RM-77-10

ECONOMIC ASPECTS OF REGIONAL SEPARATISM

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Preface

Two previous papers in this series (RM-76-37 and RM-76-51), which examined the effects of international boundaries on border regions, touched upon some of the conflicts that may arise between nations and sub-national regions. Because human settlement system strategies frequently must take account of regional separatist movements, the present paper deals specifically with this problem from an economic perspective.

Papers in the IIASA Series on Human Settlement Systems: Development Processes and Strategies

1. Peter Hall, Niles Hansen and Harry Swain, *Urban Systems: A Comparative Analysis of Structure, Change and Public Policy*, RM-75-35, July 1975.

2. Niles Hansen, *A Critique of Economic Regionalizations of the United States*, RR-75-32, September 1975.

3. Niles Hansen, *International Cooperation and Regional Policies Within Nations*, RM-75-48, September 1975.

4. Peter Hall, Niles Hansen and Harry Swain, *Status and Future Directions of the Comparative Urban Region Study: A Summary of Workshop Conclusions*, RM-75-59, November 1975.

5. Niles Hansen, *Growth Strategies and Human Settlement Systems in Developing Countries*, RM-76-2, January 1976.

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9. Piotr Korcelli, *The Human Settlement Systems Study: Suggested Research Directions*, RM-76-38, April 1976.

10. Niles Hansen, *Alsace-Baden-Basel: Economic Integration in a Border Region*, RM-76-51, June 1976.

11. Peter Nijkamp, *Spatial Mobility and Settlement Patterns: An Application of a Behavioral Entropy*, RM-76-45, July 1976.

12. Niles Hansen, *Are Regional Development Policies Needed?*, RM-76-66, August 1976.

13. Galina Kiseleva, *Commuting: An Analysis of Works by Soviet Scholars*, RM-76-64, August 1976.

14. Koren Sherrill, *Functional Urban Regions in Austria*, RM-76-71, September 1976.

Abstract

In recent years there has been an intensification of demands for independence on the part of many subnational regions in Western and other countries. The literature concerning these movements has tended to neglect systematic investigation of the economic aspects of separatism in favor of noneconomic issues. This paper focuses on the actual and potential economic advantages and disadvantages implicit in separation. Numerous specific cases are used to illustrate the general arguments. The conclusions, though strongly qualified, tend to support the position that it is not unreasonable to expect an increase in regional economic well-being if separation occurs in many of the cases examined. While the central issue is not likely to be decided on purely economic grounds, clarification of the economic issues should at least enhance the rationality of the decision-making process.

Economic Aspects of Regional Separatism

INTRODUCTION

In recent years there has been an intensification of demands for political independence on the part of many subnational regions in Western countries. These movements have been inspired in varying degree by often-interrelated political, social, ethnic and economic considerations. However, the relevant journalistic and scholarly literature has tended to neglect systematic investigation of the economic dimensions of separatism in favor of discussions of the noneconomic aspects. In contrast, this paper focuses on the actual and potential economic advantages and disadvantages implicit in political separation. While the central question is not likely to be decided on purely economic grounds, clarification of the economic issues should at least enhance the rationality of the decision-making process.

REGIONAL-NATIONAL DISAGREEMENT: EXIT VERSUS LOYALTY

There is no necessary reason why a subnational region should look to its own national government for its ultimate self-interest. The reason why most regions do so at present is because of the economic and political power vested in the nation-state. However, separation becomes a viable issue when an articulate and influential regional leadership group gives focus to wide-spread feeling that the nation-state is not responsive to the region's needs. When this happens, three basic alternatives may be considered. One is political separation and the formation of an independent nation, as has been proposed for Québec. Another is political separation followed by merger into a larger international federation of regions, as has been proposed for subnational regions of Western Europe. In this view, the basis for a new Europe must be the region because the traditional nation-state, which is losing (or should lose) power to Europe on top and to the regions below, is too distant from people (see, for example, Institut Universitaire d'Etudes Européennes, 1969-70; Héraud, 1973; Lasuèn, 1974).

