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6 Small Countries, Big Countries under Conditions of Europeanisation and Globalisation

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Small countries, we know, are small. Big countries are big. The European Union has had a significant impact on both, as has globalisation. The question is: does size make any difference as to how these countries adjusted their political economies and policies in response to European integration as well as globalisation?

In recent years, the smaller countries of Western Europe – consisting of all Nordic EU member states plus non-member Norway, the Continental countries of Austria, the Netherlands, Belgium, Luxemburg, plus non-member Switzerland – appear to have adjusted their political economies more quickly and more effectively to the new globalised and Europeanised environment than the bigger EU member states of Continental Europe like Germany, France and Italy. The smaller countries have higher GDP per capita, similar if not higher rates of productivity and lower rates of unemployment than these bigger states. And they accomplished this with more cooperative and better-coordinated relations between firms, labour and the state through corporatist concertation. Moreover, the small countries' political economic adjustment has not been accompanied by any serious undermining of their welfare states. The Nordic and Continental small states have all largely avoided both the problems of poverty, inequality and lack of job security plaguing Anglophone Europe and, in many cases, also the insider-outsider division of the labour market of the bigger Continental and Mediterranean countries (see Table 7.3 in the concluding chapter). In addition, they have introduced flexibility into labour markets without jeopardising security, increased the sustainability of pension systems without seriously affecting pensioners' income, and reduced the generosity of social assistance programmes without reneging on commitments to equality, universality and/or solidarity. Among

Anglophone countries, however, Ireland as a small state with a more recently open economy has also managed to address problems of poverty and inequality (at least until the current economic crisis) while improving labour relations through a move to a kind of state-led corporatism.

The smaller Nordic and Continental countries of Western Europe also have had a better scorecard with regard to EU-related policies (see the statistical data presented in chapter 7). In the Single Market, they tend to have higher rates of compliance with EU economic policy directives, in particular the Scandinavian member countries. Their performance with regard to the Open Method of Coordination has also been generally better than that of the bigger countries, with their 'best practices' seen as models for the larger member states. Moreover, smaller countries that have participated in the European Monetary Union (EMU), including the Netherlands, Austria, Finland and Belgium, have been quicker and more successful in putting their macroeconomic houses in order and in meeting the Stability and Growth Pact (SGP) criteria than bigger countries like (again) Germany, France and Italy. Equally significantly, however, those smaller member states that have stayed out of EMU – Sweden and Denmark – have nonetheless consistently met the SGP criteria without any warnings from the Commission, in contrast with the other West European non-member, Britain, which has received warnings on its deficit spending. And those smaller countries that have stayed out of Europe – Switzerland and Norway – could have joined EMU without much difficulty.

So what is it about the smaller states that might explain their better performance in Europe? Scholars have suggested any number of possible generalisations, many of which apply to many of the smaller states, but none of which covers all cases. These include small countries' very smallness and economic openness; their better-coordinated political economic institutions; their more generous and supportive socio-economic provisions; their stronger state institutions; their better policy responses; their cultural homogeneity, more innovative ideas and/or more inclusive communicative interactions. We could add that they all share a clear perception of what they are – small states in the open world economy – and therefore what they must do in response to outside pressures: that is, to do all that is necessary to promote economic competitiveness while maintaining public acceptance.

In addition, Europeanisation itself – whether understood as the indirect pressures of increasing competition from market integration, the more direct pressures of macroeconomic adjustment resulting from European monetary integration, the very direct pressures of European directives and European Court of Justice decisions related to the development of the Single Market (see Becker in the introductory chapter to this volume) – has had a differential impact on the small West European countries. In response to such pressures, whether direct or indirect, the small countries – much like the larger ones – have responded differently, with major, minor or no transformation, depending upon a host of factors related to the institutional 'fit' with policies and preferences, and the capacity to respond institutionally and politically, where politics is understood not only in terms of interests and power but also of ideas and discourse.

In what follows, I consider all of the above generalisations, in terms of openness, institutions, culture, discourse and the direct and indirect effects of Europeanisation in order to show that they neither apply to all small West European countries nor do they exclude ex ante the bigger countries. I illustrate throughout with cases of small countries in contrast to big countries. I conclude with some preliminary suggestions about what ideal-typically makes small West European countries not just small but successful, despite the empirical differences.

Small West European countries in a globalising world

Does smallness matter for West European small states' successful adjustment patterns in an increasingly internationalised world, from the post-war period forward? And if it does, what are the characteristics of small states that account for this success? Some scholars emphasise economic openness tied to coordinated action within political economic institutions, others the nature of political institutions, and yet others cultural homogeneity, common ideas or discursive interactions. As we shall see, these all offer clues to the success of small states, but none are entirely satisfactory on their own.

Economic openness and political economic institutions

Economic openness has been one of the longest-standing explanations for small countries' economic success. Peter Katzenstein (1985) was one of the first to show that one of the main characteristics of small West European states was their openness to international markets. Small countries as different in their cultures and political institutions as Sweden, Austria, Switzerland, Belgium, Denmark and the Netherlands all experienced significant growth throughout the postwar period despite – or is it because – they were small countries open to the world economy. One could even argue that Ireland joined this group more recently, having gone from one of the poorest and least developed of West European countries to one of the richest (at least until the financial crisis beginning in 2008) and most developed, with a major factor being its economic openness to global forces plus massive structural funds from the EU that helped promote economic development.

