

Comments and Reviews

Peter J. Katzenstein: *Small States in World Markets. Industrial Policy in Europe*

Ithaca and London: Cornell University Press, 1985, 268 pp.

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Peter J. Katzenstein's point of departure is the problems of the American economy in the early 1980s, as they manifest themselves within some high-technology industries, for instance. The question is if the Americans could find other elements of political structures in the modern capitalist states that more successfully respond to the economic problems than does the American political and economic system. The answer to this question is that elements of policy and politics of the small European states 'provide a point of orientation that is both helpful and hopeful' (p. 191) to America and to other large industrialised states. Although the author in this way, in his conclusion, ties the analysis together, he does not really elaborate on this subject. It would, therefore, be mistaken to consider the book as just another prescription concerning economic policy and political structures in the large industrialised countries. The book is rather a systematic and historical analysis of the characteristics and development of democratic corporatism in small European countries.

The problem of the book is how countries and states respond to economic change, and the author offers a categorisation of three different forms of contemporary capitalism with different political responses: liberalism (USA and Britain), relying on macroeconomic policies and market solutions; statism (Japan and France), pursuing structural transformations of their economies;

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The problem of the book is how countries and states respond to economic change, and the author offers a categorisation of three different forms of contemporary capitalism with different political responses: liberalism (USA and Britain), relying on macroeconomic policies and market solutions; statism (Japan and France), pursuing structural transformations of their economies;

and corporatism (small European states), which can 'live with change by compensating for it' (p. 24). The essential characteristic of these small countries (Switzerland, the Netherlands, Belgium, Sweden, Denmark, Norway, and Austria) is that they cannot, as the liberal countries do, export the cost of economic change through the use of a variety of limited, ad hoc protectionist measures, neither can they, as do the statist countries, preempt the costs of change by pursuing the structural transformation of their economies. Instead, 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' (p. 24). In other words, and this is the main assertion of the book, the small European states 'adjust to economic change through a carefully calibrated balance of economic flexibility and political stability' (p. 29).

The political structure which forms the basis of this dual success of economic flexibility and political stability is characterised by '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' (p. 32), or, in short, 'democratic corporatism'. The 'strong' democratic corporatism of the small European states, in contrast to the 'weak' democratic corporatism of the large industrialised states, is formed by these countries' economic openness and dependence which has established a compelling need for consensus that via complex political arrangements has transformed conflict among the main social forces. But, even though the domestic structures of these countries have felt a greater impact of international factors (due to openness and vulnerability) than have the large industrial states, this has only induced convergence, whereas internal events have driven countries to different responses, in Peter J. Katzenstein's terminology, 'social' and 'liberal' corporatism.

The core of the argument sustaining the assertion that the small European countries represent a 'third' response to economic change is that these countries – avoiding policies of protection as well as of structural transformation – combine international liberalisation with domestic compensation, the result of which is flexible policies of adjustment concerning industrial development. By describing the characteristics of international liberalisation and pointing out the differences between small and large countries, the author argues that the pursuit of economic liberalism of small countries is rooted firmly in self interest concerning political autonomy and economic welfare which are best served 'by diffusing dependence in a wider market rather than concentrating it on particular states' (p. 44). And the same argument holds for the functioning of international organizations facilitating policy coordination between states.

The elements of domestic compensation, regarded as important to counter some of the harmful effects of international liberalisation, are employment and

investment support, incomes policies, the size of the public sector, and social welfare expenditure. Leaving these more general economic policies, the author addresses himself to industrial policy in a narrow sense. In this area, evidence is found for the suggestion that 'political intervention in the domestic economy in the interest of domestic compensation does not constrain international liberalization', but, on the contrary, is its necessary concomitant (p. 57). The approach of the small countries is less expensive and more flexible than what is typical for large industrial states; small countries pay more political attention to industrial policy as one way of pacing structural changes compared to the liberal industrial states, but that approach does not include any systematic and grandiose strategy of industrial redevelopment to be found in the statist countries. In short, political attention and continuity, ad hoc measures and improvisation, and specific interventions rather than nationalisations characterise the small industrial countries.

