New Global Studies

Volume 3, *Issue* 1 2009 *Article* 1

City-State Redux: Rethinking Optimal State Size in an Age of Globalization

Kurt Taylor Gaubatz*

*Old Dominion University, kgaubatz@odu.edu

City-State Redux: Rethinking Optimal State Size in an Age of Globalization*

Kurt Taylor Gaubatz

Abstract

The Post-Cold War changes in the international system and the general march of globalization have led to a renewed interest in the optimal size of states. The most powerful theoretical models for understanding state size have come from models of the political and economic geography of cities. The classic Tiebout model has been used by a number of scholars to help understand the optimal area for the provision of a single abstract public good. I argue here for the use of the revision by Ostram, Tiebout, and Warren that emphasizes the polycentric nature of urban governance. This analogy better captures the variations in optimal size that may characterize different public goods. In so doing, it can help us better understand the simultaneous pressures for fragmentation and integration that are likely to characterize the twenty-first century.

KEYWORDS: globalization, optimal state size, federalism, international organizations, separatist movements, political scale

*I am indebted to Anu Kulkarni, Nathan Barczi, Matthew MacArthur, and Sonja Sray for research assistance. A set of conversations with James Fearon and Robert Powell were of great value in the early efforts on this project. Li Li helped me get the maps going. An *NGS* reviewer provided a number of helpful and insightful suggestions. My wife, Kathlyn Taylor Gaubatz, as always, provided the final critical read.

The prominence of the city-state as a political form has ebbed and flowed through history. Smaller political units have found themselves swept into larger agglomerations in several waves of consolidation. The German principalities, the Italian city-states, and the warlords of China were all eclipsed in an international environment that demanded certain economies of scale (Spruyt, 1994). But empires, too, have come and gone. Global conquest has proven beyond the grasp of both the ruthlessly megalomaniacal and the rationally efficient. Empires are prone to overreach (Doyle, 1986; Snyder, 1991). At some point, states get too large to maintain internal cohesion or to effectively defend far flung borders. The risings and fallings of city-states and empires suggests that there may be particular geographic, economic, political, and even normative constraints and opportunities that determine the optimal size of states and that these constraints and opportunities may change over time.

Interestingly, the most important theoretical work on the optimal size of states has emerged from the economics literature on the optimal size of cities and the problems of local public finance. This approach has provided a useful analytic lever, but I will argue here that it has not been used to its full potential because of two problematic assumptions: First, most of the theoretical literature on optimal state size has focused on the appropriate size of a political unit for the exclusive production and provision of a single abstract public good. I will argue here that understanding optimal state size in the public goods context requires consideration of concrete rather than abstract goods and that there are multiple public goods that must be considered. Second, consideration of multiple concrete public goods points us to an area of the urban politics literature that has been underappreciated in the analysis of optimal state size: the possibility that public goods might be produced by different overlapping layers of governance. The payoff for a more nuanced view of multi-layered local politics is a better understanding of the dynamics of optimal state size that can help us resolve the seeming paradox of simultaneous movements towards globalization and localization that we have witnessed over the past few decades.

In the 1970s a wave of scholarship on optimal state size developed from the expectation that revolutions in communications and transportation were making the world smaller and would facilitate ever-larger institutions of political accountability and control. Rein Taagepera (1978), for example, studied historical empires and concluded that their size had been increasing exponentially for the past 5,000 years. Another advocate of this view posited a single world government as the logical extrapolation of these trends and predicted its arrival by about the year 2300 (Carneiro, 1978).

More recently, significant questions have been raised about the ultimate effect of technological progress on optimal state size. The Orwellian vision of the technologically-enabled state controlling its citizens with ever-growing prowess was upended by the “Fax Revolution” that culminated in the tragedies of Tiananmen Square. Now, the Internet, cell-phones, and 500 channels of satellite television suggest even greater limits on the ability of states to control information and manage their citizens' ideas and associations. These dynamics raise the possibility that technology and the enhanced mobility of labor and capital will encourage the fragmentation of existing political communities.

In fact, the modern incentives for larger or smaller state size are moving in both directions. The possibility of institutions of governance simultaneously getting larger and smaller is captured in James Rosenau's "fragmegration" neologism (Rosenau, 2003). As it has usually been applied, the local public finance model is not well-suited to helping us understand these more complex pressures. Going further into that model to look at the layered governance of metropolitan areas can help us untangle the changing dynamics of optimal state size in the twenty-first century. To make this argument, I start with a general consideration of the problem of optimal state size, and show how the public finance model has been limited by its focus on a single public good. The development of multi-layered urban governance in the Los Angeles metropolitan region in the late 1950s serves as a jumping-off point to demonstrate the use of the public finance model in a way that can more fully capture the political economy of optimal state size in our current era. I then show how contemporary changes in each of four major functional areas are affecting the incentives for optimal state size in light of this multi-layered approach.

I. The Significance of Optimal State Size

The notion of optimal state size matters in at least two ways. In the first place, if there are concrete factors that affect the optimal size of states we will see real world results as states that are above or below optimal do less well in the international system. If these factors change systematically over time, then we should see periods in which larger or smaller states fare relatively better or worse. These same factors may also lead to pressures for either consolidation or fragmentation in states. Independence movements and imperial ambitions will wax or wane depending on whether the underlying incentives push toward larger or smaller units. The pressures for war and rebellion will also be driven by these dynamics.

In addition to these direct and objective effects, theories about the optimal size of states are also important because the theories themselves motivate significant kinds of behaviors. Hitler (1971 [1925]) believed that Germany was too geographically restricted to achieve its full potential and argued that significant expansion was necessary if it was to become a world power. At the same time, Japan believed that it needed direct control over natural resources throughout Asia to sustain its economic growth (Barnhart, 1987). Throughout history, empire builders have believed that large size was optimal. In early American history, the drive for westward expansion was a central theme. At the outset of the twentieth century, the strategic vision of Alfred Mahan and Theodore Roosevelt pushed the United States to adopt a global scale.

DOI: 10.2202/1940-0004.1032

Likewise, ideas that support smaller state size will encourage the efforts of separatists and other independence movements. The belief that small states can make it on their own is essential to the ambitions of Scottish nationalists and the Québécois. Neither the U.K. nor Canada are characterized by dysfunctional, oppressive, or notably inept government. The motivation for these separatist movements is a combination of nationalist fervor and a set of ideas about the relative benefits of going-it-alone for a smaller state in the international system.

