

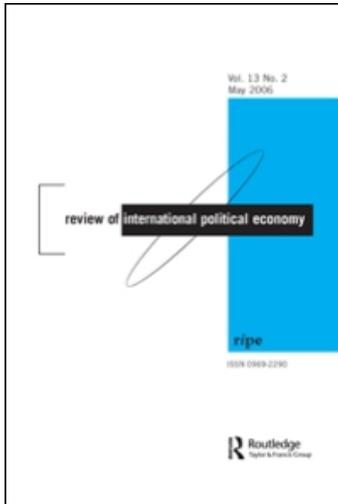
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National identity and the political economy of small states

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National identity and the political economy of small states

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ABSTRACT

Building on insights from Katzenstein and Gellner, the authors theorize that small, culturally homogeneous countries with a strong national identity have institutional advantages that tend to enhance their long-term socioeconomic performance. They can coordinate policy in ways that help them respond successfully to external vulnerabilities by building institutional capacities for cooperation, sacrifice, flexible maneuvering, and concerted state action in the national interest. The emphasis on culture and national identity is an important innovation in understanding the political economy of small states. The theory is illustrated by means of an extended analysis of Denmark.

KEYWORDS

National identity; nationalism; culture; small states; political economy.

Political economists have paid much attention to the recent socioeconomic success of small advanced capitalist countries (e.g. Hemerijck *et al.*, 2000; Salvatore, 2001). Some argue that it stems from the clever decisions and compromises made by political and business elites inside these countries (e.g. Ó Riain, 2004). Others argue that it is due to fortuitous circumstances over which elites have little control, such as shifting international demand for products from small countries (e.g. Becker and Schwartz, 2005). But the classic argument is that small countries prosper because they have long been vulnerable geopolitically and economically in ways that large countries have not. As a result, they have built institutions that enable them to adapt flexibly to the vulnerabilities they face, especially those associated with an increasingly global political economy (e.g. Cameron, 1978; Garrett, 1998; Katzenstein, 1985; Zhu, 2002).

Our aim is not to adjudicate this debate. We recognize that many things affect the performance of small countries (e.g. Schwartz, 2001). Instead, our concern is with the classic argument about vulnerability, institutions and performance. We maintain that if small countries are culturally homogeneous, then they are especially likely to develop the institutional capacities that others have shown to be beneficial for them in coping with the vulnerabilities stemming from the global political economy. This is because culturally homogeneous countries tend more easily than culturally heterogeneous ones to develop strong national identities and in turn an ideology of social partnership, which augments the possibilities for co-operation, sacrifice, flexibility and concerted state action in the national interest. Our argument is an important addendum to those who have focused on how the size and vulnerability of a country – but not its cultural composition and national identity – affect its institutional development and socioeconomic performance.

Our concepts can be defined briefly. *Size* refers to a country's arable land mass and population. *Vulnerability* is a matter of exposure to international political and economic risk and uncertainty. *Cultural homogeneity* refers to the degree to which a country's people share a common set of ethnic, linguistic and religious characteristics. Countries possess a strong *national identity* insofar as their inhabitants perceive that they share a common culture, values and experience that bind them together as a people. An *ideology of social partnership* entails a willingness to work together for the common good. Finally, *socioeconomic performance* refers to the economic and broader social well-being (e.g. health, education, level of inequality) of a society. We elaborate these concepts later.

We are not arguing that small, culturally homogeneous countries have all the advantages that result in successful socioeconomic performance. Nor are we arguing that small, culturally heterogeneous countries are doomed to failure. There is not always one best or most effective route to success (Hall and Soskice, 2001; Hollingsworth and Streeck, 1994; Kenworthy, 2008). Hence, ours is not an overly deterministic or universal theory. But we do maintain that cultural homogeneity and strong national identity are important advantages that have been neglected for too long in the political economy literature.

To develop our theory we build on two literatures that have remained separate from one another but that offer important insights into the conditions that affect how well capitalist economies evolve and perform. These are the literatures on small states and nationalism. The issue of size figured prominently in comparative political economy during the 1970s and early 1980s when researchers emphasized that the political capacities of small corporatist states affected economic performance (e.g. Cameron, 1978; Katzenstein, 1985). The issue of nationalism has been much less prominent in the political economy literature having been overshadowed by

the issue of social class. Many scholars showed how class politics affected institution building, policymaking and thus socioeconomic performance across countries (e.g. Korpi, 2003, 2006). And while some of them made fleeting references to the importance of culture and national identity for small countries, they did not really explain how these factors mattered. For instance, Peter Katzenstein (1985) pointed to the importance of a 'national ideology of social partnership' for the success of small countries but emphasized the class rather than the cultural or nationalist content of this ideology. Similarly, Gøsta Esping-Andersen (1985) suggested very briefly in his class analysis of Scandinavian politics that the capacity for Danes to compromise in the national interest stemmed partly from the fact that 'the citizenry is ethnically, linguistically, and culturally homogeneous.' But he took the importance of these things for granted and never explored them further. We bring these issues to the forefront as part of a new wave of scholarship seeking to explain how national identity influences public policymaking (e.g. Béland and Lecours, 2005; Schmidt, 2002).

A few researchers have argued that cultural homogeneity (e.g. Zak and Knack, 2001) and national identity (e.g. Helleiner and Pickel, 2005) affect economic performance, but without paying much attention to how national identity affects institution building. Several researchers explored how political differences rooted in the *absence* of cultural homogeneity can be managed institutionally and how this affects policymaking effectiveness. But they said virtually nothing about how this institution building may also be a reaction to small state vulnerability (e.g. Lijphart, 1999; O'Leary, 2001). And, as we have said, other scholars examined how performance is related to the vulnerabilities associated with small size, but without discussing issues of culture and national identity (e.g. Schwartz, 1994; Zhu, 2002). The point is that little attention has been paid to the *interaction* of all of these factors. Our theory takes this interaction seriously and shows how it affects the institutional advantages that small advanced capitalist countries may enjoy – especially in today's global economy.

