



RESEARCH PAPER 03/68
15 SEPTEMBER 2003

The Swedish Referendum on the Euro

On 14 September 2003 Sweden held a referendum on adopting the euro. The 'no' campaign had led in opinion polls in the weeks and months before the vote. A few days before the referendum the Foreign Minister, Anna Lindh, was murdered.

The result of the referendum was a clear vote against adopting the euro.

This paper looks at Sweden's economic position in relation to the entry criteria for Economic and Monetary Union, the views of the political parties, public opinion and reaction to the result of the referendum.

Vaughne Miller, Claire Taylor

INTERNATIONAL AFFAIRS AND DEFENCE SECTION

Ed Potton

ECONOMIC POLICY AND STATISTICS SECTION

HOUSE OF COMMONS LIBRARY

Recent Library Research Papers include:

List of 15 most recent RPs

03/53	The euro: background to the five economic tests	04.06.03
03/54	Employment Equality Regulations: Religion and Sexual Orientation	06.06.03
03/55	Unemployment by Constituency, May 2003	11.06.03
03/56	The Convention on the Future of Europe: institutional reform	12.06.03
03/57	Economic Indicators [includes article: The RPI to HICP – a new inflation measure for the UK]	01.07.03
03/58	The draft Treaty establishing a European Constitution: Parts II and III	07.07.03
03/59	UK Election Statistics: 1945-2003	07.07.03
03/60	The draft Treaty establishing a European Constitution: technical and constitutional issues in Parts I and IV	07.07.03
03/61	The <i>Sexual Offences Bill</i> [HL]: Policy Background [Bill 128 of 2002-03]	10.07.03
03/62	The <i>Sexual Offences Bill</i> [HL] [Bill 128 of 2002-03]	10.07.03
03/63	Unemployment by Constituency, June 2003	16.07.03
03/64	Parliamentary pay and allowances	16.07.03
03/65	Delivering the Decent Homes Standard: social landlords' options and progress	07.08.03
03/66	Unemployment by Constituency, July 2003	13.08.03
03/67	The <i>Water Bill</i> [HL] [Bill 149 of 2002-03]	04.09.03

Research Papers are available as PDF files:

- *to members of the general public on the Parliamentary web site, URL: <http://www.parliament.uk>*
- *within Parliament to users of the Parliamentary Intranet, URL: <http://hcl1.hclibrary.parliament.uk>*

Library Research Papers are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public. Any comments on Research Papers should be sent to the Research Publications Officer, Room 407, 1 Derby Gate, London, SW1A 2DG or e-mailed to PAPERS@parliament.uk

Summary of main points

- Sweden joined the European Union in 1994 as a state with a derogation from joining the final stage of Economic and Monetary Union (EMU). Sweden has still not fully met all the criteria set out in the *Treaty on European Union* (Maastricht Treaty) in 1993.
- In 1997 the Swedish Government said it would not adopt the euro from the start in 1999 and that the decision to join would be taken by the Swedish Parliament, the *Riksdag*, following a referendum on the issue.
- European Commission and European Central Bank (ECB) reports since 1994 on Sweden's achievement of the EMU criteria have found that it has not met all of them. The most recent reports in 2002 found that the exchange rate stability criterion and the requirements for central bank legislation had not been met, and Sweden therefore did not qualify for membership.
- In November 2002 the Swedish Government set the timetable for the referendum and in January 2003 a referendum bill was passed.
- Political support for the euro has been divided not only along party lines, but also internally within each party. The ruling centre-left Social Democrats took an early lead in advocating membership of the single currency and have been supported by the Moderates, the Christian Democrats and the Liberals, who represent three out of the four non-socialist parties within the Swedish Parliament, the *Riksdag*. The two remaining centre-left parties, the Green Party and the Party of the Left, along with the Centre Party, have firmly opposed adoption of the euro.
- Since the end of 2002 Swedish opinion polls consistently showed the majority of the electorate to be opposed to membership of the euro, although a large number of voters remained undecided. In the months prior to the referendum support for the euro averaged around 38%, while opposition remained relatively consistent at approximately 50%.
- The referendum was held on 14 September 2003, a few days after Anna Lindh, the Foreign Minister and a leading exponent of the 'yes' campaign, was murdered.
- With a turnout of 81.2%, 56.2% voted against adopting the euro and 41.8% voted in favour.
- Sweden has voted not to adopt the euro, but in the event of it meeting all the requirements for entry in the future, the status of its opt-out remains unclear.

CONTENTS

I	Introduction	7
II	EMU and the Swedish Economy	7
	A. Economic Convergence	7
	1. The Convergence Criteria	7
	2. 2002 Convergence Reports	10
	3. Current Economic Statistics	12
	4. Swedish membership of ERM II	14
III	Derogation or ‘Opt-out’?	15
	A. The Article 122 derogation	15
	B. The ‘opt-out’	15
IV	Referendums in Sweden	18
	A. Types of referendum	18
	B. Campaign financing	18
	C. Eligibility	19
V	Government and Parliament Positions	19
	A. Political Opinion	19
	1. ‘Yes’ Camp	21
	2. ‘No’ Camp	23
	B. Public Opinion	24
	1. Opinion polls	24
	2. Business Attitudes	26
VI	Reaction to the ‘No’ Vote	27

I Introduction

Sweden held a referendum on 14 September 2003 on whether to adopt the euro. The campaign was heated, with opinion polls in the weeks prior to the vote showing those opposed to Economic and Monetary Union (EMU) ahead of those in favour. On 10 September 2003 the Foreign Minister and high profile pro-euro campaigner, Anna Lindh, was attacked in Stockholm and she died the next day. The Swedish police did not link the murder to the Mrs Lindh's political beliefs. Both the 'yes' and 'no' campaigns suspended their activities following the murder. On 11 September the leaders of the seven parliamentary parties¹ announced in a joint statement that the euro referendum would go ahead.²

The question asked was: "Do you think Sweden should introduce the euro as its currency?" The results were as follows:

'Yes'	41.8%
'No'	56.2%
Blank	2.1%
Turnout	81.2%

Sweden has not yet achieved all the convergence criteria and does not yet qualify for the third stage of EMU. The Swedish Government has not negotiated an 'opt-out' from EMU, allowing it to remain outside of the euro-zone even if it meets all the criteria. The referendum was therefore a vote on whether to adopt the euro once the requirements had been met.

II EMU and the Swedish Economy

A. Economic Convergence

1. The Convergence Criteria

The convergence criteria, otherwise known as the 'Maastricht criteria', are set out in the EC Treaty (TEC). Article 121 of the Treaty (as amended by the Amsterdam Treaty in 1997) describes the four criteria that must be met to enter stage three of EMU. In addition to four specific criteria, Member State legislation, in particular that relating to the national central bank, has to be compatible with European legislation. Article 121 TEC states:

¹ Göran Persson, Bo Lundgren, Lars Leijonborg, Alf Svensson, Ulla Hoffman, Maud Olofsson, Peter Eriksson and Maria Wetterstrand

² http://www.regeringen.se/galactica/service=irnews/owner=sys/action=obj_show?c_obj_id=54156

1. The Commission and the EMI [European Monetary Institute] shall report to the Council on the progress made in the fulfilment by the Member States of their obligations regarding the achievement of economic and monetary union. These reports shall include an examination of the compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 108 and 109 of this Treaty and the Statute of the ESCB. The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criteria:

- the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability,
- the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 104(6),
- the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the currency of any other Member State,
- the durability of convergence achieved by the Member State and of its participation in the exchange-rate mechanism of the European Monetary System being reflected in the long-term interest-rate levels.

