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Small States and Small States Revisited

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The meaning of books lie not only in what authors write but how readers read. When author becomes reader, matters become even more complicated. The author experiences research and writing as a long and messy process. The reader encounters the ultimate product wrapped in neat covers. Since life is short, authors do not tend to reread the books they have written. At best they spend a bit of time with them, reading a page here or there as they leaf through the volume. The experience is comparable to meeting a long-lost friend. The occasion elicits mixed emotions. There is the pure pleasure of easy familiarity. There is nervousness about hidden insecurities. And there is the admittedly immature curiosity about looks. Has the scourge of age dealt with us equally? Or has it played favourities so that new jealousies complicate a nervous reunion? This range of feelings has marked my encounter with *Small States* before sitting down and writing this article.[1] I enjoyed my visit with that old friend. Human vanity being what it is, I acknowledge readily at the outset that I liked what I read. Suppressing the nagging and uncomfortable question whether I would do as well writing it today as I did then, I think I would go about the task pretty much the same way.

Small States was a follow-on project to an analysis of comparative foreign economic policies of advanced industrial states published under the title *Between Power and Plenty*.[2] That book had developed a typology of capitalist states that, whatever its virtue, remained oblivious to differences in their size and openness and neglected the international determinants of domestic structures and strategies.[3] Furthermore, the historical part of *Between Power and Plenty* was overly schematic and determinist, locating important historical junctures in the distant past and neglecting the sequences of choices which connect one historical juncture to the next. There was room for improvement.

Two things I learned from writing *Small States* have stayed with me over the years. There is a great difference between understanding-a-thing-on-its-own and understanding-a-thing-in-context. I had done my dissertation research on Austrian history and had read a lot of the literature on Austrian politics since 1945, including a very sizeable literature on its nationalised industries. I had read it, but I had not understood it. Only after reading a great deal about the Swiss

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banking industry did I begin to grasp crucial aspects of the political economy of Austria's nationalised industry that had escaped me when I had not put them in a broader context. I took another year to reread and rethink my views on Austria. *Small States* is about things-in-context. For the development of its argument the choice of context was decisive.

The second thing I learned is how to swim against the tide of fashionably important topics. I vividly remember a phone conversation with one of my very closest friends, and a very eminent specialist of international relations. It was in the early 1980s and I had decided to make this a two-book venture, one on small states and the second on Austria and Switzerland, a sort of detailed case application that traced the processes by which political orders relegitimise themselves at national, regional and sectoral levels.[4] Out of the telephone receiver on one dreary winter afternoon came truth, unadorned and unwelcome. Since nobody cares about small states why waste so much time writing about them? One book could be tolerated as a quirky form of intellectual self-indulgence. Writing two books on that subject was pure folly. Worse, it showed a serious lapse of intellectual judgment. Furthermore, I knew already that one of my former teachers, Kenneth Waltz, shared the same view and for once was in full agreement, in print, with one of my intellectual icons, Barrington Moore. The two, I surmised, agreed on little else. To be sure there were about 160 small countries, discussed in a remarkably small number of books and articles written by international relations scholars. In contrast the scholarship on half a dozen large states filled whole libraries. Though true, this tepid rejoinder of course tended to confirm my friend's critical assessment. I ploughed ahead anyhow. Too much intellectual capital was already invested in the project. And there was, I suppose, a streak of intellectual stubbornness, unwelcome perhaps, but one that I have come to recognise with greater clarity in some of my subsequent choices of research topics.

Review

The most time-consuming task of the entire project was the coding of the book's dependent variable. Under three headings (international liberalisation, domestic compensation and industrial adjustment) *Small States* codes outcomes and traces processes across about two dozen policy sectors for the seven small European states, compared to the five large ones. The trick was to boil that vast amount of information down to one chapter. Reading everything that was accessible to my limited linguistic skills for each policy sector added a great deal of breadth to the in-depth field research I was conducting over several years in Switzerland and Austria. It honed my sense of the political logic of small states.

Eventually this led me to develop two lines of argument. The first compares small with large states. The second line of argument draws distinctions among the small European states, based on their internal characteristics, very much in line with how the field of comparative political economy was then evolving.

Small states differ from large ones in their basic condition. The size of the territory they control and the scale of their operations, the two central preoccupations of the international and comparative studies I read in the early 1980s, mattered of course. Travelling around small states is not time-consuming. And if you give a party in the capital, you can easily invite all the important political players. This makes a difference to both politics and policy.

Furthermore, David Cameron had demonstrated that openness to international trade correlates highly with social spending levels that were exceptionally generous in small states.[5] Two decades later Geoffrey Garrett consolidated that finding.[6] Updating Cameron's trade analysis and extending the analysis of trade to capital markets, Garrett's statistical analysis supports the conclusion that openness does not undercut national choice, including for social democratic regimes that seek to strike a balance between efficiency and equity. Garrett's provocative analysis is a useful corrective to the view, widely shared in the 1990s, that footloose capital was all but eliminating national choices. And it offers an excellent starting point for any analysis that wishes to probe in greater detail tendencies toward corporatist arrangements, for example, in some of the Mediterranean countries, Ireland or Finland.

Small States proceeded on a different though related track. I eventually convinced myself that an analysis that focused only on the objective data of economic openness missed the crux of the matter. Small size was a code for something more important. I learned from my interviews, readings and reflection that it was concealing an underlying and politically consequential causal connection. What really mattered politically was the perception of vulnerability, economic and otherwise. Perceived vulnerability generated an ideology of social partnership that had acted like a glue for the corporatist politics of the small European states. This was the first and most important explanatory variable in *Small States*.