In chapter three, Peter J. Katzenstein's point of departure is size of country, not as a constant, but as a variable that together with other factors and through specific historical developments facilitates particular political outcomes. Country size affects economic openness and the political regime which, again, is affected by the economic openness and by the party systems of the small European states. There are, therefore, systematic differences between small and large countries with regard to economic openness, corporatist structures, and political party systems, as there are differences between Switzerland, the Netherlands, and Belgium (liberal corporatism) and Austria, Norway, and Denmark (social corporatism), Sweden combining elements from both types of corporatism.

Economic openness manifests itself through import dependence and export specialisation, again reflecting the disproportionate representation of traditional industries and light industries caused by the import of modern investment goods and export of traditional consumer goods. Democratic corporatism, which creates a relatively dull and predictable kind of politics, manifests itself through an ideology of social partnership – centralised and concentrated interest groups that form an integral part of a comprehensive bargaining system – and through a system of voluntary and informal coordination between conflicting objectives. The third element connected to size of country, the political party system, is proportional representation which is seen as a characteristic feature of the small European states. Proportional representation often leads to minority governments whereby a number of parties orient themselves towards influencing policy rather than accumulating patronage, that is, 'The party system of the small European states, compared to that of the 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' (p. 103).

The distinction between liberal and social corporatism is organised around

two pairs of contrasts, global vs. national adaptation and private vs. public compensation in the way that liberal corporatism combines global adaptation and private compensation, whereas social corporatism combines national adaptation and public compensation. The argument follows the two pairs of contrast, and it focuses, concerning the adaptation to economic change, in particular on research and development and liberalisation in the international economy, and on economic planning policies, regional development and job creation, and the social welfare system concerning the compensation for the effects of adaptation to change. The author is well aware that these two descriptive categories do not match the complexities of the real world; his point is that 'the political responses of the small European states vary systematically rather than randomly' (p. 123).

We should now ask the question why and how this system of democratic corporatism and its two variants has come about in a more genuine form only in the small European countries. That is the subject of chapter four, in which the argument is based on evidence of historical development. Briefly, the argument is that democratic corporatism dates back to the 1930s, where a previous 'electoral bargain' on proportional representation was supplemented by a particular functional system of interest group representation, the corporatist compromise. These two factors were, on their side, made possible by a weak and divided Right, which created conditions favourable to political compromise, and the previously mentioned export specialisation which created links between different economic and social sectors in the small states.

The corporatist compromise of the 1930s, which was to be fully developed in the 1940s, and the development of proportional representation, are described in their historical contexts. The most interesting notions are that the corporatist compromise did not follow a conscious programme or plan, but was more a result of social experimentation, and that the electoral compromise generated some kind of political predictability and enhanced the prospects for consensus. The explanation of the divided and weak Right goes back to the characteristics of (a weak) feudalism combined with the impact of economic openness on the strength of the urban sector, and these characteristics help to explain the emergence of a moderate Left in the small European states. Similarly, the explanation of the impact of export specialisation on economic and social linkages, which, no doubt, affected the structure of party systems, is founded on evidence of the early industrialisation and its relations between the urban and rural sectors. Concerning the divergencies between liberal and social corporatism, the character of labour and business of each group is explained by the divergent developments concerning the timing of industrialisation, international politics, and social structures of the countries.

Through this historical exposition of the development of democratic corporatism, which is, of course, given in broad outline only, the author is explicitly less concerned with proof than with improving the plausibility of the argument

through comparisons, either between the large countries and the small countries or between Switzerland and Austria as the two most different countries within the latter group. Indeed, in my opinion, this method of analysis does increase the plausibility of the argument concerning the differences between the small and large industrial countries just as it extends the number of political variations within the group of small countries. This method of historical argumentation is, in chapter four, supplemented with a comparison between Austria and the other small countries. And Austria is obviously an exception that proves the rule in the way that the historical characteristics leading to democratic corporatism in the 1930s do not manifest themselves in the Austrian development, and, as we know, the political and social results in Austria of the 1930s diverged dramatically from those of the other small countries. This basis for the post-war development may explain why Austria is the most social corporatist country.

