NATIONAL IDENTITY AND THE VARIETIES OF CAPITALISM

A-INTRO.QXD 9/2/2005 12:42 PM Page 3

INTRODUCTION

The State of Denmark

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> "And let thine eye look like a friend on Denmark."
> *Hamlet*, Act 1, Scene 2

Denmark played a particularly important role in *The Competitive Advantage of Nations*, the 1990 bestseller by influential business analyst and international political economist Michael Porter. For Porter, as for Marcellus in Shakespeare's *Hamlet*, many things were held to be "rotten in the state of Denmark," and so he predicted Denmark's certain decline on account of its outdated political economy. However, to continue citing *Hamlet*, for those of us who "look like a friend on Denmark," this prediction, if not some of Porter's particular complaints, seemed almost surely to be wrong. Indeed, subsequent events have shown that Denmark has actually performed much better than he predicted, even as this small country has had to cope since he wrote his book with a more politically and economically integrated international environment. This volume explains why Denmark has turned out to be so successful.

However, this book is about much more than just Denmark. By examining the Danish case in considerable detail, it raises serious questions and offers several insights into important literatures in comparative political economy. First, it addresses the literature on small states and the corporatist arrangements that enable these states to survive and flourish economically in an increasingly open and internationally competitive economic environment (e.g., Cameron 1979; Garrett 1998; Katzenstein 1984, 1985). It argues that our understanding of the institutional capacities by which small corporatist states compete successfully in international markets needs to be revised and updated in light of the resurgence of economic globalization during the late twentieth century.[1] It also shows that the historical forces that give rise to these capacities are more complicated than previously understood. In brief, the Danish case illustrates how the perception of national vulnerability, particularly geopolitical vulnerability, can have an enormous long-term effect in shaping national identity, the assessment of national interest, and the institutional capacities for negotiation and learning that facilitate international economic competitiveness. Finally, whereas some scholars have argued that small-state corporatism is dying as a result of the increased pressures of recent economic globalization and the international diffusion of neo-liberal ideology (Schwartz 1994), the Danish case reveals something quite different. Danish corporatism has evolved in ways that actually improve its capacities for coping successfully with the pressures of economic globalization today by enabling decision makers to respond more flexibly to these pressures. In contributing to an understanding of these adaptive measures, this book supports those who argue that reports of the death of corporatism are greatly exaggerated (Molina and Rhodes 2002).

Second, this book sheds new light on the literature of the so-called varieties of capitalism (Albert 1993; Hall and Soskice 2001a; Hollingsworth and Boyer 1997). On the one hand, the Danish case reveals that one cannot fully understand the development and competitive success of a nation's institutional capacities without paying close attention to the formation and persistence of deep-seated national identities – that is, culture – as well as the more formal institutional arrangements that tend to receive the bulk of attention in the varieties-of-capitalism literature. However, this should not be received as an indication that we have taken a cultural turn in political economy so extreme as to reject as irrelevant the political and economic factors that others have argued are important ingredients of national success. On the other hand, whereas the varieties of capitalism literature tends to focus on two diametrically opposed ideal types of capitalism – liberal and coordinated market economies – the Danish case illustrates how competitive success nowadays may actually be enhanced by *blending* important elements of each type. In other words, in the Danish case it is the *hybrid* nature of its institutions – political, economic, and cultural – that has given it its distinct competitive advantage. In this regard, we call for a more nuanced look at the organization of national political economies than that provided by the liberal/coordinated dichotomy. But we also argue for the rejuvenation of the sorts of insights into political economy that were once offered by such luminaries as Max Weber, Emile Durkheim, Alexander Gerschenkron, Karl Polanyi, and others, who argued that in order to really explain a nation's political economic performance one must understand its history as well as its political, economic, and cultural institutions.

We should note at the outset that the title of this Introduction, "The State of Denmark," and in particular the word "state" within it, carries two meanings. On the one hand, by state we mean the recent *condition* of the Danish political economy since about 1985, which, as we shall argue, has been particularly impressive. On the other hand, in assessing this condition we focus in part on the Danish *nation-state*, its particular form, and how it contributed to the country's recent success. This is one reason why our arguments bear directly on important issues in comparative political economy and state theory more generally.

That said, however, we do not mean to suggest that the Danish state was solely responsible for Denmark's success. Nor do we mean to endorse any sort of statist view favouring political commands from above, indicative planning, or the like. Very much to the contrary, we accept what seems to be the dominant contemporary view in state theory and political sociology, which stresses that state strength results from the politics of reciprocal consent; that is, from a political centre serving as a coordinator for a civil society that trusts it to act in the general interest. Following Richard Samuels (1987, 2), we maintain that negotiation and compact are at the heart of state-economy relations in situations marked by the politics of reciprocal consent. But we also believe that cultural factors such as a strong sense of national identity developed over centuries contribute to the capacity for such negotiation. In fact, what is important, as we shall see, is that the state enjoyed a prolonged symbiotic relationship with other social actors in civil society and that the bargaining and negotiation that transpired over the years between the state and civil society played a crucial role in facilitating Denmark's recent success.

One might wonder how a volume that focuses on a single case – Denmark, that is – could be used to generate insights about two literatures in comparative political economy. What is the justification for such an analytical move? Certainly, studies based on a small number of cases, let alone a single case, are hobbled insofar as they seek to generalize to other cases (Lieberson 1992). But this does not mean they are useless. First, cases may be inherently *interesting* on their own terms. We find Denmark to be such a case, not least because it has performed so well during the 1990s and the early twenty-first century. It is also a much neglected case in the comparative political economy literature where an understanding of Scandinavia is largely based on the Swedish case.[2] Second, our approach to this case is in large part *historical*. Indeed, by including contributions in this volume that take the long historical view of the development of Danish political, economic, and cultural institutions, we hope to shed light on how the more proximate factors that affected this particular small state's success came into being in the first place. Third, the fact that we have also included contributions on decision making in several different areas of the Danish political economy affords us a set of *comparisons within the Danish case* that can help us address the issues raised above. Following these last two points, we propose that by studying this case in detail we may in effect offer a rough *empirical examination of theories* that seek to explain political economic success, notably Peter Katzenstein's (1985, 2003) theory of small states and Peter Hall and David Soskice's (2001b) theory of varieties of capitalism. Finally, although studying a single national case may not provide the basis for analytic prediction, it has proven to be an important tool for understanding the *processes and mechanisms* that affect various outcomes – something that quantitative studies based on larger numbers of cases often fail to do satisfactorily.[3] Scholars of corporatism have recently lamented the fact that too much attention has been paid to the structure and outcomes of corporatism, and not enough to conceptualizing the process of corporatism (Molina and Rhodes 2002; see also Katzenstein 2003; Smith 1992, 10). For all of these reasons, we believe that focusing on the single case of Denmark is useful and important.

This Introduction proceeds as follows. We begin by showing how successful Denmark has been since the mid-1980s on a number of socioeconomic indicators compared to other advanced capitalist societies. We continue by reviewing the two overarching theoretical literatures that inform this volume: the literature on small states and corporatism and the literature on the varieties of capitalism. Our intention here is to raise a set of important theoretical issues in comparative political economy for which the Danish case is particularly instructive. Third, we offer an explanation for how Denmark managed to achieve such success. This section previews many of the arguments developed in subsequent chapters of the book. We pay particular attention to distant historical legacies of success, including the development of a strong national identity; the more proximate conditions of success, such as the institutionalization of corporatist bargaining; and the capacity for policy learning and flexibility that contributed most directly to Denmark's success. We also discuss briefly some of the challenges that lie ahead for the Danish political economy. We finish by drawing lessons from our analysis which shed light on some of the most important claims made in the literatures on small states, corporatism, and the varieties of capitalism.

DENMARK'S SUCCESS

Before turning to the evidence in support of our claim that Denmark has been considerably more successful than Porter anticipated, a little background on the extent to which the world has become more integrated since the mid-1980s will be helpful. To begin with, the Communist regimes in Eastern and Central Europe and the Soviet Union collapsed. This led eventually to the unification of Germany and movement toward membership in the European Union (EU) for a number of postcommunist countries, not to mention membership in NATO, the OECD, and other international organizations. The end of the Cold War also led to the increasing economic integration of these countries with the capitalist world. Moreover, the European Union project gathered momentum as its member states embraced harmonization, adopted an increasing number of EU directives, approved the Maastricht Treaty, and eventually introduced a single European currency. North and South America lowered trade barriers by adopting the North American Free Trade Agreement and Mercosur, respectively. Reflecting these and other changes, world trade, foreign direct investment, international portfolio investment, and international currency transactions all increased sharply in the late twentieth and early twenty-first centuries, with much of the increase occurring in the so-called triad region of Western Europe, North America, and Japan (Campbell 2003).

As for Denmark itself, although this country has long been integrated into the international political economy, its level of integration has increased significantly since the mid-1980s. Table 1 shows that between 1989 and 1999 Danish trade in goods rose from about 58 percent to 68 percent of GDP (a growth rate of about 1.7 % annually) and was substantially larger than average for 22 advanced capitalist countries, members of the European Monetary Union (EMU), and the high-income countries in the world. Furthermore, Danish gross foreign direct investment increased from about 3 percent to 13 percent of GDP, levels that were again generally larger than the average for this group of countries, the EMU, and the high income countries of the world.[4] Finally, the flow of Danish gross private capital into and out of the country jumped from about 17 percent to 25 percent of GDP.[5] Thus, in many respects Denmark has either kept pace with or exceeded the average levels of international economic integration experienced by the other advanced capitalist countries. And even though Denmark voted "no" by referendum on the Maastricht Treaty and, more recently, on the adoption of the European common currency, it has become increasingly involved in politics, policy making, and institution building at the level of the European Union (Jacobsson et al. 2003). But how successful has Denmark been in navigating through these increasingly integrated international political economic waters?

Defining success is not always straightforward. First, what we take to be important indicators of success may not be those that other people would emphasize. But many of our indicators are those that have been central to debates about political economic success as defined in the literatures on small states, corporatism, and the varieties of capitalism with which this book is concerned. We will return to this point later.

Success also ebbs and flows. Denmark has not always been as successful as it has been during the last decade or so. For instance, its ranking among the advanced industrial countries in terms of growth rates (measured by

Table 1 Trade and Capital Flows

	Trade in Goods (% of PPP GDP)[a]		*Growth in Real Trade Less Growth in Real GDP (%)*	*Gross Private Capital Flows (% of PPP GDP)*[a]		*Gross Foreign Direct Investment (% of PPP GDP)*[a]	
	1989	*1999*	*1989–99*	*1989*	*1999*	*1989*	*1999*
Australia	28.2	26.9	4.0	13.9	13.2	4.5	2.9
Austria	50.8	65.1	3.4	9.3	42.5	1.0	3.0
Belgium	—	129.6	2.7	—	—	—	—
Canada	43.5	57.3	5.7	7.8	15.1	2.4	6.0
Denmark	**58.3**	**67.8**	**1.7**	**16.6**	**25.4**	**3.2**	**13.3**
Finland	54.2	61.3	5.2	16.7	49.4	4.2	14.3
France	37.6	44.0	3.8	19.1	29.2	3.0	10.9
Germany	51.9	52.0	3.0	10.4	36.0	1.8	7.8
Greece	20.7	25.5	3.4	1.9	7.7	0.7	0.7
Ireland	92.1	120.0	7.0	24.3	179.3	0.2	25.2
Italy	30.5	35.0	4.0	9.0	27.0	0.4	1.2
Japan	20.8	23.2		11.1	30.9	2.0	1.2
Luxembourg	—	—	—	—	—	—	—
Netherlands	85.4	101.4	2.4	33.6	81.3	9.4	20.3
New Zealand	35.8	36.7	3.2	13.3	19.8	7.1	12.0
Norway	62.7	62.2	1.7	15.0	32.8	3.6	7.3
Portugal	29.9	38.9	4.1	5.7	27.0	1.7	3.2
Spain	24.2	35.8	7.2	5.1	28.2	2.1	6.4
Sweden	66.1	76.5	4.9	34.3	86.2	8.0	39.4
Switzerland	70.9	82.7	2.2	34.4	139.2	8.7	22.9
United Kingdom	36.8	44.8	3.6	37.6	66.1	7.4	23.0
United States	14.9	19.8	5.2	7.4	13.6	2.5	5.2
Average	**45.8**	**57.5**	**3.9**	**16.3**	**47.5**	**3.7**	**11.3**
EMU average	**38.7**	**52.7**	—	**14.0**	**37.1**	**2.4**	**7.8**
High income country average	**28.5**	**37.4**	—	**12.7**	**29.2**	**2.9**	**7.2**

[a]GDP is measured in purchasing power parity in order to adjust for differences in domestic prices.