The four criteria mentioned in this paragraph and the relevant periods over which they are to be respected are developed further in a Protocol annexed to this Treaty. The reports of the Commission and the EMI shall also take account of the development of the ecu, the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices.³

The four main convergence criteria are expanded in a Protocol annexed to the Treaty (Protocol No.21):

- **Price stability** (Article 1) – The average rate of inflation for the previous year is not more than 1.5% higher than the average of the three best performing Member States (in terms of price stability).
- **No excessive deficit** (Article 2) – Essentially meeting the Stability and Growth pact rules on government deficits and total government debt (annual deficit no greater than 3% of GDP, and total debt no greater than 60% of GDP).
- **Exchange rate stability** (Article 3) – Has been a member of the exchange rate mechanism (ERM) for at least two years prior to assessment, has stayed within the

³ *Consolidated Version of the Treaty Establishing the European Community*, OJ C325, 24 December 2002, Article 121 (1), http://europa.eu.int/eur-lex/en/treaties/dat/EC_consol.html

fluctuation margins for two years and has not devalued its currency over the period.

- **Interest rate stability** (Article 4) - The average nominal long term interest rate for the previous year is not more than 2% higher than the average of the three best performing Member States (in terms of price stability).

The criterion that national legislation must match that required for the European Central Bank (ECB) and European System of Central Banks (ESCB) is also judged in any assessment.

These criteria were set out before the introduction of the euro, but continue to apply to any Member State with a derogation (see below). The original Exchange Rate Mechanism (ERM) described in the Protocol has been replaced by ERM II, to take account of the introduction of the euro.

The process for judging convergence is that every two years, or at the request of the Member State, the European Commission and the ECB prepare reports on the Member State in question, assessing them against the convergence criteria set out above. These reports are sent to the Council, which, after consulting the European Parliament, decides by qualified majority voting whether the Member State can proceed to join the single currency.⁴

The Council Decision of 3 May 1998, which allowed eleven Member States to join the euro from the start, said of Sweden:

In Sweden, national legislation, including the statute of the national central bank, is not compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

- the average inflation rate in Sweden in the year ending in January 1998 stood at 1,9%, which is below the reference value,
- Sweden is not the subject of a Council Decision on the existence of an excessive government deficit,
- the currency of Sweden has never participated in the ERM; in the two years under review, the Swedish krona (SEK) fluctuated against the ERM currencies reflecting among others the absence of an exchange rate target,
- in the year ending in January 1998, the long-term interest rate in Sweden was, on average, 6,5%, which is below the reference value.

Sweden fulfils the convergence criteria mentioned in the first, second and fourth indents of Article 109j(1) but does not fulfil the convergence criterion mentioned in the third indent thereof.

⁴ Article 122 (3)

Consequently, Sweden does not fulfil the necessary conditions for the adoption of the single currency.⁵

The latest convergence reports to be published, one by the Commission, and one by the ECB, were in 2002.

2. 2002 Convergence Reports

Both the reports by the Commission and the ECB reach similar conclusions, with Sweden meeting three of the five criteria for convergence: passing on the tests of price stability, government debt and interest rates; failing on the test of exchange rate stability and on having the necessary national legislation in place. A brief summary, drawing on both reports, is provided below.

The harmonised index of consumer prices (HICP) over the reference period of May 2001 to April 2002 was 2.9% in Sweden. This was below the reference value of 3.3%, which was made up of the average of the three best performing Member States in terms of price stability plus 1.5%. In April 2002, these three states were the UK, France and Luxembourg. The price stability criterion was therefore met.⁶ Monetary policy in Sweden has been focused on price stability since the early 1990s and the ECB report notes:

This progress towards price stability reflects a number of important policy choices, including a shift in the orientation of monetary policy towards the primary objective of price stability. Since 1993, following Sweden's departure from the fixed exchange rate regime against the ECU, the objective for monetary policy has been expressed as an explicit inflation target.

[...]

New central bank legislation, which entered into force in 1999, confirmed price stability as the overriding objective of monetary policy in Sweden.⁷

In public finances, the criteria require a general government deficit of less than 3% of GDP and government debt at less than 60% of GDP. In the reference year 2001, Sweden had a budget surplus of 4.8%, and Government debt stood at 55.9% of GDP.⁸ Therefore, Sweden met the criteria concerning public finances. Sweden's debt to GDP ratio reached a peak of 77.7% in 1994, while the budget deficit reached 11.9% of GDP in 1993. These ratios have since been falling and the Swedish Government is aiming for an average

⁵ ECOFIN press release, 3 May 1998, from: <http://ue.eu.int/newsroom/main.cfm?LANG=1>.

⁶ European Commission *Convergence Report 2002* May 2002 p13-16, http://europa.eu.int/eur-lex/en/com/rpt/2002/com2002_0243en01.pdf

⁷ European Central Bank, *Convergence Report 2002* May 2002 p14, <http://www.ecb.int/pub/pdf/cr2002en.pdf>

⁸ European Commission *Convergence Report 2002* May 2002 p17

budget surplus of 2% of GDP over the business cycle.⁹ Sweden has also taken action to take account of its ageing population:

To address these challenges, Sweden reformed its pension system in 1999. As a result, the public pay-as-you-go pension scheme now works as a notional defined contribution system where pension benefits are automatically adjusted to changes in the contributions base and life expectancy. Consequently, the system should remain balanced with stable contribution rates despite the ageing of the population. With individual benefits tightly linked to contributions, the new system also reduces tax distortions. The system is complemented by a mandatory funded pillar and by a range of occupational pension arrangements, which will provide additional sources of retirement income. Moreover, the implementation of further measures aimed at increasing labour force participation (e.g. reducing the tax burden on low wage earners), is important, *inter alia*, for coping with an ageing population.¹⁰

Sweden does not pass the exchange rate stability criterion, as it not a member of ERM II. The reports note large movements in the exchange rate between May 2000 and September 2001, when the krona depreciated against the euro by 18%, measured by daily exchange rates. This is put down to the global economic slowdown affecting Sweden more than the euro area, due to Sweden's greater dependence on exports and the information and communication technology sector.¹¹ The *Riksbank* (Sweden's Central Bank) took foreign exchange action to support the krona in June 2001 because of inflationary fears of a low krona. Between September 2001 and April 2002 (the end of the reference period for the report) the krona appreciated by 8% against the euro.¹²

Sweden meets the interest rate criterion. The long term interest rate in Sweden for the reference period of 12 months to April 2002 was 5.3%. This is below the reference value of 7%, which was derived from the average of the three best performing states plus 2% in terms of price stability (the UK, France, and Luxembourg). The Commission report also notes that Sweden's long term interest rate has been below the reference value since December 1996.¹³

The reports note that Sweden's legislation is not compatible with the EC Treaty and ESCB requirements. Briefly, there are problems with the legislation relating to: the competence of the ESCB in monetary policy, references to supporting the general economic policies in the Community, recognition of the competence of the ESCB to issue banknotes, regulations relating to instructions between public authorities and the

⁹ European Central Bank *Convergence Report 2002* May 2002 p16-7

¹⁰ European Central Bank *Convergence Report 2002* May 2002 p18

¹¹ *Ibid*

¹² *Ibid*

¹³ European Commission *Convergence Report 2002* May 2002 p22-3

Riksbank concerning ESCB-related tasks; and lastly, an absence of detailed legislation on profit allocation and extraordinary payments from the *Riksbank* to the Treasury.¹⁴

Finally, the Commission comments on a number of elements of the economy. Some of the key points are as follows:

- Structural policy reform: excellent record in transposing and applying Single Market legislation, measures taken on opening up public procurement, liberalisation of network industries, and Sweden is one of the most advanced EU Member States in terms of the knowledge-based society.
- Sweden's price level was 28% above the EU average in 2000. The report attributes this in part to high levels of indirect taxes, but also to a lack of competition in certain sectors such as pharmaceuticals and food retailing.
- The report notes the high liquidity of the Swedish bond market, the integration of equity trading with neighbouring markets, and the transformation of the banking sector.
- Current account surplus of 3.25% of GDP in 2001 despite global slowdown.¹⁵

In addition to the two on-line reports, a shorter summary is available on the Europa website at <http://europa.eu.int/scadplus/leg/en/lvb/l25062.htm>.

