Cut Card

We negate, resolved: Spain should grant Catalonia its independence.

Our sole contention is an eu economic collapse.

Spain's economy is on the way up. The Economist magazine reports in 2017:

Economist 17 6-17-2017, "Spain's reforms point the way for southern Europe," The Economist, https://www.economist.com/news/europe/21723446-having-tackled-its-problems-earlier-italy-or-greece-spain-now-seeing-results-spains //DF

Globalised and innovative, Gestamp is a symbol of the transformation of Spain's economy. In 2012 the country was a vortex which threatened to suck down the euro. The conservative government of Mariano Rajoy had to go cap in hand to Brussels for a €100bn bail-out for Spain's broken savings banks. A housing bust and the financial crunch plunged the country into a five-year slump, from 2009 to 2013. Now **Spain is heading for its third consecutive year of economic growth of** just **over 3%, the fastest of any large economy in the euro area** (see chart 1). It is creating about 500,000 jobs a year. According to Luis de Guindos, the economy minister, last month the country's GDP surpassed its pre-crisis peak. Much of the credit for this recovery goes to structural reforms the government pushed through in 2012. **Europe's economy as a whole is picking up, too. But apart from Spain, the European Union's Mediterranean countries remain its weakest links**. In Italy and Greece growth has been disappointing. Italy's labour reforms have been tentative, and it is only now tackling its banks' bad debts. Greece is being dragged into reform by its EU creditors, but has howled all the way. Spain tackled these issues earlier and more decisively. Its efforts are bearing fruit. Once more, but with exports Spain's renewed growth has sounder foundations than in the past. In the early years of this century the economy was powered by construction, which accounted for up to a fifth of GDP, and by foreign loans. This time the growth is led by exports, which have reached 33% of GDP (up from 23% in 2009). "We've recovered competitiveness," says Mr de Guindos.

Spain's economy is now a light in a dark continent. It has emerged as a leader in the recovery from the financial crisis, and it needs to remain a leader for the rest of Europe to catch up.

Spain granting Catalonia its independence would doom its economic recovery. This is for two reasons.

First, a loss of tax revenue.

Spain has a progressive tax system, where wealthier regions contribute more to support social spending in poorer regions. Strangely, the Catalan region contributes the most to this system. Torres of Politico explains in 2017:

Torres 17 Diego Torres, 11-15-2017, "Spanish regions to Catalonia: Up yours," POLITICO, https://www.politico.eu/article/spain-regional-conundrum-catalan-independence/ //DF

Catalonia, which doesn't enjoy the fiscal autonomy granted to Navarre and the Basque Country for historic reasons, ranks in the top tier, behind Quebec and the U.S. states but above Scotland and Wallonia in Belgium. The lack of fiscal autonomy is one of the biggest complaints among Catalans, who argue that they pay too much in taxes to sustain poorer regions of Spain. While Navarre and the Basque Country jointly account for nearly 8 percent of Spain's economic output, Catalonia alone represents 19 percent of GDP — meaning that granting it the same financial status as the Basques would have far-reaching economic implications for the entire country. "It's a trade-off," said César Colino, a politics professor at UNED University. "The more fiscal autonomy you have, the less capacity for wealth redistribution you get." Colino argued Spain's regional redistribution isn't as powerful as that of Germany, but much stronger than in the U.S., for example. **The Spanish particularity**, Colino said, **is that two of the wealthiest regions – the Basque Country and Navarre — don't share the costs of redistribution, which forces** other rich regions like Madrid and **Catalonia to assume the extra burden.** Madrid's GDP per capita — the highest in the country — is double that of Extremadura — the lowest. Catalonia's is 75 percent higher than that of Extremadura. Eurostat figures show that regional differences between rich and poor in Spain are lower than in Italy and the U.K. — the latter due to the disrupting role of London — and more or less the same as in France (without taking into account the overseas departments) and higher than in Germany (without the role of city-states such as Hamburg).

Catalan secession would decimate the Spanish taxation system. Studebaker, a PhD student at the University of Cambridge writes in 2017:

Studebaker 17 Benjamin Studebaker, 9-27-2017, "The Left-Wing Case Against Catalan Independence," https://benjaminstudebaker.com/2017/09/22/the-left-wing-case-against-catalan-independence/ //DF

Whenever someone is making a case for independence or self-determination, we need to ask ourselves–is their situation more like the situation of the satyagrahi or the libertarian? Are they more of a Gandhi or an Ayn Rand? Independence movements are not always anti-imperialist. Sometimes they make oppression worse. In the Catalan case, **an independent Catalonia would mean that the Spanish government would have less tax revenue to redistribute to poor and working people in places like Andalusia**. It would aid and abet right-wing Spanish governments in their quest to shrink the Spanish welfare state and erode the hard-won rights of Spanish workers. It would also deprive left-wing Spanish movements of much-needed votes. In the last Spanish election, Catalonia was one of just two regions in Spain to deny Rajoy's People's Party a plurality. Nationally the People's Party won 33% of the vote, but in Catalonia they managed just 13%. The poor and working people of Spain need the solidarity of Catalonia if they are to rid themselves of Rajoy. They've been very close before–in 2015 Rajoy's party managed only 28% and was forced to form a minority government. And yet, at this pivotal moment, many in Catalonia want to bail. It's not their fault. They've lost the group identity that helped them care. They've stopped thinking of themselves as Spanish. But why should Spaniards find that satisfying? Why should the poor and working people of Spain allow Catalonia to just walk out the door and abandon them? When rich libertarians claim that they don't owe us any of their wealth because they're sovereign individuals and taxation is theft, we don't just accept their identity as a credible excuse for disavowing their material obligations. The rich have a duty of justice to the poor. It doesn't matter what language they speak or how different they feel. Cultural differences are no excuse for ignoring material obligations to fellow citizens in need. When independence movements hurt the people in a country who need help the most, they are not left-wing. Andalusia matters. Poor and working Spaniards matter. We mustn't forget about them.

The economic damage done to these regions would harm the whole of Spain. Bosch at CNBC estimates in 2017:

Bosch 17 Sofia Bosch, 9-20-2017, "Spain's economy losing Catalonia would be like the US losing California and Florida combined," CNBC, https://www.cnbc.com/2017/09/21/heres-how-bad-economically-a-spain-catalonia-split-could-really-be.html //DF

"The establishment of a border would result in a loss of jobs, income and wealth for everybody, whether they live in Catalonia or in the rest of Spain," Cuenca told CNBC via email. "Those losses would be provoked by the obstacles to trade, by financial problems, by the spending needs of the new state." While Catalans only account for about 16 percent of the Spanish population, Catalonia makes a hefty contribution to the overall Spanish economy, making 223.6 billion euros ($262.96 billion) a year, according to the regional government. This is around 20 percent of its total gross domestic product (GDP). Larger than the contribution that California makes to the whole United States. Using figures from official European and Catalonian organizations, Business Insider claimed earlier this year that **the region** would quickly gain about 16 billion euros yearly in the case of a split, as they **would no longer have to pay taxes to Spain. This would then result in a loss of about 2 percent to the Spanish GDP** (gross domestic product) **yearly**. At the same time, Catalonia could take a potential hit, as 35.5 percent of Catalan exports are to the Spanish market. Catalonia would also have pay to create new state structures (embassies, central banks, etc.) which carry a large price tag. Earlier this month, Spanish Economy Minister Luis de Guindos claimed that Catalonia could see its economy shrink by 25 to 30 percent and its unemployment double if it splits to form a separate state.