Economic openness alone, however, is no guarantee of performance. If it were, then how would we explain the poor performance of small states at various junctures in time – e.g., the Netherlands in the 1970s, Denmark and Ireland in the 1980s, Sweden and Finland in the early 1990s, and Ireland again today? Moreover, if it is economic openness on its own that counts, what makes small states any different from big ones that are equally if not more open, like the UK beginning with the Thatcher era which, according to Hirst and Thompson (2000), has been the only truly globalised economy among advanced industrialised countries? Equally importantly, European economic integration has increased the openness of all member states to one another as well as to the global economy, thereby diminishing the importance of openness *per se* as a distinguishing characteristic.

For Katzenstein (1985: ch. 1), economic openness was only one of a bundle of factors that together made small states competitive globally. Political economic institutions, in particular those of corporatism, as fostered in small states, was the most important among these factors. Corporatism was characterised by centralised systems of business interests and unions, voluntary coordination of conflicting interests through political bargaining by management, labour and (often) the state, plus an ideology of social partnership. This system enabled the social partners and government of small states with open economies in the post-war years to cooperate and to coordinate their responses to the adjustments required by external economic pressures – in monetary policy, as the social partners responded to the signals of central monetary authorities and moderated their wage rises in response; in industrial relations, wages and work conditions; and in pensions and social policy. The result, as Katzenstein found, was highly generous welfare states, highly stable labour relations and highly competitive economies.

Since the early 1980s when Katzenstein wrote *Small States*, much has changed, as all European countries have opened up their economies to globalisation and some non-corporatist countries have become quasicorporatist (e.g. Italy, Spain as well as Ireland) while others have altered their form of corporatism (e.g. Sweden). In the mainstream, the theoretical categories for capitalism, moreover, have moved from a tripartite division of capitalism consisting of liberal, corporatist and statist market economies into a binary division, as elaborated by the Varieties of Capitalism school (Hall & Soskice 2001).

The Varieties of Capitalism school identifies a binary division of capitalism split between 'liberal' and 'coordinated' market economies. Whereas in liberal market economies, business and labour relations are competitive, market-based and arbitrated by a liberal state, in coordinated market economies, cooperative management-labour relations appear alongside non-market managed business relations, all of which may be facilitated by an 'enabling' state (Hall & Soskice 2001). In the VoC classification, Ireland along with the US, UK and other Anglophone countries belong to the liberal type, whereas all the smaller West European countries identified by Katzenstein plus Germany are labelled as coordinated market economies.

But at the point at which all European economies are now open to globalisation and many more became more corporatist, we have to reopen our question about the factors that make small states special. Moreover, if we look closely at the small states across time, we can see that in some small states, even corporatism is not what it was, if it ever was what it was ideal-typically supposed to be. This raises a number of questions with regard to our original discussion of small states as successful because they are corporatist open economies.

For example, what do we do with Belgium which, as a result of the weak coordinating capacity of the social partners (Hemerjick et al. 2000), has never been as highly corporatist as the Netherlands or Sweden? Moreover, how do we account for the diverse ways in which coordination has changed even among the traditionally corporatist countries, given the increasing differentiation in wage-bargaining systems, some of which maintained their centralism (e.g. Finland and Norway), some of which have decentralised yet indirectly centralised (e.g. Denmark, the Netherlands and Sweden; see the respective country chapters and Table 1.7 in the introductory chapter to this volume)? The way Becker has dealt with these changes in the introductory chapter is an option, but the discussion of the questions posed here has just started.

A related question is what do we do with the general shift in relative power from labour to business in bargaining relations, or the growing role of the state in influencing the bargains (e.g. Austria, the Netherlands) or even in setting them (i.e. Belgium) (Hemerjick et al. 2000)? And how do we distinguish small states from big ones, given that Germany is also a highly corporatist market economy?

Equally importantly, how do we deal with Ireland, which is more of a liberal market economy with market-driven business relations but which, nonetheless, has since the late 1980s developed cooperative management-labour relations led by the state in something akin to corporatism (Hardiman 2004; Teague & Doneaghy 2004)? And where do we place other countries that have recently managed to institute a form of state-led corporatism, like Italy and Spain (Royo 2002, 2008; Molina & Rhodes 2007)? These bigger Mediterranean countries do not fit the binary division of the Varieties of Capitalism school; nor does France which, unlike its other Mediterranean counterparts, has instead radically decentralised its labour markets. Rather than consigning these countries to a mixed category of uncertain coordination called mixed market economies (MMEs) by the Varieties of Capitalism school, I see them as approximating a third type of capitalism: 'state-influenced market economies' (SMEs). Characterised by hierarchically-based business and labour relations enhanced or hindered by an 'influencing' state (Schmidt 2002a: ch. 3, 2008b), it resembles the statist capitalist variety as presented by Becker in the introduction to this volume. Greece, arguably a small state, along with Portugal as well as most of the small Central and East European countries, could also be categorised as cases approximating the SME type (Pagoulatos 2003). And to what degree the SME type applies to the small West European states considered herein is a task for future research.

Does the configuration of socio-economic institutions also play a role, since all such countries, with the exception of Ireland, have high levels of welfare provision and security? Even here, though, no single generalisation works, since the smaller states are divided between the traditionally social democratic Scandinavian countries, which have maintained similar systems despite cost-cutting and rationalisation, and the traditionally conservative Continental small states, which have changed (or not) in very different ways (e.g. the Netherlands vs. Austria). Notably, the Netherlands is now often categorised with the Scandinavian countries when considered in terms of measures of redistribution and equality (via the Gini coefficient) (see Table 7.3 in the next chapter).