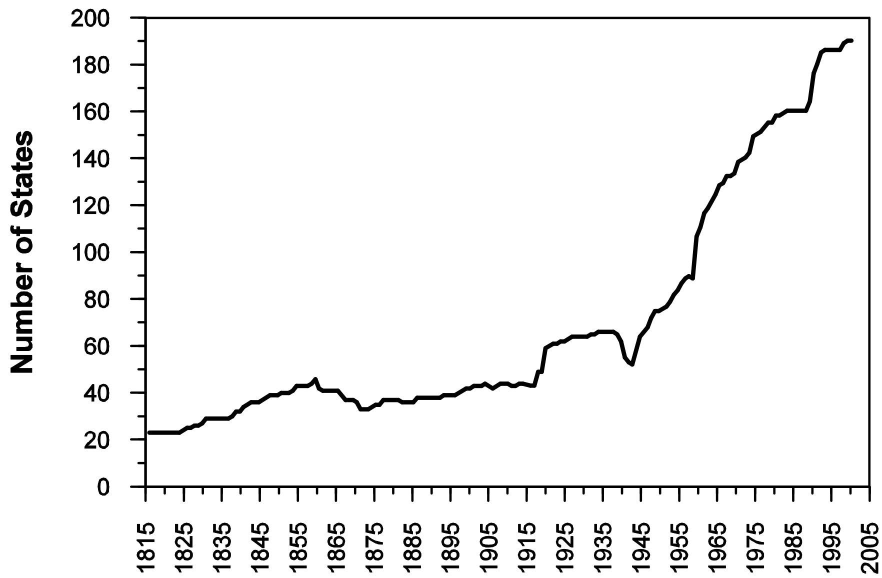
Before turning to a systematic review of the broad factors affecting optimal state size, it is worth spending a little time tracing out the evolution of the state system in terms of state size over the past few centuries.

II. State Size in History

Throughout history, there have been significant changes in the number and size of states. Hendrik Spruyt (1994) has outlined the decline of city-states in the sixteenth and seventeenth centuries. From the late Middle Ages, large states were better able to solve the commitment problems necessary for effective trade than small states. The consolidation of city-states into larger nation-states at the beginning of the seventeenth century was a direct result of these dynamics. Similarly, North and Thomas (1973) point to the emergence of national states as a response to the rise of market economies and new military technologies that increased the optimal size of states.

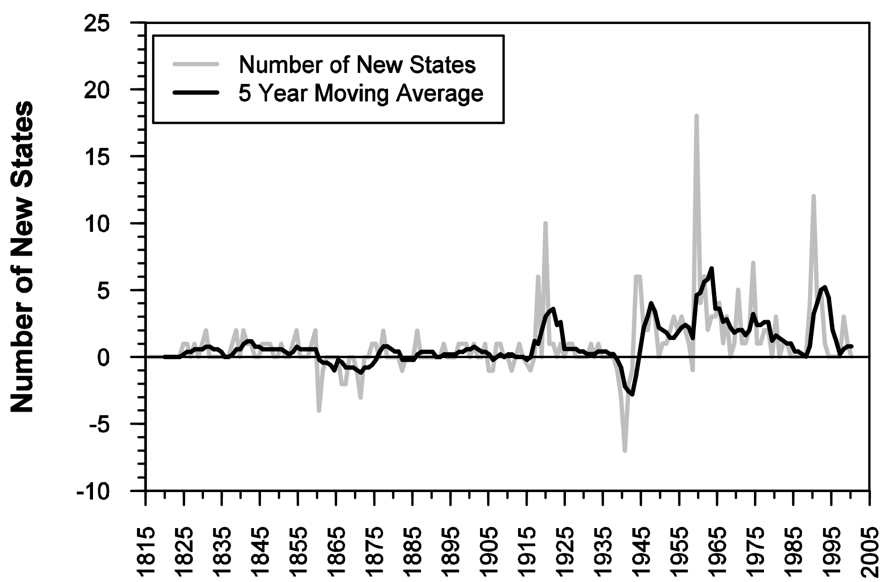
Figures 1 and 2 show the evolution of the state system over the past two centuries. In the hundred years leading up to World War I, the size of the state system changed only incrementally, gradually doubling from roughly twenty-three states in 1815 to some forty-five states by the beginning of the war. In the years since World War I changes in the number of states have been more significant. There have been three great waves of state creation: immediately following World War I, in the period of decolonization after World War II, and most recently following the end of the Cold War, with the break-up of the former Soviet empire. The dominant trend of the past two centuries has been the addition of new states to the system. There have been only two periods of significant retrenchment. The period 1860 to 1875 saw the consolidation of the German and Italian principalities into two large national states, and thus the reduction in the overall number from forty-six states in 1860 to thirty-three in 1874. The other period of significant consolidation was the period from 1939 to 1945 when a number of independent states were extinguished in the Nazi program of territorial expansion.

FIGURE 1: The Number of States in the International System



Source: Correlates of War Project (Singer, 1987; Correlates of War Project, 2004)

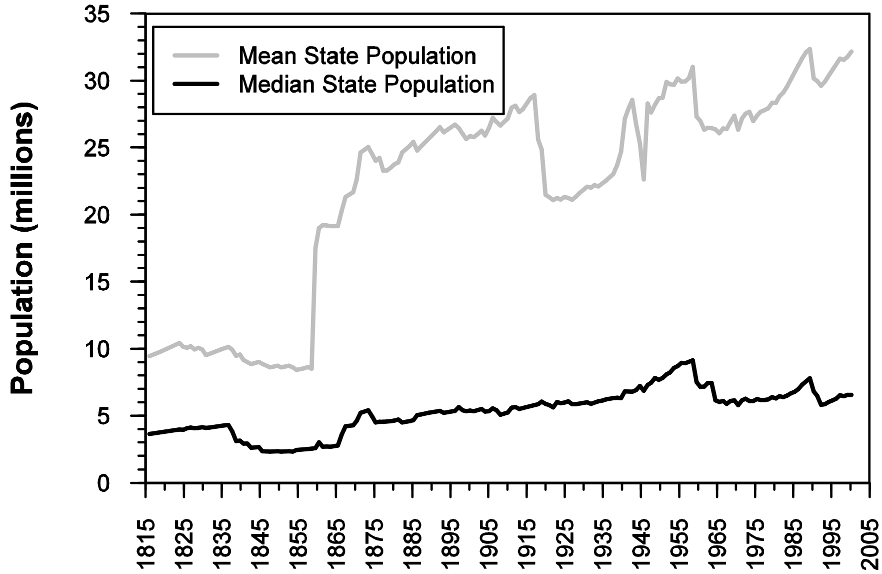
FIGURE 2: Changes in the Number of States in the International System



Source: Correlates of War Project (Singer, 1987; Correlates of War Project, 2004)

DOI: 10.2202/1940-0004.1032

FIGURE 3: Mean and Median State Populations



Source: Correlates of War Project (Singer, 1987; Correlates of War Project, 2004)

The increase in the number of states in the international system is an important phenomenon. It is also important to look more directly at the size of states. Without significant changes in land area, individual states have gotten dramatically bigger over the past two centuries through the natural dynamics of population growth. Nonetheless, the median state size has changed much more slowly. Figure 3 shows the evolution of the average and median size of states over this period.

