

**The Different Approaches of Two Neighbors:
The Finnish and Swedish Decisions on
Participating in the Third Stage of EMU**

Jennifer Novack
Department of International Relations
London School of Economics and Political Science
Houghton Street
London WC2A 2AE
United Kingdom
J.Novack@lse.ac.uk

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1. INTRODUCTION

Officially there were no choices about whether or not to adopt the European single currency, known as the Euro, for Finland and Sweden. Unlike Denmark and the United Kingdom, they did not join the European Union (EU) until January 1995, after the incorporation of the adoption of the Euro in the Union's *acquis communautaire* and were forced to accept the entire *acquis*. By Treaty both Finland and Sweden were obliged to participate in the third stage of Economic and Monetary Union (EMU¹) and join Euroland (the group of countries using the single currency) subject to meeting certain financial criteria (the Maastricht convergence criteria) and having an independent central bank. However, these criteria are not as straightforward as they may sound in that countries can, to a large extent, control whether or not they meet the criteria. Although Greece (which did not qualify for adopting the Euro in January 1999, when the third stage of EMU began) did try to meet them, Sweden, as this paper will suggest, specifically put up obstacles that meant a *de facto* Swedish opt-out from the single currency. Finland, on the other hand, did all that it could to ensure that it would meet the criteria and be included in the first group of countries to join Euroland.

This paper examines the Finnish and Swedish debate on and decisions about whether or not to adopt the Euro in January 1999. These choices are considered in the context of the Finnish and Swedish approaches to the EU in general. This is a part of a larger research project that will culminate in a PhD thesis on Finnish and Swedish approaches to the EU with case studies on EMU, EU enlargement and relations with the Baltic states (Estonia, Latvia, and Lithuania), and transparency (in terms of public access to official documents).

The suggestion here is that Sweden created an EMU opt-out for itself while Finland eagerly strove to be able to adopt the Euro in 1999 and that this is a clear example of the different approaches taken by the two neighbors. In other words, Finland, in keeping with a general strategy to become a "mainstream" EU member, decided to adopt the Euro in 1999 and even secured a position for Sirkka Hämalainen (now Hämalainen-Lindfors) as one of the six members of the Executive Board of the European Central Bank (ECB). On the other hand, Sweden, more concerned with domestic public opinion and wishing to allow others to be the guinea pigs, chose to remain outside Euroland initially. In general, the approaches of the two countries have not been what many had initially expected. Although EMU is certainly an economic issue, it is also a "foreign policy issue" that will "in many respects . . . link economic and political issues in a totally new way" (Prime Minister's Office 1997, p.17). Therefore, although the focus is on the political aspects of EMU, political and economic considerations are so closely interrelated that it is

¹ Although EMU consists of three stages, stage three is often referred to here simply as EMU.

impossible to discuss the politics of EMU without as at least some discussion of the economic components of the decision.

The paper begins with general background on Finland and Sweden and their EU membership in order to provide a context for the discussion and analysis to follow. Then comes a section that provides a brief introduction to the topic of EMU and key facts (including economic details) of Finnish and Swedish preparations for and decisions on membership. The heart of the paper comes in the following section, which analyzes the Finnish and Swedish debates and decisions on EMU participation from a political (particularly an international relations) perspective. In the concluding paragraphs, it is then asserted that Sweden has created a *de facto* EMU opt-out for itself, whereas Finland has enthusiastically adopted the Euro in the first wave. Furthermore, the suggestion is made that the Finnish and Swedish decisions on EMU are in keeping with Finland's general attempt to be a mainstream EU member and Sweden's more reluctant approach.²

2. GENERAL BACKGROUND ON FINLAND AND SWEDEN AND THEIR EU MEMBERSHIP

The similarities between Finland and Sweden are striking. Both are Nordic states in northern Europe. Both have relatively small populations (although Sweden's population of 8.9 million is greater than Finland's population of 5.2 million, from *The Economist*, 23 January 1999). Both are strong in the pulp and paper and telecommunications industries; together Finnish Nokia and Swedish Ericsson have produced 45% of mobile telephones worldwide (*The Economist*, 23 January 1999). Both were Cold War neutrals. The list goes on.

