

The Blessings of Scarcity: The Institutional Underpinnings of Small States' Prosperity

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Abstract

Is state size a bane or boon for economic development? By investigating the economic performance of states with low populations today, most research on small states and development overlooks how population constraints of the past can shape economic and demographic outcomes of the present. We argue that states' past state size is a powerful predictor of long-term economic development. Population scarcity in the early years of independence pressures leaders of newly-independent small states to open their markets and employ large public sectors. These policies help "embed" many small states into the global economy, enabling economic integration and political stability. This underpins small states' economic success. We test this argument by examining the developmental trajectories of 82 states that gained independence between 1946 and 1975. States born with population constraints outperform their larger peers across numerous measures of long-term economic development. On average, they also have had more stable political regimes and stronger private sector institutions. Finally, in line with Embedded Liberalism (EL), small newly-independent states have had higher rates of public sector spending and trade integration than larger states. These findings are robust to numerous model specifications and an instrumental variables approach.

1 Introduction

Policymakers and academics disagree on whether smaller is better for economic development.¹ On the one hand, the World Bank (WB) and the International Monetary Fund (IMF) have long warned of the economic challenges confronting population-scarce states. Population constraints condemn small states to monoculture economies, soaring state debts, and brain drain [Beine et al., 2008, World Bank, 2016]. This renders small states highly vulnerable to economic and environmental shocks [Armstrong and Read, 2002, Payne, 2004]. Lacking manpower, small states’ bureaucracies are over-stretched, under-specialized [Jugl, 2019], and prone to corruption [Corbett, 2015, Gerring and Veenendaal, 2020, Veenendaal and Corbett, 2015]. Almost half of the states with high institutional and social fragility in 2021 were “small” according to the World Bank.²

Others are more optimistic about small states’ economic potential. Some argue that smaller states have lower barriers to political participation and accountability [Dahl and Tufte, 1973, Stasavage, 2010], encouraging cleaner and more responsive governance [Fors, 2014, Rigobon and Rodrik, 2005]. They are also more likely to trade because of their smaller domestic markets [Alesina et al., 2005]. Smaller states’ greater reliance on imports discourages protectionism in favor of open trade policies, generating gains from trade [Easterly and Kraay, 2000]. Indeed, Spolaore and Alesina [2003] argue that by providing access to larger markets, trade integration corrects the inherent economic disadvantages of small population size (p.83).

However, most scholarship ignores the endogeneity of size and economic development. As some small states attain higher levels of economic development, their prosperity may expand the size of the state by attracting migration, curtailing emigration, and lengthening life expectancy. Only examining the relationship between economic development and size today overlooks yesterday’s small states that grew demographically *because* of economic development. These formerly small states’ developmental success may rest on political and economic arrangements that were forged when they were small. Their omission biases the sample of commonly studied small states to population-scarce states that are unable or unwilling to enlarge their populations. This biased sample may lead scholars and policymakers to underestimate the developmental advantages of smaller states.

We address this limitation by investigating how state size in the past can influence economic development in the present. In particular, we argue that population size in the early years of independence has profound implications for states’ long-term economic development. Population constraints during this period push leaders of small newly-independent states to adopt two vital policies for long-term economic growth: open markets and large public sectors. Leaders of small newly-independent states accept economic integration because they lack a domestic labor force large enough to produce goods. Their economies must rely on imports. Leaders of small newly-independent states also acquiesce to relatively larger public sectors. This is due to the fixed labor costs necessary to govern and protect a modern state. This fixed cost consumes a larger

¹As is common in the study of small states, this article measures state size by population.

²The World Bank defines small states as states with a population of 1.5 million or less.

share of small states' labor force. Combined, open markets and large public sectors “embed” small states into the global economy [Ruggie, 1982], fostering economic integration and political stability. This underpins small states' economic success. It also enables population growth. Once prosperous, leaders of small states then choose whether to ease their state's population constraints with open labor migration policies, as has occurred in the Gulf, or remain small, as is more common among small states in the Caribbean and Mediterranean.

We test this argument by examining the developmental trajectories of 82 states that gained independence between 1946 and 1975. We find that newly-independent states that were small during these early decades of independence have higher contemporary levels of economic development than their larger peers. This finding is robust to different measurements of “small” and economic development, the inclusion of a range of economic and geographic controls, the exclusion of Gulf states³, and an instrumental variables (IV) estimation. Newly-independent small states have had more stable political regimes and stronger private sector institutions as well. Lastly, in support of the argument's mechanism, states that were small during this period embraced Embedded Liberalism (EL): They have had higher rates of public sector spending *and* trade integration.

These findings contribute to and connect three strands of scholarship. We add to a robust literature on critical junctures and development [Colliers and Collier, 1991]. We demonstrate that states' population size in the early years of independence is a powerful predictor of long-term economic development because of the policies, institutions, and arrangements born during this crucial period of governance. Population constraints in this nascent period form a bedrock of policies that are conducive to long-term growth. Vested interests and institutional precedents entrench these policies as newly-independent small states age and grow demographically.

Second, our argument is inspired by and aligned with Ruggie [1982]'s theory of EL: economic integration requires state intervention to compensate and insulate citizens harmed by global competition [Hays et al., 2005, Nooruddin and Rudra, 2014]. The concurrent deepening of economic integration and gutting of social safety nets across the Global South made some wonder whether EL was a high-income state phenomenon. We follow Nooruddin and Rudra [2014] and present further evidence that EL exists outside of continental Europe. While small European states are flagship cases in the EL literature [Katzenstein, 2016], we pave new ground by revealing that population constraints drove small states across the world to adopt EL.

Third, our findings stress that ignoring formerly small states impairs our understanding of the relationship between size and development. Many formerly small states - like Botswana [Lefko-Everett, 2001] - grew demographically because of economic success. These states remind us that population levels are not fixed. Migration policies can attenuate population constraints. Formerly small states' histories offer valuable insights and lessons for small state scholars and policymakers. They must not be overlooked.

This article proceeds as follows. The next section maps the literature on small states and development.

³These are Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates (UAE).

Next, we explain our argument and hypotheses. The fourth section describes our data, models, and identification strategies. We then present our results. The last section concludes and proposes future avenues of research.

2 Is Size a Bane or Boon for Economic Development?

Evidence on the relationship between state size and development is mixed and uncertain. Easterly and Kraay [2000] find little difference in the developmental performance of small and large states. Rigobon and Rodrik [2005] estimate a negative relationship between state size and income, though this relationship is marginally significant (p.546). Alesina et al. [2005], on the other hand, finds a positive association between size and wealth, but that economic openness mitigates the economic advantages of bigger states. Summarizing the past two decades of scholarship on size and development, Gerring and Veenendaal [2020] concludes that there is little evidence of country size impeding economic growth in the post-war era. “In the modern world,” they note, “where populations around the world are linked by transport and communication infrastructure and where machines provide the main source of power and economic production, the role of population is less clear (p.353).”

Most of this scholarship, however, ignores that size and development are endogenous. While economists since Malthus have debated whether more people are worse for economic development [Kelley, 1988], economic development can also affect state size. Prosperity can curb population growth by offering less labor-dependent means of income and easier access to family planning. At the same time, development can expand state size by lowering mortality rates and raising average life expectancy. Prosperity can plug brain drain and attract migrants from less prosperous states. Leaders can also influence their state’s size by crafting policies that attract foreign labor [Goodman and Pepinsky, 2021]. The impact of these policies on country size is probably more substantial for smaller states. Indeed, some of the largest proportional population changes from 2009 to 2019 occurred among small states in Africa (p.55), Asia (p.70), and Latin America (p.97) [International Organization of Migration, 2019].

Despite this endogeneity, most quantitative analyses on size and development regress an average measure of development over a period of time on an average measure of state size over that same period [Fors, 2014, Alesina et al., 2005, Easterly and Kraay, 2000]. Econometric objections aside, these regressions may underestimate the developmental benefits of smaller polities by classifying small states that grew due to economic success as “big.” Case studies and policy reports on small states commit a similar error. By focusing on the developmental challenges of small states today, they ignore small states of the past. Yet formerly small states - states that grew to be big - can offer additional insights on whether and how population constraints can shape economic development. Only examining small states of the present confines our analysis of the relationship between size and development to a sample of small states that are unable or unwilling to expand their populations.

This sampling bias also taints our understanding of how institutions can uphold small states' economic success. Policies and practices born in times of population constraints may endure as a state's population grows, particularly if policymakers attribute those policies and practices to their state's economic success. Thus *when* a state is small could be central for its long-term economic development. Leaders' choices in critical moments can have long-term implications on states' institutional development [Colliers and Collier, 1991, Wantchekon et al., 2013, Mahoney, 2001]. The years shortly before and after a state's independence are one such critical moment. The institutions crafted in these early years of independence can establish important institutional precedents that solidify as states age. They can also solidify interest groups and political arrangements that entrench these nascent state policies. Thus many formerly small states may share the same institutions and developmental strategies as currently small states.

3 Argument: The Institutional Blessings of Population Scarcity at Independence

We argue that population scarcity pushes leaders of newly-independent small states to adopt two policies in the early years of independence that are vital for long-term economic development: open markets and large public sectors. As mentioned previously, protectionist policies are costlier for consumers in small domestic markets because their consumption depends on a higher share of imports. For this reason, smaller states tend to have more open trade policies [Rigobon and Rodrik, 2005]. More open trade policies offer many developmental benefits: cheaper inputs, more diverse products, greater competition, and access to new markets. Greater trade also stimulates stronger market institutions. Importers, exporters, and government officials must accommodate their trading partners' property rights regime and market regulations. This is especially the case for small states, which are price takers for most imports in the global economy. Because they are more trade-dependent, newly independent states with population constraints confront stronger pressures to comply with international trade policies and regulations than their larger peers. This incentivizes small newly-independent states to form strong private sector institutions. These institutions protect property rights, follow international standards, and enforce contracts.

Population constraints push leaders of small newly-independent states to accept large public sectors. Small states have big public sectors relative to their population size [Randma-Liiv, 2002]. The labor needed to police, protect and regulate a modern nation-state consumes a relatively higher share of small states' labor force. Low populations curtail the economies of scale of public sector employment [Spolaore and Alesina, 2003, p.172]. Though costly - small states have public sectors with high per capita costs [Alesina and Wacziarg, 1998] - large public sectors uphold small states' economic development in two ways. First, larger public sectors facilitate economic openness by "embedding" or sheltering constituents disadvantaged by international trade [Ruggie, 1982]. Katzenstein [2016] argues that the necessities of economic openness and perceptions

of vulnerability pressured leaders of small European states to craft cross-class coalitions through generous welfare regimes. This enabled economic integration while minimizing political discontent. Similar pressures and outcomes are likely to extend to small, newly-independent states.⁴ Second, large public sectors promote political stability. Public sector employment is a chief means of welfare in many under-developed economies [Nooruddin and Rudra, 2014], where pensions cover less than a tenth of the working population (p.607). It is also a form of patronage. Public sector employment discourages rebellion, allowing for greater political stability. In short, population constraints propel leaders of newly-independent small states to open their markets and employ large public sectors. These policies promote political stability and economic integration. They bolster small states' long-term economic development.

