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**Austria's and Sweden's accession to the European Community: a comparative neo-Gramscian case study of European integration.**

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Thesis submitted for the degree of Doctor of Philosophy at the University of Warwick, UK.

The research was conducted at the Department of Politics and International Studies.

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## **Declaration:**

An earlier version of parts of Chapter 1 was published as *Bieler, Andreas (1995)*

*“Globalisation and the 1995 enlargement of the European Union: the need for a new theoretical approach”, RIES: Research Paper, No.11 (March). PP.1-30.*

Some aspects of this thesis related to the Austrian case, predominantly to be found in Chapters 2 and 3, were previously published as *Bieler, Andreas (1998)*

*“Austria’s application to the EC: a neo-Gramscian case study of European integration”, New Political Economy, Vol.3/1, pp.27-43.*

## **Summary:**

Since the 1 January 1995, Austria and Sweden have been members of the European Community (EC). This thesis analyses why the two countries joined the EC at a moment, when the latter's development towards a neo-liberal economic policy embodied in the Internal Market and the convergence criteria of the Economic and Monetary Union endangered their traditional Keynesian economic policy making and when the steps towards a Common Foreign and Security Policy threatened Austria's and Sweden's policies of neutrality.

It is argued that the process leading to application and then the struggle around the referenda on membership in Austria and Sweden have to be analysed against the background of globalisation, a structural change experienced since the early 1970s and characterised by the transnationalisation of production and finance and a shift from Keynesianism to neo-liberalism. Established theories of integration, which take existing power structures as given, are unable to explain instances of structural change. Consequently, a critical theory derived from neo-Gramscianism is developed as an alternative for the investigation of Austria's and Sweden's accession to the EC. Most importantly, its focus on social forces, engendered by the production process, allows the approach to conceptualise globalisation.

Applied to the Austrian and Swedish case, it is established that alliances of internationally-oriented and transnational social forces of capital and labour respectively, supported by those institutions linked to the global economy such as the Finance Ministries, were behind the drive towards membership in the neo-liberal EC. While they succeeded in their undertaking, the forces opposed to the EC and neo-liberalism should not be underestimated. Nationally-oriented labour and capital in Austria and labour mainly from the public sector in Sweden together with the Green Parties in both countries may well mount a successful challenge in the future. Changes in the international structure, although not of primary importance, implied that neutrality was no big obstacle to EC membership in the late 1980s/early 1990s. Gorbachev's liberal foreign policy and a general decline in the power of the Soviet Union in the case of Austria and the end of the Cold War in the case of Sweden allowed the pro-EC forces in both countries to redefine neutrality in a way that made it compatible with membership.

## Abbreviations:

AK	Chamber of Labour (Austria)
ANB	Austrian National Bank
AS	Austrian Schilling
BWK	Chamber of Commerce (Austria)
CAP	Common Agricultural Policy
CFSP	Common Foreign and Security Policy
Council	Council of Ministers
CP	Centre Party (Sweden)
CSCE	Conference on Security and Co-operation in Europe
DM	German Mark
EC	European Community
ECE	Economic Commission for Europe (of the UN)
ECJ	European Court of Justice
ECSC	European Coal and Steel Community
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Area
EIF	Employee Investment Fund
EMS	European Monetary System
EMU	Economic and Monetary Union
EP	European Parliament
EPC	European Political Co-operation

ESCBs	European System of Central Banks
ESP	Economic and Social Partnership (Austria)
ETUC	European Trade Union Confederation
Euratom	European Atomic Energy Community
FDI	foreign direct investment
FP	Liberal Party (Sweden)
FPÖ	Austrian Freedom Party
FTA	Free Trade Agreement
GA	Green Alternative Party (Austria)
GP	Green Party (Sweden)
GPA	White Collar Workers' Union (Austria)
IGC	intergovernmental conference (of the EC)
IR	International Relations
LI	liberal intergovernmentalism
LK	Chamber of Agriculture (Austria)
LO	Swedish Trade Union Confederation
LRF	Federation of Swedish Farmers
MS	Moderate Party (Sweden)
NATO	North Atlantic Treaty Organisation
ÖAAB	Austrian League of Blue and White Collar Workers (ÖVP)
ÖBB	Austrian Farmers' League (ÖVP)
OECD	Organisation for Economic Co-operation and Development

OEEC	Organisation for European Economic Development
ÖGB	Austrian Federation of Trade Unions
ÖIAG	Österreichische Industrieholding Aktiengesellschaft
ÖVP	Austrian People's Party
ÖWB	Austrian Business League (ÖVP)
QMV	qualified majority voting
SACO	Swedish Confederation of Professional Associations
SAF	Confederation of Swedish Employers
SAP	Social Democratic Party (Sweden)
SEA	Single European Act
SI	Federation of Swedish Industries
SKr	Swedish Krona
SPÖ	Austrian Social Democratic Party
TCO	Swedish Confederation of Professional Employees
TNC	transnational corporation
UN	United Nations
VÖB	Federation of Austrian Banks and Bankers
VÖI	Federation of Austrian Industrialists
VP	Left Party (Sweden)
WEU	West European Union

## **Introduction:**

On 17 July 1989 and on 1 July 1991, Austria and Sweden respectively applied to the European Community (EC)<sup>1</sup> for membership. In 1994, after successfully completed negotiations between the applicants and the EC, the Austrian and Swedish populations voted in a referendum with a majority in favour of membership. Both countries have been members of the EC since January 1995. This was an apparent paradox: firstly, the EC had moved towards a neo-liberal economic policy embodied in the Single European Act (SEA) of 1987 and the convergence criteria of Economic and Monetary Union (EMU), part of the Treaty of Maastricht in 1991, while Austria and Sweden had been pursuing a Keynesian economic policy with the focus on full employment throughout their post-war history.<sup>2</sup> Secondly, the EC had moved towards a Common Foreign and Security Policy (CFSP) with the possibility of a future common defence policy and common defence, while Austria and Sweden had always put great emphasis on their neutral status. How can this paradox be explained?

In this thesis, the processes in the two countries leading first to application and eventually to accession to the EC are analysed in order to solve the puzzle outlined above. It is argued that this analysis has to be conducted against the background of globalisation, a structural change in the global economy experienced since the early 1970s and that, therefore, a critical theory is required. Neo-Gramscianism is

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<sup>1</sup> Since the Treaty of Maastricht in 1991, one speaks about the European Union. Nevertheless, since the analysis of this thesis starts with the events before Maastricht, the term EC is used throughout the thesis. Of course, the qualitative changes introduced by the Treaty of Maastricht are referred to where required.

<sup>2</sup> Therborn points out that anti-crisis policies pursued by Austria and Sweden in the 1970s and early 1980s "would have been either outright impossible or extremely difficult to carry out within the .. [EC] ..." (Therborn: 1986, p.128). After the EC's shift to neo-liberalism from the mid-1980s onwards, this would have been even more so the case.

considered to be a critical theory of this type and developed as an alternative to the established neo-functional and intergovernmentalist theories of integration, which for a range of reasons are unable to account for structural change.<sup>3</sup>

The contribution of the thesis is twofold: firstly, it contributes to understanding why these two countries chose to join the EC in 1995; secondly, it adds to International Relations (IR) theory in general and European integration theory in particular by applying neo-Gramscianism to a case of European integration for the first time.<sup>4</sup>

In this introduction, “integration” and its relation to enlargement are defined (section 1). Then, the development of the EC from 1952 to the Treaty of Maastricht (section 2) and of the relationship between the EC and Austria and Sweden until 1985 (section 3) are sketched out. In section 4, integration theories and their application to the analysis of Austria’s and Sweden’s accession are introduced. Some methodological issues are addressed in section 5, before an outline of the structure of the thesis is provided in section 6.

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<sup>3</sup> Neo-Gramscianism is not a coherent approach. Its concepts and the way they are used in this thesis are outlined in Chapter 1, section 3.

<sup>4</sup> Holman analyses the integration of Spain in Europe with the help of neo-Gramscian concepts. His definition of integration, however, includes the general integration of Spain into the Western European capitalist system via the transnationalisation of the Spanish state-civil society configurations. EC membership is only regarded as a final “logical step” of Spain’s socio-political modernisation and Westernisation in this process of integration (Holman: 1996, pp.26-30). By contrast, this thesis focuses solely on the explanation of Austria’s and Sweden’s accession to the EC as cases of integration. Apeldoorn/Holman (1994) and Holman/Pijl (1996) employ neo-Gramscian concepts for the explanation of the role of the European Round Table of Industrialists in the process leading to the Internal Market. A more comprehensive attempt at explaining an instance of European integration with neo-Gramscian concepts is Apeldoorn’s analysis of the possible developments of a future European model of capitalism (Apeldoorn: 1996a and 1996b).

## 1. The definition of “integration” and its relation with enlargement:

### *1.1. “Integration”:*

It is useful to distinguish between intergovernmental co-operation and integration in IR. Both imply in the broadest sense the co-ordination of policies between governments. In contrast to intergovernmental co-operation, however, “when states engage in integration, they cede some part of their individual sovereignty in favour of its joint exercise with other states” (Laffan: 1992, p.3). In other words, integration goes further than intergovernmental co-operation and includes the partial transfer of national sovereignty.<sup>5</sup> In the case of the EC, this occurs either through the pooling of sovereignty in the Council of Ministers (Council) by the use of qualified majority voting (QMV) or through the delegation of sovereignty to supranational institutions, i.e. the Commission, the European Parliament (EP) and the European Court of Justice (ECJ). Austria and Sweden, by deciding to become members of the EC, have ceded parts of their sovereignty, and their accession can, consequently, be regarded as an instance of European integration.

Wallace distinguishes between “formal” and “informal” integration. The former consists of political decisions on further integration and is similar to the definition above. Informal integration, on the other hand, “consists of those intense patterns of interaction which develop without the impetus of deliberate political decisions, following the dynamics of markets, technology, communications networks,

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<sup>5</sup> Sovereignty can be defined as follows: internally, states exercise authority within a territory demarcated by boundaries; externally, “the Treaty of Westphalia institutionalized the principles of mutual recognition of the sovereignty of states and non-intervention into internal affairs” (Norgaard: 1994, p.247). This thesis does not focus on the problem of sovereignty in relation to European integration. For an argument of why “sovereignty” is in general likely to persist, see Krasner: 1988; for an analysis of “sovereignty” related to the post-1985 EC, see Norgaard: 1994.

and social change” (Wallace: 1990, p.9). For the purpose of this study, the definition of integration will exclude these patterns of interaction and concentrate on those political decisions, which directly lead to the partial cession of sovereignty. New technologies and communication networks increase the interconnectedness between countries, which may put pressure on decision-makers to think about intergovernmental co-operation and/or integration, but they do not constitute instances of integration.

### *1.2. Integration and EC enlargement:*

To date, theories of integration have not been applied to EC enlargements. Further integration can be of both a qualitative and a quantitative nature. If it is accepted that integration implies the pooling of sovereignty and the transfer of sovereignty to supranational institutions, qualitative integration is represented in treaties such as the SEA and Treaty of Maastricht, which have resulted in an increased degree of pooled sovereignty and further transfer of sovereignty to the EP, the Commission and the ECJ. Quantitative integration, on the other hand, is exemplified by the extension of pooled and transferred sovereignty to other countries. A problem would only occur, if further quantitative integration was accompanied by lesser qualitative integration, as it would be difficult to assess whether the overall balance was still larger than before this step of integration. It has, however, been a basic condition of all EC enlargements including the one of 1995 that the new members had to accept the *acquis communautaire* (Preston: 1995, pp.452/453).<sup>6</sup> Consequently, Austria and Sweden had to adopt the degree of pooled and transferred sovereignty, when they acceded to the

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<sup>6</sup> The *acquis communautaire* includes all those policy areas, which are within the competence of the EC.

EC in 1995. In short, their membership can be regarded as a case of further integration, since it represented the extension of the existing level of pooled and transferred sovereignty to other countries.

## 2. The development of the EC:

The origins of the EC go back to April 1951, when the original six member states, i.e. France, Germany, Italy, Belgium, Luxembourg and the Netherlands, signed the European Coal and Steel Community (ECSC) Treaty, coming into force in July 1952.<sup>7</sup> The European Economic Community (EEC) and the European Atomic Energy Community (Euratom) followed five years later, when the Treaties of Rome were signed in March 1957. Supranational institutions, the Commission, the ECJ and the Assembly (replaced later by the elected EP) were established and sovereignty was pooled and transferred in several aspects. A timetable for setting up the common market was introduced in 1957 and accelerated in the early 1960s.

In July 1965, however, the French President Charles de Gaulle halted the move towards further integration. Fearing a loss of national sovereignty, he blocked the introduction of QMV in the Council through the withdrawal of French ministers from all Council meetings, the so-called “empty chair” policy. Moreover, separate financial resources for the EC and the transfer of power to the EP to control the budget were rejected. The ensuing Luxembourg Compromise of January 1966 guaranteed member states a veto on matters of important national interest.

During the following decades, European integration slowed down. In the 1970s, the European Political Co-operation (EPC) and the European Monetary System

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<sup>7</sup> For a short overview of the EC's post-war history until 1985, see George: 1996, pp.1-15 and Pinder 1991, pp.3-15.

(EMS) were established, the meeting of heads of member states was formalised on a regular basis in the so-called European Council and the EP was directly elected for the first time.<sup>8</sup> Nevertheless, this did not signify any further qualitative integration as defined above, because the EPC, the EMS and the European Council were of an intergovernmental nature. At the same time, quantitative integration occurred. On 1 January 1973, the UK, Ireland and Denmark joined the EC. Greece became a member on 1 January 1981 and Spain and Portugal followed on 1 January 1986.

In the early 1980s, it was realised that the USA and Japan had coped better with the economic recession of the 1970s than the EC members. In a common European response, EC integration experienced a dramatic revival. In the following, the impact of this revival in the spheres of economic policy and foreign and security policy is outlined.

### *2.1. The Internal Market and EMU: integration around economic neo-liberalism.*

In June 1985, the Commission published its famous White Paper “Completing the Internal Market”, which proposed 300 (later reduced to 279) measures designed to facilitate progress towards the completion of the Internal Market by 1992 through the abolition of non-tariff barriers. The final goal was the free movement of people, capital, goods and services throughout the EC. The Milan European Council meeting approved the White Paper in June 1985 and the SEA, coming into force in July 1987, confirmed the 1992 deadline and introduced the principle of “mutual recognition” for Internal Market issues. The economic rationale of the SEA was of a neo-liberal nature.

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<sup>8</sup> The EPC provided the framework for first steps towards a common foreign policy (see below), whereas the EMS was a monetary arrangement with the main goal of stabilising the exchange rates between member states (George: 1996, pp.211-219; Pinder: 1991, pp.124-132).

It intended to minimise transaction costs, to provide companies with a bigger home market and to achieve efficiency via more competition and economies of scale.

During the Milan Council, it had also been considered necessary to reform the EC institutions in order to carry out the Internal Market programme. In the SEA, firstly, QMV was introduced in the Council for new internal market measures and secondly, the supranational institutions of the EC were significantly strengthened. It is the Commission, which decides the legal basis for a proposed directive, which “becomes very important as different articles are associated with different decisional rules” (Sbragia: 1993, p.103). Thus, the Commission can invoke QMV if it asserts that a matter pertains to the internal market. Furthermore, the ECJ was strengthened by becoming the arbiter of the Internal Market. In cases of disagreement about whether member states comply correctly with Internal Market harmonisation measures, “the Commission or any member state could bring the matter before the Court of Justice directly ...” (Corbett: 1987, p.246). Finally, the EP’s power was increased through the introduction of the co-operation and assent procedure. The former applies to the majority of internal market issues. It provides the EP with a conditional, positive agenda-setting role “through the requirement that the Council of Ministers can only unanimously alter those amendments by the legislature which the Commission supports” (Schneider, G.: 1994, p.9). Moreover, the EP enjoys a conditional blocking power, since the Council needs unanimity to pass legislation which the EP has rejected in its new second reading. One ally among the member states is, consequently, sufficient for the EP to block legislation. The assent procedure gives the EP the additional right to veto association agreements and new members.

In December 1991, the EC members agreed on the Treaty of Maastricht, which laid out a timetable leading to a single currency and EMU. It was envisaged to be fully in place by 1999 at the latest, made up of the states which meet the economic convergence criteria. The centrepiece of EMU will be the European System of Central Banks (ESCBs), a new supranational institution. It is legally committed to price stability, independent of national and EC institutions and its task is to design and implement a common monetary policy, while the monetary financing of public deficits is prohibited (Kenen: 1992, pp.462-467). Thus, member states partly gave up their right to an autonomous monetary policy by ceding aspects of their sovereignty to a new central institution being in charge of a common policy. "Once a single currency has been adopted, states will be unable to regain competitive advantage by devaluation of the exchange rate" (Barnes: 1992, p.11).

In order to become a member, countries have to fulfil the so-called convergence criteria, which are of a neo-liberal type centred around low inflation and "sound" budget targets (Grauwe: 1992, p.131). These criteria constrained national economic and monetary policy autonomy even before the start of EMU. The Treaty of Maastricht stipulates in Article 109e that EC members had to draw up a convergence programme before the beginning of the second stage of EMU on 1 January 1994, in which they outlined the measures they intended to undertake in order to meet the criteria. In other words, it obliged EC members to pursue a policy of budgetary restraint, low inflation and price stability. Keynesianist programmes to create jobs, on the other hand, were implicitly prohibited. Barnes even argues that "some states will have to pay a high price in terms of unemployment and slower growth in order to achieve the criteria" (Barnes: 1992, p.12).

This impact on national policy autonomy in the area of economic policy will be even stronger, when EMU is in place. As the common monetary policy focuses on price stability, member states are committed “to setting constraints on public borrowing to GDP ratios and also to limiting budget deficits” (McDonald: 1994, p.48). Article 104c of the Treaty of Maastricht gives the Commission the task to monitor the budgetary situation and government debt of EC members. If there is a member with “excessive deficits”, i.e. a ratio of actual government deficit to GDP of more than 3 per cent and/or a ratio of government debt of more than 60 per cent to GDP, the Commission has to inform the Council, which, in turn, publishes a report on what this member should do to rectify the situation. If the member state does not meet the Council’s recommendations, various sanctions can be adopted, including the imposition of fines (Bempt: 1993, p.252).<sup>9</sup> Importantly, all decisions related to EMU membership are to be taken by QMV. Overall, EMU puts member states firmly on a neo-liberal economic course and restricts their policy autonomy in the areas of monetary and economic policy.

Finally, the Treaty of Maastricht further strengthened the EC institutions through the extension of QMV and the introduction of the co-decision procedure, which gives the EP the right to veto Council decisions in certain areas (e.g. education).<sup>10</sup>

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<sup>9</sup> Article 109e states that the Commission’s task to monitor member states’ financial situation started on 1 January 1994, the beginning of the second stage of EMU. Sanctions, however, cannot be applied before the final establishment of EMU.

<sup>10</sup> For a short overview of the institutional changes, see Nugent: 1992, pp.400-402.

## *2.2. The CFSP: towards a common defence policy and common defence?*

First steps towards a common foreign policy had already been undertaken in November 1970, when the Foreign Ministers met for the first time within the EPC framework. The objectives of the EPC were the improvement of the mutual understanding of international problems, the harmonisation of views, the co-ordination of positions and, where possible and desirable, common actions (Luif: 1996, pp.29/30). The common foreign policy was mainly expressed in declaratory statements without a legally binding status. The EPC remained totally separated from the EC. It was an instrument of intergovernmental co-operation and decision-making was based on unanimity.

The SEA established a legal basis for the EPC and linked it to the EC, which effectively consisted of two pillars from 1987 onwards, the original EC and the intergovernmental EPC. Nevertheless, “in contrast to the ‘new dynamics’ of the EC, EPC continued with ‘business as usual’, albeit in a new (legal) framework” (Luif: 1996, p.34).

It was the Treaty of Maastricht, which had a more significant impact in the area of foreign policy. The EPC was transformed into the pillar of the CFSP. The treaty introduced the possibility of common positions, which go beyond declaratory statements in that they enjoy a legally binding status for member states, and allows for the adoption of joint actions by the Council (Luif: 1996, pp.57-74).

Moreover, for the first time, defence matters were considered within the EC. “A crucial statement is contained in Article J.4, in which it was agreed that a CFSP ‘shall include all questions related to the security of the Union, including the eventual framing of a common defence policy, which might in time lead to a common defence’”

(Nicoll/Salmon: 1994, p.208). In this respect the Treaty of Maastricht declared the West European Union (WEU)<sup>11</sup> to be an integral part of the development of the EC. It should have the task to elaborate and implement those decisions of the EC, which contain defence implications. In the WEU's response, the so-called Petersberg Declaration of 19 June 1992, the foreign and defence ministers of the WEU members decided to make available military units for military tasks conducted under the authority of the WEU. In addition to collective defence, these tasks include humanitarian and rescue operations, peace-keeping missions and tasks of combat forces in crisis management, including peace-enforcement (Luif: 1996, p.75).

The shift from the EPC to CFSP increased the policy co-ordination of the EC members in the area of foreign and security policy. So far, however, this is not a case of further integration. The CFSP is still a predominantly intergovernmental structure. The Commission and EP play only a small role and the powers of the ECJ do not apply at all. Unanimity is required with the exception of procedural matters and even these exceptions are to be determined by unanimity in the Council (Nicoll/Salmon: 1994, p.211).

Moreover, the exact way the EC is linked to the WEU is not clear and the question of a common defence policy has not been settled. While the WEU was declared to be an integral part of the EC development, the links between the WEU and the North Atlantic Treaty Organisation (NATO) and the role of the WEU nine within NATO were also strengthened. Eventually, it was agreed that these issues were to be reviewed and clarified in 1996 (Nicoll/Salmon: 1994, p.210).

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<sup>11</sup> The WEU was established in 1954 by those Western European countries, which were willing to cooperate in military matters. It was reactivated from October 1984 onwards because of the perceived need for a European view on security and has nine members, i.e. all EC members at the time of the signing of the Treaty of Maastricht except for Ireland, Denmark and Greece.

### 3. Austria and Sweden and the development of the EC: the struggle for association.

#### *3.1. A chronology of events:*

Austria did not participate in the discussions about the ECSC in 1952. As it was still occupied by the war allies, the regaining of national sovereignty had an absolute priority over participation in European integration (Gehler et al: without date, p.62). In 1956/57, now independent, Austria favoured a free trade area in the framework of the Organisation for European Economic Co-operation (OEEC). Integration with supranational institutions was considered to endanger its status of neutrality and, therefore, deemed impossible. When this attempt failed in 1958, it participated in the setting-up of the European Free Trade Area (EFTA), a free trade area of the non-EEC members.

Neutral Sweden was similarly sceptical of the EC's supranationalism and its implications for neutrality and opted instead for the EFTA solution. This seemed to provide the perfect combination of national independence and European-wide trade liberalisation. In any case, Sweden had strong trade links with the UK and with the latter "intent on remaining outside the new Community, the economic benefits of joining were limited" (Phinnemore: 1996, p.34).

The situation changed when Britain applied for membership in the EEC. Together with Switzerland, Austria and Sweden applied for association with the EEC according to Art. 238 of the Treaty of Rome on 15 December 1961. Sweden and Switzerland withdrew after Britain's bid for membership had been vetoed by the French President de Gaulle in 1963, but Austria continued negotiating. The Austrian goal was a de-facto customs union with some aspects of an economic union in areas such as agriculture policy, in so far this was necessary to avoid infringement of

competition (Luif: 1988, p.97). The negotiations carried on with changing fortunes until 1967, when Italy vetoed any further steps due to the problems surrounding the question of South Tyrol and Austria's support for the German-speaking minority. The real reason for the failure of Austria's bid for association must, however, be seen in the negative French attitude. De Gaulle did not want to compromise EC autonomy via joint association institutions with neutral Austria (Schaller: 1994a, p.41).

Additionally, the international environment was not very supportive. The Soviet Union, on the one hand, regarded any kind of arrangement with the EC as incompatible with Austria's status of neutrality. The USA, on the other hand, accused the neutral countries in general of wanting to enjoy the economic benefits without carrying the political duties of full membership, i.e. the abandonment of neutrality and participation in the Western bloc (Luif: 1988, pp.115/116).

After the death of de Gaulle in 1969 and the settlement with Italy on South Tyrol of the same year, new steps became possible. While Britain and Denmark left EFTA in order to become members of the EC, the remaining EFTA members including Austria and Sweden concluded bilateral free trade agreements (FTAs) with the EC, coming into force on 1 January 1973. The FTAs implied the removal of all tariff barriers on manufactured goods until 1977 with the exception of steel (1980) and paper (1984). The food processing industry and agricultural sector were excluded except for some specific products. Overall, the majority of the political and economic elites and populations of both countries were satisfied with this outcome. The FTAs promised economic advantages without the political "drawbacks" of membership.

Until the mid-1980s, there were no discussions on EC-policy in Austria and Sweden (Jerneck: 1993, p.25; Schultz: 1992, p.187).<sup>12</sup>

### *3.2. The main features of Austria's integration policy until 1985:*

In Austria, it was generally accepted that neutrality implied the impossibility of EC membership. It was regarded as a partial loss of sovereignty and, therefore, as casting doubt on the credibility of Austria's commitment to neutrality. Additionally, it was frequently argued that EC membership would signify some kind of "Anschluss" to Germany and this was prohibited by Article 4 of the State Treaty (Luif: 1988, pp.112-114).

Integration was, furthermore, an ideological matter of what the future economic, socio-political model should look like. Within the grand coalition, association with the EC had always been a compromise. The Christian Democratic Österreichische Volkspartei (Austrian People's Party, ÖVP) was generally in favour of integration. It hoped that a closer relationship with the common market would further liberalise the domestic sphere towards a dynamic and pluralist industrial society (Luif: 1988, p.102). Additionally, it was regarded as an opportunity of undermining two Social Democratic strongholds, firstly, the trade unions' monopoly in the control of the labour market and secondly, the position of the Sozialdemokratische Partei Österreich (Austrian Social Democratic Party, SPÖ) in the

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<sup>12</sup> It is often argued that Sweden had made an "open" application to the EC in 1967 not excluding membership (Luif: 1996, p.202; Viklund: 1989, p.16). The exact meaning of this "open" application, however, never became clear and, probably, has to be regarded in the light of the Luxembourg Compromise, which stalled the move towards further integration (Huldt: 1994, p.111). When the Davignon and Werner reports on further co-operation in foreign policy and economic and monetary policy respectively were accepted by the Council in February 1971 and further integration became more likely, Sweden quickly withdrew any doubts about its position and declared these policies incompatible with its status of neutrality and independence (Pedersen: 1994, p.86). Membership was declared impossible by the Social Democratic Prime Minister Olof Palme.

nationalised industry. The majority of Austria's heavy industry had been nationalised after World War Two, mainly in order to protect it against the reparation demands by the occupying allies. For a large part of the SPÖ, however, it was also a precondition for two crucial changes in the economy: the inner restructuring of the companies and the introduction of a planned economy (Schneider: 1990, p.43). The EC was viewed by the EC-sceptic wing of the SPÖ as a project of "big capital" and dominated by Christian Democratic parties. "Rightly, the Socialists argued that the contribution of the state-owned sector in economic stabilization, full employment, and regional development would be menaced if Austria were forced to accept supranational direction from Christian Democratic governments" (Kurzer: 1993, p.207). EFTA, dominated by Social Democratic governments and without the danger of having to cede decision-making power to supranational institutions in the sphere of economic policy, represented the optimal alternative.

To conclude, the discussion about Austria's participation in European integration had started long before the mid-1980s. Nevertheless, full membership was excluded as a possibility; firstly, because of Austria's neutrality and secondly, because of a strong Social Democratic distaste for the domination of "big capital" and conservative parties within the EC.

### *3.3. The main features of Sweden's integration policy until 1985:*

Huldt identifies Sweden's neutrality and sovereignty as the two main arguments against membership, the latter being a precondition for the former (Huldt: 1994, p.111). This view is shared by Phinnemore, who points to neutrality and independence (Phinnemore: 1996, p.34). The focus on foreign policy, however, needs to be

amended with the fear that membership could endanger the so-called Swedish Model and its autonomous welfare and full employment policy, because it reduced national economic policy autonomy and submitted it to Christian Democratic influence. Especially the left wing of the Socialdemokratiska Arbetarepartiet (Social Democratic Party, SAP) and the Communist, since 1990 Vänsterpartiet (Left Party, VP) argued that “Swedish involvement in the political integration of the EC would harm rather than sustain her capacity to pursue a welfare programme based on the principles of equal rights and advanced state-intervention” (Jerneck: 1993, p.26). In the SAP internal debate before the 1994 referendum on membership, this argument was to play an important role on the no-side (see Chapter 4, section 3.3.2).

Lundberg even ascribes primacy to the Swedish Model argument in the debate of all Nordic countries and, thereby, also Sweden:

in the postwar Nordic debate on European integration there seems to have existed a common view, shared by both proponents and opponents of Nordic participation in a closer European economic and political cooperation, that in order for the Nordic model in this sense to survive, a necessary as well as sufficient condition would be that the Nordic countries stayed out of the European Community. Thus, the proponents wanted a membership because they wanted to disband the model, whereas the opponents wanted to stay out because they wanted to keep it alive (Lundberg: 1994, p.717).

Various social forces of capital, represented by the employers’ associations, the conservative Moderata Samlingspartiet (Moderate Party, MS) and the Folkpartiet liberalerna (Liberal Party, FP), had favoured EC membership with an escape clause for Swedish neutrality as early as 1961 (Luif: 1996, p.200). In this situation, neutrality was more a pretext for the rejection of membership by those social forces, which wanted to retain the Swedish Model (Interview No.39; Stockholm, 08/11/1996). Overall, it is difficult to say whether it was the security or the Swedish Model

argument, which was more important in Sweden's rejection of any participation in European integration. "Together, however, they have constituted a strong barrier against any proposal suggesting that a close economic relationship with the EC should be followed by a political one" (Jerneck: 1993, pp.26/27). The majority of Swedish forces, mainly represented by the SAP and trade unions with the support of the Centerpartiet (Centre Party, CP) only considered association with the EC and, when this had failed, FTAs to be compatible with the Swedish Model and neutrality.

#### 4. Integration theories and the 1995 enlargement of the EC:

Neo-functional and intergovernmentalist approaches have dominated the study of European integration. The former assumes that integration starts when governments realise that certain economic problems yield higher welfare gains, if they are dealt with at the supranational level. The success in one area of transnational functional co-operation will initiate the demand for further co-operation in other spheres (Haas: 1958; Lindberg: 1963). On the other hand, the various strands of intergovernmentalism stress the convergence of national preferences as a precondition for European integration and consider governments to be the sole decision-makers on whether this precondition has been met (Hoffmann: 1966). Both neo-functional and intergovernmentalist approaches are dealt with in more detail in Chapter 1, section 1.<sup>13</sup>

A lot of work has been done on the processes which led, first, to Austria's and Sweden's application for membership, then, to the negotiations and, eventually, to the referenda and accession to the EC. In contrast to investigations of qualitative

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<sup>13</sup> Federalism is not regarded as a theory of integration in this thesis, because it has been more a political strategy of how to bring about integration than an analytical approach to the explanation of it (Harrison: 1974, p.47).

integration such as the SEA, however, a lack of theorising EC enlargement can be noticed (Church: 1994).

Some implicit traces of the neo-functionalist and intergovernmentalist integration theories can be found nonetheless. Several studies combine a state-centric discussion of Austria and Sweden in the international sphere, concentrating on the countries' response to "external shocks", with a pluralist discussion of national preference formation, investigating the positions of political parties and/or interest associations (Fioretos: 1997; Gehler et al: without date; Hamilton/Stålvant: 1989; Huldt: 1994; Jerneck: 1993; Kunnert: 1993; Luif: 1988, 1992 and 1996; Miles: 1996; Schneider, H.: 1990 and 1994; Stålvant: 1992; Traxler: 1992; Viklund: 1989). These studies largely maintain the notion of the state as a gate-keeper between the domestic and international sphere and can, therefore, be roughly subsumed under the approach intergovernmentalism combined with a domestic perspective (see Chapter 1, section 1.3). A second group of investigations only adopts a state-centric and, thus, intergovernmentalist view of Austria and Sweden in the international system (Gstöhl: 1996; Koch: 1994; Miles: 1994a), while a third group of authors concentrates on the domestic preference formation and studies the position of political parties and/or interest associations without linking this discussion to a study of the two countries in the international system (Leitner: 1993; Schaller: 1994a; Widfeldt: 1996). Finally, some of these studies also incorporate one or the other neo-functionalist concept in their investigation, pointing to economic pressure towards membership and the active role of interest associations, which direct their attention to Brussels and the central EC institutions (Gstöhl: 1996; Jerneck: 1993; Pedersen: 1994). Overall, however, except

for Pedersen (1994), these studies do not link their findings explicitly to a theoretical framework.

This general lack of theorising does not mean that these investigations are without any use. On the contrary, they often provide rich empirical material, and this thesis draws on them in this respect. At the same time, however, it is here attempted to go beyond them and to provide both additional empirical material and a coherent theoretical analysis.

## 5. Methodological issues:

### *5.1. Comparative research:*

This thesis follows the methodology of comparative research. This methodology, it is argued, enhances understanding of events through the comparative knowledge gained by studying more than one case.<sup>14</sup> Phenomena observed can be strengthened or qualified by investigating their appearance in other occasions.

Comparative research has to deal with three areas of consideration, the formulation of the problem, the strategy adopted and the theory employed. “First ... there has to be a problem or issue, a question to which comparative analysis can, at least in principle, provide an answer ...” (Roberts: 1978, p.288). It was asked above why Austria and Sweden applied to the EC exactly at that time, when the EC had moved further away from their traditional economic policy and further endangered their status of neutrality through the CFSP. Secondly, a strategy has to be formulated (Roberts: 1978, pp.290-297). The units of comparison need to be chosen and the temporal context to be decided, i.e. whether the comparison is across time or across

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<sup>14</sup> The study of one case can also be of a comparative quality provided concepts are used, which could be applied to further cases. “Even though the study is not explicitly comparative, it is comparable” (Rose: 1991, p.454).

space. In this thesis, the units are states, i.e. Austria and Sweden, and the comparison is across space, since both countries decided on application and membership around roughly the same time. Furthermore, it has to be decided whether a “most similar” or a “most different” approach is used.<sup>15</sup> Here a “most similar” approach is adopted. Both Austria and Sweden have been neutral during the post-war period (see Chapter 5), they are characterised by similar economic and political systems (see Chapter 2, section 1), and their relationships with the EC until the mid-1980s resemble each other in that they both sought close economic relations short of political responsibilities. Having decided on a “most similar” approach, this thesis provides the ground for studying the differences and their consequences in the two cases. Finland’s accession to the EC and Norway’s failed attempt are two possible further cases, since they were part of the same enlargement group. Nevertheless, Norway had already applied to the EC in the early 1970s and Finland used to have a special relationship with the former Soviet Union, which gave its neutrality a different quality. Consequently, they are not suitable for a “most similar” approach.

“Theory is both the end and the beginning of the comparison ...” (Roberts: 1978, p.289). At the beginning, theory is responsible for the formulation of the concepts of investigation and comparison. They “provide the categories into which information about particular countries can be sorted” (Rose: 1991, p.448). In other words, it is the application of concepts, which makes a comparison possible in the first place, since individual cases are compared according to the same categories. In this thesis, the concepts of comparison such as “social forces”, “historic bloc”, “organic intellectuals” are defined and introduced at the beginning of the study in

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<sup>15</sup> In a “most similar” approach, similar cases are selected to investigate their few differences, whereas the cases are different to allow the examination of their few similarities in a “most different” approach.

Chapter 1. In a second step, the formulated concepts need to be operationalised. It has to be stated in what way empirical evidence can be collected and related to the concepts. Only then are concepts able to provide the link between empirical material and theoretical analysis. In this thesis, the concepts introduced in Chapter 1 are operationalised in the third section of Chapter 2, before the empirical investigation commences in Chapter 3. At the end of the research, theory is responsible for the analysis of the results. During this process, the findings are not only assessed, but the concepts of the theory themselves might be revised and improved in response to the results. This assessment is made in the Conclusion of the thesis.

There are, however, different understandings of what theory is. The definition of theory adopted for one's research greatly influences the way an analysis is conducted. At one level, theory is considered to be a general framework of reference for the investigation (Roberts: 1978, p.298). It consists of the concepts, which guide the investigation. In traditional comparative research, however, theory is also considered to be a set of "generalizations which is capable of providing systematic explanation of some area of knowledge or body of observations, or which may be used to predict events, or which prescribes conduct" (Roberts/Edwards: 1991, p.143). Following such a definition of theory, analysis then includes the testing of hypotheses with the goal of arriving at general findings related not only to the case studies but also transferable to other events. Such a view of theory and scientific enquiry is based on positivism, which accepts the separation of object and subject and includes the search for observable causal relationships. As it is outlined in Chapter 1, section 2, a positivist enquiry is rejected in this thesis, since it prevents a sophisticated analysis of structural change. Neo-Gramscianism is instead adopted as the theoretical framework

to guide the investigation. As a critical theory, it “does not envisage any general or universally valid laws which can be explained by the development of appropriate general applicable theories” (Cox: 1986, p.243). Its task “is to explain transformations from one structure to another” (Cox: 1986, p.244). Therefore, neo-Gramscianism is applied to the Austrian and Swedish accession to the EC, which have to be analysed against the background of structural change and which are, consequently, part and parcel of this structural change. The problem of this thesis is not the explanation of states’ accession to the EC in general, but only the specific Austrian and Swedish cases. This analysis is not supposed to lead to general findings transferable to other cases. Only the method of how to investigate such cases of accession and the concepts used in the analysis can be transferred. It is in this sense that this thesis pursues comparative research.

Finally, as Devetak maintains, “the knowledge critical ... theory seeks is not neutral; it is politically and ethically charged by an interest in social and political transformation” (Devetak: 1996, p.151). The discussion and construction of an emancipatory project is beyond the scope of this thesis. It is, however, hoped that the configuration of the Austrian and Swedish social forces on EC membership, provided by this study, may help others to identify those forces and ideas, which are able to provide the basis for a project of transformation.

### *5.2. Empirical data: official documents and elite interviews.*

One way of gaining information about the position of ministries, parties, trade unions and employers’ associations is the study of their final official documents. They are an important empirical source in this thesis, as are declarations by leading officials

representing these organisations. Neo-Gramscianism, however, does not treat these organisations as unitary actors, but as institutional frameworks within which and through which social forces act (see Chapter 2, section 3). Since minutes of meetings related to the internal decision-making processes were unavailable and the documents obtained present only the outcome of these processes, elite interviews were conducted to assess the various positions of class fractions and their strategies within organisations. These interviews were also useful in determining how the eventual position of Austria and Sweden as countries, represented in official state documents, had come about.

The “notion of an elite implies a group of individuals, who hold, or have held, a privileged position in society and, as such ... are likely to have had more influence on political outcomes than general members of the public” (Richards: 1996, p.199). Current or former ministers, secretaries of state institutions and general-secretaries and other leading individuals of interest associations are, therefore, the logical targets for interviews. Nevertheless, the definition of elite in this thesis also stretches to lower ranking officials in ministries and organisations. Being, for example, the head of a research department on European integration in one of these institutions, they often have a more detailed knowledge than the leading representatives about the different positions within their organisation and the process, which led to the eventual official position.

The people to be interviewed were identified in accordance with my understanding of the operationalisation of neo-Gramscianism (Chapter 2, section 3). Trade unions and employers’ associations were divided into transnational, internationally- and nationally-oriented industrial sectors, ministries and state

institutions according to their place in the global economy and political parties and interest associations along the social forces they represent. If there were more than one class or fraction of class represented by a political party, then representatives from all different groups within the party were interviewed.

The reliability of data is always a problem in empirical studies (Roberts: 1978, p.295). Interviewees tend to present their personal, subjective view of political processes. In general, empirical material about a particular institution or organisation was always obtained via an interview with a representative of this institution or organisation. It was cross-checked by drawing on the accounts of other interviewees about this institution or organisation. Relatively large interview samples - 36 interviews were conducted in Austria, 35 in Sweden - were collected in this respect. Further verification was obtained by comparing the material to other political science studies, which also generated empirical insights and often conducted interviews themselves (e.g. Schaller: 1994a). Overall, this indicates at least a certain degree of reliability.

All interviews were conducted in a semi-structured way, i.e. instead of a rigid questionnaire, an aide memoir, which could be referred to during the interview, was used. There are two ways of recording the information. An interview can be taped or notes are made throughout the interview and written up immediately afterwards. For this thesis, the second method was adopted. Firstly, because some interviewees rejected the taping. Secondly, even if they accepted, "some interviewees may be less forthcoming in the information they provide, if their comments are being recorded" (Richards: 1996, p.202). As a consequence and because the interviewees have been guaranteed anonymity, direct quotes and interviewees' names are not used in the

presentation of the empirical material. Interviews are, however, referred to in the text through a number, place and date whenever material is used stemming from a particular interview. These are listed including the interviewees' organisation and function in the Bibliography at the end of the thesis.

## 6. Outline of the thesis:

Theoretically, this thesis argues that a critical theory is necessary to analyse Austria's and Sweden's accession to the EC against the background of globalisation. Neo-Gramscianism is developed in this respect. Applied to the Austrian and Swedish case, it is established that alliances of internationally-oriented and transnational social forces of capital and labour respectively, supported by those institutions linked to the global economy such as the Finance Ministries, were behind the drive towards membership in the neo-liberal EC. Importantly, the transnational production structure allowed Swedish capital to press the SAP government indirectly towards membership via the transfer of production units to the EC. Internationally-oriented Austrian capital, on the other hand, did not have this option, because it was based on a predominantly domestic production structure. Hence, it had to devise a political strategy and form an alliance with internationally-oriented labour to bring about, first, application, and then, membership.

While pro-EC groups succeeded in their undertaking, the forces opposed to the EC and neo-liberalism should not be underestimated. Nationally-oriented labour and capital in Austria and labour mainly from the public sector in Sweden together with the Green Parties in both countries and the VP in Sweden may well mount a successful challenge in the future. Neutrality proved to be no big obstacle to membership.

Although not of primary importance, changes in the international security structure, i.e.

Gorbachev's liberal foreign policy and a decline in Soviet power in the case of Austria and the end of the Cold War in the case of Sweden, allowed the pro-EC forces in both countries to redefine neutrality in a way that made it compatible with membership.

In the first part of Chapter 1, the various versions of neo-functionalism and intergovernmentalism will be presented and their internal contradictions discussed. This is complemented by examples from the studies on Austria's and Sweden's accession to the EC indicated above in section 4.2. In a second step, it is argued that the shortcomings of the established theories of integration are partly due to their positivist foundation. In particular, it is pointed out that they are unable to account for structural changes such as globalisation, experienced since the early 1970s. The revival of European integration since the mid-1980s and the 1995 enlargement of the EC, however, have to be analysed against the background of globalisation and a critical theory is required. Neo-Gramscianism is considered to be a critical theory of this type. Its core assumptions are outlined and applied to globalisation in the latter part of Chapter 1.

Chapter 2 turns to analyse the Austrian and Swedish political and economic systems and the impact globalisation had on them in order to provide the background for understanding the accessions. In the third section of Chapter 2, neo-Gramscianism, introduced in Chapter 1, is developed as an alternative analytical approach to the study of European integration and individual concepts are operationalised for the cases of the Austrian and Swedish EC membership.

Chapter 3 points to the social forces in favour or against application and analyses how the process developed, which eventually led to application. After a brief

look at the negotiations, the link between application and referendum, Chapter 4 investigates the struggles around the referenda in Austria and Sweden.

During the debates on membership, the world experienced drastic changes. In 1989, the Berlin Wall fell, Germany was united one year later and the Warsaw Pact was dissolved. Chapter 5 analyses the impact of these changes on the Austrian and Swedish accession to the EC, including the question of neutrality and its compatibility with membership.

The Conclusion sums up the results of the thesis and provides an overview of the arguments put forward. It assesses the conceptual and methodological development of the thesis, qualifies and improves the concepts used and evaluates the neo-Gramscian alternative as such.

## **Chapter 1: Theories of Integration, EC Enlargement and Globalisation: a critique and alternative.**

Neo-functional and intergovernmentalist approaches have dominated the study of European integration. They are closely linked to IR theories and section 1 takes this into account, when providing an overview of the theories of integration. By giving examples of the investigations of Austria's and Sweden's accession to the EC, identified in the Introduction, the limits of the established theories of integration are demonstrated. In section 2, it is argued that these limits are partly due to their positivist foundation. Because they take existing structures of social and power relations for granted, they are unable to account for structural change. However, globalisation, a structural change outlined in the second part of section 2, has been experienced since the early 1970s. Therefore, a neo-Gramscian alternative, which can explain structural change, is offered in section 3. The independent role of ideas is an important feature of neo-Gramscianism. The method of conceptualising this role is discussed in section 4. Finally, section 5 applies neo-Gramscianism to globalisation, as defined in section 2. Overall, this Chapter provides the theoretical background and empirical context for the analysis of Austria's and Sweden's accession to the EC.

### **1. Theories of integration:**

#### *1.1. Neo-functionalism: the automaticity of the integration process.*

Neo-functionalism is the sister theory of the IR theory of functionalism. David Mitrany, the main proponent of functionalism, was interested in how to create a "working peace system" in order to avoid war. Violent conflicts occur, because "the

international system of nation-states had blinded men to their real welfare needs” (Harrison: 1974, p.29). Thus, the attention of human beings must be shifted to transnational welfare problems and the general benefits of solutions to these problems. A harmony of interests can be formed, since welfare interests are the ultimate determinant of human beings’ behaviour. The functional prescription for action is to spread a web of international activities and agencies, concerned with non-conflictual issues of human welfare needs, over the state-system. The success in one area of transnational functional co-operation will initiate the demand for further co-operation in other spheres (Mitrany: 1966, pp.54-81).<sup>1</sup>

Mitrany considered regional international integration to be detrimental to the creation of a peace system. “There is little promise of peace in the mere change from the rivalry of Powers and alliances to the rivalry of whole continents ...” (Mitrany: 1966, p.45). Nevertheless, several of his functional assumptions were incorporated into neo-functionalism and its study of European integration.

Neo-functionalism was developed by Haas and Lindberg in the 1950s and early 1960s alongside the early development of the EC. A group theory of interest politics is one of its major assumptions. Haas rejects the notion of a natural harmony of interests between different groups. Unlike functionalism, he realises that different economic groups led by their elites have different interests and compete with each other for influence on the government. Agreements are possible, as all groups accept that conflicts need to be settled by peaceful means within the given legal framework (Haas: 1964, p.34).

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<sup>1</sup> Mitrany’s essay “A Working Peace System”, here 1966, was first published in 1943. For the functional method of international co-operation, see also Mitrany: 1975.

Similar to functionalism, neo-functionalism assumes the primacy of welfare-issues as the motivating force for integrative behaviour. “Every policy at least aims at the satisfaction of someone’s welfare, and many policies have consequences consistent with welfare aims even if inspired by other considerations” (Haas: 1964, p.47). Integration starts when governments realise that certain economic problems yield higher welfare gains, if they are dealt with on a supranational level. Haas defines integration as follows:

Political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones (Haas: 1958, p.16).

Lindberg is more cautious about the outcome of integration, stating that “a significant amount of political integration can be achieved without moving toward a ‘political community’ as defined by Haas” (Lindberg: 1963, p.5). Nevertheless, he agrees on the other points of the definition. He also considers integration to be a process, involving some degree of institution-building in a new centre and “they both emphasised the changes in expectations and activities on the part of political actors” (Tranholm-Mikkelsen: 1991, p.4).

The notion of spill-over is crucial for the neo-functionalist explanation of the process of integration:

In its most general formulation, “spill-over” refers to a situation in which a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more action, and so forth (Lindberg: 1963, p.10).

According to Tranholm-Mikkelsen, this spill-over effect takes place in three spheres (Tranholm-Mikkelsen: 1991, pp.4-6). Firstly, functional spill-over occurs in the economic sphere. Because of the interdependence between industrial sectors, the integration of one sector makes the integration of another necessary to reap the full welfare benefits of the first integration. This causes political spill-over. Interest groups of an integrated sector need to shift their focus to the new decision-making centre in order to influence the policy-making important to them. “As the main barrier would be that integration in one sector could not be effective without the integration of other sectors, they would become advocates of further integration” (George: 1996, p.39). Finally, cultivated spill-over refers to the important position of central institutions. As an autonomous and institutionalised mediator, especially the Commission may be able to upgrade the common interest attaining results above the minimum common denominator and reinforce political spill-over by encouraging national bureaucrats to shift their loyalty to the new power centre. Overall, the “main thesis was that sectoral integration was inherently expansive ...” (Tranholm-Mikkelsen: 1991, p.6), leading to an automatic process of integration once started (Haas: 1958, p.297; Lindberg: 1963, p.294).

The early development of the EC seemed to vindicate neo-functionalism. The establishment of the EEC and Euratom in 1957 were seen as a functional spill-over from the ECSC of 1952 and the acceleration of the timetable for setting up the common market in the early 1960s was attributed to pressure from employers’ associations, representing a case of political spill-over. The French President de Gaulle, however, put an end to the neo-functional view of integration with his “empty chair” policy in 1965/66 (see Introduction, section 2).

In 1975, Haas denounced his own brainchild against this background. He argued that the concern should be directed towards the world level in times of “turbulence” and increasing world-wide interdependence. “Integration theories are becoming obsolete because they are not designed to address the most pressing and important problems on the global agenda of policy and research” (Haas: 1975, p.17). It became apparent that neo-functionalism concentrates too much on the inner dynamics of integration, while the impact of changes in the structure at the world level, within which regional integration takes place, cannot be accounted for.

Only with the revival of European integration in the mid-1980s, has neo-functionalism regained the attention of scholars. Burley and Mattli analyse the role of the ECJ and argue that “the legal integration of the community corresponds remarkably closely to the original neofunctionalist model developed by Ernst Haas in the late 1950s” (Burley/Mattli: 1993, p.43). Mutimer and Tranholm-Mikkelsen point out that the SEA created functional spill-over towards EMU following the free movement of capital, towards a common immigration policy resulting from the removal of border controls, towards a strengthened common regional policy due to the harmonisation of technical regulations, and towards a common social policy as a result of the free movement of labour (Mutimer: 1989, pp.85-92; Tranholm-Mikkelsen: 1991, pp.12/13). Nevertheless, the claims are more modest than in the original formulations by Haas and Lindberg. Acknowledging that nationalism and the socio-economic diversity of EC members may restrict further integration, Tranholm-Mikkelsen concludes that “we cannot return to the automaticity of spill-over” (Tranholm-Mikkelsen: 1991, p.18). The notion of spill-over is still seen as a useful

tool of analysis, although only as a part of an eclectic and less ambitious theoretical framework (George: 1996, pp.275-283).<sup>2</sup>

Some studies of Austria's and Sweden's accession to the EC incorporate one or the other aspect of neo-functionalism in an eclectic way. Jerneck, for example, touches upon the notion of political spill-over as a force towards further integration by highlighting the increasing involvement of Swedish transnational actors in Brussels. They "have gradually involved themselves in a multitude of cross-cutting links and transnational interest coalitions" (Jerneck: 1993, p.42). There are also examples, where the important role of central institutions such as the Commission is outlined. Gstöhl, for example, highlights the Commission's and here especially Delors' role in starting the European Economic Area (EEA)<sup>3</sup> process in January 1989 (Gstöhl: 1996, p.55). Pedersen utilises all three versions of spill-over in his explanation of the move from the EEA to membership. The attempt to establish an Internal Market comprising all EC and EFTA members created functional spill-over, which led to an expansion of the negotiation agenda. This pressure was intensified by political spill-over of EFTA interest groups, which shifted their loyalty to the EC. Eventually, not to loose involvement in decision-making in too many areas, EFTA governments opted for membership, which gave them co-decision making power. An explanation along the

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<sup>2</sup> Cocks (1980) provides a functionalist Marxist account of European integration. In order to secure surplus value, expansion is the ultimate necessity of capitalism. This, however, needs to be legitimised politically. Cocks adopts a broad historical perspective and argues that integration has taken place in Europe since the 16th century in the form of the spread of state functions in order to cope with this double-problem of capital expansion and its legitimation. The EC is only the most recent stage in this process of integration. Although intellectually interesting, this approach incorporates the same problems as neo-functionalism. It also includes a notion of automaticity in the process towards further integration and merely concentrates on internal aspects of European capitalism, leaving the wider structure aside.

