

4.2 Very small countries and organizational choice: a normative theory

This section is designed to shed light on the important question of whether a VSC is a good organizational unit to provide and produce public goods from a normative point of view. It is, therefore, necessary to develop a framework for the institutional comparison which results in a set of criteria in order to evaluate the effects of different provision institutions.⁷²

To analyze the possible advantages and disadvantages of VSC, we take a list of goods which are typically considered to be publicly provided or for which one typically assumes that the provision is guaranteed by some kind of governmental or public agency, be it on the local, the state, the federal or the international level. The list is, of course, far from being conclusive, but most of the goods listed may be taken as examples of possible unlisted ones.

4.2.1 Criteria of evaluation for organizational choice

The criteria to compare different institutional forms of public good provision are the following: the extent of economies of scale (ES) and the extent of preference adequacy (PA). There are of course other important criteria of institutional choice, but ES and PA are two very important ones in connection with international outsourcing, on which we will focus in Section 4.3. Furthermore, the underlying theoretical concepts of ES and PA are proper starting points for an international comparison. Other concepts, which are briefly exposed in Section 4.2.1.3, are not very helpful for international comparisons because they very much depend on the institutional framework, and one often needs a lot of institutional background knowledge to be able to assess them thoroughly. Hence, they cannot be properly analyzed across a larger set of countries.

For our theoretical framework we draw heavily on prior work on institutional choice by Bolter (1998), who focuses on outsourcing in ge-

⁷² The analysis is a first approach and suffers from not being built on one consistent theoretical framework. Nevertheless, it is able to provide valuable results for a better understanding of the net advantages or disadvantages of VSC.