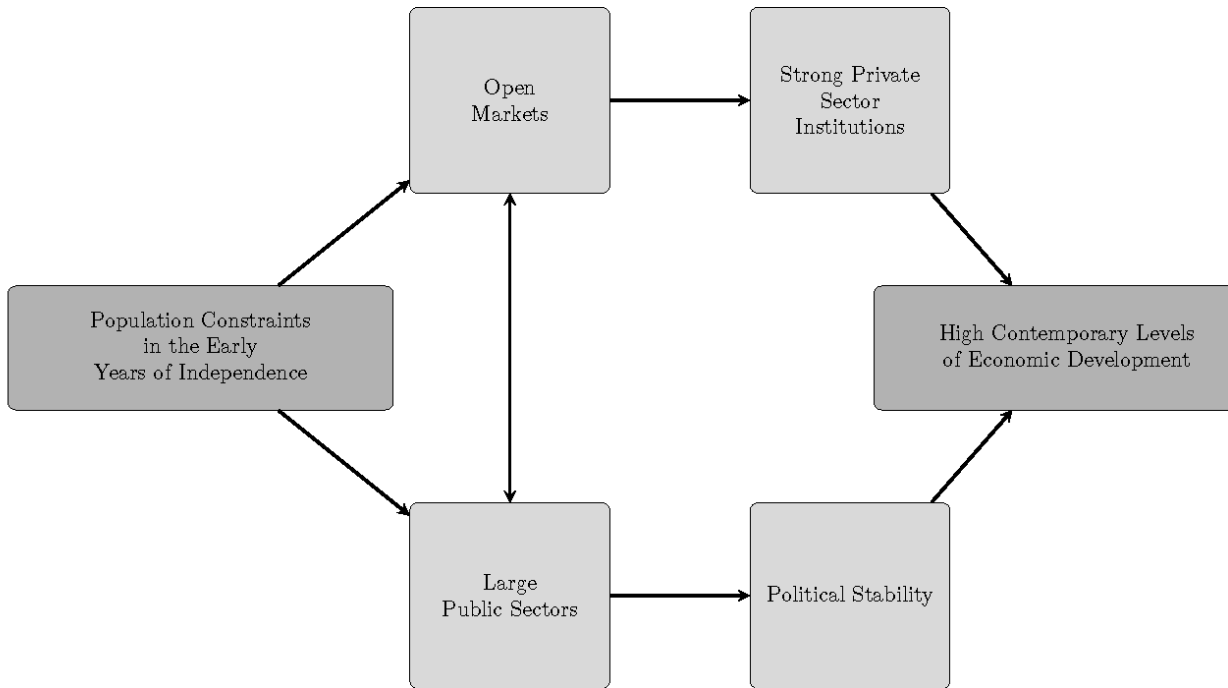
Though conceived in times of population scarcity, newly-independent small states' open markets and large public sectors endure as these states age and grow demographically. Policies founded in the early years of independence create important precedents. Interests and practices emerge and defend existing policies. These forces resist change. Furthermore, though originating from population constraints, the political and economic viability of open markets and large public sectors does not depend on population constraints. Open migration policies with exclusionary political and social policies - what Goodman and Pepinsky [2021] call "exclusionary openness" - can sustain EL. So long as population growth does not expand the citizenry and dilute the public sector welfare embedding non-naturalized citizens, leaders can open their borders to goods and foreign labor without undermining their protected constituents. Exclusionary openness carried Germany's post-war recovery [Goodman and Pepinsky, 2021]. Small states seeking to ease their economies' labor constraints are likely to adopt similar arrangements.

Figure 1 illustrates the argument.

This argument rests on two scope conditions. First, it assumes that states' sovereignty is respected. International norms and retaliation from hegemons dissuade larger states from conquering smaller ones. Second, it applies to periods of deepening globalization. Small states' greater willingness and capacity to integrate into global markets creates economic advantages over bigger states. These two conditions anchor the argument to the second half of the 20th century. The end of World War II and the ensuing Cold War ushered in an era where states' territorial sovereignty was by-and-large respected. While protectionism and state-led industrialization were in vogue among newly-independent states of this era, and among some small states like Mauritius [Zafar, 2011] and Kuwait [Moore, 2004], population constraints rendered these insular economic policies especially costly for newly-independent small states. As a result, these states were more integrated into the global economy when international trade grew exponentially in the last decades of the 20th century. This made small states more likely to capitalize on the gains of international trade than their larger peers.

⁴Whether large public sectors precede or follow open markets is tangential [Adsera and Boix, 2002]. Population constraints incentivize rulers of small newly-independent states to adopt open markets *and* large public sectors simultaneously.

Figure 1: Argument



3.1 Hypotheses

We test the following hypotheses:

1. States with *smaller* populations during their early years of independence have *higher* contemporary levels of development.
2. States with *smaller* populations during their early years of independence have *stronger* contemporary private sector institutions.
3. States with *smaller* populations during their early years of independence have *more stable* political regimes.

To substantiate these outcomes' mechanisms, we hypothesize:

4. States with *smaller* populations during their early years of independence have *greater* economic openness.
5. States with *smaller* populations during their early years of independence have *larger* public sectors.

4 Empirical Analysis: Data and Models

To assess the long-term developmental legacies of population constraints in the early years of independence, we examine all states that obtained independence between 1946 and 1975. The end of World War II triggered an era of rapid decolonization and new state formation. Following the Correlates of War (COW), we deem

states independent if they have United Nations (UN) membership or a population of at least half a million with diplomatic missions from two major powers [Pevehouse et al., 2020]. Because we are interested in contemporary levels of development, we exclude states that gained independence during this era but no longer exist, like South Yemen. This generates a population of 82 states. These states’ median year of independence following COD coding criteria is 1961. The thirty-year postwar window from 1946 to 1975 represents all of these states’ early years of independence.

4.1 Small States

We define small or population-constrained states as states with average populations of less than one million residents between 1946 and 1975. Residents represent citizens and immigrants, but exclude refugees who are not permanently settled in their country of asylum. Our historical population data stems from Gapminder which merges data from Bolt et al. [2018] and the UN.⁵ Under this metric, 28 newly independent states were “small” during this period.⁶ 55 newly-independent states were “larger” states.⁷ Figure 2 maps all the small and larger states in this analysis alongside small states’ country codes. As a robustness check, we re-run our analysis with different population thresholds for small states, as well as with a continuous measure of size that logs each state’s average population between 1946 and 1975.

These newly-independent small states’ population growth varied tremendously after 1975 (see Figure 5). For example, both Fiji and the UAE had roughly 600,000 residents in 1976. Today the UAE has more than nine million, while Fiji has almost nine-hundred thousand. More than half of these newly-independent small states are no longer small.⁸ Unlike larger states, small states’ population size during this early period of independence is a poor predictor of contemporary population size. Newly-independent small states’ 1976 population can explain 22 percent of the variation in their 2020 population. Larger states’ population size in 1976 accounts for 98 percent of the variation in their 2020 population. The vast variation in small states’ long-term population growth confirms that small states’ size is not fixed. We suspect that economic success is both a cause and outcome of some newly-independent small states’ population growth.

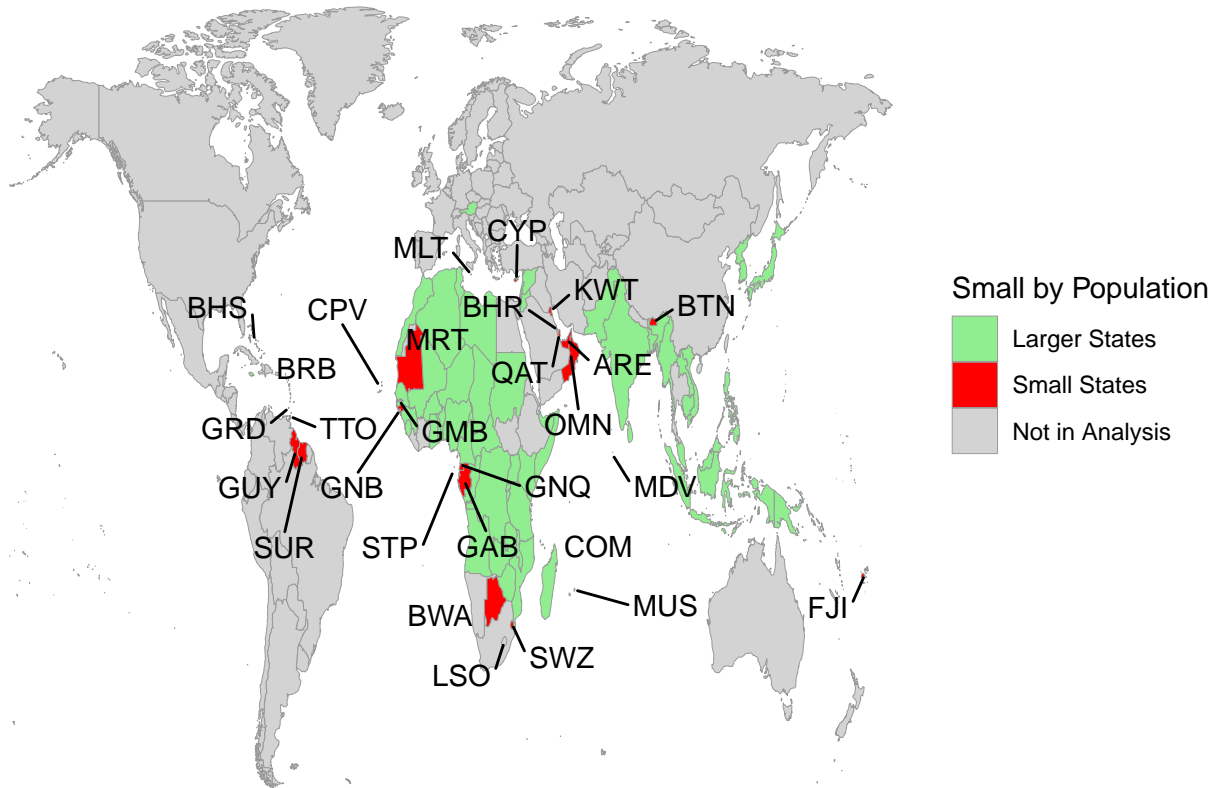
⁵<https://www.gapminder.org/data/>

⁶These are the Bahamas, Bahrain, Barbados, Bhutan, Botswana, Cabo Verde, Comoros, Cyprus, Equatorial Guinea, Eswatini, Fiji, Gabon, the Gambia, Grenada, Guinea-Bissau, Guyana, Kuwait, Lesotho, the Maldives, Malta, Mauritania, Mauritius, Oman, Qatar, Sao Tome and Principe, Suriname, Trinidad and Tobago, and the United Arab Emirates.

⁷These are Algeria, Angola, Austria, Bangladesh, Benin, Burkina Faso, Cambodia, Cameroon, the Central African Republic, Chad, Congo, Congo (DRC), Ghana, Guinea, Indonesia, India, Israel, Japan, Jamaica, Jordan, Kenya, Korea (Republic), Korea (DRC), Malaysia, Madagascar, Mali, Morocco, Myanmar, Niger, Nigeria, Papua New Guinea, Pakistan, Philippines, Laos, Lebanon, Libya, Rwanda, Senegal, Sierra Leone, Singapore, Somalia, Sri Lanka, Sudan, Syria, Tanzania, Togo, Tunisia, Uganda, Vietnam, Zambia, and Zimbabwe.

⁸These formerly small states have current population levels greater than one million residents. They are Bahrain, Botswana, Cyprus, Equatorial Guinea, Eswatini, Gabon, The Gambia, Guinea-Bissau, Kuwait, Lesotho, Mauritania, Mauritius, Oman, Qatar, Trinidad and Tobago, and the United Arab Emirates.

Figure 2: Map of Small and Large Newly-Independent States (1946 - 1975)



4.2 Dependent Variables: Economic Development, Strong Private Sector Institutions and Political Stability.

Economic development is our main dependent variable. We use three development indicators: a country’s logged average GDP per capita based on purchasing power parity rates (PPP) between 1976 and 2020; its 2019 under-five mortality rate, and its 2019 Human Development Index (HDI) score. Compiled by the United Nations Development Program, HDI is a summary measure of health, education and standard of living outcomes. We collected all of this data from the World Bank.

We argue that *strong private sector institutions* and *political stability* bolster newly-independent small states’ long-term economic development. We use a variety of indicators to gauge the strength of institutions governing the private sector. Our main measure is the World Bank’s Rule of Law (*rule*) index, an annual aggregate score based on experts perceived confidence in the quality of state’s property rights, contract enforcement, the police, the courts, and the likelihood of crime and violence. We average a country’s *rule* score, which ranges from -2.5 to 2.5, from 1996 to 2019. A higher *rule* score indicates stronger rule of law. We complement the *rule* measure of strong private sector institutions with Transparency International’s Corruption Perceptions Index (CPI) (*transparency*), an index based on experts’ perception of public sector corruption. Higher *transparency* scores indicate *less* corruption. Third, we include the Credendo Group’s

2019 expropriation risk measure (*expropriation*). This index spans from 1 (low risk) to 7 (high risk) of appropriation.

We use the Fund for Peace’s Fragile States Index (*fragility*) to measure a state’s *political stability*. This index is a holistic evaluation of risks facing a country. It comprises of 12 indicators that are categorized into four dimensions: political, economic, social, and cohesion. Each indicator ranges from 0 to 10 and a total score ranging between 0 to 120 is found by summing the score for each indicator. The estimates for each indicator for a country are constructed using quantitative and qualitative data evaluated by experts. The data for state fragility index spans from 2006 to 2020. We average states’ fragility index score from 2006 to 2020. Higher *fragility* scores represent greater state fragility.

In robustness checks, we apply three other measures of state fragility. First, we use the Center for Systemic Peace’s state fragility index (*fragility_2*).⁹ The index ranges from 0 to 25 with higher values denoting higher state fragility. Like the Fund for Peace’s State Fragility Index, the Center for Systemic Peace’s fragility index is a holistic evaluation of risks facing a country on security, political, economic and social dimensions. We average each country’s fragility score from 1995 to 2018. Higher *fragility_2* scores indicate greater fragility.

We also apply the Center for Systemic Peace’s regime durability (*regime durability*).¹⁰ The regime durability score measures the number of years since a regime change in a country. A country experiences a regime change if its polity score changes by 3 points in less than 3 years. The polity score, ranging from -10 to +10, assesses the regime authority structure of a country with higher values for more democratic structures and lower values for authoritarian structures. For our analysis, we average each country’s regime durability score from 1976 to 2018. A higher *regime durability score* represents greater regime stability.

