

makers, tax payers or financiers and beneficiaries of a public good are congruent. If the provision process of a public good or a jurisdiction as a whole is organized according to the principle of institutional congruence, then it also complies with the criterion of fiscal equivalence, which postulates that in any regional or local unit of a country there should be equivalence between the tax payments of the inhabitants and the value of public goods and services provided (Olson, 1969; Blankart, 1998). The degree or extent of institutional congruence is a good indicator of institutional efficiency. If full congruence is achievable, problems associated with negative incentives can be avoided. It is, e.g., often argued, especially in federal countries, that the central government passes laws which impose implementation costs on regional governments.

- Different institutional arrangements lead to different administrative and indirect costs in the production and provision process of public goods. Private production of public goods may be either less costly or more costly than public production, depending on the task.

We do not assess these two additional criteria, because there is no apparent reason to believe that there is a systematic difference between VSC and larger countries with regard to them. Furthermore, one would require a case study approach of single countries to be able to draw conclusions from an analysis of those criteria.

4.2.2 Comparison of institutional or organizational forms

The different institutional or organizational forms to produce and provide public goods, which are compared in Table 4.2, are the VSC (*under the assumption of self-production and -provision*) and a foreign public agency (FPUBL) as producer and provider, which is equivalent to international outsourcing. We apply the concepts of economies of scale and preference adequacy as laid out in Section 4.2.1.⁷⁷ In Section 4.3 we then compare the theoretical predictions, which follow from Table 4.2 below, with the public good provision in 21 selected VSC.

⁷⁷ See Gantner and Eibl (1999) for a similar approach.