Globalization, the State and the Future of Europe

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Two waves of globalization
Globalization and the number of countries

![Graph showing the relationship between globalization and the number of countries from 1820 to 2000. The x-axis represents years (1820, 1840, 1860, 1880, 1900, 1920, 1940, 1960, 1980, 2000), and the y-axis represents Merchandise Exports/GDP (%). The graph compares the number of countries and Merchandise Exports/GDP over the years.]
What is the equilibrium size of the state?

- The ‘equilibrium’ size of a state trades off two opposing forces:
  - Economies of scale, border effect (markets, defence)
  - Heterogeneity of preferences (law and order, welfare, culture)

- Robust to alternative assumptions:
  - Diplomacy vs. war
  - Democracy vs. dictatorship

- Globalization makes borders less costly and leads to smaller countries:

Globalization and the state

Early XXth century

LARGE COUNTRIES
Markets
Defence
Law and order
Welfare state
Culture

XXIst century

SMALL COUNTRIES
Markets
Defence
Law and order
Welfare state
Culture
Globalization and the number of countries

Figure 3: Globalization and expansion in Number of Countries (1820-2010)
Globalization, countries and free-trade agreements

Figure 6: Globalization and expansion in Free Trade Agreements

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What is the equilibrium size and structure of the state?

- The ‘equilibrium’ size and structure of a state trade off three opposing forces:
  - Economies of scale, border effect (markets, defense)
  - Heterogeneity of preferences (law and order, welfare, culture)
  - Economies of scope (single vs. overlapping jurisdictions)

- Globalization works at two different speeds:
  - Economic globalization (high speed)
  - Cultural globalization (low speed)

- Globalization makes border more costly
  - initially, it leads to large countries
  - eventually, it leads to large economic unions and small countries

- Gancia, Ponzetto and Ventura (2017)
Globalization and the state revisited

XIXth century

LARGE COUNTRIES
Markets
Defence
Law and order
Welfare state
Culture

XXIst century

UNION
Markets
Defence

SMALL COUNTRIES
Law and order
Welfare state
Culture
The European state: 1815

Map of Europe in 1815 showing countries and territorial changes post-Napoleonic Wars.
The European state: 1914
The European state: 2014
The European state: 2014
Navigating the transition

- The state’s transition from the XIXth to the XXIst century has just started
- Key issues for a transitional world with an inadequate political structure:
  - Bad policy? Dealing with terms-of-trade and enforcement externalities
  - How far away are we from the Coasian paradigm?
  - Handling a re-distribution of property rights (and wealth and power!)
- Challenges:
  - Growth of the union (further enlargement, Brexit):
    - The role of the citizen and the old states
  - Power within the union (*Hollowing Out* hypothesis, Scotland/Catalonia):
    - The role of democracy and conflict