1 Introduction

1.1 The Main Questions

Nations come in all sizes.[1] China, the largest country in the world, has 1.2 billion inhabitants. Tuvalu, the smallest country with a seat at the United Nations, has less than 11,000 people. In recent years the number of independent nations has increased dramatically. The breakup of colonial empires, the collapse of the Soviet Union, and numerous secessions all over the world have led to the creation of many new sovereign states over the past few decades. In 1945 there were 74 independent countries. Today there are 193.[2] As a result many of today's countries are quite small. More than half are smaller in size than Massachusetts, which has about six million inhabitants. Even when no new countries are formed, regional separatism, ethnic conflict, and various centrifugal forces are in motion. Often regionalism and separatism take relatively peaceful manifestations, as in the case of Quebec or Catalonia. In other cases, as in the Basque region or in the Balkans, separatism has led to violence.

While in most parts of the world we observe a tendency toward separatism, Germany and Yemen have reunified, and the European Union is evolving from a free trade area to some form of political integration. Interestingly the process of European integration has not eliminated the pressures for more decentralization within many of the European Union's member countries, such as Belgium, Britain, France, Italy, Spain, and the United Kingdom.

These events raise two questions: What determines the size of nations and how does their size change over time? Does a country's size matter for economic success?

Philosophers, historians, and political scientists have devoted much effort to the study of the formation of sovereign states, their optimal size, and the evolution of size over time. Plato even calculated the optimal size of a polity down to the precise number of households, namely 5,040 heads of family.[3] The formation and breakup of states has always been at the core of historical analysis.[4] By contrast, economists have generally taken the size of countries as "exogenous"—that is, not to be explained.[5] In fact, while international economics is, by definition, about economic exchanges across national borders, borders themselves are treated as part of the geographical landscape, like coasts or mountains. However, national borders are not a natural phenomenon; they are human-made institutions and they can be studied with the same tools of political-economic analysis that have been profitably applied to other areas of human activity. For example, in important work on the geographical determinants of income per capita, Jeffrey Sachs and coauthors have stressed the costs of being a landlocked country, such as Bolivia or Afghanistan.[6] But a county's being landlocked is as much an outcome of politics as of geography. Bolivia was not landlocked before it lost part of its territory to Chile in 1884, and Utah or Colorado would be landlocked countries if they were independent. Political borders, like many other institutions, are the outcome of choices and interactions by individuals and groups who pursue their goals under constraints. This book studies the formation and change of political borders with the tools of economics.

Our main concern in this book is with the number and size of sovereign states, which, as Tilly (1990) puts it, have been "the world's largest and most powerful organizations for more than five thousand years." However, the definition of a "state" is controversial. Some authors include ancient empires, medieval theocracies, and Greek and Italian city-states. Others restrict the definition to modern national states, characterized by recognized borders over a territory, a population, and a national, centralized government with the monopoly of the legal use of coercion.[7] While our focus will be on modern states, we will also consider other forms of territorial organization, such as autocratic empires, supranational organizations, and decentralized jurisdictions (regions, provinces).

Consistent with current English usage, we will use interchangeably "nation," "state," and "country," to mean "sovereign state"—and specifically to the sovereign "national state," which is the main political subdivision of the world. We are aware that some readers may object to using these terms interchangeably as "nation"—and to some extent, "country"—have additional distinct meanings.[8] For example, "nation" is often regarded as a group of people who share language, customs, and a "sense of homogeneity,"[9] or, more humorously, according to a well-known definition cited by Deutch (1969), as "a group of people united by a common error about their ancestry and a common dislike of their neighbors." In this sense a nation does not need to be an independent state. If it is, one usually talks about "nation-states"—another term with multiple meanings. We are not interested in "nations" as distinct from "nation-states." However, differences in individual preferences—which in the modern world tend to be connected to linguistic, ethnic, and cultural differences—will play an important role in our analysis of the formation and breakup of states.

