

sirable and that VSC are a good starting point for assembling stylized facts on the implications of sovereignty for economic success.

Finally, a word is in order on the practical lessons VSC can draw from this study. We cannot go into detail at this point because it was not the aim of this study to provide VSC with economic policy advice. The private sector has come into play because it is one promising economic explanation for the apparent paradox of a VSC cost disadvantage in the public sector and an ever-increasing number of VSC and small countries in the world. Note that we are of course aware of the fact that there are other, perhaps more weighty arguments besides economic ones that can explain the growing number of small countries. Economic arguments should, however, be important at (least at the margin) in cases of, say, secessions.

Our analysis of the public sector of VSC and our comprehensive comparison of many VSC allow us to draw a few conclusions which may be helpful for VSC (economic) policy. First of all it would be misleading to give the impression that there might be general advice for VSC on how to pursue niche strategies and which of them are the most successful ones.

Even though VSC bear a cost disadvantage arising from small size in the public sector, it would, furthermore, be rather odd not to treat the size variable as exogenous for economic policy. Apart from an unrealistic size variation there are, of course, many traditional organizational options to reduce public sector costs. All in all, the size disadvantage should not be exaggerated.

Chapter 4 and especially Section 5.4.4, however, provide some practical advice for VSC which is worth restating here. First, VSC should try to concentrate on those public tasks which are eminent for them. This is clearly a small fraction of the tasks that are generally and wrongly considered to be required for a sovereign country. Second, if possible, international outsourcing and international integration should be used to keep public sector costs low in those areas where diseconomies of scale are considerable. We have shown that international outsourcing is not only a theoretical concept, but also a realistic option for VSC and small countries can use to organize the provision of public goods. The economic principle of the division of labor holds true not only for private production, but also for the organization of the public sectors. Note that international outsourcing is also possible and advantageous for VSC, when