Last, we measure political stability with the PRS group’s political risk rating from its International Country Risk Guides (*ICRG*). The rating ranges from 0 to 100. The political risk rating is a weighted average of 12 different indicators that assess risks related to external or internal conflict, ethnic tensions, government’s capability to provide public services. We average each country’s political risk rating from 1984 to 2022. Higher *ICRG* scores represent *less* political risk.

4.3 Mechanisms: Open Markets and Large Public Sectors

Open markets and *large public sectors* underpin small states’ strong private sector institutions and political stability. We measure states’ open markets by their trade openness (*trade openness*). This is the total amount of exports and imports of goods and services measured as a share of gross domestic product. We first measure *trade openness* as an average between 1976 to 2019. To demonstrate that open market policies existed in the early years of independence and have endured since, we average this measure across three time periods: first

⁹<https://www.systemicpeace.org/>

¹⁰<http://www.systemicpeace.org/inscr/p5manualv2018.pdf>

between 1976 to 1986, then 1976 to 1996, and then 1976 to 2006. In a robustness check, we complement this measure with the KOF *de jure* globalization index. This index captures tariff and non-tariff protectionist policies. We examine states' average *KOF* score from 1976 to 2020, as well as between 1976 to 1986, then 1976 to 1996, and finally between 1976 and 2006.

We employ two measures of public sector size. The first is public sector employment as a share of total employment. The earliest data for cross-national rates of public sector employment is from 2000. We average public sector employment for each state from 2000 to 2018 (*public sector employment*). We collect this data from the World Bank's Worldwide Bureaucracy Indicators. We use the International Monetary Fund (IMF)'s government expenditures as a percentage of GDP (*gov expenditure*) to assess states' public sector size in the decades after independence. Our chief measure of *gov expenditure* averages states' government expenditures as a percentage of GDP from 1976 to 2011.¹¹ As with *trade openness*, to illustrate the early adoption of large public sectors, we measure *gov expenditure* from 1976 to 1986, and from 1976 to 1996.

4.4 Controls

Many factors outside of a newly-independent state's population size could influence long-term economic development. Economic development *prior* to independence is a strong determinant of post-independence development [Mahoney, 2010]. We account for a state's pre-independence levels of economic development by controlling for their average urbanization rate between 1946 and 1975 (*urbanization*). This data comes from Our World in Data, which compiles UN and historical sources.¹² In a robustness check, we log the Maddison Project's average estimates of GDP per capita from 1946 to 1975 (*GDP 1946 - 1975*) [Bolt et al., 2018]. However, because 7 out of 28 newly-independent small states are missing from the Maddison dataset, *urbanization* is our preferred measure of pre-independence development. We also control for whether a state was an oil exporter before 1975 (*oil exporter*), the ruggedness of its terrain [Nunn and Puga, 2012] (*rugged (logged)*)¹³, and whether the state is an island (*island*). Malaria prevalence may have impacted levels of colonial settlement, with long-term implications for the quality of a newly-independent state's institutions [Acemoglu et al., 2001]. Our models incorporate a *malaria_average* indicator. It represents the average percentage of a state's population at risk of malaria between 1965 and 1975 [Conley et al., 2007]. Lastly, all models include region fixed effects.

Table 1 presents means differences between the small and larger newly-independent states for all the variables in this analysis. Following our hypotheses, small states have higher average contemporary levels of GDP, HDI scores, and lower infant mortality rates. They also have stronger rule of law, more stable states, more open markets, and larger public sectors. However, small newly-independent states were also more economically developed than larger states in their early years of independence. They had higher urbanization,

Table 1: Balance Table

Variable	Larger, N = 54 ¹	Small, N = 28 ¹	p-value ²
GDP PPP (1976 - 2020)	8,034	21,826	0.007
Infant Mortality (2019)	48	30	0.011
HDI (2019)	0.61	0.72	0.001
Rule of Law (1976 - 2020)	-0.56	0.06	<0.001
State Fragility (1976 - 2020)	84	68	<0.001
Trade (1976 - 2020)	69	111	<0.001
Public Sector Employment (2000 - 2020)	0.08	0.17	<0.001
Urbanization (1946 - 1975)	21	31	0.080
Malaria Rates (1946 - 1975)	0.85	0.52	<0.001
Rugged	1.09	1.41	0.4
Oil Exporter (pre 1976)	11%	21%	0.3
Island	15%	46%	0.002
Caloric Suitability	1,144	1,371	0.3
GDP Maddison (1946 - 1975)	2,320	8,781	0.066
Arable Land	71,545	1,077	0.024

¹Mean or Frequency

²Welch Two Sample t-test; Fisher's exact test; Pearson's Chi-squared test

GDP rates, and lower exposure to malaria between 1946 and 1975.

4.5 Model

Our main models are Ordinary Least Square (OLS) linear regressions where for country_i

$$Y_i = \alpha + \beta small_i + Xcontrols_i + \gamma Region_i + \epsilon_i$$

Small, our independent variable of interest, is a binary equal to one if a newly-independent state's average population was less than one million residents between 1946 to 1975. Standard errors are clustered at the country-level.

4.6 Instrumental Variable

Population size in the early years of independence is not exogenous to long-term economic development. There are undoubtedly observable and unobservable differences between population-scarce territories that became independent states and those that did not (See Table 1). Independence was also not inevitable [Lawrence, 2013]. Among formerly-colonized states, political, economic and geopolitical considerations among the colonized and colonizers influenced whether and when colonies became independent states. Larger states

¹¹This is the last year of our government expenditure data.

¹²<https://ourworldindata.org/grapher/urbanization-last-500-years>

¹³We log the variable because of its skewed distribution.

also differ from their smaller peers in ways beyond state size. These differences are likely to influence long-term economic development.

We use a two-stage least squares (2SLS) regression to account for possible endogeneity between state size in the early years of independence and long-term economic development. Like others [Jugl, 2019, Gerring et al., 2018, Gerring and Veenendaal, 2020, (pg.49)], we apply *territory* and *agricultural suitability* as an instrument for state size in our two-stage least square regressions. *Territory* is a state’s logged average arable land in square kilometers between 1946 and 1975. *Agricultural suitability* is an index of caloric suitability among a state’s pre-Columbian crops¹⁴. This index measures the average potential (not actual) caloric yield (in millions of kilocalories) per hectare per year of the crops grown in a state before 1500 CE [Galor and Özak, 2016].¹⁵

A central assumption in these IV regressions is that *territory* and *agricultural suitability* can only affect long-term economic development through their impact on state size in the early years of independence (the exclusion restriction). This assumption would be hard to defend in the pre-modern era. More economically prosperous states back then may have conquered more territory and more fertile ground [Gerring and Veenendaal, 2020, (p.49)]. After World War II, however, the international state system and norms of sovereignty discouraged outright annexation [Gerring and Veenendaal, 2020, (p.50)]. Lastly, some may worry that agricultural suitability would directly influence pre-independence levels of economic development, which in turn impacts newly independent states’ long-term economic development. As in our OLS regression, our IV regressions control for states’ urbanization rates and other confounders to account for a state’s pre-independence levels of economic development. These controls attenuate concerns that territory and agricultural suitability can influence development in ways outside of state size in the early years of independence.

5 Results

5.1 Hypothesis 1: State Size and Long-Term Economic Development

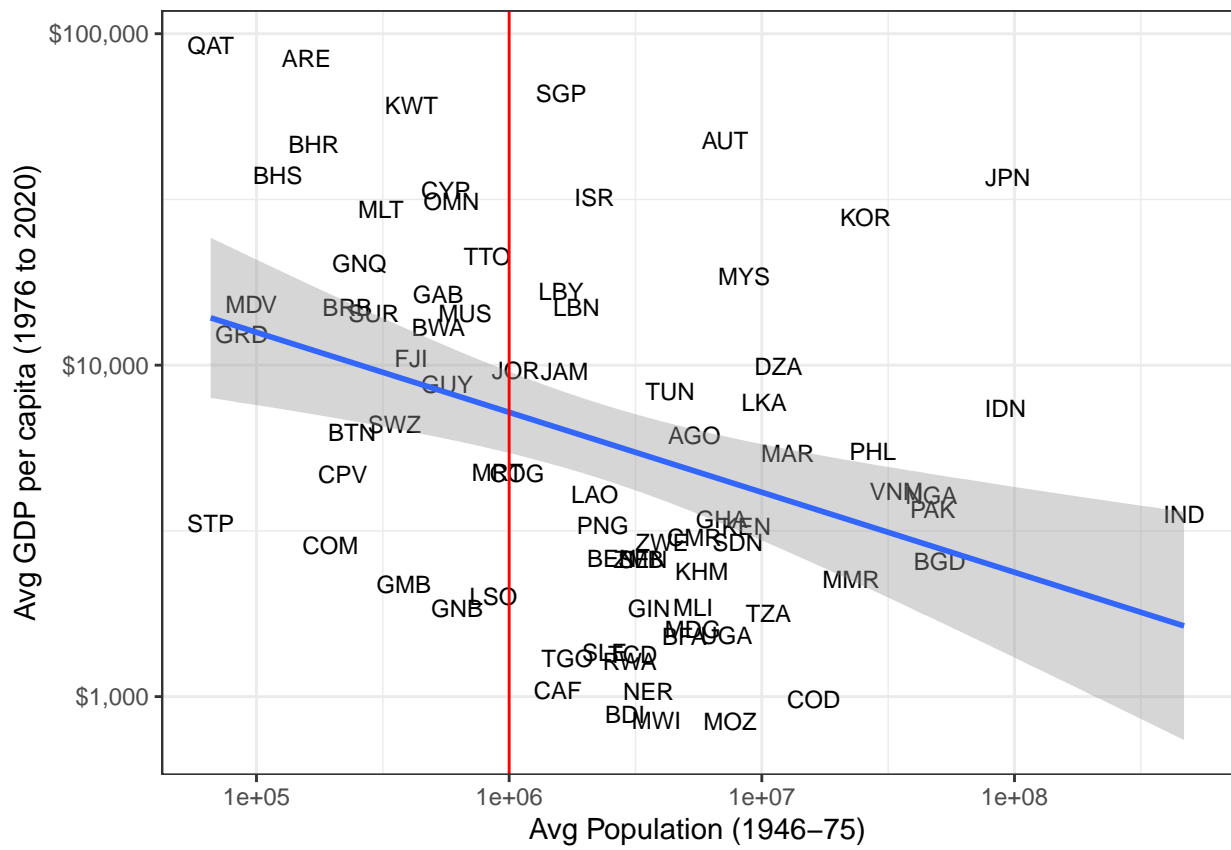
We first plot the relationship between average population size between 1946 and 1975 and average GDP per capita between 1976 and 2020. Figure 3 illustrates a negative relationship between population size and long-term average GDP per capita. The red vertical line demarcates small and larger newly-independent states.

Table 3 demonstrates that newly-independent small states out-perform their larger peers across multiple measures of long-term economic development. The *Small State* coefficient is in the right theorized direction in all models, and statistically significant at the five percent level in all models except Model 3. Substantively, Model 1 estimates that small states’ average GDP per capita from 1976 to 2020 are roughly 108 percent

¹⁴These are crops grown in a state *before* the Columbian Exchange in 1500 CE.

¹⁵Galor and Özak [2016] calculate this yield assuming a low level of inputs, rain-fed irrigation and whether the crops were available for cultivation in a state before 1500 CE.

Figure 3: Scatter Plot of Historical Population Size and GDP per capita



greater than larger states. These findings are robust to using a smaller measure of small states (less than 800,000) and a continuous logged measure of population size. These patterns hold after removing Gulf Cooperation Council (GCC) states, and controlling for historical levels of GDP per capita (See Table 8, Table 9, and Table 10 in the Appendix).