Yet none of the reviews of the book published after it appeared paid any attention to it. Why? A decade before the constructivist turn in security studies and international relations, scholars of comparative and international political economy simply did not know what to do with ideology as an explanatory construct. With a few notable exceptions, the impermeability of the field of political economy to considerations of identity persists to date. In the rationalist world of political economy actor identities are assumed to be fixed and unproblematic, an intellectually untenable position in the case of the small European states, and perhaps more generally. Wrecked by intense domestic conflict during the interwar years these states became islands of cooperative politics and coordinated industrial relations after 1945. Changes in the perception of vulnerability and the ideology of social partnership offer a compelling explanation for this important change.

Among the small European states, however, partnership ideology expresses radically different social purposes. This was the second line of argument. Similar corporatist structures are filled with different social content. Business communities differ in their orientation toward international and national markets. And labour unions differ in their strength in and over markets. The politics of Austria's nationalised industry and of Switzerland's private banking industry illustrate two types of corporatist politics, social and liberal. Arrayed along a dimension with these two endpoints, Norway and Denmark were closer to the social and the Netherlands and Belgium closer to the liberal end, with Sweden's internationally-oriented business community and strong labour unions holding the mid-point. I grafted these two arguments about the international context of democratic corporatism and the systematic differences in its underlying social structure on to the burgeoning corporatist research programme that Philippe Schmitter and Gerhard Lehmbruch had done so much to advance in the late 1970s.[7]

Small States relies on two tricks which later have often been adopted by historical institutionalists who pay attention to critical conjunctures. The book performs its explanatory task twice. First, it explains the difference in the political strategies of small and large states—more international liberalisation, more domestic compensation and more flexible adaptation—in terms of their domestic structures—the ideology of social partnership, the centralisation of politics and the voluntary and informal cross-issue policy coordination that set the small states apart from large ones. In a second step it converts answer to question. What explains the specific character of the small European states? Why was the cross-class coalition of the 1930s and 1940s possible in six of the seven small European states and not in the large ones? The answer, I argued, was to be found in patterns of historical evolution of the small European states that differ systematically from those of large states.[8]

Criticism

In the historical analysis what at first looked like a problem turned out to be a great advantage. Having done my dissertation research on Austrian history, this was the only case I knew well. I had the hope that somehow the historical part of the work I had to do would rely heavily on what I knew. Things turned out otherwise. With the Habsburg empire as the only large state among the group of small states, Austria became the negative case against which I could test the insights that I culled from my reading in comparative history. With one contrasting large country case deviating from the group of six small states I could draw strong causal inferences as King, Keohane and Verba note approvingly. It is that same contrast, between seven small and five large states, that also drives the contemporary part of the analysis, with Austria now appearing on the small state ledger. Speaking in statistical metaphors favoured by some scholars of comparative social inquiry, the 'variance on the dependent variable' that drives the analysis of *Small States* focuses on the difference between the strategies and structures of small and large states. And that variance is explained through causal inference.

Research design

Yet King, Keohane and Verba criticise the book for a faulty design, and for mistaking descriptive inference for causal inference.[9] For properly designed and executed studies do not 'fudge the issue of causal inference by disavowing claims of causal validity…. Remaining inexplicit about causal inference makes some of Katzenstein's claims ambiguous or unsupported'.[10] The fact that this criticism does *not* aim at the book's primary concern does not make it any less important. The causal argument of *Small States* distinguishes successfully and explains in causal terms the striking differences in the strategies and structures that set the small European states apart from the large industrial ones. It does not, however, isolate well individual constellations of variables for subgroups of corporatist states. For the liberal and social types of democratic corporatism that *Small States* and *Corporatism and Change* analyse were both successful in adapting flexibly to the requirements of market competition and political legitimacy. Analysis could have pushed further by investigating, in addition, the strategies of other small states situated differently in the world economy. This is precisely the recipe that King *et al.* offer in order to side-step what these days is often considered a cardinal sin, 'sampling on the dependent variable'.

I readily grant that by adding Ireland or Finland, Australia or New Zealand, or some of the other 170 small states, I would have been able to draw even stronger causal inferences about an important, though not the primary, part of the argument. There are, however, two reasons why I would have resisted the advice had it been proffered in time. One reason is anti-intellectual but perfectly human. Many authors, and certainly this one, having spent seven years working on a project, are bound to reject the advice of specialists in research design, freely offered and at no cost to the source of the advice, to do more in the interest of perfection. Perfection, I suspect, is to be had, but probably not on this Earth. Tired authors are more likely to heed a suggestion that King *et al.* could have but did not make, and that would be more in the spirit of Ron Rogowski's counterpoint:[11] to rely more on counterfactual reasoning to tease out the deductive logic that informs the causal reasoning of the book. *Small States* would have been a better book had it pushed harder on an underdeveloped part of the analysis, either through further empirical work, by adding more cases, or through better developed counterfactual reasoning.

Having given my critics a quarter loaf, good sense dictates that I should take my leave here. I suspect, however, that a larger point of disagreement is at stake, and one that deserves to be aired. In their criticism King *et al.* draw an overly sharp line between 'interpretation' and 'explanation'. Thus they prematurely rule out of bounds a third alternative: a historically informed style of social inquiry that favours properly contextualised generalisations. This research strategy seeks to bridge the idiographic and nomothetic traditions in the social sciences. And it is with that tradition that *Small States* has its greatest affinity.

Strong causal inference, pace King *et al.*, treats history as a store house of facts. In the interest of creating the necessary amount of variance demanded by the research design that is ideal for making strong causal inferences, the researcher simply goes to the store and adds cases to the existing sample of observations. Contextualisation scores low in this procedure, generalisability high. *Small States* follows a different strategy in developing its arguments. It goes to the store once and empties the shelf. That is, it enumerates the universe of cases, rather than sampling it. That universe is conceived substantively, not statistically, as capitalist states that had entered world markets early, in the late 19th or early twentieth centuries. Excluded from the analysis thus are Finland and Ireland, some of the Mediterranean countries, the small states in East and Southeast Asia, and the socialist states in Eastern Europe. This historical view of the world strikes me as plausible, widely practised in the field of comparative and international analysis, and arguably more catholic and less exclusionary than the one that informs the critique that King *et al.* advance and develop fully in their book.[12] Their view seeks to simplify the logic of inquiry to the world of 'descriptive inference', on the one hand, and 'causal inference', on the other. This binary view leaves no room for the tradition of scholarship that informs *Small States*. What to the adherent of descriptive inference is an inexcusable penchant for generalisation, and for the adherent of causal inference an inexcusable tendency to fudge, is for the devotee of a historically informed social science, a highly advantageous position from which to poach some of the best elements of two sharply contrasting analytical perspectives.

