

Introduction

try with a differentiated system of participation, administration, providing the full range of public goods. Many countries, especially smaller ones (and those with an under-developed public sector like «failed» states) do not comply with that view. Hence, this study is designed to provide some stylized facts, some theoretical considerations and empirical results on the public sectors of very small countries. We are very much convinced that major of the results of this study may – *mutatis mutandis* – be applied to larger countries and may yield some new insights for the economic theory of integration and the theory of federalism, in addition to its apparent relevance for very small countries.

It must be borne in mind that small countries often provide an excellent framework for analyzing general questions in economics, because the effects of various measures are much more apparent in small countries and the economic system is less complex than in larger ones. Hence, the scientific questions raised within the theory of small countries also apply to larger countries or, even more interestingly, to regions of larger countries. In the light of that fact, the examination of small countries may be viewed as applied economics, designed to highlight special impacts of size (in economics, politics and humanities). Those impacts are of interest for all countries, regions and jurisdictions, but they are of the utmost importance and of eminent relevance for small countries, which explains why they are more apparent in small countries and can be studied more properly in this setting.

The second starting point for this study was a comprehensive contribution on the public sector and, especially, on public expenditure of Liechtenstein by Gantner and Eibl (1999). They detected some remarkable peculiarities of Liechtenstein as compared to adjacent regions as well as to Austria and Switzerland. Furthermore, Gantner and Eibl developed the concept of «international outsourcing», which will also prove useful and relevant for this study. There are of course several other contributions which focus on the public sector of very small countries, at least to a certain extent. Olafsson (1998) is a recent example of a comprehensive study on Iceland, and the World Bank (1998) deals with the problems of governance of very small countries in the Pacific. Two notable exceptions of contributions which analyze more than a few very small countries, are Armstrong and Read (1995) and Armstrong et al. (1999), but they concentrate on macroeconomic variables, rather than on the public sectors.