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Small States in World Markets

INDUSTRIAL POLICY IN EUROPE

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Chapter One

Introduction

Like many other industrial countries, the United States is experiencing far-reaching structural changes of its economy. Like many others, it is responding with the cure that has worked best in the past: liberal policies and unfettered market competition. By the middle of the 1980s, however, Americans remained divided in their assessments of both the character of the crisis and the adequacy of the cure.

The signs of crisis have become unmistakable. In the early 1980s an ever-growing list of books employed the language of statistics to demonstrate that rampant inflation and high unemployment—either separately or in combination—had shifted the American economy from growth to stagnation. An impressive array of statistical measures, moreover, productivity, capital formation, and the international balance of trade among them, indicated that the U.S. economy was lagging behind those of a growing number of other industrial states. Even as the share of American products in world markets continued its gradual decline, it dropped sharply in certain key domestic markets. At the same time the strength of the economic recovery in 1983–84, the dramatic lowering of the inflation rate, and decreases in unemployment which, compared to those in several European countries, could only be called impressive, all pointed to America's inherent economic strength. Its markets continue to be large and dynamic. In the 1970s America accepted while Europe rejected large numbers of migrant workers. The American economy nevertheless generated 20 million new jobs across the decade; Europe produced none. In several high-technology industries, moreover, the American lead over Europe was increasing.

Because the evidence supports both pessimistic and optimistic assessments of the American economy, analysts differ in their policy prescriptions. They agree, however, that America's economic performance lacks international competitiveness. In June 1980 *Business Week* titled one of its special issues "The Reindustrialization of America." Barry Bluestone and Bennett Harrison's widely noted study of plant closings bears the same title with one slight but all-important change—*The Deindustrialization of America.*[1] Whatever the diagnosis and whatever the cure, no one knew whether the world economy, and with it the American economy, had in the mid-1970s started a prolonged period of economic stagnation or a transition prior to renewed economic vitality.

By 1982 five European states had surpassed the United States in per capita gross domestic product (GDP), among them Switzerland, Sweden, Norway, and Denmark.[2] The average Norwegian or Danish family today enjoys a standard of living higher than its American counterpart. If they are aware of it, this fact disturbs Americans accustomed by a generation of prosperity and international leadership to thinking of themselves as number one. Their concern suggests that the small European states' experience with industrial policy deserves more attention than it has received in American public discourse.

The New Global Context

During the last 25 years the American economy has opened itself up to global competition to a degree that is unique in this century.[3] More than one-fifth of America's industrial output is now exported. Forty percent of American farmland produces for foreign markets, as does one of every six jobs in manufacturing industries. Exports and foreign investments account for almost one-third of the profits of U.S. corporations, and for many of America's largest and most successful firms that proportion exceeds 50 percent. Imports meet more than half of U.S. demand for 24 of the 42 raw materials most important to industry, and the cost of oil imports alone increased from $3 billion to $80 billion in the course of the 1970s. The weakening of the dollar in 1977–78 helped push America into double-digit inflation. Between 1978 and 1980, 60 percent of the modest increase in gross national product (GNP) could be credited to a sharp improvement in the U.S. trade balance: America's exports grew twice as fast as world trade in each of these years. Similarly, the deep recession of 1981–83 was accentuated by the appreciation of the dollar in international markets. In short, international factors now influence America's domestic economy in an unprecedented fashion.

The increasing dependence of the American economy on global markets has been coupled since the mid-1970s with the success of Japan's export offensive on the American market. Japan's achievements have convinced a growing number of Americans that a nation's competitiveness depends on more than its endowment with natural resources and the workings of the market. But America's national debate on industrial policy betrays the strength of a liberal ideology. We conceive of the political alternatives that confront us as polar opposites: market or plan. The biases of our ideology are reinforced by a veritable national obsession with Japan, a country that American businessmen in particular view as a statist antidote to America's ideological celebration of market competition.

Our political debate typically pits the proponents of government action against the advocates of market competition. Fundamentally, the debate concerns the character of state involvement in the economy. Is the state smart or stupid? Should it be generous or frugal? The successes and failures of Japan often become important reference points in the discussion of American priorities and choices. One influential group, whose members became known as "Atari Democrats," relies on a sophisticated interpretation of what Chalmers Johnson has called Japan's "developmental state."[4] This view suggests competition rather than collusion as the organizing concept for industrial policy. Government action is informed by long-term market developments. It assists individual firms, segments of industry, or whole industrial sectors to prepare for international competition. (This interpretation of Japan draws on both the notion of Japan Incorporated that informs the views of many businessmen and on those liberal economists who stress the intense competition in Japan's domestic market.)

This "smart-state" view of industrial policy is, however, open to criticism.[5] Japan's developmental state has failed in areas as different as textiles and commercial aircraft. America's system of government, moreover, has institutional limitations that inhibit the implementation of a smart-state strategy. Such criticism serves as a useful corrective to the mixture of artistic and athletic imagery used by those who emphasize the suppleness and swiftness of Japan's industrial policy. At the same time, however, these criticisms risk conceding the debate by default to those who base their case against industrial policy on the mythical notion of unfettered market competition.

A second set of arguments addresses the question whether the state should be generous or frugal. AFL-CIO officials drawing on the experience of several European states and Robert Kuttner among other writers give pride of place to human capital and the impact of industrial policy on labor markets and social welfare.[6] A "generous-state" strategy views welfare and efficiency as complementary rather than conflicting goals. A well-trained labor force whose representatives are involved in shaping fundamental economic choices is, it holds, an essential ingredient in maintaining a competitive position in global markets. Critics of this argument point to a lack of competitiveness that, they argue, stems directly from the excesses of the welfare state both in Europe and in the United States.[7] Social fat must be cut to stop the atrophy of economic muscle. In emphasizing the long-term benefits of efficiency and competition, these critics accept that the transition from an uncompetitive welfare state that impoverishes to a competitive market economy that enriches will carry unavoidable costs. It is primarily the politically weak and the economically poor who must foot the bill. Perhaps the hardest of all the lessons in the education of David Stockman was the fact that the Reagan administration was more successful in cutting the strong claims of weak clients than it was in curtailing the weak claims of strong clients.[8]

One important voice in the debate, Robert Reich, has argued that today we face a choice "between evading the new global context or engaging it—between protecting the American economy from the international market while generating paper profits, or adapting it to meet international competition."[9] But what are the ingredients of successful adaptation? The debate about industrial policy is of little help in analyzing those ingredients because it is organized around misplaced polarities of state action: smart vs. stupid, generous vs. frugal. Americans are beginning to perceive foreign threat in terms not only of revolutionary Communism but also of competitive capitalism. It is therefore unwise to lump together, as Reich does, Europe and Japan or all of Europe. In celebrating or criticizing foreign capitalism, generalization stresses how much of an exception America is. Comparative analysis is a useful antidote to this subtle form of ethnocentrism.

Today we can discern three dominant political forms of contemporary capitalism: liberalism in the United States and Britain; statism in Japan and France; and corporatism in the small European states and, to a lesser extent, in West Germany. The high-tech shoot-out between liberal America and statist Japan, cowboy and samurai, has so captured the imagination of the American public as to exclude serious

consideration of other political possibilities within contemporary capitalism.

This book analyzes the industrial adjustment strategy of small, corporatist European states: Sweden, Norway, Denmark, the Netherlands, Belgium, Austria, and Switzerland. It compares them with one another as well as with the large industrial countries: the United States, Britain, Germany, France and Japan.[10] I focus on this particular group of small states, excluding Ireland, Finland, and some of the Mediterranean countries, for reasons both practical and historical. This group of seven states is close to the apex of the international pyramid of success, yet we lack good comparative studies of how they manage their relations with the global economy. The group is large enough to allow some plausible inferences about the effects of structural constraints and opportunities, yet not so large as to defy intellectual mastery. Moreover, since these seven small states industrialized earlier than did other small states on the European periphery, they have related to the international economy in a distinctive manner. Finally, in these seven states a decisive realignment of their domestic economies with world markets occurred no later than around the turn of the century, a generation or two earlier than in the European periphery.

Although I use numbers in this book where relevant, I deliberately differ from statistically inclined investigations that seek to enhance our understanding by correlating small size with a broad range of economic, social, and political outcomes. In method of analysis I accord pride of place to historically informed comparisons rather than to statistical investigations. Granting the specifics of national settings, the historical evolution of these seven small European states justifies our particular attention.

The experience of the small European states in the international economy illustrates a traditional paradox in international relations concerning the strength of the weak. That experience is instructive in studying the problems of large, advanced industrial states, including America, for three different reasons. First, the large states are shrinking. This proposition is patently true in terms of territory: in the course of the last generation the large industrial states completed their withdrawal from their traditional empires, and no new formal empires are likely to emerge in the foreseeable future. Second, the diminution of the large states is reflected in the growing openness of their economies and their weakening control over the international system. Throughout the 1970s, for example, the economies of large industrial states opened up faster than those of small European states.[11] The large states are gradually relinquishing their traditional prerogative of imposing political solutions on others and are adjusting like small states to changes imposed from abroad. For America and the large states, "rule taking" rather than "rule making" is becoming increasingly important.[12] Finally, the production of goods for profitable niches in international markets has long been an economic reality for the small European states—a reality that the large industrial states, not accustomed to being squeezed, have acknowledged only rhetorically. But for the large industrial states, rhetoric is quickly becoming reality. They too must learn how to tap-dance rather than trample.

Three Political Responses to Economic Change

The 1970s and 1980s have been years of rapid change in the global economy. One way to suggest the rapidity with which change has occurred is to list the major issues that have affected the international economy since the early 1970s: global inflation, explosion in energy prices, prolonged recession, increases in trade rivalries and protectionism, volatile foreign-exchange markets, skyrocketing interest rates and debts, and structural readjustment. Alternatively, one could simply observe the behavior of economists who are in the business of making predictions. In the 1950s and 1960s their models generated impressively accurate results. Today an economic prediction often involves little more than averaging everyone else's guesses about future trends—and even that method often does not work. Among energy specialists, for example, few economists predicted with any degree of accuracy the glut in international oil markets in 1981–82, much less the glut that accompanied a major war in the Gulf in 1984, and still fewer were willing to hazard a guess about its probable duration.

The sources of these changes in the global economy are diverse. They include political realignments in the international state system as well as major changes in the supply conditions and production structures of many countries. At no time since the end of World War II have questions of economic competitiveness and economic security so riveted attention throughout the industrialized world.

None of the major competing schools of thought in economics have offered a plausible diagnosis of accelerating change, let alone a workable means of dealing with it. Yet the deepening problems of the advanced industrial world have prompted substantial changes in the

policies of several industrial states. Examples illustrating the point are easy to come by. In the hope of overcoming stagflation through invigorating market institutions, Britain under Prime Minister Thatcher and the United States under President Reagan made sharp breaks with the past, pursuing deflationary policies and deregulation. In sharp contrast, in the first year of President Mitterrand's administration France was looking to more government intervention and an inflationary growth policy as the most promising cure for economic problems—an approach that Mitterrand was later compelled to abandon. In ways unanticipated a decade ago, moreover, and without any policy worth the name, northern Italy is witnessing the emergence of an embryonic but highly competitive, decentralized economy, one that challenges the long-presumed superiority of industrial mass production. As these policies suggest national elites are attempting to meet structural change in the world economy in different ways.

In the interest of systematic analysis we need categories to group diverging policies. This book relies on a threefold scheme that corresponds to the dominant political forms of contemporary capitalism.[13] Liberal countries such as the United States rely on macroeconomic policies and market solutions. Lacking the means to intervene selectively in the economy, the United States, in those extraordinary situations where the traditional market approach appears to fail, tends to export the costs of change to other countries through the adoption of a variety of limited, ad hoc protectionist policies. Such policies often create a temporary "breathing space" for producers hard pressed by international competition, but they rarely address long-term structural shifts in international competitiveness. Conversely, statist countries such as Japan are endowed with the means and the institutions to preempt the costs of change through policies that pursue the structural transformation of their economies. Because they seek to meet structural changes in the world economy head on, their strategy often requires systematically protectionist policies, at least in the short and medium term. Exporting or preempting the costs of economic change in times of adversity are political options for those large industrial states whose power is sufficient to exercise effective control either over parts of their international environment or over parts of their own societies.

This book is about a different kind of response. It is a response that does not fit easily into the categories of analysis (competition or intervention, market or state) suggested by the experience of the large industrial states. The small European states lack the power demanded by the strategies with which the United States and Japan typically deal with adverse economic change. For the small European states, economic change is a fact of life. They have not chosen it; it is thrust upon them. These states, because of their small size, are very dependent on world markets, and protectionism is therefore not a viable option for them. Similarly, their economic openness and domestic politics do not permit them the luxury of long-term plans for sectoral transformation. Instead, elites in the small European states, while letting international markets force economic adjustments, choose a variety of economic and social policies that prevent the costs of change from causing political eruptions. They live with change by compensating for it. In doing so, the small European states have cultivated a strategy that both responds to and reinforces their domestic structures. Their strategy differs profoundly from the liberal and statist principles that inform the political choices and structures of the large industrial states.

Exporting, preempting, or living with the costs of change are convenient short-hand summaries for the broad political choices that distinguish different industrial states.[14] In analyzing these choices I do not include the element of conscious intention that scholars normally assume to be an essential part of the concept of strategy. In talking with businessmen, union leaders, and especially government officials in the United States, Europe, and Japan about problems of industrial adjustment, I have been struck by the different levels of abstraction in their thinking about these problems. Most of the people I interviewed were interested in discussing individual decisions; few of them thought of bundles of decisions as "policy"; and only a handful grouped bundles of policies together as "industrial strategy." My tentative conclusion, based on this collage of individual impressions, is that the level of abstraction increases as one travels from the United States to Europe and from Europe to Japan.

For the range of political experiences that this book seeks to illuminate, I have found it useful to describe the industrial adjustment strategies of the small European states under two broad headings. What do these states seek to accomplish (international liberalization and domestic compensation)? Where and how do they accomplish it (national adaptation and public compensation vs. global adaptation and private compensation)? In terms of the semantic smorgasbord from which the current debate on U.S. "industrial policy" picks and chooses, the use of these categories implies a broad definition of that term. Industrial policy is concerned with the structure of the economy, that is the patterns of production in different sectors. It includes both adjustment-promoting and adjustment-retarding measures that

operate directly or indirectly at both the macro- and the microlevel. Its purpose is to influence industrial competitiveness and through it achieve objectives such as employment, investment, growth, or an improved balance of payments.

Confronted with economic change, the U.S. government and U.S. firms prefer adjustment in global markets to reliance on government action. Free trade and foreign investment by firms rather than industrial policy coordinated by the government is the option they favor. This market orientation is expressed in America's preference for lower tariffs in the postwar world. To be sure, there exist important exceptions to America's liberal approach. Since 1945, for example, the federal government has spurred high-technology industries, including electronics and aerospace, through vast military expenditures. Not only large-scale preparation for war but also economic adversity has forced the government to act. When confronted with large-scale unemployment or massive bankruptcies, the U.S. government tends to favor policies that are defensive, seeking to reduce the rate of adverse economic change through protectionism.

For the American textile industry, because of political strength in Congress, protection came as early as the mid-1950s, at the dawn of the liberalization of the postwar international economy. American policy makers forced on Japan a "voluntary" control of their exports to the American market. The far-reaching liberalization of international trade negotiated under the auspices of the Kennedy Round in the 1960s rested on a political compromise between President Kennedy and the textile lobby in the U.S. Congress. The domestic agreement led to an internationalization of American protectionist practice in the Long Term Arrangement on Cotton Textiles, which in modified form eventually covered virtually all of the international trade in textiles. Between 1969 and 1974 the American steel industry also benefited from voluntary export controls negotiated with Japan. Since the oil shock of 1973 a growing list of industries, including footwear, consumer electronics, steel, and automobiles have benefited from the adoption of protectionist policies by the federal government. In footwear protection was granted only temporarily; steel experienced what looks like a more permanent change in American trade policy. In consumer electronics protection was largely ineffective in revitalizing the industry; in autos it may well facilitate adjustment. But in all instances the government chose protection when, lacking alternative policy instruments, it was pressured by strong coalitions to ameliorate sectoral crises. Indeed, in industrial policy broadly defined America's distinctive innovations are policies of voluntary export restraints, orderly marketing agreements, and administrative interventions such as the Trigger Price Mechanism, which has protected the steel industry since 1977. This contrasts with the policy innovations elsewhere, for example, sectoral or incomes policies as practiced respectively by Japan or the small European states.

Japan favors confronting economic change with a process of domestic industrial adjustment in which the government assists firms in a variety of ways to exploit long-term market developments, both at home and abroad. In essence the state helps industry prepare for international competition. Because foreign investment by Japanese corporations was typically low throughout the 1960s, the government's industrial policy (including protection) provided the preferred mode of adjusting to economic change. In contrast to the defensive adjustment strategy of the United States, Japan's policy is geared to anticipating structural changes in markets; it aims to assist firms to become competitive in particular industry segments or product lines. Comparative advantage is conceived of not only as a result of market forces but also of political action that affects competitiveness.

Several Japanese industries, among them steel and computers, reveal this pattern of policy. The emergence of Japan's steel industry as the most efficient producer in the world depended on a variety of innovative policies, including administrative guidance, recession and rationalization cartels, and the socialization of risk through assorted financial arrangements. Armed with these policies and favored by the international climate, Japan succeeded in creating an industry that within two decades had outgrown the protection and assistance it had received in earlier days. Japan's computer industry became a similarly important target of government attention in the 1960s and 1970s. Policies helped either to narrow significantly or to close the gap between it and leading American firms in important segments of the industry. By the late 1970s the industry has become largely independent of the need for protection. In these and several other cases Japan's innovative industrial policy focused on long-term market developments, relied on protection while establishing international competitiveness, and relinquished that protection, often under intense foreign pressure, when international competitiveness had been achieved.

Both the utter indifference of the United States and the ambitious initiatives of Japan offer a notable contrast to the flexible measures of industrial policy pursued by the small European states. In all industrial states, of course, be they large or small, one can find a substantial

array of policies seeking to modify market conditions through such instruments as subsidies, tax policies, regional development, concentration, and nationalization. Countries that adhere to a basically liberal stance on economic policy, such as the United States, often adopt these policies in the hope of slowing the political impact of economic change, if not economic change itself. The small European states may at times try to do the former but have no illusions about accomplishing the latter. The openness of their economies has resulted in a fully developed awareness of the inescapability of economic change. In Japan these policies are often employed, at least in part, in the ambitious attempt to preempt adverse economic change through timely transformation of industrial structures. In contrast, the small European states, even those which, like Austria or Norway, feature a large public-sector economy and a strong Left, apparently lack the political capacity to employ the full range of policy instruments in a far-reaching policy of structural transformation.

Instead, Austria and Norway, like all of the small European states, have a preference for a reactive and flexible policy of industrial adjustment. Since the late 1950s they have proceeded by small steps, relying heavily on indirect policy instruments such as taxation rather than broad-gauged political efforts to transform the structures of their economies. The 1970s saw the beginnings of convergence between small and large: the policies of most of the large industrial countries became more specific, moving either from traditional indifference to a new interest in industrial policy or from a focus on sectors and firms toward greater attention on products and production processes. At the same time the policies of some of the small European states were becoming less specific. At least some countries confronted for the first time the possibility that large-scale political interventions might be necessary. By and large, though, political indifference or policies of structural transformation typical of the United States and Japan still differ notably from the reactive, flexible, and incremental pursuit of industrial adjustment by the small European states.

Characterizing the industrial adjustment strategy that typifies the small European states is one thing. Thinking about the criteria by which one judges its success or failure is another. Economists of diverse persuasions found the variations in the economic performance of small industrial states in the 1970s increasingly difficult to explain. Why, for example, did Austria and Switzerland both have a low inflation rate in the 1970s even though Austria experienced high economic growth while Switzerland experienced low growth? Why is unemployment in Belgium much greater than in Sweden despite roughly comparable growth rates? Economists have no simple answers to such questions. But if simple explanation is difficult for economists, it is even more difficult for political scientists. Political choices have an effect on economic outcomes without determining them. A political analysis that, like the one offered in this book, draws on variables that change relatively slowly will have difficulty accounting for the rapidly changing economic performance of the small European states between 1960 and 1980. Furthermore, an analysis that emphasizes both similarities and differences in political structures and processes in different societies is hard pressed to yield a systematic and parsimonious explanation of economic performance. Economic performance, then, is not a yardstick by which we can directly measure the successes and failures of the small European states.

Can we use a political criterion to gauge success or failure? Through their policies, political leaders in the small European states have maintained the legitimacy of the political arrangements governing their societies. In neither Switzerland nor Austria has widespread popular disenchantment challenged the main political institutions. Political parties retain a tight hold on mass participation, and electoral changes in both countries have been very small. In Scandinavia groups representing the interests of business and workers continue to operate with the consent, in the main, of the myriad small firms and the union rank and file. In the Low Countries government agencies and the courts administer and adjudicate without large-scale public protests. Single-issue movements and citizen-initiative groups, which have grown in political importance in other European countries, have been incorporated in their political regimes. In short, by the criterion of political performance the small European states look like exemplary success stories.

The problem with this second yardstick for gauging success and failure is the inverse of the first. The measure is not easy to disaggregate into different dimensions, and it is not easily disconfirmed. Legitimacy is a broad construct; it covers a wide array of political experiences across the last three decades. Widespread loss of legitimacy occurs only very rarely—even Britain and Italy could be interpreted by this standard as political success stories. Despite the crude and misleading terminology of the news media, Britain has refused to "go down the drain" and Italy has not submitted to "political chaos." Considering the magnitude of the economic and political problems that these two societies confronted in the 1970s, they might be judged even greater political successes than, for example, the small European states or Germany and Japan. Indeed, from this vantage point it

would be difficult to find any evidence short of total political collapse and social disintegration that would not lend credence to the argument that virtually all industrial states, the small European nations included, have succeeded politically.

Common sense approves our measuring success or failure in adjusting to economic change by economic or political yardsticks. But both procedures generate problems for analysis, and I have therefore chosen a third yardstick. It measures the extent to which social coalitions, political institutions, and public policies facilitate or impede shifts in the factors of production that increase economic efficiency with due regard to the requirements of political legitimacy.[15] The small European states, like the United States and other large advanced industrial states, have had to confront the problem of adjusting the production profiles of their economies to rapid changes in technology and global competition. This book argues that the small countries have largely succeeded in this task, and they have done so by taking into account both the economic and the political requirements of rapid change. Economists understand the problem of adjustment in terms of economic incentives that shape politics to fit the logic of the market; what matters is the elimination of distortions to competition. Political scientists see the problem in terms of power calculations that shape market outcomes; of central importance is the imposition of state preferences on markets at the level of the industrial sector or sector segment. The successful strategy of adjustment practiced by the small European states bridges the divergent requirements of international competitiveness and political preference. These states adjust to economic change through a carefully calibrated balance of economic flexibility and political stability.

