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When size matters... or not

Small states: towards a new academic agenda

A renewed academic interest in the concept of 'smallstatedness' has emerged in recent years, with a research agenda that is centered on the demarcation of small states from their larger counterparts (i.e. individual distinctions and strategies in policy-making and agendas) as well as on comparative studies analysing the roles of small states within the dynamics of regional integration such as the European Union. The scope of academic studies on small states is broad, ranging from geo-strategic and interest-focussed studies in the field of international relations and history to recent academic studies on small states' competitiveness and economic governance in economy, to studies analysing national welfare systems in industrial relations and policy implementation and Europeanisation processes in political science.

Regardless of the innovativeness of what is often termed 'small states literature' within the realm of existing theories and approaches (functionalism, intergovernmentalism, multi-level-governance, Europeanisation, etc.) and regardless of its validity as a theoretical concept to understand socio-economic developments in a particular country, this strand of academic literature has always succeeded in anchoring its research priorities to the academic zeitgeist.

For the purpose of this article, four dimensions of the 'small states literature' are worth considering, as they enhance our understanding of Luxembourg's strategic

choices and policy agendas and how the concept of 'smallstatedness' has moved beyond academic circles into policy rhetoric.

Post-World War II alliances and interests

First, historians and international relations scholars with a post-World War II perspective and related atrocities in mind (see Katzenstein 2003; Ljipart 2012) emphasised the perceived economic and strategic

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vulnerability and isolation of small states in Europe. Concerning Luxembourg in particular, early economic and strategic alliances such as the North Atlantic Treaty Organisation in 1949, the European Coal and Steel Union enforced by the Treaty of Paris in 1951 and efforts of regional coalition-building with neighboring countries such as the Benelux alliance since 1960 have not only been perceived as protective bulwarks against international processes and developments with enhanced

trade opportunities, but they have also constituted arenas where Luxembourg as a small state negotiated the advance of the EU integration process. Being strategically vulnerable and economically dependent has, for a long time, entailed the adoption of a 'conciliatory approach' (Lorenz 1996: 231) in foreign policy relations that are based on consensus-seeking strategies. The historian Gilbert Trausch underlined in this respect that 'Le Luxembourg est un pays particulièrement sensible à l'environnement international. Longtemps il était pris dans le camps des tensions franco-allemandes et à chaque crise internationale – 1867, 1870, 1914 et 1939 – il a dû trembler pour son existence.' (ibidem, p. 243).

Second, authors with a governance-orientated focus pointed to Luxembourg as a small state with flexible and informal administrative pathways, a limited but diversified amount of dossiers, comfortable access by economic actors to power structures, and with rapid adaptation processes to international socio-economic developments such as the creation of niche products in key economic sectors such as ICT and finance. All of this is conducted with limited resources, as studies regarding for instance Luxembourg's public administration illustrate (Bossart 2018). In regard

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to Luxembourg's vital role in the EU integration process and the underlying multi-level dynamics with EU institutions, Thorhallsson (2000) identifies the prioritisation of policy items on the agenda, a flexible strategic adaptation and informality, the role of permanent representatives and negotiation strategies as key features of small states' working procedures at the EU level.

Third, welfare state and neo-corporatist scholars analyse small states by integrating them into existing typologies of how social relations are constructed, as is the case with the Varieties of Capitalism approach elaborated by Hall and Soskice in 2001. While 'smallstatedness' is mostly insignificant in these studies, Luxembourg is regarded as a coordinated market economy in contrast to liberal economies, such as the United Kingdom, with a strong, law-embedded and competitive-corporatist model of social relations in which the state still plays a coordinating role in collective bargaining instruments (Rhodes 1998; Thill, Thomas 2011). The historian Claude Wey (2003) links Luxembourg's industrial relations system to the regulatory capacity and efficiency of a small state, highlighting that ' (...) le soi-disant modèle social luxembourgeois peut être défini comme une construction politique assurant le fonctionnement institutionnalisé des rapports socio-économiques en milieu étatique de petite dimension. Structurant la vie publique du Grand-Duché de Luxembourg depuis les Trente Glorieuses, cette réalité tant sociétale qu'étatique est savamment utilisée par les instances gouvernementales comme une entité symbolique dont la finalité est censée représenter l'efficacité régulatrice de l'Etat de petite dimension'.

Last, a new research agenda has emerged in the academic literature (see Briguglio et al. 2018) in the context of the implementation of EU common guidelines and objectives through the European Semester, a tight and technical annual process defining the national coordination of economic policies at the EU level. Economists and critical sociologists (Saurugger 2014) focus on small states' competitiveness, the obsessed screening and monitoring through socio-economic indicators

and the resulting ranking between the EU countries, where matters of size and borders are irrelevant and where small states are regarded as equal performers and competitors.

