

# Small States in the Modern World

Vulnerabilities and Opportunities

---

*Edited by*

Harald Baldersheim

*Professor, University of Oslo, Norway*

Michael Keating

*Professor, University of Aberdeen, UK*



**Edward Elgar**  
PUBLISHING

Cheltenham, UK • Northampton, MA, USA

© Harald Baldersheim and Michael Keating 2015

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical or photocopying, recording, or otherwise without the prior permission of the publisher.

Published by  
Edward Elgar Publishing Limited  
The Lyptatts  
15 Lansdown Road  
Cheltenham  
Glos GL50 2JA  
UK

Edward Elgar Publishing, Inc.  
William Pratt House  
9 Dewey Court  
Northampton  
Massachusetts 01060  
USA

A catalogue record for this book  
is available from the British Library

Library of Congress Control Number: 2015943178

This book is available electronically in the **Elgaronline**  
Social and Political Science subject collection  
DOI 10.4337/9781784711443



ISBN 978 1 78471 143 6 (cased)  
ISBN 978 1 78471 144 3 (eBook)

Typeset by Servis Filmsetting Ltd, Stockport, Cheshire  
Printed and bound in Great Britain by TJ International Ltd, Padstow

## Contents

<i>List of figures</i>	vii
<i>List of tables</i>	viii
<i>List of contributors</i>	ix
<i>Preface: outline of the issues</i>	xi
Michael Keating	

### PART I INTRODUCTION

1 The political economy of small states in Europe <i>Michael Keating</i>	3
---	---

### PART II THE MODERN WORLD – A LESS DANGEROUS PLACE FOR SMALL STATES?

2 Small states and security: does size still matter? <i>Abyson J.K. Bailes</i>	23
3 Do small states need shelter? The economic and political turmoil in Iceland <i>Baldur Thorhallsson</i>	42

### PART III THE SMALL STATE IN MULTI-LEVEL GOVERNANCE – NEW OPPORTUNITIES?

4 Small states in EU decision-making: how can they be effective? <i>Diana Pankke</i>	59
5 Small if needed, big if necessary: small member states and the EU's diplomatic system in Kiev <i>Jozef Bátora</i>	73
6 Political mechanics of smallness: the Baltic states as small states in the European Parliament <i>Allan Sikk and Licia Cianetti</i>	91

PART IV THE MODERN SMALL STATE – THE SOCIAL INVESTMENT STATE? ON ‘GETTING TO DENMARK’

- 7 Small-state Scandinavia: social investment or social democracy? *Nik Brandal and Øivind Bratberg* 113
- 8 Small nation versus small states: the case of Quebec *Stéphane Paquin* 131
- 9 Scotland as a potential small state *Malcolm Harvey* 145

PART V THE ADAPTABILITY OF SMALL STATES – SHOCK THERAPY OR CONCERTED ELITES?

- 10 The state that reinvented itself: New Zealand’s transition to the market competition state *Jeffrey McNeill* 165
- 11 Small states and national elites in a neoliberal era *Anton Steen* 183
- 12 Small state, huge assets: the problem of fiscal discipline in an oil-rich country – the case of Norway *Harald Baldersheim* 202
- 13 Conclusions *Harald Baldersheim* 224

*References*

*Index*

234  
263

## Figures

- 4.1 Differences in shaping success of the EU-27 states 64
- 6.1 Number of MEPs per million people 95
- 6.2 Country size and size of parliament (lower houses) 96
- 6.3 Country size and cabinet size 97
- 6.4 MEPs with national parliamentary and ministerial experience by member state 102
- 6.5 Number of MEPs and MEPs’ experience of a national parliament 104
- 6.6 Number of MEPs and MEPs’ national ministerial experience 105
- 12.1 Development of the Government Pension Fund Global 2005–2014 204
- 12.2a State budget deficit 2000–2015, corresponding to actual use of the oil dividend in the state budget 206
- 12.2b State budget deficit as a percentage of on-shore GDP and the yield of 4 per cent oil dividend as a percentage of GDP 207
- 12.3 Frequency of newspaper coverage of SR, 1999 to September 2013 215

## Tables

2.1	Some key aspects of multi-dimensional security for small states	26
2.2	Comparison of the Nordic states and Danish autonomous territories	31
2.3	Comparison of Nordic armed forces	36
4.1	Accounting for varying shaping success	66
4.2	Endogenizing strategy choices	68
8.1	Average number of years of schooling in 1991 of men born in 1926, 1946 and 1966 in Quebec, Ontario and the United States	133
9.1	Nordic mentions in <i>Scotland's Future</i>	152
11.1	The national elites (percentages agreeing with the statements)	190
11.2	Elite attitudes to the state and the business sector, statement 1: 'State influence over private business should be reduced' (percentages who agree)	193
11.3	Elite attitudes to state power, statement 2: 'The state is too powerful' (percentages who agree)	193
11.4	Elite attitudes to international finance markets, statement 3: 'International financial markets are too influential' (percentages who agree)	195
11.5	Elite attitudes to national self-determination, statement 4: 'National self-determination is too weak' (percentages who agree)	195
12.1	Strategies of fiscal discipline and their adoption in Norway	211
12.2	Attitudes to the SR in newspaper articles or reports	215
12.3	Parliamentary submissions (Innst. St.) and speeches of members of Parliament dealing with the SR	217
12.4	Attitudes to the SR by speakers in parliamentary debates 2001–2012/2013	218