3. Current Economic Statistics

The convergence reports were put together in spring 2002 and the table below provides forecasts for 2003 and 2004.

Recent Economic Data for Sweden

	2001	2002	2003	2004
GDP at constant prices (annual % change)	1.1	1.9	1.4	2.7
Unemployment (as a % of civilian workforce)	4.9	4.9	5.3	5.3
Harmonised Index of Consumer Prices (HICP)	2.7	2.0	2.5	1.8
General Government Balance (as a % of GDP)	4.5	1.3	0.8	1.2
General government gross debt (as a % of GDP)	54.4	52.9	50.9	49.5

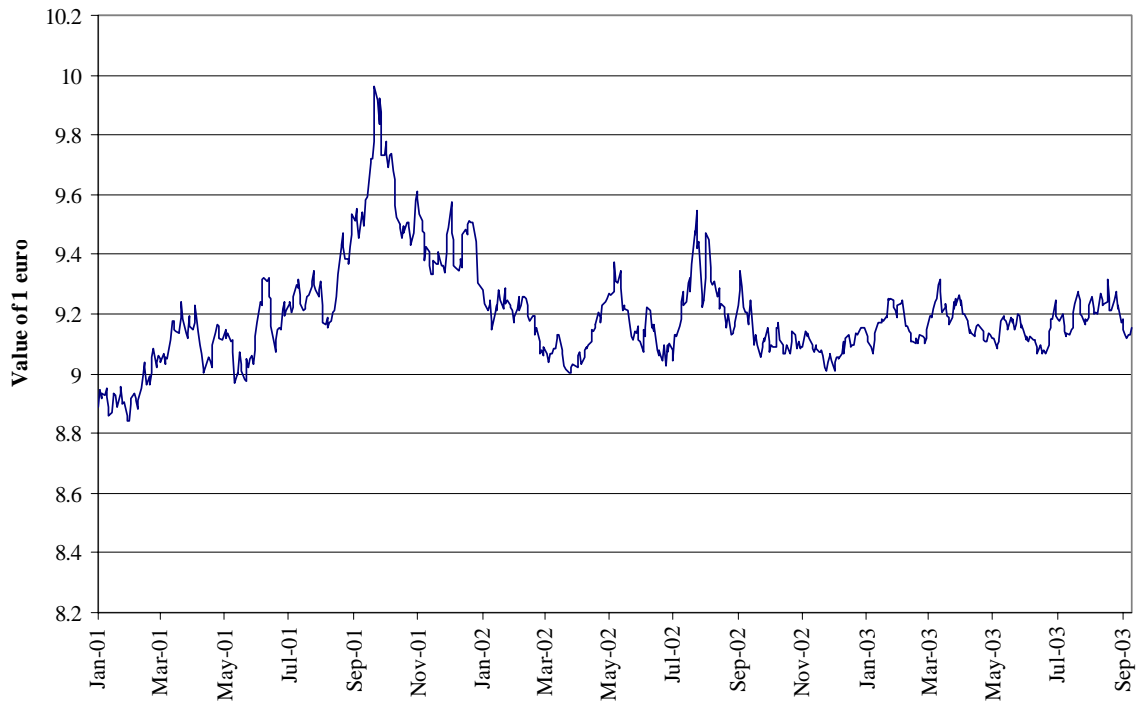
Notes : 2003 and 2004 figures are forecast

Source : European Commission, *European Economy No 2/2003 : Economic Forecasts Spring 2003*

The exchange rate also receives significant coverage and recent movements are shown below.

¹⁴ Ibid, p13

¹⁵ Ibid, p23-6

euro/krona exchange rate January 2001 - September 2003

Source : ECB, daily reference rates

The convergence report covered the period to April 2002. The graph shows that the euro/krona exchange rate appears to have been more stable over the last year from September 2002 than in previous years. However, this does not necessarily mean the krona has stabilized at an optimum rate for entry into the euro.

Finally, the table below provides a comparison of economic indicators in 2001 between all current EU Member States and also the accession countries.

Key Economic Indicators for EU Member States and accession countries in 2001

	Total GDP in euros billions	GDP per capita at current prices in PPS	GDP per Capita Index at current prices in PPS	Real GDP Growth	HICP Inflation	Unemployment as % of Active Population	Government Debt as % of GDP
EU15	8,815.0	23,200	100	1.6	2.2	7.4	63.0
Belgium	256.6	24,600	106	0.8	2.4	6.7	108.5
Denmark	180.4	27,600	119	1.4	2.3	4.3	45.4
Germany	2,063.0	24,100	104	0.8	1.9	7.8	59.5
Greece	130.4	15,500	67	4.1	3.7	10.4	107.0
Spain	650.2	19,200	83	2.7	2.8	10.6	56.9
France	1,463.7	23,300	100	2.1	1.8	8.5	56.8
Ireland	115.4	27,700	119	5.7	4.0	3.9	36.8
Italy	1,216.7	24,400	105	1.8	2.3	9.4	109.5
Luxembourg	21.2	44,300	191	1.2	2.4	2.1	5.6
Netherlands	424.8	26,000	112	1.3	5.1	2.4	52.8
Austria	210.7	25,900	112	0.7	2.3	3.6	67.3
Portugal	122.7	17,100	74	1.6	4.4	4.1	55.6
Finland	136.0	24,000	103	1.2	2.7	9.1	43.8
Sweden	234.2	23,200	100	1.1	2.7	4.9	54.4
United Kingdom	1,588.8	23,200	100	2.1	1.2	5.0	39.0
Cyprus	10.2	18,500	80	4.1	2.0	4.4	64.2
Czech Republic	63.3	13,300	57	3.1	4.5	8.0	23.3
Estonia	6.2	9,800	42	6.5	5.6	11.8	4.8
Hungary	58.0	11,900	51	3.9	9.1	5.6	53.4
Lithuania	13.4	8,700	38	6.5	1.3	16.1	23.4
Latvia	8.5	7,700	33	7.9	2.5	12.8	15.7
Malta	4.0	11,700 (a)	55 (a)	-1.2	(b)	6.7	66.1
Poland	196.7	9,200	40	1.0	5.3	18.5	37.3
Slovenia	20.9	16,000	69	2.9	8.6	5.8	27.5
Slovak Republic	22.8	11,100	48	3.3	7.0	19.4	48.1

PPS - Purchasing Power Standards, GDP - Gross Domestic Product, HICP - Harmonised Index of Consumer Prices

Notes : (a) - 1999 Figure (latest available), (b) - not available

Source - Eurostat

4. Swedish membership of ERM II

Aside from the legislative requirements set out in the convergence reports, the main outstanding requirements are to become a member of ERM II and to meet the exchange rate criterion. The other three criteria of price stability, public finances, and the long term interest rates are, at the current time, likely to be met.

