

Flag Day: How Big Should a Country Be?

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This article is the eighteenth in a year-long series about economics and holidays.

June 14th is Flag Day in the United States. Since 1916, Flag Day has commemorated the adoption of the flag of the United States by the Second Continental Congress in 1777. Although it is not a national holiday—banks are open, mail is delivered, government offices are open—the holiday is celebrated in many places with parades and other festivities.

Flags are not limited to countries. States, organizations, corporations, and cities have flags of their own. Flying garden flags has become popular in the United States. But national (and state) flags are unique as a symbol of sovereign authority. If you want to find a post office, or a consulate, or a state capitol building, look for the flag.

Flags come in a variety of colors and sizes, although they are usually rectangular. Countries also come in a variety of sizes, and are rarely rectangular. The ancient world gave us two conflicting numbers of how big a country should be. Empires—Egyptian, Assyrian, Babylonian, Roman--always wanted to be as big as possible. They wanted to absorb smaller nations and use them as sources of labor, raw materials, and taxes. But the early Greeks (later Greeks had an empire, too) had a different model, the city-state. Loosely federated and often in conflict, the Greek city states, of which Athens and Sparta were the most famous, stayed small because they were governed more or less democratically (Athens more, Sparta less), so they needed a high degree of consensus. Fewer people makes consensus easier to attain.

Today the world has 203 countries, ranging from four tiny sovereign nations in Europe (Liechtenstein, Monaco, and San Marino with populations ranging from 30,000 to 35,000, and Vatican City, population 800) to such population giants as China with 1.3 billion people and India with 1.1 billion. The U.S. is third with just over 300 million. In land area, the largest three countries are Russia, Canada, and the United States. Country size, in either population or land area, is a product of history and geography—settlements, wars, oceans, mountains, and other boundaries that separate one group of people to another. Some countries share a long history, a single language, a shared culture, and even a gene pool that make its citizens distinctive in similarity to each other and differences from foreigners. Other countries are a blend of cultures and languages, more so in modern times than earlier periods. But the same challenge faces modern nations, especially those that are democratically governed. How big and how diverse can we as a nation become and still be able to agree on anything?

There are two important answers to this questions, one from economics, one from political economics. From economics we turn to the theory of clubs, which addresses the optimal size of a voluntary organization, like a sailing club, or a church, or a neighborhood association. It's true that we don't necessarily choose to join a country, although we may choose to leave it, and we are more likely to choose our state or city. But the same considerations apply. More people add both benefits and costs. More people can share the cost of providing public services because new arrivals usually (not always) cost less to serve than they generate in taxes and other public revenue. More people can also create a

critical mass to make it feasible to offer certain services, public or private, because the market is large enough to support it. As Adam Smith famously (well, famously among economists) said, “The division of labor is limited by the extent of the market.” The bigger the market, the more diversity of products and services we can support and still have the benefits of specialization. And also the provision of specialized services, like upscale restaurants, tea shops, and specialty stores.

On the other hand, more people means more differences in tastes, preferences, and opinions, so there is likely to be increasing dissatisfaction, especially with the public sector. It may also mean differences in language, lifestyle, religion, and other characteristics if the newcomers arrive from other cultures, and those differences can cause conflict and misunderstanding. So bigger also means a less congenial environment. The optimum population would be reached when the additional benefits of one more person or household are just enough to put up with the additional costs. We may not be able to define that number precisely, but the signs are there—anti-immigrant grumbling, complaints about congestion, disagreements over public decisions.

The other insight comes from political science, and it’s a partial solution. Federalism. Federalism means that a large country has not just a central government and local governments (cities, counties, school districts) but also a middle level. States in the U.S., Brazil, Australian and Italy, provinces in Canada, Lander in Germany, cantons in Switzerland all accommodate diversity by creating smaller entities within the larger country to provide the kind of public and private environment that suits their constituency. If you don’t like the high taxes and high level of public services in New York, move to New Hampshire. If you think California is too crowded, there’s always Montana. States are also good places to experiment with new ideas, like income maintenance programs in New Jersey or different kinds of health insurance schemes in Oregon and Massachusetts. In a federal system, responsibilities are assigned to levels of government based on where the benefits are concentrated. Streets and garbage pickup benefit the locals, while the military protects us all and we enjoy the benefits of a single national currency.

Europe has been struggling with the issue of optimum size for more than fifty years as the European Economic Community of six nations and six currencies formed in 1957 grew to the 27 nation, single currency giant European Union of 2010. In the process they learned some important things about sovereignty, about how much of their own folkways they would have to give up to be part of the Union, about the costs and benefits of free movement of people and products and firms between countries. In 2010 it’s all about monetary policy and deficits, about Greece and the euro, but that’s only the latest in a series of challenges to learning to live together in a very large, very powerful sovereign entity with a lot of differences to iron out.

So as we honor the U.S. flag on Flag Day, it’s a good time to think about how to balance the benefits of bigness with the costs of diversity, and to be grateful for the opportunity to learn how to get along better with those who share our flag.

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