We construct our theory by drawing insights from the work of Katzenstein (1985) and Ernest Gellner (1973, 1983), giants in the literatures on small states and nationalism, respectively. To illustrate our theory we turn to the case of Denmark. Denmark has been among the most successful economies in the world since the late 1980s – the period during which globalization has been on the rise (Campbell and Hall, 2006). It is a country whose success has been marked by the effects of small size, cultural homogeneity and a strong national identity. We discuss this case in detail to show three things: how size and cultural homogeneity interact to produce a strong national identity and an ideology of social partnership; how all of this can facilitate the institution building that others have said is so important for small countries to succeed in today's world; and how an increase in cultural heterogeneity may undermine these institutions

thereby compromising such success. We offer a detailed historical analysis of the Danish case. This process-tracing approach is necessary to identify the mechanisms involved in big and slow-moving causal processes like those we theorize (Pierson, 2003). Providing additional equally detailed cases is well beyond the scope of this short paper. But we briefly discuss Switzerland in order to show in a cursory fashion that the problems of cultural heterogeneity are not necessarily insurmountable. The Swiss case, however, also suggests that overcoming these problems may require an exceptional sense of vulnerability as well as much more complex institutions than those typically associated with more homogeneous countries. Still, our goal is theoretical. The empirical part of the paper only illustrates our theory. Although one or two cases are appropriate for illustrating a new theory, conclusive proof requires more cases (Rueschemeyer, 2003).

THEORIZING THE EFFECTS OF SIZE, CULTURE, AND NATIONAL IDENTITY

Size, vulnerability, social partnership and institutional capacities

The problems caused by small size were identified by Katzenstein (1985). He showed that in advanced capitalist democracies the size of states mattered a great deal in terms of political and economic behavior. Small states, he argued, were likely to have relatively few natural resources, which made them dependent on the external world. Furthermore, small size entailed a small domestic market, which made openness to international trade and its vicissitudes mandatory. Finally, the behavior of small and large states differed in the world polity. Large states could bend the rules of the international political-economic game to their own advantage, but small states had to maneuver within these rules. Hence, size mattered because smallness translated into vulnerability *vis-à-vis* international political and economic forces.

The Great Depression and Second World War created a feeling of vulnerability for all states, but especially for small ones faced with the possibility of disappearing from the map. According to Katzenstein, small size allowed for the political ability to respond successfully to such feelings. Why? Because all interested parties could be gathered around a single table to discuss problems associated with vulnerability and devise solutions for these problems – solutions that often involved institution building. The ability of leaders to meet and draw upon these perceptions of vulnerability facilitated the development of an ideology of social partnership – a willingness to work together for the common good – and in turn much policy learning, cooperation, and flexible adjustment to the various challenges they recognized. Successful economic performance in the postwar period resulted. What mattered most was the capacity to coordinate: to

limit internal conflict, to plot and plan, and to cope with international vulnerabilities by designing institutions and policies with which to contend with international forces beyond their control. This led Katzenstein to appreciate corporatist institutions in small states. Corporatism, he argued, provided great capacities for learning and flexibility because it involved three things: (1) a centralized and concentrated system of interest groups; (2) voluntary coordination of conflicting objectives through continuous political bargaining among these groups, state bureaucracies, and political parties; and (3) an ideology of social partnership expressed at the national level – an ideology derived from perceptions of vulnerability (Katzenstein, 1985).

Katzenstein emphasized the relationships among size, vulnerability, ideology and the development of institutional capacities. But he neglected the ways in which cultural factors may also play an important role in this. Indeed, for Katzenstein corporatism and its underlying ideology of social partnership were largely about the relationships among social classes (i.e. capital and labor) not ethnic, linguistic or religious groups – although he remarked very briefly that the degree to which countries were culturally homogeneous affected the type of corporatism they developed (Katzenstein, 1985: 178–81). He was not alone in this regard as the vast literature on corporatism was almost entirely about classes (e.g. Schmitter and Lehmbruch, 1979). We agree that small states are helped by ideologies of social partnership which bring key actors to the bargaining table, facilitate coordinated negotiations, and expedite consensus building. But does the possibility for developing an ideology of social partnership depend just on a sense of vulnerability? Does it only involve social classes? For answers to these questions we turn to the literature on nationalism.

Culture and national identity

Gellner's beliefs about the origins of strong national identity stemmed from his Czech background, which made him aware that a nation could feel as vulnerable as a state and that such vulnerability stemmed as much from geopolitical threats as economic ones (Hall, forthcoming). The Czechs scarcely survived the Counter-Reformation, feared absorption by Germany, and came to be dominated by the Soviet Union. If one claim Gellner made was that a nation needed a state to provide protection, another was that national sentiment needed to be further constituted and enhanced toward the same end.

Gellner's account of the origins of national identity wobbled between objective and subjective elements. His early work was especially constructivist, suggesting, for instance, that an educational system could so mold people culturally that a shared identity could easily be created (Gellner, 1964). Later he suggested that objective factors, such as common

ethnicity, language or religion, helped shape national identity (Gellner, 1983). The commonality of such factors allows for greater cohesion within the nation. Thus, Gellner was right to wobble. National identity is socially constructed. But it is more readily constructed when people are easily identified as being alike in terms of ethnicity, language and religion.

We draw on Gellner's work not only for his understanding of the origins of national identity, but also for his understanding of its consequences. Gellner claimed that an industrial society is likely to be most successful (e.g. have a high rate of economic growth) when a common national culture is present (Gellner, 1983). Why should this be so? First, he argued that societies that are deeply divided culturally and, therefore, as a nation often cannot *cooperate* and, thus, cannot coordinate policy because the different sides want different things. In other words, a common culture is a useful resource for a modern society because it allows those who sit down at the table specified by Katzenstein to more easily communicate, develop common understandings and an ideology of social partnership, and coordinate decision making.