Second, a drop in exports.

Spain's economic recovery relies on their lucrative exports market.

As a result, Spain relies on Catalonia, a major source of exports within the country. According to Tornielli at the Yale Economics Review in 2014:

Tornielli 14 Santiago Botto-Tornielli, 11-16-2014, "Economic Impacts of Catalonia's Bid for Independence," Yale Economics Review, http://www.yaleeconomicreview.org/archives/2223 //DF

An independent Catalan state would have massive consequences for Spain and Europe, and potentially destabilize the fragile global economy. In the first place, the loss of around 20% of its GDP would leave the Spanish economy immensely weaker. Scotland, for the sake of comparison, only makes up 9.5% of the GDP of the U.K. The central government would lose much of its ability to finance spending and to support other regions of the country that have fallen deeply in debt. Secondly, **Catalonia is a major center for transportation, handling 70% of exports from the rest of Spain**. If the region becomes a separate country, the cost of moving those products would increase and further weaken the Spanish economy. Finally, as reported by The Washington Post, GDP per capita in Catalonia is "one-fifth higher than the rest of Spain." Catalonia also produces 45% of Spain's high tech exports, such as automobiles and electronic products. The region is the most productive in Spain, and its loss would lead to a sharp decrease in confidence that the Spanish economy can recover from the crisis. The massive loss of confidence in the Spanish economy would in turn call into question the stability of other, interconnected European markets.

Catalan secession would spoil this relationship. Morato, a professor of economics at the University of Barcelona explains in 2016:

Morato 16 Xavier Cuadras Morató [Associate Professor of Economics, Universitat Pompeu Fabra (Barcelona)], 2016, "Catalonia: A New Independent State in Europe?, A Debate on Secession within the

European Union," Routledge, https://www.routledge.com/Catalonia-A-New-Independent-State-in-Europe-A-Debate-on-Secession-within/Cuadras-Morato/p/book/9781857437522 //DF

It is well known that **trade of goods and services is higher in general within countries than between countries.** This is what economists call **the 'border effect'.** Thus, despite all the rhetoric about economic globalisation and integration, political borders still seem to matter a lot for commerce, even in cases in which there are very few formal restrictions to interstate trade. This phenomenon was first described by McCallum (1995) **for the case of trade between Canadian provinces and US states**. This and other related studies focused attention on the existence of border effects of sizeable magnitude (e.g. in the original study by McCallum, **trade was estimated to be 22 times higher between Canadian provinces than between Canadian provinces and US states**, even when controlling for distance and the economic size of territories). These large figures were considered a puzzle from the point of view of economic theory and generated a very lively line of research in international economics, both trying to measure the border effect with precision and explain the possible reasons for its existence. In principle, there are several obvious possible causes for the border effect, such as the existence of tariffs and other administrative restrictions to trade, different currencies and regulatory regimes across countries. All these might make products more marketable at home than abroad, together with differences in languages, consumer tastes and cultural traits, which have also been mentioned as determinants of the trade effects of a border. Nevertheless, what makes the border effect a more puzzling phenomenon is **its persistence in countries which have very few tariff and non-tariff restrictions between them and even share the language and many cultural referents** (as happens between the United States and most of Canada). Another example would be the case of the countries of the Eurozone, which also have no formal restrictions on trade and even share the same currency and important parts of the legal and regulatory bodies governing markets. A straightforward reason for why this behaviour is considered a puzzle is that it is difficult to reconcile observed trade patterns with the canonical models in international economics (see Obstfeld and Rogoff, 2001). Moreover, several researchers have highlighted the existence of border effects associated with administrative divisions within countries (US states, Canadian provinces, Spanish autonomous communities and so on). 21 For all these reasons the border effect is still a controversial issue which is not very well understood by economists and has generated a considerable volume of research. 22

In the case of Catalonia and Spain, he finds:

Morato 16 Xavier Cuadras Morató [Associate Professor of Economics, Universitat Pompeu Fabra (Barcelona)], 2016, "Catalonia: A New Independent State in Europe?, A Debate on Secession within the European Union," Routledge, https://www.routledge.com/Catalonia-A-New-Independent-State-in-Europe-A-Debate-on-Secession-within/Cuadras-Morato/p/book/9781857437522 //DF

One of the most recent contributions to this debate is Comerford and Rodríguez Mora (2014). It examines the magnitude and impact of the border effect using a theoretically sound international trade model. One of the main objectives of the paper is to assess the economic costs of independence for Catalonia (and other European regions) associated with changes in trade patterns. Departing from the observation that regional economies within a country appear more commercially integrated than countries with each other, even when they belong to common supranational organisations like the European Union, the paper estimates the negative welfare consequences of the economic disintegration that comes with a region severing ties with the state and becoming independent. In order to do this, the authors calibrate the trade effects of the border ('total bilateral trade frictions' in their paper), checking that these are much larger between independent countries than between regions within a country. In fact, Comerford and Rodríguez Mora (2014) argue that their estimates of the border effect are of a similar order of magnitude as some of the most cited papers in the literature, such as Anderson and van Wincoop (2003). Once this is done, they calculate the costs of independence by performing the following counterfactual exercise: imagine that Catalonia and Spain, as separated countries, are as commercially integrated as Portugal and Spain today (Portugal being the closest trading partner of the Spanish economy). If this is the case, **trade flows between Catalonia and Spain would fall by 80 per cent. The model predicts then sizeable losses of GDP both for the Catalan (9.5 per cent) and Spanish economies (1.9 percent).**

Catalan independence would throw Spain back into a recession. Shocking Spain's economy would send shockwaves across Europe. Foster, a professor at Kings College London, explains in 2017:

Foster 17 Dr. Russel Foster [Kings College London], 12-10-2017, "The Great Disappointment: Catalonia, Non-Independence, And The Future Of The European Union," HuffPost UK, http://www.huffingtonpost.co.uk/dr-russell-foster/european-union_b_18235736.html //DF

First, Catalonian independence sets a precedent for dissatisfied Europeans elsewhere. A symbolic victory for local, ethnic nationalism over integrationist, European internationalism, goes against the founding principles of the European Union. As Ines Arrimadas, spokesperson for the anti-independence Citizens' Party, said in her immediate response to Puigdemont's non-declaration, Catalan independence represents "el peor nacionalismo que hay en Europa"; the worst nationalism in Europe. In a continent still facing rising Euroscepticism and lack of trust in centralised institutions and political elites, a victory for regionalism over internationalism sets a precedent for eurosceptic parties in dissatisfied nations - especially debt-burdened Mediterranean nations who have borne the brunt of EU austerity and the Migration Crisis - to hijack Catalan independence and turn it into a rallying-point against the EU's internationalism. Second, **Catalonian independence could easily trigger a eurozone crisis.** Spain has record levels of debt, and the financial relationship between Spain and the EU has been tense since the beginning of the Great Recession**. If the slowly recovering Spanish economy suddenly loses its most profitable region**, and perhaps accrues the high debts of that region, **the Spanish economy will tumble. The consequence of a Spanish financial crisis - which could quickly spread to similarly debt-laden, weakened economies in Greece, Ireland, and an Italy preparing for its own fraught election - could be disastrous.** And unlike the Greek financial crisis, this time there will be no bailouts from Berlin.

