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Antifragile states and global cities

How globalisation has allowed small states to become major players and big cities to outgrow their nation-states

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In a series of books, and especially in *Antifragile*, Nassim Taleb has introduced an important concept — that of being antifragile, referring to 'things that gain from disorder'. 'Fragile' is, of course, the opposite: it connotes something that thrives under stable conditions but, being brittle, loses, and at times loses big, amid volatility. In the middle, 'robust' indicates resilience against uncertainty and turmoil, without the capacity to profit from it.

The contrast between antifragile and the two other categories relates to that between centralised, top-down formations (such as unitary states) and decentralised, bottom-up and more flexible, federal structures. As an example of the latter Taleb takes Switzerland, with its decentralised cantonal system and grassroots democracy.

But Switzerland is also antifragile in another sense. It has historically been a country that benefited from turmoil and disorder outside its borders — from wars, nationalisations, uncertain property rights and outright plunder. In all these cases, whether Jews were trying to save their property from 'Aryanisation', Chinese millionaires feared a revolution or African potentates needed a haven in which to park their loot, Switzerland offered the comfort of safety. It was (and is) the ultimate antifragile state: it thrives on disorder.

Dubious legality

While Switzerland became emblematic of such a safe haven, it is hardly unique nowadays in benefiting from it. Globalisation and worldwide turmoil, combined with openness of capital accounts, have allowed many small economies to specialise in functions which run from asset safety and money-laundering to tax avoidance and evasion. In most cases, the legality of such transactions is dubious; many belong to the grey zone

where neither full legality nor full illegality can be attributed.

In western Europe, Liechtenstein, Luxembourg and Ireland have engaged in stimulating tax evasion, including from neighbouring countries. In his *Hidden Wealth of Nations: The Scourge of Tax Havens*, Gabriel Zucman documents the large outflows from Switzerland and inflows into Luxembourg's banking system which followed the (forced) decision by the Swiss authorities to impose withholding tax on accounts held by foreigners.

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Ireland's provision of safe haven from taxes to various large multinational corporations received quite a lot of attention when the European Commission obliged the county to assess these rates, particularly for Apple, at other than zero. In what may well be a singular historical case, the Irish government complained about having to receive billions more taxes!

Elsewhere, as in the Caribbean, small nation-states have specialised in providing the legal framework for shell companies. In *Capital Without Borders: Wealth Managers and the One Percent*, Brooke Harrington describes a single building in the Cayman Islands which houses headquarters for several hundred companies. Shell companies have played an enormous role in the money-laundering which followed privatisations in many east-European countries after 1989, as well as in providing cover for many illegal activities — from drug and arms sales to people-trafficking.

Cyprus benefited enormously from the Lebanese and Yugoslav civil wars, as well as from the confusion over property rights in Russia and Ukraine. Montenegro, the smallest of the ex-Yugoslav republics, had economically the most successful transition, not least thanks to massive cigarette-smuggling.

Globalisation effect

All such states are antifragile in the sense that Taleb gives to the term. But their success provides us also with a lesson in the effects of globalisation. It shows that the old notion of state 'viability' — based on a supposed threshold of size — is now plain wrong.

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phones to become rich. They do not need even to have a domestic market. It suffices to find an activity which relatively few other countries offer and for which there is an increasing global demand, as the world becomes more volatile, or lawless or corrupt. They become antifragile.

The important political question in the 21st century will be how a modus vivendi between the globalised large cities, and the elites living there, and the rest of their nations can be achieved.

The success of such states is replicated at subnational level. Big cities such as London, New York, Miami and Barcelona offer many of the services and amenities we find in small nation-states (asset protection, expert money-laundering) but in addition provide agglomeration externalities (increasing returns to scale thanks to the physical presence in the same place of many companies) and thriving housing markets. They too are antifragile.

This has implications for the political life of the nation-states where such cities are located. Global cities are increasingly linked to other global cities and other countries, less and less to their own hinterland. They are what Fernand Braudel called *villes-monde*.

They remind us of medieval cities, which were often more powerful than much larger states. The power of cities such as Venice and Genoa ended with the advent of the nation-states which became political, economic and military behemoths, absorbing city-states or relegating them to oblivion.

Voting differently

Globalisation is bringing them back, however. While nation-states politically and economically fragment, and in some cases (as with climate change) show themselves to be not the right *loci* to address a problem, the *villes-monde* thrive. Many already vote very differently from the surrounding areas: London had a solid anti-Brexit majority (60 per cent), Budapest, Istanbul and Moscow voted against their countries' authoritarian leaders and New York is leading the 'rebellion' against its own citizen who is currently the president of the United States.

The important political question in the 21st century will be how a *modus vivendi* between the globalised large cities, and the elites living there, and the rest of their nations can be achieved. Will there be a redistribution of political power within countries, endless friction between the 'globalists' and 'nativists' or, *in extremis*, secession by the antifragile *villes-monde*?

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