Second, the mobilization required for a coordinated response to vulnerability – that is, the willingness to *sacrifice* for the sake of the nation – often results from the sort of strong national identity found among people with a common culture. Thus, insofar as cooperation and sacrifice are beneficial for industrial societies, cultural homogeneity is an advantage.

This leads to Gellner's third point. Rigid status barriers, such as ethnic, linguistic or religious differences, that prevented occupational and social mobility in pre-industrial times had to be reduced in order to facilitate economic flexibility upon which industrialization and socioeconomic development depend. Central to the reduction of these barriers, he believed, was the rise of state-supported mass education and the widespread cultivation of human capital. This was because a common educational background and elevated human capital enhanced the capacities for people to learn and respond flexibly to a wide variety of challenges. The point is that a common background and identity enhances the possibility for people to respond *flexibly* to whatever national vulnerabilities they may face.

Finally, Gellner recognized that the vehicle through which cooperation, sacrifice, and flexibility often affect socioeconomic performance is concerted *state action* in the national interest. He also maintained that a common culture and, in turn, strong national identity is often a precondition for such action. This was because the absence of cultural cleavages enables people to focus on national problems and mobilize toward their resolution more easily than if cleavages are present to divide them.

For these four reasons cultural homogeneity and the strong national identity that often stems from it can provide a cultural foundation, which, in addition to perceptions of vulnerability, helps to foster the ideology of

social partnership, institution building and state action that Katzenstein suggested was crucial for small states.

It is important to note that a strong national identity can have two types of effects. One is obvious, the other more subtle. The obvious one involves the *presence* of behavior: a visible willingness to gird the loins and withstand pain in order to preserve and protect the nation, such as citizens often do when their nation is at war. The subtle one involves the *absence* of behavior: the limiting of conflict because people already take for granted agreement about many things held in common, such as ethnicity, language and religion. In particular, Gellner (1983) argued that class conflict inside a common culture is relatively mild because it is not conjoined with ethnic, linguistic, religious or other forms of nationalist conflict. For him the real political dynamite in modernity results from the *combination* of nationalist and class politics (see also Dahrendorf, 1957). Both of these effects ease – but do not eliminate – conflict and, therefore, facilitate cooperation, sacrifice, flexibility and concerted state action in the national interest.

Reprise and clarifications

Our argument is summarized as follows (see Figure 1). Following Katzenstein, small advanced capitalist countries are especially susceptible to international vulnerabilities. Perceptions of vulnerability tend to generate an ideology of social partnership, which in turn tends to lead to the creation of institutions that help these countries deal with their vulnerabilities – institutions that facilitate cooperation, sacrifice, flexibility and concerted state action in the national interest. As others have argued, once these institutions are in place, they have certain advantages that tend to benefit national socioeconomic performance, especially in today’s fast-paced global economy, which often requires an ability to respond quickly to rapidly changing circumstances (e.g. Piore and Sabel, 1984; Weiss, 1998).

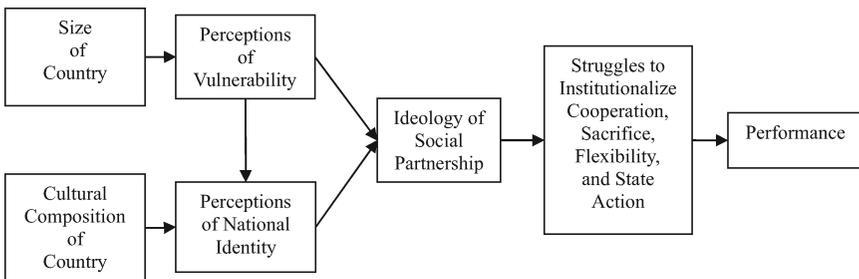


Figure 1 Causal model.

However, following Gellner, an ideology of social partnership may also stem from a strong sense of national identity that depends to a significant degree on the cultural composition of the population as well as perceptions that the nation is vulnerable. In brief, then, the greater the perceptions of vulnerability and strong national identity, the easier it is to forge an ideology of social partnership and thus the institutions that influence socioeconomic performance.

There is nothing automatic about any of this. This is because a country's leaders construct these perceptions out of the objective realities available to them – realities marked by the size and cultural composition of the country. Based on these perceptions, leaders then fashion and institutionalize an ideology of social partnership in ways that are strategic and contested. Objective conditions do not fully determine any of this; they only constrain the range of perceptual possibilities available to leaders. This is why cultural homogeneity and cultural sharing do not always go hand in hand even though they may be positively correlated (Posner, 2004). The processes of constructing these perceptions are the key causal mechanisms linking size and cultural composition to the formation of an ideology of social partnership and then institutions.

Several additional points require elaboration. To begin with, our theory is probabilistic not deterministic (Lieberson and Lynn, 2002). We are simply suggesting that small and culturally homogeneous countries *tend* more than other countries to develop an ideology of social partnership and that this *tends* to yield efforts to institutionalize cooperation, sacrifice, flexibility and concerted state action. Similarly, we are not suggesting that once cooperation, sacrifice, flexibility and state action are institutionalized that socioeconomic success inevitably follows on a permanent basis. Leaders can make mistakes and circumstances can change that undermine the effect of current institutions and policies. But if there are institutions in place that facilitate cooperation, sacrifice, and flexibility, then leaders are likely to be able to respond more quickly to lackluster performance when it occurs than would otherwise be the case. Indeed, the great advantage of these institutional traits is that they enhance the possibility for relatively quick recalibration, adjustment and course corrections when necessary.

Our claims are specific to democratic capitalist societies and thus do not constitute a universal theory. We recognize that small size may not always be a good thing insofar as it can lead to cronyism, rent-seeking and corruption thus undermining socioeconomic performance. However, these problems typically occur in societies with little democracy. Furthermore, we recognize that the institutional benefits of small size and cultural homogeneity are likely to be greater the more unpredictable the world gets due to growing international trade, capital mobility and market volatility. In this regard, these countries are lucky insofar as their historical efforts to

develop institutions for coping with vulnerability happen to be particularly well suited for today's global economy (Schwartz, 2001).