1.2 The Basic Trade-Off

In this book we will argue that the sizes of national states (or countries) are due to trade-offs between the benefits of size and the costs of heterogeneity of preferences over public goods and policies provided by government.[10]

What are the benefits of large population size? First, the per capita costs of public goods are lower in large countries, where more taxpayers are available to pay for them. Think of defense, monetary and financial institutions, a judicial system, infrastructures for communication, police and crime prevention, public health, embassies, and national parks, just to name a few. While the costs of many publicly provided goods may increase proportionally with the population, often some aspects of these costs are independent of the number of users or taxpayers.[11] Thus the per capita costs of many public goods generally decline with the number of taxpayers.[12] Also large countries have means for more efficient forms of taxation, for example, income taxes relative to the less efficient custom taxes. This is because income taxes have larger bureaucratic setup costs relative to something like custom duties.[13]

Second, it is often argued that a large country (in terms of population or national product), all other things equal, can better protect itself from foreign aggressions by its greater military power. Defense is a public good, and the per capita cost of defense decreases with country size. Small countries can enter into military alliances, but, in general, size determines the extent of military power.[14]

Third, the size of a country affects the size of its economy. To the extent that larger economies and larger markets increase productivity, larger countries should be richer. However, the size of a country's "market," that is, the number of individuals and the amount of spending in an economy, depends on the openness of the country to trade.[15] A country integrated in the world economy has the world as its market. If the political borders did not limit economic transactions, the size of a country would be independent of its economic success. In reality, however, political borders do interfere with economic transactions, so the economic benefits of size depend on the openness of a country.

Fourth, large countries can provide regional "insurance." Take Texas, for example. Should Texas experience a recession that is more severe than the US average, it would receive fiscal transfers, on net, from the rest of the country. The reverse holds as well; if Texas does better than average it becomes a source of transfers to other US states. Now, if Texas were an independent state, it would have a more pronounced swings to its business cycle, since it would not receive help during recessions and would not subsidize other states in boom periods. The interregional transfers that operate through various channels of the fiscal code and of spending programs, are quite sizable in the United States.[16] The benefits of this insurance are particularly evident in times of natural calamities.

Fifth, large countries can build redistributive schemes from richer to poorer individuals and regions, thereby achieving distributions of after-tax income that would not be available were its regions acting independently. This is why poorer regions seek to form alliances with larger countries inclusive of richer regions, while the latter may prefer independence.[17]

If there were only benefits from size, then the tendency should be for the entire world to be organized in a single country. In principle, as countries become larger, administrative and congestion costs may defeat the benefits of size pointed out above. However, in practice, these costs vary for very large countries. Hence administrative and congestion costs alone do not determine the size distribution of countries as many of the 193 countries are quite small.

More important is the consideration that in larger countries there are more diverse preferences, cultures, and languages within the population. A country's heterogeneity of preferences increases as it become larger. Now, why should heterogeneity of preferences matter? Belonging to a country implies agreeing to a set of policies, be they redistributive schemes, public goods, or foreign trade. Heterogeneity implies that very diverse groups of individuals should be in agreement on these matters. Of course, certain policies can be delegated to localities, in order to allow for local preferences, but not every policy can be treated this way. With increased heterogeneity there are more individuals or regions that are less satisfied by the central government policies. Indeed, many violent domestic conflicts around the world associated with racial, religious, and linguistic heterogeneity have threatened the stability of national governments.[18]

Concerns about the political costs of large and heterogeneous communities go back a long way in the philosophical and political debate. There was, for example, the argument of Aristotle that a polity should be no larger than a size in which everybody knows personally everybody else. As he wrote in *The Politics,* "experience has shown that it is difficult, if not impossible, for a populous state to be run by good laws." As noted by Dahl and Tufte (1973), this Greek view of a small polity in which everybody knows each other often resurfaces in later philosophers, such as Montesquieu, who, in *The Spirit of the Laws,* wrote:

