

Same, same but different

The Nordic EU members during the crisis



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Preface

The euro crisis has marked change in European political systems and governance. The implications of the financial meltdown for labour markets and for sovereign debts have been immense, and, in turn, they have brought about changes in the EU's infrastructure and have deepened the commitment to European cooperation, such as the fiscal compact, the ESM and the European semester. At the same time, however, the effects of the crisis have been asymmetrically dispersed among - and within - the EU member states, where the ideas, realities and benefits of the EU are receiving new political and electoral focus. In this set of unusual circumstances, the perceptions and conceptualisations of European political cooperation may pass through periods of reaction, and possibly, more long-term changes in the definition of EU membership.

The Nordic EU members, Denmark, Finland and Sweden, share strong historical bonds of cooperation, as well as the characteristics of open and economically prosperous democracies. Nevertheless, their relations with the EU and their historical experiences with Europe differ on many levels. For example, Denmark entered the EU in 1973 with statutory opt-outs, and it has maintained a position of steady resistance to integration, while Sweden and Finland waited until 1995 to join the EU. Finland, which joined the euro project, became a far more integrationist country than Sweden, who – like Denmark – decided not to join the euro project. They have also been affected differently by the financial crisis, which has left them with different sets of challenges regarding their social, electoral and institutional affairs. Moreover, the three countries have significant differences in their respective experiences in the 20th century.

This report presents country-specific studies within the political framework of EU cooperation since the beginning of the crisis, touching on various subjects, such as the development of the euro, the fiscal compact, the bailouts and the banking union. What have these events meant in terms of parliamentary representation and popular attitudes towards the European project, and have there been any changes on the level of their national parties' discourse on Europe? In other words, are EU affairs more political now than before the euro crisis? And furthermore, have the respective Nordic countries grown more alike as EU members during the euro crisis? These are some of the issues and questions that this report will assess. The scope of the research does not consider the campaign or the results of the EP elections of May 2014.

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1 In or out? Denmark during the euro crisis

Julie Hassing Nielsen

1.1 Introduction: A Nordic country with reservations

Few countries have disturbed the EU's peace of mind to the same extent as Denmark, with its rejection of the Treaty of Maastricht (TEU) in 1992 (e.g., Franklin et al., 1995, Franklin et al., 1994, Siune and Svensson, 1993, Hobolt, 2009). With the Danish "nej" to the TEU, the debate about EU's democratic deficit was initiated (e.g., Foellesdal and Hix, 2006, Majone, 1998, Moravcsik, 2002, Weiler, 1999). The Danish "no" resulted in four TEU opt outs applicable to Denmark only. These are also known as the Edinburgh Agreements, which were adopted after another referendum in 1993. The four areas where Denmark does not participate are: (1) the Common Security and Defence Policy (CSDP), a part of the Common Foreign and Security Policy (CFSP), (2) the supranational part of the Justice and Home Affairs (JHA), (3) the union citizenship, and (4) the third phase of the Economic and Monetary Union (EMU). Hence Denmark maintains its currency: the Danish Crown (e.g., DIIS, 2008, Møller, 2003). All four opt outs are still in place despite the profound changes EU institutions have undergone in the past 20 years. Yet the debate still persists regarding what extent Denmark should abolish the four reservations and, whole-heartedly, enter the EU enterprise or whether Denmark is better off maintaining the opt outs (e.g., Marcussen, 2009, DIIS, 2008, Wind, 24 December 2012).

The four TEU opt outs are central to understanding contemporary Danish EU politics. Though all reservations remain intact, they nevertheless address an EU of yesterday; one of the opt outs – the Union citizenship – has lost its importance after the Treaty of Amsterdam (1998) incorporated Union citizenship as a parallel option to national citizenship. Though the defense opt out has influenced Danish defense policy, for example, Denmark withdrew from the NATO-mission in Macedonia and Bosnia-Herzegovina when it went from a NATO-mission to an EU-headed mission,¹ the defense reservation has received less attention in past years due to non- EU related Danish defense activities in Iraq and Afghanistan. The JHA and EMU opt outs, however, have risen dramatically in prominence after 1993. Within JHA, illegal migration and cross-border criminality are just a few issues that have required enhanced JHA cooperation. Similarly, a full-fledged eurozone materialised in 1999 with the establishment of the European Central Bank (ECB) and the adoption of the euro. With the launch of the euro,

¹ For more about the Danish reservation of the defense participation see DIIS 2008. De Danske Forbehold over for Den Europæiske Union. In: STUDIES, D. I. F. I. (ed.). Copenhagen DIIS pp. 57-142.

the Danish EMU opt out was sent to referendum in 2000. But, yet again, the Danes rejected full EMU membership. Since then, even though abolishing the opt outs is an explicit aim for the current centre-left government constellation (2011-), most politicians reluctantly enter the debate. More than ever, however, the question of Denmark being “in or out” of the EU became evident during the eurozone crisis (2008-onwards), for example, when entering the Fiscal Compact (2012) as well as the ongoing discussion on whether Denmark should enter the euro. While the initial reply to the struggling eurozone was a hesitating EU, the period post 2012 witnessed the emergence of new measures and institutions to bolster the euro against future challenges.

This analysis focuses on Danish EU politics during the eurozone crisis encompassing various dimensions of domestic politics influencing Danish EU policies. The report has four sections. First, I provide the background of Danish EU membership. Particular attention is paid to the tradition of using popular referendums for critical EU matters. Second, I turn to the Danish responses to the Financial Crisis. I highlight the impact of the crisis on Danish economy, as well as account for how the Danish EMU opt out plays a role for Danish participation in attempts to bolster the eurozone. Third, I describe the current Danish debates about future EU integration, touching on the 2014 popular referendum on the Patent Court as well as the debate about welfare tourism. Lastly, I envisage the future of Danish EU debate in light of the four Danish opt outs as well as the May 2014 European Parliament (EP) Election and the Patent Court referendum.

1.2 Danish reluctance since 1972

Denmark became a member of the European Economic Community (EEC) in 1973 after a narrow majority endorsed membership in a referendum in 1972. Though Denmark voted yes to membership, the small Nordic country nevertheless has been known for eurosceptical sentiments since its very entrance to the community (e.g., Hobolt, 2009, Andersen, 2003). Here, I examine the evolution of Danish support to the European enterprise from 1973 to 2013. Yet, to understand how Danish EU policy is formed, a few core features of Danish political dynamics are necessary to describe. I will first show how the Danish tradition for minority governments results in small eurosceptical parties often possessing critical influence on EU politics. I then turn to the evolution of the Danish populations’ attitudes towards EU integration during the eurozone crisis.

1.2.1 Minority governments and eurosceptic supporting parties

One core characteristic of the Danish political system is its tradition for minority governments. Since the so-called “earthquake” election (1973), which brought many new parties into Danish politics and re-settled party constellations anew, minority governments have been the rule rather than the exception. Partly due to the tradition of minority governments, the Danish Parliament “*Folketinget*”

has traditionally been very strong vis-à-vis the government, as one or more of the opposition parties need to be involved earlier in the legislation process than would be the case under a majority government, particularly, if they act in the capacity of a supporting party. This also explains the Parliament's strong voice in the national EU decision-making process compared to other EU Member States' parliaments. Prior to attending Council meetings, the minister requires a mandate from the Danish European Affairs Committee "*Folketingets Europaudvalg*", consisting of Parliament members (e.g., Jensen and Nielsen, 2011, pp. 100-101). The national decision-making process thus provides an institutional constellation with a remarkably high degree of parliamentary power over the EU decision-making processes.

Minority governments require supporting parties to stay in power. The Danish multi-party system consists of a set of larger parties – the Social Democrats "*Socialdemokraterne*", the Conservatives "*Det Konservative Folkeparti*" and the Liberals "*Venstre*" – and a set of smaller parties. The Radical Left "*Det Radikale Venstre*", which is currently in government, is in the centre of the left-right scale. At the left, we find the Socialist People's Party "*Socialistisk Folkeparti*" as well as the Unity List "*Enhedslisten*", while, the Danish People's Party "*Dansk Folkeparti*" and Liberal Alliance "*Liberal Alliance*" are situated on the right side from the middle. Where the large Danish parties are pro-European, euroscepticism is predominantly found amongst the smaller parties, and the current Danish minority government – the centre-left coalition between the Social Democrats and the Radical Left headed by Prime Minister (PM) Helle Thorning-Schmidt (2011-) – crucially relies on support from the strongly eurosceptical Unity List.

Euroscepticism is often sub-divided into being either hard or soft. Hard euroscepticism refers to resistance of the EU project as a whole. Conversely, soft euroscepticism covers integration reluctance in certain sub-areas of European cooperation (e.g., Szczerbiak and Taggart, 2003, pp. 2, Sørensen, 2007). Both the Danish People's Party and the Unity List declare hard euroscepticism in their party manifestos², whereas the Liberal Alliance supports Danish EU membership while criticising the Union's bureaucracy.³ However, hard euroscepticism is difficult to carry out in day-to-day politics as a small supporting party of a pro-European minority government. As supporting party for the 2001-2011 Liberal-Conservative minority governments, the Danish People's Party did, notwithstanding, leave a few footprints on Danish EU policies. Most vividly and widely discussed beyond the Danish borders, the Danish People's Party managed to negotiate Danish border control back in May 2011 despite Danish participation in the Schengen Acquis.⁴ Recently, the Danish People's Party and

² <http://www.danskfolkeparti.dk/Principprogram> and <http://www.enhedslisten.dk/principprogram> (webpages consulted 30 December 2013).

³ http://www.liberalalliance.dk/holdninger#aparagraph_159287121301589 (webpage consulted 30 December 2013).

⁴ For more about the reinvention of Danish border control <http://www.danskfolkeparti.dk/Gr%C3%A6nsekontrol> (webpage consulted 30 December 2013).

the Unity List refused to support Danish entrance to the Patent Court, forcing the current government to schedule a popular referendum on the matter. This referendum is discussed more thoroughly later.

One Danish party – the Socialist People’s Party – has taken a journey from very hard euroscepticism to soft euroscepticism over the years. In 1972, the Socialist People’s Party strongly advocated against Danish EC membership, and twenty years later it was the leading force against Danish TEU participation (1992). Most Danes still remember the Socialist People’s Party’s slogan for a TEU rejection, which became a symbol of the growing eurosceptical camp in Danish politics: *“Holger og Konen siger nej til Unionen”* (i.e. *Holger and his Wife Reject the European Enterprise*). Yet, the current government actively endorses Danish EU membership in its government program. This journey from hard to soft euroscepticism has not been without costs, and is one of the reasons the Socialist People’s Party has lost many voters to the EU critical Unity List (Hjorddal and Østergaard, 26-11-2010).

In addition to party euroscepticism, two anti-European movements also play a role in the Danish debate. After Danish EC entrance in 1973, the Movement Against the EU *“Folkebevægelsen mod EU”* was created. The Movement Against the EU is a cross-political movement, sharing hard euroscepticism as their common platform.⁵ The Movement Against the EU currently has one seat in the EP, held by a Member of the European Parliament (MEP) Søren Søndergaard. With similar ideas, the June Movement *“Junibevegelsen”* was created in the aftermath of the Danish endorsement of the Edinburg Agreement in 1993. The June Movement has been represented in the EP, yet in the EP 2009 election, the June Movement did not obtain re-election, and a few months later it ceased to exist (e.g., Jensen and Nielsen, 2011, Kelstrup et al., 2012).

1.2.2 A history of popular consultation

Denmark is divided between its largely pro-European political elite and its more sceptical population (e.g., Andersen, 2003, Jensen and Nielsen, 2011). Though, as I show below, the Danish support for EU membership is stable and consistent even during eurozone turmoil, the Danes have nevertheless, against the better advice of their government, twice rejected further integration in referendums. These rejections have made Danish politicians fear EU referendums, as these are not only a question about a particular EU-related issue but also, at least to some extent, a measure of the current government’s popularity (e.g., Svensson, 2002, Franklin, 2002)

So far, Denmark has held six referendums about EU related issues. This is among the highest number of referendums about EU issues held by any EU

⁵ <http://www.folkebevaegelsen.dk/> (webpage consulted 30 December 2013).

Member State, only surpassed by Ireland.⁶ Most referendums are warranted in the Danish Constitution “*Danmarks Grundlov*”, where Article 20 stipulates that a law relinquishing national sovereignty must be subject to popular referendum if not approved by at least a five-sixth majority of the Danish Parliament (1956). Still, where the 1972 referendum for EC entrance was a clear case of Denmark relinquishing sovereignty, not all referendums can claim the same level of clarity. Since 1986, when the Danes voted on the Single European Act (SEA), an informal political agreement across party lines has existed regarding the use of EU referendums on important EU matters. As a result, broader issues, pacts and treaties, which might not necessarily relinquish sovereignty under Article 20, are still sent to referendums to ensure support (e.g., Hobolt, 2009, Buchan et al., 2002). Though the majority of Danes support EU membership (e.g., Marcussen, 2013, pp. 405, Jensen and Nielsen, 2011, pp. 94), most Danes also possess a somewhat pragmatic relationship with the Union. This was not least shown in the debates prior to Danish EC entrance, revealing that Denmark entered the EC predominantly on the basis of its economic advantages, and the possibility for Danish export (e.g., Kelstrup et al., 2012, Jensen and Nielsen, 2011).

Table 1 shows the results of the Danish referendums on EU affairs, providing each referendum’s objective, the voter turnout, and the result. As seen, the Danish population has twice rejected further EU integration. The first time was in 1992 with the rejection of the TEU as mentioned in the introduction. The second time was in 2000, when the Danish population rejected participation in the EMU’s third phase after the eurozone was created in 1999. Though the two rejections earned Denmark a eurosceptical reputation (e.g., Sørensen, 2007), it is nevertheless important to remember that Denmark is not the only country to reject further integration. The latest, in 2008, Ireland rejected the Lisbon Treaty (which was later adopted in a second referendum), while France and the Netherlands in 2005 rejected the now-dead Treaty establishing a Constitution for Europe (i.e. the Constitutional Treaty). Hence, the Danish eurosceptical reputation should always be evaluated in light of the fact that many Member States only reluctantly consult their population on EU-related issues, thereby (perhaps) they are able to cover up eurosceptical sentiments.

But have Danish EU attitudes changed over time? Particularly, as I focus on Danish EU politics during the eurozone crisis, it is interesting to investigate the period prior to the collapse of the Lehman Brothers (2008) and beyond. Table 2 below provides the figures for Danish EU attitudes from 2006-2012. Table 2 provides three variables. First, we find the average response to the question: “*Thinking about the European Union, some say European unification should go further. Others say it has already gone too far. On a scale from 0-10, what best describes your position*”. Furthermore, table 2 provides the average

⁶ Until now, Ireland and Denmark remain countries in the EU, which have held the most referendums, followed by France (1972 and 1992), Britain (1975) and Italy (1989).

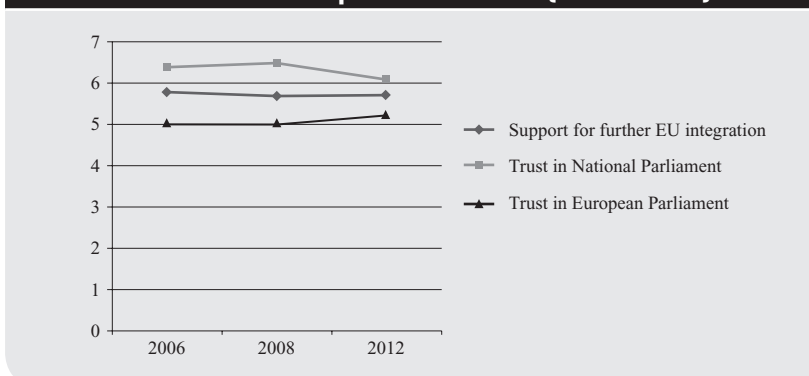
Table 1 Denmark – Referendums on European integration (1972-)

Year	Object	Turnout (%)	Yes (%)
1972	EC Membership	90	63.3
1986	Single European Act (SEA)	75	56.2
1992	Maastricht Treaty (TEU)	83	49.3
1993	Maastricht Treaty	87	56.8
1998	Amsterdam Treaty	76	55.1
2000	Single currency	88	46.9

Source: Data from www.eu-oplysningen.dk – table from (Nielsen, 2012).

trust in the EP and average trust in the national parliament. As seen, Danish EU attitudes are remarkably stable over a period characterised by economic turmoil and severe eurozone trouble. Both when it comes to EP trust and trust in the national parliament, the Danish figures show almost no fluctuations. Yet, we see a small decrease in trust in the national parliament as well as a slight increase in trust in the EP during the period. On a 0-10 point scale, the Danish population supports further EU integration around an average of 5.8. Trust in the EP, despite the eurozone crisis, maintains an average support of around 5, while finally trust in the national parliament decreases slightly from 6.4 in 2006 to 6.1 by 2012. This period was, however, also characterised by a shift in government from the Conservative-right government (2001-2011) to a Centre-left government (2011-). In sum, the Danish population has not lost support for

Table 2 Danish support for EU integration, and trust in the national and European Parliament (2006-2012)



Sources: Data from European Social Survey 2006, 2008, and 2012. Missing values left out.

EU integration nor trust in either the EP or the national parliament during the eurozone crisis.

Lastly, some specific socio-demographic characteristics are important when exploring Danish EU attitudes. First, EU attitudes are gender-divided. On average, Danish men are more pro-European than Danish women. Also the older generations are more pro-European than the younger ones, while the well-educated are more pro-European than the less educated. Furthermore, over time, the political pattern of who votes “yes” and “no” in referendums has changed towards a growing euroscepticism amongst the Liberal, the Conservative and the Social Democratic voters, which were traditional pro-European parties. This is mainly due to the increased discussions about the access to welfare benefits for EU workers temporarily working in Denmark. Particularly the Social Democrats have lost voters to the Danish People’s Party, for example on the issues of EU politics, where Danish People’s Party emphasise a re-enforcement of border control (e.g., Jensen and Nielsen, 2011, pp. 94-95). Also, though table 2 provides a stable pattern of EU attitudes, previous studies show that the Danes increasingly started to feel European between 1990-2001 (Andersen, 2003, pp. 97). The findings of stable support and trust in the EP as found in table 2, support previous research, showing that soft euroscepticism characterises the Danish population. This is, for example, seen when a repeated survey shows that a majority of Danes support the opt outs (Marcussen, 2013, pp. 405).

1.3 The Danish response to the eurozone crisis

Like most EU countries, Denmark was severely hit by the Financial Crisis following the collapse of the Lehman Brothers in 2008. Below I discuss the eurozone crisis from a Danish perspective. First, I account for how the crisis hit Denmark, and the national policies initiated to remedy its impact. Second, I describe how the different EU initiatives aimed at bolstering the fragile eurozone impact Danish EU politics with particular attention on the EMU.

1.3.1 The financial crisis from a Danish perspective

In 2012, after the first turmoil post financial crisis had settled, the Danish government commissioned a report from a set of economic and financial experts to investigate the causes of the crisis as well as analyse the effect of various political attempts to counter-balance the crisis both in the short and long-term perspective. The Commission became known as the Rangvid Commission – named after the head of the Commission: Prof. Jesper Rangvid.

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The results of the Rangvid Commission – the Rangvid Report – were published in September 2013 (Rangvid, 2013). It concluded that the Danish crisis was caused by a complicated interplay between various factors including seemingly sustainable high growth, risky economic optimism, risk-seeking credit institutions as well as inadequate corporate governance in most financial institutions. Furthermore, adding to the complicated picture, these factors were a combination of national and international factors. As a small open economy, Denmark is tightly integrated with the surrounding world. Though the Rangvid Report points to several factors leading to a fragile Danish economy, particularly the overheated Danish housing market generated by a range of new loan possibilities which created a pre-crisis bubble that proved hard to combat (Rangvid, 2013). In the context of Danish EU membership of particular interest is how the Danish Government rescued a set of troubled Danish banks through two bank rescue packages (known as *Bank Package I and II*) as well as the Rangvid Report's recommendations for future extended control of financial institutions to avoid similar crises.