<sup>3</sup> In a speech to the EP in January 1989, Delors spoke about the possibilities of a closer relationship between the EC and EFTA, which allowed the latter to participate in the four freedoms of the Internal Market without becoming members of the EC. This led to the EEA, signed in May 1992 and coming into force on 1 January 1994 (see Chapter 4, section 1.1).

line of cultivated spill-over focuses on directed change and political leadership. “One may thus interpret the apparent failure of the EEA as a success in disguise, as part of an incrementalist strategy aimed at integrating EFTA in the EC” (Pedersen: 1994, p.16).

Overall, these studies employ neo-functional concepts only as partial explanations. A neo-functional explanation of the entire process leading towards membership is neither attempted nor deemed to be possible. Especially for the explanation of the impact of structural changes at the world level such as the end of the Cold War, neo-realist explanations, sometimes combined with an analysis of domestic politics, are sought (e.g. Pedersen: 1994, p.17).

### *1.2. State-centric approaches I: intergovernmentalism.*

In contrast to neo-functionalism, which emphasises the importance of non-governmental interest groups in the process of European integration, intergovernmentalism, the sister theory of neo-realism in IR, considers states to be the key international actors. Neo-realist scholars like Waltz realise that there have always been other actors (e.g. international regimes), “but the structures are defined not by all of the actors that flourish within them but by the major ones” (Waltz: 1979, p.93). At the structural level, international anarchy, i.e. the absence of world government, is the principal force shaping the motives and actions of states. The second structural property is the distribution of capabilities, i.e. military and economic power resources, which arranges states in the international system according to their particular level of capability. At the unit level, states differ widely from each other with regard to attributes such as cultural background or ideology. These differences, however, can be

disregarded because “the functions of states are similar, and distinctions among them arise principally from their varied capabilities” (Waltz: 1979, p.97). Faced with the anarchic system, states as unitary actors carefully calculate the costs of alternative courses with the goal of power maximisation and security enhancement. Considering that the anarchy at the structural level is a permanent condition and that states are functionally similar, neo-realists explain events by referring to the distribution of capabilities. Changes in this distribution, it is argued, lead to changes in states’ actions. “Finally, international institutions affect the prospects for cooperation only marginally” (Grieco: 1988, p.488). If they are established, it is because states consider them to further their particular interests and they exactly reflect the existing international power structure. Once this structure changes, they change as well.

With reference to European integration, Hoffmann argues from a neorealist point of view and accuses neo-functionalism of not realising the difference between “low politics” such as welfare and “high politics” such as security or defence. The neo-functional logic of integration is limited to “low politics”, where the national interest is not involved. In the area of “high politics”, however, which is of “key importance to the national interest, nations prefer the certainty, or the self-controlled uncertainty, of national self-reliance, to the uncontrolled uncertainty of the untested blender ...” (Hoffmann: 1966, p.882). “High politics” is considered to be ruled by the logic of diversity: as the definition of the national interest depends mainly on the national situation, i.e. the position in the structure according to the distribution of power resources, which varies from country to country, integration will be impossible in this area.<sup>4</sup> On the other hand, we can conclude that a convergence of national

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<sup>4</sup> To do Hoffmann justice, he cannot be considered to be a neo-realist in this respect, since, in his eyes, a country’s national situation “is made up altogether of its internal features ... and of its position in the

preferences is the precondition for European integration. Europe “has to wait until the separate states decide that their peoples are close enough to justify the setting up of a European state ...” (Hoffmann: 1966, p.910). Thus, states are seen as “gate-keepers” between their people and Europe. They carefully guard their sovereignty, which is ensured by the principle of unanimity voting in the Council.

According to intergovernmentalism, European integration after World War II was possible due to a shift from a multipolar to a bipolar structure. The fear that co-operation could lead to greater advantages to others disappeared, since there was no “high politics” rivalry between Western European countries in the shadow of the superpower conflict. As “consumers of security”, national interests converged around the benefits of economic co-operation (Waltz: 1979, p.70). Intergovernmentalism also seems to explain well the problems of the mid-1960s and the developments of the 1970s, when two new intergovernmental bodies were established, i.e. the European Council and the EPC (see Introduction, section 2). In the mid-1980s, changes in the international distribution of economic capabilities - Japan and the USA had coped better with the economic recessions of the 1970s than the EC members - led to a common European response. “Competitiveness on the global market remained the main issue, but now it appeared that regional integration was, after all, the prerequisite” (Hoffmann: 1989, p.30). The basis for the revival of integration leading to the Internal Market and SEA was a convergence around the neo-liberal, deregulatory economic programme of the 1980s (Hoffmann/Keohane: 1991, pp.23/24).<sup>5</sup>

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world” (Hoffmann: 1966, p.868), instead of only the latter. Apart from this, however, he agrees on the neo-realist assumptions mentioned above.

<sup>5</sup> For an intergovernmentalist explanation of the SEA, see Moravcsik: 1991.

There are some explanations of Austria's and Sweden's accession to the EC along this intergovernmentalist line. Koch, for example, argues that Austria responded to the pressure of economic necessity. Its close economic links with the EC and its bad economic performance in comparison to other Western European countries from the early 1980s onwards left no other option than membership (Koch: 1994). Similarly, Miles points to economic imperatives, which drove Sweden towards membership. The end of the Cold War and the concomitant changes in the international structure facilitated this move in that it "removed the shackles of keeping a rigid neutrality policy" (Miles: 1994a, p.83). In short, both countries joined the EC in response to changes in the distribution of economic and military resources between states.

In contrast to neo-functionalism, intergovernmentalism takes the international setting of integration into account. Nevertheless, it cannot explain the particular choices made by states in response to changes in the distribution of capabilities. As it is demonstrated in Chapters 3 and 4, there was significant opposition to membership in both Austria and Sweden. A closer economic relationship short of full membership was debated as an alternative and eventual accession was not the result of structural necessity, but the outcome of an open-ended struggle. Moreover, while it is correct that neo-liberal economics was the basis of the revival of integration in the mid-1980s - Austria and Sweden also converged around it (see Chapter 2, section 2) - intergovernmentalism does not explain how this change in the economic paradigm from Keynesianism to neo-liberalism came about and why it was neo-liberalism and not, for example, a Keynesian demand-led economic policy at the European level, which was adopted. Sandholtz and Zysman infer that "the global setting can be

understood in neorealist terms, but the political processes triggered by changes in the system must be analyzed in other than structural terms” (Sandholtz/Zysman: 1989, p.127).

### *1.3. State-centric approaches II: intergovernmentalism-cum-domestic politics.*

As Bulmer makes clear, “a particular problem of intergovernmentalism is the tendency to view national governments as omnipotent, monolithic structures ...”

(Bulmer: 1983, p.356). Changes in the foreign policies of states, however, are not only due to changes in the power distribution within the international system, but also to

changes at the unit level, i.e. changes within the domestic realm of states. Milner identifies three points as to why domestic politics is important for understanding

international co-operation and, by extension, European integration. Firstly, “domestic politics tells us how preferences are aggregated and national interests constructed”

(Milner: 1992, p.493), because every state is characterised by a different set of

internal social and economic conditions, which shape its national interest. Secondly, it explains the strategies adopted by a particular state and finally, it shows when national

ratification of international agreements is possible. It is especially the first point which is of importance here, because, if the convergence of national interests is the

precondition for international co-operation and European integration, as

intergovernmentalists point out, it is necessary to analyse the construction of these

various national interests. Putnam combines the domestic perspective with

intergovernmentalism by suggesting that “the politics of many international

negotiations can usefully be conceived as a two-level game” (Putnam: 1988, p.434).

Level I refers to agreements between states at the international level, whereas Level II

looks at the ratification process at the domestic level. Putnam's hypothesis is that a government only concludes an international agreement, for which it expects to be able to construct a majority coalition between societal groups at the domestic level.

To sum up, "domestic politics" usefully amends intergovernmentalism by highlighting how national preferences are formed, but it maintains the view of states as "gate-keepers". National governments are still assumed to "hold a key position at the junction of national politics and Community politics" (Bulmer: 1983, p.354). Interest groups do play an important role, but, in contrast to neo-functionalism, only at the domestic, not the EC level.

As noted above, the convergence of national interests around a neo-liberal, deregulatory programme with the focus on low inflation was a precondition for the revival of European integration. Cameron points to the changes in the partisan composition of national governments in the early 1980s to explain the shift from Keynesianism to neo-liberalism. Most notably, Mrs. Thatcher took office in Britain in 1979, but changes also took place in Belgium, the Netherlands, Denmark and Germany and they "shared one feature in common: they all represented a shift toward a more conservative position" (Cameron: 1992, p.57). Transferred to the cases of Austria and Sweden, however, this explanation based on domestic politics shows deficiencies. In Sweden, the turn to neo-liberalism occurred under a Social Democratic government, while in Austria it was not only the inclusion of the conservative ÖVP into a coalition government in 1987, but also the internal change of the SPÖ, the stronger party in the government, which led to the adoption of neo-liberal policies (see Chapter 2, section 2). The European left changed during the 1980s and this cannot be explained by pointing to structural and domestic events alone.

Instead, the impact of neo-liberalism as a set of economic ideas has to be investigated to explain the general turn to neo-liberalism by parties of the right and the left.<sup>6</sup>

This approach is further limited, because lobbying by interest groups can only be considered to take place within a country's domestic realm. Thereby, the significance of transnational actors, as for example transnational corporations (TNCs), is neglected. Their level of action is European if not world-wide, maintaining production sites in several countries at the same time. This allows them, firstly, to develop initiatives with the Commission and to lobby several governments at the same time. Secondly, they can put pressure on national governments by either threatening to transfer production units to other countries or by actually carrying out this threat, if certain conditions are not met. State-centric approaches can only account for TNCs by regarding them as several, unconnected actors in their individual domestic sphere, not as transnational actors transgressing the line of separation between international and domestic politics.<sup>7</sup>

TNCs were especially crucial in Sweden's accession to the EC. They transferred production units to the EC prior to the SAP's decision to apply for membership (see Chapter 3, section 2.1.2) and they threatened further cutbacks of their activities in Sweden during the referendum campaign, should the Swedish population decide against membership (see Chapter 4, section 3.5). Fioretos (1997), in an intergovernmentalist variation, acknowledges the crucial role of Swedish TNCs in bringing about Swedish membership. His intergovernmentalist framework, however,

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<sup>6</sup> In contrast to Cameron, Ludlam demonstrates that the turn to neo-liberalism in the UK occurred during the last pre-Thatcher Labour government between 1974 and 1979 due to a policy change within the Labour government before the 1976 IMF crisis (Ludlam: 1992). This further supports the point that the shift to neo-liberal policies was predominantly the result of a general change in economic ideas.

<sup>7</sup> Putnam, for example, considers international banks and TNCs to be Level II actors, i.e. actors in the domestic sphere of a state (Putnam: 1988, p.455).

does not allow him to conceptualise adequately the role of TNCs. Instead of focusing on their transnational role, exemplified in their production units in several countries, Fioretos describes them as domestic actors with an international orientation.

Considering that some TNCs even transferred their headquarters to the EC and, thereby, gave up their distinctive Swedish identity (see Chapter 2, section 2.2.1), this inadequacy becomes apparent.

A final criticism of the intergovernmentalism-cum-domestic politics approach is its inability to account for the partial transfer and pooling of national sovereignty as a part of the SEA and EMU (see Introduction, section 2.1). According to intergovernmentalism, the state as a gate keeper should not give up parts of its sovereignty to supranational institutions. In the next section, it is investigated whether regime theory, a further state-centric approach, can rectify these problems.

#### *1.4. State-centric approaches III: regime theory.*

In the 1970s, interdependence theorists such as Cooper questioned the notion of states as “gate-keeper” between the domestic and international sphere, because “growing economic interdependence ... negates the sharp distinction between internal and external policies ... (Cooper: 1972, p.179). Keohane and Nye developed the concept of interdependence further. In order to highlight the differences from neo-realism, they defined an opposite ideal type, i.e. the situation of “complex interdependence”: (1) societies are connected via multiple channels, i.e. interstate, transgovernmental and transnational relations, (2) a clear distinction between “high” and “low politics” is missing, and (3) military force only plays a minor role (Keohane/Nye: 1977, pp.24-29). Consequently, the line between domestic and foreign policy becomes blurred and

it becomes more difficult, if not impossible, for states to formulate a coherent foreign policy. Interdependence as an approach switched the focus from regional international integration to global issues with integration theory, at best, being “both included in and subordinated to the study of changing patterns of interdependence” (Haas: 1975, p.86).

Nevertheless, the focus on intergovernmental and transgovernmental actors, as formulated in the ideal type of “complex interdependence”, has never been further developed by interdependence scholars. “Complex interdependence remained a relatively underdeveloped and undervalued concept” (Keohane/Nye: 1987, p.733). Instead, academics, among others Keohane himself, concentrated on the role of regimes in international co-operation, and this eventually fed into the study of European integration.

In general, it is agreed that “international regimes are defined as principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area” (Krasner: 1982, p.185). Authors of this strand still consider realism and its assumptions as “a good starting-point for explaining the outcomes of conflicts ...”(Keohane: 1986, p.189).<sup>8</sup> It has, however, to be amended by an examination of international regimes and their impact on international relations giving this approach the label regime theory (Keohane: 1984).<sup>9</sup> Regimes facilitate the making of substantive agreements in three ways and, consequently, increase the efficiency of international co-operation. Firstly, regimes lower the transaction costs of making agreements in comparison with ad hoc agreements. Secondly, they “perform

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<sup>8</sup> For a detailed discussion about the modification of the structural approach, see Keohane: 1986, pp.190-197.

<sup>9</sup> This approach can also be named “neoliberal institutionalism” as, for example, in Keohane: 1989.

the function of reducing uncertainty and risk by linking discrete issues to one another and by improving the quantity and quality of information available to participants” (Keohane: 1989, p.117). Thereby, the monitoring of compliance to agreements is improved. Finally, although to a lesser extent, they provide frameworks for establishing legal liability. Because of these benefits, states as rational-unitary, utility-maximising decision-makers will foster regimes in situations of complex interdependence, even if the underlying power structure changes. In summary, regime theory represents a modified structural approach, a functional theory of international co-operation.

With reference to European integration, Hoffmann retreating from his pure intergovernmental position argued in 1982 that “the best way of analysing ... is to look at the ... [EC] ... as an international regime ...” (Hoffmann: 1982, p.33). However, “the EC differs from nearly all other international regimes in at least two salient ways: by *pooling* national sovereignty through qualified majority voting rules and by *delegating* sovereign powers to semi-autonomous central institutions” (Moravcsik: 1993, p.509). As a result, Moravcsik developed the so far most sophisticated state-centric approach, labelled “liberal intergovernmentalism” (LI). This is a combination of intergovernmentalism, domestic politics and an extended version of regime theory. As all three share the same basic assumptions, i.e. states are considered to be the most important international actors, behaving in a rational, utility-maximising way and are gate-keepers between their domestic and the international sphere, this combination is theoretically acceptable.

In more detail, Moravcsik, firstly, connects a liberal theory of national preference formation, i.e. “domestic politics”, with an intergovernmentalist analysis of

inter-state negotiations in a two-level game. Then, he addresses the question of why the supranational EC institutions were strengthened. In general, member states as rational, utility-maximising decision-makers use them, because they increase the efficiency of interstate co-operation by lowering the transaction costs and improving the quantity and quality of interstate bargaining. Nevertheless, this does not explain the pooling and delegation of sovereignty. By extending regime theory, Moravcsik argues that in situations of low political risk of uncontrolled issue-linkage governments are willing to delegate power in order to attain a higher decision-making efficiency. The predominant position of states is maintained through the control of the power-delegating process, for example by nesting “specific decisions inside a set of larger decisions already reached by unanimity, thereby both diversifying and limiting political risk” (Moravcsik: 1993, p.511). Overall, this explains why the Commission has the right to choose the procedure for particular directives. This is more efficient than if the Council has every time to decide first whether QMV applies, before it deals with the matter itself. The same is correct with regard to the ECJ.<sup>10</sup> As Garret declares, “one must view the delegation of authority to the European court in terms of the monitoring and incomplete contracting problems confronting EC members” (Garrett: 1992, p.557). Being the arbiter in internal market issues, the Court increases the efficiency of policy-making by identifying transgressions of rules and by solving disputes, which were not foreseeable at the time the SEA was signed.

There is a further line of argument exploring why member governments are willing to pool and delegate sovereignty. They accept the restriction of their external

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<sup>10</sup> Moravcsik himself rejects this and considers the expansion of the judicial power as an unexplainable exception (Moravcsik: 1993, p.513). Nonetheless, Garrett (1992), on whom I base the following reasoning, shows how Moravcsik’s argument can be extended to the ECJ.

sovereignty, because “EC institutions strengthen the autonomy of national political leaders vis-à-vis particularistic social groups within their domestic polity” (Moravcsik: 1993, p.507). By engaging themselves in EC policy-making, national governments increase their relative bargaining power in their four domestic political resources, i.e. initiative, institutions, information and ideas. They “cut slack” and loosen domestic constraints on policy-making. In short, “EC policies tend, on balance, to reinforce the domestic power of national executives” (Moravcsik: 1994, p.52), and European integration, therefore, strengthens rather than diffuses state power.<sup>11</sup>

Nonetheless, even LI shows severe deficiencies. Firstly, the combined approach cannot explain why the EC members agreed on the strengthening of the EP. Instead of yielding higher efficiency, the co-operation, assent and co-decision procedures (see Introduction, section 2.1) are more likely to complicate and slow down EC policy-making. Furthermore, LI provides no insight into how the independent role of ideas is to be investigated or how transnational actors can be accounted for. TNCs’ behaviour such as the investment boom of the 1980s in the EC are interpreted as rational adaptations to credible intergovernmental commitments, while policy ideas are merely viewed as the result of intergovernmental demands, but not as an independent force (Moravcsik: 1995, p.618).<sup>12</sup> In short, this predominant emphasis on states as main actors in international relations prevents all types of

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<sup>11</sup> Within intergovernmentalism, Fioretos (1997) contests this point. Rather than being a way for governments to regain autonomy, integration is the result of governmental loss of autonomy vis-à-vis domestic business groups, which have gained power due to external economic changes such as the liberalisation of financial markets and demand further integration.

<sup>12</sup> Elsewhere, Moravcsik accounts for ideas as “legitimate ideological justifications for specific policies” (Moravcsik: 1994, pp.5/6). While this captures an important “cognitive” dimension of ideas, it is still unable to understand their structural quality in the form of intersubjective meanings (see section 4.1 in this Chapter).

intergovernmentalism from dealing with ideas and transnational actors as independent forces behind integration.

Finally, the exclusive state-centric focus makes all varieties of intergovernmentalism concentrate on negotiations as the crucial event of further integration. Wincott, however, points out that instances of integration such as the SEA are not so much the result of intergovernmental negotiations, but emerge from the “everyday grind of the Community” (Wincott: 1995). In other words, the process leading to negotiations and setting the agenda is more important than the negotiations themselves. It is argued in Chapters 2, section 3 and Chapters 3 and 4 that although not without importance, the Austrian and Swedish accession negotiations are only a link between the original decision to apply and the final decision in the referendum to accept the terms of membership. Instead of concentrating on the negotiations, this thesis, consequently, studies in-depth the processes leading to application and the struggle over the referenda.

To sum up section 1, no mainstream theory of integration is able to fully explain Austria’s and Sweden’s accession to the EC in a satisfactory way. Several scholars suggest combining intergovernmentalism with neo-functionalism as a remedy, because “taken together rather than as alternative approaches - ... [they] ... are useful for, and indeed necessary to, an understanding of the 1992 initiative” (Cameron: 1992, p.30).<sup>13</sup> The same combination is suggested in respect of EC enlargement and, thus, Austria’s and Sweden’s accession to the EC by Pedersen (1994), Miles (1995b), Miles/Redmond/Schwok (1995) and Schwok (1996). Nevertheless, this is misleading. As Puchala had already observed in 1972, “attempts

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<sup>13</sup> See also Webb: 1983, pp.37-39 and Cornett/Caporaso: 1992, p.244.

to juxtapose or combine the conventional frameworks for analytical purposes by and large yield no more than artificial, untidy results” (Puchala: 1972, pp.276/277). Neo-functional approaches cannot be combined with state-centric approaches, as their basic assumptions diametrically oppose each other. While the former speak about the supersession of states, the latter consider sovereignty to be unchangeable. Hence, we have to look for a completely different, alternative approach. In order to do this, the theoretical foundations of the theories of integration, introduced in this section, have to be analysed more closely. This helps to understand the implications of certain assumptions and, hopefully, to avoid the same pitfalls.

## 2. Positivism and the explanation of structural change:

### *2.1. A critique of integration theories:*

In this section, it is argued that the theories of integration, reviewed in section 1, show severe deficiencies due to their positivist theoretical basis.

Briefly, “in its most general meaning, positivism refers to the so-called ‘received model’ of natural science” (Ashley: 1986, p.280). This involves a separation of subject and object and the search for observable causal relationships. In more detail, Neufeld identifies three tenets of the positivist logic of investigation. Firstly, the tenet “truth as correspondence” is underlain by the assumption of the separation of subject and object. “This assumption postulates the existence of a ‘real world’ - ‘the object’ - which is separate and distinct from the theoretical constructions of the social scientist - the subject” (Neufeld: 1995, p.33). As a consequence, the truth of concepts and claims is deemed to be testable according to the objective, empirically observable reality. This also implies that knowledge is produced by sensory observation alone.

The second tenet postulates the “methodological unity of science” and is underlain by the naturalist assumption that the social world contains the same kind of regularities as the natural world despite the existence of human subjectivity. Ashley points out that these assumptions cause severe problems. Firstly, how can science itself, conducted by subjective human beings, yield objective results? Here, positivists distinguish between the research of the individual scholar and the process of the scientific discourse, in which the validity of concepts and knowledge are tested according to principles such as falsification and the scientific method. The former may be influenced by the scholar’s subjectivity, but the latter guarantees scientific objectivity provided that “all questions that cannot be formulated and solved within the allegedly objective logic of technical rationality” (Ashley: 1986, p.285) are excluded. In accordance with the first two tenets, integration theorists consider themselves to be detached from the integration process, where they try to identify causal relationships and behavioural regularities similar to natural scientists in their areas of enquiry.

Secondly, how can social action guided by human subjectivity be objective? Positivists solve this problem by assuming that “all explanations of social action must ultimately come to rest with the interpretation of some frozen set of actors, their values, and their ends” (Ashley: 1986, p.284). In other words, whatever the individual properties of actors are and however subjective their behaviour is, investigating them from the outside shows that they all act according to the same principles and they all attempt to achieve the same goals. For state-centric approaches, the frozen set of actors are states. Despite their different unit attributes, they all act according to the

principle of rationality and try to maximise their utility in the sense of power maximisation and security enhancement in order to ensure their survival.

The difference between intergovernmentalism and “two-level game” approaches is that there is an additional domestic game in the case of the latter. Thus, states are not only constrained by the international structure but also by the structure of the domestic interest group formation. These interest groups are also conceived as rational-unitary, utility-maximising actors which compete with each other for influence on government policy. They are the frozen set of actors in the domestic realm. In this situation, governments pursue a policy “that perfectly balances the many preferences of their constituents so that their chances of election are maximized” (Milner: 1994, p.10). At the international level, they “seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments” (Putnam: 1988, p.434). In short, as “gate-keepers” between the domestic and international realm, they still calculate the costs of alternative courses of action and try to maximise their expected utility.

The structural aspect of state-centric approaches is closely related to their positivist basis. Despite the ontological primacy of states, once the international system is formed via the positioning of states, it “becomes a force in itself, and a force that the constitutive units acting singly or in small numbers cannot control” (Waltz: 1979, p.90). That is, Waltz considers the structure of the international system to be beyond the influence of the state-as-actor and, therefore, to be objective and unchangeable. As a result, the system consisting of states is deemed to be a transhistorical fact, while the only possible changes within this structure are changes

in the distribution of capabilities.<sup>14</sup> These changes, then, cause changes in the individual actor's behaviour. Since they occur independently of the actor's influence, they constitute objective causal relationships, which can be analysed by scientists and used to explain or predict the foreign policy of states. Nevertheless, by virtue of the fact that the current international structure based on sovereign nation-states is taken as given and the rationale of state behaviour is understood as fixed, state approaches are static and ahistoric. They cannot account for changes in the world order beyond the state-centric system.<sup>15</sup>

Regime theory additionally considers international regimes, but only in the sense that rational-unitary states will use them in order to increase the efficiency of decision-making and, thereby, the expected utility. International structures including regimes differ from structures without them, but they are still objective structures constraining and influencing the individual state's action.

By arguing that structure determines actors' behaviour, state-centric approaches further deny the historical significance of practice. Individuals "appear as mere supports for the social process that produces their will and the logics by which

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<sup>14</sup> Due to changes in the distribution of capabilities between states, a limited range of variations within the system is deemed to be possible (Waltz: 1979, pp.97/98). Firstly, the international system is either characterised by bipolarity, i.e. two superpowers enjoy considerably more capabilities than the other states and balance each other (e.g. the USA and Soviet Union during the Cold War), or multipolarity, i.e. several big powers balance each other (e.g. Europe between the two World Wars). A third variation is the hegemony of one state with predominant power resources (e.g. Britain in the 19th century). Gilpin, for example, explains world history as the rise and fall of hegemonic powers, as a continuing cycle of stable order and war (Gilpin: 1981).

<sup>15</sup> Buzan, Jones and Little (1993) attempt to explain structural change beyond the state-system by extending neo-realism. Firstly, they introduce functional differentiation of units in order to account for the change from Medieval competing authority relations of functional differentiation to the "classic" neo-realist stance of functionally undifferentiated states in the international system. Secondly, they establish "interaction capacity" as a third level of analysis between the unit and the structural levels. This makes it possible to distinguish between systems with a political structure, which influence the units within the system, and systems without a political structure, i.e. extremely low levels of interaction capacity, which do not. Nevertheless, even this version of neo-realism poses problems, since it is still state-centric and because, once a globally, politically structured international system has emerged, a further transformation beyond the state-system cannot be accounted for.

they serve it” (Ashley: 1986, p.290) They are not deemed to be able to shape their environment. Thus, politics is denied as a creative enterprise of human beings to determine their own conditions of life. Since they are a frozen set of actors, they can only react to the impact of the objective structure, which itself is, however, beyond their influence.

The third positivist tenet is “the value-free nature of scientific knowledge” with the underlying assumption of the separation of fact and value (Neufeld: 1995, pp.35-38). By assuming an objective reality, positivists separate beliefs and ideologies, considered to be value-laden, from objective facts. “Hence, for positivism ... [and, by extension, the integration theories introduced earlier] ... the possibility that dominant belief systems could constitute a part of an external and objective reality is denied” (Tooze: 1988, p.290).<sup>16</sup> Thereby, however, they overlook the fact that their own assumptions have already constituted part of the structure and causal relationships they try to explain. “With theoretical primacy ascribed to the activity of nation-states, empirical work (inevitably) is directed towards mapping interstate transactions” (Rosamond: 1995, p.398). Furthermore, state-centric approaches miss the fact that their supposedly objective theory has its own normative purpose. As for neo-realism, it is “the conservative ideology of the exercise of modern state power: it provides a terminology of international relations which dramatizes the dilemmas, legitimizes the priorities and rehearses the means of *realpolitik*” (Rosenberg: 1994, p.30).<sup>17</sup>

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<sup>16</sup> Square brackets are used throughout the thesis to indicate changes made by the author to direct quotes.

<sup>17</sup> Rosenberg argues this with reference to realism, the predecessor of neo-realism. Nevertheless, the way he defines realism allows us to transfer his quote to neo-realism.

Neo-functionalism, unlike state-centric approaches, is not static, since it implies the transfer of sovereignty to central institutions and, thereby, the transcendence of nation-states. In other words, the international structure is not taken as given. However, a closer examination reveals the same problems. The logic of spill-over considers integration to be an automatically ongoing process, once it has been started. Therefore, neo-functionalism is also ahistoric; not however in the sense of a static structure, but in the sense of a movement towards a future determined by an objective economic rationality, expressed in the notion of spill-over leading to an automatic process of further integration. As Harrison notes, neo-functionalism is grounded on “the concept of ‘economic man’, a hypothetical rationalist who attempts assiduously to maximise his own economic returns and minimise his costs” (Harrison: 1974, p.184). Thus, the frozen set of actors are not states, but rational, utility-maximising individuals, who theoretically fulfil the same role.<sup>18</sup> Again, politics is denied as a creative activity of human beings. As the rationale, according to which they act, is fixed and history moves towards an end determined by an objective rationality, historical development is not only beyond the influence of human beings, but it also determines their behaviour. Finally, instead of being an objective theory explaining and predicting European integration, neo-functional logic is often employed by actors as a normative argument in favour of further integration. For example, “Jaques Delors and the EC Commission portrayed EMU as functionally linked to the internal market program and necessary for its success” (Sandholtz: 1993, p.19).

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<sup>18</sup> Individuals are, in fact, considered to be aggregated into interest groups represented by their elites, who express the economic interests of their particular group. Thus, the frozen set of actors are interest groups, not individuals. Nevertheless, apart from that, the argument remains the same.

In summary, integration theories incorporate severe methodological deficiencies. Firstly, they cannot account adequately for the role of ideas. Therefore, they overlook their own normative basis and they are unable to take into account neo-liberalism as an independent force. Secondly, they incorporate ahistoric assumptions. The structure within which action takes place is taken as given, and the rationale according to which actors behave is deemed to be fixed. Consequently, they cannot account for structural change and human activity as political practice is denied.

In the next section, it is argued that globalisation, a structural change, has occurred since the early 1970s. European integration has to be analysed against this background and, therefore, requires a non-positivist theory for its explanation.

## *2.2. The processes of globalisation:*

“Globalisation” as a concept has entered the general academic debate in social sciences and is increasingly regarded as a multi-dimensional phenomenon. It is partly defined, for example, as “the rise of global cultural flows and ‘deterritorialized’ signs, meanings, and identities” (Amin/Thrift: 1994, p.4).<sup>19</sup> Although these processes are not without importance, globalisation is here mainly understood from a political economy perspective. Most importantly, it is characterised by two interlinked processes, the transnationalisation of finance and production at the material level<sup>20</sup> and a shift from

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<sup>19</sup> For a wider discussion of “globalisation”, see Higgott: 1997, pp.5-16. Apart from different definitions of globalisation, it is also a starting-point for normative discussions. Held, for example, argues that democracy has to be rethought in the context of globalisation and he suggests a “cosmopolitan model of democracy”, which provides the basis for a global democratic order (Held: 1993). Normative questions of this kind, although important, are of no concern in this thesis.

<sup>20</sup> “Transnationalisation” is used in this thesis to indicate structural change beyond the state system such as the organisation of production on a transnational scale, while changes in levels of cross-border flows such as trade are referred to as instances of “internationalisation”.

Keynesianism to neo-liberalism at the ideological level (Cox: 1992, p.30; Cox: 1993, pp.259/260 and pp.266/267).<sup>21</sup>

### *2.2.1. The transnationalisation of finance:*

The transnationalisation of finance has led to the emergence of a fully-fledged global financial market since the early 1970s. The first component of this process was the rise of financial offshore markets. “It was first in evidence in the 1960s when Britain and the United States strongly supported growth of the Euromarket in London” (Helleiner: 1994, p.8). While the USA did not control the overseas business of US financial institutions and banks, Britain refused to regulate dollar trading in London. As a consequence, “the Eurodollar loan became a new unregulated growth point in the international financial system; and the faster US corporations moved to Europe, the faster their bankers followed to London, and later to other European cities” (Strange: 1994a, p.106). These offshore markets are characterised by minimal or non-existent reserve requirements and the fact that deposits can be taken in any currency. As non-national money markets, they offer a regulation-free environment for the trading of financial assets and, therefore, facilitate expansion. “In consequence, banks seeking greater profits have had an incentive to concentrate their growth in the Euromarkets” (Gill/Law: 1988, p.165). Between 1973 and 1984, there was a dramatic rise in the offshore markets to \$1.000 billion - especially the so-called petro-dollars were

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<sup>21</sup> Within the political economy perspective, some authors emphasise new technological developments in microelectronics and telecommunications as a part, if not driving force of globalisation (e.g. Agnew/Corbridge: 1995, pp.178-185; Strange 1994a, pp.119-138). Here, technology is not treated as an independent force and core feature of globalisation. Rather, it is regarded as “the means of solving the practical problems of societies, but what problems are to be solved and which kinds of solutions are acceptable are determined by those who hold social power” (Cox: 1987, p.21). In short, while new technologies have facilitated the transnationalisation of production and finance, they could also have been used to strengthen national controls and regulations and, therefore, to prevent transnationalisation.

invested in these markets - having been only \$3 billion and \$75 billion in 1960 and 1970 respectively (Strange: 1994a, p.107). The second component of the transnationalisation of finance goes hand in hand with the support of financial off-shore markets. Instead of responding with more regulation, “the United States from the mid-1970s led the way to more deregulation of money markets and financial operators” (Strange: 1994a, p.110). Due to competitive pressure, the other two major financial centres followed swiftly. In 1979, the British government abolished its forty-year-old system of capital controls over-night, and Japan followed in the first half of the 1980s (Helleiner: 1994, p.149-156). Eventually, the EC as a whole, New Zealand, Australia and the Scandinavian countries went down the same road (Helleiner: 1994, pp.156-166). It is important to notice that the move towards a global financial market was not inevitable, but the result of conscious governmental decisions. Helleiner demonstrates how this movement could have been stopped, if not reversed at four historical points - Britain in 1976, the United States in both 1978-79 and 1979-80 and France in 1983 (Helleiner: 1994, p.124). The Swedish SAP government’s decision to deregulate the financial markets in the mid-1980s is another example in this respect. They clearly decided against the Employee Investment Funds, which was a possible alternative (see Chapter 2, section 2.2).

Hirst and Thompson deny that the current degree of financial integration at the world level is something drastically new. In fact, financial integration was bigger during the time of the Gold Standard between 1879 and 1914 (Hirst/Thompson: 1996, 31-50). This does not, however, refute the argument in this thesis that globalisation as defined here constitutes a structural change in comparison to the post-war economic system between 1945 and 1971. National economic and monetary policy autonomy

was much greater due to the encompassing systems of financial market regulations at the national level. The Swedish government had, for example, the option to boost the country's exports and, thereby, economy through the devaluation of the national currency (see Chapter 2, section 1.1.2). Since the deregulation of the financial markets and the removal of exchange controls, this is no longer possible. In short, a globally integrated financial market has emerged since the early 1970s and led to a restriction of national policy autonomy in contrast to the preceding period. Whether this is something totally new is a secondary issue.

It is also not argued here that the integration of financial markets is an irreversible development. Just as much as it was at least partly a conscious decision by governments to deregulate and liberalise financial markets, a re-regulation may be possible in the future (Helleiner: 1996). Again, it is important here to note that a structural change has taken place since the early 1970s. Predictions about future developments are not attempted.

### *2.2.2. The transnationalisation of production:*

The transnationalisation of production “signifies the integration of production processes on a transnational scale, with different phases of a single process being carried out in different countries” (Cox: 1986, p.233). The growth of TNCs in numbers and in size drives the transnational organisation of production. They are “the agents that integrate trade, technology transfer and financial flows for the purpose of international production in the context of the firms’ strategy” (UN: 1991, p.83). In the 1970s and 1980s, “the growth of TNCs has taken place despite an economic environment marked by a deceleration in world economic growth, increasing

instability in key international variables, such as exchange rates and interest rates, and growing protectionist sentiment” (UNCTC: 1988, p.1). There were 24000 TNCs alone in 14 major home developed countries in the early 1990s compared to 7000 in 1970 (UN: 1993, p.1). Overall, there were 37,000 parent firms with 170,000 foreign affiliates in 1990 (UN: 1993, p.13).<sup>22</sup>

The rise in foreign direct investment is a good indicator of the rising importance of TNCs. “Since FDI, by definition involves the establishment of lasting managerial control, it creates networks of ongoing relationships between parent firms and foreign affiliates and, increasingly, among foreign affiliates” (UN: 1992, 252). Between 1986 and 1990, outflows of FDI rose from \$88 billions to \$225 billions, which is an annual increase of 26 per cent. There was a downturn in FDI in 1991 and 1992, mainly due to recessions in the biggest economies, but it picked up again from 1993 onwards up to \$318 billions in 1995, i.e. an increase of 38 per cent over 1994 (see Table No.2, Appendix, own calculations).<sup>23</sup> The significance of FDI demonstrates the close connection between the transnationalisation of production and finance. The deregulation of national currency control systems has been a precondition for the free movement of capital, making an increased level of FDI possible.

The increase in FDI, however, does not indicate the overall importance of TNCs and, thus, the transnational organisation of production in the world economy. One way of doing this is to compare it with world exports and world output. Between

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<sup>22</sup> These figures had further increased to 38,747 parent companies with 265,551 affiliates abroad by 1995 (UN: 1996, p.9).

<sup>23</sup> FDI as an indicator for the extent of TNCs’ activities is imperfect, since (1) it does not capture non-equity linkages of TNCs, such as contractual arrangements and turnkey agreements; (2) it underestimates the amount of FDI, because reinvested earnings are unavailable for several home countries; and (3) it underestimates the total amount of investment by foreign affiliates in so far as it does not include capital that is raised in the host country (UN: 1992, p.54). FDI is used here as an indicator, because the data is easily accessible, but it has to be kept in mind that the real extent of TNCs’ activities is bigger.

1983 and 1989, outflows in FDI increased about three times faster than world exports and roughly four times faster than world output (see Table No.1, Appendix). “The considerably faster growth of foreign direct investment ... compared to that of trade and output ... seems to suggest that ... [transnational] ... production is, in fact, assuming a leading role in international economic relations, and that transnational corporations are increasingly important agents of international economic activity” (UN: 1991, p.81). This is confirmed by the indicator of the global sales of foreign affiliates in host countries, better suited for the comparison with trade flows, since it includes the value of output of TNCs’ activities in contrast to FDI. Including world exports of commercial services and excluding intra-firm trade, global sales of foreign affiliates were \$4.4 trillion in comparison to world exports of \$2.5 trillion in 1989. The 1992 UN study of TNCs points out that “global sales of affiliates are considerably more important than exports in delivering goods and services to markets world-wide, which underlines the importance of TNCs in structuring international economic relations” (UN: 1992, p.54).

Hirst and Thompson reject the idea of an emerging global economy based on the transnationalisation of production. Firstly, they argue that production across borders is not a new phenomenon. It appeared after the mid 19th century and was well established by the First World War (Hirst/Thompson: 1996, p.19). Secondly, they point out that specific characteristics in national economic systems are still important in the attractiveness for FDI and that FDI is not globally spread in an equal way, but concentrated on the Triad of North America, Japan and the European Economic Area in respect of both the originators and destination for FDI (Hirst/Thompson: 1996, pp.51-75). Finally, they stress the fact that there are only few “real” TNCs without the

identification of a home region/country, an internationalised management and the willingness to invest in the world, wherever the highest and/or securest returns are to be expected. Instead, the world economy is characterised by multinational corporations, which are still predominantly concentrated on a home region/country with reference to their assets and sales (Hirst/Thompson: 1996, pp.76-98).

It is not doubted here that there have been forms of transnational production before the 1970s. Nevertheless, it is the magnitude (see above) and nature, which has changed. With the help of new technology, “foreign affiliates are increasingly becoming parts of networks in which they are closely linked with their parent firms and each other through intra-firm flows of trade, technology and training and through the common utilization of a host of services ...” (UN: 1992, p.253). Secondly, it is not argued here that the transnationalisation of production has led to a borderless global economy, a level playing field with truly global firms as the prime movers. Nevertheless, the growth in size and numbers of TNCs with a regional home base, indicated by the concentration of FDI in the Triad, is also part of the globalisation process. As Higgott outlines, regionalisation and globalisation are not necessarily contradictory phenomena. Rather, regional integration may be “an important dimension of the evolving world order in an era of globalisation” (Higgott: 1997, p.16).<sup>24</sup> TNCs are predominantly characterised by a home region/country. Even with production units in only two countries, however, a TNC gains the ability of moving or threatening to move production units between countries (see the example of Swedish

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<sup>24</sup> In general, this thesis is not concerned with the relation between globalisation and regionalisation. Rather, it deals with the relation of states, i.e. Austria and Sweden, to European integration against the background of globalisation. For a collection of essays on the various instances of regionalism, defined as a set of state projects in response to globalisation and regionalisation, regarded as combinations of historical and emergent structures, see Gambel/Payne: 1996.

TNCs in Chapter 2, section 2.2.1) and, thereby, some degree of leverage over national regulations.<sup>25</sup>

Hirst and Thompson argue that the international economy was more open in the pre-1914 period than in the period from the 1970s onwards. “International trade and capital flows ... were more important relative to GDP levels before the First World War than they probably are today” (Hirst/Thompson: 1996, p.31). From their perspective, only the re-emergence of an open internationalised economy has been experienced. It is, however, important to note that FDI flows are not of a similar nature to trade flows. “FDI, unlike market-based exchanges, does not end with the initial transactions, it establishes a more lasting linkage between economic agents located in different countries” (UN: 1994, p.118). FDI is an indicator for the establishment of transnational production units, best expressed by the stock of FDI. “The structure of this stock reflects the structure of ... [transnational] ... production as undertaken by TNCs (UN: 1995, p.5). These stocks of productive assets nearly tripled from \$1 trillion to \$2.7 trillion between 1987 and 1995 (see Table No.2, Appendix). In short, it is this shift from an international economy, where states are linked with each other through trade flows, to a transnational economy with a production system across borders, which constitutes the structural change. “From being a collection of independent national economies linked primarily through markets, the world economy is becoming, for the first time, a ... [transnational] ... production system, integrated increasingly though numerous parts of the value-added chain of production” (UN: 1994, p.146).

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<sup>25</sup> This led Strange and Stopford to argue that states do no longer bargain only with other states in foreign policy, but that a “triangular diplomacy” is emerging, in which states must also negotiate with TNCs (Stopford/Strange: 1991). Elsewhere, Strange infers that TNCs “are increasingly exercising a parallel authority alongside governments in matters of economic management ...” (Strange: 1996, p.65).

### *2.2.3. The change at the ideological level:*

The structural changes at the material level were accompanied and supported by a change in the dominant economic paradigm (Cox: 1993, pp.266/267; Helleiner: 1996, p.194). A neo-liberal, monetarist policy replaced Keynesianism from the mid-1970s onwards, when it had become clear that the latter's expansionary response to the economic crisis of the early 1970s had failed. "The importance of monetarism is the rejection of the commitment to a policy of full employment in favour of the subordination of social relations to so-called market freedom" (Bonefeld: 1995, p.37). Efficiency and price stability are the new priorities, the privatisation of the state-controlled enterprises and the liberalisation and deregulation of the economy at the national level are advocated, social peace is imposed rather than negotiated and there is no commitment to redistribution or social reform. Globalisation, consequently, is not only a material reality, but also provides "a powerful ideological framework within which big business pushes for a redistribution of income, wealth and power towards economic elites" (Radice: 1997, p.16). In broader terms, it is "a discourse of political knowledge offering one view of how to make the post-modern world manageable" (Higgott: 1997, p.6).

The changes at the material level and ideological level are closely interlinked. Helleiner points out that the decisions to follow the USA in deregulating financial markets was not only the result of competitive pressure. They also reflected "the policy shift from embedded liberal ... [i.e. Keynesian] ... to neoliberal frameworks of thought" (Helleiner: 1994, p.167). In both Austria and Sweden, the adoption of neo-liberal ideas accompanied the deregulation of the financial markets from the mid-1980s onwards (see Chapter 2, section 2).

To sum up, since the early 1970s, we have experienced a structural change called globalisation with a global economy emerging above the state system, leading to the restriction of national autonomy and sovereignty. “The new reality is that the system of states is overlaid by a highly integrated, incompletely regulated, rapidly growing - but consequently somewhat unstable - world economy” (Strange: 1994b, p.212).

Global in its nature, this structural change has not left the EC unaffected. As elsewhere, globalisation has led to a restructuring of social relations in Western Europe. In Chapter 2, section 2, this is demonstrated for the Austrian and Swedish cases. Hence, Gill infers that “an assessment of the recomposition of social structures and political arrangements during the 1960s, 1970s and 1980s is crucial to understanding the complexities of the ‘new’ Europe ...” (Gill: 1992, p.159). And Rosamond argues “that the notion of globalization can and should be used to enrich our understanding of the processes at work within the space defined by the ... [EC] ...” (Rosamond: 1995, p.391).<sup>26</sup> To conclude, the revived process of European integration since the mid-1980s and, by extension, the Austrian and Swedish accession as a part of it have to be analysed against the background of globalisation. The established theories of integration are, however, unable to do so, since they are inadequate at the explanation of structural change due to their positivist assumptions. The next section outlines neo-Gramscianism as an alternative approach capable of explaining structural change.

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<sup>26</sup> For a similar argument, see Holman/Pijl: 1996, pp.65/66.

### 3. A neo-Gramscian alternative:

#### *3.1. "Problem-solving" versus "critical" theory:*

Cox does not dismiss state-centric and functionalist theories completely. Instead, he argues that they may be useful as "problem-solving" theories for practitioners who are, for example, active in international organisations and deal with particular problems within stable social and power relationships (Cox: 1994, pp.101/102). However, in order to explain structural change we need a "critical" theory, which "does not take institutions and social and power relations for granted but calls them into question by concerning itself with their origins and how and whether they might be in the process of changing" (Cox: 1986, p.208). In other words, "critical" theory is a theory of history in that it is concerned with understanding the process of change, affecting the very structures, which "problem-solving" theory takes for granted. It, therefore, adopts a historical structures perspective, which regards "human nature and the other structures that define social and political reality - from the structure of language through those of laws, morals, and institutions, and including the state and world-order structures like the balance of power - as being themselves products of history and thus subject to change" (Cox: 1989, p.38). In short, in contrast to the state-centric and neo-functionalist approaches outlined in section 1, human nature, the state and the international system are not treated as unchanging substances, but as a continuing creation of new forms (Cox: 1986, p.213).

This view of structural change implies a dialectic conceptualisation of structure and agency. "Structures are formed by collective human activity over time. Structures, in turn mould the thoughts and actions of individuals. Historical change is

to be thought of as the reciprocal relationship of structures and actors” (Cox: 1995, p.33). This provides room for regarding politics as a creative activity by human beings able to shape their environment and destiny within and even beyond existing structures.<sup>27</sup> Finally, “critical” theory considers ideas to be part of the structure in the form of intersubjective meanings. How the role of ideas can be conceptualised is outlined in section 4 below.

Cox offers neo-Gramscianism as a “critical” theory.<sup>28</sup> In what follows, basic neo-Gramscian concepts are outlined and defined. Then, these concepts are, firstly, used to analyse globalisation in section 5 of this chapter, and secondly, to guide the analysis of Austria’s and Sweden’s accession to the EC in Chapters 3 to 5, after they have been operationalised for this purpose in Chapter 2, section 3.

Firstly, neo-Gramscianism uses a dialectical method. “At the level of real history, dialectic is the potential for alternative forms of development arising from the confrontation of opposed social forces in any concrete historical situation” (Cox: 1986, p.215). This implies the rejection of the notion of a historically inevitable development and that one has to start the investigation by looking at the social forces

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<sup>27</sup> There is an ongoing debate in IR about the way to conceptualise the relationship between structure and agency. Wendt (1987), for example, suggests a solution along Giddens’ structuration theory, while Carlsnaes (1992) follows Archer’s model of morphogenetic cycles. Cox’s interpretation may be best seen in the light of the “critical realism” position (Hay: 1995, pp.199-202). On the one hand, structures do not determine outcomes, but define the potential range of alternative strategies, favouring certain strategies over others. Agents, on the other hand, have the opportunity to choose from several strategies within the structure. These strategies may reinforce existing structures or overcome them (Bieler: 1996, pp.128-130).

<sup>28</sup> Neo-Gramscianism is used here as the label for the distinct approach in IR, which was developed in response to, and based on, Cox’s original two articles (Cox: 1983 and 1986). The label was chosen, because many of its important concepts are inspired by the work of the Italian Communist Antonio Gramsci (Gramsci: 1971). Although direct reference is made to Gramsci at several points, this thesis does not discuss the way neo-Gramscians have interpreted Gramsci. For an initial step in this undertaking, see Kenny/Germain: 1997. Here, it is argued that neo-Gramscianism constitutes an approach in its own right and it is, consequently, neo-Gramscian and not Gramscian concepts, which are applied to Austria’s and Sweden’s accession to the EC. A collection of essays by neo-Gramscians can be found in Gill: 1993a.

of a particular historical period in order to identify possible alternatives and future developments. Social forces, as engendered by the production process, are the main collective actors. The concept of class is crucial for the definition of social forces.<sup>29</sup> For the purpose of this study, classes are regarded “as social forces whose cohesion derives from the role played in a mode of production ...” (Holman/Pijl: 1996, p.55). The capitalist mode of production or accumulation based on private enterprise and wage labour is characterised by the opposition between capital, the entrepreneurial, property-owning stratum on the one hand, and free labour, which is the stratum of those forced to sell their labour-power, on the other. Labour and capital are, consequently, two collective actors opposing each other, engendered by the production process as social forces. There are, however, further differences within the capitalist mode of accumulation. Importantly for this study, while production was organised on a national basis in the post-war era, important parts have been transnationalised since the early 1970s (see above). As a consequence, capitalist accumulation is not necessarily any longer inscribed in national paths of economic development (Radice: 1997, p.5), and a split between national and transnational social forces of both capital and labour has emerged (see section 5 of this Chapter).<sup>30</sup>

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<sup>29</sup> The definition of social forces is not clear in Cox’s and other neo-Gramscians’ work. While class plays an important role, Cox also seems to point to a wider range of actors. For example, at one stage, he describes “leading cadres” and “scientific-humanistic elites” as distinct social forces (Cox: 1987, p.206). Whether this is a real intention or just a theoretical untidiness describing as social forces what should be called “organic intellectuals”, i.e. the representatives of social forces (see below), cannot be solved here. In this study, however, the emphasis is on class.

<sup>30</sup> Cox distinguishes between various modes of social relations of production, i.e. models that depict distinct types of production relations, which co-exist in the capitalist mode of accumulation and engender different groups of social forces (Cox: 1987, pp.51-82). In Overbeek: 1990, pp.23/24, five criteria for the distinction of capital fractions are identified: the functional-institutional forms of capital, the use value of the products, the productivity conditions, the specific capital-labour relations, and the geographical orientation. For the purpose of operationalisation, however, this thesis focuses on the change from the national to the transnational level of production as engendering the most important social forces since the early 1970s. In Chapter 2, section 3, only the distinction between nationally- and internationally-oriented social forces according to the trading patterns, i.e. the geographical orientation, of companies based on domestic production is additionally introduced.

Through the emphasis on social forces, Cox reintroduces the sphere of production into the analysis, arguing that it “creates the material basis for all forms of social existence, and the ways in which human efforts are combined in productive processes affect all other aspects of social life, including the polity” (Cox: 1987, p.1). That is, the relations which organise material production are considered to be crucial for the wider institutional reproduction of social orders on both a national and an international level. Importantly, production is not understood simply in the narrow sense of the production of physical goods or in the form of different economic sectors. “It covers also the production and reproduction of knowledge and of the social relations, morals, and institutions that are prerequisites to the production of physical goods” (Cox: 1989, p.39). Cox does not disregard the “non-class” issues such as peace, ecology, and feminism. However, while they are not to be set aside, they must be “given a firm and conscious basis in the social realities shaped through the production process” (Cox: 1987, p.353).