> In a large republic, the common good is sacrificed to a thousand considerations. It is subordinated to various exceptions. It depends on accidents. In a small republic, the public good is more strongly felt, better known, and *closer to each citizen*.[19]

The founding fathers of the United States often mentioned Montesquieu's views when they worried about the "excessive" size of the new federation at the Constitutional Convention held in 1787.[20] As documented by Dahl and Tufte (1973, pp. 9–10), the Antifederalists "contended that a republic with such a large territory inhabited by such a heterogeneous population was an 'absurdity, and contrary to the whole experience of mankind.'" In response to such criticisms, in Federalist paper 10 Madison provided a famous counterargument. He objected that a large size, far from being a problem, was actually an advantage for a democracy. His point was that the larger a territory becomes in size, the greater will be its variety of parties and interests, and hence the smaller will be the chance that "a majority of the whole will have a common motive to invade the rights of other citizens; or if such a common motive exists, it will be more difficult for all who feel it to discover their own strength, and to act in unison with each other." In other words, according to Madison, in larger states rent-seeking groups who want to "invade the rights of other citizens" will have a harder time to overcome problems of collective action. Moreover, according to Madison, "the influence of factious leaders may kindle a flame within their particular States, but will be unable to spread a general conflagration through the other States." This part of Madison's argument can be viewed as a clever application to the political sphere of the "insurance" argument we mentioned before, where the existence of "factious leaders" is analogous to a natural calamity, such as a hurricane. If an individual lives in a small independent state where power falls into the hands of a tyrannical and factious leader, he is lost. In a large federation, made up of many heterogeneous states, factious leaders can at most take over a single state, but the neighboring states, being under control of other groups, can provide "insurance" against threats of takeover and keep the political crisis confined to local boundaries. Madison's views contain some important truths, and should be entertained when studying the benefits and costs relating to the optimal size of a polity. However, it is questionable whether such "insurance" benefits stemming from the existence of many heterogeneous groups can be sufficient to offset the political and economic *costs* associated with heterogeneity. As Dahl and Tufte (1973, p. 11) note: "Whether the classical arguments were actually refuted by American experience is . . . doubtful." The Civil War sheds some serious doubts for the Madisonian defense of large size. Our hypothesis, which is backed by extensive empirical evidence, is that, on balance, heterogeneity of preferences tends to bring about political and economic *costs* that are traded off against the benefits of size. Think for a moment about the extremes. Madison would have to agree that a fully homogeneous country could work well, since there would be no need for conflict. In the opposite extreme where widespread heterogeneity degenerates into an internecine war, a civil society cannot function. The Madisonian argument can be restated in saying that sometimes, within intermediate levels of heterogeneity, augmenting certain types of heterogeneity may actually increase the quality of institutions. This is a point we will explore, but we do not see it as undermining the basic fact that in general, homogeneous polities function more harmoniously in both large and small countries.

Hence we arrive at a concept of "equilibrium" country size that results from a trade-off between the benefits of size and the costs of preferences of a heterogeneous population. How this trade-off is effected by the many politicoeconomic variables is the main theme of this book.[21]

1.3 Optimal and Equilibrium Size: A Brief Methodological Detour

What do we mean by an equilibrium size of a country? As is usual in economic analysis and political economy, we will use different concepts of "equilibrium" in this book.

First, we will consider the optimal country size using standard economic tools of optimization under constraints. The optimal size of a national state is one that reaches the highest level of average welfare and that given certain constraints.

