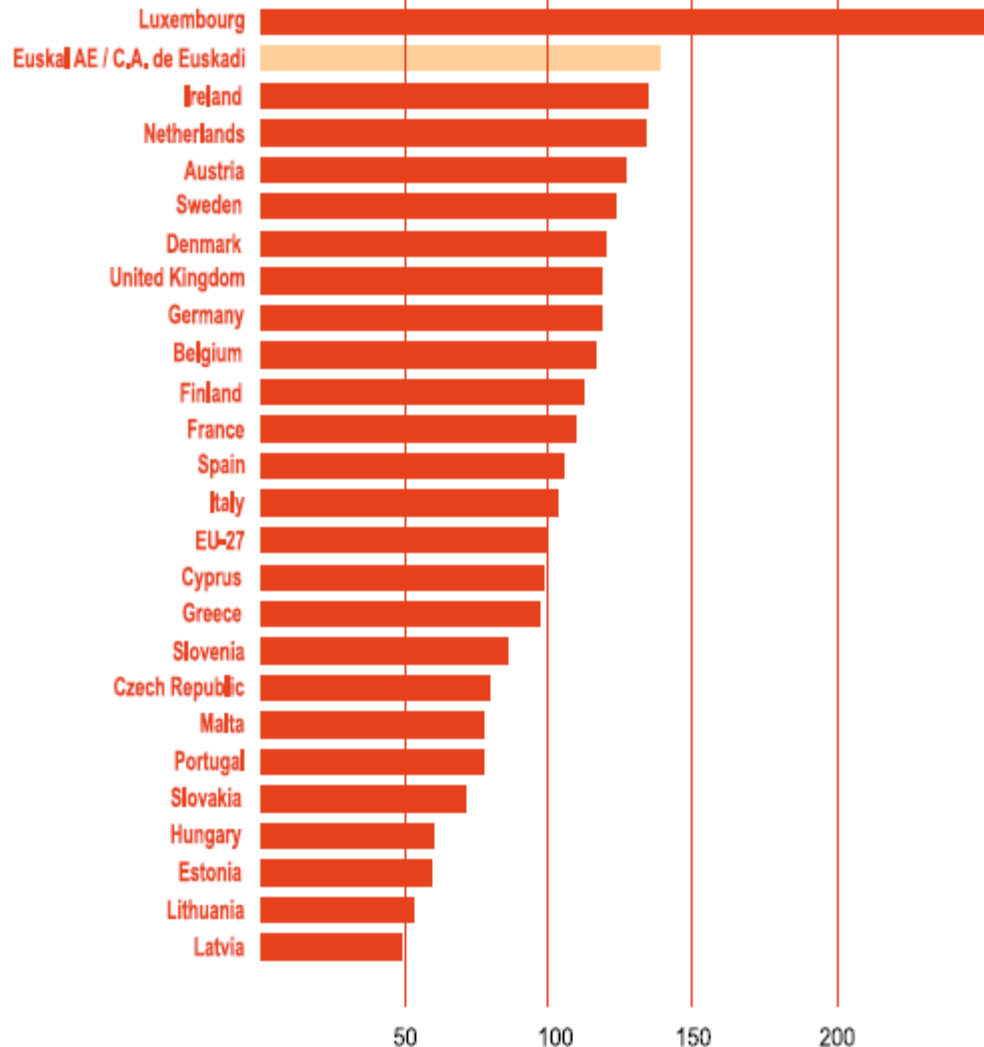
Economic Agreement and Economic Development



- Labour Productivity per worker in 2009 in EU and in the Basque Autonomous Community.