Even historically there are similarities between the two countries. Finland and Sweden were actually part of the same country for many centuries and both have had Swedish as an official language (with Finland not becoming officially bilingual until the nineteenth century). Yet, despite this common heritage, their histories have not been exactly the same. For Finland, its geographic location had a profound influence on its historical development. Initially joined with its western neighbor, Sweden, Finland became a part of the Russian Empire when Sweden lost Finland to Russia in 1809. Although Finland declared its independence on 6 December 1917, it continued to live in the shadow of its big neighbor to the east. Finland fought against the Soviet Union in the Winter War, which began on 30 November 1939. Singleton explains that it was not Finland per se that was the problem but rather that the USSR was concerned with its own "larger strategic interests", particularly as the Finnish-Soviet border lay less than 25 km from the Soviet Union's main seaport and second largest city, Leningrad (Singleton 1989, p.127). The Soviets feared that "a hostile power" (in this case Germany) "might use Finland as a base for an attack upon Leningrad" (Singleton 1989, p.128). The Winter War ended with the Peace of Moscow signed on 12 March 1940, which resulted in Finland losing over 10% of its territory. In the Continuation War from 1941 to 1944, Finland joined with Germany in an (unsuccessful) attempt to regain the territory lost in the Winter War. Despite the

² Despite the clear relevance of theoretical implications and connections (which are addressed in the doctoral thesis), there is not space in this paper to discuss them in any great depth.

Finnish cooperation with Germany in its fight against the USSR, the United States never declared war on Finland. This was partly due to the Finnish-American communities in the American Mid-West and partly because of the fact that Finland was the only European country to repay its debts in full after the First World War (Singleton 1989, p.137). Sweden, on the other hand, has not been at war since when it lost Finland to Russia in 1809. Teija Tiilikainen suggests that "the legacy of Finland's recent wartime experiences and, in particular, the two disastrous wars Finland had fought against the Soviets in the 1940s" "legitimised" the domination of Finnish postwar foreign policy by concessions to the Soviets (Tiilikainen 1996, p.117).

The Winter and Continuation Wars imposed costs on Finland that were not suffered by Sweden. At the end of the Continuation War, Finland had lost territory including manufacturing centers in Karelia and the historic city of Viipuri. Finland lost "a third of its hydroelectricity, a quarter of its chemical pulp production, 12 per cent of its productive forests and 9 per cent of its arable land" and was forced to pay reparations to the Soviet Union (Singleton 1989, pp.151-152).

Even after the end of the Second World War, Soviet influence continued to be felt in Finland, and Finland's position in the Cold War was also far more constrained than was that of Sweden. Whereas Sweden was able to accept Marshall Aid, Finland, under pressure from the Soviet Union, refused. Whereas Sweden was the host for the conference that founded EFTA, Finland dared not to join as a full member but instead signed an associate agreement with EFTA in 1961.

Other differences were also noticeable between Finland and Sweden during the Cold War period. Finland tended to lag behind Sweden in terms of its development and did not share in Sweden's economic prosperity in the 60s and 70s. Whereas Swedes were gaining acclaim around the world for their "Swedish model" and high standard of living, Finns were suffering from high unemployment and many of them, due to the free movement of workers permitted within the Nordic countries, sought employment in low-level jobs in Sweden.

Furthermore, although both countries have had policies of neutrality, Finnish neutrality was not quite the same as the Swedish version. Waever writes, "For Finland, neutrality was not seen as an end in itself or as the ideal policy; it was the best Finland could get. There were fewer connotations of inherent virtue than for the Swedes, and rather more of 'the Western-most possible'" (Waever 1992, p.90).

For Sweden, credibility was an important aspect of neutrality; in other words, the Swedes wanted to be seen as capable of remaining neutral even under the pressure of a crisis. Therefore, "Swedish involvements with other states or commitments to international organizations were carefully assessed with regard to implications for this credibility fixation" (Ekengren and Sundelius 1998, p.132). The Swedes saw their neutrality policy as one adopted by choice and central to their identity. However, by 1996, Gidlund and Jerneck suggested that neutrality had become almost obsolete. Instead, economic power

had replaced neutrality as the basis for Sweden's foreign policy power (Gidlund and Jerneck 1996, p.94).

Yet, despite policies of neutrality in both countries, Finland and Sweden joined the EU on 1 January 1995 after referenda in which the Finnish and Swedish people voted for membership. In the Finnish referendum on 16 October 1994, the votes were 56.9% in support of EU membership and 43.1% against (with blank votes excluded) in a turnout of 74%. This referendum was closely followed by the Swedish referendum on 13 November 1994 when 52.7% voted in favour of membership and 47.3% against in a turnout of 83.3% (Luif 1995, p.320, also cited in Luif 1998, p.119).