It is useful to contrast our discussion of optimality with that of Dahl and Tufte (1973). They discuss various trade-offs concerning the size of polities, and they conclude that since there are trade-offs, the optimal size of a country does not exist. In their words, "no single type or size of unit is optimal for achieving the twin goals of citizen effectiveness and system capacity." For us, this is a valuable insight insofar as it stresses the impossibility of achieving an absolute best in which two goals are perfectly attained at the same time. However, if we want to consider the extent to which a goal can be achieved (more or less effectiveness, more or less capacity), the presence of trade-offs between goals does not mean that the *optimal point* on the trade-off has not been or cannot be reached. Consider an individual who values both leisure and consumption, but must be employed to pay for these pleasures. He could maximize leisure by not working at all, but then he would obtain no consumption, since he would have no income with which to buy goods. Or he could maximize consumption by working twenty-four hours a day, but then he would get no leisure time. This does not mean that there is no optimal combination of leisure and labor. The individual could choose to work up to the point where the extra consumption earned by the last hour of work would give him the same utility as the last hour of leisure he would enjoy: that is for him an "optimal" point. Analogously, the optimal size of a country would be characterized by some optimal point between the benefits of size and the costs of heterogeneity. This is precisely our starting point.

Our purpose is not only normative but also positive. We do not want only to compute the optimal size in an ideal world where borders are as they "should be." We are interested in learning why in reality countries attain certain sizes. We argue that the trade-off matters and explain the observed configuration of borders. However, that does *not* mean necessarily that we should expect to observe an optimal size. On the contrary, although we talk about an optimal number of countries, we do not believe that every month, or year, or even decade, the world population computes the optimal number and shape of countries and rearranges borders accordingly. As we will argue, remappings of borders are effected by political and economic forces and so may show systematic deviations from any optimal configurations. Nevertheless, from a politicoeconomic viewpoint considerations of efficiency and economic trade-offs are useful for several reasons.

First, we could argue that over time various forces drive institutions (in our case political borders) toward efficiency.[22] For those readers who remain skeptical about this argument, it may be useful to regard country sizes as trade-offs in economic efficiency. We can take this perspective and compare historical evidence using predictions of models based on principles of economic efficiency. Even where an efficiency explanation might fail, we should be able to understand *why* it fails and to learn something about the politicoeconomic forces at play. An efficient configuration of borders, by definition, would maximize the "size of the pie." Hence, in principle, the population segment that would suffer loss if borders were drawn optimally would be compensated by the winners, and everyone would be better off with efficient borders.[23] Therefore, if an efficient allocation is not observed, one must understand *why* the "size of the pie" is not maximized to everyone's benefit. In fact, as we will argue in this book, compensation schemes will be difficult or impossible to implement through political institutions. More generally, there are systematic reasons that keep the sizes of countries away from their optimal levels, as we will see below.

We will contrast optimal solutions with two different concepts of equilibrium: (1) voting equilibria where borders are determined by democratic vote and (2) equilibrium border configurations determined by dictatorial Leviathans.[24] In a voting equilibrium, as we will see, ideally the borders are determined through majority voting (referenda). This concept was enacted in a few historical cases. However, where borders have not been determined by direct vote, a voting equilibrium might prove useful in assessing the consequences of democratically redrafting borders. That is, a voting equilibrium could conceivably approximate a situation where the borders reflect fairly reasonably the will of the people. The other concept of equilibrium (the Leviathan equilibrium) is based on a darker but realistic assumption that, for most of history, borders have been determined by rulers who attempted to maximize their net rents, broadly defined, with little regard for the will of majorities. This concept allows us to understand borders from a more realistic perspective, how they appear on maps.

Both voting and Leviathan equilibria reveal the critical role of political institutions in the determination of the size of nations. We will see how alternative democratic rules might lead to different configurations of borders. The contrasting configurations of countries in a world of dictators and democratic regimes allow us to observe some correlations. It should be clear that the optimal size of a country for a ruling dictator may not be that size that maximizes average citizens' welfare, but it may be the size that maximizes the ruler's wealth and welfare. Our concepts of optimality and equilibria serve as benchmarks for our analyses, and as a direction for further theoretical and empirical research.