Source: World Bank. 2001. *World Bank Development Indicators*. Washington, D.C.: World Bank, Table 6.1.

GDP per capita) rose after World War II, declined between 1973 and 1990, and then rose again after that (Smith 2004). Nevertheless, as we will show, during the 1990s and the early years of the twenty-first century, Denmark has outperformed most of the advanced capitalist economies in this and many other ways.

Third, success comprises a number of dimensions that need to be taken into consideration. These include indicators of *socio*economic – not just economic – well-being. In other words, success is best measured by means of a bundle of indicators each representing an important dimension of success. This is especially important because what scholars in the comparative political economy tradition deem to be the most important dimensions may shift over time. During the late 1970s and early 1980s, success for national political economies was typically defined as the ability to manage the twin evils of economic stagnation and inflation, phenomena whose control was said by many to require wage and price restraint as well as elaborate welfare state policies (e.g., Goldthorpe 1984; Lindberg and Maier 1985). More recently, as globalization has emerged as an important concern among policy makers and business leaders, success has been defined more broadly in terms of the ability of countries to maintain international competitiveness in the face of increasingly volatile markets and a more open international economy; to effectively manage their budgets and minimize deficits; to sustain high standards of living for the citizenry; and to reduce poverty (Albert 1993; Hall and Soskice 2001a; Hollingsworth and Boyer 1997). So, in order to determine how successful Denmark has been since the mid-1980s, we need to examine a variety of relevant indicators. But, the evidence we will present is clear. Denmark has done rather well during this period in terms of the indicators held dear within the comparative political economy literature.

Finally, while the preceding discussion and much of what follows emphasizes Denmark's relatively short-term success, as measured over a few decades, it is important not to lose sight of some much more basic long-term indicators of success. Not the least of these is the fact that Denmark has managed to survive as a nation-state for several hundred years, during which time it has managed to accumulate great wealth. This is not for lack of internal political turmoil or external economic and geopolitical threats. Indeed, Denmark lost a succession of wars – and with them territory – over the last few centuries, experienced civil war (1848–50), had to contend with a rising labour movement during the late nineteenth and early twentieth centuries, faced the trials and tribulations of the Great Depression during the 1930s, withstood Nazi occupation during World War II, and successfully confronted the challenges of stagflation during the 1970s and globalization since then. Of course, Denmark's ability to survive depended at critical moments upon assistance from more powerful allies; Britain, for example, who, at the end of World War II, insisted that Denmark not be incorporated into Stalin's Soviet Union. But the same cannot be said for several other European states, which have come and gone as a result of war and the subsequent redefinition of national borders. For example, Catalonia was absorbed by Spain. Ireland, Poland, and the Baltic states were also absorbed by more powerful neighbours at one time or another, but subsequently regained their independence. In other words, Denmark, unlike some other countries, has managed to adapt quite successfully to a variety of challenges throughout its long history. Understanding how

Table 2 Central Government Revenues

	Government Revenues (% GDP)		*Government Expenditures (% GDP)*		*Budget Deficit (% GDP)*		*Debt (% GDP)*	*Interest (% current revenue)*
	1990	*1998*	*1990*	*1998*	*1990*	*1998*	*1998*	*1998*
Australia	24.9	23.6	23.3	23.7	2.0	2.8	16.8	6.1
Austria	33.9	37.5	37.5	40.5	-4.4		60.2	9.3
Belgium	42.6	43.7	47.7	45.7	-5.5	-1.8	114.6	16.7
Canada	21.6	21.8	26.2	21.5	-4.8	0.4	75.1	16.7
Denmark	**37.8**	**38.5**	**39.0**	**37.3**	**-0.7**	**1.7**	**64.0**	**12.2**
Finland	30.6	31.9	30.3	33.4	0.2	-0.3	61.0	14.3
France	39.7	41.4	41.8	46.2	-2.1	-3.5	—	7.4
Germany	27.5	31.3	29.3	32.6	-2.1	-0.9	38.6	7.3
Greece	27.5	23.5	51.7	30.8	-22.7	-4.4	113.1	38.4
Ireland	33.6	31.9	37.7	33.0	-2.4	0.7	—	13.3
Italy	38.2	40.6	47.4	43.8	-10.2	-3.1	—	18.1
Japan	14.4	—	15.7	—	-1.6	—	—	—
Luxembourg	—	—	—	—	—	—	—	—
Netherlands	45.0	44.1	49.5	45.9	-4.3	-1.6	55.6	9.5
New Zealand	42.6	34.1	44.0	33.4	4.0	0.5	38.7	7.1
Norway	42.4	41.8	41.3	37.2	0.5	-1.6	19.9	4.1
Portugal	31.6	34.7	37.9	39.0	-4.4	-1.2	0.8	8.4
Spain	29.1	28.8	32.4	32.9	-3.1	-2.9	55.6	14.1
Sweden	42.6	38.2	39.4	41.6	1.0	-0.5	15.7	
Switzerland	20.8	24.8	23.3	28.3	-0.9	0.5	28.8	3.7
United Kingdom	36.1	37.2	37.5	36.9	0.6	0.6	49.8	8.8
United States	18.9	20.7	22.7	19.9	-3.8	0.8	42.8	14.1
Average	**32.4**	**33.5**	**36.0**	**35.2**	**-3.1**	**-0.7**	**52.2**	**12.3**
EMU average	**34.7**	**37.1**	**38.6**	**40.0**	**-3.7**	**-2.3**	**57.9**	**11.8**
High income country average	**23.9**	**28.7**	**27.0**	**30.2**	**-3.0**	**-1.1**	**49.2**	**8.6**

Source: World Bank. 2001. *World Development Indicators*. Washington, D.C.: World Bank, Table 4.11.

Denmark has managed to remain so adaptable for such a long time is another lesson this volume offers and, we shall argue, is an important key to its more recent success.

Let us turn now to the more immediate indicators of Danish success to see how well this nation has done in recent years. Insofar as central government finances are concerned, table 2 indicates that while the Danish government collected and spent more revenue than the average advanced capitalist country, it was much better at avoiding serious budget deficits. Indeed, in 1998 Denmark was running a budget *surplus* of 1.7 percent of

Table 3 Unemployment Rates (% labour force)

	Average Unemployment Rate		
	1986–90	*1991–95*	*1996–2000*
Australia	7.1	9.6	7.5
Austria	4.1	5.0	5.4
Belgium	8.5	8.3	8.7
Canada	8.4	10.5	8.3
Denmark	**5.9**	**8.1**	**5.1**
Finland	4.3	13.4	11.8
France	9.8	11.0	11.1
Germany	5.5	6.9	8.3
Greece	7.4	9.1	10.8
Ireland	15.5	14.4	7.9
Italy	10.0	10.1	11.5
Japan	2.5	2.6	4.1
Luxembourg	1.5	2.2	3.1
Netherlands	7.4	6.4	4.4
New Zealand	5.7	8.9	6.6
Norway	3.5	5.5	3.7
Portugal	6.4	5.6	5.5
Spain	14.1	15.6	14.6
Sweden	1.9	6.4	6.6
Switzerland	0.7	3.4	3.7
United Kingdom	8.3	9.3	6.4
United States	5.9	6.6	4.6
Average	**6.6**	**8.1**	**7.3**
OECD average	**6.3**	**7.1**	**6.7**

Source: OECD. 2002. *OECD Economic Outlook, No 72.* Statistical Annex, Table 14.

GDP while on average these other countries were running *deficits*. The fiscal downside was that it endured higher than average levels of debt and interest payments, which had been incurred during previous periods marked by less budgetary restraint. Nevertheless, this has not apparently hurt Denmark's economic performance, which has recently been impressive. Table 3 reveals that during the early 1990s the Danish unemployment rate averaged 8.1 percent of the labour force, the same as the average for twenty-two advanced capitalist countries and a point higher than the OECD average. However, the Danish unemployment rate dropped to 5.1 percent during the second half of the decade – a substantial improvement over both groups of countries. Moreover, the average duration of unemployment in Denmark was the shortest of all the EU countries except for Norway (Danish Council of Social Welfare 2002, 46, 53). Additionally,

Table 4 Labour Productivity in the Business Sector

	Average Annual Change in Percent			
	1975–85	*1986–90*	*1991–95*	*1996–2000*
Australia	1.9	0.2	2.1	2.5
Austria	2.7	2.9	2.2	2.6
Belgium	2.9	2.3	1.6	1.7
Canada	1.0	0.5	1.5	1.8
Denmark	**2.3**	**0.6**	**3.0**	**2.3**
Finland	2.9	3.7	4.2	3.0
France	2.7	2.7	1.5	1.4
Germany	2.0	1.3	2.2	1.1
Greece	1.1	0.6	0.8	3.2
Ireland	3.8	4.5	3.0	4.3
Italy	2.4	2.4	2.4	1.0
Japan	2.8	3.6	0.7	1.4
Luxembourg	—	—	1.3	2.8
Netherlands	2.2	1.1	1.4	1.1
New Zealand	0.7	1.6	0.3	1.4
Norway	2.1	0.3	3.0	1.1
Portugal	2.2	4.3	1.3	2.5
Spain	3.3	1.0	2.2	0.8
Sweden	1.5	1.6	3.6	2.2
Switzerland	0.9	-0.2	0.0	1.3
United Kingdom	2.5	1.1	2.1	1.1
United States	1.2	1.1	1.3	2.2
Average	**2.1**	**1.8**	**1.9**	**1.9**
OECD average	**2.0**	**1.8**	**1.6**	**1.9**

Source: OECD. 2002. *OECD Economic Outlook, No 72.* Statistical Annex, Table 13.

table 4 shows that labour productivity grew faster on average during the 1990s in Denmark than in either the group of twenty-two countries or the OECD.[6] Table 5 demonstrates that inflation in Denmark remained rather stable at about 2 percent during the 1990s. However, as table 6 suggests, one area where Denmark has not performed as well as either the twenty-two-country average or the OECD average is economic growth, although the shortfall in the Danish growth rate compared to these other countries was not more than about 1 percent during the 1990s. On balance, then, Denmark's recent economic performance has been quite admirable. Indeed, on the basis of a comprehensive survey of thousands of leading business executives and entrepreneurs from around the world, as well as a wide range of political and economic indicators for 102 countries, the World Economic Forum recently ranked Denmark the fourth most com-

Table 5 Inflation Rates

	Average Percentage Change in Consumer Price Index			
	1975–85	*1986–90*	*1991–95*	*1996–2000*
Australia	9.4	7.9	2.5	1.9
Austria	5.0	2.2	2.8	1.2
Belgium	6.7	2.1	2.5	1.6
Canada	8.1	4.5	2.3	1.7
Denmark	**9.2**	**3.9**	**2.0**	**2.3**
Finland	9.4	5.0	2.6	1.6
France	10.1	3.1	2.3	1.3
Germany	3.9	1.4	3.6	1.2
Greece	18.4	17.4	13.9	4.6
Ireland	13.2	3.3	2.5	2.7
Italy	15.0	5.7	5.1	2.4
Japan	4.7	1.4	1.4	0.3
Luxembourg	6.7	1.7	2.8	1.7
Netherlands	5.1	0.7	2.3	1.9
New Zealand	13.4	9.4	2.1	1.4
Norway	8.7	6.3	2.4	2.3
Portugal	23.3	11.4	7.0	2.4
Spain	15.4	6.5	5.2	2.6
Sweden	9.7	6.2	4.2	0.5
Switzerland	3.3	2.5	3.2	0.7
United Kingdom	10.6	5.2	3.9	2.5
United States	7.2	4.0	3.1	2.5
Average	**9.8**	**5.1**	**3.6**	**1.9**
OECD average	**12.5**	**10.2**	**7.8**	**6.2**

Source: OECD. 2002. *OECD Economic Outlook, No 72.* Statistical Annex, Table 19.

petitive economy in the world, surpassed only by Finland, the United States, and Sweden (World Economic Forum 2003).