Figures 1, 2, and 3 are about the past. The contemporary dynamics suggested by Rosenau’s concept of “fragmegration” are not captured in these charts. As we move into the third millennium we are witness to rising pressures for devolution in stable major states in the international system. Consider in this regard the separatist movements in Quebec, Northern Italy, Catalonia, and Scotland. At the same time we are also seeing strong pressures for certain kinds of integration in the international system: most dramatically the movement toward European integration, but also the development of regional trade zones and a welter of new regimes governing other kinds of international transactions.

III. The Optimal Size of States

Robert Gilpin has argued that there is a natural equilibrium in state size. Large states have increased opportunities to take advantage of economies of scale and large resource bases. But with increased size it is increasingly difficult to be sure that individuals and groups receive satisfactory shares of any increases in wealth, and thus internal fragmentation begins to set in (Gilpin, 1981). Joseph Strayer (1970) identifies this equilibrium as a trade-off between power and loyalty. At the end of the Middle Ages, states were able to increase their power through the creation of empires, but this came at a cost in terms of loyalty. Empires generate enormous amounts of raw power, but lack a high degree of citizen loyalty. City-states, at the other end of the scale, can generate a high degree of citizen loyalty, but generally have lacked the resources to generate large reserves of power.

This dynamic has been formalized by both Mancur Olson and William Riker, although in slightly different ways. For Olson (1965), the essential dynamic is that the increasing base of different preferences that require satisfaction decreases the returns to individuals that might otherwise accrue from the economies of scale in the provision of public goods. Riker's formulation appears in his landmark *Theory of Political Coalitions* (1962). According to his 'size principle,' as the size of a political coalition increases the returns to individual members decrease. Thus, although states may try to increase their overall size to increase aggregate wealth, at some point the marginal benefit to individuals will begin to diminish.

IV. The Local Public Finance Model

The ebb and flow of both empires and city-states is often attributed to ambitious leaders—Alexander the Great, Genghis Khan, Napoleon—or to internal political innovations—The Roman or Achaemenid Persian Empires—or perhaps to internal political battles—the collapse of the Ottoman and Frankish empires. However, the strongest theoretical material on the optimal size of states comes from the literature on urban politics and particularly on urban public finance (Quigley and Smolensky, 1994).

In a seminal article published in 1956, Charles Tiebout postulated that distinct urban communities would form around homogenous preferences for the provision of public goods. People would naturally sort themselves out into communities in which everyone shared a common perspective on the appropriate level of public goods to be provided by government. Of course, in the international system individuals have had only limited ability to change communities. But even with limited mobility, the Tiebout model implies that there will be an optimal size to political units based on the nature of the specific basket of public goods to be provided (Rogowski, 2000). The most significant new work in this regard has been by Alberto Alesina and Enrico Spolaore (Alesina and Spolaore, 1996; Alesina and Spolaore, 1997; Alesina *et al.*, 2000;

DOI: 10.2202/1940-0004.1032

Alesina and Spolaore, 2003), who use a public goods model to analyze the optimal size and number of states.

Alesina and Spolaore's model endogenizes the size of states, given the assumptions that government is costly, that preferences are geographically distributed, and that the quality of services is a function of geographic distance from the center. In this model, the size and number of states will be in equilibrium when the individual living at the border is indifferent to changing states. As useful and insightful as these general models are, they do not get at the exogenous changes that actually determine optimal size. There are two limitations to this approach. In the first place, as usual for economists, the public finance model is based on abstract and unspecified goods. To apply the conceptual insights of a public goods model to the real world, it is necessary to discuss the size-relevant characteristics of the actual public goods that might plug into the equations.

In the second place, the Alesina/Spolaore model focuses on just a *single* abstract public good. There are, of course, a range of public goods that states provide. The existence of multiple public goods raises the possibility that there are different optimal sizes for the different public goods. When relevant public goods are of different scales, there may be a need for different sized governing units for the provision of different public goods. If this need is strong enough, it can offset the cost of governance and incentivize the creation of new units of governance at larger and smaller scales. The existence of a variety of public goods with different optimal provision areas is suggestive of Rosenau's fragmegration dynamic: some public goods with large optimal provision areas will be integrative, while other public goods with small optimal provision areas will be fragmenting.

There is a strong analog for this situation in the literature on urban public finance. Vincent Ostrom, Charles Tiebout, and Robert Warren suggest in a 1961 article in the *American Political Science Review* that rather than thinking about one all-inclusive urban government it is more appropriate to think about what they call "polycentric political systems." The driving force for multi-layered governance in this model is the diversity of public goods that will be optimally provided at different levels of aggregation. Robert Bish (1971) uses this perspective to argue that the complex and multi-layered nature of urban government is a rational response to the complexity of the problems such institutions are called upon to address. Ostrom and Bish joined together (1973) to apply the public choice perspective to the problem of urban reform and argued for multilevel organization as against those who were advancing either more consolidation or decentralization as one-size-fits-all solutions to the many ills of American cities in the late 1960s and early 1970s. Vincent Ostrom and Frances Pennell Bish (1977) provided further empirical evidence for the link between task complexity and multi-level organizational structure in an edited volume that compared the bureaucratic organization of urban services across eight countries.

At the international level the polycentric model is suggestive of Hedley Bull's (1977) concept of "the new Medievalism." European integration and other processes of regional and international organization also point to the dynamics of polycentric international governance (Hooghe and Marks, 2001). A critical insight of the public goods model that is directly relevant here is the possibility of changed modes of production for public goods. In Ostrom, Tiebout, and Warren's view the separation of the provision and production of public goods is a critical innovation for the efficient provision of public goods (1961, 838).

To understand the nature of these processes and their implications for optimal state size, it is useful to delve more deeply into the urban politics analogy. A particularly useful empirical example comes from the dynamics of urban change in Southern California in the 1950s.