The original exchange rate mechanism (ERM) specified in the EC Treaty has been replaced by ERM II. This was agreed in September 1998, and was used by Greece before its entry into the single currency. Inside ERM II, currencies are allowed to move within fluctuation margins of +/-15% against the euro. The European Commission convergence report considers the action which would need to be taken for the exchange rate criterion to be met. They state that participation in ERM II at the time of assessment is mandatory, but while two years of participation is expected, exchange rate stability in a period before

participation in ERM II could be taken into account.¹⁶ There would also be a preference towards maintaining the exchange rate between bands of +/- 2.25%.¹⁷ Further information on ERM II, with details of stage three of EMU, is available on the *Europa* website at <http://www.europa.eu.int/scadplus/leg/en/s01030.htm>.

III Derogation or ‘Opt-out’?

A. The Article 122 derogation

The UK and Denmark have ‘opt-outs’ from the single currency under Protocols attached to the *Treaty on European Union* (TEU) agreed at Maastricht in 1992. Sweden, and initially Greece, had a derogation from the final stage of EMU as defined by Article 122 of the Treaty.¹⁸ The second indent of this Article states:

If the Council has confirmed which Member States fulfil the necessary conditions for the adoption of a single currency, in accordance with Article 121(4), those Member States which do not fulfil the conditions shall have a derogation as defined in paragraph 3 of this Article. Such Member States shall in this Treaty be referred to as “Member States with a derogation”.¹⁹

B. The ‘opt-out’

Unlike the UK and Denmark, Sweden did not obtain a formal ‘opt-out’ from the third stage of EMU. The British and Danish opt-outs were the result of intense negotiation and a unanimous agreement of the governments of the then 12 Member States. In the case of Denmark, the opt-out was obtained in 1993 after the Danes had initially voted against the TEU in 1992.

Strictly speaking, by acceding to the TEU Sweden adopted all the Treaty articles relating to EMU as part of the *acquis communautaire* and is therefore legally bound by them.

¹⁶ Although ERM membership for two years was the formal prerequisite for joining the third stage of EMU, the rules had already been bent for Finland (which joined after 17 months) and Italy (after 16 months). The Swedish Government regarded ERM II membership as ‘voluntary’ (see “Participation in ERM2 is voluntary”, Government website at <http://www.finans.regeringen.se/euro/english/public/household/about.htm>)

¹⁷ European Commission *Convergence Report 2002* May 2002 p42

¹⁸ Article 122 concerns Member States that do not “fulfil the necessary conditions for the adoption of a single currency”.

¹⁹ Cm 4434, p. 174. The derogation means that the following Articles do not apply: 104(9) and (11), 105(1),(2), (3) and (5), 106, 110, 111 and 112(2)b. Such a Member State and its national central bank are excluded from rights and obligations within the ESCB as laid down in Chapter IX of the Statute of the ESCB.

There should be no further involvement by the Swedish parliament, except to pass any national legislation needed to implement the euro. Sweden held a referendum on membership of the EU in 1994,²⁰ although the Swedish government insists that at that time voters were told they were voting on the TEU without the obligation to join EMU. The government bill introduced in 1997 set out the ‘conditional’ approach to joining the final stage of EMU, as a Government briefing explains:

Ever since the issue of economic and monetary union (EMU) first came about in connection with Sweden’s negotiations for membership in the European Union (EU) Sweden has taken the position that the question of Swedish participation in the monetary union should be decided by Sveriges Riksdag, the Swedish Parliament. The Government is introducing in this Bill a proposal and a basis for the Riksdag’s decision on this issue.

In Government Bill 1994/95 on Sweden’s membership in the European Union there is a detailed account of Swedish negotiations on membership with reference to EMU and Sweden’s decision making process. There it is recalled, inter alia, that Sweden made a statement at the time the negotiations opened on February 1, 1993. It was repeated on November 9, 1993 and recorded in the minutes of the meeting. In the statement, which was reproduced as Appendix 1 to the Government Bill, it said, inter alia, “A final Swedish position relating to the transition from the second stage to the third stage will be taken in the light of further developments and in accordance with the provisions in the Treaty”. The Cabinet Minister responsible informed the Riksdag on November 10, 1993 and said on that occasion, “On the matter of the transition from the second to the third stage of EMU, it is ultimately the Riksdag that will decide the position”. Sweden’s negotiating position on EMU was the subject of consultations between the then Government and Opposition. It was judged to be more appropriate to make a unilateral declaration than to try to get the same formal opt-out that Denmark and the United Kingdom have.

The Parliamentary Finance Committee (bet. 1994/95:FiU1y) declared that a final Swedish position on the transition from the second to the third stage should be made in the light of further developments and Sweden’s commitments as a Member State.

In the Government Bill on Sweden’s EU membership it was announced that there would be a special Government Bill on the matter of Sweden’s participation in the third stage of EMU when Sweden’s participation in the monetary union became an actuality. The Riksdag’s decision was in accordance with the Government’s proposal. In spring 1998 the Council in the composition of Heads of State or Government will select the participants in the first group of Member States that will introduce the euro when the third stage starts on January 1, 1999. Therefore the issue of Sweden’s participation in the monetary union is imminent

²⁰ Referendum of 13 November 1994. Turnout: 83.3%; Yes: 52.3%; No: 46.8%

and the Swedish position needs to be established in good time before this Council meeting.

The question of Sweden's membership in the EU was the subject of a referendum on November 13, 1994. One of the preconditions for the referendum was that membership in the EU would not automatically lead to participation in the monetary union, and that a separate decision on EMU would be taken by the Riksdag. This was made clear in a governmental memorandum (Ds 1994:48), in which the results of the Swedish negotiations were described.

The overriding position of the Government in the matter of EMU has been to ensure the greatest possible freedom of action. Sweden shall have the possibility both to participate and not to participate. The most important in this context has been – and still is – the conduct of an economic policy that makes it possible for Sweden to meet the convergence criteria (applying to price stability, public finances, exchange rate stability and long-term interest rates). In addition practical preparations need to be carried out. However, these measures do not bind Sweden, but rather are designed in such a way as to leave open the alternatives of participation or non-participation to the largest extent possible.²¹

Sweden has maintained what is, in effect, a unilateral opt-out option from EMU, which is quite distinct from its non-participation based on the Commission and ECB reports on its economic performance. There has been relatively little comment on Sweden's insistence that adoption of the euro must be subject to further endorsement by the Swedish parliament and to a positive vote in a referendum.

In spite of the Swedish Government's insistence that a political agreement reached during the accession negotiations in 1993 permitted Sweden not to comply with the letter of the Maastricht Treaty articles on EMU, there is no official record of this agreement and no reference to it in the TEU. In practice Sweden is not participating in the single currency because Commission and ECB reports on the Swedish economy have concluded that the country fails to meet all the convergence criteria. However, in a parallel national political process, it was the *Riksdag* that decided in December 1997 that Sweden would not adopt the single currency in January 1999, but that it would keep the door open for later adoption, subject to parliamentary approval and a national referendum. According to the Swedish Ministry of Finance, the decision to stay out of monetary union initially "was motivated by the lack of public support in Sweden for a membership".²²

²¹ Government Bill, 1997/98:25 on *Sweden and Economic and Monetary Union*, Section 2: "The Issue and Its Preparation", 2 October 1997. The full text of the bill is available at:

<http://www.finans.regeringen.se/propositionermm/propositioner/pdf/emueng.pdf>.