It is also important to note that Denmark's economic achievement has translated into an exceptionally high standard of living for the Danish population. Table 7 shows that during the 1990s GDP per capita increased from $18,463 to $22,123 in Denmark, third best in 1998 among the 22 advanced capitalist countries. And despite rising incomes during the late 1980s and early 1990s, inflation was low and Denmark remained one of the world's most egalitarian societies. Although income inequality increased slightly during the 1990s, table 8 shows that in 1997 Denmark had a Gini coefficient of 0.21 – the lowest in the European Union.[7] Given the relatively egalitarian distribution of income as well as a very high level of government transfer payments, it should not be surprising that the Danish poverty rate was also

Table 6 Economic Growth

	Average Percentage Change in Real GDP			
	1975–85	*1986–90*	*1991–95*	*1996–2000*
Australia	3.0	3.4	2.8	4.1
Austria	2.4	3.2	2.1	2.6
Belgium	2.1	3.1	1.6	2.7
Canada	3.2	2.9	1.7	4.0
Denmark	**2.6**	**1.2**	**2.0**	**2.7**
Finland	2.9	3.3	-0.6	5.2
France	2.3	3.2	1.0	2.8
Germany	2.2	3.5	2.1	1.8
Greece	2.1	1.3	1.3	3.4
Ireland	3.5	4.7	4.7	9.9
Italy	3.0	2.9	1.3	1.9
Japan	3.8	4.9	1.4	1.5
Luxembourg	2.4	7.5	4.0	6.8
Netherlands	1.9	3.1	2.1	3.7
New Zealand	1.7	1.0	2.7	3.0
Norway	4.0	1.7	3.7	3.1
Portugal	3.0	5.7	1.7	3.9
Spain	1.6	4.5	1.5	3.8
Sweden	1.6	2.5	0.6	3.0
Switzerland	1.6	2.7	-0.1	1.8
United Kingdom	1.9	3.3	1.8	2.9
United States	3.4	3.3	2.4	4.0
Average	**2.6**	**3.3**	**1.9**	**3.6**
OECD average	**3.2**	**3.6**	**2.1**	**3.2**

Source: OECD. 2002. *OECD Economic Outlook, No 72.* Statistical Annex, Table 1.

very low by West European standards. During the mid- to late 1990s, only about 4 percent of the Danish population lived at or below the poverty line, measured in traditional fashion as 50 percent or less of the median national household income. This was among the lowest levels of poverty in the European Union and well below the EU average of about 12 percent. Finally, the level of social trust toward fellow citizens and public confidence in representative democratic institutions in Denmark, as in the other Scandinavian countries, was among the highest and most stable in the world (Katzenstein 2000; Zak and Knack 2001, 306). In fact, the World Economic Forum's (2003) study ranked Denmark first over all in the quality of its public institutions – an index that included, among other things, measures of political corruption, favoritism in political decision making, judicial independence, enforceability of contracts, and quality of property rights.

Table 7 GDP Per Capita (1990 dollars)

	1973	*1990*	*1998*
Australia	12,759	17,043	20,390
Austria	11,235	16,881	18,905
Belgium	13,945	17,194	19,442
Canada	13,838	18,933	20,559
Denmark	**13,945**	**18,463**	**22,123**
Finland	11,085	16,868	18,324
France	13,123	18,093	19,558
Germany	11,966	15,932	17,799
Greece	7,655	9,984	11,268
Ireland	6,867	11,825	18,183
Italy	10,643	16,320	17,759
Japan	—	—	—
Luxembourg	—	—	—
Netherlands	13,082	17,267	20,224
New Zealand	12,513	13,825	14,779
Norway	11,246	18,470	23,660
Portugal	7,343	10,852	12,929
Spain	8,739	12,210	14,227
Sweden	13,493	17,680	18,685
Switzerland	18,204	21,616	21,367
United Kingdom	12,022	16,411	18,714
United States	16,689	23,214	27,331
Average	**12,020**	**16,454**	**18,811**

Source: Angus Maddison. 2001. *The World Economy: A Millennial Perspective.* Paris: OECD, Table A1-c.

Now, we do not mean to be naïve. We recognize that Denmark has not surpassed its competitors in all areas. It is not a perfect society. We have already acknowledged that in comparison to other advanced capitalist countries it has incurred higher levels of debt and interest payments, somewhat lower although still respectable rates of economic growth, and higher levels of unemployment, at least during the early 1990s. Moreover, Denmark has registered what to some of us may be surprisingly high levels of social unrest, at least judging by the number of working days lost per 1,000 employees each year as a result of labour disputes. Although the average number of days lost in Denmark was well below the EU average during the first half of the 1990s, it soared during the second half of the decade, easily surpassing all of the other EU countries. Indeed, between 1996 and 2000, the average number of work days lost in Denmark was slightly more than six times greater than the EU average (Monger 2003, 20).[8] And Denmark's average life expectancy rate and, by some measures, its average level of education lag those of other European countries. Thus,

Table 8 Income Inequality and Poverty

	Gini Coefficient		*Poverty Rate*[a] *(% all households)*	
	1995	*1997*	*1995*	*1997*
Austria	0.28	0.25	7	8
Belgium	0.37	0.34	10	10
Denmark	**0.22**	**0.21**	**4**	**4**
Finland	—	0.23	—	3
France	0.30	0.30	9	11
Germany	0.31	0.29	11	8
Greece	0.35	0.35	16	16
Ireland	0.34	0.33	8	10
Italy	0.33	0.32	13	13
Luxembourg	0.29	—	—	—
Netherlands	0.29	0.28	7	9
Portugal	0.38	0.38	17	15
Spain	0.34	0.35	12	13
Sweden	—	0.23	—	7
United Kingdom	0.34	0.34	13	16
EU mean	**0.32**	**0.31**	**11**	**12**

[a]The poverty rate is expressed as the percentage of households with disposable income 50 percent under the median disposable income for that country.

Source: Danish Council of Social Welfare and Center for Alternative Social Analysis. 2002. *Social Trends: Social Policy in Denmark in a European Perspective*. Copenhagen: Socialpolitisk Forlag, 30, 35.

to reiterate a point made earlier about indicators of success, we recognize that the way success is defined and measured and what sorts of data are appropriate for determining how successful Denmark remain important issues that may be subject to debate. Nonetheless, we still believe that Denmark's performance during the 1990s is impressive compared to that of most other advanced industrial countries – at least in terms of the criteria deemed important in the comparative political economy literature. So for us there is much to be admired in and learned from the Danish experience.

While it is hard to underestimate the pleasure of having been proven right, the purpose of this volume goes well beyond correcting Porter's error with obvious empirical findings about the state of Denmark – understood first as the socioeconomic condition of this particular Nordic country. Most immediately, we seek to explain why Denmark was able to surmount the problems it faced in the 1980s and ask why that period of difficulty did not lead to something even worse. This will lead us to analyse the Danish case as a political and cultural as well as economic system whose strengths and comparative advantages can only be fully understood in an historical light.

THE OVERARCHING THEORETICAL ISSUES

This volume has its being within two sets of literature. The first is that offered by scholars studying small states and corporatism. This work is represented most famously by Peter Katzenstein's classic book, *Small States in World Markets*, which was published in 1985. The second is the more recent literature on the varieties of capitalism, which modifies and extends some of the work on small states and corporatism. It is represented perhaps most succinctly by Peter Hall and David Soskice's edited volume, *Varieties of Capitalism*, which appeared in 2001. It is worth reviewing briefly the central arguments in both of these works insofar as they bear on the Danish experience. Indeed, as we shall see, the Danish experience has important lessons for both sets of arguments. Suffice to say, however, that since both sets of arguments are complex and sophisticated, our review will cover only the most relevant points for Denmark's recent success.

Small States and Corporatism

Katzenstein held that the size of states mattered a great deal in terms of political and economic behaviour. Roughly speaking, large states could hope to bend the rules of the game so as to suit themselves. In contrast, smaller states had no option but to swim within larger seas, whose rules they could hardly influence. Hence, state size was defined in terms of the amount of territory a state controlled as well as by the state's ability to control the international political economic system and especially international trade (Katzenstein 1985, 21–2). However, there was more to it than this. Katzenstein's (2003) latest reflections on the book spell out what was involved in a slightly different way: "Small size was a code for something more important. I learned from my interviews, readings and reflection that it was concealing an underlying and politically consequential causal connection. What really mattered politically was the *perception of vulnerability*, economic and otherwise" [our emphasis]. Minds were concentrated and conflicts diminished by this brute, Darwinian condition. Cooperate or else!

Furthermore, Katzenstein argued, the ability of leaders to meet and draw upon these perceptions of vulnerability facilitated *flexible adjustment* to various challenges that, in turn, paved the way for successful economic performance. Why? The reason was that small size generated a unique capacity for leaders in small states to engage in *policy learning*. According to

Katzenstein (2003): "Small size favors debate and learning, and economic openness and international vulnerability mean control over fewer resources and the probability of greater loss. Hence, the environmental conditions in which small states operate are particularly conducive for high learning."

But what are the capacities for high learning and flexible adjustment that small states possess? For Katzenstein (1985, chap. 1), they consist of a set of institutions known as *democratic corporatism.* In brief, this involves three things: an ideology of social partnership expressed at the national level; a centralized and concentrated system of interest groups; and voluntary and informal coordination of conflicting objectives through continuous political bargaining among interest groups, state bureaucracies, and political parties.[9] The classic example is national-level collective wage bargaining between labour and peak business associations – that is, trade union confederations and national employers' associations – as organized and moderated by the state. Through the institutions of corporatism, he argued, small states pursue a twin strategy. First, they accept international liberalism (e.g., economic openness and low tariffs) in the belief that to do otherwise would trigger retaliation from larger states in the form of trade barriers to small state exports and higher prices for small state imports, both of which would undermine the international competitiveness of small states. Second, they adopt policies of domestic compensation, which means the development of generous welfare programs (e.g., transfer payments, manpower policies, incomes policies, reserve investment funds, etc.) to buffer their populations from the potentially harmful effects of international liberalization.[10]

The Varieties of Capitalism

The literature on the varieties of capitalism, as described by Hall and Soskice (2001b), seeks in several ways to move beyond the corporatist literature that Katzenstein's work typifies. First, it emphasizes the importance of the role of trade unions, business associations, and the bargaining that transpires between them, as Katzenstein did; but it also underscores the role of *firms* per se and the relationships among firms in the coordination of the economy. In this sense, the approach is explicitly firm-centred and regards firms as the crucial actors in capitalist economies.

In addition, this literature focuses largely on the *strategic interactions* that are central to the behaviour of economic actors, and the way these interactions are conditioned by a variety of proximate institutional factors. In doing so, it relies on rational choice, game theory, and other analytic approaches that emphasize strategic decision making. And it attempts to understand how strategic interactions in different institutional contexts deal with a variety of coordination problems (e.g., industrial relations, vocational training, corporate governance, inter-firm relations, and employer-employee relationships).

Third, it distinguishes between two basic *types of capitalism* – liberal and coordinated market economies. Liberal market economies (LMEs) coordinate their activities primarily through markets and corporate hierarchies, where actors respond to price signals and make strategic decisions accordingly. Coordinated market economies (CMEs) coordinate their activities more through non-market relationships, such as informal networks and other collaborative arrangements. According to Hall and Soskice: "In contrast to liberal market economies, where the equilibrium outcomes of firm behavior are usually given by demand and supply conditions in competitive markets, the equilibria on which firms coordinate in coordinated market economies are more often the result of strategic interaction among firms and other actors" (8). In other words, different institutional arrangements lead to different *equilibrium outcomes* – that is, different yet stable patterns of investment, production, innovation, and the like.

Further, much like Katzenstein, Hall and Soskice stress the importance of institutions in CMEs that provide capacities for deliberation and discussion to help actors reach collective agreements with each other. *Deliberative institutions* are important, they suggest, because they facilitate the sharing of information about interests and beliefs that then boosts everyone's confidence in the actions of the others. That is, information sharing facilitates trust, in part by helping actors strategically to determine the risks and gains involved in cooperation and resolve the related distributional issues. Deliberation also enhances the capacity of actors to cope with new or unfamiliar challenges by enabling them to develop common diagnoses of situations and agree to a collective response.

A fifth factor that Hall and Soskice attend to, in addition to acknowledging the formal institutions typically emphasized in much of the literature in comparative political economy, is the role of informal *cultural institutions.* By cultural institutions they mean informal rules and understandings that help actors coordinate their behaviour. These are important, they maintain, because "in many instances, what leads the actors to a specific equilibrium is a set of shared understandings about what other actors are likely to do, often rooted in a sense of what it is appropriate to do in such circumstances" (13). In this sense, history matters. On the one hand, such shared understandings provide the foundation for the establishment of formal institutions. On the other hand, repeated historical experience forges a set of common expectations that enable actors to coordinate their activities with each other. Although it is not entirely clear, given that Hall and Soskice's approach is influenced by rational choice and game theory, what they seem to mean by historical experience is the expectation about another actor's behaviour that can be assumed, given that actor's performance in prior strategic interactions.