The Lakewood Plan

In 1954 the city of Lakewood was incorporated in Los Angeles County. The Lakewood innovation was to incorporate a city that was too small to efficiently produce its own public services. Instead, Lakewood contracted with the County of Los Angeles for fire and police protection. In this way, the citizens (and developers) of Lakewood were able to achieve the level of public services they desired without facing the higher tax rate that would have taken effect had neighboring Long Beach annexed the Lakewood community. Public services were produced by the level of government with the most efficient scale, while decisions about what level of services to actually provide were kept within the local community. The institutionalization of the so-called 'Lakewood Plan' led to a wave of small urban incorporations in Southern California (Miller, 1981). Figures 4 and 5 show the division of Los Angeles County into cities before and after the Lakewood innovation.

The creation of small cities in the greater Los Angeles metropolitan area did not come about because of some fundamental change in preferences. It took place because of a change in the institutional and regulatory environment that gave cities an external source for public goods that they otherwise could not have obtained as independent cities (Miller, 1981). Public goods were produced at the level of government roughly appropriate to their scale and then purchased by local governments according to citizen demand. City governments could choose whether to provide services through county contracting or to produce the services themselves.

DOI: 10.2202/1940-0004.1032

FIGURE 4: Cities in Los Angeles County prior to 1955

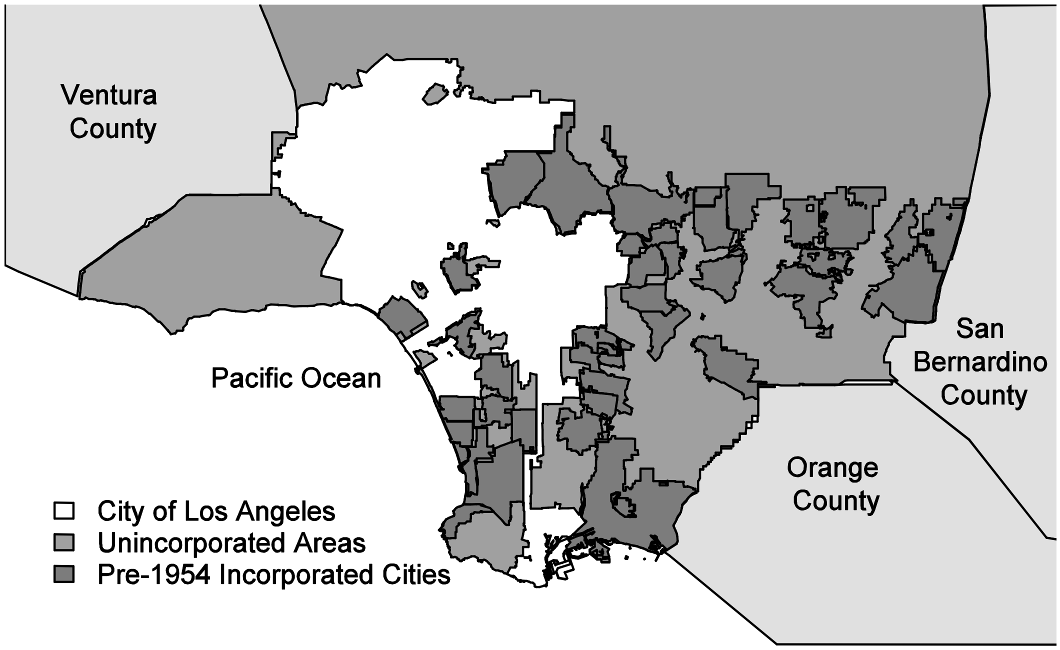
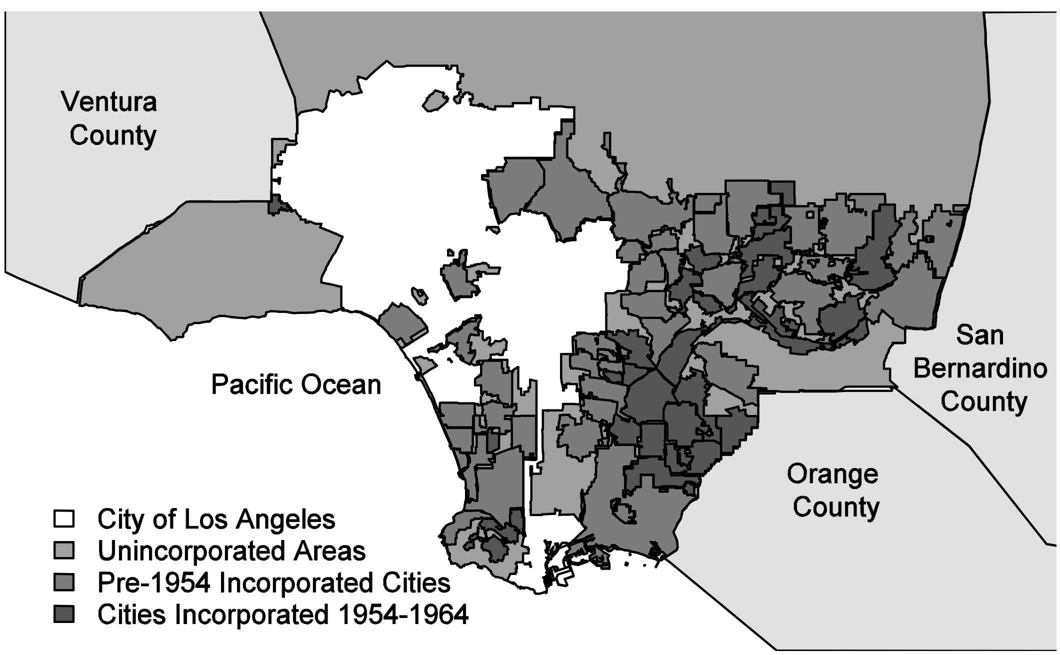


FIGURE 5: Cities in Los Angeles County – 1965



The ability of small cities to optimize preference homogeneity by contracting for the public goods that would otherwise require production by larger metropolitan units parallels a similar dynamic at the international level. Traditional state functions have militated against very small state sizes. Several important contemporary dynamics are pushing toward a more polycentric system of governance that essentially allows smaller states to contract for the provision of services that require larger units for efficient production.

V. FROM LAKEWOOD TO LIECHTENSTEIN: THE FUNCTIONAL BASIS OF STATE SIZE

Although there are many factors that can influence the optimal size of particular countries, I will suggest here that there are four particularly critical functional issue areas that can strongly affect optimal state size more broadly across the international system. These are economics, national security, human rights, and historical identity. In three of these four areas we are currently witnessing dramatic changes in the international system. Because of these changes, the twenty-first century may be an era for significant reductions in optimal state size. The most important of these changes has been in the area of economics.