Between 2008 and 2010, Denmark was exposed to a systemic financial crisis in its Banking industry. These years were characterised by large losses in the Bank sector, while many banks found their solvency under pressure. To avoid so-called “bank runs” where private savers withdraw their savings, as witnessed in countries under similar circumstances, as well as to improve financial stability, the Danish government in 2008 got involved in the financial sector by taking over distressed banks, providing capital injections and extraordinary liquidity support. The Danish government's unlimited guarantee to depositors and unsecured creditors became known as *Bank Package I*. Government intervention in the crises was not unique to Denmark. A majority of the western countries, including a large set of EU Member States, intervened in the banking sector to cushion the impact. Yet, the Danish bank packages were sizable even by international standards (Rangvid, 2013, Kluth and Lynggaard, 2013), resulting in public debate about the fairness in government guarantees for banks that had taken unnecessary risks. This debate was neither more nor less strong than in most other EU Member States. Most debates took place in the media, and, contrasting with other EU Member States, it never materialised into popular movements and street demonstrations.

The two bank packages did not prevent the collapse of several Danish banks, while others were put under the auspices of the government's wind-up company “*Finansiel Stabilitet A/S*”. Unlike other countries, Denmark did not attempt to keep distressed banks going. In sum, a total of 62 Danish financial institutions ceased to exist between 2008 and 2013, though not all were direct consequences of the crisis. Though the Rangvid Report concludes that the Bank Packages were a necessity in the vulnerable economic situation, it nevertheless strongly criticises the situation that the financial system had become so fragile that government help and reassurance was needed at all (Rangvid, 2013).

The Danish crisis recovery post 2008 is weak compared to similar countries. The Danish GDP (in 2013) is still about 5 percent below pre-crisis level, and Denmark still had a budgetary crises by late 2013 (Rangvid, 2013). Though Denmark does not participate in the EMU's third phase, it nevertheless has to live up to the convergence criteria in the Stability and Growth Pact.⁷ The Danish budget deficit has placed the country under Council monitoring, along with 16 other Member States, because of too high a public deficit. The 2013 Council recommendations for Denmark highlighted correction of the 2013 excessive deficit, while it encouraged improving employability of people in the margin of the labour market, and continuing efforts to remove obstacles to competition.⁸ These recommendations aligned well with enhanced Danish focus, both in the government coalition but also in the opposition for welfare reforms.

1.3.2 In or out when bolstering the eurozone's institutions?

The Lisbon Treaty (2009) only introduced a few changes to the EMU, and none of which critically affected the Danish EMU opt out. The treaty strengthened the eurogroup and the ECB became an independent EU institution (DIIS, 2008, Kelstrup et al., 2012, pp. 303-323). Yet, the ad hoc institutions created to bolster the eurozone from 2008 onwards brought the Danish EMU opt out to debate several times. The Danish EMU opt out prevents Denmark for participating in the increasingly influential eurogroup, consisting of the eurozone's economic and finance ministers. Furthermore, Denmark does not have a seat in the ECB's governing council. The opt out enables Denmark to maintain its own currency, though the exchange rate of the Danish Crown, unlike the Swedish Crown and the British Pound, is currently fixed to the euro. Furthermore, Denmark also has to live up to the Convergence Criteria in the Stability and Growth Pact, though Denmark is not obliged at any point to adopt the euro (e.g., Alesina and Giavazzi, 2010, Chang, 2009, Chang, 2012).

Table 3 below shows some of the most important initiatives and pieces of legislation during the eurozone crisis. Table 3 does not include the Six Pack, the Two Pack and the European Semester as these were Commission initiatives to strengthen the Stability and Growth Pact and did not per se establish new institutions (like for example the European Stability Mechanism or the Banking Union) or generate new areas of integration. Rather these initiatives were set to strengthen the weaknesses of the already agreed upon Stability and Growth Pact, which Denmark already partakes in. Consequently, these initiatives were not under public debate in Denmark. By contrast, the temporary European Financial Stability Facility (EFSF), which later became the permanent European Stability Mechanism (ESM), the Euro Plus Pact, the Fiscal Compact and the Banking Union are all results of intergovernmental bargaining, and, in the case

⁷ For more about Danish participation in the deficit procedure see: <http://www.euo.dk/emner/euro/SVP/igangprocedure/> (webpage consulted 4 January 2014).

⁸ http://ec.europa.eu/europe2020/pdf/nd/csr2013_denmark_en.pdf (webpage consulted 4 January 2014).

Table 3 The eurozone crisis, initiatives and Danish participation (2010-2013)

<i>Time*</i>	<i>Initiative</i>	<i>Danish Participation</i>
2010	EU Financial Stability Facility	NO
2011	Euro-Plus Pact	YES
2012	European Stability Mechanism	NO
2012	The Fiscal Compact	YES
2014/2015	Banking Union	(To be decided)

Source: Author's own survey (2014) (source: www.ec.eu).

* *When the legislation was formally agreed upon at the EU level (it might not yet be adopted at the national level in the different Member States at the time).*

of ESM and Banking Union, are entirely new EU institutions. Therefore, these initiatives particularly generated Danish debate about whether to be in or out of a strengthened EMU cooperation.

The establishment of EFSF and later ESM was a clear U-turn from the no bail out clause found in the TEU. The ESM was based on an intergovernmental treaty signed in February 2012 by the eurozone member states.⁹ Due to the Danish EMU opt out, Denmark is not a part of the ESM. However, the ESM requires a change in the common treaty core (an amendment of article 136 of the TEUF) meaning changes had to be adopted in all 28 Member States including Denmark. This took place in Denmark by 23 February 2012 without much discussion, and it did not require a national referendum. Though the sovereign debt crises in Portugal, Italy, Ireland, Greece and Spain (i.e. the PIIGS-countries) received much Danish media attention, the establishment of the ESM did not receive extensive attention or strong debate.

The Euro Plus Pact reflects the eurozone's members acknowledgement of deeper interdependency. The Pact focuses on competitiveness, employment, sustainability of public finance and financial stability. Despite the Danish EMU opt out, it still – alongside with five other non-euro member states (Bulgaria, Latvia, Lithuania, Poland and Romania) – signed the Pact, which came into effect by March 2011. All 23 signatories committed to implement reforms as a part of a stricter EU economic governance framework.

The Treaty on Stability, Coordination and Governance (i.e. the Fiscal Compact) and the Banking Union generated Danish debate. Particularly prior to the Danish accession to the Fiscal Compact, the Danish People's Party and the

⁹ <http://www.european-council.europa.eu/media/582311/05-tesm2.en12.pdf> (webpage consulted 4 January 2014).

Unity List, both opposing the treaty, demanded a popular referendum. No referendum was held, and the Fiscal Compact was signed in March 2012 during the Seventh Danish EU Presidency by 25 Member States (Britain and Czech Republic abstained) (e.g., Adler-Nissen et al., 2012, Christensen and Nielsen, 2013). The Danish endorsement of the Fiscal Compact was possible to pass without a five-sixth Parliament majority, because the Ministry of Justice did not find that the Treaty would relinquish further sovereignty – a decision met with strong criticism from the Liberal Alliance, which highlighted that EU's current economic policies were un-reliable, the Unity List, being worried that the EU was now able to fine Denmark for budgetary deficits, while the Danish People's Party warned against the Fiscal Compact being the first step to an actual financial union (Ritzau, 20-01-2012). The Danish non-euro membership was envisaged to cause problems in its 2012 EU Presidency (e.g., DIIS, 2008). As emphasised by the then Minister for European Affairs, Nicolai Wammen (the Social Democrats) had a difficult time holding the EU Presidency (e.g., Wammen, 2013). Yet, the EMU opt out did not pose any significant problems for the Presidency (e.g., Jensen and Nedergaard, 2012).

The establishment of a Banking Union consists of three elements: a common bank monitoring mechanism, a common mechanism dissolving troubled banks and a deposit guarantee.¹⁰ The aim of the Banking Union is to avoid the negative connection between the Bank crises and troubled national public finance, which was one of the core causes of the Financial Crisis (e.g., Rangvid, 2013). Currently, to ensure equal competition between banks in EU Member States participating in the Banking Union and banks in EU Member States remaining outside the Banking Union, a double majority facilitates that both participating and non-participating countries influence the Bank Union's policies. Unlike Britain and Sweden who decided early on in the process not to participate in the common monitoring mechanism, Denmark uses a final model where non-euro countries maintain the same opportunities as euro members. The Danish Parliament's EU Coordination Office ("Folketingets Europaudvalg" FEU) mandated 30 November 2012 the Danish Government to negotiate the banking union.¹¹ Though the government awaits its final decision on whether or not to endorse Danish Banking Union participation, the Liberal Alliance, the Unity List and the Danish People's Party criticise potential Danish entrance. Particularly, they highlight the risks that Denmark will pay for other countries' bank failures (Ritzau, 19-12-2013).¹² The Danish government's position on the Banking Union will first be clarified when negotiations are finalised.

¹⁰ For more about the Banking Union see http://ec.europa.eu/internal_market/finances/banking-union/ (Webpage consulted 4 January 2014).

¹¹ <http://www.eu-oplysnngen.dk/emner/bankunion/> (Webpage consulted 31 December 2013).

¹² <http://enhedslisten.dk/artikel/bankunion-kr%C3%A6ver-folkeafstemning-72188> (webpage consulted 5 January 2014).

The EMU opt out did not receive much attention in Denmark during the eurozone crisis. Probably because the crisis did not provide a political momentum for discussing the opt out as the Danish support for abolishing the opt out significantly dropped in this period (e.g., Jensen and Nielsen, 2011, pp. 155). The arguments for pro full Danish EMU participation highlight Danish influence in the eurogroup as well as the ECB. Furthermore, speculation against the Danish currency could be avoided. The arguments against full EMU membership are more political, highlighting loss of Danish identity, limitation in the autonomy of Danish finance policy as well as responsible EU Members having to pay for less responsible Member states (e.g., Jensen and Nielsen, 2011, pp. 157). Also EU experts are divided on the actual consequences of the EMU opt out. Some emphasise that the benefits for the Danish EMU opt out outweigh the consequences (e.g., Marcussen, 2013, pp. 407), and that the dense and efficient Danish diplomatic network provides Denmark with diplomatic and bureaucratic advantages, which outweigh being outside (e.g., Marcussen, 2009, Marcussen, 2013, pp. 408). Others emphasise the danger of a Europe in diverging speeds, where strong eurozone cooperation without Danish participation critically limits Danish influence (e.g., DIIS, 2008). The past year, however, the Danish government has been in national turmoil with the Socialist People's Party leaving the government, so the aspects of EU membership have not been dominating the national agenda.

1.4 Debate and controversies

The extensive eurozone integration, encompassing its various measures to bolster the fragile euro did receive attention in the years post 2008. However, two debates should be highlighted, as they are likely to shape political discussions and Danish EU policies in the coming years. Late 2013, it became clear that the Danes would have to face their seventh EU referendum in May 2014, when they would vote on the Unified Patent Court. Secondly, a set of European Court of Justice (ECJ) rulings in past years have re-invented the debate about welfare tourism as European integration deepens. Below I account for both discussions, which can be expected to characterise Danish EU debates for the period ahead.

1.4.1 Yet another referendum in 2014

Danish politicians fear EU referendums. Twice, the Danish population has gone against the advice of a parliamentary majority and rejected further EU integration (see table 1). In both cases, the rejections posed severe consequences for the Government. In 2000, when the Danes rejected euro participation, they acted against the strongly pro-European Social Democratic Prime Minister Poul Nyrup Rasmussen, who was vividly shaken when he in the aftermath claimed "full responsibility" for its result. The consequences were severe, and Nyrup Rasmussen did not receive re-election the following year (e.g., Downs, 2001).

On the eve of 2013, it became clear that another Danish referendum on EU affairs was unavoidable. The long-term EU discussion about a unitary

patent protection, encompassing the establishment of a unified Patent Court, materialised late 2012 in a Patent Package agreement between the EP and the Council. The Patent Package consists of a legislative package of two regulations and an international agreement for creating unified patent EU protection. The new agreement falls under the enhanced cooperation procedure where 25 Member States (Italy and Spain exempt) agree to take this issue forward. Following the adoption of the two regulations by December 2012, the contracting Member States had to proceed with signature and ratification of the Unified Patent Court agreement, institutionalising a single and specialised patent jurisdiction.¹³ By late December 2013, after a period of discussion, it became clear that neither the Danish People's Party nor the Unity List support Danish participation in the Patent Court. Thus a referendum was unavoidable, as the required five-sixth parliament majority was not in place.

The vote on the Patent Court took place on 25 May 2014 – the same day as the EP election. For PM Thorning-Schmidt the outcome of the referendum was crucial. Not only is she, as she describes it herself, a whole-hearted European with excessive knowledge about the EU system where she worked prior to becoming PM, she has also struggled with bad opinion polls since the 2011 election. Additionally, the Social Democrats have lost a considerable share of their voters to the eurosceptical Danish People's Party in past years. Hence, losing the vote on the Patent Court would add yet another serious blow to the Social Democrats from a growing Danish People's Party just one year prior to the national election, which is currently scheduled for 2015. The Danish constitution prerequisites a parliamentary 5/6 majority approval when relinquishing national sovereignty, and since the government could not gather such a majority, the issue needed approval by referendum. Research has shown that votes similar to the one scheduled on the Patent Court, though essentially an independent EU issue, often taps people's view on the current government rather than the issue at stake (e.g., Svensson, 2022, Franklin, 2002). Thus, in light of the pre-election increased competition between the Social Democrats and the Danish People's Party, the vote on the Patent Court would have larger implications than mere Danish participation in the Patent Court.

1.4.2 Touching the core: The Danish welfare state at stake?

Increasingly, EU integration is framed in the Danish debate as a threat to the welfare state (e.g., Chang, 2009, pp. 169, Ritzau, 24-09-2013, Kvist, 2012). Among the Danish People's Party and the Unity List, the fear of further integration when it comes to incorporating actual core financial policies were articulated in the context of Denmark signing the Fiscal Compact in 2012. In Denmark, welfare state social expenses are the largest trunk on the national budget (Kvist, 2012), and so the EU debates have entered the core of Danish

¹³ For more about the patent package see http://ec.europa.eu/internal_market/indprop/patent/ (webpage consulted 4 January 2014).

national redistribution politics. This is not only a result of the economic crisis, but a consequence of the increasingly intensive welfare reforms debate as well as the EU mobility of workers resulting in more workers from Central and Eastern European member states in Denmark.

In past years, shifting Danish Governments, across the political left-right scale, have focused on the reorganisation of the welfare state to accommodate a growing share of citizens in retirement. Additionally, Denmark has for a long period lagged behind the growth rate and productivity of the countries Denmark normally compares itself with. Consequently, in 2012 the Government set up a Productivity Commission "*Produktivitetskommissionen*" to provide a set of comprehensive reports on how to reform the Danish Welfare System to enhance future Danish competitiveness and growth. The Commission's work was done by late 2013.¹⁴ Yet, welfare adjustments and reforms are hard to swallow for many political parties, fearing not only the death of the Danish universal welfare state but also the voters' verdict if extensive reforms are carried out.

In the context of the Danish welfare debates, a set of ECJ rulings intensified the debates about welfare tourism. Focusing on the EU mobility of workers, the ECJ found that welfare benefits, for example child support and unemployment benefits, must be obtainable for all EU citizens. Particularly the ECJ ruling of 21 February 2013 (case C-46/12, L.N.) regarding EU citizens' right to the extensive student grants and loan schemes sparked a profound Danish debate. The 2013 ECJ ruling is only the latest in a set of rulings, stipulating that EU citizens studying in Denmark under various conditions are entitled to the Danish student grants and loan schemes to the same extent as Danish citizens.¹⁵ Though the 2013 ruling was not against Denmark but Germany, it is widely believed to also pose severe consequences to the Danish system with its extensive universal welfare benefits. Similar debates have been seen in other universal welfare states like Finland. In the aftermath of the ruling, the Liberal Alliance, the Danish People's Party and the Unity List simultaneously warned against the severe consequences for the future of welfare benefits this ruling and similar rulings possessed (Politiken, 19-07-2013, Ritzau, 24-09-2013). Prior to the ECJ ruling, obtaining Danish student grant and student loan required permanent residence in at least two of the preceding ten years. Though the extra costs of the ECJ ruling is currently uncertain, experts anticipate extra yearly expenses around 200 million Danish crowns. Yet the student scholarship debate is not the only debate surrounding welfare benefits. Also the children aid has been debated, as ECJ provided EU citizens the rights to obtain Danish children aid benefits from the first day they work in Denmark (Ritzau, 19-06-2013). Additionally, the ECJ in November 2013 ruled against Finland about EU workers' right to receive

¹⁴ For more about the work of the Produktivitetskommission <http://produktivitetskommissionen.dk/publikationer> (webpage consulted 1 January 2014).

¹⁵ Read more about the ECJ http://www.su.dk/SU/betingelser/udenlandsk/ligestillingeu/Sider/eu-domogsu_genoptagels.aspx (webpage consulted 1 January 2014).

unemployment benefits from the first day of entrance to the Finnish system. This ruling has also received extensive Danish attention and sparked debate.¹⁶ In sum, the debate about EU mobility of workers' impact on the welfare system, often labelled as welfare tourism, has received heightened attention in past years, and will probably continue to do so in 2014 and beyond.

1.5 The future of the Danish EU membership: beyond economics

In 2012, Denmark celebrated 40 years of EU membership. These have been 40 years of mainly EU pragmatism, sometimes hesitation, but most of the time with a very stable elite-population gap in the direction of EU integration. In 1972, the politicians advocating EC entrance highlighted the export and trade benefits, while those opposing feared a political union (e.g., Mansø, 01-10-2012). This 1972 feature of Danish EU politics has, overall, not changed much over the past 40 years. Entering 2014, the Danish argument for EU membership is still the community's economic advantage during the crisis where it has been emphasised by pro-European parties that the EU internal market, particularly Germany, is still Denmark's main source of income, while arguments against further integration remain more politically oriented, highlighting the loss of Danish national identity and the welfare state (e.g., Jensen and Nielsen, 2011).

Domestic and EU politics remain intertwined, but perhaps even more so if looking just one year ahead. Nothing less than three votes are scheduled in the period 2014-2015. On May 25 2014, the Danes elected EP members and voted on the Patent Court, with the national election looming in the background, currently scheduled for 2015. Inevitably, Danish politics will centre around these events. Below I briefly comment on the Danish run up to the EP election and the Patent Court Referendum. I then discuss the future of Danish EU Membership in the context of the upcoming 2015 election. Here I answer the question if Denmark remains a reluctant member of the EU and remain outside the eurozone – or whether we can envisage a stronger attachment to the EU and even abolishment of the Danish opt outs?