Compensating for the costs of change, I hasten to admit, can be simply another way of failing to adjust. The possibility is illustrated by the growing list of ailing industries and firms that live off state subsidies around the industrial world. But this form of compensation is not characteristic of most small European states. For example, Switzerland and the Netherlands, in the name of efficiency, rely primarily on market-driven adjustment. But their reliance is tempered by the awareness that compensatory political gestures are essential for maintaining consensus on how to adjust. Austria and Norway, in the name of equity, are inclined to rely on political efforts to slow down the rate of economic change. But their inclination is held in check by the knowledge that the state lacks the economic resources to offset adverse market changes for prolonged periods. Characteristic of both policies is the close link between the political and the economic requirements of flexible adjustment. Compensating too little for adverse economic changes can be detrimental to the political consensus on coping with change; compensating too much can impair economic efficiency. In assessing the success or the failure of adjustment, we need to take into account both its economic and its political costs and benefits.

Measuring success and failure by this third yardstick—the political facilitation or retardation of shifting factors of production—is related indirectly to the commonsensical but problematic measures I mentioned earlier: success or failure in terms of economic performance or political legitimacy. Flexibility in shifting factors of production presumably strengthens economic performance. Compensating for these shifts by political means rather than ignoring them should reaffirm political legitimacy. Precise examination of these links is beyond the scope of this book, but establishing them on grounds of plausibility will, I hope, suffice for those readers who wonder whether in their successes and failures the small European states have been smart or stupid, lucky or unlucky.

Democratic Corporatism

Similarities in what I shall call their corporatist arrangements set the small European states apart from the large industrial states. Yet different variants of corporatist arrangements, liberal and social, can be found among the small European states. Two sets of comparisons, between large and small and among the small, offer a map of the relations between the different components of corporatist structures as these European countries confront economic change. But a map simply traces the contours of the terrain the traveler will encounter; it does not explain them. The corporatist arrangements that distinguish the small European states, I shall argue, have their origin in the catastrophic changes of the 1930s and 1940s. In those two decades business and unions, as well as conservative and progressive political parties, became convinced that they should impose strict limits on domestic quarrels, which they viewed as a luxury in a hostile and dangerous world. Since the mid-1950s the requirements of international competition have helped to maintain that conviction.

Corporatism is an ambiguous and evocative concept.[16] Broadly speaking, it has three different meanings. First, it refers to the political arrangements of several European states in the 1930s that had a close affinity to political authoritarianism and fascism. Mussolini's Italy, Salazar's Portugal, and the Austria of Dollfuss were all profoundly antidemocratic in their repression of unions and leftist parties and antiliberal in their pursuit of relative economic autarchy. Contemporary interpretations of corporatist tendencies in southern Europe and Latin America often have this authoritarian variant as their implicit benchmark.

Second, the concept of corporatism refers to the economic and political organization of modern capitalism, as expressed in contemporary discussions of "corporate capitalism" or "state capitalism." The view of Japan as a big business firm (Japan Inc.) or of the United States as run by Wall Street emphasizes both the dominance of the giant corporation in economic life and the integration of business into the decision making of governments and state bureaucracies. This second variant differs from the first in two ways. It fosters the relative political exclusion (rather than the repression) of unions and leftist parties from the centers of power. It also emphasizes the liberal pursuit of international interdependence through trade and investment.

Finally, there is the democratic corporatism of the postwar period. Its essence can be grasped by looking at changing interpretations of German politics. The "organized capitalism" of twentieth-century Germany makes plausible those historical interpretations which draw on either of the first two meanings of corporatism.[17] But such interpretations do not capture the main political currents in West Germany since 1945. West Germany's political economy is founded on the political inclusion of business and unions as well as conservative and progressive political parties. The Federal Republic favors the principles of market competition and international trade. The country's postwar experience, moreover, illustrates why democratic corporatism need not necessarily be considered anathema by Social Democrats who associate all corporatism with the repression or exclusion of labor. West Germany comes closer than any other large industrial state to the logic by which political life in the small European states is organized. How this democratic corporatism deals with economic change is the subject of this book.

Scholarly interest in democratic corporatism has surfaced twice in the postwar period.[18] Throughout the 1950s and into the early 1960s buoyant economic growth prompted American political scientists to focus on the political question of recreating a moderate democratic politics in Europe by freeing unions from Communist parties on the Left and the Catholic church on the Right. The mid-1970s saw a resurgence of interest in corporatism, this time prompted by the slowing of economic growth and the prospect of prolonged economic crisis in the 1980s. Recent studies of advanced industrial states have coined various terms for a phenomenon on whose existence most observers agree: the voluntary, cooperative regulation of conflicts over economic and social issues through highly structured and interpenetrating political relationships between business, trade unions, and the state, augmented by political parties. As Peter Lange has observed, however, corporatism has been viewed in different ways. Some scholars understand it as a transformation (either in progress or completed) of interest-group participation (from pluralism to corporatism), others as a transformation of the mode of economic production (from capitalism to corporatism) or of the form of the state (from parliamentary to corporatist).[19] These differences in theoretical and political orientations have led to different characterizations and interpretations of corporatism.

Democratic corporatism is distinguished by three traits: an ideology of social partnership expressed at the national level; a relatively centralized and concentrated system of interest groups; and voluntary and informal coordination of conflicting objectives through continuous political bargaining between interest groups, state bureaucracies, and political parties. These traits make for a low-voltage politics.

The first trait, an ideology of social partnership on questions of economic and social policy, permeates everyday politics in corporatist societies. This ideology mitigates class conflict between business and unions; it integrates differing conceptions of group interest with vaguely but firmly held notions of the public interest. Even to the casual visitor the self-dramatization of smallness is evident, ritually invoked in any interview or sustained discussion by the words, "You must understand that this is a very small country." References to the ideological cohesion that emanates from smallness convey the mistaken impression that in corporatist societies all important political conflicts have been resolved. Political elites in these systems, in their world view and in their daily behavior, do express satisfaction with the status quo, it is true. They regard redistribution as less important than an equitable sharing in economic gains and losses. Yet the prominence of the notion of public interest in this ideology of social partnership does not mean that individual attributes are unusually skewed toward valuing compromise. Individual predispositions, attitudes, or beliefs are not the roots of ideological cohesion. Rather, the "culture of compromise" that pervades democratic corporatism reflects political arrangements that manage to couple narrowly conceived group interests with shared interpretations of the collective good.

Second, democratic corporatism is distinguished by relatively centralized and concentrated interest groups. Centralization is a measure of the degree of hierarchical control. Interest groups in corporatist systems are aptly called "peak associations" because power is exercised at the summit over a relatively compliant base. Concentration is a measure of the degree of inclusiveness. Peak associations in corporatist systems are broadly based and organize a very large proportion of producers and workers. High degrees of centralization and concentration give a misleadingly orderly appearance to political life. Politics is of great importance, but it is important within interest groups, determining which issues get on the public agenda and setting the parameters of political choice. Political struggles fought and decided within interest groups prevent the crowding of public agendas with the political infighting of different segments of business or labor.

The importance of centralized and concentrated institutions lies in their shielding a particular style of political bargaining, the third defining characteristic of democratic corporatism. Bargaining is voluntary, informal, and continuous. It achieves a coordination of conflicting objectives among political actors. Political preferences in different sectors of policy are traded off one against another. Victory or defeat on any given issue does not lead to an escalating spiral of conflict because a continuous sequence of political bargains makes all actors aware that victory today can easily turn into defeat tomorrow. The predictability of the process enhances the flexibility of the actors.

Democratic corporatism is tied in each of its three distinctive features to political parties and electoral politics, but it avoids being dominated by them. Electoral competition between political parties limits the degree to which an ideology of social partnership can become a threat to democratic politics. Furthermore, the close relation between political parties and interest groups contributes to the centralization of domestic structures, especially on the Left. Finally, political parties and the perception of electoral losses or gains influence the degree to which groups coordinate diverging objectives. Democratic corporatism, as Stein Rokkan has argued, operates on two tiers: the democratic tier and the corporatist tier.[20] Political leaders of parties, interest groups, government agencies, the legislature, and the cabinet always operate on both levels. The cumulation of roles by the same political elite—so distinctive of the small European states—strengthens a complex web of political relations between the two tiers. For the past four decades that web has been sufficiently strong to make the political arrangements of the small European states simultaneously corporatist and democratic.

In sum, corporatist politics has three distinguishing characteristics.

All states share in some of these characteristics, but none exhibits all of them fully—in this sense democratic corporatism can be found everywhere and nowhere in the industrialized countries. But different countries exhibit democratic corporatism to different degrees. We can therefore distinguish between "strong" and "weak" systems of democratic corporatism in the advanced industrial states. The small European states, with their open and vulnerable economies, exemplify a democratic corporatism that among the large industrial states only West Germany approaches.

A taxonomy by which one can distinguish the strong corporatism of the small European states from the weak corporatism of the large industrial states is not the same thing as an explanation of why strong corporatist structures came into being and why they have lasted. The explanation this book proposes is, in a word, historical. The democratic corporatism of the small European states was born in the 1930s and 1940s amidst the Great Depression, fascism, and World War II. In many ways the domestic structures and political strategies that emerged in these two decades set guidelines for the generation of leaders charged until the 1960s with economic reconstruction and expansion. Economic openness and dependence established a compelling need for consensus, which through complex and delicate political arrangements has transformed conflict among the main social forces in small European states. Truces between business community and labor movement were expressed in Norway's "Basic Agreement" of 1935, Switzerland's "Peace Agreement" of 1937, Sweden's "Saltsjöbaden Agreement" of 1938, the Netherlands' fifth, corporatist chapter of the new Constitution of 1938, and Belgium's "Social Solidarity Pact" of 1945. Those truces have since been translated into durable peace. Austria's memories of the civil war of 1934 and Denmark's postwar settlement have encouraged a similar development.

Reflecting on the importance of international events for a consensual domestic politics, Arend Lijphart concluded that "in all of the consociational democracies the cartel of elites was either initiated or greatly strengthened during periods of international crisis, especially the First and Second World Wars."[21] In all cases external threat impressed on the elites the need for internal unity and cooperation. Johan Olsen similarly argues that "during wars, depressions, or other national crises, as well as during crises in specific sectors of society, integrated organizational participation by peak associations becomes more frequent."[22] The political manifestations of what he calls "integrated organizational participation" can be found in corporatist political practices and institutions. In the small European states, moreover, political metaphors reinforce the historical memories of the 1930s and 1940s. They emphasize that all members of society are in the same small boat, that the waves are high, and that everyone must help pull the oars. Domestic quarrels are a luxury that prudent persons will not tolerate in such adverse circumstances.

But why did the crises of the 1930s and 1940s establish in the small European states political regimes that met the requirements of international competitiveness as well as the objectives of prosperity and legitimacy? Not every serious crisis is met successfully. When faced with far-reaching changes, for example, Britain in the 1960s and Poland in the 1970s failed to recast their political strategies or reshape their domestic structures. In the small European states, however, a tradition of accommodative politics dating back beyond the nineteenth century facilitated the political reorientation that took place in the 1930s and 1940s.

Some of the small European states—Belgium, the Netherlands, and Switzerland—societies politically divided into different ethnic, linguistic, and religious camps, found corporatist patterns compatible with political accommodation that had emerged generations earlier.[23] "Consociationalism" and "Amicable Agreement" are terms that observers have used to capture the distinctive political structures and practices of these small European states, where groups are held together by pragmatic bargains struck by a handful of political leaders.[24] Though for different historical reasons, I shall argue, Austria's "Proporz Democracy" achieves similar results. Compromise across the main social cleavages assures political quiescence and, equally important, reinforces political control within each camp. The greater the segmentation of these continental societies, the more pronounced, typically, are elite coalescence and consociational arrangements that diffuse conflict.[25] In the Scandinavian countries, on the other hand, what mattered was an independent peasantry and a deep division between city and countryside. Political alliances between urban and rural sectors were the result in societies less troubled by social segmentation. As Arend Lijphart writes, "The coalescent style of decision-making has become quite pervasive . . . probably more so than elsewhere in the Western World," at least with respect to economic and social policy.[26]

The "historical compromise" that business and labor negotiated in the crisis-ridden 1930s and 1940s broadened narrow conceptions of class interest to include an acute awareness of the fragility of the small European states in a hostile world. An increasingly liberal international economy in the postwar years offered daily confirmation of that awareness. International competition intensified, underlining the enormous benefits of limiting domestic conflicts over economic issues. For example, strikes in the small European states are so costly for everyone—business, unions, governments, and consumers—that they occur very rarely. Political negotiations over prices and wages (what is usually called an "incomes policy"), on the other hand, are prevalent. In short, because the small European states have very open economies, political actors rarely lose the sense of being exposed to an international economy beyond their control.

This argument, which links the historical experience of the 1930s and 1940s to the creation of democratic corporatism and attributes its maintenance and adaptation to the effects of a liberal international economy since the mid-1950s, draws supporting evidence from postwar Germany and Japan. The experience of the Depression, fascism, defeat in war, and occupation remade political life in Germany and modified it in Japan. Comparative studies of corporatism, though sometimes uneasy about Japan, concur that both states approximate more closely than any other large industrial nations the kind of democratic corporatism distinctive to the small European states.[27] West Germany features both an ideology of social partnership and peak associations. It falls short of strong corporatism, however, because political parties play a greater role in the handling of conflicting objectives across different sectors of policy. Japan has both peak associations of business and a strong ideology of social partnership at the level of the firm. But because of the strength of the Japanese state and the exclusion of labor unions at the national level, Japan manages diverging objectives in ways utterly alien to the logic of democratic corporatism.[28] The comparison with Switzerland is instructive. Like Japan and unlike Austria, Norway, or Sweden, Switzerland has a relatively decentralized system of collective bargaining that rests on a shared ideology at the level of the firm. In sharp contrast to their counterparts in Japan, however, Swiss unions are important actors in the national policy process, the Left is included in the cabinet, an ideology of social partnership exists at the national level, and the state bureaucracy is not dominant.

In the global economy the odds are stacked against small and dependent states. Yet somehow the small European states defy the odds. As early as 1931 Richard Behrendt was noting that the small European states were an embarrassing exception to virtually all explanations of the political economies of larger countries.[29] In the 1960s Harry Eckstein observed that "the small European countries are

strangely overlooked by American political scientists who seem to know more about Uganda or the Ivory Coast than about Denmark or Holland. Comparative politics has, after all, always had something of a great-power fixation, particularly in regard to Europe."[30] Twenty years later Eckstein's appraisal of our familiarity with the African political scene may be optimistic, but his assessment of our ignorance of the small European states remains valid. Since we know so little about the small European states, their success in the postwar world either remains baffling or is glibly credited to two factors: "One is that they exported all their economists to America and Britain. . . . The other is that it is always easier to keep a small house in order."[31]

Students of international politics have also shown little interest in understanding the coincidence of economic strategies that favor flexibility with political structures that produce so much order. As one reviewer concluded, "a common feature of the studies on economic problems of small states [in the 1970s] . . . is that they concentrate on the external conditions. . . . Small states have, however, reacted in different ways to similar external conditions and one reason for this could be the internal structure of the small states themselves, a factor wholly neglected in the studies."[32] The small European states do illustrate that periods of great crisis can profoundly affect the way domestic politics is organized; periods of relative normality can, moreover, reinforce that pattern of organization. But international factors affect political strategies and outcomes only indirectly: they are funneled through domestic structures that are shaped by different histories and embody different political possibilities. Because of their greater vulnerability and openness, the small European states have felt a greater impact of international factors on domestic structures than have the large industrial states. But, as this book illustrates, international factors have not determined political strategies and domestic structures. Rather, while external events induced convergence, internal events drive countries to different responses. The result is to create among the small European states two distinct variants of democratic corporatism.

In the next chapter I detail both how small European states differ from large industrial countries in their political response to economic change and how they differ among themselves. Chapter 3 explains these similarities and differences in terms of the domestic structures of the small European states. Their economic openness and the structure of their party systems are conducive to corporatist political arrangements, which distinguish small from large industrial countries.

But the small European states differ in the form of their corporatism, liberal or social. Chapter 4 gives a historical analysis of both the conditions that permitted the emergence of democratic corporatism and the conditions that account for its taking a liberal or a social form. Chapter 5 draws out some of the broader implications of this analysis.

Corporatism was born out of political chaos and economic competition, but the authoritarian version of the 1930s was not the only possible political response to a period of crisis. A second, democratic form of corporatism also emerged in reaction to the antiliberal currents of the 1930s and 1940s. Nourished by the strong effect of a liberal United States on the postwar global economy, democratic corporatism is a way of organizing politics that differs from the liberal and statist models typical of the United States and Japan. It accommodates the logic of the market by compensating for it, and it tolerates the power of the state by circumscribing it. Democratic corporatism merits study for its response to economic change. Exposed to global markets that they cannot control, the small European states have accommodated themselves to a situation that Americans are now beginning to experience as crisis. How the small European states made a political virtue of economic necessity is the subject of this book.

Chapter Two

Flexible Adjustment in the Small European States

The small European states differ from larger ones in how they respond to economic change. Avoiding policies of protection and of structural transformation equally, they combine international liberalization with domestic compensation. The result is flexible policies of adjustment that, on questions of industrial policy, avoid both the indifference of some large states and the ambition of others. Despite their similarities, however, the small European states do differ from one another in the specific type of industrial policy they adopt. Industrial policy is relatively passive in some small states and relatively active in others.

This chapter describes the response of small European states to economic change. The first three sections compare a strategy of international liberalization, domestic compensation, and flexible industrial adjustment to that of the large states. These sections establish that the small European states do indeed follow a distinctive strategy. The final section, by contrast, emphasizes the difference among small European states by examining two extremes of economic strategy: the relatively passive industrial policy of Switzerland and the more active approach of Austria.

International Liberalization

Political and economic elites in the small European states mention three principal reasons why free trade is a policy to which they see no alternative. First, protection raises the price of intermediate goods and thus undermines the competitiveness of exports in world mar-

Chapter Three

Democratic Corporatism and Its Variants

The Swiss joke that their air force is the world's champion in flying circles; the country is too small to learn how to fly straight. Size is, of course, one of the most obvious things to be noted about the small European states, but to be useful for analysis size should be considered a variable rather than a constant. Together with other factors it facilitates particular political outcomes.[1] Size affects, in particular, both economic openness and the characteristics of the political regime. Small countries are more open and vulnerable than large ones, economically, politically, and militarily. In small countries, moreover, political centralization tends to be greater and political arrangements tend to be more closely knit. These are powerful forces that buttress democratic corporatism. Yet the relationship between these variables is not inherent but historical; small size can, after all, be related to economic closure and authoritarian corporatism. But in the case at hand, Western Europe, small size has facilitated economic openness and democratic corporatism.

Economic openness reinforces the corporatist arrangements that distinguish the small European states from the large industrial countries. This corporatist difference is evident in the three defining characteristics of corporatism: an ideology of social partnership, a centralized and concentrated system of economic interest groups, and an uninterrupted process of bargaining among all of the major political actors across different sectors of policy. Corporatism also results from the distinctive party systems of the small European states. Political parties of the Right are divided, and proportional representation encourages a system of coalition or minority governments. As a result, political opponents tend to share power and jointly influence policy.

The argument requires that I establish systematic differences between small and large industrial countries in their economic openness, corporatist structures, and political party systems. The analysis of the first three sections of this chapter is thus explicitly comparative.

But the small European states also differ one from another. The fourth section distinguishes between the liberal corporatism of Switzerland, the Netherlands, and Belgium on the one hand and the social corporatism of Austria, Norway, and Denmark on the other. Sweden combines elements from both patterns. These two variants of corporatism differ in the strength and character of both business and labor; that difference is illustrated in both where (globally or nationally) and how (privately or publicly) industrial adjustment occurs. The fifth and final section compares Switzerland with Austria as the most typical instances of, respectively, liberal and social corporatism. It also shows how despite their differences, the two countries converge with examples of both liberalism and statism among the large countries, thus pointing to the emergence of a corporatist variant of capitalism that combines both the market and state in distinctive ways.

Economic Openness

In their openness to and dependence on the world economy the seven small European states resemble one another. Small domestic markets entail a degree of economic openness that is for two reasons much greater in the small European states than in the five large advanced industrial countries.[2] First, the small European states do not offer the necessary economies of scale to a number of industries absolutely critical to the functioning of a modern economy. They must therefore import a wide range of goods that larger countries can produce domestically. Secondly, small domestic markets lead the small European states to seek their specialization and economies of scale in export markets. Dependence on imports and the necessity to export make the economies of the small European states both more open and more specialized than those of larger countries.[3]

The import dependence of the small European states, as many observers agree, reflects the absence of critically important industries requiring large domestic markets. In the 1950s the relative output of the small European states in industries with economies of scale (particularly basic metals, chemicals, metal products, and textiles) lagged greatly behind that of the large states.[4] The same finding holds for the late 1960s as well: the small European states lagged far behind the large advanced industrial countries in the production of basic metals, chemicals, metal products, nonelectrical and electrical equipment, and transport equipment in 1965,[5] and of chemicals, petroleum products, rubber, iron and steel, metal manufactures, nonelectrical machinery, textiles, and transport equipment in 1970.[6] As these studies suggest, the industries of the small European states are less diversified than those of large industrial countries.[7]

This limitation in industrial structures leads to an import dependence that is much greater in investment than in consumer goods.[8] For example, the machine industry, with its large economies of scale, contributed between one-fifth and one-quarter of total production and less than one-fifth of exports of the small European states; corresponding figures for the five large industrial countries are almost twice as large.[9] In the late 1950s the import content of investment goods amounted to 52 percent for the small European states, only 10 percent for the large countries.[10] A more recent estimate of the average import content of gross domestic capital formation, though based on a different sample of countries and different methods of computation, arrives at substantially similar results: 49–52 percent for the small developed states, 17 percent for the large advanced industrial countries. The direct import content of consumption goods, by way of contrast, is less than 30 percent in both groups of states.[11] In the mid-1960s the small European states surpassed the large industrial countries in the total import content in fixed capital formation (transport equipment, machinery, and building and construction) by a factor of three.[12]

The import dependence of the small European states makes them far more open to influences from the international economy than the large countries. In the Netherlands more than half of total domestic demand for manufactures in the late 1970s was supplied by foreign producers.[13] The portion of the economy that must respond to international competition is eight times larger in Belgium and almost five times larger in Sweden than in the United States.[14] These examples illustrate the undisputed finding of virtually all studies on the subject.[15] As one statistical analysis concluded in 1970, small countries have high levels of imports *irrespective* of their level of income, while in the large countries the propensity to import tends to decline when income levels rise. Exposure to foreign competition in the small European states is, on average, more than three times as great as in the large countries.[16]

An openness to developments in international markets has strong effects on the movement of prices and wages. The small European

economies import inflation from world markets—inflation that, in contrast to the large countries, not only has indirect effects through increasing demands for export or the balance of payments but also acts directly through price dissemination from imported goods and services.[17] In the 1970s, as the OECD's McCracken Report noted, external price influences were a major source of inflation for open economies. Even analysts who play down the consequences of an open economy nonetheless concede that the influence of the international economy on prices and wages is very strong.[18]

Swiss chemicals and Belgian steel illustrate the tendency of prominent industries in the small European states to seek economies of scale in international markets. The necessity of exporting has also brought corporations in the small European states, unlike in the large countries, to standardized and high-value-added products. They traditionally fill those market niches particularly well suited to their traditional economic strengths and resource endowments. During the last two decades, Switzerland and Austria have benefited greatly from the production of ski clothes and equipment. Sweden is exploiting its traditional strength in wood and furniture products in the computer market, through specializing in the exterior furnishings of minicomputers and in office design. Denmark has developed highly sophisticated marketing strategies in a wide range of consumer goods, best typified by the phenomenal success of Lego toys. Behind such illustrations lies a statistical truth: in the mid and late 1960s the economies of the small European states were much more specialized in their exports than were the larger European countries.[19]

Small European states have expanded their export markets in specific types of industry. While what constitutes a "modern" as compared to a "traditional" industry differs from one study to another, all studies suggest that the small European states have developed their comparative advantage in the latter. In the small states' "export basket" traditional industries such as food, beverages and tobacco, textiles, wood, paper, printing, and leather take a much larger relative share than do modern industries (rubber, chemicals and petroleum products, industrial raw materials, and metal products).[20] This imbalance is also reflected in the much greater import content of goods produced for export in modern industries.[21] Light industries are represented disproportionately in the industrial structure of the small European states.[22] In 1966 the share of exports in the industrial production of Sweden, Norway, Denmark, and Austria was twice as large as in the five large industrial countries. An analysis of the export orientation of several manufacturing industries in West Germany, France, Britain, and six of the seven small European states arrives at the same figure for 1977.[23] In the postwar era the relative share of exports in GNP in the small European states has been more than twice as large as in the large countries.