The massive loss in confidence in the Spanish economy will call into question the stability of other, interconnected European, and even worls markets.

al job insecurity rose perceptibly. While preliminary estimates suggested that the number of unemployed in 2010 had shown little change from 2009, global job insecurity rose perceptibly. The extent to which this affected different regions and countries varied significantly with the different impacts of the crisis around the globe.

Thus, we negate.

R2R

We negate resolved: Spain should grant Catalonia its independence.

Our sole contention is eviscerating the European economy.

Spain's economy is on the way up. The Economist magazine reports in 2017:

<u>Spain is heading for its third consecutive year of economic growth of over 3%, the fastest of any large economy in the euro area. Europe's economy as a whole is picking up, too. But apart from Spain, the European Union's Mediterranean countries remain its weakest links</u>

Spain's economy has emerged as a leader in the recovery from the financial crisis, and it needs to remain a leader for the rest of Europe to catch up.

Spain granting independence to Catalonia would doom its economic recovery. This is for two reasons.

First, it would cripple Spain's other regions.

Catalonia is one of the wealthiest regions in Spain. Because of the Spanish government's progressive tax system, the revenue taken from prosperous Catalonia is redistributed to other regions. Torres of Politico explains in 2017:

<u>The two other wealthiest regions don't share the costs of redistribution because of agreements they've made with the Spanish government. This forces Catalonia to assume a uniquely large tax burden.</u>

That dependence on Catalonia would make independence all the more painful. Studebaker at the University of Cambridge writes in 2017:

<u>An independent Catalonia would mean that the Spanish government would have less tax revenue to redistribute to poorer regions.</u>

Governmental assistance to underdeveloped Spanish regions increases spending, which helps the economy. As a result, cuts to assistance will decrease consumer spending. Bosch at CNBC estimates in 2017:

<u>Spain would lose 2 percent of GDP every year as a result of Catalonia shirking its tax contribution.</u>

Second, a drop in trade.

Spain's economic recovery has been driven by a strong export sector, manufacturing and shipping goods like cards. The Catalan region is home to two major sea ports, and facilitates the vast majority of Spanish exports. According to Tornielli at the Yale Economics Review in 2014:

<u>Catalonia handles 70% of exports from the rest of Spain.</u>

Catalan secession would spoil this relationship. Morato, a professor of economics at the University of Barcelona explains in 2016:

<u>trade of goods and services is higher within countries than between countries. This is called the 'border effect'. The existence of borders results in protectionist policies; transport infrastructures that give priority to internal connections; and different legal and regulatory systems. All of these factors reduce trade between nations. For example, trade among provinces in Canada is 22 times higher than between Canadian provinces and US states. The border effect even disrupts trade in countries which have very few restrictions between them and even share the language and many cultural referents.</u>

In the case of Catalonia and Spain, he finds:

<u>trade flows would fall by 80 per cent, causing a nearly 2% drop in Spanish GDP, a sizeable loss for the Spanish economy.</u>

Catalan independence would throw Spain into a recession. Shocking Spain's economy would send shockwaves across Europe. Foster, a professor at King's College London, explains in 2017:

<u>Catalonian independence could easily trigger a eurozone crisis. If the slowly recovering Spanish economy suddenly loses its most profitable region the Spanish economy will</u>

<u>tumble. The consequence of a Spanish financial crisis - which could quickly spread to similarly debt-laden, weakened economies in Greece, Ireland, and an Italy preparing for its own fraught election - could be disastrous</u>

The massive loss in confidence in the Spanish economy will call into question the stability of other, interconnected European markets.

Sparking another large scale financial crisis would be devastating. A 2011 UN study found that the last crisis left 27 million people unemployed.

Thus, we negate.

Frontlines

<u>Uniqueness</u>

<u>A2: Current Crisis = EU Crisis</u>

The Catalan crisis hasn't had a noticeable effect on the EU.

Ivanova 17 Polina Ivanova, 11-8-2017, "'Storm in a tea cup'," U.S., Reuters https://www.reuters.com/article/us-spain-markets-catalonia-analysis/storm-in-a-tea-cup-catalonia-is-no-repeat-of-euro-crisis-idUSKBN1D80KH //DF

Even though Catalonia's bid for independence may be Spain's worst political crisis in decades, it has been no Grexit, Brexit or even Frexit for foreign investors. Overseas holders of Spanish stocks and bonds -- and indeed owners of euro zone assets in general -- have been quick to dismiss comparisons with a succession of rolling sovereign debt crises that hit the euro zone between 2010 and 2012. Even though Spain's wealthiest region has a bigger economy than Greece, Portugal and Finland, **<u>relatively unfazed Spanish and Catalonian assets to date shows markets are treating the crisis over Catalonia as a largely domestic issue with few if any systemic sovereign, banking or euro wide threats</u>**. While Spain's blue-chip IBEX .IBEX equity index is about 7 percent off the year's highs, it is still up more than 10 percent for 2017 as a whole. The Spanish government's 10-year borrowing costs as well as their risk premium over German equivalents are lower than where they started the year. The euro exchange rate has barely budged. On one level the scale of financial risk more than gross domestic output of the area is of a different order. Catalonia's debt level -- at around 77 billion euros -- is around quarter that of Greece.

Even though Catalonia is causing trouble, they won't actually leave... unless Spain gives it to them

Amaro 17 Silvia Amaro, 10-27-2017, "3 major reasons why markets don't care about Spain's Catalan crisis," CNBC, https://www.cnbc.com/2017/10/30/3-major-reasons-why-markets-dont-care-about-spains-catalan-crisis.html //DF

Relatively sanguine stock markets around the world, despite a fierce constitutional crisis raging in Spain, has left analysts contemplating why investor sentiment hasn't been hit by Catalonia's quest for independence. Spanish stocks rose 1.7 percent Monday morning despite the political unrest in Catalonia. Spain's IBEX is only down by 0.7 percent since the independence referendum that took place on October 1 and it is up by 9 percent year-to-date. Other European bourses have been unaffected too. Claus Vistesen, chief euro zone economist at Pantheon Macroeconomics, believes that Catalonia's inability to push through with independence is a key reason for the optimism. "Markets deem it unlikely that Catalonia will go full rogue and try to engineer some kind of hard break from Spain. After all, they don't have the support of government structure to do that," he told CNBC via email on Monday. On Friday, the Spanish region of Catalonia declared independence from Madrid while the national government imposed direct rule over the regional government and called for fresh elections. Spanish shares dipped on the news and 10-year government bond yields hit a session high. However, markets soon stabilized and Philippe Gijsels, chief strategist at BNP Paribas Fortis, believes that cheap money in Europe, thanks to the European Central Bank's (ECB) quantitative easing program, is also making investors calm.