1.5.1 The European Parliament election and the Patent Court referendum

Most Danish parties are currently represented in the EP with the exception of the Unity List. And we can expect a representation of youth and hard euroscepticism to play a dominant role in the upcoming 2014 EP election. In 2009, the now 33-year old Morten Messerschmidt from the Danish People's Party received a staggering 284.258 votes – the second highest ever in the history of Danish EP elections. Messerschmidt announced his candidature for yet another round late 2013, adding to the characteristic youth by the current 2014 Danish EP

¹⁶ For more see http://europa.eu/rapid/press-release_IP-13-1107_en.htm (webpage consulted 4 January 2014).

candidates. Messerschmidt is a hard eurosceptic. He previously argued for the abolishment of the EP, but now focuses on fighting welfare tourism, re-installing border control, and limiting the EU budget.¹⁷

The Danish Movement Against the EU nominated in 2013 the 28-year old Rina Ronja Kari as successor to the MEP veteran Søren Søndergaard. Like Messerschmidt, Rina works to remove Denmark from the EU, mainly because it undermines the welfare state. It requires around 7-8 percent of the votes to get an EP candidate seat. In 2009, the Movement Against the EU got 7.7 percent of the votes. According to the latest opinion polls, it is expected to get 11.4 percent of the votes in the 2014 EP elections (Ritzau, 13-09-2013). But also the larger and traditionally more EU friendly parties have adopted a more critical tone. The main candidate for the Liberals, the 33-year old Ellen Trane Nørby, who is a known face in the Danish Parliament, enters EU politics for the first time. Also Trane Nørby focuses on welfare tourism, which is likely to be one of the major themes during the EP election campaign (Bureau, 09-08-2013).¹⁸

The patent Court and the EP election debates will most likely emerge into discussions about the future of the welfare state and welfare tourism along with enhanced EU integration. Furthermore, possible Danish entrance into the Banking Union can be expected to receive attention out of this. The debate about potential Danish participation in a Banking Union requires a referendum which is a decision for the Ministry of Justice. Most experts agree this is unlikely to happen (Ritzau, 16-12-2012). The debate about the Banking Union is likely to resemble that of the Fiscal Compact, which Denmark eventually signed without a prior referendum. Warnings were issued by Danish EU experts that the Patent Court topic was unsuitable for a referendum as it is too technical for the general public to understand (Nedergaard, 7-5-2013), and thus will become yet another referendum about “yes or no” to the EU as such.¹⁹

1.5.2 The opt-outs revisited: Will Denmark remain reluctant?

The eurozone crisis is said to consist of three intertwined crises: a banking crisis, a sovereign debt crisis and a growth crisis (Schambaugh, 2012). While the period 2008-2012 largely centred on the sovereign debt crisis, focus is now increasingly re-oriented towards banking and growth issues. Furthermore, the growing tension with illegal immigration in the Mediterranean highlights the debate about burden shared between the EU members when it comes to asylum seekers.

¹⁷ (<http://www.b.dk/politiko/tv-hoer-morten-messerschmidts-alternative-eu-nytaarstale>) (website consulted 4 January 2014).

¹⁸ DDP did in fact become by far the biggest party (26,6 %) before the Social Democrats (19,1 %): <http://www.europarl.europa.eu/elections2014-results/en/country-results-dk-2014.html#table02>

¹⁹ In the referendum Denmark approved the Unified patent Court, albeit with 44,2 % abstention: <http://www.euractiv.com/sections/innovation-enterprise/danes-support-eu-patent-court-referendum-302403>

Given the enhanced focus on illegal immigration (an area within JHA) as well as the continuous evolution of the EMU, it is doubtful we will see any Danish political attempts to initiate a discussion about the future of the four Danish opt outs. As mentioned, the Danish politicians fear EU referendums as the “no” to the euro in 2001 as well as the 1992-rejection of the Treaty of Maastricht which had severe political consequences. Though we witnessed (see Table 2) very stable support for Danish EU membership even during the eurozone turmoil, the Danes simultaneously maintain reluctance for full EMU membership. At the peak of the Crisis, only 22 percent of the Danes supported euro membership (Ritzau, 8-10-2012). Along similar veins, Danish politics is currently characterised by an immigration-related cleavage with the growing Danish People’s Party as the main proponent to halt immigration and re-install Danish border control, despite Danish membership of the Schengen Acquis. The Danish People’s Party advances have largely been at the expenses of the Social Democrats, who have lost more than 50,000 voters to the Danish People’s Party since the 2011 election (Rohde, 19-08-2013). This voter transfer is not only due to immigration issues, but encompasses a whole range of political issues such as EU politics, worker’s rights and the protection of welfare benefits. Hence, the currently centre-left government coalition would run a high risk of defeat and humiliation, if losing a referendum on the opt outs, despite its proclaimed aim to abolish the opt outs in their 2011 election manifesto (Bureau, 26-06-2012). At least for now, the Danish TEU opt outs appear to have become a “condition in Danish EU politics” (Nedergaard, 9-10-2012). This will remain so in 2014 as 2015 is a national election year, and enhanced EU integration is not considered a good re-election platform in the current euro crisis context.

In the eurozone crisis context, as well as the Danish politicians’ fear of losing face in national EU referendums, it remains highly unlikely the four Danish opt outs will be subject to discussion or even referendums in the following years to come. This way, Denmark will still not be one of the innermost pro-European core countries, but rather maintains its more reluctant position alongside Britain and Sweden in the periphery. Again, Danish EU Membership is first and foremost pragmatic. Hence, we can also envisage the pragmatic discussions to determine the Danish EU debate in years to come. First and foremost, these surround the Patent Court Referendum (as described above), but will most likely expand to the discussions about whether or not Denmark should join the Banking Union.

In sum, the Danish EU Membership has always been pragmatic, based mainly on economic considerations about the benefits of the Common Market. Danish reluctance is based on political integration, which importantly encompasses the evolution of the enhanced fiscal monitoring integration during the eurozone Crisis. Hence, when it comes to a multi-speed Europe, the Danish view is asymmetrical, advocating enhanced Common Market integration while reluctantly endorsing the political aspects of integration. This has been the pattern since Denmark obtained its EC Membership in 1973, and will most likely be the pattern in years to come as well.

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2 Finland and the eurozone crisis

Juha Jokela

2.1 Introduction

Finland is often characterised as the most integrationist and constructive Nordic member of the European Union (EU). It joined the EU in 1995 without any major reservations, yet it was able to secure long transition periods in some policy fields. Finland is the only Nordic member that decided to join the third phase of the Economic and Monetary Union (EMU) in 1999, and it adopted the single currency in 2002. The Finnish EU strategy and policy has aimed to secure and increase Finland's influence in the EU by positioning the country firmly in the core projects of the European integration. In doing so, it has aimed to accumulate political capital through active and constructive engagement in EU decision making. During its membership, it has gained a reputation of being a 'model-pupil' in the EU's classroom. Although this commonly held perception has faced closer scrutiny in Finland and Brussels in terms of the implementation of EU legislation, the perception in the EU of opt-out obsessed Danes, self-sufficient Swedes and easy-going Finns prevailed until the eurozone crisis.

During the years of the financial and economic crisis, Finland has gained a reputation of being an increasingly difficult member state that has not shied away from obstructing joint efforts to tackle the crisis or from criticising the eurozone members that have been hit by the crisis. Tougher Finnish political rhetoric and policies are anchored in domestic developments. Participation in the eurozone anti-crisis measures in general and in the highly unpopular loan programmes that are aimed at shoring up the failing eurozone economies in particular, has led to exceptional changes in the Finnish political landscape. The country has witnessed the significant and rapid emergence of an openly populist and eurosceptic party, which is currently ranked as the third largest political force in Finland. Relatedly, the pervasive national consensus that has been typical with regard to the Finnish EU policy has broken down, at least temporarily. The domestication of Finland's EU policy has been characterised by a hardening tone and tougher negotiation positions, including unusual, Finnish red lines in EU policymaking. While some see this as an element of Finnish power in the EU, others have suggested that the country is rapidly consuming the political capital that has been gained through the constructive engagement of previous years (Iso-Markku 2013).

This chapter aims to map out and analyse the current trends in Finnish EU politics in light of the eurozone crisis. To set up the scene, it will first discuss the

trajectory of Finland's relations with the EU from a contemporary perspective. It will argue that, notwithstanding significant economic imperatives, political and security considerations lie at the heart of Finnish EU policy: a policy that has aimed to overcome Finland's peripheral geographical location and the challenges of its security environment. The second part of this chapter focuses on Finland's response to the eurozone crisis. It suggests that Finland, unlike Denmark and Sweden, has been fully participating in the extraordinary crisis decisions and reforms that are aimed at reinforcing the EMU. While the government has argued that it is in the Finnish interest to stabilise the euro and to prevent a new crisis from emerging, the associated risks and liabilities that have been assumed by the Finnish state are unprecedented in the country's history. Finally, the last section of this chapter will discuss the key controversies associated with the crisis and the changes that arguably have been made in Finnish EU policy. It is suggested that, in Finland, the populist and eurosceptic challenge has been mainstreamed to some extent. Tougher political rhetoric has led to tougher negotiation positions. The chapter will conclude that the famous Finnish consensus machinery is, however, gathering pace, and that the euroscepticism that has emerged is currently headed in a more moderate direction. The relative decline of the Finnish economy in comparison to other euro members, as well as Denmark and Sweden, has also redirected the focus of the political debate towards structural factors that underpin the Finnish economy. Should the country's economy continue to weaken in comparison to its closest referent countries outside of the eurozone, the debate regarding the country's EU policy might be heightened.

2.2 Background: Towards the core of Europe

Finland's relationship with post war European integration changed dramatically during the end of the Cold War and the collapse of the Soviet Union. In this process, the post war security arrangements with the Soviet Union were dissolved, the policy of neutrality was revised, and Finland became economically and politically integrated in Western Europe; yet it decided to remain outside of military alliances. Economic considerations played a vital role in this process. Finland aimed to secure access to the recently established European single market through membership in the European Economic Area (EEA). After these negotiations were closed, it applied for full membership in the European Community (EC), which was about to transform itself into the European Union, and, in so doing, establish the Economic and Monetary Union and the Common Foreign and Security Policy (CFSP).

While the EEA membership was initially seen as sufficient to secure key Finnish interests, Sweden's previous decision to apply for a full EC membership during the EEA negotiations in 1991 shifted the debate towards full membership in Finland as well. In addition to the uncertainties related to the EEA, Finland's influence in changing Europe played an important role in the Finnish membership debate. Unlike the EEA membership, the EU membership would

guarantee full participation in the EU's future development and decision making in general. Importantly, security interests were also central in Finnish reasoning that was supportive of full membership. The president who was in office during the time of the key decisions, Mr. Mauno Koivisto, later noted that security policy reasons were the most significant in terms of membership (Koivisto 1995: 554). This might appear to be an unusual statement, as at the time, EU membership did not include any kind of collective security elements; yet the launch of the CFSP envisaged the possibility of a common defence policy.¹ As a member, Finland would participate and exercise influence in the development of the CFSP and the envisaged Common Security and Defence Policy (CSDP).

The EU membership was also seen as advancing stability and as having indirect security implications. First, the EU membership would move Finland away from the grey zone that existed between the former east and west and would anchor it steadily within the developing European Union. Second, integration was seen as advancing Finnish security by deepening the interdependencies between Finland and other members of the EU. Its historical experiences, in which it was subject to great power politics and conflicts, have underlined the country's relatively low strategic importance to the key Western European powers. Accordingly, external security guarantees have been viewed with a degree of scepticism in Finland in the post-Cold War era. To be credible, Finland considers that such guarantees should be backed up with indispensable relations with other members of a collective security arrangement. European integration and EU membership has been predominantly viewed as advancing these kinds of interlinkages and as anchoring Finland in the core of a community with democratic values, as well as providing channels of influence and enhancing Finnish security due to mutual solidarity (Report by the Council of State 1995:60-61; Miles 2000:184-85; Möttölä 2001:102; Palosaari 2011:61-62).

After almost 20 years of EU membership, this reasoning is less and less visible in Finnish political debates regarding Europe and the European Union. Yet the recent trends in European security – the Georgian war in 2008 and the ongoing Ukrainian crisis – have highlighted EU-related security arguments within Finland's foreign policy debate. It is suggested, in this chapter, that security considerations partly help us to understand the distinct trajectory of Finnish EU policy in comparison to the other Nordic EU members, Denmark and Sweden, whose geographical location and postwar political positions in Europe are different than those of Finland. In short, Finland has aimed to overcome its

¹ It was only in the Lisbon Treaty (2009) that solidarity and mutual assistance clauses were introduced in the EU context, yet the latter was adopted in a declaration of a European Council meeting in 2004 in the aftermath of the terrorist strikes in Madrid. Although these clauses do constitute some security guarantees, their practical implementation has not been clarified. Moreover, the treaty also recognizes the specific charter of the security policy of member states, which do not belong to military alliances, and it underlines the role of the North Atlantic Treaty Organization (NATO) as the foundation of the collective defence of NATO countries (see, Tiilikainen 2008).

peripheral geographical location, by and large, by positioning itself in the core(s) of the EU. Relatedly, and unlike Denmark and Sweden, Finland also joined the final phase of the Economic and Monetary Union from its outset, and until the financial and economic crisis, it had gained a reputation of being the most constructive and pro-integrationist member of the Nordic EU members.

2.2.1 Finland and the euro

Finland joined the third stage of the EMU in 1999 among a pioneering group of 10 countries that fulfilled the criteria for euro membership. Because the Danish opt-out that was secured in the Maastricht Treaty allowed that country to stay out of the euro, the debate regarding euro membership intensified, particularly in Finland and Sweden, towards the end of the 1990s. The economic implications of membership were viewed rather similarly in both countries (see, Kotilainen, Alho and Erkkilä 1994, Sverige and EMU 1996 and EMU-asiantuntijaryhmä 1997). The adoption of the single currency was seen as beneficial for the export sector due to the removal of exchange rate fluctuation risks and costs. A fixed exchange rate was also seen as enhancing the credibility of fiscal and economic policies, which would lower public and private sector financing costs. The main disadvantage was seen as resulting from country-specific economic differences (i.e., asymmetric shocks), which could no longer be addressed through independent exchange and interest rates (Van Den Bemt 1997:34).

The available economic assessments, however, struggled to provide conclusive results. This was largely due to difficulties in anticipating future economic developments. Moreover, uncertainty related to the size of the eurozone puzzled Finland. The parliament's Grand Committee overseeing EU affairs² noted in its report (1997) that an economically beneficial scenario for Finland would be a broad eurozone, which would also include Britain, Denmark and Sweden. The Committee also noted the reservations expressed in the public debate suggesting that the efficiency benefits associated with a single currency would not fully materialise for Finland if these countries decided to remain outside of the eurozone. Moreover, the risks associated with a loss of influence on the exchange rate could grow and could become particularly relevant for the Finnish economy if the currencies of the EU members that did not adopt the euro weakened. In 1995, the share of Finland's EU exports to Britain was 18%, to Sweden, 18% and to Denmark, 5% (Grand Committee 1997).

In the absence of conclusive economic evidence, political arguments became equally central in the euro membership debate in Finland. In short, the

² The Grand Committee deals with the formulation of national policy associated with membership in the European Union, with the exception of foreign and security policy, which falls within the remit of the Foreign Affairs Committee. The government is required to communicate to the Grand Committee all matters that are proposals that fall within the competence of the parliament according to the constitution. The committee has a strong position in Finnish EU policymaking due to the comprehensive and early stage involvement of the Parliament in EU affairs (similar to Denmark and Sweden).

government argued that euro membership would enhance Finnish influence in the EU. Some even suggested that a narrow eurozone would empower Finland politically in comparison to a broad one. On the other hand, internal disarray was seen as more likely in a broader eurozone and political and economic risks were associated with a broad eurozone including members that would not fully comply with the criteria established in the Maastricht Treaty (Grand Committee 1997).

Importantly, security aspects also were mentioned in the Finnish debate. The Grand Committee, however, noted that any potential security policy impact would be indirect. It could be explained mainly by the argument that membership in the core groups of the EU would 'psychologically and politically increase Finland's security'. The Committee also noted that, in other member states, the EMU was not seen as having security implications (Grand Committee 1997).

2.2.2 The most integrationist Nordic member

Finland has been described as the most integrationist of the Nordic states, and its approach is argued to stand in striking contrast to Denmark and Sweden (Raunio and Tiilikainen 2003:13). In addition to its euro membership and strong support for the CFSP and CSDP, Finland also agreed to further transfers of national competences to the EU level in the Amsterdam Treaty in 1997 and the Nice Treaty in 2001, as well as to the extension of Qualified Majority Voting (Raunio and Tiilikainen 2003:13-14). The same trend continued in Finnish policy towards the failed Constitutional Treaty and the subsequent Lisbon Treaty in 2009. Relatedly, Finnish EU policy has also highlighted the role of a strong European Commission and European Parliament. Finland has argued that strong EU institutions work for the benefit of smaller members, as they balance the power of larger ones (Lipponen 2003:x). In so doing, Finland gained a reputation of being the 'model pupil' of the EU. It has wholeheartedly embraced the opportunities provided by its membership and has attempted to shape the EU's development through constructive, rather than obstructive, engagement. The merits of its approach have been noted in particular beyond its borders, in Brussels and in other EU capitals. Finland has arguably been able to gain political capital and comparative advantages in relation to its closest reference members, who have been labelled by the Economist as the 'preachy Swedes', the 'difficult Danes' and the 'over-ambitious Austrians' (The Economist 1999, cited in Raunio and Tiilikainen 2003:13).

The integrationist and constructive engagement with the EU has also enjoyed substantial popular support within Finland until recently. Parliamentary election results have displayed strong support for the pro-European parties. Yet it has been argued that the broader public has never been quite as pro-integrationist as the leading political elite (Raik 2013:54). In contrast to Denmark and to a lesser extent Sweden, Finland has not called for referendums in relation to major EU decisions, such as euro membership and EU Treaty changes. The only EU referendum was organised in 1994 with a straightforward question

regarding whether Finland should join the European Union based on the achieved outcome of negotiations. In the referendum, 56.9 percent of the voters supported membership and 43.1 percent voted against it. Finnish support was higher than that in Austria and Sweden, which also decided to join the EU in 1995 after positive referendums, while Norway elected to remain outside of it.

2.3 The Finnish response to the eurozone crisis

Finland has participated and is fully participating in all of the anti-crisis measures, except the proposal to establish a Financial Transaction Tax that is currently being advanced through the enhanced cooperation procedure. The government has argued that it is in Finnish interests to stabilise the euro and to prevent a new crisis from emerging by reinforcing the EMU. This policy path has also faced significant criticism in Finland (Tiilikainen 2012). Popular dissatisfaction towards the crisis and the measures that have been taken to tackle it had a momentous impact on the Finnish parliamentary elections in 2011. These developments, and their impact on Finnish EU policy, will be discussed in the ensuing section.

2.3.1 General perceptions of the crisis

As a euro member, Finland has been fully exposed to the eurozone crisis, both economically and politically. The perceptions related to the years of crisis are mixed in Finland, however, and they have changed over time.

Economically, the eurozone crisis has been largely perceived as an important factor that has shaped developments in the Finnish economy. Yet it is not the only factor. First, economists and the government seem to agree that the challenges Finland is facing are global and regional in nature. That is, as a small, open and export-oriented economy, Finland is ominously exposed to external economic developments. These arguments find support in recent statistics. The Finnish economy was hit severely by global and European financial crises and the country saw drastic reduction of its GDP (-8.2 percent) in 2009. Although Finland's GDP has bounced back, displaying growth in 2010-2013, it is widely argued that instability and sluggish growth in the eurozone and in Europe has had an impact on the Finnish economy. Second, the dominant perceptions of the root causes of the current economic downturn in Finland have changed somewhat during the years of the crisis. In the beginning of the crisis, the challenges of the Finnish economy were largely seen as resulting from a downward economic cycle that had resulted from global and European financial crises. Currently, external and internal structural factors are widely underlined, along the cyclical ones. Recently, the downturn of the Russian economy and currency as well as imposed sanction regimes have added to the Finnish difficulties in terms of a downturn in Finnish exports to Russia and Russian tourism to Finland, for instance. Consequently, the emphasis of the government's economic policy has shifted from stimulus and consolidation of public finances to structural reforms and consolidation of public finances.

In its report on the government's white paper on Finnish EU policy in 2013 (Report by the Prime Minister's Office 2013), the Grand Committee of the Finnish Parliament argues that, currently, the recession of the real economy is the number one challenge for the EU (Grand Committee 2014a:14-15). Even if the financial crisis has contributed to the current situation, the Committee suggests that the differences in the development of the economies of the EU and the United States after 2008 make it apparent that Europe is suffering, first and foremost, from a 'competitiveness crisis', which has developed over a longer period of time. The Committee notes that Europe's global competitiveness has decreased in relation to all other country groups (Grand Committee 2014a:14-15).