This dependence, both on the import of modern investment goods and on the export of more traditional consumer goods, reinforces imbalances in the economic structures of the small European states. Economic specialization results in different sectors of the economy being less integrated than those in the large countries—an observation true throughout the postwar era.[24] Openness to international markets, specialization, and imbalance give the economic structures of the small European states a propensity, to borrow a phrase from David Riesman, for being "other-directed."[25] The small European states thus tend to develop two different economic sectors, one externally oriented and competitive, the other internally oriented and protected. The differences between these two sectors are usually greater in smaller than in larger societies.

Specialization for export is essential to cover the costs of necessary imports. Yet Hollis Chenery has concluded that diseconomies of scale in importing sectors are, statistically speaking, twice as important as economies of scale in production and (by inference) in exports.[26] Furthermore, specialization leads small European states to concentrate their export trade on particular countries and particular commodities—a concentration that during the last three decades has exceeded that of the large countries by a substantial margin.[27] This concentration can have important effects on politics: as Albert Hirschmann has shown for the interwar years, high degrees of trade concentration can become an enormous political liability.[28] For the small European states this has not been so since the war, a testimony to the more benign climate of the international economy since 1945.

That climate has favored not political liability but economic growth. Between 1938 and 1967 the value of the seven small states' export trade grew by a factor of eight as compared to a tenfold increase in imports.[29] Commodities that enjoyed a high growth rate in world trade between 1954 and 1969 increased by 14.2 percent in the five large industrial states but by only 9.1 percent in the small European states. Conversely, commodities with only an average growth rate declined by 0.8 percent in the five large countries while they increased by 7.4 percent in the small European states.[30] The import level of the small European states covered by gross international reserves is about one-third lower than in the large countries.[31] Furthermore, the small European states tend to run consistently sizable deficits in their balance of foreign trade: while the large countries found themselves in surplus two-thirds of the time between 1960 and 1977, the small European states ran a deficit in their trade balance two years out of three.[32] Overstating his case, one observer concluded that "small countries appeared to experience a comparative disadvantage in most manufacturing industries."[33]

Against these structural trade deficits we should set a substantial surplus that small European states generate in their invisible trade, the export of services.[34] Even though Swiss industry is in relative terms, larger than that of any other OECD member state, the export of services has remained essential to Switzerland's position in the world economy throughout the postwar era.[35] Norway's enduring trade deficit is partly offset by its sizable gross freight earnings. In 1960 Norwegian ships carried a larger share of American trade (15%) than did the American fleet; in the second half of the 1960s receipts from invisible trade were about one-third of Norway's total receipts from foreign trade.[36] And Denmark, hard hit by the economic recession of the mid-1970s, witnessed a very substantial growth in its invisible receipts even though it already had the highest proportion of invisible exports to total export earnings (29%) in Europe.[37] It is next to impossible to separate out the service component from merchandise trade, particularly in technologically advanced sectors where know-how, consulting, and service are integral parts of one product package; but it is striking that the small European states offer very different types of services, including finance and insurance (Switzerland), commerce (Netherlands), shipping (Norway), and tourism (Austria).[38] In 1976 receipts from invisible trade amounted to 12 percent of the GNP of the small European states as compared to 5 percent for the large countries; on a per capita basis the small states led by about three to one.[39] In short, the small European states exploit their comparative advantage in a sector that has kept pace with the worldwide growth of manufacturing trade throughout the postwar years.[40]

But the small European states also rely, and far more heavily than the large ones do, on the inflow of foreign capital. Direct foreign investment in these countries has increased very rapidly during the last two decades.[41] By the early 1970s the estimated share of manufacturing held by foreign enterprises was much larger in the small European states than in the large countries. On the average foreign firms controlled 26 percent of sales and 18 percent of employment in the small European states as compared to 15 and 11 percent respectively in the large industrial countries.[42] The inflow of long-term capital has

Table 1. Openness and dependence in small and large economies (percentages)

	Small states[a]	Large states[b]
Openness		
1. Exports of goods/GNP, 1955	24.4	11.3
Exports of goods/GNP, 1975	30.4	15.5
2. Exports of goods and services/GNP, 1955	31.0	13.8
Exports of goods and services/GNP, 1975	37.7	18.8
3. Foreign letters/total letters, 1955	13.6	6.0
Foreign letters/total letters, 1975	12.2	6.1
4. Foreign patents/total patents, 1965	82.5	39.8
Foreign patents/total patents, 1975	84.9	49.9
Dependence		
1. Balance of trade in goods/imports, 1955	−16.6	0.3
Balance of trade in goods/imports, 1975	−10.2	−0.1
2. Balance of trade in goods and services/imports, 1960	−0.7	8.7
Balance of trade in goods and services/imports, 1973	−2.2	3.6
3. Direct foreign investment/GNP, 1967	4.4	3.1
Direct foreign investment/GNP, 1973	4.9	3.0
4. Energy imports/energy consumption, 1960	62.0	24.2
Energy imports/energy consumption, 1975	50.3	53.7

[a]Unweighted average for Austria, Switzerland, Sweden, Norway, Denmark, Netherlands, Belgium.
[b]Unweighted average for the United States, Britain, West Germany, France, Japan.
Source. Margret Sieber, *Dimensionen kleinstaatlicher Auslandsabhängigkeit*, Kleine Studien zur Politischen Wissenschaft nos. 206–207 (Zurich: University of Zurich, Forschungsstelle für Politische Wissenschaft, 1981), pp. 156–59.

accompanied the export of services in helping to balance the persistent trade deficit of small European states, thus bringing their basic balance of foreign transactions into equilibrium.[43]

If small European countries are unusually open to and dependent on a global economy that is beyond their control, however, they have also benefited from an increasing international division of labor (see Table 1). Between 1950 and 1981 the proportion of world exports to world GDP increased from 10 to 18 percent.[44] In the 1970s, in particular, an increasing dependence on imported energy put most of the large industrial states for the first time in a position comparable to that of the small European states. More generally, the growing liberalization of the international economy between 1955 and 1975 increased the dependence of large economies faster than that of the small economies.[45] This development accelerated in the course of the 1970s. Between 1970 and 1979, for example, the rate at which the

economies of the five large industrial states opened to the international economy was about 50 percent greater than the rate for the small European states.[46]

Despite the growing openness of the large industrial states, however, the difference between the two groups of states is sufficiently large that for the foreseeable future the small European states will remain much more open to and dependent on the world economy. The reasons that support this prediction are plain. The economic structure of the small European states is less diversified than that of the large states. The small European states depend heavily on the import of investment goods and other products for which their small domestic markets do not offer sufficient economies of scale. Instead, they seek these economies of scales through a specialization in their exports, especially in relatively "traditional" industries. This pattern results in a structural trade deficit, which narrows temporarily only in times of recession. The small European states are thus forced to rely on their service sectors as well as the import of foreign capital to cover their perennial trade deficits. In sum, economic openness distinguishes the small European states from the large industrial states.

Democratic Corporatism

The inclusion of all of the major producer groups and political actors in corporatist arrangements creates a relatively dull and predictable kind of politics in the small European states. Predictability has its costs. Some political elites are excluded from basic policy arenas, for example, Swiss unions from questions involving foreign economic policy. Leaders impose strict controls on the spontaneous political participation of their followers, as is true, for instance, of the rank and file and middle-level cadres in Austria's unitary and highly centralized trade union movement. These concealed costs reinforce the political challenges to which the corporatist structures of the small European states have been subjected in recent years. Illustrations abound: the growing importance of rule by emergency decree in Swiss politics, the possible implantation of a Social Democratic regime in Austria, the trend toward class politics in the reordering of Dutch political life, the reappearance of militant ethnic politics in Belgium, and the instabilities in Scandinavian party systems. To date, however, these manifold political challenges have failed to change fundamentally any of the three defining characteristics of corporatism.[47]

The first characteristic of democratic corporatism is an ideology of social partnership, shared by both business and unions and expressed in national politics. The pervasiveness of that ideology since 1945 is mirrored in the infrequency of strikes. In his work on the political economy of strikes Douglas Hibbs concluded that the postwar era has seen a significant reduction of strike activity to negligible levels only in Denmark, the Netherlands, Norway, and Sweden. Had Austria and Switzerland been included in his study, they would have fallen in the same category. Only Belgium's decline in strike activity still allows for sizable industrial disputes. During the interwar years, by way of contrast, the small European states were much more prone to strikes than the large industrial countries. As Douglas Hibbs observes, "The withering away of the strike is a rather limited phenomenon confined largely to the smaller democracies of Northern Europe."[48] Even short strikes today have large repercussions, both real and psychological, in small open economies. In the open economies of the small European states a durable truce has since 1945 supplanted class warfare between business and labor.

Although it may appear paradoxical to outsiders, pragmatic cooperation and ideological conflict are not incompatible. Technical expertise plays an important role in the small European states. There is, however, no reason to believe that experts in the small European states are smarter than experts elsewhere, and so their prominent role evidently does not lie in the quality of the advice they give. Instead, experts matter because they provide a common framework and acceptable data, evidence of a pervasive ideology of social partnership. This ideology incorporates a continuous reaffirmation of political differences with political cooperation. In Harold Wilensky's words, "Such experts are preoccupied with rational argument and criteria; their technical competence compels opposing parties to be more careful and honest in the use of information and knowledge. It is still combat, but the spirit is, 'En Garde. We'll meet you with our statistics at dawn.'"[49]

This ideology of social partnership is a distinctive feature of all of the small European states. In Denmark, as Arend Lijphart has argued, ideological consensus is particularly evident in the search for compromise in Parliament. "The rule of the game prescribes that the top leaders of all four major parties do their utmost to reach a consensus. This is *glidningspolitik*. . . the politics of smoothness.'"[50] Austria's Socialist party, joined by the trade unions, continuously reaffirms in its political rhetoric and in its self-perception that it is building a better society in the name of democratic socialism. At the same time, though, the party pursues policies that focus on growth rather than

redistribution and that are closely tied to West Germany's stability-conscious monetary policy. Conversely, together with the peak association of business and the most important newspaper in the country, Switzerland's liberal party (the Radicals) affirms the principles of a liberal capitalism with a great sense of urgency. Yet it accommodates itself easily to a coalition government with Switzerland's Social Democrats. Few Swiss and even fewer foreigners know that Switzerland's system of collegial leadership conferred the ceremonial office of prime minister upon the Social Democratic party three times in the 1970s. In the Low Countries a variety of political coalitions have been possible among the major political parties. Val Lorwin writes that "this general availability for cabinet coalitions we might, for the sake of a short and catchy name, call *Allgemeinkoalitionsfähigkeit*."[51]

The second characteristic of democratic corporatism is a system of centralized and concentrated interest groups. Philippe Schmitter has made this system the focus of his institutional characterization of corporatism. For Schmitter corporatism is a form of interest intermediation that is distinct from both pluralism and syndicalism.[52] It is theoretically possible for policy making to be corporatist without centralized institutions, but unprotected by firmly rooted institutions, corporatist bargaining is more susceptible to collapse under the stress of exogenous shocks. This at least is the lesson that one can draw from Britain's and, more recently, Italy's attempts to stabilize their economies through corporatist arrangements.

Both the centralization of society and the system of centralized producer groups are important. Normally, centralization and concentration are inversely related to the size of a country: "Other things being equal . . . the larger the country, the greater the number of organizations and sub-units it will contain."[53] Looking at the situation in which the small European states find themselves from the perspective of the management of the economy, Peter Wiles aptly notes that "it is never difficult to put through an agreed new policy. This is the phenomenon of 'willy-nilly Frenchy planning' in small countries: the *économie* is informally *concertée*, whatever may be the official arrangements or lack of them. This is as much as to say, there can be no laissez-faire in a rich small country with a market economy since the number of large enterprises is too small, and the intermarriage of elite familes is inevitable, where the elite contains both enterprise directors and senior civil servants. Give a cocktail party, and you have to invite them all."[54] In larger states organizations are differentiated and functions are specialized; the functional substitute in small states is the "structural polyvalence" of organizations that play many different roles. As two Swiss analysts note, "Organizations in small societies find it especially profitable to keep themselves very open and available for possible alliances with many other organizations." Selectivity in problem definition, personalization of interorganizational relations, and versatility in response are some of the typical institutional reactions in the small European states.[35] But this fluidity of relationships within small states coincides with strong oligarchic tendencies. Political power is concentrated in the hands of a few decision makers and rests with strong interest groups and strong parties.[36]

Just as the main economic interest groups fully organize their respective social sectors, so political parties mobilize a very large proportion of the electorate. In the small European states between 20 and 25 percent of the registered or actual voters are typically party members, a proportion far greater than in the large industrial countries.[37]

Furthermore, strong and pervasive links exist between interest groups and political parties in the small European states. Small size and dependence on world markets thus has an effect not only on the centralization of domestic structures but also on the character of the policy process. "In a society as small and transparent as the Norwegian," writes Ulf Torgersen, "where the exercise of power is so much disliked, where equality is a dominant feature, and where evaluation on the basis of individual merit is avoided so consistently, the politics/society configuration can present serious problems. This does not mean that power is not exercised, but characteristically the process is a difficult one."[38] Johan Olsen has similarly observed that anticipated reaction is a major form of policy coordination in small systems.[39]

The centralization of the major producer organizations in a system of "peak associations" is a corollary to democratic corporatism's characteristic centralization of domestic structures. Centralization is particularly striking in Switzerland's business community, as well as in Austria's trade union movement. Furthermore, the peak associations that characterize democratic corporatism are so broadly based as to approximate a representational monopoly of their constituencies, de facto if not de jure. The centralization and representational monopoly of these peak associations are important to the two ways in which the major producer groups coordinate their political objectives. Policy is primarily formulated between the leaders of producer groups, the state bureaucracy, and political parties at the summit. Policy is implemented within producer groups through middle-level functionaries as well as by the state bureaucracy. This combination of inter- and intraorganizational policy making is an elaborate effort to mobilize political consensus between and within organizations. It tends to blur the distinction between public and private.

Union membership levels illustrate the encompassing character of the main producer groups in the small European states. Among the large industrial states only Britain approaches the unionization rates common in the small European states.[60] No comparable and systematic statistical measures of the "organization of capitalists" are available. But what evidence we have suggests that conditions favor the institutional penetration of the business community in the small European states much more than in the large ones. The small size of domestic markets correlates highly with different measures of industrial concentration. Indeed, John Stephens classifies all seven small European states as having a high degree of economic monopolization and all of the large industrial states as having a low degree of monopolization.[61] It would, of course, be risky to infer a centralized institutional structure of the business community from a centralized economic structure. But a number of these countries lend some support to the notion that economic structure in this instance shapes institutional forms.[62] Finally, the entire literature on corporatist politics has assumed a symmetry in the degree of centralization of the unions on the one hand and of business on the other; in directly measuring the former, it is argued, we are indirectly measuring the latter. Summarizing his comparative analysis of industrial states, Stephens thus concludes that the countries "fall neatly into two categories, the small democracies and the larger democracies with a large gap between them."[63]

Perhaps the most frequently cited example of the centralization of democratic corporatism is the industrial relations system of the small European states. Incomes policy and collective bargaining were intimately linked both in Sweden's "private" central wage bargain and in the Netherlands' "public" official incomes policy in the 1950s and 1960s. In fact, all of the small European states, with the sole exception of Switzerland, have highly centralized collective bargaining systems. Even Belgium in the course of the 1970s moved to peak-level bargaining and conflict resolution, a movement clearly illustrated by the government's economic recovery plan of 1980–81. In the words of Anne Romanis, to summarize, "In five of the six smallest and most open small European states—and in only one large economy, West Germany—powerful coordinated employers' federations face coordinated labor unions. On the other hand, in six of the seven large industrial states uncoordinated labor unions face uncoordinated employers' organizations."[64]

The third characteristic of democratic corporatism is a voluntary and informal coordination of conflicting objectives. Coordination is achieved through political bargains struck between the major producer groups, state bureaucracies, and political parties across different sectors of public policy, with trade-offs that are more or less explicit.[65] Individual transactions in markets and hierarchical commands by state bureaucracies do of course exist in democratic corporatism, but they are not of its essence. Instead, the important social actors are systematically included in the policy network, thus acquiring a stake in the continued operation of that network even if they are dissatisfied with particular policy outcomes. The "sectoral interpenetration" of state bureaucracies and interest groups gives way to a process of "trans-sectoral co-ordination."[66] Interest groups participate in the formulation and implementation of policies that go beyond their specific sectoral interests to include such broad political objectives as full employment, economic stability and growth, or the modernization of industry. The consequence of this pattern of policy making is clear: government bills account for a far higher share of legislative proposals in the small European states than in the large industrial countries (93% compared to 66%). The success rate of the executive's legislative proposals is also greater (93% compared to 52%).[67] Among the large countries only Britain begins to approach the figures of the small states.

The expectations that political actors bring to the process of coordination are shaped not only by the substance of the issue to be resolved but also by acute awareness of how substantive differences between groups affect corporatist arrangements. Disagreements on questions of substance are mitigated by strong agreements on procedures because differences in power are carefully calibrated. In corporatist policy making not only is the question that is on the table at stake—so is the shape of the table. The very process of coordinating conflicting objectives creates a climate of political predictability.

Political bargains over wages and prices are distinctive of the incomes policies of most of the small European states, and they provide an excellent example of how a corporatist policy process works. In Austria incomes policy is informal, protecting the leaders of the main interest groups from being caught between bargains struck at the top and demands made by the rank and file. It involves other policy sectors—social welfare, taxes, and employment—and is significant primarily for its political rather than its economic effects. Switzerland does not have a formal incomes policy. There, a less explicit link exists between a labor-market policy that leaves hiring and firing to the sole discretion of businessmen and an understanding that foreign workers, of which Switzerland has a large number, will be laid off first. This policy has virtually assured Swiss workers of full employment

throughout the last thirty years. What matters in these corporatist arrangements is the links between different political actors, which generate long-term expectations. In comparison to the large industrial states, political bargaining in the small European states resembles exchange rather than barter or control.

Is democratic corporatism distinctive of small rather than large industrial states? Several authors, using a definition of democratic corporatism partly at odds with mine, suggest that it is. For example, Philippe Schmitter ranks industrial states along the dimensions of fiscal effectiveness (a measure based on different indicators of the government's fiscal strength); societal corporatism (a measure of the organizational centralization and the associational monopoly of labor organizations); and citizen acquiescence (a measure of citizen-initiated protest or resistance as shown by collective protest, internal war, or strikes).[68] These three concepts bear some resemblance to the three defining characteristics of corporatism I discussed earlier. Fiscal effectiveness can be interpreted as an indirect, economic-outcome measure of the coordination of diverging political objectives across different policy sectors; societal corporatism is one way of measuring what I identified as centralized and concentrated economic interest groups; and citizen acquiescence is one indicator of the strength of an ideology of social partnership and a culture of compromise. On all three dimensions Schmitter's rank ordering consistently separates small European states from large industrial countries. West Germany and France, it is true, rank ahead of Belgium on the dimension of fiscal effectiveness (cross-sectoral coordination of policy). West Germany ranks ahead of Switzerland on the dimension of societal corporatism (centralization of domestic structure) and ahead of Belgium on the dimension of citizen acquiescence (social partnership). But only these 4 out of 84 possible pairwise comparisons (each of the seven small states compared to each of the four large states) fail to support the argument that corporatist arrangements are distinctive of the small European states.

Other comparative studies strengthen this conclusion, whether they rely on judgments about degree of corporatism or on more precise numerical indicators. After extensive comparative research on the political structures of advanced industrial states, Manfred Schmidt concluded that the degree of corporatism in the small European states is roughly twice that found in the large industrial states; J. E. Keman and O. Braun arrived at the same conclusion, and Gerhard Lehmbruch has also concurred.[69] Data in comparative studies of the welfare state lend further support to the view that, in contrast to the large industrial states, the small European states are distinguished by their corporatist arrangements.[70]

By contrast, the political arrangements in the large countries do not exhibit the characteristics of democratic corporatism. Paraphrasing Werner Sombart, students of American politics have repeatedly posed the question, "Why no corporatism in America?"[71] Their answer, like Sombart's, points to key features of American politics: decentralized political institutions, the strength of liberal ideology, and the prominence of political forces favoring market solutions rather than group concertation. Britain's class-based ideology and politics, as well as the decentralized structure of its trade union movement and producer groups, defeated repeated attempts in the 1960s and 1970s by both Labour and Conservative governments to construct corporatist arrangements. Japan's politics, it is true, features a close integration of business and government, close enough that the late Andrew Shonfield called it an example of corporatist politics.[72] In sharp contrast to the small European states, however, this Japanese variant exhibits "corporatism without labor" and bears little if any resemblance to the politics distinctive of the small European states.[73] French politics similarly lacks ideological consensus and a centralized system of interest groups. Among the large countries only West Germany's centrist politics and system of peak associations provides an approximation to the corporatist substance and style of politics that typifies the small European states.[74]

Openness, Corporatism, and Party Systems

In comparison to the large industrial countries, as the first two sections of this chapter have shown, the small European states are both more open to the international economy and more corporatist in their internal organization. Openness and corporatism are linked in distinctive ways to political parties. Here my argument converges with the conclusions of another analyst of European incomes policies in the 1940s and 1950s: "Students of neo-corporatism and incomes policy must pay more attention to the international dimension of national political economies."[75]

Analyses of how the small European states cope with economic openness and dependence typically emphasize that these countries are small and international markets are large. Because of their size, the small European countries are often viewed as harmonious manifestations of Bacon's New Atlantis—endowed with coherence, agility, and intelligence.[76] Simon Kuznets, for example, speculates that the social homogeneity and consensus on the one hand and the quickness and effectiveness of political adjustments on the other must be the main reasons allowing small states to overcome the disadvantages associated with their economic openness and dependence.[77] In a similar vein a Hungarian economist, Béla Kádár, points to characteristic features of the domestic policies of the small European states that encourage political interventions in the domestic economy and counterbalance a relative weakness in international markets.[78] Even David Vital's pessimistic appraisal of the viability of small states concludes that "the crucial factor in almost every case is the human one. . . . Where the society coheres and is strongly led very great obstacles can often be overcome."[79] In different ways these assessments concur that the small European states compensate for their economic openness and dependence on world markets through political efforts at home. But we need to replace mystical assumptions about social coherence and common purpose with an analysis of what shapes domestic structures and how domestic structures condition political choices.