Small States, let me hasten to add in a slightly defensive tone, is not written by a Luddite on questions of research design. I wanted to have confidence in the robustness of what I considered a number of plausible, interlocking causal arguments. And I also wanted to reach intellectually the statistically inclined, smaller though their number may have been a couple of decades ago. Because they do not require making a host of unrealistic assumptions required by interval data, often violated in applied statistical work, my colleague Woody Kelly was a great believer in the use of non-parametric statistics of ordinal data. Specifically, he showed me how to exploit to good effect the method of pair-wise comparison, for example of each of the small states with each of the large ones or of each liberal corporatist small state with each social one. These comparisons showed consistent and large differences, and in the expected direction, that my causal arguments stipulated. This greatly enhanced the plausibility of the qualitative, historical and comparative arguments that the book advances.

Apart from issues of research design, two additional objections run through the literature that address the issues central to *Small States*. The first concerns the economic performance of small states, the second the issue of labour incorporation and the stabilisation of capitalism as the central purpose of a corporatist politics.

Economic performance

In a nutshell this criticism finds the argument of the book dated, the after-glow in print of the golden 1950s and 1960s. Since the oil shock of 1973 and the ensuing 'stagflation' of the European economies the newsroom of small states research has issued decidedly less favourable reports. Specifically, globalisation and the rise first of the Japanese and then the Anglo-Saxon model of capitalism have eviscerated the attractions of corporatist politics.

To some extent the criticism is justified. *Small States* was published as the second of a two-volume set and systematic data gathering stopped around 1980, with only seven years of the 1970s 'stagflation' included in the data set. Furthermore, the book discusses conventionally used macroeconomic performance statistics (growth, unemployment, inflation, and the current account balance) in only a few pages in its concluding chapter. The data for the 1970s, however, did not undercut the book's argument. They supported it.

This criticism was made forcefully by Dietmar Braun and Hans Keman, two scholars trying to come to grips with political developments in the Netherlands in the 1980s. They argued that Prime Minister Lubbers had dismantled the Dutch welfare state after 1982.[13] Based on my casual and much less well-informed views of Dutch politics this struck me as a very partial view of the matter. From a distance the reforms of the 1980s looked like the unavoidable adjustments of a system that was literally and figuratively running 'out of gas'. Torben Iversen's and Anne Wren's exploration of the trilemmas of the modern service economies lends support to this view. 'Dutch unemployment performance improved substantially in the second half of the 1980s. But it would clearly be incorrect to attribute this performance to the pursuit of a neoliberal strategy based on the trade-off between employment and equality.'[14] Nor were the 1980s so exceptional. Far from it. In the 1950s, for example, the Dutch developed, together with Norway, the most sophisticated institutionalised economic planning model in Europe. Yet by the mid 1950s the government dismantled that system as the effects of national variables in an increasingly open economy were swamped by international effects. Likewise, the much admired and frequently oversold Dutch miracle of the 1990s also confirms a central argument of the book: economic flexibility and political stability are close cousins.[15] Admittedly this contradicts the view, fashionable in some quarters, and not only in the Netherlands in the 1980s, that corporatism is an instrument for dismantling the welfare state rather than one of its strong pillars. Yet what the critics overlooked at their own peril is the fact that the 1980s are only one episode in a series of adjustments that marks the political economy of small states.

This emphasis on the importance of adjustment policies makes for a big difference between *Small States* and Mancur Olson's widely noted work.[16] Olson's argument focuses on the universal tendency of free riding. In Olson's view, distributional coalitions and scelerotic political structures cause low growth—as in the USA and Britain, his premier cases of sclerosis—and, more generally, inferior economic performance. Since in his theoretical discussion Olson addresses size as a relevant variable, his analysis is quite compatible with *Small States*.[17] The theory allows for the possibility of encompassing organisations that makes possible collective action without selective incentives and thus provides theoretical support for the argument of *Small States*. Olson's parsimonious analysis elides, however, the structural differences that separate large from small states. A limiting case in Olson's parsimonious theoretical analysis turns out to be the empirical norm in small states: peak associations that organise collective action without selective incentives.[18] Furthermore, Olson's argument has a strong, reductionist flavour. Economic and political structures are all-determinative. Policy choice is irrelevant. According to Olson, economic growth, for example, is not affected by levels of taxation imposed on investment. As the Dutch example illustrates vividly, however, for the small states and more generally, policy is consequential, both for policy repertoires that are appropriate to cope with changing conditions in global markets and, equally important, for recreating political structures that are legitimate at home.

Recent scholarship has elaborated on and sharpened further this argument. In a recent article Robert Henry Cox, for example, offers an intriguing comparative analysis of the successes of the Dutch and Danish reforms of the welfare state compared to German failure.[19] Cox's main argument points to the importance of policy learning, specifically, the path shaping efforts of political leaders who initiate reform discussions that reframe the politics of reform for particular issues. After the acceptance of the necessity of a strategy of reform there remains ample room for disagreement on tactics. Unfortunately, Cox excludes from his examination of alternative explanations (power resources, coalitions, institutions and idiosyncratic factors) a consideration of state size. Yet small size favours debate and learning and economic openness and international vulnerability mean control over fewer resources and the probability of greater loss. Hence the environmental conditions in which small states operate are particularly conducive for high learning.