The problems of the Finnish economy are predominantly seen as symptomatic of broader European trends. Finland has, for quite some time, faced increasing competition from other developed and developing markets. The downsizing of the country's extensive information technology cluster and the distress of Nokia – previously the country's number one company – are argued to be 'the tip of an iceberg' and suggestive of broader challenges in the country's export sector.

While increased production costs in Finland have been argued to contribute to the ongoing relocation of production to emerging markets and to the general hardship of Finland's export industry, the Finnish financial sector has, so far, largely escaped the crisis. It has certainly been hit by the crisis, but it has not entered into the crisis. Finnish financial institutions have not been heavily exposed to the crisis countries, and many of them were able to manage the associated risks of the eurozone crisis. Finland's financial markets are deeply integrated with those of the other Nordic countries, particularly, Sweden and Denmark. They have expanded to the Baltic States and some of the risks associated with the expansion have materialised. The rapid recovery of the Baltic States has, however, eased the impact of the eurozone crisis.

In light of these developments, Finland's public sector and public finances have also demonstrated notable resilience, and the country was one of the few eurozone members with a triple-A credit rating until the recent one-step downgrade by Standard & Poor's in October 2014. According to recent figures, the situation is, however, rapidly worsening. Modest growth figures and increasing unemployment have underlined the need for a more rapid adaptation, as well as longer term structural reforms. As a euro member, Finland is subject to the consolidated rules of the stability and growth pact. Current projections suggest that public debt has slightly surpassed the 60 percent of GDP threshold in 2014, hence spending cuts or tax increases have been deemed increasingly necessary. Moreover, the slow growth figures suggest that Finland's debt continues to grow. To manage this, longer term structural reforms have been envisaged and partly agreed upon. These include an extension of the work life span (including retirement age), as well as reforms of the social security and health service sectors.

Politically, the eurozone crisis has proven to be very difficult to manage in Finland. First, the extraordinary decisions taken to tackle the crisis at the European level have been perceived as needed by two consecutive governments, yet they have been extremely difficult to push through due to the lack of popular support among the electorate, which was manifested in the 2011 parliamentary elections. The landslide success of the Finns Party (previously, the True Finns Party) and the defeat of the main coalition partner of the previous government, the Centre Party, led to a six-party coalition agreement and, arguably, to a hardening of Finland's EU policy. Second, the longer term reforms to consolidate and reinforce the EMU have also sparked criticism. The current policy of the government suggests that a consensus has been reached regarding a majority of the needed reforms, and there is very little appetite for new EMU reforms. As the years of crisis have also opened old wounds and established new political dividing lines in the EU (Jokela 2013), the recent government's white paper on the Finnish EU policy calls for moderation in reforming the EMU and the EU in the near future. It argues that Finland 'support[s]_closer integration as long as it can be achieved in a manner that the Member States and citizens find necessary, fair and just' (Report by the Prime Minister's Office 2013:10)

2.3.2 Loan programs and stability mechanisms

As a member of the EU and the euro area, Finland has participated in the joint actions that are aimed at supporting the economic and financial stability of the EU and euro area through a variety of arrangements in 2008-2013. The financial support for jointly agreed fiscal consolidation programs of the countries that are subject to financial support has been conditional (Ministry of Finance of Finland 2013). According to the Ministry of Finance, Finland has provided financial aid to the crisis countries through different mechanisms and arrangements by 2013. In the context of economic adjustment programmes for Greece (second programme), Ireland and Portugal, Finland has up to the end of 2013 provided guarantees on European Financial Stability Facility (EFSF) funding corresponding to circa 6.2 billion euro. In addition, Finland has paid 1.44 billion as its share of the European Stability Mechanism (ESM) paid-in capital in 2012. As part of the first economic adjustment programme for Greece agreed in 2010, Finland's share of the direct bilateral loans to Greece totals to some 1.0 billion euro. Moreover, Finland has participated in various financial programmes via the IMF and EU up to 1.6 billion euro by 2013.

Furthermore, the Bank of Finland has accepted significant risks and liabilities as a member of the Eurosystem. The risks and returns of the Eurosystem's monetary policy operations are shared jointly, with each country's share of the risks and returns determined by its capital key. Bank of Finland's share of the ECB's capital is 1,79%. Accordingly, in order to obtain an overview of monetary policy risks to the Bank of Finland, one needs to examine the balance sheet of the Eurosystem as a whole. These risks are a result of (i) conventional and unconventional refinance operations that are embedded in the Eurosystem and (ii) unconventional longer

term securities buying programmes, such as the Securities Markets Programme and the Outright Monetary Transactions, of which only the former has been used. According to the Bank of Finland's balance sheet at 31 December 2013, these amounted to 17.4 billion euro (Bank of Finland 2014: 78, table 10). In addition, other claims from the Eurosystem (the so called Target 2 claims) were 22.2 billion euro. (Bank of Finland 2014: 82)

2.3.3 Enhanced economic governance

The so-called enhanced economic governance system of the EU includes the established stability mechanisms for the euro area, which were discussed above in conjunction with Finnish participation. The system also includes actions taken to enhance the implementation of the stability and growth pact. These are aimed at avoiding excessive deficits in euro members' public finances and at enhancing coordination of the economic policies of all of the EU member states. In terms of the latter, the first step was taken by the intergovernmental treaty known as the Euro Plus Pact, which was joined by 23 EU members. It focused on competitiveness and employment and was aimed at contributing to the sustainability of public finances and financial stability (Kurri 2013:5-6). Finland also supported strengthened EU-wide economic governance based on the so-called six-pack legislation and the intergovernmental Fiscal Compact treaty. In addition, Finland has accepted the consolidation of the fiscal rules applicable largely to the euro countries as envisaged in the Fiscal Compact, six-pack and two-pack legislation. While the impact of the strengthened governance system on Finland has been debated, the consolidation of rules and closer coordination was seen as imperative for the stability of the euro area (Report by the Prime Minister's Office 2013: 31-33). In addition to its backing of the conditionality of the loan programmes on significant economic reforms and fiscal consolidation in the crisis countries, Finland has supported the broader measures adopted within the EU's so-called enhanced economic governance framework to prevent a new crisis. Closer economic coordination and effective policy tools have been seen as imperative for the stability of the euro, yet transfers of competences have been viewed more critically in light of the budgetary authority of the Finnish parliament. Enhanced monitoring and more effective sanctioning have also been welcomed as a meritorious development, as Finland has been one of the few countries that has submitted to the jointly agreed rules set out in the EMU's stability and growth pact.

2.3.4 Financial market (re-)regulation

Among other euro members, Finland has been fully participating in EU efforts to reform and repair its financial sector. This has included the EU's global action in the Group of Twenty and other relevant institutions, and its internal action, such as financial market regulation and the formation of a banking union. The aim of the banking union is to lessen the link between sovereigns and private financial institutions, and namely, the negative impact of the financial sector crisis on state finances. Accordingly, investors are called on to take more

responsibility in funding future crisis actions and in covering possible costs. The potential burden for taxpayers should diminish when the banking union is fully operational. This is to be achieved through three major steps, including more centralised (i) supervision; (ii) crisis resolution; and (iii) deposit guarantees. The banking union has been launched as a joint initiative of the euro area, yet it is open to other EU members to join earlier or in conjunction with their adoption of the euro (European Commission 2012).

Finland has been actively participating in the creation of the banking union. It has recognised a need for it and has aimed at advancing its interests through its creation. Finland is participating in the Single Supervisory Mechanism that was established in 2013, and it also has committed itself to the Single Resolution Mechanism that is currently subject to the EU's legislative process in the Council and the European Parliament.

Finland has also carefully studied the initiative to introduce a Financial Transaction Tax (FTT) in the EU as proposed by France and agreed upon by Germany. Finland, however, would have preferred the global tax that was advanced in 2011 by the EU in the G20 during the French Presidency of the group. After setbacks in the G20, Finland has underlined the importance of an EU-wide tax should the initiative be advanced in Europe. This is due to the interconnected nature of the Finnish financial markets with those of Sweden and Denmark, and the related potential comparative disadvantages that would be associated with a scenario of a transaction tax that is applicable only to the eurozone. Consequently, Finland is not among the 11 EU (and eurozone) members that are currently advancing FTT through the enhanced cooperation mechanism.

2.4 Debate and controversies

The eurozone crisis and the developments discussed above have led to a vivid, and at times, fierce, political debate in Finland. First, the unpopular anti-crisis measures in general, and the rescue loan packages in particular, became one of the key issues in the Finnish parliamentary election in 2011 and had several significant political consequences. The landslide success of the openly populist and eurosceptic Finns Party in the election was expected to affect the country's EU policy. Second, even though a broad six-party and pro-European government was formed after the election, the eurozone crisis has continued to be one of the most salient and difficult issues on its agenda. Recent developments suggesting a more positive outlook for the eurozone have turned political attention to a rapidly worsening outlook for the Finnish economy.

2.4.1 The eurosceptic Big Bang in the 2011 parliamentary election

The victory of the Finns Party in the 2011 election has already become one of the historical events in Finnish politics (Jokela and Korhonen 2011; Pernaa and

Railo 2012). Founded in 1995 after the collapse of the Finnish Rural Party, the Finns won one seat in the 1999 parliamentary elections, three in 2003 and five in 2007. In 2011, they won 19.1 percent of the vote, which translated into 39 seats out of the 200 in the Finnish parliament. Accordingly, it became the third largest party in the country. The reasons for the victory of the Finns Party are numerous, yet their approach to the eurozone crisis largely explains the 2011 results. The party is known for its charismatic leader, Mr. Timo Soini, who has been seen as being able to speak 'with the language that people understand'. The party has also been able to capitalise on the immigration debate in Finland. In addition, its emergence can be partly explained by the consensual political tradition in Finland, which has resulted in strong coalition governments in the post-Cold War era, a move towards the political centre among the main parties, and arguably, rather similar key policies in consecutive coalition governments.

The Finns Party's 2011 campaign was distinctively eurosceptic and it benefited from rather nationalistic reasoning, similar to many other populist parties in Europe. These movements prefer national solutions to current political and economic challenges, and they question the benefits that are embedded in advancing European integration (Jokela and Korhonen 2011). This kind of approach had been invisible and marginalised in Finland after the EU referendum in 1994, as the country's political and economic elite has striven for the internationalisation and Europeanisation of Finland. Interestingly, and in contrast to some of its European counterparts, the Finns Party somewhat deemphasised the immigration issue in 2011 and focused on the eurozone crisis. The party's popularity hit the 10 percent mark in the aftermath of the first Greek loan package in which Finland participated, and it continued to increase up until the election and beyond. During this period, Ireland and Portugal also had requested and secured financial help from the EU and the IMF.

Despite its landslide victory in the 2011 election, the Finns Party did not make it to the government due to its strong position against any further loan programmes for failing eurozone economies. The other main parties viewed new packages as undesirable, yet highly likely in terms of the unfolding events related to the Eurozone crisis. Even if they were willing to move towards a tougher Finnish position on any future financial assistance, they were not willing to rule out the possibility of it, or to grant the Finns Party an exception to deviate from the EU policy of the prospective government in which the Finns would have been included. Consequently, the direct impact of the Finns Party was effectively neutralised, as the party did not make it into the current government.

The Finns Party's populist and eurosceptic position had already had an impact on Finnish EU politics, however, and it has continued to shape it. In short, the other parties have attempted to address the emergence of euroscepticism through tougher EU policies and political rhetoric. Crucially, the broad national

consensus on Finnish EU policymaking has broken down, and its EU policy has been politicised (Raunio 2012:10-14).

While in opposition, and before the 2011 election, the Social Democratic Party voted against the Greek and Irish loan packages. In the run up to the election, the Social Democrats did not rule out new rescue packages, but called for greater private sector responsibility and stricter finance market regulation, including the FTT and collateral for new loan packages. The Social Democrat's tougher line and departure from the government's policy is a significant turn in Finnish EU politics. In addition to having led Finland into the euro, the Social Democrats have been the key architects of the Finnish EU policy that highlights the importance of being in the core groups of the EU and engaging constructively, rather than obstructively, in EU policymaking (Lipponen 1997). The party's opposition politics did not translate into an election victory, however. Although the party emerged as the second party in Finland in the 2011 election, the results were among the weakest in the party's history.

Ironically, the Centre Party, which, in opposition, had voted against Finland's membership in the euro in 1998, was hit the hardest by the eurozone crisis. The party had held the prime minister's office in consecutive governments since 2003. Although it was discredited by the 2007 election campaign funding scandals, it is widely argued that its defence of highly unpopular loan programmes led to its defeat in the 2011 election (Tiilikainen 2012:2; see also Jokela and Korhonen 2012 and Raunio 2012). The party's stronghold regions have remained critical, if not outright sceptical, towards the EU and the euro, and some of the most vocal EU critics in Finland have emerged from within its ranks. Against this background, the eurozone crisis proved to be toxic for the party. Currently in opposition, it has voted against the new loan programmes and has criticised some elements of the ESM and some other EMU reforms, including the increased joint liability related to the creation of the banking union.

The centre-right National Coalition Party emerged as the largest party in the Finnish parliament in the 2011 elections. Its chairperson, and the current prime minister, was the finance minister of the previous government and also was heavily exposed to critics of the anti-crisis measures. Although its EU policy has not substantially changed, the party has adopted rather tough political rhetoric on the eurozone countries in crisis. Claims for greater solidarity have been greeted with arguments emphasising the EU and eurozone member's own responsibility for sound economic policies. The party has also highlighted Finland's influence in shaping the EU's crisis decisions and EMU reforms, and it has emphasised the importance of retaining the country's triple-A credit rating and complying with the reinforced rules of European economic governance (Tiilikainen 2012: 3; Jokela and Korhonen 2012:5). Both imperatives are currently viewed as increasingly challenging because of the relative decline of the Finnish economy.

2.4.2 A more cautious and tougher Finnish EU policy?

In light of the above, it is hardly surprising that the current government's EU policy has become more cautious, and arguably, tougher than that of previous governments (Jokela and Korhonen 2012:6; see also Tiilikainen 2012 and Raunio 2012). Importantly, the outgoing government's EU policy is based on a compromise between the Social Democrats and the National Coalition, which suggested that Finland will not participate in any future loan programmes unless it secures adequate safeguards against the associated risks. It has been accepted that, in due course, new packages that are launched under the permanent European Stability Mechanism will include such safeguards, as they are given priority similar to that of IMF loans in default cases. In terms of the new programmes launched under the temporary ESFS, the Finnish government has demanded and secured collateral. The credibility and adequacy of these arrangements have been subject to scrutiny by the opposition (Tiilikainen 2012:3).

The Social Democrats also secured the government's support for an EU-wide FTT, but they had to settle for non-participation in the current and more limited version of it, as Finnish participation was broadly viewed as a disadvantage for the Finnish financial sector, in comparison to the Swedish and Danish financial sectors. The proposed tax would increase the costs of financial transactions in Finland, and potentially, it could lead to the relocation of private financial institutions and services to Sweden and elsewhere, where the new tax would not apply. Although the Commission's proposal attempts to address these kinds of doubts, the possibility of losing market share has prevailed in the discussions of Finnish experts and it also has been expressed by the financial corporations and their interest groups.

Furthermore, Finland has invoked some constitutional reservations in terms of the set-up of the ESM. The proposal to allow the mechanism to operate on the basis of qualified majority voting was referred to the Constitutional Committee of the parliament, as it was seen to be potentially problematic in terms of the parliament's position as the highest budgetary authority in Finland. In due course, the ESM was set up in a way that enables it to establish new loan programmes by a qualified majority; however, unanimity prevails in decisions that would increase the Finnish funds channelled to it.

Relatedly, the government's calculations of the overall risks and liabilities that the Finnish state has assumed during the crisis have been under fierce scrutiny in the parliament. As a result, the government has corrected some parts of the information provided to the parliament, and the opposition has raised a thorny question related to the transparency of actions related to the eurozone crisis.

While the Single Supervisory Mechanism and the Single Resolution Mechanism – that is, the first and second stages of the banking union – were supported by the government, Finland maintained that any move towards increased joint liability

in terms of the resolution funds of the second phase must be gradual (Ministry of Finance 2013). This would allow the accumulation of funds collected from the financial sector into the fund and reduce joint responsibility in relation to the risks associated with weaker banks and their so-called legacy debts. Moreover, the Centre Party criticised the related extension of joint liability through these measures, as the funds collected from the financial institutions are likely to be paid partly by their customers (YLE 2013; Grand Committee 2014b). In their reasoning, the customers of the currently healthy Finnish and Nordic banks operating in Finland would have to bear the risks associated with the weaker banks in the euro area.

The tougher and more cautious Finnish stance towards the EU also has arguably been extended to other EU policy fields and general EU developments. Finland, jointly with the Netherlands, prevented the entry of Bulgaria and Romania into the Schengen Area in the autumn of 2011 (Euractiv 2011). The government argued against the European Commission that these countries did not fulfill all of the membership criteria in a credible and lasting manner. Even if the Finnish decision reflects worries that had already been expressed before the eurozone crisis, preventing actions from a minority position at EU decision-making tables is a novel turn in Finnish EU policy.

In light of the above, the 2011 elections witnessed a resurrection of a more EU-critical, and to some extent, eurosceptic, political rhetoric in Finland. As a result, even the most pro-integrationist political parties started to absorb this trend, particularly when they have found themselves subject to opposition. Consequently, EU politics have increasingly been politicised and domesticated. While a government-opposition divide is not unheard of in Finnish EU policymaking, it formerly has been known for a broad national consensus that often has been reached behind the closed doors of the Grand Committee of the Parliament. Consequently, and in the absence of a consensus, the eurozone crisis has moved EU affairs, at least partly, to the public plenary sessions of the parliament; consequently, the government has faced increased public scrutiny from the opposition. While the debate has been narrow in the sense that it has largely focused on the eurozone crisis in general, and on unpopular loan packages in particular, EU affairs have become a feature of everyday domestic political debate in Finland.

2.5 Looking ahead

One of the best-known Finnish EU personalities in Europe, the current Prime Minister Mr. Alexander Stubb, has described the shift in Finnish engagement with the EU as 'angry birds EU politics'. It is suggested in this paper that there is more to this humorous reference to a popular Finnish mobile game than an effort to promote the Finnish software industry (Jacobsen 2014, Jokela and Korhonen 2012: 6). The eurozone crisis has certainly had the consequence that Finnish negotiators flying to Brussels have become increasingly angry and

difficult and the image of Finland as the quiet ‘model pupil’ in EU decision making has changed in Europe and in Finland (Tiilikainen 2012:2; Jokela and Korhonen 2012:6-7).

An assessment of the impact and duration of Finland’s new character is difficult at this stage, yet some analytical observations can be made. While the eurozone crisis has surely made the Finns more critical towards the EU, the trend predates the crisis. Finland’s constructive engagement with the EU has faced some sharp public criticism since the early 2000s. The Finns Party, in particular, has consistently suggested that Finland is not promoting its national interests actively enough in the EU (Raunio 2012:17). In the public debate, these arguments have also been linked to the 2004/2007 enlargement debates and to the Finnish discussion of the failed Constitutional Treaty and the followed Lisbon Treaty reforms. Interestingly, prior to the crisis, the Eurobarometers displayed an increasing scepticism towards the EU in Finland, which partly resulted from a concern related to the influence of a small member state (Raunio 2012:11). A predominantly pro-European political elite, however, largely continued to strive for influence through constructive engagement with the EU. Yet it also tried to address the question of small member states’ position in the Union. The key theme of the government’s white paper on Finland’s EU policy in 2009 was Finland’s influence in changing the EU (Report by the Prime Minister’s Office 2009), for instance.

Relatedly, and prior to the crisis, Finnish policymakers and observers had already voiced their dissatisfaction with the ‘state of the union’. Difficulties in agreeing and implementing the Lisbon Treaty reforms were seen as indicative of increased disarray in the EU, for example. The reticent development of the EU’s external relations has been particularly troublesome for Finland given the high hopes vested in the recent reforms that were aimed at streamlining the EU’s external action (Raik 2013:54, 60). Relatedly, suggestions of inertia in the field of Common Security and Defence Policy have been a troublesome puzzle for Finland, as the country has invested a lot in this EU policy field. Against this background, Finland has also increasingly explored alternative avenues to enhance its influence in Europe and beyond. There has been an increasing interest in the United Nations and in Nordic cooperation, for instance (Tiilikainen and Korhonen 2011; Jokela and Iso-Markku 2013).