• Source: www.eustat.es

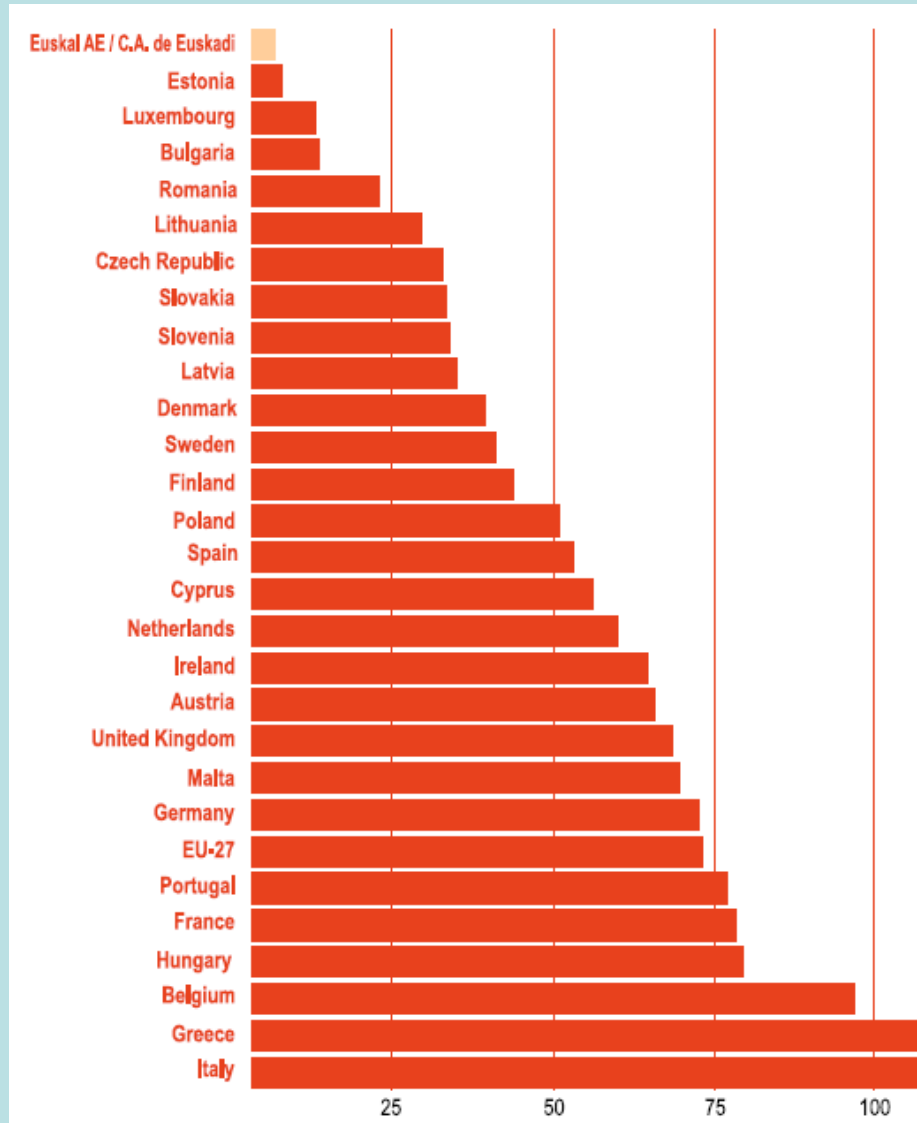
Economic Agreement and Economic Development



- GDP per Capita in 2009, EU-27 and Basque Autonomous Community.