Political institutions

But what can we say of political institutions, and the role of the state more specifically, with regard to the small West European states? One of the problems of the Varieties of Capitalism school is its scant attention to state action, defined as government policies and practices that emerge out of the political interactions among public and private actors in given political institutional contexts (Schmidt 2009). There is in fact a growing literature in political economy that has increasingly paid attention to the role of the state in structuring markets, developing new missions and making critical choices that are the 'product of power and politics, not just path-dependence and employer "coordination"' (Levy 2006). The state is significant, moreover, not only for its political economic institutions and its policies but also its political institutional configuration (polity) as well as politics, understood not only in terms of power and interest but also in terms of the power of ideas and discourse (Schmidt 2009). In this, smaller West European countries are no different.

Significantly, in fact, political economic success is sometimes attributed to the unitary nature of the state. Having a unitary state with autonomous decision-making capacity makes a difference in cases where the social partners are unwilling or unable to play their role in negotiating social policy change, which was true in the 1990s for both the Netherlands and Sweden with regard to reforms of the welfare state (Schmidt 2003). This said, having a weaker unitary state, due to minority-led governments, may also promote reform. In Denmark, for example, beginning in the early 1980s, minority governments were able to reform not despite but rather because of governmental disunity, which enabled reform after reform to be negotiated by *ad hoc* government coalitions that engaged in 'policy and party shopping' (Vad & Benner 2000).

Moreover, centralised corporatism combined with a unitary state, however weak, also seems to be a key to success. Whereas in Sweden, the state had to go it alone with regard to welfare state reform in the 1990s once the social partners had pulled out of centralised national level corporatist mechanisms of negotiation, in Denmark the reform process was facilitated by the continuation of centralised coordination, enabling the state to negotiate far-reaching reforms cooperatively with the social partners (see the respective country chapters in this volume). The Danish state's success in actively promoting policy change through national level coordination mechanisms, using firms in order to achieve its goals of bringing the long-term unemployed into the economy, contrasts markedly with the lack of success in Germany, in which the state was unable to mobilise the social partners for solidaristic purposes, and instead German firms worked through the state to achieve their goals of shedding unproductive labour (Martin & Thelen 2007). This said, if Denmark were compared with the German states of Baden-Württemberg or Bavaria – both with more than twice as many inhabitants as Denmark – the contrasts would not be striking. This helps explain Becker's cautiousness on comparing small and big states (see Becker 2009: 141)

But if it were all about political institutions and the contrast between unitary and federalised states or ongoing centralised and decentralised coordination systems, how do we explain Switzerland and Belgium, both highly federalised systems with weak states and weak corporatist relations in which the state nevertheless managed to achieve significant reform success? In Belgium in the 1990s, for example, the incapacity of the social partners to reach agreement in wage bargaining or of the state to impose a negotiated solution led to the system of wage setting by government decree. Moreover, we still know little about *why* countries reformed in the ways they did, which raises questions regarding culture, ideas and discourse.

Political culture

Political culture has for a long time been out of favour with political scientists as an explanation for why countries or people are what they are or do what they do, mainly because in the past it was used as a heavily value-laden catch-all explanandum, as notably in Banfield's study of Italy, *The Moral Basis of a Backward Society* (1958/1970). For the small countries, it was sometimes used by scholars as a way of pointing to their success while denying the replicability of that success. These explanations were often tautological, such as: Sweden is social democratic because it has an egalitarian culture; Switzerland manages the complexities of a highly federalised society cooperatively because it has long had a consensual culture. These kinds of explanations deny the difficulties involved in creating and maintaining such 'cultures', while culture itself remains unexplained.

More recently, however, culture has been reintroduced to the field of political science. Among the three traditional 'new institutionalisms' in political science (see Hall & Taylor 1996), it serves as an active concept in 'sociological institutionalism'. In rational choice and historical institutionalism, by contrast, culture has remained a residual category, often used as part of the background characteristics of path-dependent (historical) institutions or 'nested' (rational choice) incentive structures, and generally serving as unexamined claims about institutions rather than as something to be studied. In sociological institutionalism, by contrast, culture plays an important role in framing action and (social) institutions. Barbier (2008) melds this with a more dynamic ideational approach to explore the political cultures within which normative frameworks based on common sets of values and norms are institutionalised for given periods in policies and practices in particular countries, as in the case of notions of precariousness in Denmark and the Netherlands.

Culture, however, is not always congruent with given countries, since some countries are culturally homogeneous and some culturally heterogeneous, with small countries more often the former and big countries the latter. John Campbell and John A. Hall (2006), for example, show quantitatively that small countries that are culturally homogeneous have stronger economic performance than bigger homogeneous countries, and that even smaller countries that are culturally heterogeneous do at least as well as the bigger homogenous countries, let alone the bigger heterogenous ones. In a qualitative case study of Denmark, moreover, they demonstrate that the cultural origins of homogeneity go a long way back, and that such homogeneity has contributed to other qualities, such as effective coordination. But if successful adjustment is the result of their cultural homogeneity, what then do we do with culturally heterogeneous countries like Switzerland or Belgium, which have also been successful?

Moreover, cultural homogeneity has also been linked to outcomes that are not always positive. These include the rise of anti-immigrant right wing extremist parties, whether in Denmark, where extremist discourse has focused on outsiders (read Muslims) exploiting the generosity of the welfare state, or in the Netherlands, where Pim Fortuyn's discourse (perversely) in the 2002 election campaign built on Dutch values of tolerance to argue that they had to be intolerant of the intolerant (read Muslims) in order to protect their tolerant society (Schmidt 2006: ch. 4). Intolerance, however, is not a characteristic linked exclusively to homogeneous cultures – witness the rise of the extreme right in Switzerland and in Belgium – or of small states, given the Le Pen phenomenon in France. The fact that the extreme right in France has more recently been losing its appeal in response to President Sarkozy's construction of a discourse that appealed to Le Pen voters on security and immigration issues, suggests another differentiating factor related to the politics of ideas and discourse.

