Journal of Economic Behavior and Organization 151 (2018) 284–306

Contents lists available at ScienceDirect

Journal of Economic Behavior and Organization

journal homepage: www.elsevier.com/locate/jebo

Local secessions, homophily, and growth. A model with some evidence from the regions of Abruzzo and Molise (Italy, 1963)☆

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A R T I C L E I N F O

Article history:
Received 9 October 2017
Revised 12 April 2018
Accepted 23 April 2018

JEL Classification:
H77
H10
R11
R12

Keywords:
Local jurisdictions
Cultural homophily
Secessions
Regional growth

A B S T R A C T

This paper analyses the case of a local secession, i.e. the birth of a new local jurisdiction by separation from an existing one. We present a stylized model in which society is composed of heterogeneous groups and individuals have an homophily bias. The model predicts that: (i) separations, such as the split of a territory into distinct administrative units, occur when the costs of mixed communities are sufficiently large; (ii) the smaller community drives the decision to secede; (iii) welfare gains from the split are associated with positive population growth; (iv) higher payoffs under separations, however, might be related to taste for sameness only, with no (or even negative) effect on economic growth. Empirically, we exploit the secession of the Italian region of Molise from Abruzzo in 1963, a unique event in Italian history. Historical records document that the split was the result of pressures from Molise, the smaller community. Our evidence suggests that the split was associated with population inflows in both areas. Finally, by using a synthetic control approach, we show that the split caused significant benefits to per-capita GDP growth, in both regions.

1. Introduction

Over the last thirty years, a vast literature has analyzed the determinants of the size of jurisdictions, both by considering secessions from sovereign states and federalism. The main conclusion is that jurisdictions have to balance heterogeneous preferences towards public good provision and redistributive taxation against economies of scale and spillovers across areas. Thus, what mainly matters is the level of centralization at which fiscal policy decisions are taken.

The story we consider here is different from – but not incompatible with – traditional explanations based on fiscal factors. The case of our study, the split of Molise, Italy, from the region Abruzzo in 1963, raises indeed some questions. At the time of separation, Italian regions had very little discretion about local fiscal policy, which was basically decided at the

☆ We thank Antonio Accetturo, Guglielmo Barone, Carlo Ciccarelli, Francesco David, Pietro De Matteis, Emanuele Felice, Luca Mo Costabella, Paolo Pin, Giandomenico Scarpelli, the Editors and two Referees for comments and suggestions. The views and the opinions presented in the paper are those of the authors and do not involve the responsibility of the institutions they are affiliated. Alberto Dalmazzo acknowledges financial support from the Italian Ministry of Education, University and Research (PRIN grant 2015, n. 2015592CTH).

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https://doi.org/10.1016/j.jebo.2018.04.018
0167-2681/

central level. Also, the picture about the chance, and the nature, of a future regional devolution was quite blurred, to say the least. But then, which were the advantages from a split? This paper proposes an explanation based on "homophily", the bias for sameness, where people from a group (Molise) prefer to interact among themselves, and separate as much as possible from the other group (people from Abruzzo). Even when the immediate gains from direct management of local fiscal policies are absent, such an attitude can be explained in terms of taste for cultural similarity, or in terms of improved coordination. For example, more coordination at the local level can put greater political pressure on central government's decisions. A *fortiori*, if devolution eventually occurs, an homogeneous community will be likely to benefit even more, as suggested by Oates (1972) and others.

The model builds on – and, by considering mobility, significantly extends – the framework introduced by Dalmazzo et al., (2014), where society is composed of heterogeneous groups, and individuals have an homophily bias: they like to interact with people of their own kind, but they dislike interacting with people from other groups (see, e.g., Currarini et al., 2009). In the present framework, we consider two communities that have conflicting interests (such as breeders and farmers), or different "cultures".[1] The two groups of individuals, denoted by α and β, live in the same area, and each individual chooses an action, termed as "effort" or "investment". The composition of society is crucial for individual decisions. For instance, individual investment is likely to be encouraged when a member of group α can lobby with other type-α individuals for the provision of specific services. By contrast, when the activity of members in group β is substantial, there is more pressure to twist the provision of services in favour of group β's interests, and group α's members may find investment less profitable.

