

Heterodox Economics Newsletter

THE SIZE OF NATIONS, by Alberto Alesina and Enrico Spolaore, MIT Press, 2003. ISBN: 978-0-262-01204-1; 266 pages.

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This book is captivating, presenting a complex discussion of the formation of political borders clearly and elegantly. The authors illustrate a theory of border determination both in terms of real world examples and an apropos mathematical model.

Factors that shape country size include public goods and preferences, and the homogeneity or heterogeneity of these factors is essential in determining borders. Public goods like national defense, public parks, and schools are costly, and the costs vary with individual preferences. The relative openness of the nation impacts the need for and use of public goods, as external trade can allow smaller nations to access a larger marketplace. The authors also discuss the optimal amount of decentralization, with local governments playing an intermediate role between the central government and overlapping single-purpose jurisdictions.

Empirically, the authors show that smaller governments per capita can be found in larger countries, due to economies of scale. They also show that the positive relationship between country size and growth is impacted by the degree of openness. These results confirm the model laid out in previous chapters and are then reinforced by a discussion of these relationships from a historical perspective. “Leviathans,” or very large dictatorships, as embodied in China and the Ottoman Empire, have grown beyond the economic optimum, while smaller, post-Cold War-created democratic states have been relatively successful due to trade openness.

All of this highlights the main assertions of the book, that country size matters for both security and economic reasons, and is impacted heavily by the heterogeneity of the population. The authors find that democracy does not necessarily lead to creation of the “optimal” number of states, but they do find that a more peaceful global community would be organized into smaller states. Although framed to some degree in orthodox language, this is an apt and compelling study for heterodox readers as well, since it causes one to think about the factors that have led to a world of very heterogeneous nations.