Preface: outline of the issues

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SMALL STATES IN THE GLOBAL ERA

Some 30 years ago Peter Katzenstein's (1985) *Small States in World Markets* showed how, rather than disappearing under the effects of modernization and global change, some small states were not only surviving but thriving. This was a major challenge to received wisdom at the time, although Katzenstein's sample was limited to a small number of European democracies practising corporatist modes of making public policy. During the 2000s there was a further wave of writing about small states, drawing on a wider set of cases. The collapse of the Soviet and Yugoslav unions had spawned new states, most of which were small. Singapore fascinated some; the New Zealand experience interested others. Some of these studies relied on quantitative analyses of the relationship between size and economic success (Skilling 2012a). Alesina and Spoloare (2003) claimed to have found an inverse relationship between size and global free trade, with the size of states somehow adapting to global market imperatives.

We are sceptical of such general explanations. We argue that small states do have some issues in common, which they need to resolve, but that there are different forms of adaptation, which are contextual and path-dependent. Some are more successful than others. Our aim has therefore been to trace different modes of adaptation and their success in different contexts.

It would seem incumbent on us to define exactly what we mean by 'small' and indeed 'size'. Most obviously, size could refer to population, area or wealth but is usually a combination of these; essentially we refer to population, but this is not something that is fixed but is itself subject to public policy. More importantly, size is not merely an arithmetical concept but a functional one. We are interested in the problems and opportunities created by being large or small in relation to particular tasks, which themselves change over time and in relation to particular modes of production, market conditions and security regimes. Size is also relative in a world or regional context. In this sense distance is also important, since being both small and remote poses particular challenges. We do not therefore stipulate any fixed threshold for size but do exclude the large established states and also city-states and micro-states.

Because we are defining size as much functionally as numerically, we restrict our cases to developed industrial countries with welfare states, facing similar challenges in sustaining economic competitiveness and social cohesion. We do not claim to have a universe of cases or even a scientific sample but rather have taken cases to illustrate our main themes. There is an admitted bias to the northern European countries, but this is because they illustrate so many of the themes. We also include two 'stateless nations' where there are strong movements for independence, inspired to a great extent by the model of small states in world markets. The kinds of challenges and opportunities facing small countries may not be a function of formal independence; indeed in an interdependent world the very concept of independence has lost much of its meaning. Rather, sustaining an economic and social project may be about very specific powers, relationships with broader systems, and institutional performance. An extra-European case is New Zealand, which is both small and remote, and has attracted a lot of outside interest and become the 'poster-child' for a particular form of adaptation to world markets.

VULNERABILITY AND OPPORTUNITY

A key concept is that of vulnerability, the way in which size increases this and how states respond. Small states are vulnerable in regard to international security, unable to provide for their own defence. They are economically vulnerable, lacking large domestic markets and subject to global trading rules. They may have difficulty defending their own social model in the face of competitive pressures. Their culture and languages may similarly be exposed to dangers from without.

In order to cope with this vulnerability, states need two things. One is external shelter, which may take various forms. Remoteness may in itself provide security shelter. Neutrality, if it is respected, may provide another form. Otherwise, security shelter is provided by alliances, whether bilateral or multilateral, or global and regional security systems. We have examples of all of these. Economic shelter these days rarely takes the form of protectionist trade policies, which are unaffordable, as the New Zealand case shows. Rather, small states tend to be export-oriented in order to compensate for the small internal markets. Shelter may be provided by global or regional free-trade regimes of bilateral links. These may provide protection but at the same time are constraining, and there is a question of how much influence small states can have in international regimes, including the European Union (EU). We note different answers to the question of whether small states are better inside or outside the EU.

The second requirement is an internal buffer, or mode of responding to external shocks. While Katzenstein focused on the importance of corporatism, that is structured negotiation among the state, capital and labour, we now see a variety of responses, from going with the market to formalized social concertation. This raises the important question of institutions, taken in the broad sense to include structures of government, social relations, modes of policy-making and shared understandings of the national interest and how matters should be handled. Many of these factors are not peculiar to small states, but our interest is in how small states use them to overcome vulnerabilities, whether successfully or unsuccessfully. Institutions, as we know, are path-dependent and often evolve over a long time, shaped by critical experiences, but they are not unchangeable, so states can enter on to distinct trajectories under various circumstances.

Some of the literature on small states has attempted to show that they are naturally better at achieving some goals, usually economic growth. This is problematic, if only because the goals of states may differ. There may be trade-offs to be made among economic growth and social cohesion and, if there are, states may make different choices. We would argue, in any case, that what matters is not size in the numerical sense but the vulnerabilities and the opportunities that arise from relative size in particular contexts. For this purpose, we need case studies that explore the complexities of temporal and geographical context, and the decisions made by policy-makers. Small states can do well or badly by whatever criteria are used.

THE CHAPTERS

Michael Keating starts by considering the size of states historically and how they have adapted to different global conditions. He then explores modes of adaptation of economic and social policy, deploying two ideal types. The market liberal approach accepts global constraints and emphasizes low costs and deregulation. The social investment approach combines high spending and taxes, with a focus on the conditions for growth. Each is supported by a particular institutional configuration. Nik Brandal and Øivind Bratberg pursue this theme, distinguishing the social investment state from its social democratic variant. The Nordic model combines these, and most of the Nordic states proved relatively successful during the global financial crisis after 2008, by constantly adapting and changing. Baldur Thorhallsson shows how Iceland was an exception, failing to secure either external shelter or internal buffer mechanisms and so proving extremely vulnerable to the crash. Jeffrey McNeill's chapter on New Zealand traces a very different mode of adaptation, based on exposing the country to international market forces, combined with deregulation and New Public Management at home. Anton Steen looks at the Nordic states together with the Baltic countries. While the former are usually seen as predominantly social democratic and the latter neo-liberal, Steen shows that this is a simplification. Bureaucratic and business elites across both zones show varying attitudes to how to adapt to market challenges, with Nordic businesses hankering for less state control while elites in the Baltics appreciate the need for a strong state framework. Harald Baldersheim looks at a different form of vulnerability, that of a wealthy small state dependent on natural resource revenues. The case is Norway, which has built up a massive sovereign wealth fund based on oil but must maintain strict fiscal discipline in order to safeguard the capital and remain within the economy's capacity to absorb the revenues.

Alyson J.K. Bailes examines the security dilemmas of small states, with particular emphasis on the Nordic cases. Again there is variation around a common theme, as each country has adopted a distinct combination of European, NATO and neutralist stances during the Cold War and after.

Three chapters deal with the European Union and small states. Diana Panke identifies the main factors explaining the influence of small states, again noting the importance of institutions and relationships. Jozef Bátora looks at diplomatic representation and the way in which small states can use European channels to compensate for their own small-scale operations. Allan Sikk and Licia Cianetti focus in detail on how the Baltic states use the European Parliament.

Stéphane Paquin and Malcolm Harvey examine two cases of autonomous but not independent polities, Quebec and Scotland respectively. In both cases, there are independence movements with a broad reach but inspired by the Nordic small-state model, with a significant social democratic element. Paquin and Harvey ask whether they are also equipped with the institutions and social practices that would enable them to emulate the Nordic countries were they to become independent or even in the absence of independence.

Finally, Harald Baldersheim returns to the key themes to summarize the findings and look ahead.

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