Support for this extension of Cox's logic can be found in the conclusion to an important paper by Anton Hemerijck and Martin Schuldi on policy failure and effective policy response.[20] The learning capacities of polities are influenced greatly by the looseness or tightness of coupling among political actors of welfare states and the existence of issue clusters encouraging negative or positive coordination. In terms of the efficiency and equality of policy outcomes, the best performances among all the OECD states for the years 1970–97 can be found in the Netherlands, Denmark and Switzerland, as well as in Australia. Although this finding is important, and in general supportive of the argument of *Small States*, we should not make too much of it. The differences in the performance of OECD states reported for the years 1970–98 show enormous variation.[21] The trade-offs between employment and inflation rates and employment rates and budget deficits, as well as macroeconomic levels of social protection and a variety of distributive outcomes, show great cross-country variation. While the small states do well enough on average, and under constraints that are at times daunting, performance does not set the small states systematically apart from large ones. It deserves to be noted, however, that the compatibility of relatively successful employment and social policies is 'possible under very different welfare state arrangements. Australia, Denmark, the Netherlands, and Switzerland, respectively originating from the Liberal, Social Democratic and Conservative worlds of welfare capitalism … perform relatively well both in terms of efficiency and in terms of equity. This finding leaves us with the intriguing puzzle that employment and welfare state goals can be achieved simultaneously in different regime types.'[22] For at least three of the four cases that puzzle is resolved by the argument articulated in *Small States*.

What are the underlying structural reasons for this finding? Hemerijck and Schludi focus on the deliberative attempt to adjust both the means and ends of policy to international conditions that none of the small states can alter unilaterally. Their conclusion deserves to be quoted at length because their long, amply annotated, comparative chapter, running in excess of 100 pages, which draws on the data of a large research project, does not cite *Small States*, either because they had not read it or because they saw it of no relevance to their analysis of the 1980s and 1990s.

> All the successful countries have followed a trajectory of negotiated change. In the two most tightly coordinated economies, Denmark and the Netherlands, the 1990s reforms and strategies crossing different policy areas were mutually reinforcing through issue-linkage. Together the impact of concerted adjustment was powerful…. They surely benefited from a 'shared ownership' of policy problems, triggered by the memory of deep crises and policy failures…. If welfare states wish to adjust to ongoing changes in the foreign and domestic policy environments, they not only need to change their policy structures; perhaps more importantly, they must also raise their general capacity to adapt, that is, their institutional learning capabilities.[23]

This summary is remarkably resonant with the core arguments of *Small States*. Tightly coupled systems with high learning capacities have proven particularly effective, Hemerijck and Schludi conclude, in redressing the disadvantages of regime-specific structural disadvantages. High-learning systems mix-and-match specific comparative advantages from different regime types.[24]

In his comparative analysis of labour market success in four small European states, Peter Auer reaches a similar conclusion. Arguing against the alleged superiority of the Anglo-Saxon model, Auer insists that successful countries retained, while adapting, their institutions and have seen their general success spill over into labour markets.

> It is therefore not the flexibility of the market, but the existence and adaptability of institutions and regulations which explain success in the cases reviewed. Contrary to widespread assumptions, these institutions were not in fact too rigid to survive in an environment demanding greater adaptability.[25]

This central finding, fully consonant with the argument of *Small States*, is not restricted to the area of political economy. Dan Reiter points to the importance of learning, especially from individual experience, as the best explanation of why small powers choose alliance with great powers (Belgium, the Netherlands and Norway) or neutrality in peace time (Sweden, Switzerland and Ireland). Reiter's main explanation is a formative-events-in-war learning model. In contrast to large states, small ones tend to disregard threats and focus instead on avoiding past mistakes. 'The conventional realist explanation of why states prefer alliances as a reaction to external threat has only marginal effects on the propensity of small powers to prefer alliance…. The effects of past, individual experiences on alliance choices are lesser for great powers than for small powers.'[26]

The remarkable learning capacity of small states is linked to a specific style of politics. In a theoretical paper Jane Mansbridge has argued that corporatist politics is marked by negotiation which is a hybrid of pure power and pure persuasion. The deliberative aspect of negotiation goes beyond the manoeuvring for advantage. It requires the capacity to listen and to understand the language and preferences of others, at times even to 'help create new preferences that better reflect the other's needs or values … Successful negotiators often find ways of meeting the other's real needs at less cost than seemed originally required.'[27] Vivien Schmidt's extensive analysis of the discursive politics of adjustment puts empirical flesh on this theoretical argument.[28] Schmidt's analysis does not explicitly address the learning capacities of small states. Her data suggest strongly, however, that policy change for small states has been larger than for large states. This is true of the Netherlands in comparison to Britain and Australia, and it is also true of Austria in comparison to Germany, though Austria may well lag behind the Netherlands, Switzerland and possibly Belgium. In Scandinavia no comparison with large states is possible. Mansbridge's theoretical argument and Schmidt's data suggest that, quite apart from cognitive learning, some small states may have an easier time than large ones in shifting preferences. Why? *Small States* suggests a possible answer: because they are open and vulnerable. Openness and vulnerability does not, however, dictate the outcome of a high-learning corporatist politics. Rather, it creates a contested political space which creates the opportunity for domestic actors to learn and adapt.