Table 3: Small States and Development

	<i>Dependent variable:</i>					
	log.avg.gdp.ppp		mortality.current		hdi2019	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small State	0.74*** (0.19)	0.81*** (0.17)	-7.28 (4.70)	-13.39** (6.20)	0.05** (0.02)	0.05** (0.03)
Urbanization	0.02*** (0.004)	0.02*** (0.004)	-0.17 (0.12)	-0.14 (0.11)	0.003*** (0.001)	0.003*** (0.001)
Oil Exporter	0.80*** (0.18)	0.80*** (0.16)	-0.62 (8.66)	0.13 (8.20)	0.03 (0.03)	0.03 (0.03)
Rugged	-0.06 (0.05)	-0.06 (0.05)	-1.42 (1.90)	-1.48 (1.79)	0.01 (0.01)	0.01 (0.01)
Malaria Risk	-0.45 (0.33)	-0.28 (0.33)	12.24 (13.62)	2.65 (14.17)	-0.05 (0.04)	-0.02 (0.04)
Island	-0.01 (0.17)	-0.03 (0.16)	-11.58** (5.57)	-9.76* (5.30)	0.03 (0.02)	0.03 (0.02)
Years Independent	0.59* (0.32)	0.63** (0.31)	-6.04 (8.88)	-8.01 (9.74)	0.06 (0.04)	0.07** (0.04)
Europe and Central Asia	-0.47 (0.29)	-0.47* (0.27)	6.37 (7.40)	7.75 (7.38)	-0.06 (0.03)	-0.05 (0.03)
Latin America and The Caribbean	-0.31 (0.29)	-0.32 (0.27)	-6.80 (7.16)	-5.96 (6.65)	-0.04 (0.04)	-0.04 (0.04)
Middle East and North Africa	-0.33 (0.29)	-0.35 (0.27)	3.88 (10.40)	5.55 (10.07)	-0.03 (0.05)	-0.03 (0.04)
South Asia	-1.06*** (0.27)	-1.12*** (0.26)	37.65*** (7.62)	41.58*** (7.31)	-0.15*** (0.04)	-0.15*** (0.03)
Sub-Saharan Africa	8.57*** (0.37)	8.48*** (0.35)	26.49** (11.48)	30.86*** (10.99)	0.66*** (0.05)	0.65*** (0.04)
Weak instruments		55.06		62.57		64.31
Observations	77	75	80	78	78	76
R ²	0.84	0.84	0.67	0.67	0.78	0.79
Adjusted R ²	0.81	0.81	0.61	0.61	0.75	0.75
Residual Std. Error	0.54	0.54	20.24	20.38	0.07	0.07
F Statistic	30.35***		12.37***		21.63***	

Note:

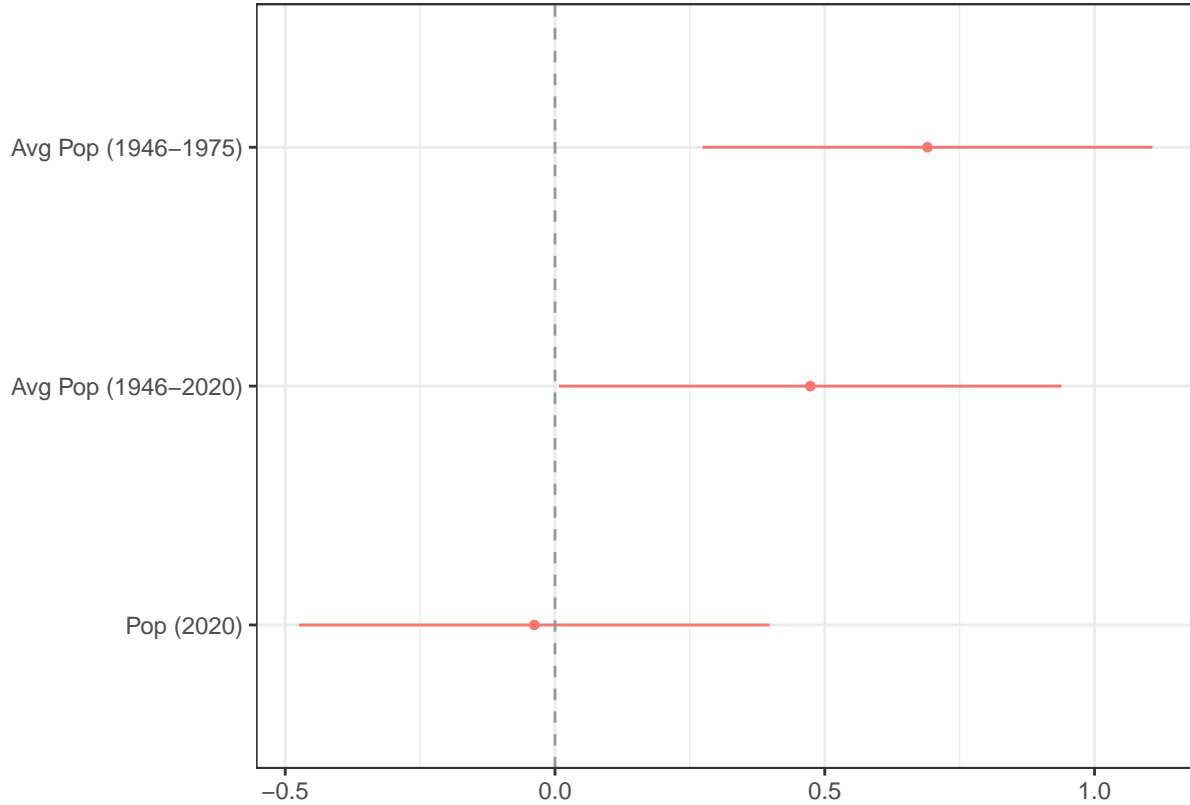
*p<0.1; **p<0.05; ***p<0.01

Figure 4 compares the estimated coefficient and standard errors of the state size variable on average GDP per capita from 1976 to 2020 (logged) using different measures of size among the 82 newly-independent states. Our analysis uses the first measure - *Avg Pop (1946 - 1975)* - which defines small states as having an average population of less than one million between 1945 and 1975. The second measure *Avg Pop (1946-2020)* operationalizes small states as states whose populations averaged less than one million residents between 1946 and 2020. The last measure *Pop (2020)* ignores formerly small states and only categorizes states in 2020 with less than a population of a million residents as small.

Figure 4 demonstrates that contemporary measures of small state size (*Pop (2020)*), and measures that

average state size into the present (*Avg Pop (1946-2020)*) underestimate the positive association between state size and economic development. The *Avg Pop (1946 - 1975)* coefficient, which incorporates formerly small states, is positive and larger than the other two measures.

Figure 4: Coefficient plot using different measures of small states



5.2 Hypothesis 2: Small States and Private Sector Institutions

We find mixed evidence that newly-independent small states have stronger private sector institutions. The *Small State* coefficient in table 4 is in the right theorized direction in all model specifications. However, it is only statistically significant at the 10 percent level with the *territory* and *agricultural suitability* instrumental variables in relation to the World Bank’s rule of law indicator (*rule*) (Model 2). Newly-independent small states also have higher contemporary transparency scores (*transparency*). Our two-stage least squares regression in model 4 estimates that, *ceteris paribus*, newly-independent small states score 10.8 points higher on the *transparency* index than larger states plus or minus 9.6 points. However, we find no statistically significant relationship between state size in the early years of independence and contemporary expropriation risk (Models 5 and 6).

Table 4: Strong Private Sector Institutions

	<i>Dependent variable:</i>					
	rule		cpi		expropriation	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small State	0.29 (0.18)	0.34* (0.20)	7.29* (4.28)	10.70** (4.79)	-0.57 (0.42)	-0.50 (0.48)
Urbanization	0.02*** (0.01)	0.02*** (0.005)	0.41*** (0.12)	0.40*** (0.11)	-0.03*** (0.01)	-0.03*** (0.01)
Oil Exporter	-0.37** (0.17)	-0.39** (0.15)	-3.96 (4.22)	-4.86 (3.71)	0.99** (0.51)	1.03** (0.46)
Rugged	0.01 (0.06)	0.005 (0.06)	1.10 (1.71)	1.06 (1.57)	-0.15 (0.14)	-0.12 (0.13)
Island	-0.55 (0.37)	-0.41 (0.39)	-5.46 (8.72)	-3.44 (9.55)	0.38 (0.99)	-0.09 (0.91)
Malaria Risk	0.11 (0.17)	0.08 (0.16)	1.52 (3.92)	0.54 (3.79)	-0.50 (0.41)	-0.43 (0.37)
Europe and Central Asia	0.90** (0.40)	0.96** (0.39)	11.05 (8.03)	10.61 (8.39)	-0.93 (0.75)	-1.24* (0.70)
Latin America and The Caribbean	-0.12 (0.32)	-0.12 (0.30)	-3.48 (8.21)	-5.44 (8.11)	0.67 (0.72)	0.47 (0.67)
Middle East and North Africa	-0.04 (0.34)	-0.03 (0.31)	-6.78 (7.56)	-7.58 (7.19)	0.66 (0.75)	0.55 (0.68)
South Asia	0.21 (0.30)	0.18 (0.28)	3.71 (6.87)	2.50 (5.86)	0.56 (0.62)	0.57 (0.57)
Sub-Saharan Africa	-0.13 (0.27)	-0.17 (0.25)	-1.79 (5.02)	-2.89 (4.75)	0.76 (0.54)	0.82* (0.49)
Constant	-0.54 (0.38)	-0.59 (0.36)	30.72*** (8.48)	30.16*** (8.27)	3.98*** (0.94)	4.20*** (0.87)
Weak instruments		63.81		53.87		
Observations	80	78	77	75	75	73
R ²	0.56	0.55	0.46	0.44	0.46	0.45
Adjusted R ²	0.49	0.47	0.37	0.35	0.37	0.36
Residual Std. Error	0.60	0.61	12.79	12.96	1.31	1.28
F Statistic	7.82***		5.11***		4.90***	

Note:

*p<0.1; **p<0.05; ***p<0.01

5.3 Hypothesis 3: Small States and Political Stability

We find stronger evidence that newly-independent small states have greater political stability (H3). The *Small State* coefficient in Table 5 is in the right theorized direction across all model specifications and measures of political stability. It is statistically significant at the five percent level in relation to the Fund for Peace (Models 1 and 2) and the Center for Systemic Peace's (Models 3 and 4) state fragility indexes. Model 1 estimates that a newly-independent small state is almost nine points less fragile than a larger state, plus or minus 7.6 points, ceteris paribus. This coefficient size is socially significant considering that a state's average *fragility* score in this analysis is 79. These findings hold using different measures of state size (Table 12).

Table 5: Small States and Political Stability

	<i>Dependent variable:</i>							
	fragility_2_mean		state_fragility_mean		regime_durability_mean		political_risk_icrg	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Small State	-8.75** (3.81)	-11.17** (5.01)	-3.28*** (1.12)	-3.30*** (1.18)	2.31 (4.08)	5.70 (4.50)	5.71* (3.21)	5.57 (4.83)
Urbanization	-0.42*** (0.12)	-0.40*** (0.11)	-0.07*** (0.03)	-0.07*** (0.03)	0.14 (0.12)	0.13 (0.11)	0.10 (0.08)	0.10 (0.08)
Oil Exporter	-1.14 (4.45)	-0.49 (3.90)	1.22 (1.17)	1.31 (1.03)	4.52 (3.81)	3.91 (3.36)	-2.24 (3.50)	-2.79 (3.43)
Rugged	0.14 (1.06)	0.30 (0.99)	0.14 (0.52)	0.16 (0.47)	1.65 (2.07)	1.75 (1.91)	-1.34 (1.49)	-1.47 (1.45)
Island	9.87 (9.14)	3.96 (9.28)	6.60** (2.59)	5.57** (2.45)	-6.59 (10.75)	-1.44 (11.46)	-10.95 (9.25)	-12.76 (8.95)
Malaria Risk	-2.14 (4.05)	-0.80 (3.96)	-1.02 (1.26)	-0.65 (1.16)	-2.96 (4.35)	-4.01 (4.27)	2.48 (3.35)	2.23 (3.24)
Europe and Central Asia	-8.98 (15.88)	-11.21 (15.71)	-1.82 (2.38)	-2.38 (2.16)	6.11 (11.04)	7.03 (11.43)	6.20 (8.02)	5.71 (8.05)
Latin America and The Caribbean	5.10 (6.63)	4.93 (6.36)	1.58 (2.77)	1.48 (2.62)	-5.54 (11.14)	-6.81 (11.45)	-8.33 (6.32)	-8.80 (6.60)
Middle East and North Africa	9.10 (7.84)	9.09 (7.18)	0.88 (2.00)	0.81 (1.80)	-6.48 (6.87)	-6.91 (6.35)	-6.24 (4.51)	-6.15 (4.50)
South Asia	10.26 (6.62)	11.32* (6.11)	3.32** (1.59)	3.53** (1.44)	6.49 (10.26)	5.46 (9.25)	-11.33** (5.34)	-11.52** (5.12)
Sub-Saharan Africa	10.01* (5.92)	12.01** (5.40)	4.95*** (1.75)	5.20*** (1.58)	-8.77 (5.44)	-10.40** (4.99)	-9.43** (4.17)	-8.83** (4.05)
Constant	79.65*** (8.59)	81.77*** (8.22)	8.04*** (2.56)	8.31*** (2.35)	22.92** (9.98)	20.55** (9.97)	66.59*** (7.64)	68.04*** (7.44)
Weak instruments		67.43		67.43				
Observations	79	77	74	72	74	72	60	59
R ²	0.59	0.58	0.65	0.65	0.33	0.32	0.54	0.55
Adjusted R ²	0.52	0.51	0.59	0.59	0.21	0.19	0.43	0.44
Residual Std. Error	13.19	12.91	3.73	3.62	11.48	11.65	8.47	8.12
F Statistic	8.66***		10.61***		2.78***		5.06***	

Note:

*p<0.1; **p<0.05; ***p<0.01

5.4 Mechanisms: Newly-independent small states have larger public sectors and more open markets.

Newly-independent small states have had larger public sectors (Table 6). Model 1 estimates that newly-independent states that were “small” between 1946 to 1975 have contemporary public sectors that make up an eight percentage point bigger share of the labor force (plus or minus six percentage points) than larger states, *ceteris paribus*. Public sector spending has historically represented a higher share of newly-independent small states’ GDP as well (Models 3 to 8). These patterns are robust to different measures of state size (Table 13 and Table 14 in the Appendix).

