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Defending the Gellnerian premise: Denmark in historical and comparative context

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ABSTRACT. The teleological functionalism of Gellner's theory of nationalism has been much criticised. Attention here is on a different matter, namely Gellner's basic premise – that national homogeneity is a condition for societal success. We defend this view in a particular way – by showing that small, culturally homogeneous countries have advantages that often enhance their socioeconomic performance. They can coordinate policy in ways that help them respond successfully to the vulnerabilities of smallness. These capacities stem in part from the common bonds of nationalism and the resulting institutional capabilities for co-operation, sacrifice, flexible manoeuvring, and concerted state action. The argument is supported by a detailed analysis of the Danish case – a country whose impressive success has been deeply marked both by a diminution in size and an increase in national homogeneity. Less detailed examples of other countries are also presented. The conclusion urges caution as to the policy implications of the argument.

KEYWORDS: Denmark, flexibility, globalisation, national political economy, nationalism, small states.

Perhaps no theory in social science has received so much *similar* criticism as has Ernest Gellner's account of nationalism (e.g. Hall 1998; Hall and Jarvie 1996). The central charge has been that the theory is illicitly functionalist, taking a consequence (the view that modern society 'works' smoothly when cultural homogeneity is present) as a cause for the birth of nationalism.¹ This paper does not deal with this issue *per se*, but rather looks at the underlying premise upon which he based his theory of nationalism. The Gellnerian premise is as follows: national homogeneity allows a modern society to work – that is, to function – in an optimal manner. Whether or not his premise is true is a crucial question, and it is

one that is very much at the centre of current attention, both intellectual and public (e.g. Putnam 2007).

The argument to be made draws on our ongoing research into small nation-states which have found a way, against all odds, not just to survive but to prosper in a larger world whose contours they do not have the necessary weight to mould (Alesina et al. 2002; Becker and Schwartz 2005; Zak and Knack 2001). Our approach to such countries, outlined in the first section of this paper, has joined Gellner's national factor to a classic political economy explanation for societal success that emphasises the importance of country size. If the paper is occasioned by the desire to defend Gellner's premise, we hope that it will do something to re-orient studies of nationalism more generally. The critical reaction to Gellner's theory of nationalism has in general been constructivist, thereby putting questions of political economy somewhat to one side. The implicit presupposition of this paper is simply that this cultural turn has been overdone – that understanding how nationalism emerges and matters for societal success often requires putting it in a political economic context.

It is worth clarifying immediately that we are not slavish adherents to the literatures on which we draw. For one thing, small scale does not, as we shall see, necessarily lead to societal success. For another, it will become apparent that national homogeneity does not automatically translate into success, while small scale in tandem with national difference can allow for success. Nonetheless, our research has convinced us that there is substantial truth to Gellner's premise even if our endorsement is less than total. One might argue that this is all that can be achieved by social science; certainly it is hard to think of any theory, in any field, which does not face some disconfirming evidence. Gellner stressed this himself, noting that 'in a complex world, at the macro-level of institutions and groupings, exceptionless generalizations are seldom if ever available. [But] this does not prevent overall trends . . . from being sociologically explicable' (Gellner 1983: 139).

The main body of the paper concerns Denmark. This requires detailed historical process tracing, which, given space limitations, is why we focus primarily on a single case. The development of a single case is appropriate methodologically for raising new research questions (Rueschemeyer 2003). That is our goal here. Nevertheless, in the third section of the paper we tentatively extend, and circumscribe, the argument. The conclusion moves beyond summary of the argument towards a consideration of policy. Bluntly, great care should be taken when thinking about policy in this area – a point also made forcefully by Robert Putnam (2007). Please note now that this paper does not issue calls for secession or partition, and certainly not for ethnic cleansing.²

The marriage of scale and nation

In academia, different literatures often ignore each other even though their subject matter is intimately related (e.g. Stepan 1998). We are dealing with just

such a situation, namely the mutual lack of recognition of the literatures concerned with small states and nationalism. The links between these literatures concern vulnerability and coordination.

The problems caused by small scale were identified by Katzenstein (1984 and 1985). He showed that in advanced capitalist democracies the size of states mattered a great deal in terms of political and economic behaviour. Small states 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 involvement with external markets and, therefore, openness to international trade mandatory if economies of scale were to be achieved. Finally, the behaviour 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. Small states had no option but to manoeuvre within rules that they could hardly influence. Size mattered because smallness translated into vulnerability vis-à-vis international political and economic forces. In contrast, Gellner's focus, in part because of his own experience of the collapse of the small nation-states of Central Europe during the interwar period, was more on the vulnerability of *nations* (1973 and 1983). His insistence that cultures have often disappeared led him to argue that a nation needed the protection of a state to survive, with that nation itself often being the product of state action.

