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Zentrum für Europäische Integrationsforschung  
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Rheinische Friedrich-Wilhelms-Universität Bonn



Etienne Farvaque

**Breakin-up a Nation, From  
the Inside**

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# Breaking-Up a Nation, from the Inside

Etienne Farvaque<sup>a</sup>

## Abstract

The paper ascribes to the literature analysing the conditions leading to the break-up of nations. The model englobes the existing literature and considers two separate spaces, a state and its region, where informed and non-informed citizens cohabit. We depart in considering that non-informed citizens may be convinced, via the action of groups acting to obtain independence. Conditions for separation are established and discussed.

JEL Classification : E62, F2, H7

Key-words : Political Economy, Separatism, Independence

## 1 Introduction

In 1950, only 60 countries were members of the United Nations. Since then, however, their number grew steadily : to 99 in 1960, 127 in 1970, 154 in 1980, 159 in 1990. Finally, the UN members are 189 in 2000. Quite curiously, though, while the number of nations grew, the question of the optimal size and number of nations came very recently on economists' research agenda. Starting in the 1990s, the literature on the "break-up of nations" has spread rapidly and several interesting results have already emerged. To address the issue at stake, two traditions have been followed : the public finance and the fiscal federalism ones.<sup>1</sup>

Whatever the results obtained, the literature can still be considered being in its early age (cf. Drazen, 2000, chap. 14). The present paper aims at helping it to grow older, widening its scope by opening it to more influences. More precisely, we started from the observation that some nations' break-up are driven by the action of separatist groups or parties, acting in diverse ways to obtain independence. In the Corsican or Basque cases, for example, some terrorist actions are undertaken in parallel with traditional (legal) political means. The actions of these movements, to our view, is not really incorporated in the existing

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<sup>1</sup>See Bolton, Roland and Spolaore (1996).

literature. Moreover, the literature generally assumes decisions about / against integration to be taken through majority voting, whereas sometimes majority voting is not enough to defeat independence partisans.<sup>2</sup> That is, where Bolton et al. (1996, p.699) state that "a merger of two nations is a treaty which can only be self-enforcing", we would add that, sometimes, minority shareholders hold the key to the enforcement process.

Our aim is thus to integrate that activist feature inside the burgeoning literature on the break-up of nations. We thus adopt a theoretical framework that owes more to Grossman and Helpman (1994) and Bardhan and Mookherjee (2000) than to the influential ones of Alesina and Spolaore (1997) and Bolton and Roland (1997)<sup>3</sup>. This allows us to consider interest groups acting for independence, and to avoid the a priori hypothesis of a cost induced by the separation. We thus add another political dimension to the problem, considering explicitly pro-independence (armed or peaceful) actions. All these actions are, in our context, legally financed, but the funds are coming from "voluntary" contributions made by those citizens who are sympathetic with the separatist view. Separatism is thus legally promoted, whatever the actual government may think of it.

This article is thus an exploration in the economics of separatism, relevant for territories belonging to a single political space, but not necessarily to a continuous geographical one. The "liberation fight" we study takes place in a democracy, with room for independantists to express their claims. We try to disentangle how the welfare of the two territorial entities evolve if the region secedes. Section 2 shows the model structure ; next, actions under the two situations we consider (break-up and status quo) are detailed. Section 4 establishes the breaking-up condition, while section 5 discusses some extensions.

## 2 The model

### 2.1 Regionalists and legitimists

The model inspires from those by Bardhan and Mookherjee (2000) and Grossman and Helpman (1994).

We consider 2 separate spaces : the mainland, noted by  $m$ , and the (smaller and mainland-dependent) region,  $r$ . The region can be a colony, an overseas territory, or an island. Respectively, those spaces contain citizens in relative proportions  $n_m$  and  $n_r$ , with  $n_m + n_r = 1$ .

Over each space, citizens can be divided into two groups : legitimists,  $l$ , and the regionalists, aiming at the independence for the region, and which will be indexed by  $r$ . Both spaces do not contain the same proportions of both citizens types : in each space  $i$ , one finds a proportion  $\pi_{i;l}$  of legitimists and  $\pi_{i;r}$  of

<sup>2</sup>For example, in Spain, the Constitution has been adopted by a majority in the 1975 referendum, without helping to contain the Basque separatism. The same case could be made about Corsica, the majority of its residents favouring the French regime, not the "opting-out" option.