The third option is to continue to express dissatisfaction to the national leadership and to anyone who cares to listen, in the hope that separation can be averted by a process in which the national leadership once again engages in a search for the causes and possible cures of regional dissatisfactions. Hirschman's comparative analysis of the "voice" and "exit" options has relevance here, even though he does not specifically consider the analogous "interest articulation" and "separation" choices involved in cases opposing regions to nations. Hirschman (1970, p. 83) points out that although the availability of the exit option makes recourse to voice less likely, the effectiveness of the voice mechanism is strengthened by the possibility for exit. Thus, if voice is to be effective there should be the possibility of exit, but exit should not be too easy or too attractive as soon as deterioration of national unity sets in. When exit is available and loyalty is weak, deterioration would make for rapid desertion of the potentially most influential users of voice, thereby causing further deterioration of unity in nations that are so constituted as to respond more to voice than to exit.

Figure 1 illustrates loyalist behavior in the face of decreasing national unity. The horizontal axis measures degree of regional disagreement with the national leadership; the vertical axis measures the amount of voice forthcoming in response to different degrees of disagreement. Because it is free from felt discontent, unconscious loyalist behavior will not lead to voice. From the onset of point UL this behavior is loyalist only from the perspective of an outside observer who feels that the use of voice or exit may be justified even though the regional leadership is unaware that a process of deterioration is taking place. As disagreement between region and nation widens, the regional leadership attempts to correct

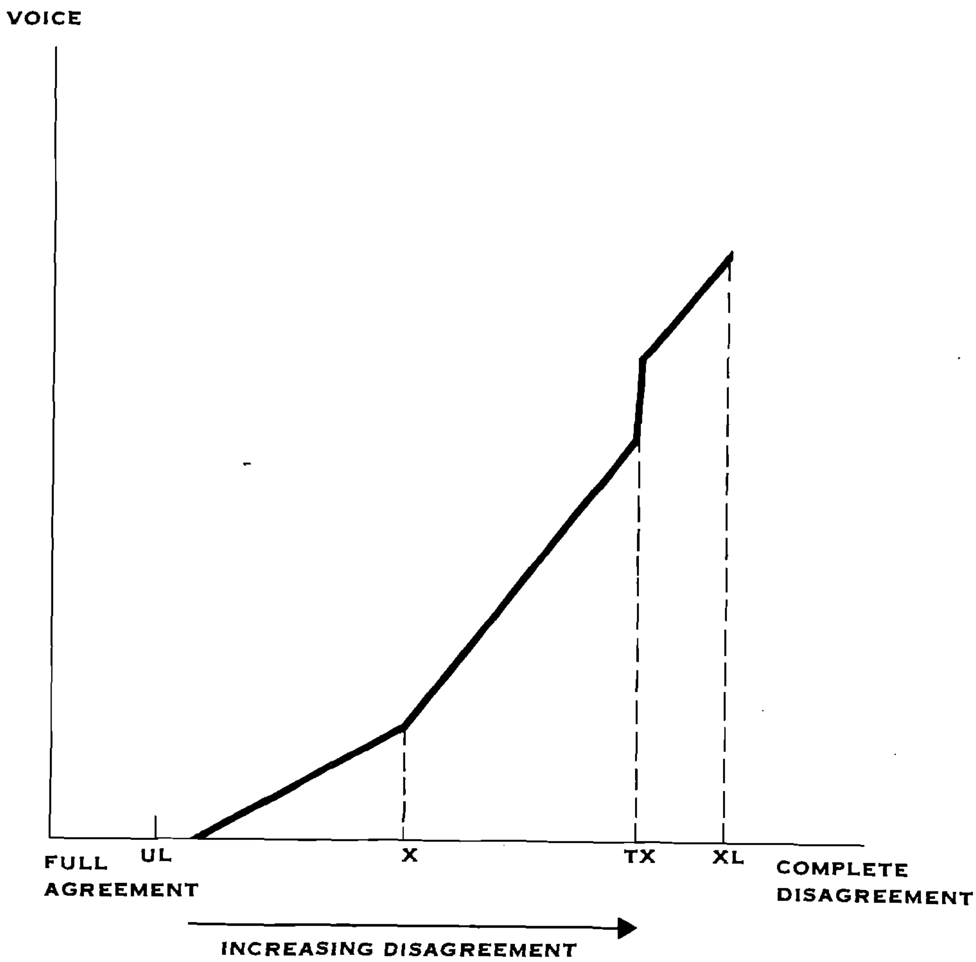

FIGURE 1. LOYALIST BEHAVIOUR WITH INCREASING DISAGREEMENT BETWEEN REGION AND NATION.