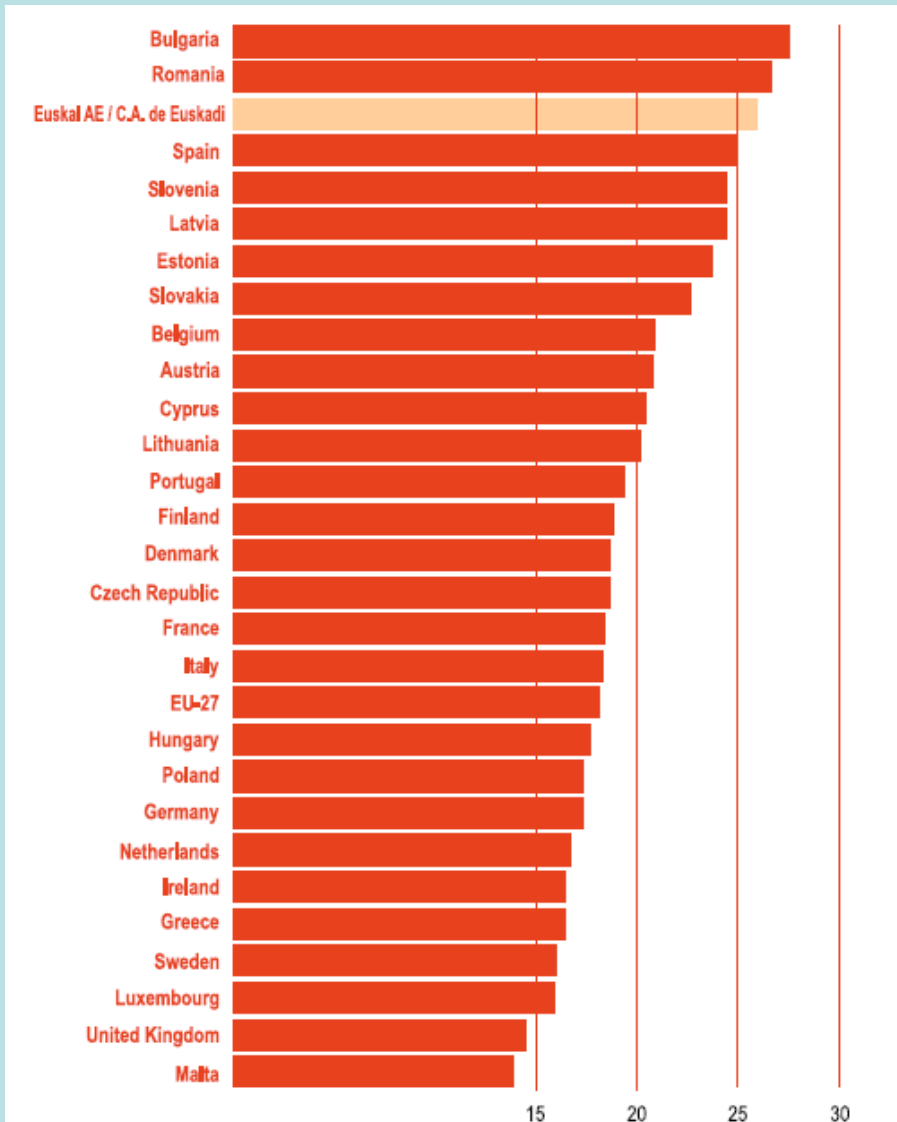
Source: www.eustat.es

Economic Agreement and Economic Development



- Public Debt (% of GDP) in 2009.
- Source: www.eustat.es

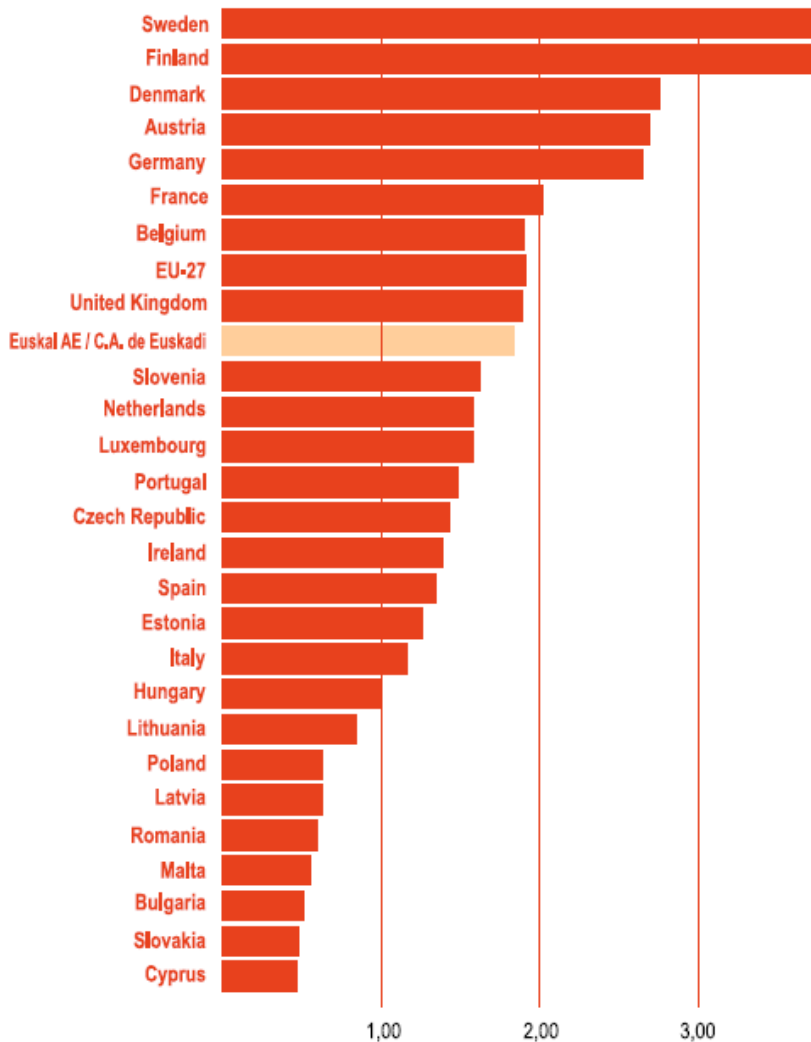
Economic Agreement and Economic Development