Learning and adaptation in a world of change are important ingredients for the strong performance of the small European states. Statistical indictors of economic and social performance contradict the notion that inferior economic performance has undercut corporatist arrangements in the small European states. Rather than collect the data myself, I have taken the quick and easy road of relying on the data that my colleague Jonas Pontusson has gathered for a forthcoming book.[29] Of the 48 empirical indicators that Pontusson has assembled, 42 point to a superior economic performance of the small European states compared to the large states. Large states outperform small ones only in terms of GDP per capita, real GDP growth 1960–90, two measures of long-term unemployment, a higher employment rate in 1970 (but not in 1990 or 1998) and a measure of net redistribution of income, for an income distribution that in the large states is less egalitarian than in the small states. On all the other indictors measuring various aspects of employment, income inequality, poverty reduction, unemployment, social spending, social security transfer, unemployment compensation and public health the small states outperform large ones. Scholars are likely to differ in their political inclinations and thus in their assessment of whether all of these are measures of 'good' performance. Are social spending, income transfers or equality reduction 'good' or 'bad'? Because the normative preferences of the literature on corporatism tend to assume that they are good, I have included them here. Even if the distributional data are excluded, however, the strong performance of the small states is noteworthy. Edeltraud Roller's comprehensive empirical assessment of a broad range of the performance indicators of Western democracies between 1974 and 1995 also supports the conclusion of the continued superior performance of the small states compared to the large ones.[30] Under constraints that are tighter for the small European states than for large industrial ones, and in an era in which Casino-style capitalism on one extreme competes with Leninist-style capitalism on the other, these various statistical performance measures demonstrate that the corporatist capitalism of the small European states is holding its own, comfortably.

An indirect reflection of the learning capacity and performance of the small European states is the relatively constant and high level of confidence in political institutions that their citizens express, in sharp contrast to declining and relatively low levels in the large industrial states.[31] Supported by close to universal assent of students of trust in government and students of international relations, the conventional view holds that loss of national control in the global economy is a major cause for the decline in confidence in political institutions. Since the economies of the small European states are much more open to developments in the international economy than those of large states, the loss in confidence should be strongest in the most open economies and weakest in the most closed ones.

The empirical evidence suggests otherwise. First, the United States and Japan are economically less open than most European states, yet confidence in institutions is much lower there than in Europe. Specifically, before 9/11 and its, as yet unknown, longer-term effects on confidence in institutions, the USA has led all other states in the decline in confidence while lagging all other states in the degree of economic openness. Second, Britain and Germany have comparable levels of economic openness, but British levels of confidence have eroded over time and are much lower than German levels. Neither of these two cases supports the conventional wisdom. Most importantly, the small European states are more open than either the United States, Japan, Britain or Germany. Yet they have exceptionally high levels of political confidence in institutions. Why is this so?

Small States offers two explanations. First, since for decades their policies offered generous social protection against international dislocations, confidence levels are high and stable. Over half a century the policies of compensation have created a political base and enhanced trust in the polity. Second, comparative and international survey research offers strong support for the ‘hometown hypothesis’; political winners have stronger confidence in institutions than political losers. One-party-dominant regimes, such as Japan, and until recently Italy and Mexico, have many losers and a low-confidence politics. Majoritarian systems with a winner-take-all politics, such as Britain, produce many losers and low confidence in institutions. In contrast, systems with proportional representation, as is true of the small European states, tend toward encompassing coalitions, many winners and a high-confidence politics. These systematic data on the perceptions and judgments of the citizens of the small European states agree with the findings of *Small States* and the existence of strong performance, a consensual politics, and high adaptability.

Labour incorporation

My inclusion of Switzerland in the analysis of *Small States* touched a raw nerve in a way that surprised me. I had gradually convinced myself that, some notable exceptions to the contrary notwithstanding, the most interesting aspect of Swiss politics was its many similarities with Austria. I developed that argument at length in *Corporatism and Change*. The Austrians and the Swiss did not particularly care for the book’s argument. It was, I suppose, simply too much of a stretch for Austrian trade unionists and Swiss bankers, and some Austrian and Swiss social scientists, to accept an argument that insisted on the existence of a strong family resemblance of the two neighbours.[32]

I was baffled by this reaction. Like Austria and the other small European states, Switzerland was small and open. Many of its markets were heavily regulated. Its unions were incorporated into a strong market economy. And its Social Democratic party was part of an all-party government. Admittedly, a major difference between Switzerland and Austria and some of the other small European states was the preeminence of banks and industry in the politics of what I dubbed a liberal version of democratic corporatism. But even on this score Switzerland was hardly unique, as a quick glance at the role of finance and big business in the Netherlands, Belgium and the Sweden of the Wallenbergs illustrated.

Among scholars of political economy in the United States and in Europe the inclusion of Switzerland among the small European states met vociferous rather than silent disapproval. From the perspective of comparative politics which typically neglects the international setting of the small European states, neocorporatist politics was about the incorporation and taming of labour in a capitalist economy. Scandinavia and Austria were definitely neocorporatist. For many US scholars with social democratic leanings they were admirable systems as well that had succeeded in civilising an unregulated, liberal-style of capitalism. The Netherlands and Belgium surely were also welfare states and might, with some queasiness, be admitted to the neocorporatist church through a side-door reserved especially for consociational systems fractured by religious and language rather than class politics. Switzerland, however, was an altogether different matter. It had a bad press and students of comparative political economy typically dismissed it out of hand as ‘too different’ to be included in a comparative analysis of the small European states. Only the statistically inclined, at times, differed; OECD data tapes are a great leveller of difference. When the n is small, it is attractive to include even statistical outliers.

With specific reference to the inclusion of Switzerland in *Small States* in his careful review Alexander Hicks, for example, objected strongly to my bucking what he considered to be the research conventions in the field.[33] In light of recent scholarship, it is, however, far from clear what those research conventions are. Lane Kenworthy’s detailed discussion of issues of definition illustrates with devastating precision in argumentation and impressive scope of coverage how imperfect agreement is among numerous scholars working with statistical methods on issues of corporatism and the welfare state.[34] Furthermore, Arend Lijphart and Gerhard Lehmbruch both concur that tripartite concertation, a small number of large interest groups, and the prominence of peak associations mark Swiss politics.[35] And in the 1990s, Klaus Armingeon concludes, Swiss corporatist politics continues to be strong.[36] On the face of it the inclusion of Switzerland in *Small States* appears quite defensible. More importantly, agreement with the canonical reading of particular traditions of scholarship are a means. The end is to understand the world better either by deepening existing analyses or developing new ones where old ones are found wanting. Defending corporatism as a kind of club for social democrats was considered good sport in the 1980s. Admitting Switzerland to the corporatist club was considered blasphemy.

