

## **ECONOMIC INTEGRATION, NATIONAL POLICIES AND THE RATIONALITY OF REGIONAL SEPARATISM\***

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### **Introduction**

In this paper we propose a conceptual framework for analyzing regional separatism. The costs and benefits to the region resulting from separation will vary under different conditions; they will also vary according to the degree of separation desired. Following from our definition of separation, we propose to break down the economic aspects of separation into three composite dimensions; each dimension represents both an exogenous variable describing existing economic links, affecting the potential costs and benefits of separation, and an endogenous variable which may be integrated into the separatist option, thus modifying it and its associated costs and benefits.

Our analysis basically addresses the Western industrialized world. We exclude the possibility of outright "colonialist" exploitation and refer, by definition, to subnational regions within existing nation states. Much of our reasoning is derived from a broader study [3] on the costs and benefits of varying forms of economic association between the Province of Quebec and the rest of Canada under conditions of political sovereignty for the former. The basic thrust of our analysis nevertheless goes beyond the particular conditions of the Quebec situation.

The region is treated as if it were a distinct and homogeneous decision making unit (which, of course, it is not) whose objective it is to maximize its welfare, defined either in terms of total or per capita gross regional product.

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## Defining Separation

We may consider a region as "separate" when it ceases to be a region and assumes the status of a nation. In strict legal terms this means the assertion of national sovereignty and, at least in principle, the recognition of that sovereignty by other members of the international community; interregional links are replaced by international links. This legal definition of separation is both clear-cut and simple: a state is either recognized as sovereign or it is not.<sup>1</sup> We shall call this political separation.<sup>2</sup>

The economic notion of separation is much less clear-cut. If we look at increasing levels of separation as a continuum, we may locate the region along three distinct but related dimensions according to the region's position on each:

1. the level of economic integration (or disintegration), defined here as the absence (or, conversely, the importance) of institutional barriers to trade and factor movements between the regions of the system;<sup>3</sup>
2. the importance (or absence) of system-wide "national" economic policies and institutions to which the region is subject, including, and in addition to, those needed to ensure economic integration;
3. the level of interregional transfer payments.<sup>4</sup>

The higher a region's score on each dimension, the further it is from full economic separation. Each dimension may thus be viewed as distinguishing between the economic concept of region and the concept of nation.

<sup>1</sup>Nonetheless, this distinction is not always entirely clear in practice as cases such as Taiwan, Rhodesia (1965-1980), or even Canada (specifically before 1931) show.

<sup>2</sup>Throughout this paper, we shall interchangeably use the expressions "political separation", "sovereignty", "independence" and "full political autonomy".

<sup>3</sup>This is not necessarily equivalent to the importance of trade between regions. Thus, there is relatively little trade between Quebec and British Columbia (two Canadian provinces); trade between Quebec and New York State is certainly more important, despite the existence of legal trade barriers. As for all flows, trade is also a function of mass and distance.

<sup>4</sup>Unlike the two previous dimensions, this dimension is not a primary element of the economic region-nation continuum. Interregional transfer payments are, in other words, not a necessary condition of regional (as opposed to national) existence, while economic integration and system-wide policies are.

The first dimension implies that a region has no real borders in economic terms; its economy is necessarily open and barriers to trade do not exist.<sup>5</sup> Goods and factors flow freely between regions of the same nation. No such freedom of movement need exist between nations, although it may exist in the case of a common market. The absence of barriers to trade and factor movements is thus not necessarily incompatible with political separation, but, while various levels of economic integration are compatible with the concept of nation, a high level of economic integration is basic to the concept of region.

The second dimension distinguishes the region from the nation in terms of policy tools. Basic economic policy decisions are, in general, determined at the level of the system (the nation), not the region. Regional governments may exist and possess broad powers, as in the case of a federal system, but such tools as trade policy, monetary policy and fiscal policy traditionally remain, at least in part, in the hands of the national government. A nation is, in principle, an autonomous unit in terms of all economic policy matters. It may choose to share its prerogatives with other governments or to coordinate its actions, especially if this is needed to maintain economic integration. Such sharing may necessitate institutions which carry out system-wide policies similar to those of a national government.