Political ideas and discourse

'Discursive institutionalism' – the term I use as an umbrella concept to describe the wide range of approaches that focus on the substantive content of ideas and the interactive processes of discourse – also deals with culture. But culture is not always the main object of study for discursive institutionalists. Although it is primary for those discursive institutionalists who come out of the sociological institutionalist tradition (e.g. Barbier 2008), it is not for discursive institutionalists who engage with rational choice and historical institutionalist traditions and therefore concern themselves with ideas about interests and (historical) institutions instead. This said, culture naturally frames the ideas and discourse studied by all discursive institutionalists, giving the 'ideational structures' of meaning that underpin agents' 'background ideational abilities' to make sense of the world, which are based in language and culture, as well as agents' 'foreground discursive abilities', which enable them to articulate, communicate and criticise those ideas in order to take collective action to change (or maintain) them even while they use them (Schmidt 2008). But most importantly for discursive institutionalists, and not always for sociological institutionalists, what is important is how ideas and discourse serve to (re)frame culture.

Thus, for example, Bo Rothstein, a 'discursive institutionalist' who engages with the rational choice institutionalist tradition, emphasises the importance of collective memories in Sweden to explain the long-term survival of cooperative collective bargaining – as opposed to the neutral incentive structures of rational choice institutionalism. Thus, he explains the history of institutions as the carriers of ideas or 'collective memories' about the trustworthiness of collective-bargaining institutions that were generated at certain critical junctures (Rothstein 2005). In Sweden, the decade of the 1930s was the moment at which Swedish collective bargaining evolved into a trusted 'public institution' based on peaceful and collaborative industrial relations. The defining moments came first in the early 1930s when, in response to a violent strike in which five people were killed, a successful coordinative discourse among policy actors was joined by a persuasive, cooperation-oriented communicative discourse by the prime minister who evenhandedly condemned the violence of the military while also chiding the strikers. This then became the basis for a collective memory that in the late 1930s, at the time of agreements on collective bargaining institutions, served to remind all parties to the discussions that cooperation was both possible and desirable. This collective memory continues to underpin the collective bargaining system today, even though the bargaining system has changed greatly, in particular since the employers pulled out of the national central system, but continue to participate in sectoral bargaining (Rothstein 2005: 168-98).

Discursive institutionalism also lends insight into the dynamics of change in the 1990s in Sweden, which were discussed above primarily in historical institutionalist terms. What is described by historical institutionalists as a shift from social partner coordination to state action as a result of the failure of social concertation in the reform of the welfare state – without any account of why and how the state then acted in the way it did – is explained by discursive institutionalists in terms of ideas and discourse. The generation of the policy ideas can be attributed to the epistemic communities of policy experts and specialised politicians that informed the coordinative discourse of the policy sphere (Marier 2008). The subsequent successful communication and legitimation of those ideas to the general public, by contrast, can be attributed to the social democratic party in power at the time which, in the absence of the social partners, engaged in a communicative discourse with the public in the political sphere by creating public forums through which to inform, discuss and revise the policies before they were implemented (Schmidt 2000).

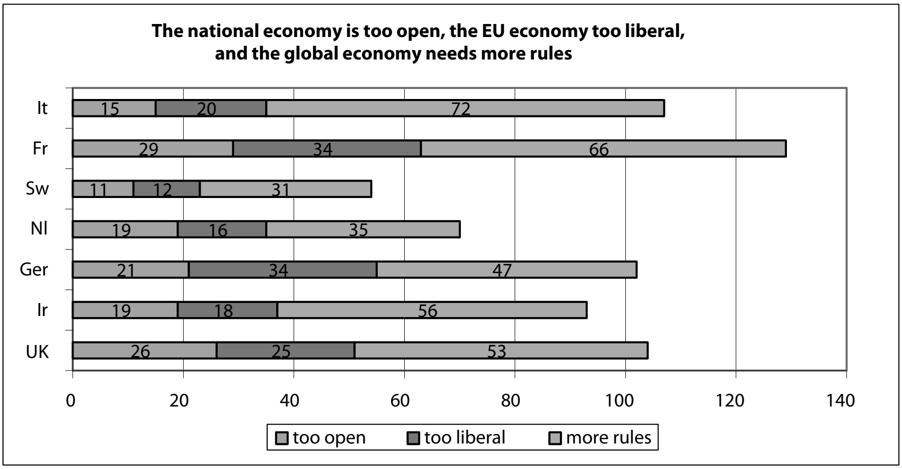
The Netherlands offers yet another example of the usefulness of turning to the interactive processes of discourse to explain the dynamics of change in welfare states. While our earlier historical institutionalist discussion of the welfare reforms of the 1990s described the significant changes that came about, it did little to explain the dynamics of change endogenously. Discursive institutionalism can help, by pointing to the 'crisis narrative' developed by the government in power and articulated by Prime Minister Ruud Lubbers that the Netherlands was a 'sick country' given that one in seven workers were on disability benefits (Kuiper 2004; Schmidt 2000). But while cognitive arguments about the necessity of reform enabled the government to push through major changes in the disability and pensions systems, the lack of normative legitimisation led to the government's massive defeat in 1994. It was only when a new government was able to argue credibly that it had not only ensured a better economy with 'jobs, jobs and more jobs' but that it safeguarded social equity even as it produced liberalising efficiency, that reform gained public acceptance, as confirmed by the government's landslide electoral victory in 1998 (Levy 1999; Schmidt 2000). As the economy turned around, the 'Dutch miracle' became the talk of the world, and its origins were traced back to the Waasenaar Agreement of the 1980s.

