

HORIZONTAL COOPERATION AND FINANCIAL RELATIONS IN SPAIN: AN ANALYSIS ON HOW THE AUTONOMOUS COMMUNITIES SET THE AGENDA FOR THE REFORM OF TERRITORIAL FINANCING¹

Cooperación horizontal y relaciones financieras en España: un análisis sobre cómo las comunidades autónomas marcan la agenda de la reforma de la financiación territorial

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Abstract

The Spanish territorial financing system approved in 2009 was set to expire in 2014. However, the central government and the Autonomous Communities have so far been unable to forge an agreement that would give birth to a new system. The political instability with four elections in less than five years, the crisis in Catalonia, and then the pandemic have hindered an already complex process. This study aims at investigating how the different Autonomous Communities have tried to set the agenda before engaging in negotiations with the central government in the Fiscal and Financial Policy Council (CPFF) to discuss a new agreement. To this end, it will examine the different positions held by the Autonomous Communities, placing a particular interest on how these have grouped, regardless of their political affiliation. The solution to establish several common fronts among ACs with the same needs/goals constitutes a novelty in Spanish politics which is worth exploring. Thus, the

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study analyzes the role played by horizontal intergovernmental cooperation in the agenda setting process prior to the start of formal negotiations on a new system at the CPFF, with the aim to determine its usefulness and effectiveness in influencing the central government at the negotiating table.

Keywords

Fiscal federalism; Spain; equalization; intergovernmental relations.

Resumen

El sistema de financiación autonómica aprobado en 2009 debía renovarse en 2014. Sin embargo, el Gobierno central y las comunidades autónomas han sido incapaces de forjar un acuerdo que dé lugar a un nuevo sistema. La inestabilidad política con cuatro elecciones en menos de cinco años, la crisis en Cataluña y la pandemia han dificultado un proceso ya de por sí complejo. Este estudio pretende investigar cómo las diferentes comunidades autónomas han tratado de marcar la agenda antes de entablar negociaciones con el Gobierno central en el Consejo de Política Fiscal y Financiera (CPFF) para discutir un nuevo acuerdo. Para ello, se examinan las diferentes posiciones mantenidas por las CC.AA, prestando atención a cómo estas se han agrupado, independientemente de su adscripción política. La solución de establecer varios frentes comunes entre CC.AA. con las mismas necesidades/objetivos constituye una novedad en la política española que merece ser explorada. Así, el estudio analiza el papel desempeñado por la cooperación horizontal en el proceso de fijación de la agenda antes del inicio de las negociaciones formales sobre un nuevo sistema en el CPFF, con el objetivo de determinar su utilidad y eficacia para influir en el gobierno central en la mesa de negociación.

Palabras clave

Federalismo fiscal; financiación autonómica; nivelación; relaciones intergubernamentales; España.

CONTENTS

I. INTRODUCTION. II. EQUALIZATION IN SPAIN: A LONG STORY SHORT: 1. The 1987 and 2001 models. 2. The 2009 reform: the dominance of partisan politics. III. THE LONG-AWAITED (AND NOT YET ACCOMPLISHED) REFORM PROCESS OF THE TERRITORIAL FINANCING SYSTEM: 1. Setting the agenda via horizontal cooperation: an overview of the different positions of the Autonomous Communities: 1.1. *Cooperation over political affiliation: the case of Andalusia and Valencia.* 1.2. *The España vaciada: The importance of demographics.* 1.3. *The major absences: Catalonia, Madrid and the islands.* 2. Party politics back in the game: from blockage to tolerance. IV. THE FIRST STEP TOWARD REFORM: AN UNAMBITIOUS AND SHORT-SIGHTED PROPOSAL. V. CONCLUDING REMARKS. *BIBLIOGRAPHY.*

I. INTRODUCTION

The passing of the Constitution of 1978 not only meant the birth of a new democratic order after forty years of dictatorship but also initiated a process of decentralization of power that transformed Spain into a quasi-federation (Moreno, 2001: 109-149). This process initially envisaged a model of gradual and asymmetrical autonomy in which some territories—the Basque Country, Catalonia and Galicia—were granted a faster track to a wider scope of autonomy than the rest of the country (Romero Caro, 2022: 5-7). However, this initial asymmetry did not last for long, as Andalusia quickly reacted triggering the complex procedure of Article 151 in order to also enjoy the highest degree of autonomy. This gave rise to a process of progressive homogenization of subnational competences that culminated in the early 2000 with the transfer by the State of powers over health to those Autonomous Communities (ACs) that did not yet have them (Aja, 2014: 36-66). The initial development of the decentralized model was focused on the public policy side, without this process being accompanied by a transfer of fiscal space. As a consequence, the financial autonomy of common regime ACs was limited, with most tax bases—e.g., VAT, income and corporate taxes—remaining under the full control of the central State also after the approval of the Organic Law on Financing of the Autonomous Communities (LOFCA) in 1980 (Ruíz-Huerta, 2014: 185-186)².

² Ley Orgánica 8/1980, de 22 de septiembre, de Financiación de las Comunidades Autónomas. This organic law regulates in detail the financing system of common regime ACs following the mandate of article 157.3 of the Constitution.

In addition to the common regime, the Constitution also recognizes two types of special foral regimes for the Basque Country and Navarre³. Although this specificity is rooted in history, its legal foundations are enshrined in the Constitution (Gray, 2016: 97-124) which enables for the general updating and development of these two special regimes within the framework of the Constitution and the Statutes of Autonomy (Ruiz Almendral, 2003: 41-66).

In this initial phase of high tax centralization, ACs were highly dependent on transfers and had no control over ceded taxes⁴. Later, the model shifted toward forms of decentralized tax sharing, which includes both revenue and base sharing schemes. With the amendment of the LOFCA in 1997, ACs were not only entitled to a share of well-determined tax-revenue (the so-called ceded taxes) but in certain cases were for the first time granted the power to set tax rates and benefits over some of them, although these continues to be subject to national legislation with the aim of maintaining a certain homogeneity throughout the common regime territory (Zornoza, 2014: 109-114). The fiscal autonomy of the Autonomous Communities was further strengthened in 2001 and 2009 with the enactment of two reforms that resulted in a new territorial financing system —embedded in two subsequent amendments of the LOFCA— that increased the participation of the ACs in the ceded taxes such as personal income —from 33 to 50%—, VAT —from 35 to 50%— or excise duties —from 40 to 58%— (Cuenca, 2022: 131-135). Additionally, the normative powers of the ACs over ceded taxes were also enlarged, a decision that sought to increase the fiscal responsibility of the ACs (Herrero Alcalde *et al.*, 2010: 188-189).

³ The two special financial regimes of the Basque Country (*concierto*) and Navarre (*convenio*) are the result of various historical prerogatives (known as *fueros*) recognized in the First Additional Provision of the Constitution. In short and simplified form, these ACs have very broad powers regarding taxation while also collect all taxes but custom duties and payroll taxes (Monasterio, 2010: 61-63). They then make annual transfers to the central government, called quota in the Basque Country and contribution in Navarre, in order to fund the cost of states services (e.g., national defense, foreign service, infrastructures, social security etc.). This regime has been controversial, in particular regarding its application in the Basque Country, as the quota is agreed on a quinquennial basis through a political negotiation that tends to underestimate the weight and cost of those services provided by the central state, grating a higher amount of resources per inhabitant than those available to common regime ACs. For a critical analysis of these regimes, see De la Fuente (2022: 53-90).