Finally, the varieties-of-capitalism literature argues that different types of political economies each possess different institutional capacities for coping with market challenges and for competing effectively in an increasingly global economy. In other words, both LMEs and CMEs have what Hall and Soskice (36–44) refer to as *comparative institutional advantages.* In both cases, firms enjoy certain institutional advantages that enable them to engage successfully in specific types of activities. For instance, LMEs are more adept at radical innovation that involves substantial shifts in product lines, the development of entirely new goods, and major changes in production processes, in part because firms in LMEs can quickly shed or acquire labour, close down production facilities at will, and rapidly transfer capital from one sector to another. CMEs are better at incremental innovation involving continuous small-scale adjustments to existing product lines and processes, in part because they entail extensive institutional support for lifetime vocational training and close labour-management collaboration not only for wage bargaining, as is often the case in LMEs, but also for the organization of shop floor activity, the adoption of new production technologies, and the like. Furthermore, in terms of policy making, LMEs are better at promulgating policies that sharpen market competition, whereas CMEs are better at promulgating policies that reinforce the capacities of actors for non-market coordination (45–51).

In sum, by situating this volume within the literatures on small states, corporatism, and the varieties of capitalism, we intend our focus on Denmark to be fully social-scientific in nature. We seek to deepen understanding of the Danish case by means of contemporary analytic tools – and equally to sharpen these tools by detailed consideration of an often neglected social formation. It is as well to underscore the analytic nature of this project by saying that nothing is taken for granted. On the one hand, much of the discussion that follows centres on institutionalized bargaining and cooperation among political and economic actors, as often captured by the term "corporatism." Every attempt will be made to unpack this protean term and to raise questions about the precise extent to which corporatist countries in general, and Denmark in particular, should be considered as successful political economies. On the other hand, we will also pay close attention to how well Denmark fits the arguments made in the varieties-of-capitalism literatures – or doesn't. And we will examine what Denmark's comparative institutional advantages are. Let us turn now to an account of Denmark's success.

THE DANISH ROAD TO SUCCESS

Before turning to the important insights for literatures on small states and corporatism and on the varieties of capitalism that the Danish case offers, we must explain why, in our view and taking into account the contributions to this volume, Denmark has been so successful. We argue that distant historical legacies as well as more proximate factors were at work and that these helped determine how Denmark responded successfully to the problems it faced at the end of the twentieth century and the beginning of the twenty-first. We also briefly discuss some of the problems that will challenge Denmark in the future. With this in mind, we then explain how this all sheds light on arguments made in the literatures on small states, corporatism, and the varieties of capitalism.

Historical Legacies

It is important to understand that several historical factors conspired over the long run to give Denmark a comparative edge relative to many other countries. To begin with, as Uffe Østergaard's paper shows, Denmark was once a composite state that held territory in the Caribbean, Norway, southern Sweden, northern Germany, and elsewhere, in addition to that which it possesses today. It was, in fact, a small empire. And, as a result of its military and other international exploits as well as its absolutist rule at home, which spanned the period 1660 to 1814, Denmark built a state apparatus that was very well developed compared to many other European states both in terms of its administrative and its revenue-collecting capacities. A well-developed state apparatus was necessary, in particular, to administer and finance what, during the early eighteenth century, was the second largest army and navy in Europe (Sørensen 1998, 41). But the period of absolutism also involved the creation of a highly centralized bureaucracy, the modernization of government, and the unification of systems of legislation, finance, local administration, main roads, and weights and measures (Royal Danish Ministry of Foreign Affairs 1974, 81–4; 1996, 436–8). More important, however, Denmark realized early on that it was vulnerable, particularly to surrounding geopolitical forces. This was a lesson learned through the repeated loss of wars and in turn of territory, most notably in 1864, when Denmark lost a portion of southern Jutland to Prussia and the German-speaking duchies of Holstein and Schleswig.[11] Territorial loss and perceived vulnerability had three immediate effects that would reverberate throughout modern Danish history.

The first effect was cultural. Loss of territory – and with it the loss of a heterogeneous mix of peoples – meant that the Danish population became not only smaller, but increasingly homogeneous linguistically and ethnically. In Brendan O'Leary's (2001) terminology, the Danish state became "right-sized" and "right-peopled" in the sense that its homogeneity facilitated the development of a strong, politically stable, and unified nation with a strong national identity.[12] In other countries, right-sizing and right-peopling were not achieved; so for them a strong national identity, and with it political stability, did not obtain as early or as easily (e.g., Mazower 1998). Contributing considerably to this nation building were two things. First was a process of democratization, as described in the respective chapters of Østergaard and Ove Korsgaard, through which a peaceful progression from absolutism to democracy helped generate a sense of solidarity among the monarchy, state officials, and other social actors that was absent in countries where the transition to democracy was less peaceful and orderly.

Another contribution to nation building was a grassroots movement, described by Korsgaard, which was based on the teachings of Nikolaj Frederik Grundtvig. During the mid-nineteenth century, Grundtvig and a dedicated group of supporters took it upon themselves to define for the Danish population its national identity. The Grundtvigian movement cut across social classes and stressed the importance of individual freedom, classical liberalism, voluntarism, free association, popular education, and the development of civil society and social solidarity. Grundtvigianism went a long way toward cultivating the normative foundation for Danish nationalism and state building from below. Among other things, the Grundtvigians established a private educational system for the masses alongside the system that the state had already established during the period of absolutist rule. Grundtvigian schools (alternative folk schools) emphasized the teaching of Danish history, poetry, literature, and the like much more than the traditional educational system, and thus served as a key mechanism for the dissemination of the Grundtvigian cultural perspective and the development of a Danish national identity (see also Østergaard, chapter 1). Education such as this is often among the most important mechanisms for the development of national identities (O'Leary 2001, 32; Smith 1991, 118–19).[13]

The second major effect was political. Lars Bo Kaspersen shows (chapter 2) that the monarchy, landed elites, and representatives from other social classes recognized that further territorial loss could completely wipe out Denmark as a sovereign nation-state. This realization provided another early impetus to the development of nationalism but also helped to assuage social conflict and facilitate cross-class consensus. In particular, moderates from the left and right began working more closely together and eventually agreed to a series of social acts in 1891. Notable among them was a budgetary reform that for the first time explicitly accounted for state expenditures on a variety of social programs. According to Kaspersen, the social legislation accomplished two things: on the one hand, the acts reinforced political stability from that point forward; on the other, they led to the establishment of a strong set of national institutions designed to reduce inequality and class differences and to further unite the people of the nation. These institutions provided in embryonic form a basis for the development of the extensive Danish welfare state. Of course, the roots of the welfare state stretched back even farther to the period of late eighteenth-century absolutism. In that period the monarchy and its agents, strongly influenced by a Germanic tradition of Lutheran Pietism – that is, the idea that a paternalistic ruler should care for the well-being of his devoted subjects – established, at least for a time, a comprehensive set of welfare benefits for the Danish people, first in Copenhagen and then in the countryside, which was quite uncommon in Europe at the time (Sørensen 1998). But the broader point is that in response to perceived geopolitical vulnerability Danish elites devised a set of policies now often referred to by scholars as the *internal front strategy*. This was a strategy designed to bolster the defence of the nation by providing for the welfare of the population in ways that would unite it as a people – encouraging a unity that would help the nation resist future geopolitical threats should they arise.[14]

The third effect of territorial loss was economic. Kaspersen also shows that concern with geopolitical vulnerability led Danish elites to foster strong economic ties with Britain. Germany had previously been a major trading partner. And while trade with Germany eventually resumed after the 1864 defeat, a deliberate effort was made to cultivate exports to Britain. The reasoning here was that by providing exports to Britain, she would become a powerful ally in the event that Denmark's sovereignty was threatened again. So, while Danish agriculture had long sought international markets, further impetus was given to that endeavour by concerns over geopolitical vulnerability. The result was that Denmark integrated itself more fully into the international economy; and it has remained a comparatively open economy ever since.

Another important historical legacy was a tradition of consensus and cooperation within and among social classes. Of course there have been conflicts, but, as Østergaard illustrates, Denmark has a long tradition of negotiation and compromise that extends back at least to the late 1700s when, during the period of absolutist reign, the king consulted frequently with the social elites. These consultations eventually led to state reforms that included civil service and tax reform and the expansion of civil rights and education. They also led to land reforms and the dismantling of feudalism, which transformed many of the large Danish agricultural estates into a class of relatively well-to-do small and medium-size farmers. Today, the political system is still characterized by a culture of compromise and consensus among political players, and there are many opportunities for broad popular participation in the political process through membership in political parties, interest groups, and a variety of organizations and associations (Bille 2002).

The tradition of consensus building and compromise has in fact been enhanced by the fact that Denmark has long held voluntary associations in high regard. Notable among them were the agricultural cooperatives, discussed in Kevin O'Rourke's paper, for which Denmark became quite famous and which enabled its producers to adopt the necessary technologies (such as expensive cream separators) to compete very successfully in international markets for processed goods such as butter and cheese, during the late nineteenth and early twentieth centuries. Indeed, the success of Danish cooperatives made them the envy of many other countries and a model that was emulated on both sides of the Atlantic. The cooperatives came into their own in response to a national crisis during the 1870s; having lost its southern provinces to Prussia and with its grain production devastated by foreign commerce, Denmark worked its way back to prosperity by shifting from grain to the production of high-quality dairy and meat products, and by pooling the strengths of her farmers in a variety of production cooperatives (Rodgers 1998, chapter 8). However, O'Rourke shows that the absence of nationalist conflict, derivative of the cultural homogenization noted earlier, contributed to the ability of Danish farmers to organize cooperatives more successfully than farmers elsewhere. The Grundtvigian doctrine favouring voluntary associations contributed as well. But the broader point is that since the last quarter of the nineteenth century commerce and working life have become increasingly organized. Today, virtually all interests in Denmark are organized regardless of whether they are in the worlds of work, business, culture, or leisure. In 2000, every Dane between the ages of 18 and 70 belonged on average to three such organizations (Bille 2002). Moreover, as we shall see, cooperative response to national economic crisis would become a recurrent theme in Denmark after World War II. O'Rourke's paper, then, provides wonderful examples of two agricultural precursors (cultural homogeneity and cooperative organizations) to the industrial flexibilities, learning capacities, and comparative institutional advantages that were crucial to Denmark's more recent success.

One clarification is in order concerning the reciprocal and symbiotic relationship between state and civil society. By civil society we mean simply the organization of social groups outside the state (for example, cooperative associations, guilds, labour unions, business associations, sports clubs, women's organizations, and so forth) and their activities.[15] At least since the time when the absolutist monarchy began to consult groups in civil society about matters of state and economy, Denmark has exhibited a tradition of cooperation between state and civil society in which the strength of one depends on the strength of the other. For instance, the Grundtvigian movement in civil society was enabled by the state insofar as the Grundtvigians enjoyed constitutional protection of free association. And the state passed legislation permitting them to establish the folk schools. Conversely, the Grundtvigian movement's success in forging a national identity provided a crucial source of political support upon which the state could draw as it later promulgated a variety of policies, such as those associated with the internal front strategy. In short, the Danish case suggests that a strong state requires a strong civil society and vice versa.

Finally, it is worth elaborating briefly on the importance of the land reforms that stemmed from the consultation between the king and elites. Of prime significance is that land reform came initially in 1788 – rather early relative to other European countries. It minimized the sort of landlord-tenant conflicts that O'Rourke shows fettered agricultural development in other small countries. Harmony in the countryside was another important reason why Denmark competed so successfully in international markets for agricultural products during the nineteenth century. Land reform in turn created a class of farmers and smallholders who owned their own land and therefore were able to finance their cooperative associations through joint liability agreements among the members. That is, land reform was another factor behind the strength of the Danish cooperative movement (Royal Danish Ministry of Foreign Affairs 1996, 119). What's more, land reform resulted in social inequality being relatively moderate compared to other countries. As Dieter Senghass (1985, 95–122) has demonstrated so convincingly, this provided a relatively egalitarian resource base in the countryside that, when coupled with the development of agricultural cooperatives, gave an enormous boost to agricultural modernization and further stimulated agricultural exports. In turn, this paved the way for the development of domestic markets for a variety of goods required in the countryside; this market expansion then led to industrialization (although rather late relative to most other advanced capitalist countries) and further economic success later.

