

Size Matters

Jennifer Erickson

The Size of Nations, by Alberto Alesina and Enrique Spolaore (Cambridge, MA: MIT Press, 2003). 272 pages. \$35.00.

East Timor is a small nation, slightly larger than Connecticut and 235 times smaller than Indonesia. It has a population of fewer than one million people. On May 20, 2002, East Timor broke away from Indonesia and was recognized as the world's newest independent country. By now it also boasts many of the other trappings that signal nationhood: a seat at the United Nations and a recently published *Lonely Planet* travel and phrase book.

The rise of international organizations and multinational corporations over the last generation made talk about the end of the age of nation-states fashionable. But more recent events—from East Timor's secession to conflicts in the Caucasus to debates in regional assemblies in North America and Europe—suggest that nation-states are still the critical players in international relations. Against this backdrop, *The Size of Nations*, by Alberto Alesina and Enrique Spolaore, explores intriguing questions about the role of population size in the formation, expansion and efficacy of states.

Much of the book is filled with graphs, regressions and equations, but the authors make it easy for those without a facility or interest in the mathematical theory of their arguments to consider their conclusions. The authors did well to make this book more accessible because the basic ideas are engaging and provide useful data and theses for those interested in the changing boundaries of nations.

Some of the more interesting parts of the book are quick facts that will likely stay with readers long after they finish reading. For example, at the end of the Second World War there were 74 independent countries; now there are 193. Furthermore, "more than half [of the world's countries] are smaller in size than Massachusetts, which has about six million inhabitants."¹ And while it is common knowledge that China is the world's biggest country with 1.2 billion citizens, Alesina and Spolaore do us a favor by reminding us that the smallest country with a seat at the United Nations is Tuvalu, population 11,000.

The consideration of optimal country size is not new. As noted by the authors, Plato had a characteristically exact answer to the question of optimal country size: 5,040 heads of family. Aristotle had a similar preference for small

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nations, writing that “experience has shown that it is difficult, if not impossible, for a populous state to be run by good laws.”²

Alesina and Spolaore challenge the notion that the size of a country is purely an exogenous factor, no more a human construction than geological factors like mountains or rivers. In considering the size of nations as man-made, the authors hypothesize that the optimal size of a state involves a trade-off between the benefits of economies of scale and the costs of legislating across a heterogeneity of preferences. In other words, there may be cost efficiencies in larger-sized states, but that can also imply unpopular one-size-fits-all policies.

Theoretically, fixed costs of government decrease as they are spread out across more citizens, making public goods like defense and the civil service cheaper per person (an argument championed over two hundred years ago in *The Federalist Papers*). The authors acknowledge the limitations of this theory, however, especially as the world becomes more peaceful and stable. Consider, for example, American defense spending, which far outstrips other countries in terms of actual dollars and as a percentage of GDP.

What the authors term “the heterogeneity of preferences” within a country is a critical counterpart to the economies of scale theory. The Soviet Union may have enjoyed economies of scale in several cases, but it was also legislating for a huge land mass and population comprising many different countries. In a dictatorial regime, this centralized direction can potentially continue to operate, but the more open a country is, the more problematic the democratic deficit becomes. The increased autonomy of regions within European countries shows that even for medium-sized states, there is a demand for subsidiarity, or handling things on a more appropriate, more local, and lower level.

Critics of independence of regions (or dissolving larger states to smaller ones) often argue that the world is a scarier place for small countries. But the authors show that small countries, far from being abnormal, often excel in a