To clarify things, especially for those interested in testing our theory on more countries, let us discuss briefly how one might operationalize the concepts we have discussed. We will refer to some – but not all – of these operationalizations in our discussion of Denmark. As noted earlier, following Katzenstein (1984, 1985), *size* refers to a country's arable land mass and population.¹ *Vulnerability* has both economic and geopolitical dimensions. Following Katzenstein again, economic vulnerability involves the degree to which the economy depends on foreign trade and commerce as a percentage of GDP. Following Gellner, geopolitical vulnerability can be operationalized according to the number of times within a certain period that a country has been threatened, attacked, invaded or occupied by foreign forces, or lost wars. It might also be operationalized in terms of a country's proximity to belligerent nation-states that have been known to attack, invade or occupy other countries. Of course, vulnerability is partly a matter of perception insofar as leaders may or may not read the objective situation correctly.

Cultural composition can be operationalized by means of various ethnic fractionalization indexes that account for the degree to which a population shares a common ethnicity, language or religion (e.g. Alesina *et al.*, 2002).² Strength of *national identity* can be operationalized by gauging the degree to which people within a nation-state share a particular set of values or trust one another – conditions that would limit conflict among them. But national identity may also be reflected in the degree to which people express patriotism and a willingness to gird the loins and fight for their country. It might also entail how willing people are to grant citizenship rights to residents from different cultural backgrounds (e.g. Brubaker, 1992; Tilly, 2004). National identity is also partly a matter of perception insofar as leaders can use cultural characteristics and national experiences to conjure up feelings of shared values, trust, patriotism, etc.

An *ideology of social partnership* is a willingness to work together for the common good. It is revealed, for instance, through pronouncements by business, labor, political and other leaders of their eagerness to form sweeping alliances and coalitions, and protect and improve the livelihoods of all social groups – not just social classes, as Katzenstein stressed, but also cultural groups. How much this ideology has been *institutionalized* in ways that facilitate cooperation, sacrifice, flexibility and state action can be gauged, for example, by the degree to which national business and labor confederations and tripartite bargaining exist (cooperation); the degree to which elections are based on proportional representation (cooperation); the degree to which public policies are geared to enhancing flexibility in labor and financial markets (flexibility/state action); and the degree to which the state supports universal education and welfare programs and

pays for them with broad-based taxes (sacrifice/state action) (e.g. Garrett, 1998; Hicks and Kenworthy, 1998).

Finally, studies of size or cultural homogeneity and national performance typically examine only a few economic indicators, such as per capita GDP growth, unemployment or inflation (e.g. Campos and Kuzeyev, 2007; Easterly and Kraay, 2000; Salvatore, 2001). For us, however, *socioeconomic performance* involves many things, not all of them economic, and is best operationalized through the use of multidimensional indexes. Ideally, these would reflect long-term performance insofar as the processes we theorize take years or decades to bear fruit. For example, in addition to standard measures of economic performance such an index could include measures of average life expectancy, education, quality of public institutions, technological development, poverty and inequality (e.g. Kenworthy, 2008; United Nations, 2007; World Economic Forum, 2007).³

ILLUSTRATING THE THEORY: DENMARK

For over a century Denmark has faced various challenges, at times subjecting the country to dips in its socioeconomic performance. Crucially, these challenges have been resolved successfully and often relatively quickly. This adaptability has depended on institutions whose development was rooted in historical legacies associated with Denmark's small size, vulnerability, cultural homogeneity and strong national identity. Three legacies are important.

The first is Lutheranism – the state-sponsored religion. The catechism created a disciplined Danish population, driven further towards asceticism and literacy by the spread of pietism in the eighteenth century (Korsgaard, 2004: 35–103). Moreover, Lutheranism proselytized a certain egalitarianism that laid the ideological foundation for a generous and universal welfare state – with the state's duty to provide poor relief being written into the 1834 constitution (Kahl, 2005). But most important is the fact that virtually everyone was Lutheran by the early nineteenth century thus ensuring a high degree of religious homogeneity.

Second, Denmark was once a large composite monarchy with territorial possessions beyond its current borders. However, Denmark lost swathes of territory over the years to Sweden and Prussia so that by 1864 it had been reduced to its present size. These losses, but especially the German-speaking Duchies to Prussia in 1864, meant that Denmark had become even more culturally homogeneous insofar as Danes were no longer divided by ethnicity or language (Østergaard, 2006).

Third, losing this territory and becoming small dramatically amplified perceptions of vulnerability – if not fearing Germany, then the Soviet Union. After 1864, such perceptions led the monarch, landed elite, representatives from other social classes, and others to gradually devise a

so-called 'internal front' strategy to create a national identity so strong that the nation would survive even if its state did not. To begin with, an immediate response to the 1864 defeat to Prussia was the rise of the Grundtvigian movement, named after its leader, Nikolai Grundtvig. The Grundtvigians sought to define for the Danish population its national identity. Building on the population's already homogeneous culture, the movement cut across social classes and established a national system of 'folk schools' open to everyone where they could learn traditional Danish culture (e.g. history, music, poetry, literature) as well as technical skills in agriculture and other trades (Korsgaard, 2006). A second element of the internal front was the generous provision of welfare. The welfare system first introduced through Lutheranism was expanded during the late nineteenth century in order to further unify the people as a nation. By the early twentieth century a comprehensive albeit rudimentary network of social services and social insurance was in place (Esping-Andersen, 1985; Kaspersen, 2006). A final element from the internal front strategy was the overt politics of social democracy. Faced with the rise of Hitler and the threat of a German domino effect, renewed perceptions of national vulnerability loomed large. As a result, the Social Democrats, led by Thorvald Stauning, forged an alliance in 1933 between farmers and industrial workers, which, as we shall see, eventually institutionalized popular democratic politics and social democracy for generations to come (Esping-Andersen, 1985). The fact that by 1929 the Social Democratic Party (SDP) had developed a truly national definition of its interests – a cross-class ideology encompassing the working class, peasants, farmers, pensioners and even small employers – helped pave the way for this alliance (Esping-Andersen, 1985: 77, 194). The crucial point is this: common culture and persistent vulnerability unified the people as a nation and fostered an ideology of social partnership in which all the important social actors agreed to work together for the common good.

