

Contingent on the results in the following empirical chapter – where we try to answer the question of whether diseconomies of scale really play a role in the public sector – the extent of diseconomies of scale might be a good starting point for an appropriate definition of VSC. Specifically, we are interested in the extent of diseconomies of scale in the production and provision of public goods, or, in other words, in the deviation from cost-optimal production. Note that publicly provided goods are one of the main characteristics of countries from a public economics viewpoint. Assuming that our theoretical considerations are empirically confirmed, a workable definition of country size should consist of three major features:

- (a) A VSC is a country with full sovereignty and international recognition.

Feature (a) is necessary, since the aim here is to investigate public sector peculiarities of small *countries*.²² Concepts of sovereignty (in economics as well as in international law and political science) have been developing over the last decades because of the process of internationalization. One possible traditional definition of full sovereignty is associated with constitutional independence, which means that countries are fully sovereign if their constitution is not part of a larger constitutional arrangement. A sovereign country is not subordinate to another country, but necessarily equal to it by international law. The country's legal, executive and judicial powers are the supreme authority within its jurisdiction, which is what we would call in economic terms a territorial monopoly (James, 1986; Jackson, 1990). Of course, recent developments especially within the European Union do not comply with this traditional view of sovereignty. International courts also considerably restrict sovereignty for many countries in the world. One either can conclude that countries like Germany or France are not sovereign any more, which does not make much sense, or accept the fact that a generally valid distinction between fully sovereign and not fully sovereign countries is difficult and that there is a continuum for a possible cut-off

²² We will however also have a look at the differences between independent VSC and autonomous regions later on.