Newly-independent small states also have and have had more open markets (Table 7). Trade represented a much higher percentage of small states’ GDP, both shortly after independence (Models 3 and 4), and in the long term (Models 1 and 2). These patterns hold employing different measures of small (See Table 15). They have also had more liberal trade policies (See Table 16). Coupled with their larger public sectors, newly-independent states were more embedded in the global economy than larger states.

Table 6: Small States and Large Public Sectors

	<i>Dependent variable:</i>							
	public_employment_by_total_mean		publicexp.imf.avg.1976.1986		publicexp.imf.avg.1976.1996		publicexp.imf.avg.1976.2006	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Small State	0.08*** (0.03)	0.11*** (0.03)	20.04*** (7.14)	21.04*** (5.80)	10.00** (4.24)	16.68*** (5.07)	3.99 (2.85)	7.36** (3.24)
Urbanization	0.001 (0.001)	0.001 (0.001)	0.40* (0.22)	0.41*** (0.16)	0.20** (0.09)	0.20** (0.09)	0.09 (0.07)	0.10 (0.07)
Oil Exporter	0.05*** (0.02)	0.04** (0.02)			3.34 (4.67)	1.62 (4.73)	4.88 (3.53)	3.91 (3.41)
Rugged	-0.02** (0.01)	-0.02*** (0.01)	0.44 (2.70)	0.31 (2.26)	1.52** (0.74)	1.50** (0.67)	1.76* (0.93)	1.72** (0.76)
Island	-0.08 (0.06)	-0.05 (0.06)	-5.43 (14.66)	-4.62 (10.07)	-17.43** (8.79)	-11.21 (8.80)	-14.85** (6.66)	-15.55** (6.31)
Malaria Risk	0.01 (0.02)	0.01 (0.02)	2.65 (4.44)	2.77 (3.54)	-5.68 (4.15)	-7.43* (4.10)	-1.74 (2.99)	-2.20 (2.46)
Europe and Central Asia	0.06 (0.05)	0.05 (0.06)	17.36*** (6.02)	17.60*** (4.67)	3.94 (7.09)	3.46 (8.15)	11.62** (4.85)	9.79* (5.17)
Latin America and The Caribbean	0.01 (0.03)	0.01 (0.03)			-11.31* (6.76)	-19.26** (7.60)	-0.74 (4.07)	-4.20 (4.32)
Middle East and North Africa	0.09 (0.06)	0.08 (0.05)	22.82** (9.99)	22.68*** (7.26)	7.23 (4.70)	5.69 (4.94)	6.36** (2.77)	5.43** (2.72)
South Asia	0.01 (0.02)	0.003 (0.02)	11.35* (6.16)	11.28** (4.48)	4.97 (5.25)	3.00 (5.38)	4.54 (3.52)	3.69 (3.20)
Sub-Saharan Africa	-0.03 (0.02)	-0.04** (0.02)	8.79 (6.60)	8.44 (5.15)	3.09 (4.55)	0.40 (4.99)	3.51 (2.89)	3.41 (2.87)
Constant	0.11** (0.05)	0.10** (0.04)	7.79 (11.88)	7.05 (8.50)	28.29*** (7.09)	25.39*** (7.20)	28.81*** (5.21)	28.92*** (4.86)
Weak instruments		18.88		13.86		27.43		80.34
Observations	54	53	21	21	52	51	71	69
R ²	0.70	0.69	0.80	0.80	0.63	0.60	0.55	0.57
Adjusted R ²	0.62	0.60	0.63	0.63	0.53	0.49	0.47	0.48
Residual Std. Error	0.05	0.05	9.35	9.36	9.15	9.65	7.22	7.20
F Statistic	8.88***		4.86***		6.32***		6.69***	

Note:

*p<0.1; **p<0.05; ***p<0.01

5.5 Alternative Explanations: Small States, Democratization and Ethnic Homogeneity.

There are two alternative explanations for why small newly-independent states have higher contemporary levels of economic development. The first focuses on democratization. There is a robust, though increasingly contested, literature that smaller states tend to be more democratic [Veenendaal and Corbett, 2015, Corbett and Veenendaal, 2018, Diamond and Tsalik, 1999]. Perhaps smaller states at independence are more likely to become democratic. Democratic governance, *not* open markets and large public sectors, explains newly-independent small states' stronger private sector institutions, greater political stability, and economic development.

We find no evidence that the small newly-independent states in our analysis are more likely to be democratic. Using Freedom House, Cheibub et al. [2010]'s regime index¹⁶ and polity scores, Table 17 illustrates that small newly-independent states actually have *less* democratic regimes today than larger newly-independent states.

A second alternative explanation points to ethnic homogeneity. Because smaller states have smaller populations, small states tend to be more ethnically and linguistically homogeneous [Gerring and Veenendaal,

¹⁶Note that higher scores from this index indicate more authoritarian regimes.

Table 7: Small States and Trade

	<i>Dependent variable:</i>							
	avg.trade		avg.trade.1976.86		avg.trade.1976.96		avg.trade.1976.06	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Small State	38.78*** (11.53)	59.43*** (15.51)	54.18*** (14.75)	98.84*** (19.97)	44.41*** (13.05)	69.64*** (17.68)	41.92*** (12.27)	62.54*** (15.81)
Urbanization	0.83 (0.56)	0.80 (0.53)	0.81 (0.65)	1.05* (0.61)	0.73 (0.56)	0.76 (0.55)	0.79 (0.55)	0.77 (0.52)
Oil Exporter	-14.11 (14.96)	-18.07 (15.27)	-21.83 (14.53)	-26.30 (17.27)	-31.23** (13.86)	-35.85** (14.66)	-12.99 (17.68)	-17.07 (18.00)
Rugged	-11.58* (5.98)	-11.26** (5.35)	-20.45** (8.05)	-18.11** (7.33)	-15.00** (5.83)	-14.20*** (5.26)	-13.05** (6.25)	-12.68** (5.68)
Island	7.11 (34.87)	23.92 (37.02)	11.42 (52.54)	63.01 (53.19)	4.68 (36.46)	30.04 (40.52)	10.99 (35.09)	30.25 (37.64)
Malaria Risk	6.91 (14.00)	3.28 (13.05)	14.28 (13.78)	6.45 (13.57)	7.67 (12.51)	1.84 (11.50)	10.06 (13.99)	5.51 (12.66)
Europe and Central Asia	-21.50 (28.75)	-22.68 (26.22)	-7.83 (26.68)	-12.93 (27.38)	-16.91 (25.75)	-18.40 (23.55)	-16.85 (27.29)	-17.31 (24.86)
Latin America and The Caribbean	-40.81 (28.11)	-50.59* (29.32)	-28.80 (28.67)	-42.30 (31.98)	-23.69 (26.43)	-31.31 (27.15)	-27.32 (28.90)	-33.75 (28.79)
Middle East and North Africa	-26.54 (28.46)	-30.47 (27.08)	-6.96 (28.85)	-23.05 (27.11)	-11.07 (26.70)	-16.26 (25.25)	-26.16 (28.34)	-30.41 (26.89)
South Asia	-34.50* (18.18)	-39.70** (16.14)	-15.03 (19.45)	-20.81 (18.65)	-28.55* (16.24)	-33.83** (15.14)	-28.66 (18.18)	-33.63** (16.56)
Sub-Saharan Africa	-33.55** (15.58)	-39.32** (15.28)	-22.38 (16.29)	-31.99* (17.52)	-26.66** (12.50)	-33.28*** (12.80)	-28.34* (15.49)	-34.50** (15.26)
Constant	69.32** (29.60)	60.79** (29.48)	42.52 (42.34)	8.26 (41.23)	58.26** (28.96)	44.21 (30.74)	58.35** (29.16)	48.52* (29.41)
Weak instruments		37.82		49.68		55.34		
Observations	78	76	63	61	73	71	77	75
R ²	0.48	0.45	0.60	0.52	0.56	0.51	0.49	0.45
Adjusted R ²	0.40	0.36	0.52	0.41	0.48	0.42	0.40	0.36
Residual Std. Error	38.55	39.99	40.57	45.28	36.10	37.99	39.15	40.57
F Statistic	5.64***		7.04***		6.95***		5.64***	

Note:

*p<0.1; **p<0.05; ***p<0.01

2020, Alesina and Spolaore, 1997]. These characteristics are positively associated with public goods provision and growth [Easterly and Levine, 1997]. Greater ethnic homogeneity may explain small states’ developmental advantage.

Because ethnic diversity may also be a function of economic development (or the lack thereof) [Weber, 1976], we re-run our analysis controlling for states’ ethnic diversity between 1946 to 1975 using Dražanová [2020] Historical Index of Ethnic Fractionalization (HIEF). This index captures’ states ethnic compositions as they change over time. Though we lose observations, controlling for states’ ethnic fractionalization during the early years of independence strengthens our findings. The positive association between small size at independence at long-term economic development is statistically significant at the 10 percent level across all development measures(See Table 18).

6 Conclusion

This article demonstrates that past size at critical moments is a powerful predictor of long-term prosperity. Population constraints in the early years of independence push leaders of newly-independent small states to employ larger public sectors and open their markets. These policies embed small states into the global economy

- enabling growth *and* political stability. These institutions underpin small states' long-term developmental success.

Our findings add to three areas of scholarship. To scholars of development, we stress that *when* a state is small has profound long-term developmental implications. The early years of independence are critical junctures for states' institutional development [Colliers and Collier, 1991, Wantchekon et al., 2013, Mahoney, 2001]. Population constraints in this critical period help orient newly-independent small states towards policies and institutions that are conducive for long-term growth. These orientations endure as small states grow demographically and economically. Size at independence is an important but overlooked determinant of why some states are rich and others are poor.

To scholars of small states, our findings remind us that states' size is neither fixed nor exogenous. Open migration and exclusive welfare policies can ease small states' population constraints while keeping politically privileged constituents *embedded* from global and local competition [Goodman and Pepinsky, 2021]. Indeed, the *formerly* small states in our analysis have higher rates of international migrant labor as a share of their populations than larger and currently small states (See Table 19). We suspect these formerly small states' demographic growth is a cause and consequence of their economic growth. Ignoring formerly small states or categorizing formerly small states as "big" underestimates small states' developmental advantages (See Figure 4). It also biases studies of small states to states that are unwilling or unable to grow demographically. Formerly small states, however, can offer important insights for small states confronting demographic and developmental challenges.

Lastly, we confirm that, far from being a strictly European or Northern phenomenon, EL exists across the world. Nooruddin and Rudra [2014] have shown that public sector employment buttresses EL in developing contexts. We advance their research and reveal that population constraints helped spread EL among newly-independent states as well.

