

of Palau) and inflation rates are within a range that complies with OECD member averages. Especially inflation rates are surprisingly low compared to world averages. In three cases we even observe negative inflation rates, which generally indicate periods of recessions either due to business cycles, to natural hazards or to structural economic problems.

5.1.2 The predictions of economic theory

As outlined above, the economic consequences of size have not been a major field of research in economics. Especially with regard to publications in core economic journals, the economic problems and (dis-)advantages of nation's size and economic peculiarities of VSCs' private and public sectors as well as their macroeconomic performance have not even been a recognized issue. Although VSC have been ignored in core economics, there have always been quite a few economists, often affiliated with international organizations or located in small countries, working on this subject.

When the benefits of jurisdictional power are not taken into account in an assessment of VSC, then the economic consequences of small size in economic theory are straightforward. It is therefore not surprising that

the papers collected in Robinson (1960) remain the principal substantive contribution to the theoretical analysis of micro-states. More recent analyses have generally failed to develop further many of the ideas originally contained therein (Armstrong and Read, 1995, p. 1230).

If we are to assess the impact of jurisdictional power properly, it is necessary to present the most important theoretical arguments concerning the economic consequences of a small country size in order to have an appropriate benchmark for comparisons. Most of the relevant theories clearly emphasize the disadvantages of a small country size, and it is much more difficult to assess the advantages of small size with the help of theoretical arguments in economics. As already stated in Chapter 3, given the evidence of an ever-increasing number of small and very small countries in the world, it would be desirable to have some economic