Oscillating between convergence and peculiarity

A similar shift of the academic research agenda has occurred at the level of governance in Luxembourg, when the current socio-economic developments are considered. With the deepening of the EU integration process, globalisation and the focus on a neo-liberal orientation in EU policy-making, it can be observed that the mobilised issue of 'smallstatedness' has been increasingly replaced by a pressure

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of convergence and compliance culture. Soft (i.e. informal ways of implementing policy such as through peer reviews, peer pressure and mutual learning) and hard governance (EU regulations and EU directives) have narrowed the gap between convergence among the member states of the EU and the specificities of a small state.

Since the economic and financial crisis in Europe in 2008, this gap has been further narrowed by both the latent subordination of national economic regimes and budgets to supranational control and alert mechanisms at the EU level such as the Alert Mechanism Report (AMR), issued by the European Commission at the end of the calendar year and based on common indicators, where the concept of 'smallstatedness', as traditionally put forward in the 'small states literature', is insignificant.

The challenge for Luxembourg resides therefore in aligning the pressures of convergence and compliance on one hand, with national interests and specificities of

the small state, on the other: both, as the crisis has briefly taught, still under stormy weather conditions. An example is the banking sector in Luxembourg that is both highly vulnerable in terms of employment and contribution to national GDP as well as vital, with protective informal pathways of bargaining and agreements (Kirov, Thill 2018). However, decisions regarding business priorities and employee welfare continue to be taken abroad by the headquarters and convergence agendas through the application of EU legal frameworks shape national business strategies. This is not likely to change with the growing advent of digitalisation-related business strategies that risk to cause the disappearance and suppression of professions, jobs and employee welfare.

In another recent context, during the ongoing Brexit negotiations, the vulnerability purported as a small state has been temporarily discarded and replaced by self-confidence as an equivalent national state within a strong EU concert of big states, despite that interests of the small state remain tied to the United Kingdom with trade between the two countries amounting to 543.7 million € in 2018¹.

The alignment of small states' interests to a supranational context with 28 EU member states has not only increased the intricacy of the policy implementation process that the national government is facing, but it also entailed an increasing expertisation, triggering the emergence of a new industry of elite experts and private companies with access to national policy and power structures, shaping the policy process with advice and assessments, beyond democratic accountability and the possibility of observation by everyday citizens who become disorientated and only confronted with the outcome of policy.

Size in the public debate: a concept of non-alignment?

With compliance culture on the rise, the concept of 'smallstatedness' in politics has shifted from the realm of academic debate to public and political debate, forging a symbolic rhetoric in policy-making where 'smallstatedness' is either mobilised or abandoned, in a European context, ac-

cording to compliance and interpretation within the indicator-related accountability and control. When compliance results are favorable and the role of the 'bon élève' among the EU partners assumed, 'small-statedness' is mobilised and the country perceives itself as equal to its EU bigger neighbors. If, however, there is a perceived need for clarification on specific characteristics of the small states, 'smallstatedness' is mobilised to resist convergence and compliance at the EU level.

A recent example revolved around the debate on youth unemployment rates and ratios² that increased significantly throughout the EU during the international economic and financial crisis since 2008. When the European Commission consecutively referred to the high youth unemployment rates (18.8% in 2012 according to STATEC) in Luxembourg in consecutive country-specific recommendations³, the role of Luxembourg as a model pupil, with all-time high employment creation levels and low unemployment in European indicators, was threatened. Luxembourg responded to this by shifting the focus to the less concerning unemployment ratio (5.1% in 2012) as

a more appropriate indicator to measure youth unemployment, as this indicator accounts for the Luxembourg specificity that a proportion of the young are in education and work.

Beyond the literature that explored a new agenda of the small state as an important economic player, the concept of 'smallstatedness' has become volatile and is mobilised when fair weather conditions do not apply. ♦

- 1 <https://statistiques.public.lu/fr/economie-finance/index.html>, checked on 26 March 2019
- 2 The youth unemployment rate is the number of unemployed 15-24 year-olds expressed as a percentage of the youth labour force. The youth unemployment ratio is the percentage of unemployed young people (i.e. people aged 15-24) in the total population of this age group (<https://data.europa.eu/euodp/en/home>, checked on 26 March 2019).
- 3 Country-specific recommendations (CSR) are annual official documents elaborated by the European Commission for each country in the EU that provide a succinct analysis of the economic situation of the country and provide recommendation on measures to adopt over the next 12 months (see https://ec.europa.eu/info/publications/2018-european-semester-country-specific-recommendations-commission-recommendations_en, checked on 26 March 2019).

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