Katzenstein also observed that many small democratic countries, despite their lack of much natural advantage, were quite successful economically after World War II. He explained this in terms of their capacity to react to extreme vulnerability. The Great Depression and World War II created a feeling of vulnerability for all states, but especially for small states that had been sites of considerable conflict and that might literally have been obliterated and erased for ever from the map. According to Katzenstein, small size allowed for the political ability to respond successfully. Why? Because all interested parties could be gathered around a single table to discuss problems associated with vulnerability and devise solutions for these problems. The ability of leaders to meet and draw upon these perceptions of vulnerability facilitated much policy learning and, in turn, flexible adjustment to the various challenges they recognised. Successful economic performance often resulted. Hence, for Katzenstein another consequence of small scale was coordination – the capacity to limit internal conflict, to plot and plan, and to cope with international vulnerabilities, such as by designing institutions and policies with which to contend with international forces beyond their control. This led Katzenstein to appreciate corporatism in small states. Corporatism, he argued, provided great capacities for learning and flexibility because it involved three things: (1) a centralised and concentrated system of interest groups; (2) voluntary coordination of conflicting objectives through continuous political bargaining between interest groups, state bureaucracies, and political parties; and (3) an ideology of social partnership expressed at the national level (Katzenstein 1985: ch. 1). Much has been written by compara-

tive political economists about the first two points, but not the third. For Katzenstein, small states were successful in part to the extent that they could muster an ideology of social partnership and use it to help bring key actors to the bargaining table, coordinate negotiations, and reach consensus among these actors. But where does such an ideology come from? What are its roots? How does it work?

In all fairness, these questions about an ideology of social partnership were not central to Katzenstein's agenda. His basic point was that this ideology stemmed from collectively held perceptions of vulnerability associated with the nation-state's small scale. However, he also noted briefly that the degree to which nation-states were culturally homogeneous affected the type of corporatism that they developed in response to such perceptions (Katzenstein 1985: ch. 4). He did not pursue this second point in great detail. But it does suggest that another variable – the cultural composition of the nation-state – is implicated in the socioeconomic fortunes of small nation-states insofar as cultural factors affect institutional developments, which then affect socioeconomic performance. It is at this point that Gellner's work becomes relevant.

One can get at the general point by noting simply that a common language is a useful resource for a modern society, not least as it allows those who sit down at the table specified by Katzenstein to understand each other and communicate effectively and easily. But Gellner made four more specific points. First, societies that are deeply divided culturally often cannot *co-operate* and, therefore, cannot coordinate policy because the different sides want different things. Second, the mobilisation required for a coordinated response to vulnerability – that is, the ability to endure *sacrifice* for the sake of the nation – often results from the sort of strong national sentiment found among people with a common culture. For Gellner, these were two of the most important positive benefits accruing from nationalism – the capacities to co-operate and sacrifice. Of course, one way to develop the common culture needed for co-operation and sacrifice is to provide people with a common educational background that instils a strong sense of national identity. This leads to Gellner's third point. The rigid status barriers that prevented occupational mobility in preindustrial times had to be reduced in order to facilitate things like labour market flexibility upon which industrialisation and socioeconomic development depended. Central to the removal of such barriers was the rise of mass education and the widespread cultivation of human capital. Arguably, a common educational background and elevated human capital can enhance the capacities for people to learn and respond *flexibly* to a wide variety of challenges, not just those in the labour market. Finally, Gellner and others recognised that the vehicle through which co-operation, sacrifice, and flexibility often affect socioeconomic performance is through concerted *state action*. He also recognised that national unity and purpose is often a precondition for such action. Overall, then, for these four reasons cultural homogeneity and the nationalism that often stems from it can

provide the critical social foundation for the ideology of social partnership, institution building, and subsequent state action that Katzenstein suggested was crucial for small states.

Let us be clear about the scope conditions of our argument. Our claims, like those of Katzenstein, are specific to advanced capitalist democracies. In particular, small size can lead to cronyism, rent-seeking, and corruption, which in turn may undermine socioeconomic performance. However, these problems typically occur in societies with little democracy and where political processes are not especially transparent (e.g. Kang 2002). Furthermore, we recognise that the survival strategies of small nation-states vary according to the condition of the world political economy within which they have to live. The widespread protectionism of the 1930s was disastrous for these countries, which have ever since argued for free trade regimes. Crucially, we do fully understand that homogeneity is a very tricky variable. All sorts of differences can be *passively* present in a society. What matters is the degree to which inhabitants of a nation-state perceive that their cultural (and other) differences are salient politically (Posner 2004a, b). Nonetheless, culturally homogenous nation-states are more likely, all else being equal, to develop the strong sense of national identity with which we are concerned than are culturally heterogeneous nation-states. This is because there are fewer social differences to overcome in the former than the latter in order to achieve national solidarity.

