

4. Very small countries: organizational choice and international outsourcing

The analysis in Chapter 3 was naturally inadequate to grasp organizational issues and the details of public good production and provision in VSC. What we know from Chapter 3 is that there is a statistically significant and robust negative relationship between country size and public sector size in the sense that smaller countries have larger public sectors. Although we do not have a proper yardstick of evaluation, we consider the actual public sector size disadvantage of VSC as relatively small, given theoretical expectations. To learn more about the extent of the negative size effect and some strategies of VSC to cope with the problems arising from diseconomies of scale, Chapter 4 is now designed to restrict the analysis to VSC only. We will especially concentrate on international outsourcing, which is one important possibility for VSC to limit production and provision costs for public goods.

In order to assess the question of organizational choice in a case study manner, we develop a theoretical grid for the analysis of the public good provision in VSC and then take a closer look at the provision of those public goods, which are associated with high levels of diseconomies of scale. Chapter 4 is, hence, designed to study how VSC cope with their apparent public sector disadvantage.

Section 4.1 gives an overview of some features of public goods, which will be of importance in subsequent sections. In Section 4.2 we develop the theoretical background and our main hypothesis with regard to the provision of public goods in VSC. Section 4.3 is then designed to test for our hypothesis by analyzing public good provision in 21 VSC, and Section 4.4 draws conclusions from our results.