Well-Being in the Small and in the Large

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Summary

In this paper, I search for indications that more populous countries are systematically different from smaller nations. Much economics incorporates the idea of *returns to scale*, so that it is cheaper to produce for a larger market than for a smaller one. This notion is fundamental to Adam Smith's *Wealth of Nations* as well as much more recent economics, and implies that productivity and output per head should be higher in countries with more people. Large countries may also be more efficient at producing public goods such as health and education. On the other hand, larger countries may have disadvantages too, chiefly in the form of decreased social cohesion that results from a more diverse citizenry. In this paper, I search for empirical evidence on these theoretical notions. Succinctly, I examine whether well-being – by which I mean the welfare of the average person – is systematically higher in countries that have larger populations.

Common sense indicates that the answer to this question should be resoundingly negative. After all, China and India are big and poor, while the quality of life is higher in small rich countries like Luxembourg and Singapore. But while a non-linkage between size and well-being seems intuitive, it turns out not to have been investigated systematically. This paper thus fills a gap in the academic literature, and a potentially important one. If larger countries *are* in fact systematically better (or worse) off than smaller countries, this has dramatic policy implications.

In practice, I find that folk wisdom is indeed confirmed. There seems to be no relationship between a country's size and a wide variety of measures of its social and economic well-being. For policy-makers and nationalists, this is a good outcome; there is no obvious economic or social price that small countries are paying simply by being small. But it is bad news for academic economists who assume that the scale of economic activity matters.