<sup>3</sup>See also Firdmuc (1999), who considers the same issues in a stochastic framework.

regionalists. One has logically :  $\bar{\pi}_{i;r} = 1 - \bar{\pi}_{i;l}$ . In each group of citizens, we distinguish informed inhabitants, who feel concerned about the issue at stake. These informed citizens are in relative proportions  $\theta_l$  et  $\theta_r$ , and they act on the basis of their expected welfare under the announced policy.<sup>4</sup> One could also assume that  $\bar{\pi}_r < \bar{\pi}_l$  and  $\theta_r > \theta_l$  : i.e. regionalists are less numerous than legitimists but they are more informed / politically motivated.<sup>5</sup>

Citizens' welfare will depend on the policy implemented, which will be pending on who holds the power in each space. Each citizen  $j_c$  of the group  $g$  has a welfare defined by the utility function of the type  $U_{g(j)}(x^k)$ , where  $x^k$  is the policy implemented par the  $k$ -type politician. We consider two kinds of politicians :  $M$  is the mainland government, reflecting the legitimists aspirations, whom is confronted with the regionalist party, pleading for devolution (the maximum devolution being independence, of course),  $D$ . One can think of this party as the legal facade of pro-independence activists as, for example, Corsica Nazione and the FLNC in France. As long as independence is not achieved, the government wants (and is supposed able) to implement its policy on the whole territory. The regionalists, by contrast, are motivated only by the region's residents welfare (and, among them, by their partisans).

## 2.2 Taxes and contributions

In the case of independence, each party will implement its preferred policy on its playground (hence, respectively, the devolutionists in the region  $r$ , the mainland government over  $m$ ), each policy being financed by taxes collected on each respective space.

However, as long as there is no break-up, the mainland government implements its preferred policy on both spaces, with taxes collected on the whole territory. In that case, devolutionists have to plead their cause, trying to convince uninformed citizens. Conviction will be obtained through actions financed by "voluntary contributions" collected on citizens having a sympathy for the regionalists' cause. The way we model englobes the really voluntary contributions given, for example, by the diaspora in favor of the fight (be it an armed one : terrorism, guerilla-type actions, or a pacific one : demonstrations, sit-ins, ...). But it also deals with racket (extortions, "impôt révolutionnaire", ...). These contributions-financed actions have an impact on non-informed citizens, which they may convince to support the independence cause.

Collecting those contributions is the task of a fraction of regionalist-informed citizens. Note that they can collect these over the whole territory, being in relative proportions  $l_{r;m}$  and  $l_{r;r}$ .<sup>6</sup> We simply assume that we have :  $\theta_{r;i} > l_{r;i}$  with  $i = m; r$  : i.e., partisans most engaged in the fight for independence are less

<sup>4</sup>To simplify, we do not consider here time consistency problems, and consider the announced policy to be implemented.

<sup>5</sup>That hypothesis sounds realistic, and is standard since at least Olson's (1966) analyses, but it does not influence qualitatively the results.

<sup>6</sup>Using the term contributions makes the link with the literature on interest groups explicit. Other things equal, the activist fraction resembles members of a lobby, as in the works of Bardhan and Mookherjee (2000), in the line of Grossman and Helpman (1994, for example).

numerous than the whole of the partisans, whatever the part of the territory we consider (the state or the region).

### 3 Welfare under breaking-up or staying-in

Each kind of governing body (the mainland government or the regionalist party) has to maximise his utility function, conditional to the region being independent or not, as its tax-collection capabilities will vary in due case. Each "party" seeks to implement its preferred policy. To do so, it has to maximise its informed supporters, and has to convince non-informed citizens.