⁴ As Ruiz Almendral (2012: 103) points out, the denomination of ceded taxes (*tributos cedidos*) is not totally accurate as what it is actually ceded by the State is the yield of the tax but not the tax per se as these continue to be created and regulated by the central state.

The equalization compact enshrined in the 2009 agreement was due to be renewed after 5 years. However, political instability with the crisis in Catalonia as a backdrop prevented for longtime the start of an already complex process. It will finally be in 2021, with the pandemic apparently under control, when the central government decides to tackle once and for all the reform of the regional financing system. This article examines the different demands and attitudes of the Autonomous Communities toward the process, delving into their attempts to set the agenda before engaging in negotiations with the central government in the Fiscal and Financial Policy Council⁵. Against this background, the article explores the role of horizontal cooperation in articulating the different territorial preferences on the financing system of the Autonomous Communities⁶. In particular, it focuses on how the Autonomous Communities have prioritized their common interests above their political affiliations, despite the efforts to limit these deviations and impose a common position by the leadership of the two major political parties. This is done by analyzing the different attempts by the Autonomous Communities to coordinate, holding intergovernmental meetings for this purpose, with the aim of agreeing on common positions through which to influence the debate on the reform. Lastly, the article outlines the proposal elaborated by the central government, comparing it with the current model and examining which territories have been more successful in canvassing their demands, as well as questioning the real will on the part of the central government to reach an agreement.

II. EQUALIZATION IN SPAIN: A LONG STORY SHORT

1. THE 1987 AND 2001 MODELS

The progressive gain of fiscal autonomy enjoyed by the Autonomous Communities thanks to the different reforms of the LOFCA, increasing both their share and normative scope on ceded taxes, had the side effect of increasing

⁵ Although the constitutional architecture in Spain is characterized by a strict silence regarding intergovernmental relations—in financial or any other matter—, this silence has not been an obstacle for the Spanish model to develop its own framework to manage financial relations leading to the quasi-constitutional institutionalization of the CPFF as a center-dominated forum for intergovernmental financial relations. See Colino (2013: 111-124).

⁶ On horizontal cooperation in the Spanish quasi-federal system, see Arbós *et al.* (2009: 278-283) y Pérez Medina (2020: 17-64).

regional disparities as fiscal capacities and public services costs differ among ACs (Lago-Peñas *et al.*, 2017: 1509-1513)⁷. The drafters of the Constitution were aware of this issue—and the dormant tensions and intergovernmental conflicts that it can exacerbate—and included several references to territorial solidarity throughout the text, with the principle of horizontal solidarity being outlined in article 2 and further developed in its financial and economical dimension in article 138. The latter states that “The State guarantees the effective implementation of the principle of solidarity [...] safeguarding the establishment of a just and adequate economic balance between the different areas of Spanish territory”. Following this mandate, article 158 calls on the legislator to adopt the different tools that belong to the category of “equalization mechanisms” by making an allocation in the State budget to the Autonomous Communities so these can guarantee a minimum level of basic public services throughout Spanish territory. Equalization is a common feature in federal systems—with the notable exception of the US—and emerges as a necessary counterpart to decentralization to bridge the gap among ACs and prevent the inhabitants of a territory from bearing a significantly higher tax burden than their fellow citizens to access a similar level of public services (Boadway, 2004: 212).

Equalization was first introduced in Spain in 1986 by article 13 of the LOFCA as an unconditional transfer targeting needs compensation called *participación en los ingresos del estado* (PIE). The PIE was aimed at providing common regime ACs with sufficient financial resources to cover their spending needs. These spending needs were calculated on a quinquennial basis according to several indicators, population being the main variable even to the point of reaching a weighting of up to 94% in some of these five-year periods (Vilalta, 2016: 89)⁸. This first model of equalization was characterized by asymmetry as, at the time, not all ACs had the same level of competences⁹, neither all of them benefited from the same ceded taxes (e.g., Madrid did not have any when the model first established). Despite this, all ACs were highly dependent on equalization transfers, which was the first source of income for all of them, as common regime ACs had little financial autonomy.

⁷ For a general overview of the financing system of the Autonomous Communities see López Laborda *et al.* (2023).

⁸ Other variables such as surface area, insularity, number of provinces, dispersion, relative wealth or fiscal effort were also used in different periods to determine the ACs spending needs.

⁹ In 1987, only Andalusia, the Canary Islands, Catalonia, Galicia and the Valencian Community were responsible for education and health.

After the slow track ACs had reformed their Statutes of Autonomy to access the maximum level of competences, the resulting homogenization of the territorial model made it necessary to update the equalization compact by adapting it to the new reality and putting an end to its asymmetric nature. To this end, the LOFCA was amended in 2001 with the PIE being renamed as *fondo de suficiencia* (sufficiency fund). In the early 2000s, with the economy booming, territorial financing was not contentious, and this reform was unanimously agreed by all common regime ACs —the Basque Country and Navarre do not contribute to horizontal solidarity due to their foral regime¹⁰— and the central government (Bandrés and Cuenca, 2016: 176-177). Despite the name change, the fund maintained the same rationale than its predecessor by targeting needs compensation —now also including health and education— and using population as the main variable in the calculations. Some new features were also introduced such as a guarantee of a minimum allocation to each AC. Further, in sharp contrast to the previous system, the model was constructed as a closed one with the expenditure needs of each AC being fixed in the base year and being not subject to any future update. Thus, the model was unable to respond to any sudden change in the economic circumstances of a given AC (Lasarte, 2003: 101-103).

2. THE 2009 REFORM: THE DOMINANCE OF PARTISAN POLITICS

After the first results of the model agreed upon in 2001 were published in 2005, it became clear that the equalization compact had several flaws —primarily derived from the closed nature of the system— and needed to be renewed (Ruiz-Huerta and Herrero Alcalde, 2008: 154-158). After numerous years of public debate, the central government initiated in 2008 a process of bilateral consultations with the ACs to listen to their demands and expectations on a new financing system. These bilateral meetings led to the elaboration of a proposal by the central government aimed at ensuring “that all citizens, regardless of their place of residence, have equal access to basic public services” that was presented to the ACs in the Fiscal and Financial Policy Council (Consejo de Política Fiscal y Financiera, CPFF). The CPFF is an intergovernmental body enshrined in article 3 of the LOFCA tasked with the coordination of the financial relations between the central government and the common

¹⁰ As Zabalza and López Laborda (2017: 149-150) state, the coexistence between the common and the foral finance regimes has never been easy, being this particularly conflictual with regard to territorial solidarity as these special regimes have resulted in an economic advantage for this two ACs.

regime ACs (Calvo Vérguez, 2011: 20-21). It is composed of the National Minister of Finance and the Finance Ministers of each Autonomous Community (plus the Finance Councilors of the two Autonomous Cities of Ceuta and Melilla). Although it is an advisory body, since its resolutions are not legally binding¹¹, in practice the CPFF is a decision-making body as its resolutions are later enacted in Parliament as an organic law in amendment of the LOFCA.

