

Summary

This book studies the characteristics of the public sector in very small countries as opposed to relatively larger countries, a hitherto widely neglected subject in economic theory. The analysis concentrates on differences concerning the priorities of functions (which tasks are necessarily fulfilled by the public sector), the modes of "production" of public goods (e.g., make-or-buy-decisions) and, as a result of these two categories, the intensity of expenditures for publicly provided goods.

The central hypothesis states that the provision, the production, and the costs of public goods differ significantly between very small countries (like Liechtenstein, Luxembourg or Monaco) and bigger ones. The empirical test of the former as well as related hypotheses uses data for Liechtenstein, which is used as a case study for very small countries.

For a wide range of functional and economic expenditure aggregates the differences between Liechtenstein and its neighbouring countries Austria and Switzerland can be confirmed empirically. Because of its limited number of inhabitants, a very small country is in many areas not able to reach the optimal scale of production. Consequently, a very small country is well-advised to fulfill only those functions of its own which are deemed crucial for "national sovereignty, identity and prosperity". One of the main findings of the book is that the intensity of expenditures for public goods that are produced within and exclusively for use in the small country is significantly above the respective levels in Liechtenstein's neighbouring countries. This is a price worth paying for crucial tasks. But with respect to tasks of minor importance, the small country's aim should be to guarantee the provision of public goods by international cooperation and outsourcing to the neighbouring countries. Liechtenstein is indeed a very good example of extensive international cooperation (e.g., with Switzerland and Austria) in many areas (e.g. tax policy, monetary policy, higher education, health, social secu-