There are two types of books. Those that provide a "definitive" word in a widely researched area, and those that open new areas and raise more questions than they have answers for. This book is intended to be of the second type. Our goal is to show how economic thinking can be used to study the evolution of country size. We are aware that often highly complicated events have led to specific configurations of borders and that the same borders may last for centuries. Changing borders is a costly activity, and border changes are relatively infrequent. More generally, the actual dynamics of border formation are complex, and they may include several interactions of variables and effects that are difficult or even impossible to capture in simplified equilibrium relationships. However, this does not preclude finding systematic forces behind the formation and transformation of countries. Borders matter and borders change. Repeatedly at critical junctures of history, the redrafting of borders has involved global politics. For instance, in the nineteenth century the combined movements of nationalism and liberalism fixed their sight on the building of nation-states and redrawing the map of Europe. The colonial empires more or less peacefully drew borders that distributed to them large portions of the world. After the First World War, the world leaders faced the task, in Versailles, of redesigning country borders in Europe, and as many have argued, they failed. After the Second World War the decolonization of empires left borders open to dispute. Many students of Africa believe that inefficient borders have contributed heavily to the economic failures of countries on that continent.[25] The collapse of the Soviet Union in the early 1990s led to a tremendous explosion of number and shape of nations in Eastern and Central Europe. The process of deep economic integration in Western Europe, accompanied by pressures for political decentralization, has called into question the role and function of national states. We hope that our analyses can shed some light on important issues related to these complicated events.

Finally, many readers may be struck by our fixation on keeping our models as simple as possible. We chose to extract only the most important elements of the real world in order to bring the points we want to make into focus. The benefit of keeping models as simple and general as possible was well understood by Vilfredo Pareto (1935, p. 323), who wrote:

Every now and then scientific theories of economics and sociology are challenged as disregarding certain particulars. That, instead, is a merit. One must first obtain a general concept of the thing one is studying, disregarding details, which for the moment are taken as perturbations.[26]

Simplicity is also valued by those who do not use formal models. For instance, Samuel Huntington (1993) wrote in a *Foreign Affairs* article:

[W]hen people think seriously, they think abstractly; they conjure up simplified pictures of reality called concepts, theories, models, paradigms. Without such intellectual construct there is, as William James said, only a "bloom buzzin."

Of course, we are aware that simplicity can lead to oversimplification. At the end of the day, the test of a simple model is its ability to provide useful insights for a complex reality. It will be up to the reader to judge whether we have come close to that goal.

1.4 Organization of the Book, and a Brief Synopsis

We have made every effort to write a book that can be read both by nontechnical people and by those inclined toward analytical formalization. In every chapter we begin our arguments informally. Then, in the next sections, we provide the analytical formalization. These sections are identified by an asterisk (*). Readers who intend to avoid any equations could skip the technical sections and still follow the arguments of the chapters. Those nontechnical readers who are especially interested in the empirical discussion and in history, after reading this introduction, should gloss over the nontechnical parts of chapters 3, 5, and 6, and then read the three chapters entirely devoted to historical facts, chapters 10 through 12. In what follows we provide a brief chapter by chapter description of the book.

Chapter 2 introduces the basic trade-off between the benefits, in terms of lower per capita taxes, in having large jurisdictions, and the costs of differences (i.e., heterogeneity) in preferences over the policies of a jurisdiction. To choose the best arrangement along this trade-off, we want large heterogeneous jurisdictions that provide public goods and policies for which benefits of size (i.e., economies of scale) are large; alternatively, small homogeneous jurisdictions should provide public goods and policies for which the heterogeneity of preferences is high and economies of scale are relatively low. So why does one need central governments to provide a bundle of public goods and policies? In other words, why have countries? Why is the prevailing organization one in which individuals organize themselves around a single national government that provides most of the public goods and policies? An alternative, and potentially more efficient, organization, as we just mentioned, would be one in which various groups of individuals share certain public goods with some regions and other public goods with other regions. For example, California might share a currency with Mexico, and army with Oregon, and a supreme court with Nevada. Or, two adjacent cities share a school system, but not an army. The guiding principle would be that large jurisdictions would provide public goods for which benefits of scale are relatively large and heterogeneity costs low, and vice versa.