## Contributors

- Alyson J.K. Bales** is Adjunct Professor of Political Science at the University of Iceland.
- Harald Balderheim** is Professor of Political Science at the University of Oslo, Norway.
- Jozef Bátora** is Associate Professor of Political Science at Comenius University, Bratislava, Slovakia.
- Nik Brandal** is a historian and project manager and researcher for the public committee on the treatment of Norwegian travellers at the Centre for Human Rights, University of Oslo, Norway.
- Oivind Bratberg** is Senior Lecturer in the Department of Political Science, University of Oslo, Norway.
- Licia Cianetti** is a Ph.D. candidate in the School of Slavonic and East European Studies, University College London, England.
- Malcolm Harvey** is Research Fellow at the Centre on Constitutional Change at the University of Aberdeen, Scotland.
- Michael Keating** is Professor of Politics at the University of Aberdeen, Scotland.
- Jeffrey McNeill** is Senior Lecturer in Planning at Massey University, New Zealand.
- Diana Panke** is Professor of Governance in Multilevel Systems at the Albert-Ludwigs-Universität Freiburg, Germany.
- Stéphane Paquin** is Professor of International Political Economy and Public Policy at École nationale d'administration publique, Montréal, Canada.
- Allan Sikk** is Senior Lecturer in Comparative Politics at the School of Slavonic and East European Studies, University College London, England.

**Anton Steen** is Professor of Political Science at the University of Oslo, Norway.

**Baldur Thorhallsson** is Professor of Political Science at the University of Iceland.

## Preface: outline of the issues

**Michael Keating**

---

### SMALL STATES IN THE GLOBAL ERA

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

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

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

different rationalities employed in 1984 and 1990 indicate flexibility in approach, so the policy was not entirely path dependent.

The ability to manage change may reflect individual countries' institutional arrangements. And there was wide public dissatisfaction with the former corporatist strategy that facilitated ongoing change – the Labour government was returned in 1987 after embarking on its first tranche of reform. However, the New Zealand experience runs counter to Keating's assertion that the market-liberal turn was successful in the Baltic states given their need to transition to market economies and the absence of strong unions, but difficult to replicate in mature European welfare states where public services are seen as a permanent social gain and where trade unions are part of national life (see Chapter 1). New Zealand had a very strong union membership, and the welfare state was strongly ingrained in the national psyche.

While the economic crises had catalysed rapid change, the speed and comprehensiveness were achieved where the institutional arrangements, the 'perfect Westminster majoritarian democracy' that Lijphart described in 1984 (pp. 16–19), provided a mechanism for railroading unpopular radical change, triggered by a crisis. The public rejection of this 'elected dictatorship' that the unicameral, two-party Westminster system produces subsequently led to a change of voting system that essentially hobbled further significant change. If, for example, Skilling is right and the market competition model is indeed inappropriate for a globalized world, New Zealand faces real problems. The mechanism that enabled change to a market competition model no longer exists to enable a change strategy. At present, an apparently successful economy brooks little domestic enthusiasm for significant change. Additionally, New Zealand's greater level of independence, compared to European small states that are largely integrated into a single large economy and defence pacts, means it has little direct external pressure for change. This reading suggests a strategy lock that will be hard to open. New Zealand's independence, isolation and geographic remoteness mean, metaphorically and literally, that New Zealand is a small state alone in a stormy sea.

## 11. Small states and national elites in a neoliberal era

Anton Steen

### INTRODUCTION

Neoliberal economic reforms have rightly been seen as elite-driven and part of a broader internationalization process in which rapidly changing environments especially affected small countries with open economies. From the middle of the 1980s, neoliberal ideas profoundly affected established democracies where the traditional welfare state came under pressure, and from the early 1990s such ideas also became crucial for the transformations of post-communist states into market economies. It is well documented how post-communist governments adapted national policies to international recommendations for state deregulation and international competition despite economic hardship for the general population. However, there is little knowledge about to what extent the broader elite supported the reforms and how country context and external shocks influenced their attitudes. The focus here is on how various elite segments responded to neoliberal ideas in the small Baltic states of Estonia, Latvia and Lithuania, as well as in Norway, and why there are considerable differences in orientations among their elites.

The economic successes of small states have been explained by unitary national politics founded on elite consensus and formalized social partnership (Katzenstein 1985). In order to meet the challenges of insecure international environments and globalized markets, a certain level of national solidarity and harmony on basic policy issues has to be in place. National identity formation becomes vital to political compromise and collective action, and takes on many practices like formally organized venues, but also informal interaction among the elite and more diffuse configurations based on shared basic beliefs, which are the focal point here. Smaller countries more than larger countries are vulnerable to international pressure, both economically and militarily, and therefore exposed to considerable uncertainties. In order to cope with such uncertainties and strategically respond to changes in their environments, Katzenstein (1985) argues,

their elites need to be more cohesive than those in larger countries, not only in population size, but also in the political context. As they are newly independent from the former Soviet Union and have large Russian minorities, the Baltic countries are different from Norway.<sup>1</sup> Coming after a long period of economic growth, the sudden financial crisis of 2008 hit the Baltic states harder than most countries, and one interesting question is if such a shock had any significance for the elites' beliefs in neoliberalism. Following Katzenstein, a national crisis will motivate converging orientations, especially in small nations. Do the different sizes, historical experiences and varying environments under which the elites operate have an impact on their belief patterns?

## SMALL STATES AND ELITE ALIGNMENTS

Elite alignments may be ingrained in nationally embedded consensus-making institutions like corporatist arrangements or in less structured networks of political actors as an inter-subjective creation of meanings emerging from common experiences. In pluralist democracies, elites are competing for power while also sharing basic common values and respecting the rules of the political game. Historically, such 'consensually integrated elites' have been the source for change of the political and economic regime in East European countries (Higley and Lengyel 2000) and also a necessary condition for more gradual democratic and economic reforms in Western countries (Higley and Burton 2006).