Denmark and the Danes

Denmark has been one of the most successful economies in the world over the last fifteen years or so as measured by a variety of socioeconomic indicators (Maddison 2001: 185). But this has not always been so. During the 1970s and 1980s its performance was comparatively lacklustre. In particular, inflation, unemployment, government budget deficits, and national debt were problematic. However, as noted earlier, we are more interested in the long-term view. What is much more important from our perspective is the fact that for over a century Denmark has managed to adapt in the face of various socioeconomic problems and resolve them successfully (Campbell and Hall 2006). It is this sort of adaptability – not the immediate ebb and flow of its short-term performance indicators – that requires explanation and that concerns us. This adaptability depends on an ability to coordinate political economic activity.

The origins of small size and homogeneity

One cannot understand the effects that scale and nation had on Denmark's capacity for coordination and adaptability and, in turn, socioeconomic success without understanding how it became a small homogeneous country in the first place. Four legacies of Danish history – Lutheranism, statism, the

solution of the nationalism question, and the construction of layered homogeneity – are especially important. We review each one here, leaving to the next section a discussion of the consequences of these legacies for Denmark's capacity to develop institutions conducive to co-operation, sacrifice, flexibility, and concerted state action.

The first legacy can be dealt with quickly. The Reformation of 1536 established Lutheranism. And the Treaty of Augsburg of 1555 determined that the religion of the ruler should be the religion of the state. Thus, Lutheranism consolidated its hegemony within the lands ruled by the Oldenburg dynasty, which ruled the Danish kingdom from 1448 to 1863. Denmark became homogeneous religiously as a result. Recent studies show the importance of such homogeneity in early modern history. Marx (2003) stressed that shared faith was often a precondition for shared national sentiment. Gorski (2003) stressed the ways in which confessional practices helped create newly disciplined social behaviour. Korsgaard (2004: 35–103) showed how the catechism created a disciplined Danish population, driven further towards asceticism and literacy by the spread of pietism in the eighteenth century. This does not mean, however, that religion was a force opposed to the state. On the contrary, Luther's insistence on loyalty to princes contributed to the second element that concerns us – a statist tradition.

The second and third legacies are intertwined insofar as a reduction in the size of the state led to an increase in state capacity and resolution of the nationalism question. Insofar as the statist legacy is concerned, the Danish state once resembled many in Europe in having a composite form whereby the prince was bound to different laws in the various areas over which he ruled. At the end of the sixteenth century, King Christian IV ruled over Denmark, Southern Sweden, Norway, parts of what is now northern Germany, together with various overseas appendages. The complexities of composite rule were particularly clear in the Duchies of Schleswig and Holstein, the latter being part of the German Confederation, which for a long period were ruled by a junior branch of the Danish royal family. At that time, the Danish state was relatively weak, extensive rather than intensive, lacking in centralised territorial coordination, and sitting atop peoples of different backgrounds and languages. Nevertheless, it had certain comparative advantages, including a magnificent navy, due to the fiscal benefits it gained by controlling the entrance to the Baltic Sea. Ironically, this nascent statist tradition was reinforced over time by Denmark's habit of losing wars. Pressure from Sweden in the mid-seventeenth century led to the loss of Skaane, Halland, Blekinge, Bohuslen, Herjedalen, and Gotland, and the introduction of a new absolutist state in 1660. While many absolutist states were but puny leviathans, Denmark came to resemble Prussia in being a genuinely bureaucratic absolutist state with real reach into its society. Its reach was enhanced by the fact that Danish absolutism was mild as it involved much consultation and compromise between the crown and elites (Østergaard 2006).

The third legacy involved solving the nationalism question. The language of the Oldenburg court was German, as was a large part of its administration.

But by the late eighteenth century, resentment was developing towards Germans, in large part because they occupied so many elite positions and occasionally ruled in rather arbitrary ways. Various reforms kept these tensions in check for a while, but they came to a head thanks to the geopolitical disasters of the Napoleonic Wars, which ended with the Danish state's bankruptcy in 1813 and with the loss of Norway a year later. The proportion of Germans in the remaining territories increased, perhaps from twenty to thirty-five per cent, and their salience became more obvious given first cultural and then political unification in the German heartland. Thus began the slow and final dismembering of the Danish state. In 1848 a new and more liberal constitution was introduced. But it was followed by a civil war between Danish and German speakers during which there was direct military intervention by Prussia. Different political options were debated at this time, including a federal solution that sought to give cultural autonomy to the Germans in Schleswig and Holstein. Another solution, proposed by the national liberals, sought ethnic homogeneity by redrawing borders, in particular by letting go some of Schleswig and all of Holstein. The aggressive nationalising drive of the national liberals in 1863 produced renewed military conflict in which Denmark was completely defeated by Prussia in 1864. Schleswig and Holstein were lost and with it much of the German-speaking population. As a result, the Danish state became something of a rump – a big small state in that it had a legacy of considerable state capacity but now ruled over a rather small territory occupied almost wholly by Danes of a culturally homogeneous sort relative to what was the case before the wars (Østergaard 2006).