The CPFF is a peculiar institution as it is center dominated with the national government having the same number of votes than all the ACs combined¹². Thus, the preponderance of the center in the CPFF explains the need for the ACs to set the agenda and lobby the national government before engaging in negotiations in the Fiscal and Financial Policy Council. This lobbying process increases in the case of minority governments as the 2009 example shows. In this circumstance in fact, regional and nationalist parties have a stronger bargaining power as amending the LOFCA —due to its condition of organic law— requires an absolute majority in Parliament.

Once the first proposal was drafted, the central government held another round of bilateral meetings with the ACs in a process characterized by a lack of transparency —the documents used as basis for the calculations were not published— and by the marked predominance of the interests of some ACs over the others. In this regard, the negotiation process was conditioned by the new Statute of Autonomy of Catalonia which in article 206.3 —later partially invalidated by the Constitutional Court¹³— restricted the AC's contribution to equalization only to the financing of essential public services (health, education, and social services). This led to Catalonia playing a central role in the negotiations, which was not well received by those ACs governed by the People's Party (PP). The latter feared that the new model was tailor-made for that community¹⁴. Finally, after more than a hundred meetings and three proposals over a

¹¹ According to article 10 of the Council charter, the agreements reached within the CPFF they take the form of mere recommendations to the central government and thus are not binding to the latter or directly enforceable in court.

¹² A majority of two-thirds is required in the first vote to adopt these recommendations, while an absolute majority is sufficient in the second vote, which must be held no later than ten days after the first.

¹³ Article 206.3 SAC conditioned Catalonia's contribution to equalization to other AC's making a similar fiscal effort, an aspect that was declared unconstitutional by the Constitutional Court as it violated the principle of financial autonomy included in article 156 of the Constitution. See STC 31/2010 FJ 134.

¹⁴ This feeling was heightened by statements made by the Minister of Economy, Elena Salgado, in which she assured that Catalonia's financing would be above average, while other communities would be slightly below.

yearlong negotiation, an agreement was reached. This allowed the ACs to maintain 25% of their revenue —5 points more than in the previous proposal— thus reducing the horizontal contribution to equalization in line with Catalonia's desires. The ratification of the agreement in the CPFF evidenced that, in sharp contrast to the unanimity of 2001, territorial financing had become an increasingly politicized subject with clear divisions along party lines. The central government and the eight ACs with Socialist governments voted to approve the new system (Andalusia, Asturias, Cantabria, Catalonia, Castilla-La Mancha, Aragón, Extremadura and the Balearic Islands), while those ruled by the PP (Madrid, Valencia, Galicia, Castille and León, Murcia, La Rioja and the autonomous city of Melilla) abstained. The favorable votes of the autonomous city of Ceuta —ruled by the PP— and the Canary Islands, headed by a nationalist party in coalition with the PP were the sole exception to partisan politics in the CPFF. Moreover, the decision to abstain was imposed by Mariano Rajoy, then leader of the PP, on the ACs ruled by his party in an attempt to reconcile the different sensibilities on territorial financing that existed within the party. For the PP, the proposed equalization compact had several flaws as “it improved the positions of the richest communities and used very arbitrary distribution variables to achieve horizontal solidarity”. The PP's skepticism was also driven by the fact that the new model was designed to comply with the new Statute of Autonomy of Catalonia, which the same party had appealed before the Constitutional Court. This caused deep unrest within the PP ranks, with Madrid openly opposed to the new compact, which its finance minister described as a privilege toward Catalonia where “a Catalan was worth two Madrilenians” (Beteta, 2009). The PP's refusal to support the reform not only increased territorial tensions but also diffculted the parliamentary approval of the new system¹⁵, as the required threshold was reached in Congress by a single vote¹⁶.

The 2009 system significantly departed from its predecessors, now being structured around four different funds¹⁷. The first and most important is the

¹⁵ Formally entrenched in Ley Orgánica 3/2009, de 18 de diciembre, de Modificación de la Ley Orgánica 8/1980, de 22 de septiembre, de Financiación de las Comunidades Autónomas.

¹⁶ In the Catalan political spectrum, the new equalization compact also raised passions with CiU —the traditional hegemonic force in Catalonia but at the time in opposition— voting against because they understood that it meant “the political assassination of the SAC” as it did not fully incorporate the principle of ordinality, so that an AC cannot be lower positioned in the ranking of per capita resources after equalization transfers are made.

¹⁷ The 2009 model was conceived as dynamic and thus the FGSPF is recalculated each year to reflect the evolution of the spending needs of the ACs in contrast to the closed nature of the model agreed in 2001.

Basic Public Services Guarantee Fund (FGSPF). This equalization mechanism is designed to ensure that if each Autonomous Community makes the same tax effort, it receives the same amount of “adjusted resources per capita” to cope its spending needs for the essential services of the welfare state (health, education and social services) (Vilalta, 2016: 94-99). The FGSPF is an essentially horizontal transfer as each AC contributes to the fund with 75 % of their fiscal yield, measured in normative (potential) homogeneous terms. This transfer can be negative or positive depending on the AC, since each government contributes to the horizontal fund according to its potential tax capacity and receives according to its needs¹⁸. The second element is a vertical component, solely funded by the central government, aimed at reinforcing the sustainability of the welfare state (Herrero Alcalde 2020, 183-184). The FGSPF is updated annually according to the evolution of the fiscal capacity of the Autonomous Communities and the distribution variables. Therefore, the first part functions as a horizontal zero-sum fund, where the richest ACs contribute and the poorest receive, while the second functions as a vertical fund from which all Autonomous Communities benefit as it is funded exclusively by the center. In practice, this fund guarantees a minimum level of goods and services throughout Spain (common territory), defined as the same amount of euros per adjusted inhabitant (López Laborda, 2010: 28-29). The spending needs of the ACs for the essential services of the welfare state are calculated by proxy using a population adjusted criteria as follows:

Table 1. *FGSP variables and weights*

Competence	Criteria	Weighting
Health	Population covered by the National Health System (7 age groups)	38 % ¹⁹
Education	Population 0-16 years old	20,5 %
Social services	Population over 65 years old	8,5 %
.../...		

¹⁸ For the year 2020, Madrid, Catalonia and the Balearic Islands were the only Autonomous Communities with a negative horizontal transfer, thus being contributors to the system (Ministerio de Hacienda, 2022: 30).

¹⁹ The weightings according to each age group are as follows: 0-4 years old: 1,031; 5-14 years old: 0,433; 15-44 years old: 0,547; 45-54 years old: 0,904; 55-64 years old: 1,292; 65-74 years old: 2,175; +75 years old: 2,759.

.../...

Competence	Criteria	Weighting
General services	Population (total)	30 %
	Land area	1,8 %
Correcting criteria	Geographical dispersion	0,6 %
	Insularity	0,6 %

Source: Compiled by author following Article 9 of Law 22/2009.

The Basic Public Services Guarantee Fund coexists with three other equalization funds (Global Sufficiency Fund, Competitive Fund and Cooperation Fund). Unlike the FGSPF, which is a classical equalization transfer aimed at reducing horizontal imbalances, the other three funds were created to meet a pre-defined objective for political reasons (López Thomaz *et al.*, 2016: 305-306). The Global Sufficiency Fund (FSG) is a vertical transfer financed by the central government designed to ensure that all ACs get more resources than in the previous system regardless of their financial needs (Castells, 2015: 212). In turn, two other convergence funds—entirely financed by the central government— were created: the Competitive Fund and Cooperation Fund. Surprisingly, the goal of these two funds is not to promote territorial solidarity *stricto sensu* but rather competitiveness, fiscal autonomy, and regional development.

