on sovereign states. Think of, e.g., the rising importance of international organizations, the rising costs in public administration, etc. One can hardly argue that VSC could avoid these developments, which all countries have experienced. If this is the case, VSC will be hit relatively harder by the costs of these new challenges for the public sector, because they are not able to distribute the burden to a huge number of tax payers. Judging from this, however, the number of VSC might have declined or increased more slowly, and secessions should have become less feasible – an apparent paradox, given the growing number of countries and, particularly, of VSC in the world.

The puzzle can possibly be solved by taking the private sector into account. If we assume that the rising trade volume, open borders and the globalization of former mainly national-oriented economies have improved the relative cost-situation of VSC, which is a fairly intuitive notion, then the paradox vanishes, since the increase of the positive effects of openness for private firms may possibly outweigh the increasingly negative size effect in the public sector, hence leaving VSC relatively better off. In other words, the net balance of an increasing advantage for VSC in the private sector and an increasing disadvantage in the public sector is positive. Thus, we might be able to explain the growing number of secessions and small countries in the world from an economic viewpoint.[57]

One might possibly question our regression model specifications. There is no theoretical rationale that the relationship of the variables is linear, but there is also no clear expectation, which would imply another functional form. Some theories of bureaucracy would perhaps point out that a power law is at work, but they would rather suggest that larger countries have more bureaucrats and, hence, larger public sectors, which is definitely not the case here. Without having a clear theoretical idea of another specification, we like to argue that one should start with the most intuitive and straightforward model, and this is a linear model. Our intuition is confirmed by some stability statistics. A Ramsey Regression Specification Error Test (Ramsey 1969), which is designed to test for specification errors like omitted variables or an incorrect functional

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[57] We are, of course, aware of the fact that there are a lot of other – more important – determinants of secessions, some of which will be analyzed in Chapter 5 in greater detail.