and reverse the process by increased use of voice. In the absence of loyalty exit would take place at X, but if loyalty acts as a brake on exit the use of voice intensifies, i.e. there is a kink in the voice function at X. As disagreement widens further the regional leadership will threaten exit if such action could be expected to enhance the effectiveness of voice. Thus, at this point (TX) there is a discontinuous increase in the use of voice. If disagreement continues to increase, loyalty reaches its breaking point and exit occurs at XL, the point of exit with loyalty. In situations where loyalty is not accompanied by the possibility of exit (as in a totalitarian state) the strength of the region's loyalty can be measured by the distance from X to TX. Under the more inclusive concept of loyalty the strength of the region's loyalty can be regarded as the distance from X to XL. However, the total volume of effective voice forthcoming with widening disagreement may be more closely related to the distance between TX and XL, that part of the process where the region is likely to use the threat of exit in order to change the policies of the nation.

WHO EXPLOITS? WHO SUBSIDIZES?

It is commonly held that widening disagreement between regions and nations is attributable in large part to the economic exploitation of the former by the latter. For example, Schumacher (1973, p. 66) maintains that "the normal case is... that the poor provinces wish to separate from the rich, and that the rich want to hold on because they know that exploitation of the poor within one's own frontiers is infinitely easier than exploitation of the poor beyond them." It is true of course that many regions with strong separatist movements are lagging economically in relation to the nations of which they are a part. Scotland has long had a rate of unemployment well above that for the United Kingdom; in 1972 the respective rates were 6.5 percent and 3.9 percent (Cameron, 1974, p. 72). Because of relative lack of economic opportunity at home

Scotland lost 325,000 persons, or 95 percent of its natural increase, through outmigration during the 1961-71 decade (Sundquist, 1975, p. 67). In France, Brittany ranks near the bottom among the nation's twenty-one planning regions in terms of nearly all indicators of economic and social well-being (INSEE, 1975). The situation in Corsica is even worse but relevant data are not readily available because they are merged with data for Provence and the Riviera. In Canada, per capita personal income in Québec was 90 percent of the national average in 1961; by 1971 the corresponding value was only 89 percent (Stager, 1973, p. 465).

Nevertheless, care must be taken not to identify economic lag with exploitation by richer regions because frequently the latter attempt to subsidize the former in a variety of ways. For example, in Canada the federal government has undertaken to equalize to the national average all revenues raised by the provincial governments. Equalization payments are made unconditionally and thus may be used by the relevant provinces as they see fit. Under this scheme Ontario, Alberta and British Columbia receive nothing. On the other hand, equalization payments, together with certain grants, account for about half the provincial revenues of the two poorest provinces, Newfoundland and Prince Edward Island (Brewis, 1974).

Capital subsidies are probably the most widely used device to aid economically lagging regions. The objective is not only to encourage capital to move to target areas but also to induce local investors to invest their capital locally rather than in more advanced regions where rates of return are higher. The arguments in favor of capital subsidies often are akin to the "infant industry" arguments for national protectionist policies. The mechanisms by which capital is subsidized vary considerably, but they usually involve a package of tax and credit advantages, direct grants and technical assistance. Eligibility for subsidies depends on such considerations as rate of unemployment, low per capita income, heavy outmigration, or lack of resources and infrastructure. The amount of funds available often varies according to the zone where a project is located, i.e. the worse the conditions in an area the greater the available subsidy.