A2: Spanish Econ Harms Now

Vila 18 Natalia Vila, 1-12-2018, "Airef: Catalan economy to grow more than Spain's in Q1," Ara Cat Forecasting, https://www.ara.cat/en/Airef-Catalan-economy-Spains-Q1_0_1941405933.html //DF

Airef's president, José Luis Escrivá, also predicted last November that the impact on the Spanish economy of uncertainty in Catalonia could be four tenths (around 4 billion euros) if the political crisis was temporary, and up to 1.2 percent of GDP (some 13 billion euros) if, on the contrary, the uncertainty persisted for longer. If this were to happen, Airef's initial forecast was that Spanish economic growth could be cut by 1.5% next year. With respect to Catalonia, Airef considered that the economy could shrink by between 0.7% (in a best-case scenario) and 2.7% if tensions surrounding independence were to continue. Nevertheless, **the situation has changed since November, and Airef has been correcting its forecasts to more positive ones**, in real time as the various indicators it uses to carry out its calculations have been published. These include the unemployment and employment rate, the Index of Industrial Production, consumption, imports and lending to businesses and households, among others. Airef is keen to point out that the latest figures reflect a "slight acceleration" in the pace of economic growth, mainly because there is a greater contribution from domestic demand. The situation is also helped by the fact that demand at home has remained positive, albeit at more moderate levels. Thus, Airef now forecasts a **year-on-year growth for Spanish GDP of 3.3% for the first quarter of 2018**, the same figure it estimates for the final quarter of 2017 compared to that of 2016 and 0.2 higher than it forecast for the annual average of last year. The 0.77% rise for the whole of Spain during the first quarter is also in line with what Airef had already predicted for the fourth quarter of 2017: an increase of 0.8%.

Weighing

Self-Determination

1. Magnitude: Catalans remaining in Spain losing a little autonomy, but have much better lives. Many other regions are also wealthier

2. Scope

2. Link-in: impoverishment in Catalonia destroys their ability to self-determine because trapping people in poverty destroys their ability to make their own decisions.

4. Timeframe: Article 155 is going to end this week when Catalonia forms a government, but the damage to Catalonia is long-lasting

Uncertainty

Catalan Fiscal Deficit

Violence

Extras

Uniqueness

Europe's economy is on the rise

Erian 17 Mohamed A. El-Erian, 11-20-2017, "How to Build on Europe's Economic Recovery," Bloomberg, https://www.bloomberg.com/view/articles/2017-11-20/how-to-build-on-europe-s-economic-recovery //DF

After years of crisis management, heightened self-doubt and even existential threats, Europe is in a much better place. Economic growth is picking up, political uncertainty has diminished, and despite (if not partially because of) Brexit, the vision of an "ever-closer" regional union is energizing some new constructive thinking in core countries. Translating this into sustainable prosperity, however, is far from automatic, and that pivot will be problematic without progress in four key areas. The latest set of robust high-frequency numbers shows that Europe's economy is growing at a much healthier 2 percent to 2.5 percent annual pace, with many more of its member states sharing in the growing expansion. Although youth joblessness remains an acute problem in several economies, the overall unemployment rate is coming down. And, with ample liquidity, European financial markets have been performing well, both in absolute terms and relative to others. The endogenous economic and financial healing is opening the way for reducing the prolonged reliance on the unconventional monetary policy measures being implemented by the European Central Bank. The ECB can start thinking seriously about an exit plan for both negative interest rates and its program of large-scale purchases of securities, though it will be very gradual, which will also help to reduce a high risk of greater political challenge to its institutional independence.

Spain's economy is on the way up. Goodman at the New York Times writes in 2017:

Goodman 17 Peter S. Goodman, 7-28-2017, "Spain's Long Economic Nightmare Is Finally Over," New York Times, https://www.nytimes.com/2017/07/28/business/spain-europe-economy-recovery-unemployment.html //DF

The bustling activity at the SEAT auto factory in this industrial town just west of Barcelona attests to the new reality coloring life in Spain. **The economy is growing again**, expanding at around 3 percent pace over the last year, **producing goods for export, generating jobs and restoring a sense of normalcy to a nation that has been saturated in despair**. This is good news not merely for Spain, but for Europe and the rest of the global economy. **For most of the last decade, Spain has suffered** as an extreme example of the economic carnage that has assailed the 19 nations sharing the common European currency. **Its astonishing levels of unemployment**, which peaked at 26 percent, **stood as a prominent marker of the desperation inflicted by the implosion of its real estate investment bubble, combined with the global financial crisis. Now, Spain's economy has returned to its pre-crisis size**, according to data released by the government on Friday. This seemingly puts the finish to one of the worst economic catastrophes to play out in Europe in the years since World War II. It suggests that the continent, still grappling with formidable, even existential challenges, has finally achieved recovery.

While Catalonia Pays 12 billion more than it gets back from tax revenue, Andalusia, a poor region, gets 8 billion more than it pays (Reuters Editorial)

Reuters Editorial, 17, 9-21-2017, From new tax office, Catalonia hopes to grab billions from Madrid, U.S., https://www.reuters.com/article/us-spain-politics-catalonia-tax/from-new-tax-office-catalonia-hopes-to-grab-billions-from-madrid-idUSKCN1BW10A , 1-13-2018, (NK) On Wednesday police entered the Catalan economy and budget department and the tax office as part of a raid on regional government offices, seizing documents and cutting off phone lines, according to a department official. It was the latest step in Madrid's campaign to prevent the referendum from going ahead.During the raids, police arrested Salvado, the junior economy minister Josep Maria Jove and three other department officials, the official said. They remain under arrest, the official said. Catalonia's resolve also worries some investors in Spanish bonds and the tax agency's expansion suggests an early post-independence flashpoint with Madrid could be a financial one. **Catalonia,** with an economy larger than Portugal's, says it receives an unfair redistribution of tax revenues from Madrid. Each year, it **pays about 10 billion euros ($12 billion) more in taxes to Madrid than it gets back,** or around 5 percent of regional economic output, according to data from the Spanish Treasury. **In contrast, Spain's poorest region, Andalusia, receives almost 8 billion euros more than it pays in.** "The money issue is one of the roots of the problem, the feeling that Catalonia is being ripped off," said Angel Talavera, a Catalan economist at consultancy Oxford Economics. If its agency took over all forms of taxation, it would also collect income, company and value-added taxes, bringing total receipts to 42 billion euros, Salvado said. The agency collected about 3 billion euros last year, according to a spokeswoman for the Catalan economy and budget department. To avoid financial collapse, an independent Catalonia would need those tax revenues, economists say. It has 75 billion euros in public debt, 35 percent of its economic output, one of the highest of all Spain's regions, and its government bonds are already classified as "junk" by credit rating agencies.