Once inside the EU Finland and Sweden adopted different strategies toward the EU, despite the expectations of many scholars (e.g. Christine Ingebritsen) and other observers that they would behave similarly. If any country was expected to take the lead it was Sweden. However, it was in fact Finland that took the lead and strove to be a mainstream EU member and Sweden that stepped back and listened to its public opinion and encouraged public debate before taking decisions. Although the EMU issue is the clearest example of the two countries' differing approaches, there are also others. For instance, in terms of EU enlargement, Finland quickly changed from its initial position of striving to include all three Baltic states (Estonia, Latvia, and Lithuania) in the next wave of enlargement to fast-tracking just Estonia (in line with the Commission's suggestions in the Agenda 2000 document). Sweden, on the other hand, continued to argue for all three Baltic states until the final decision to fast-track only Estonia was taken. Finland has also increased its visibility through, for instance, Jacob Söderman, the EU's ombudsman (who is Finnish). Finns have also demonstrated their diplomatic skills and heightened their profile through the Northern Dimension, an initiative that was Finnish in origin and redesigned existing resources and programs to form a new program to highlight the area of Northern Europe in which Finland is situated. All this is not to say that Sweden has been a completely passive EU member or that the Swedish approach is wrong. Sweden has been a strong supporter of issues such as public access to information and employment and others that tend to enjoy public support, whereas Finland has attempted to increase its profile in the EU and has taken a pragmatic approach, not pursuing issues that are unlikely to succeed.³

The importance for the Finnish policy-makers of being regarded as an equal and a mainstream EU member was expressed, for example, by Paavo Lipponen, Finland's Social Democratic Prime Minister, in a speech in Helsinki on 24 September 1997, "Based on our two-and-a-half years' experience of Union membership, it is possible to say that the vital interests that Finland pursued have been fulfilled. Finland's position in the new Europe is established. Finland is an equal partner, not any fringe country still seeking a place of its own."

The Economist suggests that Sweden is in a foreign policy "muddle. . . mainly because neither the government nor the Swedish people can decide what kind of EU member they

³ For more on Finland's and Sweden's general approaches to the EU and how these differ from what had been expected, see Novack 1998.

want Sweden to be.” (23 January 1999, Survey p.10) The Swedish Social Democratic Party (SAP), which has traditionally been (and continues to be) the largest party in Sweden and has most recently been in the government since 1994, has been divided over both EU membership and over participation in the third stage of EMU. For Finland, the situation is clearer, as the main government parties agree on pursuing European integration.

To some extent, the differing strategies of Finland and Sweden could have been foreseen through analyzing history and geopolitics. For Finland, the historical background in the shadow of the USSR/Russia has influenced the decision to participate in the EU and EMU, particularly through its impact on Finnish political culture and identity. Finland no longer wanted to be seen as a small country in the shadow of Russia. It wanted a more visible and respectable role in the international arena and also wanted to establish its Western European identity (despite the fact that Helsinki lies east of Budapest, Prague, Sofia, and Warsaw) through being a mainstream EU member. Its geographic location east of Sweden and so much of what is often referred to as “Eastern Europe” means that Finland had a less clear Western European identity than did Sweden. History also confirmed this uncertain identity since Finland, unlike Sweden, was once a part of the Russian Empire, and had taken an even slower path toward European integration than Sweden.

Differences in the political cultures of the two countries can also shed insight into the differences in their approaches to the EU. In terms of public opinion, Swedish politicians generally take it more seriously because of the differing democratic culture. For Sweden, democratic debate is an important part of the national political culture. For instance, in Sweden there have been meetings known as “Storforum” (literally “large forum”) organized around important issues, such as the Treaty of Amsterdam, that are open to the public and attended by prominent Swedish and EU politicians. In particular, the difference in Finnish and Swedish attitudes toward public opinion and debate is important. The Finnish public is more willing to trust its leaders to make decisions and has less of a tradition of democratic debate. Karvonen and Sundelius suggest that “Finland’s foreign policy leadership has held a centralised decision-making capacity which many state leaders would envy” and that “EU membership became a Finnish reality partly due to . . . [the foreign policy leadership’s] capacity to control the political elites and thereby public opinion” (Karvonen and Sundelius 1996, p.258).

Anita Ekwall, who has studied differences between business cultures in Finland and Sweden, suggests that Finland’s history of war and geographic location have meant that Finns have learned how to make quick decisions and believes that it means increased effectiveness. Swedes, on the other hand, have lived in peace for so long that they have not needed to make such fast decisions (Ulrika Beck-Fris, *Svenska Dagbladet* 4 June 1998, p.34).

Writing in 1996, Gidlund and Jerneck suggested that, despite the historically strong bond between Finland and Sweden, the two countries’ interests seemed to be diverging on many issues. Gidlund and Jerneck also argued that Finland, already in 1996, appeared to

be pursuing a more goal-oriented and issue-focused strategy in the EU than Sweden was (Gidlund and Jerneck 1996, p.79). As this paper will attempt to demonstrate, the Finnish and Swedish approaches to the decision on whether or not to participate in the third stage of EMU mesh with their differing approaches to the EU.