The Dutch miracle, however, may be less about the success of particular policies than it is about the success of a 'miracle' discourse beginning in the mid to late 1990s that led people to believe that success was tied primarily to wage restraint, as Becker (2005) argues. In fact, whatever the contribution of wage restraint to export-led growth, it has also contributed to making the labour market one in which more jobs are divided among more people, with fewer working hours for everyone and lower incomes, in particular for the 'outsiders' with part-time jobs – mainly women, youth and immigrants (Becker 2005; Salverda 2005). This said, however misguided the discourse may have been and however problematic its policy prescriptions turned out for the long term, it involved the creation of a 'collective memory' that contributed to labour peace and the successful negotiation of major reforms of the work and welfare regimes.

Since the mid 1990s, moreover, Dutch governments have continued broad-scale liberalisation programmes, ensuring that the Netherlands, once categorised as a conservative welfare state, is seen as somewhere between the British liberal paradigm – given pension privatisation and high labour-market flexibility – and the Scandinavian social-democratic paradigm – given a high basic pension and labour market 'security' for part-time and temporary jobs (regular social benefits and a top-up in pension if necessary at the end of work life; see the contribution of Houwing and Vandaele in this volume). Moreover, it has managed to liberalise without jeopardising commitments to social equality, as is evident from its low measure of inequality (see Table 7.3 in the next chapter). As a consequence, the public has come to see economic success as linked to neoliberal reform and, despite economic stagnation in recent years, continues to support it as well as to maintain a positive attitude toward globalisation. Attitudes toward Europeanisation have also been largely positive, at least until the negative vote in the referendum on the Constitutional Treaty which reflected concerns about immigration and the inflationary impact of the euro as well as the desire to punish an unpopular government unable to articulate the case for Europe (WRR 2007b).

Ideas and discourse about economic openness, or globalisation, represent another differentiating factor for small states, accompanying the (historical) institutional facts of economic openness plus corporatism and generous welfare states that served to distinguish small states in the early postwar years until the 1980s. Because globalisation has been a sine qua non of economic life for small West European states throughout the postwar period, it has become such a part of the background assumptions that national leaders have not even felt it necessary to address the issue. By

Figure 6.1 Views of national, EU and global economies as a measure of 'regulationism'



Source: Eurobarometer 2003 (Flash EB no. 151b pp. 9-11, 33)
The questions include:
Q3. Currently, do you consider that our country's economy is too open, too closed or is suited to the development of the worldwide economy?
Q4. And generally speaking, would you say that the European Union is too protectionist or on the contrary too liberal or neither too protectionist nor too liberal?
Q5. Would you say that more regulation or less regulation is needed, or that the current regulation is sufficient in order to monitor the development of globalisation?

contrast, political leaders in Ireland as well as Britain have felt the need to articulate a specifically pro-global discourse, whereas in countries like France, they have been decidedly anti-global in their discourse, and the public has been the most negative (Schmidt 2007). This is illustrated in Figure 6.1, which shows the responses to a range of Eurobarometer questions about attitudes toward globalisation. The smaller states generally have more pro-globlisation views than the bigger countries, and France is off the charts.

For example, in Sweden, even at moments of major economic crisis and reform, in the early 1990s when the country's real estate bubble burst, public attitudes toward globalisation have not been affected. This is because such reforms resulted in some liberalisation but did little to fundamentally jeopardise the basic postwar paradigm of the social-democratic welfare state, with its commitment to equality and universality of access (see the contribution of Lindgren in this volume). The reforms managed to maintain a very high level of benefits and services despite moderate cuts and the introduction of modest user fees (Benner & Vad 2000). Thus, in their communicative discourse, social democratic governments consistently presented themselves as defending basic welfare state values of equality, even as they cut benefits in order to 'save the welfare state' (Schmidt 2000). For the Swedish public, Europeanisation has been much more in question than globalisation, mainly because of fears of the negative impact of the European Monetary Union on the welfare state, as evidenced by the fact that referenda on EMU membership have repeatedly failed. Even the eastward enlargement of the EU related to the insourcing of workers has not been much of an issue (Sweden was only one of three countries, along with the UK and Ireland, to open its doors to the 2004 accession countries; see Schmidt 2007). But immigration more generally, in particular as it relates to third-country nationals, has become an issue, with anti-immigrant feeling growing with regard to immigrants' potential demands on the welfare state if they are jobless and without skills. Sweden, however, has been much less xenophobic in this regard than Denmark (as noted above), which recently instituted the most draconian immigration rules in all of Europe.

The Europeanisation of small West European countries

For further insights, we now turn to how small countries have responded to the pressures of Europeanisation.

In response to the pressures of globalisation, small countries with open economies and corporatist institutions have fared reasonably well from the early postwar years to today, but it is impossible to say why exactly, other than to cite the range of characteristics related to openness, social concertation, political institutions, cultures and ideas and discourse that have played a role in small countries' adjustment. Much the same could be said for the pressures of Europeanisation.

Europeanisation, defined here as the top-down impact of the EU on national policies (following Ladrech 1994; Héritier 2001; Radaelli 2003; Börzel & Risse 2000; Schmidt 2002a), has had a differential impact on the smaller West European countries. Although the process of European integration, defined as the bottom-up influence of the member states on Europe, along with the feedback loop from Europeanisation, is equally important to the smaller European countries' experience in the EU, the formulation I use here is most suited for the study of how the smaller countries have adjusted to Europe. It enables us to consider the different kinds of impact that EU policies and policymaking have on national policy, including the indirect pressures from EU economic integration, the more direct pressures from EU institutional rules and rulings, and the indirect pressures of EU 'new governance' methods of 'policymaking without policies'.