Elite orientations emerge at two levels (Putnam 1973). The first level is associated with fundamental values in society such as 'justice', with an offshoot where a preference for an equal income distribution is characteristic. The other level concerns how such values condition political action or, in other words, policy implications for the functions of the state and which instruments are applied with respect to regulation, the achievement of social equality, and private property. Sabatier and Jenkins-Smith (1999) adopt the same view when they explain stability and change in specific policy areas. Their basic unit is the 'policy subsystem' comprising established elite networks which are united on the basis of fundamental values and interests. The values of a subsystem can come to completely dominate a policy sector, but different elite subsystems may also compete with each other for control.

The states studied here have in common that they are small, but they differ as to national circumstances like historical experiences, population size, demography and uncertainties related to national security. In the Baltic states, economic reforms became entangled with safeguarding

independence after seceding from the USSR in 1991 (Bohle and Greskovits 2012), while in Norway neoliberalism was a question of making the welfare state more efficient, rather than of national security. Especially in newly independent countries like the Baltics with large minority groups, elites will try to reduce military insecurity by building a strong state for the titular nation and combining nation-state building with neoliberalist economic policies.

According to the small state thesis, a fairly high level of consensus is expected across elite groups, and the smaller the state and the greater the insecurity the more cohesive the elites; shocks in the international environment are particularly conducive to national elite cohesion. Three propositions follow from this argument. First, the Baltic elites are more united and pro-state than the Norwegian elites, and one may further expect that the Estonian and Latvian elites will express more robust and cohesive support for a strong state than the elites in Lithuania, where the issue of a large Russian minority is less salient. In the smallest country, Estonia, where there is a particularly tense nationality situation, elite unity will be most visible.

Critics have referred to the conception of 'the neoliberal Utopia', which, according to Bourdieu (1998), has a specific relation to individuals with power and influence. Bourdieu argues that the leaders of business organizations have a direct financial interest in a neoliberal economic programme. Therefore, the second proposition is that to the extent the elites are split in a given country the dominant divide is likely to be between the business leaders and the political-administrative segment, since the former are more likely to benefit from state deregulation. Leaders of business enterprises have often been mentioned as a key lobby group for market solutions, and one may expect that this group has both clearer neoliberal attitudes than other groups and similar orientations across national boundaries. The third proposition is that convergence across elite groups is strengthened after international shocks like the 2008 financial crisis, which was felt particularly intensely in the Baltics. One suggestion is that in these states scepticism towards neoliberal ideas will increase not only in the political and administrative sectors but also among business leaders.

## THE CHALLENGE OF NEOLIBERALISM – WEST AND EAST

Neoliberalism can be defined in several ways. Initially, the ideal is seen as a displacement of the politico-economic centre of gravity from the state to the market. The core tenet of neoliberalism is that state functions should

be restricted and subjected to the market mechanism to the greatest possible degree. Market transactions result in growth, and income differences stimulate competition and more favourable use of societal resources in the long run. One consequence is that the state boundaries might be too restricted so that the market may function optimally. Free movement of capital is a major factor in what is referred to as 'globalization'. The reform ideas originated in the research community in the United States, and the economic models based on these ideals were diffused to national political and economic elites by powerful organizations such as the IMF, the World Bank and OECD (D.S. Jones 2012).

## NEOLIBERALISM UNDER POST-SOCIAL DEMOCRACY

From the end of the Second World War until the 1970s, Norway can be characterized as a social democratic state where the Labour Party formed the political fundament. Promotion of economic growth was exercised through a gradual liberalization of trade policy, but was balanced by a Keynesian budgetary policy, national financial control, equalization of incomes, a large public sector and universal welfare arrangements. During the 1970s, an economic backlash occurred, with excessive pressure on the public sector, which called for management reforms. The wealth arising from oil and gas enabled Norway to defer any reforms far longer than most other Western countries, and management by objectives in the public sector gradually transformed the character of the social democratic state. The social democratic Labour Party lost its hegemonic position and simultaneously changed its political profile away from traditional state regulation in order to appeal to a new and broader group of voters.

An important and characteristic change, executed by a non-socialist government in the mid-1980s, was the liberalization of capital movements across national boundaries, in keeping with an international trend headed by the more neoliberal governments in the UK and the United States. Neoliberal ideas were widely accepted by political and other elites, including among the leadership in the Scandinavian social democratic parties. Klitgaard (2007) argues that the paradoxical pro-market orientation of leading social democrats is explained by the universal welfare state as a means for political elites to stay in power – a relation that needed to be reshaped owing to changing economic conditions. In many countries this resulted in deregulation and privatization in a number of important areas, and the public administration apparatus became largely subject to business principles under the label of 'New Public Management'. In Scandinavia,

however, despite management reforms, public services associated with welfare were largely protected.

The economic liberalization of the 1990s was succeeded in Norway by a number of reforms within the public sector. State property was partly or wholly privatized, public utilities were opened to competition, state corporations were reorganized as limited companies (with or without the state as a shareholder), and new management techniques were introduced into the public sector based on the principles applied in the private sector. The political argument was that the population – as consumers – would benefit from increased competition in the availability of services while at the same time a reduced state would be able to concentrate on superior welfare objectives, the general framework of capitalism and the instruments of control.

In Norway, some deregulation and privatization of state tasks have taken place, while the basic corporatist institutions and social partnership were mainly preserved. The elite's main context is an open economy and an ambitious welfare state with a rather homogeneous population. Also here the issue of national independence, and in particular relations with the EU, has been high on the political agenda, and a distrustful population rejected EU membership in two referenda, in sharp contrast to the predominantly positive elite. Consequently, here one would expect widespread neoliberal attitudes but also a more divided elite.

