

Free exchange

Goldilocks nationalism

The size and homogeneity of a country's population has a big bearing on its economic policies

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WHEN Scotland turned down independence, it was bucking a trend. Since 1946 the number of sovereign states has soared, from 76 to 197. The steady shrinking of the world's political units raises the question of what the ideal size would be from an economic perspective. Separatists from Catalonia to the southern Philippines should be aware that a country's population, economists believe, has a big impact on all sorts of policies, from the level of government spending to its openness to trade.

Separatists eyeing the exit have many motivations, but economics typically plays a big role in the choice to stay or go. In their book "The Size of Nations", Alberto Alesina and Enrico Spolaore lay out the costs and benefits of going it alone.* Scale has its advantages: bigger countries are easier to defend from foreign aggressors, for instance. When barriers to trade are high, a bigger domestic market allows for more internal specialisation. A 19th-century British prime minister is reported to have complained to a French ambassador, "If you were not such persistent protectionists, you would not find us so keen to annex territories!" America's size allowed it to develop new and highly productive forms of industry in the late 1800s, which Europe's smaller countries could not match until tariffs fell in the 20th century.

Yet the bigger a country grows the more multitudes it contains. Larger populations are not always more diverse than smaller ones—Japan is both much larger and more homogenous than Belgium—but in larger countries there are generally more politically distinct subgroups. As the voting public becomes more heterogenous, the scope for intractable disputes over government policies grows.

Messrs Alesina and Spolaore reckon falling barriers to trade have reduced the cost of being a small state and boosted interest in separatism. Ironically, the European Union has made breaking up especially attractive. Catalan nationalists, for instance, assume that if Catalonia parted ways with Spain, which it currently subsidises by paying more in taxes than it receives in government spending, it would nonetheless remain within the single market. That makes independence a much easier sell.

Becoming independent, however, might impose different costs. Economists generally reckon that smaller states devote a larger share of output to government, for two key reasons. The first is that there are economies of scale in the provision of some public services. In larger economies the cost of financial regulators and courts can be spread over more taxpayers. An independent Scotland would have needed to replicate much of Britain's bureaucracy, but with a population one-thirteenth the size. Research by Romain Wacziarg of the University of California, Los Angeles, and Mr Alesina shows that government spending on things like parks and general administration declines as a share of GDP as countries grow larger.

The economies of scale associated with social spending are not that big, but smaller economies tend to be more generous where such programmes are concerned. That appears to be a direct result of the greater homogeneity within smaller countries. In a paper published in 2001 Mr Alesina, Edward Glaeser of Harvard University and Bruce Sacerdote of Dartmouth College examined the generosity of welfare states in America and Europe. Differences in income inequality or social mobility could not account for the finer mesh of Europe's safety nets, they reckoned. Instead they suggest that racial animus is to blame. White Americans, who account for a disproportionate share of rich ones, are less keen on redistribution, the argument runs, since blacks account for a disproportionate share of the poor.

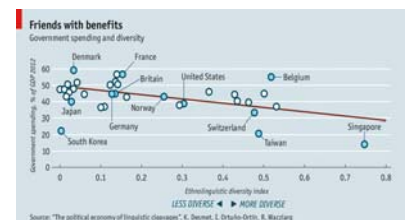
More recently Mr Wacziarg, Klaus Desmet of Southern Methodist University and Ignacio Ortuno-Ortín of University Carlos III in Spain studied the relationship between ethno-linguistic diversity and several economic variables. In general, they reckon, less diverse economies engage in more redistribution and greater provision of public goods such as education and infrastructure. In highly homogenous Denmark, government spending runs to nearly 60% of GDP. More diverse America allocates just 39% of GDP to government; in polyglot Singapore the figure is just 14% (see chart).

Better together

Borders, no matter how porous, also choke off trade. Despite sharing a free-trade area, a language (for the most part), an international dialling code and much else besides, America and Canada trade roughly a tenth as much as American states do with one another. Given the costs of national division, decentralisation is sometimes preferable to outright independence, argues Mr Spolaore in a paper published in 2008.

Within such tie-ups, transfers of government revenue between regions can become a sore point. Mr Spolaore reckons it is the nature of the redistribution, as much as the scale, that matters. Pay-offs used to mollify a region with different policy preferences can actually leave everyone better off. Much as it may grate with some English politicians, it could be worth the rest of Britain's while to bribe Scotland to put up with Westminster's taste for small government, as long as the bribe is smaller than the benefits the union with Scotland brings.

In contrast, redistribution resulting from pronounced differences in income between regions is often destabilising, as one side chafes at its relative poverty and the other at its tax bills. That is not always the case: handouts from the former West to the former East no doubt helped make German reunification a success.



Where flows from rich to poor also cut across cultural lines, as in Spain, trouble is more likely to result. The bigger the transfers, the more likely the country is to fall apart. Enforced solidarity, in other words, undermines the voluntary sort.

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