The result of all this can be summarized with reference to Gellner's notion that the most explosive political dynamite results from the conjunction of national and class conflict. What matters here, though, is that Denmark represents the reverse of this situation. The fact that Danes came to perceive that they are so similar culturally created a deep and powerful sense of national identity. This came about in part through changes in objective cultural conditions – the reduction of a large composite monarchy to a smaller state marked by common ethnicity, language and religion. But it also emerged as a result of strategic efforts by the elites to construct a strong national identity through the internal front strategy, which was a response to the perception of being a small vulnerable nation-state. As discussed in the next section, all of this laid the foundation for the institutionalized cooperation, sacrifice, flexibility, and concerted state action identified in our discussion of Katzenstein and Gellner.

INSTITUTIONAL CONSEQUENCES

We now provide examples to illustrate the ways in which Danish perceptions of a strong national identity and vulnerability as well as an ideology of social partnership contributed to the institutionalization of cooperation, sacrifice, flexibility and concerted state action in the national interest, which then facilitated successful socioeconomic performance in the face of external vulnerability.

Institutionalized cooperation

Recognition that Denmark was a small, vulnerable country coupled with a strong sense of national identity fostered the institutionalization of cooperation. Two examples are particularly important. The first is economic – the spread of cooperatives and associations in civil society. During the 1870s, having lost its southern provinces to Prussia and with its grain production devastated by foreign commerce, Denmark returned to prosperity by shifting from grain to the production of high-quality dairy and meat products, and by pooling the strengths of her farmers in a variety of production cooperatives (Rodgers, 1998). A total of 1,066 agricultural cooperatives were established by 1900 (Korsgaard, 2006: 146). The formation of these cooperatives also owed much to the fact that the rural class was culturally homogeneous and, therefore, not riddled with the sort of cultural conflicts that undermined cooperative movements in other countries (O'Rourke, 2006). Similarly, in the cities Denmark's culturally homogeneous labor movement organized people into strong trade unions – as well as schools, sports clubs, theater groups, insurance associations and housing cooperatives. The business community also formed trade and employers associations (Martin, 2006). All of this contributed greatly to the capacity of Danes to articulate a notion of the common good and cooperate to that end (Pedersen, 2006). The results were impressive. Denmark became famous for the agricultural technologies it developed through its cooperatives, which allowed it to compete successfully since the late nineteenth century in international markets for processed agricultural products (O'Rourke, 2006). More recently, the capacities for organized cooperation between industrial workers and employers enabled Danish firms to implement the latest production technologies, develop new processing techniques, and solve production and design problems in ways that have enhanced international competitiveness in many industries (Kristensen, 2006).

The second example of institutionalized cooperation is political. It stemmed from the realization after 1864 that further territorial loss could obliterate Denmark as a sovereign nation-state. As noted previously, this helped dampen social conflict and facilitate cross-class cooperation, which has marked Danish politics ever since through, for example, the internal

front strategy and the farmer–worker alliance of 1933. As is well known, this alliance was especially important because it paved the way for huge Keynesian-style public investments to solve the unemployment crisis of the Depression. After the Second World War, and in combination with well organized unions and business associations, it also gave rise to corporatist wage bargaining and the institutionalization of formal negotiations among organized interests in virtually all policy areas. This so-called ‘negotiated economy’ is one in which Danes have many institutional opportunities for dialogue that enable them to articulate a vision of the common good and work toward it (Pedersen, 2006). Such dialogue has led to a variety of policies and institutions designed to bolster Denmark’s international economic competitiveness. These include labor market and educational institutions, discussed below, that give Denmark one of the most flexible, well trained labor forces in the world.

Institutionalized sacrifice

Related to cooperation was a willingness to sacrifice for the common good – a willingness that was institutionalized in important ways. Perhaps the most profound example is that all the political parties agreed during the late 1910s to shift from a majoritarian to a proportional system of electoral representation. Everyone agreed to the new rules, including a 2 percent threshold, even though some realized that they would lose power as a result. Of course, struggles were involved. The Conservative Party benefited from the old system and hesitated to abandon it, but agreed after two rounds of reforms to the voting system. In the end, however, everyone realized that this would promote more egalitarian politics thereby serving the national interest by further unifying the country and better institutionalizing the politics of cooperation. This was very much an extension of the internal front strategy and Lutheran egalitarianism. As a result, more than almost any other Organization for Economic Cooperation and Development (OECD) country, Denmark’s electoral system virtually guarantees a minority coalition government (Schwartz, 1994: 550). In turn, the maintenance of such governments typically requires sacrifice and compromise among coalition members.

Danish history is replete with examples of sacrifice in the national interest. During the 1970s and 1980s, government budget deficits, national debt, inflation, and unemployment were all serious problems. Four big sacrifices were made to rectify things. First, all the major political parties agreed through negotiation that public sector reform was necessary, including privatization of some services. A center-right coalition government presided over these changes, but the SDP supported them even though doing so seemed to contradict traditional SDP ideology and helped keep the party out of power for a decade. Moreover, when the party

returned to power in 1993, it continued these reforms sacrificing partisan politics for the common good (Schwartz, 1994: 550–51).

Furthermore, all the political parties agreed that it was in the national interest to reduce the tax deduction for interest on property and houses, tax the interest income and currency gains from pension funds, and reduce the payroll taxes that business paid in order to shore up government finances and make firms more competitive internationally. Again, the SDP sacrificed by putting the national interest above its desire for more redistributive tax policy (Lykkesøft, 2006).

Additionally, the unions and SDP agreed to minimize pay increases albeit reluctantly. But because both the unions and employers' association are centralized and have high memberships, when workers and firms bargain, they do not just think about their own firm or industry – they think about the impact of their deliberations on the entire economy. So unions, in this case, knew that they could not demand such high wages as to price their exports out of the market or trigger inflation (Katz, 2007).