In sum, Danish history provided several important legacies that, as we argue in the next two sections, helped twentieth-century decision makers respond effectively to the challenges of the modern era. These legacies included: a sense of national vulnerability; a culturally homogeneous population; a strong national identity that blended values of classical liberalism and social democracy; a concern with promoting solidarity between elites and masses and thus a modicum of egalitarianism; a relatively well-developed state apparatus; an inclusive and consensus-oriented approach to decision making; a respect for cooperative organizations and well-organized civil society; and an open economy that depended heavily on exports and imports.

Proximate Conditions

It could be argued that all of this history contributed to the development of several more recent and proximate conditions that underpinned the modern Danish success. It is, of course, difficult to delineate exactly how distant historical legacies influenced the more proximate conditions associated with Denmark's recent success. To do so would require a much lengthier and more detailed historical analysis than we can provide here. Nonetheless, there are clear indications that such legacies have survived and informed the development of these proximate conditions as well as the policies that stemmed from them.

To begin with, Denmark is characterized by an extensive set of *collectively organized economic groups* in civil society. When coupled with a growing labour movement during the late nineteenth and early twentieth centuries, the eminently popular agricultural cooperative movement provided legitimacy for the development of modern labour unions and employers' associations that were organized nationally and covered a large percentage of employees and employers.[16] Respect for free association, an important component of Grundtvigianism and Danish national identity, surely contributed to these developments as well. Similarly, during the first half of the twentieth century Denmark devised a type of cooperative capitalism based almost entirely on small and medium-size firms that were often organized in legal cartels, monitored by the state, and accepted culturally as a proper way of doing business (Schröter 1997). Certainly, the development of unions, employers' associations, cartels, and other collectively organized forms of economic activity was not a smooth and automatic extension of either the cooperative movement or Grundtvigianism; political and economic struggle were involved. But in other countries, such as the United States, there were far more serious obstacles to the formation of such collective organizations. For instance, in the United States cartels were outlawed in the late nineteenth century after much political conflict, and agricultural cooperatives remained illegal under antitrust law until they received a special exemption from Congress in 1922 (Young 1991). Furthermore, prohibitions against labour unions, absent for the most part in Denmark after the 1890s but present in the United States until at least 1935, generated much class conflict in the United States and militated against the formation of a labour movement as broadly encompassing and inclusive as occurred elsewhere (Hattam 1993; Katznelson 1985). Surely Denmark's success in organizing social classes and other groups at high levels was facilitated further by religious, ethnic, and racial homogeneity –

the absence of which undermined such organizational efforts in other countries.

Denmark also developed what Ove Pedersen (chapter 6) refers to as a *negotiated economy*. This consists of a complex set of institutions built up during the 1960s and 1970s whereby matters of economic and social policy were negotiated among all the major political and economic actors. As he explains, these negotiations initially included representatives from government and the major associations representing business and labour. Institutionalized negotiations enabled participants to learn from each other's experience, raise problems, search for mutually acceptable solutions, and continuously define the national interest in economic, political, and social terms. Eventually, this became a more generalized system of negotiation and learning that included an even wider array of social actors. But it always blended principles of social democracy (i.e., large welfare state) with those of classical liberalism (i.e., respect for markets, private ownership, and private investment) – principles that had also been central to Danish national culture at least since the days of Grundtvig, particularly as Grundtvigianism instilled in the people the notion that they were all participating voluntarily in a shared community of fate.

Central to this process and the modern Danish political economy more generally has been the ability to reach decisions through *compromise and consensus*. Indeed, the institutions of the negotiated economy very much reflect and embody Denmark's long-standing traditions of consultation, compromise, and collective organization – especially those existing between business and labour since their first collective agreement was established in 1899, which were predicated on an approximate symmetry of power in business-labour relationships (Pedersen 1993). Compromise and consensus have often been possible in part because the Danish state has had the institutional capacities, developed over a long period of time, to help social groups get organized (even in some cases by providing material resources to that end), to coordinate negotiations among these groups, and to implement and sustain decisions made through these negotiations.

Compromise and consensus building have been important to modern Danish politics for other reasons too. Denmark's strong agricultural sector and late industrialization produced a large and well-organized rural petite bourgeoisie and peasantry as well as a working class that was largely craft-based and an urban population that was also predominantly petit bourgeois in character. The Danish system of proportional representation frequently required the social democrats, representing labour, to form coalition governments with the liberals (large farmers) and radical liberals (leftist peasants) during the twentieth century, and especially during the 1930s, when the country struggled with economic depression. Notably, in

1933 the Social Democratic Party's prime minister, Thorvald Staunning, struck an historical settlement with the four major political parties for a series of social reforms. These reforms built upon past welfare legacies, whose origins stretched back to the absolutist paternalism of the late eighteenth century. They also launched the modern Danish *welfare state*, which was expanded after World War II to become one of the most extensive and generous welfare states in the world (Esping-Andersen 1985). We shall see that the welfare state was another important proximate condition for Danish success during the late twentieth century.

Let us be clear. Although we have argued that Denmark has long been characterized by compromise and consensus, we do not mean to suggest that this is a country without political conflict and struggle. On the contrary, Danish political history is full of conflicts and struggles between state and civil society, between workers and employers, between political parties, and so on. However, all of this has occurred for the most part against a background where the important actors in both state and civil society have tended to agree on certain very fundamental issues, such as Denmark's vulnerability vis-à-vis geopolitical forces. For instance, the defeat to Prussia in 1864 helped generate consensus for the internal front strategy. World War I caused Denmark to establish a number of centralized tripartite war planning boards that included representatives from business, labour, and the state, and which provided an institutionalized means for bargaining and compromise on a wide range of economic issues. And the historic compromise of 1933 that Staunning engineered was reached shortly after Hitler took power in Berlin – an event that Danish leaders feared would threaten the future of Denmark as well as Europe more generally. As a result, the 1933 compromise was in part a return to the old internal front strategy. Major economic challenges have had similar effects. In particular, as Pedersen describes, deterioration in Denmark's economic competitiveness during the 1970s and early 1980s focused the nation on the need for the cooperative development of structural adjustment policies. The point is that major challenges like these have helped to keep everyone focused and in agreement on the big picture – that is, on basic national objectives – so that the conflicts and struggles that transpire have revolved primarily around how best to achieve these common objectives.

But all of this is institutionally reinforced. That is, the conflicts that occur are civilized by a set of institutions that facilitate negotiation and bargaining, and tend to help actors keep in mind the fundamental issues and broad national objectives that are most important for the country. One example of this, referred to by Pedersen, is the institutionalized wage bargaining between employers' associations and labour unions that helped control wages and prices during the 1980s and 1990s. Another example is the formalized negotiations among government ministries that help set macroeconomic policy (Jensen 2003, 172). A third example is the system of proportional representation in government, which tends to force governments into power-sharing arrangements. Indeed, since 1903 the government has been run exclusively by coalition, minority governments. This has ensured that negotiation, compromise, and consensus building were central to the political decision-making process and that all the important social actors were included in these deliberations (Bille and Pedersen 2004). In such cases, conflicts are managed, kept under control, and ultimately resolved through institutions that facilitate negotiation and bargaining, and tend to produce mutually acceptable compromises.

A final proximate condition involves the Danish legal system. Hjalte Rasmussen's contribution to this volume (chapter 5) shows that the Danish judiciary provided a context of *constitutional laxity* that was especially favourable for negotiated policy making. Much like the dog that did not bark in the classic Sherlock Holmes tale, the courts refrained from reviewing, overturning, or otherwise undercutting decisions that were made through the process of negotiation and compromise. Constitutional laxity subsumed the rights of the individual under the national interest. And in so doing, the courts gave policy makers an impressively free hand to pass laws and promulgate policies as they saw fit, on the basis, of course, of negotiation, bargaining, and compromise. In other words, unlike many countries in which the courts have accepted challenges to public policy, there has been virtually no constitutional review of government policy and statutes in Denmark. As Rasmussen argues, although this may pose a threat to liberal democracy, it helps prevent the machinery of the negotiated economy from grinding to a halt.

Over all, then, by the time Denmark confronted the problems of stagflation and rising international economic competition after the mid-1970s, a number of proximate conditions had been established that facilitated the sort of inclusive, consensus-oriented policy learning and flexibility that small states often require in order to maintain their competitive edge. These included: collectively organized economic groups, institutionalized negotiations governing political economic affairs, the capacity for compromise and consensus; a generous welfare state, and a judicial system whose approach to political and economic decision making can best be described as one of constitutional laxity. It is hard to imagine that these conditions would have been possible without a strong national identity that had unified people across political parties and social classes at least since 1864; without a long history of inclusiveness and cooperation that stretched back to the days of absolutism, when the monarch first consulted regularly with the social elites on matters of state and economy; without Grundtvigian beliefs in the virtues of voluntary association; and without a tradition of collective organization in civil society dating back at least to the agricultural cooperatives of the late nineteenth century. It is also hard to imagine that these conditions would have been possible without the sense of national vulnerability that developed over many years in response to repeated geopolitical threats, or the long tradition of welfare reforms upon which the modern welfare state was based.

Policy Learning and Flexibility

How has all of this affected the policies that enabled Denmark to achieve such remarkable success in the 1990s? In the most general terms, the institutions of the negotiated economy enabled policy makers and representatives from business, labour, and other groups from many policy sectors to respond to stagflation and a decline in Denmark's international competitiveness during the 1970s and early 1980s. According to Pedersen, through the processes of collective problem solving that were institutionalized in the negotiated economy, decision makers learned that several structural barriers were to blame for Denmark's economic plight. As a result, they agreed to remove these obstacles by reforming public sector operations, economic regulation, labour market policy, research and development policy, the welfare state, and more. None of these issue areas was treated in isolation. Rather, discussions of reform were integrated across areas, and attention was paid to pursuing reforms that not only would improve economic performance and competitiveness but would also preserve the relatively egalitarian distribution of resources in society. That is, a genuinely multidimensional socioeconomic frame of reference guided negotiation and reform with much success as decision makers, once again, acted in the belief that the groups they represented all shared a common national fate.

Although the range of policy areas that came under consideration during this period was extensive, a few were particularly important. One was the reform of the so-called system of labour market flexicurity, described in this volume by Per Kongshøj Madsen (chapter 9), which had three components: flexible labour markets, generous unemployment benefits, and active labour market policies – all coordinated to reduce unemployment and improve the quality and supply of workers to the labour market. Denmark has long had one of the *lowest* levels of employment protection in the OECD, so firms can discharge workers more or less at will and labour market turnover is high. This has been a liberal part of the Danish system for a long time, and it has resulted in a very flexible labour market that can respond quickly to shifting economic conditions. However, workers are buffered from the shock of lay offs by a welfare state whose unemployment benefits have been among the most generous in Europe since the late 1960s, often at levels nearly replacing one's lost wages. Thus, labour market flexibility is combined with a strong system of income protection. In addition, Denmark now spends considerably more than many other advanced capitalist countries on active labour market policies, which provide for the retraining and job placement of the unemployed. As Madsen explains, during the early 1990s active labour market policy was both fortified and reformed to cope with rising levels of unemployment that had emerged in the late 1980s. Spending was increased, the program was decentralized in order to better tailor it to the needs of local employers – particularly insofar as vocational training was customized to local labour markets – and job placement incentives were increased. According to Madsen, this was done by agreement among the government, unions, and employers' associations. The result was a dramatic reduction of barriers to the supply of qualified labour. When this supply was combined with an upturn in economic growth and, thus, a demand for jobs, unemployment was reduced during the 1990s; what is more, the supply of labour better matched the needs of employers, thereby enhancing Denmark's international competitiveness. Furthermore, the elimination of supply bottlenecks in the labour market coupled with an agreement between unions and employers to restrain wage increases – another benefit of the negotiated economy – kept inflation in check (see also Nielsen and Kesting 2003).

It is important to understand that underpinning the success of Danish active labour market policy reform was a willingness among employers to support the system. As Cathie Jo Martin shows (chapter 7), although active labour market policies were attempted in other countries during the same period, they were often not as successful, in part because they lacked the backing of employers. Why? Interviews with employers reveal that in countries like Britain, the government tried to foist these policies on employers without much consultation or input from them. But in Denmark, the government consulted with national employers' associations (and unions) to determine what their needs were and how best to satisfy them. Through these negotiations, it was learned that employers often needed workers with more education and skills in order to deploy the sort of flexible and technologically sophisticated production methods demanded of them by a post-Fordist economy in which the capacity to respond rapidly to shifting market demands was critical. Once this had been settled, the government mandated local corporatist committees to implement at a decentralized level the sorts of active labour market policies that were favoured in these discussions. Throughout the process, the employers' associations played a key role in educating member firms to the fact that it was in their collective interest to participate in these programs. As a result, nearly 70 percent of Danish firms interviewed participated, as opposed to only 40 percent in Britain. Moreover, as noted earlier, both labour and employers benefited.

