The Political Economy of National Borders

Enrico Spolaore

Tufts University, NBER, CESIfo and CAGE

Workshop on Country Size and Border Effects in a Globalised World
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Motivation

• The formation and breakup of sovereign states has been at the center of history for thousands of years.
• In recent decades, a dramatic increase in the number of independent states and the spreading of demand for autonomy and independence have renewed interest in the redrawing of national borders.
• In 1945 there were 74 independent countries (of which 51 were UN members).
• Today the United Nations has 193 members (latest addition: South Sudan in 2011). The smallest member, Tuvalu, has less than 11,000 inhabitants.
For centuries, number and size of nations debated by philosophers and political thinkers

• Aristotle: “experience has shown that it is difficult, if not impossible, for a populous state to be run by good laws”

• Montesquieu: “in a large republic, the common good is sacrificed to a thousand considerations and is subordinated to exceptions; it is vulnerable to whims and accidents. In a small republic, the public good is more strongly felt, better known, and closer to each citizen.”

• David Hume: “Nothing is more favourable to the rise of politeness and learning than a number of neighboring and independent states, connected together by commerce and policy.”
More recently, size of nations and endogenous borders addressed by political economists

• Traditionally, economists have studied the economic implications of national borders (international economics), but have taken borders themselves as given (exogenous).

• A more recent economic literature has focused on the endogenous formation and breakup of national states and political unions.

• The literature on endogenous national borders studies the interactions of economic and non-economic (political, ethnic, cultural) variables in the formation and breakup of national states, using the theoretical and empirical tools of economic analysis.

• It is part of a broader trend towards studying the deeper historical and cultural determinants of economic and political outcomes and institutions.
Goals of this talk

• Review some key concepts and results on the political economy of national borders

• Discuss a few open research questions

• Sketch the implications of the analysis for Scotland
Main References

“The Economics of Political Borders”

“What is European Integration Really About? A Political Guide for Economists”
published in the *Journal of Economic Perspectives*, Summer 2013
commercial break
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Rest of this talk

• The Key Trade-off:
  Economies of scale vs. heterogeneity costs

• Costs (and benefits) of heterogeneity

• Heterogeneity and conflict within vs. across borders

• The political economy of heterogeneous populations

• The other side of the trade-off: economies of scale
  – defense and security
  – economic integration and political (dis)integration

• Implications for Scotland: in 1707 and in 2014
A Key Trade-off:
Economies of Scale vs. Heterogeneity Costs

• Benefits from a larger size:
  - economies of scale and scope in the provision of public goods (legal system, defense and security)
  - extent of (domestic) market, when there are barriers to international trade

• but those benefits must be traded against the costs of heterogeneity: different preferences for public goods and policies in larger, more diverse populations
Costs and Benefits of Heterogeneity

- Key Distinction: **Public Goods vs. Rival Goods**
  - Heterogeneous preferences and traits negatively affect the provision of public goods - which are non-rival in consumption and must be shared by all within a jurisdiction whether one likes them or not.
  - In contrast, diversity across individuals and groups comes with benefits when considering interactions about rival goods.
Important Implications for the Relation between Heterogeneity and Conflict

• Conflict over public goods is higher among individuals and groups which are more different from each other (higher heterogeneity associated with more conflict)

• Conflict over rival goods is higher among individuals and groups that are more similar to each other
Empirical Evidence

1) Conflict within borders associated with more heterogeneity

- More heterogeneous societies more likely to engage in civil and ethnic conflict (intrastate conflict), which tends to be over control of public goods (government)
  - Montalvo and Reynal-Queirol (2005) and Esteban, Joan, Mayoral and Ray (2012): ethnolinguistic polarization and ethnic conflict
  - Desmet, Ortuño-Ortín and Wacziarg (2012): linguistic cleavages and civil conflict
  - Arbatli, Ashraf and Galor (2013): genetic diversity and civil conflict
Empirical Evidence

2) Conflict **across borders** is higher among **more similar** societies

- **International conflict** more likely among states with populations that are **more closely related** (at a smaller **genetic, linguistic, and religious distance**), even after controlling for numerous measures of geographic distance and other factors that affect conflict, including trade and democracy (Spolaore and Wacziarg, “War and Relatedness,” 2012)

- Interpretation: interstate conflict mostly over **rival and excludable goods** (such as **territory** and resources), and hence more likely among states with populations that share more similar preferences, and inherit such preferences with variation from their ancestors.
Conflict and Endogenous Borders: the contrasting effects of heterogeneity on civil vs. international conflict reinforce each other

• The fact that more diversity is associated with more conflict within borders is congruent with the fact that more similar populations will fight more with each other across borders to conquer each other’s territory, and vice versa.