## NEOLIBERALISM UNDER POST-SOCIALISM

The rapid termination of state planning and regulation of details, and the desire to emulate Western market economies were the foundation of the post-communist elites' programme for changing society. The cessation of state-controlled economies and the establishment of new democratic institutions were not merely an expression of political freedom, but equally linked to the hope of material growth and welfare. In many post-socialist countries, neoliberal Western advisers persuaded the core elite to accelerate the transformation process, fearing that repeated compromises would dilute the reforms (Gustafson 1999). Particularly in Russia, a closed network around the president came to operate as an exclusive 'clan'. Åslund and Dmitriev (1999) explain the lack of economic success in Russia by such 'rent-seekers' drawing the advantage from the fact that the market was not functioning and providing the opportunity for private monopolies.

In the Baltic countries, the situation was different in that from the mid-1990s the international community, including the EU, the Council of



Europe and NATO, was able to observe how the reforms had developed, both economically and politically. In the first period, however, technocratic 'change teams' were insulated from politics and able to carry out economic 'shock therapy'. But this group of Western-oriented technocratic liberals with direct access to the most central decision makers could not operate in a political vacuum over a long period. Soon, free political elections indicated that, if the reforms were to continue, they had to build upon broader elite coalitions (Nissinen 1999). The positive attitudes held by the elites in the early phase served to stimulate the economic reforms, but, because the social experiences associated with extreme market reforms and cuts in state expenditures had to be borne by large segments of the general population, particularly elderly people, the elites' initial beliefs in radical market solutions became less enthusiastic (Steen 2007). Moreover, large Russian minorities continued to challenge the new nation-states, which responded with a nationalist type of neoliberalist policies, implying considerable state control (Bohle and Greskovits 2012). These authors argue that, 'Due to shared beliefs in the urgency of (re)building their nations, Baltic elites were less constrained by the economic and social costs of radical transformation than was the case in other East Central European Countries' (Bohle and Greskovits 2012, p. 96). In the Baltic states, recently independent from Soviet occupation, the national elites were attracted by the neoliberal ideas of reducing state control and opening their economies mainly as a lever to become integrated into the Western security sphere.

## THE DATA

The elite orientations studied here essentially comprise two data sets based on face-to-face questionnaire interviews. The first is a selection of questions posed in the Norwegian Power Elite Study conducted between 1998 and 2003. This survey included a comprehensive study of leadership based on systematic interviews of almost 2000 leaders at different levels in a number of spheres in society including politics, the business sector, defence, the bureaucracy, organizations, research and higher education, the church and cultural life (Gulbrandsen et al. 2002). The interviews were conducted by Statistics Norway in the winter of 2000–2001.

The second data set covers the three Baltic states and uses the same questions as in the Norwegian Power Elite Study, posed in surveys at two points in time. The first survey was in winter 2006–2007 (Estonia), spring 2007 (Latvia) and autumn 2007 (Lithuania), and it was repeated in autumn 2012 (Latvia) and autumn 2012/spring 2013 (Lithuania). The interviews were conducted by the following polling companies: Saar Poll in Estonia,

the Baltic Institute of Social Sciences in Latvia, and Baltic Surveys Ltd in Lithuania.

The total number for each Baltic country is approximately 300, and includes the top leaders of eight elite groups, which constitute the major part of the country's institutional leaders, fairly similar to the Norwegian Power Elite Study. In addition to comparing the total elites between the countries, political, administrative and business elites were selected as particularly relevant to neoliberalism, and compared across and within the countries.

## THE NATIONAL ELITES – HOW DIFFERENT?

In this section the total national elites are compared between the countries. According to Katzenstein (1985) and Bohle and Greskovits (2012), elites in small states who are exposed to economic uncertainties and threats will exhibit unified orientations. Further, one may expect that elites will generally be attracted by neoliberal ideas propagated by renowned international institutions. Is it possible to identify a transnational convergence of elite attitudes in these small nations traversing post-social democratic and post-communist contexts? Do differences in population size have any effect? And to what extent do external threats have an impact on elite consensus? The survey questions, first posed to the Norwegian elites, are directly associated with essential features of the neoliberal ideal such as the size of the public sector, state regulation, internationalization and national self-determination. These questions were translated into the respective Baltic languages, and also into Russian where relevant, and in 2006 and 2012 they were included in a more comprehensive survey that the author has been conducting regularly in the Baltic states since 1993–1994 (see Table 11.1).

Concerning regulation of the market – the influence of the state in commercial activity – a majority in all countries consider that such influence should be reduced, but the proportion in Estonia is markedly below the level in the other countries. This is at first glance surprising, because in most areas Estonia is considered to be very neoliberal in its economic policy and leading by example in reforms. However, Estonia's economic 'shock therapy', which had considerable success for economic growth but also negative social consequences for major parts of the population, may have reduced opposition to state regulation. Probably more important is that with little state left there is little to reduce. The most critical attitudes to state regulation of business are found in Latvia and Lithuania, where economic reforms started later. Since the financial crisis, the elites' beliefs in reduced state influence over private business continue to be strong in

Table 11.1 *The national elites (percentages agreeing with the statements)*

Statements	Norway 2001	Estonia 2006	Latvia 2006 2012/2013	Lithuania 2006 2012
1. 'State influence over private business should be reduced'	65 (n=1520)	56 (n=258)	73 (n=277) 68 (n=228)	75 (n=301) 76 (n=279)
2. 'The state is too powerful'	52 (n=1522)	27 (n=258)	41 (n=271) 35 (n=234)	46 (n=298) 44 (n=278)
3. 'International financial markets are too influential'	61 (n=1501)	61 (n=256)	76 (n=266) 83 (n=229)	63 (n=276) 82 (n=266)
4. 'National self-determination is too weak'	27 (n=1521)	56 (n=261)	58 (n=274) 66 (n=228)	51 (n=298) 61 (n=270)

*Notes:*

Percentages are of those completely or partially in agreement with the statements. The combined elite comprise in Norway the following institutions: parliament, administration, the legal professions, private business, state business sectors, NGOs, culture, the mass media and local government. Church leaders and leaders in the defence sector were included in the original Norwegian study but are for comparable purposes excluded here. In the Baltic countries, the elite come from the same institutions as mentioned above (also excluding church and defence). 'No reply' and 'don't know' responses are treated as missing values. The response rates for the various questions were between 95 and 100 per cent.