The third dimension distinguishing regions from nations is linked to the rise of the modern welfare state: regions may derive a significant portion of their income (or, conversely, incur losses) from interregional transfer payments channeled through the national government.<sup>6</sup> Certain nations may equally give or receive transfer payments (from other nations), as in the case of foreign aid; but such payments are generally small compared to interregional payments and far more volatile.

In sum, full *economic* separation would mean the erection of significant trade barriers (or, in the extreme case, the cessation of all trade); the discontinuance of all common system-wide economic policies, agreements or institutions; and the suspension of all transfer payments. At the other end of the spectrum, full economic union would maintain free trade, common economic policies and institutions, and possibly interregional

<sup>5</sup>Barriers to trade and to factor movements do in fact exist between certain regions, as in the case of American States or Canadian Provinces. See for example Maxwell and Pestieau [17].

<sup>6</sup>The use of the expression "transfer payments" is employed here as a proxy for all central government expenditures, since in regional accounting terms this distinction is of little significance. The question thus becomes: does the central government spend more (or less) in a region than it receives from it, abstracting from the national debt?

transfer payments.<sup>7</sup> Under conditions of *political* union (non-sovereign regions) the functions and objectives implied in the three dimensions are usually assumed by the national government; they express the classical policy objectives of a national government: integration of the national market (efficiency maximization under free market conditions), economic growth and stabilization, and redistribution of wealth.

Although political and economic autonomy are traditionally related, they do not *necessarily* follow from each other. A non-sovereign entity may possess all or most of the economic characteristics of a nation (e.g., Hong Kong) while certain sovereign states may satisfy all or most of the (economic) conditions of a region (e.g., Luxembourg and, certainly, mini-states like Lichtenstein or Monaco).

### The Limits of Economic Analysis

The underlying rationality behind regional (political) separatism or autonomy need not necessarily be economic. This is in part linked to the very nature of regional autonomist movements and in part to the incapacity of economic analysis to come to terms with long range macro problems. As Hansen [13] points out, it is difficult to explain regional separatism in terms of regional disparities. Among subnational regions where independence movements exist we find both regions whose per capita income is below the national average (e.g., Quebec, Brittany and Scotland) and regions whose per capita income is above the national average (e.g., Croatia, Catalonia and the Basque Country).

Economic grievances may well be among the factors which push a region to opt for full political autonomy, but they will rarely suffice to explain why independence is entertained at all as a possible option. In the Canadian case, Quebec is neither the poorest nor the richest province. The Atlantic provinces, which are all poorer than Quebec, may with some justice feel themselves to be "exploited" (to use Hansen's term); yet sovereignty is not entertained as a feasible solution. At the other end of the scale, independence has not been seriously considered by richer provinces such as Ontario or Alberta<sup>8</sup> which

<sup>7</sup>In the extreme case, close to political union, common policies and institutions (including a common currency) would cover a very wide range of activities.

<sup>8</sup>In the more recent years, a small independence movement has in fact emerged in Western Canada. But, if our reasoning is correct, such a movement would stand little chance of success if it is based purely on economic grievances (that is, without the prerequisite existence of a sense of Western Canadian nationhood).

may, with equal justice, see themselves as "subsidizing" the rest of the nation (specifically via transfer payments).

If the Canadian experience can be generalized (and it probably can), the drive for full regional autonomy will have its roots elsewhere, in a deep-seated sense of regional identity, which in turn may be traced back to any number of factors other than economics: language, culture, ethnicity, religion, geography, and so forth. In short, for independence to be considered at all, the inhabitants of a region (or a significant proportion thereof) must see themselves as forming a distinct *nation*.<sup>9</sup> The origins of a sense of nationhood fall beyond the scope (or competence) of this paper. Suffice it to say that in all cases where significant regional independence movements exist, the advocates of that option call themselves "nationalists". One thus speaks of Scottish, Basque or Quebec nationalists. By the same token, the proponents of independence always speak of national independence (or even national liberation), while their opponents generally prefer to use the word "separation", thus stressing the sense of loyalty to the whole (system).

