Big Trouble for Small States:
Institutions, Experts and the Financial Crisis

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Background
What Matters Most?

• Ideas
What Matters Most?

• Ideas
• Interests
What Matters Most?

• Ideas
• Interests
• Institutions
False Debate?

- Are we talking past each other?
- Is this a false debate?
- Is it a matter of three-way interaction?
Causes of the Financial Crisis

- *Ideas* contributed.
  - EMH
  - Risk models
Causes of the Financial Crisis

- **Ideas** contributed.
  - EMH
  - Risk models

- **Interests** contributed.
  - Predatory lending
  - Compensation
Causes of the Financial Crisis

• *Ideas* contributed.
  – EMH
  – Risk models

• *Interests* contributed.
  – Predatory lending
  – Compensation

• *Institutions* contributed.
  – Deregulation
What about Crisis Management?

- Do ideas explain it?
- Do interests explain it?
- Do institutions explain it?
Small European Countries

- Little is known.
- Rule takers, not rule makers.
- Some did well; some did not.
- Why? The Paradox of Vulnerability
The Paradox of Vulnerability

Vulnerability of the State

Vulnerability of the Nation

Sense of National Identity & Unity

Thick or Thin Institutional Capacities

Degree of Resilience in the Face of Crisis
The Paradox of Vulnerability

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Theoretical Subtext

Vulnerability of the State

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Thick or Thin Institutional Capacities

Degree of Resilience in the Face of Crisis

INTERESTS | IDEAS | INSTITUTIONS
Case Selection

• Denmark
  – Small & homogeneous
  – Success
Case Selection

• Denmark
  – Small & homogeneous
  – Success

• Ireland
  – Small & homogeneous
  – Disaster
Case Selection

• Denmark
  – Small & homogeneous
  – Success

• Ireland
  – Small & homogeneous
  – Disaster

• Switzerland
  – Small & heterogeneous
  – Success
## The Cases

<table>
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<tr>
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<th>Denmark</th>
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<tbody>
<tr>
<td><strong>Interests</strong></td>
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Denmark: Thick Institutions

- Abdication to experts
- Consultation with others
- 6 bank packages
- High resilience & success
Ireland: Thin Institutions

- Politicians & banks decide
- Limited consultation with others
- Guarantee/state finance
- Troika
- Low resilience & disaster
Switzerland: Thick Institutions

- Experts decide
- Limited consultation with others
- Recapitalization & 2 commissions
- High resilience & success
Punchlines

• Institutions matter
  – Thick and thin
Punchlines

• Institutions matter
  – Thick and thin

• Ideas matter
  – Access to expertise
  – National solidarity
Punchlines

• Institutions matter
  – Thick and thin

• Ideas matter
  – Access to expertise
  – National solidarity

• Interests matter
  – Perceived vulnerabilities
Punchlines

• Institutions matter
  – Thick and thin
• Ideas matter
  – Access to expertise
  – National solidarity
• Interests matter
  – Perceived vulnerabilities
• The paradox of vulnerability
  – Ties it all together
Final Caveat

• Lesson for big states: Resilience matters
• Why?
  – Face-paced global economy
  – Vulnerability to more international crises
  – Learning, flexibility are crucial
Thank you.
Publications