Links

Border Effect

Reasons for why the border effect happens

Morato 16 Xavier Cuadras Morató [Associate Professor of Economics, Universitat Pompeu Fabra (Barcelona)], 2016, "Catalonia: A New Independent State in Europe?, A Debate on Secession within the European Union," Routledge, https://www.routledge.com/Catalonia-A-New-Independent-State-in-Europe-A-Debate-on-Secession-within/Cuadras-Morato/p/book/9781857437522 //DF

Nevertheless, the existence of border effects is one of the main arguments of the opponents of independence. According to them, the creation of a political border would have as an inevitable consequence the reduction of trade flows between Catalonia and Spain. This would produce important economic losses for the new state and make secession undesirable. In order to evaluate the relevance of this type of argument it is crucial to make progress on the very precise causes of the border effect, because it seems obvious that borders, international or interregional, do not affect trade per se. **Trade is affected**, however, **by many** other **factors that might be correlated with the existence of borders: protectionist policies at both sides of the frontier; culture, preference and language differences; use of different currencies; transport infrastructures that give priority to internal connections rather than openness and easy access to foreign countries; existence of formal and informal business networks; different legal and regulatory systems; or different transmission of information in the international markets. Thus, it is likely that the independence of Catalonia would reduce the volume of trade between Catalonia and Spain** if this altered some of the factors that have been associated with the border effect. Assume that Catalonia continued using the euro as its currency, Catalans did not suddenly lose their command of the Spanish language and the business networks built over the years between companies on both sides of the frontier did not vanish immediately. All this implies that it is reasonable to expect that the trade patterns between both countries would not experience dramatic changes. Assume, instead, that the new Catalan state strongly reinforced its links with the European market by heavily investing in new transport infrastructure and that, for political or emotional reasons, Spanish and Catalan consumers modified their tastes and tended to discriminate against the other country's products (participating in a consumer boycott, for instance). In this case the consequence of secession would be a not negligible modification of the trade patterns between the two countries.

Debt

Catalan secession would bog both Catalonia and Spain down in lengthy negotiations over the terms of independence. A lot has to be worked out when you create a new country. Campanella writes in Foreign Affairs magazine in 2016:

Campanella 16 Edoardo Campanella, 12-14-2016, "Europe, Fracturing From Within," Foreign Affairs, https://www.foreignaffairs.com/articles/europe/2017-01-17/europe-fracturing-within //DF

Similar dynamics are at play in Belgium, too. The more a region benefits from being part of a large open economy, the more it supports it, and vice versa. Last October, for example, the poorer Belgian region ofWallonia [9] blackmailed Brussels by voting against the free trade agreement with Canada and by temporarily blocking its ratification. Although the economic rationale for secession looks strong, the political consequences could be devastating for Europe. **The breakup of a nation would imply endless negotiations to split assets and liabilities (such as the public debt)**, the emergence of tensions between the central government and other regions, and the loss of global influence, which is a function, at least to some extent, of the size of an economy. At the same time, although small jurisdictions tend to be more supportive of continental-wide policies than large nations, the proliferation of sovereign entities would create enormous coordination costs for the European Union. And **financial investors, no matter how**

__well the process is managed, would panic and fly away__. That is why __Europe should avoid creating dangerous precedents__—but it should do so in an enlightened way. It might seem, then, that the best deterrent for irredentism would be threatening to deprive a secessionist region of its membership to the European bloc. __That is probably why Spanish Prime Minister Mariano Rajoy continues to warn Catalonia that its access to the single market as an independent entity would not be guaranteed__. The same goes for Scotland. And no European leaders want to open the Pandora's box and trigger an avalanche of secessionist movements in a continent containing 250 regions [10] with clear cultural, ethnic, or historical identities. But should Scotland or Catalonia successfully gain independence, Brussels would hardly be able to ignore their requests for membership, as doing so would isolate millions of people from the rest of the continent. Not surprisingly, Jean-Claude Juncker [11], president of the European Commission, imprudently stated that Scotland deserves a "hearing" in the aftermath of the Brexit vote.

Currency

The use of the euro requires a monetary agreement with the EU, which Catalonia probably won't get

Marinzel 14 Zia Marinzel [John Carroll University], Spring 2014, "Catalonia: The Quest for Independence from Spain," John Carroll University, Carroll Collected, https://collected.jcu.edu/cgi/viewcontent.cgi?article=1039&context=honorspapers //DF

It is not clear whether Catalonia would establish a new currency or not following independence. **__Catalonia would not be considered part of the euro area once it lost EU membership. There are principalities that use the euro and are not EU member states__**, including Monaco, San Marino, Vatican City, and Andorra. **__These areas can officially use the euro as their currency through monetary agreements with the EU__** (European Commission). If the EU is willing to negotiate with an independent Catalonia, it may be able to make a similar agreement to use the euro Marinzel 23 as its national currency. A second option for Catalonia would be to use the euro as a de facto currency, like Andorra did for years before the construction of its monetary agreement with the EU (European Commission). In this scenario, the euro would have no legal status in Catalonia, but it would be used in place of a domestic Catalan currency. Although a plausible option, an analysis of de facto euroisation is beyond the scope of this paper. Nevertheless, it is useful to speculate the consequences of establishing a new Catalan currency. This may be a realistic option for Catalonia if the EU is unwilling to create a monetary agreement with Catalonia and it loses access to the ECB and ESM. The ESM provides financial assistance to EU member states, such as providing loans and purchasing debt. If Catalonia loses access to these, as well as the Spanish bailout fund, it may develop a new currency and print its own money.

Second, a Catalan currency crisis.

According to the BBC, in 2017:

BBC 17 12-22-2017, "Reality Check: Would Catalonia be a viable country?," BBC News http://www.bbc.com/news/world-europe-41474674 //DF

Some in the pro-independence camp feel that Catalonia could settle for single-market membership without joining the EU. Catalans may well be happy to pay for access, and continue to accept free movement of EU citizens across the region's borders. But if Spain chose to, it could make life difficult for an independent Catalonia. There is also the question of currency. In 2015, the governor of the Bank of Spain warned Catalans **__independence would cause the region to drop out of the euro automatically, losing access to the European Central Bank__**. Normally, new EU member states must apply to join the euro. They have to meet certain criteria, such as their debt not being too large a percentage of their gross domestic product (GDP). Even if they meet those criteria, a qualified majority of eurozone countries has to approve their entry. In theory, that means even if Catalonia became a new EU member state, it may well take time to rejoin the eurozone - and Spain and its allies could block that. In practice, we just don't know what would happen. Nobody has ever declared independence from a member of the eurozone then asked to rejoin as a new country.