The FSG and the convergence funds were a necessary concession made by the central government during the negotiations as, otherwise, most ACs—such as those with a declining population— would have voted against the new system in the CPEF (Herrero Alcalde *et al.*, 2010: 186)²⁰. The setting up of these three funds largely increased the complexity of the equalization system, making it difficult to understand its objectives (López Laborda, 2014: 151-152), without this having led to any progress in reducing horizontal imbalances as they respond more to the different political interests of the ACs than to technical considerations of equity (Zabalza and López-Laborda, 2011: 751-752). The FSG for instance creates an important distorting effect making it more difficult to reduce horizontal imbalances as it undermines the redistributive performance of the FGSPF (Vilalta, 2016: 101).

²⁰ See articles 22-24 of Ley 22/2009, de 18 de diciembre, por la que se regula el sistema de financiación de las comunidades autónomas de régimen común y ciudades con estatuto de autonomía y se modifican determinadas normas tributarias.

III. THE LONG-AWAITED (AND NOT YET ACCOMPLISHED) REFORM PROCESS OF THE TERRITORIAL FINANCING SYSTEM

1. SETTING THE AGENDA VIA HORIZONTAL COOPERATION: AN OVERVIEW OF THE DIFFERENT POSITIONS OF THE AUTONOMOUS COMMUNITIES

The 2009 territorial financing system —and with it the equalization compact— was supposed to be evaluated and renewed after five years as mandated by Law 22/2009. In an attempt to depoliticize the issue, the central government and the common regimen ACs decided in the 2017 *Conferencia de Presidentes* —Spain’s main vertical intergovernmental forum— to create an expert panel that would elaborate a proposal. The panel, composed of five experts nominated by the central government and one nominated by each AC or Autonomous City, agreed on a document which showed the disparity of positions among the different ACs (CERFA, 2017). The most controversial issue was the possibility of eliminating the *statu-quo* clause embedded in the FSG, as some ACs feared that this would result in a reduction of the funds they receive from the system. The political instability that has dominated Spanish politics since 2015 amid the territorial crisis in Catalonia reduced the central government’s appetite for reform and ended in the failure of the process (Valls, 2021).

In the summer of 2018, six ACs —Galicia, Asturias, Castilla and León, Castilla-La Mancha, Aragón and La Rioja— launched an initiative urging the central government to initiate the reform process. These ACs advocated for a multilateral approach, with the CPFF being the appropriate forum to reach an agreement that could enjoy cross-party support²¹. Not in vain, half of these six ACs were ruled by the PP while the other three had socialist governments. This advocacy of multilateralism was not accidental but was intended to block any attempt at bilateral negotiations with Catalonia as these ACs feared that Catalonia’s boycott of the CPFF was a strategy to obtain concessions from the central government and condition the reform process in her advantage²². As regards the components of the system, they called for full equalization of all competences

²¹ “Declaración institucional conjunta de los Gobiernos de Galicia, Asturias, La Rioja, Aragón, Castilla-La Mancha y Castilla y León sobre la reforma del sistema de financiación autonómica y de los fondos de la política de cohesión europea”, Zaragoza, 10 September 2018, para. 1.b.

²² These fears were not unfounded as the central government was in bilateral negotiations with Catalonia on an economic agreement that would bring that community more than one billion euros. This agreement was ratified three weeks after the initiative

—in contrast with the partial equalization of the 2009 system—²³ including new variables for the calculation of the spending needs such as orography or population density and aging²⁴. These ACs also supported the maintenance of the status-quo clause embedded in the Global Sufficiency Fund to ensure that no Autonomous Community worsens its financial position as a result of the reform²⁵. Although these demands did not come to fruition as the central government declined to open the Pandora box of reform in the middle of a period of political instability, which led to two general elections in the following year, they did represent the first example of horizontal cooperation with the aim of setting the agenda before formal negotiations began in the CPFF.

Once this period of political instability was over with the formation of Spain's first coalition government at the beginning of January 2020, everything seemed to indicate that the reform of territorial financing would be one of the first issues to be addressed by the new government. Especially taking into account that the latter had gathered the support of different regionalist and nationalist parties that advocated for an immediate reform of territorial financing. However, the outbreak of the COVID-19 pandemic that forced the government to impose Europe's strictest lockdown after less than two months in office, postponed *sine die* any reform attempt. It will not be until late summer 2021, with the pandemic apparently under control, that the central government will decide to launch the reform process, publicly committing to present a first proposal to the ACs before the end of year.

This announcement kickstarted a process in which the different ACs will publicly outline their demands, competing with each other to ensure that these are reflected in the government's proposal to be debated at the CPFF. As previously stated, the privileged position of the central executive in the CPFF with respect to the ACs diminishes the negotiating capacity of the latter within the forum as in a second vote the national government can move forward with the support of just one Autonomous Community. Faced with this reality, the ACs strive to set the agenda before meeting at the CPFF to impose their narrative and increase the chances that the government's proposal will be favorable to their interests²⁶.

calling for reform was launched, which prompted criticisms by several regional presidents (Portillo, 2018).

²³ *Op. cit.* paras. 1.e and 1.h, respectively.

²⁴ *Op. cit.* para. 1.e.

²⁵ *Op. cit.* para. 1.f.

²⁶ As León (2009: 72-73) notes, the central government's acceptance of the demands of an Autonomous Community —as was the case of Catalonia in 2009— may result in a spiral of demands, since none of them wants to be left behind when it comes to

1.1. Cooperation over political affiliation: the case of Andalusia and Valencia

The first attempt to set the agenda came from Andalusia and the Valencian Community, two of the territories that are worst off under the current system in terms of per capita financing (Vilalta, 2015: 138). Presidents Moreno —Andalusia— and Puig —Valencian Community— held a bilateral meeting in Seville at the end of September 2021 to agree on a common position on territorial financing. This decision was groundbreaking, not only because it was the first bilateral summit between these two ACs, but also because of their different political affiliation. While Moreno is the first Andalusian president belonging to the People's Party, Puig is one of the main territorial leaders of the Socialists. The summit resulted in a joint declaration by the two presidents in which they made explicit their position on the reform of horizontal equalization. This called for the fine-tuning of adjusted population as the criterion to determine the spending needs of the Autonomous Communities that would be covered by equalization, by taking the total population that benefit from basic public services as the primary indicator, while also including different weights for the youngest and oldest cohorts²⁷. Additionally, the document also urged the central government to create a transitory equalization fund until a new system could be agreed to compensate those communities whose per capita financing was under the national average with the current system²⁸. Although none of these claims were surprising as they reflected the traditional grievances of these territories —two of the most underfinanced ACs with the 2009 system despite being the first and fourth more populated (De la Fuente 2021a: 21-22)—, the decision to articulate them jointly through horizontal cooperation and transcending party lines was a novelty since horizontal cooperation has traditionally been ignored by the ACs as a tool to promote problem-solving and policy coordination (Aja and Colino, 2014: 451). Especially if one considers the period of high polarization that Spanish politics is currently going through (Torcal and Comellas, 2022: 10-19).