Political separation is a long term commitment based on the belief that a society will, over the long run, be better off if it forms a sovereign state. Economics really has very little to say about this. It is, for example, impossible to say if Belgium would today be better off if it had remained part of the Netherlands (or of France, for that matter) or if Ireland would be better or worse off if it had remained part of the United Kingdom. As Kuznets [15] has consistently pointed out, economic growth, defined as a long term rise in per capita income, is largely a matter of culture, organization and institutions.<sup>10</sup> A positive correlation does not necessarily exist between nation size and per capita national income.

Economics basically remains a static science emphasizing efficiency maximization (resource allocation) under given conditions. Economics thus tends, by nature, to be anti-separatist (or anti-nationalist if one prefers) in as much as nationalism is tradi-

<sup>9</sup>The word nation is used here in the sociological sense. Some would say, in the Quebec case, that the defeat of the Quebec government's proposal for sovereignty-association may thus, in part, be traced back to an insufficient sense of Quebec nationhood, compared to the feeling of loyalty to the Canadian whole. Implicitly, we may surmise that the sense of Canadian identity is still very strong in Quebec.

<sup>10</sup>Equally, in Denison [9] type models, the "residual" (which is largely a measure of our ignorance) continues to explain the larger portion of per capita economic growth. On the other hand, culture, organization and institutions may, in part, be a function of the region's political status and therefore pertinent to the sovereignty debate.

tionally equated with protectionism;<sup>11</sup> see for example Migué [18], in the Canadian case. This largely limits the effects of separation to the erection of trade barriers. The long term effects on the region of a redefinition of "national" system-wide policies are admittedly far more difficult to analyze.<sup>12</sup>

Yet, for most regions the rationale for separation will, in part, be based on the postulate that the positive effects of a redefinition (or regionalization) of system-wide policies will, over the long run, outweigh the negative effects of diminishing economic integration. By the same token, the greater visibility of immediate "static" costs, those associated with trade barriers or the cessation of transfer payments, vis-à-vis the uncertainty of future gains probably goes a long way to explaining the difficulties of many separatist movements.<sup>13</sup>

This does not mean that the economic implications of separation cannot be put to scrutiny, but only that the analyst must remain aware of the limits of the tools at his disposal. In this sense, the analysis which follows is necessarily partial, dealing only with those economic aspects amenable to analysis within the confines of our conceptual framework.

### The Costs and Benefits of Separation

Given our three dimensional framework (Table 1), let us then consider the possible costs and benefits of political separation, depending on the existing (and desired) level of economic separation. Changes in position on each dimension will imply changes in costs and benefits. We assume that the region seeks the most economically profitable solution compatible with political separation.<sup>14</sup> Rationally, the region will consider its performance, as a region, on each dimension in order to evaluate the potential costs and benefits of varying changes in position and, in turn, formulate its separatist option so as to minimize

<sup>11</sup>Another way of defining the debate is between economists who see nationalism as a consumption good and those who see it as a production good.

<sup>12</sup>The "static" allocation and redistribution effects of national policies (including transfer payments) do lend themselves more easily to economic analysis.

<sup>13</sup>The popular perception of the immediacy of short term "static" costs versus the uncertainty of future gains also undoubtedly played a role in the May 1980 defeat of the Quebec government's proposal for sovereignty-association.

<sup>14</sup>A region may wish to maximize its political and economic autonomy even at the cost of diminishing economic welfare (at least in the short run); but we shall not consider this alternative. This is another way of stating that we are only considering *economic* costs and benefits.