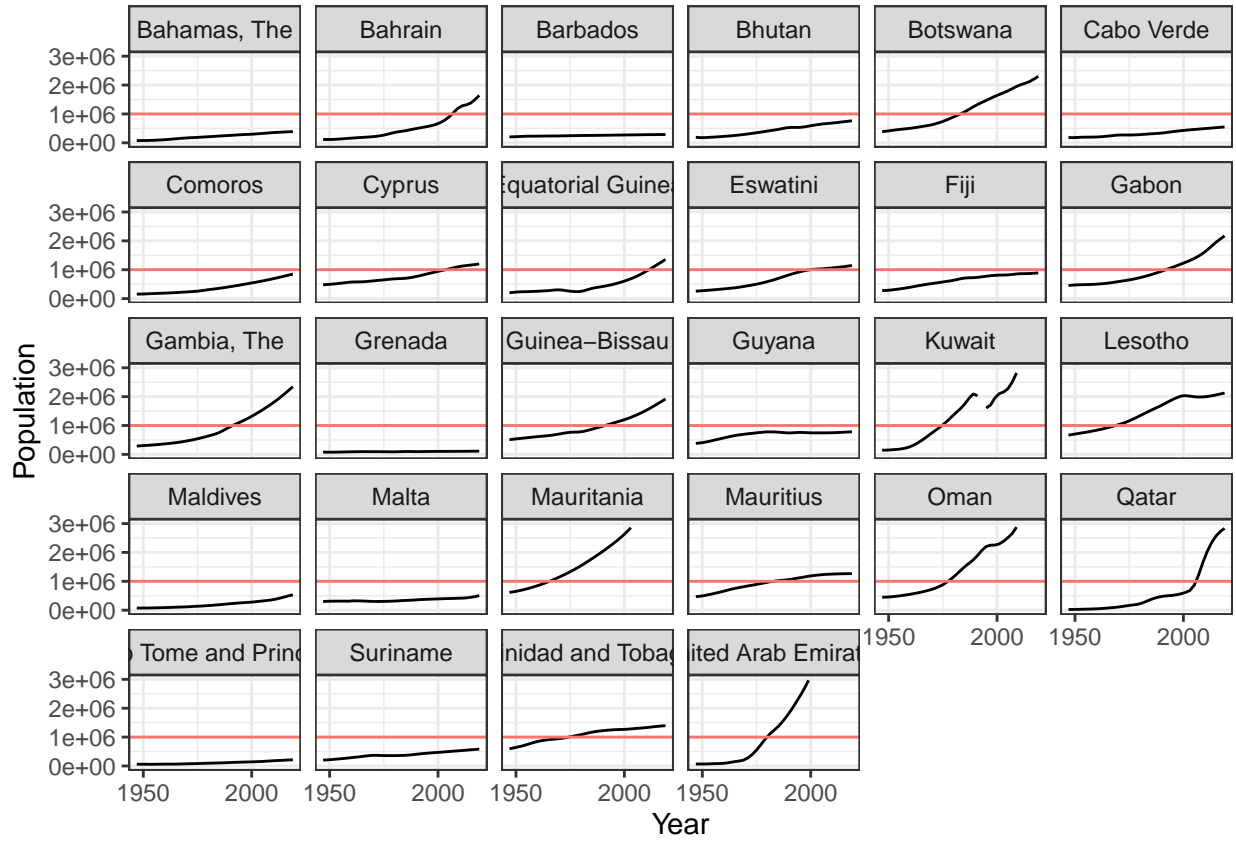
These findings prompt two avenues of future research. The first asks why and how some small states have eased their population constraints (Qatar) while others have not (Malta). If embeddedness *and* labor force expansion requires exclusive welfare policies and exclusive citizenship regimes [Goodman and Pepinsky, 2021], perhaps authoritarian small states are more likely to become "big". This may explain why smaller states are not associated with greater democratization when size is measured by past population size (See Table 17). Indeed, formerly small states have lower democratization scores than small and larger states (See Table 20). Domestic politics undoubtedly structure whether and how small states grow demographically and economically.

This points to a second avenue of research. *Who* participates in domestic politics shapes small states' policies and institutions. Yet most measures of state size ignore this difference by assessing state size in terms of residents, not citizenry. Though both are residents, citizens wield greater political influence than migrants.

Our argument expects a state with a large population but small citizenry to adopt the same public sector and open market policies as a state with a small population *and* small citizenry. Thus the size of a state's *citizenry* may be a more politically consequential marker of size than population.

7 Appendix

Figure 5: Map of Small and Large States



7.1 Robustness Checks: Development Outcomes

Table 8: Robustness Check 1: Size and Development with Different Measures of Small

	<i>Dependent variable:</i>					
	log.avg.gdp.ppp					
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small States (Smaller)	0.73*** (0.21)	0.88*** (0.19)				
Small States (Bigger)			0.52** (0.21)	0.95*** (0.22)		
Population Size (Continuous)					-0.14*** (0.05)	-0.17*** (0.04)
Urbanization	0.02*** (0.004)	0.02*** (0.004)	0.02*** (0.004)	0.02*** (0.004)	0.03*** (0.004)	0.02*** (0.004)
Oil Exporter	0.77*** (0.19)	0.75*** (0.17)	0.85*** (0.24)	0.77*** (0.24)	0.93*** (0.21)	0.93*** (0.19)
Rugged	-0.07 (0.05)	-0.07 (0.05)	-0.04 (0.06)	-0.02 (0.05)	-0.04 (0.05)	-0.03 (0.05)
Island	-0.68** (0.28)	-0.53* (0.30)	-0.57 (0.35)	-0.07 (0.39)	-0.71** (0.33)	-0.49 (0.30)
Malaria Risk	-0.07 (0.18)	-0.12 (0.17)	0.05 (0.17)	-0.03 (0.16)	-0.001 (0.18)	-0.05 (0.17)
Europe and Central Asia	0.52* (0.31)	0.53* (0.31)	0.66** (0.29)	0.72** (0.37)	0.52* (0.31)	0.57* (0.30)
Latin America and The Caribbean	-0.52* (0.31)	-0.57* (0.30)	-0.38 (0.26)	-0.56** (0.27)	-0.48* (0.26)	-0.51** (0.25)
Middle East and North Africa	-0.32 (0.30)	-0.35 (0.28)	-0.30 (0.32)	-0.44 (0.32)	-0.45 (0.32)	-0.50* (0.30)
South Asia	-0.36 (0.31)	-0.41 (0.29)	-0.21 (0.28)	-0.28 (0.27)	-0.16 (0.27)	-0.16 (0.26)
Sub-Saharan Africa	-1.04*** (0.27)	-1.12*** (0.26)	-0.97*** (0.26)	-1.16*** (0.26)	-1.08*** (0.28)	-1.20*** (0.27)
Constant	8.74*** (0.37)	8.68*** (0.35)	8.58*** (0.38)	8.31*** (0.37)	11.06*** (0.82)	11.48*** (0.77)
Weak instruments		45.79		34.46		128.6
Observations	77	75	77	75	77	75
R ²	0.83	0.83	0.81	0.80	0.81	0.81
Adjusted R ²	0.81	0.80	0.78	0.76	0.78	0.78
Residual Std. Error	0.55	0.55	0.59	0.61	0.58	0.58
F Statistic	29.69***		24.96***		25.28***	

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 9: Robustness Check 2: Size and Development with Madisson GDP Variable

	<i>Dependent variable:</i>					
	log.avg.gdp.ppp		mortality.current		hdi2019	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small State	0.79*** (0.23)	0.80*** (0.21)	-5.59 (5.51)	-11.63* (6.21)	0.06** (0.03)	0.06* (0.03)
Average GDP (1946 - 1975)	0.54*** (0.12)	0.53*** (0.11)	-9.20*** (3.50)	-8.22** (3.22)	0.06*** (0.02)	0.06*** (0.02)
Oil Exporter	0.30 (0.21)	0.31 (0.19)	5.91 (9.38)	6.00 (8.68)	-0.02 (0.03)	-0.02 (0.03)
Rugged	-0.16* (0.09)	-0.16** (0.08)	-2.65 (2.54)	-2.80 (2.39)	-0.005 (0.01)	-0.004 (0.01)
Island	-0.62 (0.38)	-0.58 (0.37)	8.10 (16.36)	0.36 (17.22)	-0.07 (0.05)	-0.05 (0.05)
Malaria Risk	0.14 (0.22)	0.14 (0.19)	-14.47** (5.97)	-12.03** (5.69)	0.06** (0.03)	0.05** (0.03)
Europe and Central Asia	0.24 (0.44)	0.26 (0.42)	5.62 (9.75)	3.60 (10.30)	0.02 (0.06)	0.03 (0.05)
Latin America and The Caribbean	-0.97*** (0.37)	-0.95*** (0.35)	17.64** (7.95)	15.17* (8.61)	-0.12*** (0.03)	-0.11*** (0.03)
Middle East and North Africa	-0.31 (0.29)	-0.31 (0.28)	-1.06 (6.92)	-0.28 (6.24)	-0.05 (0.04)	-0.05 (0.04)
South Asia	-0.64** (0.30)	-0.64** (0.27)	7.41 (11.20)	8.30 (10.65)	-0.07 (0.04)	-0.07* (0.04)
Sub-Saharan Africa	-1.39*** (0.30)	-1.41*** (0.29)	37.22*** (6.81)	40.95*** (6.35)	-0.19*** (0.04)	-0.20*** (0.04)
Constant	5.36*** (1.01)	5.39*** (0.93)	90.87*** (32.63)	87.08*** (30.98)	0.33** (0.14)	0.33** (0.13)
Weak instruments		55.19		66.83		66.83
Observations	69	67	70	68	70	68
R ²	0.83	0.83	0.70	0.69	0.79	0.79
Adjusted R ²	0.80	0.80	0.64	0.63	0.75	0.75
Residual Std. Error	0.57	0.58	19.62	19.95	0.08	0.08
F Statistic	25.74***		12.04***		19.92***	

Note:

* p<0.1; ** p<0.05; *** p<0.01

Table 10: Robustness Check 3: Size and Development Without Gulf States

	<i>Dependent variable:</i>					
	log.avg.gdp.ppp		mortality.current		hdi2019	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small State	0.74*** (0.23)	0.94*** (0.22)	-7.78 (5.86)	-19.47** (8.37)	0.05** (0.02)	0.07*** (0.03)
Urbanization	0.03*** (0.005)	0.03*** (0.004)	-0.19 (0.15)	-0.20 (0.15)	0.003*** (0.001)	0.003*** (0.001)
Oil Exporter	0.84*** (0.19)	0.87*** (0.17)	0.15 (10.53)	-0.99 (9.05)	0.04 (0.03)	0.04 (0.03)
Rugged	-0.06 (0.05)	-0.06 (0.05)	-1.31 (1.94)	-1.50 (1.83)	0.01 (0.01)	0.01 (0.01)
Island	-0.56 (0.40)	-0.26 (0.42)	10.77 (15.74)	-5.61 (17.02)	-0.06 (0.05)	-0.02 (0.05)
Malaria Risk	-0.07 (0.19)	-0.10 (0.18)	-12.15** (5.97)	-9.94* (5.75)	0.02 (0.03)	0.02 (0.02)
Europe and Central Asia	0.50 (0.32)	0.53* (0.32)	-5.99 (9.29)	-7.84 (11.57)	0.05 (0.04)	0.06 (0.04)
Latin America and The Caribbean	-0.52* (0.30)	-0.58* (0.30)	6.81 (7.66)	10.64 (8.38)	-0.06* (0.04)	-0.06* (0.03)
Middle East and North Africa	-0.37 (0.31)	-0.36 (0.30)	-7.72 (7.56)	-8.29 (7.30)	-0.05 (0.04)	-0.05 (0.04)
South Asia	-0.31 (0.30)	-0.35 (0.28)	3.50 (10.63)	5.80 (10.48)	-0.02 (0.05)	-0.03 (0.05)
Sub-Saharan Africa	-1.04*** (0.27)	-1.14*** (0.26)	37.18*** (7.84)	42.59*** (7.78)	-0.14*** (0.04)	-0.15*** (0.03)
Constant	8.59*** (0.44)	8.42*** (0.42)	28.38** (13.59)	37.57*** (13.31)	0.65*** (0.05)	0.64*** (0.05)
Weak instruments		27.98		27.02		28.3
Observations	72	70	75	73	73	71
R ²	0.79	0.79	0.64	0.63	0.77	0.77
Adjusted R ²	0.75	0.75	0.58	0.57	0.73	0.73
Residual Std. Error	0.55	0.56	20.97	21.44	0.07	0.07
F Statistic	20.83***		10.29***		18.58***	

Note:

*p<0.1; **p<0.05; ***p<0.01

7.2 Robustness Checks: Private Sector Institutions and Different Measures of Size

Table 11: Robustness Check 4: Small States and Private Sector Institutions with Different Measures of State Size

	<i>Dependent variable:</i>					
	rule					
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
(1)	(2)	(3)	(4)	(5)	(6)	
Small States (Smaller)	0.27 (0.20)	0.36* (0.21)				
Small States (Bigger)			0.07 (0.18)	0.37* (0.23)		
Population Size (Continuous)					-0.02 (0.04)	-0.07 (0.05)
Urbanization	0.02*** (0.01)	0.02*** (0.005)	0.02*** (0.01)	0.02*** (0.005)	0.02*** (0.01)	0.02*** (0.005)
Oil Exporter	-0.38** (0.18)	-0.41*** (0.16)	-0.33* (0.20)	-0.39** (0.18)	-0.32 (0.20)	-0.34* (0.17)
Rugged	0.01 (0.06)	0.002 (0.06)	0.01 (0.06)	0.02 (0.06)	0.01 (0.06)	0.02 (0.06)
Island	-0.64* (0.36)	-0.52 (0.38)	-0.70** (0.35)	-0.35 (0.43)	-0.71** (0.35)	-0.50 (0.38)
Malaria Risk	0.10 (0.18)	0.05 (0.17)	0.16 (0.17)	0.08 (0.17)	0.15 (0.17)	0.08 (0.16)
Europe and Central Asia	0.88** (0.39)	0.92** (0.39)	0.93*** (0.35)	0.99** (0.40)	0.91*** (0.35)	0.93*** (0.36)
Latin America and The Caribbean	-0.13 (0.33)	-0.15 (0.31)	-0.02 (0.32)	-0.14 (0.31)	-0.03 (0.32)	-0.12 (0.31)
Middle East and North Africa	-0.04 (0.34)	-0.04 (0.31)	0.003 (0.33)	-0.07 (0.32)	-0.02 (0.35)	-0.11 (0.32)
South Asia	0.20 (0.31)	0.16 (0.28)	0.27 (0.31)	0.21 (0.27)	0.28 (0.30)	0.26 (0.28)
Sub-Saharan Africa	-0.11 (0.27)	-0.16 (0.26)	-0.05 (0.26)	-0.18 (0.26)	-0.07 (0.27)	-0.19 (0.27)
Constant	-0.47 (0.39)	-0.51 (0.37)	-0.48 (0.38)	-0.64* (0.38)	-0.11 (0.80)	0.62 (0.80)
Weak instruments		52.58		37.99		121.6
Observations	80	78	80	78	80	78
R ²	0.56	0.54	0.54	0.51	0.54	0.53
Adjusted R ²	0.48	0.47	0.47	0.43	0.47	0.45
Residual Std. Error	0.61	0.61	0.62	0.63	0.62	0.62
F Statistic	7.72***		7.29***		7.30***	