Finally, neo-Gramscianism “enlarges the ... [state-centric] ... perspective through its concern with the relationship between the state and civil society” (Cox: 1986, p.216). It speaks about various forms of states and shows that the “raison d’état” cannot be separated from society, as it depends on the configuration of social forces at the state level. Forms of state are defined in terms of the apparatus of administration and of the historic bloc or class configuration that defines the *raison d’état* for that form (Cox: 1989, p.41). Gramsci’s concept of the integral state is analytically useful for the conceptualisation of the relation between the state and society (Rupert: 1995, pp.27/28). On the one hand, the integral state consists of “political society”, i.e. the coercive apparatus of the state more narrowly understood

including the ministries and other state institutions. On the other, “civil society”, made up of political parties, unions, employers’ associations, churches, etc.

represents the realm of cultural institutions and practices in which the hegemony of a class may be constructed or challenged. Gramsci uses civil society to designate an area of cultural and ideological linkage between class relations in the economy and the explicitly political aspect of the state (Rupert: 1995, p.27).

In section 5, it is argued that a change in the form of state from the Keynesian to the neo-liberal night-watchman state has been experienced as a part of globalisation in the Western World since the early 1970s. How this has happened in Austria and Sweden is outlined in Chapter 2, section 2. Overall, this implies that states cannot be treated as unitary actors, but as structures within and through which social forces operate. These structures may limit the possible strategies of action, but they do not determine outcomes, which are the result of struggle.

In a further step, this makes it possible to overcome the artificial separation of domestic and international spheres. The international system is also actively reproduced as a set of social relationships and we need to see “the form of our states-system as the geopolitical expression of a wider social totality” (Rosenberg: 1994, p.55). Thus, neo-Gramscianism helps us to understand a world order as stemming from the same basic social structures, which are the foundation of the forms of state within this world order.

### *3.2. A neo-Gramscian framework for analysis:*

Every historical structure represents a particular configuration of forces establishing the framework for action in a given period, within which alternative forms of development can take place, and which may be overcome by collective action. There are three different types of forces in any historical structure. Firstly, Cox identifies material capabilities, i.e. productive and destructive potentials. Secondly, there are two kinds of relevant ideas. "One kind consists of intersubjective meanings which tend to perpetuate habits and expectations of behavior; ... the other kind of ideas relevant to a historical structure are collective images of social order held by different groups of people" (Cox: 1986, p.218). Both kinds have different purposes. While intersubjective meanings tend to cut across social divisions and establish the ground for social discourse throughout a historical structure, there may be several collective images at the same time, the clash of which points to alternative developments. Finally, Cox identifies institutions as a means of stabilising and perpetuating a particular order by promoting those ideas which are consistent with this order. Having developed a life of their own, they may even become a battleground of rival collective images (Cox: 1986, p.219). All three types of forces interact with each other.

Moreover, these types of forces operate on three different levels of activity, connected with, and influencing, each other. Firstly, there is the mode of accumulation in the sphere of production, i.e. the material and organisational structure of production, where the various social forces can be identified. Secondly, the three types of forces interact on the level of forms of state as derived from a study of state/society

complexes and thirdly, we have the level of world order, “that is, the particular configurations of forces which successively define the problematic of war or peace for the ensemble of states” (Cox: 1986, p.220). In summary, historical structures consist of three types of forces which interact on three interconnected levels of activity. There are always several possible developments within one historical structure and the structure itself may be overcome via the activity of social forces.

The centrepiece of neo-Gramscianism is Gramsci’s concept of a historic bloc. At a basic level of understanding, a historic bloc is an alliance of classes or fractions of classes, which attempts to establish a particular form of state and/or world order preferable to them. Nevertheless, a historic bloc is also more than a simple alliance of social forces. “It encompasses political, cultural, and economic aspects of a particular social formation, uniting these in historically specific ways to form a complex, politically contestable and dynamic ensemble of social relations” (Rupert: 1995, pp.29/30). It is a solid structure of political society and civil society and consists of structure and superstructure, “in which precisely material forces are the content and ideologies are the form, ...” (Gramsci: 1971, p.377). The relationship between structure and superstructure is reciprocal. “Superstructures of ideology and political organisation shape the development of both aspects of production ... [i.e. the social relations and the physical means of production] ... and are shaped by them” (Cox: 1983, p.168).

Another important neo-Gramscian concept is hegemony. Unlike the neo-realist notion of hegemony, in which a hegemonic state controls and dominates other states and the international order thanks to its superior amount of economic and military capabilities (Gilpin: 1981, p.29; Keohane: 1984, pp.32/33), it describes a type of rule,

which predominantly relies on consent, not on coercion. Additionally, it is established on a historic bloc that does not necessarily coincide with the boundaries of a state. Hegemony, according to neo-Gramscianism, “is based on a coherent conjunction or fit between a configuration of material power, the prevalent collective image of ... order ... and a set of institutions which administer the order with a certain semblance of universality” (Cox: 1986, p.223). In Cox’s writing, the concepts of historic bloc and hegemony are very close together, and, although it is not clearly stated, give the impression to be identical. In other words, the establishment of a historic bloc implies that this bloc enjoys hegemonic rule. Gill, on the other hand, distinguishes between the two concepts. He states that a historic bloc “may at times have the potential to become hegemonic” (Gill: 1993b, p.40), but it also may not. For the purpose of this study, Gill’s definition is used. It offers the analytical advantage to make the identification of a strong combination of material and ideological forces possible, the historic bloc, without immediately leading to the conclusion that this is combined with hegemonic rule and, thereby, the absence of opposition.<sup>31</sup>

“Organic intellectuals” play a crucial role in achieving hegemony. According to Gramsci,

every social group, coming into existence on the original terrain of an essential function in the world of economic production, creates together with itself, organically, one or more strata of intellectuals which give it homogeneity and an awareness of its own function not only in the economic but also in the social and political fields (Gramsci: 1971, p.5).

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<sup>31</sup> Other neo-Gramscians also make the distinction between the two concepts. Rupert considers the historic bloc to be a precondition for hegemony (Rupert: 1995, p.29). This implies that there is no hegemony without historic bloc, but not the other way round. Augelli and Murphy speak about a period, during which the USA under Reagan in the 1980s was hegemonic within the Western World and exerted coercive domination over various Third World countries. In other words, they conceive a situation, in which a historic bloc combines hegemonic rule in some areas with coercive rule in others (Augelli/Murphy: 1993, pp.134-136).

They do not simply produce ideas, but it is their task to organise the social forces they stem from and to develop a “hegemonic project” which is able to transcend the particular interests of this group so that other social forces outside the historic bloc are able to give their consent.<sup>32</sup> Such a hegemonic project must be based on, and stem from, the economic sphere. It must, however, also go beyond economics into the political and social sphere, incorporating issues such as social reform or moral regeneration, to result in a stable hegemonic political system. It “brings the interests of the leading class into harmony with those of subordinate classes and incorporates these other interests into an ideology expressed in universal terms” (Cox: 1983, p.168).<sup>33</sup>

Although neo-Gramscianism does consider ideas and “organic intellectuals” to play a crucial role, the exact nature of this impact is little discussed. Considering the importance of neo-liberalism in the revival of European integration in the mid 1980s, it is important to conceptualise when and how ideas played a role in Austria’s and Sweden’s accession to the EC in Chapters 3 to 5.

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<sup>32</sup> Cox hardly uses the concept “organic intellectual” in his work. For an incorporation into neo-Gramscianism, see Gill: 1990, especially pp.51-54.

<sup>33</sup> Members of the sometimes called “Amsterdam School”, who also use neo-Gramscian concepts in their analyses of global restructuring and are, therefore, closely related to, if not part of, neo-Gramscianism, speak about comprehensive concepts of control instead of hegemonic projects (e.g. Pijl: 1984, especially pp.7/8). Both terms are, however, defined in the same way and, in fact, are often used interchangeably (Holman: 1996; Overbeek: 1990, p.26; Overbeek/Pijl: 1993). While comprehensive concepts of control and hegemonic project are frequently used to understand the formation of consensus between different fractions of capital within the capitalist mode of accumulation, this does not imply that labour or fractions of labour are unimportant in the formation of hegemony. Chapters 3 and 4 show that transnational and internationally-oriented labour were a crucial part of the class alliances in Sweden and Austria, which brought about membership.

#### 4. Neo-Gramscianism and the role of ideas in IR:

Positivist theories of integration, be they state-centric or neo- functionalist, separate values and facts and concentrate on the latter. Thereby, they deny the role of ideas in international co-operation and integration. Instead, actors' interests are derived from structure. They are regarded as given and prior to the ideas held by actors. While the rational behaviour of actors is considered to be fixed, the emphasis of analysis is on the structural constraints faced by actors. (Goldstein/Keohane: 1993, p.4; Woods: 1995, p.161).

In recent years, it was realised that left unanswered by these accounts “are questions of which economic theories and beliefs are most likely to shape the definition of interests in international relations and why and how it is that particular sets of ideas prevail in the international arena” (Woods: 1995, p.161).

In the following, the renewed emphasis on the role of ideas in IR is discussed and the position of neo-Gramscianism as a critical theory assessed.

##### *4.1. “Cognitivist” versus “constructivist” approaches: a synthesis.*

Goldstein and Keohane define ideas as *world views*, which establish “the universe of possibilities for action” (Goldstein/Keohane: 1993, p.8); *principled beliefs*, i.e. normative ideas, which provide the criteria to distinguish right from wrong and just from unjust; and *causal beliefs*, which are beliefs about cause-effect relationships, providing guides for individuals on how to achieve their objectives.<sup>34</sup> In this thesis,

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<sup>34</sup> For the purpose of this thesis, “idea” is treated synonymous with “belief” and “ideology”, since all three words convey a non-material quality. Woods, to provide examples for the various types of ideas, identifies the belief that an increase in interest rates will diminish inflation as a causal belief, the idea that it is morally preferable to tax everyone by the same amount as a principled belief, and a belief in a neo-liberal economic model as a world view (Woods: 1995, p.162).

Woods' approach, in which every set of economic ideas encompasses all three types of ideas, is adopted (Woods: 1995, p.163).

The approaches to the role of ideas in IR can roughly be divided into "cognitive" and "constructivist" approaches (Spindler: 1997, pp.8-10; Yee: 1996).<sup>35</sup> There are two important characteristics of "cognitive" approaches. Firstly, they are not concerned with the sources of new ideas and the self-interest of their proponents. What matters is their causal effects on policy, i.e. when they are generally accepted as guidelines for public policy or international co-operation (Goldstein/Keohane: 1993, p.7; Haas: 1980, pp.368/369; Jacobsen: 1995, p.291). In other words, it is the transmission of ideas into policy, not their creation, which is the main concern. Secondly, "cognitive" approaches neither challenge the positivist assumptions of traditional IR theories (Goldstein/Keohane: 1993, p.5; Spindler: 1997, p.10), nor attempt to replace them. Rather, they "demonstrate that an ideas approach is always a valuable supplement to interest-based, rational actor models" (Jacobsen: 1995, p.285).

Meaning-oriented behaviouralism is one way of attempting to identify causal connections between ideas and policy outcomes. It regards ideas as "subjective meanings", i.e. the meanings which human subjects attach to behaviour, and treats them as intervening variables between the "stimulus" (the action context) and the response (behaviour). "By correlating particular beliefs/motivations/values with a particular behaviour in a particular context, it becomes possible to derive empirically testable hypotheses about uniformities of behaviour under specific conditions" (Neufeld: 1995, p.74). Nevertheless, meaning-oriented behaviouralists' attempts at

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<sup>35</sup> The labels "cognitivist" and "constructivist" are related to different approaches by different authors. Here, they are only used as defined in the following and the inverted commas are, therefore, retained. Yee (1996) makes the same distinction as Spindler (1997). "Cognitivists" are, however, called "behaviouralists" and "ideational institutionalists", while "constructivists" are labelled "discursivists" and "interpretivists".

specifying the causal linkage between ideas and policies by using either statistical associations or quasi-controlled experiments have been met with little success (Yee: 1996, pp.71-82). Others have, consequently, tried to establish causal relationships via the identification of institutional and/or actor-centred causal mechanisms. It is argued that ideas acquire causal relevance, when they become embedded as organisational rules and procedures in institutions (Yee: 1996, pp.88-92; Goldstein/Keohane: 1993, pp.20-24). Ideas can also acquire causal relevance, if they are carried by powerful actors, which use them as “weapons” in order to legitimise particular policies (Jacobsen: 1995, pp.298-300).

/The “epistemic communities” approach is an example of where the focus on institutional and actor-centred causal mechanisms is combined. According to Haas, “an epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area” (Haas: 1992, p.3). Such communities have a shared set of normative and principled beliefs, providing a value-based rationale for the social action of community members, shared causal beliefs, shared notions of validity, regarding the validation of knowledge in the domain of their expertise, and a common policy enterprise, presumably with the goal of enhancing human welfare. Epistemic communities may spread their beliefs and policy enterprise within countries and across borders through their activities within national policy agencies, think tanks and international organisations.

The “epistemic communities” approach goes beyond neo-realism in that it does not deduce actors’ interests merely from structure. Ideas also play a role in the shaping of preferences. Especially in times of uncertainty, states are likely to turn to

epistemic communities for advice (Haas: 1992, pp.3/4). Furthermore, the approach goes beyond regime theory. International organisations are not only deemed to be a functional way of improving co-operation. They are also treated as a forum for “the bargaining and negotiation that take place among different epistemic understandings and practices ‘carried’ by epistemic communities and later by policymakers as well” (Adler/Haas: 1992, p.369). This includes the possibility of a redefinition of national interests through the process of collective learning within organisations.

Yee, however, makes clear that these approaches are still not able to account for the full impact of ideas. Their emphasis on empirical analysis of observable behaviour prevents them from capturing the structural quality of ideas in the form of intersubjective meanings (Yee: 1996, p.102). “Constructivist” approaches, on the other hand, acknowledge ideas as “intersubjective meanings” and define them as “the product of the collective self-interpretations and self-definitions of human communities” (Neufeld: 1995, p.77). Together, these “intersubjective meanings” make up the “web of meaning”, which is as much a part of the social totality, the structure human beings are confronted with, as material capabilities. It is argued, consequently, that “the practices in which human beings are engaged cannot be studied in isolation from the ‘web of meaning’, which is, in a fundamental sense, constitutive of those practices, even as it is embedded in and instantiated through those same practices” (Neufeld: 1995, p.76).

Wendt follows a “constructivist” line and criticises state-centric approaches for taking the interests and identity of states as given, i.e. exogenous to the process of state interaction. This makes the explanation of “identities and interests, the reproduction and/or transformation of which is a key determinant of structural

change” (Wendt: 1994, p.394), impossible. He further argues that structure, within which action takes place, does not only consist of material capabilities, but also of the intersubjectively constituted structure of identities and interests in the system (Wendt: 1992, p.401). Hence, in order not only to explain the change of identities and interests but also the structure as such, ideas need to be regarded as a part of the structure and be conceptualised as intersubjective meanings.

Kratochwil and Ruggie provide another “constructivist” insight in IR. They argue that the intersubjective quality of convergent expectations as the basis of regimes requires for its explanation “the incorporation into prevailing approaches of insights and methods derived from the interpretive sciences” (Kratochwil/Ruggie: 1986, p.771).<sup>36</sup> In a further study, Kratochwil argues that international relationships resemble the intersubjective dimension of games. Positivists can only observe the “facts” of overt behaviour. “Beyond that lies the realm of intersubjective rules which are constitutive of social practice, and which an interpretive epistemology has to uncover” (Kratochwil: 1988, p.277).

As a “critical” theory, the neo-Gramscian approach does not follow positivist explanations of causal relationships. Its emphasis on ideas, consequently, has to be aligned with the “constructivist” perspective, which treats ideas as part of the structure in the form of “intersubjective meanings”. It is in this way that we have to understand the assertion that ideas establish the wider frameworks of thought, “which condition the way individuals and groups are able to understand their social situation, and the possibilities of social change” (Gill/Law: 1988, p.74). At the same time, however, the contributions made by “cognitivist” approaches should not be dismissed. Ideas are

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<sup>36</sup> Kratochwil and Ruggie (1986), but also Neufeld (1995) use the term “interpretive” instead of “constructivist”.

indeed often used to legitimise particular policies and it is important, who the carriers of these ideas are, as the neo-Gramscian emphasis on “organic intellectuals” demonstrates. This insight into the role of ideas can be incorporated into the “constructivist” perspective, provided it is not attempted to detect causal relationships between ideas and policy in general, but to identify such legitimation strategies in particular instances. A combination with “constructivism” makes clear that these strategies are likely to be successful in those cases, where the legitimising ideas correspond to the intersubjective meanings of the structure, because they will appear as logical. Conversely, it might be difficult to carry out actions legitimised with ideas, which are in contradiction to the intersubjective meanings.

Hall provides an example of such a combination of “intersubjective meanings” and legitimation strategy in his analysis of the impact of Keynesianism in the post-war era. At the structural level, Keynesian ideas were influential through their terms of economic analysis. They changed the basic categories, the “intersubjective meanings” through which the economic world was seen. On the other hand, Keynesian ideas “were a potent weapon in the hands of those who sought to justify a new role for the state against the arguments of the old *laissez faire*” (Hall: 1989, p.366). This was so successful not least due to the fact that they corresponded to the “intersubjective meanings” of Keynesian ideas in the structure. However, the relationship is not one-sided. Actors themselves, who use certain ideas to legitimise particular policies, may change the “intersubjective meanings” of the social totality. “Intersubjective meanings” are not only constitutive of social practices. They are also instantiated by them and human consciousness, thus, embodies a transformative quality. In Chapter 3, section 1.1, it is outlined how “organic intellectuals” of internationally-oriented

capital in Austria achieved a change in the intersubjective meanings, which made the discussion of the compatibility of neutrality and EC membership possible.

To conclude, the neo-Gramscian conceptualisation of ideas can be understood as a combination of the “cognitive” and “constructivist” insights. Nevertheless, the emphasis on the role of ideas and “organic intellectuals” has been criticised by an approach labelled “open Marxism”.

#### *4.2. The critique of “open Marxism”:*

Burnham criticises the role attributed to ideas and “organic intellectuals” by neo-Gramscianism. He alleges that neo-Gramscianism pursues a pluralist road of investigation through giving equal importance to the different types of forces and levels of analysis. That is, parts of the overall structure such as the polity, the economy and civil society are given real autonomy without any analysis of the systematic connection between these parts. Burnham points out that

however laudable in theory, the true consequence of this position is to produce a pluralist empiricism which lacks the power to explain either the systematic connection between values, social relations and institutions or the extent to which the historical appearance of capital as a social relation transforms the social order in such a way that all relations are subsumed under the capital relation as the basis of the valorisation process (Burnham: 1991, p.78).

Rather than treating all factors as equal, he argues that the social relations of production must be attributed primary importance. By neglecting this, the neo-Gramscian approach ends up giving the role of ideas and “organic intellectuals” too much emphasis in economic policy-making. Instead, “the contradictions of the capital relation and the nature of competition in the world market determine the path and the

pace of particular state strategies” (Burnham: 1991, p.83). A crisis is resolved via the sacrifice of inefficient capitals.

Undoubtedly, the social relations of production must be the starting-point of Marxist investigations, because only this allows us to comprehend that the apparent separation of the political and economic spheres is not a transhistorical fact but the result of the development of specific social relations of production (Bonefeld/Brown/Burnham: 1995, pp.23-26; Burnham: 1994).

In this respect, Burnham is right in saying that a crisis in the accumulation regime is solved via the sacrifice of inefficient capitals. However, the end of one accumulation regime does not imply that there is only one automatic alternative accumulation regime, which will take its place. There is no logical result to which capital-in-general will automatically be driven via market forces. On the contrary, there are always various possible courses of action in times of structural change. Which course of action is chosen is not determined by the market but depends on which historic bloc is able to establish its strategy as the one generally accepted to be the best. And it is here, where ideology plays a decisive role as a part of the new hegemonic project.

As Gramsci points out, “it is on the level of ideologies that men become conscious of conflicts in the world of the economy” (Gramsci: 1971, p.162). Consequently, ideas represent an independent force, but only in so far as they are rooted in the economic sphere, going beyond it at the same time, i.e. that they are in a dialectic relationship with the material properties of the sphere of production. Only such ideas can be regarded as “organic ideas”. They “organise human masses, and

create the terrain on which men move, acquire consciousness of their position, struggle, etc.” (Gramsci: 1971, p.377).

Similarly, not every intellectual is an “organic intellectual”. According to Gramsci, there is the traditional, vulgarised type of intellectual, which “can be defined as the expression of that social utopia by which the intellectuals think of themselves as ‘independent’, autonomous, endowed with a character of their own etc.” (Gramsci: 1971, pp.8/9). “Organic intellectuals”, by contrast, are regarded as the true representatives of a particular social group or historic bloc, generated by the sphere of production.

To conclude, the fact that “organic ideas” and “organic intellectuals” are rooted in the material structure demonstrates the primacy attached to the sphere of production by neo-Gramscianism. It is the concept of a historic bloc, consisting of ideas and material circumstances, which best shows that ideas and other aspects of the superstructure are not autonomous factors of analysis, but have to be understood in their dialectical relationship with the economic structure. They need to be rooted in the economic structure, directly or via their carriers, the “organic intellectuals”, in order to be of importance. “Organic ideas” and “organic intellectuals” are most likely to have an impact in times of crisis, i.e. the end of an accumulation regime. Such a crisis occurred in the early 1970s, when the Fordist accumulation regime broke apart and the structural change of globalisation ensued.

## 5. Neo-Gramscianism and its analysis of globalisation:

### *5.1. The post-war economic order of “embedded liberalism” and its demise:*

The post-war international economic order in the Western world was a compromise between the principles of economic liberalism and national interventionism, labelled “embedded liberalism” (Ruggie: 1982, p.393). On the one hand, it consisted of the acceptance of the principles of multilateralism and tariff reductions, which led to several consecutive GATT negotiation rounds furthering international free trade. This component was based on the Bretton Woods system of fixed exchange rates and “the ability of the US to maintain the growth of global aggregate demand through its balance of payment deficits, partly generated by heavy overseas military expenditures” (Gill/Law: 1989, p.478). On the other hand, the right for national governments to maintain capital controls and to intervene in their own economy in order to ensure domestic stability via economic growth and social security was generally accepted.

From a neo-Gramscian point of view, in addition to the level of world order, hegemony also existed at the levels of production and forms of state. The social relations of production were arranged around the Fordist accumulation regime, a specific organisation of production and labour relations at the national level. It was based on the mass production of consumer goods and on mass consumption (Holman: 1996, p.16), combined with a trade-off for workers between boredom during work and high pay ensuring pleasure after work (Holloway: 1995, p.19). This “resulted in the subordination of the specific interests of both the working class and the bourgeoisie to an overall compromise between their respective interest groups, while preserving the fundamental subordination of wage labour to capital ...” (Holman: 1996, p.17). At the

form of state level, the compromise rested on the Keynesian demand management form of state with the goal of full employment via budget deficit spending and characterised by interventionism, the mixed economy and an expansive welfare system (Gill/Law: 1988, pp.79/80).

At the end of the 1960s, the Fordist accumulation regime showed its technical limits within the capitalist core countries due to stagnating productivity and a decline in the rate of profit (Holloway: 1995, p.24). The attempt to overcome these problems within Fordism led to social unrest. “Labour increasingly ... [resisted] ... management’s efforts to expand its control and step up the work pace” (Oberhauser: 1990, p.215).

At the world order level, faced with an inflationary surge due to the Vietnam war effort and President Johnson’s “Great Society” programme (Gill/Law: 1988, p.173), the USA was no longer prepared to sustain the international economic system. In 1971, President Nixon decided to ease the inflationary strain on the American economy through running a bigger balance of payments deficit and through cutting the link between the dollar and gold. While this eliminated the US current account deficit by transferring the adjustment burden overseas (Helleiner: 1994, pp.112/113), Nixon sounded the death-knell of the Bretton-Woods system of stable exchange rates. Globalisation ensued and led to structural changes, which can be observed at the three levels of activity.

### *5.2. Structural changes in production and world order:*

The transnationalisation of production and finance broke apart the organisation of production at the national level and split both capital and labour to several fractions.

The hierarchy of capital “can be plotted as (1) those who control the big corporations operating on a world scale, (2) those who control big nation-based enterprises and industrial groups, and (3) locally based petty capitalists” (Cox: 1987, p.358). The third group has increasingly come under the dominance of the first group through “franchise” mechanisms, but there is room for a possible conflict between national and transnational capital. The latter strongly supports an open global economy, whereas the former may seek national or regional protectionism against global competition. Furthermore, “it can be seen that cumulatively ... [the changes in the production structure] ... have been destructive of labor’s autonomous collective social power” (Cox: 1987, p.336). Cox identifies two main lines of separation within the working class. Firstly, there is a rift between workers of transnational companies and those of national companies, shadowing the conflict within capital. Secondly, while some few, highly skilled workers in core plants enjoy a high status and job security, the overall number of established workers has declined during the course of industrial restructuring and a rift between established and non-established workers has opened up (Cox: 1986, p.235).

At the “world order” level of activity, “the world economic crisis of restructuring of the 1970s and early 1980s has been concomitant with the crisis of the bipolar system of superpower politics - that is, the spectacular break-up of Soviet dominance over Eastern Europe and the decline of American hegemony” (Holman: 1992, p.13). Overall, globalisation is manifested in two upsurges in liberalism at the world level: firstly, in the global spread of neo-liberalism, heralding a new capitalist economic order and secondly, in the political democratisation of Southern Europe

(1970s), Latin America (1980s) and Eastern Europe (1990s), preparing these countries to become a part of this new global economy.

### *5.3. Globalisation and the restructuring of the state:*

There are different conceptualisations of the state's role in the global economy.

Ohmae represents an extreme version, which regards globalisation as moving inevitably to a borderless world, an economic level playing field, within which truly global companies are the primary actors. There is no role left to states beyond the provision of infrastructure and public goods required by business (Ohmae: 1990 and 1995). Similarly, Strange talks about an increasing hollowness of state authority, a terminal retreat of the state (Strange: 1996). On the other hand, there are the internationalists, who still consider states to be the main actors in international economics and politics. Hirst and Thompson argue that the economy is predominantly international, not global, and that, therefore, states, although in a slightly different way, still play a central role in its governance (Hirst/Thompson: 1996, pp.178-189). The collection of essays contained in the book by Keohane and Milner (1996) provide case studies along this line. They analyse the impact of internationalisation, defined as a drastic increase in cross-border flows of goods, services and capital, on domestic politics world-wide, mediated by the countries' different institutional settings.

It is argued here the neither of the two extreme positions adequately conceptualises the role of states in globalisation. Globalisation should not be counterpoised to the state. The role of the state has not diminished, it has changed and the state has been restructured. Radice provides the example of the UK, where "what Thatcherism represented was of course not the promotion of free markets contra the

state as such, but the restructuring of the state away from the proto-socialist aspirations of welfarism and the pursuit of full employment, towards wholehearted support for private capital accumulation” (Radice: 1997, p.4).

On the one hand, national autonomy and sovereignty in economic policy making has been restricted. According to Cerny, increased capital mobility and global market structures undermine domestic regulation (Cerny: 1996, p.3). Although big and developed countries are more able to counter the loss of autonomy than small and developing countries, “even the autonomy of the United States, Japan, and the European Union is constrained in matters of macroeconomic policy by the globalisation of finance and production” (Gill: 1995, pp.412/413). It is, for example, increasingly difficult for governments “to tax capital, which has tended to shift the fiscal burden on to other factors of production, notably labour, and/or erode the tax base” (Oman: 1995, p.11).<sup>37</sup> Furthermore, governments have to adapt their performance to criteria acceptable to global production in order to attract investment from TNCs and to global finance in order to obtain good credit ratings. For example, governments need to adjust their policies to the requirements of rating agencies, as these agencies allocate the credit ratings, which are so crucial in the increasingly important securities market (Sinclair: 1994a and 1994b). Cox concludes that states have been, “by and large, reduced to the role of adjusting national economies to the dynamics of an unregulated global economy” (Cox: 1994, p.105). This internationalisation of the state “gives precedence to certain state agencies - notably ministries of finance and prime ministers’ offices - which are key points in the adjustment of domestic to international economic policy” (Cox: 1986, p.232).

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<sup>37</sup> With regard to problems of taxing transnational capital, see also Strange: 1996, pp.60-65.

This is, however, a very one-sided perception of the role of the state, which only grants states the ability to adapt to globalisation, perceived to be an external force. By contrast, Panitch points out that

capitalist globalisation is a process which also takes place in, through, and under the aegis of states; it is encoded by them and in important respects even authored by them; and it involves a shift in power relations within states that often means the centralisation and concentration of state powers as the necessary condition of and accompaniment to global discipline (Panitch: 1994, p.64).

In other words, states do not only respond to, but also bring about globalisation. In more detail, retaining the notion of the internationalisation of the state, officials of those state institutions, which are linked to the global economy, are likely to be an active part of the drive towards globalisation. Helleiner, for example, points out that officials of finance ministries and central banks “were often the most enthusiastic advocates of financial liberalization ...” (Helleiner: 1996, p.194). In short, the sources for globalisation may stem as much from the national sphere, as they do from the global economy and Chapter 2, section 2 demonstrates this in the cases of Austria and Sweden.

Globalisation, thus, implies the reorganisation of states’ structures and a change at the “forms of state” level. In general, “the neo-liberal concept projected a transition away from the welfare, social compromise state towards the night-watchman state of classical liberalism” (Pijl: 1989, p.66).<sup>38</sup> The institutions linked to the global economy have become dominant within the “political society” and transnational social forces dominate important parts of the “civil society” such as political parties, trade unions, etc. Nationalised industry is privatised, the economy in

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<sup>38</sup> For a theoretical justification of the night-watchman state, see Nozick’s discussion of the “minimal state” (Nozick: 1974). A state, he argues, is only justified in respect to the narrow functions of protection against force, theft, fraud, enforcement of contracts, etc. Anything beyond this, for example state intervention to redistribute wealth, infringes individuals’ rights and is, therefore, unacceptable.

general liberalised and deregulated, including the labour market, and the welfare system cut back. The goal of full employment is replaced by low inflation and price stability.

Of course, not all states were welfare states to the same extent and not all states have moved to an extreme form of night-watchman. The historical reality of national political and social relations implies that neo-liberal restructuring has had a different face in every country. However, the character of neo-liberalism is transnational (Overbeek: 1993, p.XI) and, on a continuum with the welfare state and the neo-liberal night-watchman state as ideal types at opposite extremes, a general move in the direction towards the latter can be identified throughout the developed world. Chapter 2, section 2 shows how both Austria and Sweden were restructured along this line from the early 1980s onwards, although in a different way and to a different extent.

#### *5.4. The emergence of a transnational historic bloc:*

Due to transnational production and finance, “it becomes increasingly pertinent to think in terms of a global class structure alongside or superimposed upon national class structures” (Cox: 1986, p.234). Thus, Cox “has noted that ... there may be an emerging transnational historic bloc” (Gill/Law: 1988, p.65). The transnational managerial class of TNCs in manufacturing and services and of the global financial management, the driving force behind the transnationalisation of production and finance, is at the apex of this historic bloc. Small and middle-sized businesses as contractors or suppliers, import-export businesses, and service companies, such as stockbrokers, accountants, etc. all linked to TNCs and, thereby, the global economy

also form a part of it (Gill: 1995, pp.400/401). They are supported by officials of those national ministries and institutions, which are linked to the global economy through the internationalisation of the state, most importantly finance ministries, prime ministers' offices and central banks. Moreover, "the established workers in the sector of ... [transnational] ... production are potential allies of international capital" (Cox: 1986, p.235). The system of "enterprise corporatism", which closely links core workers to their particular company via special benefits and secure employment, may provide the basis for an alliance of this type (Cox: 1987, pp.70-74). At the "world order" level of activity, an interstate coalition of developed countries centred around the so-called G7 state apparatuses and some more industrialised developing countries (e.g. Brazil) may form the basis of the new transnational hegemonic order (Cox: 1986, p.237). The new security order is still to be established after the fall of the Soviet Union, but NATO's enlargement to the East underlines the further extension of the neo-liberal market economy towards Eastern Europe and guarantees the protection of this market economy against the disruption by hostile regimes. If necessary, this alliance goes to war in order to secure the global economy and its supply with raw materials, as the Gulf War in 1991 showed. Finally, this order is further sustained by institutions such as the Organisation for Economic Co-operation and Development (OECD), the World Bank, etc., which contribute to the spread of neo-liberal economic ideas to the newly democratised countries.

Neo-liberalism has been the hegemonic project of the transnational historic bloc's bid for hegemony (Overbeek/Pijl: 1993, pp.2, 14-16). In particular two neo-liberal offensives were organised by "organic intellectuals" in networks such as the Mont Pèlerin Society. The first was the propagation of a neo-liberal, deregulatory

economic programme to replace the Keynesian welfare state from the early 1970s onwards. The second had the goal to start a world-wide offensive against Communism, putting the Soviet Union economically against the wall in an intensified and highly technological arms race, in the late 1970s, early 1980s (Pijl: 1995, pp.122-124). This does not mean that these intellectuals and their neo-liberal offensives were directly responsible for the various policy outputs. It implies, however, that they contributed to the setting of the agenda for a new, global hegemonic order based on the ideas of neo-liberal economics and strict anti-Communism.

However, as in every truly dialectical process, there are also opposing social forces, pointing to alternative forms of development, to other possible hegemonic orders. The crisis due to the break-up of the hegemonic order of “embedded liberalism” is “a crisis of representation: one historic bloc is dissolving, another has not taken its place” (Cox: 1987, p.285). So far, the transnational historic bloc outlined above enjoys a position of supremacy. It is dominant within the current world order, but has not gained hegemony yet (Gill: 1995, p.400). The achievement of the latter is doubtful for two reasons. Firstly, internal contradictions may break the transnational historic bloc apart, unless new international regulatory mechanisms are established. There are the tensions between “short-term-thinking” transnational finance, causing insecurity in the financial markets, and “long-term-thinking” TNCs in manufacturing. Transnational capital is not a homogeneous class fraction.<sup>39</sup> Furthermore, the neo-liberal economic logic itself contains a contradiction. “If all countries compete to prove their monetary soundness, their deflationary policies will have negative

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<sup>39</sup> For the inherent conflict potential between these two different capitalist class fractions, see Pijl’s discussion of the ideal-types of money-capital and productive-capital concepts of control/hegemonic projects (Pijl: 1984, pp.8-20).

multiplier effects. World recession is the natural outcome if all countries deflate simultaneously” (Gill/Law: 1989, p.494).

Secondly, alternative historic blocs may arise with their own hegemonic project and endanger the transnational bloc’s supremacy. For example, a neo-mercantilist class alliance consisting of national industries, dependent on protectionism and state subsidies, their employees and those ministries which are concerned with national problems such as unemployment (e.g. labour ministry) is a possible alternative. “The hegemonic concepts within this type of bloc are those of national security and territorial sovereignty” (Gill/Law: 1988, p.105). So far, the transnational historic bloc has gained supremacy and may eventually win hegemony over the neo-mercantilist national or regional social forces, but the latter development remains possible too. As Higgott demonstrates, since the mid-1980s various types of new protectionism in countries including the USA have weakened the basic principles of the post-war free trade regime embodied in the GATT negotiation rounds (Higgott: 1996, pp.26-32).

To conclude, globalisation and its impact on the three levels of analysis have been outlined in this Chapter. As stated above, this is the background against which the Austrian and Swedish accession to the EC have to be analysed. In other words Austrian and Swedish social forces as the main collective actors are regarded as embedded within these emerging transnational social relations, a particular historical configuration of social and power relationships. It has also been shown in this Chapter that the established integration theories are unable to account for such instances of structural change and, by extension Austria’s and Sweden’s accession to the EC.

Therefore, neo-Gramscianism with its emphasis on changing social and power relationships was introduced as an alternative approach.

In the next Chapter, the neo-Gramscian concepts are operationalised and a framework for the analysis of Austria's and Sweden's accession to the EC is developed. Before, however, it is analysed how Austria and Sweden have been affected by these changes. It is only by empirical studies of individual countries that we can substantiate the impact of globalisation.

## **Chapter 2: Austria and Sweden in an era of global structural change.**

At the end of Chapter 1, it was argued that globalisation has been manifested in the transnationalisation of production and finance and in a shift from the Keynesian to the neo-liberal night-watchman state. This Chapter, firstly, outlines Austria's and Sweden's economic and political systems<sup>1</sup> (section 1) and secondly, discusses in which ways globalisation has had an impact on the two countries' production structure and state-society relations (section 2). It is demonstrated that, while finance has been transnationalised in Austria and Sweden and both countries have been restructured towards the neo-liberal night-watchman state, the impact on the production structure has been different. In Sweden, production has been transnationalised, whereas it has been internationalised in Austria, which is still mainly linked to the global economy via trade. This provides the basis for the development of a neo-Gramscian framework for the analysis of Austria's and Sweden's accession to the EC (section 3). For this purpose, the neo-Gramscian concepts such as social forces, internationalisation of the state, etc., introduced in Chapter 1, are operationalised and related to the particular Austrian and Swedish economic and political systems.

### **1. Post-war economic and political systems in Austria and Sweden:**

In this section, the Austrian and Swedish economic-political systems are outlined. The separation into one part on the economic systems and another on the political systems of the two countries is only a device for presentational purposes. It does not imply that

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<sup>1</sup> The term "economic-political system" was chosen without system-theoretical implications. It only represents the various institutions and social groups in Austria and Sweden and their interaction.

these two spheres are separate. In fact, the arrangements in both spheres are inter-related and complement each other.

### *1.1. The economic system: small states in world markets.*

According to Katzenstein, as countries with small, open and vulnerable economies, Austria and Sweden could adjust to economic change neither by relying on macroeconomic policies and market solutions, as for example the USA, nor by preempting the costs of change through policies which pursue the structural transformation of their countries as, for example, Japan. “Instead, elites in the small European states, while letting international markets force economic adjustments, choose a variety of economic and social policies that prevent the costs of change from causing political eruptions” (Katzenstein: 1985, p.24). Austria and Sweden were, thus, always in favour of tariff reductions, co-operation in R&D matters and supported détente in the international sphere. At home, they tried to counter the harmful effects of international liberalisation in order to maintain industrial and social peace, which were, in turn, a precondition for economic success. An active investment and employment policy, restraints on wage and price increases and the maintenance of a large public sector were among the most important domestic policies. They can all be found in Sweden’s and Austria’s post-war economic history, although in different ways.

#### *1.1.1. “Austrokeynesianism”:*

In the post-war era, the Austrian government had full employment as its primary economic target; it promoted investment; the restraint of wage and price increases was

achieved within the corporatist system of Economic and Social Partnership (see below); and “a few large, publicly owned companies employ about one-quarter of the Austrian labour force and generate about one-third of net production and almost half of all investment” (Marin: 1985, p.121).<sup>2</sup> These companies were expected to conform to government policy. They were export-oriented, but subsidies were used to ensure full employment. The exposure of industrial sectors to international competition was further counterbalanced by a large sheltered sector encompassing areas such as agriculture and the food processing industry. Estimates indicate that up to 50 per cent of the market may have been part of the sheltered sector (Luif: 1994, p.26).

The Keynesian policy of budget deficit spending during economic recession, especially practised during the 1970s (Lauber: 1996, pp.133/134), was flanked by a hard currency policy through linking the Austrian Schilling (AS) to the German Mark (DM) (Dörfel et al: 1993).<sup>3</sup> This gave the Austrian system the name “Austrokeynesianism”. “As to the main instruments of ‘Austrokeynesianism’, they were (in order of appearance) a hard currency policy, promotion of investment by tax incentives and cheap credit, an effective incomes policy, and judicious use of the deficit in the budget, public sector industry and the social security system” (Lauber: 1992, p.163). From a theoretical perspective, this unorthodox policy-mix cannot work. A hard currency policy usually endangers jobs linked to the export industry, because Austrian products become more expensive abroad, thereby undermining the policy of

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<sup>2</sup> Parris et al provide lower figures: in 1982, the public enterprise sector accounted for 14.3 per cent of employment of the whole Austrian economy, for 17.8 per cent of the production in terms of value added and for 21.1 per cent of capital investment (Parris et al: 1987, p.29). This was, however, still the largest public sector in Western Europe (Parris et al: 1987, p.27).

<sup>3</sup> “Hard” is understood here as the absence of depreciations or devaluations of the currency, measured via the nominal exchange rate as the relative price between two national currencies, and the pursuit of price stability, often achieved through the pegging of the national currency to a foreign currency with a stable real value (Hörngren/Lindberg: 1994, p.133).

full employment. Nevertheless, in the Austrian case, “full employment, normally endangered by the appreciation of one’s own currency, was secured via expansive budget deficits, via one-time improvements in efficiency/production gains or via the extension of export and investment support schemes” [translation by the author] (Winkler: 1988, p.226). Kurzer further points out that “the Austrian establishment could get away with this contradictory arrangement because the financial integration of the Austrian economy into the world economy was moderate” (Kurzer: 1993, p.190). This was to change in the course of the 1980s and Austria’s integration in the emerging world financial market.

#### *1.1.2. Sweden: full employment via wage solidarity and active manpower policy:*

A sophisticated economic model, developed by the LO trade union theorists Gösta Rehn and Rudolf Meidner at the beginning of the 1950s, allowed Sweden to combine a policy of full employment with low inflation (Ryner: 1994, pp.400/401). The solidaristic wage principle was its core feature. The wage rate was not set according to the ability of an individual firm to pay, but as a “just” wage across all sectors. For inefficient firms, exposed to international competition, this wage was often too high and they, consequently, went bankrupt and set labour free. Efficient, competitive firms, on the other hand, were able to reap large profits, as the set wage was lower than what they were able to pay. Together, higher profits and the labour supply of bankrupt companies were strong incentives for expansion in the dynamic sectors of the economy. Hence, “wage determination became the key mechanism to regulate the balance in favour of dynamic accumulation and fair distribution” (Ryner: 1994, p.401). These incentives alone could not, however, guarantee that companies actually

invested in the economy. In order to ensure that profit-making companies did not bid up the price of labour, the Rehn-Meidner model included high taxes on profits. These public savings were, then, lent to the corporate sector for investment in new industrial capacities. “Low interest rates would offset whatever negative effects the combination of wage solidarity and fiscal frugality might have on the propensity of firms to invest” (Pontusson: 1995, p.27). Additionally, the state supported the transfer of labour from inefficient to efficient companies via an active manpower policy, which included education, job training, information, generous grants for families to move and the creation of some sheltered employment (Esping-Andersen: 1985, pp.229-231). This active manpower policy together with the solidaristic wage principle made wage restraint acceptable to Swedish trade unions. It was based politically on a corporatist system of central wage negotiations by peak organisations of employers and trade unions (see below).

The Swedish public sector is of a different nature than the Austrian. Between 1978 and 1980, state-owned enterprises accounted for about 6 per cent of Sweden’s GDP. Except for the Netherlands, this is the smallest share in Western Europe (Parris et al: 1987, p.27). The public sector is, instead, responsible for the provision of education, health care, day nurseries, pre-school educational facilities and (although less so) housing, all areas which are not exposed to international competition. Public spending in these areas rose from roughly 30 per cent of the GNP in 1960 to 66 per cent by 1980. In addition to being a tool for constant social reform, the expansion of the public sector was used to safeguard full employment. In the 1970s, expanding industrial sectors were less and less able to absorb labour shed by declining industries. Almost 90 per cent of job growth took place in public social services during this time

to take up the slack (Heclo/Madsen: 1987, pp.165/166). “While the average share of public employees among OECD countries was about 20 per cent in 1980, more than one-third of working Swedes were employed in the public sector” (Premfors: 1991, p.85).

Luif, furthermore, points out that “in addition to the huge sheltered sector, there was an ... encompassing regulation of the financial markets in the corporatist EFTA-countries” [translation by the author] (Luif: 1994, p.26). Achieved via the control of currency transactions these governments, including Austria and Sweden, were in a strong position to manage their national economy. While Austria chose to adopt a hard currency policy, the regulation of national financial markets allowed Sweden to pursue its policy of full employment via repeated devaluations. In 1977, it left the so-called Snake, a predecessor of the EMS, and devalued the Swedish Krona (SKr) by 10 per cent the following day, having already devalued in April 1977 by 6 per cent. Another devaluation by 10 per cent followed on 14 September 1981. “Sweden’s primary regime objective in the 1970s was to maintain domestic policy autonomy - and frequent adjustments ... were seen as an integral part of Sweden’s full employment arsenal” (Moses: 1995, p.418).

To conclude, “in linking international liberalization with domestic compensation, the small European states respond to economic change with flexible policies of industrial adjustment” (Katzenstein: 1985, p.57). In order to be able to fulfil its role of “buffer” between international and national economy in this type of adjustment strategy, governments must be economically autonomous. Otherwise, their economic policy does not yield the desired results. The arrangements of “embedded liberalism” (Ruggie: 1982; see Chapter 1, section 5.1), combining international free

trade with national economic policy autonomy, provided the basis for this policy at the world level and were “crucial in making the Rehn-Meidner model work adequately” (Ryner: 1996, p.15). The same can be said with reference to “Austrokeynesianism”.

## *1.2. The Austrian and Swedish political systems:*

### *1.2.1. The Austrian party system:*

The Austrian party system has long been dominated by two big parties, the Christian Democratic ÖVP and the SPÖ. Between 1945 and 1966, they governed Austria together in a grand coalition, a situation which has been repeated since 1987. From 1966 to 1970, the ÖVP formed a single government, between 1970 and 1983 it was the SPÖ's turn to do the same. Only between 1983 and 1986, there was a coalition government of one of the two big parties, the SPÖ, with the small Freiheitliche Partei Österreichs (Austrian Freedom Party, FPÖ). The joint predominance of the ÖVP and SPÖ is most clearly expressed in their combined share of the vote. Although this figure declined steadily from the early 1970s onwards, it was not before the general elections of 1994 that they lost their two-third majority (see Table No.4, Appendix). In 1986, the Grüne Alternative (Green Alternative Party, GA) entered parliament as the fourth party and in 1993, five MPs left the FPÖ to establish the Liberales Forum (Liberal Forum).

The fact that the SPÖ formed a single party government from 1970 to 1983 does not mean that it enjoyed a hegemonic position within the Austrian party system. Austria's federal structure always gave the ÖVP a governmental role in several of the Länder and, more importantly, the Austrian Economic and Social Partnership (ESP),

where interest associations are co-opted into policy-making, gave the ÖVP a strong influence via the Bundeswirtschaftskammer (Chamber of Commerce, BWK) and the Präsidentenkonferenz der Landwirtschaftskammern (Chamber of Agriculture, LK), the two interest associations it has dominated.<sup>4</sup>

### *1.2.2. The Swedish party system:*

The Swedish party system has been characterised by Social Democratic hegemony. “Between 1932 and 1976 Sweden was governed uninterruptedly for 44 years by a Social Democratic prime minister” (Bergström: 1991, p.8). Only between 1976 and 1982 and between 1991 and 1994, was the SAP in opposition. There have traditionally been three parties on the right of the party system, i.e. the FP, the conservative MS and the CP, the former Agrarian Party. Additionally, in 1991, the Christian Democratic Party and the right-wing populist party New Democracy gained seats in parliament. While the former just managed to hang on in 1994, the latter’s “exit was as abrupt as their entry had been three years earlier” (Madeley: 1995, p.425). These two parties do not feature highly in this thesis due to this short and unstable parliamentary success. On the left, there have additionally been the VP and, since 1988, the Miljöpartiet de Gröna (Green Party, GP). The latter dropped out of parliament in 1991, but was reelected in 1994.

The Social Democratic hegemony has not been expressed in its share of the electoral votes. The SAP has generally gained 40 per cent and more, but it never received a decisive majority, except for 1940 (see Table No.3, Appendix). It often

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<sup>4</sup> For a general discussion of the Austrian party system, see Müller: 1996b. For an overview up to 1986/87 of various aspects of the Austrian party system such as changes within the system, changing issues, voting behaviour, party funding, etc., see Pelinka/Plasser: 1989.

formed a minority government and relied on the tacit support of either the CP or VP. Castles points out that the split of the right into three parties has been as important for the SAP's dominant position as its own electoral strength. It "made it very difficult to find the necessary cohesion to offer a credible alternative to Social Democratic rule" (Castles: 1978, p.23; see also pp.131-142). More importantly, however, and similar to the neo-Gramscian concept of hegemony, Heclø and Madsen point out that "hegemony need not consist of unanimous or even majority support: it consists of the fact that almost everyone, knowingly or unknowingly, dances to the tune of the leading player" (Heclø/Madsen: 1987, p.23). This has, firstly, been ensured via the SAP's immense organisational power in terms of members, active campaign workers and close links to the Landsorganisationen i Sverige (Swedish Trade Union Confederation, LO) and other mass membership organisations. Secondly, the SAP's long tradition of programmatic renewal, expressed in regular new programmes developed together with the LO, placed it in the driving seat of formulating the dominant frameworks of thought (Sainsbury: 1993, p.42). These new programmes were generally accompanied by a range of educational materials, study circles and local conferences with the aim of making people identify themselves with the Social Democratic project of constant social reform. At the end of the 1970s, about 1.5 million workers participated in study circles organised by the SAP, LO or the Tjänstemännens Centralorganisationen (Swedish Confederation of Professional Employees, TCO) (Heclø/Madsen: 1987, p.25). At the level of ideas, "contemporary Swedes have been taught to comprehend their present as the result of a largely coherent sequence of Social Democratic plans and therefore have become inclined to look to the Social Democrats for workable future solutions" (Heclø/Madsen; 1987,

p.44). Ad hoc measures of the past, thus, appear to have been a part of a grand strategy, which further cemented the SAP hegemony.

It is frequently argued that we have experienced defreezing party systems, the emergence of new cleavages, new parties and a general change and instability in party systems since the 1970s. These tendencies were also noticed in the cases of Sweden and Austria (see e.g. Bergström: 1991, p.29 for Sweden, and Luther: 1992, p.93 for Austria), and the emergence of new parties in parliament seem to prove the point. Considering, however, that the SAP regained its traditional governmental role in the 1994 Swedish elections and that the ÖVP and SPÖ grand coalition was not only renewed after the 1995 Austrian general elections, but also regained its two-third majority in parliament, it is still possible to speak about a considerable stability in the two party systems for the purpose of this thesis.

### *1.2.3. Corporatism in Austria and Sweden:*

Austria and Sweden have peculiar political systems. Parallel to the party system, there is the organised co-optation of interest associations in the policy-making process. This double structure is best described as corporatism. Lehmbruch's definition of corporatism contains the following three dimensions (Lehmbruch: 1982, pp.5/6). Firstly, recognition and control by the government: interest groups are co-opted into the decision-making process of the government, and particular groups are closely linked to particular parties and participate in policy formulation and implementation in their specific area. Secondly, the structure of the interest intermediation: interest associations in a corporatist system are hierarchically organised with compulsory membership and, enjoying a monopoly in their specific area, do not have to compete

with other associations. Finally, industrial relations are characterised by a strong concertation of labour and capital with the government at the national level.

Corporatism is not used here as a political system of consensual policy-making opposed to the adversarial system of countries such as the USA. It is regarded as a description of political practices, a starting-point for providing a picture of the political systems of, and for an analysis of policy-making in, Austria and Sweden. It does not imply that there is no political conflict, be that between interest associations, within them or in their relations to political parties.<sup>5</sup> As Heclo and Madsen demonstrate, Swedish policy-making is characterised by both consensus and conflict (Heclo/Madsen: 1987).

