

THE SIZE OF NATIONS, Alberto Alesina & Enrico Spolaore, 2003, The MIT Press, Cambridge, Massachusetts, 261 pp

Review\*

When non-academic journals such as the London *Economist*, the *Wall Street Journal* and *Corriere della Sera* write about a book, then it must deserve a review in an academic journal as well. *The Size of Nations* of Alberto Alesina and Enrico Spolaore is an innovative approach to the analysis of the factors influencing the size of a given country. These two leading economists have managed to present their own research of the last ten years in a small number of pages. The book is not meant for a narrow group of academic economists, but to anyone who is interested in the current topics that the book deals with. If one is interested in why the USA has for centuries survived as a large state, why after WWII a large number of small states were created, why autocratic and closed states are as a rule larger than the average or why states exist at all, then this must be the book for you. The Croatian reading public will in addition be interested in the view of the authors concerning the current situation and future of the EU, given in a separate chapter.

Alesina and Spolaore have managed in the book to combine readability and technical precision in the explanation of detail. The more demanding chapters are marked with an asterisk and can indeed be skipped without any detriment to the overall understanding. The technically oriented reader will quickly see that the models are presented in an extremely simple manner and the understanding of them should not be any problem to anyone who is acquainted with the bases of mathematical analysis.

The book consists of 11 short chapters, an introduction and a conclusion. The main thesis of the book is presented right in the introduction, and then stretches throughout the rest of the book. The authors state that the size of a given state is not determined from outside (exogenous) but is the consequence of the working of two opposing forces – the benefit from the size of the state (economic scale) and the costs of the heterogeneous preferences of citizens for public goods. It should be mentioned that the actual idea does not derive from the authors of the book themselves, and has long been known in public finance writings, particularly in fiscal federalism literature. Alesina and Spolaore have

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\* Received: March 17, 2005  
Accepted: April 11, 2005

formalised this idea in the context of the idea of the magnitude of the state. In a large state the costs of many public goods can be divided among a larger number of taxpayers. Apart from that, more people means more diverse preferences about how the money for public goods should be spent, what the limitations of the size of the state are. Large states also have larger home markets, which in conditions of protectionist policies is a great advantage because of the greater possibilities for specialisation. The authors stress that it is actually the greater volume of trade, and hence the greater specialisation and effectiveness, that have enabled many small states to achieve independence. Consider a small state like Luxembourg, with completely enclosed borders. If the inhabitants of it had to produce all the goods they needed, with little possibility of specialisation, Luxembourg would be among the poorest of the world's countries. The way out of such a situation is political integration. A completely opposite process occurred in the world after World War II. Transport costs were reduced considerably and many protectionist policies were abandoned. The consequence of this was a growth in the number of states from 74 in 1945 to 193 in 2002. Alesina and Spolaore confirm their arguments with empirical evidence in the tenth chapter. This is the only chapter in which econometric analysis is used, the knowledge of which is not essential for the understanding of the chief lessons.

The authors do not restrict their analysis only to democratic states, in which the voting of the majority determines any integration, but a whole chapter is devoted to autocratic (leviathan) states. The basic difference between the democratic and dictatorial rule of a state is the attitude towards the prosperity of the citizen. While democratic leaders tend to maximise the overall prosperity of the inhabitant, dictators (leviathans) maximise rents. A large population implies larger rents for the dictator, as well as greater costs in establishing homogeneity of preferences and control of the people. Without going into the details of the models, the ultimate outcome is that the dictatorial states are on average larger.

The least persuasive part of the book consists of two chapters in which the analysis concerning the sizes of states is expanded by the role of states in international conflicts, depending on defence outlays. The main hypothesis is that in an environment of relatively inimical countries defence outlays will be greater, and this is easier to achieve in a large country because of the marked economies of scale. Unlike the other chapters, simplicity of model in these chapters is not necessarily an advantage. The authors consider only conflicts that occur among two or three countries, while today, as before, the world is divided into various formal and informal defensive coalitions. It is for this very reason that many small countries are able to survive without earmarking large sums for defence because in defence terms they are free-riders on the expenditure of the large (by joining NATO for example) or to the maximum engage in conflict-avoidance. It should be said that the authors are sufficiently fair themselves to admit the limitations of the analysis and to see that additional research is required (particularly empirical) in order for better quality conclusions to be drawn. As well as these topics, in a special chapter concerning federalism, they explain the connection between decentralisation and democratisation.

At the end of the work, the authors raise the question of whether the EU will ever become a federation of states similar to the USA. According to the arguments set out in the book, it seems it will not. This comes from the excessive costs of heterogeneity of preferences in the EU, any homogenisation of which would lead to violent protests from states members and vast bureaucracy costs. Put in simple terms, the average Alaskan is much less different from the average Californian than the average Finn is from the average Cypriot. Such a conclusion should not diminish Croatian endeavours to join the EU, for further trade liberalisation and the advantages of the large single market will enable additional specialisation and the increase of efficiency, along with the retention of political independence. In other words, decisions about public goods will be made in Croatia, along with low costs of heterogeneity of preferences, and economic transactions will be able to be carried out without interference from state borders the length and breadth of the EU.

*The Size of Nations* has attracted great attention not only from scholars but also from the non-academic public. The ideas put forward are original, interesting and accessible to the general public, although they are not the last word on the topic. I can recommend the book to anyone who is seriously involved in political economy and in the economics of the public sector. Readers who have no time for a careful reading of the entire book but have a certain interest in the topic can find the introduction and the first few chapters on the Internet site of Enrico Spolaore. For others, the book is to be found in the Law Faculty Library, and in the library of the Institute of Public Finance, or can even be ordered, relatively inexpensively, from the publisher.

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