As I shall argue in greater detail in chapter 4, past international crises and political vulnerabilities have repeatedly strengthened cooperative arrangements in the small European states. In the case of Belgium such arrangements already existed in the first hours of the new state: a coalition among Liberals and Catholics was established during that country's secession in 1830. In the Netherlands the "politics of accommodation"[80] over the hotly contested issue of religion and education was reinforced by the outbreak of World War I. The incorporation of the Swiss Socialist party in the federal cabinet in 1943 resulted from a convergence between Left and Right, a convergence forced during the 1930s and 1940s by fascism and war and strengthened by the long-standing Swiss tradition of proportional linguistic and geographic representation of different sectors of society. Austria, confronting occupation by the four Allies as well as overwhelming economic odds, established an all-party government in 1945.[81]

Since the middle of the 1950s the requirements of international competitiveness that stem from an increasingly liberal international economy have contributed to the maintenance of a democratic corporatism. Less dramatic and chaotic than events of the 1930s and 1940s, the structural trade deficits of the small European states have reinforced corporatist patterns throughout the postwar decades. Incomes policy, a frequently noted example of corporatist politics in the small European states, illustrates the point. Control over wages and prices is particularly urgent in the small European states, which import inflation from world markets. "Generally speaking," notes Lehmbruch, "corporatist incomes policies have mostly been a sort of crisis management where, under economic stress, organizations have been ready to cooperate."[82] A mixture of wage restraint and price control is often a requirement of international competitiveness, and the need for economic stability is pressing if an equilibrium in the balance of payments is to be achieved. In ten episodes of incomes policy in the 1940s and 1950s, Peter Lange has concluded, the logic of economic vulnerability prevailed over the logic of worker militancy in forcing political outcomes that stressed consensual wage bargaining.[83] Ulman and Flanagan reached a similar conclusion for the 1960s. At least in the short run, for the small European states "the currency crisis thus furnishes an example of the civilizing influence of common adversity on communal behavior. . . . Social problems that do not yield to competitive pressures arising from individual activity should be tackled, not by the state alone, but by 'interest group activities' which may have caused them in the first place."[84]

Confronted with the cleavage between externally oriented and domestically oriented economic sectors, the small European states have developed corporatist structures that enhance political predictability by facilitating cooperation and compromise. Even though he discusses only Norway, Robert Kvavik aptly characterizes the consequence of centralization for all of the small European states: "Decisions are made with reference to some acceptable national standard . . . in such a way that the goals of voluntary associations are realized by accommodating private interests to an accepted and visible national interest. . . . All participants (public and private) see themselves as responsible to both private and national constituencies. All participants in the system view themselves as sharers."[85] External pressures force domestic accommodation even in societies, for instance Switzerland, that feature less centralized political institutions and practices: "People forfeit opposition policies because they know, in the end, that their security and their wealth depend on the confidence they inspire elsewhere."[86] Gerhard Lehmbruch comes to a similar conclusion. "Even in countries where a class-conscious labor movement in this strict sense is absent (as in Japan), or where social class is less salient for the cleavage structure of society (as in Switzerland), perceptions of international dependency may push the elites to establish patterns of coordination of government and interest groups with functional affinity to the modal pattern of corporatism. This includes some form of integration of labor, but the mechanisms are differ-

ent."[87] The small European states thus feature both widespread acceptance of the national interest and political accommodation among public and private actors.

How can we think systematically about these different mechanisms for integrating labor? Michael Shalev has usefully surveyed the most important studies done on this subject in the 1970s and 1980s.[88] A basic feature of what he calls the Social Democratic Model is the integration of the labor movement through strong socialist parties and strong labor movements into a national consensus. The modern welfare state is the result of class conflict; its major supporter has been the working class, and Social Democratic parties have been the main left-wing parties contesting public office with good chances of success. Thus the likelihood that Social Democratic parties will come to power and impose reform depends on the degree of working-class mobilization and its institutionalization in both unions and parties. The character of mobilization in turn depends both on the historically given features of society and on the political strategies of political elites. The Social Democratic Model remains fundamentally class-based even though it allows for the independent effect of state institutions and ideology in preventing the automatic translation of working-class power into policy outcomes. Corporatism has been no guarantor of the accommodation of diverging class interests. But in Scandinavia, for example, as Francis Castles notes, "the corporate pluralist system has been the instrument by which working-class organizations have been politically integrated into the fabric of capitalist society."[89]

Although numerous studies support Shalev's generalization, there exist significant exceptions. Strong corporatist arrangements, both Cameron and Wilensky conclude, can be found in the context of strong Socialist parties and of strong Catholic parties—or of the coincidence of both.[90] Corporatism, they conclude, is not strongly associated with the domination of a particular party and ideology. Data on working-class mobilization (as measured by the percentage of workers unionized and of the electoral strength of leftist parties) show that working-class mobilization is too high for Britain's weak corporatism, too low for the Netherlands' and Switzerland's strong corporatism.[91] Corporatism is thus not strongly associated with the mobilization of the working class. Cameron's conclusion fits with the argument I develop here: the openness of the economy has a stronger effect on the growth of the public economy than does socialist incumbency. For that growth, "leftist domination was not a necessary condition, since several nations experienced large increases in spite of the absence of a strong leftist representation in government. Included in this latter group are the Netherlands and Belgium . . . which share at least one common trait: their economies are relatively open."[92] Shalev concludes that "these various qualifications add up to an admission that the mechanisms by which the interests and collective leverage of the working class are conveyed to the state and influence policy are much more variable than one would expect by interpreting strength of the Left as simply the extent of democratic socialist tenure of government."[93]

The Low Countries illustrate a different mechanism for integrating labor into the corporatist arrangements of a capitalist society. In both countries, "working class interests are transmitted to the state and make themselves felt in policy in the absence of a governing working class party. In the Netherlands and to a lesser extent in Belgium, one observes a level of 'welfare effort' comparable to that in the Scandinavian nations and Austria, where for decades social democratic parties have enjoyed a dominant or very prominent position in government."[94] Lower levels of labor organization, shorter periods of socialist rule, and the breakdown of Dutch incomes policy since the late 1960s make the Netherlands an anomaly for those comparative studies of corporatist politics which focus on the strength of the Left as the prime determinant. Stephens, for example, is forced to call the Netherlands a "deviant case" of corporatist politics. "It may be that the Dutch system of bargaining centralization owes more to the combination of very heavy export dependency and the 'politics of accommodation' than to the political and economic strength of the labor movement."[95] The problem with dismissing the Dutch as deviant is obvious, for the effects of small size and economic openness on corporatism are no more exceptional in the Netherlands than in any of the other small European states. But the Dutch labor movement is nevertheless integrated into society on very different terms than in Scandinavia. In the 1970s, for example, Dutch employers' associations unified while the trade union federation became more decentralized, thus approximating the Swiss pattern.[96] In party political terms, moreover,

> in a re-organized and restructured party system, in which confessional strength is reduced to a third of the vote rather than a half, the Labour party, the only major party likely to mandate a greater voice for the trade unions, is still weak. Much to their frustration, Socialists, with a third of the popular vote, remain dependent on coalitions with the confessional bloc, regrouped in a single party, the Christian Democratic Appeal. Reflecting their centrist posture and desire to maintain a broad base of support, the Christian Democrats are receptive to trade union concerns, but unwilling to accept or endorse fundamental reforms.[97]

Throughout the 1970s polarization and integration in the Netherlands were maintained in a delicate balance. The economic crisis of the 1970s kept Dutch industrial relations somewhere half-way between a decentralized system with conflictual and autonomous unions, toward which it moved in the late 1960s, and the restabilized corporative system of the 1950s. As in the 1950s the primary task since 1973 has been to restrain growth in wages, but the institutional and political forms for imposing restraint have changed. They no longer resemble explicit social contracts as much as a series of coordinated, specific measures designed to reach a compromise among diverging interests. Despite this difference in form, the Netherlands has responded to the economic crisis of the 1970s and 1980s, as was true in the 1950s, with wage restraints that are among the most effective in the industrial world.[98] It was symptomatic of this general pattern that in the midst of the first oil shock in 1973–74 Dutch citizens experienced a "crisis psychosis" that enhanced the willingness of political elites to cooperate.[99]

The Low Countries suggest that the integration of labor into corporatist arrangements is shaped by the need to construct governing coalitions in variegated party systems.[100] Francis Castles has paid attention to the importance of parties of the Right, and he concludes that no systematic relationship exists between economic openness and the frequency of Social Democratic incumbency.[101] His data show, however, that the influence of openness is mediated by political parties of the Right. Incumbency of the Right has a strong negative correlation both with economic openness and with the generous welfare spending in the 1960s and 1970s that signaled a close integration of labor into the political economies of advanced industrial states. "If a closed economy is propitious for the development of strong and united parties of the Right, once developed it will be those parties' ideological leanings which determine the content of public policy at least as much as any imperative structured by the nature of the economy."[102] Unified parties of the Right are to be found in all of the five large industrial states but only in Austria among the seven small European states.

"Parties of the Right," which in Western Europe means political Catholicism, is a label that means different things in different political settings. As Shalev argues,

> there is a distinction to be made between Catholic parties that stand to the left of a sizable conservative party and owe a special debt to working-

> class interests, and those in which Catholicism enters the polity in the form of what is, in fact if not in name, a right-wing party. The first type of alignment is found in Belgium and the Netherlands, the second in Germany, Italy, and France. . . . The first type is ideologically egalitarian, frequently governs along with left-wing parties, and produces a large and fairly redistributive welfare state. The second type of party, when dominant, has been responsible for considerable expansion of welfare but as a concession to the Left during spurts of working-class mobilization and capitalist weakness. . . . The cost to rightist interests is minimized as far as possible in such cases by emphasizing nonredistributive programs and methods of finance.[103]

In the Low Countries the major labor parties are not as systematically excluded from state power as in some of the large countries, and they do not assume a confrontational stance toward employers and the state. Unsurprisingly, and in contrast to Italy and France, there exists in Belgium and the Netherlands a tradition of centralized, joint negotiations among representatives of labor, business, and government on questions of economic policy.

The electoral rules of the game heavily influence not only the dynamics of coalition formation among left-wing and right-wing parties but also how the working class is integrated into corporatist arrangements. Proportional representation, as Stein Rokkan has noted, is a characteristic feature of the small European states. Among the large industrial countries only West Germany's electoral system, often described as a mixture of plurality and proportional representation, comes close to the small states' electoral rules. The principle of proportionality, which political parties in the small European states embraced in the early twentieth century, encourages a sharing of power among different political actors. But "why should the smaller democracies on the whole tend to yield so much more readily, and with much less regret, to the pressures for PR than the larger ones? . . . To put it in abstract game-theoretic terms: is it theoretically plausible to assume that party leaders in smaller polities are more likely to depart from the zero-sum model of political competition than their opposite numbers in larger countries?"[104] My line of reasoning in this chapter and this book answers Rokkan's question in the affirmative. Furthermore, with the exception of West Germany the small European states have a much smaller number of national constituencies than do the large countries. Ronald Rogowski argues plausibly that "single-member districts, whether they elect by the Anglo-American method of plurality or by the French or Australian system of absolute majority

. . . generally subject representatives more to protectionist pressures from locally powerful interests . . . and they tend also to stimulate the inefficient public expenditures that Americans familiarly call 'pork barrel.' . . . Both tendencies—toward greater protectionism and bolder raids on the public fisc—must undermine the competitive effectiveness of an advanced trading state."[105]

A divided Right and proportional representation often lead to minority governments. The experience of the Weimar Republic as well as of postwar France and Italy, marked by radical opposition parties, has left the impression that minority governments form in deeply divided states and are unstable or conflict-ridden. But minority governments have also been of great importance in five of the seven small European states. Between 1945 and 1982 minority governments comprised more than one-half of all cabinets in Scandinavia and about 15 percent in the Low Countries.[106]

The effect of minority government on the policy process is very strong in all of the small European states. "The secret of governing in Denmark, one of Europe's most stable societies," the *New York Times* announces, "is not the creation of a working majority; it is making sure no majority is working in opposition."[107] Similarly, Hans Daalder writes, in the Netherlands, "the divisive effects of segmentation are softened by the circumstance that none of the subcultures has much chance of acquiring an independent majority, while there is at the same time little advantage to any two of them forming a lasting coalition against the third."[108] In Sweden, according to Nils Stjernquist, "the main aim of an opposition in a system of this kind would be to influence the policy-making process. The means available to the opposition would be compromises; its tactics, bargaining. . . . [After 1936] the opposition . . . adopted a new policy: in election campaigns the English approach; in Parliament and elsewhere, collaboration with the government in order to influence the political decision making as much as possible."[109] This quotation about Sweden also characterizes the role of the opposition in both Switzerland and Austria, governed for more than half the years since 1945 by all-party governments. There, as in the Low Countries and in Scandinavia, electoral victory is one of two important prizes; the other is the substantial influence over policy that the opposition exercises.[110]

Minority governments are, then, a rational response for parties that are oriented primarily toward influencing policy rather than accumulating patronage. They are the preferred choice of political parties especially in such states as Norway, Denmark, and the Netherlands, which witnessed sharp increases in electoral volatility in

Table 2. Differences in the party system of small and large states

	(1) Electoral formula	(2) Number of constituencies, 1974		(3) Number of parliamentary parties, 1945–80		(4) Average vote for all parties excluding major party of the Right, 1960–77		(5) Average electoral turnout as % of eligible age groups, 1959–77		(6) Score of fragmentation of legislature by political parties, 1960–65		(7) Party-group linkage scores, 1964–75	
		Rank	Absolute	Rank	Absolute	Rank	%	Rank	%	Rank	Absolute	Rank	Absolute
Switzerland	Proportional representation	6	25	1	5.0	6	78	12	53	1	82	6	45
Netherlands	"	1	1	2	4.9	1	88	1	90	3	79	1	64
Belgium	"	8	30	4	3.7	3	84	3	88	7	68	2	50
Sweden	"	7	28	6.5	3.2	2	85	5	86	6	71	5	46
Denmark	"	4	17	3	4.3	4.5	81	4	87	4	74	4	47
Norway	"	5	19	6.5	3.2	4.5	81	7	82	5	72	7	40
Austria	"	2	9	10	2.2	8.5	55	2	89	11	58	3	49
Small states' average		4.7	18	4.7	3.8	4.2	79	4.9	82	5.3	72	4	49
United States	Plurality representation	10	435	12	1.9	11	52	11	59	12	49	12	20
Britain	Plurality representation	12	635	11	2.1	8.5	55	8	74	10	59	8	38
West Germany	Plurality-proportional representation	3	10	9	2.6	10	54	6	84	9	61	9	36
France	Majority-plurality representation	11	489	5	3.3	7	65	10	70	2	80	10	34
Japan	Single nontransferable vote	9	124	8	3.1	12	48	9	71	8	62	11	24
Large states' average		9	339	9	2.6	9.7	55	8.8	72	8.2	62	10	30

SOURCES. Cols. 1 and 3: Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Countries* (New Haven: Yale University Press, 1984), pp. 122, 152, 155.

Col. 2: Ronald Rogowski, "Research Note: Does Trade Determine Political Institutions?" (Stanford: Center for Advanced Study, 1984), p. 17.

Col. 4: Gary P. Freeman, "Social Security in One Country? Foreign Economic Policies and Domestic Social Programs," paper prepared for delivery at the 1983 Annual Meeting of the American Political Science Association, Palmer House, Chicago, 1–4 September 1983, p. 6.

Cols. 5–7: G. Bingham Powell, Jr., *Contemporary Democracies: Participation, Stability, and Violence* (Cambridge: Harvard University Press, 1982), pp. 14, 81, 90–91.

the 1960s and 1970s. In these three countries the incidence of minority governments increased almost threefold between the 1950s and the 1970s.[111] A system of minority governments is well suited to the party system of the small European states because, far from penalizing opposition parties, it offers these parties significant influence over policy.

The corporatism of the small European states is, in sum, linked to a distinctive party system that offers strong, though different, mechanisms for integrating the working class into a corporatist consensus. The party system of the small European states, compared to that of larger industrial states, is distinguished by a greater mobilization of the electorate, a greater degree of partisan fragmentation of the legislature, and stronger links between political parties and interest groups.[112] Table 2 presents comparative data on these three dimensions as well as on electoral rules, the number of constituencies, the average vote for nonrightist parties, and the number of parliamentary parties. On all dimensions the small European states rank substantially higher than the large industrial countries. Omitting one tied rank, 185 of the 210 pairwise comparisons (of each of seven small states with each of five large ones for six different columns), or 88 percent, support the expectation that the party systems of the small European states differ significantly from those in the large industrial countries.

Political partisanship on questions of economic policy is less important in the small European states than in the large industrial countries. "Reaganomics," "Thatcherism," and the new conservatism drastically changed the approach of the United States and Britain to questions of economic policy. The contrast with Sweden is striking on this score. A coalition led by the Conservatives wrested control from the hands of the Social Democrats in 1976, after forty years of SD government. In subsequent years, however, there has been no fundamental reorientation in policy—except for a large-scale nationalization of ailing private firms. Esping-Andersen concludes that "it is not entirely false to claim that the bourgeois governments were more social democratic than the SAP."[113] In the large industrial countries the effect of partisanship on the size of the public sector is pronounced. In sharp contrast, the great expansion in the public economy of both the Netherlands (governed through much of the postwar era by coalition governments led by Conservatives or Liberals) and of Sweden (ruled by Social Democrats) illustrates that in the small European states generally, "all governments—whether formed by leftist or non-leftist parties—have been impelled by the exigencies of the open economy to expand the role of the state. . . . The openness of t economy is the best single predictor of the growth of public revenu relative to the economic product of a nation."[114] Another obser concludes similarly that "the association between high spending a Social Democratic dominance in government—characteristic of t Scandinavian countries but not of the Netherlands—appears mai to stem from the fact that both are the products of the same set structural factors. . . ."[115]

Those structural factors include, as Cameron has argued persu sively, a high degree of economic openness that coincides with a co centration of industrial ownership, especially in the export sector, small number of employers' associations, high degrees of unioniz tion, few but effective national union federations, an extension collective bargaining, and an increasing power of industrial labor u ions—in short, with many of the structural conditions that facilita democratic corporatism.[116] Government policy after the first oil sho confirms the importance of economic openness and partisan choice corporatism.[117] Manfred Schmidt argues that while the expansion the public sector was quite sensitive to whether power was wielded b leftist or rightist parties, some Social Democratic governments we fiscally conservative while some governments of the Right increase taxing and spending substantially. Of decisive importance in th 1970s, Schmidt argues, was the distribution of power *outside* Parlia ment.

Economic openness, corporatism, and a distinctive party system se the small European states apart from the large industrial countries The correlation between these variables is so high that statistical anal yses are unlikely to help us much further in disentangling relation ships. A functional explanation of how corporatism maintains and recreates itself should instead be supplemented by a historical expla nation of its origins, a task to which I shall turn in chapter 4.

LIBERAL AND SOCIAL CORPORATISM

The corporatist structures of the small European states are em- bedded in world markets. Reinforced by distinctive party systems, the pressures of the market have helped integrate labor, business, and government into firm, evolving, collaborative arrangements. Yet "cor- poratism," as Shalev correctly notes, "is after all only a description of certain institutional arrangements which can themselves hardly be

rstood without reference to class structure, power and con- [118] Systematic differences exist among the small European states e relative centralization and orientation of business and in the r and centralization of labor (as measured by unionization rates, voting, and Social Democratic incumbency). Switzerland has a cular affinity with the Netherlands and Belgium. These three tries have politically strong, internationally oriented, centralized ess communities and relatively decentralized and weak labor ments. They are liberal variants of democratic corporatism. ria, Norway, and Denmark have strong, centralized labor unions business communities that are politically weak, express a national tation, and are relatively decentralized. They are social variants mocratic corporatism. Sweden mixes these two political patterns. e relative strengths of business and labor are reflected in differ- political choices. Some favor programs that give maximum scope ivate initiative and seek to modify market outcomes by providing lementary income maintenance through means-tested welfare fits; others, programs that encourage public intervention and mpt to structure or replace market processes, for example ugh the provision of public housing or public health and univer- ocial insurance for which eligibility depends not on employment on citizenship.[119] This difference is reflected in where and how the ll European states adapt to economic change—broadly speaking, e are two clusters of responses. The global adaptation and private pensation of liberal corporatism contrasts with the national adap- on and public compensation of social corporatism. This distinction ween the two responses shows that corporatism can appear in sub- ntially different political contexts. Policy choices in a number of ors illustrate the differences between countries from group I itzerland, the Netherlands, Belgium) and group II (Denmark, rway, Austria). Sweden can exemplify the policy choices of either oup.

bal vs. National Adaptation

Business in the small European states can vary strikingly in charac- r. In Switzerland, the Netherlands, Belgium, and Sweden business s an international orientation and is more centralized; in the coun- ies of group II it has a national orientation and is less centralized. he data in Table 3 illustrate the point. This difference among the mall European states can be traced in the contrast between global

Table 3. The business communities of the small European states ranked by international orientation and centralization

	(1) International production in foreign subsidiaries as % of exports, 1971		(2) Direct foreign investment per employee in $, 1971		(3) Exports per employee in $, 1971		(4) Total balance sheet of the largest 3 banks/GNP, 1971		(5) Associational monopoly of business		(6) Sum of rank of cols. (1)–(5)	
	Rank	%	Rank	Absol. no.	Rank	Absol. no.	Rank	Absol. no.	Rank	%	Rank	Sum
1. Switzerland	1.0	236	1.0	3,077	4.0	1,906	1.0	1.07	1.5	10.0	1.0	8.5
2. Netherlands	3.5	52	3.0	916	2.0	2,925	2.0	0.46	1.5	10.0	2.0	12.0
3. Belgium	3.5	52	4.0	822	1.0	3,122	3.0	0.41	3.0	7.0	3.0	14.5
4. Sweden	2.0	92	2.0	1,123	3.0	2,187	4.0	0.31	6.5	3.0	4.0	17.5
5. Denmark	5.0	16	5.0	128	6.0	1,527	5.0	0.29	6.5	3.0	5.0	27.5
6. Norway	6.0	8	6.0	58	5.0	1,646	7.0	0.17	5.0	4.0	6.0	29.0
7. Austria	7.0	3	7.0	13	7.0	1,046	6.0	0.22	4.0	5.0	7.0	31.0
Average (1–3)	2.7	113	2.7	1,605	2.3	2,651	2.0	0.64	2.0	9.0	2.0	11.7
Average (5–7)	6.0	9	6.0	66	6.0	1,406	6.0	0.23	5.2	4.0	6.0	29.2

SOURCES. Cols. 1–2: United Nations, *Multinational Corporations in World Development*, ST/ECA/190 (New York, 1973), p. 159.