Subsidies to lagging regions may also take indirect forms. For example, a government may use its influence over the location of infrastructure to create conditions favorable to the location of private investment, or it may deliberately decentralize some administrative activities. In instances where the government owns or partly owns firms engaged in directly productive activities, direct political pressures may be used to locate plants in target areas. In addition to positive incentives, a government may also impose negative restrictions on locations in highly developed areas, as is the case with respect to Paris. Finally, sectoral policies that were not specifically intended to be regional policies may have important differential regional consequences. Thus, in France direct and indirect agricultural subsidies have served to keep more people in rural areas than would have been the case if only market forces were operative. Similarly, subsidies to the shipbuilding sector in the United Kingdom have served to prop up employment in the industrial centers of western Scotland.

Of course, the fact that certain subsidies are accorded lagging regions does not mean that these regions are necessarily subsidized on balance when all factors are taken into consideration. In the case of Canada, an elaborate study was made to determine whether individual provincial governments were net gainers or losers when account was taken of all sums received by Ottawa and of all payments made out of the federal treasury. Brewis (1974, p. 313) points out that for a number of conceptual and practical reasons it proved impossible to reach any clear answer. Although French regional planning efforts have attracted considerable attention, doubt has been cast on their efficacy in achieving their stated objective of inducing development in economically-lagging regions. Prud'homme (1974) finds that on the whole the spatial distribution of public investments has not followed regional policy prescriptions. Two of the most favored regions have been the Paris region and Upper Normandy, which, as the richest regions, are not supposed to receive special help; on the other hand, the goal of favoring the western regions has not been respected. As for subsidies to private capital, their impact on location decisions does not seem to have been very great. Taken as a whole the lessons from French experience may relate more to mistakes than to achievements. Similar criticisms have been levelled against regional development programs in the United States (U.S. Department of Commerce, 1974).

The case of Italy illustrates well the complexity of regional disparity and interregional subsidy issues. Some scholars stress that the union of Italy over a century ago has not benefited and has perhaps even harmed the South (Vito, 1969). The industrial structure of the South was such that it could not compete with the economies of scale and external economies of the North. Once the South lost tariff protection, and with no possibility for devaluation, improved transportation and communications facilities resulted in a drain of resources from the South. On the other hand, the North has provided fiscal subsidies to the South, especially through the vehicle of the Cassa per il Mezzogiorno. In this perspective the health of the North has been important to the South. One may argue that what the South needs most are more ruthless measures to increase efficiency rather than subsidies that tend to prop up an ailing economic structure. In any event, in the South there is no effective movement advocating political separation from the North, though demands for increased subsidies are by no means lacking.

The United Kingdom provides one instance where subsidies to lagging regions appear to have been relatively effective and relatively efficient from a national standpoint. Brown (1972, pp. 292-318), for example, estimates that at least 50,000 jobs per year were being created in development areas in the late 1960s as a result of the direct and indirect effects of regional programs. On the basis of an alternative shift-share analysis he estimated that approximately 70,000 jobs per year were created in development areas between 1961 and 1966. Moore and Rhodes (1973), using a somewhat different shift-share technique, estimated that a total of 220,000 jobs were added in these areas between 1963, when regional programs were significantly implemented, and 1971. Nevertheless, the evidence regarding some of the critical efficiency magnitudes is mixed. Thus, as Cameron (1974, p. 96) points out,

> while the credit side of regional policy is fairly clear--unemployed and underemployed resources have been put to work, the pace of wage inflation probably has been reduced, and some of the undesirable economic effects of outmigration have been avoided--the debit side is not so clear-cut. Although the evidence suggests that the development control system has not caused a large volume of growth to be lost to the United Kingdom, it is not conclusive enough to permit any convincing statement on the degree of the private cost penalties suffered by companies which have been "invited" to develop in the problem areas. Indeed, until additional research has been undertaken, the economic justification for (or the case against) regional policy will remain tantalizingly in a state of "not proven."

This verdict applies as well to other nations that have implemented regional policies. But in dealing with disagreements between regions and nations the central issue is more likely to be regional equity than national efficiency. Isard (1975, pp. 396-405) has proposed a multiregional linear programming framework for analyzing the GNP foregone when constraints are introduced to narrow per capita regional income differences. However, even if suitable data were available this approach would not in itself resolve interregional conflicts. By posing the problem in a more explicit form it might even exacerbate them.

