

What's Happening to the Number and Size of Nations?

Written by Alberto Alesina and Enrico Spolaore

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Since the end of the Second World War, the number of independent states has nearly tripled. In the last thirty years, over thirty new states have become members of the United Nations. Separatist movements routinely receive strong support in regional and national elections. For example, in Catalonia pro-independence parties won a majority of seats in the local parliamentary elections last September. After Scotland narrowly voted against independence in September 2014, the Scottish National Party won 56 of the 59 Scottish seats in the British general elections this May. A breakup of the UK remains in the political agenda, while the British voters are considering whether to exit the European Union. At the same time, contentious issues about sovereignty and national boundaries affect the debate on how to address the current refugees' crisis. All over the world, from Ukraine and the Middle East to India and the Philippines, borders and secessions continue to be at the center of heated debates and conflicts.

How to evaluate this separatist drive? What are the determinants of national borders and secessions? What are the consequences of having more numerous, smaller sovereign states? We have been interested by these questions for over two decades. We started to write about the number and size of nations in the Nineties, when a wave of new independent countries were being formed following the dramatic collapse of the Soviet Union, the peaceful separation of Czechoslovakia, and the violent breakup of Yugoslavia. Over the same period, we witnessed the spread of separatist movements in Western Europe, from Belgium and Catalonia to our own native Italy. Traditionally, these phenomena were studied by historians and political scientists, but not by economists, who tended to take national borders as given (or, in economics jargon, "exogenous"). However, states and boundaries are human-made institutions, and should be explained using the tools of political economy – the study of the interactions between economic and political variables. That approach has motivated our own work.

Our first paper on the topic was "On the Number and Size of Nations,"[1] where we provided a model in which political and economic factors – such as democratization and international openness – lead to more numerous, smaller countries. The idea that international economic integration goes hand in hand with political disintegration was at the center of our theoretical and empirical work with Romain Wacziarg of UCLA.[2] Those and other contributions soon became part of a growing economic literature on the endogenous formation and breakup of nations, including our book *The Size of Nations* (Alesina and Spolaore, MIT Press, 2003; paperback 2005). A useful recent review of the literature on the size of nations is found for instance in *The Economist*. [3] In this article, we provide a few considerations on how such economic research can help evaluate the ongoing trends and debates about secessions.

Border changes are too often evaluated from extremist and partisan perspectives. On one side are the enthusiasts for secessions, on the other side those who view them as unmitigated disasters. In contrast, we believe in the virtues of economic analysis, with its emphasis on choices and trade-offs. When forming a smaller country after a breakup, there are pros and cons, which vary depending on the internal situation of the country concerned and the international regime. For example, citizens of smaller and more homogeneous states may agree more easily on taxes, public goods, redistribution and other public policies. In general, consensus is harder to achieve in larger and more diverse countries such as the United States, with its history of internal political conflicts, including a bloody civil war. But a diversity of cultures, ethnicities and perspectives often means greater creativity and innovation as well. New York and Los Angeles are among the most innovative cities in the world, even though they have often been at the center of racial and ethnic conflicts. American history also illustrates two other benefits for a large country: the ability to defend themselves from external enemies (unity is strength), and the advantages from a vast domestic

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market without internal barriers.

So what are the incentives for secession? There are at least three reasons. The first reason stems from domestic politics. In the past, monarchs and dictators could ignore the preferences of their populations and maintain centralized states and vast colonial empires with the use of force. But in a more democratic world it becomes more difficult to suppress the preferences of ethnic, linguistic and religious minorities. Consequently, central governments are obliged to grant greater autonomy or even independence. In this regard, it will be interesting to see what is going to happen in China, a huge country which is currently "held together" by a communist dictatorship, as used to be the case in the Soviet Union. It is quite possible that the end of a communist dictatorship will imply a breakup of China, as in the former Soviet Union.

The second reason is due to international relations. In spite of the numerous conflicts of our time, fortunately we live in one of the most peaceful and prosperous periods in recent human history. All things considered, we are lucky when comparing our world with the world of our grandparents between 1914 and 1945, which was plagued by protectionist policies, economic depression, totalitarian regimes in the heart of Europe, ethnic genocide, and horrific world wars. The political and economic situation has dramatically improved after World War II in many parts of the world, largely as a consequence of increasingly free trade, and international agreements and institutions that fostered peace and economic integration. In Europe, NATO has reduced the cost of national self-defense, while the EU has removed many trade barriers among its members, creating a common market. In fact, such common market and European-level governance have also eroded the importance of domestic markets. This is the third reason why small countries can prosper: precisely because international openness and common market reduce the importance of large domestic markets. Even a small country can trade freely with the rest of the world. In this sense, the EU increases the attractiveness of regional secessions. The Spanish government is less useful to Catalonia if many of the prerogatives of Madrid are devolved to Brussels. Some time ago there was talk of a "Europe of regions," in which national capitals would lose prerogatives down (to regions) and upward (to Brussels). In fact, the difference of views between Scots and the rest of Britain about the benefits from European integration is very likely to play a central role in the stability or breakup of the UK.[4]

