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Seceding is Back in Vogue, This Time in Debt-Ridden Europe

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In addition to stock-market meltdowns, recessions and high unemployment, the prolonged debt crisis in Europe is sparking another phenomenon: a slew of secession movements.

From Catalonia and Venice to Scotland and Bavaria, a number of disgruntled European regions are attempting to rid themselves of some of their less-affluent neighbors that they help subsidize.

While few are likely to succeed in seceding any time soon, the fact that the breakaway efforts are even on the table threatens to set a dangerous precedent and adds to the eurozone's risk profile.

An actual breakup could also make it that much harder for the rest of a region's countrymen to dig out of their debt-ridden holes.

"The economic crisis has weakened the glue that holds society together," said Marc Chandler, global head of currency strategy at Brown Brothers Harriman. "It's not just that the Germans don't want to pay for the Greeks. They don't want to pay for each other either."

Secession movements in Europe aren't exactly a new development given the continent's long history of division and bloody wars.

While the divisions have largely been kept in check since the chaos of World War II, separatist movements have been emboldened in recent years. The obvious culprit is the lingering sovereign debt and economic crisis gripping the eurozone and Europe more broadly.

Catalonia at the Heart of the Secession Movement

Some regions, like Catalonia in Spain, are resentful at being forced to pick up the bill to help clean up Madrid's fiscal mess.

Pro-independence proponents in Catalonia believe if they bolt Spain, they can avoid painful austerity measures while simultaneously eliminating costly fiscal transfers. Perhaps they can even leave debt-free.

"The movements have always been there but what's crystallizing it right now is the fiscal pressure and idea that maybe you can get a free lunch and quit the country," said Jim Rickards, a partner at New York hedge fund JAC Capital Advisors. "It's like a bankruptcy where your debts are wiped out clean."

With 7.5 million people, Catalonia lies on the eastern edge of Spain and includes Barcelona, the country's second largest city. The region accounts for around 20% of Spain's gross domestic product

Catalonia recently estimated that in 2009 it paid over 16 billion euros ($20.76 billion), or 8.4% of its GDP, for services provided and investments made in the rest of Spain.

Domino Theory Looms

Of course, if Catalonia actually seceded from the rest of Spain, it would make it that much harder for Spain to escape its current slow growth, high debt environment.

"Spain ex-Catalonia would be far weaker and much more likely to default on its debts. Just the talk of succession induces policy risk and makes things worse in Spain," Cam Harvey, a finance professor at Duke University, wrote in an email.

The secession issue was at the forefront in this past weekend's election in Spain. The results were mixed as the party of Artur Mas, the leader of the movement, lost about 20% of its seats, but overall votes for groups striving for Catalonian independence actually rose to around 66%.

Catalonia isn't alone as there are movements in Venice to break away from Italy and in Scotland to split from the United Kingdom.

Likewise, Bavaria, the largest of Germany's states and second most populous with about 12.5 million residents, has been making noise about the level of fiscal transfers it is forced to make to the rest of the country.

The fear is that a successful secession effort in one of these areas could create momentum for future breakaway efforts.

"The countries in Europe realize that if one region can do it, the others might not be too far behind," said Rickards.

A Catalonia secession "could lead to a downward spiral and a dissolution of Spain as a nation-state. Theoretically, the danger for Spain is it goes the way Yugoslavia went," said Chandler.

Secession Faces Uphill Battle

Due to a number of potential stumbling blocks, it seems unlikely that a large number of regions will actually pull the trigger and break away from their parent countries.

For example, Chandler said: "The Scots might talk a good game but the overwhelming majority will realize it will be more expensive to be outside than inside" the U.K.

In Spain, UBS (UBS) estimates that Catalonia's debt-to-GDP ratio would surge to 78% from its current 21% level if the region were to absorb its 20% share of Spain's debt.

It's also not even clear that many regions would even legally be allowed to secede. The Spanish constitution would have to be amended before Catalonia would be able to leave.

A secession also raises a slew of other practical questions, including whether or not the new region would start its own currency or attempt to join the euro, which presumably wouldn't be all that receptive to a breakaway region.

The new country would also be forced to figure out a way to defend itself militarily, perhaps even against some newly-angry neighbors on its borders.

"Sovereignty isn't all it's cracked up to be," said Chandler. "Increasingly, international agreements are eroding sovereignty from above and corporations are eroding sovereignty from below."

More likely than actually bolting, the regions can use the secession issue as a valuable bargaining chip in negotiations on key issues such as reducing costly fiscal transfers.

"This is just a fashionable thing that will go out of fashion as economies recover and people start to think about the real cost-benefits," said Chandler.

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