The development of capacities for negotiation and learning has enhanced Denmark's international competitiveness in other ways too. For instance, as Peer Hull Kristensen describes (chapter 8), when the oil crisis hit in the 1970s, causing firms to close and workers to lose their jobs, managers and workers began to negotiate changes at the level of the firm through a kind of micro-level corporatist bargaining process. Hence, since the early 1980s, the organization of Danish firms has increasingly involved teamwork, flatter hierarchies, cooperative labour-management relations, flexible job definitions, in-house vocational training, continuous skill upgrading, learning, and experimentation with production and project management techniques. Indeed, according to Kristensen, all of these strategies help to account for the recent competitive success of Danish firms. At first, many of these organizational changes occurred at the firm level and in very informal and quiet ways, so as not to violate national agreements between unions and employers associations. But as the benefits became apparent in the ability of Danish firms to compete successfully in an increasingly global economy, some of these principles gradually worked their way into national agreements. Even so, Kristensen argues that centralized corporatist institutions could do more to facilitate the adoption and diffusion of these innovations. This may be true. Nevertheless, organized collaboration among producers, users, state regulators, and others at a more macro level has still enabled Danish firms to generate important technological innovations, adapt flexibly to changing circumstances, and compete more effectively in international markets than countries without such collaborative arrangements (e.g., Garud and Karnøe 2001; Karnøe 1995). In sum, close social interaction and trust across organizations and across departments and management levels within organizations have enabled Danish firms to achieve high levels of joint learning and flexibility in the use of resources, including the rapid diffusion of new technologies even among low- and medium-tech sectors of the economy (Kristensen and Zeitlin 2002; Nielsen and Kesting 2003).

It is worth mentioning briefly that Kristensen has found elsewhere that this sort of adaptive flexibility at the level of the firm is based in part on a shared cognitive framework whereby workers and managers conceive of the firm as a collective actor. This mindset enables them to set aside their individual differences and work for the collective good of the firm. As a result, it is an important cultural support for learning and organizational flexibility (Kristensen and Zeitlin 2002). It is also the sort of mindset that has permeated Danish culture for a long time – that is, concern for cooperation in pursuit of the collective good.

Welfare policy is another area where changes and adjustments were made through negotiation. This was in part due to concerns with bringing government spending under control in order to reduce budget deficits and the national debt, both of which had worsened during the 1970s and early 1980s as various Danish governments grappled with stagflation with typical Keynesian bridging policies (Schwartz 1994). In this volume, Peter Abrahamson (chapter 10) argues that since 1993 both social democratic and conservative governments pursued a series of welfare reforms. These included the bolstering of the active labour market policies described earlier, partial privatization of pension and health care insurance programs, more restrictive eligibility rules for various welfare programs, and reductions in benefits for some recipients. Reform also involved increased obligations for welfare recipients, such as workfare programs, and greater citizen involvement in local educational and childcare programs. Over all, then, although welfare coverage and rights remained largely universal and quite generous compared to those of other OECD countries, greater emphasis was placed on individual responsibility, private means, and labour-market–based contributory insurance schemes. These reforms were framed by proponents in very traditional terms – often with references to the Danish Constitution, which requires citizens to have the opportunity to work in order to promote the common welfare (Cox 2001, 478). As was true of flexicurity, these reforms represented a blending of liberal and social democratic principles. Moreover, the revenue base for these programs shifted somewhat from central government to county and municipal governments – another indication of a drift toward decentralization. While this has helped to shore up the public finances and, according to Madsen, to reduce unemployment, the results of reform have not been all sweetness and light. Abrahamson reports that benefit reductions have contributed to an increase in poverty since 1995.

The basic point is that in both the public and private spheres the institutional capacities – political, economic, and cultural – of Danes to engage in well-organized, cooperative, and consensus-oriented deliberation and negotiation have helped them to adjust to the challenges and opportunities of an increasingly global economy. They have been able to engage in policy learning and to respond flexibly at both the micro and macro levels. The papers by Pedersen, Kristensen, Madsen, and Martin provide windows into some of the processes and mechanisms by which this deliberation, negotiation, learning, and flexible adjustment occur.

Challenges Ahead

Many challenges lie ahead that will confront Denmark's socioeconomic fortunes in the twenty-first century. Two are especially important, insofar as they cut to the very core of some of the most deeply ingrained traditions of the Danish political economy.

The first is Denmark's role in the European Union. Since at least the

1970s, Danish elites have favoured European integration. And until the 1990s they had enough political support from the citizenry to pursue that objective. Recently, however, things have changed. Two national referenda, one on the Maastricht Treaty in 1992 and another on the single European currency in 2002, were defeated at the polls despite the fact that members of most political parties, unions, and employers' associations supported them. In other words, a split has developed between elites and masses over issues of continued European integration.

As Morten Kelstrup explains (chapter 11), this change of direction is having serious consequences. The presence of policy making by referenda challenges the very basis of the corporatist, negotiated economy, insofar as decisions regarding EU monetary policy are now being taken outside of traditional policy-making channels. In a sense, a dual political system is developing around EU economic issues which could spread to other areas of EU policy (e.g., national security, common citizenship) – areas that have already witnessed conflicts among the major political parties. This could undercut the institutionalized bargaining and negotiation processes that have served Denmark so well for so long. Moreover, the EU question has contributed to a growing nationalist concern over the potential loss of state sovereignty that could further widen the split between elites and masses and could add an increasingly important new dimension to politics. Whereas Danish political debate has traditionally occurred along an axis ranging from conservative/right to social democratic/left positions, now a second axis cuts through the traditional one – an axis that ranges from pro- to anti-European integration.

Of course, there is a certain irony to all of this. Political elites failed to obtain "yes" votes on the two referenda concerning Denmark's further participation in the European Union in part because Danish voters were concerned with preserving their national identity (Friis 2002). Hence, if a willingness to adapt flexibly to international challenges is a key to success these days (Ikenberry 2003) – a point to which we return later – then Denmark's strong national identity may be inhibiting the sort of flexibility required of it today. In other words, while a strong national identity may once have contributed to Denmark's success, as we argued earlier, it may now be working against it – at least from the perspective of political and economic leaders, most of whom wanted to adopt these EU treaties. All of this, incidentally, also supports the arguments of other scholars who have suggested that the EU project, and with it the attempt to create some sort of large-scale transnational or continental identity, may actually reinvigorate and intensify nationalist sentiments among European countries (Smith 1991, 176). In any case, it remains unclear how the Danish political system will handle all of these challenges and whether their response will further undermine the capacities of parties to compromise.

A second, but related, challenge to the Danish system involves immigration. Ulf Hedetoft argues (chapter 12) that as European integration increases the likelihood that foreigners will migrate to Denmark, and as Denmark continues to accept immigrants and refugees – presumably attracted by its generous welfare state, standard of living, and job opportunities – the homogeneous foundation of the Danish nation is drawn into question. A kind of xenophobic nationalism is emerging, at least in political rhetoric, which may jeopardize the strong feelings of national identity that have underpinned the welfare state, economy, and society in general for well over a century. Despite the fact that there is little evidence to support the view that an influx of immigrants has put undue stress on the welfare state, the issue is very much in the public eye (see also Sørensen 1998, 41–2). Indeed, this issue alone enabled a small, populist, anti-immigrant political party, the Danish People's Party, to win enough votes to help form a bourgeois coalition government in 2001 and push immigration onto the legislative agenda. Whether the immigration issue destabilizes the institutions of the Danish negotiated economy, consensus-oriented parliamentary politics, national solidarity, or societal trust more broadly remains to be seen. The outcome will likely depend on how well new immigrants can be integrated and assimilated into society.

But there may be cause for concern here. Recent studies suggest that the more heterogeneous a population is, the less generous its welfare support is likely to be (Alesina and Glaeser 2004). Indeed, Abrahamson's paper reports that the current bourgeois government recently passed legislation whereby full social assistance benefits will only be made available for people who have been living in Denmark for eight years. Modified benefits – a so-called "start allowance" set at roughly 45–65 percent of the standard benefit – will be available to everyone else. In effect, this is a program designed largely for ethnic immigrants and refugees. Hence, we may be witnessing the development of a dual system of entitlements and rights. Insofar as Denmark's generous welfare system has been an important part of the country's recent economic success, as Madsen argues in discussing labour market policy, political struggles over the immigrant issue may change the welfare state in ways that have significant consequences for Denmark's economic performance in the future.

There are, of course, additional challenges confronting Denmark. One is the problem of an aging population and the pressures it puts on one of the world's largest and most expensive welfare states. These pressures will continue to grow as the baby boom generation moves into retirement. This demographic challenge is one that most other advanced capitalist countries will no doubt face too. Another is the increasing concern for enhancing productivity in the face of competition from low-wage countries, especially the new East European members of the European Union.

This could lead Danish employers to lay off more workers and outsource production and information processing. This is one example of a whole set of challenges associated with continued economic globalization. The challenges – as well as the opportunities – of globalization will surely test the adaptive capacities of the Danish political economy, as they have done for well over a century.

We are reasonably confident that Denmark will successfully meet these challenges. Why? Because Denmark has developed a strong set of political, economic, and cultural capacities for managing conflict through bargaining, negotiation, compromise, policy learning, and flexibility. These capacities have enabled its decision makers to adjust effectively time and time again to a variety of political and economic challenges. Chief among these capacities are those institutions associated with a strong, socially liberal, democratic state that enjoys much popular support from a strong, well-organized, and nationally unified civil society – capacities that facilitate the politics of reciprocal consent that we mentioned at the outset. We suspect that Denmark will continue to do well as long these capacities remain intact.

LESSONS FROM THE DANISH CASE

Given our arguments about Denmark's success, what lessons can we draw for the literatures in comparative political economy that we summarized earlier? Several assert themselves quite clearly.

Small States and Corporatism

Let us begin with Katzenstein's work on small states. The first lesson concerns the important *differences among small states.* Katzenstein (1984, 1985) concentrated his attention on the differences between Austria and Switzerland. To summarize briefly: Austria, he argued, involved a "social corporatist" ideology and politics that favoured, among other things, active industrial policy, selective intervention in market processes, greater political control over the allocation of investment capital, extensive public expenditures, a large welfare state, and a greater emphasis on maintaining social equity while adjusting to international economic trends; Switzerland, on the other hand, exemplified a "liberal corporatist" ideology and politics that favoured passive industrial policy, heavier reliance on the market for industrial adjustment, less political control over investment capital, smaller public expenditures, a smaller welfare state, and a greater emphasis on promoting economic efficiency while adjusting to international economic trends.

While these distinctions may be beneficial, others may be beneficial as well, especially insofar as explaining Danish success is concerned. As noted earlier, and in contrast to many other small states, Denmark had been an imperial state, ruling not just over Norway, southern Sweden, and much of the southern Baltic coastland but over territorial possessions overseas as well. Many of those territories were lost, thereby lending Danish history a particular character. Specifically, its early prominence and power were followed first by the diminution of power and wealth and then by the riches achieved by the smaller unit over the course of the last century and a half. But underneath this rhythm was a continuity – the political capital of early state capacity – which was eventually used to help a peripheral society move to the core. That is, as a result of its imperial past, modern Denmark inherited a state apparatus that was rather well developed compared to that of many of its competitors and which was relatively well equipped to organize bargaining and negotiations among groups in civil society and to implement the policy decisions that resulted from this process. Moreover, the Danish state was able to draw constructively upon a certain type of nationalist sentiment – forged through the experience of repeated territorial loss – which helped it mobilize consensus among the important social groups regarding what was in the general national interest. The point to be made is that among the small European states, Denmark had certain advantages with respect to state capacities and national identity which stemmed from its having at one time been a small empire. We have explained that these advantages contributed indirectly to its later socioeconomic successes. Hence, the rather static distinction between social and liberal versions of corporatism that Katzenstein employed may mask important *dynamic and historical* distinctions among small states which account for their different capacities for socioeconomic success.

That said, it is important to reiterate that Denmark's ability to remain flexible and adaptable in the face of adversity and challenge is not just due to the capacities of its state. It stems also from the particular and very well-organized nature of its civil society, which took well over a century to develop, led to the formation of a strong national identity and, in turn, produced a high degree of social solidarity upon which the state has often relied in coping with various challenges. In other words, what has been crucial is the symbiotic relationship between state and civil society by which each enabled and reinforced the other. In this sense, the Danish case represents a blending of statist influences emanating from above and civil society influences arising from below – a blending that has resulted in the politics of reciprocal consent.