A book of this kind has the merits of sweeping generalisations, provocative comparisons, and of combining existing evidence with new problems and approaches, whereas it does not really produce new data. It is a stimulating book which will no doubt achieve prominence with respect to the problems of corporatism, the relations between political stability and economic flexibility, and industrial policies. Another aspect of the book's stimulating impact on the reader is, however, that the design of the analysis again and again produces questions concerning method and reliability.

The choice of focus has the function, as its *raison d'être*, of structuring the data, of finding evidence for hypotheses, etc. Peter J. Katzenstein is very much aware of all the intra-group differences when he analyses the small countries, not just the differences between the liberal corporatist and the social corporatist countries, but also the manifold variations within the main group and the two sub-groups – and it would not be difficult to add to that list of differences. With another focus, for instance comparing Scandinavian industrial policies, many of these differences would look greater and be evidence of divergency instead of similarity. The main problem lies more in the fact, however, that when comparing small and large countries and the two groups of small countries, the analysis in several cases draws on evidence from only one or two of the countries. Such a method is, of course, a practical device in the presentation, but to me it strengthens the feeling that evidence which does not support the theses is not analysed in the same systematic way as the supporting evidence. Another aspect of the problem is that the analysis is structural only, which means that it is closed to changes over time within the countries, and that the documentation is scattered over quite a long period of time – for instance the years 1960 to 1983 which have witnessed remarkable changes of industrial policy in Sweden, to take one country.

I do fully sympathise with the type of analysis that relies more on verbal argumentation than on the use of more or less sophisticated and fancy statistical

measures; this is another merit of the book. Nevertheless, six out of eight tables of the book utilise the method of ranking the countries, and through these measures the author demonstrates the differences between the small and the large industrial countries and between the two groups of small countries. The variables used in such tables are always open to discussion. I do not, for instance, understand why the performance on investment is not included in table 8 (p. 194), just as I am not sure that the proportion of Catholics and Protestants is the only adequate way of measuring cultural heterogeneity, as it clearly excludes the Scandinavian countries (table 7, p. 180). But at least one interpretation of these measures is very problematic, namely the one that groups the Netherlands with Switzerland and Belgium instead of with the Scandinavian countries (table 7, col. 7). This interpretation would lead to a relative invalidation of the distinction between countries representing liberal and social corporatism, respectively. On the basis of this, I have more confidence in the distinction between small and large industrial countries than in the distinction between the small countries.

Although the analysis is carried through with an open eye to the complexities of the real world, it is also very consistent in its way of using the data. In two instances, however, there seem to be inconsistencies worth mentioning. The first concerns the integration of the economic sectors which is seen, at least partially, as a result of necessary export specialisation (pp. 165-67). However, it is also stated that import dependence and export orientation, i.e. economic specialisation, result in less integration of the different economic sectors than in the large industrial countries (p. 84). This does not really invalidate the analysis, but it creates a problem that needs further investigation. The second question is whether the assertion of flexibility of political strategy, which is a result of democratic corporatism (p. 133), is in accordance with the other consequence of democratic corporatism, namely political predictability (pp. 87 and 156). This contradiction is easily overestimated, but in my opinion the predictability of democratic corporatism evidently overrules its flexibility. And in the Danish context, and I think in the general Scandinavian context too, it would not be difficult to find examples of political inflexibility concerning the adjustment to economic change, especially when it comes to a more specific industrial adjustment. So perhaps Peter J. Katzenstein is exaggerating the small countries' success in combining economic adjustment with political stability.

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