Note:

*p<0.1; **p<0.05; ***p<0.01

7.3 Robustness Checks: Political Stability with different measures of small states

Table 12: Robustness Check 5: Size and Political Stability with Different Measures of Size

	<i>Dependent variable:</i>					
	fragility_2_mean					
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small States (Smaller)	-8.82** (3.91)	-12.04** (5.21)				
Small States (Bigger)			-4.20 (4.27)	-12.83** (5.67)		
Population Size (Continuous)					1.03 (0.95)	2.41** (1.14)
Urbanization	-0.41*** (0.12)	-0.38*** (0.11)	-0.42*** (0.12)	-0.37*** (0.12)	-0.43*** (0.12)	-0.41*** (0.12)
Oil Exporter	-0.70 (4.49)	0.24 (3.92)	-1.88 (5.32)	-0.65 (4.87)	-2.27 (5.20)	-1.86 (4.44)
Rugged	0.22 (1.06)	0.40 (0.99)	-0.01 (1.09)	-0.22 (1.02)	-0.03 (1.08)	-0.12 (0.98)
Island	12.51 (8.75)	7.36 (8.94)	12.88 (9.52)	1.11 (10.62)	14.41 (8.97)	7.01 (8.79)
Malaria Risk	-1.38 (4.09)	0.34 (4.15)	-3.17 (4.03)	-0.99 (4.08)	-2.78 (3.98)	-0.47 (3.89)
Europe and Central Asia	-8.11 (15.64)	-9.78 (15.62)	-9.67 (14.45)	-12.65 (16.88)	-8.61 (13.59)	-10.13 (13.92)
Latin America and The Caribbean	5.69 (6.94)	6.24 (6.72)	2.99 (6.09)	5.96 (5.96)	3.48 (6.09)	5.51 (6.09)
Middle East and North Africa	9.21 (7.92)	9.48 (7.26)	8.37 (7.95)	10.77 (7.68)	9.13 (8.01)	11.46 (7.52)
South Asia	10.70 (6.73)	12.12* (6.24)	8.60 (6.61)	10.59* (6.10)	8.01 (6.72)	8.67 (6.51)
Sub-Saharan Africa	9.84* (5.95)	11.92** (5.44)	8.36 (5.84)	12.64** (5.61)	8.88 (6.05)	12.86** (5.90)
Constant	77.57*** (8.72)	79.05*** (8.32)	78.54*** (8.83)	83.95*** (8.85)	60.57*** (16.67)	40.50** (18.74)
Weak instruments		51.21		36.14		122.3
Observations	79	77	79	77	79	77
R ²	0.59	0.58	0.56	0.53	0.56	0.55
Adjusted R ²	0.52	0.51	0.49	0.45	0.49	0.47
Residual Std. Error	13.20	12.98	13.58	13.76	13.60	13.39
F Statistic	8.64***		7.82***		7.78***	

Note:

*p<0.1; **p<0.05; ***p<0.01

7.4 Robustness Checks: Small States and Public Sector Spending with Different Measures of State Size

Table 13: Robustness Check: State Size and Public Sector Spending

	<i>Dependent variable:</i>					
	publicexp.imf.avg.1976.2006					
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small States (Smaller)	3.32 (2.81)	7.70** (3.29)				
Small States (Bigger)			2.81 (2.50)	9.52*** (3.46)		
Population Size (Continuous)					-1.41** (0.63)	-1.85*** (0.65)
Urbanization	0.09 (0.07)	0.09 (0.07)	0.08 (0.08)	0.07 (0.08)	0.09 (0.07)	0.10 (0.07)
Oil Exporter	5.02 (3.49)	3.74 (3.42)	5.32 (3.47)	3.93 (3.76)	5.59 (3.61)	5.38 (3.41)
Rugged	1.82* (0.95)	1.83** (0.78)	1.96* (1.00)	2.27** (0.90)	2.10** (0.91)	2.21*** (0.79)
Island	-16.20** (6.58)	-17.57*** (6.18)	-15.34** (6.96)	-12.56* (6.97)	-14.80** (6.43)	-16.54*** (5.71)
Malaria Risk	-1.74 (3.09)	-2.76 (2.55)	-1.16 (2.92)	-2.21 (2.52)	-2.18 (2.58)	-2.21 (2.24)
Europe and Central Asia	11.26** (4.70)	8.68* (5.22)	12.02** (4.72)	10.80* (6.35)	10.69** (4.62)	8.94** (4.41)
Latin America and The Caribbean	0.08 (4.06)	-4.46 (4.34)	1.24 (3.03)	-4.59 (4.06)	-1.84 (3.51)	-3.29 (3.53)
Middle East and North Africa	6.40** (2.79)	5.06* (2.81)	6.43** (2.77)	4.23 (3.06)	4.14 (2.78)	3.02 (2.77)
South Asia	4.68 (3.55)	3.48 (3.27)	5.21 (3.60)	4.13 (3.10)	5.43* (3.04)	5.47** (2.72)
Sub-Saharan Africa	3.83 (2.89)	3.56 (2.91)	4.00 (2.94)	2.71 (2.96)	2.20 (2.88)	2.30 (2.76)
Constant	29.62*** (5.20)	30.32*** (4.89)	28.77*** (5.38)	26.84*** (5.18)	51.95*** (9.26)	59.82*** (9.88)
Weak instruments		73.15		35.18		112.5
Observations	71	69	71	69	71	69
R ²	0.55	0.55	0.54	0.49	0.58	0.59
Adjusted R ²	0.46	0.47	0.46	0.39	0.50	0.51
Residual Std. Error	7.27	7.31	7.30	7.79	7.04	6.99
F Statistic	6.51***		6.42***		7.31***	

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 14: Small States and Public Sector Employment with Different Measures of Size

	<i>Dependent variable:</i>							
	public_employment_by_total_mean							
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Small States (Smaller)	0.08*** (0.03)	0.11*** (0.03)						
Small States (Bigger)			0.08*** (0.03)	0.10*** (0.03)				
Population Size (Continuous)					0.05** (0.02)	0.10*** (0.02)		
Urbanization							-0.02*** (0.01)	-0.02*** (0.01)
Oil Exporter	0.001 (0.001)	0.001 (0.001)	0.0003 (0.001)	0.001 (0.001)	0.0003 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
Rugged	0.05*** (0.02)	0.04** (0.02)	0.05*** (0.02)	0.04*** (0.02)	0.04* (0.03)	0.03 (0.03)	0.06*** (0.02)	0.06*** (0.02)
Island	-0.02** (0.01)	-0.02*** (0.01)	-0.02** (0.01)	-0.02*** (0.01)	-0.02* (0.01)	-0.01* (0.01)	-0.01* (0.01)	-0.01** (0.01)
Malaria Risk	-0.08 (0.06)	-0.05 (0.06)	-0.12** (0.06)	-0.12** (0.05)	-0.10* (0.06)	-0.06 (0.06)	-0.11** (0.05)	-0.12*** (0.04)
Europe and Central Asia	0.01 (0.02)	0.01 (0.02)	0.01 (0.02)	-0.002 (0.02)	0.03 (0.02)	0.02 (0.02)	0.01 (0.02)	0.01 (0.02)
Latin America and The Caribbean	0.06 (0.05)	0.05 (0.06)	0.05 (0.05)	0.03 (0.05)	0.07 (0.05)	0.06 (0.06)	0.04 (0.04)	0.03 (0.04)
Middle East and North Africa	0.01 (0.03)	0.01 (0.03)	-0.004 (0.03)	-0.01 (0.03)	-0.06** (0.03)	-0.09*** (0.03)	-0.05* (0.03)	-0.06** (0.03)
South Asia	0.09 (0.06)	0.08 (0.05)	0.09 (0.06)	0.07 (0.05)	0.09 (0.06)	0.06 (0.06)	0.06 (0.06)	0.05 (0.05)
Sub-Saharan Africa	0.01 (0.02)	0.003 (0.02)	0.001 (0.03)	-0.01 (0.02)	0.02 (0.03)	0.01 (0.02)	0.02 (0.03)	0.02 (0.03)
regionSub-Saharan Africa	-0.03 (0.02)	-0.04** (0.02)	-0.04* (0.02)	-0.04** (0.02)	-0.02 (0.02)	-0.04* (0.02)	-0.05 (0.03)	-0.05 (0.03)
Constant	0.11** (0.05)	0.10** (0.04)	0.15*** (0.05)	0.15*** (0.04)	0.12** (0.05)	0.09** (0.05)	0.44*** (0.10)	0.45*** (0.09)
Weak instruments		18.88		13.37		28.04		
Observations	54	53	54	53	54	53	54	53
R ²	0.70	0.69	0.70	0.70	0.65	0.61	0.68	0.68
Adjusted R ²	0.62	0.60	0.62	0.62	0.56	0.51	0.59	0.59
Residual Std. Error	0.05	0.05	0.05	0.05	0.05	0.06	0.05	0.05
F Statistic	8.88***		8.79***		7.11***		8.07***	

Note:

*p<0.1; **p<0.05; ***p<0.01

7.5 Robustness Checks: Small States and Trade Openness

Table 15: Robustness Checks: State Size and Trade Openness with Different Measures of State Size

	<i>Dependent variable:</i>					
	avg.trade					
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
(1)	(2)	(3)	(4)	(5)	(6)	
Small States (Smaller)	31.94** (12.95)	69.54*** (17.07)				
Small States (Bigger)			52.20*** (11.20)	76.44*** (15.74)		
Population Size (Continuous)					-13.94*** (2.91)	-15.14*** (2.99)
Urbanization	0.80 (0.57)	0.72 (0.55)	0.76* (0.46)	0.70* (0.40)	0.85* (0.50)	0.83* (0.47)
Oil Exporter	-14.44 (14.67)	-22.92 (16.34)	-15.88 (14.09)	-19.98 (14.67)	-8.76 (13.02)	-9.37 (12.24)
Rugged	-12.06** (6.03)	-11.71** (5.41)	-9.11* (5.39)	-7.67 (4.80)	-8.58* (4.96)	-8.44* (4.53)
Island	-8.40 (42.33)	8.42 (45.74)	22.37 (34.71)	45.69 (33.59)	9.51 (34.87)	15.70 (34.77)
Malaria Risk	5.12 (14.82)	-4.04 (15.58)	6.45 (13.10)	2.94 (12.37)	2.95 (13.59)	1.05 (12.70)
Europe and Central Asia	-24.19 (31.26)	-31.38 (30.71)	-17.39 (25.03)	-15.77 (24.25)	-30.06 (26.14)	-29.06 (24.86)
Latin America and The Caribbean	-39.67 (27.17)	-60.68* (32.54)	-48.46* (25.74)	-60.03** (23.75)	-57.24** (27.79)	-59.13** (27.47)
Middle East and North Africa	-25.78 (28.69)	-34.08 (29.11)	-33.29 (24.74)	-39.73* (21.54)	-47.29* (25.43)	-49.16** (24.46)
South Asia	-34.58* (18.29)	-45.72*** (16.83)	-32.28* (17.26)	-35.77** (15.19)	-25.80* (15.09)	-26.28* (14.13)
Sub-Saharan Africa	-31.09* (15.97)	-40.52** (15.95)	-36.45** (15.71)	-43.47*** (15.26)	-45.60*** (15.48)	-48.55*** (15.41)
Constant	80.24** (33.60)	74.49** (34.93)	57.46* (29.50)	43.81 (27.62)	297.03*** (48.19)	314.37*** (49.49)
Weak instruments		46.98		31.31		110.3
Observations	78	76	78	76	78	76
R ²	0.45	0.36	0.56	0.51	0.55	0.54
Adjusted R ²	0.36	0.25	0.49	0.43	0.47	0.46
Residual Std. Error	39.73	43.16	35.63	37.57	36.05	36.44
F Statistic	4.96***		7.63***		7.31***	

