ness should be negatively related. Specifically, a decreasing publicness should tend to increase competition and vice versa. Consequently, it is difficult to implement an environment of workable competition for global public goods. Competition, therefore, is often replaced by transparency, political control or evaluation measures. The possible difference between VSC and larger countries diminishes in theory, when local public goods are under consideration. They, however, always exhibit a certain degree of regional monopolistic characteristics.

A lack of workable competition for local public goods and public goods with a limited degree of economies of scale may nevertheless be possible in VSC, where often very few suppliers of one good are to be found. Note that not only publicly provided goods may be affected (there are, e.g., often only few institutions offering higher education), but also government procurement. Hence, the price of some private goods may also be higher in VSC. Think, for instance, of infrastructure and structural and civil engineering enterprises, which may gain a monopolistic or, at least, oligopolistic position, especially for huge public orders.[71]

Since we concentrate on public goods with a considerable degree of economies of scale, the competition concept laid out above will not reappear in the case studies in Section 4.3 directly. However, it has to be borne in mind that the extent of competition plays an important role in international outsourcing. Adverse effects may be associated with international outsourcing if it rules out competition for the provision of a public good completely. In any case a VSC, which decides to source out the production and/or provision of a public good, often has to accept a temporary monopoly. One should however not forget that the producing and/or providing agency itself might be exposed to considerable competition in its own country. Additionally, the VSC may have the possibility to choose between different public agencies in different adjacent countries, which is a substitute for competition. Liechtenstein, e.g., could decide to introduce the euro instead of the Swiss franc without major problems if it were convinced that a change would better suit its needs.

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[71] Since most VSC are members of the WTO, a certain degree of competition is guaranteed by WTO regulations for larger public orders.