A. The Economics of Optimal State Size

1. International Trade and State Size

As argued by Spruyt (1994) and by North and Thomas (1973), the consolidation of nation-states came about in large part because of the economic benefits that accrued to size in the late Middle Ages. This incentive structure has persisted for several centuries. One of the central motivations for the creation of the American federal system after the experiences under the Articles of Confederation was the desire to eliminate tariffs between the states. The commerce clause—which some have called the most important clause of the constitution—explicitly prohibits the American states from restricting trade between them. Other federal systems have followed this model in their constitutions—Canada, Brazil, and Australia, for example. Large states can create unified market areas with the institutional framework necessary for trade: a single currency; standardized measures; uniform contract law and enforcement mechanisms to ensure the credibility of commitments; and no tariffs.

In a world of trade barriers between nations, size is important to guarantee adequate resources and markets for a robust economy. But our world is increasingly one without trade barriers. This is true both at the global level, where the GATT/WTO regime has significantly reduced tariffs, and particularly at the regional level, where the European Union, Mercosur, and NAFTA are becoming increasingly significant as free trade zones. Without trade barriers, small states

DOI: 10.2202/1940-0004.1032

can reap the benefits of preference homogeneity presumed in Tiebout models, without giving up the significant gains of being part of a larger trading area. Alesina, Spolaore, and Wacziarg (2000) push the Alesina and Spolaore model to make precisely this point formally and empirically. They show that the benefits of trade openness encourage the survival and growth of small states, and thus may contribute to the disintegration of large political units.

The European Union is the most important example of this dynamic. The European states are moving to eliminate the internal borders that restrict the movement of goods and people. Citizens of the European states now travel with a common passport and for the most part use a common currency. Small regions that are pressing for greater autonomy, such as Northern Italy, Catalonia, and Scotland, would likely face no significant change in their international trading relationships if they succeeded in their efforts to secede. In essence, the provision of the public goods required for robust economic activity is increasingly provided by the European Union. States no longer have to worry about being large enough to ensure an optimal variety of internal trading opportunities and the common legal framework for its support.

As the costs of transportation and of moving money and assets decreases, and as free-trade rules in both services and goods proliferate, small communities can increasingly compete for wealthy corporate and individual residents. In the international legal environment, individuals and corporations have no formal standing. They rely on states to advance their claims and ensure their fair treatment. In the nineteenth and twentieth centuries it was helpful to have global powers like England or the United States playing that role for you. A more legalized international environment makes small states and big states equal before the law. As legalization progresses, smaller states will be able to protect the interests of their corporate citizens as effectively as large states. The continuing evolution of standards for free trade decreases the need for large states to provide protection. For example, small states have the same legal rights before the World Trade Organization as do large states. As evidence of the potential impact of these developments consider the fact that Liechtenstein has 75,000 corporations and just 22,000 citizens (Dept. of State, 2004).

2. Resources and Optimal State Size

Free trade also eliminates some of the most important links between size and economic resources. If states are assured that they can trade for the resources they need, there is considerably less incentive to maintain those resources within their own borders. Global market systems ensure that resource prices will remain similar regardless of state size. For example, a credible zone of free trade would have significantly changed the argument within Japan about the importance of controlling resources in the period leading up to World War II (Barnhart, 1987).

There is a class of resources for which size will still matter, and those are commons resources such as clean air, ocean fisheries, and the like. Regulation and coordination to prevent the overuse of such resources will require either large states or the creation of regional or global regimes. Thus, for example, the 37 U.S. states east of the Rockies have banded together to ask the EPA for tougher regional standards on acid rain (Environmental Protection Agency, 2007). No state has an incentive by itself to impose tougher restrictions, since that would only drive businesses to neighboring states where they would dirty the common air just as much. A larger unit is needed to prevent over-utilization of the common resource. Once such a mechanism is put in place small states can be as effective at keeping their air clean as the large states that control more of the factories that impact the environment.

Many issues involving common resources are already on a scale that surpasses the current nation-state. While they are still in their early stages, we are seeing increasing attempts to create environmental regimes at the regional and global level. These efforts are difficult, of course, because all of the actors will have incentives to understate their demand for public goods in the hopes that others will step up to the plate. The Kyoto accords on global warming are an object lesson in the difficulty of apportioning responsibility for public goods provision. Nonetheless, there has been considerable growth in environmental regimes to take on these responsibilities. As these regimes become more robust the benefits of large size for individual states will decline. The creation of multiple levels of global governance—of a polycentric international system—increases the economic viability of smaller states.

Of course, economic vitality is for naught if a state cannot defend its political independence and territorial integrity. We turn, therefore, to the second critical functional issue for state size: the provision of national defense.

B. National Security and Optimal State Size

The provision of national security is one of the most discussed benefits of large state size. Michael Mann (1986) argues that military security was very nearly the sole function of states for some seven centuries prior to the arrival of the modern state at the beginning of the nineteenth century. For most of the millennium just past, the best evidence is that military expenditures accounted for some 70 – 90 percent of national budgets.

A more peaceful world would be one in which optimal state size might be significantly reduced. The safer the world is, the less the economies of scale of military power will play a role. If the expansion of democracy and trade make the world more peaceful, as many have argued, the optimal size of states may be reduced (Angell, 1910; Rosecrance, 1986; Mueller, 1989; Russett, 1993). Likewise, the possibility that there are strengthening norms against conquest and annexation would provide a measure of safety for smaller states (Fazal, 2007).

Unfortunately, the terrorist attacks of September 11, 2001 and subsequent wars in Afghanistan and Iraq remind us that the use of violent force remains an integral part of the international system. The Russian invasion of Georgia in the

DOI: 10.2202/1940-0004.1032

summer of 2008 was a further demonstration of the enduring relevance of size for the military security of small states with large neighbors. But, even with the persistence of war, the incentives for state size may still change. The relationship between size and power is not obviously unidirectional. Optimal size for the purposes of security depends on the technologies of military defense. The technological balance between offensive and defensive capabilities at any point in history is one clear factor. But more subtle variations may count as well. Does the technology of mobility and communication allow large open spaces to be effectively defended, or is defense best organized around small fortifications? Can extensive borders be defended? Kenneth Waltz has argued for the general benefits of nuclear proliferation because of the defensive advantage that will accrue to states that possess even a small number of nuclear weapons (Sagan and Waltz, 1995). The spread of effective deterrent weapons would decouple the relationship between size and security—although as Sagan points out, not without other potentially dramatic costs (Sagan and Waltz, 1995).

