

cost-optimal number of consumers, i.e. inhabitants, should be large. Thus, the VSC should have a cost disadvantage, which we have been referring to as «diseconomies of scale». The number of inhabitants is strongly correlated with feature (c). The fewer inhabitants a country has, the more public goods will exhibit diseconomies of scale if they are produced in-house. Hence, feature (c) of our approach to define country size considers the number of inhabitants implicitly, but the focus is on the related problem of public good provision.

Our definition approach is – not surprisingly – inappropriate for arriving at a set of VSC without imposing some restrictions on (b) and on (c). Those would clearly have to be arbitrary, since there is no natural cut-off point. However, features (a) – (c) neatly attest to the fact that the problem of diseconomies of scale is prevalent in all jurisdictions (at least for some publicly provided goods) and that the study of VSC is only one promising approach to studying the extent of diseconomies of scale, its effects and the possible ways to diminish its adverse effects.

Note that our approach also justifies, as briefly mentioned above, definitions relying on the number of inhabitants due to the clear correspondence between the extent of diseconomies of scale and the population of a country (see Definition 2).

After testing in Chapter 3 for the empirical content of our approach, where the focus is on the critical feature (c), we will come back to our analysis at the end of Chapter 3. We then can conclude whether our approach to defining VSC here is helpful and valid.

## 2.4 Autonomous regions with limited sovereignty

Autonomous regions with less than full sovereignty are not at the heart of this study. They can, however, serve as a benchmark to compare fully sovereign VSC and regions with limited sovereignty in order to assess the economic consequences of sovereignty. We will come back to this issue in Chapter 5 and give only a short introduction here.

The spectrum between independence and dependence, integration or complete assimilation resembles much more a continuum than a dichotomy (see also Section 2.3.2). This proposition holds true in any case for economic assessments but is, to a certain extent, also true in the