After 1864 Denmark was no longer deeply divided nationally. But in another sense the German problem was far from solved. Danish sovereignty was only maintained in 1864 because Britain and Russia objected to an expansion of Germany. Denmark's sense of vulnerability increased and remained extremely high thereafter – if not fearing Germany, then fearing the Soviet Union. Such vulnerable feelings led to social action. Peter Munch, an academic historian turned politician, argued that external threats to the small Danish state would always be present to such an extent that sovereignty might be lost eventually. Hence, an 'internal front' should be opened to create an identity so strong that the nation would survive even in the absence of its own state. The Danes achieved this by layering on top of their ethnic and religious homogeneity a popular, democratic, and egalitarian culture, which reinforced a sense of homogeneity and, thus, national solidarity. This layering constitutes the fourth legacy underpinning Denmark's subsequent success. It involved several steps in addition to those already mentioned.

To begin with, the political elite were discredited by the defeat of 1864. In response, Nikolai Grundtvig and his supporters began during the mid-nineteenth century to define for the Danish population its national identity. The Grundtvigian movement cut across social classes and stressed the importance of individual freedom, classical liberalism, voluntarism, free association, and popular education. Among other things, the Grundtvigians built an alternative

educational system for the masses alongside that which the state had already established during the period of absolutist rule. This system of alternative folk schools, which the state eventually helped to finance, emphasised the teaching of Danish history, poetry, literature, and the like much more than the traditional educational system and, thus, served as a key mechanism for the dissemination of the Grundtvigian cultural perspective and the development of a shared national identity. What it meant to be Danish changed. No longer did it include being German or involve a Latin educational tradition. This was especially so, at least initially, among the large class of small farmers, which emerged after land reforms during the late eighteenth century and which provided the initial clientele for the Grundtvigian programme (Korsgaard 2006).

The next layer involved the more overt politics of social democracy. Grundtvig's emphasis on the popular served as a bridge between the idea of the nation as *ethnos* and the idea of the nation as *demos*. Danish nationalism in 1864 shared its character with that of Germany: both stressed blood and language. But Danish nationalism did not take the German route of self-identification in purely ethnic terms (Korsgaard 2004; Yahil 1991). After 1864 moderates from the left and right began to work more closely together and eventually passed a number of social acts that reinforced political stability in part by establishing institutions that would reduce inequality and, thus, further unite the people of the nation (Kaspersen 2006). In 1933 the Social Democrats, led by Thorvald Stauning, forged an alliance between farmers and industrial workers that institutionalised popular democratic politics and social democracy for generations to come (Esping-Andersen 1984). This did much to cement the nation in the hearts of the people in such a way that it survived Nazi occupation and behaved with great honour in helping much of its Jewish population to escape the Holocaust (Korsgaard 2006). But it also formalised a politics of reciprocal consent among the social partners and between them and the state that was rooted in a sense of common culture and purpose.

A final layer was added after World War II by means of welfare state building. Hal Koch in particular argued that democracy could only be real if the people had the material capacity to participate in the polity. The *demos* became socialised. In fact, the development of fledgling welfare programmes began in the late eighteenth century when the monarchy and its agents, influenced by Lutheran Pietism, first established, at least for a time, a comprehensive set of welfare benefits for the Danish people, first in Copenhagen and then in the countryside (Sørensen 1998). Postwar welfare state building was extensive and was intended in part to further unify the Danish people (Kaspersen 2006). Today Denmark has one of the most generous welfare states and is among the most economically egalitarian countries in the world.

The institutional advantages of small size and homogeneity

To begin with, recognition that Denmark was a small, vulnerable country coupled with a strong sense of national identity fostered the development and

institutionalisation of a *culture of co-operation*. Two examples are noteworthy. One is political and stemmed from the realisation after 1864 by the monarch, landed elites, and representatives from other social classes that further territorial loss could obliterate Denmark as a sovereign nation-state. This helped to dampen social conflict and facilitate cross-class consensus, which has marked Danish politics ever since. As noted earlier, this consensus was institutionalised in the farmer–worker alliance of 1933, which was reached on the day Hitler came to power thus raising concerns among Danes about renewed threats of German adventurism. This alliance paved the way for huge Keynesian-style public investments to solve the unemployment crisis of the Depression. And after World War II it helped make possible corporatist wage bargaining and other cross-class agreements, which led to a variety of policies and institutions designed to bolster Denmark's international economic competitiveness. We will have more to say about these shortly.