3. GENERAL BACKGROUND ON EMU

The EMU project grew out of the Werner Plan developed in 1969, but it arose first as a crucial issue for Finland and Sweden during negotiations on EU membership. As early as 1993, the Finnish government stated that Finland actively strove to be one of the first countries to adopt the single currency (SRM 1/1998 rd). For Sweden, too, EMU was a crucial issue during the negotiations; it formed a part of the *acquis communautaire* that the EU required the applicant states (including Sweden) to accept. Sweden stated (for instance, in Ds 1994:48), however, that the *Riksdag* (the Swedish Parliament) should decide whether or not Sweden would surrender its *krona*. This position, which essentially amounted to a self-created opt-out legitimated by the Swedes but not by the EU, is also referred to in the Swedish government's bill to the Parliament regarding possible adoption of the Euro (Proposition 1997/98:25).

Finland made early preparations to try to ensure that it would have the opportunity to join EMU and produced its first convergence program in the summer of 1995 (SRM 1/1998 rd, p.13). Writing in the FT Survey of Finland on 9 October 1995, Hugh Carnegie explains, "President Ahtisaari, the government, the central bank and most of industry have declared their support" for Finland joining the third stage of EMU in 1999. In 1995, the Grand Committee of the Finnish Parliament stated that "striving to fulfil the convergence criteria is an indispensable goal for the nation's economic policy, irrespective of whether Finland's participation in the third stage of EMU is ultimately deemed appropriate. Fulfilling the convergence criteria is critical for strengthening the credibility of our economic policy and for ensuring stable economic growth" (Parliament of Finland, 1995, p.9).

In deciding upon whether or not to join the first group to adopt the Euro, both Finland and Sweden commissioned reports prepared by academics on the economic consequences of EMU participation. In November 1996, the Finnish Council of State commissioned a group of experts (mainly economists – although a political scientist and a sociologist also participated, headed by Jukka Pekkarinen, director of the Labour Institute for Economic Research) to prepare their report. The Swedish report, commissioned by the Swedish Ministry of Finance in October 1995 to analyze the potential consequences of Swedish participation in the third stage of EMU, was prepared by a group chaired by Lars Calmfors, a professor of economics at Stockholm University. According to the Finnish report, the Swedish report differed from the Finnish one in that committee preparing the Swedish report (known as the Calmfors Committee) concentrated on comparing the positive and negative aspects of EMU and then suggested that Sweden should remain outside EMU at least initially. As the dates mentioned above suggest, the Calmfors report was prepared prior to the Pekkarinen report. The Finnish experts headed by Pekkarinen explain that, although the conclusions of the Calmfors group were different, "the great

importance attached by the Finnish expert working group to the Calmfors Committee should be underlined. The numerous comprehensive background reports relying on extensive international expertise that were commissioned by the Committee have also proved particularly valuable" (Prime Minister's Office 1997, p.17).

The Finnish group met 25 times and published 15 different background and interim reports (Prime Minister's Office, p.7). The group suggested participation in the third stage of EMU from its inception but saw the following as the main negative economic problems for Finland:

- The high level of unemployment in Finland
- The increased possibility of economic shocks that would affect only Finland due to its more one-sided economy than the economies of Central Europe that would also be participating in EMU
- Uncertainty in the relative importance of forces that might encourage a convergence of production structures or increase specialization
- That Sweden and the UK would probably not participate initially (SRR 4/1997 rd, p.23).

According to the Pekkarinen report, the effect of asymmetric shocks on Finland was a particular concern. The Pekkarinen group asserted that the Finnish economy was rather asymmetric relative to other EU countries such as Austria, the Benelux countries, France, and Germany, but that "fluctuations in Finland have been more in tune with the other Nordic countries, particularly Sweden" (Prime Minister's Office, p.56). Yet, while the structure of production and foreign trade in Finland has been one-sided and similar to that of other Nordic countries, the structure in Sweden has been approaching that of the larger EU member states (Prime Minister's Office 1997, p.58).

Researching similar issues, the Swedish group met 19 times. Both Swedish and foreign experts participated in the report, which includes appendices relating to specific aspects of the consequences of participation in the third stage of EMU. According to the Calmfors report, the political benefits were actually greater than the political costs. The report's conclusion was that, despite some benefits of EMU (including some potential economic benefits as well as strong political arguments for joining), the costs outweighed the benefits.

In the conclusion of their report, the Calmfors Committee lists four main reasons for Sweden staying outside of the third stage of EMU:

- The high level of unemployment in Sweden
- The state's financial situation
- The need for time for a broad, multi-sided, informed public debate on EMU and its consequences
- Several other countries (in particular Denmark and the UK, which had opt-outs) would likely remain outside of Euroland initially (SOU 96:158, p.434).