Nowadays, because of trade and international institutions, being small does not mean to be poor, while being big it is no guarantee of prosperity. Among the five richest states in the world in terms of per capita income, the most populous is Singapore, with just over five million inhabitants. In contrast, among the five largest countries in terms of population, the second richest after the US is Brazil, a middle-income country. In our above-mentioned work with Romain Wacziarg, we found that the economic growth rates are much higher among countries open to international trade, and that this effect is much greater for smaller countries than for larger countries. In other words, international trade is much more valuable for small countries which have small domestic markets.

In sum, economic analysis can provide a useful assessment of the costs and benefits of national size. And, overall, the costs to secede have gone down. However, the final choice regarding borders depends on citizens' preferences. And such preferences are based not only on economic costs and benefits, but tend to involve other dimensions, such as culture and identity. In fact, the formation of new countries makes sense only when reflecting the preferences of most people concerned. Scotland did go in the right direction, allowing a democratic vote of its citizens. Scots did decide to remain in Britain, in large part because they were promised greater autonomy from London. However, as already mentioned, the UK continues to face the prospect of a breakup in the longer run, which can probably be averted only through a major reorganization of all populations involved, not only in Scotland but also in England, Wales, and Northern Ireland. As part of such reorganization, as already mentioned, we expect that it will be important to reach a new and stable equilibrium regarding the permanence of the UK in the EU. In other terms, the stability of the UK is linked to the stability of the European Union. The situation in Spain seems to be even more complex, and potentially even more dangerous, because of a worrisome lack of cooperation and trust between Madrid and Barcelona.

While secessions are not as costly as they used to be, they continue to be expensive processes, because national borders continue to hamper economic exchanges. For example, despite a free trade agreement (NAFTA) and a strong military-political alliance, trade between the United States and Canada is far lower than among Canadian

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provinces, and an independent Quebec could see a fall in its trade with the rest of Canada. And while we now live in a relatively more peaceful world, conflicts and wars remain a constant threat, and there is no guarantee that current military alliances, such as NATO, will continue to be as effective at maintaining security in Europe or elsewhere.

In an ideal world, if the benefits exceed the costs from being united, those who want a larger state should compensate those who would prefer to leave. But this is much easier in theory than in practice. It is politically difficult for a central government to make credible promises to various minority groups without alienating the majority. British Prime Minister Cameron and his government, which promised so much to Scotland to avoid secession, already face this dilemma.

Moreover, what is really important from the point of view of the whole international community is that decisions about institutions and borders should be taken in a fully democratic way, while according maximum protection to minorities. Unfortunately this is far from the general way in which borders have been determined historically – e.g., in Yugoslavia and Sudan – or today – e.g., in the current conflict in Iraq and Syria.

A significant problem is that the international community itself is made up of existing states, and the governments of those states often have a vested interest in preserving the status quo. Here lurks perhaps the greatest risk. Namely that, in order to prevent the formation of new states or to discourage requests for greater autonomy, governments may jeopardize the large benefits already obtained from cooperation and international economic integration. This would be a serious mistake. National borders should not be viewed as permanent and eternal entities, but as human-made institutions, which can be changed in function of changing political and economic needs. And the forces of the past decades – democracy, international cooperation, economic integration – have paradoxically increased the incentives for autonomy and localism. This means that we should expect increasing demands for autonomy and independence from groups that do not feel represented by traditional central governments. The reaction should not be a stubborn defense of the status quo at all costs, but a pragmatic and creative use of democratic institutions.

In conclusion, when we look back at the trends of the past few decades, and project such trends into the near future, we expect that demand for autonomy and independence will remain high, as long as the world continues to be democratic, peaceful and open. But we also expect that such demand will be much less likely to bring about costly breakups and divisions if national governments and supranational organizations do not try to maintain the status quo at all costs, but are open to change and tolerant of diverse preferences within their borders. Then, we can expect that most people will decide to stay together after all. However, as in a marriage, sometimes a peaceful divorce is better than a painful forced union.

Notes

[1] A. Alesina and E. Spolaore, "On the Number and Size of Nations," *Quarterly Journal of Economics*, May 1997.

[2] A. Alesina, E. Spolaore and R. Wacziarg, "Economic Integration and Political Disintegration," *American Economic Review*, December 2000.

[3] *The Economist*, "Goldilocks Nationalism," September 25, 2014.

[4] A recent discussion of the political economy of European integration is in E. Spolaore "Monnet's Chain Reaction and the Future of Europe, Vox EU, July 25, 2015.

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