The other example of a culture of co-operation was the spread of co-operatives and associations in civil society during the nineteenth and early twentieth centuries. The emergence of agricultural co-operatives stemmed from the experience of small-state vulnerability. During the 1870s, having lost its southern provinces to Prussia and with its grain production devastated by foreign commerce, Denmark worked its way back 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 co-operatives. No fewer than 1,066 such agricultural co-operatives were established by 1900 (Korsgaard 2006: 146). However, the origins of these co-operatives owed much to the fact that the rural class was culturally homogeneous and, therefore, not riddled with conflicts that might otherwise have undermined its capacity for co-operation (O'Rourke 2006). Similarly, Denmark's culturally homogeneous labour movement organised people in the cities not only into strong trade unions, but also into schools, sports clubs, theatre groups, insurance groups, housing co-operatives, and more. To be sure, this was not always plain sailing. Corporate wage bargaining began with the famous September Agreement of 1899, after a period of devastating general strikes and lock-outs. But the point is that since the last quarter of the nineteenth century commerce and working life became increasingly organised – due in part to the country's cultural homogeneity as well as its status as a small, vulnerable economy. Today, virtually all interests in Denmark are organised regardless of whether they are in the worlds of work, business, culture, or leisure (Bille 2002). This has contributed greatly to the capacity of Danes to articulate a notion of the common good and co-operate in order to respond to political-economic vulnerability (Nielsen and Pedersen 1991).

The results have been impressive. For instance, Denmark became famous for the agricultural technologies it developed through its co-operatives, such as expensive cream separators, which allowed it to compete very successfully in international markets for processed goods, such as butter and cheese, beginning in the late nineteenth century. In turn, this facilitated the develop-

ment of domestic markets for a variety of goods required in the countryside, which then led to industrialisation (O'Rourke 2006; Senghaas 1985: 95–122). Danish agricultural products have continued to be extremely competitive internationally.³ And, more recently, the capacity for organised co-operation between industrial workers and employers has enabled Danish firms to implement the latest production technologies and brainstorm production and design problems in ways that have elevated productivity and enhanced international competitiveness (Kristensen 2006). It has also led to significant improvements in job training and skill formation, which has further boosted competitiveness (Martin 2006).

Second, the nationalism that emerged as a result of small-state vulnerability and cultural homogeneity led to the development and institutionalisation of a *willingness to sacrifice*. Nationalism provided an important solidaristic frame for mobilising people to sacrifice for the collective good. For example, after the 1864 defeat, a political realignment occurred whereby the left and right were gradually consolidated into larger parties, and debates over key constitutional issues developed, such as the king's right to choose his ministers and the relative power of the two houses of parliament. For a while, the struggle over these issues was extremely bitter, especially between farmers, on the one hand, and civil servants and landowners, on the other. But during the 1880s, moderate members on the left began negotiations with the right and compromises were eventually reached (Royal Danish Ministry of Affairs 1996: 455–6). And all the political parties agreed during the late 1910s that proportional representation should replace the winner-take-all electoral system. Everyone agreed to the new rules even though some realised that they would lose power as a result. But they did so in the belief that this would promote more egalitarian politics thereby serving the national interest by further unifying the country and better institutionalising the politics of co-operation. This was very much an extension of Munch's internal front strategy insofar as bolstering national unity and solidarity was concerned.⁴

More recently, all the political parties agreed during the 1980s 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 – all in order to shore up government finances and make firms more competitive internationally. Furthermore, the unions, centre-right government, and Social Democrats agreed to minimise pay increases in order to avoid weakening Denmark's economic competitiveness internationally. Most recently, the conservative government and the Social Democrats agreed that demographic pressures have created a pension crisis that could undermine the state budget, generate higher interest rates, jeopardise currency stability, and, thus, compromise Danish international competitiveness. So, again in the interests of the nation, all the political parties accepted an increase in the retirement age (Lykkeitof 2006). In all of these cases, concern for the national good was put first; sacrifices were made; and nationally coordinated and consensus-oriented

policies resulted. And these steps were taken recognising that such sacrifices were necessary because a small country must find ways to compete internationally in order to prosper.

We do not mean to be naïve. As we have seen, after 1864 it took a while to set aside serious political divisions and settle constitutional issues. But eventually political parties and others could come to consensus on many issues during the twentieth century in part because people generally recognised that they could not let partisanship and special interests undermine what was good for the country, especially during times of extreme vulnerability or crisis. But power politics were involved too. Denmark has had a nearly continuous succession of fragile minority coalition governments since 1920 when proportional representation was established. And the Social Liberal party was often the linchpin holding these governments together. Still, the Social Liberals demanded that the parties in power and in opposition reach consensus for the good of the nation, which was a key part of the Social Liberal ideology. Hence, most major reforms since the early 1930s, including those discussed throughout this paper, have required compromise ‘across the centre’ between the left and right as a result of the intermingling of nationalism and party politics.

Third, a *capacity for flexibility* developed. The nationalism that emerged from small-state vulnerability and cultural homogeneity helped to produce the sort of education and human capital that Gellner believed was crucial for economic development and industrialisation, and that often underpins policy learning and flexibility. Notably, the rise of Grundtvigianism, and with it a national system of folk high schools designed to educate the masses, was a central part of the nation building project and did much to elevate the educational level and skills of the general population. The improvement in education among Danes contributed directly to the country’s rapid albeit late economic development (Senghaas 1985). Danish workers are now among the most highly skilled in the OECD (Lorenz and Valeyre 2004). Such human capital boosts productivity and competitiveness. Indeed, a highly skilled labour force is one reason why the level of labour market mobility in Denmark is now among the highest in the OECD. This has enabled firms and workers to adapt flexibly to new market opportunities when they arise and, thus, to improve Denmark’s productivity and competitiveness in international markets (Campbell and Pedersen 2007). More generally, the educational system puts great emphasis on teaching how to interact with other people and on how to improvise (Lykketoft 2006: 10) – skills that enhance the sort of flexibility that Katzenstein argued was necessary for small states to succeed.

