

Martin Georg Kocher

Very Small Countries: Economic Success Against All Odds



Verlag der Liechtensteinischen Akademischen Gesellschaft

Contents

| | | |
|---------|--|-----|
| 1. | Introduction | 11 |
| 2. | Smallness of countries: concepts and definitions | 16 |
| 2.1 | Traditional concepts of size | 16 |
| 2.1.1 | Size and population | 18 |
| 2.1.2 | Size and geographic characteristics | 20 |
| 2.1.3 | Size and national income | 23 |
| 2.1.4 | Composite measures of size | 25 |
| 2.2 | Size and smallness in model contexts | 26 |
| 2.2.1 | Small countries in international economics | 26 |
| 2.2.2 | Smallness due to the utility gain | "26 |
| 2.2.2.1 | Size in absolute terms | 26 |
| 2.2.2.2 | Size in relative terms | 27 |
| 2.2.3 | Smallness due to economies of scale considerations | 28 |
| 2.3 | Applied definition of country smallness | 28 |
| 2.3.1 | Jurisdiction size and publicly provided goods | 28 |
| 2.3.2 | An appropriate definition of size | 30 |
| 2.4 | Autonomous regions with limited sovereignty | 34 |
| 3. | Does country size matter for public sector size? | 36 |
| 3.1 | Public sector size and country size in theory | 39 |
| 3.1.1 | A simple model | 39 |
| 3.1.2 | Further important determinants and theoretical predictions | 41 |
| 3.2 | Empirical evidence | 45 |
| 3.2.1 | Proxies for government size and country size | 47 |
| 3.2.2 | Description of data and basic statistics | 51 |
| 3.2.3 | Multiple regressions as the proper empirical tool | 53 |
| 3.2.4 | Regression results | 55 |

| | | |
|---------|---|-----|
| 3.2.5 | Per capita income and government size | 59 |
| 3.2.6 | Country size represented by GNP | 61 |
| 3.2.7 | Multiple regressions with politics and geography | 63 |
| 3.3 | Summary of empirical results on country size and public sector size | 65 |
| 4. | Very small countries: organizational choice and international outsourcing | 69 |
| 4.1 | • Organizational forms of public good provision: a positive approach | 70 |
| 4.1.1 | Spatial and national characteristics | 73 |
| 4.1.2 | Competition and participation rights | 75 |
| 4.1.2.1 | Participation rights | 75 |
| 4.1.2.2 | Inter-organizational competition | 76 |
| 4.1.2.3 | Competition and VSC | 76 |
| 4.2 | Very small countries and organizational choice: a normative theory | 78 |
| 4.2.1 | Criteria of evaluation for organizational choice | 78 |
| 4.2.1.1 | Costs and economies of scale | 79 |
| 4.2.1.2 | Preference adequacy | 80 |
| 4.2.1.3 | Other possible criteria | 82 |
| 4.2.2 | Comparison of institutional or organizational forms | 83 |
| 4.2.3 | Theoretical predictions for the organizational choice | 85 |
| 4.3 | Organizational choice: theoretical expectations versus reality | 89 |
| 4.3.1 | Theoretical expectations versus reality - monetary system | 90 |
| 4.3.2 | Theoretical expectations versus reality - defense | 94 |
| 4.3.3 | Theoretical expectations versus reality - universities | 95 |
| 4.3.4 | Theoretical expectations versus reality - airports | 97 |
| 4.3.5 | Theoretical expectations versus reality - railways | 99 |
| 4.3.6 | Theoretical expectations versus reality - government levels | 102 |
| 4.3.7 | Theoretical expectations versus reality - foreign policy | 104 |
| 4.3.8 | Theoretical expectations versus reality - health systems | 109 |
| 4.3.9 | Theoretical expectations versus reality - political system | 116 |
| 4.4 | The extent and structure of international outsourcing in very small countries | 119 |

| | | |
|-----------|--|-----|
| 5. | The economics of sovereignty: «secrets of success* of very small countries | 126 |
| 5.1 | Economic characteristics of very small countries | 129 |
| 5.1.1 | Some stylized facts | 129 |
| 5.1.2 | The predictions of economic theory | 132 |
| 5.2 | Sources of welfare in VSC | 137 |
| 5.2.1 | Country size and welfare | 138 |
| 5.2.2 | Determinants of welfare in VSC | 144 |
| 5.2.2.1 | Andorra | 146 |
| 5.2.2.2 | Bahamas | 146 |
| 5.2.2.3 | Brunei | 147 |
| 5.2.2.4 | Iceland | 148 |
| 5.2.2.5 | Liechtenstein | 149 |
| 5.2.2.6 | Luxembourg | 150 |
| 5.2.2.7 | Monaco | 151 |
| 5.2.2.8 | San Marino | 152 |
| 5.2.2.9 | The common denominator of high-income VSC and common misperceptions revisited | 152 |
| 5.2.2.9.1 | History and socio-economic factors | 153 |
| 5.2.2.9.2 | Economic structure and specialization | 156 |
| 5.2.2.9.3 | Political systems | 158 |
| 5.2.2.9.4 | Other determinants of welfare | 159 |
| 5.3 | VSC versus autonomous regions of larger countries | 160 |
| 5.3.1 | Theoretical expectations | 161 |
| 5.3.2 | Data and first results | 162 |
| 5.3.3 | Very small countries versus small autonomous regions | 163 |
| 5.3.4 | Regional differences | 165 |
| 5.4 | A summarizing evaluation of law-making authority and sovereignty | 166 |
| 5.4.1 | Pillars of very small economies | 167 |
| 5.4.2 | Which kind of sovereignty? | 171 |
| 5.4.3 | Another economic look at sovereignty | 172 |
| 5.4.4 | A summary of the «secrets of success» of VSC | 175 |
| 6. | A new view on very small countries | 177 |

| | |
|---------------------------------|-----|
| Appendix | 185 |
| I. Tables A1 - A1 7 | 185 |
| II. References | 227 |
| III. List of Tables and Figures | 233 |
| Deutsche Zusammenfassung | 235 |