These developments should not be overemphasised, however. First, the government has emphasised continuously that the EU continues to be the main vehicle for Finnish influence in Europe and in the world. Engagement in other institutions and fora, as well as bilateral relations, is argued to be complementary to Finnish EU policy (Report by the Prime Minister’s Office 2013). Moreover, the increased public vigilance towards the Finnish government’s action in the EU has brought the everyday work of the Finnish representatives in the EU into the daylight, and it has provided a fuller picture of policymaking in the

EU. Against this background, it is argued in this chapter that the Finns and the vast majority of their political leaders have continued to view EU membership positively. Moreover, the increasing criticism can, at least partly, be explained by the importance of the EU for Finland and the Finns, and their related aspiration to advance it.

Second, although the dissonance between increasingly critical attitudes among the general public and the largely pro-European political elite has created fertile soil for the emergence of the eurosceptic Finns Party in Finland (Raunio 2012:11), the result of the 2011 parliamentary elections should not be overemphasised. It is true that the speed and extent of the rise of the Finns Party is without comparison in Finland's modern history (Raunio 2012). However, it is also true that the Finns Party fell short of forming or participating in a government. Moreover, one year after the elections, a closely followed national survey on Finnish EU opinions suggested that support for EU membership had gone up from 37 percent in 2011 to 55 percent in 2012 (EVA 2012). Recent Eurobarometers also display stronger support for the EU in Finland on average than in the whole of the EU (European Commission 2013). Relatedly, the eurozone crisis and the EU's future were significantly featured in the campaigns of the presidential elections in 2012,³ yet the EU-sceptic candidates – Mr. Timo Soini, and the former chairperson of the Centre Party, Mr. Paavo Väyrynen – did not make it to the second round.⁴ Both of the candidates in the second round – Mr. Sauli Niinistö of the National Coalition and Mr. Pekka Haavisto of the Green party – ran a pro-European campaign, yet they also voiced dissatisfaction with the current crisis situation in the EU. This suggests that the emergence of the eurosceptic Finns Party has surely been able to draw from 'latent dissatisfaction with special elements of the response to the euro crisis', yet it has not changed the 'broader level of support for the EU as whole' in Finland (Tiilikainen 2012:2).

Significantly, participation in a series of extremely difficult crisis decisions and acceptance of the following liabilities, as well as full engagement in ongoing EMU reforms, have also arguably underlined Finland's dedication to and responsibility

³ The role of the president in EU affairs is rather limited. Constitutionally, it draws on shared competence with the government in foreign policy, and the president's continued role in concluding international treaties. Consultation and coordination between the president and the government is important as the government has an instrumental role in EU foreign policy, and the president has retained authority in the general conduct of Finnish foreign policy (that is, in other international institutions and fora), and in the deployment of Finnish military troops (Ministry of Justice 2012).

⁴ Mr. Väyrynen secured 17.5 percent and Mr. Soini received 9.4 percent of the vote. Although the parliamentary and presidential elections are difficult to compare, the result was clearly a defeat for Mr. Soini, as his party has enjoyed significantly greater support in post-parliamentary election polls (between 14 – 20 percent support). On the other hand, Mr. Väyrynen's long political career and several high level political positions could explain why some of the eurosceptic voters preferred him to Mr. Soini. Moreover, if 0.9 percent of Mr. Soini's votes had gone to Mr. Väyrynen, he would have made it to the second round instead of Mr. Haavisto. Finally, EU affairs were only a part of the election debate.

within the eurozone and the EU. While some significant doubts remain in terms of the economic outlook of the eurozone, Finnish policymakers and the general public seem to be rather convinced that there is no turning back from their past decisions, and therefore, they should strive for a stronger eurozone and the EU (Report by the Prime Minister's Office 2013).

Relatedly, the so-called 'Fixit' debate, which suggested that Finland could leave the euro, faded away rather quickly. The debate started in the summer of 2012, when some internationally renowned economists and market analysts brought forward evidence and arguments that there was economic data that suggested that Finland could consider exiting the eurozone (Roubini 2012). These comments were taken increasingly seriously due to an admitted journalistic misinterpretation that resulted from an interview with the Finance Minister, Ms. Jutta Urpilainen, which suggested that exit could be a possible option for Finland (Plumer 2012). The Finnish government sharply denied this and argued that the exit would run against the country's economic interests, as it would destabilise the eurozone and harm the EU. In the Finnish debate, the political character of the euro decision and its membership also were underlined.

In terms of Finnish EU politics, the famous Finnish consensus machinery seems to be gathering pace. That is, after the breakup of the previous consensus regarding the Finnish EU policy, a new one is in the making. This is not to argue that EU affairs will be depoliticised in Finland in the near future. The EU policy is likely to be subject to a lively domestic political debate for the foreseeable future. However, the sharpest voices in the debate have recently adopted a more moderate tone, and the most radical propositions in the debate are withering away.

As the Finns Party has retained its position as one of the four big parties in the country, political isolationism similar to that of the nationalistic, and on some issues, more radical Sweden Democrats, *Sverigedemokraterna*, in Sweden, has not been a viable option in Finland. Further, due to the majority government in power, the Finns Party has not been able to become an influential and important government associate like the Danish People's Party, *Dansk Folkeparti*, in Denmark. In this environment, other Finnish political parties have aimed at challenging the Finns Party in political debate. They have demanded practical solutions instead of scepticism-inspired criticism towards the EU. In doing so, the party has carefully avoided taking too radical positions, which would limit too drastically its options for cooperation with other parties after the parliamentary elections in April 2015.

The party conference in the summer of 2013, for instance, was hoped to provide clarity regarding the party's position on Finland's membership in the euro, after years of fierce criticism of the single currency. Previously, the party has suggested that it is not committed to the Euro, yet it had not clarified what this meant in

policy terms, other than resisting rescue programmes and some of the key EMU reforms. The party conference decided not to formulate a clear yes or no answer regarding euro membership. The formulation of a position was delegated to the European Parliament election working group and the leadership of the party.

The Finn's Party leader also announced that he would not personally run in the European Parliament elections in 2014, yet the party did put forward several general candidates and doubled its number of members of the European Parliament from one to two. Instead, he will focus on the ensuing Finnish parliamentary elections to be held in April 2015, with the objective of emerging as the leader of the largest party in the country and hence the strongest candidate for the prime minister's office (YLE 2013). As the formation of a functioning majority government in Finland requires coalition partners, the party's hesitance to formulate a radically different position regarding Finland's euro membership is understandable.

Interestingly, the Centre Party, which was heavily defeated in 2011, has regained its position as the largest party in the country in recent polls, which reveal up to 26 percent support for the party (YLE 2014). The party has built its current support among the electorate by focusing on domestic, rather than EU, affairs. Its current chair, Mr. Juha Sipilä, has attempted to emerge as a practical solution provider and as a compromise-oriented political force in Finnish politics. His EU positions are moderate and do not represent a break with the past or a clear departure from the current government's policies.

Against this background, the Finnish debate on the EU and its future is moving towards a more moderate and pragmatic pathway. The government has argued that it is now time to see whether the previously established crisis decisions and EMU reforms are adequate to tackle the crisis and to prevent new ones from emerging. It has called for fair integration within which jointly agreed rules are respected and national responsibilities are carried out, and it has restated Finland's constructive and pragmatic approach to EU policymaking (Report by the Prime Minister's Office 2013). In terms of the envisaged mid-term and longer-term EU reforms, the government has adopted a restrained position. In doing so, Finland has taken a hesitant view on the suggested Treaty reforms, yet it has not ruled them out.

The report of the Grand Committee of the parliament on the government's white paper accepts the government's policy, yet it also underlines the need for a more ambitious Finnish EU policy. It argues that 'chief among these issues [is] the question of the proper use of the EU's competences, and the longer-term development of the economic and monetary union' (Grand Committee 2014a:14). The report also suggests that special attention must be directed to increased differentiation within the EU. It expressed its concerns about the increased differentiation between the eurozone and rest of the EU, as well as

the political divide between the north and the south within the eurozone. In the Committee's view, the current trend does not reflect the traditional multi-speed integration model; rather, it has turned into a divergence process (Grand Committee 2014a:6). Against this background, it advises the government to pay increasing attention to differentiation, as some of the current dividing lines in the EU are central for Finland due to the fact that Denmark and Sweden are not part of the eurozone. In this context, the Committee refers to the Single Supervisory Mechanism (SSM) for banks and to the possible problems it may entail for Finland in view of the close integration of Nordic financial markets (Grand Committee 2014a:7).

It comes as no surprise that the Finns Party members of the Grand Committee did not agree with the report, and therefore, they filed a dissenting opinion. In their opinion, they argue that their approach to the EU is 'constructive and critical'. The Finns Party wants to see less EU and a better EU (Grand Committee 2014b). The opinion suggests that, in light of previously made decisions, the EU is developing towards a federal state and that this process must be halted. Their criticism of recent EU developments is restated, yet concrete suggestions regarding how to reverse or shape ongoing developments are largely missing. The party, for instance, accepts Finnish euro membership as a factual state of affairs for the time being, yet it suggests that this can change and should be changeable (Grand Committee 2014b). When and how this change should come about is not elucidated. Perhaps their most concrete proposal suggests that Finland should support the UK and the Netherlands' aspirations to reform the EU. There is no reference, however, to a Netherlands-style subsidiarity and proportionality review, or to a British-style balance of competence review and renegotiation of its EU relationship. The party has, however, publicly supported the UK government's plan to call for an EU referendum and has argued that people in Finland also should have a greater say in EU affairs. No reference is made, however, to the envisaged EU Treaty reforms (Grand Committee 2014b).

It is also notable that the Centre Party members of the committee filed a dissenting opinion. This suggests that the earlier consensus among the traditional three main parties is still in the making. Their opinion, however, largely restates the Grand Committee's call for greater ambition and clearer priorities. The main difference is that the Centre Party calls for the government to set up clear limits for the increasing joint responsibilities that are foreseen (Grand Committee 2014b). In so doing, they oppose some aspects of the banking union, such as common resolution fund.

2.6 Conclusions

Finnish EU politics have gone through turbulent times because of the eurozone crisis. Domestic political developments have resulted in a tougher and more assertive Finnish EU policy, yet it has not changed the strategic importance of the EU for Finland or the foundations of its EU policy. The broad national

consensus on EU affairs, however, is likely to be weaker than it was previously, as EU issues have become increasingly politicised and have lost their high-politics status. They are likely to be debated among the political parties in the future as well. Even if the debate on the eurozone crisis and the future of the EU is currently settling down, economic and political developments may bring it to the front line again, as the recent victory of the Syriza Party in Greece has demonstrated. Current economic analysis suggests that the differences between Swedish and Finnish economic development cannot be explained by euro membership (Suni and Vihriälä 2013). The challenges of the Finnish economy are argued to result from the national economic policies of the country, structural factors such as the downsizing of the country's IT cluster, and the difficulties with Russian export rather than its different currency arrangements. Should these assessments change, Finnish euro membership is likely to face increasing criticism. On the other hand, the changes in European security, including the heightened visibility of traditional geopolitical reasoning and more assertive Russian foreign and security policy, which has been manifested in the Georgian War in 2008 and the ongoing Ukrainian war, is likely to highlight the political and security arguments associated with the Finnish EU and euro membership.

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3 Swedish EU policy during the economic and financial crisis – a shift away from the core?

Pernilla Bäckman and Göran von Sydow

3.1 Introduction

This chapter aims to highlight the development of Sweden's policy towards the European Union (EU) over the last few years, by looking at the Swedish response to the eurozone crisis. The first part gives a background to Swedish EU membership and the special characteristics that traditionally make up Swedish EU policy. The second part deals with Sweden's experience of the financial and economic crisis and with Sweden's reaction to the EU crisis resolution measures. Thereafter, the Swedish debate on EU policy is analysed, and the final section offers conclusions and an outlook to the future of Swedish EU engagement.

For a long time, Sweden stayed aloof from European integration. The EU and its predecessors (the ECSC and the EEC) were believed to represent an unacceptable constraint on national sovereignty, especially in the light of (a) Swedish neutrality and (b) the far-reaching ambitions for the construction of a welfare state harboured by the Social Democratic government (Gustavsson 1998, Westberg 2003).

The hesitancy of Sweden and its Nordic neighbours about European integration led Miljan to term them 'reluctant Europeans' (Miljan 1977). The description of Sweden as a reluctant European has frequently recurred even after Sweden became a member of the EU. This has – at least partly – been attributed to a critical Swedish public opinion as well as the share of the vote obtained by eurosceptic parties in Sweden being perceptibly higher than in continental Europe. However, as will be shown below, this pattern has gradually changed, with Swedish opinion embracing the EU to a greater extent than is the case in many other countries. In the mid-1990s, Swedish public opinion was the least supportive of EU membership, while today the proportion of Swedes who

believe that EU membership is a 'good thing' is one of the highest among all member states' populations.¹

The revival of the integration process in Western Europe by the mid-1980s meant that the European question returned to Swedish politics. In this period a change in attitudes towards European integration took place within many political parties and organisations, notably the Social Democratic party, *Socialdemokraterna*, and the Centre party, *Centerpartiet*. Although the predecessors of the EU were primarily concerned with economic issues, the EU was, in Sweden, understood as overlapping with western security structures such as NATO. From the perspective of a militarily neutral country like Sweden, this became a problem. After the end of the Cold War the need for Sweden to remain neutral was less important. While neutrality became less important as the prime argument against closer Swedish involvement in European integration, a number of arguments relating to sovereignty, autonomy, the welfare state and the societal model remained obstacles to the legitimisation of membership (Johansson and von Sydow 2011).

The experience of the economic crisis in the 1990s in Sweden affected the previous conception of sovereignty and autonomy. The increasing interdependence, especially in the field of economic policy, made decision makers concerned with how to pursue policies effectively. In the public debate, the consequences in terms of sovereignty were summarised as a loss of *formal sovereignty* but an increase in *real sovereignty* (autonomy). The conclusions became known as the *calculus of sovereignty* (SOU 1994:12). This conceptual innovation entailed a re-interpretation of popular sovereignty, as stipulated by the Swedish Constitution, as well as of democracy, implying that efficiency was emphasised more than procedural democracy (Jacobsson 1997). Increased economic and political interdependence had created a situation where independent political decisions were seen as ineffective. This reasoning struck a chord among political elites (Johansson and von Sydow 2011).

In the highly contested referendum on EU membership in 1994, the yes side gathered 52% of the votes. Sweden, along with Austria and Finland, became a full member of the EU on 1 January 1995. Sweden joined at a time of economic recession, and the government conducted a restrained fiscal policy, including cuts in social security provisions, during the early years of Swedish membership.

¹ As an illustration, in a Eurobarometer survey in 1996, 29% of Swedish respondents believed that EU membership was a 'good thing' while 42% believed it was a 'bad thing'. Only the Austrian respondents were less enthusiastic, with 27% of them thinking that the EU was a 'good thing' (but the balance was less negative in Austria, as only 27% of Austrians said it was a 'bad thing'). The average in the 15 member states at the time was 48% who said that EU membership was a 'good thing' and 15% who thought it a 'bad thing'. In 2013, 64% of Swedish respondents thought membership was a 'good thing' while 14% thought of it as a 'bad thing'. Only in Denmark, Ireland, Germany and Luxembourg did a greater proportion of respondents think that membership was a 'good thing' (Eurobarometer 1996, 2013).

These political circumstances strengthened euroscepticism in Swedish public opinion which, in turn, restricted the freedom of action of Swedish decision makers. European integration became a new dimension of conflict in Swedish politics. It generated factionalism in traditionally very disciplined and cohesive Swedish political parties (Aylott 2002). Several political parties remain divided on EU-related issues and have only cautiously clarified what kind of EU they want (von Sydow 2001).

3.1.1 Party preferences and conflicts

European integration has been highly contested within the Swedish party system. The European dimension has provoked tensions within parties but also between parties. The traditional patterns of government–opposition relations have partially changed due to European integration (Johansson and Raunio 2001). In this chapter we deal primarily with the policies promoted by the various governments. But in order to understand the dynamics of European affairs in Sweden, it is important to give an account of the entire party political spectrum. The Swedish political system is marked by a strong presence of minority governments. This is primarily associated with the rules of government investiture. To survive, a government needs only to be *tolerated* by the parliament (*Riksdagen*), rather than to have the active support of a majority in parliament. A vote of no confidence requires an absolute majority of 175 out of 349 votes (B. von Sydow 2013).

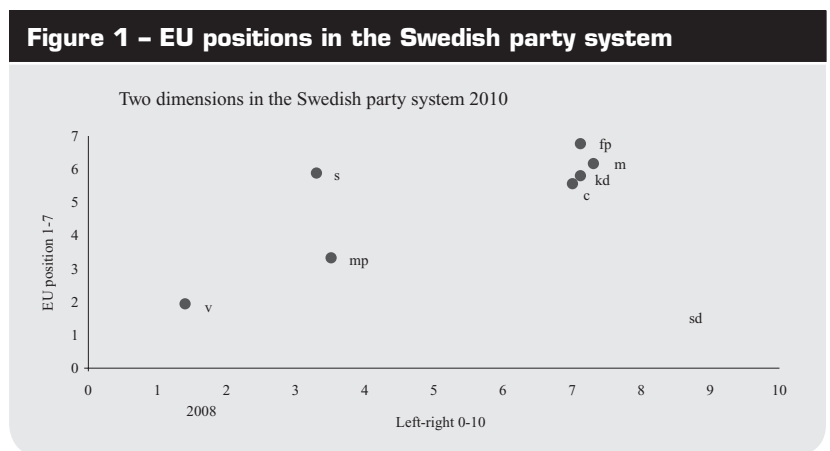
Table 1 – Swedish governments 1994-2014

<i>Year</i>	<i>Parties in government</i>	<i>Type of government</i>
1991-1994	Moderates (m) Centre Party (c) Liberal party (fp) Christian Democrats (kd)	Minority
1994-1998	Social Democrats (s)	Minority
1998-2002	Social Democrats (s)	Minority
2002-2006	Social Democrats (s)	Minority
2006-2010	Moderates (m) Centre Party (c) Liberal party (fp) Christian Democrats (kd)	Majority
2010-2014	Moderates (m) Centre Party (c) Liberal party (fp) Christian Democrats (kd)	Minority
2014-	Social Democrats (s) Green party (mp)	Minority

The Green and the Left parties, *Miljöpartiet* and *Vänsterpartiet*, were in favour of leaving the EU. The Green party, however, shifted its position in 2008 and, through an internal party vote, abandoned its sceptical position towards the EU. The Liberal party, *Folkpartiet*, is the most europhile party, with rather clear federalist ambitions, while the other non-socialist parties have been more cautious about changing the overall *mode* of European integration. The Centre party has suffered from internal divisions, as has the small Christian Democratic party, *Kristdemokraterna*. The Moderates, *Moderaterna*, have favoured the institutional status quo but have been very active in matters concerning the internal market, enlargement and the Common Foreign and Security Policy (CFSP).

The Social Democrats formed a one-party minority government in 1994 and remained in power until 2006. For most of this period the government had a structured cooperation with the Left and Green parties on most matters. However, European affairs were explicitly excluded from this cooperation, with an explicit reference to the euroscepticism of the two parliamentary support parties. Instead, the government had a close cooperation with the non-socialist parties on EU affairs (Johansson and von Sydow 2011).