²² <http://www.finans.regeringen.se/emu/english/sweden/index.htm>

IV Referendums in Sweden

A. Types of referendum

There are two types of referendum in Sweden: non-binding, consultative referendums and referendums on constitutional issues. Consultative referendums were introduced in 1922, with the first one being held that year. The euro referendum is the sixth such referendum.²³

The *Riksdag* decides whether to hold a referendum and passes a law setting out the questions to be put and the date of the referendum. On 23 January 2003 the Swedish Government presented a referendum bill, in accordance with the outcome of talks held by the various party leaders. The bill was also subject to consultation with the other parties in the *Riksdag*.

People who do not want to vote for any of the alternatives may cast a blank vote, which, in contrast to parliamentary elections, is regarded as valid. Because this type of referendum is not binding, the *Riksdag* can decide not to abide by the result. However, the Government's EU information website states, "as the purpose of a referendum is to obtain guidance before a decision is taken in the *Riksdag*, it is not easy for it to go against an unambiguous result".²⁴

In view of the 'no' vote there will be no further decision for the *Riksdag*.

B. Campaign financing

The Swedish Government website on the referendum has provided the following information on campaign financing:

It is important that people have access to good information about EMU from a variety of angles prior to the referendum. At the talks between party leaders in December 2002, an agreement was reached to allocate SEK 140 million to EMU information, of which SEK 90 million is to be distributed to the campaign organisations, SEK 30 million to the political parties in the *Riksdag*, SEK 15 million to adult education initiatives and SEK 5 million to the *Riksdag*'s EU Information Centre. The "No" campaign has received SEK 48 million while the "Yes" campaign has received SEK 42 million.

²³ The others were in 1922 on the prohibition of alcoholic beverages; in 1955 on driving on the right; in 1957 on the national supplementary pension (ATP); in 1980 on nuclear energy and in 1994 on membership of the EU. See Government briefing at <http://www.sweden.gov.se/EU-information/referendums.htm>

²⁴ <http://www.sweden.gov.se/EU-information/top#top>

The Association for receipt of “Yes” campaign funds has been set up to share out the SEK 42 million allotted to the “Yes” campaign. The Association has been established by the Sweden in Europe Foundation, Social Democrats for Europe and the Federation of Swedish Farmers. In total, SEK 20 million have been distributed to the Sweden in Europe Foundation, SEK 20 million to Social Democrats for Europe, and SEK 2 million to the Federation of Swedish Farmers.

The Association for distribution of funds to the “No” campaign in the referendum on EMU has been set up to divide up the SEK 48 million allotted to the “No” campaign. Two pots of SEK 21 million have been shared out. One has been destined for No to EMU, spearheaded by the Green Party and the Left Party. The other pot has gone to Partnership against EMU, whose most notable members are EMU critics from the Social Democratic Party, Christian Democrats and Centre Party. The remaining SEK 6 million have gone to other organisations that have applied for funding. Exactly how these SEK 6 million have been shared out is presented at the Green Party's website under the heading Pressrum.

The SEK 15 million reserved for adult education will be distributed by the Swedish National Council of Adult Education. Only adult educational associations and folk high schools will be able to apply for funding for projects. You can read more about how the funds will be distributed on the Swedish National Council of Adult Education website.²⁵

C. Eligibility

A Swedish Ministry of Finance factsheet states:

Anyone who is eligible to vote in parliamentary elections is eligible to vote in the referendum. This means that all Swedish citizens who are current or previous residents of Sweden are eligible to vote. EU citizens, citizens of Iceland and Norway who are registered as resident in Sweden are eligible to vote. Other immigrants who have been registered as resident in Sweden for more than three years are also eligible to vote. To be eligible to vote one must have reached the age of 18 on or before referendum day.²⁶

V Government and Parliament Positions

A. Political Opinion

Sweden has had the longest period of social democratic rule in the world. The Social Democratic Party had an unbroken run in office from 1932 to 1976 (aside from three months in 1936). They returned to power in 1982 but lost again in the 1991 election, only

²⁵ <http://finans.regeringen.se/emu/english/referendum/index.htm>

²⁶ http://finans.regeringen.se/emu/pdf/emu_referendum.pdf

to return in 1994.²⁷ Elections on 21 September 1998 returned Göran Persson for a second term as Prime Minister, again heading a minority Social Democratic government.²⁸ In September 2002 the Social Democrats secured their third successive general election win, and with 39.9% of the vote, forming the largest party but without a majority in the *Riksdag*. However, for the centre-left to retain an absolute majority in parliament the Social Democrats require the continuing support of the Left Party and the Green Party.

The Government adopted a ‘wait-and-see’ policy towards joining the single currency, waiting for a significant rise in public support before taking a particular stand on the issues. As finance minister, Göran Persson had supported the single currency, but for some time after becoming Prime Minister he distanced himself from his earlier position. The Foreign Minister, Anna Lindh, was pro-euro but mindful of the need to respect internal procedures and the party line on joining.²⁹ The Trade Minister, Leif Pagrotsky, was more sceptical to start with: he argued that if economic goals were achieved and maintained, there would be no need to join. The Finance Minister, Bosse Ringholm, was cautious but not opposed to joining.

In January 2000 the SDP’s Executive Committee declared that, although there were still doubts about the advisability of joining EMU, on balance such a move would be positive for economic and political reasons, so joining was recommended. The Committee did not set a timetable for entry, a signal that it had not really departed from its earlier ‘wait-and-see’ policy. The decision was confirmed by the party board on 21 January 2000 as a draft resolution for the party congress on 10-12 March 2000, which had been called to decide on the issue.

Commentators thought the Danish vote against the euro in September 2000 would have an effect on Swedish public opinion. Mr Persson described the outcome as “important but not decisive”.³⁰ One commentator suggested “Sweden has always made it clear that it sees itself as moving more in tandem with the UK than Denmark over the single currency”.³¹

Membership of the European Single Currency has proved to be a divisive issue, with political opinion split not only along party lines, and significantly among the three parties which constitute the parliamentary majority, but also internally within each party.

Ylva Nilsson commented in a recent article that:

²⁷ The Swedish Institute *The Swedish Political Parties Factsheet*, October 2001.

²⁸ His SDP party won 131 of the 349 *Riksdag* seats.

²⁹ *Financial Times*, “Survey-Sweden”, 17 May 1999.

³⁰ *European Report*, 24 January 2001.

³¹ *Janet Matthews Information Services, Quest Economics Database, Hilfe Country Report*, “Sweden: politics”, 9 February 2000.

The euro issue has split all Sweden's political parties down the middle into 'yes' and 'no' factions. The EU is the only political issue over which Swedish party leaders have had to relinquish a usually strict party discipline and accept that their own members actively propagate a diverging view.³²

1. 'Yes' Camp

Despite internal divisions within the party and the presence of a number of high profile dissidents, the ruling Social Democrats took an early lead in advocating Swedish membership of the single currency. In a proposal presented to the Party Council in October 2002, the Party Board set out its views on EMU. The proposal stated:

In March 2000 the Congress of the Social Democratic Party passed a resolution on the question of EMU. The resolution stated among other things that:

“The monetary union can contribute to lower interest rates and thereby to a higher level of employment. It makes it easier for people to travel without having to take into consideration national boundaries and it contributes to promoting trade, improved competition and lower prices within the inner market”.