With social democracy fraying a bit at the edges, a fair dose of globalisation and the Third Way has taken the shine off this kind of goal tending. The Reagan and Thatcher revolutions affected the functioning of corporatist systems less, witness, for example, the Danish and Dutch success stories of the 1990s,[37] than the tone of the scholarship on comparative political economy. One of the most important substantive conclusions of the comprehensive analyses that Fritz Scharpf and Vivien Schmidt brought together in a large research project on the viability of advanced welfare states in the era of globalisation points to the relevance of the Swiss approach: of enhancing productivity in the exposed sector, of the need to reduce non-wage labour costs, and of the necessity to increase private sector employment.[38] In brief, it has become quite normal for scholars of comparative political economy to inquire into Swiss-style market solutions to public policy problems.[39]

Prospects

Like the other small European states Switzerland emerged from the traumatic experience of the Great Depression, the Second World War and the experience or threat of Nazi occupation, with an ideology of social partnership and an elaborate set of fully institutionalised concertation practices. Without insisting in any way that history repeats itself, this time as farce, it may still be worthwhile to go beyond the argument of *Small States* and ask whether today there exist pressures that might be comparable to the massive political dislocations occurring half a century ago. The transformation from socialism to capitalism and the accelerating process of Europeanisation, I argue here, could be viewed as functional equivalents to those of the 1930s and 1940s. There is no need to assume that the political responses in the 1990s have been identical to those of the small European states in the 1930s and 1940s. But do the responses of central and eastern European states after 1989 and the responses of some of the members of the European Monetary System (EMS) and the European Monetary Union (EMU) in western Europe share some things with the crisis experiences of democratic corporatism in the 1930s and 1940s?

In her important and innovative work on transformative corporatism in central and eastern Europe Elena Iankova has pointed to the institution of trilateral Round Tables.[40] They were integral parts of the institutional repertoire of all the societies that experienced the enormous shock of system transformation under conditions of great uncertainty and the watchful eyes of Brussels. Hungary's tripartite Council for Interest Reconciliation, for example, was set up in 1988, revived in 1990, and throughout the 1990s held regular sessions on social, economic and labour issues. Bulgaria's National Council for Tripartite Cooperation, formed in 1993, was preceded by other forms of institutionalising a social dialogue. Similar tripartite arrangements came into being in Poland, the Czech Republic, Slovakia, Romania, Russia, Belarus, Moldova, Ukraine and Latvia. Compared to the small European states, however, there existed a significant difference. While the Round Tables were strengthened indirectly by a communitarian political style as one of the legacies of state socialism, the absence of an organised business community has given labour and the state bureaucracy the strongest powers inside the various councils. Business reorganises an embryonic capitalist order primarily through its actions in markets and only secondarily through its negotiations at Round Tables. The main purpose of the Round Tables and trilateral concertation was, in any case, to prevent social explosions in an era of sharply falling real incomes and sharply rising inequality.

Iankova's argument has been challenged. According to David Ost, for example, transformative corporatism is entirely illusory because under its auspices neoliberal orders were established and labour disadvantaged throughout central and eastern Europe. 'In the end,' Ost concludes, 'tripartism has played an almost entirely symbolic role.'[41] I am in no position to assess whether Ost is correct in his assessment of the transition economies. He appears, however, not to grasp fully the implication of his own argument about the political importance of symbols in times of crisis. Tripartism did help elicit popular support for shaky regimes seeking to affect a wrenching transition from socialism to capitalism. To call all of the central and east European regimes 'neoliberal,' as Ost does, stretches the concept unduly. If we had to choose one label under which to subsume their different experiences, then it would probably be 'European-style welfare capitalism'. After all international organisations of very different ideological stripes from the left (ILO), to the centre (EU and World Bank) and the right (IMF) were avid supporters of central and east European tripartism. International actors, like domestic ones, aimed above all at political stabilisation in central and eastern Europe. In a period of great crisis the small states of central and eastern Europe responded in some, though not in all, ways that were consonant with the behaviour of the small western European states half a century earlier.

The political movement away from their initial reaction of a centrist politics has been limited by both NATO enlargement and, since 1997, the EU accession process. The anticipatory adoption of the *acquis communitaire* with its roughly 100,000 regulations and directives had the effect of, broadly speaking, furthering the institutionalisation of social market economies in central and eastern Europe. A vast institutional network of accession councils, numbering in the hundreds both within and between countries, is busy building the institutional infrastructures of state and society, at times in the face of considerable scepticism, as is true, for example, of the Czech Republic, Slovenia and the Baltic states. The emerging social market economies are unlikely to resemble statist or neoliberal variants of capitalism. It is more likely that they will have greater resemblance with the institutions of the German variant of capitalism, among the large industrial states the closest cousin of the democratic corporatism of the small European states.

A second illustration of contemporary crisis politics in Europe are the effects of the monetary crisis of the EMS in 1992–3 and, subsequently, of the movement toward the EMU. The EMS crisis forced substantial lay-offs in both Italy and Spain and a return to a bargained incomes policy.[42] Italy decided to drop out of the EMS, devalued the lira and thus enhanced its competitiveness. Spain stayed in the EMS, enjoyed a broader currency band to cushion the peseta, and thus weakened its competitiveness. The crisis made crystal-clear to the political, business and labour leaders in both countries that Europe's monetary unification was for them a great political opportunity. The choice was simple. Get on the train of monetary union or be left standing on the platform as the train leaves the station. Persistently high inflation rates and large budget deficits had proven the ineffectiveness of a monetary policy conducted unilaterally. Business and government had come to accept the fact that they could not impose disinflation in a decentralised industrial relations system. And unions had come to accept that the erosion of their position in the old system was so severe that it was worth the risk to try something new. Thus both countries witnessed a return to centralised wage bargaining in the 1990s.[43]

The EMS crisis and the convergence criteria of the EMU thus acted as catalysts for policy innovation. As Vivien Schmidt notes, external pressures created great changes in both the coordinative discourse among members of the Italian political elite and the persuasive political discourse between members of the elite and the Italian public.[44] The successful adaptation of Italy to the European Monetary Union resulted eventually in a very large economic pay-off. The drop in real interest rates from double digits to the 3–4 per cent range created new flexibility in fiscal policy, traditionally hobbled by servicing a large public debt.