Fourth, the ability to co-operate, sacrifice, learn, and be flexible as a result of small-state vulnerability, homogeneity, and nationalism led frequently to *concerted state action* in the interest of improving socioeconomic performance. This, of course, was also consistent with Denmark’s statist legacy, which stretched back to the days of empire and absolutism. Friedrich List’s

celebrated theory of national economic development is relevant here – but with a twist (List 1904). List's advice was for Germany, a large state, and the key policy that he recommended – protectionism – proved to be attractive thereafter to many large states. But protectionism for small countries is often mistaken given the limited size of the internal market. The Danish state generally chose an activist approach after 1864 that might be called free trade Listianism. Geopolitical vulnerability led Danish elites to encourage a move away from trade with Germany so as 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, for example by building a railway across the country to Esbjerg on the west coast, whose expansion it then helped to fund. Thereafter Danish agriculture sought international markets (Kaspersen 2006). Denmark has been an open economy ever since with the state continuing to play 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.

In short, Denmark has learned over a long period of time to adapt to the vulnerabilities of economic openness and to do so by utilising the capacities of the state. The state has continued to help Danish firms identify and exploit international niche markets for a wide variety of products (e.g. insulin, medical equipment, wind turbines, hearing aids, design services, furniture), promote public–private partnerships, provide top notch infrastructure for the private sector, and do other things that have contributed significantly to the country's recent socioeconomic success (Lykketoft 2006: 11). The state, currently controlled by a conservative coalition government, is even planning to launch a series of initiatives that will increase the supply of venture capital and entrepreneurial training to encourage more internationally competitive private sector start-ups (Globalization Council 2006).

Denmark in comparative context

Is Denmark unique insofar as our theoretical claims are concerned? Without further in-depth comparative research we cannot be sure, but a brief look at additional cases on which our own research now concentrates lends support to our argument that small size and cultural homogeneity are beneficial. Let us begin with Ireland and Finland, before turning to the complexities of Switzerland.

Ireland has long been a small, culturally homogeneous nation-state consisting primarily of English-speaking Catholics. Yet during most of the twentieth century Ireland's socioeconomic performance was lacklustre – a fact that certainly contradicts Katzenstein's argument. At least two things were at work to undermine performance. On the one hand, as a small country Ireland's economy was heavily dependent on the British economy with which it had been aligned for centuries as a result of empire. And the British

economy during the twentieth century was in decline. On the other hand, Ireland was deeply divided over the question of Irish independence from Britain. Civil war erupted over this issue in 1922 and lasted for about ten months. One side supported the Anglo-Irish Treaty of 1921, which granted the twenty-six counties of Southern Ireland a generous measure of practical freedom over internal affairs from Britain (i.e. home rule), but not full sovereignty. The other side opposed the Treaty on the grounds that it not only denied sovereignty, but also marked the first time that Irish nationalists had assented to inclusion in the British Empire (Kissane 2005: 55). Even after the peace and the reintegration of the losers into normal politics in the 1930s, the question of independence was never fully resolved. Some supported home rule, but others still advocated full independence (Kissane 2002). Hence, the possibilities for co-operation, self-sacrifice, and the like that might have been facilitated by national solidarity were blocked, and socioeconomic performance languished.

But the performance of the Irish economy began to improve dramatically in the 1990s. Why? The question of Irish independence was finally settled. A sense of real national economic crisis set in during the late 1970s and early 1980s as the British and, therefore, Irish economies stagnated badly. Ireland's economic vulnerability as a small nation-state became impossible to ignore any longer. As a result, the political parties in Ireland set aside most of their differences over independence. And the peace process commenced in Northern Ireland. Fianna Fail, one of the main parties, brokered a series of social partnership pacts in the late 1980s between business, labour, the state, and eventually community and voluntary groups, that led to the creation of corporatist institutions and state-led industrial policies all designed to revive the economy through the pursuit of wage restraint, fiscal stability, and industrial and technological innovation. The pacts also led to the fortification of a two-tiered universal welfare state designed to maintain social solidarity, much as the Danes had done. All of these institutions were geared toward flexible co-operation among different economic actors within and across sectors of the economy. Their creation and functioning were facilitated by a high level of cultural homogeneity that reinforced close ties among elites and ensured a modicum of accountability among them (Ó Riain 2007). In short, once the obstacle of Irish independence was resolved, a major impediment to co-operation and self-sacrifice was removed, and institutions were created to facilitate flexibility and concerted state action. The result was the rise of the so-called Celtic Tiger of the 1990s, which experienced impressive GDP growth rates and sharply falling unemployment and inflation rates (Ó Riain 2004).