Loss of access to the EU would prompt Catalonia to set up its own currency, but this would create serious economic problems. Marinzel, a professor at John Carroll University, writes in 2014:

Marinzel 14 Zia Marinzel [John Carroll University], Spring 2014, "Catalonia: The Quest for Independence from Spain," John Carroll University, Carroll Collected, https://collected.jcu.edu/cgi/viewcontent.cgi?article=1039&context=honorspapers //DF

Creating a new currency from scratch would prove difficult for Catalonia. It is safe to assume that **foreign investors would not have much confidence in a brand new currency from a country that was the highest indebted Spanish region**, had rising unemployment, and faced disinvestment from businesses. Since Catalonia's exports will suffer from decreased trade, its current account will worsen, **depreciating the new Catalan currency and making it weaker against the euro**. Even though depreciation can be helpful in making exports cheaper, Catalonia may not regain all of its export power. There is the possibility that Catalonia could be forced into sovereign debt default if it cannot repay its debt that was covered by the twelve billion dollar bailout fund (Deo, Donovan and Hatheway 7). A report by UBS analyzes the impact Marinzel 24 of 'breaking-up' with the euro, and although the report is intended to analyze the consequences of a weak country leaving the euro, it can be applied loosely to the Catalan example. The report draws attention to the possibility of corporate default. When the currency change is applied to corporations, they will also default if they carry debt abroad and begin receiving revenue in the new Catalan currency, which would be significantly weaker against the euro (Deo, Donovan and Hatheway 7). **Since the new Catalan currency is expected to be much weaker against the euro, bank runs are a serious possibility. Depositors in Catalan banks may attempt to withdraw their accounts before the funds are converted into the new currency**. As UBS points out, "the obvious response of anyone with exposure to the secessionist banking system is to withdraw money from the bank as quickly as possible" (Deo, Donovan and Hatheway 8). Businesses and individuals may attempt to do this and businesses may be exposed to currency risk (Cominetta 6). Depending on the amount of depreciation the new currency faces, Catalonian stockholders could gain nothing.

The Euro is an unstable currency. Worstall at Forbes Magazine writes in 2016:

Tim Worstall, 8-24-2016, "The Euro Is Killing The European Union," Forbes, https://www.forbes.com/sites/timworstall/2016/08/24/the-euro-is-killing-the-european-union-more-it-should/ //DF

Stiglitz was not the first to say this of course (see Milton Friedman again). If you search the web thoroughly you'll find that my first writings upon it were making exactly this point on sci.econ back in the 1990s. It, the euro, is simply a bad idea which will not work. The background here is optimal currency areas. The more people that use a currency the better it is as a medium of exchange, that means more trade, all get richer and Hurrah! However, **the larger the currency area then the larger the area over which we must have one single monetary policy. The same interest rate, same rate of growth of the money supply and so on. And the larger the area the more likely we are to have asymmetric shocks which require that we have differing monetary policies**. That's bad, Booo! Thus we have an "optimal" area for a single currency. All know, everyone has known all along, that the eurozone is too large to be optimal. In the absence of compensating fiscal policy the UK is too large to be an optimal area for the pound, Italy too large for the lira and so on. It is possible to enlarge that optimal area by having a common fiscal policy. This is what the US does - taxes raised in Maryland might be spent in Mississippi. This does embiggen the area which can be regarded as optimal. But note that this would mean in the European context. German taxes would pay Greek pensions - this is not going to happen. And it absolutely isn't going to happen at the sort of scale necessary. We would need to funnel 20% or so of eurozone GDP though Brussels, as we do of US through Washington DC, to gain that effect. It really just is not going to happen, not any time this century nor likely next.

If Catalonia secede from Spain, it would automatically be kicked out of the Eurozone, the group of nations that uses the euro as a currency. Guigliano at Bloomberg News explains in 2017:

Guigliano 17 Ferdinando Giugliano, 10-6-2017, "Catalans Would Pay a High Price for Independence," Bloomberg, https://www.bloomberg.com/view/articles/2017-10-06/catalans-would-pay-a-high-price-for-independence //DF

The economic case for an independent Catalonia rests on the region's wealth. In 2016, each Catalan citizen earned on average 28,600 euros ($33,500), which is roughly 19 percent higher than the income of an average Spaniard. Catalonia produces a fifth of Spain's economic output and more than a quarter of its exports. It also pays in taxes more than it receives in public spending though the exact figure is disputed. Over the long run, Catalonia would no doubt be a viable economy.However, the transition to that new, steady state would be messy. **Catalonia would need to reapply to join** the EU and **the euro zone.** This would be a lengthy process and require the approval of all member states, including Spain. **In the meanwhile, Catalonia would have two options. One would be to set up its own independent currency. The other**, which is more likely, **would be to introduce the euro unilaterally**, much like Montenegro did. Catalonia would not, however, have any say on the conduct of monetary policy, since only euro zone member states are represented on the governing council of the European Central Bank. **Either arrangement would create problems for financial stability. The introduction of a new currency would prompt depositors to pull their money from banks, fearing devaluation**. A new central bank of Catalonia would be forced to print more money to stop the run, contributing to the currency plunge and stoking inflation. Alternatively, **the "eurofication" of the Catalan economy would leave Barcelona without a meaningful backstop for its banks, as they would stop being under the umbrella of the European Central Bank and of the European Stability Mechanism.** Banco Sabadell, the second largest bank located in Catalonia, has already relocated its headquarters. CaixaBank SA, the biggest bank in the region, is considering doing the same. As it faces a major financial crisis, Catalonia would need to negotiate a new trade deal with the EU. The EU would likely demand as a precondition that Barcelona takes on a portion of Spain's sovereign debt. One option would be for Catalonia to accept an amount of debt equal to its share of GDP. That solution would leave Spain's debt-to-GDP ratio unchanged at around 100 percent, Catalonia's debt would shoot up from its current level of roughly 35 percent to nearly 100 percent of its own income (far above the EU's admittedly unenforced 60 percent convergence criteria joining the euro zone). The good news would be that such a split could open the way to a negotiated deal over market access to the EU and the rest of Spain.

Disputes over currency use could slow growth and cause recession in the whole of Europe. Moses of the Illinois Journal of International Security explains:

Moses 16 Patrick Moses, 4-14-2016, "Regional Secession to Euro Breakup: How an Independence Movement Can Threaten European Union Integrity," University of Illinois Journal of International Security, https://publish.illinois.edu/illinijournalofinternationalsecurity/blog/blog-spring-2016/regional-secession-to-euro-breakup-how-an-independence-movement-can-threaten-european-union-integrity/ //DF

Any independence movement would pledge to improve the regional economy. **For a region that presently utilizes the Euro, questions about if they would be allowed to continue to use the common currency would lead to volatility in the Eurozone markets**. The Maastricht Treaty requires a country to meet five criteria relating to its inflation and exchange rate of its currency, debt and deficit of the government, and the interest rate at which they borrow. These criteria must be met for at least 12 months prior to joining the Eurozone currency union[2]. A central issue would be if the seceding region would be allowed to continue to use the Euro. If they need to apply as a new member country, would the new country have to create a new currency in order to meet the full Maastricht Criteria? Or, would the ECB and the Eurogroup allow the new country to meet only some of the criteria while they continued to use the Euro currency? **<u>These questions alone would stress Eurozone markets if a region had commenced a secession process. Any monetary agreement short of full, continued use of the Euro would add significant uncertainty to the European economy. Member countries that already have slow growth could see their economies go into recession, and those already there would only see it worsen</u>.** Government deficits would grow with lower tax revenue and higher expenditures on social safety net programs. However, the ECB could be discouraged from grandfathering in the new country because of the uncertainty of trusting the new government to maintain its deficit and debt-to-GDP ratio within the bounds of the treaty. It's also worth mentioning the unlikelihood of a new country meeting the long term borrowing interest rate requirement with the uncertainty in its market. Therefore, the EU would likely not allow any new country to continue to use the Euro. Should they allow some form of this, it could create a precedent, encouraging other regions to pursue independence further threatening economic stability in the Eurozone. The second problem with a region seceding is the question of the how to divide the sovereign debt. A region like <u>Catalonia seceding for mainly economic reasons may have a large number of disputes with Spain concerning debt that remain unresolved for a significant amount of time</u>.[3] <u>These disputes will affect the parent countries debt</u> in context of the Maastricht Treaty <u>and discourage investment in both regions. The parent country will find its economy and government budget negatively affected</u>. A similar situation played out when South Sudan seceded from Sudan[4], but in that instance, it was without the strong regional economic ties that EU members have with each other. For these two reasons, the ECB and the Eurogroup would strongly discourage secessionist movements. Should independence appear imminent, the other members of the EU may decide to suspend the country's membership or even expel it. However, the European Union and the Eurozone models rely on cooperation and eliminating trade barriers. Forcing out member states increases barriers and restrictions, hurting growth in remaining member countries. The EU is already stressed by Greek debt crisis, slow growth in the Mediterranean region, and the Syrian refugee crisis. A region wide recession, whether created from regional secessions or member state expulsion, could contribute to member countries voluntarily leaving the European Union. This could escalate into a wider Eurozone breakup.