#### 1.2.3.1. Austria: the Economic and Social Partnership.

Historically, the Austrian corporatist system was established after World War Two as a response to the experience of civil war in 1934, repression, defeat in war and foreign occupation (Katzenstein: 1985, p.188). Additionally, Marin makes clear that the success of corporatism after 1945 depended on its correspondence to the underlying socio-economic structure. The nationalised industry allowed for a certain control of the means of production, and the absence of a powerful financial and industrial bourgeoisie further added to the balance of power between capital and labour (Marin: 1985, pp.121/122).<sup>6</sup> Austrian corporatism comes very close to Lehmbruch's ideal type definition. As for the first dimension, the four main interest associations, the so-called

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<sup>5</sup> Lehmbruch/Schmitter: 1982 is an example of treating corporatism as a political system. Castles and Milner are examples of how consensus is considered to be one of the basic principles of Swedish policy-making due to corporatist arrangements (Castles: 1978, pp.30/31; Milner: 1989, p.84).

<sup>6</sup> The crucial role of the underlying Austrian socio-economic structure is often overlooked by accounts, which focus on the institutional set-up and the relation between interest associations and political parties (e.g. Tálos: 1996).

“Sozialpartner” or social partners, i.e. the Arbeiterkammer (Chamber of Labour, AK), the BWK, the LK and the Österreichischer Gewerkschaftsbund (Austrian Federation of Trade Unions, ÖGB), are co-opted into governmental decision-making through the key institution “Paritätische Kommission für Preis- und Lohnfragen” (Parity Commission). The social partners are closely linked to the government/party politics level through multiple activities of functionaries (Personalunion/Ämterkumulierung) and staff-sharing. Marin sums this up as follows:

parties are (more or less) composed of associational segments (Bünde of employers, employees and agriculture) and leading positions are filled according to their strength in respective constituencies; associations are differentiated by political factions and their leadership is constituted according to their electoral strength within the chambers or the ÖGB (Marin: 1985, p.101).

Lehmbruch adds that “many of ... [the social partners’] ... leaders sit in Parliament, occupying important party functions. Holders of ministerial port-folios for economic and social matters are recruited among them” (Lehmbruch: 1982, p.17). In general, the AK and the ÖGB are controlled by the SPÖ, while the ÖVP dominates the BWK and the LK (Tálos: 1996, p.108).

Secondly, the three Chambers are hierarchically structured and membership is obligatory. They are strongly centralised bodies, which enjoy a monopoly in their sphere. Only the ÖGB is based on voluntary membership, but it is also highly centralised and the degree of unionisation is high in Austria with more than 60 per cent of blue- and white-collar workers (Tálos: 1996, p.105).

In the third dimension of corporatism, the concertation of industrial relations takes place within the Parity Commission, which consists of members of the Chambers, the ÖGB and two members of government. It has three main functions

represented by three sub-committees. The price sub-committee used to regulate about one third of all prices until 1992, when its role was changed into competition policy. The wages sub-committee “decides on the timing of autonomous collective bargaining and ratifies its results, which are not valid without its consent” (Marin: 1985, p.108). Finally, the Economic and Social Advisory Board develops “concepts and proposals for decision-making in economic policy and middle-term planning based on scientific information” (Marin: 1985, pp.108/109). Moreover, the social partners have seats on the policy-making body and the governing board of the Österreichische Nationalbank (Austrian National Bank, ANB), thereby co-determining Austria’s monetary policy (Dörfel et al: 1993, p.117). Overall, Austrian corporatism is an institutionalised corporatism, called “Wirtschafts- und Sozialpartnerschaft” or Economic and Social Partnership (ESP), and rests upon the voluntary co-operation of interest groups.<sup>7</sup>

To sum up, the policy of “Austrokeynesianism”, managing an economy with a competitive sector, open to world free trade, a large export-oriented, but subsidised industrial public sector and a sheltered sector, protected against the pressures from outside, was based on a system of institutionalised corporatism which attributed clear policy functions to interest associations. “Essentially, it obliged the social partners to monitor incomes policy in a way that was consistent with a hard currency stance, in return for an obligation by the government to take fiscal action if full employment and/or business income was endangered” (Wieser/Kitzmantel: 1990, pp.434/435).

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<sup>7</sup> For discussions about the ESP and its future, see Bischof/Pelinka: 1996.

### *1.2.3.2. The Swedish Model:*

The Swedish corporatist system was established in the 1930s in response to the Great Depression. Its political basis, the alliance between farmers and workers, was formed in 1933 in a crisis agreement and its cementing of 1936 in the form of a formal coalition “paved the way to industrial peace in the 1938 Saltsjöbaden agreement, concluded between the central organization of business and the labour movement” (Katzenstein: 1985, p.141, see also Esping-Andersen: 1985, pp.86/87). The unions acquiesced to the continuation of private control over property and capital markets, openness to the world economy, and offered industrial peace. In exchange, the employers accepted higher labour costs, a relatively expansive fiscal policy and growth of welfare services. In itself, Saltsjöbaden represented the first of many peak level agreements, which would characterise the Swedish economy throughout its post-war history. The SAP government supported the agreement through its commitment to full employment, its active manpower policy and the maintenance of a large public sector, which were crucial cornerstones of the ongoing co-operation between capital and labour.

There are several explanations for the establishment of corporatism in Sweden. According to Korpi’s “balance of class power model”, Saltsjöbaden was the result of a change in the distribution of power resources in society due to the SAP’s coming to power. Labour could now not only muster its organisational strength through its unions and political party, it could also rely on its power in government in balancing capital’s control over the means of production. Capital had to accept labour’s strength and was forced into a general agreement (Korpi: 1978, pp.76-108 and pp.317-319; Korpi: 1983, pp.45-50). Swenson and Kurzer, however, argue that important sections

of capital played an active role in the process leading to Saltsjöbaden. They point out that those sections of capital, which were exposed to international competition and found it difficult to match the pay offered in the sheltered construction sector, had strongly pressed in favour of centralised wage-bargaining. It was perceived as a method to keep sheltered sector pay under control. This section of capital was supported by farmers, who also suffered from high labour costs, by the trade unions in the internationally-oriented sector, where the discontent among the workers about lower wages in comparison to the construction sector had been rising, and the Social Democratic government. In short, large sections of capital were integrated in a centralising cross-class coalition, which eventually led to the Saltsjöbaden agreement of 1938 (Swenson: 1991a; Kurzer: 1993, pp.26-31).<sup>8</sup> This explanation implies two important points. Firstly, capital's support for corporatism was essential. When it withdrew in the 1980s, corporatism broke apart in Sweden (see below). Secondly, capital and labour may be internally divided into several fractions according to the organisation and orientation of production. Splits of this type also appeared in the debate about EC membership (see Chapter 4, section 3.1 and 3.2).

As for the first dimension of Lehmbruch's definition of corporatism, Lewin identifies five forms of interest associations' participation in government decision-making and implementation (Lewin: 1994, pp.67/68). The first form is the representation on state commissions, set up by the government as an extension of the relatively small ministries. They have the task of preparing major social reforms and,

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<sup>8</sup> Rothstein locates the start of corporatism even in 1932, when a Liberal government with the strong support of the Moderate Party replaced the market economy in agriculture with a planned economy via the formation of a comprehensive co-operative to counter the crisis in dairy products. This new relation between interest organisation and party - the co-operative was closely aligned with the Agrarian Party - was, then, transferred to the labour market, after the SAP had come to power in 1932 (Rothstein: 1992). This can be regarded as a complementary explanation to the analysis provided by Swenson and Kurzer.

therefore, offer considerable influence on policy-making (Heclø/Madsen: 1987, pp.12-16). The consideration of the reports of such committees is a further form of participation. Thirdly, the peak organisations are represented on the lay boards of about 30 state agencies such as the Labour Market Board, the Occupational Safety Board, the National Board of Education, etc. The general policy guidelines are provided by the respective ministries, but the fine-tuning and implementation are the responsibility of these agencies (Interview No.64; Stockholm, 28/11/1996). “During the 1970s, one third of all the members on agency boards were representatives of organizations” (Lewin: 1994, p.67). Furthermore, interest associations participate in local government in tasks, as, for example, the trade unions in the administration of unemployment insurance. Finally, they participate through general agreements, of which the agreement in Saltsjöbaden of 1938 was the first.

There are strong links between interest associations and political parties. The party-union relations between the SAP and the LO have been institutionalised in various ways. “Besides collective affiliation ... [phased out between 1987 and 1990] ..., organisational ties exist through overlapping membership of the LO leadership in the executive bodies of the party” (Sainsbury: 1991, p.40). Leaders of the TCO have frequently been members of the SAP (Bergström: 1991, p.8). There are also strong links between the CP and the Lantbrukarnas Riksförbund (Federation of Swedish Farmers, LRF). At the end of the 1970s, about 65 per cent of LRF members were members of the CP. This figure has decreased since then, but it is estimated to be still over 50 per cent. Between 20 and 25 per cent of LRF members are members of the MS (Interview No.50; Stockholm, 14/11/1996). “Large business interests and upper-income groups traditionally have been associated with ... [the MS] ...”

(Heclo/Madsen: 1987, p.17). Their links to bourgeois parties are, however, less strong. They had often withdrawn from partisan politics, because they were quite satisfied with the Social Democratic government's economic policy (Swenson: 1991a, pp.536/537). In parliament, these links implied that between 1971 and 1979 35 per cent of MPs were members of the LO, 29 per cent of the TCO, and 15 per cent of the Sveriges Akademikers Centralorganisation (The Swedish Confederation of Professional Associations, SACO), while 9 per cent were members of employers' associations (Gustafsson: 1986, p.40).

In the second dimension, the degree of unionisation is roughly 85 per cent of the total workforce<sup>9</sup> and, thus, very high and the Svenska Arbetsgivareföreningen (Confederation of Swedish Employers, SAF) "represents 40,000 firms in private industry, including all of the largest firms" (Ahlén: 1989, p.331). In contrast to Austria, however, there is no compulsory membership, more rank and file autonomy, and no individual peak trade union or employers' association enjoys a representational monopoly. The LO organises blue-collar workers and lower non-manuals and is with over 2 million members the main trade union. Nevertheless, the TCO with over one million members of white-collar employees and also the SACO, which mainly represents university-trained professionals, with roughly 350,000 members, enjoy an independent voice.<sup>10</sup> On the employers' side, there are two big associations, which work as partners in the promotion of business, the Industriförbundet (The Federation of Swedish Industries, SI) and the SAF. The former "lobbies government on policies it sees affecting the growth and efficiency of industry, advises constituent firms and

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<sup>9</sup> "Union membership peaked at about 86% of all employees in 1986, went down to about 81% in 1991, but is on its way up again amidst growing unemployment" (The Swedish Institute: 1994, p.2).

<sup>10</sup> For 1994, the Swedish Institute presents the following membership figures: LO - 2,2 million; TCO - 1,3 million; SACO - 370,000 (The Swedish Institute: 1994, p.2).

trade associations on these matters, and works to get these messages put before the public, leaving collective bargaining to SAF” (Milner: 1989, p.87). Företagarna, the Federation of Private Enterprises, mainly represents small- and medium-sized enterprises, for which it fulfils the same function as the SI for its members. Within the various associations, there was a strong hierarchy and predominance of the central organisations over their affiliated unions or member associations. During the 1980s, however, this hierarchy was undermined and the principle of collective wage-negotiations came under pressure (see section 2.2.3). Finally, the LRF represents agricultural interests. The fact that it organises farmers and the food processing industry at the same time makes it a powerful interest association (Milner: 1989, p.76). It is the only association, which enjoys a representational monopoly.

Considering the third dimension of corporatism, unlike in Austria, the concertation of industrial relations has not been institutionalised. It became a regular feature of Swedish politics via the repetition of collective central wage-bargaining year after year. It was mainly established during the 1950s, and this not only due to the LO. In 1952 and 1956, it was the SAF’s insistence on centralised bargaining, which pushed individual unions in LO line. From then onwards, the SAF-LO negotiations in the private sector provided the unchallenged guidance for other negotiations. This was to change in the late 1960s and 1970s. Firstly, in 1966, public employees were granted the right to bargain collectively and to strike, which opened another arena. Secondly, due to a rapid expansion of the service sector, white-collar unions, especially the TCO but also SACO, gained in importance. A new model was devised at the end of the 1960s by the SAF and LO together with the TCO, but this did not prevent the emergence of additional collective wage-bargaining rounds.

“Suddenly the whole structure of bargaining was exposed as much more complicated than the simple system dominated by the private sector and by negotiations between LO and SAF” (Ahlén: 1989, p.332). In the private sector, the PTK (the Federation of Salaried Employees in Industry and Services) was formed as a negotiation cartel by unions affiliated to the TCO and SACO. It bargained parallel to the LO-SAF negotiations. In the public sector, affiliated unions of all three major trade union organisations formed two negotiation cartels, one for state employees and one for local government employees. At the national level, their cartel faced the National Agency for Government Employers and, at the local government level, they negotiated with the Federation of County Councils and the Swedish Association of Municipal Councils. Although there was no central institution, which co-ordinated the negotiations similar to the wages sub-committee of the Parity Commission in Austria, the main trade union confederations LO, TCO and SACO enjoyed a strong position with reference to their affiliated unions until the early 1980s, as did the SAF towards its member federations (Milner: 1989, pp.86-91; The Swedish Institute: 1994).

Overall, corporatism and the SAP hegemony within the party system provided the political structure for the economic policies of full employment, solidaristic wages, active manpower, large public sector and generous welfare provisions. Together, this is often referred to as the Swedish Model. A final component of this model is the emphasis on gender equality to be achieved via equality in the labour market and economic independence for women. Especially the rapidly expanding public sector absorbed female labour in the 1970s and 1980s (Eduards: 1991).

## 2. The impact of the processes of globalisation on Austria and Sweden:

In Chapter 1, section 5, it was argued that the form of state has been restructured from the Keynesian to the neo-liberal night-watchman state in the Western World against the background of the transnationalisation of social relations. This section explores the impact of globalisation on Austria and Sweden. This does not cover all aspects of the impact, but it confirms that relations have changed and that, therefore, an analysis of Austria's and Sweden's accession to the EC should be conducted against the background of globalisation.

According to the characteristics of globalisation, the transnationalisation of finance and production, and the change in the economic paradigm from Keynesianism to neo-liberalism (see Chapter 1, section 2.2), three primary indicators can be identified. The first indicator relates to the transnationalisation of production. It has to be investigated whether there has been a change in the countries' production structure since the early 1970s and, if so, in what way. Considering the crucial role of TNCs and FDI, the degree of the transnationalisation of production is assessed here, firstly, through the number of TNCs and the scale of their activities in the production system of Austria and Sweden. The percentage of employment and turnover abroad indicates their general orientation. Secondly, changes in inward and outward FDI flows indicate an increasing or decreasing degree of transnationalisation.

The transnationalisation of finance implies that a country's financial markets have been integrated into the world financial market. The clearest indicator for this is whether the two countries' financial markets have become deregulated and liberalised, since this has been identified as one of the components of the transnationalisation of finance.

Thirdly, the extent neo-liberalism has taken root in Austria and Sweden needs to be examined. This can be identified in the expression of a conflict between neo-liberal and Keynesian ideas about issues such as deregulation, privatisation and cut-backs in the welfare system, all points of the neo-liberal agenda. In order to ascertain the influence of neo-liberalism, a change should, however, also be noticed in the two countries' actual policies. In other words, it has to be investigated whether a shift from the interventionist welfare state in the direction of the neo-liberal night-watchman state has occurred.

### *2.1. The impact of globalisation on Austria:*

#### *2.1.1. The transnationalisation of Austrian production:*

Austria's post-war production structure has been predominantly characterised by small-scale industry. In 1992, out of the 2.19 million working population, 55 per cent were employed in small-sized companies with less than 100 employees and 28 per cent in medium-sized companies with less than 1000 employees. This is a relatively high percentage in an international comparison. In general, these companies contribute only between one and two thirds to the overall national employment (Breit/Rössl: 1992, p.191).

Siegel identified 21 Austrian TNCs, but only one of them, Austrian Industries, lived up to international standards in 1990 (Siegel: 1992). It was formed as a state-owned holding company in 1987, when the public industry sector was restructured, but the experiment to create an Austrian TNC of international significance failed in 1992. Leading managers argue that this was due to a lack of international business spirit in Austria (Interview No.8; Vienna, 11/05/95), government officials point to

huge financial losses in the early 1990s (Interview No.7; Vienna, 11/05/95). The 21 TNCs were mainly concentrated on Austria in their production structure, employing only 20 per cent of their workforce abroad (Siegel: 1992, p.167). In short, the low number of TNCs and their focus on Austria signals a low degree of transnationalisation of production.

Nevertheless, this does not mean that Austria has been totally unaffected. Although still modest in overall terms, both inward and outward FDI rose during the second half of the 1980s. Outward FDI increased from US\$ 66 million in 1985 to US\$ 1601 million in 1990, inward FDI from US\$ 164 million to US\$ 557 million during the same period (see Table No.5, Appendix). This tendency was underlined by the growth of the foreign private sector in Austria. Between 1970 and 1985, employment rose by 16 per cent in this sector, while eight per cent employment was lost in the national public sector and 25 per cent in the national private sector. The proportion of employment in the foreign private sector out of total employment is, consequently, high in an international comparison. With roughly 27 per cent, Austria occupied the third place behind Canada and Belgium-Luxembourg out of 17 OECD countries in the first half of the 1980s (Pichl: 1989, pp.164/165).

Overall, however, Austria is linked to the global economy mainly via the traditional route of exports and imports in goods. In 1990, outward FDI accounted for only 3.9 per cent of the export in goods and inward FDI for only 1.3 per cent of the import in goods despite the general increase in FDI, outlined above (Bellak: 1992, pp.31/32). Furthermore, the quantity of outward and inward FDI is small in comparison with the total domestic investment. For example, inward FDI made up only 4.4 per cent of domestic investment in 1990 (Bellak: 1992, pp.30/31). This is in

stark contrast to the Swedish situation, where outward FDI in 1989 was larger than the total domestic investment (see below). To conclude, the degree of transnationalisation of production increased in the 1970s and 1980s only slowly. Austria is still linked to the global economy via cross-border flows with an emphasis on trade. In short, globalisation has been felt as increasing internationalisation, not transnationalisation of production.

### *2.1.2. The transnationalisation of Austrian finance:*

The real power in the post-war Austrian financial system rested with the joint-stock commercial banks. They, and not the ANB, conducted the country's international financial activities (Kurzer: 1993, p.166). Public control over these banks and, thereby, over the financial system had been the result of pre-war developments. The government had nationalised several banks to rescue them from bankruptcy (Kurzer: 1993, p.38). As a result, of the three most important joint-stock commercial banks, the Creditanstalt Bankverein and the Österreichische Länderbank were in public ownership. Only the Österreichische Kontrollbank was privately owned. The ANB was jointly owned and controlled by the government with 50 per cent of the shares and the social partners holding the other 50 per cent. In general, the financial system was oriented towards the domestic market. "Neither commercial banks nor specialized credit institutions were driven by international ambitions, nor were they at the forefront of financial innovations" (Kurzer: 1993, p.168). Integration into the world financial market was achieved in a different way.

The Austrian preference for low inflation and a hard currency has to be seen in the light of Austria's monetary history since the 1920s (Dörfel et al: 1987, p.116).

Having experienced hyperinflation between 1920 and 1922, a currency crisis in 1931 and turbulent times directly after World War Two, a hard currency policy became a legal obligation for the ANB. Consequently, from 1971 onwards, but especially after 1973, the final break-up of the Bretton Woods system, the AS was first pegged to a currency basket and, then, in 1977, solely to the DM as the only remaining strong currency within the basket. Austria preferred a hard currency and low inflation to monetary policy autonomy. When it became clear that the 1979 EMS had the goals of low inflation and stable exchange rates, Austria followed EC policy more closely. Austrian association with the EMS was rejected by the EC. Austria could not become a part of the Exchange Rate Mechanism as a non-EC member, while some EC members themselves did not participate in it (Interview No.16; Vienna, 18/05/1995). Nonetheless, the ANB decided to shadow the EMS autonomously and, in order to achieve credibility for its hard currency policy, openly declared the pegging of the AS to the DM in 1981. The aim was to have a monetary and exchange rate policy compatible with current and future policy goals of the EC. When the SEA included the free movement of capital, Austrian decision-makers followed. The gradual liberalisation of Austrian financial markets started in 1986 and “culminated in the abolition of the last exchange restrictions in November 1991” (Dörfel et al: 1993, p.118). In conclusion, Austria gave up an autonomous monetary policy by pegging the AS to the DM. It, thereby, voluntarily accepted restrictions of its national policy autonomy in the 1970s. Although international pressure through the processes of globalisation was felt in Austria (Interview No.16; Vienna, 18/05/1995), the integration of Austrian financial markets into the world financial market was the logical consequence of the hard currency policy adopted earlier. As argued in Chapter

1, section 5.3, states are not only forced to adapt to the global economy. they also play active roles in the processes of globalisation.

### *2.1.3. The restructuring of the Austrian state:*

The ideological debate between Keynesian and neo-liberal ideas started in Austria in 1982 against the background of severe economic difficulties and unemployment “beginning to creep up to levels not seen for decades” (Wieser/Kitzmantel: 1990, p.436). The ÖVP adopted a neo-liberal strategy, which included demands for budgetary cuts, tax reform, flexibility, deregulation and privatisation. It was an attempt to offer an electorally successful alternative to the SPÖ’s Keynesianism (Meth-Cohn/Müller: 1994, pp.162/163). Nevertheless, changes in the SPÖ’s economic policy could also be noticed, slightly later than the ÖVP but before both parties formed a coalition government in 1987. This was due to the devastating economic situation in general and the huge deficits of the public sector industries in 1985 in particular. The Social Democrats had lost confidence in being able to manage the national economy. Moreover, the belief that a Social Democratic manager is morally better than a liberal capitalist one vanished in the wake of the scandals and mismanagement in the nationalised industries, exemplified by the financial debacle of the VOEST steel firm in 1985 due to financial speculations on the oil market (Interview No. 15; Vienna, 17/05/1995). In the government’s economic report to parliament in 1985, Chancellor Fred Sinowatz (SPÖ) described Austrokeynesianism as a policy of “diving-through” (Durchtauchen), which could only be used in the short term. A departure from the budget deficit spending of the 1970s was indicated (Seidel: 1993, p.146).

This policy direction was reinforced by Franz Vranitzky, who became the new SPÖ Chancellor in 1986. He had been the deputy director of the Creditanstalt and the director of the Länderbank, the two large publicly-owned banks, and Finance Minister from 1983 onwards. He approached the economic problems as a business man, and his “team abandoned Kreisky’s policy of relying on the nationalised industries, interventionist industrial policies, and stimulative fiscal deficits to secure full employment” (Schultz: 1992, p.189). Instead, together with the ÖVP as coalition partner since early 1987, “it now emphasised budget consolidation, profitability and privatisation for the public sector” (Lauber: 1992, p.157). The huge public sector, having originally been regarded as a government asset to obtain full employment, was now considered to be a burden on the economy. Subsidies for the public sector should, thus, be allocated according to the principle of efficiency, not in order to maintain full employment. “As early as 1985, Vranitzky declared that the SPÖ was quite open to the idea of privatizations and viewed this as a purely pragmatic matter” (Lauber: 1996, p.136). The coalition agreement between the ÖVP and the SPÖ of 16 January 1987 further spelled out that the open sector of the economy could no longer be alone responsible for structural adjustment. The new task is “to expose, step by step, more areas of the sheltered sector to international competition. The orientation towards regulation will have to give way to the direction towards the market ...” [translation by the author] (Arbeitsübereinkommen: 1987, p.652). In short, there has been a change at the ideological level: “a new dimension has emerged: the liberal belief in the greater efficiency of competition in the market place” (Gerlich: 1992, p.141).

The change in economic ideas prepared the ground for political action. By the mid-1980s, neo-liberalism had already become a part of the structure in the form of

intersubjective meanings through its adoption by more and more countries and international organisations. After additionally both governing parties had adopted neo-liberal ideas in Austria, policies of this type appeared to be the only possible option in view of Austria's economic crisis. The new coalition government announced the consolidation of the budget through a period of austerity in 1987. This was not successful throughout the following years (Lauber: 1996, pp.137/138), but the intention to pursue austerity policies indicated a change in practical politics. Moreover, in general terms the state withdrew from the market. In 1987, the nationalised sector was restructured. Politicians left the Boards of Directors of companies, while managers from the private sector took over. It was their task to transform large parts of the nationalised industry into an efficient and competitive TNC labelled Austrian Industries. Non-competitive firms were closed down, people sent into early retirement or made redundant (Interview No.8; Vienna, 11/05/95). Austrian Industries was still owned by the state via the Österreichische Industrieholding Aktiengesellschaft (ÖIAG) being the financial holding company. The way it was run, however, was according to market principles to avoid the necessity of future state subsidies. An additional privatisation programme of the SPÖ and ÖVP was at least partially implemented between 1987 and 1990. "Within the ÖIAG, 30 per cent of shares in the ÖMV ... [oil industry] ... were floated in two tranches; the ÖIAG share in Siemens Austria was reduced to 25 per cent, and around 60 smaller firms, with some 13,000 employees were sold in whole or in part ...; by 1989, the state share in the Länderbank and Creditanstalt was reduced to 51 per cent ..." (Meth-Cohn/Müller: 1994, p.168).

In the following years, the privatisation programme accelerated further. In 1990, the SPÖ and ÖVP agreed on dropping the legal restraint on privatising more than 49 per cent and, when it became clear in 1992 that Austrian Industries had again accumulated huge losses, another restructuring of the public industry with further privatisations was on the agenda. Austrian Industries was abolished and its assets were transferred back into the ÖIAG in December 1993 with the task of privatising the majority of its parts (Meth-Cohn/Müller: 1994, pp.174/175). The once largest nationalised sector in Western Europe has been almost completely sold off.

Finally, two tax reforms were carried out. “The tax reform of 1989 was one of the most sweeping in the history of the Second Republic; its main goal was to act on the supply side by considerably lowering income and corporate tax rates and by suppressing incentives to low risk/low yield forms of investment and savings” (Lauber: 1996, p.139). A second tax reform followed in 1994 and Austria became a country with extremely low business taxation.

Overall, since the mid-1980s, Austria’s production structure has been increasingly internationalised, the finance structure transnationalised and neo-liberalism has replaced Keynesianism as the dominant economic policy paradigm. Once the frameworks of thought had been changed in such a way, austerity budgets, privatisation of the nationalised industries and tax reforms appeared to be the only viable options.

## *2.2. The impact of globalisation on Sweden:*

### *2.2.1. The transnationalisation of Swedish production:*

Sweden has fostered an impressive number of large TNCs. “These corporations account for the overwhelming part of domestic manufacturing production, employment and exports” (Braunerhjelm et al: 1996, p.2). For example, in 1986, the 30 largest Swedish companies accounted for 48.9 per cent of the domestic Swedish employment in mining and manufacturing (Heum et al: 1993, Appendix 3). An increase in capital concentration and centralisation further indicates the importance of the Swedish TNCs for the Swedish economy as a whole. Between 1974 and 1985, the mean employment of the 30 largest companies varied between 22000 and 25000 employees. From 1985 to 1990, this figure rose from 23443 to 33298 employees (Heum et al: 1993, Appendix 4). Olsen also identifies an increasing concentration in ownership and influence. Sweden has experienced a wave of mergers since the end of the 1960s and a trend towards cross-ownership since the late 1970s. As a result, four main ownership groups emerged in a dominant position in the Swedish production structure by the mid-1980s, i.e. the Wallenberg empire, the closely linked Volvo and Skanska spheres, and Industrivarden-Svenska Handelsbank (Olsen: 1991, pp.117-119). In short, the Swedish production structure is dominated by TNCs and is, consequently, extremely transnationalised.

The degree of transnationalisation increased dramatically in the second half of the 1980s, when there was a drastic upturn in outward FDI. While inward FDI had only risen from US\$ 396 million in 1985 to US\$ 2328 million in 1990, outward FDI increased from US\$ 1783 million to US\$ 14136 million during the same period (see Table No.6, Appendix). This is even more dramatic, if one takes into account that “in

1989 for the first time ever, Sweden invested more abroad than at home” (Kurzer: 1993, p.133). The transnationalisation of Swedish production is also expressed in the change in the Swedish and foreign share of TNC’s employees and production. In 1965, TNCs employed 33.9 per cent of their employees abroad, where they achieved 25.9 per cent of their turnover. By 1990, the situation had drastically changed. 60.6 per cent of the workforce was employed in the production abroad, accounting for 51.4 per cent of the turnover. This increased emphasis on production abroad was especially apparent between 1986 and 1990. The percentage of employees abroad rose by 11.4 per cent, i.e. 42.7 per cent of the overall increase between 1965 and 1990, and the percentage of turnover abroad by 9.1 per cent, i.e. 35.7 per cent of the overall increase between 1965 and 1990 (see Table No.11, Appendix, own calculations).<sup>11</sup>

In sum, Sweden has experienced a high increase in the degree of the transnationalisation of its production structure since the late 1960s, but especially during the second half of the 1980s. In some instances, this even included the transfer of headquarters. Asea Brown Boveri moved to Zürich/Switzerland and Tetra Pak and IKEA to locations in the EC.<sup>12</sup>

### *2.2.2. The transnationalisation of Swedish finance:*

The Swedish post-war financial system was dominated by banks. They provided the long-term loans to industry, with which they maintained close links (Olsen: 1991, p.125). This did not, however, imply that banking capital led overall. At the outbreak

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<sup>11</sup> This information relies on the dataset of the Industrial Institute for Economic and Social Research (IUI)/Stockholm. It is based on a questionnaire sent to all Swedish manufacturing enterprises with foreign affiliates approximately every fourth year since the 1960s (Braunerhjelm et al: 1996, p.2 and Appendix).

<sup>12</sup> For a further evaluation of the transnationalisation of Swedish production, see Andersson et al: 1996, pp.27-47.

of World War Two, foreign exchange controls and other forms of capital market regulations had been introduced, only to be strengthened during the 1950s. These regulations, including lending ceilings, liquidity ratios, cash ratios, investment ratios, bond issue control and interest rate regulations, were administered by the Riksbank, the Swedish Central Bank (Jonung: 1986, pp.109-111; Kurzer: 1993, p.176). The Riksbank is directly responsible to the Swedish parliament. Six of its seven directors are elected by parliament, the seventh director and chairman is appointed by the government. This institutional structure guaranteed the governing party, and by implication the SAP, a controlling influence over the bank and, in extension, the financial markets. In fact, "the Riksbank functioned as an agency affiliated with the Ministry of Finance" (Kurzer: 1993, p.175). Together with the pension funds, established in 1960, which gave the SAP some degree of credit steering and investment control capacity, the party's control over the Riksbank and the financial market regulations was a cornerstone of the full employment policy. The control of the financial markets separated the domestic from the international financial markets and provided the necessary economic autonomy for the counter-cyclical Keynesian economic policy.

From 1974 onwards, but especially after the SAP had returned to power in 1982, the financial market regulations were removed step by step. Amongst others, the liquidity ratio requirements for banks were abolished in 1983 and the ceiling on lending by banks removed in 1985 (Jonung: 1986, p.111). There are several reasons for the eventual deregulation of the financial markets. Firstly, against the background of the severe economic crisis, governments had run up a budget deficit of 13 per cent and a current account deficit of 3.7 per cent by 1982. In order to service these debts,

they had to devise new forms of finance, often via finance houses outside the regulated markets. Additionally, “the Swedish government was forced to start borrowing from abroad which contributed to a reduction in Sweden’s financial isolation” (Jonung: 1986, p.113). The government’s influence over monetary, credit and exchange rate policies started declining. Secondly, the regulations themselves had been an incentive to the formation of finance houses. They grew rapidly in numbers in the 1970s and 1980s. “Almost half of them were subsidiaries created by the large commercial banks in order to evade the restrictions imposed by the Riksbank” (Olsen: 1991, p.128).

The big TNCs also participated in this development. In order to reduce exchange-rate uncertainty after the break-up of the Bretton Woods system, but also to gain greater autonomy vis-à-vis the financial market regulations, TNCs like Volvo and Asea set up internal financial companies. From the early 1980s onwards, attempts were made to regulate these finance houses, but new ways of financing were developed with every new regulation, while the de facto control of Swedish banks was disturbed. Eventually, the government opted for deregulation (Notermans: 1993, pp.145/146). It was considered to be better to abolish all regulations instead of having regulations which did not work (Interview No.37; Stockholm, 07/11/1996). In 1986, foreign banks were allowed to open branches in Sweden and, three years later, the SAP government made the final step and abolished foreign exchange controls.

Overall, the deregulation of the financial markets deprived the SAP government to a large extent of its monetary and economic policy autonomy. The Swedish financial markets have become integrated into the world financial market. Nevertheless, although this was predominantly a response to outside pressure

(Jonung: 1986, p.116; Olsen: 1991, p.128), there was also a voluntary element to it. As it will be outlined below, in 1982, the SAP adopted a hard currency policy. The liberalisation of the financial markets increased the costs of pursuing a flexible exchange-rate and, thereby, gave more credibility to the policy of stable exchange rates and a hard currency.

### *2.2.3. The restructuring of the Swedish state:*

A good empirical example of tensions between neo-liberal and Keynesian ideas was the question of the Employee Investment Funds (EIFs), also called wage-earner funds. The Swedish economy had achieved high rates of economic growth under the condition of full employment until the late 1960s. Then, however, it became more and more difficult to channel labour from the declining to the dynamic sectors and the policy of full employment relied increasingly on the expansion of the public sector. Wildcat strikes endangered the internal unity of the labour movement and challenged central LO control, and the perception that Swedish companies enjoyed excessive profits made workers in dynamic sectors demand pay rises at the local level additionally to the centrally negotiated agreement. Inter-union rivalry between LO and TCO over wage increases further added to the pressure for higher wages. As a result, the solidaristic wage principle was undermined and wage drift made wage restraint impossible (Swenson: 1989, pp.144-150).

These problems triggered a joint reform offensive by the SAP and LO. The three main elements were an active industrial policy by the state, the introduction of industrial democracy through co-determination, and collective share ownership of

industry via EIFs (Wilks: 1996, p.96). With reference to the first two aims, remarkable advances were made:

An impressive series of pro-labour laws from 1972 - 1976 ... [were passed] ..., including minority representation on company boards, enhanced powers for safety stewards, much tighter rules on lay-offs and firings and, most importantly, the Codetermination Act of 1976, which ... [required] ... management to negotiate with unions over any corporate decisions that would affect the workforce (Pontusson: 1995, p.28).

Nevertheless, the third component of the reform offensive, the EIFs ran into fierce opposition from employers and opposition parties. On the one hand, the LO attempted to re-establish wage restraint in the dynamic sectors in exchange for collective control over investment (Swenson: 1989, p.163). On the other hand, the EIFs were also perceived as a progressive step towards “transforming the traditional welfare state into an economic democracy” (Heclo/Madsen: 1987, p.253). Especially the original plan, developed by Meidner in 1975, focused on the question of social power and workers’ control over investment. When a slightly changed version was put before the SAP for adoption in 1978, “it was estimated that with average profits of 15 per cent it would take 25 years for labour to achieve over 50 per cent of the voting rights in a company” (Wilde: 1992, p.10). This objective, however, did not threaten particular capitalist interests, it threatened capitalism and its prerogative over investment and management decisions as such. Unsurprisingly, the EIFs “deeply antagonized employers in SAF, mobilizing and unifying the economic and political right to a degree highly unusual in Sweden” (Swenson: 1989, p.176). The SAF organised an ideological counter-offensive. In 1982, it spent almost as much on anti-EIF propaganda than all five political parties together during this general election year. The Swedish public as a

whole was influenced by this offensive, and some of the largest demonstrations in modern Swedish history took place in Stockholm (Burkitt/Whyman: 1994, p.25).

The SAP's loss of power in 1976 prevented the establishment of EIFs. After their return to power in 1982, the fund system was implemented, but only in a watered-down version and with little reference to workers' control over capital and decision-making (Heclø/Madsen: 1987, p.282). None of the five regional funds was allowed to own above 8 per cent (6 per cent in 1988) of the total stock in any public company. They received finance only until 1990, of which two thirds stemmed from the payroll, not from a profit tax. Theoretically, together these funds could acquire as much as 50 per cent of the votes in corporations, but there was little co-ordination in practice towards this goal (Pontusson: 1992, p.210). Overall, the issue of the EIFs led to an increased class conflict and started the process towards the eventual break-up of the cross-class alliance, on which the Swedish Model had been based.

Other ideological conflicts between neo-liberalism and Keynesianism evolved around the issues of privatisation, decentralisation and public sector growth. The SAP could not overlook the rising budget deficits and general economic crisis in the late 1970s and early 1980s. While in opposition, it formulated a crisis programme in 1981, which became its guideline for economic policy, when it was back in government in 1982. As a "third way" between traditional Keynesianism and neo-liberalism, the programme included both traditional policies and departures (Sainsbury: 1993, p.56). "The immediate aim of the 'third way' was to reverse the trend of industrial decline through a dramatic increase in net exports, profitability and fixed investments" (Ryner: 1994, p.392). A 16 per cent devaluation of the SKr was to ensure export-led growth and the recovery of the Swedish economy. This time, however, the

devaluation was the start of a new monetary policy, not the continuation of the past, and “the Big Bang’s yield was to be insured with a new commitment to a fixed exchange rate regime” (Moses: 1995, p.313). The SAP’s crisis programme of 1981 had spelled out the need for a restrictive fiscal and monetary policy and called for a new hard currency policy with the goal of getting inflation under control. Credibility for this new policy was not achieved by linking the SKr to the DM, but by the Riksbank’s action in the market place. In 1985 and 1990, it did not float the currency to relieve the pressure building up on the Swedish reserves. “Instead, both times, it preferred to hike its overnight interest rates rather than devalue” (Moses: 1995, p.318). The liberalisation of the financial markets gave further credibility to the hard currency policy, since it made a flexible exchange-rate policy more expensive.

Two tax reforms lowering the marginal rates of income tax implied “an acceptance that high marginal taxation reduces incentives to save and work” (Stephens: 1996, p.44). First, in 1981, the SAP still in opposition participated in a compromise on tax reforms together with the CP and FP, which lowered the marginal rates of national income tax in general and for the highest rates from 85 per cent to 50 per cent. Then, in another drastic reform, national income tax was abolished for around 85 per cent of the taxpayers in 1990/91. These reforms, the cuts of which were higher for the well-off than for the poorly paid groups, “imply a departure from earlier SAP tax policies, which emphasised income taxation as a key instrument of redistribution” (Sainsbury: 1991, p.37). Nonetheless, this did hardly result in an overall tax decline, since other taxes were increased to finance these cuts.

A similar “third way” strategy was adopted towards the public sector. “To defend the basic accomplishments of the ‘Swedish model’ against the spectre of

radical privatisation it was deemed necessary to adopt a two-pronged strategy: to halt the growth of the public sector and to decentralise its organisation and management” (Premfors: 1991, p.91). One way of reducing the budget deficit was to control the payroll cost in the public sector. The government attempted to stop the linkage between pay rises in the public with pay rises in the private sector. In 1983, the Metal Workers’ Union, affiliated to the LO, had accepted a separate deal with the engineering employers. They received salary increases above average but had to renounce their automatic pay drift compensation clause.<sup>13</sup> Instead of opposing this breach of the centralised solidaristic wage negotiations, the government supported this move with the result, that all unions had lost their compensation clauses by 1986. The way was open for increasing pay differentiation between the private and the public sector (Swenson: 1991b, pp.383-387). The reform of the public sector further led to the political and administrative decentralisation from the state sector to local government. “Decentralisation-cum-efficiency” replaced the “decentralisation-cum-participation” principle from the 1970s (Premfors: 1991, p.92). State and local government companies had to adhere to newly introduced profitability criteria derived from the private sector. Overall, the SAP succeeded in stopping the growth of the public sector relative to the economy as a whole.

Some initiatives were taken in the area of privatisation. Private management principles were introduced in relation to state commercial agencies such as the electric power board in 1987 (Lane: 1994, p.186). The SAP did not, however, accept neo-liberal demands for vast privatisations. Where privatisation was carried out, new

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<sup>13</sup> The engineering employers wanted to pay higher salaries in order to attract more highly qualified workers, important for the maintenance of international competitiveness. The compensation clause guaranteed workers in one industrial sector automatic adjustment to higher pay raises obtained in other sectors.

shares were issued, but the government did not give up control over public corporations (Sainsbury: 1993, p.56). A change in this policy only came after the SAP's 1991 electoral defeat. "Now for the first time privatization as a fundamental policy alternative was launched in the sense of sell-off" (Lane: 1994, p.188).

The original success of the "third way" strategy was impressive. Sweden, at less than 2 per cent, maintained one of the lowest unemployment rates of the OECD countries and a 13 per cent budget deficit was transformed into a 1 per cent surplus. At the beginning of the 1990s, however, the economy faced the same problems as at the beginning of the 1980s. "The growth rate was sluggish, wage increases outstripped those of international competitors, the current-account deficit began to grow again, and inflation was on the rise" (Sainsbury: 1991, p.39). As it turned out, while the macroeconomic balance had been restored, the structural problems of the Swedish economy had not been solved. Consequently, "productivity growth increased only slightly between 1982 and 1990 to an average annual increase of 1 percent" (Ryner: 1994, p.396). Moreover, while unemployment had successfully been checked, inflation had not been brought under control by the one-sided adoption of a hard currency regime. At an average of 8.6 per cent, it was significantly higher than the German rate of 3 per cent (Notermans: 1993, p.139; see also Glyn: 1995, pp.51-53). The abolition of foreign exchange controls in 1989 was one way of importing price stability from the outside. Nonetheless, even further measures were necessary in order to achieve wage moderation and, thereby, avoid inflation. "In February 1990, the government put forward a drastic action programme which among other things included a statutory pay freeze and a ban on strikes" (Bergström: 1991, p.15). This was defeated in parliament due to an outcry by the rank and file of trade unions. After

a new currency crisis in October 1990, the government, this time successfully, put forward another emergency package, including among other measures a partial privatisation of the Swedish state sector (e.g. the telecommunications system and the electricity network) and a cut in the level of sickness benefits (Luif: 1996, p.215). It was further concluded that a general expansive fiscal policy in order to counter rising unemployment was no longer possible. "Social Democrats eventually saw no other way than to abandon their central policy goal ... [of full employment] ... and institute a policy regime which consciously created unemployment in order to restore price stability" (Notermans: 1993, p.148).

According to Wilks, the change in economic policy was due to a change in capital's strategy. "What undermined the model was the rejection of the 50 year old historical compromise by Swedish business" (Wilks: 1996, p.94). The export-oriented capital fraction dominated over the home-market-oriented fraction in the mid-1970s and its members took over key leadership positions in the employers' associations (Olsen: 1991, p.131).<sup>14</sup> When Curt Nicolin became the SAF's new chairman in 1976, the association did not only change its policies towards neo-liberalism but also the nature of its activities. The SAF attempted "to assume leadership in defining the terms of political discourse, not only at the level of policy, but also at the level of popular culture" (Ryner: 1996, p.20). In other words, the SAF started transforming itself from a wage-bargaining institution into an ideologically-motivated think tank, which offered the platform for "organic intellectuals" to spread their neo-liberal message. It

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<sup>14</sup> According to Olsen, the home-market-oriented industries include those sectors, which almost exclusively rely on domestic resources and/or are largely dependent upon the domestic market to sell their products and/or are highly labour-intensive, which makes them dependent on the domestic labour force. The competition by the newly industrialised countries and the economic crisis of the 1970s had triggered the decline of home-market-oriented industries such as iron, timber, etc., while export-oriented industries, especially the metalworking and engineering sectors, became predominant (Olsen: 1991, pp.128-131).

“expanded into the political arena, where it ventured into ‘the marketing of capitalism’ by establishing a range of publishing houses and by organising campaigns aimed at selected target groups to promote pro-capitalist ideology, particularly amongst the young” (Whyman/Burkitt: 1993, p.607). The SAF’s efforts were at first directed against the EIFs. Then, the attack went against the solidaristic wage policy, corporatism and the welfare state.<sup>15</sup> Central wage negotiations could temporarily be restored in the years after the separate deal between the engineering employers and the Metal Workers’ Union in 1983, but eventually SAF as a whole left the system:

Under pressure from engineering firms and other foes of centralized bargaining, the SAF simply closed down its negotiations and statistics departments in the spring of 1990. The following winter, it withdrew from the system of corporatist representation on government bodies (Pontusson: 1995, p.39).<sup>16</sup>

Since 1993, negotiations have been carried out at the sector level between the SAF’s member associations and individual trade unions (The Swedish Institute: 1994, p.2). Simultaneously, as outlined above, Swedish TNCs directed their investment abroad and the economic structure changed drastically. The advance by Swedish capital, thus, consisted of two parallel offensives. On the one hand, it mobilised ideologically via the SAF trying to influence the frameworks of thought towards neo-liberalism; on the other hand, it applied structural pressure by shifting production units abroad.

Nevertheless, the offensive by capital is only one part of the story. The SAP also contributed to it. The Swedish “third way” never really represented a viable

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<sup>15</sup> For a detailed outline of the SAF’s new strategy and activities, see Olsen: 1991, pp.131-136.

<sup>16</sup> Not all of the SAF’s member associations were in favour of terminating central wage-bargaining. Companies in the sales, hotel and restaurant, clothing and grocery sectors, for example, wanted to continue SAF-LO negotiations, but it was the powerful Verkstadsindustrier, the Association of Swedish Engineering Employers, representing all big Swedish TNCs, which pressed for industry-level bargaining. “In practice, this meant Sweden’s large export companies - Volvo, Saab-Scania, Asea, etc. - almost single-handedly brought about the shift in Swedish bargaining patterns ...” (Ahlén: 1989, p.335).

alternative to Keynesian and neo-liberal economic policies. By accepting some principles of neo-liberalism, the seeds were sown for the demise of the Swedish Model. “Combined, the fixed exchange rate strategies and liberalized capital markets undermined what little monetary autonomy might have remained in the hands of ... [Swedish] ... policy-makers” (Moses: 1995, p.342). When the economic crisis in 1989/90 hit Sweden, it had to adapt to the global economy, concentrating on price stability via austerity measures in order to avoid the flight of capital. By opening itself up to international capital through the deregulation of foreign exchange controls, the pursuit of a full employment policy was foreclosed. For the same reason, capital flight by Swedish TNCs could not be controlled.

Similarly, by supporting export-oriented employers and unions in their quest for different inter-sectorial wage levels, the eventual collapse of the total system of centralised wage bargaining had been prepared. The result was not only a conflict between SAP and LO, but also LO-internal conflict between the Municipal Workers’ Union and the Metal Workers’ Union undermining labour unity (Sainsbury: 1991, p.41). By introducing efficiency as the main principle in the public sector, this sector’s original role of achieving full employment and the democratisation of society had been abandoned. Finally, it was a state commission called by the SAP government, which considered in 1983 the use of lay boards such as the Labour Market Board in the implementation of policy. “It proposed that many of the lay boards be dismantled and suggested that interest organisations should play an advisory rather than decision-making role in public agencies” (Micheletti: 1991, p.153). The LO and TCO opposed this, but the SACO and SAF received the conclusions positively with the latter putting it into practice and leaving the lay boards. As a consequence, the corporatist system

has been in dissolution ever since. “Even one of the traditional forums for dialogue among opposing political actors, the state commissions, is losing its status”

(Micheletti: 1991, p.154). In short, the reforms of the various parts of the Swedish Model eventually implied its demise.

The “third way” with its neo-liberal ingredients was not the only option available to the SAP after its return to power in 1982. To adopt the “third way” and to reject the alternative of EIFs was a conscious political decision. Moreover, as Glyn outlines, the substitution of price stability for the full employment policy at the beginning of the 1990s was not a necessity. The expansion of employment was still possible despite the structural changes since the early 1970s, provided the entailed costs are “explicitly counted and willingly shouldered by the mass of wage and salary earners” (Glyn: 1995, p.55). The actual decisions taken by the SAP in both instances were partly a response to structural changes associated with globalisation, including the establishment of neo-liberalism as a part of the structure in the form of intersubjective meanings, and to the SAF’s neo-liberal offensive, which gained in strength and conviction within the neo-liberal structure. As it was outlined in Chapter 1, section 4, ideas used as political weapons by actors are especially strong in those circumstances, in which they correspond to the ideas of the structure. In other words, a change in the dominant frameworks of thought had made the EIFs and a full employment policy look unrealistic, while first the “third way” and then the turn to price stability and low inflation appeared to be a successful strategy.

These decisions were, however, also partly due to the SAP-internal ideological changes. As indicated earlier, states do not only adapt to globalisation, they also bring it about voluntarily. From 1976 onwards, the SAP leadership had only half-heartedly

supported the LO-initiative of EIFs. Additionally, after its electoral defeat of the same year, it had formed its own research unit under Kjell Olof Feldt, the later Finance Minister. The team around Feldt consisted of young people shaped by the experience of the recession in the 1970s. Especially the OECD was a crucial influence on how to cope with it. Gunnar Lund, Michael Solman and Leif Pagarotzky, all people close to Feldt, had been working there in the early 1980s and been put into contact with neo-liberal ideas (Interview No.68; Stockholm, 02/12/1996). “Feldt and his advisors were determined to give priority to private-sector growth, profits and market forces” (Pontusson: 1995, p.35). It was this group, which formulated the “third way” strategy and put it into practise after 1982. The LO, on the other hand, was significantly weakened. “Intellectual authority had passed from its researchers to the policy unit of the party” (Pontusson: 1995, p.28).

To conclude this section, in both Austria and Sweden, the three indicators of globalisation, i.e. changes in the production structure, the finance structure and the dominant frameworks of thought, can be noticed. Production has been increasingly internationalised in Austria and transnationalised in Sweden, the financial markets have been deregulated in both countries and are, thus, integrated into the world financial market, and a shift took place from Keynesianism to neo-liberal economics in theory and in practice, moving both countries towards the neo-liberal night-watchman state. Consequently, the accessions to the EC have to be analysed against the background of structural change. In Chapter 1, section 3, neo-Gramscianism has been introduced as a theory capable of explaining structural change. In the following section, the neo-Gramscian concepts are operationalised in relation to the Austrian and Swedish political and economic systems and the impact of globalisation. This

provides the basis for the empirical analysis of Austria's and Sweden's accession to the EC in Chapters 3 and 4.

### 3. A neo-Gramscian theory of European integration:

#### *3.1. A theoretical alternative:*

A neo-Gramscian approach to the analysis of Austria's and Sweden's accession to the EC, firstly, does not argue that the two countries became members of the EC simply because of the effects of globalisation. Direct causal relationships are not ascertained. Rather, it is argued that there must have been a majority alliance of Austrian and Swedish social forces in favour of EC membership. Secondly, considering the EC's drive towards free trade and a neo-liberal economic policy in the second half of the 1980s and the early 1990s, embodied in the Internal Market programme and the Maastricht convergence criteria (see Introduction, section 2.1), these alliances must have been in favour of this type of economic policy. Thirdly, the investigation has to start by looking at social forces as the key actors. In order to identify them, one needs to turn to the sphere of production. As argued in Chapter 1, section 3, although several distinctions can be made, here the focus is on the difference between the national and transnational organisation of production to facilitate the identification of different social forces.

Additionally, the geographical orientation as expressed in the trading patterns of companies has to be taken into account as a factor relevant for the formation of collective actors. When considering capitalist fractions, Holman suggests a fourfold classification:

1. Import-competing producers of tradable goods for the domestic market;
2. Import-competing producers of tradable goods for the European market;
3. Export-competing producers of tradable goods for the world market;

#### 4. Globally operating financial institutions (Holman: 1992, p.16).

These categories do not necessarily exhaust all possibilities. For example, considering the distinction between national and transnational production, globally operating TNCs are a further group. Nevertheless, this is of no concern here, because the focus is on the configuration of social forces at the national level. It implies, however, that the social forces based on national production can be divided into nationally-oriented social forces, engendered by national production that produces for the domestic market, and internationally-oriented social forces, stemming from national production that produces for the export, be it for the European or the world market. Globally operating TNCs and financial institutions are part of the transnational social forces.