The Social Democratic Party holds that a well functioning monetary co-operation provides a democratic counter balance to the growing global market forces. This counterbalance provides room for small countries to pursue an active economic policy. In the interests of furthering welfare and employment we Social Democrats wish to see Sweden becoming a member of the economic and monetary union.³³

In a pro-euro campaign speech at the beginning of August 2003 the Swedish Prime Minister emphasized that the political arguments were also important:

There are economic arguments. They are important, but even so, to me they are not the decisive ones. I believe there are other arguments. The political ones, namely that I want Sweden to take part and have influence [...] It is safer to be part of a bigger currency than to be alone on the international financial markets' stormy speculative oceans [...] If we actively say “no” to the euro we are sending a clear signal that Sweden is not ready to take responsibility for Europe's future.³⁴

However, in the week prior to the referendum media commentary focused on the apparent shift in attitude of Mr Persson. An article in the *Sunday Telegraph* suggested:

³² Ylva Nilsson, *Krona or Euro? Swedish euro referendum September 2003*, 8 August 2003, at: <http://www.sweden.se/templates/Article6677.asp>

³³ Swedish Social Democratic Party, *Proposal by the Party Board to the Party Council*, 28 October 2002

³⁴ “Swedish PM promotes euro riches”, *BBC News Online*, 4 August 2003

For a man who publicly supports his country adopting the euro, the Swedish Prime Minister Göran Persson appears to be suffering an attack of Scandinavian cold feet as his country's referendum over whether to adopt the European single current enters its final stages.

Faced with strong opposition in the opinion polls, the former eurosceptic who has spent a political lifetime converting to the European Union cause attacked France and Germany for undermining the EU stability pact, the keystone of monetary union. Then he fell back on the time-honoured "wait and see" line, undermining his campaign further by telling Swedes they could vote for the euro "in principle", but not introduce the currency until other refusnik countries, namely Britain and Denmark, had decided.

These mixed messages, coming at a time when Mr Persson's pro-euro lobby was closing the gap on the anti-euro camp, simply added to the confusion of an already confused campaign ahead of the referendum on Sunday, September 14.³⁵

An article in the *Scotsman* commented:

Goran Persson, Sweden's prime minister, is attempting to woo "no" voters by sounding dubious about it himself – suggesting the time may not be right now, but he will wait for a better chance. Caveats are also being inserted in the "yes" side's economic claims, as no-one appears to believe the originals. The euro will "eventually" mean lower prices. The economic growth (which has so manifestly evaded Germany) will arrive "in the full course of time".³⁶

A number of analysts also cautioned that the pro-euro stance being adopted by Mr Persson could undermine his authority in the event of a 'no' vote.³⁷

On the single currency issue the Social Democrats have been supported by three out of four of the Parliament's non-socialist opposition parties. The Moderate Party, which is the second largest party in the *Riksdag*, has consistently maintained a pro-European and pro-euro stance. In its paper, *The Moderate Party and Europe*, it stated:

Through trade and economic collaboration, the EU has meant closer links between countries and individuals. This has favoured and strengthened freedom, peace and prosperity. Increased free trade, less regulation in member countries and greater stability have led to higher growth rates. The EU should be active in pulling down trade barriers, in deregulation and in the combating of hindrances to economic freedom.

The EMU is the direct reason why EU member countries now have balanced budgets and reduced national debts. It not only leads to currency stability, lower

³⁵ "Swedes confused as premier gets cold feet on euro", *The Sunday Telegraph*, 7 September 2003

³⁶ "The euro vote that could make Blair think again", *The Scotsman*, 10 September 2003

³⁷ "Swedish PM promotes euro riches", *BBC News Online*, 4 August 2003

interest rates and fewer vicious circles of money, but also to economic modernisation and efficiency. These advantages are not available to Sweden since Sweden has not joined the EMU. Sweden's detachment also means less political influence. We in the *Moderate Party* state that Sweden must fully join the Euro currency as soon as possible.³⁸

The Liberal Party and the Christian Democratic Party have also strongly supported Swedish membership of the euro. In its campaign literature the Liberal Party stated:

The main idea behind the European integration is to guarantee peace, democracy and security for the citizens of Europe.

The Euro is a means of bringing the member countries closer together and increasing prosperity in Europe. We liberals want Sweden to play a more active role in this integration process.³⁹

Commenting on the strength of the 'yes' campaign, the *Scotsman* argued that:

Sweden's "yes" campaign should, in theory, be unsinkable. It is backed by big business, major trade unions, Sweden's recently re-elected prime minister and the three largest opposition parties. The entire establishment is on side.⁴⁰

2. 'No' Camp

For many analysts the significance of the 'no' campaign has been the high-profile support of several Swedish cabinet ministers, including the Deputy Prime Minister Margareta Winberg and the Industry Minister Leif Pagrotsky,⁴¹ and the support of the two centre-left parties that are allied with the Social Democrats to form an absolute majority in the *Riksdag*.

An article in the *Daily Telegraph* commented:

The "no" coalition is a Leftist fringe of Greens, Communists and dissidents from the Social Democratic Party [...] with a handful of free-market "Thatcherites".

It taps into deep-seated fears that joining the euro would "disfund" the Swedish welfare state by imposing tax cuts – or downward harmonisation – and that it will end two centuries of neutrality by drafting Swedish youth into the European Union's rapid reaction force.⁴²

³⁸ Moderate Party *The Moderate Party and Europe*, 2002

³⁹ <http://www.folkpartiet.se/fp/sayyes.shtml>

⁴⁰ "The euro vote that could make Blair think again" *The Scotsman* 10 September 2003

⁴¹ "Changing views – in opposite directions" *The Economist* 21 August 2003

⁴² "PR blitz for euro but Swedes still won't buy it" *Daily Telegraph* 10 September 2003

In its euro campaign literature, the Left Party stated:

EMU policies are decided beforehand to accommodate powerful capitalist interests. The job of the European Central Bank is to keep down inflation, even if this leads to fewer jobs and greater unemployment.

Jobs, social welfare, democracy and gender equality are being sacrificed to ensure that the superpower dreams of the European elite come true.⁴³

The Green Party commented:

A Yes to the EMU will undermine democracy. We want more cooperation between independent states instead of more power at the EU level. The EU is trying to create a United States of Europe through the EMU. This will make people more remote from power. It will exclude them and widen the gap between elected representatives and voters.

Membership of the EMU would also mean that we would give up our ability to use interest and monetary policy as economic tools. We also want to be able to use these tools in the future when we, the public, wish to be able to save jobs and defend education, healthcare and medical services, for example. To surrender these tools forever to a central bank in Frankfurt is undemocratic and furthermore irresponsible in relation to future generations.⁴⁴

The Centre Party also opposed membership of the euro, stating that it would not “wish to see the EU develop into a federation with an increasing number of supranational functions”.⁴⁵

B. Public Opinion

1. Opinion polls

A *Eurobarometer* survey in mid-2000 gave 38% support for the euro, 5 percentage points down on the previous *Eurobarometer* survey in autumn 1999.⁴⁶ A poll carried out by the Swedish polling agency *Demoskop* in December 2000 showed 36% in favour and 53% against the euro, with 11% undecided. In a January 2001 poll 36% were in favour with 52% against and 12% undecided. Monthly opinion polls in 2001 showed little change in Swedish scepticism with regard to the euro, and the Swedish Presidency of the EU in the first half of 2001 did little to encourage support for the euro.

⁴³ The Left Party *Why you lose out on EMU* 2003

⁴⁴ The Green Party *No to the EMU, Yes to democracy* 2003

⁴⁵ <http://www.centerpartiet.se/templates/Infosida.asp?id=2267>

⁴⁶ *Eurobarometer* 53 (Spring 2000), fieldwork carried out in April-May 2000 in survey of over 16,000 people.

After the announcement of the date of the referendum on the single currency in November 2002, opinion polls consistently showed that the majority of the Swedish electorate was opposed to membership, although a large majority of voters remained undecided. The anti-euro lobby came mainly from a group called *nejtillemu* (“No to EMU”), whose website at <http://www.nejtillemu.com/justenglish.htm> set out various anti-euro arguments.