Theorising the impact of Europeanisation on small states

To provide a systematic analysis for why the smaller countries responded in the way they have to EU policies requires a differentiation of the kinds of pressures exerted by the EU rules as well as the identification of the range of national mediating factors affecting countries' responses. First of all, it is important to take note of the kinds of decision rules which frame the EU policy. These include highly specified rules that impose certain policies, as in the Maastricht criteria in the run-up to EMU; less specified rules that allow a certain amount of leeway in the transposition of EU policies, as with the deregulation of the telecommunications or electricity sectors; suggested rules such as in the Open Method of Coordination, in which compliance is voluntary and there are no sanctions other than 'naming and shaming'; or no rules at all, as when the Directorate General for Competition demands only an opening up to competition (Schmidt 2002a: ch. 2).

Secondly, we need to consider the range of nationally specific factors that may affect country responses to European policies. While goodness of fit or misfit of EU policies with national policy legacies may set the stage (see Börzel & Risse 2000; Héritier et al. 1996; Cowles et al. 2001), policy preferences based on national actors' ideas about interests or values dictate whether misfit is seen as a problem or an opportunity, political institutional capacity reflects the institutional arrangements and the political interactions that affect state and societal actors' ability to respond more or less effectively, and the quality of national actors' ideas and the persuasiveness of their discourse enhances the capacity to respond by altering perceptions of legacies and by influencing preferences (Schmidt 2002a: ch. 2). As a result, while in some sectors, the interaction effects of the EU and national policies may be significant, entailing the transformation of national practices, in others the EU may have only a minor impact, with the absorption by national practices of any EU-related changes, and in yet others the EU may have almost no impact at all, as national practices show inertia with regard to the EU (see Héritier et al. 1996; Héritier 2001; Schmidt 2002a: ch. 2).

Market and monetary pressures of Europeanisation

Europeanisation as a driving force for change can be highly varied, in particular where it is understood as the indirect pressures of increasing competition resulting from market integration. These hit early on, beginning with the elimination of European tariff barriers (from 1969), continuing with the Single Market Act, with 1992 as the target date for the elimination of non-tariff barriers, as well as with the increasing harmonisation of those products that could not circulate EU-wide on the basis of mutual recognition alone. All of this was intensified by the first and second oil shocks, which added globalisation alongside Europeanisation as a form of competitive pressure bearing down on all European countries.

For the small West European countries, these pressures were arguably more intense than for the bigger countries, since they have all had very open economies since the early postwar years. But this did not mean that they all responded well or quickly. The Netherlands was a basket case in the 1970s, both in terms of economic performance and corporatist relations, but began its recovery in the 1980s. Denmark had current account difficulties in the 1970s which only worsened in the 1980s. Belgium was in even worse shape than either of these two countries in terms of both performance and corporatism, and did not recover nearly as rapidly (Hemerijck et al. 2000). None, however, were in as parlous a state as the UK, which had to request an IMF loan in 1976.

By contrast, some smaller countries did reasonably well in macroeconomic terms for quite a while, like Sweden and Austria, both of which were outside the EU as well as the European Monetary System (EMS) until 1995. Sweden performed well economically while remaining the last of the neo-Keynesians until the real estate bubble burst in the late 1980s, producing an economic meltdown in the early 1990s that ultimately led to their request for entry into the EU. Sweden's labour relations, however, experienced a major crisis already in the early 1980s when the employers' association withdrew from the centralised bargaining process, although sectoral bargaining continued without difficulty (Vad & Benner 2000). Austria managed the transition from Austro-Keynesian monetary policy reasonably smoothly and with no significant problems in its labour relations, albeit relatively late (mid-1980s) (see Afonso & Mach in this volume as well as Hemerijck et al. 2000).

Europeanisation may secondly be seen to include the more direct pressures of macroeconomic adjustment resulting from European monetary integration through the EMS and the EMU (see the discussion in Becker's introduction, this volume). Here, the small countries that have joined EMU have generally responded well, but not always without difficulty. In the run-up to EMU, although the Netherlands and Austria had little problem meeting the Maastricht criteria for membership, Belgium, like Italy, had a very high public debt. This would have excluded it from membership in the eurozone had the member states in their wisdom not decided to reinterpret the 60% public debt criterion of the Maastricht Treaty to mean moving in the direction of 60% (mainly to ensure Belgium's participation). This said, meeting the deficit criterion was not so easy at the last minute not only for Italy, which was castigated by Germany for fiddling with the figures, but even for France and then Germany, both of which were also caught moving money from one account into another in order to make their books look right.

Moreover, once EMU was established along with the Stability and Growth Pact (SGP), Ireland was in trouble early on because of a rate of inflation (around 4%) higher than the 3% required at the time. The Netherlands struggled with a slow economy in the early to mid-2000s, engaging in significant belt-tightening in order to stay within the SGP criteria. This helps to explain the irascibility of Dutch politicians (along with that of the Dutch president of the European Central Bank) in response to German and French lack of adherence to the SGP criterion on deficit for a number of years running as a result of recessionary pressures in their economies. It also explains Dutch unwillingness to accommodate their demands for a more flexible interpretation of the criteria, although the two bigger countries ultimately won out since punishing France and Germany made no ultimate sense given that these are the two largest economies in the Eurozone and the motors of growth.