- Business Investment (% of GDP) in 2008.
- Source: www.eustat.es

Economic Agreement and Economic Development

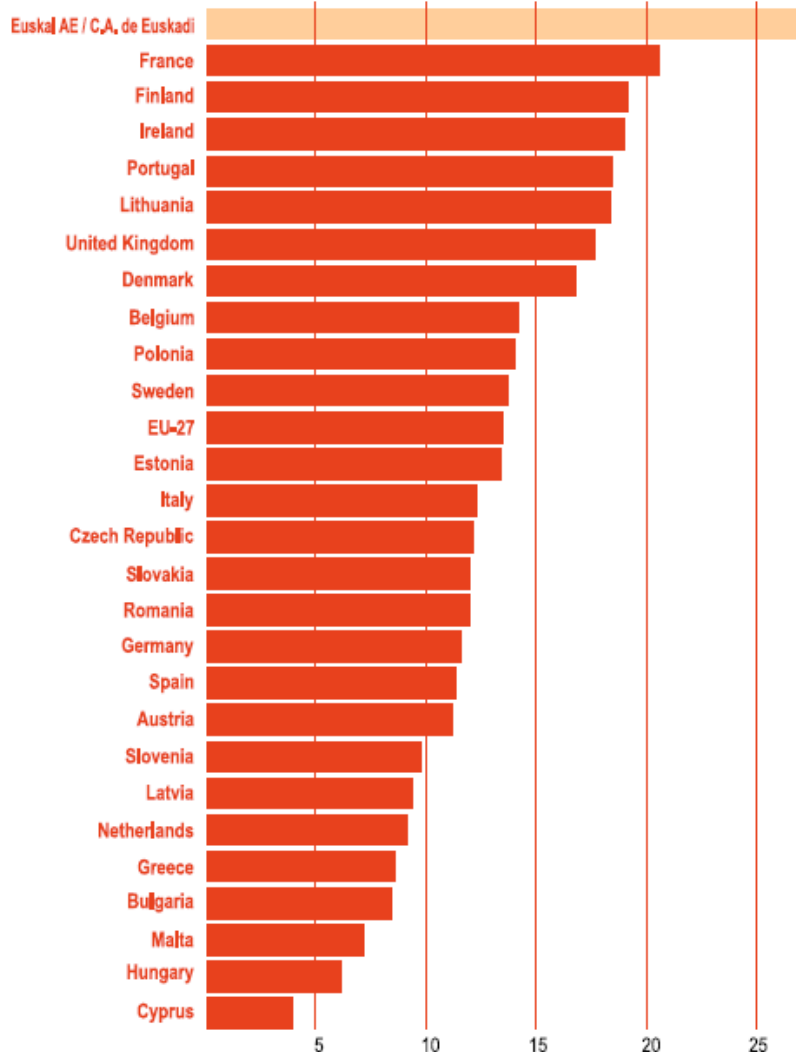
I+G / I+D 2008



- R&D investment in 2008.
- Source: www.eurostat.es