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 16: Robustness Checks with Trade (Policies)

	<i>Dependent variable:</i>					
	trade.global					
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
(1)	(2)	(3)	(4)	(5)	(6)	
Small States (Smaller)	12.86*** (3.56)	23.67*** (4.94)				
Small States (Bigger)			16.62*** (3.27)	25.74*** (5.11)		
Population Size (Continuous)					-4.47*** (1.00)	-5.15*** (0.95)
Urbanization	0.27** (0.12)	0.23** (0.11)	0.25** (0.11)	0.22** (0.09)	0.28*** (0.10)	0.27*** (0.09)
Oil Exporter	-7.73* (4.36)	-10.37** (4.83)	-7.61** (3.36)	-9.25** (3.70)	-5.45 (3.89)	-5.78 (3.67)
Rugged	-2.90* (1.75)	-3.00* (1.55)	-2.08 (1.77)	-1.72 (1.65)	-1.97 (1.43)	-1.94 (1.31)
Island	-6.41 (11.83)	-1.21 (12.08)	1.34 (9.97)	10.64 (9.34)	-3.24 (9.47)	0.82 (9.09)
Malaria Risk	-3.43 (3.88)	-7.04 (4.68)	-2.65 (3.57)	-4.81 (3.60)	-4.23 (3.80)	-5.58 (3.68)
Europe and Central Asia	9.68 (10.20)	8.21 (8.05)	12.20 (7.86)	13.48*** (5.19)	8.00 (9.83)	8.93 (8.65)
Latin America and The Caribbean	-0.40 (6.50)	-6.21 (7.44)	-1.89 (5.72)	-5.98 (5.48)	-4.89 (6.27)	-5.76 (5.96)
Middle East and North Africa	2.56 (7.18)	0.16 (6.82)	0.67 (5.66)	-1.74 (4.97)	-4.02 (6.40)	-5.05 (5.94)
South Asia	-12.72** (5.61)	-16.39*** (5.37)	-11.42** (5.74)	-13.16** (5.47)	-9.53* (5.18)	-9.91* (5.12)
Sub-Saharan Africa	-7.30 (4.82)	-11.04** (4.97)	-8.69* (4.83)	-12.44** (5.20)	-11.91** (5.57)	-14.04** (5.53)
Constant	47.95*** (9.26)	46.89*** (8.99)	41.86*** (8.52)	37.18*** (7.53)	119.19*** (17.97)	128.97*** (17.82)
Weak instruments		52.95		38.22		116.6
Observations	77	75	77	75	77	75
R ²	0.58	0.51	0.64	0.59	0.63	0.64
Adjusted R ²	0.51	0.42	0.58	0.52	0.57	0.57
Residual Std. Error	12.14	13.03	11.23	11.92	11.28	11.22
F Statistic	8.06***		10.41***		10.27***	

Note:

* p<0.1; ** p<0.05; *** p<0.01

7.6 Robustness Checks: Alternative Explanations - Democractization

Table 17: Small States and Democracy

	<i>Dependent variable:</i>					
	FH		vreeland.regime		polity	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small State	-4.90 (5.71)	-14.64** (7.44)	1.06*** (0.28)	1.54*** (0.40)	-2.75** (1.31)	-4.60*** (1.51)
Urbanization	0.21 (0.15)	0.20 (0.15)	-0.02 (0.01)	-0.02 (0.01)	-0.0004 (0.04)	-0.002 (0.04)
Oil Exporter	-15.95** (6.25)	-15.12** (6.04)	0.25 (0.37)	0.18 (0.36)	-2.78* (1.44)	-2.47* (1.33)
Rugged	0.81 (2.23)	0.50 (2.09)	-0.15 (0.12)	-0.14 (0.10)	-0.40 (0.62)	-0.44 (0.60)
Malaria Risk	-27.63** (13.00)	-33.41** (13.82)	1.98*** (0.69)	2.07*** (0.68)	-11.33*** (2.79)	-11.95*** (2.94)
Island	14.24** (6.60)	15.41** (6.30)	-0.98** (0.40)	-1.04*** (0.36)	3.16** (1.33)	3.12*** (1.15)
Europe and Central Asia	33.83*** (9.60)	35.80*** (9.23)	-0.03 (0.45)	-0.21 (0.34)	7.02*** (1.93)	7.61*** (1.92)
Latin America and The Caribbean	30.57*** (9.17)	35.88*** (9.66)	-1.78*** (0.39)	-2.10*** (0.44)	5.58*** (1.93)	6.56*** (2.08)
Middle East and North Africa	0.15 (10.54)	2.86 (9.68)	0.77 (0.50)	0.63 (0.49)	-2.43 (2.13)	-2.08 (1.92)
South Asia	11.37 (9.62)	13.48 (9.24)	-1.09 (0.71)	-1.20* (0.66)	3.90 (2.40)	4.10** (2.07)
Sub-Saharan Africa	13.90* (8.24)	17.28** (7.99)	-0.74* (0.38)	-0.83* (0.42)	1.30 (1.55)	1.60 (1.52)
Constant	48.86*** (13.04)	52.39*** (12.55)	2.47*** (0.54)	2.40*** (0.47)	4.47* (2.52)	5.02** (2.48)
Weak instruments		62.57	62.57		67.43	
Observations	80	78	80	78	74	72
R ²	0.47	0.45	0.59	0.56	0.59	0.56
Adjusted R ²	0.39	0.36	0.52	0.49	0.52	0.47
Residual Std. Error	20.15	20.18	0.93	0.95	3.66	3.73
F Statistic	5.53***		8.88***		8.07***	

Note:

*p<0.1; **p<0.05; ***p<0.01

7.7 Robustness Checks: Alternative Explanations - Ethnic Diversity

Table 18: Small States, Economic Development and Ethnic Diversity

	<i>Dependent variable:</i>					
	log.avg.gdp.ppp		mortality.current		hdi2019	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Small State	0.69*** (0.18)	0.73*** (0.16)	-8.25* (4.95)	-13.06** (6.37)	0.06** (0.03)	0.06** (0.03)
Urbanization	0.03*** (0.004)	0.03*** (0.004)	-0.21* (0.12)	-0.21* (0.11)	0.003*** (0.001)	0.003*** (0.001)
Oil Exporter	0.87*** (0.19)	0.88*** (0.17)	-1.16 (8.88)	-1.18 (8.25)	0.04 (0.03)	0.04* (0.03)
Rugged	-0.04 (0.08)	-0.04 (0.08)	-1.42 (2.41)	-1.75 (2.19)	0.01 (0.01)	0.01 (0.01)
Malaria Risk	-0.25 (0.38)	-0.04 (0.35)	5.71 (16.66)	-5.77 (17.10)	-0.001 (0.06)	0.03 (0.05)
Island	0.06 (0.20)	0.03 (0.18)	-12.48** (5.99)	-10.69* (5.63)	0.04 (0.03)	0.03 (0.03)
Ethnic Diversity	-0.46 (0.35)	-0.50 (0.30)	13.62 (13.46)	15.53 (12.40)	-0.08* (0.05)	-0.09** (0.04)
Europe and Central Asia	0.52* (0.29)	0.57** (0.25)	-3.15 (8.41)	-5.45 (8.40)	0.05 (0.04)	0.06** (0.03)
Latin America and The Caribbean	-0.34 (0.34)	-0.30 (0.32)	4.58 (7.37)	3.27 (7.47)	-0.06* (0.03)	-0.05* (0.03)
Middle East and North Africa	-0.31 (0.31)	-0.33 (0.28)	-4.99 (7.10)	-3.85 (6.30)	-0.06 (0.04)	-0.06* (0.04)
South Asia	-0.29 (0.33)	-0.31 (0.31)	7.58 (11.62)	9.25 (10.99)	-0.04 (0.05)	-0.05 (0.05)
Sub-Saharan Africa	-0.94*** (0.28)	-0.99*** (0.26)	35.66*** (8.69)	38.50*** (7.75)	-0.14*** (0.04)	-0.15*** (0.03)
Constant	8.57*** (0.41)	8.49*** (0.37)	24.67** (12.20)	29.85*** (11.42)	0.67*** (0.06)	0.66*** (0.05)
Weak instruments		54.98		64.96		65.75
Observations	65	63	68	66	66	64
R ²	0.85	0.86	0.66	0.67	0.78	0.79
Adjusted R ²	0.82	0.82	0.59	0.59	0.73	0.74
Residual Std. Error	0.53	0.53	21.38	21.47	0.08	0.08
F Statistic	25.37***		8.94***		15.97***	

Note:

*p<0.1; **p<0.05; ***p<0.01

7.8 Robustness Checks: Former Small States and Migrant Labor

Table 19: Former Small States and Migrant Labor

	<i>Dependent variable:</i>	
	int.migrant	
	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)
Formerly Small	12.242*** (3.618)	32.995*** (6.384)
Urbanization	0.374*** (0.102)	0.362*** (0.091)
Oil Exporter	6.608 (4.889)	2.137 (4.684)
Rugged	-0.739 (1.099)	-0.249 (1.285)
Malaria Risk	6.733 (6.764)	6.645 (8.668)
Island	-1.413 (2.164)	-0.737 (3.125)
Europe and Central Asia	-1.458 (4.196)	-12.156 (10.050)
Latin America and The Caribbean	0.616 (3.408)	0.958 (3.264)
Middle East and North Africa	8.671 (5.554)	4.148 (5.399)
South Asia	6.056* (3.640)	6.319* (3.370)
Sub-Saharan Africa	0.739 (2.737)	-2.548 (3.092)
Constant	-10.019* (5.875)	-9.993 (6.810)
Weak instruments		35.08
Observations	79	78
R ²	0.688	0.497
Adjusted R ²	0.637	0.413
Residual Std. Error	9.280 (df = 67)	11.860 (df = 66)
F Statistic	13.449*** (df = 11; 67)	

Note:

*p<0.1; **p<0.05; ***p<0.01

7.9 Robustness Checks: Former Small States and Democratization

Table 20: Former Small States and Democratization

	<i>Dependent variable:</i>					
	FH		vreeland.regime		polity	
	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>	<i>OLS</i>	<i>instrumental variable</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Formerly Small State	-7.47 (6.49)	-21.48** (9.57)	0.81*** (0.31)	2.21*** (0.56)	-1.60 (1.41)	-5.95*** (2.16)
Urbanization	0.21 (0.15)	0.21 (0.15)	-0.02 (0.01)	-0.02 (0.01)	0.0001 (0.04)	0.003 (0.04)
Oil Exporter	-15.17** (6.31)	-13.01** (6.60)	0.26 (0.37)	-0.03 (0.41)	-2.99** (1.52)	-2.18 (1.42)
Rugged	0.71 (2.29)	0.17 (2.22)	-0.15 (0.14)	-0.11 (0.14)	-0.40 (0.62)	-0.52 (0.67)
Malaria Risk	-25.93** (12.38)	-25.59* (13.25)	1.41* (0.75)	1.24* (0.69)	-9.65*** (2.73)	-9.47*** (2.99)
Island	13.22** (6.50)	11.97** (5.95)	-0.76* (0.42)	-0.68* (0.37)	2.94** (1.44)	2.81** (1.24)
Europe and Central Asia	36.28*** (10.13)	44.08*** (11.92)	-0.25 (0.54)	-1.06** (0.54)	7.37*** (2.09)	9.70*** (2.48)
Latin America and The Caribbean	27.41*** (8.29)	27.35*** (7.85)	-1.17** (0.46)	-1.20*** (0.46)	4.16** (1.88)	4.06** (1.83)
Middle East and North Africa	0.42 (10.46)	3.84 (9.59)	0.86* (0.51)	0.54 (0.51)	-2.50 (2.24)	-1.40 (2.09)
South Asia	10.06 (9.63)	9.45 (8.97)	-0.81 (0.85)	-0.78 (0.78)	3.45 (2.81)	3.46 (2.55)
Sub-Saharan Africa	13.99* (8.22)	16.54** (7.77)	-0.57 (0.40)	-0.74* (0.40)	0.96 (1.61)	1.71 (1.59)
Constant	47.88*** (12.79)	48.41*** (12.53)	2.76*** (0.56)	2.82*** (0.52)	3.41 (2.56)	3.30 (2.65)
Weak instruments		35.08	35.08		34.37	
Observations	80	78	80	78	74	72
R ²	0.48	0.45	0.54	0.43	0.56	0.46
Adjusted R ²	0.39	0.36	0.47	0.33	0.48	0.36
Residual Std. Error	20.05	20.18	0.99	1.08	3.79	4.11
F Statistic	5.64***		7.27***		7.11***	

Note:

*p<0.1; **p<0.05; ***p<0.01

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