In any event, given the limited evidence available, those who maintain that lagging regions (or at least those in Western Europe and North America) are exploited still bear the burden of proof--especially in view of the large number of relatively poor regions that do not have significant separatist movements.

Some separatist movements are in fact inspired by the opposite concern, that is, the source of the disagreement between region and nation is occasioned at least in part by the notion on the part of the wealthier regions that they are being exploited by the poorer ones. This clearly is the situation with respect to the Spanish State and the Basque and Catalonian regions (whose ethnic and cultural communities spill over into France at the western and eastern ends of the Pyrenees, respectively). Vizcaya, in the strongly separatist Basque region, has the highest level of per capita income of all Spain's fifty provinces. The four Basque provinces are among the eight highest-ranking provinces in this regard; similarly the four Catalonian provinces are among the twelve highest-ranking provinces (Richardson, 1971, p. 41). In studies of European ethnopolitics the Basque and Catalonian regions are regarded as prime instances of economic alienation arising from national policies that are perceived to be directed against relatively prosperous ethnic minorities. Héraud (1973, p. 26), for example, argues that "if the minority is more favored by nature, or more gifted, it sees its wealth disappear through fiscal exactions into the coffers of the State (the Basque region and Catalonia in the Spanish State)."

In Scotland the nationalist movement was fairly limited in scope so long as a case could be made that Scotland was being subsidized by England. However, the discovery of North Sea oil has given accelerated impetus to the separatist cause. Whereas London sees oil as a principal means for overcoming chronic economic ills--as reflected, for example, in the balance of payments--the Scottish nationalists see oil as an opportunity for Scotland to "go it alone" quite nicely. Whether the devolution of limited powers to Scotland will suffice to overcome growing sentiment that Scotland will be "exploited" by the rest of the United Kingdom remains to be seen.

THE ISSUE OF REGIONAL IDENTITY

Whether or not a region is "subsidized" or "exploited" economically it may wish to be its own master for non-economic reasons. In fact regions with strong separatist movements typically have a distinctive cultural identity that they wish to preserve. Thus, the Catalans "are not and do not wish to become Spanish or French but will remain Catalans (Sobiela-Caanitz, 1973, p. 63);" the Basques "ask only one thing: to remain themselves (Ithurria, 1973, p. 87);" and "Québec has an assurance of identity," which is "the result of that one major factor of national durability lacking in the rest of Canada: a different language and the cultural fabric that goes with it (Lévesque, 1976, p. 743)." The Québec separatist movement illustrates well the fact that economic and non-economic motives are bound up together in the more general issue of control. René Lévesque (1976, p. 739), the movement's leader and the current head of Québec's provincial government, points out that the area of economics is "the very first where rising expectations were bound to strike against the wall of an entrenched colonial setup, with its now intolerable second-class status for the French majority, and the stifling remote control of nearly all major decisions either in Ottawa or in alien corporate offices." Lévesque (1976, p. 737) readily admits that "Undoubtedly French Québec was (as it remains to this day) the least ill-treated of all colonies in the world," but this, in his (1976, p. 741) view is no substitute for the aim of "full equality by the only means through which a smaller nation can reasonably expect to achieve it with a larger one: self-government." In terms of Figure 1, increasing disagreement has led Québec to the very threshold of point XL.

ARE SMALL-AREA ECONOMIES VIABLE?

Once a region does succeed in establishing itself as a separate nation its economic future will depend on the host of factors that determine the level of economic well-being in any nation, e.g. natural resource endowment, infrastructure facilities, quality of human resources and entrepreneurial talent, and the terms of trade for the nation's products. It also may be possible for the newly-created nation to participate in a customs union with other countries. In any event, the fact that the region-qua-nation's internal market area will be less than that of the former national area need not be a critical hindrance to economic development. It is sometimes held that Germany's prosperity was made possible by Bismark's unification of many separate states, but the German-speaking Swiss and Austrians who did not join the Reich did just as well economically. Indeed, most of the world's wealthiest nations--on a per capita basis--are small countries whereas a high proportion of the largest countries are relatively poor.