#### 3.1 The Devolutionist Party

When the region is independent (i.e. it is "out", O), the program for the party defending that position will concern only the region's inhabitants. The objective function will write :

$$V^{D=O} i_{X^D}^{\text{€}} = W_{I;r} i_{X^D}^{\text{€}} + W_{NI;r} i_{X^D}^{\text{€}} i_{\text{€}}^D n_r \quad (1)$$

That is, the Devolutionist party will try, when the region is independent, to satisfy the region's informed citizens, I. That can be written as :

$$W_{I;r} i_{X^D}^{\text{€}} = \textcircled{r;r}^{-} n_r U_{r;r} i_{X^D}^{\text{€}} + \pm^D \textcircled{l;r}^{-} n_r U_{l;r} i_{X^D}^{\text{€}} \quad (2)$$

Welfare of the legitimists informed citizens (a proportion  $\textcircled{l;r}^{-}$  of the region's population) can be discounted by  $\pm^D < 1$ , if the Devolutionist party has a marked preference for its supporters relatively to the rest of the region's inhabitants.<sup>7</sup>

In case of independence, non-informed citizens welfare has also to be considered, that is :

$$W_{NI;r} i_{X^D}^{\text{€}} = h n_r i_{\text{€}}^1 i_{\text{€}}^{\text{€}} \textcircled{r;r}^{-} i_{\text{€}}^{\text{€}} \textcircled{l;r}^{-} i_{\text{€}}^D n_r = h^{\circ} i_{\text{€}}^D n_r \quad (3)$$

The ...rst term of the right-hand side, h, signals the conviction e€ciency of (tax-...nanced) expenditures made to convince the region's non-informed (i.e. :  $\textcircled{r}$ ).

Hence, taxes collected by the Devolutionist party in its region when independence has been achieved have ambiguous e€ects : on the one hand, they reduce welfare of the whole region's residents (including independence supporters) but, on the other hand, they increase non-informed citizens adhesion.

In the other case (the status quo), the Devolutionist party will have a di€erent program : its objective will be reduced to convincing non-informed citizens.

<sup>7</sup>Weird as it may sound, that assumption is not so far from some reality. Corsica Nazione, for example, distinguish between the Corsicans and the "allogenic" people.

We can thus write :

$$V^{D=NO} i_X^D \text{€} = \text{°}_r C_r + \text{°}_m C_m \quad (4)$$

This expression shows that, when the country is not broken-up, independence will progress through contributions collected by active supporters on the whole territory. These supporters,  $I_r$ , are in proportion  $I_r^- = I_{r;r}^- + I_{r;m}^-$  of the whole independence-prone population. Contributions are collected both in the region ( $C_r$ ) and in the mainland ( $C_m$ )<sup>8</sup>. As seems logical, only the most concerned citizens collect the contributions. These people accept the task because they favour the (potential) political victory's welfare. That victory probability is for the moment considered exogenous and equal to  $q^9$ . The total amount of collected contributions will thus be equal to :  $C_i = I_{r;i}^- q U_{r;i} i_X^D$  with  $i = m; r$ . These contributions are due to influence non-informed citizens, should they live in the region or in the state, where they are, respectively, in proportions :<sup>10</sup>

$$\text{°}_r = n_r i_{1,i} \text{€} \text{®}_{r;r}^- \text{®}_{l;r}^- \quad (5a)$$

and

$$\text{°}_m = n_m i_{1,i} \text{€} \text{®}_{r;m}^- \text{®}_{l;m}^- \quad (5b)$$

### 3.2 The Mainland Government

For the government, the problem has the same structure, though he has (historically) received the legal tax monopoly, and has thus not to rely on parallel movements (lobbies, supporters networks, associations, or terrorist groups) to convince his non-informed citizens. We will just suppose, to simplify, that the region is small enough to be without any influence on the tax rate the government will choose in either the independence or the status quo cases.<sup>11</sup>

In case of independence, the government program thus writes :

$$V^{M=O} i_X^M \text{€} = W_{l;m} i_X^M \text{€} + W_{Nl;m} i_X^M \text{€} i_{i,m}^M n_m \quad (6)$$

Hence, after the breaking-up, the government will consider only the mainland (informed and non-informed) residents' welfare. Nevertheless, their welfare will be reduced by taxes collected on all the mainland's residents. RHS elements of that objective function can be detailed as :

<sup>8</sup>The latter can also be thought of as revenue flowing from the diaspora to ...nance the independence ...ght.

<sup>9</sup>As in Bardhan and Mookherjee (2000).

<sup>10</sup>One can verify easily that, under our hypotheses, we have  $\text{°}_m > \text{°}_r$  : the region's citizens are globally more concerned than the mainland's ones ; i.e. non-informed are relatively more numerous in the mainland.