Lithuania, while in Latvia they have become somewhat less critical to state influence. A clear majority of the Norwegian elite express beliefs in reducing the state's influence, and in fact express more neoliberal enthusiasm than Estonian leaders although less than those in Latvia and Lithuania.

These differences between the Baltic states are confirmed in the following statement: 'The state is too powerful.' Only 27 per cent of the Estonian elite agree; this is a sharp reduction compared to the previous question related to state regulation of business. Approximately the same reduction of about 30 per cent is found in Latvia and Lithuania. Norway stands out as having the elite most sceptical of the state, with 52 per cent agreeing that the state is too powerful. In summary, in all countries the elites are clearly more sceptical of reducing state power in general than of specifically abolishing regulation in business affairs. For the Baltic states, the dissimilar patterns on statements 1 and 2 may be due to the fact that a nationalist type of neoliberalism emerged in a context of redefining

nationhood among the indigenous people, and therefore a majority of the elites support a strong nation-state but not a state involved in economic regulation. This pattern gives support to Bohle and Greskovits (2012) and Kattel and Raudla (2013), who argue that identity politics presupposes a viable and strong state for safeguarding new national political institutions. The attitudes are particularly clear in Estonia but also visible in Latvia, two 'newborn' states with large Russian-speaking minority groups. The Norwegian elite's considerably lower enthusiasm for a strong state and relative closeness to the Lithuanian pattern can be explained by the absence of similar challenges related to large minorities and the nationality issue. Although differences are small, as expected the 2008 economic meltdown resulted in increasing support for the state, especially in Latvia.

## INTERNATIONAL MARKETS AND NATIONAL AUTONOMY

When it comes to the power of international financial institutions the majority of the elite in all four countries exhibit critical attitudes. This was the case especially for Latvia in 2006, where 76 per cent said financial markets were too influential, but also in the other countries more than 60 per cent of the elite agreed. A few years later the financial crisis had incited scepticism in more than 80 per cent of respondents in Latvia and Lithuania. A widespread distrust in the financial markets seems to join national elite majorities across borders and is in sharp contrast to one fundamental aspect of neoliberal ideology, the internationalization of the capital market.

The widespread negative attitudes towards the international finance system in the Baltic countries find resonance in the next statement about national self-determination. Here more than 50 per cent consider that national autonomy is too limited, and the percentage increases distinctly after 2008. The Baltic pattern is in sharp contrast with Norway, where only 27 per cent of respondents share this view. One explanation may be the different relationships to the EU. EU membership for the Baltic countries from 2004 implied a significant transfer of authority to international bodies, and can be assumed to have influenced the elites' view of national self-determination. The view that Norway has considerable national self-determination may also be interpreted as an indication that the pro-EU elite regard this as a problem for Norwegian EU membership.

To sum up, support for neoliberal policies of reducing state control is less widespread than expected. While a majority in all countries support economic deregulation, in the Baltic states only a minority want to reduce

the power of the state. The Baltic elites tend to be more in favour of a strong state than the Norwegians are. This accentuates the argument of Bohle and Greskovits (2012), who claim that securing national independence with a large Russian minority was feasible only with nationalist policies encouraged by an active state. The issue of international markets and national autonomy rather clearly shows, as argued by Katzenstein (1984), that insecure economic environments necessitate cohesive small state elites and that delegating state power to supranational institutions has consequences for elite concern for national self-determination, as shown in statement 4. The economic meltdown in the Baltic states evidently intensified such concerns.

### THE NATIONAL ELITE GROUPS – HOW COHESIVE?

A main feature of a democratic society is pluralist elites who compete for popular support (Dahl 1982). ‘Strategic elites’ (Keller 1991), however, can establish a ‘tight community’ where special interests are maintained and encouraged through institutionalized subsystems, for example arrangements of organized sector representation, or, possibly of equal importance, through loose groups consisting of elites in several institutions sharing the same basic orientations (Sabatier and Jenkins-Smith 1999). The focus here is on similarities among the subgroups. Katzenstein (1985, p. 32) sees elite consensus on economic and social policies in established democracies like Norway as ‘an ideology of social partnership’ not emanating from the country’s smallness per se but as a result of corporatist arrangements and bargaining institutions. In new democracies lacking corporate traditions, elite groups are not joined by sector representation and formalized meeting places but by shared national issue-framings, and they meet only ad hoc in loose networks where attitudes and the issues on the agenda draw the actors together into a potentially significant unit.

Of similar importance to resemblances between the national elites in different countries is convergence of orientations among groups in the separate nations. Homogeneous attitudes indicate that the elites may have a particular common focal interest, in contrast to heterogeneous attitudes, which may serve to split them. The same applies to elite groups in the individual nations. The opinions of the three subgroups – parliament deputies, administrative leaders and business leaders – are compared in Table 11.2.