The Social Democrats have suffered from a continuous split over European integration, which became especially visible during the referendum on the European Monetary Union (EMU) in 2003. During this campaign, even the government was divided, with leading ministers campaigning for a no



Note: Party positions are taken from CHES 2010, which is an expert survey conducted at the University of North Carolina/Chapel Hill. EU position is measured on a scale from 1 (strongly opposed to European integration) to 7 (strongly in favour of European integration), and left-right position on a scale from 0 (left) to 10 (right).

vote. Since 2010, a new, clearly eurosceptic, party, the Sweden Democrats, *Sverigedemokraterna*, has made its way into parliament. From that time on, the position of the Swedish parties on the European question resembles the pattern found in many other member states, with outright opposition to European integration found solely in the fringes of the party system, both to the left and to the right, as visualised in the figure below (Taggart 1998, G. von Sydow 2013).

The general attitude of the mainstream Swedish parties towards the EU has been rather cautious, with a careful development of their ideas and preferences so as not to cause any internal disputes or losses in the electoral arena. In the context of the successive treaty reforms and debates about the future constitutional architecture of the EU, Swedish actors tend to lean towards an understanding of the EU primarily as a limited intergovernmental co-operation between sovereign states (von Sydow 2001). The main principle has been that the EU should essentially deal with policy areas that have true cross-border implications. The prime examples of this are the environment and the functioning of the internal market. Another hallmark of Swedish EU policies has been the strength of the pro-enlargement policies. There is broad cross-party (excluding the Sweden Democrats) support for the further enlargement of the EU. Despite doubts regarding the extent to which the geographical scope and the depth of integration are at odds with one another, Sweden favours the former (Michalski 2013).

In recent years, a shift in Sweden in the attitude towards the EU as a global actor and in support for the CFSP can be noted. This goes for public opinion as well as the policies of political parties (Holmberg 2013). Considering that neutrality was one of two main arguments against membership in the early days, this is rather remarkable. This change can be associated with the more encompassing shift in Swedish security policy after the end of the Cold War, with international cooperation and activities being given greater prominence. The other obstacle was the Swedish model and the welfare state. In this area, there are tendencies towards a more contested and problematic relationship with European integration, something to which we will return in our concluding chapter.

3.1.2 Hanging on to the krona

During the pre-accession period before the referendum in 1994, the question of membership of the EU was separated from the question of the EMU (Johansson and von Sydow 2011). At the time, the launch of a monetary union seemed distant, and the decoupling of the issues made sense. Sweden did not seek a formal derogation regarding the EMU from the Treaty of Maastricht. However, the political interpretation has been that there will be no attempt by the EU to challenge the Swedish choice not to adopt the common currency. Since the currency crisis in the autumn of 1992, the Swedish krona has not been pegged to the euro (or to any other major currency).

However the process of launching the common currency went more swiftly than had been anticipated in the Swedish debate. Therefore the question of the Swedish adoption of the euro surfaced soon after membership of the EU was secured. The question of accession to the third stage of the EMU thus continued to linger in Swedish politics in the post-accession period. Public opinion was highly critical, and several political parties had more severe internal divisions over the EMU even than the EU itself. Furthermore, the broad pro-EU camp in business and other important interest groups was not as strong in relation to the currency as it was in relation to membership (Johansson and von Sydow 2011). Future Swedish membership of the EMU was thoroughly investigated by, among others, a state commission chaired by a prominent professor of economics, Lars Calmfors. The investigation concluded, in short, that there were varied economic benefits of joining the EMU, but clearer political benefits (SOU 1996:158; see also Jerneck 2013).

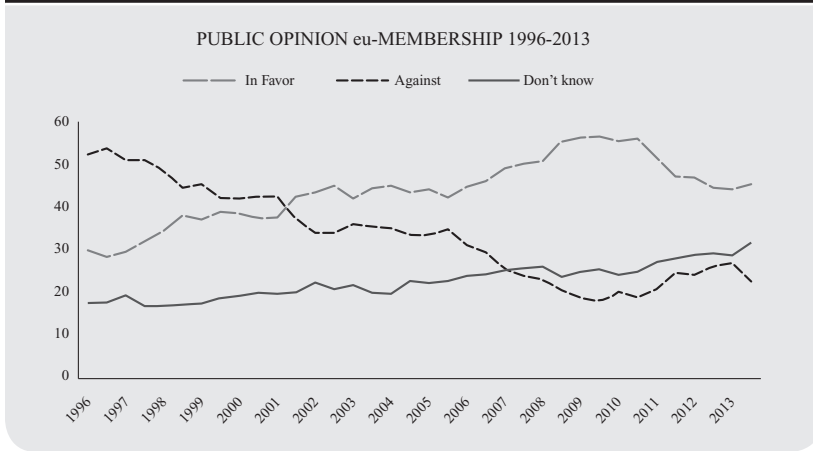
One important element in the hesitancy about the merits of the EMU arose from concerns about the extent to which the common currency would eventually lead to a *fiscal union*. Social Democratic Prime Minister Persson was clearly preoccupied with the viability of the Stability and Growth Pact, and these concerns played a major role in the waiting game played by the government at the time (Persson 2007:360-9; see also Johansson and von Sydow 2011). The government was severely constrained by internal opposition within the party as well as by highly critical public opinion. The strategy adopted to deal with this situation can best be described as a wait and see strategy (Aylott 2002). The government hoped that the launch of the EMU would be successful and that the benefits of membership would be more visible. Eventually membership was advocated by the government, but it came at the cost of widening internal divisions in the party.

Public opinion moved in a more pro-European direction after the first Swedish EU presidency in 2001, and the idea of organising a referendum on the EMU gained momentum. The referendum was held in September 2003 (turnout 82.6%), and resulted in a resounding no to the EMU (55.9% no). The social patterns among voters were recognisable from those of the EU referendum in 1994, but this time the no voters were in the majority. The yes voters were predominantly urban, with higher education and income and with party affiliations on the right of the political spectrum (Oscarsson and Holmberg 2004).

3.1.3 Reluctant European no more?

Swedish public opinion was for long known as one of the least pro-EU ones. Public euroscepticism was perceptibly higher than in most other member states, just as support for parties with a clearly eurosceptic profile has been relatively strong in Sweden. However, there is change under way. As can be seen in figure 2, for a long time there was a steady increase in pro-EU attitudes in Sweden. In 2001, those in favour of the EU outnumbered those who were against it,

Figure 2 – Swedish EU opinion



Data from Statistics Sweden. The question asked is: ‘Are you chiefly in favour of or against Swedish membership of the EU?’ Data available at http://www.scb.se/sv_/Hitta-statistik/Statistikdatabasen/Variabelvaljare/?px_tableid=ssd_extern%3aEU sympati021&rxid=dcab6587-b42c-478b-929f-0a24514ca3d3

and there was a continuous increase in pro-European attitudes for ten successive years. This trend ended during the economic crisis in 2010/2011. It is, however, interesting to note that the Swedish support for the EU has fallen much less than in almost all other member states during the crisis. The decrease began later than in many other member states and has been less drastic (Eurobarometer 2011, 2012, 2013). The evolution of public opinion in the member states during the crisis has had the effect that, by now, Swedes are among the more pro-European populations in the EU. In a Eurobarometer survey in 2013, 64% of the Swedish respondents believed that Swedish membership of the EU was a ‘good thing’, compared to the average over all member states which stood at 50%. Only in Denmark, Ireland, Germany and Luxembourg did more respondents than in Sweden believe that membership was a ‘good thing’. Therefore, the old truth about a eurosceptic Swedish population no longer holds, at least not in relation to the developments in the other member states.

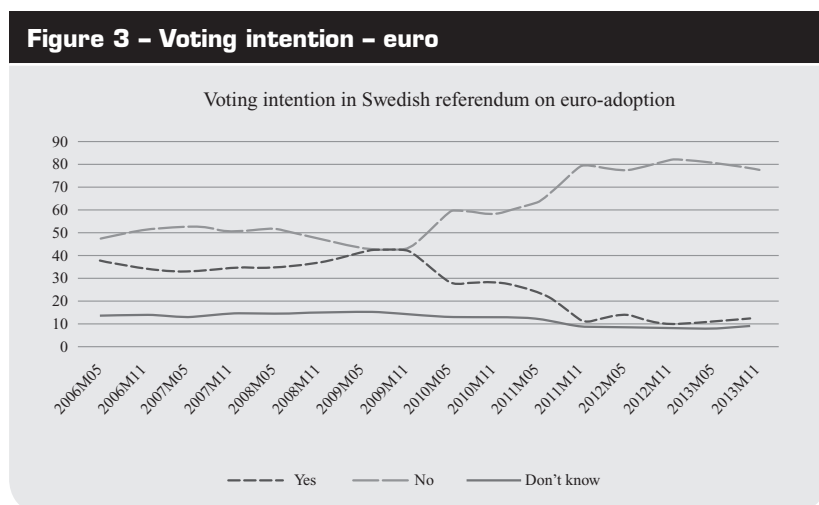
So, how do we explain the gradual change towards more pro-European attitudes in Sweden? Holmberg has, in a number of publications, studied the evolution of Swedish public opinion. The structure of public opinion remains relatively intact over time, meaning that group differences remain and that group views move in parallel. When assessing the evaluations of the extent to which things have become better or worse in different policy areas due to EU membership, changes over time in the perceptions about the *economic* consequences of the

EU and general support levels have the highest correlation (Holmberg 2013). The argument is then: if the EU is perceived as having improved the economic situation in Sweden, general support for the EU increases (while the inverse also holds). Hence, the economic logic of Swedish EU orientation, something which was also the main argument at the time of Sweden becoming a member, prevails.

3.1.4 Plummeting euro support

The Swedish perception of the EMU, however, seems to follow a slightly different logic. Two main elements concerning public opinion about the euro stand out. First, opinions about the euro seem to fluctuate more than general EU attitudes. Second, opinions about the euro seem to be semi-detached from general public opinion about the EU. The second element would point to the power of the *framing* of Swedish EU membership. As argued above, at the time of application, the common currency was decoupled from general membership. This prism seems to prevail.

Looking at the fluctuations over time, it is interesting that the yes side grew at the beginning of the financial crisis. At the end of 2009, the number of respondents who would vote yes in a referendum was greater than the number of those who would vote no. However, as we can see in figure 3, public opinion shifted sharply when the eurozone crisis became acute. The percentage of yes voters was reduced by almost 16 points in the six months from November 2009 to May 2010. The



Data from Statistics Sweden. The question asked is ‘In the event of a Swedish referendum about replacing the Swedish Krona with the euro, would you vote yes or no?’ http://www.scb.se/sv/_/Hitta-statistik/Statistikdatabasen/Variabelvaljare/?px_tableid=ssd_extern%3aEurosympati01&rxid=69ce38c1-be73-4a85-9802-34533c6673a8

decline in support continued until 2012 when only 9.6% would have voted yes to joining the euro, the lowest figure noted so far. When compared to the other member states during the autumn of 2013, only the UK had lower levels of agreement when respondents were asked whether they were in favour of a 'European economic and monetary union with one single currency, the euro' (Eurobarometer 2013).

3.2 The financial crisis viewed from Sweden

In the following chapter we will look at how the financial and economic crisis affected the Swedish economy and what anti-crisis measures the government adopted.

Sweden began to feel the consequences of the global financial crisis after the collapse of the American investment bank Lehman Brothers in 2008. The international crisis hit a largely healthy Swedish economy and financial sector but, even so, Sweden felt its effects. As an open economy, the slump in international trade affected exports negatively, and during the end of 2008 and the beginning of 2009 the Swedish economy contracted rapidly. The Swedish central bank, *Riksbanken*, took a number of measures to secure financial stability and to cushion the country from the effects of the crisis. The measures involved different forms of liquidity assistance, guarantees and capital injections (SOU 2013:6, p.6).

The picture that emerged in Sweden was largely one of a crisis originating from outside the country. The root of the crisis was to be found in problems on the American housing and mortgage market as well as in imbalances in the global financial system that had developed over a longer period of time (Öberg 2009). The starting point for discussions about the crisis was thus how the government *handled* the crisis and how the Swedish economy *managed* in the crisis. The government and the opposition largely agreed on this picture of the crisis (Nord and Shehata 2013).

As the crisis intensified within the eurozone, the situation was also interpreted as a larger crisis of confidence, for the EU project in general and for the euro in particular. The survival of the euro was particularly discussed in connection to developments in Greece. The crisis that had begun as a debt crisis in certain member states developed into a complex crisis with economic and political dimensions.

3.2.1 Swedish banking sector under pressure

As in many other EU member states, the Swedish banking system was under pressure during the crisis. Certain conditions in the Swedish banking sector contributed to the banks' vulnerability. First, Sweden has a concentrated banking system in which the four biggest banks² have 75% of the balance sheet total. The

² Handelsbanken, Nordea, SEB and Swedbank.

confidence in the banking system is thus highly dependent on the confidence in these four big banks. The banking sector is also large in relation to the Swedish economy – the assets of the banks relative to GDP are higher in Sweden than in most comparable countries. In addition to this, Swedish banks have extensive foreign operations, especially in the Nordic and Baltic countries (SOU 2013:6, pp. 7 & 72). At the height of the crisis the total lending by Swedish banks to the Baltic states amounted to around SEK 400 billion. At the end of 2008, when the crisis moved into an acute phase in Latvia and large volumes of capital left the country, a loan agreement totalling 500 million EUR was signed between the Swedish central bank and the Danish central bank on the one side and the Latvian central bank on the other side (Ingves, 2010).

During this period the Swedish central bank provided special liquidity assistance with a loan to Kaupthing Bank Sverige AB, which had been affected by problems in the Icelandic economy. At around the same time, the Swedish Financial Supervisory Authority, *Finansinspektionen*, withdrew the permit for Carnegie, one of Sweden's oldest investment banks, to provide financial services, as it had taken exceptional risks with client money and had also violated trade rules (Finansinspektionen 2008). The Swedish National Debt Office, *Riksgälden*, subsequently took over ownership of the bank. The then deputy Finance Minister Odell explained the action by referring to the risks to the financial system (Evans-Pritchard 2008).

In 2011 the government appointed a committee to review the set of rules for the management of financial crises. The committee's first conclusions were that the crisis management in Sweden had, overall, been successful, but that there was room for improvement. The committee pointed to certain factors that laid the foundation for successful crisis management in Sweden: strong public finances, relatively good financial viability in financial institutions, relatively favourable external conditions, relevant and prompt measures and effective cooperation between authorities. A good starting point was Sweden's strong public finances and its relatively recent experience of the crisis in the early 1990s. In the committee's opinion, the government and the central bank had acted promptly, transparently and forcefully in response to the problems (SOU 2013:6, pp.22-23). The committee's final report was presented in July 2014.

3.2.2 EU crisis resolution mechanisms adopted and rejected in Sweden

A political starting point in Sweden is that, as a small and open economy, it benefits from a strong and well-functioning eurozone. The measures presented by the EU to stifle the economic crisis and to prevent future crises have, however, been both supported and criticised in Sweden. Sweden has called for more offensive instruments to solve the crisis, and has at times told the eurozone countries how to run their finances. On the other hand, unlike the UK, it has avoided blocking and exploiting the process. Two Swedish objectives can

be noted during the crisis: avoid a collapse of the euro and continue to stand outside the eurozone (Jerneck 2013:8). This position can perhaps also to some extent be described as a ‘wait and see’ strategy, which is similar to the Swedish position on the EMU described in the previous chapter. The Swedish position with regards to the banking union, described below, is also an example of this; Sweden wants to see the mechanism in full before making a decision.

As a result of the economic integration within the EU, Sweden is naturally affected by decisions taken in the eurozone. But as a non-eurozone member, it is shut out from strategic discussions on different measures and instruments (Jerneck 2013:9). In decisions regarding crisis resolution measures, the matter of influence has been emphasised on many occasions by the Swedish government, as is described in the cases of the Fiscal Compact and the Banking Union below.

Below we will look at three crisis resolution mechanisms – the European Stability Mechanism (ESM), the Fiscal Compact and the Banking Union – in order to illustrate the discussions of the government and the opposition during the crisis.³ The three mechanisms we will analyse are the ones that have generated political attention and debate. These are not meant to represent an exhaustive list of the measures presented during the crisis, but, rather, they are chosen as a way to illustrate the considerations behind adopting or rejecting the mechanism in question. There is, however, no reason to believe that the inclusion of other mechanisms would substantially alter the way in which European affairs have been debated in Sweden during the crisis.

3.2.2.1 New crisis resolution mechanism agreed

The decision leading to the creation of the European Stability Mechanism (ESM), the EU’s permanent funding programme for the eurozone, was taken by the European Council in December 2010. The eurozone countries then signed an intergovernmental treaty establishing the ESM on 2 February 2012 (ESM.europa.eu 2014). In order for the mechanism to enter into force, however, approval was needed from all EU members, not only the eurozone countries.

The argument put forward by the Swedish parliament was that Sweden should contribute to making it possible for the eurozone countries to set up a stability mechanism. For this reason the parliament, on 30 May 2012, approved the necessary changes to article 136 of the Treaty on the Functioning of the EU (TFEU) and the law regulating Sweden’s accession to the EU. Sweden will only be a part of the ESM if the euro is adopted in Sweden. The Finance Committee, *finansutskottet*, has emphasised that future Swedish membership of the ESM should be subject to parliamentary approval (Riksdagen 2011).

³ Please note that the references to the government and the opposition in this text refer to the political landscape at the time, i.e. the Liberal-Conservatives in government position and the Social Democrats, the Left party and the Greens in opposition until the election autumn 2014.

Part of the opposition opposed the ESM and the required changes to the TFEU and the law regulating Sweden's accession to the EU. The motions put to parliament by the Green party, the Left party and the Sweden Democrats asked for a formal exception for Sweden regarding the euro. While a number of Social Democratic MPs from the Finance Committee did not oppose the proposed change to the TFEU article, they restated their wish for a social protocol and for protection of the Swedish labour market model (Riksdagen 2011:pp. 7 & 22).

3.2.2.2 Arguments from the opposition before agreement on Fiscal Compact

The Treaty on Stability, Coordination and Governance, also known as the Fiscal Compact, proved to be controversial in Sweden, and initially a majority of the parliament opposed the measure. However, in March 2013 the Swedish parliament agreed to the Fiscal Compact, whose purpose is to impose stricter budgetary rules in the eurozone countries. The Green party, the Left party and the Sweden Democrats opposed the compact, but it was still possible to obtain a majority in the parliament (Riksdagen 2013). Sweden will be bound by the Fiscal Compact's rules only after parliamentary approval and through voluntarily abiding by the rules, or if it does in fact adopt the euro (Regeringen 2012b:25).

The government reemphasised its position on the importance of Swedish influence in the EU decision-making process – if Sweden agreed to the compact, a division between eurozone and non-eurozone countries could be avoided. The government argued that non-eurozone countries that agreed to the compact should be able to participate in certain euro summits (Regeringen 2012b:39), and this position was later secured.

The issues that caused concern for the opposition were the euro issue and the consequences for the Swedish labour market model. All four opposition parties initially opposed the treaty, but the Social Democrats later changed their position and voted along with the government. The Social Democrats' condition for supporting the compact was a guarantee that the fiscal policy framework would not apply to Sweden, that collective agreements would be respected and that Sweden's influence would be secured (Sveriges Radio 2012). The Greens stated they could agree to the treaty if a permanent reservation not to adopt the euro was guaranteed, but the government rejected this (Riksdag & Departement 2012). The Swedish Trade Union Confederation, *LO*, the Swedish Confederation for Professional Employees, *TCO*, and the People's Movement Against the European Union, *Folkrörelsen Nej till EU*, argued that the compact could lead to austerity measures that would intensify the crisis (Regeringen 2012b:27). The arguments from the opposition, covering respect for the Swedish labour market conditions and a social protocol, can thus be recognised from the parliamentary debate regarding the ESM.