The two groups, although they did not arrive at the same conclusions, did see similar economic concerns. However, the Swedish group put an emphasis on the need for public

debate as an important reason for Sweden not to participate in EMU's third stage initially.

From a purely economic point of view, it would seem that joining the third stage of EMU would be at least as advantageous for Sweden as for Finland. There are indeed similarities between the two countries' economies. Swedish Commissioner Anita Gradin asserted in 1999 that it was "self-evident" that Sweden should join EMU and that Finland and Sweden were in similar economic situations prior to Finland's decision to adopt the Euro and Sweden's to remain outside Euroland. She explained that both are small countries, which emerged from deep economic crisis in the early 1990s and were dependent on the forestry and telecommunications industries. Furthermore, she suggested that, prior to Finland adopting the Euro, outsiders valued the two countries equally because both had approximately the same interest rate level (*DN Debatt* 3 January 1999).

Where there are economic differences, these differences do not suggest that EMU membership should necessarily be less risky for Finland than for Sweden. Historically, Finland has been more economically vulnerable than Sweden. Olli Rehn has pointed out differences between Finland's economic history and that of Sweden (and the other European Free Trade Association (EFTA) states). Rehn has explained, "Contrary to the other EFTA countries, Finnish economic history has been a long narrative of recurrent devaluations, preceded by failed attempts at corporatist wage moderation and economic stabilization. Significant devaluations were undertaken in 1931, 1949, 1957, 1967, 1977-78, 1982 and 1991-92. The recurrent devaluations have been a principal method of Finnish investment-driven economic strategy, aiming at rapid industrialization and based on conscious growth-oriented policies" (Rehn, 1996, p.53).

Indeed, the Finnish economy, relying heavily on the forestry and telecommunications industry, would be more easily hit by asymmetric shocks than would the Swedish economy, also reliant on those industries but more diversified. If Finnish telecommunications giant Nokia were to go bankrupt, the Finnish economy would be greatly affected. In 1995, Nokia accounted for 40% of the value of the Helsinki stock exchange (*FT Survey* 9 October 1995). Sweden, while also very strong in the forestry and telecommunications industries (with Ericsson being from Sweden), is also home to many other well-known corporations in various sectors. Examples of major Swedish corporations with international name-recognition are (among others) Electrolux (home appliances), Hennes & Mauritz (clothing), IKEA (home furnishings), Saab (automobiles – now owned by General Motors – and air-planes), and SKF (ball-bearings). The Finnish economy is also more vulnerable due to its proximity to Russia; already, the collapse of the Soviet Union has meant a major loss of international trade for Finland. *The Economist* suggests, "The Finns are risking quite a lot by jumping into the euro-boat. Like Ireland, they may prove more vulnerable than countries nearer the heart of Europe to asymmetrical economic shocks" (23 January 1999, Survey p.16).

After the Pekkarinen and Calmfors reports were completed, Finland and Sweden took formal decisions on whether or not to participate in EMU's third stage. The Swedish decision came first when, on 4 December 1997, the *Riksdag* passed a bill (1997/98:25)

proposed by the Swedish government that Sweden should not adopt the Euro but should leave open the possibility for participating at a later date. In other words, Sweden chose a "wait and see" policy. According to the Swedish bill, which was submitted to the Parliament on 2 October 1997, "the [Swedish] government does not share the conclusion in the report that the EMU Committee did [the Calmfors report], according to which the reason why Sweden should wait on participating in the currency union is that the Swedish economy needs more time to reach a sufficient degree of stability in terms of public finances and unemployment" (Government of Sweden 1997, p.68⁴). Instead, the government suggested that the economy was sufficiently strong and stable for adoption of the single currency and that the issue was to a large degree a political one and cited the lack of public support for EMU (Government of Sweden 1997, p.68). This political aspect will be discussed in the following section.

The Finnish decision followed soon after the Swedish one. In its report to the Parliament on 24 February 1998, the Finnish Council of State suggested that Finland should adopt the single currency on 1 January 1999 due to both economic and political reasons. The Finnish *Eduskunta* (Parliament) voted in early 1998 that Finland would adopt the Euro in the first wave.

The EU finance ministers met in the ECOFIN council on 1 May 1998 to determine which member states fulfil the criteria for participating in the third stage of EMU on the basis of reports from the European Commission and the European Monetary Institute (EMI). According to the report by the European Commission, Greece and Sweden were not able to participate as founding members in the third stage of EMU because they did not qualify. For Greece, there were significant economic reasons for not qualifying; for Sweden, the situation was somewhat different (Sverige i EU fact sheet no.8, *A Long Road to EMU*).