The statement goes to the core idea of neoliberalism, advocating less state regulation over private business activities. In all the countries the leaders of private business companies overwhelmingly agree that state influence should be reduced (80–96 per cent). Among top state bureaucrats

Table 11.2 *Elite attitudes to the state and the business sector, statement 1: ‘State influence over private business should be reduced’ (percentages who agree)*

Year	Politicians	State administration	Business sector
Norway 2001	51 (n=137)	65 (n=101)	94 (n=145)
Estonia 2006	52 (n=27)	56 (n=25)	82 (n=34)
Latvia 2006	69 (n=67)	70 (n=30)	87 (n=30)
Latvia 2013	64 (n=56)	83 (n=25)	80 (n=25)
Lithuania 2006	76 (n=93)	70 (n=30)	91 (n=34)
Lithuania 2013	70 (n=81)	69 (n=29)	96 (n=28)

Table 11.3 *Elite attitudes to state power, statement 2: ‘The state is too powerful’ (percentages who agree)*

Year	Politicians	State administration	Business sector
Norway 2001	47 (n=135)	27 (n=101)	86 (n=145)
Estonia 2006	8 (n=26)	8 (n=25)	44 (n=34)
Latvia 2006	41 (n=67)	35 (n=29)	59 (n=29)
Latvia 2013	24 (n=58)	25 (n=24)	60 (n=25)
Lithuania 2006	46 (n=90)	20 (n=30)	79 (n=33)
Lithuania 2013	43 (n=82)	25 (n=28)	68 (n=25)

a majority agree, but support is less substantial than in the private sector. The politicians in Norway and Estonia are split down the middle and clearly the least enthusiastic about decreasing state influence over business. The financial crisis seems to have made politicians somewhat more sceptical of reducing state power, while there is no clear tendency for reduced distrust among the bureaucrats and in the business sector in these two countries.

The picture is quite different with the statement concerning state power in general (see Table 11.3). In the Norwegian business sector a large majority agree that the state has too much power, while in the Baltic countries remarkably fewer of these leaders are in agreement. Estonian business leaders especially have modest critical attitudes to a powerful state. The same trend is found among Latvian and Lithuanian business elites but is not so prominent. As expected, a minority of state administrators share the view that the state is too powerful; this is a substantial reduction compared to the previous statement about state influence on private business. Estonia stands out with only 8 per cent of bureaucrats agreeing that the

state is too dominant. A majority of the politicians in all four countries support a strong state in general. This also applies to Norway but is especially notable in the three Baltic states and in particular in Estonia. As for the effects of the financial crisis, the ensuing economic decay seems to have intensified the beliefs in more state power especially among politicians and the state administration in Latvia, although it did not affect the Lithuanian elites the same way, with the exception of business.

Summarizing the orientations towards market regulation and state power, it is obvious that politicians' and state administrators' support for deregulating state influence over business (statement 1) is not associated with the same level of support for reducing state power in general (statement 2). This tendency is also clear for the business community, especially in the Baltic states. Among the business leaders in Estonia and Latvia it seems easier to accept a powerful state than among their Lithuanian colleagues. The Norwegian business elite stand out as the most forthright supporters of both further marketization and a generally weaker state.

## INTERNATIONAL MARKETS AND NATIONAL AUTONOMY

As shown, about 60 per cent of the total elite in Norway, Estonia and Lithuania and about 75 per cent in Latvia consider the international financial markets too influential (Table 11.1). Asked about national self-determination, a majority of the Baltic elite answer that it is too weak, and increasing to more than 60 per cent after the financial crisis. An astonishingly low 27 per cent of the overall Norwegian elites agree on this issue. To what extent are the orientations of the three subgroups in accordance about the role of the financial markets and the nation-state?

A majority of the politicians are worried in all four countries, and after the financial crisis scepticism in international financial actors soared in Latvia and Lithuania. The Norwegian business elite has the lowest disbelief (32 per cent), compared to considerably more concerned colleagues in the other countries (see Table 11.4). After the 2008 economic collapse the Baltic business leaders' substantial initial worry increased sharply to a level with, and sometimes higher than, that of politicians and state administrators.

Statement 4 goes to the core of the nation-state and the problem of national autonomy. It should be noted that statement 4 does not specifically refer to transnational economic relationships but focuses on national self-determination in general.

The responses to statement 4 illustrate how the elite reflect on national

Table 11.4 *Elite attitudes to international finance markets, statement 3: International financial markets are too influential (percentages who agree)*

Year	Politicians	State administration	Business sector
Norway	2001 79 (n=135)	62 (n=101)	32 (n=145)
Estonia	2006 70 (n=27)	36 (n=25)	68 (n=34)
Latvia	2006 73 (n=70)	79 (n=28)	55 (n=29)
	2013 81 (n=58)	76 (n=25)	79 (n=24)
Lithuania	2006 52 (n=79)	50 (n=28)	74 (n=31)
	2013 89 (n=73)	67 (n=27)	89 (n=27)

Table 11.5 *Elite attitudes to national self-determination, statement 4: National self-determination is too weak (percentages who agree)*

Year	Politicians	State administration	Business sector
Norway	2001 37 (n=135)	21 (n=101)	12 (n=145)
Estonia	2006 52 (n=27)	44 (n=25)	53 (n=34)
Latvia	2006 54 (n=69)	43 (n=30)	55 (n=29)
	2013 56 (n=55)	48 (n=23)	72 (n=25)
Lithuania	2006 46 (n=92)	42 (n=31)	53 (n=32)
	2013 65 (n=71)	59 (n=29)	74 (n=30)

autonomy and may indicate the extent of their nationalist orientations (see Table 11.5). First, only a minority of the Norwegian elite group think national self-determination is too weak, and especially among business leaders very few are concerned. The overall Norwegian pattern is in sharp contrast to the Baltic elites' much higher apprehensions about national sovereignty. For these states it is unexpected to observe that the business elites actually are more alarmed than politicians and state chief officers about fragile national self-determination. The concerns increased sharply after the financial crisis, especially among Latvian and Lithuanian business leaders.

Statements 3 and 4 evidently indicate that the general effect of global markets on national sovereignty is a case for concern among political and bureaucratic elites in all four countries and particularly among the business elites in the Baltic states. A possible explanation for the anomalous state-embracing reactions of the Baltic business leaders may be that more than others they experienced the harsh consequences of 'wild capitalism'.