3.2.2.3 Banking Union in the making – Swedish reluctance

The banking union is perhaps the measure that has generated most debate in Sweden. The banking union would primarily consist of a single bank supervisor, a common bank crisis management and resolution system and a uniform system for deposit guarantees (European Parliament 2012). Within the opposition, the Left party and the Green party opposed the banking union proposal. The Left party stated that it did not want to give banks any more guarantees that would jeopardise taxpayers' money. The party instead prefers an internal division of banks between trading and private banking. The Green party opposed the banking union on the basis that the structure does not give Sweden a say in the forum that makes the final decisions (Miljöpartiet 2012, Vänsterpartiet 2012). The Swedish Trade Union Confederation, *LO*, however, welcomed the measure, saying that it could help to come to terms with poorly regulated banks. It emphasised Swedish influence in the banking union, arguing that banks should bear their own risks and, in the same vein as the Left party, suggested a new banking structure with a division between trading and private banking (Pettersson & Hällö 2012).

The government's position moved from initial scepticism to a more positive attitude. The main demands stipulated by the government for the construction of a banking union and for Sweden's participation have been as follows: first, taxpayers should not bear the burden of failed banks and the single resolution mechanism must be based on *ex ante* financing; second, there must be a recognition of Sweden's level of capitalisation; and third, non-eurozone countries must be granted influence on the same level as eurozone countries if they join the banking union. The need for sound principles for crisis management is also emphasised; this has its roots in the management of the economic crisis in Sweden in the early 1990s.

The government's position is that it would make a decision on the banking union only when the banking union structure has been finalised. A prerequisite for joining the banking union is that fundamental Swedish demands are met (Regeringskansliet 2013). Finance Minister at the time, Anders Borg, in late 2013, stated that the negotiations, in some aspects, had gone Sweden's way but that important questions of influence for non-eurozone countries and financing issues were yet to be solved. Borg also voiced concern that the current structure could be too complicated and that it could hamper European economic growth (Europaportalen 2013a, 2013b).

The government thus recognised that a European structure is needed, but argued that it is too early to say if the banking union addresses this need. Swedish participation in the banking union is an unknown at present and is likely to continue to generate political debate.

3.3 The lack of EU debate

Since Sweden joined the EU, European policy has been agreed in consensus across the main political blocs, most frequently as a grand coalition between the non-socialist parties and the Social Democrats. This is a fundament for Swedish EU membership (Johansson, Langdal and von Sydow 2012). Successive Swedish governments have thus traditionally been eager to anchor their EU policy in the Committee on EU Affairs, *EU-nämnden*, and have made certain of adequate ministerial presence in this Committee, with the prime minister as well as specialised ministers as members (Hegeland 2004, Michalski 2013:171). This has been also the case during the financial and economic crisis, which has sometimes led to late night meetings for the Committee in order to make speedy decisions.

The position on European integration varies between the political parties and depends on the subject matter in question. The biggest difference between the government and the opposition in the Committee on EU Affairs can be found on labour market issues. Macro-economic regulation and justice and home affairs issues are also dividing issues (Loxbo 2014:133). Research argue that Swedish European policy, as seen in the Committee on EU Affairs, has been politicised rather than de-politicised. There is an alternative aspiration from the opposition side that is reflected in an increasing number of disagreements with the government (Loxbo 2014:135-141). However and perhaps more noticeably since 2010 when the government lost its majority parliamentary base, the government tends to be more concerned with finding broad support for its policies in the EU. This is particularly true when there are initiatives that require parliamentary ratification. In a sense, the nature of the conflicts over EU affairs in the Swedish parliament has gradually matured, so that by now the political parties can have confrontations on substantive issues without the debate being turned into an argument about the merits of European integration (cf Johansson, Langdal and von Sydow 2012).

During the crisis, the government's EU policy were at times criticised. However, it seems that the opposition was, in fact, criticising the government's negotiating skills rather than its actual policies (Barometern 2012). This kind of critique has been voiced in relation to the EU budget negotiations, for example. Another example, in connection with the banking union, is the argument of the Social Democrats and the Swedish Trade Union Confederation, *LO*, that the government has acted in an 'erratic' and 'unbalanced' way in the negotiations during the euro crisis (Andersson & Pettersson 2012).

One recurring element in the Swedish debates about the crisis measures was that other questions of concern enter the argument, regardless of the issue at hand. The concerns raised by the the Swedish Trade Union Confederation, *LO*, in particular, and the ways in which *LO* tries to influence the Social Democrats to

stand up and promote the safeguarding of the Swedish labour market model have been seen in the analysis above. In this context, *LO* and the Social Democrats have argued in favour of a social protocol annexed to the treaties. In the end, the Social Democrats have not vetoed the treaty changes, although this is something they have been urged to do by some branches of the trade union movement. In the later phase of the crisis, *LO* and the Social Democrats agreed on a joint position about when to make treaty reforms conditional on a social protocol. This veto will, essentially, be used when the next major treaty reform occurs (LO/SAP 2013).

Still, when it comes to the overall preference for European integration, the 'grand coalition' between the non-socialist parties and the Social Democrats seems to prevail. This may hamper a more open and political debate on matters concerning the future of the EU.

3.3.1 At the core of European cooperation: Insider or outsider?

Sweden has rarely expressed strong visions for Europe, and this has not changed during the crisis, as the EU debate has been restricted to mostly economic issues. The ideas that circulate in Brussels are met in the Nordic countries by silence and are rejected as utopian, and the interest in the European debate is generally low (see Andersson and Persson 2013:5; Gustavsson and Nilsson 2013:8; Jerneck 2011:81; Jerneck 2013). The UK competence review has neither generated a debate on EU issues in Sweden. There is currently no clear indication of the direction Swedish EU policy is taking. Will Sweden continue to strive for a centre stage position, or will Sweden fall behind as a euro outsider?

When the non-socialist coalition won the election in 2006, the new government publicly stated its support for Sweden's membership of the EU and declared that it would actively promote Swedish interests in the EU (Michalski 2013:168). In its statement on government policy, the new government in 2006 stated that Sweden should belong to the 'core of Europe', and that 'Sweden must have a clear and unquestioned place at the heart of European cooperation' (Regeringen 2006:8). In similar policy statements in 2012 and 2013 that aspiration was removed. Sweden's role in Europe was now described as 'an active part of a strong, united and open Europe' (Regeringen 2013:12).

Prime Minister at the time, Fredrik Reinfeldt, described 'the core' as the will to exert influence in certain cases. It is not a prerequisite for this role that Sweden is a member of the eurozone, he argued. The core was, instead, a way of describing Swedish influence in the EU, at the same time as respecting the result of the referendum on the euro in 2003 (Europaportalen 2011). In 2012 Reinfeldt said in an interview that, 'not even we who believe in European cooperation can say that we belong to the core of Europe' (Aftonbladet, 2012).

This issue of the 'core of Europe' has been raised in Swedish editorials. Questions about what the core means, and criticism for abandoning this policy, have been voiced (Jansson 2011, Nilsson 2012). The more neutral approach by the government could be explained by the economic crisis in the euro area. Sweden as a euro outsider is marking its distance.

Concerns about developments towards a multispeed Europe have, however, also been raised in Sweden. The declaration of government policy of 2012 stressed that it is in the interests of Sweden and Europe that the gap between eurozone countries and other EU countries does not widen, and that Sweden should participate in and influence the processes initiated to advance European cooperation (Regeringen 2012:13). In line with this, Prime Minister at the time, Reinfeldt stated that the EU should avoid separate summits for members of the eurozone, and that the EU should not be divided (Euractiv 2011). Other Swedish ministers have, on different occasions, stated their support for a united EU (Bildt and Borg 2011). 'Solutions to Europe's common problems should be discussed, negotiated, and agreed on in settings where all EU-27 states are represented. Separate structures, or joint structures on an uneven footing, would undermine, rather than support, European integration' (Borg 2013).

It can be seen as somewhat paradoxical to have a strong stance on the dangers of a multispeed Europe, but at the same time to be hesitant about much of the policy innovation during the crisis. At the same time this is obviously a predicament shared by other non-euro member states. From a Swedish perspective it has been important to keep options available, despite the deepening of the eurozone cooperation.

3.4 Conclusions

The Swedish response to the eurozone crisis is somewhat difficult to disentangle, primarily due to the low visibility of European affairs in contemporary public debate, as described above. Obviously, the crisis has generated considerable attention, especially in the more acute phase 2010-2011. However, media coverage and public debate has come to focus on the effect of the crisis in the worst affected countries, rather than triggering a Swedish debate on how the crisis affects Sweden in general and Swedish EU policies in particular.

The main reason for this must be found in the relatively limited impact the crisis has had on the Swedish economy. A common interpretation in Swedish public debate of the roots of the eurozone crisis is that the indebted countries have been mismanaging their public finances and competitiveness and, hence, that the solution to the crisis requires national governments to do their homework (Hökmark et al 2013). Following this logic, there is only a limited need for more integrated economic and fiscal European level policies. This line of reasoning, together with a reluctance to delegate more authority over budgetary issues to the European level, favours rather cautious European policies.

Still, one key element of Swedish reactions to the initiatives discussed in this paper is that the eurozone countries should do whatever they deem necessary to save the currency, as this is also in the Swedish interest. Therefore, the parliament has been willing to support the new mechanisms. However, it is clear that the non-binding character of key initiatives for non-euro countries has made parliamentary acceptance easier. As a parallel, the response to the Commission's recommendations on the framework of the European Semester has been rather blasé, not provoking any intense discussion about either the economic policy or the fact that a supranational body gives detailed recommendations. Once again, the relatively strong position of the Swedish economy – together with the non-binding nature of the recommendations – would explain why this new scheme is less contentious in Sweden than in the eurozone countries.

3.4.1 A changing EU policy?

Some member states are currently revising their relationship with the EU. The British review of competences and a possible repatriation stands out as an example. At the same time, the strengthening of the E in the EMU makes differences between groups of member states more pronounced (Jerneck 2013). In Sweden, the debate about Sweden's future role in this changing context is largely absent. There seems to be little appetite for opening a new round of discussion on bigger treaty reforms. In that sense, there is continuity in Swedish EU policies (Johansson and von Sydow 2011).

At the same time, we can observe a gradual change over time in the aspirations of the government to be part of the 'core of the EU', something that can be associated with the increasing unlikelihood of Swedish accession to the EMU. Furthermore, we can sense a shift to a more instrumental view of the benefits of EU membership. The tough stance in the negotiations about the EU budget and the future banking union could be taken as an example of this slightly modified attitude (Euobserver 2012). Moreover, the activity level of the Swedish parliament on matters concerning the crisis has been high compared to that of other national parliaments. The Swedish parliament has been by far the most active in submitting reasoned opinions on subsidiarity (Auel and Höing 2014). This would indicate a more restrictive view on the expansion of community policies.

Many of the political parties, particularly noted in the 2014 European Parliament elections, campaign on platforms that are mildly critical of the expansion of EU competences. As early as 2008 the Moderate party signalled a shift towards an EU policy that was focused more on safeguarding Swedish interests (Moderaterna 2008). The Centre party argues that the EU should be 'slimmer and sharper' (Centerpartiet 2013), while the Christian Democrats' party leader has argued that the EU moved in the wrong and possibly counter-productive direction in the first decade of this century (Hägglund 2013). For the Social Democrats, the concerns following the Laval case have moved them to voice more criticism of

the internal market, but also to oppose the processes of European integration as such. The party strongly advocates the inclusion of a social protocol in the treaties, and has, together with the Swedish Trade Union Confederation, *LO*, worked out a strategy to achieve this end (*LO/SAP* 2013). As we have seen above, the Green party has abandoned its strong stance on EU membership, but remains critical of several steps taken during the crisis. The Left party and the Sweden Democrats are still advocating withdrawal. In sum, there is a move towards a slightly more critical attitude among the parties.

Despite this observed shift towards more focus on national interests in relation to the EU (exemplified in the EU budget negotiations, the tough stance on the banking union and the critical tone towards the EU in several party platforms), there has been broad support for the efforts to save the euro, and Swedish policy is still geared towards pragmatism. In this context, it may be worth noting that Swedish civil servants working in the Brussels machinery still seem to be among the most favoured partners, enjoying high levels of 'network capital' (Naurin and Lindahl 2014). The pragmatic course of Swedish European policies can be seen as a source of continuity. When it comes to the patterns of cooperation in the EU, the simultaneous movements of a tighter eurozone and a UK (which has traditionally been a close Swedish ally) that has gone adrift have forced the Swedish government to rethink its strategic work inside the EU, and this may have consequences in the longer run (cf Jerneck 2013). Considering the possibility of a 'Brexit', Sweden will need to find new alliances to safeguard its key concerns, especially the integrity of the internal market and the continued enlargement of the EU.

3.4.2 Outlook - the future of Swedish EU membership

The crisis has provoked both centripetal and centrifugal forces in the EU. While the eurozone states have a tighter cooperation, several non-eurozone states are pondering what position to take in this new context. As we have emphasised above, the Swedish strategy has been to minimise divisions within the Union while at the same time being loyal to the efforts made by the eurozone to save the currency. Furthermore, there is a considerable degree of hesitancy towards delegating authority at the European level over issues closely related to sovereignty. In sum, this calls for quite a delicate balancing act. One key concern is to safeguard Swedish influence. The difficulty lies in how to do this without adopting the common currency.

Jerneck argues that it would be surprising if the Swedish political elite were to consider an outsider position viable. Adopting the euro, however, has been taken off the agenda for the foreseeable future. If the political elite were to change position on the euro issue they would face a challenging task to turn the public opinion around. This challenge has been created by the fact that the EU membership has not been debated (Jerneck 2011:9). The highly critical public opinion concerning the euro obviously makes any future adoption of the

common currency improbable. On the other hand, taking into account how swiftly economic turbulence can arise (Sweden being relatively unaffected by the current crisis), *and* the obvious volatility of Swedish public opinion, there may also be drastic changes ahead. Difficult as it is to speculate about the future, it would still be unwise not to ponder what impact a substantial shock to the Swedish economy would have on orientations as regards the merits of adopting the common currency.

Today, with the move towards a more coordinated economic policy in the eurozone, several of the arguments from ten years ago have lost their credibility. As pointed out above, the predominantly *economic* logic which was present in the first EMU debate will need to be replaced by or – at least – combined with a much stronger *political* component, because the way in which the eurozone has developed over time increases the (potential) political cost of remaining outside the euro, but also entails a further transfer of competences and political capacities to the European level, so that arguments pertaining to sovereignty will be even more important.

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4 Postscript: The Nordic countries and the euro crisis

Jakob Lewander

Since 2008, the governments and peoples of the Nordic countries have experienced the euro crisis in different ways. The political, economic, financial and parliamentary effects in Denmark, Finland and Sweden show both similarities and differences, depending on their political identities, the logic underlying their EU membership and the configuration of their political landscapes. These settings provide different outcomes regarding changes in their EU-related attitudes and forecasts when they are faced with political crises.

The following text is divided into three parts: first, a comparative summary of the political development relating to the euro crisis of the three countries from 2008 and onwards, as described in the three chapters; second, a reflection on the extent to which the euro crisis and its implications for national politics have led the Nordic countries to move closer as a common political denominator in EU affairs; and third, some concluding views on the immediate future of the EU.

4.1 The Nordic countries and the euro crisis

From a Nordic perspective, Finland is exceptional in its integrationist stance on EU membership. In entering the EU in 1995, Finland broke the geopolitical deadlock of the cold war. Deeper European integration became an instrument for political influence and economic growth for a small country. Finland also became one of the first twelve countries to adopt the euro in 2002. As for many countries, there was inconclusive evidence as to the economic advantages of Finnish EMU membership. Therefore, political arguments about the added value of EMU membership gained ground. As Jokela argues, “The Finnish EU strategy and policy has aimed to secure and increase Finland’s influence in the EU by positioning the country firmly in the core projects of the European integration”.¹ EU integration, in the case of Finland, equals its national interest and strengthened sovereignty. This understanding of Finland’s role and place in the EU has been highly fuelled by its parliamentary consensus. However, as the euro crisis unfolded, the seal of consensus on Finnish EU politics has been broken. New political territory has been unveiled for eurosceptic and populist political forces, which has led to exceptional changes in the Finnish political landscape. As also mentioned in the report, on the EU political arena, Finland

¹ Jokela, Juha, *Finland and the eurozone crisis*. p. 26.

has subsequently moved in a more passive and obstructive direction in dealing with joint measures to tackle the repercussions of the euro zone financial crisis.

Denmark entered the EU in 1973, and it gained statutory reservations in 1993 – the opt-outs.² Sweden entered with Austria and Finland in 1995. The entries of Sweden and Denmark share a similar logic. To them, EU membership was a pragmatic choice, meant to strengthen economic growth through the advantages of the internal market, but further EU integration has been considered as complimentary to their national sovereignty and not necessarily in line with national interests.³ Additional steps toward further integration must first demonstrate a clear added value: hence, the well-known Danish opt-outs and the Swedish wait-and-see attitude. Neither of the countries has adopted the euro, but nevertheless, the euro crisis did hit both Sweden and Denmark, yet in different ways which did not contribute to any major changes in their membership logic.

Finland was strongly hit by the financial crisis. Recession reached country records in 2009, but Finland's financial system was left fairly unscathed. The troublesome economic downturn did have political consequences, as stated previously. As EU politics in Finland have become increasingly politicised, the Finnish stance on eurozone affairs has shifted to tougher stances on the economic-political demands on fellow eurogroup countries. As elements of the economic benefits of euro membership have become dubious due to country-specific asymmetries within the eurozone, the political added value has fallen short, and Finland has focused more on safeguarding collateral in talks on eurogroup loan programmes. Finland's tougher policies and rhetoric regarding debt-burdened euro members have been anchored in domestic developments, in which the emphasis has shifted toward safeguarding Finnish interests.⁴

In the wake of the politicisation and domestication of EU affairs, Jokela also speaks of more cautious and reactive Finnish positioning on EU matters overall, not just in the populist and openly eurosceptic political landscape. This has spilled over to various policy areas; for example, Finland, in 2011, joined the Dutch in preventing Romanian and Bulgarian entry into the Schengen agreement. Finland has also had reservations regarding the configuration of the ESM's funding program and joint responsibility.⁵ There is parliamentary pressure to pursue Finnish national interests, which are not to the same extent as before associated with European integration. Finland has quickly positioned itself in the North-South scheme of the new socio-economic reality of the EU. The populist and nationalist Finns party has entered the national parliament

² Hassing Nielsen, Julie, *In or Out? Denmark during the eurozone crisis*. p. 7

³ Bäckman, Pernilla, von Sydow, Göran, *Swedish EU policy during the economic and financial crisis - a shift away from the core?* p. 54.

⁴ Jokela, p. 35.

⁵ *Ibid*, pp. 33, 35.

at 19% and has also contributed to this image. Jokela, however, points to the fact that, although the political stone of EU affairs has de facto been unturned, and EU policy, as well as parliamentary mandates, will remain politicised for the foreseeable future, the change in Finland's EU policy has remained largely insignificant as the core logic for membership has not been threatened; yet the key merit of Finland's place in EU integration has been strongly questioned.⁶

Sweden, an asserted wait-and-see EU member, has since 2008 consolidated its role in the EU summitry as a champion of communitarian unity without participating in further stages of integration.⁷ Occasionally, Sweden has not hesitated to advise eurozone countries on anti-crisis measures based on its own successful experiences from the nineties. Swedish EU membership is rooted in pragmatism and careful restraint on integration, based on a mainly EU-reluctant electorate. Further EU integration must first show clear economic added value and must not interfere with the Swedish model of welfare and labour relations.⁸

The financial crisis did hit Sweden's banking sector: Its economy contracted, but the crisis did not constitute a systemic threat to the financial system. The government's consolidation of public finances and swift assistance to financial institutions associated with vulnerable assets has also provided Sweden with fiscal breathing room, as well as political comfort in the European arena. Consequently, the Swedish voters' decision to remain outside the euro has been fortified by the euro crisis, while, at the same time, positive public opinion regarding EU membership has become more solid. The logic of Swedish EU membership has not experienced any significant turbulence or alterations. During the euro crisis Swedish opinion has – if anything – asserted a generally positive view of EU membership and the decision to remain outside the eurozone has stabilised. The continuously rising populist and eurosceptic party, Sverigedemokraterna, is still partly separated from EU-related issues and does not affect the EU agenda to any substantial degree (SD received 9,67 % of the vote in the 2014 EP elections⁹ and 12,86 % in the 2014 Swedish general elections¹⁰), and it still refrains from political debate on EU matters. The euro crisis has not challenged fundamental Swedish political values, nor has it shaken up its core membership logic. To the contrary, if anything, Swedish stances on key membership affairs have been consolidated as the euro-issue has been neutralised.