<u>Internal Link</u>

Tornielli 14 Santiago Botto-Tornielli, 11-16-2014, "Economic Impacts of Catalonia's Bid for Independence," Yale Economics Review, http://www.yaleeconomicreview.org/archives/2223 //DF

The economic crisis that has plagued Europe since 2008 aggravated the complaints of many Catalans and triggered the latest movement for independence. Even before the crisis, Catalonia faced a budget deficit which many argued was a result of the taxes paid by the region to the central government. According to the Catalan government, it pays 16 billion Euros more to Madrid than it, in turn, receives. After 2008, the deficit became a major burden that required deep austerity measures in the region. The uncompromising attitude of the central government has only added to the resentment, and convinced many Catalans that the future for their people lies away from Spain. **<u>An independent Catalan state would have massive consequences for Spain and Europe, and potentially destabilize the fragile global economy.</u>** In the first place, the loss of around 20% of its GDP would leave the Spanish economy immensely weaker. Scotland, for the sake of comparison, only makes up 9.5% of the GDP of the U.K. The central government would lose much of its ability to finance spending and to support other regions of the country that have fallen deeply in debt. Secondly, Catalonia is a major center for transportation, handling 70% of exports from the rest of Spain. If the region becomes a separate country, the cost of moving those products would increase and further weaken the Spanish economy. Finally, as reported by The Washington Post, GDP per capita in Catalonia is "one-fifth higher than the rest of Spain." Catalonia also produces 45% of Spain's high tech exports, such as automobiles and electronic products. **<u>The region is the most productive in Spain, and its loss would lead to a sharp decrease in confidence that the Spanish economy can recover from the crisis. The massive loss of confidence in the Spanish economy would in turn call into question the stability of other, interconnected European markets</u>**. Independence, however, may have severe consequences for Catalonia itself. Exports are an important part of Catalonia's economy, and the uncertainty resulting from new borders and regulations could have a negative impact on Catalan products. France is the top destination for Catalan exports, but the next three purchasers are other regions of Spain. With a wounded Spain shutting its doors to the potentially independent Catalan state, the region would face a significant loss of trade. The loss would become even greater if Catalonia is not readmitted into the EU, which would be unlikely but is a distinct possibility. Moreover, ratings agencies have already threatened to downgrade Catalonia's regional debt if a solution to the problem is not found. The central Spanish government plays an important role in guaranteeing the payment of regional debts. Without this support the risk on Catalonia's debt would increase to potentially problematic levels. An independent Catalonia would therefore run the risk of falling into a debt crisis painfully similar to Spain's.

Overall, a Catalonian exit will send economic shockwaves throughout Europe, causing massive disruptions and recessions. Mcrae at the Independent concludes in 2017:

Mcrae 17 Hamish Mcrae, 9-30-2017, "The Catalan independence referendum is a much bigger issue for the EU than Brexit," Independent, http://www.independent.co.uk/voices/catalonia-catalan-referendum-spain-eu-economic-powerhouse-brexit-european-union-a7975766.html //DF

Legally, Spain would be able to push an independent Catalonia out, but in the real world of European politics it would be hard for the rest of Europe to exclude a country that wanted to remain a member – or to be technically more correct, to rejoin. In economic terms Catalonia will be fully viable and there is no practical reason why it should not continue to use the euro, even if technically it were for a time outside the EU. The obvious big question really is not so much the outcome of the referendum but whether Spain and Catalonia can rebuild their relationship. **If they cannot do so, then Catalonia becomes a threat not just to Spain but to the EU as a whole**, in some ways **a greater threat than the departure of the UK**. One of the lessons of the past couple of years is not just that politics have become unpredictable; it is also the economic consequences of a political event are unpredictable too. By rights the decision or non-decision of 7.5 million people ought not to unsettle Europe. But a week from now it may look very different.

Greek Debt Crisis

The Greek crisis was a huge potential danger

Lee 15 Timothy B. Lee, 6-29-2015, "Why the Greek economy is melting down," Vox, https://www.vox.com/2015/6/29/8862583/greek-financial-crisis-explained //DF

For a brief period of time, the eurozone's woes became an obsession of policymakers all around the world because it **looked like they might cause a global banking crisis in which national bankruptcy would lead to bank runs, which would lead to new bankruptcies and catastrophe without end**. That didn't happen, but you have to understand those fears to appreciate the still-high stakes in the crisis and why policymakers sometimes seem smug about an economic situation that is still rather dire. Europe's three fears Bank run in Nicosia, Cyprus. (Patrick Baz/Getty) Fear of defaults: As debt-to-GDP ratios soared in crisis-hit countries, investors began to fear that those countries would default on their debts. That made it more expensive for those countries to pay for ongoing budget deficits, which made default more likely. There were real, fundamentals-based reasons to worry about the sustainability of European borrowing, but all those problems were being exacerbated by this self-reinforcing cycle. Fear of bank runs: A eurozone member state that defaulted on its debts would likely be forced out of the eurozone and onto a new devalued currency. That would be terrible news for anyone with money stored in the defaulting country's banks. Consequently, as default seemed more likely, people wanted to withdraw money from the local banking system. Those withdrawals threatened runs on the local banks, which would have required bailouts to prevent economic collapse — bailouts that countries already at risk of defaulting on their own debt couldn't afford. Meanwhile, banking systems increasingly starved of funds couldn't make loans to local businesses, further exacerbating the economic problems at the root of the crisis. Fear of contagion: A Greek default, devaluation, and series of bank runs would not, on its own, be a huge deal for the global economy. But if Greece defaulted, that would make investors more worried about Ireland and Portugal. Those worries about Ireland and Portugal would make defaults and bank runs in those countries more likely. Those defaults would increase fears about Spain and Italy. And if Italy went bankrupt, then who would really be safe? Belgium? France? Europe's potential catastrophe **Policymakers around the world worried about a scenario in which a single national default** (most likely in Greece) **would create bank runs in other countries, which in turn would force new defaults. Those defaults would create their own bank**

runs and an even bigger waves of defaults. Defaults by countries the size of Italy and Spain would cause massive losses to foreign banks and trigger a new round of global financial crisis. In the interests of avoiding mass panic, non-European leaders generally tried to project an air of public calm about this. But certainly the American government spent much of 2010 and 2011 terrified of a true disaster emanating from the other side of the Atlantic and lobbied as hard as possible for a solution that would avoid as much.