**Table 1**  
**THE ECONOMIC DIMENSIONS OF REGIONALISM/NATIONALISM**

Description	DIMENSION 1 Economic Integration	DIMENSION 2 System-wide Economic Policies	DIMENSION 3 Interregional Transfer Payments
Definition	The absence of institutional barriers to interregional trade and factor flows	System-wide (common) policies and institutions. May include various elements: fiscal policies (subsidies, incentives, investments, etc.); monetary policy and regulatory measures	Net regional redistribution of public expenditures (and revenues), channeled through the system-wide government
System-wide objective	Integration of national (system) market: efficiency maximization	Economic growth and stability of the system	Equity: redistribution of income
Government intervention	Essentially a supervisory or regulatory function	In part a fiscal function, but also a regulatory function dealing chiefly with trade, transportation, and financial institutions	Wholly a fiscal function
Compatibility with the political separation (sovereignty) of composite regions	Compatible	Partial compatibility; largely compatible for regulatory functions; less so for many fiscal measures	Incompatible, at least not at the level usually understood for political unions
Costs or benefits of separation	Depends on the importance of interregional trade (and other flows) and on the level of outside protection	Depends on the importance of system-wide policies and on their regional impact	Depends on the net interregional balance (and relative importance) of central government expenditures and revenues
Quantification of impact	Direct static effects fairly easy to measure	Very complex; almost impossible to measure dynamic effects	Direct effects very clear, less so for indirect dynamic effects

cost and maximize benefits.

### Economic Integration

#### *Trade Flows*

Given free trade at the outset, economic disintegration should represent a cost for the region. Those costs, at least in "static" terms, are fairly easy to estimate.<sup>15</sup> The potential costs are basically a function of two variables:

- the importance of trade between the regions;
- the importance of the protection (vis-à-vis third party nations) which that trade enjoys.

In the case of very little trade, as might be the case between very distant regions, the costs would be minimal and the region should thus be fairly indifferent as to the maintenance (or cessation) of economic integration. Similarly, in the case where intense trade relationships do exist, but in the absence of protectionist policies (towards other systems), the costs of separation should be minimal since we may assume that such trade will remain competitive and that the (politically) separate region will continue to be integrated into the rest of the world economy.

The second variable, the level of protectionism, is a measure of the degree of integration of the system (from which the region is separating itself) with other systems or nations. The greater the level of integration, or international economic collaboration if one prefers, the less should be the costs of separation. Thus, in the case of a region separating from the Netherlands for example, the costs would be reduced to the extent that the Netherlands already functions in a broader competitive contest (BENELUX and the EEC) and the region also continues to function in that context. By the same token, in the Canadian case, the reduction of Canada-U.S. trade barriers should, over the long run, reduce the potential costs of separation for Quebec, again assuming that Quebec would continue to function within the same context.

In the extreme case of total world economic integration, there would in principle be no costs to separation (in terms of trade) since political independence would no longer be related to trade barriers.<sup>16</sup> It is thus not entirely surprising that many

<sup>15</sup>See for example Hazeldine [14] and Courville et al. [7], in the Canadian case.

<sup>16</sup>Correspondingly, simple regional autonomy (no political independence) involves no significant costs on this dimension since simple autonomy is not, in principle, related to trade barriers.

regional separatist movements tend to be anti-protectionist (or more precisely, "continentalist"), contrary to the traditional anti-nationalist wisdom. European regionalist movements often look to European integration as their solution.

In the case where the system is very protectionist towards third parties, and where significant interregional trade is at stake, the costs of economic separation may be important. This fairly well represents the Canadian case where internal trade enjoys a relatively high level of protection [8; 16]. Quebec's desire to specifically maintain economic integration with the rest of Canada [20] is thus rational, logically following Canada's past and present protectionist policies.

#### *Factor Flows*

The costs and benefits of interrupting factor flows depend on the magnitude of those flows and on their impact upon the region. Interregional capital flows are extremely difficult to measure and so, too, is their impact on the region. Labour flows are fairly easy to determine, but some disagreement exists as to their ultimate regional impact;<sup>17</sup> the classical model holds that labour migration has a dampening effect on regional disparities but this may not necessarily be true under all conditions [19].

Concerning labour flows, the costs of economic separation may be significant for labour-exporting regions where the rest of the system constitutes an important destination.<sup>18</sup> As in the case of trade, the relative openness of other systems would serve to reduce costs, both for the region and for individuals, in that they provide alternative destinations for labour emigration. We would thus expect labour surplus regions to favour economic integration at this level, both within the system and with other systems. This may be less clear for labour importing regions since alternative sources of labour exist in most cases; also, nations generally seek to control immigration and not emigration (at least among Western democracies).