The contract cities model points to other possibilities in the relationship between security issues and optimal state size, as well. In particular, the optimal size of states may be reduced if states can "contract" with other entities for national security. Up until the late eighteenth century, states could legitimately hire mercenary armies (Thomson, 1994). This system gave advantages to wealthy states regardless of their size. The innovation of the *levée en masse* after the French Revolution and the delegitimization of non-national soldiers in the nineteenth century significantly changed this equation (Thomson, 1994). In the modern era, the notion of collective defense raises new possibilities of functional contracting for even this most essential duty of sovereignty. To the degree that regional military organizations can provide for regional security, the size of the units within the region becomes increasingly irrelevant. Thus, the success of the NATO umbrella decreases the costs for the creation of new state units within NATO.

A recent example of contract security is provided by the first Gulf War. In that conflict, one group of states provided the financing for the war against Iraq, while a different group of countries provided the security. The total cost of the war to the United States was estimated at 61 billion dollars. Fifty-four billion dollars was pledged against that amount by other countries (Committee on Ways and Means, 1991, 26-33). Although Kuwait provided over sixteen billion dollars to fund the war effort, the contributions of Kuwait's own military forces in the recovery of Kuwaiti territory were relatively minor – some 7,000 troops and fifty jets (Miller, 1994). The division between financial and material support for the allied cause in that conflict is illustrated in Table 1.

As with the environmental issues discussed above, the difficulty in providing national security as a contract service is that many security problems affect large areas, and thus are public goods among states. Individual states will have an incentive to understate their preference for the provision of security. Without a system of taxation or dues assessment, it will be difficult to reach the

Table 1: Major Contributors to the UN Effort in the First Gulf War

Country	Ground Troops	Reimbursements (millions $)	Casualties
United States	330,000		148
Egypt	35,000		14
Britain	25,000		20
Bangladesh	6,000		
UAE	10,000	4,087	
Kuwait	7,000	16,006	
Morocco	1,500		
Saudi Arabia	45,000	16,839	
Pakistan	5,000		
Syria	20,000		
France	10,000		2
Germany		6,572	
Japan		10,072	
Korea		355	
Other		21	
Totals	494,500	53,952	184

Note: This table lists monetary and in-kind contributions to offset U.S. costs and ground troops. I have not listed contributions of air and naval forces. There were also significant donations to the frontline states to offset economic losses in the conflict. Sources: Troop numbers are from Miller (1994). Financial pledges are from the U.S. House of Representatives (1991).

socially optimal level of security in a more decentralized system. Still, either the reduction of security threats through the expansion of trade, democracy, and international organization (Russett and Oneal, 2001), or the continuing willingness of the United States to provide a significant part of this public good, will allow smaller political units to exist without overbearing security concerns.

C. Human Rights and State Size

A third functional issue for which size matters is human rights. Traditional political theory has held that democracy and the protection of individual freedoms requires a small state size (Dahl and Tufte, 1973). But the desire to secure rights for others has led to pressures for larger state size. Sometimes this dynamic is just an instrumental logic for ambitious politicians. Political entrepreneurs who want to govern larger areas create nationalist images—'imagined communities' to use Benedict Anderson's phrase—to pull together previously disparate groups into a single nation (Anderson, 1991).

Regardless of whether these issues are instrumental or essential, it is clear that in the past states have used human rights issues as a basis for conceptualizing

DOI: 10.2202/1940-0004.1032

their optimal size. Many states attempt to maintain a size that allows them to protect nationals, co-religionists, or other groups from political persecution in neighboring countries. While it is odd to talk about Hitler in the context of human rights, the expansionary goals of the Third Reich are illustrative. Hitler was able to use the plight of German minorities in neighboring countries as a pretext for expansion. While this may have been a purely strategic ploy on his part, it clearly played a significant role in legitimizing his plans at home (Mosley, 1969). A more traditional example would be the refusal of the North to allow the South to secede over the issue of slavery, and then the application of federal powers in the service of the civil rights agenda in the second half of the twentieth century.

In this regard, the most important potential change in the twenty-first century is the continued expansion of liberal democracy (Huntington, 1991; Gaubatz, 1996). The protection of minority rights in liberal democracies decreases the irredentist incentives to control large areas in order to protect co-religionists or ethnic kin.

This dynamic can be seen in the breakup of the Soviet empire. One of the most significant sources of tension for ethnically-based secessionist movements was the fact that the creation of smaller states could turn majority group members into minorities, as happened, for example to ethnic Russians in the Baltic states. Liberal democracy with protections for minority rights can reduce the resistance to separation. Russians would have been less nervous about the breakaway republics if they had believed that the rights of now-minority ethnic Russians would be assured in the new states.

Once again, the most dramatic example of this phenomenon is the European Union. Individual European states need not fully encompass an ethnic group because minority groups not only have similar legal protections across the liberal democracies of Europe, but have recourse to pan-European human rights institutions.

The functional or demand-side dynamic of human rights is matched by a supply-side dynamic. As suggested at the very beginning of this essay, ambitious political leaders are often at the forefront of the push for state expansion. As Bueno de Mesquita and his coauthors (2003) argue in *The Logic of Political Survival*, democratic leaders have to be more responsive to the needs and concerns of a large part of their population. Territorial expansion often works best for the elite minority that can extract concentrated benefits from conquered lands. States that are responsive to the interests of larger groups of empowered citizens are less likely to pursue expansion that does not promise broad benefits to the national interest.

D. The Historical Basis for State Size

The final functional incentive for size is historical tradition. We can describe historical tradition as a “function” of states if we think of it as the provision of historical identity. Traditional national boundaries and collective identities have been a strong determinant of the continuing size of states. The existence of past empires and perceived glories remains a potent force influencing the size of states. States have the borders they do because of historical traditions. The fact or perception that smaller sizes might be more optimal has to compete against the pull of history. Two contemporary examples are illustrative: Kosovo and Tibet.

In the case of Kosovo, Serbian nationalists had little apparent material interest in holding on to Kosovo – a region with a population that is less than 10 percent ethnic Serbian. But Kosovo is traditionally seen as the birthplace of Serbian nationalism and the retention of Serbian control was a central tenet of Slobodan Milosevic's rule.

Tibet provides a similar example. Unlike Taiwan and Hong Kong, the retention of control over Tibet probably does relatively little for Chinese security or wealth. The ethnic Chinese who live there do so largely because of the Chinese occupation of Tibet and have only recently developed economic and personal ties to the region. In the face of the large domestic and international costs of the continued occupation there is little apparent material benefit to controlling Tibet. Nonetheless, the Chinese leadership is convinced that the maximum historical reach of Chinese governance defines the proper geographic boundaries for China. Given the overlapping nature of former empires, this is a formula for boundary determination that would prove disastrous if widely adopted.