Economic Agreement and Economic Development

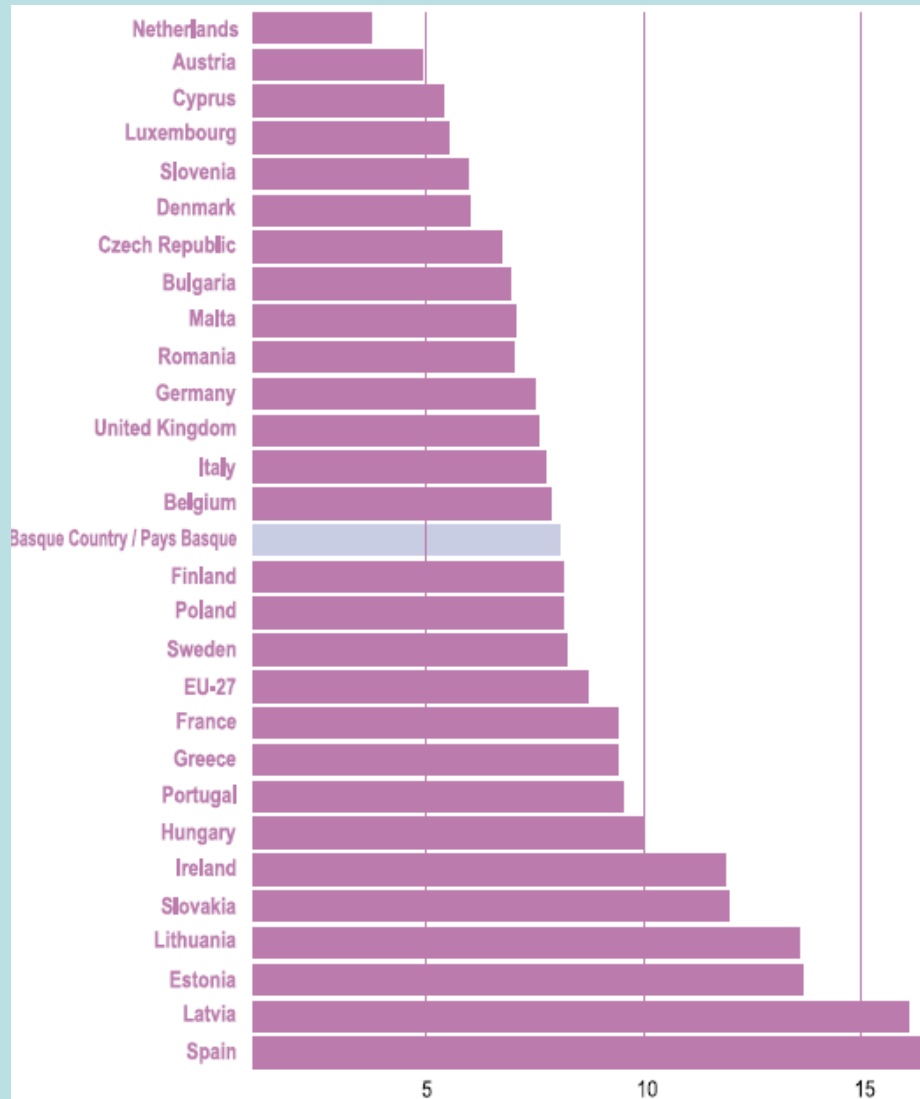
Graduatuak / Graduados 2007



- Tertiary graduates in science and technology (% of population aged 20-29 years).