In part because the regional economic effects of migration are difficult to estimate, the rationale for maintaining (or disrupting) free labour flows may equally depend on other factors, especially if migration is linked to factors like ethnicity, culture and language, which may, in part, be at the core of the region's quest for political autonomy. But, precisely because the region

<sup>17</sup>It would be more accurate to say that the costs to the region are difficult to predict, but the costs to the individual may be more apparent. For labour mobility we may thus talk of a possible conflict between the perceived regional weal and the individual weal.

<sup>18</sup>For example, Puerto Rico vis-à-vis the U.S., or Corsica relative to mainland France.

will often possess a very different culture from that of the rest of the system, interregional labour mobility may already be very low (this is certainly the case between French Quebec and English Canada) and thus separation is likely to have little regional economic (or cultural) impact.<sup>19</sup> The political costs of establishing new barriers to migration may, on the other hand, be very high, especially if there is a long tradition of free interaction between regions:<sup>20</sup> people do not, in general, appreciate border controls or limits to their freedom of movement. It is interesting to note in this respect that almost total freedom of movement continues to exist between the Republic of Ireland and the United Kingdom, but this is also rational in regional economic terms (certainly for Ireland) since the Republic is a net labour exporting region.

Capital exporting regions could benefit from increased autonomy in so far as barriers to capital movements would permit them to stem such outflows or, more precisely, to increase the net rate of regional capital formation. But unlike labour, capital flows are extremely difficult to control; many economists would maintain that controls are ineffective at best and counter-productive in more cases than not (in fact repulsing or discouraging outside investment). To the extent that the system already functions within a relatively open world economy (in terms of money flows) and that the region would also continue to do so, it is unlikely that the region would gain much additional leverage from separation in terms of controlling capital flows. Thus, it is unlikely that, for example, a separate Scotland, within a European framework, would significantly increase its capacity to reduce capital outflows. By the same token, to the extent that an orderly economic multination framework already exists and the region is accepted into it, the costs of separation will also be minimized.

In sum, on the first dimension, in a world of total freedom of movement for all goods and factors (total economic integration), both the potential costs and benefits from separation would be minimized. At this point, political separation is, in economic terms, analogous to simple political autonomy. Correspondingly, pure autonomist movements (no political separation) would not be based on a desire to significantly modify this dimension.

<sup>19</sup>Inversely, in cases where mobility is important we may easily imagine a region wishing to control immigration in order to "protect" its ethnic makeup. The desire to control interregional immigration may thus be a powerful impetus to autonomy or separation. In the Quebec and Belgian cases, this control is, in part, indirectly achieved through regionalized language legislation.

<sup>20</sup>Perceived costs to individuals may in part be considered as a proxy for political costs.

### System-Wide Economic Policies

While political separation (and *a fortiori* simple autonomy) need not necessarily entail economic disintegration, it *must* mean a change in the political process underlying "national" system-wide economic policies, and logically a change in the regional impact of those policies. Regions should thus expect to reap benefits on this dimension by altering their political status. It is unlikely that a change in position on the first dimension (economic disintegration) would *as such* bring gains to the region without it being linked to possible benefits on the second dimension. The costs or benefits from political separation on the second dimension are basically a function of two variables:

- the importance of economic policies determined at the national (system-wide) level, or at any other level where the nation is the basic decision-making unit;
- the impact of those policies on the region.

#### *The importance of national economic policies*

If few or no economic policies are determined at the national (or international) level, little economic rationale would seem to exist for separation. Correspondingly, as the economic powers of the region grow (in a very loose federation, for example), so the economic rationale for separation would decrease, up to the point where the region would, in fact, acquire the powers of a nation. Depending on one's point of view, devolution (as in the Scottish case) may thus be seen as either a way to forestall sovereignty or as a half-way house to political separation.<sup>21</sup>

In the extreme case of decentralization, that is to say a totally free market economy without state intervention, the economic rationale for separation would cease to exist, since the state is no longer an economic agent. It also means that there would be no costs to separation on this dimension. Thus, as Boisvert [1] notes, Norway's separation from Sweden in 1905 entailed few visible costs, which he explains in part by the very limited powers of the state at that time, both in terms of regulation and public expenditures. Conversely, as the economic power of the state grows, including the associated costs and benefits, so the rationale for political separation, or at least increased autonomy, grows. It is thus not surprising that regional autonomist

<sup>21</sup>Thus, one might argue that the powers of the Province of Quebec, which have increased since the nationalist upsurge of the 1960s (at least in the popular perception) make the need for full autonomy less dramatic. If this is true, then Quebec "independentistes" are partly victims of their own success, of the reforms which they have called forth.

movements are, in part, a post-Keynesian phenomenon. As the state is increasingly perceived as the chief architect of the economy, so the powers which the state embodies increasingly become the object of contention. If, on the other hand, the state (despite its powers) is seen as intrinsically inefficient in economic terms, or if its real impact on the system-wide economy is considered questionable, then logically the case for separation would also appear less clear.