The second lesson we offer concerns the *preconditions of effective smallness.* Bluntly, the theoretical claim here – variously made by others in connection with democracy, economic advance, and welfare (e.g., Dahl 1971; Gellner 1983; Mill 1975; Miller 1975) – is that national homogeneity enables high levels of social solidarity. Indeed, Denmark is an extremely homogeneous society. Foreigners made up only about 3 percent of the Danish population in 1990, up from a half percent in 1960, but still a lower proportion than in virtually any other West European country throughout this thirty-year period, including Sweden, often noted for its homogeneity and whose population in 1990 included 5.6 percent foreigners (Soysal 1994, 23).[17] As suggested earlier, the loss of territory that Denmark experienced as it suffered defeats in a series of wars contributed directly to both this homogeneity and to an enhanced sense of social solidarity among the populace. Of course, the removal of minorities as a result of territorial loss does not ensure national cohesion. Nation building must still take place. Here the role of Grundtvigianism was important in facilitating the nation-building process. But the social solidarity that stems from such homogeneity, geopolitical loss, nationalism, and nation building suggests that these are all important factors underlying Denmark's ability to forge consensus around important policy initiatives and implement them effectively. In turn, these policy initiatives contributed directly to Denmark's impressive recent performance. The literature on small states and corporatism largely neglects the importance of the roles that cultural homogeneity and nationalism play in providing a foundation upon which modern consensus building and economic success often rest. Indeed, cultural homogeneity helps to generate the sort of social trust that other scholars have found to be associated with national economic success (Zak and Knack 2001). Cultural as well as political and economic institutions matter.

We are not arguing that cultural homogeneity is either a necessary or sufficient condition for political-economic success, although there are additional examples of small states that have performed well in the 1990s which were culturally homogeneous, such as Austria and Ireland. But there are also examples of successful small states that were much more heterogeneous, notably Belgium and Switzerland. These states have found various institutional ways, such as consociational democracy, to channel, regulate, and otherwise temper the conflicts that might arise from their more heterogeneous populations and undermine the learning, cooperation, and flexibility that are required for success (e.g., O'Leary 2001). Moreover, homogeneity is no guarantee of success, as the recent case of Albania demonstrates. Our claim is only that Denmark enjoyed a significant advantage because it was homogeneous. Interesting questions can be drawn from our investigation of the Danish case as to whether homogeneity is generally more important in a broader array of cases and in comparison to other political and economic factors. But such questions cannot be resolved with reference to this single case alone; further cross-national research would be needed.

The third lesson we draw from Katzenstein's analysis concerns the *timing of important events.* Katzenstein (1985, 30) maintained that the institutional foundations for small state success had their origins in the catastrophic changes of the 1930s and 1940s. While this may be true for some of the formal institutional conditions affecting the success of small states, at least in Denmark's case the story has a much longer historical trajectory. For example, in Denmark the origins of one of the most important of these institutions, the modern welfare state, stretch back at least to the mid-nineteenth century when political and social elites agreed on the need to reduce inequality and facilitate the development of national identity and social solidarity. This was part of their plan to establish the internal front, mentioned earlier, to protect Denmark as a state from obliteration at the hands of external geopolitical forces. So perceptions of national vulnerability, not just in the 1930s and 1940s but much farther back in history, were important in the Danish case. And, of course, these perceptions concerned geopolitical rather than economic vulnerabilities of the sort that Katzenstein emphasized. In any case, at least for Denmark, the seeds were sewn for the development of the welfare state long before the deals were struck between liberals and labour during the twentieth century which a number of scholars, including Katzenstein, mark as the beginning of Scandinavian welfare states (e.g., Esping-Andersen 1985; Hicks 1999).

The fourth lesson to be drawn from Katzenstein's work concerns the *organization of corporatism.* Katzenstein (1985, 32) defined corporatism as "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, he insisted, made for "low-voltage politics." However, the Danish case suggests that corporatism may have changed significantly in at least two ways since Katzenstein published his work twenty years ago. First, although Denmark is still characterized by institutions that support negotiation, compact building, and cooperation among social partners, this is no longer a phenomenon restricted to the national level. Since the mid-1980s Danish corporatism has become increasingly *decentralized.* Policy implementation, and to a lesser extent policy formation, has devolved to the regional and communal levels (see also Kjær and Pedersen 2001; Martin forthcoming). For instance, tripartite wage setting has devolved from the national level to the sectoral level (Nielsen and Kesting 2003). Hence, one wonders in light of recent Danish experience whether the key to success for corporatist countries is centralized bargaining at the national level, as Katzenstein and many others argued, or rather just consensus-oriented bargaining and negotiation per se – regardless of the level at which it occurs (e.g., Molina and Rhodes

2002). Indeed, following arguments made by others, including Kristensen, Madsen, and Martin in this volume, it may be that in an increasingly globalized economy where markets are much more volatile and the need to respond to them rapidly and flexibly is at an all-time high, the decentralized nature of Danish bargaining may be especially important insofar as it enables increasingly rapid learning and adjustments to these markets.[18]

Second, rather than just including organized business and labour interests in corporatist bargaining, Denmark now also frequently incorporates other organized interests, such as environmentalists, municipalities, citizens' groups, and the like, into the negotiation process. And it does so in part because it has created a more extensive set of linkages among policy areas besides just the macroeconomic and incomes policies with which corporatist bargaining was traditionally associated. In short, Danish corporatism has become more *inclusive* and more *extensive* than Katzenstein's analysis suggested in the mid-1980s (Nielsen and Pedersen 1991; Pedersen 1993). This broadening may pose certain hurdles to consensus building, such as the problem of large numbers bargaining (Olsen 1965), but it may also present certain advantages. The consensus that emerges may better represent the broad national interest because it is defined by a more representative set of interests than was typically the case in other corporatist countries during the 1970s and early 1980s. Furthermore, higher levels of inclusiveness may be one explanation for public confidence in government institutions being so high and so stable in Denmark relative to the rest of the OECD countries (Katzenstein 2000). Finally, once such a diverse group agrees on a particular policy, implementation of that policy may be smoother and more sustained than elsewhere because a wider array of social actors has agreed to support it.[19]

The last lesson to be gleaned from Katzenstein concerns recent arguments about the *fate of corporatism*. Many scholars in the early 1990s believed that corporatism was in decline as a result of pressures from economic globalization and an apparent drift toward neoliberalism. Moreover, some implied that because Denmark was one of the slowest countries to adopt neoliberal reforms, its economic performance was likely to lag behind those of other small states who adopted these reforms more quickly (Schwartz 1994, for example). As we have shown, none of this seems to be true now. In Denmark corporatism has not been replaced. Rather, it has become more decentralized, more inclusive of a wider array of well-organized social actors, and more extensive in terms of the number of policy areas that are linked together and subject to corporatist bargaining. As a result, it has become a more flexible system of negotiation and consensual decision making. In all of these respects, Demark is a paragon of a new and revitalized style of corporatism that is beginning to receive much attention from scholars of comparative political economy who seek to better understand how corporatism evolves and continues to facilitate successful socioeconomic performance (e.g., Molina and Rhodes 2002).[20]

The Varieties of Capitalism

Our arguments about Danish success also contain lessons for the literature on the varieties of capitalism. The first one concerns the *organization of coordinated market economies* and resonates very much with a point we made earlier about Katzenstein's characterization of corporatism. Recall that this literature, as portrayed by Hall and Soskice (2001b), seeks to bring firms back into the spotlight. Hall and Soskice's intention is in part to correct for what they believe to have been excessive attention in the earlier corporatist literature to the peak associations that represent the interests of business and workers in CMEs like Denmark. Certainly this makes some sense insofar as firms per se were neglected in the corporatist literature. However, as noted earlier, two things impress us about the organization of interests in Denmark since the mid-1980s. One is how much wider an array of interests is represented in decision-making negotiations. Not only firms, business associations, and labour unions but also representatives from environmental groups, local municipalities, and many other groups are involved in the bargaining process. The other thing that impresses us is that, insofar as public policy is concerned, bargaining occurs to a significant degree now at the regional and local level. In short, decision making in Denmark involves a broader range of social groups and more decentralized negotiation and bargaining than the varieties of capitalism literature tends to acknowledge for CMEs.

The second lesson concerns the *time frame* of importance to social actors. Hall and Soskice argue that the bargaining that transpires in all capitalist economies focuses largely on short-term strategic games – even where cooperative outcomes result, as in CMEs like Denmark. While we do not doubt that this is true, in Denmark there has also been a rather persistent and widespread concern among groups involved in the bargaining process to ensure the long-term collective good of Danish society. This is most apparent in the idea that Denmark needs to maintain the internal front as a bulwark against external challenges to Danish political sovereignty. For over a century this has provided a long-term strategic backdrop against which short-term bargaining and negotiations have taken place around issues of more immediate concern. Concern for the long term was also evident, according to Pedersen (chapter 6), in the development of structural policy during the 1980s and 1990s, which was a deliberate attempt not only to improve learning and performance in a wide range of policy areas but also to connect and coordinate changes in one policy area with those in others for improvement of Danish society over the long run. At a more micro level, Kristensen's paper demonstrates that concern for the long-term collective good was also of concern with employers and workers when they negotiated new production practices, particularly insofar as they had the firm's long-term survival in mind as well as its short-term profitability. Thus, to fully understand how the Danish variety of capitalism has responded to an increasingly global economy, we need to consider the long-term view of social actors as well as their short-term strategies.

The Danish case also offers a lesson about how the varieties of capitalism literature treats the issue of *culture*. Remember that the idea of the internal front as well as a variety of principles associated with Grundtvigianism and national identity have provided important and long-standing ideological and cultural influences on policy making in Denmark. Of course, Hall and Soskice (12–14) grant the importance of informal as well as formal rule-based constraints, acknowledging in particular the importance of norms that define what is appropriate to do or not in a given strategic situation. But what we have in mind here is something deeper and much more taken for granted than simply norms of appropriate behaviour or expectations about the behaviour of others derived from previous strategic interactions, which seems to be what they have in mind when they refer to culture (see also Culpepper 2001, 303). While this is surely important, particularly to the extent that it provides a strategic context within which bargaining takes place, we are concerned more with the sort of deeply held beliefs associated with national identity that are so taken for granted that decision-making elites and citizens are unaware of them most of the time (Smith 1991, 77). While the influence of such beliefs and identities is usually difficult to observe precisely because they are so taken for granted, conflicts may arise occasionally that dredge them to the surface and reveal their importance. For instance, the recent debate over restricting welfare benefits for immigrants that Hedetoft's paper describes reveals that one important institutional support for the Danish welfare state has long been the belief that those who would benefit from it are culturally very much like those who pay taxes to support it. The immigrants in question are principally from Northern Africa, the Balkans, and Asia and do not fit the homogeneous Danish cultural profile. That is, they are not white, Lutheran, and of Scandinavian or at least West European descent. Another deeply held part of the Danish national identity which influences policy making is the belief in the virtue of social equality. Despite recent restrictions of welfare benefits for immigrants, even new arrivals to Denmark remain eligible for benefits that are far more generous than in many other OECD countries. And the Danish state ranks first in the world in terms of the government's effectiveness in reducing income inequality (World Economic Forum 2003, see Danish country profile, 42).

The point is that the literature on varieties of capitalism often neglects these very basic cultural influences on decision making (but see Locke and Thelen 1995).[21]

The importance of this lesson is worth some elaboration. National identity is important not just because it influences the range of policy-making options available to decision makers. It is also important because a strong national identity can actually enhance state power and, by extension, the capacity of political economies to perform well in the long run. This point is often neglected by students of comparative political economy but has recently begun to receive more attention (e.g., Baldwin 2003; Hall 2003). The Danish case illustrates this point. After all, a sense of geopolitical vulnerability has long pervaded this particular country's national identity. As a result, decision makers have managed to cultivate a certain degree of social solidarity among various status and class groups in order to cope with geopolitical and, more recently, international economic challenges. This has also involved the development and modification of institutions that are inclusive of a wide range of interests. All of these factors have, we suspect, contributed to the high levels of social trust and public confidence in governmental institutions that others have noted (e.g., Katzenstein 2000; Zak and Knack 2001). Trust and social capital are now more generally recognized by some scholars as being an important determinant of successful economic performance (for example, Zak and Knack 2001; Putnam and Goss 2002, 5–7). Public confidence, trust, and social solidarity have certainly bolstered Denmark's capacity to learn, react flexibly to changing circumstances, and succeed economically in recent years.