Transnational social forces, be they capital or labour, are likely to be in favour of a neo-liberal, deregulatory economic policy (see Chapter 1, section 5.4) and thus, EC membership, because they favour a world without borders and national regulations, representing barriers for their business. They are probably supported by internationally-oriented social forces, for which borders also constitute barriers for their exports. The Internal Market represents a bigger “home market” for Austrian and Swedish export companies based on national production.<sup>17</sup> Nationally-oriented capital and labour, on the other hand, are likely to oppose membership, because they may depend on state protectionism, while the Internal Market endangers them through increased competition.

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<sup>17</sup> It is theoretically possible that a conflict occurs between transnational and internationally-oriented social forces, if the latter depend on state support for their exports. However, the turn in both countries to neo-liberalism and the concomitant abolition of export support schemes makes this unlikely. For example, Austria's nationalised industry used to be subsidised and, therefore, supported in its export efforts. This stopped with its privatisation and the turn towards efficiency and competitiveness in the market place. In Sweden, the government boosted exports via devaluations. Since the adoption of a hard currency policy in the 1980s, this support has also ceased to exist.

The Austrian and Swedish states have to be dealt with, although not as unitary actors. Due to the internationalisation of the state (see Chapter 1, section 5.3), the Austrian and Swedish ministries and other state agencies have to be treated according to their place in the global mode of social relations of production. Thus, officials of those ministries and institutions linked to transnational production and finance (e.g. finance ministry, central bank) have to be viewed differently from those dealing with merely national problems (e.g. labour ministry).

Nevertheless, the analysis of the production structure is not sufficient in order to identify and explain the emergence of a successful alliance of social forces. It only shows the range of potential collective actors and points to likely alliances.

Additionally, in accordance with the neo-Gramscian dialectic view of structure and superstructure, it has to be investigated, which “organic intellectuals” of which social group managed to form a hegemonic project, which allowed the successful establishment of a historic bloc in favour of EC membership. In other words, the analysis has to go beyond mere economic issues and needs to include the other ideas, which were part of the successful historic bloc’s content. Furthermore, it has to be asked whether there was a rival historic bloc with a rival hegemonic project and, if so, why it did not succeed.

Unlike state-centric approaches (see Chapter 1, section 1.2 -1.4), neo-Gramscianism focuses on social forces, not on governments. It is the struggle between social forces, which determines the agenda-setting process, not intergovernmental negotiations. In the cases of Sweden’s and Austria’s accession to the EC, consequently, the intra-country struggle leading to application has to be dealt with first (see Chapter 3). Whether the negotiation results are eventually enacted, then,

depends on the ratification process. This is the second period of struggle and, with reference to the 1995 EC enlargement, the struggles in the run-up to the referenda in both countries are the second focus (see Chapter 4). The negotiations themselves are of secondary importance. On the one hand, the negotiation agenda is the result of the struggle leading to application; on the other, the negotiations are conducted in view of the pending referendum. In other words, the negotiation agenda includes those demands, which various class fractions of the alliance made their preconditions for support, and the negotiators have to achieve satisfactory results in those areas, which the population considers to be the most crucial ones. Otherwise, a pro-membership result in the referenda would be very unlikely. Hence, while not neglecting the negotiations (see Chapter 4, section 1.3), they are only the link between the original decision to apply and the final decision in the referendum whether or not to accept the negotiation results.

### *3.2. The Austrian political system and social forces:*

The relevant social forces are identified in the sphere of production. Considering the Austrian production structure as outlined in this Chapter, there are internationally-oriented social forces engendered by the export industry, a small fraction of transnational social forces from foreign TNCs and nationally-oriented social forces of the sheltered sector.

An analysis of the Austrian accession to the EC requires that both political parties and interest associations are taken into account. Nevertheless, it is not sufficient to treat the social partners and political parties as key actors. They must be

treated as institutions, in which social forces struggle to establish their particular interests and ideas as those generally accepted.

### *3.2.1. Social partners:*

Within the social partners, i.e. the BWK, the LK, the AK and the ÖGB, those social forces, which are linked to the nationally-oriented industry, have to be distinguished from those sections which are linked to the internationally-oriented industry. The trade unions are mainly organised according to the industrial principle, i.e. employees belong to national unions determined by the economic sector within which they work. Consequently, the individual unions as parts of the AK and ÖGB can be analysed with relation to their particular economic sector, whether it is export-oriented or produces for the domestic market. The BWK is divided into six sectors at the national level, the “Gewerbe” sector (family business, crafts), the trade sector, the industry sector, the sector for money, credit and insurance, the transport sector and the tourism sector. With the exception of the internationally-oriented industry sector and the sector for money, credit and insurance, they do not correspond to the separation of nationally- and internationally-oriented economic sectors and, therefore, do not serve as an analytical unit. In other words, both internationally- and nationally-oriented social forces must be expected in these sectors. Nonetheless, there are some employers’ associations, which can be clearly identified as, for example, the internationally-oriented Association of the Austrian Textile Industry. The LK is more likely to be a homogeneous, nationally-oriented actor as the whole agricultural sector was protected against foreign competition.

There are two institutional exceptions in the area of interest associations. Firstly, the *Vereinigung Österreichischer Industrieller* (Federation of Austrian Industrialists; VÖI) can be treated as a homogeneous organisation, as it represents the interests of internationally-oriented capital consisting of Austrian export-companies and transnational capital of the foreign TNCs, i.e. two fractions of capital, which are likely to have the same position on EC membership. In 1979, in structural terms, the VÖI was “of rather limited importance since it represents private and, hence, small and medium industries only; almost all important industrial firms belong to the public sector” (Lehmbruch: 1979, p.159). This has since changed. Between 1979 and 1988, public ownership, calculated according to the percentage of employees in Austria’s 100 largest firms, declined by about 15 per cent, while private ownership, be it national or foreign, increased by approximately 14.5 per cent (Karazman-Morawetz/Pleschiutschnig: 1991, p.382; own calculations). This trend towards private ownership accelerated further from 1989 onwards due to the ongoing process of privatisation. Being privatised, these companies are now eligible for VÖI membership and, indeed, some have already joined (Interview No.18; Vienna, 22/05/1995). The VÖI has, thus, become a powerful actor in structural terms.

Secondly, the *Verband Österreichischer Banken und Bankiers* (Federation of Austrian Banks and Bankers; VÖB) represents the big Austrian commercial banks and some small private banks, which all operate on the international markets. Again, the VÖB represents such a coherent section of capital that it can be treated as a homogeneous organisation. The VÖI and the VÖB should not, thereby, be viewed as social actors in their own right, but rather as potential organisational expressions of a class force, whose structural power transcends that of any individual actor. Both

organisations are based on voluntary membership, but are at the same time part of the ESP. In practice, they represent the sector of industry and the sector for money, credit and insurance within the BWK. They consequently enjoy excellent access to the policy-making system.

### *3.2.2. Political parties:*

It is difficult to distinguish internationally- and nationally-oriented social forces within parties, since they are the expression of social forces and not related to particular economic sectors. The two big parties in Austria can, however, be divided according to their internal leagues and the possible different ideological outlook of these leagues. Conflicts between classes and fractions of classes are not only expressed by different organisations and/or orientations of economic sectors, but also by different ideologies, which are related to different organisations of production. The ÖVP “consists of three Bünde (leagues); the Business League (Wirtschaftsbund, ÖWB), the Farmers’ League (Bauernbund, ÖBB) and the League of Blue and White Collar Workers (Arbeiter- und Angestelltenbund, ÖAAB)” (Lehmbruch: 1979, p.179). As the party membership is indirect via membership in one of the leagues, the loyalty of many members is mainly directed towards the latter, and the ÖVP is threatened with fractionalisation. The rivalry between the leagues is enhanced by their ideological differences, “especially between ... [the ÖVP’s] ... social and liberal wings, as represented particularly in the ÖAAB and the ÖWB respectively ...; despite greater emphasis under the new grand coalition governments since 1986 upon deregulation and the market, ideological dissent within the Catholic-conservative Lager has if anything intensified” (Luther: 1992, p.62). It is no surprise that under

these circumstances an unequivocal stance on EC membership may be difficult to forge. The SPÖ is also divided into leagues, but they do not play a big role within the party. "Not even together do the three socialist interest organisations exercise control over the party" (Müller: 1996b, p.78). Nevertheless, it has to be investigated at the ideological level whether there was a group opposed to the free market minded team around the Chancellor Vranitzky.

It is more difficult to operationalise small parties from a neo-Gramscian perspective. Because they are so small, they have to be treated as the institutional expression of a particular fraction of social forces instead of an institutional framework, within which social forces struggle for dominance. The ideological outlook of the party may give the clearest indicator of the social forces represented. The FPÖ has two opposing directions, a liberal oriented towards the free market economy and a nationalist based on its origin, the old German-national Lager with ex-Nazis as its members. Many members and functionaries maintain close links with extreme right-wing circles (Luther: 1991a, pp.254-259). Which direction has been dominant changed from time to time. It is important to know for the purpose of this thesis that in the 1970s and especially in the early 1980s, the liberal, market-oriented view dominated over the nationalist tradition. This has changed slowly but significantly since 1986 and the arrival of Haider as the new party chairman. The anti-immigration policy expressed in the slogan "Austria first" has featured widely in the party's public appeal ever since. Its electoral success, however, must also be credited to its relentless criticism of Austria's corporatist arrangement for being undemocratic and corrupt. This helped the FPÖ to attract many protest voters, unsatisfied with the unchanging and rigid institutional structure (Riedlsperger: 1992). In 1993, when five

MPs left the FPÖ parliamentary fraction and formed the Liberal Forum, the liberal part of the party had largely abandoned the FPÖ in protest against its nationalist outlook.

The GA places great emphasis on the environment. The capitalist economy is regarded as the cause of environmental disaster. In order to achieve an ecological modernisation of the capitalist production system, it is maintained that the primacy of politics over economics has to be established and new aims need to be developed in opposition to the logic of growth. This should be complemented with a focus on the redistribution of wealth. The democratisation of all aspects of society is a further point of the GA agenda, to be accomplished partly via the decentralisation of the decision-making process to the local level (Dachs: 1991, pp.269-273). On the basis of this programme, the GA can be regarded as representing social forces opposed to the neo-liberal logic with its strong focus on economic growth through efficiency and competition.

Finally, national institutions also need to be taken into account by relating the various elements to their place in the global mode of production. Officials of those ministries and institutions linked to global production and finance (e.g. the Chancellor's Office, the Ministry of Finance, the ANB) have to be viewed differently from those dealing with merely national problems (e.g. the Ministry for Labour and Social Affairs, the Ministry of Agriculture).

### *3.3. The Swedish political system and social forces:*

According to Sweden's production structure, a strong group of transnational social forces can be expected due to the TNCs. A group of national social forces mainly to

be found in the large public sector is also likely. Internationally-oriented social forces play a secondary role.

### *3.3.1. Social partners:*

The trade unions in Sweden are characterised by an early dominance of industrial unionism. Especially the LO, but also the TCO is primarily organised according to this principle. These trade unions can, consequently, be analysed according to whether the production in their economic sector is organised on a transnational or national basis. The unions affiliated to the SACO are structured according to the craft principle. Nevertheless, even in this case, it is possible to distinguish unions representing workers of national sectors from unions in transnational sectors. In some cases, individual unions may represent national and transnational social forces. In this case, the unit of the individual union has to be divided further into the various sections of the workers, the union represents. The member associations of the SAF and SI are also predominantly organised according to different economic sectors, and it can, therefore, be distinguished between national and transnational associations.

### *3.3.2. Political parties:*

Only the SAP is big enough to detect different groups of social forces within it. There are no internal institutional structures similar to the Austrian leagues, but it has to be investigated, whether a group has formed in opposition to the rising neo-liberal wing since the early 1980s and, if so, whether this had an impact during the debate on EC membership. The VP mainly attracts workers from the public sector, especially in the health service, education and welfare (Petersson: 1994, p.144). It has often been

claimed that the VP is a middle-class party supported by white-collar workers, but it has always, and recently even more so, extended its appeal to blue-collar workers (Interview No.38; Stockholm, 08/11/1996). The party favours redistributive policies and opposes neo-liberal economics. It therefore mainly represents parts of those social forces, which are in favour of maintaining the Swedish Model with its strong emphasis on full employment, generous welfare provisions and a large public sector. The GP gives the highest priority to environmental questions to which economic policy must be subordinated. It argues that “an economy based on ecocycles must be introduced, meaning that finite natural resources will not be exhausted and natural assets will not be consumed faster than they are renewed” (The Swedish Institute: 1996, p.3). A neo-liberal economic policy based on economic growth is rejected, redistribution policies are advocated. Overall, the party represents social forces opposed to neo-liberalism and in favour of a radical change in economic policies.

The MS has pursued a consistent defence of neo-liberal economic policies, which was also reflected in government policies between 1991 and 1994, when it headed a four-party coalition. The FP, although always with a certain emphasis on the necessity of social policies accompanying free market forces, has supported the MS in this drive and both parties formulated a joint economic programme in April 1991. It included a strong emphasis on the promotion of a market economy, tax reductions, slimming of the public sector, privatisation and a more flexible and cost effective labour market (Taylor: 1991, pp.5/6). Both parties, thus, represent foremost transnational social forces of capital. The CP, although with less than 10 per cent of the electoral vote only a small party, does exhibit internal divisions. The agricultural wing is grouped around the LRF, while the environmentalist wing is rooted in the

party's Youth League (The Swedish Institute: 1996, p.2). Its endorsement of a free market economy is, consequently, less clear-cut. Social justice and measures to improve the environment also feature highly on its agenda (Taylor: 1991, p.6). As for the social forces, it represents agricultural interests and here in general the smaller farmers in the North of Sweden and forestry farmers in the South, and environmentally-concerned social groups. While all the parties with the exception of the SAP can be treated as more or less homogeneous actors in the debate on EC membership, this party-internal division of the CP has to be kept in mind.

Similarly to Austria, a distinction has to be made between national institutions according to their relation to the global economy. On the one hand, there is the Prime Minister's Office and the Ministries of Finance, of Trade and of Industry, but also the Riksbank, which in general deal with international issues. On the other, the Ministries of Labour and of Social Affairs mainly deal with national issues and are, therefore, more closely attached to the national production sector.

#### 4. Conclusion:

Overall, the Austrian and Swedish economic-political systems as introduced in section 1 of this Chapter have to be seen as institutional structures within which social forces operate and try to make their ideas and interests into the general Austrian and Swedish ideas and interests. It is not argued here that other policy-making theories are unable to treat parties and social partners in such a way. Neo-Gramscianism, however, has the advantage that it provides a clearer method to identify the relevant actors by pointing to the sphere of production. Moreover, the analysis of particular events and actors is linked to the surrounding structure via an overall theoretical framework.

To have different groups of social forces within parties and/or social partners does not mean that there has actually been a split over the question of EC membership. It only points to possible divisions, which have to be examined. By the same token, to have identified a single ideological outlook of a party does not mean that internal splits are impossible. Only empirical analysis gives the final answer about which social forces were in favour and which opposed accession to the EC. Consequently, in the following Chapters, firstly, the struggles within the countries leading to application are analysed (Chapter 3) and secondly, the contests about the referenda investigated (Chapter 4).

### **Chapter 3: The Austrian and Swedish struggles for application.**

After the analysis of the impact of globalisation on Austria and Sweden and the operationalisation of the neo-Gramscian concepts in Chapter 2, it is now possible to turn to the examination of the processes in both countries, which led to their application to the EC. As it was outlined in the Introduction, section 3.1, the FTAs between the EC and Austria and Sweden, coming into force in January 1973, had been satisfactory for the majority of forces in both countries. This was to change in 1985 with the Internal Market initiative by the EC. The Internal Market, removing internal trade barriers between the member states, implied higher barriers to countries from the outside, because EC companies gained a competitive advantage over them due to the bigger “home market” and increased border controls towards the outside. Austrian and Swedish products would, therefore, be disadvantaged on the Internal Market and the achievements of the FTAs be questioned (Luif: 1988, p.167). Both countries, consequently, had to respond.

Nevertheless, although a response was required, this did not imply that membership was the only option. Far-reaching participation in the Internal Market short of full membership could also have been a course of action (Traxler: 1992, pp.200-203). In fact, forces opposed to membership argued along this line in both countries (see below). Hence, in contrast to intergovernmental analyses (see Chapter 1, section 1.2), application to the EC was not the result of economic necessity, but the outcome of an open-ended struggle between different social forces.

The first section of this Chapter deals with the struggle over the decision on application in Austria, the second investigates the situation in Sweden. The conclusion

compares both cases. While the final decision was the same in both countries, the way it came about was quite different. This was at least partly due to the different production structure in both countries (see Chapter 2, section 2). The transnational social forces of capital in Sweden could respond to the Internal Market initiative through the transfer of production units to the EC, whereas internationally-oriented capital in Austria had to rely on a political strategy with the goal of eventual membership.

### 1. The struggle between social forces leading to the Austrian application to the EC:

In general, it is widely seen that the Internal Market initiative by the EC in 1985 leading to the Single European Act in 1987 was the starting-point of the discussion in Austria (Kramer: 1996, p.171; Leitner: 1993, p.87; Luif: 1994, pp.21/22; Schneider: 1990, pp. 85/86; Schultz: 1992, p.187; and Traxler: 1992, p.204).<sup>1</sup> As outlined in Chapter 2, section 2.1.1, Austria is linked to the global economy predominantly via trade. A break-up in the shares of main areas of trade shows that this link is concentrated at the regional European level. Austria's share of exports and imports with the EC has steadily risen over the years and reached 68.6 per cent of imports and 65.2 per cent of exports in 1990 (see Table No. 12, Appendix). Although less important for Austria's link with the global economy, the distribution of FDI represents a similar picture. 48 per cent of outward FDI went to the EC in 1988 - 1990

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<sup>1</sup> Schaller differs here slightly. He argues that the debate over European integration had been reopened at the end of the 1970s by ÖVP members concerned with foreign policy (Schaller: 1994a, p.47). Nevertheless, this has to be separated from the discussion triggered by the Internal Market programme. As Schaller says himself, the criticism by the ÖVP politicians was about the general direction of the Austrian foreign policy as conducted by the SPÖ Chancellor Kreisky, not about the form of European integration. They demanded a strengthening of European co-operation instead of the concern with Third World issues and the Middle East. The ÖVP motion on Europe in parliament on 16th December 1985 has to be seen in this light. It demanded far-reaching integration without formal membership in the EC (Schneider: 1990, p.196; ÖVP: 1985, pp.235-237).

and 79.4 per cent of inward FDI came from the EC in 1989/1990 (see Tables No.7 and 9, Appendix). Additionally, 80 per cent of the tourists and 90 per cent of jobs abroad were with the EC (Wieser/Kitzmantel: 1990, p.445). In this situation, it was realised that Austria had to respond quickly to the Internal Market initiative in one way or another.

This section looks first at the initiation of the debate and the formation of a pro-EC hegemonic project. Part 2 outlines the formation of a historic bloc in favour of application on the basis of this project. An analysis of those forces opposed to application and a discussion why they were unable to form a successful counter-hegemonic bloc concludes this section.

### *1.1. Initiating the debate: the VÖI and the formation of a hegemonic project.*

The main actor initiating the discussion about full membership was the VÖI. It represents the exporting sector of the Austrian economy and foreign TNCs operating in Austria (see Chapter 2, section 3.2.1) and was, thus, deeply concerned about possible new barriers. From 1985 to the beginning of 1987, the VÖI pursued a cautious course of action. The careful preparation of its eventual statement in favour of full membership allowed the VÖI to point again and again to the “scientific” basis of its position (Kunnert: 1993, p.86). On 14 May 1987, it published a statement and asked the government “to do everything possible for Austria to become a full member of the EC as soon as possible” [translation by the author] (VÖI: 1987a, p.42). Only membership, it was argued, would guarantee participation, including co-decision making power, in the dynamic integration process of the EC (VÖI: 1987a, p.32). The Internal Market would, moreover, require the dismantling of Austria’s sheltered

sectors, thereby bringing about restructuring and increased competitiveness (VÖI: 1987a, p.38). In spring 1989, the VÖI prepared the so-called Austro-Cecchini report, in which the economic benefits of EC membership as opposed to non-membership were outlined (VÖI: 1989).

Although the main drive was of a neo-liberal economic nature, the VÖI soon realised that Austria's neutrality could be the main argument against EC membership. Hence, in 1987, it commissioned an investigation by Hummer and Schweitzer, two experts in international law, which came to the conclusion that EC membership and neutrality were compatible (Hummer/Schweitzer: 1987).<sup>2</sup> Two more publications covering the economic and the constitutional aspects of membership followed soon in 1988 (Breuss/Stankovsky: 1988; Öhlinger: 1988). The goal of these publications, supported by media statements and brochures, was to establish a basis for discussion on membership, which had not existed before (Interview No.18; Vienna, 22/05/1995). This did not directly lead to the eventual application. Nevertheless, it changed the frameworks of thought in such a way that EC membership could be discussed and appeared to be a possible course of action to both the political elite and the wider public in response to the Internal Market programme. As outlined in Chapter 1, section 4, ideas as a part of the structure do not only constrain or reinforce actors' strategies, they may also be changed by agency.

Finally, the VÖI made EC membership a question of Austrian identity. The quest for accession was "also the expression of a clear commitment to the West and to

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<sup>2</sup> Members of the VÖI pointed out that the result of this research had not been predetermined or foreseeable and that they would have accepted the contrary outcome too (Schaller: 1994a, p.72). Nonetheless, considering that Schweitzer had already written in 1977 that membership and neutrality were compatible (Schaller: 1994a, p.45) and that both authors had voiced the same opinion at the Europe-Hearing of the ÖVP's youth organisation in March 1985 (Schaller: 1994a, p.54), these claims sound rather hollow.

the basic values of the Free World” [translation by the author] (VÖI: 1987b, p.495). The VÖI had perceived the receptiveness of the Austrian population for a confirmation of their national identity, which had been shaken up during the international outrage about the national socialist past of its new President Kurt Waldheim in 1986.

In addition to this public campaign, the VÖI used all its political channels to achieve an application to the EC for full membership. It raised the question within the ESP and used its close connections with the political sphere. The economic wing of the ÖVP was lobbied as were individual ministers including the Foreign Minister Alois Mock, and close contacts to the Economic Ministry and the Foreign Ministry were maintained (Interview No.18; Vienna, 22/05/1995). Taking all this into account, it becomes clear that the officials of the VÖI can be viewed as “organic intellectuals” of internationally-oriented capital. Stemming from the same industrial sectors, they supplied their members with information. Further, they used the VÖI as an institutional platform in order to formulate for their social group a pro-membership hegemonic project, which went beyond mere economic issues by including neutrality, constitutional problems and the question of Austrian identity.

Some argue that it was more the ÖVP itself, which took the initiative, and here especially the Foreign Minister and ÖVP chairman (Parteiobman) Mock (Interview No.12; Vienna, 12/05/1995).<sup>3</sup> Partly due to the ÖVP, the new coalition government of SPÖ and ÖVP stated in its government declaration on 16 of January 1987 that “participation in the further development of the process of European integration is of primary importance to Austria” [translation by the author] (Arbeitsübereinkommen:

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<sup>3</sup> The ÖVP youth organisation demanded in the summer of 1985 to set membership as a long-term target (Schaller: 1994a, p.54). This should not, however, be overrated, as the youth organisation does not enjoy a powerful position within the ÖVP (Müller: 1996b: pp.76/77).

1987, p.652). This, however, did not necessarily signify EC membership, as the unilateral adoption of all new EC legislation (autonomer Nachvollzug) and the so-called global approach, consisting of participation in the Internal Market short of full membership, were debated as alternative options. It was not before 1 December 1987 that Mock spoke about the possibility of full membership in a presentation to the cabinet: if full participation in the Internal Market was only possible via membership, “the option of EC membership, in consideration of the requirements of permanent neutrality, should not be excluded for the future” [translation by the author] (Mock: 1987, p.28). Then, in January 1988, the ÖVP leadership decided at its annual meeting in Maria Plain to pursue membership while respecting Austria’s neutrality as its official party policy (ÖVP: 1988, p.245). In the party’s manifesto of April 1988, it was argued that membership implied a dynamic push towards the necessary restructuring measures of the Austrian economy. To discontinue the liberalisation drive by remaining outside the EC, on the other hand, would lead to stagnation and recession, a decrease in competitiveness and higher unemployment (Schneider: 1990, pp.203/204).

The economic wing, the ÖWB, and the agricultural wing, the ÖBB, were the most active parts in the ÖVP integration debate. While the former played a crucial role in the coming about of the decision at Maria Plain, its members being often members of the VÖI at the same time or having close ties with it (Interview No.25; Vienna, 26/06/1996), the latter was still very sceptical about EC membership despite the leadership decision (Leitner: 1993, p.103). In a resolution, the ÖBB demanded financial restructuring help, a transition period for the adaptation to the agricultural regulations in the EC and participation of the Austrian agricultural and forestry sectors

in the Internal Market regardless of membership or non-membership (Österreichischer Bauernbund: 1988, pp.273-275). Progress was slow until October 1988, when the ÖVP chairman Mock offered the farmers a party agreement on Europe, which included financial restructuring help. The treaty was finalised at the annual ÖVP meeting at Maria Plain in January 1989 (Österreichischer Bauernbund: 1989, p.285) and the ÖVP was, finally, united in favour of membership.

The Landeshauptmännerkonferenz's (Conference of Land Governors) decision of November 1987 to follow the VÖI and demand full membership (Landeshauptmännerkonferenz: 1987, p.514) played an important role in the ÖVP-internal debate. In contrast to Germany or Switzerland, the Länder hardly enjoy any power in the Austrian constitution (Luther: 1991b). Nevertheless, it is the extra-constitutional governors' conference via which the Länder exert significant influence. Each governor enjoys a strong position within his/her respective party, "which will not normally enact legislation at federal level against the will of their Land party organisations" (Müller: 1992, p.125). Within the governors' conference, it had been the ÖVP governor of the Land Salzburg, pressed by the export-oriented industry of his Land - between 70 and 75 per cent of the exports of Salzburg go to the EC - who had taken the initiative (Laireiter et al: 1994, p.77). Similar pressure to demand full membership was applied on the ÖVP governors of the Western Länder Oberösterreich and Vorarlberg by their export-oriented industries (Schaller: 1994a, p.74).<sup>4</sup> It was

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<sup>4</sup> There is a slight East-West divide noticeable in Austria. The Eastern Länder were less urgent in their demand for full membership and the SPÖ governor of Burgenland demanded the simultaneous relaxation of the trade with the East. Considering that their exports are not relying on the access to the EC to such a large extent as the ones of the Western Länder - the nationalised industry was mainly located in the East and only 43.4 per cent of its exports went to the EC, while the same figure for Austria as a whole was 60.1 per cent in 1986 - this was not a surprise (Luif: 1988, pp.178/179). Nonetheless, the Eastern governors supported the quest for membership, which was restated by the governors' conference in April 1988 (Landeshauptmännerkonferenz: 1988, p.515).

these governors, who spoke out in favour of membership at Maria Plain and the governor Martin Purtscher of Vorarlberg was appointed head of the ÖVP's Commission on Europe (Schneider: 1990, p.201).

Overall, the ÖVP soon followed the VÖI in demanding EC membership, but had to take into account its hesitant agricultural wing. The ÖVP is not an individual actor (see Chapter 2, section 3.2.2), and it has to be concluded that the forces for membership originated in the economic wing of the ÖVP, and from the ÖVP governors of the Western Länder, who were pressed by their predominantly export-oriented industries.

The FPÖ also played a role in putting membership on the agenda. It had always been in favour of Austria's participation in European integration, but it was not before 1985 that it adopted a clear position on this question in its party manifesto, the so-called "Salzburger Programm" (Frischenschlager: 1989, p.437). On the proviso that Austria retained its status of neutrality, EC membership was deemed to be possible and necessary (FPÖ: 1985, p.321). Only this would guarantee participation in the economic dynamic of European integration and co-decision making in the EC institutions. Moreover, the adoption of EC legislation was regarded as a method to get rid of Austria's highly regulated and protected sectors (Interview No.26; Vienna, 25/04/1996). Unhappy about the hesitating position of the government coalition, the FPÖ put forward a formal motion in parliament in November 1987, in which the start of negotiations on membership was demanded (FPÖ: 1987, p.328).

Overall, however, the role of the FPÖ should not be overestimated. It had barely gained 5 per cent of the votes in the general elections of 1983 (see Table No.4, Appendix). As the junior partner in the coalition government with the SPÖ from 1983

- 1986, the focus on integration represented a contrast to the more globally-oriented SPÖ foreign policy and the Social Democratic welfare state (Interview No.34; Vienna, 10/05/1996). According to Frischenschlager, FPÖ Defence Minister at the time, this had, however, no impact on government policy due to the hesitating SPÖ (Frischenschlager: 1989, p.439). The FPÖ, pursuing a liberal economic policy since the 1970s, mainly represented the old middle classes and, more importantly, some industrialists. While the VÖI supported the FPÖ with financial donations for this reason (Interview No.34; Vienna, 10/05/1996), internationally-oriented capital concentrated its efforts on the more influential ÖVP and BWK in order to achieve full membership.

## *1.2. The formation of a pro-EC historic bloc:*

### *1.2.1. The position of capital:*

The VÖB supported the VÖI's initiative from 1987 onwards. It used its influence within the BWK and, simultaneously, tried to bypass the SEP through lobbying the Finance Ministry directly. Moreover, individual member banks used their links to the government in order to lobby for membership application (Interview No.3; Vienna, 09/05/95; Interview No.6; Vienna, 10/05/1995).

The BWK demanded membership of the EC at its annual general conference on 9 December 1987. If this was not achieved, it was argued, full participation in the Internal Market would not be guaranteed (BWK: 1987, p.458).<sup>5</sup> Membership of the EC was regarded as a good way of restructuring the sheltered sector. The fight against unemployment was deemed necessary, but this should be done via a prospering

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<sup>5</sup> This position was reiterated one year later in the BWK's "Memorandum zur Vorbereitung Österreichs auf den Europäischen Binnenmarkt" of December 1988 (BWK: 1988).

economy through private initiatives in a free market economy, not through Keynesian budget deficit spending, be that at the national or European level (Interview No.5; Vienna, 10/05/1995).

The decision, however, was not as clear cut as it may seem at first sight and it was no surprise that it came after the VÖI. On the one hand, the capital fractions linked to the export sector, for example the textile industry, had demanded EC membership even earlier (Kunnert: 1993, p.91). The textile industry had suffered under the “passiver Veredelungsverkehr” (passive across the border processing) regulations of the EC, which stated that textile products, processed in countries such as Algeria, Morocco, Tunisia etc. enjoying special bilateral arrangements with the EC, could be reimported tax-free into the EC, provided the original material was of EC origin. Consequently, producers in the EC used material, originating from within the EC, for having it processed in these countries instead of material from non-EC countries such as Austria to which the tax-free regulation did not apply (Bundessektion Industrie: 1989, pp.29/30). In order to underline the urgency of their demand for full membership, which would solve this problem at once, some textile employers even threatened to transfer production units to EC countries such as Germany and Italy (Interview, No.24; Vienna, 24/04/1996). Moreover, globalisation had affected textiles more than other sectors since the early 1970s. Thus, the access to a bigger “home market” was a vital question (Interview, No.22; Vienna, 23/04/1996).

On the other hand, capital fractions linked to the nationally-oriented, protected industrial sectors were very hesitant. Especially the biggest parts of the food processing industry such as dairy factories, mills, and the sectors linked to meat, cattle and grain production, which had worked in a completely sheltered and regulated

market with guaranteed prices, supply and markets, were raising their voices against application to the EC (Interview No.5; Vienna, 10/05/1995; Interview No.19; Vienna, 23/05/1995). Moreover, the trade and transport sector, having achieved its profit from the import and export of goods, was not happy about a possible membership, where foreign companies could directly penetrate the Austrian market (Interview No.18; Vienna, 22/05/1995). In the end, the social forces linked to the export sector won over their opponents; firstly, because the latter were badly organised, as for example the mill owners (Interview No.12; Vienna, 12/05/1995); secondly, because the industry sector enjoys a near-dominant position within the BWK due to its larger financial contribution and the capability to employ more staff to carry out research (Interview No.24; Vienna, 24/04/1996); and thirdly, because some people in the sheltered sectors accepted the argument that, overall, the Austrian economy would benefit from accession and that a restructuring of the sheltered sectors was necessary in order to regain competitiveness (Interview No.5; Vienna, 10/05/1995). Thus even in the BWK's "Gewerbe" sector (family business, crafts), where most of the sceptic forces were organised, there was no majority against membership (Interview No.21; Vienna, 23/04/1996).

### *1.2.2. The position of labour:*

The debate within the AK and ÖGB took longer, but went along similar lines. It was the textile union, arguing in a similar way to the employers in this industry, which was the driving force within the ÖGB. Its President Harald Ettl was the Head of the ÖGB Integration Committee set up in late 1987 (Interview No.22; Vienna, 23/04/1996). This committee, made up of members of the ÖGB and the individual trade unions,

had the task of preparing reports on the question of European integration for the ÖGB conference in Linz on 11 and 12 July 1988. Considering the internal difficulties, it was no surprise that this conference did not result in a clear pro or contra membership. The report spoke about “(full) participation in the Internal Market”, “offensive advance in integration policy”, a “rapprochement between Austria and the European market” and “association” (ÖGB: 1988a). ÖGB President Verzetnitsch, in his concluding address to the conference, did not exclude accession to the EC under certain conditions at a later stage, but pointed out that the focus should be on European integration beyond the areas of the EC and EFTA (Verzetnitsch: 1988, p.269). Overall, it was argued that, due to economic imperatives, full participation in the Internal Market should be the aim. As membership seemed to be the EC’s precondition for full participation, Austria’s accession to the EC could not be excluded (ÖGB-Rednerdienst: 1988a, p.7).

The Europa-Memorandum of December 1988 by the ÖGB laid out the conditions for its support for membership. Most importantly, Austria’s neutral status must be maintained (ÖGB: 1988b, pp.2/3), the economic benefits must be used to improve the income, employment and welfare of the general population with a commitment to full employment as the priority of the economic and social policy, the decision-making in social policy must remain at the national level (ÖGB: 1988b, p.3), and the right for the ÖGB and AK to participate in all spheres of the decision-making process related to European integration and Austria’s possible EC membership must be guaranteed (ÖGB: 1988b, p.4). Additionally, the ÖGB put forward demands to ensure that Austria’s economy was prepared for further European integration regardless of becoming a member or not. Amongst others, these included an economic

policy of supporting further the transnationalisation of Austria's industry, improvements of, and investments in, the infrastructure, liberalisation of the crafts regulations, and a strengthening of education and professional training (ÖGB: 1988b, pp.5/6). Under these conditions, Verzetnitsch identified a majority within the ÖGB in favour of accession to the EC (ÖGB-Rednerdienst: 1988b, p.4). The ÖGB's position was echoed in the "Europa Stellungnahme" of January 1989 by the AK. If full participation in the Internal Market could only be achieved via membership, the AK would agree on accession. The preconditions mentioned above must, however, be accepted and the wider political and foreign policy dimensions carefully considered. Austria's neutrality should not be compromised (AK: 1989, p.6).

The results of the inter-ministerial "Working Group for European Integration", established by the new coalition government of SPÖ and ÖVP in February 1987 had been crucial for both associations. Together with representatives of all ministries and the Austrian Länder, the social partners participated in the evaluation of the consequences of the various options for Austria. Implicitly, the working group argued in favour of membership during the presentation of its results in June 1988.

Participation in the Internal Market would cause no problems for Austria. This, however, implied an automatic adoption of EC legislation, which was not satisfactory to a country unable to participate in the shaping and passing of this legislation, and there was no guarantee that the EC accepted this kind of participation (Leitner: 1993, p.93). Consequently, full participation in the Internal Market was only considered to be possible via membership, and this position was reiterated by the ÖGB and the AK.

Overall, and in contrast to the enthusiastic positions by the VÖI and BWK, the employee associations, while accepting the necessity of participating in the new

economic dynamic of European integration, pointed to the possible negative effects of membership and, consequently, outlined some preconditions of their support.

This conditional support for application by the ÖGB and the AK was mainly a decision by the leading officials in both organisations (Interview No.1; Vienna, 08/05/95). During high-ranking talks within the institutions of the ESP, it had become clear that the trade unionists did not have an alternative way to offer the same increase in general welfare, as EC membership, put forward by capital, promised to yield. Against the background of global restructuring and Austria's difficult economic situation, the opening of the sheltered sectors seemed to be the only way forward and EC membership was the best way of bringing this about. In other words, the trade union representatives agreed that membership was necessary for the revival of the Austrian economy, as were privatisation, tax reforms and a new focus on efficiency (Interview No.13; Vienna, 12/05/1995). Globalisation and the limitations of state autonomy were accepted as economic facts, and national Keynesian solutions were ruled out as impossible in this new international environment (Interview No.1; Vienna, 08/05/1995). Experts such as Heinz Zourek of the AK realised the problems for the sheltered Austrian sectors in case of accession, but pointed out that this would lead to lower prices for consumers and for inputs of the export-oriented industries and, thereby, improve the overall economic situation (Zourek: 1989, p.189). Once the Cold War had come to an end in 1989, the ÖGB leaders additionally had to take into account the prospect of new competitors in Eastern Europe. Therefore, these high-ranking officials accepted the bid for membership while focusing on a "just" distribution of the expected welfare gains (Interview No.13; Vienna, 12/05/1995).

Moreover, both the ÖGB and the AK strongly emphasised the importance of a European social dimension in addition to economic integration and demanded that the Austrian government worked towards this in case of membership (ÖGB: 1988b, p.2; AK: 1989, p.5). The opinion of Jaques Delors, President of the European Commission, that a European social dimension was a necessary complementary part of the Internal Market helped leading Austrian trade unionists in their support for membership (Interview No.22; Vienna, 23/04/1996). In view of the loss of national policy autonomy due to globalisation, exemplified by the French failure of Keynesian policies between 1981 and 1983, the EC with its social dimension, it was pointed out, offered some compensation at the European level and provided better possibilities for the control of TNCs (Vogler: 1991, p.179).

At first, opposition arose across all industrial sectors against this position. Nevertheless, the trade unions linked to the exporting sector soon offered their support, while the trade unions of the sheltered sector remained opposed. Thus, industrial unions such as the Textile, the Chemical and the Metal Workers' Unions supported participation in the internal market, while Rail, Postal and Public Workers' Unions, but also construction and wood workers opposed such a move (Schaller: 1994a, p.94). Amongst the opponents within the labour movement, the Gewerkschaft der Privatangestellten (White Collar Workers' Union, GPA)<sup>6</sup> was never positive about EC membership. Especially the sheltered and regulated areas of transport companies and food processing industry opposed accession, feared to lead to job losses, and information material in this sense was published by the GPA (Interview No.35: Vienna, 14/05/1996). The executive board of the Food Processing Union accepted the

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<sup>6</sup> The GPA is the strongest individual union within the ÖGB. It represents the white-collar workers in industry, crafts, money and credit, trade, social insurances, insurances, agriculture and forestry.

arguments that, firstly, the maintenance of the sheltered position was unfair on the consumers, who had to pay for it via high prices and secondly, that the GATT Uruguay round would lead to further free trade and, therefore, undermine the sheltered sector anyway. Consequently, it did not oppose membership but demanded financial restructuring help for the food processing industry before accession and the setting-up of so-called “work-foundations” with the goal to retrain workers, who had lost their job in the course of restructuring (Interview No.20; Vienna, 22/04/1996).

Nevertheless, in a conference on the EC by the extended executive board in March 1988, dissenting voices were raised. Representatives of the tinned food and the tobacco industries opposed membership arguing that this would push Austrian products out of the market in their sectors and lead to job cuts (Food Processing Trade Union: 1988a, p.8). Additionally, representatives of the dairy and sugar industries rejected restructuring of their sectors via the closing down of production units. Some employers misused the EC argument, it was pointed out, for their rationalisation programmes, which could be avoided. Furthermore, farmers should be paid less for their agricultural products by the food processing industry in order to lower consumer prices (Food Processing Trade Union: 1988b, comments by Kollege Huber, Kollege Krcal and Kollege Uhl). Additionally, while the Fraktion Sozialistischer Gewerkschafter (Socialist Trade Unionists), a league within the SPÖ, dominates the Food Processing Trade Union, there is a small minority of trade unionists closely related to the Austrian Communist Party.<sup>7</sup> The so-called Gewerkschaftlicher Linksblock strongly came out against membership. It would result in lower food quality standards and increasing power of European TNCs, which opposed a

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<sup>7</sup> With 0.73 per cent of the electoral vote in 1986 (Schneider: 1990, p.248), the Austrian Communist Party is not significant enough to be dealt with in more detail in this thesis.

European social dimension and favoured job cuts in the restructuring process of the industry (Gewerkschaftlicher Linksblock: 1989).

Eventually, the pro-EC decision triumphed within the ÖGB, but a long campaign until 1992 was needed in order to convince the members and work council officials at the company level (Interview No.1; Vienna, 08/05/1995). Objections and doubts were removed by the central organisation through the promise of financial restructuring help and retraining programmes (Interview No.22; Vienna, 23/04/1996).

### *1.2.3. The position of the agricultural sector:*

Apart from some limited exports to the EC in the area of cattle, agriculture was a totally nationally-oriented sector. Austrian production prices were higher than in the EC partly due to a different agricultural structure based on small and middle-sized farms with a strong emphasis on ecological factors in contrast to large-scale agricultural production in the EC focusing on efficiency. Furthermore, Austrian farmers had to cope with weaknesses in the related food processing industry (Kunnert: 1993, pp.82/83). Overall, it was feared that many farmers would be made bankrupt. Unsurprisingly, leading officials of the Austrian agricultural complex such as the President of the LK Alois Derfler and the Agricultural Minister Josef Riegler, both members of the ÖVP, rejected full membership throughout 1987 (Kunnert: 1993, pp.80/81). A turning-point was the ÖVP's decision in January 1988 to demand full membership. Riegler and Derfler are likely to have bowed to pressure from the economic wing of their party (Schaller: 1994a, p.100).

Similarly important was the presence at Maria Plain of the President of the Raiffeisenverband Dr. Kleiss, member of the ÖVP and the ÖBB. The

Raiffeisenverband, originally a network of local self-help organisations of farmers, has developed into a huge industrial enterprise with a market-dominating position in the agricultural supply and processing industry and, even more important, a financial sector with international links. Dr. Kleiss agreed that membership was absolutely necessary and arranged a positive statement by the Raiffeisenverband in the wake of the ÖVP's decision (Interview No.28; Vienna, 03/05/1996). Especially the financial sector of the Raiffeisenverband, i.e. internationally-oriented social forces, sought to gain unhindered access to European financial markets and, therefore, strongly supported membership (Krammer: 1991, p.372). As the presidential conference of the LK consists of representatives of the Land organisations and the Raiffeisenverband, the latter's positive opinion on membership was crucial in the internal decision of the LK (Interview No.28; Vienna, 03/05/1996).

From this point onwards, the political elite of the LK supported the EC application. It was argued that the situation of farmers would get tough anyway due to the GATT negotiations of the Uruguay Round. Switzerland was cited as an example of having to restructure its agricultural sector despite its decision against closer ties with the Community. Moreover, Austrian farmers would have to accept the EC guidelines in any case, if they wanted to export to the EC. Membership would guarantee the right of co-decision making in drawing up these guidelines (Interview No.17; Vienna, 18/05/95). The LK's "Memorandum zur Europäischen Integration" of February 1989 supported membership, but demanded financial help before and during membership in order to maintain Austria's agricultural structure and environmental standards (LK: 1989). A transition period for the agricultural sector in the adaptation to EC regulations and restructuring help for the closely attached food processing

sector were asked for (Interview No.28; Vienna, 03/05/1996). Many farmers, however, disagreed with the LK's positive opinion and felt that they were passed over or even sacrificed by their political leadership (Leitner: 1993, p.106). This resistance could not completely be overcome despite an intensive campaign of hundreds of information meetings organised by the LK throughout the country (Interview No.17; Vienna, 18/05/1995).

Eventually, in March 1989, the social partners supported application to the EC in their joint declaration "Österreich und die Europäische Integration", as only membership would guarantee full participation in the Internal Market (Sozialpartnerstellungnahme: 1989, p.11). The increased competition and economies of scale in the Internal Market would lead to higher economic growth. Provided this was accompanied by certain political measures, higher levels of living standards, a reduction in unemployment and the creation of new jobs would result. Considering the loss of national economic policy autonomy due to the world-wide liberalisation in the trade of goods and services, Austria would have to restructure parts of its industry anyway. Rather than implying a further loss of national sovereignty, the EC offered in this situation some kind of compensation, as the "the loss of autonomy can be balanced through possibilities of co-shaping and co-decision making at the international level" [translation by the author] (Sozialpartnerstellungnahme: 1989, p.9).

#### *1.2.4. The SPÖ's slow turn towards application:*

The joint declaration of the social partners was crucial for the opinion of the governing parties. In particular the SPÖ waited for the decision of the ÖGB and the

AK (Interview No.1; Vienna, 08/05/1995). The process leading to the pro-membership decision of 3 April 1989, when the national committee voted with a clear majority of 50 to 4 in favour of membership, was even more painstaking than the one of the ÖVP. In 1986, the first Vranitzky government came into office. Its new foreign minister for six months until the grand coalition was Peter Jankowitsch (SPÖ), who had already spoken up in favour of a closer relationship with the EC up to a quasi-membership at the end of 1985 (Leitner: 1993, p.101). The rationale behind this move was of an economic nature. The economic wing of the party around Chancellor Vranitzky, Finance Minister Lacina, Harald Ettl and Brigitte Ederer were convinced that it was necessary to guarantee Austria's full participation in the Internal Market, as this was likely to lead to new barriers for non-member countries. Some within the party even looked to the EC as a way of restructuring Austria's sheltered sectors, which was very difficult to achieve without pressure from outside (Interview No.32; Vienna, 08/05/1996). Nevertheless, the global approach was the primary aim at this time, as it was for the ÖVP. In the wake of the ÖVP's move towards full membership in 1988 and the results of the "Working Group for European Integration" in the summer of the same year, concluding that full participation in the Internal Market was only possible via membership, accession to the EC was carefully considered as an option by this group (Leitner: 1993, p.101).

On the other hand opposition grew within the party. Many linked their criticism of membership to a critique of capitalism in general, echoing the position of large sections of the party in the 1960s (see Introduction, section 3.2). Especially the socially disadvantaged and female party members argued that the capitalist dominated EC would threaten the social achievements in Austria. They were represented by Hans

Hatzl, member of the city council in Vienna, and by Herbert Suko, President of the AK in the Land Salzburg (Interview No.32; Vienna, 08/05/1996). Another, even more important group, divided into two sub-groups, rallied around the principle of neutrality. The first sub-group rejected the notion that membership and neutrality were compatible. The second, of which the former Foreign Minister Lanc was a member, argued that the EC had not been integrated deeply enough yet in order to raise the issue of neutrality. Nevertheless, as the EC had the general goal of developing into a political union, which may include a common foreign and security policy noticeable in the discussions in the late 1980s, it was not clear whether the EC would develop in a direction, where Austria as a member would have to drop its neutrality. Consequently, this group suggested to wait and observe whether future EC development questioned neutrality (Interview No.23; Vienna, 24/04/1996).

In view of this opposition, Vranitzky waited before he gave a clear sign for membership and stated at the SPÖ congress on Europe in October 1988 that neutrality would never be questioned or negotiated for the sake of membership (Vranitzky: 1988, pp.179/180). Then, the official report by the international law office in the Foreign Ministry about the question of the compatibility of EC membership and neutrality was published in November. It concluded that "Austria's EC membership under the viewpoint of retaining the status of neutrality would be in principal possible" [translation by the author] (Völkerrechtsbüro: 1988, p.40), provided some clarifications were made with reference to Art. 223 and 224 of the EEC Treaty, ensuring the right to use them for maintaining neutrality, and that Austria's status of neutrality was written into the application for membership. This strengthened the pro-EC camp within the SPÖ - the idea that membership was compatible with neutrality

was easier to sell than the opposite (Interview No.23; Vienna, 24/04/1996) - and was the basis of its clear victory in the national committee, mentioned above. Only Hatzl, Lanc and two leading functionaries of SPÖ youth organisations voted against the motion put forward by Vranitzky (Schneider: 1990, p.215). Membership was, however, linked to several conditions. In his presentation to the national committee, Vranitzky outlined the requirements for his party's support: neutrality was not negotiable, Austrian social and environmental standards had to be maintained, special provisions were needed for the agricultural sector in order to soften the impact of accession and a solution of the transit problem was required before the establishment of the Internal Market in 1992 (Vranitzky: 1989, pp.194-198).

Overall, the pro-EC position was qualified and the conditions of the SPÖ became part of the government's report to Parliament on 17 April 1989 (Leitner: 1993, pp.95/96) and also of the party agreement between SPÖ and ÖVP of 26 June 1989 (Parteienvereinbarung: 1989). In the end, it was thanks to the SPÖ's insistence that the principle of neutrality was written into the official application to the EC in July 1989 and that, therefore, the ÖVP Foreign Minister Mock could appease Soviet criticism by pointing to this. In sum, it was the economic wing within the SPÖ, led by the Chancellor Vranitzky, which moved the SPÖ towards a pro-EC position, but it had to overcome fierce opposition, especially rallying around the principle of neutrality. The clear success of the pro-EC group was partly due to the lack of an alternative concept by the opponents, which went beyond the issue of neutrality (Interview No.23; Vienna, 24/04/1996).

### *1.2.5. State institutions linked to the global economy:*

The Finance Ministry, linked to global finance via its concern for Austria's international credit rating, strongly supported EC membership. Austerity and a consolidated budget were regarded as necessary in times of free capital movement in order to maintain a good credit rating on the international financial markets.

Membership was considered to be a good way of attaining these objectives. The positive stance was strengthened after the Treaty of Maastricht, which implied that member states had to draw up convergence criteria plans with a strong focus on austerity. This allowed the transfer of responsibility for harsh decisions to Brussels (Interview No.7; Vienna, 11/05/95).

The ANB, also linked to global finance and in favour of EC membership, kept itself out of the discussion in order to avoid the Austrian hard currency policy becoming an object of the debate. Nonetheless, it supported the historic bloc in favour of EC membership through its actions. It shadowed the EMS policy and started liberalising its financial markets, when the EC members had decided on this move in 1986, in order to have a monetary and exchange rate policy compatible with present and future goals of the EC. Moreover, it acquired the status of Other-Holder, i.e. the right to hold and use official ECUs, and published an official daily exchange-rate for the ECU (Dörfel et al: 1993, pp.121/122; Interview No.16; Vienna, 18/05/1995).

Finally, the Economic Ministry strongly pressed the point that EC membership was a good method of achieving higher efficiency via stronger competition in the Internal Market, forcing Austria's protected sectors to restructure themselves (Interview No.10; Vienna, 12/05/95).

To sum up, the initiative was taken by “organic intellectuals” of the internationally-oriented social forces of capital. They formed an alliance with the social forces of labour also attached to this sector, and were supported by the ministries and institutions linked to the global economy. Their main arguments were of an economic nature. However, by dealing with other issues such as neutrality too, it was possible to formulate a hegemonic project in favour of EC membership, which went beyond mere economic interests and led to the control over the two governing parties and the social partners. Nevertheless, in order to attract other social forces and obtain at least the acquiescence of nationally-oriented social forces, concessions such as the maintenance of neutrality, social and environmental standards, special provisions for agriculture and financial restructuring help for disadvantaged industrial sectors had to be made.