Finally, a few years later the Conservative–Liberal government and SDP agreed that demographic pressures had created a pension crisis that could undermine the state budget, generate higher interest rates, jeopardize currency stability, and, thus, undermine Danish exports and international competitiveness. So, again in the interests of the nation, all the political parties accepted an increase in the retirement age (Lykkesøft, 2006).

In all of these cases, concern for the common good was put first; sacrifices were made; and institutional reforms made those sacrifices permanent through changes to public sector administration, taxation, pensions, and the rest. These were ways to cope with vulnerability that built on associative legacies and the politics of cooperation, and that contributed to Denmark's much improved performance as globalization accelerated.

Recall from our theoretical discussion that a strong national identity can have effects of two sorts. It is important insofar as actors are willing to sacrifice for the nation. But it is also important because it limits conflict. Both are present in these examples. On the one hand, since 1920 the lynchpin for Denmark's nearly continuous string of minority coalition governments was the Social Liberal Party – a party that often demanded that the parties in and out of power sacrifice and compromise for the good of the nation. Hence, overt compromise between the left and right has been commonplace for decades as a result of the moderating influences of a strong national identity reinforced by the Social Liberals (Esping-Andersen, 1985: 94–9; Schwartz, 1994: 554).

On the other hand, class conflicts were involved in the examples mentioned. Sometimes they were serious. But even then, a strong national identity had subtle dampening effects. Strikes, for instance, occurred, including two in the early 1980s triggered by the Conservative–Liberal coalition government's efforts to pursue neoliberalism. Yet these events led to

moderation later. The moderate Liberals, not the dogmatic Conservatives, led the next center-right government; that government pursued a much less austere version of neoliberalism; and the Liberals themselves softened their neoliberal agenda accepting, for instance, that universal welfare programs were in the national interest. The SDP recognized that radical outbursts, such as the strikes, threatened the common good and so replaced its leader with one less inclined toward such action (Katz, 2007). Thus, organizations learned to sacrifice and soften their demands because they shared a strong national identity and concern with the common good.

Institutionalized flexibility

Efforts to develop a strong national identity also helped produce the education and human capital that Gellner believed was crucial for economic development and that underpins political and economic flexibility. Notably, the Grundtvigian folk schools were built to bolster national identity. But in doing so they also helped raise the educational level and technical skills of the general population. So did a national state-financed vocational training system. The educational system overall also taught collective problem solving and innovation (Lykkesoft, 2006: 10). All of this enhanced the sort of institutional flexibility that Katzenstein argued was necessary for small states to succeed and that contributed directly to the country's rapid albeit late economic development (Senghass, 1985).

Two important contemporary examples illustrate the point. First, consider Danish labor market institutions. Thanks to the educational system Danish workers are among the best trained in the OECD, which is one reason why the Danish labor market is among the most flexible – workers move with relative ease from one job to another. This enables firms and workers to adapt quickly to new market opportunities when they arise and, thus, improve Denmark's productivity and competitiveness in global markets (Campbell and Pedersen, 2007).

A second example of institutional flexibility is Denmark's regional economies, which specialize in high-quality, small-batch production of various products and services (Sabel, 1994). One such district manufactures equipment for food processing systems. Workers there are highly skilled and have been able to develop a number of flexible systems within firms (e.g. teamwork, cellular manufacturing, cooperative labor-management relations) as well as among firms (e.g. just-in-time delivery, long-term subcontracting, collective project development) to keep costs down and quality and innovation up. During the 1980s when sales slipped in its American market one of the leading firms there struck an agreement with the union to avoid layoffs by offering workers outside training, largely paid for by the state. Workers spent more time in class and less on the job so that production was cut temporarily without redundancies. And

by acquiring more training, workers learned to perform a wider range of tasks, which later facilitated more flexibility in product innovation and production. This sort of virtuous circle was typical throughout the region (Kristensen and Zeitlin, 2005).

Observers argue that such flexibility is based to a significant degree on trust, which, as we have suggested, reflects a strong sense of national identity as rooted in cultural homogeneity (see also Delhey and Newton, 2005). In the 1990s, over 80 percent of Danes reported that they trusted others in their country – third highest among the advanced capitalist countries (World Values Survey, 2006). Not surprisingly, then, Danish workers are willing to be flexible – even accepting that some jobs must be lost due to globalization and technological innovation – because they trust that they will be cared for by the state if they lose their job. Employers trust that if they support the welfare state through high taxes they will receive flexibility and other benefits in return (Katz, 2007). Such flexibility is especially beneficial for coping with the challenges of globalization.

Institutionalized state action

Previous examples show that concerns with protecting the vulnerable nation-state also led to concerted state action. Another important example was that the state chose an activist approach to trade after 1864. Geopolitical vulnerability led Danish elites to encourage a move away from trade with Germany to foster strong economic ties with Britain in the hope that she would become a powerful ally in the event that Denmark's sovereignty was threatened again. The state played a large role in this by building, for example, a railway across the country to the Atlantic that allowed Danish agriculture to more easily ship to international markets (Kaspersen, 2006). Denmark has been a comparatively open economy ever since with the state playing a significant role in directing it, such as by encouraging another reversal of trade – this time from Britain to Germany – after accession to the European Union.

The state also acted to protect the nation by supporting the internal front strategy, including building the welfare state, which is now one of the most generous in the world, and helping to finance the Grundtvigian folk schools. The state also pays for the national vocational training system and all other forms of formal education. Moreover, these examples of institutionalized state action underwrite labor market flexibility. Danish employers can easily fire and hire workers. But workers are protected by the state in two ways: universal welfare programs cushion the blow of unemployment if it happens and active labor market policies, including retraining, expedite movement into new jobs. Denmark spent more on active labor market policies since 1993 than any country but Sweden. This system is generally credited for much of Denmark's success during the

last 20 years including some of the lowest rates of income inequality and poverty in the world (Madsen, 2006).