Europe's monetary union is the most important example of the accelerating pace of Europeanisation that has occurred along numerous dimensions since the mid 1980s. Binding decisions of the European Court of Justice (ECJ) and, more importantly, national regime competition under common EU directives and regulations help explain the resurgence of political arrangements throughout western Europe in the 1990s which Martin Rhodes has dubbed 'competitive corporatism'.[45] In a variety of nationally specific forms the 1990s have witnessed a remarkable revival of corporatist politics. As was true of the 1950s and 1960s, the revival of a corporatist politics in Europe in the 1990s has not only European but also domestic causes. The national fight against the structural unemployment crisis that is being waged in many continental welfare states has also been an important catalyst in bringing about another turn toward corporatism. Anke Hassel has analysed the emergence of stable employment pacts (in the Netherlands, Ireland, Italy, Denmark and Finland) and unstable ones (in Greece, Spain, Portugal, Belgium, Sweden and Germany).[46]

In their survey of different country experiences Philippe Schmitter and Jürgen Grote discuss the resurgence of corporatist arrangements in the Netherlands, Belgium and Austria, all EU members, as well as in non-member Switzerland.[47] Similarly Ireland, Portugal and Finland, not covered in *Small States*, have taken a surprising turn toward corporatist politics. All of these states were deeply, and differently, affected by the process of Europeanisation. This is true even of Switzerland which, like Norway, is unilaterally harmonising its legislation in anticipation of EU directives and regulations, in what the Swiss call a process of 'autonomous adjustment'. The fact that this adjustment occurs in clear contradiction of the results of a democratic vote against EU membership is a measure of the pressure that Europeanisation is putting on the small European states.[48]

Schmitter and Grote suggest that a cyclical recurrence of corporatism every 20 or 25 years is due to shifts in political preferences for private or public goods, involvement in pluralist or corporatist politics, or variations in the business cycle.[49] Alternatively, I argue here that the resurgence of corporatism may also be a manifestation of how random, exogeneous shocks and historical crises activate deeply seated institutional memories and practices in small states with an indigenous tradition of corporatist politics or encourage processes of imitation in states lacking such a tradition.

If this hypothesis were to be proven correct, it would give an interesting twist to the debate about the presence or absence of corporatism in the European polity. A source of disappointment to advocates of Keynesianism, corporatist politics did not become part of the EU polity in the 1980s. Weak social and sectoral politics worked against it. So did an international climate of opinion favouring markets over concertation. EU politics was marked by a pluralist rather than a corporatist style of politics.[50] Political developments in the 1990s gave no reason to change this assessment. Yet the pressures of Europeanisation, I suggest, and the competitive corporatism it engenders as part of a broader politics of regime competition, make corporatism an integral part of the emerging, multi-tiered European polity

Suitably refined and empirically tested, such an argument would be in broad agreement with the major conclusion that Maria Green Cowles, James Caporaso and Thomas Risse reached in their analysis of Europeanisation. Neither convergence nor continued national divergence, but ‘domestic adaptation with national colors’ describes best the ongoing process of Europeanisation.[51] Similarly, my analysis of the taming of German power in and through Europe yielded similar results. European effects are soft, not hard. They are stronger in economic than in social or security affairs. With a specific focus on the small European states I conclude that Europeanisation and continued, though constrained, national diversity are mutually compatible.[52] Corporatism, concertation, comitology and the community method are all important components of one political process.

What is the specific relation between the EU and the small European states?[53] In an insightful study Baldur Thorhallsson focuses on the Common Agricultural Policy (CAP), which is of great interest to all small states, though in very different product ranges, and the Structural Funds, of particular interest especially for the poorer small European states.[54] His findings are that, with the exception of the Benelux countries and the Franco-German couple, there exist no stable coalitions, including no stable coalition among small states, around either issue. Furthermore, following Robert Keohane,[55] Thorhallsson distills from the openness of the small European states their more focused political attention on a narrower set of economic interests than characterises the large states. Additionally, distinctive of the small size of their bureaucracies is informality and flexibility which makes these bureaucracies competitive with those of large states. Small size permits the setting of clear priorities, being rigid on matters of priority and flexible on all others. In sharp contrast, for bureaucratic reasons large states tend to be inflexible on all issues. This difference makes it possible for small states to work with the Commission to get their favoured issues acted on in the Council.

The implications of these political and bureaucratic factors for the relation between the small states and the EU are important. Enjoying a sizeable political overrepresentation in the decision making of the EU reinforces bureaucratic identities and interests that predispose the small European states toward Europe. They are an important power base for the Commission, the engine of European integration, in sharp contrast to the large states that tend to take a confrontational stance toward many of the Commission's policy initiatives. In short, the relation between the European Union and the corporatist politics of the small European states is mutually supportive. Increasing Europeanisation strengthens corporatist tendencies in the small European states, which are predisposed for bureaucratic and political reasons toward Europeanisation.

Conclusion

Concepts are good or bad, workable or unworkable, only in relation to the specific questions that an inquiry poses. And the question posed in *Small States* is different from the one other scholars posed before I wrote the book. This difference reveals different scholarly orientations in the fields of international and comparative political economy that I sought to bridge. In my prior analyses of comparative foreign economic policy of large industrial states I had put much emphasis on the domestic determinants of policy. *Small States* sought to improve on this. Without relinquishing a comparative approach it inquired into the influence of international variables on national policy. Two kinds of crises, recurrent capitalist instability and intermittent systemic war, created corporatism as an institutional innovation in response to both. I sought to demonstrate that this institutional innovation includes but goes beyond the stabilisation of capitalism through the incorporation of labour, thus creating a broader and more enduring type of politics.