The discourse of membership demonstrates two things. Firstly, the arguments of all pro-EC forces were underwritten by neo-liberal ideas, e.g. that efficiency via higher competition, to be achieved through membership and participation in the Internal Market, guaranteed a healthy economy, which would eventually lead to the creation of more wealth and jobs. EC membership was realised as a continuation of the change in economic policy at the national level, being especially crucial for the opening up of the sheltered sectors to international competition. Trade unionists may have pointed to the importance of a social dimension at the European level, but they did not challenge the neo-liberal logic as such. Secondly, the reference to globalisation as making this neo-liberal policy necessary shows that globalisation has not only acquired an existence at the material level through the transnationalisation of

production and finance, but also at the level of ideas. Structural change encompasses both changes at the structural and the superstructural level.

### *1.3. Forces against membership:*

#### *1.3.1. Nationally-oriented capital and labour:*

Both capital and labour related to the protected sector rejected membership. This included mainly the food processing industry, customs' officials, transport companies and the agricultural sector. It is interesting to note that some of the employers and trade unions in these sectors worked together in individual instances and tried to influence their respective Chamber. They raised their voices of opposition whenever they could, but were eventually outnumbered (Interview No.19; Vienna, 23/05/1995). Their position was weakened internally, since not all sectors within the food processing industry were negatively affected. While there were severe problems for dairy companies, mills and the sugar industry, the so-called "protocol II" industries, i.e. industries affected by the special bilateral agreements between Austria and the EC of 1972, such as breweries, soft drinks companies and cattle exporters could expect gains from accession (Food Processing Trade Union: 1988a, p.6). Consequently, they were less inclined towards a negative position. A small section of the social forces of capital in the food processing industry, moreover, sided with the majority, arguing that a restructuring of the protected industrial sector was necessary anyway. They even threatened to transfer production units to Eastern European countries in case of non-membership (Interview No.1; Vienna, 08/05/1995).

### *1.3.2. Political parties against application:*

The GA was the only significant party, which opposed membership from the very beginning. In March 1987, the leader of the GA fraction in parliament Freda Blau-Meissner rejected the view that neutrality was compatible with membership. Instead, membership would endanger Austrian independence and role as mediator between East and West, last but not least through the further sell-out of the Austrian economy (Blau-Meissner: 1987, pp.345/346). In February 1989, the party published a detailed manifesto on Europe. The Internal Market programme was accused of merely aiming at the economic-industrial expansion. Its liberalisation would not only make reforms in environmental and social standards impossible, but put already achieved standards under threat without solving the problem of unemployment. Additionally, it complained about the EC's democratic deficit and perceived military component. In this situation, instead of applying to the EC, Austria should, on the one hand, pursue a strategy of international co-operation with the goal of an improved environment, social justice, democratic renewal and international peace. Next to the EC, these efforts should also incorporate central Europe and the European neutrals. On the other hand, Austria had to concentrate on reforms at the national level, which would have a stronger impact on the EC than Austria could ever hope to achieve as a member (GA: 1989, pp.348-352). Shortly before the decision in parliament, the GA supported the newly founded initiative "Kritische Europainformationen" (Critical Europe Information) in its organisation of a bus tour through Austria, having the aim of disseminating information against application (Interview No.27; Vienna, 02/05/1996). Nevertheless, the decision on application was merely taken in parliament in June 1989, and there the GA fraction was the only one, which voted against application.

With roughly 5 per cent of the votes in the 1986 general elections (see Table No.4, Appendix) and eight MPs, this was a lost battle from the beginning.

### *1.3.3. Resistance in the extra-institutional environment:*

After the social partners and the two governing parties had decided on application, implying a majority for application within parliament, there was only the extra-institutional environment left for mobilising resistance to the EC membership course. In 1988, first publications appeared, which criticised the argument that membership was a natural necessity and pointed to alternative strategies. Morawetz outlined the undemocratic nature of the EC and the predominant structural position of lobby groups by “big capital” within it. Labour could only loose in this situation, with reference to its influence in general and the obtained social standards in particular (Morawetz: 1988). Scherb, while acknowledging the objective tendency in the economy towards transnationalisation, rejected the one-sided orientation towards the EC. As an alternative, she urged a diversified transnationalisation strategy and retention of the status of an independent neutral able to mediate between East and West (Scherb: 1988, pp.69/70). Althaler et al similarly regretted the one-sided orientation towards EC membership and pointed to a range of alternative strategies such as a further development of the 1972 FTAs or association. As these strategies promised similar economic gains, membership would be everything but a must for Austria (Althaler et al: 1988, pp.44/45). These publications helped EC opponents to formulate their arguments (Schaller: 1994a, pp.112/113).

In November 1988, the “Initiative Österreich und Europa” was established with the former Foreign Minister Lanc (SPÖ) as one of its most prominent co-

founders. It was a loose association of individuals including former ambassadors (Bielka, Thalberg) and university professors (e.g. Hagen, Pelinka and Weinzierl) (Leitner: 1993, p.107). Similarly to the publications, mentioned above, its aim was to initiate a broad public debate on EC membership in general and the question of its compatibility with neutrality in particular (Interview No.23; Vienna, 24/04/1996). Together with the “Institut für Staats- und Politikwissenschaft”, it organised a symposium “Österreich - EG - Europa” on 30 and 31 January, 1989, of which the presentations were published in the *Österreichische Zeitschrift für Politikwissenschaft*, Vol.18/3 (1989). Amongst others, Lanc argued that a European Economic Area combined with a diversified internationalisation strategy was economically sufficient (Lanc: 1989, p.257). Bielka pointed out that the process of transnationalisation including the take-over of Austrian companies by foreign TNCs had already been undermining Austria’s independence. Membership would increase this tendency and threaten neutrality. Moreover, membership would imply participation in the EPC and, therefore, question Austria’s role as a neutral mediator in international politics (Bielka: 1989, p.259). Thalberg suggested to observe first the further internal development of the EC, before a decision on application was taken (Thalberg: 1989, p.264). More than 100 similar public information meetings were organised all over Austria (Interview No.23; Vienna, 24/04/1996).

This intensified public debate was not without consequences. Shortly before the parliamentary debate on application at the end of June 1989, several demonstrations took place, which demanded that application to Brussels should not be made (Schaller: 1994a, p.247).<sup>8</sup>

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<sup>8</sup>An open letter to the Chancellor and Foreign Minister together with a list of signatures, demanding not to send a letter of application, because the debate about the advantages and disadvantages of such a move had not developed far enough, was printed in *Profil*, No.26 (1989), p.53.

#### *1.3.4. Reasons for the failure of the anti-EC groups:*

Overall, there were a range of social forces opposing membership, but it turned out to be impossible for them to form a successful alliance against application. Firstly, they did not have a clear common agenda apart from their opposition to membership. For example, within the “Initiative Österreich und Europa”, membership was rejected because of neutrality, social, environmental, agricultural, regional, and democratic-political considerations without arranging these points in a coherent programme (Leitner: 1993, p.107). The attempt by the GA to organise an anti-EC campaign before the Land elections of spring 1989 was rejected by the “Initiative Österreich und Europa” (Schaller: 1994a, p.150) as was the attempt to form a new party. According to Lanc, the opponents were generally focusing on small and local issues which affected them directly such as the anti-transit movements in some Länder or some local SPÖ or ÖVP mayors, who feared for their re-election. The GA was considered to be merely a sectoral party. For the successful establishment of a new party, however, a comprehensive programme would have been necessary. More importantly, it had never been the aim of the Initiative to form an anti-EC movement in the first place. It wanted to start a public debate on the pros and cons of EC membership and, consequently, had always invited pro-EC speakers to its conferences, too. When this target had been achieved, the Initiative was dissolved in 1991 (Interview No.23; Vienna, 24/04/1996). In short, neither the GA nor the “Initiative Österreich und Europa” could provide the platform for “organic intellectuals”.

Additionally, there was no support from ministries, linked to national problems, such as the Agriculture Ministry, the Ministry for Labour and Social Affairs and the Ministry for the Nationalised Industry (Interview No.14; Vienna, 17/05/1995).

As all decisions were taken on a consensus basis within the cabinet, the Agriculture Minister could theoretically have vetoed the decision on application (Interview No.25; Vienna, 25/04/1996). In practice, however, because of internal pressure within the ÖVP, this extreme version of opposition was unlikely. The Agriculture Minister together with the ÖBB and the LK, however, made it for the pro-application forces very difficult and successfully demanded many concessions (Interview No.36; Vienna, 15/05/1996). The Ministry for Labour and Social Affairs did not oppose the quest for membership either. The necessity of application was accepted considering the overall economic gains membership promised to yield. Job losses would have to be dealt with, as a restructuring process of the protected sectors was on the agenda in any case, and the Austrian work and social standards even had to be raised to Community levels in some areas (Interview No.1; Vienna, 08/05/1995). Eventually, the ministry only demanded that Austria's participation in the structural funds of the EC and a transition period with reference to women's nightwork were part of the negotiation position (Interview No.30; Vienna, 06/05/1996). At first sight, one would assume that the Austrian Ministry for the Nationalised Industry fiercely opposed EC membership, as a large public sector was hardly compatible with the liberalisation drive of the Internal Market accompanied by a wave of privatisation across the EC. Nevertheless, considering that privatisation and the restructuring of the Austrian nationalised industry had already been accepted and started in 1987 (see Chapter 2, section 2.1.3), membership offered a good way of continuing this process and was, therefore, welcomed rather than opposed (Interview No.31; Vienna, 07/05/1996).

Furthermore, the opposing social forces were outside the corporatist system and in a minority position within parliament. Once they had lost the struggle within

the governing parties and the social partners, there was no institution left, which would have allowed them to influence policy-making.

Lastly, the importance of the change in ideas from a Keynesian to a neo-liberal, deregulatory economic policy, part of the process of globalisation, should not be forgotten. This contributed to a situation, in which nationally-oriented social forces of capital and labour found it impossible to consider alternatives to participation in the Internal Market, despite the obvious disadvantages for their sectors. Similarly, a critique of this new type of economic policy and the suggestions of alternative development strategies as presented by the GA and individual intellectuals had little chance to be accepted by a wider audience in this ideological environment.

To conclude, social forces linked to the national, protected industrial sector opposed EC membership. Nonetheless, the breaking of the ranks by some social forces of capital, the lack of uniformity in the issues prioritised to oppose membership, the unsupportive attitude by ministries linked to national problems and the exclusion from the corporatist policy-making institutions prevented these social forces from forming a successful historic bloc against membership. Alternatives to membership based on a different economic policy were more or less precluded in a structural environment, which was partly constituted by neo-liberalism in the form of intersubjective meanings. As it is demonstrated in the next Chapter, however, the referendum on membership five years later would give these social forces a second chance.

## 2. Sweden and Social Democratic hegemony: the struggle postponed.

The new dynamics of the EC in the mid-1980s triggered a rethinking of Sweden's integration policy (Luif: 1996, p.204). In contrast to Austria, however, membership was not discussed as an option, since the governing SAP had repeatedly made it clear that neutrality prevented such a step, before it suddenly announced its intention to apply to the EC in October 1990. Nevertheless, the different positions between various social forces can also be detected at this stage.

In the first part of this section, the positions of labour and capital, but also of the agricultural sector are outlined. The second part looks at general government policy, which also represents the SAP's position, up to the dramatic turnaround in October 1990, before the positions of the other political parties are dealt with in the third part. The fourth and final part analyses the change in the SAP's position on membership.

### *2.1. Labour, capital and agriculture: membership is not on the agenda.*

#### *2.1.1. The position of labour:*

There was not much discussion about the 1985 Internal Market initiative within the LO until 1987/1988. The Swedish Model was considered to be beyond problems (Interview No.46; Stockholm, 13/11/1996; Interview No.56; Stockholm, 21/11/1996). Nonetheless, from 1987 onwards, the unions of the transnational production sector started to point out that some kind of response was necessary (Interview No.46; Stockholm, 13/11/1996). Especially the Metal Workers' Union, representing a sector which is characterised by the big TNCs such as Ericsson, Electrolux and Volvo and which exports more than 50 per cent of its products, became aware of the possible

negative impact of an EC Internal Market on the economic performance of and, thereby, the employment in, its sector. The TNCs had made this clear in discussions with local union branches, which, in turn, demanded some action from their central organisation. The central union, then, used its close contacts with the SAP and pressed for an initiative. This contributed, at least partially, to the eventual government bill on “Sweden and West European Integration” of December 1987, which outlined the new approach (see below) (Interview No.66; Stockholm, 29/11/1996).

In 1987/88, first ideas about the new relationship between Sweden and the EC were mainly aired by the peak organisation LO and the affiliated Metal Workers’ Union.<sup>9</sup> It was stressed that the Internal Market programme was going to affect Sweden and that, therefore, a response was required:

Whatever we in Sweden may think about all this, we will be affected by what is now happening. All other considerations aside, it has to do with the coordination of a market with about 320 million inhabitants. Half our total exports go to these countries (Molin: 1988, p.10).

Although increased co-operation with the EC was deemed to be necessary in this situation, all contributors agreed on the fact that membership was not on the agenda for Swedish trade unions. It was important “to keep national self-determination in certain important economic, social and security policies” (Dahlström: 1987, p.6). Additionally, it was made clear “that Sweden’s nonalignment policy should, of course, remain in place” (Molin: 1988, p.11). Participation in the EMS in order to obtain a hard currency policy was the furthest suggestion with respect to integration (Olsson: 1988a, p.6). Closer co-operation was to be achieved via the formation and strengthening of common EFTA-positions (Dahlström: 1987, p.7) and via active

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<sup>9</sup> Gösta Dahlström worked as an economist at the LO, Jan Olsson (Olsson: 1988a) was a researcher previously employed by the Metal Workers’ Union, Hans Olsson (Olsson: 1988b) was the Head of the Research Department at the Metal Workers’ Union, and Rune Molin was the Vice Chairman of I.O.

participation in the discussions within the European Trade Union Confederation (ETUC) and the Council of Nordic Trade Unions (Olsson: 1988a, p.6; Molin: 1988, p.11).

These contributions in favour of closer co-operation though not integration with the EC showed already at this point arguments, which became so important on the pro-EC side of the labour movement later in the debate on membership (see Chapter 4, section 3.1). Firstly, the failure of the Keynesian, “old Social Democratic” way in France between 1981 and 1983 was pointed out. The labour movement, consequently, would require a European vision beyond the national level (Olsson: 1988a, p.5; Olsson: 1988b, p.8). Secondly, it was argued that a greater degree of international trade union co-operation was necessary to counter the co-operation by TNCs and the concentration of international capital, which was especially represented in Europe through the emergence of Eurocapitalism (Olsson: 1988a, p.6; Olsson: 1988b, p.9). Moreover, European co-operation would be necessary in order to strengthen Europe’s competitiveness vis-à-vis the USA and Japan and, thereby, secure Europe’s economic well-being (Olsson: 1988b, p.9; Molin: 1988, p.10). Other transnational problems such as pollution, employment and peace would also require transnational solutions and, therefore, international co-operation (Olsson: 1988a, p.5). Great emphasis was, furthermore, put on the necessity of a continuing development of the social dimension complementing the Internal Market (Molin: 1988, p.11). While a transnational, European level was identified as the crucial level of policy-making, Swedish achievements were not discarded. Rather, it was pointed out that Sweden could contribute positively to European co-operation. “For example, full employment, the social welfare safety net and the pivotal role of strong trade unions in the structure

of Swedish society are of interest in a broader European perspective” (Olsson: 1988a, p.6). Finally, problematic areas of co-operation were identified. The higher Swedish work safety and work environment regulations should not be compromised (Dahlström: 1987, p.5).

In 1988, the LO Committee on relations with the EC was established. It consisted of about 30 members. Each affiliated union was represented by one member except for the Municipal Workers’ Union, which had two representatives; the other members came from the central organisation (Interview No.57; Stockholm, 21/11/96). By 1988, it had been clear that participation in the Internal Market was crucial for the Swedish economic development and export, and the Committee, consequently, supported unanimously closer co-operation short of full membership and the eventual EEA. Full membership, however, was only discussed after the SAP decision. It has to be noted that the Committee was not a decision-making body, but an expert group to give advice to the LO (Interview No.59; Stockholm, 26/11/1996). Issues such as labour laws, health and safety regulations related to the adaptation to EC law under an EEA-type agreement had been the main concern (Interview No.58; Stockholm, 26/11/1996).

The TCO sensed as early as 1986 that the Internal Market programme implied threats to the Swedish economy. Nevertheless, the EEA and not membership appeared to be the solution and was never regarded as a mere stepping-stone to full membership. The SAP’s turnaround in October 1990 came as a total surprise to the union (Interview No.40; Stockholm, 11/11/1996).<sup>10</sup>

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<sup>10</sup> “In June 1990, the chairman of TCO ... maintained that a Swedish EC membership would be possible” (Luif: 1996, p.212). This should not, however, be exaggerated. It represented the view of an individual, although an important one, not the general position of the TCO as such.

The SACO hardly engaged in the debate. The relations with the EC were considered to be an issue of foreign policy, not a trade union matter. It only responded with studies about the effects of membership, after the SAP had announced its decision (Interview No.41; Stockholm, 11/11/1996). Nonetheless, the first trade union to demand membership was the Swedish Association of Graduate Engineers in May 1990, an affiliate of the SACO (Luif: 1996, p.112). Its members often occupy high positions within the transnational private sector industry and, therefore, represent producer interests. They argued that in case of non-membership many jobs would be lost and followed the line of the SAF in general (see below) (Interview No.41; Stockholm, 11/11/1996). Overall, the influence of this particular union should not be overestimated. As the SACO in general, it has no direct links with political parties and, therefore, was not crucial for the SAP position. It does, however, indicate that transnational labour was behind the move towards closer co-operation and, eventually, integration with the EC.

To sum up the position of trade unions up to October 1990, it was transnational sector unions which first raised the demand for a response to the Internal Market programme in 1987, a demand which was in general accepted by both transnational and national labour in 1988. From then onwards, especially the LO discussed the possible impact resulting from participation in the Internal Market short of membership. Membership itself, however, was not on the agenda except for the SACO affiliate the Swedish Association of Graduate Engineers, and this not before May 1990.<sup>11</sup> Finally, it must be noted that some parts of the labour movement in the public sector feared the possible negative impact of closer ties with the EC on the

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<sup>11</sup> It is often alleged in the literature that a change towards a pro-membership position within the trade unions contributed to the SAP's turnaround in 1990 (e.g. Jerneck: 1993, p.34; Miles: 1996, p.64). The empirical evidence presented here does not corroborate this position.

Swedish Model and welfare system even before membership was on the agenda (Hamilton/Stålvant: 1989, p.20). This line of division within the trade unions became sharper after the SAP's decision to apply for membership (see Chapter 4, section 3.1).

### *2.1.2. The position of capital:*

Initially, the Internal Market programme did not capture the attention of Swedish capital. Peter Wallenberg for example, President of the SI, was still focusing on the USA in 1986 (Interview No.52; Stockholm, 15/11/1996). This complacency has to be seen against the background of the FTAs and the stagflation of European economies. Especially middle-sized companies preferred expanding in the USA to investing in the EC (Interview No.51; Stockholm, 15/11/1996). In 1987, the picture changed. Wallenberg spoke out openly in favour of membership in December and other business leaders also made this point via formal and informal political channels (Interview No.61; Stockholm, 26/11/1996). Resistance from within the association, however, ensured that the exact form of co-operation was excluded from the official document (Luif: 1988, p.191).

The SI and SAF were careful in their support for membership in order not to force the trade unions into a no-position. Membership was perceived as the ultimate goal at the time, but it was considered impossible, since the SAP had stated its incompatibility with the policy of neutrality. It was, instead, argued that everything should be done to ensure that Swedish companies would be able to compete on equal terms with their EC counterparts in the Internal Market. How this was achieved, was considered to be a political question and, thus, the responsibility of the government (Interview No.43; Stockholm, 12/11/1996). The SI feared the loss of markets and

companies, which transferred production units and sometimes even their headquarters to the EC. Membership was raised in informal discussions with politicians of the government before 1989 as the best remedy of this danger, but the pressure was not very strong. It was clear that the SAP had to make the eventual decision (Interview No.54; Stockholm, 19/11/1996).

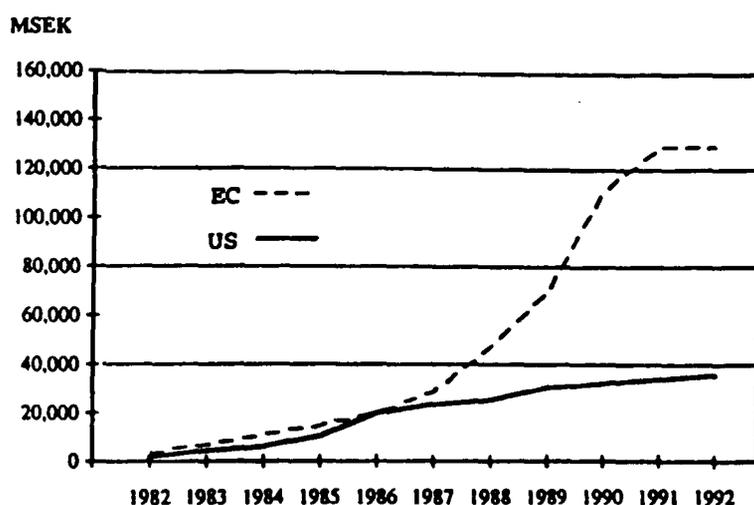
In sum, and in contrast to Austria, there was no institution of capital, within which “organic intellectuals” formulated a pro-membership hegemonic project. Even the Verkstadsindustrier, the Association of Swedish Engineering Employers including the big TNCs, so active in the campaign against central wage-bargaining in the early 1980s (see Chapter 2, section 2.2.3), accepted the Social Democratic hegemony and did not initiate a strong campaign towards membership. European integration was realised as an issue as important as the wage-formation question with regard to the international competitiveness of Swedish engineering industry, but, as it was stated by the association, it did not have the capacity to pursue all problems at the same time (Interview No.67; Stockholm, 29/11/1996).

The relative political inactivity should not, however, be interpreted as inactivity as such. Swedish industry did react towards the Internal Market initiative. Swedish TNCs realised that they must be part of the Internal Market due to possible discriminations and in order to be geographically closer to the consumers of their products. As outlined in Chapter 2, section 2.2.1, there had been a drastic rise in outward FDI between 1985 and 1990 (see Table No.6, Appendix). This increase in FDI went predominantly to the EC. Whereas between 1982 and 1985 only 29.9 per cent of outward FDI went to EC countries, the average share between 1988 and 1990 had risen to 62.1 per cent (see Table No.8, Appendix). This apparent strategy of

gaining access to the Internal Market via the transfer of production units to the EC and their acquisition within it, is further highlighted by a comparison of the development of FDI in the EC with FDI in the USA. Between 1982 and 1986, as shown in Figure 1. Swedish FDI in the EC and in the USA developed in a parallel way. Nevertheless, “from 1987, the growth of Swedish FDI in the ... [EC] ... has been spectacular, whereas FDI in the United States remains more or less constant”

(Braunerhjelm/Oxelheim: 1996, p.102).

Figure 1: Accumulated Swedish FDI in the EC and the USA, 1982-92: deflated by the GDP implicit price index (1984 = 100), annual data (Braunerhjelm/ Oxelheim: 1996, p.102):



While there were other factors for the increased Swedish FDI in the EC, there is a strong indication that “a major cause for this shift was uncertainty about a future Swedish ... [EC] ... membership and a fear of Fortress Europe ...” (Braunerhjelm/ Oxelheim: 1996, p.114).

Increased investment abroad did not complement but substitute expansion at home, indicating a shift of production to the EC:

The negative relationship between foreign production and home country exports, the weakening of parent R&D, the lack of perceptible technology transfers homeward from affiliate R&D and the retreat of productivity at home as intra-firm exports shifted towards intermediates and productivity surged in

the EC affiliates, are manifestations which strongly suggest that restructuring by Swedish ... [TNCs] ... during the late 1980s accentuated the decline of industry within Sweden (Andersson et al: 1996, p.126).

Especially in the knowledge-intensive industries, except for chemicals and pharmaceuticals, investment at home was substituted by FDI (Andersson et al: 1996, p.135; Braunerhjelm/Oxelheim: 1996, p.114). Overall, and in comparison with other countries outside the EC, Swedish companies were the most aggressive ones in the relocation of production (Interview No.65; Stockholm, 28/11/1996).

A report on the consequences of the EC Internal Market programme for the Swedish economy in general and the Swedish Manufacturing Industry in particular, commissioned in February 1987 by the SI, had already spelled out the possible need for Swedish companies to transfer production units to the EC. It was made clear that the changes in the economic structure due to the Internal Market did not only have an impact on trade in goods and services. The focus also had to be on long-term structural implications (Ohlsson: 1988, pp.12/13). For example, participation in the EC's R&D policy, the education and training programmes and special support schemes for small- and medium-sized companies was considered to be crucial for the structural renewal of the Swedish economy (Ohlsson: 1988, pp.34-44). The same argument was put forward for the importance of access to the efficient EC capital markets (Ohlsson: 1988, pp.44-50) and skilled labour of the Internal Market (Ohlsson: 1988, pp.50-53). The report concluded that "it had become clear from the above that Swedish membership of the EC would significantly increase our national prosperity. This is due to the fact that the structural renewal of industry would be stimulated and exports would acquire a more knowledge-intensive character" (Ohlsson: 1988, pp.54/55).

All other options short of membership would, instead, imply that the full expansion potential of Sweden's most competitive manufactures could not be exploited, which might cause a declining standard of living as the price to be paid for continuing full employment. In short, while membership was not demanded, it was implicitly suggested as the best option. This was underlined with the open threat of transferring production units to the EC. The report pointed out that in the run-up to 1992, companies had to safeguard their market position even before 1992 in order to reap the full benefits of the Internal Market. Necessary actions may include company acquisitions, mergers, joint ventures and other strategic investments in the EC (Ohlsson: 1988, p.15). The threat was even more direct in the case of the government procurement market within the EC (equipment for transport, water supply, energy production and distribution, and telecommunications). "The strategic decisions large companies will have to make during this period will tend to shift their production base into the EC" (Ohlsson: 1988, p.33). Eventually, the high level of FDI in the EC became a political statement, since no country can afford to loose its capital (Interview No.67; Stockholm, 29/11/1996).

### 2.1.3. The position of the agricultural sector:

The internal debate of the LRF started in 1988/89. It was realised that EC membership would come sooner or later. Consequently a competitiveness study was commissioned in order to evaluate the opportunities of Swedish farmers within the EC. The overvalued SKr and too high a cost level due to taxation were identified as problems. Apart from that, however, the level of education, skill, technology and productivity in Sweden implied that Swedish agriculture was competitive with the most advanced

agricultural nations such as Britain and the Netherlands, provided that Swedish farmers enjoyed the same competition conditions as their British and Dutch counterparts. Equal conditions, however, could only be obtained via membership (Interview No.50; Stockholm, 14/11/1996).

Simultaneously, the regulated agricultural market in Sweden itself had come under criticism. It had been established in 1932 in a deal between the CP, then the Agrarian Party, and the SAP. The former accepted unemployment benefit in exchange for a guaranteed higher price per litre milk, an arrangement which had also been accepted by the other parties later on. During the 1980s, however, the Liberal Party left the party consensus and demanded deregulation and the introduction of market principles. When the SAP also started to move in this direction, following their active restructuring philosophy of sacrificing declining sectors and transferring free labour to expanding sectors via an active labour market policy, the LRF recognised that deregulation was on the agenda. It responded with a twofold strategy. On the one hand, it accepted deregulation but asked for a five-year transition period; on the other, it strongly argued in favour of EC membership. The EC's Common Agriculture Policy (CAP) suddenly did not only offer a larger market but also higher subsidies than the deregulated Swedish market (Interview No.51; Stockholm, 15/11/1996).

In 1990, the Swedish parliament passed a law on agricultural reform. "A major feature of the new policy was to subject the agricultural sector to the free play of market forces" (The Swedish Institute: 1995, p.2). In practice, this meant that all subsidies were supposed to be phased out between 1991 and 1994. In June of the same year, the LRF adopted a decision in favour of membership, which should be reiterated each following year (Interview No.50; Stockholm, 14/11/1996). It cannot be said that

this decision influenced the SAP. The LRF did not politically lobby parties at this time due to the taboo of discussing neutrality, and it had no formal ties with the Social Democrats (Interview No.50; Stockholm, 14/11/1996). With reference to the CP's position on the EC, however, the LRF played a crucial role in the years to come (see Chapter 4, section 3.3.3).

## *2.2. Close economic co-operation without membership: the SAP maintains its traditional position:*

The first response to EC-internal discussions about the Internal Market had been the so-called Luxembourg Declaration between the EC and EFTA, which included a commitment to intensified EC-EFTA relations and the eventual creation of a European Economic Space (Gstöhl: 1996, pp.49-51). Nevertheless, by 1987/1988, the EFTA-countries realised that the process was slow, inadequate and costly, while the EC itself had moved rapidly towards the completion of the Internal Market with the signing of the SEA in 1986. In an address to a meeting of Swedish ambassadors to Western Europe, Anita Gradin, the Swedish Minister for Foreign Trade, described the situation as follows:

What concerns us, however, is that co-operation is progressing too slowly and is too narrow in scope. So far the EC-EFTA negotiations have mainly focused on the free movement of goods, while the other three freedoms have virtually lain fallow as far as the EFTA countries are concerned. And in the mean time, as I have said, the pace of internal EC co-operation has been constantly accelerating (Gradin: 1988b, p.248).

Against the background of this development, the SAP government decided at the end of 1987 to start a new initiative. This was partly due to pressure by the employer associations and transnational sector trade unions, which feared the negative impact of

the Internal Market on their sectors, but it also reflected the SAP's historically positive attitude towards big business. "What is good for Volvo, is good for Sweden" has never been just a saying (Interview No.52; Stockholm, 15/11/1996). This new policy was oriented according to two basic principles:

The Government's policy is oriented towards ensuring that Swedish companies will continue to be able to compete on the EC market on equal terms with other West European firms. Second, the Government's position, as in the past, is that membership is not compatible with our policy of neutrality (Gradin: 1987, p.301).<sup>12</sup>

The new approach, first outlined in the government's bill on "Sweden and West European Integration" of December 1987, included a three-fold strategy: "We shall further develop the Nordic co-operation, we shall strengthen EFTA at the same time as we extend and deepen the co-operation with the EC as far as this is compatible with our policy of neutrality" (Swedish Ministry for Foreign Affairs: 1987, p.5). It was acknowledged that the deepening of the co-operation with the EC mainly implied the harmonisation of regulations via the adaptation to the Community's existing rules (Swedish Ministry for Foreign Affairs: 1987, pp.28/29).

In spring 1988, the government set up a complex institutional structure based on this bill. Firstly, a Cabinet Committee on European Affairs was established consisting of the Prime Minister, the Ministers for Foreign Affairs, for Foreign Trade, of Finance and of Industry. This Cabinet Committee was part of the wider Council for European Affairs, which additionally included high-ranking representatives of Swedish business and trade unions, the Governor of the Bank of Sweden and the Chancellor of the Swedish Universities. More than 20 working groups were

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<sup>12</sup> This position was reiterated in official government declarations and statements by ministers and the Prime Minister Ingvar Carlsson throughout 1988 and 1989 (e.g. Swedish Ministry for Foreign Affairs: 1987, pp.16, 26; Gradin: 1988a, p.218; Gradin: 1988b, p.246; Swedish Government: 1988a, pp.223/224; Carlsson: 1988, p.230; Carlsson: 1989, pp.137/138).

established, which involved all ministries except for the Ministry of Defence. Where it was considered to be necessary, advisory groups consisting of interest associations' representatives were attached. Ulf Dinkelspiel was designated as Chief Negotiator for the negotiations with EFTA and the EC (Swedish Government: 1988b). The main goal of these government committees and commissions was to achieve harmonisation with EC rules wherever possible (Jacobsson: 1990, p.16).

At the international level, Sweden worked for a revival of the multilateral EC-EFTA relations. There are strong indicators that the Swedish and Norwegian Social Democratic governments devised in late 1988, together with Delors, the President of the EC Commission, the initiative leading to the EEA. It offered the EC to concentrate on deepening by avoiding the issue of enlargement and the Nordic EFTA countries participation in the Internal Market without membership (Gstöhl: 1996, p.56; Interview No.52; Stockholm, 15/11/1996) (see Chapter 4, section 1.1). Overall, the SAP response to the Internal Market initiative resembled the global approach, one of the two alternatives to membership discussed in Austria. The Swedish government did not adopt the name, because it had already been rejected in Austria, when the approach was outlined in Sweden (Interview No.61; Vienna, 26/11/1996).

The government's position showed great similarities with the points raised by LO representatives. Firstly, closer co-operation with the EC must not involve the deterioration of the environment, weakened worker protection or poorer product safety (Gradin: 1987, p.302). According to Gradin, "we wish to maintain our level of aspiration as regards workplace safety and health and environmental standards" (Gradin: 1990a, p.222). Secondly, increased importance should be attached to the development of a social dimension (Swedish Ministry for Foreign Affairs: 1987, p.6:

Swedish Government: 1988a, p.225). Prime Minister Carlsson emphasised that “we shall work together for a policy which secures full employment and social security within the framework of a free labour market” (Carlsson: 1988, p.231). Gradin admitted that there was, for example, slow progress within the EC towards employee participation, but she pointed to Delors’ initiative of January 1989 towards a new form of “social dialogue” between the Union of Industries of the EC (UNICE) and ETUC as a positive sign in this area (Gradin: 1989, p.273). Thirdly, international co-operation of governments and trade unions would be required in order to overview TNCs’ activities (Swedish Ministry for Foreign Affairs: 1987, pp.13/14; Gradin: 1988b, p.251). “Since national economies are already integrated, there needs to be political and trade union coordination if welfare objectives are to be safeguarded” (Gradin: 1989, p.272). International problems such as pollution, moreover, required international solutions (Swedish Ministry for Foreign Affairs: 1987, p.14). In short, while membership was not on the agenda, the arguments, so important in the section of the SAP favouring membership later on (see Chapter 4, section 3.3.2), can already be identified at this stage.

In sum, between 1987 and the announcement of application in October 1990, the SAP pursued a traditional way of co-operation with the EC: co-operation should be as close as possible in order to guarantee the competitiveness of Swedish companies, but short of membership to secure Sweden’s policy of neutrality and sovereignty. While closer economic co-operation was desired, the Swedish Model with its developed public sector and generous welfare system was not to be compromised. On the contrary, it was considered to be a possible positive contribution to West European co-operation. As Carlsson argued, “the fact that some

EC countries do not have the same well-developed public sector as we do, or that they do not pursue a general welfare policy, does not mean that we should adjust and adapt to them. And future co-operation will not require this either” (Carlsson: 1989, 140).

### *2.3. The political parties in the shadow of Social Democratic hegemony:*

In spring 1988, the Foreign Policy Committee of the Riksdag discussed the Government bill “Sweden and West European Integration”. In contrast to the bill, membership was not excluded as a possibility for all times, but the four party comprise of SAP, FP, MS and CP made clear that it was not a matter for the “now” forthcoming negotiations with the EC. Co-operation with the EC should be deepened and widened as long as this was compatible with neutrality. Harmonisation in the areas of environment and work protection was rejected (Luif: 1988, p.190).

#### *2.3.1. The position of the MS and FP:*

This compromise, more or less along the government’s position, further demonstrated the SAP’s hegemonic position within Sweden. The MS had traditionally been in favour of close alignment with the EC. It had demanded membership in its Action Programme of November 1984 (Luif: 1988, p.188.), but in May 1987, Carl Bildt, the party chairman, spelled out why membership was not on the agenda: “neutrality politics requires us to abstain from taking part in binding foreign policy cooperation” (quoted in Hamilton/Stålvant: 1989, p.15). Thus, the MS followed the official SAP line in foreign policy. The closest possible relation with the EC short of membership was, consequently, the aim and the EEA initiative by Delors in 1989 was deemed to be a marvellous opportunity. Nevertheless, this policy was not necessarily a matter of

conviction. It was rather a careful strategy by Bildt not to lock the SAP in a no-position, similar to SAF's and the SI's strategy towards the trade unions (Interview No.51; Stockholm, 15/11/1996).

The FP similarly perceived that the eventual decision for membership had to come from the hegemonic SAP and, therefore, did not demand membership openly before the fall of the Berlin Wall in November 1989. It also favoured the closest possible relation to the EC short of membership. Some people in the MS but also the FP had argued even before 1989 that membership was compatible with neutrality, but the parties did not officially adopt this position. The SAP had often used such statements to accuse its opponents of being not trustworthy in foreign policy and of neglecting the Swedish "holy grail" of neutrality. As the majority of the population held neutrality in a similar high esteem, this was an electorally impossible position (Interview No.55; Stockholm, 19/11/1996; Andrén: 1991, p.75; Luif: 1996, p.141).

This position, however, changed immediately after the fall of the Berlin Wall in November 1989. Bengt Westerberg, the FP chairman, stated that "my conclusion as a Social Liberal and internationalist ... is that it is desirable for Sweden, without abandoning its neutrality policy, to become a full-fledged member of the European Community before the end of this century" (quoted in Lindmarker: 1991, p.3). This was not only the result of economic concerns, but also the expression of a strong internationalist direction of the FP, which favoured the creation of peace via international co-operation (Interview No.55; Stockholm, 19/11/1996). In May 1990, Westerberg was even more precise and demanded that Sweden should apply for membership during the parliamentary period of 1991-1994. "Only by joining the EC could Sweden participate in EC decision-making" (Luif: 1996, p.211). Bildt and the

MS followed immediately with the same demand. The MS had already been extremely unhappy with the process of the EEA negotiations in January 1990. It had realised that the EEA would never provide Sweden with co-decision making powers. Hence, Sweden would eventually have to choose between membership or remaining outside the EC and, thereby, endanger the Swedish TNCs' position forcing them to become European. From this point onwards, the EEA was merely seen as a stepping-stone towards eventual full membership (Interview No.51; Stockholm, 15/11/1996).

Additionally, together with the FP, the MS demanded a study whether membership was possible and whether it was compatible with neutrality. This study "brought new ideas into the debate" (Luif: 1996, p.207). Neutral Ireland was pointed out as an example. The EC could, alternatively, accept Sweden without a neutrality reservation, provided there was an informal decision by the EC heads of state to acquiesce in Sweden's foreign policy status. Simultaneously, Sweden could adopt a more pragmatic definition of neutrality. Eventually, security may even require membership one day. To conclude, the change in the European security environment removed all hesitations of the MS and FP to demand application for membership. The final decision, however, still remained with the SAP.

### *2.3.2. The position of the CP:*

The CP was also part of the party compromise in spring 1988. It totally accepted the SAP's position that membership was incompatible with neutrality. The Internal Market programme had only initiated a debate about an EEA-type solution and the party compromise promised exactly this (Interview No.42; Stockholm, 11/11/1996). Furthermore, the CP "apparently wishing to emphasize an all-European perspective.

has criticized the EC among other things for maintaining high tariff walls and has focused its attention on alternative European organizations such as the CSCE ... [Conference on Security and Co-operation in Europe] ... and the ECE (the UN Economic Commission for Europe)” (Lindmarker: 1991, p.6). Representing environmental and agricultural interests, it, finally, supported the maintenance of a self-supplying system and environmental and food standards, which it regarded as being endangered by EC membership (Luif: 1988, pp.189/190). On the basis of this position, the party reacted angrily towards the FP and MS suggestion in May 1990 to apply for membership. “According to the Center Party interpretation, the Moderates and Liberals wished to weaken Sweden’s position in the upcoming ... [EEA] ... negotiations” (Lindmarker: 1991, p.6).

### *2.3.3. The position of the VP and GP:*

Both the VP and the GP fiercely opposed membership and even closer co-operation with the EC along the lines of the EEA. They rejected the party compromise of spring 1988 and were to maintain their position right through to the referendum in 1994. The VP regarded “the EC as a capitalist organization, firmly tied to the Western military alliance. Close Swedish links with the EC are therefore incompatible with Swedish neutrality and with the task of ensuring social justice in Swedish society” (Viklund: 1989, p.41). The main arguments against membership or closer co-operation with the EC were the implied threat to Sweden’s welfare system and its objective of full employment, the democratic deficit at the EC level and the threat to Sweden’s parliamentary sovereignty (Interview No.38: Stockholm, 08/11/1996). “As alternatives to Swedish EC membership or far-reaching adaptation to EC practices,

the VP made such suggestions as greater Nordic cooperation, broadening the membership of EFTA and expanding the Council of Europe into 'a real European Parliament'" (Lindmarker: 1991, p.7). In short, national sovereignty should be preserved as much as possible to pursue an independent economic policy with the goal of full employment (Interview No.38; Stockholm, 08/11/1996).

The GP for its part rejected close co-operation with the EC because of (1) the latter's lower environmental standards - Sweden had higher standards especially in the chemical sector - (2) the EC's democratic deficit - the GP favoured the decentralisation of decision-making to the local level over the regulation by supranational institutions in Brussels - (3) neutrality, which was considered to be not merely a Cold War concept and (4) the EC's fortress character to countries outside the EC; a tendency, which the party saw enhanced via the internal removal of trade barriers (Interview No.45; Stockholm, 12/11/1996; Interview No.70; Stockholm, 03/12/1996). "At the root of this argument is a hostility to the philosophy of growth" (Lindmarker: 1991, p.7), which was thought to be incompatible with an environmentally-friendly and sustainable way of life. The "no" to a closer relation with the EC, however, was not of a nationalist nature. Instead, the GP looked for some kind of flexible international co-operation beyond the EC and a security regime based on the CSCE, of which the tasks included threats beyond the military sphere such as pollution (Interview No.70; Stockholm, 03/12/1996). In 1990, the party launched the newspaper "Critical EU Facts", which provided information about the EC and became later the newspaper of the group "No to the EU" before and during the referendum campaign (Interview No.45; Stockholm, 12/11/1996). Overall, "the reasons for both parties' anti- ... [EC] ... stances converged and were based around similar concerns for

Swedish independence, solidarity with the Third World and scepticism over the future democratic control of the ... [EC] ... structures” (Widfeldt: 1996, p.113). It should also be noted that especially the VP had already pointed at this stage of the debate to the possible negative impact of membership on the Swedish Model; an argument, which was to become important in the later debate on membership (see Chapter 4, section 3).

#### *2.4. The SAP's 1990 turn-around:*

The SAP announcement of its intention to apply for membership in parliament on 26 October 1990 came as a surprise and shock to the other parties, trade unions and employers' associations. It was one point of an economic crisis package and read as follows:

Swedish membership of the EC with continued adherence to Sweden's policy of neutrality is in our national interest ...; the Government is seeking a new parliamentary decision on European policy which defines more clearly and in more positive terms Sweden's ambitions of becoming a member of the European Communities (Swedish Government: 1990, p.306).

In the literature, several reasons are identified for the turnaround. Firstly, the traditional economic argument states that Sweden had to be a member because of its trade dependence on the EC. Secondly, the severe economic crisis, which hit Sweden in early 1990, convinced SAP-leaders that Sweden could not any longer afford to stay outside (Miles: 1996, p.63). Thirdly, according to Miles, “the most influential factor in changing Swedish policy was governmental frustration at the slowness of the ... EEA negotiations and the limitations of any future EEA agreement” (Miles: 1996, p.64). The fact that the EFTA countries could only influence the decision-shaping but not the decision-making led them into a dilemma: “the more extensive the substance of the economic integration offered to them in the Luxembourg and EEA processes.

the more national legislative autonomy they had to renounce and the more important it became to gain some influence in the decision-making process” (Gstöhl: 1996, p.61). In short, accession implied the trading of sovereignty for voice. Moreover, the change in the international security structure after the fall of the Berlin Wall is identified as a reason. The end of the Cold War increased the freedom of action of neutral countries such as Sweden and, “suddenly, neutrality was more a hindrance for international influence than an asset” (Pedersen: 1994, p.124). Finally, electoral reasons may have played a role. “Polls taken in May 1990 indicated a clear majority in favour, with only 21 per cent opposed to membership and 20 per cent undecided” (Huldt: 1994, p.119). The SAP performed badly in polls and was put under pressure by the FP and MS, which indicated their intention to make application an issue of the 1991 general elections campaign.

The first argument about trade dependence, although relevant, is of secondary importance, considering that the transnationalisation of production has increasingly become Sweden’s main link with the global economy (see Chapter 2, section 2.2.1). In contrast to Austria, trade is far less important for the Swedish organisation of production. Moreover, although imports from the EC increased from 48.2 per cent in 1981 to 55.2 per cent in 1990 and exports to the EC rose from 45.7 per cent to 54.2 per cent during the same period (see Table No.13, Appendix), this change in trade flows was rather undramatic and does not indicate why a drastic turnaround was suddenly required in October 1990. The security argument is dealt with in Chapter 5, section 3 in more detail, but it can be stated here that, while it was a necessary background condition to allow the SAP to change its course, it did not push the SAP towards application.

The point about dissatisfaction with the lack of influence on policy-making in the EEA treaty has some validity. Delors had twice rejected joint decision-making in January and April 1990 (Luif: 1996, pp.155-157) and interviewees cited it as one of the reasons (Interview No.44; Stockholm, 12/11/1996; Interview No.52; 15/11/1996). At the same time, it should not be overestimated in significance. Although there had been discussions between EC and EFTA representatives beforehand, the formal negotiations did not commence before 20 June 1990 and were concluded on 22 October 1991. Consequently, the exact position with reference to co-decision making could not have been known in October 1990. In a report to parliament about the EEA process in January 1990 and a statement to the Council of Europe's Committee of Ministers in May 1990, Gradin did not voice any concern about a possible lack of decision-making influence (Gradin: 1990a and 1990b). In an address to a youth seminar on Europe in September 1990, she pointed to the problem that the EC wanted to retain decision-making autonomy while the EFTA countries sought some kind of participation, but still concluded optimistically: "I am convinced that, given political good will and a little inventiveness, it will be possible to reconcile these two aims" (Gradin: 1990c, p.266). This was not the expression of deep disappointment making a policy change necessary.

The same limited importance can be attributed to the argument that the SAP changed its policy for electoral reasons. Undoubtedly, its rating in polls was low and the general elections of 1991 loomed large on the horizon. To jump on the EC bandwagon must have been tempting in order to tap the voters, who were in a large majority in favour of membership against the background of a Europe-euphoria after the fall of the Berlin Wall. Nonetheless, the possible electoral gain had to be

counterbalanced by a possible rift through the party, which actually happened during the referendum campaign (see Chapter 4, section 3.3.2).

This leaves the Swedish economic crisis in the changed international structures occasioned by globalisation as the last possible reason for application. A tentative reconstruction of the SAP-internal process leading to the announcement on application may help to clarify the relevance of this factor. The SAP members were surprised about the turnaround. There had neither been an internal party debate,<sup>13</sup> nor a clear position within the party leadership.<sup>14</sup> The first crucial point was most likely the economic crisis in February 1990 and the defeat of the government's crisis package in parliament (see Chapter 2, section 2.2.3). Although a reformed SAP government took office shortly afterwards, this must have left a strong impression. The SAP had lost its self-confidence to be able to regulate the Swedish economy. The belief that there was a "third way" between old-style Keynesianism and conservative neo-liberalism vanished. As early as 1986, the Finance Ministry had warned that the economy was going to overheat. It failed, however, to convince the other ministers and the Prime Minister that it was necessary to cool the economy via, for example, higher interest rates. The consequence was the crash in the late 1980s, early 1990 which required the February crisis package. Being aware of its inability to control the economy, the Finance Ministry strongly pushed for membership within the

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<sup>13</sup> SAP sources deny the charge that there had been no debate. Apparently, Ingvar Carlsson attempted to start a debate on application at the annual party conference in September 1990, but when he arrived 15 minutes late, the debate was already over. Party members had just not been interested (Interview No.48; Stockholm, 14/11/1996). It is also pointed to two articles by Carlsson in the daily newspaper Dagens Nyheter on 27 May and 5 July 1990, written with the alleged intention of slowly moving the position. Both articles, however, did not lead to a widespread response (Interview No.52; Stockholm, 15/11/1996).

<sup>14</sup> In his introduction to a parliamentary debate on Europe on 10 October 1996, Sten Andersson, the Minister for Foreign Affairs, stated that "in a more long-term perspective, the question of membership may become relevant" (Andersson: 1990, p.95). Then, however, he added five reasons why this was too early for the moment. "They had to do with Swedish unity, the time process, the security situation, the negotiating situation and the EC's discussion of a political union" (Lindmarker: 1991, p.5).

government (Interview No.49.; Stockholm, 14/11/1996; Interview No.60; Stockholm 26/11/1996), probably from March onwards. By summer 1990, it is likely that the decision was taken.

The eventual timing was due to the renewed pressure on the SKr and the rumours about an imminent currency devaluation in October (Interview No.52; Stockholm, 15/11/1996; Interview No.61; Stockholm, 26/11/1996). The longer-term reasons were the ongoing capital flight of Swedish TNCs to the EC, the government's loss of economic credibility and rising unemployment (Interview No.44; Stockholm, 12/11/1996). Application was the attempt to refer a "sound" economic policy to supranational restrictions and to have a scapegoat for harsh domestic policy measures (Interview No.49; Stockholm, 14/11/1996). It was a way of regaining economic credibility and stability, budgetary discipline and a structural reform of the economy. The official position was that Sweden's austerity policy was the result of a sovereign national decision. Nevertheless, there is some truth in the point that application was regarded as a way of introducing greater discipline (Interview No.68; Stockholm, 02/12/1996).

The idea of application emerged as a joint effort of the Finance Ministry and the Prime Ministers' Office (Interview No.68; Stockholm, 02/12/1996). This was supported by the Ministries for Foreign Affairs, Foreign Trade, and Agriculture. The Ministries of Labour and of Social Affairs were sceptical, because they feared that membership would restrict the policy-making autonomy in their sectors (Interview No.49; Stockholm, 14/11/1996). They were not, however, asked for their opinion before the announcement in parliament on 26 October 1990 (Interview No.68; Stockholm, 02/12/1996). To conclude, the turnaround of the SAP was the result of a

perception that the economic problems could only be dealt with through application to the EC. It was taken by very few people within the SAP leadership and government. It did not express the opinion of the SAP as a party and the later divisions within the party should prove this.

The MS and FP, but also the employers' associations reacted positively. They had pressed for application since May 1990. The GP and VP, unsurprisingly, opposed application and voted against it in parliament on 12 December 1990. For the SAP and trade unions, it was the start of the internal debates. They had been totally surprised and there was some disenchantment within the LO that it had not been consulted beforehand, as it used to be the case in such drastic decisions as application (Interview No.46; Stockholm, 13/11/1996). The CP faced the biggest problems. As everybody else, the party had been surprised by the SAP's decision and it was unhappy that there was no time for an internal party debate. In November 1990, an extended party committee meeting was convened to debate application. It had already become clear at this point that there was a majority in favour of application within the party executive and parliamentary group, while a majority of the members opposed it. Even within the party leadership, however, the situation was not clear-cut. The CP representative voted in favour of the party compromise on application in the parliament's Foreign Affairs Committee on 22 November 1990, but a proper discussion of this move within the leadership is doubtful (Interview No.42; Stockholm, 11/11/1996).

The parliamentary decision of 12 December 1990 was based on this compromise which stated:

Sweden should strive to become a member of the European Community, while maintaining its neutrality policy. Only as an EC member can our country fully participate in, and influence, European Community cooperation. After an overall assessment of foreign and security policy aspects, and after consultation in the Advisory Council on Foreign Affairs, the government

should be in a position to submit a Swedish application for membership. In the judgment of the Committee, this can occur during 1991 (quoted in Lindmarker: 1991, p.5).

