

*Does country size matter for public sector size?*

result may also be a consequence of the lack of data for some VSC and should be investigated more thoroughly in future work.

- Remote island economies have to bear considerable disadvantages, which become the more severe, the fewer inhabitants they have. In short, small countries surrounded by peaceful neighbors can compensate for the disadvantage of size that arises from diseconomies of scale; small countries surrounded by villainous neighbors or by the sea with long distances to other countries cannot.
- The size effect is predominantly assigned to economies of scale in the provision of public goods, albeit there are a few other good explanations for the phenomenon. A case study of Liechtenstein (Gantner and Eibl, 1999), however, has shown that a small country's disadvantage appears in areas where local public goods are widespread and public monopoly is prevalent (e.g., education, garbage disposal, sewage). The method applied here is not designed to address this question adequately, which leaves opportunities for further research to clarify this point. The problem of a thorough study on the determinants of the size effect is that it would require highly disaggregated data.

At this point it is necessary to draw attention to a few caveats, some of which have already been discussed above. The lack of data for certain groups of countries, especially for VSC, may bias the results considerably. Additionally, it must be borne in mind that two different data sources, the Penn World Tables and IMF data, are used for inter-temporal comparisons. The correlation coefficient of the government consumption data of these two compilations is not convincingly high, but at least significant. A data compilation with fully comparable data is, however, not available.

Furthermore, it is not entirely convincing that econometric estimations seem to point in another direction than reality at first sight. If smaller countries bear clear disadvantages, why are country secessions so numerous nowadays? As an economist, one has to be convinced that there are not only political but also at least a few economic arguments in play when split ups are at stake. Perhaps the public sector is, indeed, a burden for every region planning to split up, and other economic factors (espe-