There are two problems with this organization. One is that overlapping jurisdictions create a large amount of transaction and communication costs, which, in fact, would naturally increase in the amount of overlap of several administrative bodies and in the distance between groups of individuals sharing the same policy/administration. The second problem is that it may be impossible for regions to share a public good if they do not also share some other goods, in particular, defense and monopoly of coercion. It is hard to imagine individuals sharing public goods, public property, and policies if they do not share the ultimate monopoly of coercion and the legal use of violence, which is what defines a "state." We can therefore think of a state as a political organization that concentrates in its government a relatively large and important number of policy functions, including defense and monopoly of coercion.[27]

Having established the rationale for a state, in that it provides a bundle of public goods and policies, with an eye on the trade-off between the benefits of scale and the costs of heterogeneity, we turn to how various politicoeconomic forces determine the equilibrium choice of country size along this trade-off. In chapter 3 we discuss the formation of democratic institutions within countries whose borders can be decided by majority vote, and also the formation of regions that are free to proclaim their independence. We examine, in particular, the difference between the evolution of optimal country size and the country that results from majority vote on its borders. The optimal size is the size that maximizes average welfare. In general, it is not certain whether a democratic equilibrium reproduces the optimal configuration of borders. The idea is that in a one-person, one-vote rule, everyone contributes equally to the decision on borders. However, individuals far away from the administrative center of the country (i.e., removed from the administrative center of government in preferences and location) could vote to break up a country because they do not experience the benefits of public goods as much as closer regions in preferences to government policy making. In particular, when individuals with the same income have to pay the same taxes no matter how "far" they are from the government—the number of countries in a voting equilibrium will be larger than the optimal. In other words, if borders are decided by vote, there could be many secessions and breakups, creating countries that are inefficiently small. Average welfare then might be increased if the individuals in distant regions that are opting to secede are compensated and this way induced not to break up the country.

In chapter 4 we carry this discussion forward into the direction of interregional transfers. We consider a region located far from the center of government whose preferences differ from those of public policy. As in chapter 3 we analyze the case where it may be in everyone's interest to compensate the distant region with favorable fiscal policy in order to avoid inefficient secession. We discuss the extent to which these transfer schemes are economically and politically feasible.

Chapter 5 considers a world of rent-maximizing governments (Leviathans). Since Leviathans are interested in extracting the largest possible rents form their populations, they prefer large country sizes in order to have more people to tax. An autocratic leviathan is unconstrained by its subjects' preferences. Large dictatorial empires like the Indian empire, the Ottoman empire, or the Soviet Union served precisely the purpose of providing the elites with rents and power. Only threats of insurrection keep the size of a dictatorial empire in check. Thus even dictators must guarantee some minimum welfare to some part of their citizenry. This strategy becomes difficult as empires increase in size and become more heterogeneous. The equilibrium country size then is reduced as government is induced to satisfy the needs of large fractions of their population; this way leviathans can become democratic. At the other extreme, where individuals are free to choose country borders, we will have small and somewhat homogeneous units. In this case the rulers do not extract rents but direct the policy preferences of relatively homogeneous populations. Thus democratization should lead to the creation of many new countries, which is precisely what we observed after the collapse of the Soviet Union.