The literature on country secessions has several analogies with the topic of this paper. The theory of the size of nations by Alesina and Spolaore (1997, 2003) balances the advantages of unification, in terms of economies of scale in public good provision, market size and uninsurable shocks, with the costs of heterogeneity. Average distance in individuals' culture and preferences is likely to increase with the size of the country, and matters for the provision of public goods. Buchanan and Faith (1987) and Bolton and Roland (1997) focus on taxation and redistribution across poor and rich regions as the main drivers of secessionist politics, quoting the examples of the Flanders and Catalonia. In particular, Buchanan and Faith (1987) argue that the threat of secessions may put a limit on the level of taxation imposed on wealthy regions, while Bolton and Roland (1997) show that even poorer regions like Wallonia or Scotland may support separatism, whenever their residents are more inclined to redistributive policies. Interestingly, Alesina et al., (2000) argue that the removal of trade barriers across countries reduces the losses which are otherwise borne when parting from a larger nation. Thus, openness leads to political disintegration.

However, the analogy with country secessions must not be exaggerated in the case of interest here. Abruzzo and Molise were and are part of a union, Italy that provided a common market together with defense, justice and transportation infrastructure. At the time of the separation decision, fiscal discretion at the local level was also largely limited. In this perspective, many of the fiscal arguments put forward by Buchanan and Faith (1987), Bolton and Roland (1997) or – within the "fiscal decentralization" literature by, e.g., Oates (1972) and Besley and Coate (2003) [2] – seem to have limited relevance. By contrast, the argument put forward by Alesina et al., (2000) is central: under the Italian sovereignty, the separation between Abruzzo and Molise entailed small costs at the local level. At the same time, a separation could guarantee the advantages brought from political administrations, or political representatives, closer to the local community (see, e.g., Alesina et al., 2004), and put more distance between two culturally heterogeneous communities.

For these reasons, the model we propose emphasizes cultural differences across communities and the role of homophily, rather than stressing standard fiscal issues as taxation and the allocation of public funds. We suggest that individual contribution will be stronger in homogeneous societies, since the individual's action is a strategic complement of actions of individuals from the same group, while is a strategic substitute of actions of individuals belonging to the other group. Our approach bears analogies with Akerlof's (1997) model of "social distance". There, social interactions among similar people are more rewarding and, thus, inherited social location may push individuals who were born close to move even closer, forming "stable subcultures". Here, the homophily bias may push similar people to pursue separation from other groups. Should separation occur, the interaction among homogeneous individuals will create self-reinforcing effects in the aggregate. As suggested by Schelling (1978), individual motivations, such as the preference for sameness, can produce cumulative effects leading to polarization.

An immediate implication of our theoretical framework is that the impact of the secession on the welfare of both communities can be evaluated by looking at their population flows. In particular, if members of a community benefit (suffer) from separation, they will have lower (higher) incentive to migrate away. Another implication is that the smaller community pushes to get on its own. The model encompasses two reasons why separations might lead to higher payoffs. To the extent that the split is due only to the taste for sameness, more homogeneous communities might be "happier" but not necessarily richer. The desire of being on its own might run against a more efficient exploitation of the economies of scale associated with size. In this case, we should observe post-separation positive population trends, which go hand in hand

[1] For example, heterogeneous communities are likely to fuel conflict about political representation of specific interests, both at the local and central government levels. Alternatively, the "cultural" view on parochialism proposed by Bowles and Gintis (2004) emphasizes the role of ethnically-based trust and exclusion in societal networks.

[2] The seminal contribution of Oates (1972) emphasized the conflict between tailoring public goods provision to the preferences of smaller groups and the presence of spillovers across districts. See also Faguet (2004). Besley and Coate (2003) emphasize the political process generated by locally elected representatives, where the "winning coalition" may produce both misallocation and uncertainty on the provision of local public goods.