This common front was enlarged a week after when the Andalusian president met with his counterpart from Murcia, agreeing on another joint declaration following the example of that the one signed with the Valencian Community²⁹.

maximizing its resources through bilateral negotiation, highlighting the importance of being the first mover.

²⁷ “Declaración institucional por un nuevo modelo de financiación autonómica”, Seville, 21 September 2021, para. 6.

²⁸ *Op. cit.* para. 11.

²⁹ “Declaración institucional por un nuevo modelo de financiación autonómica”, paras. 11 and 2, respectively, Seville, 29 September 2021. Available at: <https://bit.ly/40nWRgH>.

Andalusia and Murcia, both with conservative governments, stated their commitment to multilateralism and to the creation of transitory equalization fund³⁰, while stressing the importance of institutional loyalty³¹. Surprisingly enough, the declaration did not point to a specific criterion for determining the spending needs for the distribution of the FGSPF but called to equalize the resources received by each community, in order to eliminate the existing differences³². However, one month later, during a meeting with the Valencian Finance Minister, Murcia clarified its position, arguing that any distribution of equalization should be primarily determined by the total population, thus aligning itself with the Andalusian-Valencian front.

1.2. *The España vaciada: the importance of demographics*

The strategy led by Andalusia and Valencia to make their demands visible and condition the territorial financing reform process was quickly replicated by other ACs with opposing interests which tried to impose their own agenda. In particular, by those with aging and declining populations who therefore consider the current adjusted population criterion to be disadvantageous to their interests. In an attempt to counter Andalusia's effort to set the agenda, Galicia proposed to organize a summit to give voice to those territories that have recently been labelled as the *España vaciada* (emptied Spain) in reference to those areas of the interior of Spain which have experienced large exoduses of population to areas with greater economic attraction, mainly Madrid and the Mediterranean axis (Pazos, 2021). To this end, the Galician President, Feijóo (PP), extended an invitation to those of Aragón, Asturias, Castilla-La Mancha, Extremadura, La Rioja —all with socialist governments—, Castille and León (PP) and Cantabria (regionalist) with the aim of reaching an agreement that would go beyond party lines. Despite this aim, partisan loyalty resurfaced after Feijóo criticized the central government for setting up the so-called “table of dialogue” with Catalonia as he saw this meeting as a privilege toward that community (*Público*, 2021). Those remarks caused great discomfort in the socialist ranks, forcing a postponement of the summit until three weeks later (Hernández, 2021).

Once tensions eased, the eight leaders finally met at the end of November 2021 in Santiago de Compostela where they agreed a declaration summarizing their position. In contrast to the concise documents resulting from the

³⁰ *Op. cit.* para. 11.

³¹ *Op. cit.* para. 7.

³² *Op. cit.* para. 5.

meetings of Andalusia with the Valencian Community and Murcia, which were barely three pages long, the “Declaration of Santiago” was rather long, consisting of more than ten pages, as it covered a wide range of issues in addition to territorial financing. This Declaration echoed some of the points agreed by several regional governments in the summer of 2018 while also one can find several points of coincidence with respect to the agreement reached by Andalusia, Valencia and Murcia such as the commitment to multilateralism at the CPFF —rejecting bilateral negotiations in finance matters— and the defense of the principle of constitutional loyalty³³. These territories advocated for determining the spending needs of the ACs in real cost terms, countering the effect that their declining populations have in the current system with an increased weighting of demographics criteria such as population density, orography, birth rate, or aged population over 85 years old³⁴. Additionally, the signatory ACs also championed for the *statu-quo* clause embedded in the FSG as a guarantee that would ensure that the reform would not result in any autonomous community receiving fewer resources³⁵.

1.3. *The major absences: Catalonia, Madrid and the islands*

At this point, it was clear that horizontal cooperation had resulted in two different groupings of ACs with four others —Madrid, Catalonia and the two archipelagos— staying on the sidelines. Although the positions of the two groups were divergent in relation to the substance of the reform, they theoretically agreed on the form: multilateral cooperation at the CPFF. This view was also shared by Madrid whose Minister of Finance stated that they would only participate in an open negotiation with all the ACs (Tragacete, 2021). This staunch defense of multilateralism by the majority of the ACs was merely evidence of the fear that the content of the reform would be defined in advance by the central government and Catalonia within the framework of the “table of dialogue” and then imposed in the CPFF. In fact, the commitment to multilateralism can be seen as an attempt to avoid a repeat of the 2009 negotiation process which was conditioned by Catalonia’s new Statute of Autonomy. Thus, there seems to be a broad consensus among all the ACs that Catalonia has a stronger bargaining power than the rest of the ACs as the central government’s future rests on the votes of the Catalan parties. This explains why Catalonia has

³³ “Declaración institucional Foro de Santiago, Camino de Consenso”, Santiago de Compostela, 23 November 2021, paras. 15 and 29, respectively.

³⁴ *Op. cit.* paras. 16 and 24-26, respectively.

³⁵ *Op. cit.* para. 23.

gone from playing a leading role in the previous reform process to adopting an isolationist stance, boycotting the CPFF, to the point of stating that “Catalonia is in another phase so the only negotiation it is interested in is that of self-determination” (Barrena and Sala, 2021)³⁶.

Despite this maximalist statement, it is highly dubious that Catalonia would not take part —either directly or indirectly— in the negotiation process. Most likely, considering past experience, Catalonia will play a two-faced role; a public one in which it will reject any agreement with grandiloquent gestures in favor of secession and a discreet one, behind the scenes, in which its interests are *de facto* defended by another Community with similar demands, i.e., the Balearic Islands. There is already a precedent in this regard as Catalonia’s interests were informally represented by the Balearic Islands in the expert panel that followed the 2017 *Conferencia de Presidentes*. Therefore, it is not surprising that the Balearic Islands —one of the three Communities that is a net contributor to the system together with Madrid and Catalonia— have not aligned themselves with either of the two common fronts, despite the fact that their demands —especially in relation to the adjusted population criterion— partially coincide with those of Andalusia and the Valencian Community³⁷.

The other notable missing player was the Community of Madrid. Madrid, a stronghold of the PP, tends to go its own way in the territorial financing reform processes. Not only because as one of the richest territories it is a net contributor to the system, being less interested in equalization, but also because Madrid has a history of prioritizing political considerations over any other matter of technical nature. This could be clearly seen during the 2009 reform process where Madrid rejected all the proposals brought by the central government to the CPFF following a strategy aimed at confronting with the central socialist government —and at the same time with Catalonia— in order to make electoral profits for the regional PP branch. In the current process, the scenario is similar, a central executive with a socialist led government and Madrid as the main pillar of opposition to it. The difference with respect to 2009 lies in the fact that this time the central government —and some ACs— have not avoided

³⁶ In July 2021 a Catalan Finance minister returned to attend a CPFF meeting for the first time in five years, although he clarified that his future participations will be decided on a case-by-case basis depending on the issues to be discussed (Baquero y Casqueiro, 2021). During these five years Catalonia sent high-ranking officials, thus losing its right to vote.