Johnson (1970, pp. 21-27) has shown how a small country like Denmark could survive and prosper even though a little over a century ago the consensus was that her days as a nation were numbered. After the loss of Norway, southern Sweden and the southern provinces of Jutland, Denmark was an impoverished country with poor soil, no minerals or waterpower and few forests. The transition to an efficient and democratic market economy was set in motion more by education than politics, despite significant political reforms. Land reform and the cooperative movement also contributed to rationalizing the economy but the latter must be viewed as a response to latent market pulls. The rapid growth of Danish cities and towns and the even more-rapid growth of industrial cities in the United Kingdom, Belgium and Germany in the late nineteenth century increased the demand for food in urban markets. Because cheap grain could be imported from North America, city dwellers could devote a relatively larger proportion of their household budgets to meat and dairy products. Danish farmers adapted to this situation and gradually even widened the demand for their butter, bacon and eggs by insuring that all of their branded products had consistent and dependable quality. Similarly, human skills and organization have been successfully applied by the Danes in the design and marketing of high quality furniture, porcelain and specialized engineering products.

It should be stressed that the achievement of the Danes was not the result of a mechanical process but rather a reflection of an evolving socio-economic structure that has given expression to a whole culture and way of life. Much the same could be said of other small nations that have achieved high levels of economic well-being, e.g. Israel, The Netherlands, and the other Scandinavian countries. Switzerland is a somewhat special case because of its four linguistic-cultural communities. Nevertheless, the principle is the same because these groups are largely separated into different cantons, each of which has a high degree of local autonomy. Belgium is another special case because of the division of the country into often antagonistic Flemish and Walloon sections. However, much of the recent growth in Belgium cannot be divorced from the economic development efforts that have been bound up with the movement to gain greater autonomy for Flanders. Also, if Belgium were a part of France--as might well have been the case--Brussels today would likely be a modest provincial city such as Bordeaux, rather than the headquarters city of NATO and the Common Market.

SUMMARY AND CONCLUSIONS

One of the major conclusions to emerge from an International Economic Association conference on regional problems was that "If, for political or social reasons, there is a strong preference of local communities to retain their identity and achieve development within their own regions, there can be no economic objection to this, provided that it is recognised that the consequence may be the earning of lower efficiency-wages than could possibly be earned in an alternative more favourable location (Robinson, 1969, p. 19)." In the present paper it has been argued that this fairly typical view of regional separatism is misleading because it is incomplete. The implication is that regions that wish to go their own way should expect to experience economic disadvantages, but viewed purely in economic terms many regions with strong separatist movements are in a relatively strong position in their national context. Moreover, even where this does not appear to be the case, socio-cultural forces often can have a profound influence on mobilizing resources for development.

If visionary motives have inspired wasteful grandiose schemes, it remains true that many undertakings that have propelled nations forward have actually worked even though they appeared to represent show-piece psychology. In their drive to realize their own identity, separatist regions may also tap that "potential for sparking unsuspected energies (Rodwin, 1970, p. 31)" that has made successful urban and regional strategies work. Separatist regions can create their own viable economic areas--if indeed they do not already exist--just as many small nations have done.

As Braudel (1973, p. 770) has demonstrated, "a civilization exists fundamentally in a geographic area which has been structured by men and history. That is why there are cultural frontiers and cultural zones of amazing permanence: all the cross-fertilization in the world will not alter them." Regional separatism--when rooted in a historical sense of regional identity--is a phenomenon that will not simply disappear in the process of national economic development. It is not our intention to romanticize regional movements or to claim that the motives of separatist leaders are always noble and selfless. We have simply attempted to clarify the economic issues involved in separatism, taking account of the fact that they often cannot be dissociated from non-economic considerations. In terms of those Western regions where strong separatist sentiment exists, the evidence suggests that exit by no means necessarily implies negative economic consequences and that given responsible leadership it is not unreasonable to expect an increase in regional economic well-being.

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