• Example: consider two types of preferences for public goods: A and B
Case 1

- **Low diversity** between each state and the disputed territory – hence, **low probability of within-border conflict** between each state and the people in the disputed territory ex post, when the state is in control of that territory.
- Therefore, states 1 and 2 (similar to each other and to the disputed territory) face **high incentives** to go to war *with each other* over territory ex ante.
Case 2

- Low (high) diversity between State 1 (2) and disputed territory – hence, low (high) probability of within-border conflict between State 1 (2) and people in territory if State 1 (2) conquers territory.
- States 1 and 2, which are different from each other, face low incentives to go to war with each other over territory – State 1 can take/control territory with much less opposition from State 2.
Research Questions I

• How to measure heterogeneity/distance within and across populations?
  • Ethnolinguistic factionalization and polarization - useful measures, but definitions of groups and their salience may be endogenous
  • Phylogenetic trees based on history of populations, capturing the transmission of inherited traits - e.g., based on genetic distance (using neutral genetic variation) or ancestral cultural distances – such as linguistic distance
Priority is given to dialects and indigenous minority languages.
Research Questions II

• How do deeper historical and cultural variables affect current preferences over public goods, policies, and institutions?
• How does heterogeneity of culture and preferences respond endogenously to changes in institutions and policies?
• These questions are part of a large and growing literature on culture and economics.
another commercial break
The Political Economy of Heterogeneous Populations and National Borders

• In general, in political economy what matters is not just aggregate costs and benefits, but their distribution – heterogeneity costs are no exception

• Heterogeneity of preferences has a stronger effect on the number and size of nations when voters *directly* decide national policies and borders (effects of *democratization*).

• Voters “far from the central government” in preferences/culture/identity bear the largest share of heterogeneity costs and, if allowed to vote, will break up an inefficiently large country (Alesina and Spolaore, ch. 3).

• Voters may even break up an efficient country in the absence of optimal *tax and transfers schemes*, which can be unfeasible and/or politically non credible (Alesina and Spolaore, ch. 4).
Leviathans and Borders

• Rent-maximizing governments (Leviathans) who can ignore heterogeneous preferences of some or most of their subjects – and let “peripheral populations” bear most of the heterogeneity costs - tend to form larger, more centralized states.

• Leviathans concerned about centripetal effects of heterogeneity costs may have an incentive to reduce heterogeneity with policies of cultural and linguistic homogenization, “nation-building,” etc. (Alesina and Spolaore, 2003, chapter 5 – Alesina and Reich, 2013).
The other side of the trade-off: Benefits of scale

- Provision of public goods with large economies of scale - in particular: defense and security
- Extent of the domestic market

*These benefits depend on the international economic and political environment:*

- They are higher in a world of higher trade barriers, higher international conflict, and weak military alliances
- They are lower in a world of lower trade barriers (high economic integration), peaceful international relations, and strong military alliances
Economic Integration and Political Integration substitutes or complements?

• The “functionalist” theory of integration is that economic integration across independent countries should lead to political integration among them (for a discussion: Spolaore, 2013)

• However, the example of the German customs union (Zollverein) often mentioned in this respect is misleading, because the main force behind commercial integration was political integration pushed by Prussia’s military power (Gilpin, 2001).

• International cooperation among independent countries and political integration (formation of a political union) can be viewed as substitute ways to lower barriers to trade.

• If two regions can already agree to reduce their trade barriers with each other while remaining independent, they are going to obtain smaller additional gains from trade if they also form a political union with a unified domestic market.
Summary of paper on Europe:
I blame the French
(just kidding/je plaisante)
Economic integration and political disintegration are mutually reinforcing

• As international economic integration increases, the economic costs of being small are reduced, and hence political disintegration becomes less expensive

• In a world of smaller countries, international openness is more important

Figure 4. Scatterplot of the Detrended Number of Countries Plotted Against the Detrended Trade to GDP ratio (With Sub-Saharan Africa - 1903–1992)
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Research Questions III

• How much does international economic integration reduce the scale economies associated with larger domestic markets?
• How does the relation depend on the endogenous adjustment of policies to new size and heterogeneity?
• Role of international institutions and cooperation at the regional (e.g. European) vs global level
Research Questions IV: Relation between International Economic Integration and Conflict

- *Multilateral openness* does *not* reduce the risk of war between pairs of countries.