In the parliamentary vote on this report, 287 members of the SAP, MS, FP and CP voted in favour, the 40 members of the Green and the Left Party against (Luif: 1996, p.217). On 1 July 1991, Prime Minister Carlsson submitted the application to the EC in Brussels.

### 3. Conclusion:

In Austria, a historic bloc in favour of application and membership was firmly established by June 1989. The hegemonic project, devised by organic intellectuals of internationally-oriented capital located in the VÖI, was based on economic neo-liberalism and the idea that neutrality was compatible with membership. It provided the basis for an alliance of internationally-oriented capital and labour, which gained control of the two governing parties and the social partners. Similarly, in Sweden, transnational social forces of capital and labour demanded a closer relationship with the EC and Internal Market initiative. Nevertheless, it was the SAP's decision that membership was incompatible with neutrality, which prevented any debate on membership between 1987 and 1990. This hegemony was expressed in the SAP's predominant position in parliament, its leading role in defining the public discourse, but also in the acceptance by the opposition parties and employers' associations that it was the SAP, which ultimately determined whether membership was possible. Consequently, transnational capital represented by the SI, SAF, the MS and FP acquiesced to the EEA-type solution as the next best option until more was possible. When the SAP eventually decided on application in October 1990, there had been

neither time nor effort to form an alliance of social forces. Of course, the representatives of transnational capital immediately supported the move, but there had been no discussions within the labour movement be that within the SAP or the various trade unions. The real struggle was still to come.

Another significant difference was the lack of an institution in Sweden, similar to the Austrian VÖI, which provided the platform for “organic intellectuals” to form a pro-membership bloc. The reason, here too, must at least partly be sought in the SAP’s hegemonic position. It was difficult to mount a challenge to the predominant view that membership was incompatible with neutrality. Nevertheless, this does not suffice as an explanation. The discussion of the restructuring of the Swedish state in Chapter 2, section 2.2.3 demonstrated that capital had succeeded in undermining the Swedish Model in an organised, long-term effort led by the SAF. A similar project could theoretically have been started with reference to EC membership. The Swedish production structure provides an additional factor, why this did not happen. In contrast to Austria, dominated by small- and medium-sized firms, Sweden had been characterised by large TNCs. While Austria had participated in globalisation mainly through exports and imports of goods and services, Swedish TNCs played an active part in the transnationalisation of production. These TNCs simply did not have to bother with mounting a political challenge to the SAP’s anti-membership course. They had the structural option to transfer investment and production units to the EC and, thereby, counter possible threats of exclusion. The deregulation of the financial markets from 1985 onwards and the abolition of exchange controls in 1989 had removed the last barriers against this strategy.<sup>15</sup> The TNCs’ continuing rising FDI to

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<sup>15</sup> It is correctly pointed out that the abolition of exchange rate controls did not affect the amount of outgoing FDI by Swedish TNCs. They had always been in a privileged position and, although regulations were in place, outward and inward FDI had been allowed to flow freely (Interview No.37;

the EC in 1989 and 1990 showed that they were not convinced about the viability of the SAP's EEA-strategy. Eventually, this was one of the major reasons why the SAP decided on application. The flight of capital was no longer sustainable. Austrian internationally-oriented capital, on the other hand, did not have this option at its disposal due to its domestic production structure. A carefully prepared and carried out political strategy was, therefore, the only possibility to achieve application.

A third difference was the position of the agricultural sector. Whereas membership was largely opposed in Austria despite its leadership's positive position, agriculture was one of the first in Sweden to demand application. This, again, can be explained by the different production structure. The agricultural sector in Austria was heavily protected against the EC and world markets and, therefore, nationally-oriented. Membership implied deregulation and restructuring. In Sweden, on the other hand, the 1990 agricultural reform signified that the whole sector was going to be deregulated and restructured in any case due to the phasing-out of all subsidies and the concomitant lowering of the price level to world market prices. In this situation, membership and the adjustment to the CAP implied more subsidies and higher prices for Swedish farmers. Consequently, while they were not really internationally-oriented, they could be regarded as European-oriented social forces as a result of the particular production structure in their sector and the CAP.

The similarities of the two cases should not, however, be overlooked because of these differences. In both countries, transnational and/or internationally-oriented social forces were the driving force behind the bid for application in Austria and close co-operation in Sweden. In Austria, the pro-EC forces were supported by those

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Stockholm, 7/11/1996). Nonetheless, it should also be noted that, while in place, these controls permitted the government, at least in theory, to stop capital flight. To abolish controls was, thus, a conscious decision to drop this option.

national institutions, which were linked to the global economy, most notably the Finance Ministry, the Economic Ministry and the ANB. Within the cabinet in Sweden, the Cabinet Committee on European Affairs, established in spring 1988, consisted of the Prime Minister and the Ministers for Foreign Affairs, for Foreign Trade, of Finance and of Industry. In other words, the ministries linked to the global economy were also at the centre of decision-making in Sweden, while ministries such as the Ministries of Labour and of Social Affairs, which deal with national problems, were excluded. Furthermore, when membership came on the agenda, at least in the inner cabinet circle, it was the Finance Ministry together with the Prime Ministers' Office, which had initiated the move and were the driving force towards application. In short, despite their different strategies, transnational and/or internationally-oriented capital and labour together with the national institutions linked to the global economy pressed for closer co-operation and/or integration with the EC in both countries during the process leading to application.

The formation of opposition to application and, thereby, EC membership was slow in both countries. In Sweden, without a decision on application, there was, of course, nothing to mobilise against. Even in Austria, however, anti-EC forces took until the second half of 1988, early 1989, before first coherent movements had been formed. By then, it had been almost too late to influence the decision making process within the social partners and governing parties. Nevertheless, the struggles around the referenda to be discussed in the next Chapter, gave these forces a second chance.

## **Chapter 4: Another chance: the struggles around the referenda in Austria and Sweden.**

In Austria, the social forces in favour of membership had formed a coherent historic bloc and won a first major struggle in bringing about application. Nevertheless, this did not imply membership. “Total revisions” of the constitution need to be put before the population in a referendum according to Article 44. The outcome is binding for the decision-makers. “Austria’s accession to the ... [EC] ... in 1995 implied a ‘total revision’ of the constitution and thus required a referendum ... (Müller: 1996a, p.25). Consequently, the social forces against the EC were offered a second chance to prevent membership.

By contrast, there had been no big debate in Sweden. It was the SAP’s decision in October 1990, which led to application. At about the same time, it was decided to put the final decision on membership before the population. “Although referendums in Sweden are technically only advisory, the political parties agreed in advance to honor the outcome of the EC vote, regardless of their own views on the EC issue” (Berg: 1994, p.2). During the following years, a debate started and groups for and against membership were formed. The referendum, thus, offered the opportunity to reject accession to the EC in Sweden, too.

This chapter predominantly deals with the debates before the referendum in the two countries. Section 2 looks at the strengthening of the Austrian historic bloc in favour of membership and the opposed social forces’ attempt to muster a majority against the EC. The formation of alliances of social forces in Sweden is the concern of section 3. Section 4 concludes the chapter with a comparison of the two countries.

Before, however, section 1 provides the background by examining briefly the impact of the EEA and the Maastricht Treaty. It also presents a short overview of the negotiations and discusses their position within the whole process of accession.

## 1. From the EEA via Maastricht and membership negotiations to the referenda:

### *1.1. The EEA: a stepping-stone towards membership.*

In 1988/89, the Commission of the EC had the completion of the Internal Market, not enlargement as its first priority. It was, however, realised that the EC had to offer the EFTA countries some kind of participation in the Internal Market. In January 1989, Jacques Delors, President of the Commission, took the initiative and proposed a strengthening of the ties between the EC and the EFTA countries. "He suggested looking for 'a new, more structured partnership with common decision-making and administrative institutions' on the basis of the 'two pillars' of the EC and a strengthened EFTA" (Gstöhl: 1996, p.55). The new treaty for a EEA was supposed to allow the EFTA countries participation in the economic gains of the Internal Market short of membership. Thus, the aspiration of the pro-EC forces in Austria for an early start of membership negotiations was not met by the EC, but there was little else to do at this stage than to participate in the EEA talks. In Sweden, Delors' initiative was well received. It exactly corresponded to the SAP's position on Europe and indeed, as it was pointed out in Chapter 3, section 2.2, there were strong hints that the Swedish Social Democrats co-masterminded the new approach. Formal negotiations were opened in June 1990, dragged on until 22 October 1991, and were finally signed in Oporto on 2 May 1992, after some revisions had been made in order to satisfy the

ECJ's rejection of a separate EEA Court. Eventually, the EEA came into force on 1 January 1994.<sup>1</sup>

The results of the treaty confirmed the conviction of the pro-EC Austrian forces that full participation in the Internal Market was only possible via membership. Firstly, EFTA countries did not obtain co-decision making powers. "The EC will retain its institutional autonomy. EFTA countries can only influence the legislative process during the decision-shaping stage" (Laursen: 1993, p.125). They had no right to initiate legislation, only a collective EFTA opt-out of new legislation was possible, they gained merely restricted access to EC committees, and the common rules of the EEA were those of the Community's *acquis* (Gstöhl: 1994, pp.358/359). Additionally, an EFTA Surveillance Authority and Court of Justice were set up and EEA law gained primacy over national law. In short, EFTA countries lost some degree of national sovereignty without gaining a say at the supranational level.

Furthermore, the EEA also implied significant economic losses in comparison with membership.<sup>2</sup> Full participation in the Internal Market was not obtained, and since the EEA was no customs union, border controls remained in place and certificates of origin were still required (Woschnagg: 1994, p.7). The Common Commercial Policy, the Common Agricultural and Fisheries Policy, Euratom and direct and indirect taxation were not part of the EEA Treaty either (Gstöhl: 1996, p.58). In the Austrian case, it was particularly damaging that the problem of the "passiver Veredelungsverkehr" (passive across the border processing) - this issue had become even more important since the association agreements between the EC and

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<sup>1</sup> For a detailed account of the EEA negotiations, see Luif: 1996, pp.151-168 and Norberg et al: 1993, pp.53-69.

<sup>2</sup> It is sometimes incorrectly argued that the step from the EEA to membership implied only small additional economic gains (e.g. Gstöhl: 1994, p.334).

Eastern European countries - so dear to the export-oriented Austrian sectors (see Chapter 3, section 1.2.1) was not settled. The discriminations led to a decrease in Austrian exports by 5 per cent in 1993 (Interview No.18; Vienna, 22/05/1995), which amounted to more than one per cent of the Austrian GDP (VÖI: 1994, pp.29/30). Thus, it is not surprising that the sectors affected such as the textile industry (Interview No.24; Vienna, 24/04/1996) continued pressing for membership, and that the VÖI (Interview No.18; Vienna, 22/05/1995; VÖI: 1991; VÖI: 1992) and the BWK (BWK: 1992, pp.468/469) regarded the EEA only as a transitional stage towards full membership. In any case, by deciding on application in June 1989 despite the Delors initiative of January in the same year, this had always been the position of the Austrian bloc in favour of EC membership and was, therefore, also supported by the ÖGB and the AK (Interview No.1; Vienna, 08/05/1995).

In Sweden too, by the time the EEA Treaty had been signed, it was only considered to be a transitional arrangement. Ulf Dinkelspiel, the Swedish Minister for European Affairs and Foreign Trade, made this clear in a parliamentary briefing on the EEA agreement on 24 October 1991. "As far as Sweden is concerned", he stated, "it will very appreciably strengthen our cooperation with the EC and is thus an important step towards Swedish membership of the Community" (Dinkelspiel: 1991, p.269). The lack of political co-decision making power was deplored and economic disadvantages were pointed out. The LRF was unhappy about the exclusion of the agricultural sector (Interview No.50; Stockholm, 14/11/1996), while the SI rejected the remaining border controls and the exclusion of public procurement. Sweden had several companies in this sector and the EEA did not allow them to participate in the Internal Market (Interview No.54; Stockholm, 19/11/1996). The SI calculated that

membership would imply savings of close to 0.5 per cent of GDP in comparison to the EEA, because it “abolishes border formalities, certificates of origin, prepayment of VAT, and reduces trade-related compliance costs in firms” (Wijkman: 1995, p.7). Finally, it was argued by representatives of capital and labour that inward FDI was unlikely to go to Sweden in the case of the EEA, since it did not guarantee complete access to the Internal Market (Interview No.66; Stockholm, 29/11/1996; Interview No.67; Stockholm, 29/11/1996; Wijkman: 1995, pp.9-11). In short, even from a strictly economic point of view, the EEA did not represent an alternative to membership for the pro-EC groups in Austria and Sweden.

### *1.2. The Treaty of Maastricht: accession business as usual.*

When the negotiations came finally into sight, the Treaty of Maastricht signed in December 1991 had changed the EC once more. It consisted now of three pillars, the pillar for justice and home affairs, the pillar for a CFSP, and the one consisting of the original EC. Additionally, EMU was incorporated into the latter pillar.

At first sight, one should assume that these changes made Austrian and Swedish pro-EC forces rethink their position and restart the debate about membership. Especially the project of a CFSP, further threatening the countries’ neutrality, and EMU, forcing them to give up their monetary sovereignty and to adopt a budgetary policy of austerity via the neo-liberal convergence criteria, could be causes of concern. Nonetheless, nothing of this kind happened.

### *1.2.1. The Austrian reaction:*

In a declaration on the occasion of the signing of the Maastricht Treaty, the Austrian Foreign Minister Mock welcomed the agreement on EMU pointing out that Austria was already fulfilling the convergence criteria and would, thus, contribute to the achievement of this goal. He also confirmed that Austria would “participate in the common foreign and security policy in an active and solidaristic way” [translation by the author] (Aussenministerium: 1992, p.114). An aide-memoir with the same message was sent to the Commission and member governments by the Austrian government shortly before the European Council meeting in Lisbon in June 1992 (Bundesregierung: 1992, pp.131-134). In both cases, it was asked for a possibly early start of the negotiations. With reference to the CFSP, the official position of the Foreign Ministry was that it had a purely intergovernmental nature and was, therefore, compatible with Austria’s neutrality (Interview No.2; Vienna, 09/05/1995). The SPÖ shared this position (Interview No.4; Vienna, 09/05/1995).<sup>3</sup>

The loss of monetary sovereignty posed even a less severe problem, as Austria had given it up long time ago by pegging the AS to the DM and by fully liberalising its financial markets (see Chapter 2, section 2.1.2). Moreover, a single currency was favoured by all social forces of the pro-EC historic bloc, since this would prevent countries such as Italy - next to Germany the most important Austrian trading partner within the EC - from boosting their exports via devaluations on the shoulders of countries with a strong currency such as Austria (see Interviews). However, the convergence criteria presented a problem. On the one hand, the ANB (Interview

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<sup>3</sup>One interviewee, however, pointed out that it would have been much more difficult to achieve a majority in favour of application, if the CFSP had been in place two and a half years earlier (Interview No.25; Vienna, 25/04/1996). See Chapter 5 for a detailed discussion of the issue of neutrality in the cases of Austria and Sweden.

No.16; Vienna, 18/05/1995) and the VÖI (Interview No.18; Vienna, 22/05/1995) considered the fulfilment of the convergence criteria to be necessary in any case in order to consolidate the budget. The Finance Ministry regarded them as a help for its budgetary policy of austerity due to the possibility of transferring responsibility for economic and social hardship to Brussels (Interview No.7; Vienna, 11/05/1995). On the other hand, the employees' associations were disappointed about the missing European social dimension in the convergence criteria and the Maastricht Treaty as a whole. Nevertheless, ÖGB President Verzetnitsch concluded that this made Austria's membership even more urgent, as one could participate in the decision-making process only as a member (ÖGB: 1991). Additionally, there were some voices within the AK and the ÖGB, which demanded the adding of an unemployment criteria (Interview No.1; Vienna, 08/05/1995; Interview No.22; Vienna, 23/04/1996; Sallmutter: 1993, p.166). Membership as such, however, was not rejected. To sum up, despite the problems for the Austrian trade unions with the convergence criteria, the Treaty of Maastricht did not pose new problems for the pro-EC groups and the hopes were set on the start of the negotiations.

### *1.2.2. The Swedish reaction:*

In Sweden, the Maastricht Treaty did not have a massive impact on the debate either. On 11 December 1991, shortly after the conclusion of the Maastricht Treaty, Carl Bildt (MS), the new Swedish Prime Minister, released a statement, in which he welcomed the results of the meeting at Maastricht. In particular, he stated that "Sweden will actively participate in the foreign policy and security cooperation which has now been decided at Maastricht ... [and that] ... Sweden wishes to participate in

the task of successively realizing economic and monetary union as soon as possible” (Bildt: 1991b, p.117). Against the background of the fall of the Berlin Wall and the break-up of the Eastern Bloc, neutrality had not been abandoned, but redefined. Participation in the CFSP was regarded as one way of contributing to the establishment of a post-Cold War European security order (see Chapter 5, section 3). Both peak trade union organisations LO and TCO were disappointed about the neo-liberal convergence criteria of EMU, perceived to make the combat of unemployment more difficult. The lack of democratic control of the ESCBs was also criticised (see below). Nonetheless, the pro-EC forces argued during the debate that this was a question, which was to be decided later and should, therefore, be treated separately from the issue of EC membership. This strategy was successful and there was no debate about amending the convergence criteria before accession. Only after the referendum, when the date for the decision of the country’s participation in the third and final step of EMU came closer, EMU in general and the convergence criteria in particular, became an issue.

The EC’s emphasis on deepening integration postponed the start of accession negotiations. Eventually, it took until the European Council meeting in Edinburgh in December 1992, when the question of the future financing of the Community was settled and it looked as if the Treaty of Maastricht could be ratified soon, that the go-ahead for negotiations was given.

### *1.3. The negotiations in Brussels: bargaining in view of the referenda.*

#### *1.3.1 The Austrian negotiation position:*

The official opening of the EC's negotiations with Austria and Sweden was on 1 February 1993. In a joint report to the cabinet on 21 January 1993, Chancellor Vranitzky and Foreign Minister Mock outlined Austria's negotiation position (Bundeskanzleramt/Aussenministerium: 1993). Apart from preferably low contributions to the EC and the participation in structural fund money, the individual points reflected the compromise of the historic bloc of 1989. Austria's neutral status was mentioned in combination with a reiteration of its commitment to the CFSP. The right to maintain its environmental standards, higher than in the EC, its social standards and the continuation of the transit agreement with the EC of 1991 were part of the position as were demands for special provisions in the area of agriculture in order to keep Austria's particular structure of small- and medium-sized farms across the whole country. In support of this, a transitional period in the adaptation to the rules of the CAP and for the closely related food processing industry was asked for plus financial restructuring aid paid by the EC. Finally, the issue of EC citizens buying secondary residences in Austria was identified as important, especially in the rural areas.

The points of this list can be related to the demands of the various groups in favour of membership. Neutrality was mainly the response to the SPÖ having it made a precondition of their support for application four years earlier, but it also reflected the concern about the looming referendum. When, opinion polls during the period between October 1988 and May/June 1992 asked whether people would give up neutrality or EC membership in case of their incompatibility, between 64 per cent and

82 per cent answered that they would give up membership rather than neutrality (Neuhold: 1992, pp.101-103). Austrian negotiators, consequently, could not drop neutrality. The SPÖ had also demanded the maintenance of the environmental standards and the transit agreement. The social standards had mainly been a quest by the ÖGB and AK. Again, however, taking into account the high environmental consciousness in Austria, the fact that the transit issue was of great importance in some Länder such as Tyrol and that the agreement of 1991 with the EC in this area was deemed to be a great success by the Austrian people (Interview No.32; Vienna, 08/05/1996), they could hardly be sacrificed in view of the referendum. Finally, the agricultural sector and the closely linked question of secondary residencies by EC citizens had been at the heart of the LK and the ÖBB.

Unsurprisingly, during the negotiations, it was the areas of environmental standards, transit, secondary residencies and agriculture, which caused problems (Woschnagg: 1996, pp.135-141). The Austrian negotiation team did not have much room for manoeuvre, as they had to deliver the compromise of the historic bloc on the one hand, and to achieve satisfactory results in view of the referendum on the other (Interview No.32; Vienna, 08/05/1996).

### *1.3.2. The Swedish negotiation position:*

Between the application to the EC in July 1991 and the start of the negotiations in February 1993, a four party coalition of the MS, FP, CP and the Christian Democratic Party under Prime Minister Bildt (MS) replaced the Social Democratic government in Sweden. It was the task of this new government to negotiate in Brussels, and Dinkelspiel, the Swedish Minister for European Affairs and Foreign Trade and chief

negotiator, outlined his country's negotiation agenda in his opening statement on 1 February 1993 in Brussels (Dinkelspiel: 1993). As already stated earlier, Sweden committed itself to become a full and active participant in the CFSP, while maintaining its policy of military non-alignment, and it declared its intention to participate in the EMU. Dinkelspiel pointed out, however, that "a final Swedish position relating to the transition from the second to the third stage will be taken in the light of future events and in accordance with the provisions of the Treaty" (Dinkelspiel: 1993, p.31). In other words, Sweden retained the final decision on EMU for its parliament (Interview No.61; Stockholm, 26/11/1996). The EC never openly acknowledged this, but it did not refute it either during the negotiations. This allowed the pro-EC social forces during the debate before the referendum to argue that EMU was not part of the decision on membership (see below).

The crucial and possibly controversial issues were the higher Swedish environmental standards, the alcohol monopolies, the Swedish snuff tobacco and, most importantly, the question of budgetary contributions (Interview No.49; Stockholm, 14/11/1996). All these issues were mainly a result of the looming referendum. It was inconceivable that there would have been a positive outcome in the referendum, if Sweden had had to lower its environmental standards, give up its alcohol monopolies - part of a long battle against excessive alcohol consumption - and prohibit the consumption of snuff. Finally, it was realised that Sweden with its very high living standard would be a net contributor. Nevertheless, in view of the catastrophic economic situation at the time, it would have been difficult to sell this to the people from the very beginning. The Swedish negotiators, consequently, sought to

obtain a phasing-in of their full contribution to the EC budget over a period of several years (Interview No.49; Stockholm, 14/11/1996).

Both TCO and LO had drawn up a list of demands for the negotiations in September 1992 and November 1992 respectively (TCO: 1993; LO: 1994). Most importantly, it was demanded that EC labour market directives could be enacted, according to the Swedish tradition, via collective agreements between the trade unions and employers' associations instead of parliamentary legislation as in other member states. The unions further asked for the assurance that foreign companies carrying out work with their own employees in Sweden had to accept Swedish labour market regulations in order to avoid social dumping. Finally, the TCO and LO asked for retaining the right to a national regional policy to continue the support of disadvantaged regions and for maintaining the higher Swedish standards of the health and safety regulations in the work environment. These demands were a part of Sweden's official negotiation position (Dinkelspiel: 1993, pp.30-32).

The negotiation agenda itself was drawn up in close co-operation with the political parties and main interest associations. It was the government's approach to treat membership as a national question and to give everybody a chance of input. The referendum was unlikely to be won against the opposition of the SAP and, therefore, a very close relationship with the Social Democrats was maintained throughout the negotiations. For example, the opening statement by Dinkelspiel of 1 February 1993 had been gone through with the SAP word by word and several changes were made, some without discussion, others after negotiations. Interest associations such as the SAF, SI, and the trade unions co-operated formally in working groups and advisory boards. The political parties were involved via the parliamentary committee on EC

matters. Additionally, Dinkelspiel frequently met trade union leaders to discuss important issues in a more informal way (Interview No.61; Stockholm, 26/11/1996).<sup>4</sup>

In short, the negotiation position was the result of close co-operation between the pro-EC forces. During the negotiations, then, the importance attached to individual issues by the negotiators was the result of an evaluation of their possible effect in the referendum (Interview No.49; Stockholm, 14/11/1996; Interview No.61; Stockholm, 26/11/1996).

### *1.3.3. The membership negotiations:*

At the end of 1993, first negotiation chapters were closed. On 21 December 1993, the EC accepted Foreign Minister Mock's oral explanation of Austria's status of neutrality (Interview No.32; Vienna, 08/05/1996) and Sweden's policy of non-alignment. All applicants and the EC signed a joint declaration, in which the commitment to the Treaty of Maastricht in general and the CFSP in particular was stated (Luif: 1996, p.310).<sup>5</sup> Common positions were also achieved on EMU. These issues did not present a problem during the negotiations (Granell: 1995, p.132). More importantly, agreement was reached in the area of environmental standards and the health and safety regulations in the work environment. It gave the applicants a four-year transitional period. "During this period the EC directives would be reviewed and - that was the hope of the applicant countries - be adjusted to the stricter rules in the new member states" (Luif: 1996, p.311). The problem of alcohol monopolies was solved through a compromise. Sweden accepted to abolish its state monopolies for the

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<sup>4</sup> This close involvement in the drawing up of the Swedish negotiation agenda was confirmed by interviewees from the political parties and interest associations (see Interviews).

<sup>5</sup> This declaration was not only important to the applicants. It also satisfied those critical voices within the member states, which doubted the neutral countries' willingness to co-operate in matters of foreign and security policy (Interview No.36; Vienna, 15/05/1996).

import, production and wholesale distribution of alcohol, while it retained the monopoly on retail sales. Finally, it was also accepted that Swedish collective agreements were acceptable for the implementation of labour market directives.

In the case of both environmental standards and alcohol monopolies, Austria and Sweden were far from achieving their negotiation targets. The general impression that these agreements were a victory for the applicants had very much to do with the presentation of them in the view of the referenda. There was no guarantee that they did not have to lower their environmental standards after four years and Sweden had, in fact, given up several of its alcohol monopolies (Miles: 1994b, pp.11/12). The agreement on snuff - Sweden was allowed the consumption within the country, while the export of snuff was prohibited - can be seen in the same light. There were strong indicators that the EC dragged this issue on for three months in order to make its giving-in appear to be a success of the Swedish negotiators in the eyes of the population (Interview No.49; Stockholm, 14/11/1996).

Several difficult issues remained on the agenda after December 1993. In the Austrian case, the issues of transit and secondary residencies were settled in the “jumbo” ministerial meeting from 26 February to 1 March 1994. Austria gained a ten years (in reality probably 6 years) extension of its transit agreement and a transition period in the area of secondary residencies, allowing Austria to keep its restrictive legislation for further five years. Agriculture, however, represented a major problem. According to Foreign Minister Mock, the EC had signalled over one year that it was prepared to accept a transition period for Austria’s agricultural sector. Then, it suddenly changed its opinion and argued that it would accept Austrian national financial aid instead. Mock was unhappy about that, as it implied an additional burden

for Austria's budget, and at one stage, the negotiations were nearly called off (Interview No.36; Vienna, 15/05/1996). Eventually, Austria accepted on the basis that the EC took over some of the financial aid towards Austria's farmers (Luif: 1996, p.312).

In the case of Sweden, the contributions to the budget presented the most difficult hurdle. In the end, a phasing-in of the full amount was impossible for technical reasons, but the Swedish negotiators "gained a budgetary rebate worth up to ECU 2 billion in the first three years as a farm adjustment payment" (Miles: 1994b, p.14). The chapter on regional policy was closed with the introduction of Objective 6 as a new criterion for structural fund assistance. Sweden was allowed to continue its national regional policy and could even expect EC financial aid for its arctic areas.

Overall, this section demonstrates that the negotiations functioned as a link between the agenda-setting process and the struggles in the run-up to the referenda. The negotiation agendas reflected the compromise of those in favour of membership and the negotiations themselves were conducted in view of the later referenda. While not without importance, the inter-state negotiations played only a secondary role in the Austrian and Swedish accession to the EC.

## 2. The referendum struggle in Austria:

### *2.1. The pro-EC historic bloc reconfirmed:*

After the successful completion of the negotiations, the pro-EC forces reconfirmed their unity. On 22 April 1994, the SPÖ and ÖVP passed a "Europe Treaty", in which the concessions to the various social forces of the bloc were spelled out in detail. Point six outlines the financial restructuring help and the setting-up of work foundations for

those industrial sectors, which were under pressure due to membership. The food processing industry, transport companies and the suppliers of parts were mentioned in particular (Parteienvereinbarung: 1994, pp.2/3). Degressive payments over four years were planned for the agricultural sector in order to help farmers with the immediate adaptation to the EC price levels and opening of the markets (Parteienvereinbarung: 1994, p.8). The employees' associations were further satisfied with a common commitment for the establishment of work councils throughout the EC (Parteienvereinbarung: 1994, p.5). Finally, the continuing participation of the social partners in the decision-making process in EC matters at the national and European level was identified (Parteienvereinbarung: 1994, pp.5/6). The foundation for the referendum campaign was laid.

This campaign had already started earlier. Against the background of an increasingly intensive and critical debate about the EEA and unfavourable public opinion polls - supporters of EC-membership had declined to 48 per cent - the government presented its EEA-ABC as the first larger product of its information campaign in August 1991 (Schaller: 1994a, p.214). In December 1991, the government gave the contract for its pro-membership campaign to the advertisement agency Demner & Merlicek. From then onwards, with increasing intensity towards the referendum itself, the government, individual ministries, the pro-EC parties and the social partners were actively engaged in a campaign with telephone lines, information bus tours, placards, mailings etc. (Schaller: 1994b, pp.75-79).

The VÖI also started a wider campaign. It did not, however, want to be too prominent, since many people would have viewed this as too one-sided. Therefore, "independent" EC representatives were identified in companies and provided with

information material by the VÖI, the so-called EuroNews, covering issues such as the costs of non-membership, transit etc. The Europa-Telegramm, leaflets with short and precise information about EC issues to be pinned on the blackboards of companies, were also distributed. Although drawn up by the VÖI, they were published by the “Österreichische Gesellschaft für Europapolitik” with the reputation of an independent information institute (see below). The social partners organised together information meetings in companies, during which representatives of VÖI/BWK and AK/ÖGB spoke at the same time. They presented membership as an economic necessity for Austria as a whole, not as the interest of one particular fraction of society (Interview No.18; Vienna, 22/05/1995). In general, these initiatives mainly reached the particular clientele of a party or social partner.

To achieve a broader appeal, those in favour of membership founded the “Österreichische Gesellschaft für Europapolitik” (Austrian Society for European Politics) in November 1991. The “Gesellschaft” was supported by all social partners, i.e. the VÖI, the BWK, the LK, the AK and the ÖGB (the latter two only logistically, not financially), the ANB, now more openly involved in the campaign, the financial sector of the Raiffeisenverband, but also big companies such as IBM Austria, the Japanese TNC Mita and Alcatel Austria. The “Gesellschaft” did not have the task to develop ideas and positions on the question of membership. The positive stance on membership was its starting-point and the arguments in favour of membership had been developed during the process leading to application (see Chapter 3, section 1). It had to disseminate information on the EC and, thereby, campaign for a “yes” in the referendum. Keeping an equal distance from all supporting organisations, it succeeded in establishing a reputation of independence, which greatly enhanced its standing

among journalists and the public and, thereby, strengthened the credibility of its pro-EC campaign (Interview No.29; Vienna, 03/05/1996).

Special brochures for individual organisations, which paid for them, such as the ÖGB, the Conference of Land Governors or Foreign Minister Mock as an individual, were published under the label of the “Gesellschaft”, again in order to give them an independent, objective flair. In contrast to parties and social partners, the “Gesellschaft” had the opportunity to reach people beyond their influence sphere. Teachers and events in local parishes, firebrigades and the army were supported with information material. Material produced by the “Gesellschaft” included pages for the overhead-projector, a book with caricatures in favour of membership, a school newspaper called “Schule und Europa”, which was distributed to all school speakers, politics teachers and headmasters, and even a Christmas calendar for kindergarten children in order to reach housewives via their children. Advertisements, some of them pointing to splits within the GA, were placed in the Kronenzeitung, having a readership of about two million, and pro-EC statements by local functionaries were published in regional newspapers. In order to co-ordinate the campaign, the “Gesellschaft” had a weekly meeting from mid-1993 onwards, in which representatives of the social partners, the Land governments, the ANB and various ministries participated (Interview No.29; Vienna, 03/05/1996).

In short, the “Gesellschaft” provided the opportunity for the pro-EC groups to organise their campaign from an independent platform, thereby giving their campaign a higher degree of credibility and allowing the material to reach wider sections of society.

## *2.2. The social forces opposed to membership: weakened by ideological divisions.*

The opposing social forces did not remain inactive. Considering that the application had only been a matter for parliament, it was now that they had a real opportunity for the first time. The situation did not look hopeless. At the beginning of 1994, the supporters and opponents among the Austrian population were roughly equal. A majority in the referendum was possible for either side (Schaller: 1994b, p.52).

### *2.2.1. Nationally-oriented capital and labour:*

Despite the “Europa-Abkommen” between the governing parties (see above), the nationally-oriented social forces had not completely be won over. Some members of the SPÖ did not accept the pro-EC position of their party and tried to forge links with dissatisfied farmers (Interview No.17; Vienna, 18/05/95).

Moreover, shortly before the referendum, about 20 out of 300 mill owners talked about starting an anti-EC media campaign. They even contacted an advertising company, but, eventually, the whole action came to nothing. Additionally, some contacts were made with MPs of the FPÖ, by now in the camp of the opponents (see below), but they did not put forward the issues in parliament, the millers had hoped for. Finally, it was attempted to co-ordinate actions with the trade union partners, which were, however, constrained by the same adversary circumstances within their own chamber (Interview No.21; Vienna, 23/04/1996).

A similar degree of resistance amongst nationally-oriented capital was noticeable within the food processing sector of the Raiffeisenverband. Some functionaries, mainly aligned with either the FPÖ or the GA, being in favour of a

nationalist and environmental agriculture policy respectively, opposed membership (Interview No.28; Vienna, 03/05/1996).

Within the two employees' associations, the AK and the ÖGB, the fractions close to the GA and the Austrian Communist Party generally opposed membership (Schaller: 1994b, p.51). Furthermore, members of the GPA participated in the joint information meetings in companies, but dared to outline their critical, hesitant position. This was controlled and criticised by ÖGB officials, who put the GPA functionaries under significant psychological pressure and accused them of left extremism. Not surprisingly, the GPA did not attempt to form alliances against membership (Interview No.35; Vienna, 14/05/1996).

Overall, there was significant resistance within the nationally-oriented social forces before the referendum, but the situation within their Chambers made it almost impossible for them to voice their opposition. Moreover, while they were often dissatisfied with the situation, a co-operation with either the GA or the FPÖ, the two parties against membership, on a larger scale than outlined above was deemed impossible. Both were considered to be too extremist for alliances (Interview No.19; Vienna, 23/05/1995; Interview No.21; Vienna, 23/04/1996). In the end, the party and association solidarity, so important and firmly established throughout Austria's post-war history, carried greater weight than the question of EC membership.

### *2.2.2. Political parties opposing membership:*

The GA had maintained its negative position on EC membership from 1989. It had already opposed the EEA in parliament and a majority of 87 per cent voted for a no-recommendation at the party's congress in April 1994. According to Johannes

Voggenhuber, spokesperson of the GA for European politics, political integration in Europe would be necessary against the background of instability in central Europe after the Cold War and the globalisation of markets. Nevertheless, this should not be done in the form of a federal state, but as a “system of confederal co-operation in the whole of Europe” (Voggenhuber: 1995, p.394). The EC, especially after Maastricht, was criticised for its democratic deficit, which took away the power from the people. The neo-liberal economic drive behind the Internal Market, reinforced by the EMU convergence criteria, moreover, would put downward pressure on environmental and social standards, increase traffic and, thereby, the need for new roads. It would prevent the support for an environmentally-friendly agriculture. New divisions between the poor and the rich, between East and West, between centre and periphery would be created. Additionally, Maastricht would incorporate the basis of a new military alliance, which made Austria’s neutrality impossible. The Austrian government was criticised for its unconditional accession to the EC. Apart from reaching unsatisfactory results in the negotiations, it did not use them in order to obtain some reforms of the EC, for example insisting on social and environmental instead of neo-liberal economic convergence criteria and demanding an expansive fiscal policy with the goal of full employment.

During the referendum campaign, the GA adopted a strategy of a loose network, a non-institutionalised co-operation with other anti-EC initiatives to facilitate the exchange of information (Voggenhuber: 1995, p.397). Many opposition groups were investigated but rarely represented the left, progressive type of policy expected by the GA from their potential allies. The formation of a joint platform was, thus, not considered to be possible (Interview No.27; Vienna, 02/05/1996).

In the course of the EEA negotiations, surprisingly, the FPÖ had slowly but steadily changed its course and, eventually, voted against the treaty in parliament in September 1992. At a special party congress in May the following year, its new course was outlined. The FPÖ was in favour of an integrated Europe in the form of a confederation as the basis for a strong European security system. The loss of sovereignty was rejected as was the idea of a multi-cultural European society (FPÖ: 1993, pp.2/3). The FPÖ's support for membership was linked to a list of "homework", including demands for a tax reform, which allowed companies to accumulate more capital, to be done by the government in order to prepare Austria for membership. Moreover, negotiation targets were set such as the concession of opt-outs similar to the ones granted to Denmark and the maintenance of Austria's environmental and social standards and the transit agreement (FPÖ: 1993, pp.4-6). One year later, the FPÖ evaluated the negotiation results negatively and 85.5 per cent of the delegates at the party congress on 8 April 1994 supported Haider's motion to recommend the parliamentary fraction a "no". The decision in the referendum was left to the public (Interview No.26; Vienna, 25/04/1996).

The party itself denied that it had changed its policy. On the contrary, it was the EC, which had changed, it was argued. While the FPÖ has been in favour of free trade and economic integration within the Internal Market, the main goal of the Maastricht Treaty to form a political union was not acceptable. The party favoured a European confederation of independent states, not a federal state, which implied the total dropping of the unanimity principle and the loss of sovereignty (Interview No.26; Vienna, 25/04/1996). Siegfried Dillersberger, FPÖ referent for European questions, pointed out that even the "Salzburger Programm" of 1985, which

considered membership to be a necessity, had clearly mentioned a European confederation as the party's goal (Dillersberger: 1994, p.708). Critics, however, maintained that the so-called homework included tasks impossible to be fulfilled by the government from the beginning and, thus, only constituted a pretext for opposing membership (Schaller: 1994b, p.52). With Haider as the new President, the party had significantly increased its share of the votes by mainly drawing on protest voters (Riedlsperger: 1992.) and the EC was the perfect issue for such a strategy. Be that as it may, important is that the FPÖ under Haider's leadership had managed to rise from a marginal party to a strong third, in some places even second, force in Austria. It had increased its share of the votes from about 5 per cent in 1983 to 16.6 per cent in 1990 (see Table No.4, Appendix) with the tendency to rise further and, therefore, posed a strong challenge to the pro-EC bloc.

In spite of not giving a recommendation for the referendum, the FPÖ clearly conducted an anti-EC campaign. The party concentrated on issues such as "Austria first", anti-immigration, the loss of the AS, the alleged rise in unemployment by 70.000, and the danger of an increase in criminality in a Europe without borders, but also transit and agriculture (Schaller 1994b, pp.80/81). Overall, it attempted to gather all those people, who were dissatisfied with the pro-EC policy by the government and social partners.

### *2.2.3. Social movements against membership:*

The anti-EC initiatives were numerous but modest in their media presence due to small organisational and financial resources (Schaller: 1994b, p.82). Three exceptions were, however, noticeable. The "Kritische Europainformationen" had started

publishing the magazine “Europa-Kardiogramm” with reports, analyses and comments on European politics, economy and culture (Gmeiner: 1996, p.259). A special edition in May 1994 had a circulation of 100.000 copies.

Since the beginning of 1993, the initiative “Arge EU-Nein Danke/Zukunft Europa” had been active distributing posters, flyers and information-folders. It consisted of intellectuals and scientists, such as the former GA presidential candidate Freda Blau-Meissner and some former members of the “Initiative Österreich und Europa” such as university professor Jagschitz. It attempted to establish a platform for the co-ordination of the anti-EC social forces.

Thirdly, the “Bürgerinitiative gegen den Verkauf Österreichs an die EU” (Initiative against Austria’s sell-out to the EC) was of some significance having about 30.000 members in May 1994. Between March and May 1994, it sent two mailings to all households supporting a “no” in the referendum (Schaller: 1994b, p.83). Together, these political parties and social movements formed a considerable opposition.

### *2.3. The referendum: a clear “yes” in favour of membership.*

The referendum on 12 June 1994 gave a clear majority for the accession to the EC. 66.6 per cent voted in favour and only 33.4 per cent against membership. There are several reasons why the opposition camp was severely weakened. Firstly, the two parties themselves did not present an internally united position. In 1993, the Liberal Forum had split away from the FPÖ, partly because of its xenophobic credentials, but partly also because of its negative position towards the EC (Schaller: 1994b, p.52). During the campaign, it strongly lobbied on the yes-side. Moreover, inside the party, the Liberal Club, a think tank mainly consisting of liberal party members in Vienna,

openly opposed the official party line and commissioned a brochure by the “Österreichische Gesellschaft für Europapolitik” along these lines. The divisions within the Green camp were also exploited by the “Gesellschaft”. It nominated Herbert Fux as one of the pro-EC representatives for a television debate. Fux had left the GA in 1988. However, having been one of the first Green representatives in local government, he still carried a lot of Green esteem amongst the population and, therefore, discredited the GA’s anti-EC stance (Interview No.29; Vienna, 03/05/1996).

Even more significant was the ideological split between the GA and the FPÖ. There were many common issues such as the negative evaluation of the negotiation results in the area of environmental standards and transit. Nevertheless, the ideological distance between the two parties was by far too big for the formation of a common platform. The FPÖ’s strategy had a nationalist character concentrating on “Austria first” slogans and included anti-foreigner arguments, while the GA focused on the demand for a reformed EC, a different type of European integration without discrimination against non-EC citizens. The pro-EC groups used this split and transformed the debate on membership into a fight against Haider, i.e. pro or contra right-wing extremism (Schaller: 1994b, p.70). The GA constantly had to distance itself from Haider instead of focusing on its arguments against the EC (Interview No.27; Vienna, 02/05/1996). Haider’s exaggerated argumentation, moreover, accusing Vranitzky to be an agent of the Bilderberg group and free masons to mention just one example, deeply discredited the whole anti-EC group.<sup>6</sup> In general, the FPÖ’s shift towards an anti-EC stance was seen as an assurance of the success of the yes-campaign by other opponents (Interview No.23; Vienna, 24/04/1996).

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<sup>6</sup> It is estimated that this tactic cost the anti-EC group between five and six per cent in the referendum (Interview No.32; Vienna, 08/05/1996).

The ideological split between the GA and the FPÖ was also reflected in the sphere of social movements. The “Kritische Europainformationen” opposed the EC because of its dominance by big capital, which implied the exploitation of developing countries, the neglect of a social dimension, an increase in unemployment and the continuing pollution of the environment. Moreover, the internal security policy against immigrants and the external security policy towards a common security and defence policy around a Euro-army were rejected. The overall goal was a general critique of the EC project “Fortress Europe” to facilitate a European-wide formation of progressive forces in favour of a just economic policy, solidarity and the respect of everybody’s human dignity (Gmeiner: 1996, pp.263-272). On the other hand, the “Bürgerinitiative gegen den Verkauf Österreichs an die EU” followed a nationalist road, warning against the flooding by foreigners and the sell-out of Austria’s wealth (Gmeiner: 1996, p.261). A co-operation between these two larger initiatives was as impossible as between the GA and the FPÖ. The “Arge EU-Nein Danke/Zukunft Europa” attempted to remain neutral along its objective to co-ordinate the opposition, but, thereby, ended up distributing information by right-wing organisations (Gmeiner: 1996, p.278). Its credibility among the left opposition suffered as a consequence.

Additionally, the opposition was also split between parties on the one hand, and social movements on the other. For example, the “Arge EU-Nein Danke/Zukunft Europa” rejected a close co-operation with the GA, because it wanted to stay independent. Eventually, the positions of the GA and the “Kritische Europainformationen” were the closest and both co-operated in setting up an alternative press agency called “Euro-Watch-Agency-Report (Interview No.27; Vienna, 02/05/1996), which published a weekly report in the time before the

referendum. The lack of financial funding, however, limited the success of this undertaking (Gmeiner: 1996, p.278).

Finally, the pro-EC group could rely on a huge financial backing, which allowed it to conduct a massive media campaign (Interview No.26; Vienna, 25/04/1996; Interview No.27; Vienna, 02/05/1996). An additional “angst-campaign” arguing that Austria would either be part of a wealthy Western Europe or part of a poor, underdeveloped Eastern Europe with countries such as Poland in the same league had an irrational but effective impact on the population (Interview No.26; Vienna, 25/04/1996). Membership was presented as yielding direct economic gains for everybody. Slogans such as “EC membership secures the pension system” were no rarity (Interview No.26; Vienna, 25/04/1996) and every household was promised to gain AS 1000 per month in case of accession (Interview No.35; Vienna, 14/05/1996).

Overall, the EC opposition was unable to form a joint platform in contrast to the pro-EC bloc. There were no “organic intellectuals”, who developed a hegemonic project capable of uniting the opposition and offering a credible alternative to membership. With reference to the debate itself, the closer the referendum was, the more irrational the debate became from both sides. This was no climate, which would have allowed the careful evaluation of membership and alternative possibilities.

### 3. A debate at last: social forces mobilise in Sweden.

As it was shown in Chapter 3, section 2.4, the Ministry of Finance and the Prime Minister’s Office played a crucial role in putting the membership application on the agenda, while other ministries were sidelined. Once this decision had been taken, ministries as such did not play an individual role in the debate. In 1991, the new

Prime Minister Bildt (MS), who had already laid down a detailed strategy of how to become a member of the EC the year before, demanded that all coalition partners signed a declaration, which included a commitment to Sweden joining the EC.

Consequently, the approach to the EC was a matter of strategy for the government, not a fundamental issue of debate (Interview No.61; Stockholm, 26/11/1996). Dinkelspiel, Sweden's main negotiator, made each minister responsible for the success of the negotiations in his/her particular area. This tactical manoeuvre ensured every ministry's commitment to membership (Interview No.51; Stockholm, 15/11/1996).

After the September 1994 elections, government changed again and the SAP retook office. Individual ministers took part on both sides of the campaign, but as individual persons, not in their function as main representatives of their particular ministry (Interview No.47; Stockholm, 13/11/1996). In short, the ministries can be neglected during the debate on membership before the referendum.

### *3.1. Labour: EC membership to counter transnational capital.*

#### *3.1.1. The LO and TCO peak organisations:*

Both big peak trade union organisations, the LO and TCO, assessed the question of membership against the background of the changes in the world economy. It was realised that "the labour market for employees is becoming more and more international. Capital and ownership have become almost completely mobile in international terms" (TCO: 1993, p.4). These changes in the global economy would require a change in trade union strategy. "Internationalisation in itself means that the Swedish trade unions must cooperate across national borders - primarily in Europe where we have the major part of our economic ties and commitments" (TCO: 1994,

p.5). Representatives in the LO headquarters even argued that there has never been an alternative between membership and staying outside. A Keynesian expansive fiscal policy at the national level could not be a possible way forward, as the French example between 1981 and 1983 had demonstrated. Outside the EC, Sweden would be even more in the hands of the international financial markets and would, consequently, have to adopt even harsher austerity measures. In short, membership would offer to recover some control over capital lost at the national level (Interview No.56; Stockholm, 21/11/1996; LO: 1994, p.4). Furthermore, Sweden's economy and welfare system depended on a few big TNCs, and it would be impossible to remain outside the EC, while the TNCs were a part of the Internal Market through their investments (Interview No.62; Stockholm, 27/11/1996). Thus, membership would support rather than endanger the Swedish welfare system (Interview No.46; Stockholm, 13/11/1996).

The acknowledgement of the pressure caused by the transnationalisation processes did not, however, imply that the LO and TCO accepted the neo-liberal logic. Competition was regarded as beneficial for economic growth and efficiency, but the importance of regulations at the EC level was stressed. In this sense, great emphasis was put on the further development of the social dimension and the Social Chapter of the Maastricht Treaty was welcomed (Interview No.56; Stockholm, 21/11/1996). The "TCO has stressed that European cooperation must have a Social Dimension that counteracts the negative effects of internationalization, free competition and the free movement of capital" (TCO: 1993, p.9). By the same token, the neo-liberal convergence criteria of EMU were criticised. The LO preferred a less austere monetary policy and wanted to include employment as a criterion for the

convergence of European economies. "A balance is needed between the norms for price stability and for growth and employment" (LO: 1994, p.6). It was further pointed out by some LO officials that the economy could also be run with four or five per cent inflation at the European level instead of the three per cent envisaged by the Maastricht Treaty, thereby allowing for more expansive measures (Interview No.62; Stockholm, 27/11/1996). Along the same lines, the TCO demanded that "Sweden should work actively to ensure that economic and monetary co-operation also comprises concrete goals for the reduction of unemployment" (TCO: 1993, p.18). The latter should be the primary aim. "The clear political will must be expressed by the convergence criteria being made subordinate to clear employment goals" (TCO: 1994, p.15). An additional criticism was the lack of democratic control of the ESCBs (LO: 1994, p.5; TCO: 1993, p.18).

Despite this criticism, the LO and TCO were satisfied with the negotiation results. Their individual concerns such as the right to establish EC labour market directives via collective agreements and the maintenance of the higher Swedish health and safety regulations had been met. Of course, the problem of the convergence criteria remained unresolved, and this was pointed out and criticised. The

TCO is seriously concerned about the fact that the Swedish Government has supported the restrictive economic policy recommended by the ... [EC]'s ... Finance Ministers in December 1993 on the basis of the Treaty of Maastricht. This gives the fight against inflation the highest priority and thus hinders the fight against unemployment (TCO: 1994, p.15).

Eventually, however, it was accepted that the convergence criteria had not been up for negotiation. The focus should, therefore, be on future common initiatives for the creation of employment at the European level (Interview No.40; Stockholm, 11/11/1996). In other words, while the peak trade union organisations were not

entirely happy about the neo-liberal policy co-ordination at the European level, considering the transnationalisation pressures, they did not see any viable alternative to membership.

Nevertheless, many of their members and affiliated unions were opposed to membership. The LO and TCO, therefore, could not recommend a “yes” for the referendum. Instead, they decided to adopt a neutral position and to provide members with information to help them make up their minds. They, however, pointed out that only membership would allow them to participate fully in institutions at the EC level, such as the Economic and Social Committee (LO: 1994, p.3). The EEA was not deemed to be an alternative in this respect (TCO: 1994, p.11).

### *3.1.2. The split within the trade unions over Europe:*

Within the unions, there was a split between transnational sector, industrial unions in favour of membership and national sector unions opposing it. The LO affiliates the Paper Workers’ Union and the Metal Workers’ Union played a leading role in the transnational sector. The Paper Workers’ Union decided at its congress in autumn 1993 that it would recommend a “yes” for the referendum on trade union grounds, but leave the final decision to its members whether the consideration of other issues such as security policy still justified a “yes”. This decision had encouraged the Metal Workers’ Union. In early 1994, the union’s committee decided that it would not give a recommendation, but it made clear that as the committee it was strongly in favour of membership.<sup>7</sup> The argument was three-fold. Firstly and most importantly, considering that the Swedish TNCs had already established themselves on the Internal Market and

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<sup>7</sup> These qualified yes-recommendations have to be seen in the light that even in the case of these two unions, a majority but not every member supported membership.

taking into account the export dependence of the two sectors - the paper sector exported about 80 per cent of its products, the engineering sector more than 50 per cent - remaining outside the EC was economically impossible. Secondly, the EC regulations had to be accepted anyway due to the EEA. There was, consequently, no reason why the option of participating in the decision-making process via membership should not be taken. Finally, the EC was also regarded as a peace project, in which Sweden should take part. The Eastern enlargement had already been on the agenda in 1993/1994, and it was likely that the EC would comprise more and more countries in the future (Interview No.66; Stockholm, 29/11/1996).