Polls conducted by Gallup between May and July 2003 indicated that support for the single currency had maintained an average of 33%, while opposition had increased to approximately 48-49% and 18-20% of voters continued to be undecided. Polls by Danske Bank outlined a higher degree of support for the ‘yes’ campaign, although opposition to the euro consistently polled higher than 50%:

Date	Pollster	%‘Yes’	%‘No’	%‘Undecided’
6 May	Gallup	31	46	23
26 May	Gallup	35	49	16
27 May	Danske Bank	42	54	4
13 June	Gallup	32	49	19
26 June	Danske Bank	45	50	5
30 June	Gallup	35	46	19
7 July	Gallup	31	48	21
21 July	Gallup	30	50	20
24 July	Danske Bank	43	52	5

Source: Reuters

A poll by Danske Bank on 9 September 2003 indicated a further fall in support for the euro, while a Gallup poll indicated a slight increase. In both polls opposition to the single currency retained a significant lead:

Date	Pollster	%‘Yes’	%‘No’	%‘Undecided’
9 September	Danske Bank	41	57	2
9 September	Gallup	35	47	18

Source: Reuters

Following the death of the Foreign Minister, Anna Lindh, on 11 September 2003 many analysts believed that an increase in support for the single currency was likely. A poll conducted by the research institute SKOP on 11 September 2003 indicated that support for the euro had risen to 50%. However, a similar poll by SIFO, also conducted after the death of Mrs Lindh, showed support for the euro at 38% and opposition at 50%, with 12%

undecided.⁴⁷ The final result indicates that the sympathy vote did not have a significant effect on the result, but many press reports suggest that it boosted turnout for the referendum.

2. Business Attitudes

In November 2001 the Confederation of Swedish Enterprise published a report on the economic benefits of Swedish membership of the single currency. The report, *EMU and Swedish Trade*, stated:

A single currency makes it easier to engage in cross-border trade, travel, work and business enterprise. The Confederation of Swedish Enterprise hopes to restore Sweden to the top of the GDP league, and joining the euro-area is an important step towards this goal [...]

Sweden would experience a dramatic increase in foreign trade if it joined the single currency. This would, in turn, give a considerable boost to the country's general prosperity [...] the arguments in favour of joining EMU have become even more convincing than they were five years ago.⁴⁸

During the referendum campaign Swedish industry, business groups and the main trade unions all advocated EMU entry and they were among the Government's biggest allies in the 'yes' camp.

An article in the *Financial Times* commented:

"Yes" campaigners fret that the competitiveness of Swedish multinationals will be hurt, inward investment lost, and the country marginalised if it stays out. Leaders of companies such as Ericsson, telecommunications equipment group, Volvo, the truckmaker, and Electrolux, maker of household appliances are campaigning in favour. Carl-Hendric Svanberg, Ericsson chief executive says: "if we don't [join] it may mean less investment in Sweden, because companies will find it hard to justify having their costs in a single small currency when their sales are largely in dollars and euros".⁴⁹

Recent opinion polls reported in *The Economist* suggested that:

Around 40% of Sweden's trade is with the euro area; 80% of Sweden's larger corporations already invoice in euros, according to one recent survey, and another found that 80% of small businesses think the euro would be good for them.⁵⁰

⁴⁷ "Summary of latest opinion polls on euro membership" *Reuters News* 12 September 2003

⁴⁸ Confederation of Swedish Enterprise, *EMU and Swedish Trade*, 2001. A copy is available online at: [http://sn.svensktnaringsliv.se/sn/publi.nsf/Publikationerview/4F38F7786CF7B6FBC1256B6F0043C7BE/\\$File/PUB200111-005-1.pdf](http://sn.svensktnaringsliv.se/sn/publi.nsf/Publikationerview/4F38F7786CF7B6FBC1256B6F0043C7BE/$File/PUB200111-005-1.pdf)

⁴⁹ "Swedes stay cool on euro as battle to join heats up" *The Financial Times* 1 August 2003

⁵⁰ "A Nordic no" *The Economist* 19 August 2003

VI Reaction to the ‘No’ Vote

A *BBC Monitoring International Report* on 15 September 2003 summarised the reaction in the Scandinavian press to the ‘no’ vote. The *Sydvenska Dagbladet* (Malmö) attributed the result to the ‘no’ campaign’s “stable leadership”, while the ‘yes’ side was “fumbling to find a coherent message”. This newspaper concluded that the vote would mean Sweden would have “less influence in Europe”, although it predicted that the result would “not have any immediate economic consequences”. The newspaper also suggested that the “only reasonable course” would be a general election.

The Stockholm tabloid, *Aftonbladet*, urged the Government to learn from the referendum defeat by raising the profile of European politics. This newspaper thought that, although the ‘no’ campaign had won, both campaigns had increased support for EU membership, “with 60 per cent of voters telling polling-station surveys that they wanted Sweden to continue in the EU”.

The Danish *Berlingske Tidende* described the outcome of the Swedish referendum as “a bad result - a democratic victory”. This newspaper considered the effect of the murder of Anna Lindh, concluding:

It has now turned out that Swedish population seemed to be able to separate its dismay about the murder from the... slightly less emotional assessment of whether Sweden should get rid of the krona.

However, the fact that democracy proved itself to be resistant to an attack like the one last week doesn't make a 'no' a wiser solution for Sweden [...]

Copenhagen’s *Information* agreed that the result was “good for democracy”, adding:

Not necessarily important for the Swedish economy or useful for Europe, but good for the Swedish people's opportunity to live on at some kind of peace with itself after an unrelenting and sometimes brutal debate with a shocking, tragic end.

The Norwegian (Oslo) *Aftenposten* described the Swedish result as a protest against the political elite, adding that Swedish voters were traditionally “much more inclined than Norwegians to vote as their leaders ask them to”.

In the UK most press comment emphasised that the Swedish vote would have implications for a future UK referendum on the euro. The *Financial Times*, which gave considerable coverage to many aspects of the result, noted:

The decision to keep the krona effectively banishes any prospect of Tony Blair holding a euro referendum in the UK before the next general election, lobbyists for the single currency conceded last night.⁵¹

In an analysis of the result, the newspaper commented:

The rejection of closer integration with Europe is not a total surprise, as the campaign was fought when several of the leading eurozone economies were in recession and there was squabbling over the rules that underpin the region's financial stability.

Many voters felt Sweden was doing better outside, with stronger growth, lower unemployment and stable public finances. They also felt that cherished welfare programmes are better safeguarded by an independent monetary policy. The No vote means Sweden is the only EU member outside both the euro and the Nato defence alliance, underscoring an isolationist streak.

It also leaves the country in a peculiar position as, unlike Denmark and the UK, the country does not have a formal opt-out from the single currency.

The European Commission issued the following statement on the referendum result:

The Commission takes note of the decision of the Swedish people. We firmly believe that the euro, our currency, has brought and will continue to bring advantages to the euro area economy. The euro has provided much needed stability in the individual member states' economies and has created an appropriate springboard for the Lisbon agenda to make Europe the most competitive and socially cohesive area in the world. It has also contributed to international financial stability. The euro is the world's second most important currency but it is still a young currency. Its full impact has still to work its way through to the euro area economy and that is what we are in the process of achieving together. Sweden could have influenced this effort by deciding to join the euro. We are confident that the Swedish Government will choose the way forward to keep the euro project alive in Sweden.⁵²

The *Financial Times* described the reaction in Brussels as follows:

The official line was that last night's No vote to the euro was an internal matter for Sweden, of little wider significance. Privately, many in Brussels admit it is an ominous vote of no confidence in the European project.⁵³

⁵¹ *Financial Times* 15 September 2003

⁵² Commission press release IP/03/1242 15 September 2003 at

http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1242|0|RAPID&lg=EN

⁵³ Ibid

The report linked the referendum result, not only to confidence in the euro, but also to prospects for ratification of the proposed European constitution:

For the architects of the new European Union, the Swedish vote is a cause for serious concern. The EU's new constitutional treaty, due to be completed this year, will have to be ratified by all 25 member states, and many will hold referendums.