The specific reasons for Sweden not qualifying, as cited by the Commission, were that Sweden did not participate in the Exchange Rate Mechanism (ERM), that the Swedish *krona*'s value had fluctuated too much against the Euro-11 currencies in the preceding two years, and that Swedish legislation (including that concerning the Swedish central bank, the *Riksbank*) were not compatible with the Maastricht Treaty's requirements (Sverige i EU Fact sheet no. 8). According to the Finnish Council of State, Sweden's reason for not qualifying was that it chose not to participate in the ERM (SRM 1/1998 rd, p.6). These reasons for not qualifying are ones that were within the control of the Swedish government. The argument presented in this paper is that Sweden could have participated in the third stage of EMU in January 1999 had it chosen to do so. This Swedish decision is in contrast to that of neighboring Finland, which was less clearly a candidate for EMU but did all that it could to ensure that it would become a founding member of Euroland.

⁴ Author's translation of: "Regeringen delar inte slutsatsen i den analys som EMU-utredningen gjorde, enligt vilken skälet för att Sverige borde vänta med deltagandet i valutaunionen är att svensk ekonomi behöver ytterligare tid för att nå en tillräcklig grad av stabilitet vad gäller de offentliga finanserna och arbetslösheten."

On 1 January 1999, the eleven countries selected by the Commission (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Spain, and Portugal) entered the third stage of EMU and adopted the single currency: the Euro. Four EU Member States remained outside of Euroland. Denmark and the United Kingdom, members of the European Union since 1973, had negotiated opt-outs for themselves at the Edinburgh European Council and at Maastricht in the Treaty on European Union and were able to retain their national currencies.

4. POLITICAL ANALYSIS OF THE DIFFERENT FINNISH AND SWEDISH CHOICES ON EMU

Both the Finns and the Swedes saw the uncertainty of the EMU project. According to the Pekkarinen report, "In many respects, the economic impact that monetary union will have is hard to judge, as it will depend essentially on how businesses, households and those deciding on our economic policy act in the new situation" (Prime Minister's Office 1997, p.13). Discussing the pros and cons of membership, the Finnish report suggests, "Because the first countries to adopt the single currency will choose the Executive Board of the European Central Bank and be otherwise involved in decision-making related to the launch of Stage 3, being one of these 'prime movers' would certainly increase Finland's authority within the EU. Staying outside would mean exclusion from such decision-making, though it would, of course, give us a chance to gain experience of the workings and impact of Economic and Monetary Union from something of a safe distance" (Prime Minister's Office 1997, p.13).

Although both countries were initially uncertain about whether or not they would meet the convergence criteria and have the opportunity to participate in EMU's third stage, and the success and effects of EMU were also unknown, Finland made an early statement that it strove to join EMU in the first wave whereas Sweden was more unsure. According to the 19 September 1997 *Financial Times*, "The determination of the Finnish government to make Finland a founding member of EMU is based primarily on political considerations. This is best understood against the background of the Cold War years, when Finland's every move was carefully calculated against possible Soviet objections. Membership of the EU was not an option until the Soviet Union collapsed. Membership in 1995, following a 1994 referendum, marked a decisive shift in the country's foreign policy." *The Economist* suggested that being able to adopt the Euro in the first wave was a "mighty uplift" to Finnish morale and nationalism (23 January 1999, Survey p.9).

Furthermore, public opinion polls have consistently shown stronger support for EMU in Finland than in Sweden, although even in Finland the level of support for EMU has not been particularly high. Furthermore, the degree of support varies depending on way in which the question is phrased. According to a study undertaken by the Finnish newspaper *Helsingin Sanomat* and published in late December 1997, 39% percent believed that Finland should be among the countries that shape EMU from the beginning while 52% said no and 9% did not know. However, when the question was phrased so as to ask whether Finland should be a founding member of EMU if more than half of the EU countries did so, the response was 53% yes, 40% no, and 7% don't know. When it was

asked what Finland should do if at least the UK, Sweden, Denmark, and Greece remained outside the single currency, the answer was 46% yes, 46% no, and 7% don't know (*epok* 1/1998, p.16). According to Eurobarometer 49, which measured public opinion in the spring of 1998, 53% of Finnish respondents were for the Euro and 38% against. In Sweden the responses were 39% for and 50% against. Compare these with EU 15 averages of 50% for and 28% against. These figures demonstrate that even in Finland a greater percentage of citizens were negative toward EMU than in the EU as a whole. In Sweden, public opinion toward EMU participation has grown increasingly positive. A survey in early 1999 by the Swedish newspaper *Dagens Industri* actually showed more people in support of Sweden joining the Euro than against it. However, Sweden has tended to have low support, both for EU membership in general and for EMU in particular.