Concerted state action for the common good also fostered new growth industries. For example, the state's concern for environmental protection during the 1970s and 1980s helped spawn the development and commercialization of wind turbine technology. Public expenditures for health care helped stimulate the development of insulin manufacturing, insulin delivery systems, hearing aids, and other types of medical equipment. Danish companies are now world leaders in these and other industries thanks partly to this sort of concerted state action in the national interest (Lykketoft, 2006).

In short, Denmark has developed a 'dualist state' (Weiss, 1998) – one that has institutionalized concerted state action for two reasons. One is to cope with economic vulnerability by promoting economic growth and development. The other is to bolster national unity by ensuring a relatively egalitarian distribution of income, services, and protections for its citizens – an outgrowth of the internal front strategy. State action like this as well as the capacities for cooperation, sacrifice, and flexibility, have enabled Denmark to respond effectively to the challenges stemming from being a small, vulnerable country, especially in today's global economy.

Two caveats are in order. First, we do not deny that conflict occurred in Danish history, notably in the class politics of the late nineteenth and twentieth centuries. But class politics was mediated by a strong national identity so it was not deeply destructive – it was conflict rather than catastrophe. Second, we have shown that there were moments when the shared national bargain failed and had to be renegotiated, as in the 1980s and 1990s when public sector, tax, and pension reforms occurred. But, again, what impresses us is the ability for this to be accomplished with remarkable efficacy thanks to a strong national identity and sense of common purpose. Of course, there was nothing automatic or predetermined about the success of this small country. The cards that it was given were, so to speak, favorable, but they were also well played.

This last point requires elaboration. Socioeconomic success is not inevitable. Part of what we are arguing is that what matters about size, vulnerability, cultural homogeneity, national identity and an ideology of social partnership is that it affects the capacity of a country to adapt quickly and flexibly to problems when they arise so as to succeed in the long term. This has certainly been the case for Denmark during the twentieth and early twenty-first centuries. For instance, during the late 1970s and early 1980s, virtually all of the OECD countries suffered declines in productivity and rising inflation due to oil shocks, rising international competition, and the like. Yet Denmark recovered comparatively quickly. During the late 1970s, Denmark's annual productivity growth rate was 1.0 percent and her annual inflation rate was 10.8 percent – both slightly worse than the

OECD averages of 1.6 percent and 10.0 percent, respectively. However, by the early 1990s, Denmark's productivity growth rate was 2.4 percent while the OECD average was only 1.7 percent, and her inflation rate was 2.1 percent while the OECD average was 3.3 percent (Kenworthy, 1997: Table 7). As others have shown, Denmark's effective response to these problems stemmed largely from her ability to coordinate decision making on the shop floor, in wage bargaining, and elsewhere in cooperative and flexible ways (e.g. Kristensen, 2006; Madsen, 2006) – all of which were based on the institutional capacities noted above.

A REVERSAL OF FORTUNE?

Systematic comparisons of additional countries are required in order to substantiate our theory. But Denmark offers a useful within-case comparison. Whether Denmark's advantages will remain if the country becomes more heterogeneous culturally is an important political issue nowadays. Denmark is beginning to struggle with the problem of integrating a growing number of foreigners, currently 8 percent of the population, into Danish society. Roughly half of them are Muslim. Significant Muslim immigration began during the 1960s economic boom as Denmark faced a labor shortage and embraced guest workers from places like Turkey and Pakistan. It accelerated with the collapse of Yugoslavia and the implementation of a lenient immigration policy toward refugees. Today many Muslim immigrants also come from the Arab states and Iran. Anti-immigrant sentiment began to develop when recession hit in the 1970s. Notably, a short-lived Progress Party was founded in 1973 and charged that immigrants were exploiting the social system. Others worried that these minorities were also challenging traditional Danish culture (Omestad, 2007; Valdez, 2008).

The current Liberal–Conservative government hinges on the support of the Dansk Folkeparti – a right-wing anti-immigration party dedicated to protecting Danish national identity. It is now the third largest political party in Denmark. Hence, various policy reforms have been passed recently that restrict the possibility for Danes to bring a foreign spouse into the country on a permanent basis and limit welfare benefits for immigrants. For instance, full social assistance benefits are only available to people who have lived in Denmark for eight years. Modified benefits – a so-called 'start allowance' set at 45–65 percent of the full benefit – are available to everyone else. In effect, this is a program designed largely for cultural minorities. Thus, we may be witnessing the development of a dual system of entitlements and rights. Insofar as Denmark's generous welfare system has been an important part of the country's recent socioeconomic success political struggles over the immigrant issue may change the welfare state in ways that have significant consequences for Denmark's socioeconomic performance in the future. Indeed, implementation of these welfare changes has

contributed to increased economic inequality and poverty – two important indicators of socioeconomic performance (Abrahamson, 2006: 370–1).

Furthermore, cultural minorities in Denmark tend to be residentially segregated and live in poorer areas with sub-par or declining public school performance. Hence, traditional middle-class Danes are beginning to either move to more culturally homogeneous neighborhoods or send their children to private schools. As a result, although the public schools helped historically to integrate different social groups and bolster national solidarity, this is less so today. Observers worry that this is contributing to social polarization and a decline in a commonly held world view among Danes (Olsen, 2005).

In sum, rising cultural heterogeneity is beginning to drive a politically salient wedge into Danish society (Hedetoft, 2006) – one that was underscored in 2005 when a Danish newspaper published cartoons about the prophet Muhammad that sparked uproar within the Muslim community in Denmark. The absence of ethnic, linguistic and religious cleavages of this sort is like the dog that did not bark in the famous Sherlock Holmes tale – that is, the absence of these cleavages provides an important clue for understanding Denmark's success. But that silence has now been broken. The government recognizes that a strong national identity has served the country well and fears that if increasing cultural heterogeneity undermines it, then Denmark's global competitiveness may suffer (Globalization Council, 2006).