Not all smaller European countries, of course, are in EMU. Denmark obtained an opt-out from EMU in its second referendum on the Maastricht Treaty, after the first failed in part as a result of fears of the impact of monetary integration on the welfare state along with concerns about sovereignty and identity. And yet Denmark could easily be part of the euro, given its imported 'hard money' policy, which began in the early 1970s when it stayed in the EMS 'currency snake' (a band within which currencies were permitted to fluctuate) and shadowed the Deutschmark. Sweden, unlike Austria and Finland, did not join EMU when it entered the EU in 1995. But although this de facto opt-out was never specified in writing, as Commission officials sometimes remind its leaders, Sweden continues to resist joining because of public fear of the euro's impact on the welfare state and the economy more generally. Since Norway and

Switzerland are not part of the EU, they have no need to follow the requirements of EMU. And yet both have also largely shadowed the euro in order to protect their currencies from excessive volatility.

In the light of the current financial market crisis, membership in EMU has also represented a kind of insurance policy against excessive currency volatility and speculative pressure. The experience of another very small Nordic state, Iceland, which found its currency near collapse once its major banks had failed, is a case in point. The plans of its newly elected government to join the EU and EMU, although still in their preliminary stages, suggest that at least one very small Nordic 'outsider' has revised its views of the costs and benefits of joining the EU. Norway, by contrast, has not considered revising either its stance on membership in the EU or EMU for the moment; but it does not have the economic problems of Iceland, given its oil revenues.

Institutional pressures of Europeanisation

Europeanisation also encompasses the very direct pressures of European directives and European Court of Justice decisions meant to promote the completion of the Single Market. Here, harmonisation of the rules related to the freedom of movement of goods began in earnest in the mid-1980s with the push to complete the Single Market. At the same time that the principle of 'mutual recognition' ensured that most goods that met the standards of one member state could be sold across the EU, those products that affected health or safety standards would still have to be harmonised. And it is in the industrial standards committees that we find that smaller countries have much less influence than the bigger countries, if judged by their control of the secretariats (see Table 6.1).

The pressures of Europeanisation intensified in the 1990s as the Commission moved from focusing on harmonising the rules of free movement of goods to freedom of movement of services and people, and as it promoted deregulation in public utilities services and the liberalisation of public and private services. This meant that areas such as telecommunications, postal services, electricity and energy were deregulated while public procurement markets and services more generally were to be opened up. Significantly here, smaller states with more liberalising tendencies in recent years, including Denmark, Sweden, and the Netherlands, were less affected by the regulations than countries like Austria and Belgium, which had been slower to deregulate in these industries, as the country chap-

Table 6.1 Small states' control of secretariats of standardisation committees

Countries	*CEN (279 secretaries)*		*CENELEC (108 secretariats)*		*ETSI (17 chairs)*	
	#	(%)	#	(%)	#	(%)
Germany	77	(27.6%)	28	(26%)	3	(18%)
UK	55	(19.8%)	38	(35%)	4	(23.5%)
France	52	(18.6%)	13	(12%)	4	(23.5%)
Italy	30	(10.8%)	13	(12%)	2	(12%)
NL	21	(7.5%)	2	(~2%)	1	(6%)
Belgium	10	(3.6%)	2	(~2%)		
Sweden	10	(3.6%)	1	(~1)		
Spain	7	(2.5%)	7	(6.4%)	1	(6%)
Switzerland	4	(1.4%)	1	(~1)		
Finland	3	(1%)				
Norway	1	(0.4%)	3	(2.7%)		
Greece	1	(0.4%)				
Portugal	1	(0.4%)			1	(6%)
Ireland	1	(0.4%)				
Austria					1	(6%)

1 CEN: European Committee for Standardisation
2 CENELEC: European Committee for Electrotechnical Standardisation
3 ETSI: European Telecommunications Standards Institute
Source: CEN Technical Committee List, 03/03/2005; CENELEC Directory 2005, Issue 1; ETSI website, Organisational Chart

ters in this volume tell us. Importantly, however, the countries with the most significant influence on the content of the reforms were the bigger member states, and in particular Germany and France in all of these areas (Thatcher 2002; Eising & Jabko 2001).

Implementation and compliance patterns also differ with regard to social policy. In gender-related and parent-related social policies, for example, Gerda Falkner and her associates (Falkner et al. 2005: ch. 15) show that across a number of specific policy directives, member states exhibit patterns of reactions that suggest that there are three 'worlds of compliance'. Nordic countries are the only ones that fit the 'world of law' in which whatever the misfit with policy legacies or preferences, the directives are transposed and implemented in a timely fashion. Austria, the Netherlands and Belgium fit the 'world of domestic politics' in which delays are related to partisan politics, much as in the UK, Germany and Spain. The 'world of neglect' is made up of Ireland – which although in the 'world of politics' with regard to transposition, scores poorly in terms of the implementation of directives, much like Italy – and Luxemburg, which although an effective enforcer is a bad transposer, as is France, because of its consistent unwillingness to comply, regardless of the politics. Greece and Portugal, by contrast, are bad at both transposition and enforcement (Falkner et al. 2005: ch. 15).

In addition, we should not forget that Norway and Switzerland, although not part of the EU, have nonetheless had to sign up to the full range of Single Market rules without having a vote on those rules. In the case of Switzerland, for example, whereas its officially stated policy is 'participation without integration,' the reality has been much more one of 'integration without participation' (Kux & Sverdrup 2000: 254). Its laws are largely harmonised with the EU, with 85% of Swiss market legislation EU-compatible. EU directives on competition law, for example, are copied verbatim into Swiss law, while EU technical annexes form an integral part of Swiss laws and decrees. Moreover, in order to gain access to the European clearing system TARGET, Swiss banks have also established a Swiss euro clearing bank in Frankfurt (Kux & Sverdrup 2000: 251-252). In addition, in its bilateral agreements with the EU, access to markets and/or to other policy areas generally come with a quid pro quo. For example, Swiss participation in the Schengen/Dublin system came with concessions on banking secrecy – including imposing a withholding tax on citizens with tax residency in EU member states. The result is that bilateral negotiated agreement takes the place of institutional voice and vote, which would come from sitting around the table in Brussels.