Following the same line of reasoning, the impetus for political separation should increase as the number and importance of international, continental or multinational organizations (or economic decision centres) grows; for the nation remains, in principle, the chief participating decision unit in such organizations. Examples such as G.A.T.T., the I.M.F. or the European Common Market immediately spring to mind. To the extent that economic relations or policies are internationalized (dependent on relations between states) the region would appear to have an interest in possessing a distinct (international) identity.<sup>22</sup> If, after all, Luxembourg or Ireland is present at the negotiating table, why not Brittany or Puerto Rico? Conversely, to the extent that regions participate in international decision making processes<sup>23</sup> (if only as part of national delegations), the rationale for political separation would weaken.

#### *The Regional Impact of National Policies*

In most cases we would expect the economic rationale for increased autonomy or political separation to be based on the postulate that existing "national" (system-wide) policies are detrimental to the region, or at least not as beneficial as they could be, or that the existing nation is not sufficiently representing the region's interest on the international plane. It is indeed difficult to imagine a region wishing to separate, for economic reasons, if national economic policies are perceived as acting in its favour. Given, in general, the number and the variety of national policies, it is, in most cases, impossible to rigorously measure their net impact on the region; thus the regional impact of national policies often becomes a subject of political debate. In the Canadian case, the Quebec government tends to stress the detrimental effects of Federal policies [20] while the Federal government stresses the positive impacts [5].

Looking at Canada, we in fact find that different national policies often tend to act at cross-purposes, to cancel each other

<sup>22</sup>On the other hand, one might say that the region is trading one minority status (on the intranational level) for another (on the international level).

<sup>23</sup>Admittedly, at this point, the political distinction between nation and region starts to become fuzzy.

out in terms of their interregional effects, so that the net aggregate impact of government intervention on the regional distribution of economic activity may be far less than expected given the importance of government programs [3]. It would indeed be difficult to show that Federal intervention has significantly affected Quebec's aggregate relative economic standing within Canada in one direction or the other. To this extent, those favouring sovereignty are, for example, not totally unwarranted in arguing that many Federal policies have basically served to confirm existing trends, to accentuate the concentration of economic activity in Ontario, and, more recently, have done little to slow down the western movement of the Canadian economy.<sup>24</sup> At another level, Fortin [11] argues that the goods and services provided by the Federal government may simply not reflect the consumer preferences of the Quebec population.<sup>25</sup> Fortin [12] also suggests that Quebec would stand to gain from a distinct fiscal policy (within the limits allowed by a common currency) given the difference in economic structures and business cycles.

It is reasonable to assume that specific policies not necessarily linked to economic integration could often be as (if not more) efficiently carried out at the local level: housing, labour retraining, harbour administration, etc.; not to mention education and health, which are already provincial responsibilities in Canada. Reasoning on a system-wide level, the problem largely comes down to determining which is the most efficient (spatial) level for implementing a given policy. In many cases there is no *a priori* reason for believing that it need be the system (nation). In such cases, political separation or increased autonomy may mean a more efficient framework for policy implementation and formulation.

For other economic policies, regionalization may enter into conflict with the desire to maintain the economic integration of the system.<sup>26</sup> The absence of trade barriers necessarily means a

<sup>24</sup>Thus, the region need not feel that national policies are clearly detrimental. To the extent that the underlying spatial trends of the economy seem to be going against the region, it may simply feel that national policies are doing little to arrest those trends. This of course raises the fundamental question of defining the economic space within which wealth is to be maximized. In our case it is the region.