DISCUSSION

Let us be clear. To argue that heterogeneity can cause serious problems in societies is *not* to imply that homogeneity be forcibly created in countries marked by great diversity. Partitions, population transfers, cleansings and killings are appalling and should be rejected. Conversely, there is much to be said for trying to manage heterogeneity by consociational and federal means, which can sometimes overcome problems of cultural diversity (e.g. Lijphart, 1999; O'Leary, 2001). Switzerland is a case in point. As is well known, it is extremely heterogeneous but like Denmark has been very successful in terms of its socioeconomic performance during the late twentieth and early twenty-first centuries. What is interesting is that the Swiss set aside many of their cultural differences and produced a strong national identity and an ideology of social partnership with effects similar to those found in Denmark. Notably, religious differences have been pronounced as different religious groups cluster in different geographic locales. Yet these differences, which might otherwise undermine national solidarity, have been overcome institutionally – but not easily. To do so the Swiss had to build an exceedingly complex set of institutions that is unique in the world (Tilly, 2004: 198). Switzerland has one of the world's most decentralized

federalist systems of decision making with power dispersed among three levels of government: national, canton and commune. This system spreads a denser net of institutions over the body politic than any other system in Europe. It is also one of the world's most complex systems of proportional representation. Even the presidency consists of a committee composed of representatives from all the important political parties. Like many other countries it has a bicameral government. However, unlike the others, virtually all important decisions are settled through referenda upon which the citizenry votes several times annually. Switzerland is also prone to having 'grand coalition' governments to better represent the views of a broader swath of the public than is the case in many other countries. The point is that the Swiss learned to accept their differences and strive to protect them through very complex institutions. Indeed, Swiss national identity is now based on the recognition and acceptance of difference (Steinberg, 1996).

The incentives for creating such institutions, which facilitate cooperation, self-sacrifice, and flexibility, were twofold. First, being nestled between France, Germany, Italy and the Austro-Hungarian Empire, the Swiss have had to contend for centuries with great threats of invasion and conquest. Second, the culturally distinct communities of Switzerland have long had their own well-armed militia. Violent conflicts erupted frequently, such as among mountain and lowland cantons in 1481; among peasants and landlords in 1653; and among religious groups in 1529 and 1531. The period 1800–1848 was one of especially violent militia-based politics and small-scale revolutions rooted in religious and regional differences that led finally to civil war in 1847. But within months a new federal constitution was devised that became the basis for the modern Swiss institutions described above. At last, recognition that internal – that is, nationalist – threats as well as external geopolitical ones could be disastrous caused elites to accept their cultural differences and build institutions to protect them and, therefore, preserve the nation-state (Steinberg, 1996; Tilly, 2004). As it turned out, these and other institutions, which were born from an ideology of social partnership and rooted in a strong sense of vulnerability and national identity, afforded the Swiss the sort of capacities necessary to cope well with today's international political-economic environment (Katzenstein, 1984).

In sum, if threats to survival – nationalist as well as international – are extreme enough, then they can create incentives powerful enough for people to overcome deep-seated cultural differences and forge a national identity and an ideology of social partnership that facilitates cooperation, self-sacrifice, flexibility, and concerted state action that seem central to the socioeconomic success of small countries in today's world. However, this also takes an enormous amount of very complicated institution building. It is not surprising, then, given Denmark's comparatively homogeneous culture, that while both Switzerland and Denmark have consociational

systems, Switzerland's is much more elaborate: It is more federalist and decentralized; it tends to have a greater number of influential political parties; it tends to have more parties in parliament and fewer one-party cabinets; it has more power sharing between the executive and legislature; it has a far more complex proportional representation system; it relies much more on referenda; it more often has grand coalition governments; it has a bicameral rather than unicameral government; and its executive is selected by both the legislature and the voters (Lijphart, 1999: Appendix A). Put differently, both culturally homogeneous and heterogeneous societies can build the ideology of social partnership and institutions that Katzenstein and others have argued are necessary for small countries to be successful in the global economy. But the incentives and efforts required for this to happen in heterogeneous countries may have to be substantially greater than in homogeneous ones.

One final point about Switzerland is in order. Despite her complex institutions, cultural differences have not disappeared entirely. Religious and other cultural issues remain more salient politically than in many democracies (Lijphart, 1999: 80). And occasionally these turn nasty. Notably, in 1947 a French-speaking Catholic movement emerged in the Jura region aiming to separate from the Bern canton and form a new autonomous one. Several referenda defeats for the separatists decided along religious lines led in the 1960s to an outbreak of direct action and violence. More referenda were held in 1974–1975 followed by some of the worst rioting in modern Swiss history. The issue was finally settled by plebiscites determining that there would be a new 26th Swiss canton of Jura. The episode underscores the deep-seated Swiss belief that cultural differences should be protected institutionally. But it also shows that these differences remain potential flash points.

CONCLUSION

To reiterate, we do not claim to have 'proven' our theory. A full-blown test would require that we examine these and other countries in considerably more detail than is possible in a short paper like this. Nor are we claiming that small size in combination with cultural homogeneity is either the best or the only route to socioeconomic success in today's world, although it does have its advantages. Heterogeneous countries are not doomed. We recognize that policies favoring cultural autonomy through consociationalism and federalism may allow for several nations to live together peacefully and productively under the same political roof. Nevertheless, as Brendan O'Leary (2005) has argued, the conditions under which power sharing of this sort is likely to happen are unfortunately rare. As such, cultural homogeneity and the strong national identity that often stems from it entail significant advantages for small countries.

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NOTES

- 1 Our objective dimensions can be contrasted with relational ones (i.e. size relative to other countries) or subjective ones (i.e. self-perception of size), which are more difficult to measure (e.g. Neumann and Gstöhl, 2004).
- 2 There are methodological problems with such indexes (e.g. Cederman and Girardin, 2007; Fearon *et al.*, 2007; Posner, 2004), but they are of little consequence here insofar as Denmark is widely recognized to be a very homogeneous society.
- 3 What are considered 'important' social aspects of performance may differ across societies, but we suspect that there would be general agreement on most if not all of the things we have listed.

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