If Ireland had been a small, culturally homogeneous nation-state and not part of the empire, independence would not have been an issue. And co-operation, self-sacrifice, flexibility, and concerted state action might have been mobilised decades earlier to everyone's benefit. After all, the question of Irish national identity from an objective linguistic and ethnic point of view was never in doubt or contested; everyone agreed that they were Irish culturally.

Indeed, the presence of a strong cultural identity, shared by both sides in the civil war, surely facilitated the quick reintegration of the losers of that war into the political mainstream afterward. But until the question of independence was laid to rest, it was impossible for actors to co-operate and sacrifice for the benefit of the nation because they were not in agreement on exactly what the nation's status should be vis-à-vis the British. Once this had been resolved, the nation was finally solidified and progress was made.

Much the same thing happened in Finland – another small, very largely culturally homogeneous, and successful country. Finland declared its independence from Russia in 1917 having been a Grand Duchy within the Russian empire since 1809. Prior to that, and much like the Danes, all the social classes contributed to the formulation of a strong national identity rooted in common language, religion, education, and civic associations. But civil war erupted in 1918 largely along class lines with the industrial working class and socialists on one side, and the bourgeoisie and peasantry on the other. At issue was whether Finland should remain under Russia's thumb or assert its independence. Once the conflict subsided, a consensus emerged quickly that a degree of pluralism was required in order to maintain internal cohesion and ultimately the nation. As a result, the losers (i.e. the Social Democrats) were not only allowed to participate in politics after 1918, but formed a coalition government with the agrarian party in 1937, which led to the establishment of Scandinavian-style corporatist institutions in the mid-1940s and incomes policy agreements in the 1960s (Alapuro 1988 and 2007).

Concern for tolerance and co-operation stemmed from a strong sense of national solidarity rooted in cultural homogeneity. But it also stemmed from the perception, from the early 1800s, that a formidable Russian threat lay to the east—a perception that only grew during World War II and its immediate aftermath. This combination of strong national identity and the perception of prolonged external threats meant that the corporatist Nordic model has endured in Finland to a larger extent than in the other Scandinavian countries (Alapuro 2007). In contrast to Ireland, the question of independence did not linger after Finland's civil war. So the obstacle to national solidarity experienced in Ireland was absent in Finland. As a result, the Finns began to experience the benefits of cultural homogeneity and strong national solidarity – that is, co-operation, self-sacrifice, flexibility, concerted state action, and the construction of institutions that facilitated all of this – several decades before the Irish (Kissane 2005).

This worked to Finland's advantage in terms of improved socioeconomic performance. The Finnish economy was seriously crippled by World War II – more so than the Irish or Danish economies. But beginning in the 1950s it began to rebound impressively. Exports began to shift from agricultural and forest products to metal goods, chemicals, and high-technology and design-based products. In the mid-1960s, national income per capita exceeded Britain for the first time and increased steadily thereafter to a point where it is now among the top ten industrial nations. The secret of Finland's success was to

tap markets for specialty products, such as ice-breakers, glassware, ceramics, pharmaceuticals, high-quality textiles, electronics, cruise liners, and other specialised products that require innovation, skill, design, originality, and flair rather than mass production capabilities. When the Soviet Union collapsed, Finland lost one of her most important export markets and, as a result, slid into economic crisis. But the basic social consensus held, painful corrective measures were pursued through consensus, and the economy recovered quickly to a point where it is now one of the most successful economies in the world (Singleton 2006: ch. 10).

The Finns' capacity for co-operative, self-sacrificing, flexible, and state-led action receive much of the credit. For instance, they liberalised their systems of corporate finance and governance, encouraged the development of equity markets, attracted considerably more foreign venture capital, deregulated some sectors of the economy, cut taxes, and reduced subsidies to business – all of which increased the level of market exposure for economic actors. All of this was the result of corporatist bargaining at the national level, which also led to wage restraint, more public spending for research and development, and educational improvements – initiatives that fuelled the emergence of Finland's world-class information and communications technology sectors. Furthermore, while corporatism remained more centralised in Finland than in other countries, including Denmark, corporatist decision-making in some areas (e.g. work scheduling, merit pay systems) was made more flexible by decentralising it to the industry and firm levels (Moen and Kari Lilja 2005; Ornston and Rehn 2006).

These two cases support our argument, that the national factor must be added to small scale, and they make it more complex – by stressing that objective homogeneity needs to be complemented by political agreement to establish a co-operative society. The cases suggest that the background of objective homogeneity makes it easier in the end to overcome political disagreement. This may be happening in Serbia in front of our eyes. But this does not always happen. Greece remains fractured in political terms despite its homogeneity, perhaps because that homogeneity was achieved in such a hideous manner (Mouzelis 1978).