It should be borne in mind that the Eurobarometer 49 and *Dagens Industri* surveys were conducted after the decisions on participation in the third stage of EMU were taken in both Finland and Sweden. As the Swedish government pointed out in its bill on EMU (Proposition 1997/98:25, Government of Sweden 1997), public opinion in Sweden prior to the government's decision did not support adopting the single currency in 1999. The *Helsingin Sanomat* survey was conducted before Finland made its decision and suggested that there was not a clear majority of the Finnish public that wanted Finland to exchange its *markka* for the Euro.

In a speech at the Olof Palme International Centre on 2 October 1996, Swedish Prime Minister Göran Persson explained that the Swedes initially thought that they would not meet the convergence criteria and could therefore avoid making a decision on whether or not to join. According to Persson, the decision was taken to try to put the Swedish economy in order by 1997 so that Sweden would have the option of participating in EMU's third stage if it wanted. Persson asserted in October 1996 that Sweden now had succeeded in that task and had a better economy than many countries that were considered as definitely being able to adopt the Euro in the first wave. By 1996, Swedes needed to discuss whether or not they wanted to exchange their *krona* for the Euro. Rather than clearly arguing for or against membership, Persson discussed the serious nature of the EMU question and suggested that there was time for Swedes to engage in a deep discussion of the issue and encouraged them to do so.

At a speech at the Swedish Embassy in Copenhagen in November 1998, Persson suggested that Sweden was both "strong enough to stand outside" EMU and "strong enough to join" and that the matter of a possible Swedish entry into Euroland would be decided either through a Parliamentary vote or through a referendum, with the referendum option being the most likely. Persson explained that Swedes have been encouraged to participate in a broad democratic debate on the topic of EMU and stressed the importance of maintaining democratic legitimacy (*Dagens Nyheter* 28 November 1998). Swedish Foreign Minister Anna Lindh also suggested that Sweden should have a referendum on adoption of the Euro, preferably before it assumes Presidency of the European Union in January 2001. However, Lindh recommended that the referendum should not occur before the European Parliament elections in June 1999 in order to allow

time for sufficient debate on the topic (*Hufvudstadsbladet* 2 December 1998). Lindh has suggested, "We must make EMU a citizen's project" (*EuropaPosten* December 1998, p.3).

The issue of public debate was a central concern for Sweden and was, as mentioned earlier, named in the Calmfors report as a crucial problem with early participation in EMU. The issue of democracy and the need for public debate were also central concerns for the Swedish government. In its bill to the Parliament, the government explained, "Participation in the currency union must have a strong democratic base. EMU is to a great extent a political project. Participation should be seen as an expression of the political will to participate in a considerably deepened European integration. There is not public support for joining the currency union when it begins on 1 January 1999. Opinion polls and many other indicators give a clear picture at this time". (Government of Sweden 1997, p.68⁵) The government also stated that, should the Swedish government decide later that Sweden should adopt the Euro, the question should first be asked of the Swedish people, preferably in a general election but possibly in a special election or referendum. The Parliament would then make the final decision after the people had voted on the issue. (Government of Sweden 1997, p.70) The main Swedish trade union (LO) also suggested that an important reason why Sweden should stand outside of EMU initially was that the issue had not yet been debated sufficiently by the citizens for joining EMU to have democratic legitimacy, although they also saw the Swedish economy as likely not sufficiently mature at the time. (Government of Sweden 1997, p.94)

Swedish Social Democrat Sören Wibe has also suggested that there is a democratic deficit with EMU. Wibe cited, in particular, that the independent ECB lacks democratic, political control (Carina Freden, *Tiden* 8/96, p.35). The Calmfors Committee also noted this problem but suggested that the lack of democratic legitimacy in the ECB was a political argument for, rather than against, Swedish participation in EMU because Sweden would then be able to have an influence and argue for increased democratic oversight (Government of Sweden 1997, p.87).

Finns, too, realized the democratic deficit in the EMU project. In a 1997 report, the Finnish Parliament's Grand Committee (which is responsible for EU affairs) suggested that the ECB's independence, which makes democratic control over decision-making impossible, is a definite weakness in the EMU project (StoUB 2/1997 rd – SRR 4/1997 rd, p.9). However, for the Finns, this concern was outweighed by the positive effects of joining EMU. The differing values placed on democratic legitimacy in Finland and Sweden may be explained by differences in their political cultures and is also related to the issue of public opinion.