<sup>25</sup>This, in part, raises the question of applying "national" homogeneous policy criteria to a system composed of regions with varying cultures, economic structures and geographical characteristics.

<sup>26</sup>This conflict of objectives would be minimized if there is little trade between the regions or, in another context, if economic integration is the general world (or continental) rule.



common trade policy towards third parties.<sup>27</sup> In this sense, we may speak of a *trade-off* between the costs of economic disintegration and the benefits of distinct regional economic policies. This trade-off will vary from region to region. As already noted, the cost of economic separation on the first dimension could be fairly important in the Canada-Quebec case, given the present level of protectionism. On the other hand, the possibilities (potential benefits) of making distinct economic policies, especially in terms of trade and capital flows, appear relatively limited in both the Canadian and the Quebec case, given the high degree of interdependence of the North American economy. Under present conditions, the trade-off in this case would appear to favour the maintenance of economic integration (plus protection vis-à-vis third parties).

The decision to maintain economic integration (plus common policies) need not necessarily mean that the region approves the existing system-wide policies. The absence of internal barriers to trade is one thing and the impact of national policies another; even if economic flows are unimpeded, their intensity and direction may, in part, be a consequence of certain system-wide policies. In other words, "unbalanced growth" (as expressed by the direction of economic flows) is not necessarily a consequence of economic integration as such, but may also in part be a result of "unbalanced" economic policies, which may or may not accompany economic integration.<sup>28</sup> In an economy where capital is very mobile but labour is not (for cultural reasons, for example) we should expect compensatory policies to ensure a "balanced" distribution of demand and/or to ensure adjustment via other (price) mechanisms: flexible factor prices, regionalized monetary policies, etc. In short, the separating region wishing to maintain economic integration, plus associated common policies, must necessarily assume that new common policies will better serve its interests than the old,<sup>29</sup> or at least that system-wide policies determined within a new framework

<sup>27</sup>Except in the case of the free trade area, the most elementary type of economic integration.

<sup>28</sup>"Unbalanced" growth may equally be attributed to other factors such as differential resource endowment or changing international demand. Since the 1973 energy crises, this factor has become increasingly important and, in the Canadian case, largely explains Alberta's recent prosperity and the increasing tensions between energy producing provinces and the central government.

<sup>29</sup>Thus in the Canadian case, the maintenance of a common trade policy (implying the present level of protectionism) can be interpreted as a short term cost minimization decision, which need not necessarily mean that the composite regions (specifically Quebec) agree with the long run structural effects of the present policy.

(compatible with political separation) will not worsen its situation.

Given common policies, the question thus resolves itself to a choice of political processes. The region implicitly assumes that in determining common policies it will have more political clout as a sovereign state than within the framework of a political union.<sup>30</sup> From the point of view of the whole system, we may equally ask which is the most efficient framework for managing the economy. Exactly the same economic result could, in theory, be produced by one central government, or by several sovereign states joined in an economic association. Whether this is in fact possible often depends more on political judgement than on economics. Much of the debate in the Canadian case centred around the comparative efficiency of sovereignty-association versus federalism for managing the Canadian economy [17; 21].

### Interregional Transfer Payments

Unlike the previous dimension, the impact of interregional transfer payments, defined as the net interregional distribution of central government expenditures and revenues, is relatively easy to determine, at least in "static" terms. Thus, a region which is "subsidizing" the rest of the system should, in principle, gain from political separation while the opposite would be true for a region being subsidized. In the Canadian case, Quebec has been a net subsidized region since about 1973 (it was a net subsidizer before); the net inflow of Federal expenditures into Quebec currently accounts for about 2% of Gross Regional Product [4]. Logically, a politically sovereign Quebec should have to forego this income, at least in part, since we have postulated that interregional transfer payments are incompatible with political separation (Table 1), at least at the level which generally exists within a political union.<sup>31</sup> According to our framework, separa-

<sup>30</sup>Although this falls within the realm of political science, we may postulate that the probability that political separation will, in fact, increase the region's bargaining power is an inverse function of its present political clout. Thus, a region which feels that it dominates the nation would feel little impetus to separate. Some would say that this is the case for Flanders today (in Belgium) or Ontario in Canada and certainly England in the United Kingdom. Conversely, minority regions would feel more political pressure to separate. This is certainly one of the most compelling arguments for Quebec sovereignty since Quebec accounts for 27% of the Canadian population, with demographic trends predicting a further decline [22]. On the other hand Slovenia, one of Yugoslavia's smallest republics, remains very loyal to the Yugoslav federation, in part because it offers a sense of security against larger, neighbouring Italian and German cultures [10]. Some might wish to draw a parallel with Canada-Quebec and its large American neighbour.