Chapters 2 to 5 have emphasized the benefits of country size as economies of scale in the provision of public goods. In chapter 6 we consider the size of the economy. The size of the market for any country depends on the trade regime and on the state of international economic relations. Imagine for a moment a world of complete autarky in which all borders are closed. In this world the size of each country's market is determined—equivalent to—the country's size. Consider a world without international trade. Since the size of markets favors economic growth, large countries would have an advantage. At the opposite extreme is a world of completely open to trade in goods, factors of production, and financial instruments. In this world political borders do not delimit markets in any way, so the political size of a country has no relationship to the size of its markets. Small and large countries compete in the same marketplace: the world; political size is irrelevant for economic success. Now in the real world we are somewhere in between these two extremes. Autarkic systems have not prevailed, but political borders do matter for economic transactions. However, as globalization progresses, we can expect the world to move closer to free trade where the benefits of large country size fade away. Therefore economic integration should go hand in hand with political separatism.

Chapters 7 and 8 raise the question of international conflict. Chapter 7 presents the basic facts and a simple model, and chapter 8 extends the modeling in various dimensions. In these two chapters we analyze the choice of spending on defense and how the amount spent might affect the resolution of a conflict. Then we consider how different conflict types might affect country size, and vice versa. Next we look at the benefits of size with relation to external threats of aggression. In a peaceful world any regions considering separation may feel that they will be safe from aggression. But, as the number of seceding countries increases, many more borders must be defended by many more armies. This alone could raise the frequency worldwide of localized conflicts. In fact, while the end of the cold war created a more peaceful world by drastically reducing the possibility of a nuclear confrontation between the two superpowers, local military confrontations have not disappeared. One could even argue that, on average, local military conflicts have increased.

Chapter 9 addresses decentralization, or the subdivision of a nation's government into local jurisdictions. In this chapter we do not digress into the vast field of fiscal federalism but rather cite what literature is appropriate to our perspective on political border formation. We discuss how decentralization can, up to a point, substitute for secessions and how different political regimes might experience more or less decentralization. In particular, we show how centralized dictatorial regimes come into being.

Chapters 10 and 11 present empirical evidence for the various arguments developed in the preceding chapters. Chapter 10 introduces the statistical evidence for two important implications of our model. The first concerns the economies of scale argument. We find that the size of government is actually inversely related to country size, meaning that the ratio of government spending over gross domestic product (GDP) is larger in small countries. The second implication concerns the relationship between country size and economic success. We find that the benefit of size depends on the trade regime. Small countries can prosper with free trade, and large countries prosper in closed economies.

Chapter 11 presents a historical discussion on the evolution of states, starting from the Italian and Low Country city-states. We use the lens provided us by our theoretical analysis to discuss the evolution of national states in history. Building on the theory of chapter 6 and on the empirical evidence of chapter 10, we argue that economic integration and trade liberalization have accompanied and encouraged the rise of countries since 1945. Often one hears arguments about a so-called economically viable size for a country. Whatever that size is, it will be smaller as world markets become larger. This is precisely why so many very small countries can prosper in today's world of relatively free trade compared with other periods in history. To see this, imagine the difficulties a country the size of Singapore would face in the protectionist interwar period? In today's world of free trade relatively small ethnic regions can "afford" to stay small and homogeneous, whereas this would be too costly for them in a protectionist world. More generally, in chapter 11 we argue that our theoretical analysis helps illuminate several aspects of the evolution historically of country shape and size.

Chapter 12 deals with present-day European integration. The European Union is not a national state but a supranational union of countries. We can observe this institution with the same lenses that we have used so far. In terms of efficiency, the European Union can offer a set of public goods and policies for which the benefits of size cannot be handled efficiently within country borders. This prerogative would not apply to public goods and policies with low economies of scale and high heterogeneities of preferences. Consistent with our analyses in chapters 5 and 9, we find that in areas where excessive centralization occurs, there is a democratic deficit at the root of the problem. The EU example helps us address a more general issue on the need for, and limits of, supranational institutions in a world of highly integrated and sometimes very small countries.

Chapter 13 recapitulates our main argument that democratization, trade liberalization, and reduction of warfare are associated with the formation of small countries, whereas historically the collapse of free trade, dictatorships, and wars are associated with large countries. The chapter concludes with a number of open questions for future research.