If my arguments about the declining benefits of size for economic, security, and human rights functions are accurate, then historical tradition will be left as the primary incentive for the maintenance of large states. The immutability of these traditional identities should not, however, be overstated. Regional and local political entrepreneurs are increasingly willing to offer alternative identities: Scottish rather than British, Québécois rather than Canadian – perhaps even Texan, Hawaiian, or Alaskan rather than American (Verhovek, 1997; Alaska Independence Party, 2008; Elsworth, 2008).

VI. The Limits of the Contract City

The contract city model suggests a useful analog for understanding some of the dynamics of overlapping levels of governance in a globalizing world. While the idea of localizing governance and allowing citizens with shared preferences to join together in governing arrangements sounds attractive on its face, the contract city model is not without important limitations, and these should serve as a warning about issues that might be faced in the international context as well. A recent school of thought in the urban politics literature, "the new regionalism," has taken a more careful look at the multiple overlapping layers of local governance and argues that there are processes of both competition and cooperation within and amongst different layers of government and even a range of non-governmental entities (Feiock, 2004). The new regionalism also expands the focus of inquiry beyond economic efficiency to also look at the impact of layered governance on equality, civic participation, and the quality of democracy.

DOI: 10.2202/1940-0004.1032

In this regard, it is useful to return to the Lakewood Plan incorporations in Los Angeles County and consider the aptly named cities of Industry and Commerce. In these two cases, small groups of corporate property owners were able to create cities that consolidated high tax-base properties in a community that could have very low tax rates by excluding most of the surrounding population. In both Commerce and Industry sales taxes were adequate to allow the cities to eliminate property taxes altogether. As originally drawn, the boundaries of Industry did not include the requisite minimum of 500 people, so the border was redrawn to include a mental institution with 169 patients. The City of Industry did eventually annex several neighboring areas to triple in size, but the population has only grown to 777 people (Los Angeles Almanac, 2005). Thanks to a prohibition on new residential housing, all of the city residents live in housing built before city incorporation in 1957 (Los Angeles Almanac, 2005). The official website of the City of Industry notably downplays the city population, choosing instead to list the entire population of the San Gabriel Valley (1.7 million) and the fact that 80,000 people are employed within the city boundaries (City of Industry, 2005).

The incentives for the creation of these somewhat artificial communities are not hard to see. The City of Industry's per capita assessed valuation at the time of incorporation was $41,865 compared to the county median of $1,918 (Miller, 1981). Avoiding property taxes was a major benefit. In general, property owners were largely able to avoid the expenses of social welfare provision and maintain their own minimum desired public services at a low assessed tax rate relative to their more service intensive neighbors.

At the international level, the analogy of urban incorporations suggests that fragmentation will come not just from dissatisfied and disadvantaged minority groups and traditional ethnic enclaves, but also from wealthier regions that, like the cities of Commerce and Industry, believe they may be able to create privileged communities that can avoid the heavy costs of social welfare programs for their less well-developed neighbors. Here we return to the example of Lichtenstein with its 75,000 corporations and 22,000 citizens. Like other so-called "off-shore" tax havens, it has been able to attract the assets even if not always the physical residence of wealthy citizens from a number of other states.

The polycentric nature of governance means, importantly, that this fragmentation comes with more rather than less interdependence. The cities of Commerce and Industry are dependent on their surrounding communities for workers, markets, and services. So too, as I have argued above, smaller states will be more likely to emerge in the context of interdependent systems of production for public goods like free-trade, defense, and environmental protection.

There is an important political side to the contract city story as well. County bureaucrats and county fire and police unions worked hard to market their services to small localities. The public service unions participated directly in the organizing efforts to legally incorporate the small cities that would then be dependent on county service provision. County politicians also pushed to maintain below cost pricing so that large urban areas that provided for their own policing, fire protection, and other services had to subsidize the small cities that relied on contracted services (Miller, 1981).

VII. Conclusions: Globalization and Optimal State Size in the Twenty-First Century

The number of states in the international system has not been stable over time. The basic shape of the current state system was largely generated in the consolidations of the eighteenth and nineteenth centuries and then the breakup of the colonial and Soviet systems in the late twentieth century. There is no reason to believe the current system is immune to continued and possibly dramatic change. Few would have predicted twenty-five years ago that Scotland would so soon achieve parliamentary independence in the United Kingdom, or that the European Union would be using a common currency and would include former members of the Soviet Empire.

In their consideration of optimal state size, Dahl and Tufte (1973) warned that the high degree of variation in the size of states suggests the need for significant caution in addressing the optimal size of states. There will always be idiosyncrasies that affect optimal size for any given state—natural defensive boundaries and communications barriers such as mountain ranges and oceans, the distribution of ethnic groupings, accidents of history, and the like. But there are also larger factors that change over time.

In three critical functional areas—economics, national security, and human rights—the incentives for large state size are diminishing. The creation of regional and global regimes to provide services that require large economies of scale creates an environment in which the most fundamental modalities of political organization can now gravitate to a lower level. If the stickiness of historically enshrined boundaries can be overcome, we can expect the twenty-first century to be a period of increasing fragmentation within the context of an increasingly polycentric international system.

The dynamics of integration and fragmentation are intimately connected: the development of institutions and norms at the international level can change the politics and economics for the provision of critical public goods. When certain public goods such as security and the enforcement of open trading rules can be provided on a more global scale, there will be considerable pressure for the fragmentation of political institutions in the remaining areas of governance. By this logic, we are likely to see a continued devolution of power to the regional, and even the local level, as this century unfolds.

DOI: 10.2202/1940-0004.1032

References

Alaska Independence Party (2008). "Alaska Independence Party Home Page." Retrieved September 26, 2008 from www.akip.org/.

Alesina, Alberto and Enrico Spolaore (1996). "International Conflict, Defense Spending, and the Size of Countries." *NBER Working Paper*, NBER.

Alesina, Alberto and Enrico Spolaore (1997). "On the Number and Size of Nations." *Quarterly Journal of Economics* 112(4): 1027-1056.

Alesina, Alberto and Enrico Spolaore (2003). *The Size of Nations*. Cambridge, MA: MIT Press.

Alesina, Alberto, Enrico Spolaore and Romain Wacziarg (2000). "Economic Integration and Political Disintegration." *The American Economic Review* 90(5): 1276-1296.

Anderson, Benedict (1991). *Imagined Communities: Reflections on the Origin and Spread of Nationalism*. London: Verso.

Angell, Norman (1910). *The Great Illusion: A Study of the Relation of Military Power in Nations to Their Economic and Social Advantage*. New York: G.P. Putnam's sons.

Barnhart, Michael A. (1987). *Japan Prepares for Total War: The Search for Economic Security, 1919-1941*. Ithaca: Cornell University Press.