Institutional voice and vote, however, mean little when it comes to action by the Commission or the ECJ that follows from their autonomous treaty-based powers. And for some small states, the impact of EU decisions has been very significant indeed. One such set of decisions involves those that run counter to the country's moral values. For example, the EU's decision that the restrictive alcohol policies of Finland and Sweden violated rules regarding competition policy and the free movement of goods challenged Nordic values that saw such restrictions as necessary 'for the good of society' – to curb the excessive drinking which was stereotypically assumed to be the product of citizens' attempts to overcome 'communication anxiety.' Similarly, the EU's opposition to the tolerant drug policy of the Netherlands – problematic within the context of the Schengen agreement because it clashed with other countries' drug laws

– ran counter to deeply-held Dutch convictions that moral decisions in areas of so-called 'victimless crimes' are a private affair. In these cases, the driver of change was less the EU imposing change from the outside than the opportunities the EU created on the inside, serving more to empower groups from the inside supportive of change (Kurzer 2002).

EU moves to liberalise the provision of social services, moreover, have also had a significant impact on the Scandinavian countries generally, given their tradition of high paid, high quality public services, especially in contrast to, say, Belgium, Austria or Ireland, which have comparatively little in the way of public sector caring services. The recent services directive, that allows for competition between private and public caring services, is a challenge to the Scandinavian countries and has some worried about the development of a two-tiered system in which the rich go private and the public system therefore loses the kind of universal support necessary for its continued existence.

But whereas directives at least give small countries an opportunity to have a say in the decisions, given their seat at the Council table, in the COREPER, and in comitology, ECJ decisions do not. And recent cases have hit the smaller countries very hard, in particular where they jeopardise national industrial relations systems by limiting social rights such as the right to strike or national education and health systems by upholding market-based rights of free movement. The Laval case – which pitted labour's right to strike against businesses that pay and protect posted workers less against businesses' freedom of movement – directly affects Denmark and Sweden. This is because the ruling mainly applies to countries without laws governing all business pay and protection, and thus it hits the long-standing practice of autonomous business-labour negotiations in Denmark and Sweden, but not Finland or Norway (Dolvik 2008). This decision is a problem for Germany as well, however, which also has autonomous wage-bargaining, and no minimum wage in certain sectors, e.g. the construction industry. Other ECJ decisions like the Viking case – which effectively curtailed unions' right to strike in areas where it affects the free movement of business – have also been of greatest concern to Scandinavian countries (Höpner & Schäfer 2007). However, the ECJ's decisions, which uphold market-based rights of free movement, also undermine national education and health systems by imposing undue costs – e.g. Austria's resistance to the voiding of its admission restrictions on German medical students and Luxemburg's concerns about reimbursement for medical products purchased in Belgium in the eyeglasses case – and could threaten the very sustainability of small states' welfare states (Scharpf 2009).

New modes of governance

Finally, Europeanisation consists of 'softer' modes of governance – the so-called 'new governance' – and in particular the Open Method of Coordination (OMC) in social and employment policy based on self-set targets and voluntary compliance (De la Porte & Pochet 2002; Mosher & Trubek 2003). This can be seen as 'policymaking without policies' (Schmidt 2002a: ch. 2) given the vague language in which reform goals are set, such as 'flexibility' and 'employability', which allow for very different interpretations and policy programmes from one country to the next (Barbier 2008). Although the OMC has great potential in areas where national divergence makes EU-level decision-making difficult if not impossible, the very vagueness of the targets and the self-reporting nature of the exercise could mean that much of it may just be smoke and mirrors – as countries set National Action Plans (NAPs) that reflect what they are already doing. This is especially true for those countries such as Sweden or Denmark that are seen as models for the other countries on such things as labour market activation policy, female workforce participation, investment in education and/or in research and development.

Here, too, however, there are big differences among the smaller countries in terms of their scores, with the Scandinavian countries and the Netherlands high up there, even though Sweden has been cited for gender imbalance in certain sectors (mainly women in the public caring services), and the Netherlands for its low number of working hours per year. The problem with the OMC generally, however, is that it is often simply a government exercise, although some countries, like Belgium, have reportedly used it quite effectively to promote reform, in contrast with Germany, for example (De La Porte & Pochet 2005; Zeitlin & Pochet 2005). And yet, the possibility of 'naming and shaming' countries that don't make progress can be very potent, and possibly more in smaller countries where the media is likely to pay more attention to it.

Conclusion

Thus, while generalisations related to institutional, cultural and discursive characteristics are very important in trying to make sense of what makes small states successful, these take us only so far. Small West European countries are indeed smaller than bigger countries, which makes it easier for those that are culturally homogeneous to reach agreements among social partners when they are being cooperative, especially when the state, if unitary, can facilitate such cooperation or take action in its absence, and when ideas and discourse can be more reinforcing of the positive characteristics over time. But the identification of such characteristics is not on its own enough to enable us to explain small states' success. And it is certainly not enough to explain responses to the EU. Europeanisation has led to different responses from small countries, depending upon policy area and decision rules.

But despite the fact that we are left with no easy generalisations, it is clear that there is still something about these small countries in particular that makes their responses worth studying – if only because they are too often neglected in favour of the larger, and dare I say it, more predictable, member states.