Another lesson involves the *assumption of societal equilibrium.* The studies in this volume indicate that Danish society (and we suspect other advanced capitalist societies) is no longer in equilibrium as it once was. That is, whereas Hall and Soskice argue that in both LMEs and CMEs equilibrium outcomes emerge in response either to supply and demand conditions or to strategic interactions, respectively, the recent Danish experience challenges the basic assumption of equilibrium in the first place. For example, Danish active labour market policy and shop floor bargaining and negotiation seem to have institutionalized the capacity of Danish firms and workers constantly to adjust to new circumstances. In other words, Danes seem to have learned that at least in the recent period of globalization there is no economic equilibrium – everything is more or less in a constant state of flux. Indeed, this may be one of the most important reasons why Denmark has achieved such success since the mid-1980s. A sizeable literature argues that market signals change so quickly now in response to recent revolutions in transportation and telecommunications that the situation is never really in equilibrium at all (e.g., Piore and Sabel 1984; Powell 1987). Hence, firms and others need to remain ever-vigilant for new opportunities and must maintain the institutional capacities for learning and socioeconomic adjustment that are necessary to keep pace. Danish managers seem to understand this, given the fact that their firms have been successful internationally in recent years, as Kristensen shows (chapter 8), by developing the capacity to quickly modify process technologies and put them to different uses as the market requires. The same seems true for public policy makers, given the fact that they have developed a set of policy-making institutions based on negotiation, consensus, and trust which facilitate constant policy learning and adjustment. To return to a point made briefly above, some scholars have argued that the strength of states in the twenty-first century no longer lies so much in their traditional administrative or coercive capacities as in their ability to be flexible, and that this new form of flexible strength often stems from an underlying normative consensus within which these states operate and that empowers states to work effectively with society (Ikenberry 2003, 368–9; see also Weiss 1998). Denmark proves the point. As mentioned earlier, it also proves that a new, more flexible form of corporatism may be evolving that will better enable small states to cope with the pressures of economic globalization (Molina and Rhodes 2002).

There is also an important lesson here for the basic *distinction between LMEs and CMEs* that sits at the heart of the varieties of capitalism literature. Certainly Hall and Soskice intend that these are ideal types to which no empirical case will conform perfectly. Nevertheless, there is an emerging literature that criticizes this scheme as an oversimplification and suggests that real-world capitalist political economies are more often hybrids containing important elements of each type, and that it is the hybrid nature of political economies that is important to grasp if we want to understand how they operate and why they are successful – or not (e.g., Zeitlin 2003). Some of the most successful countries during the 1990s, Ireland, the Netherlands, and Portugal, for example, were arguably hybrids of this sort. The importance of hybrid arrangements is particularly clear in the Danish case. On the one hand, we find that at least since the days of Grundtvig, Danes have held dear the principles of individual liberty, freedom, and responsibility. And Denmark has always had great respect for the market – particularly the international market – as a focal point toward which public and private policy ought to be oriented. On the other hand, Danes have also held in high regard the principles of social democracy, including the importance of the welfare state. Indeed, as several chapters in this volume indicate, Danish policy making has generally involved a blending of the two sets of principles. In other words, key elements of the ideal typical LME (orientation to the market) and CME (social democracy) have long been a part of the Danish political economy. This is perhaps most evident in Madsen's paper on the flexicurity system, which involves quite low levels of employment protection, as well as quite generous unemployment and active labour market policies, thus affording employers the right to hire and fire workers as they please in response to market signals. In other words, the flexicurity system deliberately combines liberal/ LME and social democratic/ CME principles in such a way as to resolve the problem of labour market rigidity. The LME / CME dichotomy is certainly useful in identifying important institutional factors that vary across countries and affect political-economic performance. But it fails to capture the fact that the hybrids may be much better equipped to compete in today's "new economy" – that is, in an economy that is marked by a greater reliance on learning and information processing, flexibility, shortened product-life cycles, interorganizational cooperation, and more intense international competition (e.g., Powell 2001).

In sum, if there is any truth to Hall and Soskice's notion that comparative institutional advantage matters for national economic success, and we believe that there is, then what constitutes institutional advantage needs further elaboration along the lines that we have suggested here. Among other things, a complete understanding of comparative institutional advantage requires that we pay much more attention to its cultural aspects (e.g., national identity), its historical aspects (e.g., perceived external threats), and its hybrid nature (e.g., blending of liberal and social democratic principles). The chapters of this volume do this for an important, interesting, and recently very successful case. So, contrary to those who, like Michael Porter, believed that there was something "rotten in the state of Denmark," we believe that the evidence suggests just the opposite.

NOTES

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1 As is now generally acknowledged, economic globalization – that is, the movement of capital, goods, services, and labour across national borders – has ebbed and flowed for more than a century. It increased during the late nineteenth and early twentieth centuries, declined with the onset of World War I, remained low until the 1950s when it began to increase again, and then escalated more sharply beginning in the mid-1970s (e.g., Campbell 2004, chap. 5).

2 The inordinate attention that Sweden receives reflects Swedish success in the academic tourist market as well as the fact that Swedish social scientists generally have been better connected to the international academic community (Sørensen 1998, 365).

3 There has been much attention lately to the need for studying processes and mechanisms in social science, rather than letting analysis based on statistical correlations suffice for theory construction. See, for example, Campbell (2004, chap. 3), Hedström and Swedberg (1998), Lieberson and Lynn (2002), Reskin (2003), and McAdam et al. (2001, 24–8). Our focus on Denmark as a case is very much in this spirit.

4 Gross foreign direct investment refers to inflows and outflows of investment seeking to acquire significant control of an enterprise operating in an economy other than that of the investor.

5 Gross private capital flow refers to the sum of all inflows and outflows of direct, portfolio, and other investment recorded in the balance of payments financial account.

6 The fact that labour productivity was growing while unemployment remained low is impressive. After all, with productivity rates rising, employers can get by with relatively fewer workers than they can at lower rates. Indeed, some experts argue that this is one reason why the United States is currently experiencing a so-called "jobless" economic recovery – U.S. productivity rates are rising and so employers are laying off workers (Gilpin 2003).

7 A Gini coefficient equals 0 when income is perfectly equally distributed; it equals 1 when all income is concentrated at the top of the income distribution.

8 The comparatively high number of working days lost in Denmark through labour disputes in the second half of the 1990s should be interpreted with caution. It stems almost entirely from a large general strike in the private sector in 1998 (Monger 2003, 21). Perhaps ironically, the 1998 strike was associated with Denmark's very successful economic performance during the preceding few years. The late 1990s was a period of considerable prosperity so, unlike previous years, the government and employers could not argue convincingly that the unions should refrain from striking lest they further hurt an economy already in crisis – an argument that was heard frequently during the 1970s and 1980s. Instead, when their contract expired unions entered into wage negotiations with employers in 1998 and used the strike as a means of applying pressure during the negotiations.

9 It is worth clarifying briefly the commonly held distinctions among statist, corporatist, and liberal political economic institutional arrangements. Typically, statism refers to arrangements whereby the central government plays a powerful role in creating incentives that influence the decisions of market actors, principally business and labour, often through indicative planning and the use of a wide variety of powerful policy instruments whose effects can be targeted at particular economic sectors or firms. Corporatism refers to arrangements whereby market actors are organized through peak associations, such as centralized business and employers' associations and labour unions, and engage in national-level bargaining, often with the gov-

ernment, over wages and macroeconomic and other relevant policies that shape the incentives for market actors. Liberalism refers to arrangements where the state plays a more distant, arms-length role in regulating, rather than coordinating, economic activity and lets markets establish the incentives to which private actors respond. France is often cited as an example of statism; Germany is often cited as an example of corporatism; and the United States is often cited as an example of liberalism. For further discussion, see, for instance, Crouch and Streeck (1997), Katzenstein (1978), Shonfield (1965), and Zysman (1983).

10 For a review of the vast literature on corporatism, its fall from academic grace during the 1990s, and its subsequent revitalization, see Molina and Rhodes (2002).

11 Ove Korsgaard's paper explains that this lesson of vulnerability was reinforced by the Nazi occupation as well as the threat of internal communist agitation in the wake of the Russian revolution.

12 The concepts of nation and national identity should be distinguished from that of the state. In the West, the *nation* constitutes a cultural and political bond – that is, an identity – based on an historic territory or homeland, common myths and historical memories, a common mass public culture, common legal rights and duties for all members, and a common economy that includes territorial mobility for its members. The *state* refers to a set of public institutions, such as parliaments, administrative bureaucracies, and the military, that are set apart from other social institutions and that exercise a monopoly of coercion and extraction within a given territory (Smith 1991, 14–15).

13 Korsgaard explains that education was also used to reinforce Danish national identity during the Nazi occupation in the 1940s as policy makers strove to bolster the idea that the Danish people were one, regardless of religious, class, and other distinctions, and did so by referring directly to long-standing shared beliefs in social democratic values.

14 Korsgaard argues that the internal front strategy was deployed again in response to the threat of Communist agitation during the 1930s, which policy makers perceived as a possible precursor to full-blown revolution. During this period, steps were taken to establish the modern Danish welfare state. This was viewed in part as a way to defend the nation-state from revolutionary forces by bridging the gap between elites and masses and creating social solidarity among all segments of society.

15 We recognize that there are debates over the term "civil society." Some, for instance, would equate civil society with the market and with actors motivated primarily with the pursuit of profit. We prefer a broader definition that includes both market actors like unions and business associations as well as non-market actors like the Grundtvigian movement. Both played important roles in Danish political and economic history.

16 Trade union density in Denmark has always been high by international standards. It was 78.3 percent in 1995 (Rubery and Grimshaw 2003, 161). Similarly, there is a comparatively high degree of cooperation and association among firms, although not as high as in the other Scandinavian countries, Germany, Austria, or Japan (Kenworthy 1995, 171). Not surprisingly, therefore, labour market institutions in Denmark are among the most centralized in the OECD, in that there is mutual recognition of the rights of peak associations to bargain for unions and employer affiliates (Western 1997, 33–4). In 1996 nearly 70 percent of Danish workers were covered by collective bargaining agreements (Rubery and Grimshaw 2003, 161).

17 According to another study, during the mid-1980s if you selected two people at random from the Danish population, the odds that they would be from different ethnic groups were about 6 out of 100. Among the advanced capitalist countries, only Ireland, Japan, and Portugal had lower odds. On average, the odds for the entire set of advanced capitalist countries were 28 out of 100 (Roeder 2001).

18 We do not mean to quibble over the best or most appropriate definition of corporatism. In addition to Katzenstein's definition, there are many definitions as to what corporatism is and how it works. These range from elite types and types that tend to exclude labour from negotiation to more tripartite, consensual, and democratic types of the sort that Katzenstein described (Schmitter 1979; Schmitter and Lehmbruch 1979). Our point is simply that there may be particular elements of corporatism that are more fundamental than others, as least nowadays, to ensuring economic success for small states with open economies.

19 The high degree of inclusiveness exhibited in Denmark – especially insofar as policy learning is concerned – is well illustrated by Danish think tanks. These organizations play a particularly important role in the policy-learning process. Here we have in mind organizations, such as the Business Development Council, which focuses on industrial policy, and the National Labour Market Council, which focuses on labour market policy. These organizations bring together business leaders, union officials, politicians, civil servants, experts, and others to learn from the past experiences of both Denmark and other countries. They do so by evaluating past performance, setting benchmarks against which to gauge future performance, and predicting through modelling and other analytic techniques how policies will affect both macroeconomic and microeconomic outcomes. They also discuss how to translate ideas and practices observed outside Denmark into local Danish practice. These organizations are explicitly designed for policy learning. They are both very *inclusive* and *consensus-oriented* in their approach to policy learning and in making policy recommendations. In this regard, they are very different from think tanks in other countries (e.g., Ricci 1993).

20 This is not to say that reinvigorated corporatist institutions are the sole cause of Denmark's recent success. National identity, constitutional laxity, and other things discussed earlier have also been important. Indeed, there is debate about how much of an effect corporatism has had on socioeconomic success in the OECD (e.g., Garrett 1998; Hicks and Kenworthy 1998; Smith 1992; Western 2001).

21 The absence of attention to these issues is apparent from an examination of the index of Hall and Soskice's volume, *The Varieties of Capitalism*, which contains 473 pages of text. The term "culture" is mentioned in just two locations, while the terms "national identity," "norms," and "values" are not mentioned at all.