

higher per capita costs in supplying public goods than large countries. In the terms of this study, they are simply not able to reach the optimal scale of production or provision for numerous publicly provided goods and, therefore, have to bear the burden of diseconomies of scale in the provision of public goods.

Implicitly, this proposition assumes that public goods are generally provided on the national level and that there is no kind of federal or decentralized organization prevalent in the provision of public goods, which is a good working hypothesis. Of course, it does not fully comply with reality due to an increasing number of public goods provided on the international and a lot of public goods provided on a sub-national or county level.³⁰

Although large countries might be confronted with higher costs due to ethnic and cultural heterogeneity than smaller countries, diseconomies of scale seem to be, by and large, more influential in determining government size.

A word should be said about on the distinction between public provision and public production of publicly provided goods. Public agencies are basically viewed as guarantors of the provision of a set of public goods like security, health care or education. There is extensive literature on how this public guarantee *is* translated into action and how it *should be*. The government or any other public agency can produce the public good in-house and then provide it; it also can outsource only production or both production and provision to non-governmental organizations, to private enterprises or to foreign public agencies. Individuals may also be forced to produce and provide public goods (like clearing snow in front of one's house). The actual organizational choice can, of course, be a combination of the above-mentioned possibilities; public agencies can, furthermore, subsidize certain provisions, and so on.

It would not be tractable to distinguish between these many organizational possibilities on the aggregated level of investigation, which is the basis of our analysis in this chapter. We will go into the details of organizational choice in Chapter 4. For the moment it is sufficient to speak of production and provision equivalently in a simplified manner.

³⁰ It is a notable characteristic of some VSC that they do not have a federal structure, which means that there are only two administrative levels, the national level and a municipal level. See Section 4.3.6 for details.