Cols. 3–4: Herbert Ammann, Werner Fassbind, and Peter C. Meyer, "Multinationale Konzerne der Schweiz und Auswirkungen auf die Arbeiterklasse in der Schweiz," Institute of Sociology, University of Zurich, 1975, pp. 106–07.

Col. 5: This indicator varies from zero to 12 and measures the number of business organizations in different economic sectors which are included in the peak association of business. Vorort des schweizerischen Handels- und Industrievereins, "Der Aufbau der europäischen Industrie-Spitzenverbände: Ergebnisse einer Umfrage (Stand: Ende 1975)," unpublished ms. (Zurich, 1977), p. 16.

Col. 6: A combined ranking of cols. (1)–(5).

and national strategies of adaptation in the areas of foreign investment, research and development, foreign trade, and industrial concentration.

The variation in the experience of the small European states perhaps explains why analyses of all small advanced industrial states reach different conclusions about the relative importance of an internationally oriented business community in general and the role of multinational corporations in particular. Impressed by the prominence of firms such as Philips, Unilever, or Ciba-Geigy, some authors show that big business can exist without large domestic markets. Large firms in the small European states have succeeded in overcoming the restrictions a small domestic market imposes on their growth through early, rapid, and sustained moves toward exports first and the internationalization of production later. It thus comes as no surprise that the relative degree of internationalization of large multinationals in Switzerland, the Netherlands, and Sweden is greater than in the United States and that in Belgium it is only slightly less.[120] However, other analysts of international business in the small European states either do not discuss group I countries or stress the fact that the tendency to go multinational is much weaker in the small European states than in the large industrial states and that firms in the small European states typically tend to be much smaller.[121]

The two ways of adjusting to change are graphically illustrated by the extent to which business in the small European states locates production facilities abroad. In the late 1960s and early 1970s the average for Switzerland, the Netherlands, Belgium, and Sweden exceeded corresponding figures for group II countries by a factor of 30 in the total stock of direct foreign investment,[122] of 16 in the number of firms among the largest 650 multinational corporations,[123] of 15 in the annual flow of direct foreign investment,[124] and by a factor of 5 in the total number of multinational firms.[125] If measured in terms of the flow of direct foreign investment, the gap between these two groups of states widened substantially in the 1970s.[126] Among the states that invest abroad, a further distinction can be drawn: in Switzerland and in the Netherlands corporations are larger, have a greater preference for foreign production, and expand more rapidly abroad than those in Belgium or Sweden.[127]

The internationalization of production has had a central place in Switzerland's strategy in the international economy. The prosperity of Switzerland's chemical industry in the 1960s and 1970s contrasts with the great problems that have plagued the Swiss watch industry in recent years. Swiss watches were until the late 1970s produced only domestically, and so these different experiences are a poignant reminder of the benefits that can accompany internationalization.[128] Dutch multinational corporations play a central role in economic life in the Netherlands. Corporations with more than 500 employees account for most of the 190,000 jobs lost in Dutch industry between 1970 and 1976. In contrast to the autonomy-minded Swiss, however, Dutch foreign investment is often undertaken by very large international firms owned and managed, for example, jointly with Britain (Royal Dutch Shell and Unilever) and, for some years during the 1970s, West Germany (Hoesch-Hoogovens and VFW-Fokker).[129] Also in contrast to Switzerland, there are some signs that Dutch foreign investment was spurred in the 1970s in part by the growth of a welfare state at home.[130]

Frequent changes in government insurance of overseas production indicate that foreign investment comes less naturally to Belgium and Sweden than it does to Switzerland and the Netherlands.[131] But judging by the Swedish experience, at least, it is doubtful that changes in government policy on questions of direct foreign investment have had significant consequences in recent years. Neither government regulations offering risk insurance in 1968 nor legislation concerned with the structural and employment consequences of Sweden's direct foreign investment appear to have had much effect on corporate strategies.[132] One possible reason is the export-inducing character of Sweden's foreign investments, which has created a supportive attitude toward the international operations of firms shared widely across the political spectrum. At the beginning of the 1980s more than half of the employees of Sweden's ten largest firms worked abroad. These same ten companies sold between 60 and 90 percent of their products in foreign markets.[133]

The difference between the two groups of small European states shows up as well in the kind of services that they sell in international markets. Switzerland and the Netherlands depend heavily on receipts from international finance and insurance. In 1976 these were the only two small European states with banks (a total of five) among the largest fifty worldwide.[134] Switzerland joins the United States, Britain, and France as one of four countries controlling 70 percent of the international insurance business.[135] Switzerland and the Netherlands furthermore export twice as many services as they import.[136] Although Belgium and Sweden are also highly competitive in the export of services, their net receipts are much smaller.[137] In contrast to these four states none of the group II countries are important exporters of financial and insurance services.[138] Instead Austria earns its service

income from mass tourism, Norway from shipping. These sources of receipts are more susceptible than finance and insurance to variations in the business cycle.

In research and development it is equally evident that the small European states differ in how they adapt to change. Studies of the first group of states and Sweden have been so impressed by the R and D policies of the small European states that they hold them up as models worthy of the attention of policy makers in the large advanced industrial countries.[139] On the other hand, studies of group II (as well as other small countries) typically point to weakness and dependence. Indeed, one of the key dangers that this second group of small European states confronts, it has been argued, is being squeezed out of international markets.[140] From the perspective of group II, the Netherlands and Sweden have "large-country characteristics" in their R and D performance.

"The essential element in national innovative performance," write two recent observers, "is less size and intensity of national demand for technological innovation than the entrepreneurial, organizational and technological resources within a country that are capable of identifying and responding to market demands for technological innovation anywhere in the world."[141] The resources and skills needed are not present to a sufficient degree in Austrian, Danish, and Norwegian business. Despite sharply growing expenditures on R and D in the 1960s and 1970s these countries, unlike group I, by and large did not succeed in transforming themselves into active innovators.[142] Indeed, a study of the first commercial exploitation of 110 significant technological innovations since 1945 found only one such instance in Austria, Norway, and Denmark, compared to nine in the other four states.[143] Another analysis discovered that between 1953 and 1971 group II countries found their comparative advantage in traditional, nondurable consumer goods and in standardized commodities that depend on the availability of domestic raw materials such as wood, iron ore, hides, and skins or fur.[144]

Switzerland and the Netherlands aggressively exploit the comparative advantage that the small European states tend to have in the early phases of the development of new products with a high engineering and scientific content.[145] They do so with the help of a small group of very large multinational corporations, which organize basic research, product development, and process innovations in their own research centers both at home and abroad.[146] On a per capita basis, for example, Switzerland ranks at the very top of all industrial countries, large and small, in the number of scientific authors and patents granted.[147]

Swiss policy has been consistent in trying to keep the government out of all aspects of R and D policy, with the sole exception of nuclear energy. In the Netherlands, because of the country's agricultural orientation prior to World War II, an R and D policy favoring industrial innovation has evolved under government auspices, but it does not displace, rather complements, the activities of Dutch multinationals. Two-thirds of all R and D are undertaken by five large firms (Philips, Shell, Unilever, Akzo, and DSM).[148] This strand of privatism explains why, in Anthony Scaperlanda's words, "the Netherlands does not have an aggressive R and D policy by any standard imaginable."[149]

Belgium and Sweden are also high spenders on R and D, but they have developed a somewhat more coordinated and planned approach to problems of research and development.[150] Belgium traditionally "depended less on innovation from its own research laboratories than upon successful enterprise, planning and management."[151] During the last two decades Belgium has placed great emphasis on attracting foreign firms in industrial branches with high research intensity, such as petrochemicals, and has attempted at the same time to fashion a national research strategy through a variety of programs that are sponsored by government.[152] Sweden, unlike all the other small European states, has remained committed to a technologically independent program of national defense. As a result, technological innovation has received a much larger amount of government support than in Switzerland, the Netherlands, or Belgium.[153] The Swedish government also has long-standing policies for the stimulation of innovation.[154] The success of its policy of borrowing foreign technological innovations has earned it, among some of its envious neighbors, the nickname of "the Japan of Europe."[155]

Group II countries have followed a markedly different R and D strategy. Austria has specialized in basic and semimanufacturing industries that are characterized by relatively slow growth rates and moderate changes in technology. Indeed, Austrian attempts to stimulate industrial innovation date back only to the late 1960s, when the Austrian government attempted for the first time to emulate the technological prowess of its Swiss neighbor.[156] In Denmark, oriented toward agriculture before World War II, policies favoring industrial innovation are also of comparatively recent origin.[157] Norway, on the other hand, began to develop an active innovation policy as early as the 1950s and established around 1960 its system of national research councils as part of a more encompassing strategy of economic development and industrialization.[158]

The contrasting strategies of adaptation of these two groups are

reflected in a number of other indicators. Expenditure data on research and development provide some suggestive evidence.[159] In 1973 R and D expenditures in group II averaged only 0.9 percent of GNP, far below the 2.1 percent figure for Switzerland and the Netherlands and the 1.5 percent average for Belgium and Sweden.[160] These figures agree closely with other measures of national effort in R and D.[161] R and D expenditures, furthermore, tend to serve different purposes in the two groups. In the Netherlands their prime purpose is to increase competitiveness in high-technology and high-growth sectors. In Norway, by way of contrast, their purpose is to enhance economic and industrial development more broadly conceived.[162] Differences in the distribution of R and D expenditures also show up in a comparison between Sweden and Belgium, which lag a bit behind Switzerland and the Netherlands but lead group II. Belgium and Sweden invested 60 percent of their total industrial R and D in science-based industries, well above the 46 percent figure for Austria and Norway. In the mechanical industries, on the other hand, the 29 percent investment figure for Belgium and Sweden was well below the 40 percent figure for Austria and Norway.[163]

Data on scientific publications and patent statistics provide further evidence of significant differences between the two groups of small European states. In 1963 the average number of patents granted in foreign countries to Switzerland, the Netherlands, Sweden, and Belgium was 5,400 compared to fewer than one thousand for group II.[164] By way of contrast, the proportion of patents taken out by foreign applicants in the years 1957–61 and in 1974 was lower in group I and Sweden than in Austria, Denmark, and Norway.[165] With these figures to hand it is no surprise that the ratio of payments over receipts for foreign licenses for Austria and Norway is three times as great as for Belgium and Sweden.[166] While Switzerland, the Netherlands, and, to a lesser degree, Sweden deliberately try to attract foreign researchers, Austria and Norway lose a significant proportion of their native researchers, especially to neighboring countries. In the international exchange of scientists only Switzerland, the Netherlands, Belgium, and Sweden among the small European states can record net gains.[167]

The small European states have embraced liberalization in the international economy throughout the postwar years with varying enthusiasm. Group II countries have not opened their economies to foreign trade as much as the other four small European states. Norway, Austria, and Denmark had liberalized, respectively, only 65, 75, and 77 percent of their trade by 1958, by which year the other four countries had achieved full liberalization.[168] Compared to Switzerland,

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the Netherlands, Belgium, and Sweden, group II relied relatively heavily on the quota restriction of industrial imports.[169] In 1960–61 these three countries initially opposed the acceleration of trade liberalization measures with EFTA proposed by Britain, Sweden, and Switzerland, and they were granted temporary though largely symbolic exemptions.[170] In 1962 Austria and Norway were the last of the small European states to withdraw trade restrictions due to balance-of-payment considerations.[171] Between 1969 and 1977 only Denmark (twice) and Norway (four times) among the small European states brought antidumping cases to the GATT.[172] In the Tokyo Round of trade negotiations Austria and Norway showed relatively protectionist instincts: the depth of the linear cuts agreed to by all negotiating parties in principle and the actual offer they made for tariff reductions was greater than for any group I country.[173] In the 1960s only Austria and Denmark maintained quota restrictions on the import of manufactures or semimanufactures from less developed countries.[174] And in 1974 Austria and Norway had the lowest shares of all market economies of total imports from the less developed countries.[175]

Conversely, group II countries are conspicuous by their absence from the main OECD exporters in 25 industrial sectors. Denmark is listed twice (furniture and shipbuilding) and Norway once (shipbuilding); Austria does not appear a single time. The Netherlands, in sharp contrast, is listed eleven times, Belgium ten, and Sweden and Switzerland six times each.[176] Compared to the total value of their export trade, Austria's and Denmark's expenditures on export promotion in 1972 were three times as great as those of Switzerland, the Netherlands, Belgium, and Sweden.[177] Yet between 1960 and 1977 there was not a single year in which Austria, Norway, and Denmark had a positive trade balance; on average the other four small states broke even.[178]

The relatively protectionist orientation of group II is reflected in tariff rates that lie consistently above those of Switzerland and Sweden. (Because of their membership in the European Communities, the Netherlands and Belgium produce no national data.) In 1960, for example, tariffs on manufactured goods were about twice as high in Austria (20%) as in Switzerland (9%) and Sweden (11%).[179] The weighted average of the post–Kennedy Round tariffs was 7 percent for Switzerland and Sweden and almost 12 percent for group II.[180] Indeed, at the conclusion of the Kennedy Round, Austrian, Danish, and Norwegian tariffs on the fifteen major manufactured product groups were without exception higher than the tariffs of the other small European states. If we distinguish product groups by the stage

of processing, we get similar results. While there is no discernible statistical difference in tariff levels for raw materials, systematic tariff disparities between the two groups become evident in semimanufactured and manufactured goods. In 14 of 22 categories of semimanufactured goods and in 16 of 17 categories of manufactured goods Austria, Denmark, and Norway have higher tariff levels than do Switzerland and Sweden.[181]

National adaptation in Austria, Norway, and Denmark and, at times, Sweden offers a way to counter some of the effects of economic liberalism in the international economy. Foreign ownership of capital, for example, can undermine national control over resources and limit political choices. Sometimes this loss of control is evident in government revenues foregone. The transfer pricing practices of U.S. oil companies were such that their Danish subsidiaries showed only deficits in the 1960s.[182] For the same reason, Sweden's first government report on industrial concentration focused exclusively on the petroleum industry.[183] At other times loss of control is due simply to the imperatives of market structures. In aluminum, an industry marked by vertical integration, the Norwegian government felt compelled in 1967 to achieve vertical integration in order to secure sources of raw materials and dependable outlets. It did not choose the risky course of developing a Norwegian firm, Ardal, into an independent, integrated aluminum producer, but played it safe by permitting Ardal to join Alcan, a large multinational corporation and its main supplier of alumina.[184] Similarly, if with different motives, the Austrian government decided in the late 1950s to privatize the electrical engineering industry (which it had nationalized in 1945). In the late 1960s it permitted the industry's takeover by Siemens, a German company that had dominated the sector during the interwar period.

The small European states that adhere to a strategy of national adaptation thus do not handle problems through restrictions imposed on the free flow of capital. Occasional exceptions do exist, such as the conflict between the Norwegian government and ITT in the 1960s and the Swedish government's defense of a minor electronics firm against an attempted Italian takeover bid in 1969.[185] But the typical response in group II states has been industrial concentration and the building of national champions. These policies are noteworthy not because they are unique to the small European states but because industrial concentration in these countries already tends to be substantially greater than in the large advanced industrial countries. In the late 1960s industrial concentration in Sweden and Austria was about 40 percent higher than the average concentration of industry in

Table 4. Strength and centralization of the labor movements of the small European states, 1965–80

	(1) Average % of total labor force unionized		(2) Organizational unity of labor movement		(3) Confederation power in collective bargaining		(4) Scope of collective bargaining		(5) Works council and codetermination		(6) Social Democratic vote, 1970s		(7) Social Democratic presence in government, 1965–81		(8) Sum of ranks of cols. (1)–(7)	
	Rank	%	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Sum
1. Switzerland	7.0	24	5.5	0.7	7.0	0.4	7.0	0.8	7.0	0.3	7.0	26	6.0	29	7.0	46.5
2. Netherlands	6.0	28	5.5	0.7	4.5	0.6	5.0	0.9	3.0	1.0	5.0	34	7.0	22	5.0	36.0
3. Belgium	3.0	55	7.0	0.6	4.5	0.6	5.0	0.9	6.0	0.5	6.0	30	5.0	30	6.0	36.5
4. Sweden	1.0	70	3.0	0.8	2.5	0.7	2.0	1.0	3.0	1.0	2.0	49	2.5	69	2.0	16.0
5. Denmark	4.0	54	3.0	0.8	6.0	0.5	5.0	0.9	3.0	1.0	4.0	39	2.5	69	4.0	27.5
6. Norway	2.0	65	3.0	0.8	2.5	0.7	2.0	1.0	3.0	1.0	3.0	47	4.0	61	3.0	19.5
7. Austria	5.0	50	1.0	1.0	1.0	0.8	2.0	1.0	3.0	1.0	1.0	51	1.0	73	1.0	14.0
Average (1–3)	5.3	36	6.0	0.7	5.3	0.5	5.7	0.9	5.3	0.6	6.0	30	6.0	27	6.0	39.7
Average (5–7)	3.7	56	2.3	0.9	3.2	0.7	3.0	1.0	3.0	1.0	2.7	46	2.5	68	2.7	20.3

Sources. Cols. 1–5, 7: David R. Cameron, "Social Democracy, Corporatism, and Labor Quiescence: The Representation of Economic Interest in Advanced Capitalist Society," paper presented at the Conference on Representation and the State: Problems of Governability and Legitimacy in Western European Democracies, Stanford University, October 1982, Table 6. It should be noted that the unionization figure for Switzerland has increased sharply to about 38 percent since a large number of foreign workers departed in the mid-1970s.

Col. 6: Manfred G. Schmidt, "Die Regulierung des Kapitalismus unter bürgerlichen und sozialdemokratischen Regierungen," University of Constance, Fachbereich Politische Wissenschaft/Verwaltungswissenschaft, *Diskussionsbeitrag* 8/79, p. 58. The Danish data include votes for the Social People's party; Social Democratic vote averaged only 34 percent. This lower figure does not affect the rankings in col. 8.

the large industrial countries.[186] Because the concentration of business is viewed as a necessity to counter foreign competition, antitrust legislation tends to be fairly loose in these small European states.[187]

Norway has been in the forefront of developing national champions as a defense against foreign corporations. Large-scale nationalization in the late 1940s and 1950s was designed to further Norway's traditional exports in steel, aluminum, iron mining, and coal processing.[188] In the 1960s government policy underwent a subtle shift, however, and since 1968 the Norwegian government has explicitly chosen to develop national champions as a defense against Swedish- and U.S.-based multinationals and as a way of enhancing the international competitiveness of Norwegian industry.[189] The development of Norway's North Sea oil reserves in the 1970s further increased the government's influence in industry. Although Denmark's policy follows similar objectives, it has remained more cautious.

Informed by government-sponsored studies, the Swedish government also came to obey a concentration "ethic" in actively encouraging mergers since the mid and late 1960s, that is, during the period of greatest liberalization in the international economy.[190] In the postwar years four-fifths of Swedish mergers were "defensive" horizontal mergers within an industry while only one-fifth involved "offensive" vertical or conglomerate-type mergers.[191] Yet by the mid-1970s Sweden's largest companies were heavily concentrated in the growth sectors of the economy. This concentration policy coincided with an increasing Swedish debate on science policy and a trend toward a more "active" industrial policy. Modeled after Italy's largest state-owned corporation (IRI) and parelleling a similar development in Austria, a state holding company (Statsföretag) was founded in 1971 comprising 25 firms with about 34,000 employees and sales of about $800 million.[192] Even though Sweden's public-sector economy was relatively small through the late 1970s, the role of state enterprises in industrial and regional policy has increased.[193] Concentration policy became a weapon for warding off the undesirable influences of multinational corporations and, in the late 1970s and early 1980s, for rescuing firms hard hit by prolonged recession.[194]

Private vs. Public Compensation

Labor movements vary considerably in the small European states. In Austria, Norway, Denmark, and Sweden labor movements are stronger and more centralized than in group I (see Table 4). This difference can be traced in reliance on public or private strategies of compensation in the areas of economic planning, public expenditures, regional development, social welfare, and international economic diplomacy.

1. Planning

The economic planning policies of the small European states provide one instance of the characteristic difference between domestic compensation that relies primarily on market forces in group I or on state supervision in group II. Applied to the small European states "economic planning" thus describes widely dissimilar policies. It encompasses passive planning, such as Dutch contingency forecasts, as well as the active medium-term public-sector financial planning in Norway.

Even though the Dutch Central Planning Board has won international fame for its virtuosity, the trappings of technical skill and imagination should not be mistaken for the substance of political power. For five different reasons, Dutch planners are relatively impotent. First, Dutch economic planning is based on government policy rather than the other way around; budget decisions precede the publication of and debates on the economic plans.[195] Neither the long-term nor the short-term plans are in any way binding on any branch of government. Second, the board is separate from the state bureaucracy; its administrative integration into the executive branch of government is a mere formality.[196] At the same time, though, it has only tenuous links to the private sector; its tripartite planning committee is not a steering committee but merely a discussion forum. No government directives and no consultation with Dutch peak associations accompanies the work of the economic planners.[197] Third, while board publications must be cleared by the government before being released to the public, clearance tends to be apolitical. The semipublic character of projections and pronouncements stems from the coordinating role of the planning bureau rather than from political backing received from the government.[198] Fourth, while the close attention of Dutch planners to so-called instrument variables has been heralded as a major advance in the theory and practice of economic planning, the only variable over which, according to the work of the board itself, the government has had effective control in the past thirty years was emigration. Yet as early as the late 1950s, when the government was still encouraging emigration because of widespread fear of unemployment, the Netherlands, like most other European countries, began to recruit foreign workers.[199] Finally, in contrast to Japanese and French practices, Dutch economic planning has operated mostly at the macro rather than the sectoral level.[200]

The Norwegian approach to planning, illustrative of group II, provides a striking contrast to the Dutch experience. Norwegian economic planners have been less theoretically and technically ambitious than their Dutch counterparts. Norwegian planners have relied not on high-powered econometric analysis and a precise specification of instrument variables but on planning by trial and error in successive, iterative approximations during the budget cycle.[201] And the Norwegian government has relied on political clout rather than technical virtuosity to make its planning policies work. In contrast to the Dutch variety, Norwegian planning is incorporated into the government rather than being left to an independent agency or research institute. Furthermore, Norwegian plans are binding on public-sector spending.