³⁷ The Balearic Islands have advocated the inclusion of a variable that takes into account floating population as a criterion for determining the spending needs of the ACs, a position shared by the Canary Islands and the Valencian Community.

the confrontation, claiming that Madrid's fiscal policies are detrimental to them. In particular, they argue that Madrid's low tax policy drains wealth out of neighboring ACs as if it were a vacuum cleaner that collects everything that is around as described by the Valencian President (Puig, 2020). To counter this, several ACs have called for harmonization of several ceded taxes —personal income, wealth and inheritance— to impose minimum rates and thus prevent Madrid from lowering taxes, an idea has been welcomed by the central government, which has committed to include this issue in its plan to reform the tax system. The regional government of Madrid considers this stance a direct attack on its financial autonomy that forms part of and strategy to “punish Madrilenians for not voting for the Socialist Party” together with other initiatives aimed at deconcentrating institutions from Madrid to other cities³⁸ (Díaz Ayuso, 2021).

Consequently, both Madrid and Catalonia can be seen as exceptions to the rule, prioritizing their political preferences and confronting with the central government instead of exploring formulas for cooperation with other communities with coinciding interests. Paradoxically, these two communities have similar economic —above the average fiscal capacities— and demographic characteristics —young, urban and concentrated populations—, that could lead them to form a common front when faced with the need to reform the current system. However, this possibility seems science-fiction with the current political climate as both governments have found in the other the perfect scapegoat to court their electoral base.

As a summary, the following table illustrates the position of each Autonomous Community in the reform process and its preferred criteria for determining the spending needs and the consequent distribution of equalization funds:

Table 2. *Preferred criteria by Autonomous Community*

Autonomous Community	Ruling party	Preferred criterion/stance
Catalonia	ERC	Bilateralism
Galicia	PP	Demographics

.../...

³⁸ The Community of Madrid has initiated the procedures to pass a law in defense of its financial autonomy, in development of the principles contained in articles 156.1 of the Spanish Constitution and 51 of the Statute of Autonomy of Madrid. However, the future law is nothing more than a political desideratum aimed at preparing a future constitutional challenge against the central government, since Madrid lacks the power to legislate on ceded taxes, as these continue to be within the State competence.

.../...

Autonomous Community	Ruling party	Preferred criterion/stance
Andalusia	PP	Population (adjusted)
Asturias	PSOE	Demographics
Cantabria	Regionalist	Demographics
La Rioja	PSOE	Demographics
Murcia	PP	Population (adjusted)
Valencian Community	PSOE	Population (adjusted/floating)
Aragón	PSOE	Demographics
Castilla-La Mancha	PSOE	Demographics
Canary Islands	PSOE	Population (adjusted) + Insularity
Extremadura	PSOE	Demographics
Balearic Islands	PSOE	Insularity / Population (floating)
Madrid	PP	Fiscal autonomy
Castille and León	PP	Demographics

Source: Compiled by the author based on public statements by the Autonomous Communities.

2. PARTY POLITICS BACK IN THE GAME: FROM BLOCKAGE TO TOLERANCE

As one would expect, in a country with such a deep-rooted party culture (Jaime-Castillo and Martínez-Cousinou, 2018: 124-128), horizontal cooperation between the different Autonomous Communities was not well received by the two main political formations. Both the Socialists and the PP feared that such cooperation would damage their internal cohesion, creating tensions between their different territorial leaders, and thus compromising the party's work of government or opposition at the national level. Consequently, attempts to impose party discipline did not take long.

The first strategy adopted by both parties was aimed at blocking horizontal cooperation, trying to prevent such meetings from taking place. After the successful meeting agreeing on a common position between Andalusia and the Valencian Community, the Socialist party quickly reacted to prevent other socialist led ACs from reaching accords with those governed by the PP. To this end, during the Federal Congress of the Socialist Party, the head of

territorial policy of the PSOE —and leader of the Andalusian Socialists— met with his territorial counterparts in order to seek a common position of the party on territorial financing. The will to reach a common position was not possible in a first attempt, although the PSOE leadership did convince several of its regional presidents not to attend the summit in Santiago de Compostela, alleging that it would be used by the Galician president to attack the central government. This forced the postponement of the summit, giving the PSOE leadership time to continue negotiating. Finally, a minimal consensus was reached three weeks later. However, this agreement was nothing more than a photo op, as it merely reiterated the commitment to general principles such as the financial sufficiency of the Autonomous Communities, institutional loyalty, horizontal solidarity or the equality in the provision of public services³⁹. The vagueness of the agreement, a product of the existing divisions, was such that it did not delve into the specificities of the equalization compact, making no mention whatsoever of the criteria used to calculate the spending needs of the Autonomous Communities.

On the other side of the aisle, things were not much different. If the PSOE feared that horizontal cooperation on territorial financing could be capitalized by the opposition to harm the national government, the PP felt that internal disagreements over the issue could jeopardize its role of official opposition. The PP's response to the conundrum of territorial financing was to promote meetings between its regional presidents to convey an image of unity. However, this strategy failed for two different reasons. Firstly, due to the significant differences that existed in the criteria that should guide the reform. For instance, Andalusia led the camp of those favoring a greater weight to population as a criterion for distribution, while Galicia was one of the most vocal in prioritizing demographic factors. So, it came as no surprise that the summit between the presidents of Andalusia and Galicia ended with a declaration that did not mention the issue of territorial financing beyond a commitment to multilateralism to tackle the reform⁴⁰. Beyond their different positions on the content of the reform, there was another important factor, a dispute between the president of Madrid and the national leadership of the PP over the control of the party in that territory⁴¹. This clash, which confronted two

³⁹ PSOE (2021). Comunicado, 5-11-2021 [press release].

⁴⁰ “Declaración institucional I Encuentro Galicia-Andalucía”. Sevilla, 22 October 2021, para. 13.

⁴¹ This internal dispute escalated in 2022 amid allegations of corruption and espionage and led to the fall of PP leader Pablo Casado with the Galician President Alberto Núñez Feijóo elected as new party chairman.

different attitudes toward the radical right of Vox when it comes to forming an alternative to the central government⁴², prevented the party leadership from convening its regional presidents to seek a common position on territorial financing. The only attempt to bring positions closer together was a meeting between the different finance ministers of the Communities governed by the PP, which ended with a press-release calling on the central government to negotiate simultaneously with all Autonomous Communities, rejecting any unilateral negotiation with Catalonia or any other territory, but failing to agree a common position on the formula to determine the spending needs of the ACs (*La Información*, 2021). The only progress toward unity was the call for the new system to respect the financial autonomy of the Autonomous Communities and their power to lower taxes, a clear gesture to incorporate the demands of the Community of Madrid.

Despite various attempts by the national leadership of the two major parties, none of them succeeded in establishing a common position on the reform of equalization. The displays of unity and the joint communiqués did not go beyond defending multilateralism as a negotiation mechanism, as well as reiterating the validity of different general principles that do not give rise to any political debate. Thus, the impossibility of curbing dialogue and horizontal cooperation was clear, and the parties had no choice but to tolerate that the Autonomous Communities grouped together according to their interests, even if this meant weaving alliances with governments of a different political color. In the end, parties switched their strategy from blockage to tolerance, admitting horizontal cooperation between ACs with similar interests, as long as this did not involve a direct confrontation between territorial administrations governed by the same party. A stance designed to avoid that territorial financing could become a political weapon to attack the government or undermine the opposition.