Bish, Robert L. (1971). *The Public Economy of Metropolitan Areas*. Chicago: Markham Publishing Company.

Bish, Robert L. and Vincent Ostrom (1973). *Understanding Urban Government: Metropolitan Reform Reconsidered*. Washington, DC: American Enterprise Institute.

Bueno de Mesquita, Bruce, Alastair Smith, Randolph M. Siverson and James D. Morrow (2003). *The Logic of Political Survival*. Cambridge: MIT Press.

Bull, Hedley (1977). *The Anarchical Society: A Study of Order in World Politics*. New York: Columbia University Press.

Carneiro, Robert L. (1978). "Political Expansion as an Expression of the Principle of Competitive Exclusion." In *Origins of the State: The Anthropology of Political Evolution*. R. Cohen and E.R. Service, Eds. Philadelphia, Institute for the Study of Human Issues**:** 205-223.

City of Industry (2005). "City of Industry Website." Retrieved 5/5/2005 from www.cityofindustry.org/index2.html.

Committee on Ways and Means (1991). Foreign Contributions to the Cost of the Persian Gulf War. Washington, D.C., U.S. House of Representatives, 102nd Congress.

Correlates of War Project (2004). "Correlates of War Project." Retrieved 4/05/2005 from www.correlatesofwar.org.

Dahl, Robert and Edward Tufte (1973). *Size and Democracy*. Stanford: Stanford University Press.

Dept. of State (2004). "Background Note: Liechtenstein." Retrieved 5/17/2007 from www.state.gov/r/pa/ei/bgn/9403.htm.

Doyle, Michael (1986). *Empires*. Ithaca: Cornell University Press.

Elsworth, Catherine (2008). "Queen of Hawaii Demands Independence from 'US Occupiers'." *Telegraph.co.uk.* June 30, 2008.

Environmental Protection Agency (2007). "Regional Transport of Ozone." Retrieved 5/17/2007 from www.epa.gov/ttn/naaqs/ozone/rto/rto.html.

Fazal, Tanisha M. (2007). *State Death: The Politics and Geography of Conquest, Occupation, and Annexation*. Princeton: Princeton University Press.

Feiock, Richard C., Ed. (2004). *Metropolitan Governance: Conflict, Competition, and Cooperation* Washington, D.C., Georgetown University Press.

Gaubatz, Kurt Taylor (1996). "Kant, Democracy, and History." *Journal of Democracy* 7(4): 136-216.

Gilpin, Robert (1981). *War and Change in World Politics*. Cambridge: Cambridge University Press.

Hitler, Adolf (1971 [1925]). *Mein Kampf*. Boston: Houghton Mifflin.

Hooghe, Lisbet and Gary Marks (2001). "Types of Multi-Level Governance." *European Integration Online Papers* Retrieved November 20, 2005 from http://www.eiop.or.at/eiop/pdf/2001-011.pdf.

Huntington, Samuel (1991). *The Third Wave: Democratization in the Late Twentieth Century*. Norman, OK: University of Oklahoma Press.

Los Angeles Almanac (2005). "Los Angeles Almanac." Retrieved 5/3/2005 from www.losangelesalmanac.com/topics/Cities/ci36.htm.

Mann, Michael (1986). *The Sources of Social Power: Vol 1--a History of Power from the Beginning to A.D. 1760*. Cambridge: Cambridge University Press.

Miller, Gary J. (1981). *Cities by Contract: The Politics of Municipal Incorporation*. Cambridge: MIT Press.

Miller, Ronnie (1994). *Following the Americans to the Persian Gulf: Australia and the Development of the New World Order*. Rutherford, NJ: Farleigh Dickinson University Press.

Mosley, Leonard (1969). *On Borrowed Time: How World War II Began*. New York: Random House.

Mueller, John (1989). *Retreat from Doomsday: The Obsolescence of Major War*. New York: Basic Books.

DOI: 10.2202/1940-0004.1032

North, Douglass C. and Robert Paul Thomas (1973). *The Rise of the Western World: A New Economic History*. Cambridge: Cambridge University Press.

Olson, Mancur (1965). *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge: Harvard University Press.

Ostram, Vincent and Frances Pennell Bish, Eds. (1977). *Comparing Urban Service Delivery Systems: Structure and Performance*. Urban Affairs Annual Reviews. Beverly Hills, Sage.

Ostrom, Vincent, Charles M. Tiebout and Robert O. Warren (1961). "The Organization of Government in Metropolitan Areas." *The American Political Science Review* 55: 831-842.

Quigley, J. and E. Smolensky, Eds. (1994). *Modern Public Finance*. Cambridge, Harvard University Press.

Riker, William (1962). *The Theory of Political Coalitions*. New Haven: Yale University Press.

Rogowski, Ronald (2000). Globalization and Governance: Implications of Tiebout Models for a World of Mobil Factors. *Annual Meeting of the American Political Science Association*. Washington, D.C.

Rosecrance, Richard (1986). *The Rise of the Trading State: Commerce and Conquest in the Modern World*. New York: Basic Books.

Rosenau, James (2003). *Distant Proximities: Dynamics Beyond Globalization*. Princeton: Princeton University Press.

Russett, Bruce (1993). *Grasping the Democratic Peace: Principles for a Post-Cold War World*. Princeton: Princeton University Press.

Russett, Bruce and John Oneal (2001). *Triangulating Peace: Democracy, Interdependence and International Organizations*. New York: W.W. Norton.

Sagan, Scott and Kenneth Waltz (1995). *The Spread of Nuclear Weapons*. New York: W.W. Norton.

Singer, J. David (1987). "Reconstructing the Correlates of War Dataset on Material Capabilities of States, 1816-1985." *International Interactions* 14: 115-32.

Snyder, Jack (1991). *Myths of Empire: Domestic Politics and International Ambition*. Ithaca: Cornell University Press.

Spruyt, Hendrik (1994). *The Sovereign State and Its Competitors: An Analysis of Systems Change*. Princeton: Princeton University Press.

Strayer, Joseph R. (1970). *On the Medieval Origins of the Modern State*. Princeton: Princeton University Press.

Taagepera, Rein (1978). "Size and Duration of Empires: Systematics of Size." *Social Science Research* 7(2): 108-127.

Thomson, Janice (1994). *Mercenaries, Pirates, and Sovereigns: State-Building and Extraterritorial Violence in Early Modern Europe*. Princeton: Princeton University Press.

Verhovek, Sam (1997). "Serious Face on a Texas Independence Group." *New York Times*. Jan. 24, 1997. A1.

DOI: 10.2202/1940-0004.1032