⁵ Author's translation of "Ett deltagande i valutaunionen måste ha en stark demokratisk förankring. EMU är i hög grad ett politiskt projekt. Deltagande bör ses som ett uttryck för den politiska viljan att medverka i en väsentligt fördjupad europeisk integration. Det finns inte folkligt stöd för att gå med i valutaunionen när den upprättas den 1 januari 1999. Opinionsmätningar och många andra indikationer ger härvidlag en tydlig bild".

Swedes were not unaware of the argument propounded by many Finns that EMU membership would make the country a part of the EU core, whereas remaining outside EMU might lead to political marginalization (Gidlund and Jerneck 1996, p.6). However, for the Swedes this argument was outweighed by the lack of public support. The Swedish government argued that "Sweden's influence would be greater if Sweden joined a group of countries that deepened integration through starting a common currency. However, this aspect cannot, according to the government's judgement, be weighed heavier than the lack of public support." (Government of Sweden 1997, p.69⁶)

In a report included as an appendix to the Calmfors report, Gidlund and Jerneck argued, "If Sweden has the ambition to be *proactive*, in other words to adopt an offensive approach, marked by long-sightedness, a high degree of preparation for negotiations, forward-looking ambitions and the desire to influence, it is important that that is also the outside world's view. Sweden's reluctance and skeptical approach to the European integration process means that the country has up to now been seen more as a brake than as a state with a genuine desire to act constructively." (Gidlund and Jerneck 1996, p.6⁷) Gidlund and Jerneck saw Swedish membership in EMU as a "proactive" strategy and a Swedish decision to stay outside of Euroland as a "reactive" one.

In another appendix to the Calmfors report, Jonas Hinnfors and Jon Pierre asserted, "The question of a Swedish membership in the European monetary union (EMU) is nothing other than a political question" (Hinnfors and Pierre 1996, p.9). Hinnfors and Pierre suggested, "Membership in EMU means that the Swedish political institutions for the first time in more than two centuries actively decide to limit the formal power of Swedish democracy" (Hinnfors and Pierre 1996, p.9). Although they claimed that this limitation of Swedish democracy was not in itself a problem and could legally be done, they, too, referred to the public opinion polls and suggested that "EMU membership without widespread public support is in many respects a worry-some scenario for Sweden" (Hinnfors and Pierre 1996, p.9).

Gidlund and Jerneck have cited the work of Chayes and Chayes (1995) who have suggested, "To be a player, the state must submit to the pressures that international regimes impose. Its behavior in any single episode is likely to affect future relationships, not only within the particular regime involved but in many others as well, and perhaps its position within the international system as a whole." (Cited in Gidlund and Jerneck 1996, p.23). Gidlund and Jerneck suggest that the EU is similar to other international regimes in this sense and that Sweden's reputation and position in respect to other member states are at risk if Sweden does not submit to the pressures of the EU regime (Gidlund and Jerneck 1996, p.23). It seems that the Finns have adopted the arguments of Gidlund and Jerneck

⁶ Author's translation of: "*Sveriges inflytande skulle bli större om Sverige ingick i den krets länder som fördjupar integrationen genom att införa en gemensam valuta. Emellertid kan inte denna aspekt enligt regeringens bedömning få väga tyngre än bristen på folkligt stöd.*"

⁷ Author's translation of: "*Om Sverige har ambitionen att vara proaktiv, dvs inta en offensiv hållning präglad av långsiktighet, hög handlingsberedskap, framåtsyftande ambitioner och vilja att påverka, är det viktigt att detta också blir omvärldens bild. Sveriges avvaktande och skeptiska hållning till den europeiska integrationsprocess gör att landet hittills framstått som ett bromskloss snarare än en stat med verklig vilja att agera konstruktivt.*"

not only in terms of EMU but also as a strategy for dealing with the EU in general. Despite the potential negative consequences of participation in EMU, the Finns were unwilling to risk their position in the EU regime.

5. CONCLUSION

The differing Finnish and Swedish approaches are indeed typical of general attitudes toward the EU, where Finland has striven to be more of a mainstream player and Sweden has been more reluctant. As has been suggested in this paper, differences between the Finnish and Swedish EU strategies reflect differences in their identities and political cultures, which in turn have their roots in history. For Finland, the political benefits of EMU were more important than the potential economic risks. For Sweden, despite potential political benefits, the decision was taken to remain outside of Euroland initially, to “wait and see”.

Despite some attempt to analyze the reasons for the Finnish and Swedish decisions, these reasons are not the focus of this paper. Instead, the key argument of this paper has been two-fold: 1) that Finland enthusiastically adopted the Euro whereas Sweden, largely due to the negative public opinion on the topic, decided not to join Euroland in 1999 and created a *de facto* opt-out for itself; and 2) that the approaches that Finland and Sweden took toward participation in the first wave of the third stage of EMU are in keeping with their general (differing) approaches to the European Union.

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