<sup>11</sup>As an example, in the French case, overseas departments represent less than 1% of the whole territory GDP.

$$W_{l;m} i_X^{M\zeta} = \theta_{l;m}^{-1} n_m U_{l;m} i_X^{M\zeta} + \pm^M \theta_{r;m}^{-1} n_m U_{r;m} i_X^{M\zeta} \quad (7)$$

$$W_{Nl;m} i_X^{M\zeta} = h n_m i_1 i_{r;m}^{-1} i_{l;m}^{-1} \zeta^M n_m = h_m^o \zeta^M n_m \quad (8)$$

However, if the nation does not break-up, the government's objective is :

$$V^{M=NO} i_X^{M\zeta} = W_{l;r} i_X^{M\zeta} + W_{l;m} i_X^{M\zeta} + W_{Nl;r} i_X^{M\zeta} + W_{Nl;m} i_X^{M\zeta} i_1 \zeta^M (n_r + n_m) \quad (9)$$

He considers in that case welfare of the citizens residing on both spaces, with taxes being collected on the whole collectivity. Symetrically with what precedes, we have here :

$$W_{Nl;r} i_X^{M\zeta} = h_r^o \zeta^M n_r \quad (10)$$

and

$$W_{l;r} i_X^{M\zeta} = \theta_{l;r}^{-1} n_r U_{l;r} i_X^{M\zeta} + \pm^M \theta_{r;r}^{-1} n_r U_{r;r} i_X^{M\zeta} \quad (11)$$

as nothing can preclude the government to favor legitimists citizens compared to independence supporters, the latter welfare may be discounted :  $\pm^M < 1$ .<sup>12</sup>

## 4 Breaking-up condition

Absent any time-consistency problems, the choice between independence and the status quo will be derived from the comparison of welfare levels obtained under each situation for each space. Both situations have nevertheless a different probability of emergence with, as we have seen, independence being assorted of a fixed, exogenous, probability,  $q$ .

**Proposition 1** : Breaking-up condition : For the region to secede, the following inequality has to be met :

$$qV^{D=O} \geq (1 - q)V^{M=NO} \quad (12)$$

that is, the region's welfare under independence has to be superior or equal to the level obtained under the status quo.

<sup>12</sup>Once again, this may sound weird or even shocking, but is sometimes at the source of independence claims, some citizens considering themselves (or being truly considered) as "second class" ones.



**Proposition 2** : Costless separation condition : For the mainland government, losing the region brings no pain if :

$$qV^{M=O} + (1-q) \frac{h}{i} V^{M=NO} - V^{D=NO} \geq 0 \quad (13)$$

or, the welfare obtained by citizens when the government rules only the government has to be superior or equal to the one met when he rules both spaces (though, in the latter case, welfare has to be considered net of the political space ruled by the Devolutionist party).

Of course, the latter point is due to the government's considering separatist parties actions as welfare-reducing by nature.<sup>13</sup>

Note that both conditions have not to be met simultaneously. In fact, the first condition is the only sufficient one, as according independence to a region which does not plead for seems odd, at least. The second condition is neither sufficient nor necessary ; it only derives the point at which the break-up bears no cost to the state's citizens.<sup>14</sup> We are thus left with a single break-up condition.

#### 4.1 A simple case

For the discussion, suppose that supporters (legitimists or regionalists) can not be distinguished from the rest of the citizens. As a consequence, their welfare can not be discounted and one will get :  $\alpha^D = \alpha^M = 1$ . Assume also that the policy  $x^k$  brings the same level of utility, whatever the option recipient supports. One can write then :  $U_{r,r} x^D = U_{l,r} x^D = U_{i,r} x^D$ . In the same way :  $U_{r,r} x^M = U_{l,r} x^M = U_{r,m} x^M = U_{l,m} x^M = U_{i,m} x^M$ . Hence, the identity of the party implementing the policy is the only difference. In that case, stakes are reduced to a problem of political preference, i.e. citizens only care about whom manages the fiscal instrument financing the desired policy, or about the bundle of public goods each kind of government may offer.