As the government-supervised exploitation of North Sea oil began to generate significant revenues in the late 1970s, the political importance of the public sector increased further.[202] Despite a noticeable shift away from the direct economic controls of the 1950s, the programmatic (rather than prognostic) character of Norway's plans became stronger. Understandably, the five-year plan is less binding than the annual budget on either Parliament or government; yet its targets and guidelines are important determinants of policy.[203] Furthermore, the budgets of all levels of government are integrated into one national plan.[204] The prominence of the plan is greater because the Finance Ministry assures that plan directives are followed throughout the public sector. The permanent secretariat, which in 1966 replaced ad hoc groups, also increased continuity in Norway's efforts by making planning more flexible. Unforeseen exogenous changes, like the 1973 oil embargo, can now be incorporated in a revised plan. Finally, in contrast to the Netherlands, Norway's planning secretariat paid increasing attention in the 1970s to key sectors of the economy with heavy government involvement in aluminum, hydroelectric energy, mining, and most importantly, the development of North Sea oil.[205] Norwegian economic planning policies, in sum, differ from Dutch policies in the greater prominence they give to the exercise of state power.

The difference between private and public methods of compensating for change can also be seen in the way the Netherlands and Denmark have deployed their large public sectors. During the past two decades both countries have witnessed an astonishing growth in public expenditures. Measured as a proportion of GDP their public economies rank among the largest in the small European states. In Denmark public expenditures increased from 26 percent of GDP in 1955–57 to 46 percent in 1974–76. Corresponding figures for the

Netherlands were 31 and 54 percent.[206] But these aggregate figures conceal critically important differences affecting the Danish and Dutch positions in the international economy. In the mid-1970s Denmark spent 24 percent of its public expenditures on final consumption and only 17 percent on transfer payments. Despite larger public expenditures, the Netherlands, in sharp contrast, spent only 18 percent on consumption and 27 percent on transfer payments. If measured in constant (1970) prices, between 1962–64 and 1974–76 Denmark's share of public final consumption expenditure in GDP increased by 3.3 percent while it declined by more than 4 percent in the Netherlands.[207] These marked differences have by no means trivial implications for economic health. Sounding an increasingly familiar theme, one statistical study found the level of gross capital formation to be adversely affected by increased public consumption.[208] Among the small European states between 1961 and 1972, for example, Denmark's increases in public expenditure were among the highest while the annual average of gross domestic fixed capital formation was among the lowest. In Switzerland these relations were reversed. Among small European states with large public expenditures, the Netherlands approximates the Swiss case.[209] In contrast to Denmark, the Netherlands imposes virtually all of the cost of social security on workers' incomes. A large public sector in the Netherlands primarily reflects large transfer payments; it manages to support economic growth and private investment because it does not erode the productive base of the economy. Large public consumption in Denmark, on the other hand, signals a shift of productive resources into low-growth and relatively "unproductive" parts of the economy. As the Danish case shows, the shift eventually weakens both the government's ability to extract the necessary taxes and the economy's competitive posture in domestic and international markets. The relative size of public-sector employment also illustrates the difference graphically: in 1975 it was almost twice as large in Denmark as in the Netherlands.[210] The 1960s was the decade of most rapid expansion of the public economy in both countries; but among twelve OECD member states the Netherlands experienced the highest growth of market share in one sector crucial for economic health—engineering products—in that decade while Denmark experienced the greatest loss.[211]

Belgian and Swedish approaches to the problems of regional development and job creation also illustrate the difference between groups I and II. Belgium's concerted efforts to attract private foreign capital contrasts starkly with the Swedish emphasis on an active manpower policy funded from the public purse. The original impetus for

Belgium's regional policy was the recession of 1958, structural crisis in Belgium's coal mines, and decline in the Flemish textile industry.[212] Regional development laws passed in 1959 and 1966 created strong investment incentives for firms. In the 1960s direct foreign investment in Belgium grew faster than in any other Western European country, and about one-third of foreign investment benefited from the government's financial incentives. In 1965–66, for example, 20 percent of total gross industrial capital was by one estimate invested by foreigners. In 1967–68 two-thirds of new investments were located in regions defined as depressed in the 1966 legislation. By 1975, 90 percent of Belgium's pharmaceutical industry was under foreign control as compared to Sweden's 45 percent.[213] However, investment in relatively backward areas typically did not occur in new industries. As a result, the legislative intent—improving the economic structure of weak provinces and shifting factors of production out of declining industrial sectors—has had only mixed success.[214] The political distinctiveness of Belgium's regional policy, whatever its economic record of achievement, lies in the use of foreign capital as the major instrument by which the government has sought to achieve Belgium's regional employment objectives.

Sweden, by way of contrast, seeks to achieve the objectives of regional development and full employment through an active manpower policy. Swedish policy relies more than that of any other small European state on job creation through vocational training or retraining and public works[215]—in fact, one of the most important and original of Sweden's widely celebrated contributions to the theory and practice of modern economic policy. Drawing on a variety of public funds, the budget of Sweden's two manpower boards amounts to 2 or 3 percent of GNP and is spent largely with an eye to encouraging industrial adaptation and the development of impoverished or declining regions.[216] These regional and manpower policies are adjustment mechanisms designed to cope with technological and structural change in the interest of increasing productivity and prosperity.[217] Nine hundred thousand Swedish workers were retrained between 1960 and 1975, with the proportion of the total work force affected each year varying between 0.5 and 1.5 percent.[218] Because of these special employment programs, Sweden's official unemployment rate has amounted at no time since 1973 to more than one-third of the Belgian rate.[219] Even if the Belgian government had wished to lower unemployment drastically (which is by no means clear), the option was foreclosed in a regional policy that predominantly relied on foreign and private rather than domestic and public funds. Conversely, had the Swedish government wished to diversify through encouraging industrial redeployment and regional development with the aid of foreign capital, it would have proved impossible. The inflow of funds increased only gradually, from $86 million in 1970–72 to $145 million in 1978–80 as compared to a steep growth in corresponding Belgian figures, from $384 to $1,371 million.[220]

The social welfare systems of Sweden and Switzerland illustrate a further difference between groups I and II. Sweden more than any of its Scandinavian neighbors embodies for many observers a generous, publicly funded welfare state. Switzerland, by way of contrast, is often neglected in the political analysis of the welfare state because its public provision of social welfare has traditionally been paltry. Hence one index of social insurance coverage in the advanced industrial states shows Sweden near the very top while Switzerland comes in at the bottom.[221] Comparisons of expenditures confirm the impression of Sweden as a "leader" and Switzerland as a "laggard" in publicly funded social welfare programs. Sweden spends 23.8 percent of its GNP on social security while Switzerland spends only 11.8 percent.[222] Even the substantial changes introduced in Switzerland's publicly funded social security system in the early 1970s, which narrowed the gap between it and other small European states, did not affect Switzerland's relative position as a laggard.

The Swiss welfare reforms of 1972 provide an important contrast to Sweden's hotly contested pension reform of the late 1950s. More generous support levels figured in both episodes. But Sweden's General Supplementary Pension was designed as an instrument of capital formation in the public sector.[223] The Swiss reform, by way of contrast, presumed the continuation of a substantial though diminishing portion of welfare through compulsory private pension and insurance schemes.[224] This difference in the balance between public and private organization of social welfare is also reflected in the prominent role that private occupational pension plans play in Switzerland; according to one study, in the late 1960s such plans were six times as important in financial terms in Switzerland as in Sweden.[225] Sweden's emphasis on publicly funded welfare schemes has resulted in virtually universal coverage; in Switzerland only four out of five workers are covered by the obligatory public and private schemes.[226] Sweden's policy encourages rather than restricts labor mobility, and it has had much greater effects on capital formation.[227] In 1972–73 the Swedish pension fund accounted for 7 percent of GNP and 30 percent of total savings.[228]

While voluntary pension insurance is virtually unknown in Sweden,

just under one-third of total insurance premia in Switzerland is generated by voluntary schemes.[229] Switzerland's traditionally high level of individual savings is deliberately fostered by a policy that keeps taxes lower than in any other small European state. While between 1972 and 1976 the average married male worker with two children paid only 7 percent of gross earnings in Swiss taxes, he had to pay 35 percent in Sweden, more than in any other small European state.[230] It is notoriously difficult to estimate the combined total of obligatory contributions paid into both public and private schemes.[231] In rough terms, however, Switzerland seems to lag somewhat, but not much, behind Sweden in total expenditure on obligatory public and private pension plans. What difference exists in the data would probably disappear if private savings were included in the comparison.[232] In short, Switzerland differs from Sweden not so much in the magnitude of total expenditure on social welfare as in its method of financing.

This difference between Switzerland and Sweden can also be found in the two countries' responses to the demands of the less developed countries. Prior to the first UNCTAD conference of 1964, both countries opposed the granting of trade preferences; all forms of discrimination would, they feared, threaten the liberal international economy from which they were prospering. If preferences were to be granted, then in Gardner Patterson's words they should be granted only "as sort of an advance installment on a general most-favored-nation reduction of duties."[233] Switzerland and Sweden were two of eight countries voting against the conference's final resolutions.

In more recent years two fundamentally different approaches to North-South relations have emerged among the small European states. These approaches express different attitudes toward private and public methods of adjustment. Switzerland's policy toward the less developed countries reflects a mixture of laissez-faire liberalism and export promotion grounded in a firm belief in the virtues of private initiative and market solutions. By way of contrast, Swedish policy has evolved since the late 1960s to a kind of Social Democratic welfare policy at the global level. The Swedes aim to counteract some of the harmful effects that market solutions entail for the less developed countries. Private investment in the less developed countries also provokes typically different reactions. Since 1970, inspired by the OECD's Draft Convention on the Protection of Foreign Property, Switzerland (together with the Netherlands, the United States, Britain, and West Germany) has been attempting to reduce uncertainty in international investment through a series of bilateral investment agreements.[234] Sweden, by way of contrast, will guarantee foreign investments only if Swedish firms conform to a code of good behavior with respect to workers in the developing countries. This code of conduct includes granting collective bargaining rights to unions; extending benefits for loss of wages during illness, injury, and layoffs; providing for pensions, health, and welfare; and assuring nondiscriminatory employment practices.[235] To give a further typical example, in commercial policy Switzerland is opposed to granting any preferential treatment to imports from less developed countries. Sweden, meanwhile, has opened a special import office to help overcome the marketing limitations of the LDCs.[236]

For ideological reasons Switzerland and Sweden differ greatly in how much publicly funded aid they program for less developed countries. Switzerland's uninspiring record in international aid expresses a distaste for government intervention in the economy. In 1977 public aid amounted to 0.19 percent of Swiss GNP, far below the OECD average of 0.31 percent and the OECD target of 0.7 percent.[237] The Swedish government, on the other hand, had committed itself in 1968 to sharp increases in public aid to LDCs and in 1974 was the first advanced industrial state to surpass the OECD target. In the following year Sweden was again the first country to pass the one percent target figure of the UN Development Decade. Furthermore, in the mid-1970s the Swedes tied a smaller proportion of aid to their own exports than the Swiss did.[238]

In the total net flow of resources from rich to poor countries, which includes private aid, loans, and investments, however, Switzerland ranks well ahead of Sweden.[239] The strategies that Switzerland and Sweden pursued in the Paris Round of talks between North and South were characteristic of the two countries. Prudence prevented any overt Swiss support of initially strong opposition led by the United States and West Germany to the demands of the less developed countries, but there can be little doubt that the Swiss agreed fully with a defense of market liberalism.[240] Sweden took the opposite position. On critical questions such as debt relief Sweden was alone among the developed countries, large or small, in backing the demand of nineteen less developed countries for a debt moratorium. Indeed, in October 1977 the Swedish government announced the unilateral cancellation of $200 million in debt. In the LDCs' final compromise with the developed countries in 1979, Switzerland agreed to cancel $69 million.[241]

The small European states respond differently to economic change. Switzerland shares with the Netherlands and Belgium an offensive

strategy in world markets based on low tariffs, very high export intensities, and high R and D expenditures aiming at product innovations in modern industries. Austria, Denmark, and Norway, by way of contrast, rely on a defensive strategy based on somewhat higher tariff levels, a somewhat lower export intensity, and lower R and D expenditures aiming at process innovations in more traditional industries. Offensive adaptation is international in scope and is typically based on private-sector activity. Defensive adaptation is national in scope and relies heavily on the public sector. These two strategies of adaptation signal the existence of important differences in the strength and character of business and labor, differences that shape the two variants of corporatism that I call liberal and social. The one country that clearly deviates from this twofold pattern is Sweden. Because it has an internationally oriented, powerful business community and a strong, centralized labor movement, Sweden relies on a large and active public sector for its offensive adaptation.

It would be foolish to deny that the real world is more complex than this limited set of comparisons suggests. The Netherlands, for example, has large public-welfare spending and has been generous in assisting less developed countries; Switzerland has not. Austria has a large nationalized sector and an acquiescent tax-paying public; Denmark does not. And Belgium has both an internationally oriented business community and relatively militant unions. The point of this argument is not to force all of the political experiences of the small European states into one, and only one, of two descriptive categories. It is, rather, to suggest that, broadly speaking, the political responses of the small European states vary systematically rather than randomly.

Country Variations on a Corporatist Theme

Liberal and social variants of corporatism result in substantial differences in where and how the small European states adjust to economic change. But it is easy to make too much of the similarities of countries grouped under these two labels. Their similarities in strategy and structure notwithstanding, the Low Countries differ from each other, as do the three Scandinavian countries. In the postwar period the Low Countries, for example, have been marked both by deep social divisions and by political stability.[242] But in the Netherlands one social division, religion, has waned while another, class, has waxed. In the 1970s Catholic and Socialist unions joined forces just as collective bargaining was becoming more decentralized. Union militance increased—and with it employer resistance to workers' demands. What is striking, concludes Wolinetz, is "the relative weakness of the trade union movement and the difficulties which the trade unions have in asserting their priorities."[243] As in the 1950s, the state has recently been drawn directly into the economic arena. Thus the Dutch have evolved a more overtly competitive politics within their corporatist structures. In Belgium social change has not replaced but reinforced the old linguistic division between Flemish and Walloons. Economic adversity has intensified the language conflict. Cutbacks in Wallonia's ailing steel industry are inevitable, and the divestment of foreign multinationals is creating new problems in Flanders. In 1978 even Belgium's Socialist party split along linguistic lines. But as Belgium readjusts to the economic realities of the 1980s and 1990s, it will do so with corporatist structures that have coexisted with the divisive issue of language throughout the postwar era.

Substantial differences similarly separate Denmark from its two Scandinavian neighbors.[244] Nineteenth-century history left Denmark with a system of horizontal crafts unions, a strong middle class, and a fragile alliance between the labor movement and the Social Democrats. Conversely, Sweden and Norway have vertically organized industrial unions, relatively weaker middle classes, and Social Democratic parties closely linked to the labor movement. Since Denmark's social welfare state was constructed before World War II with the active cooperation of all of the main segments of society, the Danish Social Democratic party has evolved its policies throughout the postwar years within a fundamentally liberal structure. In Sweden, and to a lesser extent in Norway, Social Democrats had a much greater role in constructing the welfare state, at times against the active opposition of the political parties of the Center and Right. After 1945 social policies thus evolved in structures that expressed social democratic rather than liberal principles. Furthermore, as Gösta Esping-Andersen shows, the Social Democratic parties in Sweden and Norway use social and economic policies to rebuild their social base. This is not so in Denmark. As a result, a coalition between blue- and white-collar workers is gradually replacing the green-red (farmer-worker) alliance of the 1930s in Sweden and Norway. In Denmark, however, Social Democracy is suffering from advanced decomposition of its political support.

These differences, between the Netherlands and Belgium and among the Scandinavian countries, are quite considerable. Twelve indicators of the character of business and labor in the small European states are summarized in Table 5. They suggest that there exist two distinct variants of corporatism. Liberal corporatism in Switzer-

Table 5. Business and labor in the small European states

	(1) Business community by international orientation and centralization, average rank of 5 measures	(2) Strength and centralization of labor movements 1965–80, average rank of 7 measures
1. Switzerland	1.0	7.0
2. Netherlands	2.0	5.0
3. Belgium	3.0	6.0
4. Sweden	4.0	2.0
5. Denmark	5.0	4.0
6. Norway	6.0	3.0
7. Austria	7.0	1.0
Average (1–3)	2.0	6.0
Average (5–7)	6.0	2.7

SOURCES: Col. 1: Table 3.
Col. 2: Table 4.

land, the Netherlands, and Belgium is distinguished by an internationally oriented business community; social corporatism in Austria, Norway, and Denmark by a strong and centralized labor movement. The distinctiveness of Sweden is that it combines an internationally oriented business community with a strong and centralized labor movement. This interpretation of Swedish politics matches that of Jonas Pontusson. He has argued that "conceived in organizational terms, 'strength of labour' is by no means coterminous with 'weakness of capital.' The Swedish case suggests that the organizational strength of one side in effect reinforces that of the other."[245] The internationalization of Swedish business is an often neglected aspect of this process. A more detailed pairwise comparison of Switzerland, the Netherlands, and Belgium with Austria, Norway, and Denmark yields a total of 108 comparisons (nine for each of the twelve indicators in Tables 3 and 4). Omitting five tied ranks, 99 of the 103 comparisons (or more than 96%) agree with the classification suggested here. Furthermore, the data in Table 5 suggest that Switzerland and Austria should be viewed as the most typical instances of respectively liberal and social corporatism.

Switzerland and Austria

Switzerland and Austria differ most markedly in the character of their social coalitions and the substance of the strategies they adopt in response to economic change. Switzerland's powerful, internationally oriented business community is opposed by a less powerful, relatively decentralized trade union movement. In its liberal foreign trade policy, heavy direct investment abroad, and importing of foreign labor on a large scale, Switzerland's strategy is one of global adaptation to economic change. In its limited public expenditures, privatized social welfare system, and R and D policies primarily pursued by large corporations, Switzerland's strategy is one of private compensation for economic change. Conversely, Austria's largely nationalized business community confronts a powerful, centralized trade union movement. Austria's pursuit of a cautiously liberal foreign-trade policy, its heavy subsidization of domestic investment, and its commitment to full employment and an active labor-market policy point to a strategy of national adaptation. In its large public expenditures, publicly funded social welfare system, and incomes policy on which both unions and business agree, Austria's strategy is one of public compensation for economic change.

Even though institutions in both Switzerland and Austria are centralized compared to those in the large industrial states, the two countries differ one from the other in degree of centralization. Swiss institutions tend toward decentralization; they evoke the image of a convoy of trucks steered by many drivers along the same highway. Austrian institutions are more centralized; they suggest a train operated by a single engineer. But in both countries political institutions are very stable and similarly effective in shielding the policy process from exogenous shocks.

An analysis of the policy networks linking interest groups with state bureaucracies in Switzerland and Austria suggests that the boundary demarcating state and society is virtually impossible to identify. Producer groups and state bureaucracies are inextricably linked through institutions. Both countries have well-organized, encompassing, and typically centralized peak associations. The fashioning of a durable consensus among often widely divergent views within these groups is a key to the stability of policy networks and the predictability of the policy process in both countries. At the same time the degree of centralization in both countries is somewhat greater in the dominant social bloc, Swiss business and Austrian labor, than in the subordinate bloc. The state bureaucracy is small and decentralized in Switzerland and large and centralized in Austria. But in both countries the state is relatively passive and lacks autonomy from the major producer groups. The political limitations under which both state bureaucracies operate are compensated for by the elaborate search for consensus both within and between peak associations.

The search for consensus is also reflected in party systems. In Switzerland the different political parties "fuse" in a system of all-party coalition. The federal executive seeks to fashion agreements acceptable to both Switzerland's powerful interest groups and a citizenry enjoying the rights of direct democracy. When Austria's "Grand Coalition" between the dominant political parties came to an end in 1966, the coalition reappeared almost instantaneously in a social and economic partnership that effectively grounds all ministries in a system of bipartisan checks and balances. This partnership requires the fashioning of a consensus among Austria's dominant political parties, the interest groups that travel in their orbits, and the rank and file that these groups represent. The fusion of power between state and society and between government and opposition thus occurs in both Switzerland and Austria. But the different constellations of social forces in the two countries lead to a depoliticized, private, and decentralized liberal corporatism in Switzerland and a politicized, public, and centralized social corporatism in Austria.

Finally, the policy process reflects the underlying social reality of liberal capitalism in Switzerland and democratic socialism in Austria. In Switzerland bargaining extends to noneconomic issues but excludes investment and employment; in Austria bargaining is largely restricted to economic issues but centers around investment and employment. Because the state is less involved in the economy in Switzerland than in Austria, the mode of political bargaining tends toward bilateralism in Switzerland and trilateralism in Austria. In Switzerland industry and finance deal with each other on questions of investment, business and labor on questions of wages and employment. The state steps in, if at all, only in situations of grave crisis. In Austria business, the state, and the labor unions address questions of investment, while business, unions, and indirectly the state deal with wages and employment. The state is thus deeply enmeshed in political bargaining between business and unions on a daily basis. The result is that the trade-offs across different sectors of policy tend to be more implicit in Switzerland than in Austria.

The significance of the policy process in both countries, although it takes a depoliticized form in Switzerland and a politicized one in Austria, lies in its recreation and reaffirmation of the consensus among major political actors on the legitimacy of political institutions and the choice of political strategies. Through their policy process Austria and Switzerland bridge the gaps that divide state from society and government from opposition. Interlocking corridors of power provide a substitute for the policy instruments that the state often lacks in Switzerland and rarely uses on its own in Austria. The result in both countries is a politically effective, though rarely efficient, way of choosing a stance in the world economy. Throughout the 1970s Switzerland's strategy of global adaptation and private compensation and Austria's strategy of national adaptation and public compensation did not encounter serious political challenges. The policy process in Switzerland and Austria succeeds in incorporating all important sources of potential opposition in an overarching consensus.

Despite the many differences between Switzerland and Austria, the policy process in the two countries differs more in political form (the scope and the mode of bargaining) than in political consequence. Conflicts over the questions raised by industrial change involve bargaining not only over a particular substantive issue but over the whole array of corporatist arrangements through which political elites in these two societies have adjusted to economic change for several decades. Analyzing the response of democratic corporatism to economic change thus entails analyzing the way different political actors relate to one another in a process that enhances the power of the weak in Switzerland and constrains the power of the strong in Austria. Politics organized along corporatist lines links long-term political thinking closely to short-term economic calculation. Because sharp distinctions are not drawn between perceived group interests and vague notions of the public good, the political process creates not "winners and losers" but "sharers." In short, in both states politics tends toward a narrowing of political inequalities among political actors—a narrowing that facilitates their corporatist arrangements. Table 6 summarizes the characteristic patterns of liberal and social corporatist arrangements.[246]

Corporatism and Large Countries

All advanced industrial states, be they large or small, must adjust to economic change abroad and at home. In countries such as Switzerland and the Netherlands, which accord pride of place to the working of markets, corporate adjustment policies assume a greater political significance than in countries such as Austria and Norway, which are more distrusting of market institutions. Furthermore, those countries which have located a large share of their productive capacity abroad (e.g., the United States, Britain, Switzerland, and the Netherlands) rely heavily on the global operations of large firms and have a distinct disadvantage in fashioning industrial policy at home. Corporations and governments have an incentive to adjust to change globally rather

Table 6. Two variants of democratic corporatism

	Liberal corporatism in Switzerland	Social corporatism in Austria
1. Social coalition		
a. Business b. Unions c. Political strategy	international; stronger decentralized; weaker global adaptation and private compensation	national; weaker centralized; stronger national adaptation and public compensation
2. Policy network		
a. Structure of institutions	less centralized; stable; effective	more centralized; stable; effective
b. Policy process		
Scope of corporatist bargaining	broader, but excluding questions of investment and employment	narrower, but including questions of investment and employment
Mode of bargaining	bilateral; trade-offs more implicit	trilateral; trade-offs more explicit
Consequence for politics	narrows political inequalities between actors	narrows political inequalities between actors

than within the context of the national economy. Policies that favor direct foreign investment leave all major decisions about industrial redeployment affecting employment, regional development, product mixes, and research and development to large private corporations. The hostility in Switzerland toward industrial policies and the strain they cause in Britain resonate with a growing American debate in the 1980s. But while large industrial countries like Britain flirt with exporting the costs of change through tariff protection, liberal corporatist states like Switzerland are willing to tolerate the costs of change that free trade imposes.