In contrast to many of the more recent, statistically inclined scholarly works on economic performance, the primary dependent variable in *Small States* is political strategy rather than economic outcome. Political strategy is a variable that may be harder to measure than are economic outcomes. That fact does not makes it any less important. Some of the most important scholarship of the last two decades focuses on the different political pathways that capitalist democracies have followed in an era of globalisation. Avoiding the Scylla of neoliberalism and the Charybdis of strong state involvement in economy and society, Esping-Andersen's three worlds of welfare capitalism, Torben Iversen's and Anne Wren's trilemma of the service economy, and Fritz Scharpf's and Vivien Schmidt's analysis of welfare and work all show how under growing constraints all but the USA and the UK have evolved different political strategies to maintain the possibility of national choices in a world of great constraints.[56] This was also the central message of *Small States*. Important aspects of political science are about constrained choice. And when they are worth their salt, politicians will be interested, foremost, in finding out what a policy will do to their future range of choice.

Despite their many differences what unites these conceptualisations of capitalism is their imposition of a three-fold distinction that was originally developed in the analysis of comparative foreign economic policy.[57] That is only one of several reasons why the varieties of capitalism approach of Peter Hall and David Soskice is interesting.[58] Instead of adhering to a three-fold scheme, they follow Michel Albert's 'Rhine model' and Lester Thurow's 'communitarian capitalism' in distinguishing between 'liberal' and 'coordinated' market economies as ideal types.[59] In various sectors of the economy (industrial relations, vocational training, corporate governance, research and development, and the treatment of employees) in contrast to liberal economies coordinated ones are relying on non-market institutions. This difference is important for how individuals and firms make choices. This simplified taxonomy remains firmly in the field of comparative political economy. It retains an exclusively domestic focus and sidesteps the challenge of theorising different degrees of openness of national economies and the different types of links that connect them to the world economy.

It seems far from clear, however, whether it is intellectually productive to group under one heading, political economies such as Germany's and Japan's, and the smaller political economies with which they interact most intensively. German coordination mechanisms are industry-based, Japanese ones group-based, as David Soskice himself argued in a compelling paper examining the qualitative differences in their systems of industrial relations, education and training, finance, and company-to-company relations.[60] Furthermore, lumping Germany and Japan together is probably outright wrong for a broader analysis that focuses, as Hall and Soskice by and large do not, not only on the regulatory but also on the constitutive aspects of institutions. During the last half century, the collective purposes of the economic activities of these two polities have arguably differed sufficiently to warrant analysing Germany and Japan as exemplars of different varieties rather than a similar type of capitalism. Generalising from this one example, the effort to characterise types of capitalism may be served better by avoiding binary distinctions.

A discussion of issues of taxonomy misses the main contribution of Hall's and Soskice's book. The book points to the possibility of significant intellectual advance. Their synthetic formulation sets the stage for linking institutional characteristics at the macro-level to the choices of individual actors at the micro-level. Several of the chapters in their edited volume have moved some distance from the suggestion of possibility to the realisation of promise. The book thus offers an important intellectual opening for all scholars of political economy. It illustrates that rationalism and historical institutionalism, research traditions often thought of as mutually exclusive, can be exploited as complementary styles of analysis.

That we need the insights of both I learned first-hand while working on the small European states. *Small States* inquires into the compatibility between the international economy and democratic corporatism and the dynamic adjustment strategies it makes possible. *Corporatism and Change* analyses instead how the political logic of two kinds of corporatist arrangements, liberal in Switzerland and social in Austria, reproduces itself, linking the political dynamics at the national level to change in specific industrial sectors, down to the adjustment strategies of individual firms. I was thus able to analyse the connections that link firms to industries, national politics, and the international political economy. The ability to combine comparative and international political economy would have been less useful without tracing those linkages. It is a fair criticism, however, that the strength of the evidence of the two books I wrote falls along the national-international divide. The links between national and sectoral politics is weaker and the depth of research on individual firms is very thin indeed. Hall and Soskice and their collaborators show us a way of creating stronger links and quite possibly with less intense research effort. Getting more for less should be an attractive prospect and not only for students of comparative and international political economy.

The main message of *Small States* continues to be timely. Large states are growing smaller. Each large state is experiencing the condition of vulnerability differently and is trying to cope in different ways. The era of Japan's ascendance to the position of economic superpower, for example, lasted only a decade and is by now no more than a faint memory. Whether and how Japan will be able to pay its bills seems more important. Similarly September 11, the return to budget deficits, the growth of an enormous balance of trade deficit, a persistent macroeconomic savings gap, the discovery of crony capitalism on a wide scale in American business, and the ensuing crisis of confidence on Wall Street, illustrate the quickness with which the wheel of fortune has turned for the USA. China's or Europe's moment of glory, should it come, might be even briefer than that of Japan and the United States. Vulnerability in large states produces a different politics than in small ones. Whether we call it internationalisation or globalisation, the underlying condition, however, is here to stay and will force important change in how large states exercise their reconstituted sovereign powers.

This has been the experience of the small European states. The central political message of *Small States* continues to stand up well in an era of globalisation. And it is still well summarised by the Aesopian fable with which I concluded:

> The adjustment strategy of the small European states is summed up by the story of the snake, the frog, and the owl. Fearful of being devoured by the snake, the frog asks the owl how he might survive. The owl's response is brief and cryptic. Learn how to fly. None of the small European states have to soar like the eagle. What they have learned to cultivate is an amazing capacity to jump. Although they appear to land on their stomachs, in fact they always land on their feet and retain the ability to jump again and again in different directions, correcting their course as they go along. In a world of great uncertainty and high-risk choices, this is an intelligent response. Frogs can escape snakes, and the small corporatist states can continue to prosper—not because they have found a solution to the problem of change but because they have found a way to live with change.[61]

Notes

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