• Source: www.eustat.es

Economic Agreement and Economic Development



- Unemployment rate (%) in 2009.

- Source: www.eurostat.es

Economic Agreement and Economic Development

	2000	2005	2009
EU-27	4.0	4.1	3.0
Austria	1.0	1.3	1.0
Belgium	3.7	4.4	3.5
Bulgaria	9.4	6.0	3.0
Cyprus	1.2	1.2	0.6
Czech Republic	4.2	4.2	2.0
Denmark	0.9	1.1	0.5
Estonia	5.9	4.2	3.8
Finland	2.8	2.2	1.4
France	3.5	3.8	3.3
Germany	3.7	5.7	3.4
Greece	6.1	5.1	3.9
Hungary	3.1	3.2	4.2
Ireland	1.6	1.5	3.4
Italy	6.3	3.9	3.5
Latvia	7.9	4.1	4.6
Lithuania	8.0	4.3	3.2
Luxembourg	0.6	1.2	1.2
Malta	4.4	3.4	3.0
Netherlands	0.8	1.9	0.8
Poland	7.4	10.2	2.5
Portugal	1.7	3.7	4.3
Romania	3.7	4.0	2.2
Slovakia	10.3	11.7	6.5
Slovenia	4.1	3.1	1.8
Spain	4.6	2.2	4.3
Sweden	1.4	1.4	1.1
United Kingdom	1.4	1.0	1.9
Basque Country / Pays Basque	6.5	2.0	1.9

- Long term unemployment rate evolution.
- Source: www.eustat.es

Economic Agreement and Economic Development

- Some other achievements:
 - 2 large technological corporations (Tecnalia + IK-4) with 5,000 researchers.
 - 4 Technology Parks (403 firms and 4,000 people).
 - 18 Technology Centres (40% of Spanish technological output).
 - Headquarters of Iberdrola, Mondragon Corporation, two of the three largest Spanish engineering firms and 6 of the most innovative companies in Europe.
 - 23 European Quality Awards (EFQM, Finalist, Prizes and Awards).

Economic Agreement and Economic Development

- A remarkable urban transformation:
 - Guggenheim museum is an international icon.
 - Quality of life in Basque Capital cities is among the highest in Europe.
 - Bilbao has won the 1st “LEE KUAN YEW WORLD CITY PRIZE”, in June 2010.
 - Plus: Concert Halls, Congress Venues, Unique Museums,...

Economic Agreement and Economic Development

- Nothing of the these landmarks could have been achived without the Economic Agreement.
- It is true that it has been (quite) wisely used to pursue economic development and to have a better welfare state.
- Catalans are eager to develop a new relationship with Spanish Kingdom based in an Economic Pact. (Source: <http://www.lavanguardia.com/opinion/editorial/20111029/54237300004/pacto-fiscal-primer-acto.html>).

References

- Some of the slides belong to a non published presentation prepared by Pedro Luis Uriarte, Former Minister of Economy and Treasury of the Basque Country (1981-1984).
- There is a comprehensive webpage about the Economic Agreement: <http://www.conciertoeconomico.org/>
- Zubiri, Ignacio: The Economic Agreement between the Basque Country and Spain. 2010. Adconcordiam. <http://www.conciertoeconomico.org/>
- Lambarri, Carlos and Larrea, José Luis: El Concierto Económico. Bilbao. 1991. HAEE-IVAP.