One political ingredient is essential for an active industrial policy intent on structural transformation: a Left that is weak and politically excluded from policy making at the national level. Since the late 1940s the two countries that have adopted a deliberate strategy of sectoral transformation, Japan and France, have met this condition. Theirs is not the kind of industrial adjustment policy favored by social corporatist states like Austria or Norway, where a reactive and flexible industrial policy aims at incremental adjustments in the structure, location, employment, research and development, and marketing of firms in domestic industries.

Although liberal and social corporatist states differ in where and how they adjust to change, both show a remarkable degree of flexibility in policy. A comparison with larger industrial states helps to reinforce the point. Among the large countries, at least on the surface, it is perhaps the United States that most closely converges, in both strategy and structure, with Switzerland, a country that most clearly typifies the traits characteristic of liberal corporatism. These are the two capitalist bastions of federalism, liberalism, and democracy. Both countries favor a global adaptation to change, which affords the federal government a comparatively weak role in policy making, and privately organized compensation policies at home, for example in the area of pensions. Furthermore, in both Switzerland and the United States an internationally oriented business community has great influence over foreign economic policy, while a decentralized labor movement suffers from political weakness. Such similarities are, however, balanced by two important differences. The hegemonic role that the United States has played in the international economy since World War II has at times elevated the pursuit of international liberalism from the realm of self-interest to the realm of ideology, thus giving the executive branch of government a greater role in the area of foreign economic policy than is true in Switzerland.[247] The coherence that hegemony imposes from time to time on American policy making is in Switzerland, at times, created by a spirit of collectivism. In Switzerland the tension between individual liberty and collective necessity is not resolved solely, as in America, through an accumulation of individual preferences into a *volonté des tous;* at times, that resolution also occurs through sublimation into a *volonté générale.* It is no accident that the Swiss constitution speaks of the "general well-being" while the U.S. Declaration of Independence celebrates an individualistic "pursuit of happiness."[248] Furthermore, Switzerland's policy network has traditionally been more integrated and more broadly based than America's, which has facilitated the development of the consistent policies with which the Swiss face the international economy.

Paradoxically, great similarities can also be found between this exemplar of liberal corporatism and the apparent opposite of the United States, Japan. Switzerland's and Japan's paternalistic systems converge at three points. First, both countries are single-minded in their pursuit of economic objectives: both occasionally play the role of a free rider in the international economy, shifting their costs abroad, either through the repatriation of foreign workers, as with Switzerland, or through informal restrictions on imports, as with Japan. Second, both Switzerland and Japan share the privatization of the welfare aspects of their compensation policies.[249] Finally, in both countries a politically united and strong business community enjoys a privi-

leged position in policy making and faces a decentralized and politically weak Left. Yet a great difference separates the two countries: it lies in the prominent role that the Japanese state bureaucracy plays in the definition and implementation of policy. Japan hesitantly and belatedly adopted the liberal premises of the postwar international economy, and in its industrial policy it is the state bureaucracy that leads adjustment to change. Furthermore, unions and the political Left are politically included at the national level in Switzerland's corporatist arrangements; they are excluded in Japan.

At first glance the strategy and structure of Austria's social corporatism quite strikingly resemble those of France. Because they mistrust market institutions, both countries approached the increasing liberalization of the postwar international economy with hesitation and delay. In both countries the state, in terms of its political objectives and instruments, appears predestined to play an important role in the structuring of society. Furthermore, both countries have chosen to adapt to economic change primarily in domestic rather than in international markets. Indeed, in his successful electoral campaign for the French presidency François Mitterrand repeatedly pointed to Austria as a model for what a democratic Left might accomplish in France. However, these similarities are deceptive. The Austrian state is constrained in ways quite uncharacteristic of France. Students of the French bureaucracy have emphasized how its internal divisions and links to the business community shape its political choices; Austrian bureaucrats, however, experience a virtual absence of political choice. The fortunes of the Mitterrand government elected in 1981 depend, moreover, on how it balances its campaign promises to imitate the Austrian model against the temptations to build socialism without the workers. On this score the first three years of the Mitterrand presidency have had a sobering effect. There exists a world of difference between a deeply divided, radical French Left out of government throughout the 1970s, on the one hand, and a united, moderate Austrian Left in government, on the other. Austria's policy network has been more encompassing and integrated than that of France, fostering consistency in the policies with which the Austrians have met the international economy during the past two decades.

Interestingly, Austria's social corporatism also appears to resemble important features of British politics, even though Britain is often presumed to be the opposite of continental statism.[250] Politics in both Britain and Austria is largely coterminous with class politics. Both countries exemplify the power of organized labor to such an extent that they are often dubbed "trade union states." That power is reflected not only at the workplace but, to varying degrees, in the unions' relations to the working-class party as well. It is also mirrored in the growth of a public welfare state that has inspired emulation among such relative latecomers as the Scandinavian and the Low Countries. Here again, however, surface similarities prove deceptive. While Austria's powerful unions exercise a power firmly integrated with the country's durable and flexible policy network, British unions have been both contestants in and targets of unsuccessful attempts to bring such policy networks into being. Incomes policy and industrial policy, for example, provide opportunities time and again to legitimize existing institutions and political practices in Austria; in Britain they have provided arenas in which existing institutions and practices have been increasingly delegitimized by a perpetual tug-of-war, and new ones prevented from emerging. Finally, both countries have rapidly moved in opposite directions in the international divison of labor. While Britain is increasingly turning to protectionism and becoming accustomed to the living standards and production structures of the European periphery, Austria's economic miracle is propelling the country toward international liberalization and the standards and structures of the European center.

In its ideology, its interest groups, and its political bargaining, democratic corporatism in both variants compensates those who suffer from political weakness and economic dislocations. Social corporatism tends toward economy-wide bargaining and relies to only a limited extent on the social segmentation of its labor force. Liberal corporatism tends toward firm-level or industry-level bargaining and relies more heavily on economic and social segmentation, as illustrated by the role of foreign and female workers. But because of their exposed postions in international markets, both variants share corporatist characteristics that are less typical of the large industrial states. Focusing on the role of the political Left and the trade unions, some analyses classify Austria, the Low Countries, Scandinavia, Britain, and West Germany as "inclusionary," and Switzerland, the United States, Japan, Italy, and pre-1980 France as "exclusionary."[251] But an analysis that concentrates on domestic structures and neglects the different international contexts in which small and large industrial states operate creates anomalies. It groups together societies with centralized and decentralized collective bargaining systems (West Germany and Britain), and with weak and strong states (United States and Japan). It distinguishes between societies that differ only in degree in their reliance on foreign workers, women, and the old (West Germany and France), and in their political incorporation of the Left

and the trade union movement (Switzerland and the Netherlands). This book has advanced a different argument. The small European states distinguish themselves by their corporatist politics and industrial policy from industrial countries that are larger and hence less exposed to the international economy.

Switzerland's and Austria's paradoxical affinities to the political manifestations of both liberalism and statism among the large industrial states suggest that they have evolved a third variant of capitalism, one that combines elements of both market and state. What they have evolved is democratic corporatism.

Democratic corporatism has one central political consequence. By incorporating all major political actors and producer groups, it creates political coherence in the domestic structure and flexibility in political stategy. The small European states are liberal market economies; their antiliberalism consists in substituting, where needed, political mechanisms of compromise for the dictates of the market. Conversely, the small European states are statist in according their state bureaucracies an important place in the making of policy; their antistatism is revealed by their neutralization of state institutions, which suffer from a relative lack of institutional autonomy and political interests of their own.

The argument of the last two chapters rests on a cumulative differentiation betweeen the political strategies and structures of small and large states as well as among the small European states. What unites the experience of the small European states, and what sets them apart from the large industrial states, is their flexibility when confronted with economic change. The main political actors view economic change as a way of life, an opportunity as much as an abnormality and a threat. Democratic corporatism is marked by particular political strategies. Because of the economic openness and vulnerability of the small European states, protectionist policies are not a viable political option. Instead these states can be counted among the stongest advocates of international liberalization. Although democratic corporatism did not emerge until the 1930s and 1940s, the small European states have favored international liberalization throughout the twentieth century. Economic openness, rather than corporatism has been the decisive factor. But economic openness helps in maintaining corporatist arrangements. The political requirements of democratic corporatism account for the adoption of wide-ranging policies of domestic compensation by the small European states. Domestic compensation, I argue, responds primarily to the logic of domestic politics; it is not a deliberate response to the logic of the international economy.[254] Policies of domestic compensation, in turn, both reinforce and alter the politics of corporatism.

International liberalization and domestic compensation combine to produce the flexible policies of industrial adjustment with which the small European states respond to the constraints and opportunities of international and domestic structures. As protectionism is not an option, the strategy of the small corporatist states differs from the strategy of large liberal states, such as the United States or Britain, which typically seek to export the costs of change through selective protection. Conversely, policies that require a unity of purpose and an accretion of power contradict the political requirements of cross-sectoral political bargaining, distinguishing the small European states from the political strategy of Japan or France. A statist approach is built around preempting the costs of change through policies of selective intervention and protection undertaken in the name of structural transformation. As one comparative analysis of the political responses of four Social Democratic states (Britain, West Germany, Sweden, and Austria) to the economic crisis of the 1970s concludes, "Austria and Sweden seem to be institutionally rather better placed than either Britain or Germany to explore the full range of policy options potentially available to the government and the industrial relations system *acting jointly*. And they also seem to be fully capable of implementing jointly those policies on which they have agreed at the national level."[255] The small European states have learned how to live with the costs of change.

Flexible industrial adjustment is not a unidimensional response to changing market conditions or political pressures. Instead, as I have shown, democratic corporatism has two variants, one liberal and the other social. Both variants respond to the economic as well as the political requirements of adjustment. Liberal corporatism accepts market-driven change but makes the political gestures necessary to keep disadvantaged industry segments, firms, or regions integrated in an overarching consensus. Social corporatism seeks to cushion change within the limits that markets permit. The Swiss, Dutch, and Belgians put so much store in the institution of the market that they would find it reckless to disregard the political requirements of a flexible industrial policy. The Austrians, Norwegians, and Danes value highly the institution of the state, and they would find it equally foolish to disregard the economic requirements of a flexible adjustment.

Distinctive of both variants of corporatism is the calibration of the requirements of economic flexibility with those of political legitimacy.

Politics either does not impede a shift in the factors of production or does so in a manner that contributes politically to flexible adjustment over the longer term. Noteworthy in adverse economic circumstances is, therefore, what is least apparent: the political interventions of liberal corporatism in markets and the political toleration of market outcomes in social corporatism. Although liberal corporatism prizes efficiency more highly than equity, and social corporatism prefers equity to efficiency, both preferences are constrained by the shackles of democratic corporatism and the logic of markets.

Notes

Chapter 1. *Introduction*

1. "The Reindustrialization of America," *Business Week,* special issue, 30 June 1980; Barry Bluestone an Bennett Harrison, *The Deindustrialization of America: Plant Closings, Community Abandonment, and the Dismantling of Basic Industry* (New York: Basic, 1982).

2. These figures are calculated in constant U.S. dollars at the exchange rate and price level of 1975. See Organization for Economic Co-operation and Development (OECD), *National Accounts: Main Aggregates,*vol. 1: *1953–1982* (Paris, 1984), p. 86.

3. See, for example, C. Fred Bergsten, "The United States and the World Economy," in J. Michael Finger and Thomas D. Willett, eds., "The Internationalization of the American Economy," *Annals of the American Academy of Political and Social Science* 460 (March 1982), 5.

4. Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford: Stanford University Press, 1982).

5. For example, Philip H. Trezise and Yukio Suzuki, "Politics, Government, and Economic Growth in Japan," in Hugh Patrick and Henry Rosovsky, eds., *Asia's New Giant: How the Japanese Economy Works* (Washington, D.C.: Brookings, 1976), pp. 753–811; Trezise, "Industrial Policy in Japan," in Margaret E. Dewar, ed., *Industry Vitalization: Toward a National Industrial Policy* (New York: Pergamon, 1982), pp. 177–95; and George C. Eads, "Industrial Strategies for High Technology," unpublished paper, University of Maryland, February 1983. See also Manhattan Institute for Policy Research, "Industrial Policy, Part 2: Is a New Deal the Answer?" *Manhattan Report on Economic Policy* 3, 2 (1983).

6. Robert Kuttner, *The Economic Illusion: False Choices between Prosperity and Social Justice* (Boston: Houghton Mifflin, 1984). See also Howard D. Samuel and Brian Turner, "An Industrial Policy for the United States?" *Transatlantic Perspectives* 5 (July 1981), 14–17.

7. For example, Melvyn B. Krauss, *The New Protectionism: The Welfare State and International Trade* (New York: New York University Press, 1978); Bruce R. Scott, "Can Industry Survive the Welfare State?" *Harvard Business Review,* September–October 1982, 70–84.

8. See William Greider, "The Education of David Stockman," *Atlantic Monthly,* December 1981, 27–54.

9. Robert Reich, *The Next American Frontier* (New York: Times, 1983), p. 232.

10. There is very little in English on the political economies of the small European states. A textbook-style survey is Earl H. Fry and Gregory A. Raymond, eds., *The Other Western Europe: A Political Analysis of the Smaller Democracies* (Santa Barbara: ABC-Clio, 1980). A recent useful compendium of small-states theory is Otmar Höll, ed., *Small States in Europe and Dependence* (Vienna: Braumüller, 1983); see also Michael Handel, *Weak States in the International System* (London: Cass, 1981). The experience of the Scandinavian countries is treated in depth in Gösta Esping-Andersen, *The Social Democratic Road to Power* (Princeton: Princeton University Press, forthcoming). On the Low Countries see Arend Lijphart, *The Politics of Accommodation: Pluralism and Democracy in the Netherlands* (Berkeley: University of California Press, 1968); Lijphart, ed., *Conflict and Coexistence in Belgium: The Dynamics of a Culturally Divided Society* (Berkeley: University of California, Institute of International Studies, 1981); and a special issue of *Acta Politica* 19 (January 1984). I have written in detail on Austria and Switzerland in *Corporatism and Change: Austria, Switzerland, and the Politics of Industry* (Ithaca: Cornell University Press, 1984).

11. Margret Sieber, *Dimensionen kleinstaatlicher Auslandabhängigkeit,* University of Zurich, Kleine Studien zur Politischen Wissenschaft, nos. 206–7 (1981), 155, 165.

12. Stephen D. Krasner, "United States Commercial and Monetary Policy: Unraveling the Paradox of External Strength and Internal Weakness," in Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978), p. 52.

13. My thinking on this point has been influenced in particular by Charles E. Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic, 1977); Robert B. Kvavik, *Interest Groups in Norwegian Politics* (Oslo: Universitetsforlaget, 1976), pp. 19–22; and Wolfgang Streeck and Philippe C. Schmitter, "Community, Market, State—and Associations? The Prospective Contribution of Interest Governance to Social Order," *European University Institute Working Papers,* no. 94 (March 1984).

14. Some of the best recent studies of industrial policy include John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca: Cornell University Press, 1983); Ira C. Magaziner and Robert Reich, *Minding America's Business: The Decline and Rise of the American Economy* (New York: Harcourt Brace Jovanovich, 1982); a special issue of *Journal of Public Policy* 3 (February 1983) on industrial policies of OECD countries, edited by Wyn Grant and David McKay; William Diebold, *Industrial Policy as an International Issue* (New York: McGraw-Hill, 1980); F. Gerard Adams and Lawrence Klein, eds., *Industrial Policies for Growth and Competitiveness: An Economic Perspective* (Lexington, Mass.: Lexington, 1983); Susan B. Strange and Roger Tooze, eds., *The International Politics of Surplus Capacity: Competition for Market Shares in the World Recession* (London: Allen & Unwin, 1981); Grant, *The Political Economy of Industrial Policy* (London: But-

MITI and the Japanese Miracle. On Am
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porate Strategies* (Ithaca: Cornell University Press, 1983).

15. I am indebted to Robert Keohane, Charles Sabel, David Vogel, John Zysman for pressing me to think systematically about the issue of suc and failure.

16. The main studies of corporatism include Philippe C. Schmitter Gerhard Lehmbruch, eds., *Trends toward Corporatist Intermediation* (Be Hills: Sage, 1979); Suzanne D. Berger, ed., *Organizing Interests in We Europe* (Cambridge: Cambridge University Press, 1981) Lehmbruch Schmitter, eds., *Patterns of Corporatist Policy-Making* (Beverly Hills: Sa 1982); and Francis G. Castles, ed., *The Impact of Parties* (Beverly Hills: Sa 1982). See also Ulrich von Alemann and Rolf G. Heinze, "N Korporatismus: Zur neuen Diskussion eines alten Begriffs," *Zeitschrift für P lamentsfragen* 10 (December 1979), 469–87.

17. See Heinrich August Winkler, ed., *Organisierter Kapitalismus* (Gö tingen: Vandenhoeck & Ruprecht, 1974).

18. I am indebted to a long conversation with Gabriel Almond for this ide See also his article "Corporatism, Pluralism, and Professional Memory," *Wor Politics* 35 (January 1983), 245–60.

19. Peter Lange, "The Conjunctural Conditions for Consensual Wag Regulation: An Initial Examination of Some Hypotheses" (paper prepare for presentation at the Annual Meeting of the American Political Scienc Association, New York, September 1981), p. 2

20. Stein Rokkan, "Norway: Numerical Democracy and Corporate Plu ralism," in Robert A. Dahl, ed., *Political Oppositions in Western Democracies* (New Haven: Yale University Press, 1966), pp. 70–115.

21. Arend Lijphart, "Consociational Democracy," *World Politics* 21 (October 1968), 217. See also Val R. Lorwin, "Segmented Pluralism: Ideological Cleav ages and Political Cohesion in the Smaller European Democracies," in Ken neth D. McRae, ed., *Consociational Democracy: Political Accommodation in Segmented Societies* (Toronto: McClelland & Stewart, 1974), pp. 42–44.

22. Johan P. Olsen, "Integrated Organizational Participation in Govern ment," in Paul C. Nystrom and William H. Starbuck, eds., *Handbook of Organi zational Design*, vol. 2 (Oxford: Oxford University Press, 1981), p. 502.

23. The Austrian case is accounted for by the explanation offered below in chapter 4.

24. See McRae, *Consociational Democracy;* Martin O. Heisler, ed., *Politics in Europe: Structures and Processes in some Postindustrial Democracies* (New York: McKay, 1974); and Arend Lijphart, *Democracy in Plural Societies: A Comparative Exploration* (New Haven: Yale University Press, 1977). See also Jeffrey Obler, Jürg Steiner, and Guido Dierickx, *Decision-Making in Smaller Democracies: The Consociational "Burden"* (Beverly Hills: Sage, 1977); Dahl, *Political Oppositions in Western Democracies;* Gerhard Lehmbruch, *Proporzdemokratie: Politisches System und politische Kultur in der Schweiz und in Österreich* (Tübingen: Mohr, 1967); Eric A. Nordlinger, *Conflict Regulation in Divided Societies* (Cambridge, Mass.: Harvard University Center for International Affairs, 1972); Brian Barry, "Political Accommodation and Consociational Democracy," *British Journal of*

tical Science 5 (October 1975), 490–500; and Hans Daalder, "The Consoci- nal Democracy Theme," *World Politics* 26 (July 1974), 604–22.

5. Cf. Jürg Steiner, "Major und Proporz," *Politische Vierteljahresschrift* 11 rch 1970), 142–44.

6. Lijphart, *Democracy in Plural Societies*, p. 111.

7. Andrew Shonfield, *In Defence of the Mixed Economy* (Oxford: Oxford iversity Press, 1984); Gerhard Lehmbruch, "European Neo-Corporatism: Export Article?" Woodrow Wilson Center *Colloquium Paper* (Washington, ., 26 April 1982), p. 33; J. E. Keman and D. Braun, "Social Democracy, rporatism and the Capitalist State" (paper presented at the ECPR work- op "Modern Theories of State and Society," Lancaster, England, 29 March– April 1981), p. 25; and Manfred G. Schmidt, "Economic Crisis, Politics, and ates of Unemployment in Capitalist Democracies in the Seventies" (paper repared for the ECPR workshop "Unemployment and Selective Labour arket Policies in Advanced Industrial Societies," Lancaster, England, 29 arch–4 April 1981), p. 10.

28. See T. J. Pempel and Keiichi Tsunekawa, "Corporatism without Labor? he Japanese Anomaly," in Schmitter and Lehmbruch, *Trends toward Cor- oratist Intermediation*, pp. 231–70; Peter J. Katzenstein, "State Strength hrough Market Competition: Japan's Industrial Strategy," unpublished aper, Cornell University, March 1980.

29. Richard Behrendt, *Die Schweiz und der Imperialismus: Die Volkswirtschaft des hochkapitalistischen Kleinstaates im Zeitalter des politischen und ökonomischen Nationalismus* (Zurich: Rascher, 1932), pp. 12–15.

30. Harry Eckstein, *Division and Cohesion in Democracy: A Study of Norway* (Princeton: Princeton University Press, 1966), p. 3.

31. Sarah Hogg, "A Small House in Order," *Economist*, 15 March 1980, survey, p. 3.

32. Niels Amstrup, "The Perennial Problem of Small States: A Survey of Research Efforts," *Cooperation and Conflict* 3/1976, 176. The late Andrew Shonfield was clearly aware of the importance of the corporatist strain in the evolution of modern capitalism. See *The Use of Public Power* (Oxford: Oxford University Press, 1982), and *In Defence of the Mixed Economy*. Both works are incomplete and have been published posthumously.

Chapter 2. *Flexible Adjustment in the Small European States*

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2. Gardner C. Patterson, *Discrimination in International Trade: The Policy Issues, 1945–1965* (Princeton: Princeton University Press, 1966), pp. 332–33.