Finally let us turn to Switzerland, as we must, since this Alpine society seems to refute our general view, suggesting as it does that not all small, successful countries are culturally homogeneous. What is interesting about this case for our purposes is that the Swiss set aside their cultural differences in such a way as to produce a strong and unified national identity, which has had similar effects to those seen in more homogeneous countries. First, since everyone speaks several languages, linguistic differences are irrelevant as a practical matter. Second, religious differences persist and religious groups tend to cluster in different geographic locales. Indeed, the identities of these locales are pronounced. Yet these differences, which might otherwise undermine national solidarity, have been overcome. The Swiss have built one of the most decentralised federalist systems of political decision-making in the

world. 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. Furthermore, unlike any other country, virtually all important national decisions are settled through national referendum. The system is also highly corporatist. All of these institutions were designed to guarantee all the different groups in society much autonomy in managing their own affairs, thus reducing dramatically the possibility of religious and other types of conflict (Steinberg 1996). The incentives for creating such institutions, which facilitate co-operation, self-sacrifice, and flexibility, are twofold. On the one hand, being nestled between France, Germany, and Italy, the Swiss have had to contend for centuries with the threat of invasion and conquest. So they eventually learned to set aside many of their cultural differences in order to co-operate, sacrifice, and preserve the nation-state from external threat. On the other hand, the local and regional communities that constitute Switzerland have a long history of maintaining their own well-armed military forces. Violent conflicts erupted between mountain and lowland cantons in 1481; between peasants and landlords in 1653; and between religious groups in 1529 and again in 1531. In 1847, civil war erupted over complex issues of religion and politics, but was short lived. Within months a new federal constitution was worked out that became the basis for the modern Swiss government described above. Finally, recognition that internal conflict could be disastrous caused local elites to build institutions to ensure that national decision-making would now be fair and representative (Steinberg 1996).

All that has been said to this point about Switzerland amounts to one way of looking at that country, namely as an exception to a more general rule. This might suggest a more generalised optimism. Can we not hope for more political arrangements, for all the varied complexities of federalism and consociationalism, to allow for the emergence of more countries able to contain difference so as to ensure prosperity? We share these hopes, but are not seduced by them. For the Swiss case needs to be looked at from another angle. Their helpful institutions were in place very early on, thereby preventing the full politicisation of religious and linguistic differences. From this necessary perspective what is striking about the Swiss is that differences are not deep. There is something of a chasm between having institutions in place before the age of nationalism and trying to introduce them so as to contain nationalist conflicts once they have emerged. If the Swiss case gives us cause to hope, repeated failures in contemporary Belgium give us cause to fear.

Conclusion

We have argued that the combination of small size and cultural homogeneity tends to afford nation-states certain institutional advantages when it comes to socioeconomic performance. Denmark illustrates our argument, and Ireland

and Finland add support. Further research may well show that such recent success stories as Slovenia, the Czech and Slovakian Republics, and the Baltic states can be understood within the terms suggested. That all of this is so has made us defend the Gellnerian premise – on the simple grounds that it is very largely correct. Nonetheless, we have noted that not every objectively homogeneous country has been able to put aside political differences, while Switzerland is to some extent an anomaly. Nonetheless, we do not regard the Gellnerian premise as refuted. Most obviously, there are not many Switzerlands. So the argument made here is simply that the Gellnerian premise explains a good deal of the variance at work in political economies of this type. This is a substantial achievement: the glass may not be full, but it is far more full than empty.

Finally, let us stress again a policy consideration. To argue that there are benefits of homogeneity is not to demand that it be forcibly created in countries marked by great diversity. Partitions, population transfers, cleansings and killings are foul, and should be rejected; further, they can leave behind legacies of hatred that can impede societal success. There is everything to be said for states trying to manage their nations by consociational and federal means. And a more general concern with multicultural diversity must now be on the general agenda of advanced societies as low fertility necessitates accepting immigrant labour. This applies powerfully to Denmark. We have described a political economy that now faces a severe challenge – which it is not at present handling with great skill.

Notes

1 In one of his last essays Gellner accepted the logic of the charge against his theory, properly characterising the sin as that of teleology, and sought to refute it (Gellner 1996: 627).

2 One way to 'save' Gellner's theory from the illicit, teleological functionalism noted is to bring back agency at this point, that is, to stress the actions of political leaders convinced that homogeneity helps societal success (on this see Hall 2009: ch. 10).

3 Denmark's late economic development also created an economy dominated by small and medium sized agricultural holdings and later small and medium size enterprises, all of which contributed to the country's ability to be flexible and to adapt to various exigencies (Senghaas 1985).

4 The constitutional reform of 1915 that introduced proportional representation was a complicated set of events as it also involved a number of additional large programmatic reforms, abolished the limited franchise associated with the *Landsting* house of parliament, and enfranchised women and servants (Royal Danish Ministry of Affairs 1996: 460).

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