The Mere threat of Greece defaulting on their debt caused the eurozone debt crisis. If they, or any of the other countries affected by the crisis had defaulted on their debt, the consequences would have been worse than the 2008 financial crisis (Amadeo - The Balance)

Kimberly Amadeo, 14, 11-14-2014, How the Eurozone Crisis Affects You, Balance, https://www.thebalance.com/eurozone-debt-crisis-causes-cures-and-consequences-3305524, 1-7-2018, (NK)

The eurozone debt crisis was the world's greatest threat in 2011. That's according to the Organization for Economic Cooperation and Development. Things only got worse in 2012. **The crisis started in 2009 when the world first realized Greece could default on its debt. In three years, it escalated into the potential for sovereign debt defaults from Portugal, Italy, Ireland and Spain.** The European Union, led by Germany and France, struggled to support these members. They initiated bailouts from the European Central Bank and the International Monetary Fund. These measures didn't keep many from questioning the viability of the euro itself. **If those countries had defaulted, it would have been worse than the 2008 financial crisis.** Banks, the primary holders of sovereign debt, would face huge losses. Smaller banks would have collapsed. In a panic, they'd cut back on lending to each other. The Libor rate would skyrocket like it did in 2008. The ECB held a lot of sovereign debt. **Default would have jeopardized its future. It threatened the survival of the EU itself. Uncontrolled sovereign debt defaults could create a recession or even a global depression.** It could have been worse than **[in] the 1998 sovereign debt crisis**. **When Russia defaulted, other emerging market countries did too.** The IMF stepped in. It was backed by the power of European countries and the United States. This time, it's not the emerging markets but the developed markets that are in danger of default. Germany, France and the United States, the major backers of the IMF, are themselves highly indebted. There would be little political appetite to add to that debt to fund the massive bailouts needed.

The Eurozone

The eurozone is a group of European countries that have agreed to use the same currency, and follow the same monetary policy

Yglesias 15 Matthew Yglesias, 1-5-2015, "The eurozone is a political project, not an economic one," Vox, https://www.vox.com/cards/eurozone-crisis/what-is-the-eurozone //DF

If you try to understand the eurozone as an economic policy idea, you'll quickly start to see that it's a pretty stupid idea. That will lead naturally to the conclusion that its architects were stupid people, and that the policymakers in Brussels and Frankfurt who oversee it today are also stupid people. And if you try to understand everything that's going on through the lens of stupid people doing stupid things, you'll end up misunderstanding the situation. The single most important thing to understand about the eurozone — the group of 19 European Union member states who use the euro as their official currency — is that it's primarily a political project, not an economic one. And despite the considerable problems with European economies, it gives every indication of succeeding in its political goal of pushing deeper and deeper integration of European countries. Ireland's main trading partners are the United States and the United Kingdom. Finland's main trading partners are Russia and Sweden. Economics simply can't explain why they would want to be in a currency union with Italy and Portugal and Greece. The eurozone's member states — Portugal, Spain, France, Luxembourg, Belgium, the Netherlands, Germany, Italy, Austria, Ireland, Finland, Cyprus, Estonia, Malta, Greece, Slovakia, Slovenia, Lithuania, and Latvia — have all forsworn sovereign control over monetary policy and handed it over to the European Central Bank in Frankfurt. The ECB sets interest rates, controls the quantity of euros in circulation, and generally performs for its members the functions that the Federal Reserve does for the United States or the Bank of Japan does for Japan. As an economic policy, this is an idea with some serious flaws. The eurozone is not what economists call an optimal currency area — its economies are too big and disparate.

The purpose of the eurozone is primarily *political*, not economic. This means that member states are willing to sacrifice economic opportunity in exchange for what they see as a political gain

Yglesias 15 Matthew Yglesias, 1-5-2015, "The eurozone is a political project, not an economic one," Vox, https://www.vox.com/cards/eurozone-crisis/what-is-the-eurozone //DF

But European Economic and Monetary Union isn't a blunder, it's an incredibly ambitious political idea. In the late 1940s and early 1950s, European leaders decided that World War II was not just a uniquely horrible event but the culmination of a centuries-long process of great-power rivalry. They committed to the construction of a series of institutions — first the European Coal and Steel Community, then the European Economic Community, then the European Union — that would make war impossible. By integrating the steel industries of France and Germany, it would be impossible for either country to produce war material without the cooperation of the other. Deeper integration in subsequent decades only makes military hostility even more difficult. The slogan underlying these efforts is "ever closer union," and the monetary union is a step toward that goal. And indeed, while the past five years have been a time of economic trouble for members of the eurozone, those very troubles have pushed the member states toward even closer forms of political and economic integration on subjects like budget discipline and bank regulation. The political meaning of the eurozone and the European Project differs a bit from place to place. To France and Germany, it means the end of war. To Ireland, it means independence from the United Kingdom. To Finland and Latvia and other eastern states, it means independence from the Russian sphere of influence. For Spain and Portugal, it means the end of dictatorship and integration into the realm of democracies. For Greece, it means (unlike Turkey) certification as a real European country. These big political ideas are what drive the eurozone and the vast majority of mainstream European leaders. It's why these countries are willing to put up with a lot of pain to keep the eurozone alive. Everything beyond the survival of this dream — including the practical economics — is secondary.

The big *economic* problem is that making monetary policy is very difficult for a number of very different states

Yglesias 15 Matthew Yglesias, 1-5-2015, "The eurozone is a political project, not an economic one," Vox, https://www.vox.com/cards/eurozone-crisis/what-is-the-eurozone //DF

The eurozone's member states — Portugal, Spain, France, Luxembourg, Belgium, the Netherlands, Germany, Italy, Austria, Ireland, Finland, Cyprus, Estonia, Malta, Greece, Slovakia, Slovenia, Lithuania, and Latvia — have all forsworn sovereign control over monetary policy and handed it over to the European Central Bank in Frankfurt. The ECB sets interest rates, controls the quantity of euros in circulation, and generally performs for its members the functions that the Federal Reserve does for the United States or the Bank of Japan does for Japan. As an economic policy, this is an idea with some serious flaws. The eurozone is not what economists call an optimal currency area — its economies are too big and disparate. One way this flaw plays out is that Europe has very limited labor mobility compared with, say, the United States. If the economy is strong in the Netherlands but weak in Spain, it's difficult for Spanish people to simply move to Amsterdam, as they don't speak Dutch. European countries maintain separate welfare states, and have very different average living standards. Consequently, economic conditions can be very different in one part of the eurozone than in another, making it difficult for the ECB to create policy that is appropriate everywhere. These problems are why economics writers fall all over themselves these days to come up with stronger condemnations of the eurozone's fundamental flaws. Matt O'Brien calls it "a doomsday device for turning recessions into depressions," which is pretty good.

The Euro Tends to take a hit when their are questions over a countries standing in the Eurozone (Menton - International Business Times)

Debt