3. Andrew Shonfield, "International Economic Relations of the Western World: An Overall View," in Shonfield, ed., *International Economic Relations of the Western World, 1959–1971*, vol. 1: *Politics and Trade* (London: Oxford University Press, 1976), p. 97.

4. Alice Bourneuf, *Norway, the Planned Revival* (Cambridge: Harvard University Press, 1958), p. 205. See also Günter Zenk, *Konzentrationspolitik in Schweden* (Tübingen: Mohr, 1971), pp. 9, 106; Zenk, *Konzentrationspolitik in*

182. Quoted in "Austrian Industrial Development," *Financial Times*, 29 August 1975, pp. 9–11. See also Michaela Dorfwirth and Jörg Schram, "Bürgschaften und Garantien der öffentlichen Hand als Instrument der Investitionsfinanzierung," *Quartalshefte* 1/1968, 15–18; OECD, *Aims and Instruments of Industrial Policy*, pp. 45, 89; and Manfred Drennig, "Staatliche Wachstumspolitik in Österreich," *Quartalshefte* 4/1966, 19–28.

183. Quoted in *Kurier*, 23 May 1976. See also Oskar Grünwald, "Industrieadministration in Österreich," *IBE-Bulletin*, 21–22 August 1976, pp. 11–15.

184. Oskar Grünwald, "Austrian Industrial Structure and Industrial Policy," in Sven W. Arndt, ed., *The Political Economy of Austria* (Washington, D.C.: American Enterprise Institute, 1982), p. 139. The dollar figure quoted represents 10 billion schillings at the 1974 exchange rate of 18.693 shillings per dollar; see OECD, *National Accounts: Main Aggregates*, vol. 1: *1952–1981* (Paris, 1983), p. 102.

185. Grünwald, "Austria's Industrial Structure," p. 140.

186. Wilhelm Hankel, *Prosperity admidst Crisis: Austria's Economic Policy and the Energy Crunch* (Boulder: Westview, 1981), p. 32.

187. Gunther Tichy, "Wie wirkt das österreichische System der Investitionsförderung?" *Quartalshefte*, special issue, 1/1980, 20–21.

188. Vereinigung Österreichischer Industrieller, *Zur Wirtschaftspolitik*, 2d ed. (Vienna, 1975), p. 20.

189. Lacina, *Development of the Austrian Public Sector*, p. 20.

190. Karl Socher, "Die öffentlichen Unternehmen im österreichischen Banken- und Versicherungssystem," in Wilhelm Weber, ed., *Die Verstaatlichung in Österreich* (Berlin: Duncker & Humblot, 1964), pp. 452–53.

191. Quoted in "Austrian Lesson in Harmony," p. 12.

192. *World Business Weekly*, 29 June 1981, p. 51.

193. *Der Spiegel*, 24 September 1979, pp. 82–83.

194. Sarah Hogg, "A Small House in Order," *Economist*, 15 March 1980, Survey, p. 22. See also Christof Gaspari and Enrique H. Prat de la Riba, "Die Problemlösungskapazität des österreichischen Wirtschaftssystems," *Wirtschaftspolitische Blätter* 22, 6 (1975), 37–40, and *Die Presse*, 11 December 1981.

195. OECD, *Economic Surveys: Austria* (Paris, 1967), p. 12.

196. Felix Butschek, "The Economic Structure," in Steiner, *Modern Austria*, p. 151.

197. John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," in Stephen D. Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983), pp. 195–232.

198. Alasdair I. Macbean, *Export Instability and Economic Development* (London: Allen & Unwin, 1966); Joseph D. Coppock, *International Economic Instability: The Experience after World War II* (New York: McGraw-Hill, 1962); Coppock, *International Trade Instability* (Farnborough: Saxon, 1977); and Odin Knudsen and Andrew Parnes, *Trade Instability and Economic Development* (Lexington, Mass.: Heath, 1975).

199. Coppock, *International Economic Instability*, p. 105.

200. Andrew Boyd, "How the Storm Changed the Signs," *Economist*, 28 January 1978, p. 24. See also Charles P. Kindleberger, *Multinational Excursions* (Cambridge: MIT Press, 1984), pp. 105–6.

Chapter 3. *Democratic Corporatism and Its Variants*

1. James N. Rosenau, *The Study of Political Adaptation* (London: Pinter, 1981), pp. 102–4.

2. Except when noted, "small European states" in this analysis will refer only to the seven states. At times they will be compared to five large industrial states: the United States, Britain, West Germany, France, and Japan.

3. Some of the literature on the subject is reviewed in Fritz Breuss, *Komparative Vorteile im österreichischen Aussenhandel* (Vienna: Österreichische Akademie der Wissenschaften, 1975), pp. 58–59; Antoine Basile, *Commerce extérieur et développement de la petite nation: Essai sur les contraintes de l'exiguité économique* (Geneva: Droz, 1972).

4. United Nations, Department of Economic and Social Affairs, *A Study of Industrial Growth* (New York, 1963), pp. 9, 13–14. Foreign trade is not included in this study.

5. United Nations, Economic Commission for Europe, *Structure and Change in European Industry* (New York, 1977), p. 27. Foreign trade is included in this study.

6. UNCTAD, *Restructuring of World Industry: New Dimensions for Trade Cooperation* (New York, 1978), p. 6; see also pp. 5, 8–9. "Comparative Analysis of Economic Structures by Means of Input-Output Tables," *UN Economic Bulletin for Europe* 23, 1 (1971), 3, 17, 21.

7. UN, *Study of Industrial Growth*, pp. 9–12; UN, *Structure and Change in European Industry*, pp. 13–14. See also United Nations Industrial Development Organization, *World Industry since 1960: Progress and Prospect. Special Issue of the Industrial Development Survey for the Third General Conference on UNIDO* (New York, 1979), pp. 43–49, 331–365; Bela Balassa, "'Revealed' Comparative Advantage Revisited: An Analysis of Relative Export Shares of the Industrial Countries, 1953–1971," *Manchester School of Economic and Social Studies* 45 (December 1977), 337. Another statistical study showed that industries with large economies of scale (such as textiles, paper, printing, rubber, chemicals, petroleum products, metals, machinery, and transport equipment) become more important in the process of industrialization. Statistically speaking, their contribution to total manufacturing output increases from 40% to almost 60% per capita as income levels increase from $300 to $600. See Hollis B. Chenery, "Patterns of Industrial Growth," *American Economic Review* 50 (September 1960), 646.

8. Ibid., p. 643; Hollis B. Chenery and Lance Taylor, "Development Patterns: Among Countries and over Time," *Review of Economics and Statistics* 50 (November 1968), 399, 412–13.

9. Béla Kádár, *Small Countries in World Economy* (Budapest: Hungarian Academy of Sciences, Center for Afro-Asian Research, 1970), pp. 11, 15, Table 5.

10. Alfred Maizels, *Industrial Growth and World Trade* (Cambridge: Cambridge University Press, 1963), pp. 266–67 and 135–36. The sample of countries included in Maizels's analysis differs from the group of states analyzed here.

11. Peter J. Lloyd, *International Trade Problems of Small Nations* (Durham: Duke University Press, 1968), p. 37. In the 1950s the difference between the small European states and the large industrial states in the value added in

industrial output was considerably smaller in the consumer than in the producer goods industry. See UN, *Study of Industrial Growth*, pp. 7, 12.

12. "Comparative Analysis of Economic Structures," pp. 19, 41–42. The comparison is between the Netherlands, Belgium, and Norway on the one hand and Britain, France, and West Germany on the other.

13. L. B. M. Mennes, "Adjustment of the Industrial Structure of Developed Economies, in particular the Netherlands" (paper prepared for the International Symposium on Maritime Research and European Shipping and Shipbuilding, Rotterdam, 29–31 March 1978), p. 3.

14. Boston Consulting Group, *A Framework for Swedish Industrial Policy* (Stockholm: Departementens Offsetcentral, 1979), Appendix 9, p. 1.

15. Simon Kuznets, "Economic Growth of Small Nations," in E. A. G. Robinson, ed., *Economic Consequences of the Size of Nations: Proceedings of a Conference Held by the International Economic Association* (London: Macmillan, 1960), pp. 14–32; Lloyd, *International Trade Problems*, pp. 28–29, 33–34; Nadim G. Khalaf, *Economic Implications of the Size of Nations: With Special Reference to Lebanon* (Leiden: Brill, 1971), pp. 99–122; Khalaf, "Country Size and Trade Concentration," *Journal of Development Studies* 11 (October 1974), 81–85; Raimo Väyrynen, "The Position of Small Powers in the West European Network of Economic Relations," *European Journal of Political Research* 2 (June 1974), 153; D. H. Macgregor, "Trade of Large and Small Countries," *Economic Journal* 35 (December 1925), 642–45; Maizels, *Industrial Growth and World Trade*, p. 721; and Breuss, *Komparative Vorteile*, p. 60.

16. Raoul Gross and Michael Keating, "An Empirical Analysis of Competition in Export and Domestic Markets," *Occasional Studies, OECD Economic Outlook*, December 1970, 15.

17. Hans Genberg, *World Inflation and the Small Open Economy* (Stockholm: Swedish Industrial Publications, 1975); B. L. Scarfe, "A Model of the Inflation Cycle in a Small Open Economy," *Oxford Economic Papers* 25 (July 1973), 192–203; Martin F. J. Prachowny, *Small Open Economies: Their Structure and Policy Environment* (Lexington: Heath, 1975); Heinrich Otruba, "Inflation in Small Countries," *Wirtschaftspolitische Blätter* 22, 2 (1975), 119–25; Odd Aukrust, "Inflation in the Open Economy: A Norwegian Model," in Lawrence B. Krause and Walter S. Salant, eds., *Worldwide Inflation: Theory and Recent Experience* (Washington, D.C.: Brookings, 1977), pp. 107–53.

18. Organization for Economic Co-operation and Development (OECD), *Towards Full Employment and Price Stability (The MacCracken Report)* (Paris, 1977), p. 60, for example, calculates the external price influence in 1972–74 at 10.6% for the small European states and at 6.0% for the five larger countries.

19. UN, *Structure and Change in European Industry*, pp. 25–26. The sample of large countries excludes the United States and Japan but includes Italy. See also UN, *World Industry since 1960*, p. 48.

20. M. Carmi, "The Economics of Small Developed States," unpublished paper, Jerusalem, 1975, pp. 11–12; Fritz Breuss, "Die Makrostruktur der österreichischen Wirtschaft im Vergleich mit den europäischen Wirtschaftspartnern," in *Der Kleinstaat in der europäischen wirtschaftlichen Zusammenarbeit aus der Sicht Ungarns und Österreichs* (Vienna: Geschichte und Politik, 1975), pp. 62–63. See also Carmi, "Economics of Small Developed States," pp. 32–

33; Peer Hull Kristensen and Jørn Levinsen, *The Small Country Squeeze* (Roskilde, Denmark: Institute of Economics, Politics and Administration, 1978), pp. 112, 117.

21. "Comparative Analysis of Economic Structures," pp. 19, 43.

22. Kádár, *Small Countries in World Economy*, pp. 11, 15, Table 5; UN, *Study of Industrial Growth*, pp. 9, 13–14.

23. Beirat für Wirtschafts- und Sozialfragen, *Vorschläge zur Industriepolitik* (Vienna: Ueberreuter, 1970), p. 31; Helmut Kramer, *Industrielle Strukturprobleme Österreichs* (Vienna: Signum, 1980), p. 52.

24. Balassa, "'Revealed' Comparative Advantage," p. 337.

25. See also Dieter Senghaas, *Weltwirtschaftsordnung und Entwicklungspolitik: Plädoyer für Dissoziation* (Frankfurt: Suhrkamp, 1977), pp. 34–35.

26. Chenery, "Industrial Growth," p. 639.

27. For 1954 see Michael Michaely, *Concentration in International Trade* (Amsterdam: North Holland, 1962), pp. 11–12, 19–20. For 1964 see Lloyd, *Trade Problems of Small Nations*, p. 33 and Appendix 2. See also Kristensen and Levinsen, *Small Country Squeeze*, p. 117; Kuznets, "Economic Growth of Small Nations," p. 22; Simon Kuznets, *Six Lectures on Economic Growth* (New York: Free, 1961), p. 95; Niclaus G. Krul, *La politique conjoncturelle en Belgique, aux Pays-Bas et en Suisse, 1950–1960* (Geneva: Droz, 1964), p. 92; and Guy F. Erb and Salvatore Schiavo-Campo, "Export Instability, Level of Development and Economic Size of Less Developed Countries," Oxford University Institute of Economics and Statistics *Bulletin* 31 (1969), 263–83. Due to differences in the sample of small states, time periods, and methods of computation, a number of null findings have been reported in the economics literature. See Väyrynen, "Position of Small Powers," pp. 160–61; Lloyd, *Trade Problems of Small Nations*, pp. 28–29, 33–34; and Khalaf, *Economic Implications*, pp. 93, 98.

28. Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945), pp. 85, 101–5, 109–14. Interestingly this was not true for the small European states, because their trade was more diversified than that of the Eastern European countries.

29. Kádár, *Small Countries in World Economy*, pp. 10–11, 23.

30. Kristensen and Levinsen, *Small Country Squeeze*, p. 114. Switzerland and Austria are not included in the figures for the small European states. Since they differ along a number of dimensions measuring the relative modernity of their industrial structures, their exclusion from these figures probably does not bias the findings.

31. *World Development Report, 1979* (Washington, D.C.: World Bank, August 1979), Table 15, p. 155. Switzerland has been excluded from the calculations.

32. OECD, *Balance of Payments of OECD Countries, 1960–1977* (Paris, 1979), author's calculations.

33. Donald B. Keesing, "Population and Industrial Development: Some Evidence from Trade Patterns," *American Economic Review* 58, 3 (Part I) (June 1968), 454–55.

34. Kristensen and Levinsen, *Small Country Squeeze*, p. 108.

35. Krul, *Politique conjoncturelle*, pp. 113–14; Committee on Invisible Exports, *World Invisible Trade* (London, August 1978), pp. 32–33.

36. Per Kleppe, *Main Aspects of Economic Policy in Norway since the War* (Oslo: Oslo University Press, 1966), p. 12; Kádár, *Small Countries in World Economy*,

p. 12; Committee on Invisible Exports, *World Invisible Trade*, p. 14; and James A. Storing, *Norwegian Democracy* (Boston: Houghton Mifflin, 1963), p. 3.

37. Committee on Invisible Exports, *World Invisible Trade*, pp. 6–7.

38. Richard Blackhurst, Nicolas Marian, and Jan Tumlir, *Trade Liberalization, Protectionism and Interdependence* (Geneva: GATT, 1977), p. 62, note 10; Shmuel N. Eisenstadt, "Sociological Characteristics and Problems of Small States: A Research Note," *Jerusalem Journal of International Relations* 2 (Winter 1976–77), 39; and Levinsen and Kristensen, *Small Country Squeeze*, pp. 127, 135.

39. Committee on Invisible Exports, *World Invisible Trade*, pp. 15, 30, 32; author's calculations.

40. Ibid., p. 3; Committee on Invisible Exports, *World Invisible Trade* (London, 1969), p. 1; and Blackhurst, Marian, and Tumlir, *Trade Liberalization*, p. 62, note 10.

41. Compared to the flow of foreign direct investment into the large advanced industrial states, it increased from 11% in 1960 to 35% a decade later before declining to 17% in 1978–80. OECD, *Policy Perspectives for International Trade and Economic Relations: Report by the High Level Group on Trade and Related Problems to the Secretary-General of the OECD* (Paris, 1972), p. 158; United Nations, *Transnational Corporations in World Development: Third Survey*, Sales no. E.83.II.A. 14 (New York, 1983), p. 19. See also Volker Bornschier, *Wachstum, Konzentration und Multinationalisierung von Industrieunternehmen* (Frauenfeld: Huber, 1976), pp. 562–64.

42. UN, *Transnational Corporations: A Re-Examination*, pp. 263–64.

43. Between 1960 and 1977 the basic balance of trade tended to be positive for the small European states and negative for the large industrial countries.

44. Bélá Kádar, "Adjustment Patterns and Policies in Small Countries," in István Dobozi, Clare Keller, and Harriet Matejka, eds., *Small Countries and International Structural Adjustment* (Geneva: Graduate Institute of International Studies, 1982), p. 96.

45. Margret Sieber, *Dimensionen kleinstaatlicher Auslandsabhängigkeit*, Kleine Studien zur Politischen Wissenschaft, nos. 206–7 (Zurich: University of Zurich, Forschungsstelle für Politische Wissenschaft, 1981), pp. 155, 165; Boston Consulting Group, *Framework for Swedish Industrial Policy*, Appendix 2, p. 2. See also OECD, *Economic Surveys: Switzerland* (Paris, April 1978), p. 35; Charles Lipson, "The Transformation of Trade: The Sources and Effects of Regime Change," in Stephen D. Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983), p. 239.

46. Glenn Fong, "Export Dependence versus the New Protectionism: Constraints on Trade Policy in the Industrial World" (Ph.D. diss., Cornell University, 1983), pp. 303–4. Switzerland and Belgium are missing in this calculation.

47. In addition to the books listed in footnote 16 of chapter 1, see John Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism: Studies in the Political Economy of Western European Nations* (Oxford: Clarendon, 1984). Both the *Journal für Sozialforschung* 23, 4 (1983), and the *International Political Science Review* 4, 2 (1983), have published special issues devoted to the question of corporatism. See also Philippe C. Schmitter, "Democratic Theory and Neo-Corporatist Practice," *Social Research* 50 (Winter 1983), 885–928; Wolfgang

Streeck and Schmitter, "Community, Market, State—and Associations? The Prospective Contribution of Interest Governance to Social Order," *European University Institute Working Papers* no. 94 (March 1984).

48. Douglas A. Hibbs, Jr., "On the Political Economy of Long-Run Trends in Strike Activity," *British Journal of Political Science* 8 (April 1978), 162. Cross-national aggregate statistics lend further support to this conclusion. The ratio between the average population for the small European state and large countries in 1975 was 1:12.6. But it is 1:17.6 for deaths from political violence (1948–77) 1:18.7 for riots (1948–77); and 1:23.6 for protest demonstrations (1948–77). See Charles Lewis Taylor and David A. Jodice, eds., *World Handbook of Political and Social Indicators*, vol. 1: *Cross National Attributes and Rates of Change*, 3d ed. (New Haven: Yale University Press, 1983), pp. 91–94, and vol. 2: *Political Protest and Government Change*, pp. 22–25, 33–36, 48–51.

49. Harold L. Wilensky, "Political Legitimacy and Consensus: Missing Variables in the Assessment of Social Policy," in Shimon E. Spiro and Ephraim Yuchtman-Yaar, eds., *Evaluating the Welfare State: Social and Political Perspectives* (New York: Academic, 1983), pp. 63–64.

50. Arend Lijphart, "Consociational Democracy," in Kenneth D. McRae, ed., *Consociational Democracy: Political Accommodation in Segmented Societies* (Toronto: McClelland & Stewart, 1974), pp. 88–89.

51. Val R. Lorwin, "Belgium: Religion, Class, and Language in National Politics," in Robert A. Dahl, ed., *Political Opposition in Western Democracies* (New Haven: Yale University Press, 1966), p. 178.

52. See in particular Phillipe C. Schmitter, "Still the Century of Corporatism," in Schmitter and Gerhard Lehmbruch, eds., *Trends toward Corporatist Intermediation* (Berverly Hills: Sage, 1979), pp. 7–52.

53. Robert A. Dahl and Edward R. Tufte, *Size and Democracy* (Stanford: Stanford University Press, 1973), p. 40. See also Jane J. Mansbridge, *Beyond Adversary Democracy* (New York: Basic, 1980), pp. 278–89; Margret Sieber, *Die Abhängigkeit der Schweiz von ihrer internationalen Umwelt: Konzepte und Indikatoren* (Frauenfeld: Huber, 1981), pp. 372–74.

54. Peter Wiles, "The Importance of Country Size," unpublished paper, n.p., n.d., pp. 9–10.

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57. See for example for Norway, Storing, *Norwegian Democracy*, p. 125; for Austria and Switzerland, Peter J. Katzenstein, *Corporatism and Change: Austria, Switzerland and the Politics of Industry* (Ithaca: Cornell University Press, 1984), pp. 72, 112; and for Sweden, Dankwart A. Rustow, *The Politics of Compromise: A Study of Parties and Cabinet Government in Sweden* (New York: Greenwood, 1969), pp. 151–52.

58. Ulf Torgersen, "Political Institutions," in Natalie Rogoff Ramsøy, ed.,

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59. Johan P. Olsen, "Integrated Organizational Participation in Government," in Paul C. Nystrom and William H. Starbuck, eds., *Handbook of Organizational Design*, vol. 2: *Remodeling Organizations and Their Environments* (Oxford: Oxford University Press, 1981), pp. 509–11.

60. John P. Windmuller, "Concentration Trends in Union Structure: An International Comparison," *Industrial and Labor Relations Review* 35 (October 1981), 43–57; John D. Stephens, *The Transition from Capitalism to Socialism* (London: Macmillan, 1979) p. 118. Due to the exodus of foreign workers, the unionization rate of the Swiss work force has increased sharply in the 1970s and was by 1980 about 38% rather than the 27% reported by Stephens who relied on estimates from the early 1970s.

61. Stephens, *Transition from Capitalism to Socialism*, pp. 91–93, 110, 118–19. Japan is not included in this study.

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63. Stephens, *Transition from Capitalism to Socialism*, p. 117.

64. Anne Romanis, "Cost Inflation and Incomes Policies in Industrial Countries," *IMF Staff Papers* 14 (March 1967), 196.

65. Gerhard Lehmbruch, "Liberal Corporatism and Party Government," in Schmitter and Lehmbruch, *Trends toward Corporatist Intermediation*, pp. 147–84.

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340. These distinctions are being developed by Gösta Esping-Anderson and
Walter Korpi; see their "The State as a System of Stratification: Class Mobili-
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Science Council of Canada, *Seminar on Science Policies in Small Industrialized
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tion* (Paris: OECD, 1971), pp. 53, 144–47. See also the different tone in
Kristensen and Levinsen, *Small Country Squeeze*, which reflects both views with-
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48.
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porting this view is reported on pp. 144–45 and in Kristensen and Levinsen,
Small Country Squeeze, pp. 276–77.
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Exchanges* (Paris, 1970), p. 198.
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251. Although it is often left implicit, this taxonomy informs much contemporary writing on corporatism. It is explicit in Stephens, *Transition from Capitalism to Socialism.*

252. Informed by the analysis I have advanced in *Corporatism and Change,* the functional explanation I offer in chapters 2 and 3 thus differs from David Cameron's statistical analysis in "The Expansion of the Public Economy." The historical explanation in chapter 4 below, by contrast, argues that corporatist regimes were a response to economic openness and international vulnerability. The difference between functional and historical analysis as well as correlation and causation is the focus of Dankwart A. Rustow, "Transitions to Democracy: Toward a Dynamic Model," *Comparative Politics* 2 (April 1970), 337–64.

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CHAPTER 4. *The Historical Origins of Democratic Corporatism*

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