Above conditions (equations 12 and 13) can then be written as :  
for the region :

$$\frac{q}{1-q} \geq \frac{U(x^M)[n_r(\theta_{r,r} - \theta_{r,r} + \theta_{l,r} - \theta_{l,r}) + n_m(\theta_{r,m} - \theta_{r,m} + \theta_{l,m} - \theta_{l,m})] i \alpha^M [1 - h(\alpha_r + \alpha_m)]}{U(x^D)n_r[\theta_{r,r} - \theta_{r,r} + \theta_{l,r} - \theta_{l,r}] i \alpha^D n_r(1 - h(\alpha_r))}$$

and, for the mainland :

$$\frac{q}{1-q} \geq \frac{U(x^M)[n_r(\theta_{r,r} - \theta_{r,r} + \theta_{l,r} - \theta_{l,r}) + n_m(\theta_{r,m} - \theta_{r,m} + \theta_{l,m} - \theta_{l,m})] i \alpha^M [1 - h(\alpha_r + \alpha_m)]}{U(x^M)n_m[\theta_{r,m} - \theta_{r,m} + \theta_{l,m} - \theta_{l,m}] i \alpha^M n_m(1 - h(\alpha_m)) + (1-q)U(x^D)[\theta_{r,r} - \theta_{r,r} + \theta_{l,r} - \theta_{l,r}] n_r(1 - h(\alpha_r))}$$

<sup>13</sup>An illustration of that point has recently been given by Spain, where relations between the legal Basque parties and the government recently degraded, with the Basque Nationalist Party (PNV) more and more considered as an ETA supporter (though its leaders protest against violence, see The Economist, "Terrorism in Spain", november 11th, 2000).

<sup>14</sup>Of course, this is limited to elements included in the model. For example, geopolitical considerations (e.g. rare resources or territorial waters), fundamental in some cases, are clearly absent from it.

These two expressions deliver the following results :<sup>15</sup>

**Proposition 3** For the region as well as for the mainland, it clearly appears that independence will improve welfare if, and only if, citizens' utility variation is superior to the taxation variation.

This result lies on a basic intuition, embedded in above equations : one has to remark that adopted simplifications show-up (net of taxation) utility ratios. The numerator shows (net) utility in the no-break-up case, whereas the independence situation appears at the denominator. Hence, the higher independence-linked (net) welfare (i.e. the higher  $U^i_{x^D}$  and/or the lower  $\zeta^D$ ), the easier the inequality will be satisfied, that is to say the easier it will be for the region to access independence.

**Proposition 4** For the mainland, the costless separation condition exhibits the legal tax rate as well as the contributions. The more independence supporters will be active, the less costly independence will be for the state residents.

In other words, the higher the expected welfare for independence supporters,  $U^i_{x^D}$ , and the more numerous the activists, the harder it will be for the government to maintain the status quo.<sup>16</sup> Once again, the result lies on a simple intuition : one has just to remark that the higher the pre-independence contributions, the higher the post-independence utility variation for the state's residents. To offset an excessive activism, the government has only one degree of freedom : to contain regionalists pressures, he can modify his own tax rate, to offset the contributions weight. Of course, this has clear limits, and the government may soon face the temptation to give away.

## 5 Concluding remarks

Our analysis shows that break-up conditions can be precised by considering explicitly separatist movements' actions. However, the model we exposed is still crude and should be considered as a preliminary exploration of regionalists movements in an economic framework. As such, it points to several research directions. The first one would enrich the range of the government's possible actions. One could expect a government to use repression against independentist movements, at least when approaching a given threshold. This would bring the model in line with some real situations (as France in New Caledonia, for example, where repression is used jointly with peace-maintaining subsidies).

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<sup>15</sup>Results are expressed for the simple case studied in this section, without being qualitatively affected by adopted simplifications. Their expression in a more general framework would only complexify them without substantial improvement.

<sup>16</sup>Moreover, we could have assumed the policy implemented by the state government to trigger utility losses to the region's residents (i.e.  $U_{i,r}^i_{x^M} < 0$  with  $i = r; I$ ). In that case, both conditions (breaking-up and costless separation) would have been satisfied for a larger range of parameters.

Making even closer references to real situations would allow for competition between independence supporting movements. Some groups, for example, prefer acting inside existing institutions while others do reject the main political area and promote violence. Actions between both kinds of groups, and their degree of complementarity / substitutability could fruitfully enter the analysis.

Last, time consistency of policy decisions taken in the mainland in answer to regional claims could also be explored, as some movements justify their radicalisation from governmental promises not kept.

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