The Norwegian business leaders are strikingly more liberal in their views on financial markets, and this tendency is even more noticeable concerning the discounting of national self-determination.

For the Baltic countries the pressure from international markets and the historical trauma of Russian domination seem to activate nationalist affinities and harmonize such views across elite groups. This is in sharp contrast to Norway, where the question of international competition splits the elites and national autonomy is of considerably less importance.

## NEOLIBERALISM – EMBEDDED IN NATIONALISM

The neoliberal ideas of Friedrich von Hayek and Milton Friedman were widely disseminated at the beginning of the 1980s by neo-conservative Western think tanks which questioned the efficiency of the modern welfare state and the international trade system and called for massive deregulation and open borders (D.S. Jones 2012). The Baltic states, more than other post-communist countries, embraced these ideas and are thus regarded as the prototype model of neoliberal capitalism. Bohle and Greskovits (2012, p. 97) argue, however, that reforms were heavily influenced by nationalist politics 'to reverse the effects of the massive influx of Russian speakers in Soviet times', and maintain that Estonia and Latvia typify a specific neoliberalism based on a nationalist social contract in contrast to the 'welfarist social contracts' found in the Visegrad countries. The Baltic radical economic reforms became intrinsically tied to nationalist ideology. Elites justifying market reforms with the purpose of safeguarding nation-state building was reflected in what has been named 'national neoliberalism' (Kattel and Raudla 2013). However, as Zake (2002) argues, some Latvian political elites used market reforms and international integration for the opposite purpose, namely reducing ethnic confrontation and promoting more class-based politics and a common Latvian identity. The People's Party was quite successful with this strategy in the 1998 parliamentary election, which indicates that ethnic-centred nationalism was contested and not the only means of political mobilization.

Owing to differences in national, political and economic circumstances, varieties of neoliberal processes appeared across Western and Eastern Europe (Birch and Mykhnenko 2009). The carrying out of WTO rules became more a matter of how actors framed the issue in national discourses than implementation of a fixed formal design (De Ville 2012). In the early Polish transition phase, the loss of Solidarity's influence, and thereby the possibility of a Scandinavian negotiated economy model, is an interesting example of how a social bottom-up approach to economic

reforms was overruled by the influence of neoliberal technocrats in the absence of a nationalist type of neoliberalism (Zeniewski 2011).

The Baltic states' radical economic reforms became a catalyst for cutting bonds with the Russian economy and protecting national interests. Therefore, international integration and entry into the EU and NATO became closely embedded in a nationalist type of economic reform (Kattel and Raudla 2013, p. 443). At the end of the 1990s, following international pressure from the EU and the Council of Europe, the citizenship laws in Estonia and Latvia were to some extent liberalized to include more segments of the Russian-speaking population. The requirement for democratization was a precondition to attaining membership in the EU and NATO, but, as shown in Steen (2010), amending the citizenship laws and gaining full membership in these organizations did not make the elite's attitudes more positive to including the Russophone populations. Obviously, attaining security in international organizations was the overarching goal, but it had its costs for national sovereignty, as reflected in the grudging passing of more liberal citizenship laws and in the Baltic elites' perception of weak national self-determination identified here. The nation-building processes in these 'newborn' states became entangled in neoliberal reform ideas and international commitments that have favoured fundamental changes of formal institutions in tandem with a nationalizing project. In Estonia and Latvia the elite ambition to build nation-states for the indigenous populations could not be fulfilled while at the same time becoming members of Europe. However, an exclusionist and nationalist elite culture still remains following a change of formal institutions.

Bohle and Greskovits (2012) argue that, owing to different national circumstances in Central and Eastern Europe (CEE), various types of capitalism emerged after the fall of communism. Early on, the three Baltic countries adopted a neoliberal regime, with the most radical economic transformations in close cooperation with Western advisers and combined neoliberal economic policies with nationalist politics and elements of exclusionary democracy found in Estonia and Latvia. The gloomy legacy of the Soviet period is crucial to understanding the neoliberal reforms as an instrument for preserving newly attained national independence. It explains why the high transformation costs the general population had to bear were less politicized compared to the case in other CEE countries. The elite's engagement in rebuilding their nation-states was founded on a shared belief that high social costs were a necessary investment in future integration into the Western sphere; this became the major rationale for draconian economic measures.

The aim of protecting the culture of the indigenous population from the previous hegemony of a large Russian minority and their bordering

national 'homeland' is attained by 'struggles of institutionally constituted national elites' (Brubaker 1996, p. 25) and stimulated by building a 'nationalizing state'. However, the strategic power elites could not promote such a project without dedicated support from the broader elites in politics, the state administration and business. Neoliberalism as part of a nation-state project necessitated 'specific elite building with a discernible *esprit de corps*, visible in perhaps its purest form again in Estonia because of stable governments' (Kattel and Raudla 2013, p. 443). This observation of the Estonian elite as particularly integrated, disciplined and nationalistic coincides with other observations describing it as more ethnically homogeneous and with a clearer anti-Soviet front during the occupation period compared to Latvia and Lithuania (Misiunas and Taagepera 1993; Lieven 1994; Steen 1997). Estonia was a forerunner of reform and is occasionally called the most dynamic 'Baltic economic tiger'.<sup>2</sup> Support for a strong state, as expressed by the elite, was necessary in order to implement reform while safeguarding the nationalist 'contract' (Bohle and Greskovits 2012) between the elite and the people in this particularly small and vulnerable nation-state.

## CONCLUSION: NEOLIBERALISM, ELITE CONVERGENCE AND POWER

The comparison of Norway and the Baltic countries illustrates that elite convergence around a neoliberal programme is not a general trend. The orientations investigated across these four countries challenge the notion of neoliberalism as a cohesive reform ideal with extensive elite support. Further, there are manifest differences between the elite groups, especially in Norway. The conspicuous neoliberal view of Norwegian business entrepreneurs stands out both nationally and internationally. As the data presented here show, the Norwegian elite in general, and the business sector in particular, are markedly less engaged with national self-determination compared to the Baltic elites.