<sup>31</sup>Perhaps the most notable exception to this rule is the E.E.C.'s common agricultural policy (C.A.P.) which does involve fairly important internation

tion on this dimension, unlike the two previous dimensions, is a necessary condition of political separation.

In the cases where central government expenditures do constitute an important source of regional income (a net inflow) separation could indeed appear very costly, at least in static terms. This is certainly true of Atlantic Canada as well as many traditional "peripheral" regions in Western nations. Autonomist groups in such regions are faced with a dilemma; indeed, the popular call may be for more central government spending and thus implicitly greater dependence vis-à-vis the national government. For such regions, heavily dependent on transfer payments, we may speak of a trade-off between money and power; or in terms of our framework, between the regions' relative positions on dimensions 2 and 3.

This raises the question of the long term (non static) effects of transfer payments on productivity, innovation, efficiency, and so forth. If we take only the direct impact of transfer payments, it is clear that a net inflow must be beneficial. But, for a system (nation) whose policies include significant redistributive elements, this leads to the somewhat troublesome conclusion that the poorer a region is, relative to the rest of the system, and thus the greater its net receipts of central government expenditures, the more the region is profiting from political union. Following this line of reasoning, "peripheral" regions such as Corsica, Ulster or Sicily, which are relatively dependent on central government generosity, would be considered as the chief beneficiaries of political union; a proposition at which many inhabitants of those regions would undoubtedly take umbrage.<sup>22</sup> Courchene [6] argues, in the Canadian case, that many transfer schemes only serve to prolong regional disparities, by concealing the need for necessary adjustments. Yet it is difficult to totally deny their utility. The resolution of this debate falls beyond the scope of our paper.

Finally, for the Quebec example, we may summarize the government's 1980 proposal of sovereignty-association as follows within our three-dimensional framework: Quebec was willing to accept costs on the third dimension; it did not expect to incur significant costs or benefits on the first dimension (precisely because it intended to leave it unchanged); and it hoped to

transfer payments. On the other hand, the recent tensions within the E.E.C. are largely attributable to the C.A.P. We may equally refer to less costly E.E.C. programs such as the European Investment Fund or Regional Development Fund.

<sup>22</sup>Many would probably maintain that these payments are simply a "just" compensation for the regional impact of "unbalanced" system-wide policies whose effects are more profound but also more difficult to measure.

reap significant benefits on the second dimension, especially in the long run. As we have seen, the costs are easier to measure than the benefits, and this is probably true in most cases.

### Conclusion

Given our framework, we hypothesize that the costs of regional separatism would be minimized (and/or benefits maximized) under the following conditions:

1. Little trade or other economic relations between regions; or in the opposite case, the maintenance of economic integration and/or the existence of economic integration as a general world (or multination) rule. As a corollary, the presence of an orderly world economic system (or multination blocs) into which the region would be accepted.
2. System-wide (national or international) policies have either little significant effect on the underlying spatial trends of the economy or their effects have been clearly unfavourable for the region *and* separation would increase the region's capacity to influence those policies, or at least not diminish it.
3. Interregional governmental transfer payments have either a marginal effect on the regional economy or translate into a net outflow of money.

This is the ideal case. For many regions, located in Western nations where redistributive policies are important, 2 and 3 are probably in conflict. The first condition is largely limited to a cost minimization objective: to the extent that it is not met, the region must equally consider trade-offs between possible losses on 1 and possible gains on 2 and/or 3. But, given the present state of the art, it is impossible to rigorously determine trade-offs between dimensions of differing time-frames and levels of quantification. In most cases, the debate surrounding separation or regional autonomy will thus remain largely non-economic, if only because of the political content of some of the economic dimensions themselves.

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