⁶ Ibid, pp. 40-41, The Finns Party received 12,1% in the EP 2014 elections, increasing its share with 3,1% in comparison with the 19,1% (15% increase) received in the national elections of 2011. <http://www.europarl.europa.eu/elections2014-results/en/country-results-fi-2014.html>
http://www.stat.fi/til/evaa/2011/evaa_2011_2011-04-29_tie_001_en.html

⁷ Bäckman, von Sydow, p. 65.

⁸ Ibid, pp. 56, 61, 63-64.

⁹ Val till Europaparlamentet – Röstet <http://www.val.se/val/ep2014/slutresultat/E/rike/index.html>

¹⁰ Val till riksdagen – Röstet <http://www.val.se/val/val2014/slutresultat/R/rike/>

The Danish financial sector has been severely hit by the international financial crisis, and the effects have been multiplied by a domestic housing bubble and an already unstable financial sector. The government has subsequently launched two major banking packages. The government also faced a major budgetary deficit, which was met with structural reforms. The Council opened an excessive deficit procedure for Denmark in 2010, which continued until 2014.¹¹ Danish positions regarding communitarian responses to the crisis have followed a logic that is similar to the Finnish case. As Hassing Nielsen states, the ratification of the Fiscal Compact (TSCG) has generated political controversy.¹² The treaty has been considered restrictive on Danish fiscal sovereignty, and it has been perceived as a gateway to European political union. As for the banking union, the eurosceptic critics have expressed concerns about Danish taxpayers' money being used to pay for non-Danish banks. Along with Sweden, Denmark's EU membership has been conditioned by its compatibility with the universal welfare state. Although the major political conflict in Finland has been framed around the consequences of euro membership and the Finnish burden of profligate eurozone members, in Sweden, this has not happened due to budgetary and institutional stability. In Denmark, the previously existing conflict concerning the welfare state vis-à-vis the fiscal consolidation policies of the TSCG, as well as the free movement of people, has been intensified. The results of the 2014 EP election show that the critique of intra-EU immigration and euroscepticism has become intertwined in the Danish case. The notion of welfare tourism and the deposit guarantee of the banking union are both part of the same political narrative: the protection of Danish tax-payers' money. The populist and eurosceptic *Dansk folkeparti* was the party that received the most votes in the 2014 EP elections (26,6 %).¹³ The division between the EU positive elite and increasingly eurosceptic electorate was thereby increased. Even though the government is in favour of leaving the statutory opt-outs, they are likely to remain a gatekeeper in Danish EU politics for the foreseeable future.¹⁴ Finland, which is seemingly heading towards deepening recession, with a strong eurosceptic parliamentary presence in the midst of an EU-Russian trade conflict, should expect further debate and conflict in this area.

4.2 Nordic Europe 2015 – common interests?

The financial, political and socio-economic crisis of the last six years has certainly challenged the self-image of many European leaders and citizens. Additionally, the institutional and political responses to the immediate problems have sharpened the discourse of the political geography of the union into a North-

¹¹ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/143282.pdf

¹² Hassing Nielsen, p. 19.

¹³ European Parliament, Results of the 2014 European elections European Parliament – <http://www.europarl.europa.eu/elections2014-results/en/country-results-dk-2014.html#table02>

¹⁴ EUobserver, (2014) *Denmark joins EU patent court*.

South dimension, which serves to reflect the narrative of budgetary profligacy as the origin of the euro crisis.¹⁵

Should we then also speak of an additional Nordic EU policy dimension based on the Nordic experiences of the post-war period? One way to approach this question is to discuss the purpose that EU membership holds in their national narratives, as well as the consequences they have experienced as a result of the crisis.

As has been shown, Swedish and Danish EU membership has been conditioned by its compatibility with their universal welfare system and social models. This is central to their notions of political identity and national sovereignty. Therefore, each step towards further EU integration must be tried against these previously established socio-political institutions, a dialectic that has been strongly manifested in the Swedish “wait-and-see position” and the “difficult Danes opting-out”, as described by Jokela.¹⁶ Finland, on the contrary, has increased its sovereignty by integrating further into the EU and leaving the geopolitical deadlock which has characterised the country for several centuries. Consequently, increased integration also carries a security tag, and as forecasts for the economic advantages of Finnish euro membership were inconclusive, the choice to join the euro, as Jokela has stated, was framed as a political issue aligned with security.¹⁷ Sweden has remained relatively comfortable in its sphere of pragmatic non-alignment, and Denmark is a NATO member. From a Nordic perspective, the EU is a common market which is beneficial to open and export-oriented economies. Therefore, it is in their interest that the eurozone countries maintain stable purchasing power, and, in terms of crisis management, the three countries are united in their belief in strong budgetary consolidation. Sweden, being the only country not included in any excessive deficit procedure, has remained a bystander in the eurozone troubles. Sweden’s national narrative has not been affected, and it has maintained a pragmatic stance towards the EU.¹⁸ If anything, it has gained international recognition in the area of budgetary and crisis management. Even though all three countries have eurosceptic parties in their parliaments between the size of 12-19%, EU membership has not been questioned in any broader sense. In all three countries, support for EU membership has remained strong relative to the EU average, but since Finland has been more deeply integrated into EU institutions, there are more communitarian issues to address, which obviously cuts more deeply into its national treasury and its political identity. Denmark has been experiencing a political conflict that has been divided into three parts: first, in the words of Hassing Nielsen, a broad parliamentary project to reorganise the welfare state to

¹⁵ The Economist, (2012) *The euro-zone economy: North and South*, De Grauwe, Paul (2013) *Design Failures in the Eurozone: Can they be fixed?*

¹⁶ Jokela, p. 30.

¹⁷ Ibid

¹⁸ Bäckman, von Sydow, p 67.

accommodate a growing share of citizens who are in retirement, in addition to a long period of declining growth which, second, is entangled in the effects of the euro crisis. Third, the notion that the EU's free movement of people has been an impediment for the Danish welfare state has placed Danish EU membership under serious national scrutiny.

According to Lene Hansen (2002)¹⁹, Danish EU membership has been based on a political trade-off between political independence and economic gains. The object of such independence has been the country, or nation-state. Hansen describes the modern Danish state as a distinctive welfare state. Created in the 1920s by the Social Democrats, and subsequently supported by the centre-left, it has been the element of division when Denmark has dealt with EU matters. EU integration, in this regard, has been seen either as threatening or as complimentary/non-threatening. Hansen argues: "Since it is very difficult to construct any models which loosen the link between the State and the nation without then being characterised as a federalist, the debate is locked between two choices: the intergovernmental Europe of the nation-states and the United States of Europe", and "as the integration process continues it becomes increasingly difficult for the pro-EU side to uphold their claim that the EU is never going to infringe upon questions of social and welfare policy".²⁰

Furthermore, as Hassing Nielsen argues, "At least for now, the Danish TEU opt outs appear to have become a condition in Danish EU politics", and "it remains highly unlikely the four Danish opt outs will be subject to discussion or even referendums in the following years to come".²¹

It would therefore seem that the discursive conflict regarding a Europe of Nation-states vis-à-vis a federalised European Union continues to prevail, and the Danish TEU opt-outs constitute a political buffer zone in Danish politics. However, recent events have pointed in a different direction, as Danish Prime-Minister Helle Thorning-Schmidt opened the parliamentary season with the announcement that there will possibly be a referendum on the Justice and Home Affairs opt-out after the parliamentary elections in 2015.²² Whatever the outcome of this announcement, it indicates the determination of the leadership of the Danish government to act politically in this regard.

Even though the European Council has closed its excessive deficit procedure for Denmark as of June 2014, the split between, on the one hand, the pro-EU forces of the parliamentary elite, who wish to scrap the country's opt-outs, and, on the other hand, the increasingly eurosceptical population has sharpened with

¹⁹ Hansen, Lene & Waeber, Olle (2002) *European Integration and National Identity – The Challenge of the Nordic States*

²⁰ Ibid, p. 81

²¹ Hassing Nielsen, p. 22.

²² The Local (2014) *Danes to vote on EU justice opt-outs*

the electoral success of the Danish People's Party in the EP elections. The Danish Social Democrats, a broad centre-left party, have suffered considerable electoral losses to the Danish People's Party. These votes concern EU-affairs, immigration and border control, which are all linked to the Danish welfare system and, more importantly, the Danish opt-outs.

The Danish focus on modernising and reorganising the welfare state in order to solve the new demographic challenges²³ is an important factor in understanding the future for Danish positions regarding EU membership. This touches on the political logic of national identity, which has been linked with the welfare state and the continuing economic integration of the EU. Hassing Nielsen argues: "... welfare adjustments and reforms are hard to swallow for many political parties, fearing not only the death of the Danish universal welfare state but also the voters' verdict if extensive reforms are carried out".²⁴

Finland has been a pro-integrationist EU member ever since its entry in 1995. As was discussed above, support for Finnish EU policies has been broadly anchored in the parliament and the population. Pertti Joenniemi argues that the Finnish nation-state is based on a duality between the "cultural nation" (*Kulturnation*) and the "state nation" (*Staatsnation*), which has been an enabling factor for Finland to pursue ambitious EU policies as a "state actor" without major entanglements with its perceptions of national sovereignty or identity. In its historical trajectory, first, as part of the Swedish empire, and as of the early 19th century, as part of the Russian empire, the Finnish sense of nationality has developed independently of the political landscape in which Finland has existed. Joenniemi argues: "The formative years of nation-building provided Finland with a competence to cope with a situation where the task is not one of defending and clinging to what is already there but to tune in to the new and the changing".²⁵ The Finnish state, in both historical and contemporary terms, has therefore coped with the political environment independently of its national and cultural identity (*Kulturnation*), be it in Stockholm, St. Petersburg or Brussels. Thus, the non-statist shape of the Finnish nation deviates from the Danish and Swedish cases.

As has been argued by Jokela, the Finnish membership logic has been based on economic gains, self-fulfillment as a state actor, and national security.²⁶ In terms of its identity, being part of the European project has proven to be complementary, and not mutually exclusive. This highly instrumental approach has left the issue of the cultural nation in the clear. EU membership is a state matter, described as follows by Joenniemi: "The Finnish state is allowed to aspire to closer links with Europe and take part in the process of integration as the

²³ Hassing Nielsen, p. 19.

²⁴ Ibid, p. 19.

²⁵ Hansen & Waever, p. 209

²⁶ Jokela, pp. 27, 28.

nation feels sufficiently at home, although at a different level”.²⁷ Europe, and its political construct, the EU, therefore has offered Finland the possibility of pursuing state power/sovereignty. Likewise, in the logic of integration, the EU has pursued power for Finland in a tandem relationship.

Despite the increase of the Finns party to 19%, the Finnish government has, since the summer of 2014, been led by possibly one of Europe’s most EU-positive Prime Ministers, Alexander Stubb.²⁸ The outcome of the 2015 parliamentary elections will be decisive, as the parliamentary EU committee provides the government with a mandate on EU affairs. Economically, Finland is better off than many others in the eurozone, although, at the moment, it is experiencing steady recession and is possibly heading toward depression.²⁹ The trade sanctions on Russia are hampering Finnish exports, and the Standard & Poor recently lowered the country’s credit rating from AAA to AA+. If the economy does not improve, will voices for national-oriented solutions cross over from the Finns to the traditional parties? Alexander Stubb is an outspoken advocate for Finnish NATO membership, and, for Finland, EU integration also has a security dimension. If the conflict with Russia intensifies, the eurozone growth crisis lags on and is connected to a continued negative outturn, and Greece needs a third bailout, there is a possibility that there will be consequences in all three areas of Finnish politics.³⁰

Although Sweden has broken with its historically unparalleled record of Social Democratic rule, and the political playing field has been strongly evened out after two consecutive centre-right administrations, the Swedish consensus on European politics, as was shown above, has remained relatively unaltered by the euro crisis. Historically, Swedish resistance to joining the EU has primarily been based on the post-war welfare state project’s incompatibility with “Europe”, “European values” and “European culture”.³¹

Swedish EU membership has moved beyond this rhetorical scheme; it is, however, still a valid image of how “Brussels” is depicted. Sweden has been the fortunate son of Western Europe during the crisis years, which has put Sweden in the unique situation of siding with budgetary discipline in the North-South scheme without the need for hawkish stances, as Sweden is not a eurozone member and is not subject to the ESM.³² Sweden has not been in a situation of having policies

²⁷ Hansen & Waever, p. 190.

²⁸ Raunio, Tapio (2014), *Alexander Stubb’s transition to Finnish Prime Minister ensures Finland will have a pro-EU leader despite an increasingly Eurosceptic public*, LSE European Politics and Policy Blog.

²⁹ CEIC (2014) *Finland: Double-Dip Recession or Depression?*

³⁰ Jokela, p. 41. Jokela (2013) *Despite the rise of the True Finns in 2011 Finland continues to be a pro-European EU member state*, LSE European Politics and Policy Blog.

³¹ Hansen & Waever, p. 130.

³² Bäckman, von Sydow, p. 60.

imposed by Brussels or spending “Swedish taxpayer’s money” on supposedly less disciplined Europeans. The situation could have been different had Sweden had Finland’s eurozone commitments or Denmark’s financial instability.

Since joining the EU, Sweden has maintained a strong tradition of consensus on EU policy between the Social Democrats and the centre-right.³³ This tradition could, however, be open to future political contingencies, should, for example, the Swedish model and collective agreements in the labour market face further challenges with the deepening integration of the single market. Furthermore, should the economy shrink, along with the political stalemate of the weak and unstable newly elected parliamentary government of the Social Democrats and the Greens, while the populist and eurosceptic Sverigedemokraterna continues to grow in support, then the general support for national measures could very well be fortified, and thus, break the seal of consensus on Swedish EU policy.

Getting back to the initial question, can or should we speak of a tightened relationship or shared interests between Denmark, Finland and Sweden in the EU post-2008? The Nordic eurocepticism has indeed grown stronger in all three countries with the rise of populist parties in both national and European elections. However, their major traditional parties and broad layers of their populations remain asserted EU members. Finland’s approach to Europe has grown more cautious, but overall, Finland is still dedicated to the European project (not least, their integrationist PM Alexander Stubb); Sweden and Denmark will both remain outside the EMU for the foreseeable future, and the Danish opt-outs seem stable (with the exception of recent events, as earlier described by Hassing Nielsen). This makes it difficult for all three countries to formulate broad European strategies based on common interests. The Danish political establishment is trapped between the opt-outs and a eurosceptic party which is likely to grow³⁴, while Finland’s pro-European stance remains roughly the same, and Sweden is comfortably settled in the status quo, with a newly elected government that does not have a sharp EU political roadmap. Based on these contradictions, the common Nordic ground has not changed to such an extent that we can speak of a Nordic dimension that is different from that which existed before the crisis.

What all three countries do share is a certain otherness, i.e., a separation from the European continent. They are all small EU countries, which implies a pragmatic approach to EU initiatives. The Nordic EU-resistance/hesitance is, in general, based on the protection of a distinct form of the universal welfare state model and not necessarily on national patterns of cultural identity.

³³ Bäckman, von Sydow, p 64.

³⁴ Meret, Susi & Borre, Ole (2014) *Boosted by electoral success the Danish People’s Party has adopted a more pragmatic line ahead of next year’s general elections in Denmark*, LSE European Politics and Policy Blog (2014).

4.3 EU and the immediate future

As the newly elected European commission under Jean-Claude Juncker has taken its seats, what are the challenges and the policy areas which the Nordic countries will have to address?

The euro crisis has definitely changed the playing field of European politics, and the experiences of individual member states have, in fact, had insulating effects on various countries. Also, the increasing Eastern friction with Russia on matters of trade, international law and democracy in Ukraine, and its repeated violations of national territories in the Baltic Sea has added to the enumeration of sharp issues about which the EU countries will have to unite in their policies.

In this regard, Sweden and Finland could have stronger incentives for cooperation, chiefly in matters of trade and growth, banking and common defence policies, whereas Denmark's opt-out keeps it out of European CSDP enterprises. Denmark is also hampered by its increased focus on immigration, welfare tourism and border controls.³⁵ As mentioned previously, it is too early to evaluate the effects of the turbulence of recent years and whether they have had a streamlined effect on Nordic European politics.³⁶

Today's EU has moved beyond the immediate institutional challenges of the euro crisis in so far as it has agreed on the TSCG and the ESM, along with the creation of stronger communitarian tools for monitoring and coordinating financial policy (e.g. the European scoreboard, the European semester, excessive deficit procedures, etc.), and it is now dealing with the challenges of weak growth and the crisis of the Eastern neighbourhood policy. It is possibly a little too early to tell whether the Nordic countries share common ground or interests in these new sets of circumstances. One central challenge for the freshly installed European Commission and Council President is to reinvigorate the poor economic growth in Europe. In a speech at Le mouvement des entreprises de France on October 1, 2014, Finnish Prime Minister Alexander Stubb stated that the possibility for European growth lies in the development of the Single European Market: "We need to make sure that there is a genuine digital market, a well-developed market in services and capital markets and a realisation of a European energy market. We need to remove barriers where none should exist".³⁷

The policy areas mentioned by Stubb provide an interesting policy framework for research on Nordic dimensions, as these issues will be of substantial relevance for EU politics for years to come. The Nordic perspective has political relevance among the Nordic countries, and their economic, political and cultural

³⁵ Hassing Nielsen, pp. 21-22.

³⁶ Data collected by Daniel Naurin about the 'Network Capital' in the council shows that Nordic civil servants still prefer cooperation with each other more than with most other member states. The crisis does not seem to have altered this picture.

³⁷ Stubb, Alexander (2014) *How to relaunch growth in Europe*.

cooperation has been formalised since 1952 within the framework of the Nordic Council of Ministers in order to eliminate barriers and facilitate increased exchange between the countries.³⁸ The Nordic governments all have ministers for Nordic cooperation, and the newly elected Swedish government has announced a strong commitment to Nordic cooperation in a number of important policy areas, along with a “Nordic profile branding”.³⁹

However, it remains to be seen whether a Nordic perception or a common Nordic ground in the EU will materialise in policy areas such as those outlined above by Mr. Stubb. Whether or not there will be more comprehensive Nordic coordination on EU policy could presently only amount to a dubious prediction. As of October 2014, Sweden has a new minority government with weak parliamentary support and a strengthened eurosceptic party (SD), which will possibly exert its influence over budgetary and policy procedures. Ahead of Denmark’s general elections in 2015, the Danish eurosceptic DPP is currently polling at 21, 2%, the largest national party⁴⁰, and Finland is struggling through an economic downturn with a coalition government which recently barely survived a vote of confidence.⁴¹ Although all three countries are broadly committed to the European project, the above description points to a consolidation of eurosceptic and nationalistic electoral tendencies. If this assessment is correct, and remains so, then the possibility of also considering a future involving enhanced Nordic regional cooperation outside of EU structures would be viable. The Eurobarometers, however, point to broad and steady support for EU cooperation and trust in EU institutions. Notwithstanding the short-term future of EU policy in the national parliamentary context, the Nordic dimension of political coordination and cooperation appears to continue to be central, whatever shape it may take.

³⁸ Nordiska ministerrådet (2012) *Den nordiska modellen i en ny tid: Program för Sveriges ordförandeskap i Nordiska ministerrådet 2013*.

³⁹ Persson, Kristina (2014) *Därför behövs ett nordiskt samarbete*, SVT Opinion.

⁴⁰ The Local (2014) *Danish People’s Party support hits historic high*.

⁴¹ Reuters (2014) *Finnish coalition government narrowly survives confidence vote*.

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