Obviously, circumstances related to basic national security issues have an impact on the elites' beliefs in neoliberalism. Returning to Katzenstein's (1985) basic thesis arguing that a high level of consensus is expected among elites in small states, I claimed, first, that the smaller the state and the greater the insecurity the more cohesive the elites. Elite support for deregulation and marketization to some extent goes in tandem with nationalist orientations like support for a strong state and protection from external competition. This nationalist type of neoliberalism is most visible in Estonia and also detectable in Latvia; it may be explained by harsh

historical experiences with Soviet occupation and fears concerning the loyalty of large Russian minorities to the new nation-states. This interpretation is in accordance with Bohle and Greskovits (2012), who argue that Baltic elites, in particular Estonian and Latvian leaders, saw radical economic transformation as a strategy for building national identities aimed at a radical departure from the past.

The second proposition was that the dominant elite divide is likely to be observed between the business leaders and the political-administrative segment, since the former are more likely to have a direct interest in neoliberal reforms and benefit from state deregulation. In Norway the traditional societal corporatist model came under pressure from neoliberal reform ideas, including scepticism from leading social democrats and especially from an international-oriented business sector with less concern for national self-determination. The surveys exhibit the Norwegian business elite expressing more purely liberal views than their Baltic counterparts. There are also noticeable differences among the Baltic countries. One possible explanation for the overall pattern – with business neoliberalism more outspoken in Norway – is that the Norwegian business community is ideologically more disconnected from the framework of the nation-state, while recent national struggles for independence weigh on the Baltic consciousness even among the entrepreneurial class.

Third, it was suggested that shocks in the international environment are particularly conducive to national elite cohesion. The interviews repeated in Latvia and Lithuania several years after the 2008 financial crisis show that the economic repercussions spurred even more united opinions, scepticism towards international markets, and support for national self-determination. Since the financial meltdown the Baltic elites strikingly have become more negative towards international financial institutions and more supportive of state self-determination, while the crisis has had little effect on attitudes towards internal state-market relations. The elite still support deregulation of state control over business but have become far more sceptical towards the reduction of national autonomy. The business sector in Latvia and Lithuania was especially affected by the economic meltdown, and quite unexpectedly (from the perspective of neoliberal ideology) their leaders are at the forefront of efforts to protect the national economy against turbulent international environments.

Why do Norwegian leaders of business enterprises distinguish themselves from other elite groups with energetic neoliberal orientations, while their Baltic counterparts do not? National and international circumstances can be influential in a variety of ways. One probable explanation, following the argument of Bohle and Greskovits (2012), is that business elites and others must work together more closely during a period



of establishing a new nation-state. In traditional nation-states such as Norway, business leaders regard the state more as a 'company' and less as a nation-state, while elites in politics and administration have the nation-state as the most important frame of reference. Neoliberal solutions would serve the economic interests of the business community, and therefore that is what their orientations most probably express. Because the business community in Norway is ideologically more disconnected from the framework of national autonomy, belief in neoliberalism has become more prevalent; in the Baltic states, in contrast, recent national independence is part of the national consciousness even among the business leaders, which probably explains their unexpected propensity for nationalist orientations. The contrasting orientations of the Baltic and Norwegian business elites raise the question of whether neoliberal ideas serve more as an instrument for control than an ideology uniting elites across sectors and countries.

Neoliberalism may be regarded as an ideology to be realized, or as a package of instruments strategic actors may make use of for purposes of political and economic control and not mainly related to putting a neoliberal programme per se into effect, as several research contributions indicate is the case for the 'nationalist neoliberalism' of the Baltics (Bohle and Greskovits 2012; Kartel and Raudla 2013). The same can be maintained about welfare reforms in Scandinavia when the Social Democrats introduced some deregulation and privatization to safeguard the welfare state and accordingly their own power (Klitgaard 2007). In Klitgaard's view, neoliberalism is a matter of institutional design and power, more essential than welfare and economic changes as such, where reforms imply how political control is to be distributed among strategic actors. The Social Democrats are not studied specifically here, but the rather widespread neoliberal orientations among Norwegian politicians and administrative leaders who mostly vote with the Social Democratic Party are more fruitfully understood as adjusting the boundaries of the welfare state. Thereby they are supporting their power basis rather than abolishing it by introducing a neoliberal regime. The same argument can be made for the Norwegian business leaders; more than acting as neoliberal crusaders, they can be understood to be increasing their power basis through their affirmative orientations by advocating even better economic circumstances for their enterprises.

In the Baltic states, the nationalist approach to neoliberal reforms explains why their elites are sympathetic to national independence and sceptical of international finance. Neoliberal policy, however, with all its social costs, was implemented to the satisfaction of the international community and paradoxically became a strategic means for indigenous control

in order to accomplish the paramount goal of safeguarding the reborn small nation-states against internal and external threats.

## ACKNOWLEDGEMENT

I am grateful to the Department of Political Science, University of Oslo, for providing research grants making data collection in the Baltic states possible, and to the NSD for access to the Norwegian Power Elite Study. Parts of this chapter have benefited from Steen and Østerud (2007).

## NOTES

1. In the early 2000s the number of inhabitants in Estonia was approximately 1.4 million (26 per cent Russians), Latvia 2.4 million (30 per cent Russians), Lithuania 3.5 million (6 per cent Russians) and Norway 4.5 million.
2. Ironically, in 1999 Estonia had some difficulties in joining the World Trade Organization (WTO) because it had no tariffs, and was requested to implement a tariff system in order to take part in negotiations of tariff reductions (Hoen 2011, p. 36).