Already, senior EU officials are predicting that an additional 12-18 months will be needed to complete the ratification process - to allow voters to be asked the same question in a referendum twice, even three times.

If at the end of the process any country rejects the new treaty, voters could be confronted with a new referendum question: Do you want to leave the EU?

If Sweden's vote is ominous for Europe generally, it is specifically a damning verdict on the four-year-old euro and the economies of the 12 countries that use it. Sweden, Britain and Denmark - the three current non-euro EU members - enjoy higher growth and lower unemployment, and do not have to spend time in bitter arguments with other countries about their budget deficits.

The report went on to analyse the result, as follows:

So what went wrong? How could such a traditionally deferential electorate reject the guidance of its own leaders? It was not through lack of trying on the part of the supporters. Since the spring Sweden has been gripped by a political campaign whose scale and one-sidedness is without precedent in this Nordic country.

Some of the problems were self-inflicted. Mr Persson was himself a late convert to the euro, and struggled to explain why there was any urgency to join just now. Moreover, early in the campaign he indicated another referendum would be held if Swedes voted No, unintentionally supporting the idea that voters could simply wait and see.

Mr Persson also failed to silence critics in his own party, with five of his own ministers openly opposing membership. His decision to include them in his government after last year's general election campaign proved a costly mistake.

Crucially, he failed to win the backing of LO, the powerful blue collar trade union organisation. Core SDP voters, notably women in the public sector, were left wondering whether the country's welfare state could be guaranteed inside the eurozone. The party's supporters appear to have split 50-50 on the issue.

With the euro attacked from the left, the promised support from the rightwing opposition proved ineffective. The main conservative party was handicapped by having a leader who had already resigned. Added to this, there were just enough high-profile non-socialist opponents to give conservative No voters confidence.

And then there were the economic arguments that simply failed to convince. Early on, the Yes side promised that adopting the euro would create 100,000 jobs and boost economic growth as trade expanded. An average family with children would gain SKr30,000 (Euros 3,300, Pounds 2,300, Dollars 3,700) a year in lower prices. Mr Persson said a Yes vote would knock SKr1,000 a month off the average home loan repayment in his home town of Katrineholm. The figures were widely derided as unrealistic.

For every economist proclaiming the virtues of the single currency another could be found to question its value. At the same time economic events well outside Mr Persson's power were moving against him. The weakness of the eurozone's biggest economies, Germany, France and Italy, appeared directly to contradict the promises.⁵⁴

The *Financial Times* predicted a strong reaction from the financial markets to the referendum result by suggesting that the krona would weaken against the euro⁵⁵ and in early trade on 15 September, the krona did so. At the same time, the Stockholm bourse all-share index rose, following a similar trend in other European markets.⁵⁶ In the short term, it is likely there will be no significant effect on the Swedish economy, as it is one of the strongest economies in the EU.

The political implications are more difficult to predict. The result is a setback for the Swedish Prime Minister, whose Social Democratic Party was deeply divided over the euro. Mr Persson had made it clear throughout the campaign that he would not resign in the event of a 'no' vote, although there may now be some pressure on him to step down and there have already been calls for a general election. A positive referendum result would have paved the way for Sweden to join the single currency in 2006.⁵⁷ The rejection of the euro does not mean that Sweden will never adopt it, although during the campaign Mr Persson had warned that a 'no' vote would rule out entry for 10 years.

Many press reports have commented on the possible implications of the result on a UK euro referendum, most concluding that the Swedish vote would effectively rule out a referendum before the next general election. Peter Hain⁵⁸ was reported to have told the

⁵⁴ *Financial Times* 15 September 2003

⁵⁵ *Financial Times* 15 September 2003

⁵⁶ "What now for Sweden's economy?" *BBC News Website* as at 15 September 2003 updated 11:02am UK time : <http://news.bbc.co.uk/1/hi/business/3109004.stm> As noted in Section V(2) the pro-euro side had had strong business support during the referendum campaign.

⁵⁷ The Swedish Finance Ministry summarised on its website the legislative and administrative measures that would need to be put in place prior to membership at <http://www.finans.regeringen.se/emu/english/sweden/preparations.htm>

⁵⁸ Secretary of State for Wales and former Minister for Europe

Financial Times on 14 September 2003 that “it would remain in Britain’s interests to join the euro when the economic conditions were right, irrespective of the Swedish vote”.⁵⁹

The *Guardian* thought the result would make Britain a little less isolated outside the Eurozone, and would “also deliver yet another blow to the prospects of a British referendum on euro entry within the foreseeable future”.⁶⁰

The *Times* believed the result would “send a powerful signal to Britain, underlining the political risks of a referendum on the single European currency”,⁶¹ while the *Daily Telegraph* concluded:

Instead of always wanting to be at the heart of Europe, never quite making it, sulky and resented, Britain could become the leader of an alternative grouping of nonfederalist, peripheral states.⁶²

This newspaper proposed an alternative free trade bloc to the EU:

As well as Sweden and Denmark (and possibly Ireland), such a group would be likely to include a number of the new entrants, who may wish to follow Sweden's example by keeping their currencies. It could embrace some states outside the EU - Norway, for example - and forge strong links with North America. As for a name for such a bloc, how about the "European Free Trade Area"?⁶³

The *Independent* commented:

THE SWEDES were never given much of a reason for voting to adopt the euro and, so long as the issue remained one of the elite against the ordinary people, the Yes cause seemed unlikely to prevail. The patronising assumption that people might change their minds because of the appalling murder of an attractive politician rather than because of the arguments has been confounded.⁶⁴

This newspaper looked at a suggestion that the result did not necessarily point to a UK ‘no’:

The result is bad news for Britain's beleaguered supporters of membership and illustrates to Tony Blair how difficult it is to win a referendum. Chris Bryant, chairman of the Labour Movement for Europe, said that people should not assume that a British referendum would produce a similar result. "Many of Sweden's trading partners are not in the euro or even the EU, like Norway,

⁵⁹ *Financial Times* 15 September 2003

⁶⁰ *Guardian* 15 September 2003

⁶¹ *Times* 15 September 2003

⁶² *Daily Telegraph* 15 September 2003

⁶³ *Ibid*

⁶⁴ *Independent* 15 September 2003

whereas with Britain, more than half of our trade is with euro countries," he said.⁶⁵

The *Scotsman* referred to the “fiercely independent Nordic culture” in Sweden and described the Swedes as ‘canny’ and ‘dour’. Comparing the Swedish and Scottish economies, it commented:

In Scotland, whose economy is like Sweden's, the pro-euro argument has hinged on the impact of the exchange rate on manufacturing exports, but the recent 30 per cent hike in the value of the euro against sterling suggests that is now a moot point. There may be arguments for and against long-term euro membership, but few tenable short- or medium-term ones.

The *Financial Times* thought the Swedish result showed that economic arguments alone would not convince the electorate: “It will never be enough simply to wait for the numbers to look favourable. A sustained campaign for engagement at the heart of EU affairs has to be fought and won”.⁶⁶

⁶⁵ *Independent* 15 September 2003

⁶⁶ *Financial Times* 15 September 2003