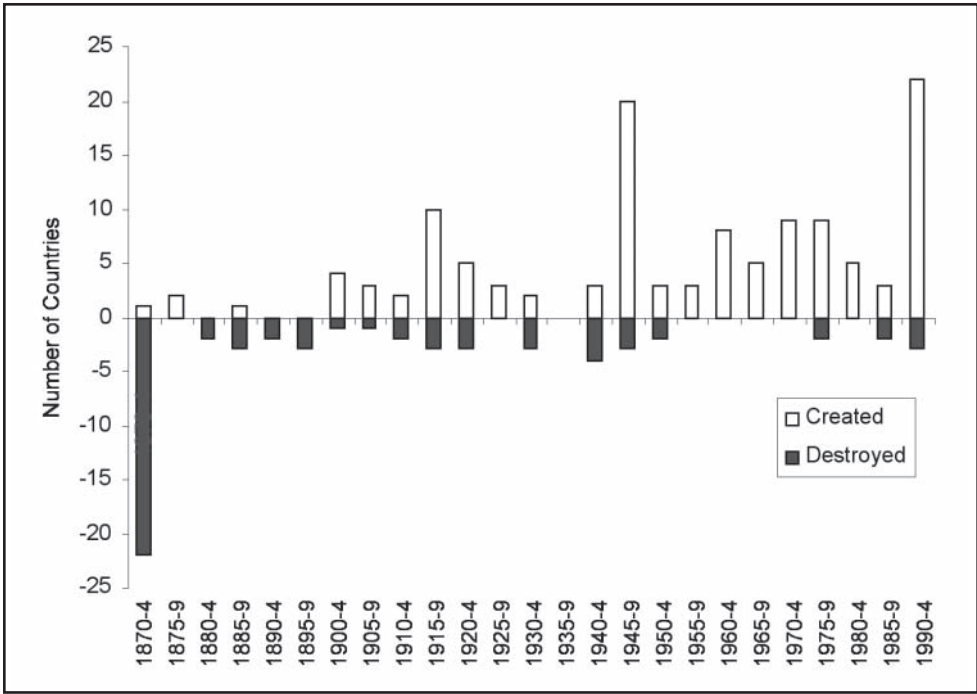
Small countries, far from being abnormal, often excel in a world characterized by open trade, as today’s increasingly is.

world characterized by open trade, as today’s increasingly is. In fact, six of the ten wealthiest countries in the world have fewer than one million people.³

In Europe, “the power of the pygmies” has borne out. By dividing the EU-15 into large and small countries based on population,

OECD statistics show that small countries are one-third richer than large countries, are growing two-thirds faster, have one-half the unemployment, and have trade balances seven times more favorable.⁴

Alesina and Spolaore give special attention to the European Union, suggesting that European nation states are threatened from both above (the supranational level) and below (the regional level). The implications can be seen in the form of “rampant regional movements” that flourish in the open and stable economic environment of the European Union.⁵ As Catalonia argues for representation to the European Union, and Wales and Flanders continue



Countries created and destroyed over five-year period from 1870 to 1990, excluding sub-Saharan Africa. Recreated using data from Alberto Alesina and Enrico Spolaore, *The Size of Nations* (Cambridge, MA: MIT Press, 2003), 192, Figure 11.2.

to experience national movements, it seems fair to wonder what European political boundaries might look like in a generation.

As the European Union increases from fifteen to twenty-five, it is easy to see why secessionist tendencies are reinforced and individual regions of larger states feel an entitlement to a greater say in policy. Consider that as of May 2004, Slovenia, a landlocked country with two million people, took its seat at the European Union top table in deciding energy and fishing policy. Scotland (population 5 million, with the largest oil and gas industry in the European Union and fishing employing up to 54 percent of adults in coastal regions) did not. Arguably, Scotland will be represented in European Union discussions by the United Kingdom. But, given that the energy and fishing sectors are much more important to Scotland than to the United Kingdom as a whole, it is entirely possible that these critical Scottish interests will be significantly underrepresented by a general British delegation. As testimony to this reasonable supposition, courtesy of the 30 Year Rule, we know that Edmund Heath’s Government viewed the Scottish fishing industry as expendable compared with wider U.K. interests.⁶ Put in the economics jargon of Alesina and Spolaore’s book, as power shifts within Europe, a country like Scotland might some day feel that the balance between economies of scale and managing a heterogeneity of preferences is no longer optimal at the United Kingdom level.

The authors write that “as the world economy becomes more integrated, the trade-off between heterogeneity of preferences and economy of scale ‘tilts’ in favor of small size.”⁷ Over the course of the twentieth century, the number of independent countries almost tripled, changing international relations and

altering national identities. The authors' impressive research and lucid arguments suggest that as nations continue to calculate the costs of heterogeneity against the putative benefits of scale, the world might well look very different again over the next one hundred years.

Notes

¹ Alberto Alesina and Enrique Spolaore, *The Size of Nations* (Cambridge, MA: MIT Press, 2003), 1.

² *The Politics*, quoted in Alesina and Spolaore, *The Size of Nations*, 5.

³ Alesina and Spolaore, *The Size of Nations*, 81.

⁴ Alex Salmond, "The Economics of Independence," edited by Jennifer Erickson, University of Strathclyde Economics Department, 2003.

⁵ Alesina and Spolaore, *The Size of Nations*, 201.

⁶ A Government memo dated 11 December 1970 noted "a severe limit to the extent to which our limited negotiating capital could be expended on fisheries." *The Scotsman*, 1 January 2003.

⁷ Alesina and Spolaore, *The Size of Nations*, 219.