IV. THE FIRST STEP TOWARD REFORM: AN UNAMBITIOUS AND SHORT-SIGHTED PROPOSAL

After months of uncertainty and with a few weeks of delay over the planned schedule, the central government presented its first draft proposal for the reform of the territorial financing scheme (Ministerio de Hacienda, 2021). This proposal only covered the criteria for calculating the ACs spending needs that determine the operation of the FGSPF. In this way, the central government intended to avoid the debate on the advisability of maintaining the rest of the

⁴² About Vox's ideology and its role in Spanish politics see Rama *et al.* (2021).

funds and, in particular, the FSG, since this is the one that introduces the greatest degree of distortion in the system and, therefore, the one that generates the greatest controversy. Similarly, the central executive seems to have given up, for the time being, on modifying the regime of ceded taxes, at least until a comprehensive reform of the tax system is carried out⁴³.

The draft was intended to be the starting point of the new system, to be submitted to the contributions from the Autonomous Communities and later to be discussed for its eventual approval at the CPFF. In it, the central government presented a series of proposals to respond to the demands that the different regional executives had been making in previous months. The document was technical in nature and conceived as input for discussion. This was evidenced by the fact that several indicators used for determining the spending needs of the ACs were presented in ranges, without setting an exact value, so to leave margin for forging an agreement. With this approach, the central government intended to stimulate negotiation and prevent its proposal from being understood as closed or definitive, which could lead to it being rejected outright by some regional governments. Thus, in a certain sense, this draft hinted that the central executive saw reform as an incremental process that should begin with an agreement on the variables that determine the calculation of the FGSPF before moving on to other more contentious issues. This approach also showed that the central executive was willing to incorporate some of the demands of the Autonomous Communities in order to reach an agreement and renew the equalization compact.

The proposal advocated for maintaining the traditional approach of needs equalization but with a refined version of adjusted population as the criteria for determining the spending needs of the Autonomous Communities for the essential services of the welfare state: health, education, social services and general services.

Regarding health care, the central government proposes a new scheme using more recent and detailed data to capture the real needs of the Autonomous Communities. To this end, the population covered by the National Health System is broken down into five-year age groups with increased weightings for the older cohorts, thus incrementing the number of variables from 7 to 20⁴⁴. The spending needs for social services would now be calculated based on a

⁴³ In 2021 the Ministry of Finance created a committee of experts in charge of presenting proposals to modernize the Spanish tax system. Its final report, released in 2022, is available at: <https://bit.ly/3JEB9PX>.

⁴⁴ With respect to the 2009 model, the weighting of those under 5 years of age is slightly reduced, while the weighting for those over 75 years of age is increased. See Ministerio de Hacienda (2021: 28).

new indicator that not only considers the aging population, which is now subdivided into two groups (65-79 and over 80), but also the number of unemployed without benefits. The weighting of the spending on social services would fluctuate from the current 8.5% to between 6 and 10%. Greater changes occur in the calculation of the educational spending needs. The proposal recommends a new variable consisting of the population from 0 to 17 years old and the population from 18 to 24. These two variables will be adjusted to include vocational training and university students coming from other Autonomous Communities in order to incorporate the potential demand for post-secondary education as this highly varies from one AC to another⁴⁵. Finally, for the estimation of spending needs for general services, the total population is maintained as an indicator, although it is proposed to reduce its weight from the current 30% to a range between 18 and 22%.

As for the correcting mechanisms, the proposal adds two new criteria: a compensation for fixed costs —due to the lack of economies of scale in sparsely populated areas— and depopulation that together with the previous variables, should account for a maximum of 4% from the previous 3%.

The following table summarizes the main elements of the proposal, comparing them with the system in place since 2009:

Table 3. *Comparison between the 2009 model and the government's proposal*

Competence	2009 model		Government's proposal	
	Criteria	Weighting	Criteria	Weighting
Health	Population covered by the National Health System (7 age groups)	38%	Population covered by the National Health System (20 age groups ⁴⁶)	40-45%

.../...

⁴⁵ The proposal also contemplates two possible alternatives to this system in order to simplify the calculation. The first consists of taking only the population groups 0-17 and 18-24 without taking into account the flow of students from other communities, while the second uses the population between 1 and 17 years of age and the number of students enrolled in vocational training and university as estimation criteria.

⁴⁶ Each of these age groups has a weighting that increases with age, with the exception of the initial group from 0 to 4 years old whose value is higher than any attributed to the groups under 54 years of age.

.../...

Competence	2009 model		Government's proposal	
	Criteria	Weighing	Criteria	Weighing
Education	Population 0-16 years old	20,5 %	Population from 0-17 (including vocational training students from other ACs)	25-30 %
			Population from 18-24 (including university students from other ACs)	
Social services	Population over 65 years old	8,5 %	Population from 65 to 79 and over 80 ⁴⁷	6-10 %
			Unemployed without benefits	
General services	Population (total)	30 %	Population (total)	18-22 %
Correcting criteria	Land area	1,8 %	Land area	3-4 % ⁴⁸
	Geographical dispersion	0,6 %	Geographical dispersion	
	Insularity	0,6 %	Insularity	
			Fixed costs	
			Depopulation	

Source: Compiled by author based on the proposal sent by the Ministry of Finance to the Autonomous Communities.

The question arises as to whether the proposal reflects the demands of the Autonomous Communities and, if so, which have been most successful in lobbying the central government. In general terms, the Ministry of Finance has

⁴⁷ These two age groups are weighted according to the national average of dependent persons.

⁴⁸ The proposal does not specify the weightings attributed to each of the corrective criteria, other than to indicate that the sum of these should be between 3% and 4%.

taken on board most of the proposals developed by the expert committee in 2017. This results in an increase in the relative weight of spending needs associated with fundamental public services (health, education and social services), and a decrease in the weight of general services; those that are solely based on population. Given the parameters used in the construction of the model, this will most likely result in greater spending needs—which will entail greater transfers from the equalization system—for those Communities with aging populations such as Asturias, Galicia and Castilla and León. Conversely, those with young populations and which receive students from other regions should see their educational spending needs increased at the expense of aged ACs. Similarly, those with high unemployment rates as Andalusia, Castilla-La Mancha or Extremadura would also see their social services spending needs expanded. Finally, the significant reduction in the weight assigned to spending needs for general services, whose only criterion for distribution is population, will lead to a reduction in the spending needs of the most populated Autonomous Communities, significantly hindering the prospects of Andalusia, Catalonia, Madrid and the Valencian Community.

However, as De la Fuente (2021b: 17) explains, the main source of variation with respect to the previous system rests on the new corrective criteria. This is due to two factors. First, the uneven distribution of the compensation for fixed costs among the different Autonomous Communities, which is based on a confusing clustering system. Second, because of the effects of a “selective” depopulation criteria which seems to have been designed ad-hoc to achieve a predetermined goal and favor certain territories. These adjustments result in significant changes in the spending needs of the Autonomous Communities as can be seen in the following table:

Table 4. *Differential in spending needs between the proposal and the current model*

Autonomous Community	Proposal vs current system⁴⁹
Catalonia	-1.58
Galicia	-2.69
Andalusia	-0.54

.../...