- However, *bilateral trade*, by increasing the opportunity cost of conflicts between two partners, *reduces the probability of conflict* between that pair of countries (Martin, Mayer, and Thoenig 2008), even when controlling for historical, linguistic, and cultural similarities between populations (Spolaore and Wacziarg 2013).

- Country pairs with a high frequency of past wars are more likely to sign regional trade agreements. This can be explained as a consequence of the complementarity between economic and political gains from trade (Martin, Mayer, and Thoenig, 2010).
In sum

• National borders determined by trade-off between heterogeneity costs and benefits of scale in different political and economic environments – both domestically and internationally

• **A larger size** is an equilibrium when borders are determined by non-democratic Leviathans, there are high **barriers to trade**, and high levels of **international conflict**

• **A smaller size** can become a new political-economy equilibrium when **heterogeneity costs** have a larger political impact (e.g., **democratization**) and/or become more salient for political and cultural reasons, and **benefits of scale** decrease because of more **peaceful international relations** and/or higher **international integration and economic cooperation** among independent countries.
Implications for Scotland?

- Two case studies:

1707  England + Scotland = Great Britain

2014  "Should Scotland be an independent country?"
The Act of Union in 1707 took place in a world of high and increasing trade barriers

- A key motivation for Scotland was access to trade with England and her colonies in a world of high and increasing barriers to trade (T. Devine’s *The Scottish Nation 1700-2007*)

- Barriers to trade between Scotland and its traditional markets in continental Europe were high and increasing

- Barriers to trade between Scotland and England’s domestic market and her overseas colonies were also high and at a high risk of increasing in the absence of a union

- Scotland’s ability to form its own overseas colonies was low and decreasing after the failure to found a Scottish colony in Central America (Darien fiasco 1695-1700).

- “Article IV of the treaty, which allowed for ‘Freedom and Intercourse of Trade and Navigation,’ attracted the single largest majority with only 19 votes against.” (T. Devine’s *The Scottish Nation 1700-2007*, p.13)
The Act of Union in 1707 took place in a world of high international conflict and non-democratic Leviathans

- Key motivation for England was defense and security: need to ensure full control over Scotland during Spanish war of succession (which had resumed in 1702)
- Decisions taken by elites (in England and in the Scottish parliament)
- Vast popular opposition to Act of Union: anti-union demonstrations were common in Edinburgh and Glasgow, and the Articles of Union were ritually burnt in Dumfries.

“From the unionist perspective, Clerk of Penicuik lamented the yawning gap which he perceived between the parliament and the people on the issue. He estimated that ‘not even one per cent approved of what [the parliament] was doing.’” T. Devine, The Scottish Nation, p. 9

- Significant transfers and side payments were provided from the English government to members of the Scottish parliament (feasible and credible because taking place across relatively small elites).
In 2014 the situation regarding benefits of scale is reversed

- **Low barriers** to trade and factor mobility with rest of UK after a breakup
- Very **low trade barriers** with continental Europe and relatively low barriers with rest of the world (including former colonies of England) - Situation unlikely to change in case of breakup.
- If anything, an independent Scotland’s *international openness likely to increase* in the long run: Scotland’s smaller size and political and cultural attitudes towards European integration likely to be associated with *stronger incentives to integrate*.
- **Low benefits** from union in terms of *defense and security*, both from Scotland’s and England’s perspective, given the current geopolitical situation.
Economic Costs and Benefits from Independence

• In sum, because of the significant reduction in benefits of scale for nation states in Western Europe for economic and political reasons, the *economic costs of independence* are likely to be low, specially in the long run, after all transitional costs and adjustments have occurred.

• In principle, there may be some economic benefits – for example, because of different policies towards international economic openness and cooperation in a smaller, more open Scotland. However, those *economic benefits* are also likely to be *relatively small*, because Scotland is already quite open.
At the end, the answer will depend on Scottish voters’ assessment of relative heterogeneity costs.

- The largest benefits (or costs) from independence would most likely be political and cultural, and crucially depend on the extent that independence would reduce expected heterogeneity costs from the Scots’ perspective.

- Key variable from this perspective: perceived distance between Scots and UK voters in terms of political preferences for the fundamental traits of the sovereign state (the ultimate public good).
Thank you
Thenk ye
Tapadh leibh