2. Smallness of countries: concepts and definitions

In order to assess the public sector peculiarities of small countries, it is necessary to take a look at different definitions of smallness or size. The term «small» has a long history in economic theory and politics, but its precise meaning is not always clear, and a blurred comprehension of the term seems to exist even among economists. Of course, there are a few obvious indicators upon which the definition of smallness of countries (or, generally, jurisdictions) can be based, such as inhabitants, area or GDP (or any other aggregate of national income), but there is no commonly accepted definition (Olafsson, 1998). Section 2.1 provides an overview and a discussion of traditional indicators of smallness. Usually, it hinges on the question at hand: which choice of definition is meaningful. We will argue later on that a workable definition from a theoretical viewpoint depends especially on the kind of goods considered. Section 2.2 is dedicated to reviewing three possible views of size in the context of economic models. In Section 2.3 an approach for the definition that is most fruitful for the purpose of this study is elaborated in detail. Finally, Section 2.4 briefly dwells upon the differences between small countries with full sovereignty and small autonomous territories which are part of larger countries and have limited sovereignty.

2.1 Traditional concepts of size

Generally, small states (or jurisdictions) are defined as being at the lower end of a chosen scale variable or a combination of chosen scale variables. Table A.1 in the Appendix provides an overview of existing (traditional) definitions of smallness, revealing the fact that the selection of a cut-off point for widely used scale variables is more or less arbitrary. We distinguish between size variables, which directly determine size like the num-