⁴⁹ De la Fuente uses the midpoint of the ranges proposed by the Ministry of Finance to make the estimation.

.../...

Autonomous Community	Proposal vs current system
Asturias	+2.72
Cantabria	+4.51
La Rioja	+5.41
Murcia	+3.28
Valencian Community	-1.70
Aragón	+7.03
Castilla-La Mancha	+3.14
Canary Islands	-2.95
Extremadura	+8.62
Balearic Islands	+2
Madrid	-1.05
Castille and León	+2.54

Source: Adapted by the author from the calculations made by De la Fuente (2021b: 15).

In general terms, it can be concluded that the new criteria proposed by the central government, particularly those linked to fixed costs and depopulation, clearly favor the sparsely populated communities of the *España vaciada*, with the notable exception of Galicia. Not in vain, the model proposed by the central executive would result in a sharp increase of the spending needs—and consequently the potential equalization payments—of Aragón, Extremadura, La Rioja and Cantabria and Murcia. On the contrary, those ACs with larger populations, such as the Valencian Community, Catalonia, Madrid and Andalusia, would see their spending needs diminished due to the reduction of the weighting assigned to general services. Thus, Andalusia and Valencia, the first to engage in the debate, have failed to impose their narrative as none of their main demands have been accepted by the central government.

Therefore, it appears that the communities of the *España vaciada* have been more successful at conveying their demands, positioning them at the forefront of the public debate and attracting the central government to their proposals. In fact, as De la Fuente (2021b: 17) points out, the introduction and design of the new correcting criteria seems arbitrary with little economic rationale behind and it results in a clear favor of certain territories, i.e., those with sparsely populations, at the expense of the others. In absence of an

argument of economic or redistributive logic, the answer seems to be of political nature. With the decision to give preference to the demands of the territories of the *España vaciada*, the central government seems inclined to anticipate an incipient phenomenon in Spanish politics: the rise of localist parties—following in the wake of *Teruel Existe* or the Cantabrian Regionalist Party— whose influence may be decisive in the next electoral cycle and are widely seen as potential allies for the Socialists in several Autonomous Communities⁵⁰.

On the other side one finds the more populated communities which, as in 2009, have been unable to assert their position vis-à-vis the central government. In this sense, it is striking that two of the worst financed ACs under the current model, the Valencian Community and Andalusia will further worsen their position under this proposal, despite their efforts to lobby the central government to compensate them for low per capita financing. Therefore, it cannot be ruled out that if this negotiating failure is confirmed, some of these territories, such as the Valencian Community, may opt to put pressure on other fronts, such as a possible write-off of the regional debt with the State, which is largely the result of their low level of financing. In spite of everything, and although most of the communities that defended the introduction of the depopulation criterion are favored in the government proposal, it cannot be said that their victory is complete because Galicia, paradoxically the most belligerent, would also see its spending needs reduced⁵¹. Similarly, Murcia, which advocated giving more weight to the total population, like Andalusia or the Valencian Community, would see its spending needs grow, unlike the other two, thanks to its young population and the increasing weight of educational spendings needs.

V. CONCLUDING REMARKS

After years of delays due to endogenous —political instability— and exogenous factors —pandemic—, the central government's proposal to reform the criteria of adjusted population as the variable for calculating the spending needs of the Autonomous Communities has meant a first step toward the

⁵⁰ The strength of these localist political parties was evident in the March 2022 regional elections in Castille and León with different formations capturing 7 of the Assembly's 81 seats.

⁵¹ Despite being an eminently rural community with a very dispersed and aging population, Galicia is the fifth most populated in the country and is therefore adversely affected by the reduction in the allocation dedicated to general services.

reform of a system that has been outdated for years. In contrast to the dominance of partisan politics in 2009, this attempt at reform has seen the Autonomous Communities drive the process forward, taking the initiative in articulating their demands to force the central government to present a proposal to be debated at the CPFF. The Autonomous Communities have prioritized their territorial interests, coordinating to defend coinciding positions independently of their partisan interests. The greater need for financing resulting from a chain of economic crises, in contrast to the positive growth cycle that preceded the 2009 reform, seems to have been a stimulating factor, with the most belligerent communities being, on the one hand, those with below-average financing and, on the other, those with significantly aging populations.

After the failed tentative of 2018, this bottom-up approach crystalized in 2021 when Andalusia and Valencia joined forces to push for reform and lobby the central government into giving more weight to population as a redistributive criterion. Others ACs immediately reacted to this stance, either supporting it or by articulating another front to defend competing interests as the example of the *España vaciada* illustrates. Only a few players —mainly Madrid and Catalonia— stayed in the sidelines, declining to engage in the process —and also to cooperate between each other— for strictly political reasons. However, it can be taken for granted that if the reform moves forward, they will come out of their lethargy to get involved in the process and defend their territorial interests. In sum, horizontal cooperation has proven to be a useful tool for weaving cross party alliances in pursuit of common goals. In fact, despite several attempts, the two main political parties have not been able to block cooperation between Autonomous Communities of different political stripes. This has forced these formations to move from a blocking attitude to tolerance, as long as horizontal cooperation does not involve direct confrontation with other ACs ruled by the same party.

The proposal presented by the central government for the calculation of the ACs spending needs demonstrates that the reform of the territorial financing model and, in particular, of equalization continues to be a highly politicized issue, which runs the risk of generating a centrifugal force of a disintegrating nature. The criticisms of Madrid and Catalonia and their lack of interest in participating in the reform are only the tip of the iceberg. The greater sensitivity of the central government to the demands of the *España vaciada* —through the adoption of certain arbitrary variables— comes to reproduce one of the great defects of the 2009 system, since the reform seems to be guided by political criteria rather than technical considerations of equity. This may extend the dissatisfaction to other territories which, despite having participated in the process, see their demands fall on deaf ears, generating a feeling of grievance with dangerous consequences.

The risk of disintegration that the reform process entails explains the lack of ambition of the proposal itself. The central government seems fearful of sparking tensions that would not only hinder the reconciliation process with Catalonia—one of its main objectives for this legislature—but also fuel additional discontent toward the Socialist Party in other territories. Not only it does not address territorial financing from a comprehensive point of view, leaving aside the possibility of increasing the fiscal autonomy of the Autonomous Communities—repeatedly demanded by the experts—but it also fails to present a coherent proposal for updating the equalization compact as it does not cover crucial elements such as the desired level of equalization or the future of the status-quo clause embedded in the FSG. In the background, there seems to be a lack of real will to undertake a comprehensive reform of the regional financing system by Spain's main political formations. With several regional elections on the horizon, it is dubious whether the government or the opposition—whose support is needed for the approval of the reform in the CPFF and, especially, for the necessary modification of the LOFCA given its status as an organic law—are really interested in embarking on an arduous and politically costly process that due to its nature of a zero-sum game would necessarily end in winners and losers⁵². In the end, party politics seem likely to prevail over horizontal cooperation.

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⁵² Pessimism about the reform seems to have spread among the Autonomous Communities, regardless of the governing party; ruling out its implementation during this legislature after no progress was made one year after the government proposal (*Europa Press*, 2022).

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