On the other hand, there were the LO-affiliates the Commercial Workers' Union and the Municipal Workers' Union, which, although they did not give a recommendation, came out heavily against membership. It was feared that future decisions made in Brussels, for example with reference to the harmonisation of tax systems, could lead to rules, which implied cut-backs in the public sector and, thereby, cause job losses. The negative position can be explained by referring to the production structure. The jobs, especially in the public sector, did neither depend on exports, nor were they part of the transnational sector. Hence, the economic argument did not play a role. Moreover, both unions predominantly represented female blue-collar workers - up to 80 per cent in the case of the Municipal Workers' Union. The participation of women in the labour market of the EC members was, with the exception of Denmark, much lower, and these unions were afraid of experiencing a negative impact through membership. In short, the Swedish Model with its generous welfare system, full employment policy, large public sector and gender equality via high female participation in the work place (see Chapter 2, section 1) was considered

to be endangered by the EC's neo-liberal economic policies (Interview No.59; Stockholm, 26/11/1996).

The Transport Workers' Union, also a LO-affiliate, gave a no-recommendation to its members in 1994 after conducting an internal referendum, in which 62.3 per cent of the participating members had rejected the EC. There had been technical regulation problems - Swedish lorries are in general larger than EC lorries - and the problem of "cabottage", which implied that EC companies were allowed to set up companies in Sweden to transport goods exclusively in Sweden. Since the cost level for transport was lower in the EC than in Sweden, this implied strong competition and likely job losses (Interview No.57; Stockholm, 21/11/1996).

This split between the trade unions of the transnational and national sectors could also be observed in the case of the LO-affiliates the Industrial Workers' Union and the Union of Service and Communication Employees. Here, the unions did not give a recommendation, because they represented several sectors with different production structures and, thus, an unanimous position proved to be impossible. In the Industrial Workers' Union, the board and members were divided. Transnational sectors such as textile and the chemical industry were in favour, while the sugar sector without markets outside Sweden was opposed (Interview No.46; Stockholm, 13/11/1996). The Union of Service and Communication Employees also gave no recommendation at its 1993 congress. The transnational sectors such as telecommunications supported membership, but the postal workers were against, fearing that membership would imply further deregulation, the loss of the postal state monopoly and, thereby, the loss of jobs (Interview No.58; Stockholm, 26/11/1996).

A similar division along the production structure, was apparent in the TCO. The Swedish Association of Supervisors (Ledarna), which represented managers and supervisors working in production in both the private and the public sector, recommended a “yes” on the ground of economic necessity. Moreover, the Swedish Union of Clerical and Technical Employees in Industry (SIF), and the Union of Financial Sector Employees, which organised white-collar workers in industry and finance respectively, i.e. transnational social forces, exhibited a strong yes-tendency without official recommendation. On the other hand, the Swedish Teacher’s Union, which represented teachers throughout the entire education system from pre-school to university level and, thus, public sector workers, had a tendency towards a “no”. Its chairman even openly opposed membership. As in the case of the Municipal Workers’ Union, EC membership was viewed as a threat to the Swedish welfare system and the equal treatment of women and men at the workplace (Interview No.40; Stockholm, 11/11/1996).

The SACO considered the question of membership to be a matter of foreign policy and, therefore, to be beyond trade union concerns. There was no big internal discussion, no recommendation, only a study about the pros and cons with the result that no significant disadvantages for academic employees due to membership were identified. This did not, however, prevent affiliated unions from taking a position and a similar division between transnational and national social forces could be observed. The Swedish Association of Graduate Engineers, the members of which often occupied high positions in the private sector industry, recommended a “yes” in 1994; a logical step considering its demand for application in May 1990 (see Chapter 3, section 2.1.1). The Swedish Association of Graduates in Social Science, Personnel

and Public Administration, Economics and Social Work, on the other hand, was rather reluctant. It did not recommend a “no”, but large numbers of its members, who were predominantly employed in the public sector, clearly opposed accession to the EC (Interview No.41; Stockholm, 11/11/1996).

The position of the Swedish trade unions can be summed up as follows: the two large peak organisations, the TCO and LO, were positive towards membership, although they could not recommend a “yes” for the referendum because of the different opinions of their affiliated unions. They argued that Sweden had to restructure its economy anyway due to transnational pressures, which implied the loss of government autonomy and trade union influence in economic matters. In this situation, co-operation at the European level offered the chance of regaining partly the lost control over capital and of providing a securer basis for the welfare system. The neo-liberal tendencies expressed in the convergence criteria were worrying, but there was some hope of joint actions at the EC level to combat unemployment. The transnational sector unions, mainly unions in the industrial and financial sector, followed this position. They stressed in particular Sweden’s export dependence on the EC and the fact that the big TNCs had already established themselves on the Internal Market. On the other hand, the trade unions of the national sector, mainly the big public sector unions, opposed membership. They considered accession to the neo-liberal EC to be a threat to the Swedish Model and argued that the retaining of as many national policy tools as possible offered a better chance to preserve it.

### *3.2. The position of Swedish capital including the agricultural sector:*

The employers' associations, reacted immediately positive towards the SAP's announcement of application to the EC. As outlined in Chapter 3, section 2.1.2, they had been in favour of membership before, but did not consider it to be possible in the view of the SAP's opposition. Their main arguments were of an economic nature. Participation in the Internal Market would lead to more competition and, thereby, more efficiency. This would result in higher economic growth and, eventually, more jobs. The argument that membership would be a good way of getting rid of the Swedish Model played only partly a role. The Swedish Model was considered to have already been abandoned at the end of the 1980s and the beginning of the 1990s (Interview No.43; Stockholm, 12/11/1996; Interview No.54; Stockholm, 19/11/1996). Some sections of industry, however, considered membership as a safeguard against future Swedish experiments different from the other countries' neo-liberal course. Membership would foreclose them for good (Interview No.51; Stockholm, 15/11/1996). It was additionally pointed out that the higher degree of the transnationalisation of production, with parts and finished products being increasingly traded to and fro across borders and the close links of Swedish companies to EC companies in this respect, had made membership necessary. Moreover, while the harmonisation of standards and regulations supported economic growth within the EC, companies from countries outside would face unequal terms of competition as a result. GATT was not deemed to be far-reaching enough to present a viable alternative (Interview No.67; Stockholm, 29/11/1996).

There was no organised opposition from nationally-oriented companies. No branch as such opposed membership openly. This can partly be explained by the fact

that many small- and medium-sized companies were themselves export-oriented (about 15 - 23 per cent, estimated figure) and, thus, represented internationally-oriented forces, which were likely to support transnational capital's drive for liberalisation and deregulation (see Chapter 2, section 3.1). The removal of trade barriers was even more important for them than for TNCs, which could rely on production units within the EC (Interview No.54; Stockholm, 19/11/1996). Another substantial part of small- and medium-sized companies operated as sub-contractors to TNCs and were, therefore, also internationally-oriented.

There was some opposition in the food processing industry, but only on a moderate scale. Firstly, because the farmers had adopted a pro-EC position. "Sweden's farmers, via their memberships of co-operative associations, are involved in the further processing and marketing of their agricultural products. These co-operatively owned processing industries are predominant in Sweden" (The Swedish Institute: 1995, p.1). Being in favour of membership as farmers, they were unlikely to vote differently in the capacity of owners in the food processing industry. Secondly, because the LRF, which was in favour of membership from the beginning of the debate, represented most of the wholesale producers and could enforce some pressure on them. A restructuring programme was initiated in 1992 to raise efficiency in order to cut the, by about 25 per cent too high, cost level (Interview No.50; Stockholm, 14/11/1996). The structure in the food processing industry was, furthermore, extremely concentrated - TNCs such as Nestle were part of it - and many companies

viewed the EC as an opportunity of gaining access to a bigger market for their products (Interview No.65; Stockholm, 28/11/1996).<sup>8</sup>

At the same time, however, the opposition should not be underestimated. Företagarnas, the Federation of Private Enterprises, which represented small- and medium-sized companies, did not give a recommendation and only conducted an information campaign. There was uncertainty among its members and many were against membership. They asked what the use of membership was apart from more regulations from Brussels. A sectoral picture of resistance was not available, since the delegates at the association's general meeting either represented themselves or their district, but opposition came mainly from small companies in the North of Sweden, which were deeply integrated into the local community and produced exclusively for the local market. Firms in the South, on the other hand, had often export links to Germany, Denmark, etc. and were, therefore, more positive towards membership. The headquarters itself supported membership. It was accepted that the whole Swedish economy and, thereby, also the small- and medium-sized companies depended on the big TNCs. Their threat to leave Sweden in the case of non-membership loomed large in the back of the minds and, although it was not openly acknowledged, decisively influenced the debate (Interview No.69; Stockholm, 03/12/1996).

A similar argument was presented by the transport industry. Despite the economic problems due to membership, the reasons which made the Transport Workers' Union reject membership (see above), a vast majority of the companies came out in favour. Firstly, because these changes had already been part of the EEA to

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<sup>8</sup> The construction sector had always been protected in Sweden, but it had collapsed when the bubble economic boom crashed at the end of the 1980s. Consequently, it did not play a role in the debate on EC membership (Interview No.65; Stockholm, 28/11/1997).

a large extent. Secondly and more importantly, the argument prevailed that membership was essential for the Swedish economy as a whole, being dependent on equal access to the EC market. This would, eventually, also benefit the transport companies.<sup>9</sup>

The LRF, which had been in favour of membership from 1990 onwards (see Chapter 3, section 2.1.3), gave a yes-recommendation for the referendum. There were some internal splits. Sections of the food processing industry were sceptical (see above) and some farmers, especially in the North, could never be convinced. They probably had not been aware of the negative consequences of the 1990 agricultural deregulation programme in Sweden, it was argued by the LRF (Interview No.50; Stockholm, 14/11/1996). It must, however, be pointed out that the farms in the North were generally small in contrast to the large farms in the southern part of Sweden (The Swedish Institute: 1995, p.1). The EC as a bigger market did hardly have any significance for them. The LRF also played an important role vis-à-vis the CP. It constantly put pressure on it, until the latter finally adopted a pro-EC position in spring 1994 (Interview No.50; Stockholm, 14/11/1996).

To sum up, Swedish capital was overwhelmingly in favour of accession to the EC. Participation in the Internal Market was considered to be vital, firstly, in order to get equal access to it and secondly, in order to participate in its dynamic effects of the stronger competition. Even small- and medium-sized companies showed support for membership, partly because they were export-oriented, partly because they were sub-contractors of TNCs. The negotiation results were generally welcomed. For capital, it was important that Sweden became a member. The critical issues such as

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<sup>9</sup> Telephone call with the EC expert of the Biltrafikens Arbetsgivareförbund (Road Transport Employers); Stockholm, 26/11/1996.

environmental standards did not affect them very much (Interview No.43; Stockholm, 12/11/96; Interview No.54; Stockholm, 19/11/1996; Interview No.69; Stockholm, 03/12/1996). There was some hesitation, even rejection amongst nationally-oriented industry in the food processing industry and by small companies in the North, but they did not mount a no-campaign. The argument that the Swedish economy as a whole benefited from membership due to the gains of the TNCs, on which it depended, was too strong to be neglected. Splits parallel to the ones between transnational and national sector unions were not visible.

The employers' associations kept EMU from the referendum agenda. It was realised that this issue could tip the balance towards a "no". The later positive position on EMU - the SAF declared its support in spring 1995, the SI followed in February 1996 - however, demonstrated a different basis of capital's interest in membership in contrast to the trade unions. It was argued that Sweden could not have an economic policy different from other countries in times of globalisation. Austerity and not further devaluations were, consequently, the way forward and the earlier there was a monetary union, the better (Interview No.67; Stockholm, 29/11/1996). Especially small companies would benefit from EMU membership. While TNCs could hedge against fluctuating exchange rates, small companies did not have any opportunity to do so. Additionally, EMU membership was regarded as a necessary continuation of the changes in economic policy from the late 1980s towards a neo-liberal, market-oriented economy (Interview No.54; Stockholm, 19/11/1996).<sup>10</sup> In view of the Swedish economic crisis, Per Magnus Wijkman, chief economist of the SI, argued

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<sup>10</sup> The dollar-dependent industries, e.g. the basic industries of mining and minerals, within the SI rejected EMU membership. They feared a higher exchange-rate risk through a single currency. Since they were, however, only responsible for about five per cent of Swedish exports, they were outvoted.

that “Sweden could indeed benefit from the peer pressure exercised in the framework of the ... [EC’s] ... convergence and excessive deficit programmes” (Wijkman: 1995, p.7). By the same token, the employers’ associations rejected a strong social dimension and Keynesian-type employment programmes at the European level. Instead, the neo-liberal drive should further continue in the EC so that European firms were competitive vis-à-vis the New Industrialising Countries of Asia (Interview No.43; Stockholm, 12/11/1996). In short, rather than emphasising the need for co-operation at an international level to regain lost control over economic policy and to fight unemployment in a common effort, a continuation and stabilisation of neo-liberalism was behind the employers’ drive towards EC membership.

### *3.3. The political parties:<sup>11</sup>*

Two main positions characterised the pro-EC social forces mainly organised in the MS, FP and the majority part of the SAP and CP. Firstly, in a compromise decision of June 1991, it had been decided that Sweden’s policy of neutrality was compatible with EC membership. A second compromise redefined neutrality as military non-alignment in May 1992 to make it compatible with the CFSP (see Chapter 5, section 3).

Secondly, while the convergence criteria of EMU were considered to be the basis for a sound economy, it was agreed that participation in the third stage of EMU would be decided later by the Swedish parliament and, thus, should not play a role in the referendum campaign.

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<sup>11</sup> With reference to the positions of the political parties, some material is used, which was published by the parties after the referendum, be it as the position for the elections to the EP in September 1995 or a general position on Europe. This is justified, because the parties’ positions on the EC have not changed since the referendum.

### *3.3.1. The position of the MS and FP:*

Similar to the employers' associations, the MS and FP immediately supported the drive for membership, after the SAP had announced its intention of applying to the EC in October 1990. The FP regarded the EC as a peace project. Further enlargement to the East could lead to a peaceful, prosperous and stable Europe from the Atlantic to the Ural. For Sweden, membership would imply lower interest rates, inward FDI and be good for the economy in general (Interview No.55; Stockholm, 19/11/1996). Membership would be necessary, because in times of a transnationalised economy, isolated national measures "tend not to have effects that could previously be expected" (Folkpartiet Liberalerna: 1995, p.16). The EC was further considered to be important for the combat of unemployment, not however through common employment programmes,<sup>12</sup> but through an emphasis on efficiency via competition on the Internal Market. The EC "can play an important role to help increase the growth of the European economies through market oriented reforms. Europe shall be a continent of entrepreneurship, enterprise and competitiveness in order to fight unemployment and secure welfare systems" (Folkpartiet Liberalerna: 1995, p.3). The social dimension was regarded as a system of unnecessarily detailed regulations, which should be dealt with at the national level (Folkpartiet Liberalerna: 1995, p.7).

The MS put a similarly strong emphasis on economic arguments. Swedish industry would greatly suffer from non-membership. Additionally, membership was regarded as an institutional safeguard against future Swedish experiments such as the EIFs (see Chapter 2, section 2.2.3). In other words, it would guarantee that Sweden remained on a neo-liberal course parallel to the other countries. Finally, Sweden

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<sup>12</sup> The FP regarded co-ordinated actions concerning the infrastructure as an exception in this respect (Folkpartiet Liberalerna: 1995, pp.16/17).

belonged to Europe and membership would be the only way to allow participation in the decision-making process of the EC (Interview No.51; Stockholm, 15/11/1996).

Although EMU was kept off the agenda before the referendum, both parties supported Swedish participation as soon as possible. EMU would constitute an improvement of the Internal Market and its positive competitive effects. Non-membership, on the other hand, would cause doubts in the international financial markets with respect to Sweden's commitment to a hard currency. Higher interest rates would be the likely consequence (Interview No.55; Stockholm, 19/11/1996). The negotiation results were welcomed by the MS and FP. In any case, membership as such, not particular issues, had been the main goal.

### *3.3.2. The position of the SAP:*

The SAP and CP, on the contrary, faced internal splits over membership, which both parties countered by allowing their members to form pro-EC and contra-EC campaign groups. The SAP yes-group argued in a similar way to the pro-EC sections of the trade union movement. The transnationalisation of capital and markets and the concomitant erosion of national sovereignty over economic policy were accepted as facts. Membership would allow European Social Democracy to recover some power vis-à-vis capital via co-operation at the international level. It was important, it was argued, to create a political and trade union counterbalance to capital, especially towards TNCs in order to protect working conditions and rights, and to formulate a common strategy of employment and welfare (SAP: 1993, p.13). These common objectives at the European level needed to be defined as ambitious as the convergence criteria for monetary co-operation. In short, "in order to reinstall the chances for

politics to control the capital markets it is necessary for politics to challenge the markets at an international level” (SAP: 1996, p.66). Membership would, furthermore, allow to combat transnational problems such as air and water pollution in a better way. Finally, the EC was considered to be a peace project. “For Social Democrats our historical task as Europeans is to unite the countries in Eastern and Western Europe, thereby paving the way for increased prosperity and an all-embracing peace and security order on the European continent” (SAP: 1996, p.57). Enlargement was, therefore, one of the top priorities. Only membership in the EC would allow Sweden to participate in the making of the future European order (Interview No.47; Stockholm, 13/11/1996).

In contrast to some voices within the pro-EC trade union camp, a watering-down of the convergence criteria or an amendment with an employment criterion was not considered. EMU membership as such was to be discussed at the SAP annual congress in September 1997, but the SAP committed itself to the policy of austerity as laid out in the criteria. Full employment was not dropped as a policy goal, but the way of how to achieve it was different. Instead of budget deficit spending, the emphasis was now on a balanced economy and low levels of inflation (Interview No.44; Stockholm, 12/11/1996). In a global economy, where the Swedish TNCs had become increasingly transnationalised and the flow of capital had dramatically risen, it was pointed out that new means were required to achieve the same goals (Interview No.48; Stockholm, 14/11/1997). Employment was regarded as the result of the fulfilment of the criteria and should not be mixed up with the criteria themselves (Interview No.47; Stockholm, 13/11/1996).

The SAP no-group, on the other hand, criticised the loss of national sovereignty implied by membership. The removal of border controls would lead to a higher level of international crime, the CFSP was regarded as a danger for Sweden's policy of non-alignment, the Internal Market and EMU as a threat to the Swedish welfare system (Interview No.44; Stockholm, 12/11/1996). Especially the convergence criteria would imply a risk for the solidaristic Swedish society, the tax system and, thereby, the Swedish Model as such (Interview No.58; Stockholm, 26/11/1996). Margareta Winberg and Marita Ulvskog, both Ministers and leading SAP figures in the no-camp, published an article in the LO-owned newspaper *Aftonbladet* shortly before the referendum. They strongly warned against membership, which would result in a permanent high level of unemployment, and advocated an inflationary national economic policy to create new jobs (Svensson: 1994, p.3). In other words, the neo-liberal argument that higher competition would lead to more efficiency and economic growth and, eventually, to more jobs was rejected.

The two groups, established at the SAP annual congress in September 1993, prepared two motions for the extra-ordinary party congress in June 1994. The outcome of the vote was a soft yes-recommendation for the referendum, but both groups were allowed to continue their campaign until the referendum. The SAP leader Carlsson made clear that one could be a good Social Democrat whether one voted in favour or against membership (Interview No.44; Stockholm, 12/11/1996). Clearly, the primary goal was not to split the party before the September 1994 general elections.

### *3.3.3. The position of the CP:*

After much hesitation, the CP annual congress in June 1991 decided to support closer co-operation with, and application to, the EC. The party's final decision on membership would be taken on the basis of the negotiation results. It was also demanded at the congress that the non-alignment policy and Sweden's higher environmental standards would be maintained and that there would be a regional development programme for Sweden's arctic regions. The more sceptical members of the party demanded the adoption of a new position after the Maastricht Treaty, but this was not deemed possible or necessary by the party leadership. Firstly, because the party had signed a document, when it joined the new government in 1991, which stated its obligation towards a positive attitude on the question of EC membership and secondly, because the Ministers of Agriculture, of Labour and of Environment were all from the CP. The party, consequently, felt to be in a strong position to make sure that the negotiation results were positive in the areas it was concerned about. Eventually, the party leadership was satisfied with the negotiation results. Non-alignment, not considered to be threatened by the intergovernmental CFSP, was retained and the Swedish environmental standards did not need to be lowered. Of course, the four-year transitional period was a set-back, but it was accepted that, overall, more could be done for the environment within the EC than outside (Interview No.42; Stockholm, 11/11/1996).

There were, however, two groups within the party. The yes-group argued that the EC was a pan-European peace project and membership would allow to do more on a larger scale for the environment. The no-group, on the other hand, feared the negative impact on Sweden's higher environmental standards and the centralisation of

decision-making in Brussels. Especially the CFSP and EMU - the loss of sovereignty, not the convergence criteria, which the party as a whole had supported as necessary to clean up the economy - gave rise to concern. Opposition within the party was represented in the youth organisation and roughly half of the party's women group. On 2 and 3 May, 1994 a motion recommending a "yes" for the referendum was passed by a two-third majority at the party's congress. Due to the many sceptical members, the party as such kept a low profile during the referendum campaign and only published a pamphlet with a short version of the congress recommendation (Interview No.42; Stockholm, 11/11/1996).

Nevertheless, many members still felt overruled. The CP members and voters were predominantly small farmers from the North and the forestry areas, which hardly benefited from the possible access to a larger market. Many saw only tougher competition ahead as the result of membership and, therefore, disagreed with the CP on the EC question (Interview No.42; Stockholm, 11/11/1996).

The LRF's decision to support membership was crucial for the CP, since without its backing the party would hardly have decided in favour of membership (Interview No.42; Stockholm, 11/11/1996). This was even more important with reference to the overall balance. If the CP had come out in opposition to the EC, the soft yes-recommendation would have been extremely difficult for the SAP, because to be against membership would no longer have been a leftist thing to do (Interview No.51; Stockholm, 15/11/1996). Be that as it may, of the four main parties, two strongly recommended a "yes", while the other two came to a soft yes-conclusion. Similar to the division between the SAF and SI on the one hand and the unions on the other, the FP and MS also emphasised the neo-liberal policies of the EC, while the

yes-group of the SAP focused on the need for European co-operation to regain control over capital.

#### *3.3.4. The position of the VP and GP:*

The VP and GP were the only political parties, which opposed membership. They had rejected application and they continued on this course. The VP regarded the negotiation results as a failure. Transitional periods, it was pointed out, were no guarantee to maintain the higher environmental standards and to keep the alcohol monopolies. It was, furthermore, criticised that the EC had not explicitly acknowledged Sweden's status of neutrality (Interview No.38; Stockholm, 08/11/1996). In general, the VP condemned the neo-liberal economic drive behind the EC. It opposed "the ... [EC] ... rules about free movement of capital and economic standardisation" (VP: 1995, p.1) and the concentration on low inflation as embodied in the convergence criteria, because this would cement mass unemployment rather than create new jobs, and exclude environment and social conditions. "For these reasons, the Left Party intends to oppose the monetary focus, working instead to ensure that full employment, good environment and equality between the sexes are given priority over demands of the marketplace" (VP: without date, p.4). This was to be supported by a global tax on currency transactions to control financial markets (VP: without date, p.16). The VP rejected the strengthening of supranational institutions. Their power should be even cut-back, while national parliaments and their control of EC policy-making had to be enhanced. This did not mean, however, that the VP sported a nationalist outlook. On the contrary, it envisaged pan-European co-operation via institutions such as the CSCE, the ECE of the UN, which

encompassed most of the European states, and via more transnational links to parties and social movements in other countries. The goal was a just economic order through wide-ranging international co-operation in contrast to a “Fortress Europe” of the rich against the Third World (VP: without date, pp.4/5).

The EC, it was further argued, would compromise Sweden’s policy of neutrality. The VP demanded that the connection between the EC and the WEU be severed and that Sweden should neither be a member of, nor observer at, the WEU. “Every similar connection diminishes the country’s credibility when it comes to re-establishing Sweden’s neutrality policy ...” (VP: without date, p.13). Overall, the VP rejected the idea that EC membership was a necessary response to global changes. A national strategy, combined with international intergovernmental co-operation, was still considered to be the better option to combat unemployment, preserve the environment and to achieve equality between the sexes (Interview No.38; Stockholm, 08/11/1996).

The GP argued along similar lines. The Maastricht Treaty did reinforce the party’s opposition to the EC. The CFSP raised the fears about the Swedish status of neutrality, and EMU was rejected because it would imply a loss of sovereignty, transferred to an undemocratic institution in the new centre (Interview No.45; Stockholm, 12/11/1996). In order to maintain the non-aligned status, Sweden should neither be an observer at, nor become a member of, the WEU, and a common foreign policy department and joint financing of the CFSP were rejected (GP: 1995, p.2). With reference to EMU, the position was not completely clear. While the third stage of EMU was rejected, the GP accepted the convergence criteria as necessary to obtain a stable economy. It, consequently, supported the new SAP government and its

convergence criteria plan in 1995. This view, however, was not shared by the whole party (Interview No.70; Stockholm, 03/12/1996). In its programme for the 1995 elections to the EP, the party even stated that “Sweden shall ... not accept the convergence criteria of the EMU as a goal for the economic policy and not join the third stage of the EMU” (GP: 1995, p.2).

Apart from this, the line resembled again the VP’s position. The rejection of the EC did not imply a nationalist stance. Instead, pan-European co-operation should be conducted in a flexible way beyond the forced arena of the EC. For example, the GP suggested intergovernmental measures in order to control the financial markets, including fees on speculative currency transaction. In the area of security policy, the GP wanted to focus on the CSCE and included issues such as pollution in addition to military aspects. It was deemed to be timid to argue that Sweden would have to adapt to global changes in any case. The chance of reforms at the EC level were discounted - four votes in the Council of Ministers would not be much - and many issues should be dealt with at the national level anyway. Moreover, environmental co-operation would also be possible outside the EC, be even necessary with reference to many problems as, for example, the pollution of the Baltic sea, because the relevant countries were not EC members. There was, in short, no big hope for progress within the EC from the GP’s point of view (Interview No.70; Stockholm, 03/12/1996).

### *3.4. The campaign of the referendum:*

#### *3.4.1. The yes-campaign:*

The first group to be formed in view of the referendum was the group “Yes to Europe” in 1991. It became the platform of the employers’ associations and the MS

and FP. As soon as it had become clear that the final decision on membership would be taken in a referendum, capital realised the importance of a well prepared and professionally run campaign (Interview No.43; Stockholm, 12/11/1996). The two parties provided mainly the personnel, while industry put forward the huge financial backup. The chairman of the group was a member of the MS and industry at the same time and the work was predominantly carried out in local offices across the country (Interview No.51; Stockholm, 15/11/1996). The MS and FP conducted their own pro-EC campaigns in addition to "Yes to Europe" and especially the MS wanted to make the EC an integrated issue of the party's appearance (Interview No.51; Stockholm, 15/11/1996; Interview No. 55; Stockholm 19/11/1996).

The yes-group of the SAP set up its own campaign group after the party's 1993 annual congress. It worked closely together with the pro-membership forces of the LO; a co-operation which was no-surprise considering the close institutional relations between the two. A common platform with "Yes to Europe" was deemed impossible after the attacks on each other during the 1994 election campaign (Interview No.44; Stockholm 12/11/1996). Moreover, too close a co-operation was regarded from both sides as a danger. In some occasions, trade unions asked employers not to address the workers, because this could result in a negative opinion (Interview No.66; Stockholm, 29/11/1996). Similarly, employers feared that a common platform could lead to a conspiracy theory amongst the population and, thus, be detrimental to the whole undertaking (Interview No.43; Stockholm, 12/11/1996). There were, however, many informal contacts in order to exchange information about each other's strategy (Interview No.47; Stockholm, 13/11/1996; Interview No.58; Stockholm, 26/11/1996; Interview No.61; Stockholm, 26/11/1996).

One reason for setting-up additional platforms was the impression that “Yes to Europe” could not reach workers and the countryside. The SAP-LO group attracted workers, but pro-EC members of the CP formed, together with well known public figures and representatives of other small groups, the “Network for Europe” with the financial help of the LRF in 1993 to cater for their particular constituency, mainly the small farmers in the countryside (Interview No.50; Stockholm, 14/11/1996).<sup>13</sup> In general, this formation of three different groups on the yes-side was not viewed as detrimental to the aim of EC membership. On the contrary, they all addressed a different clientele and, thus, complemented each other rather well (Interview No.44; Stockholm, 12/11/1996).

The general arguments were the same. All three groups regarded the EC as a peace project, capable to overcome the separation between Eastern and Western Europe. Only membership would guarantee the participation in this project. It was further pointed out that membership was an economic necessity and allowed to tackle certain problems such as the protection of the environment at an international level. There was, however, a difference with reference to the particular emphasis. “Yes to Europe” stressed the economic side. Tougher competition, more inward FDI and lower interest rates as a result of membership would lead to higher economic growth and, then, more jobs (Interview No.54; Stockholm, 19/11/1996; Interview No.55; Stockholm, 19/11/1996). Non-membership, on the other hand, would endanger the position of Swedish TNCs and, thereby, the whole Swedish economy (Interview No.51; Stockholm, 15/11/1996; Interview No.67; Stockholm, 29/11/1996). The EC

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<sup>13</sup> Some people argued that the SAP-LO platform and the “Network for Europe” actually formed one group (Interview No.50; Stockholm, 14/11/1996), but this was denied by SAP-LO group activists (Interview No.44; Stockholm, 12/11/1996; Interview No.47; Stockholm, 13/11/1996). While there were two different groups, the unclear boundaries may indicate strong co-operation and overlapping interests in contrast to the “Yes to Europe” group.

was the best option along a neo-liberal economic policy course, which should not be undermined through the introduction of Swedish Model type solutions such as an active manpower policy or the development of a strong social dimension (Interview No.43; Stockholm, 12/11/1996).

The SAP-LO group, on the other hand, emphasised the need to combat unemployment at the European level and stated that they wanted a chapter on employment to be included in the revised Maastricht Treaty (Interview No.58; Stockholm, 26/11/1996; Interview No.66; Stockholm, 29/11/1996). Finally, the “Network for Europe” focused on the EC as a pan-European project and regarded it as a better way of protecting the environment, while the counterbalance of transnational capital did not feature highly on its agenda. In short, the different groups were not only a tactical way of addressing different clienteles. They also represented clear differences between the groups’ reasons for supporting membership, especially between “Yes to Europe” and the SAP-LO group.

#### *3.4.2. The no-campaign:*

The no-side, on the contrary, was united in the “No to the EU” platform, which also had local organisations throughout the country. Membership was on an individual basis, but the various groups and associations had representatives on the board. These were mainly the SAP and CP sections against membership, the trade unions against membership, some interest groups such as “People against Drugs”, youth organisations and environmental groups, and the VP and GP. The latter two were extremely active, but did not want to, or were not allowed to, develop too high a profile. Both were electorally weak at the time, had a radical reputation which

threatened to endanger the group's non-partisan people's movement appeal, and it was agreed that the most important task was to convince the SAP and CP voters (Interview No.38; Stockholm, 08/11/1996). To the outside, the platform was, consequently, represented by the SAP-LO and CP networks (Interview No.45; Stockholm, 12/11/1996).

“No to the EU” rejected the idea that Sweden could contribute to changes by being a member of the EC. A country as small as Sweden would have no say. Rather than Sweden influencing the EC, the EC would influence Sweden, causing lower environmental standards and undermining the welfare state via the required harmonisation of the tax systems. Instead of regarding the EC as an area of prosperity for everybody, “No to the EU” viewed it as a fortress of the rich against the poor in the Third World (Interview No.47; Stockholm, 13/11/1996). An increase in drug trafficking and lower food standards were presented as further possible dangers of membership (Interview No.44; Stockholm, 12/11/1996). The EC was also rejected because of its democratic deficit; firstly, due to the restriction of national sovereignty and secondly, due to undemocratic supranational institutions. The CFSP was regarded as a threat to Swedish neutrality.

The VP's argument that the EC was a project of big capital and that the convergence criteria would cement mass unemployment was not part of the platform's position. It has to be remembered that many CP politicians, who had supported the criteria as a good basis for a sound economy, were a part of the platform and the VP did not want to break up the unity (Interview No.38; Stockholm, 08/11/1996). It was also considered to be difficult by the whole no-group to put forward a strong

economic case against membership, since this area was widely used and dominated by the yes-side (Interview No.70; Stockholm, 03/12/1996).

### *3.5. The outcome: a narrow "yes" for membership.*

The result was close. The yes-side won by a very narrow margin on 13 November 1994. 52.7 per cent voted "yes" versus 47.3 per cent "no", after the no-side had led from spring 92 to shortly before the referendum (Luif: 1996, p.214). In contrast to Austria, the opposition had been in a much better position in Sweden. Firstly, it was not divided into a nationalist and a progressive opposition and, therefore, could form a common platform. Secondly, the social forces of nationally-oriented labour were not constrained by organisational discipline and participated openly in the debate. Nevertheless, the no-side still failed to win the referendum.

Several reasons can account for this. Firstly, the financial power behind the yes-group was significantly larger, stemming mainly from industrial sources. An academic investigations found out that the ratio was about 20 to 1 in favour of the yes-side. Moreover, although there were separate campaign groups, this did not hinder the SAP-LO group to accept money from business (Interview No.71; Stockholm, 04/12/1996). Secondly, the no-side did not have a well-developed alternative to EC membership. What held them together was their rejection of accession to the EC. After the referendum, there was an immediate inter-party competition between the GP and the VP for the votes of the no-voters in the referendum, which demonstrated the fragility of the alliance (Interview No.70; Stockholm, 03/12/1997). Furthermore, although many reasons for why the EC was opposed were shared by all groups of the "No to the EU" alliance, in the area of economic policy, the differences could not

have been clearer. While the VP and large sections of the GP and the SAP-LO no-group rejected the convergence criteria and their focus on low inflation at the expense of an employment criterion, the CP politicians but also some SAP and LO members still considered them to be the necessary basis for a sound Swedish economy, even in the case of non-membership. In this situation, it was impossible to formulate an economic programme, which could rival the neo-liberal project. Considering the overall emphasis put on economic issues by the various yes-groups, this would, however, have been a crucial prerequisite for success.

This also demonstrates that the no-side at no point had managed to form a historic bloc. It did not have a common basis in the sphere of production nor a common ideological project. It was only a short-term alliance with a single goal, the prevention of Swedish EC membership. Some participants in the no-side considered the lack of an alternative as not important with reference to the defeat in the referendum (Interview No.38; Stockholm, 08/11/1996). Political commentators, however, argued that it was responsible for the no-side losing supporters during the crucial final phase of the campaign (Svensson: 1994, p.1).

A further factor might have been the tactic by the no-side to rely on comparatively little known representatives for their presentation to the public. Kenth Petterson, the President of the Commercial Workers' Union, Eva-Britt Svensson, a member of the SAP, and Eva Hellstrand, close to the CP, had a difficult time in opposition to well established, high profile politicians such as Prime Minister Carlsson and Bildt, the former Prime Minister and now leader of the main opposition party MS. The VP and GP as such, but especially the party leader of the VP and Per Gahrton of the GP, both well known politicians with a lot of experience in debates,

might have been able to convince the public in a better way. In short, some sections within the VP and especially the GP criticised the no-side for having sidelined the VP and GP during the campaign, thereby failing to use two potential strong factors (Interview No.45; Stockholm, 12/11/1996). This point might have been of some relevance, taking into account the Swedish elections to the EP in September 1995, when the VP and the GP, with 12.9 per cent and 17.2 per cent respectively, scored a massive success, mainly on the expense of the SAP (The Swedish Institute: 1996b, p.2).

A few days before the referendum, 19 out of the 22 Presidents of LO affiliated unions wrote an article, in which they declared their support for membership. This gave the yes-side a general boost, since it was large sections of the workers, which favoured a “no” and/or still hesitated in their decision (Interview No.56; Stockholm, 21/11/1997). May be more significantly, amongst them was Lillemor Arvidsson, the President of the Municipal Workers’ Union, who also spoke out in favour of membership, despite the fact that her union had not given an official recommendation and that it was known that a majority of its members opposed the EC. Her decision came as a total shock to the “No to the EU” group and damaged its campaign (Interview No.45; Stockholm, 12/11/1996).

Finally, the SAP’s move towards economic arguments during the last week of the campaign seemed to have been important. Prime Minister Carlsson and other high-profile SAP politicians, now free to campaign after the general elections had been won in September, threw their weight behind the yes-campaign. Membership, they argued, would lead to lower interest rates, more jobs and be the only way to save the Swedish welfare state (Interview No.44; Stockholm, 12/11/1996).

Capital used its structural power to underline this argument. In the form of open letters and advertisements in major Swedish newspapers in September 1994, “the four largest companies explicitly threatened to move within the boundaries of the .. [EC] ... if Sweden did not join the ... [Community] ...”(Fioretos: 1997, p.315). The financial markets also lent their structural support. “When the publication of a poll on 6 November 1994 showed the ‘no’ side again gaining ground, interest rates went up in Sweden” (Luif: 1996, p.321). As a result, home owners feared that they would have to pay higher interest rates outside the EC. Everything boiled down to the question of whom do you trust more with the economy. Eventually, it was the Prime Minister’s credibility, which decided the point; something which was acknowledged by members of both the no- and the yes-side (Interview No.45; Stockholm, 12/11/1996; Interview No.50; Stockholm, 14/11/1996). Again, the no-side’s lack of an alternative economic programme and more high-profile representatives might have been crucial in this respect.

#### 4. Conclusion:

As it was demonstrated in this Chapter, there was little new movement of the Austrian social forces in favour of membership. The pro-EC historic bloc had been solidly formed in the process leading to application. During the referendum campaign, it was merely confirmed and reinforced. The main focus was on how to structure the campaign in order to achieve a yes-result in the referendum. The social forces opposed to the EC, on the other hand, attempted to mobilise their support and to form a stronger and broader alliance. Quantitatively, the FPÖ’s shift towards a no-position strengthened the no-side, but in practice it undermined the cause of the anti-EC forces.

The ideological rift was too big to form an alliance and the social forces against the EC but in favour of international co-operation had constantly to distance themselves from nationalist, if not racist groups.

In Sweden, the debate started in earnest. To some extent, the formation of the social forces showed interesting parallels to the Austrian situation. It was the transnational forces of capital and labour, not internationally-oriented forces due to the different production structure, which were in favour of application. They were supported by those institutions linked to the global economy. Especially the Finance Ministry and the Prime Minister's Office were important, although more in bringing about application than during the referendum campaign. Unlike in Austria, the social forces of the transnational sector of production formed only a strong alliance with reference to the issue of membership. They did not form a historic bloc. While they agreed on membership as a necessary response to globalisation and the Internal Market initiative, the exact reasons for it differed significantly. Capital regarded the EC as a good way of continuing the neo-liberal restructuring of the Swedish state and rejected a strong social dimension and joint employment programmes at the European level. On the other hand, transnational labour demanded additional joint employment programmes and sometimes even a relaxation of the convergence criteria and the acceptance of a slightly higher rate of inflation in order to create more jobs. In short, there was no inner coherence of the alliance of social forces behind the Swedish pro-EC groups. The goal of membership was the issue they rallied around.

Similar to Austria, the national forces opposed accession. It was the public sector in Sweden, which was sheltered and it was, consequently, the workers of this sector, which played a leading role in opposing membership. An interesting difference

was, however, the position of nationally-oriented capital, which can be explained by referring to the different economic structure of the two countries. In Sweden, the economic structure and the economic well-being of the whole country was dominated by big TNCs. Many nationally-oriented companies either depended directly on the TNCs or argued that the good performance of them, overall, also benefited the Swedish economy and, thereby, the nationally-oriented companies. There was, consequently, little incentive to oppose membership and to participate in the campaign on the no-side. In contrast, small- and medium-sized companies were predominant in the Austrian economic structure. They had always had a strong say in economic policy-making and faced little if no opposition by TNCs. At the same time, many were directly negatively affected through membership and the concomitant deregulation of the sheltered sectors. It was natural for them to support the no-side during the campaign and to form alliances with nationally-oriented labour and, although to a lesser extent, the GA and FPÖ.

In both countries, the no-side did not manage to form a strong alliance, let alone an historic bloc. They did not succeed in formulating a “hegemonic project” as an alternative to EC membership and were especially unable to present a coherent concept, which could rival neo-liberalism. They were mainly united by their common rejection of membership. In Austria, even this was impossible due to the ideological rift between the social forces around the GA and the FPÖ.

So far, the emphasis of the discussion has been on political economy arguments. It has been stated that mainly transnational forces in Sweden and internationally-oriented ones in Austria pursued membership, because it offered the best way forward to continue the accumulation of capital, after the Keynesian

arrangements at the national level of the post-war era had run out of steam. There are, however, serious claims, that it had actually been the changes in the international security structure which made Austria and Sweden join the EC. In other words, membership was a response to a feeling of insecurity after the end of the stable, bipolar Cold War structure. The next Chapter explores this question.

## **Chapter 5: Austria's and Sweden's accession to the EC and the changing security structure.**

### **1. Introduction:**

#### *1.1. Neo-realism, neutral states and the end of the Cold War:*

Neo-realists regard the bipolar Cold War period between 1947 and 1989, based on nuclear weapons and an equal amount of military capabilities between the USA and Soviet Union and their respective allies, as extremely stable ensuring a long-lasting peace in Europe (e.g. Mearsheimer: 1990, pp.10-21). The end of the Cold War implied the end of this stable structure and, consequently, more instability, more insecurity and a greater likelihood of conflict in Europe.

Neutral countries benefited from the bipolar, peaceful structure as did those, which were a member of one of the two military alliances. The end of the Cold War removed this cosy arrangement. New conflicts, real or potential, have emerged at the borders and endangered these countries' security. The conflicts in former Yugoslavia bordering Austria and the potential conflicts between the three Baltic states and Russia in the vicinity of Sweden underline this point. In this situation, it is argued along neo-realist lines, Austria and Sweden might have joined the EC in order to become a part of a strong alliance of states. The close relationship between the EC and the WEU and, therefore, NATO, but also the emerging CFSP (see Introduction, section 2.2) would provide security guarantees for Sweden and Austria without becoming a member of NATO or the WEU itself. In short, EC membership was regarded as a way of ensuring the security guarantees of the WEU and NATO through

the backdoor.<sup>1</sup>

This neo-realist argument directly contradicts the conclusions of Chapters 3 and 4 that it was alliances of internationally-oriented capital and labour in Austria and transnational capital and labour in Sweden, which brought about EC membership in response to domestic economic recession, revived regional integration in Europe and global structural change. It is the task of this chapter to assess the impact of the changing security structure and to analyse whether it actually had such a predominant influence, as suggested by neo-realism.

### *1.2. Neo-Gramscianism and the examination of the security structure:*

At first sight, neo-Gramscianism and its focus on production seems to be unable to account for changes in the security structure and their impact on political processes. Nevertheless, Holman makes clear that the emphasis on transnational social forces “does not mean that ... [neo-Gramscians] ... argue for a simple replacement of a state-centric for a ‘TNC-centric’ approach. In order to become effective, concepts of control ... must also be translated into state policy” (Holman: 1992, p.19). The globalisation concept of production and finance appears to be contradicted by the territorial concept of security provision. These two concepts, however, are not only opposed, but also interrelated, because “ultimately the security of globalisation depends upon military force with a territorial basis” (Cox: 1996, p.287). As an example for an interrelation of this type, Cox identifies the war against Iraq, during which the USA, a state, responded as the principal guarantor and enforcer of the global economic order (Cox: 1996, pp.287-292). In other words, global economic accumulation depends on

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<sup>1</sup> In the case of Austria, this is argued, for example, by Neuhold: 1994, pp.110/111; Pedersen: 1994, p.83; Schneider: 1994, pp.17/18; and Sucharipa: 1993, p.158; for Sweden, see Huld: 1995, p.149

security arrangements by states for protection.

In sum, an analysis of the security structure and its impact is not only possible but also necessary from a neo-Gramscian perspective. A focus on states and slip into state-centric language cannot be completely avoided, since military power is still controlled by states. This analysis must, however, eschew the neo-realist assumptions of a monolithic state, a fixed state rationale of behaviour and the explanatory primacy of structure. Instead, it must investigate how state interests in the security area are constructed at the national level by looking at the struggle of social forces against the background of the international structure. Here, it is to be examined why it was suddenly deemed to be possible by which forces in Austria and Sweden to combine neutrality with membership.

## 2. Austria: the silent redefinition of neutrality.

### *2.1. The history of Austrian neutrality:*

Austrian neutrality is mainly a product of World War Two and the Cold War. The Soviet Union could only accept Austrian independence, if it was assured that Austria would not strengthen the rival bloc. Permanent neutrality of the Swiss type provided the solution. Nevertheless, Rotter points out that discussions about neutrality had already started before World War Two and immediately after 1945 due to the country's geographical position on the border between different cultural traditions and interest zones. The East-West conflict was crucial, but there had also been some domestic Austrian considerations in favour of neutrality (Rotter: 1991, pp.26/27).

Austria's status of neutrality was not part of the State Treaty of 15 May 1955, which gave Austria back independence and full sovereignty. Austria did not want to

tie its neutrality to other countries' permission and it is often pointed out that only Austria decides on the formulation and contents of neutrality (Jankowitsch/Porius: 1994, p.52). In the so-called Moscow Memorandum of 15 April 1955, however, Austria promised to commit itself to permanent neutrality constitutionally and via international law. On 26 October 1955, one day after the last foreign soldier had left Austrian territory, a constitutional law was, consequently, passed declaring the permanent neutral status. This was, then, notified to the states, with which Austria had diplomatic relations at the time, which led to a quasi-treaty relationship with other states in respect of Austria's neutrality. Overall, although not part of the State Treaty, neutrality must be regarded as the Soviet Union's precondition for Austrian sovereignty and is, therefore, in a close relationship with it (Neuhold: 1987, pp.7-10; Ucakar: 1991, p.89).

It is generally accepted that permanent neutrals such as Austria are not only committed to neutrality in all wars, but that they also have to "avoid such peacetime ties and policies as would make its neutrality in war impossible or unlikely" (Hakovirta: 1988, p.9). Neuhold presents a list of peacetime obligations from an Austrian perspective (Neuhold: 1992, pp.88/89):

- no support for parties/states engaged in warfare;
- no permit for parties/states engaged in warfare to use Austrian territory and airspace;
- the restrictions related to private selling of arms to war parties must be equal with reference to all war parties;
- no participation not only in military alliances, but also in systems of collective security because of possible military measures against aggressors from outside and

inside the system;

- no participation in supranational economic organisations because of, for example, a possible one-sided embargo of weapon exports;
- maintenance of a strong national defence;
- intensive international activities to improve the respectability of neutrality.

In contrast to Sweden, Austria's defence efforts were less determined (Kramer: 1996, p.162), but, similar to Sweden and Finland, Austria pursued an active internationalist policy. The link between foreign policy and active neutrality had already been made at the end of the 1950s, but the real upturn in internationalist policies occurred between 1970 and 1983 and was associated with the person of Chancellor Kreisky (SPÖ). Austria actively participated in the CSCE process and the United Nations (UN), it launched independent initiatives in respect of the North-South and Middle East conflicts and handed a large centre in Vienna over to the UN. (Kramer: 1996, pp.156-169).

## *2.2. Application against the background of bipolarity:*

As it was outlined in Chapter 3, section 1, a majority of Austrian social forces accepted in 1989 that membership was compatible with neutrality. In contrast to Sweden, this occurred against the background of the Cold War. Austria applied to the EC before the fall of the Berlin Wall and German reunification. In the government's report to parliament of April 1989, the EPC was considered to be of no risk to Austrian neutrality, because it excluded co-operation in military aspects. At the same time, it was declared that Austria would not participate in future developments towards a defence community or a binding foreign policy with majority decision-

making (Luif: 1996, p.238). Nevertheless, application at this time implied that the definition of neutrality, which stated that neutrality was incompatible with membership in supranational economic organisations, was turned into its opposite without a prior explicit change in the Austrian doctrine of neutrality (Hummer: 1996, p.13). The rationale for this reinterpretation had been given in a study by Waldemar Hummer and Michael Schweitzer, commissioned by the VÖI in 1987 (Hummer/Schweitzer: 1987; see Chapter 3, section 1.1). The two experts of international law pointed to the Luxembourg Compromise of 1966. Austria could declare neutrality a matter of important national interest to prevent majority decisions. They further pointed to Articles 223 and 224 of the 1957 EEC Treaty, which allowed exceptions for the protection of essential security interests. The problem that Article 225 gives the ECJ the final say in these matters could be overcome in that the EC agreed not to use the control powers of the ECJ, when Austria sought exceptions because of its neutrality.

It became soon clear that the Soviet Union had reservations against Austrian membership. They did not say no, but they did not give a positive signal either, neither while the Chancellor Vranitzky and the Foreign Minister Mock visited Moscow in September 1988, nor during the visit of the Soviet Foreign Minister Shevardnadze to Vienna in the same year (Interview No.2; Vienna, 09/05/1995; Interview No.14; Vienna, 17/05/95). During Mock's discussions with Shevardnadze in Moscow, the latter said that he objected to Austrian participation in military alliances. Mock pointed out that the EC was not an alliance of this type, and the matter was not mentioned again (Interview No.36; Vienna, 15/05/1996). The section within the Soviet Foreign Ministry, responsible for policy formulation with reference

to Germany and Austria, consisted of old-style hard-liners, who tried to influence Soviet foreign policy in a way that opposed Austria's EC membership. Overall, while they did not succeed in their task, it became clear that the Soviet Union would have preferred Austria to stay outside the EC (Interview No.11; Vienna, 12/05/95).

Not surprisingly, after Austria's official application to the EC on 17 July 1989, the Soviet Union issued an aide-memoir, in which the Austrian application was "regretted". It pointed out that the EC had not only an economic character, but also pursued the aim of establishing a political union with a common foreign and security policy. Membership of a permanently neutral country in such an organisation would lead to the loss of the real possibilities inherent in the neutral status. Simultaneously, the Soviet Union positively recognised Austria's insistence on maintaining its neutral status and it expected that Austria would honour the obligations, which stemmed from the State Treaty (Soviet Union: 1989, p.562).

Austria dealt with this pressure in a diplomatic way. On the one hand, it tried to appease the Soviet Union by writing its policy of neutrality into the application. In an article clearly addressed to Soviet ears, the Foreign Minister Mock emphasised both Austria's necessity to join the EC for economic reasons and its insistence on neutrality, declared to be a part of the Austrian national identity and to be used to further the dialogue between all European countries. Mock called the pursuit of both policies a "double challenge", which would not contradict each other, since the EC was no military alliance, since the EPC did not conflict with Austria's duties related to neutrality and since the development of the EC into a political alliance was unlikely (Mock: 1989). On the other hand, Austrian decision-makers did not pay attention and applied to the EC despite Soviet reservations. Partly, because the decline of the Soviet

Union had already been noticeable and it was deemed possible to disregard Soviet opinion (Interview No.9; Vienna, 11/05/1995); partly, because, since Gorbachev had come to power in 1985, it had become clear that the Soviet Union deideologised international relations and pursued a more liberal foreign policy. It would not attack Austria militarily in order to make it change its mind. Every country should be allowed to decide its own foreign policy was the new line. This was stated by Gorbachev in an official visit to Finland in 1991, but had already been clear in the late 1980s (Interview No.11; Vienna, 12/05/95; Hafner: 1992, pp.167-178).

To sum up, the changes in the international security structure, at this stage only expressed in the decline of the Soviet Union and Gorbachev's liberal foreign policy, played a role as a background condition in that they made the re-interpretation of neutrality and the EC membership strategy by the VÖI a feasible option (Interview No.2; Vienna, 09/05/95; Interview No.33; Vienna, 09/05/1996). Since the drastic changes leading to the end of the Cold War and the break-up of the Eastern bloc occurred later, the decision on application cannot have been due to a higher degree of insecurity in the international system. Interviews with officials of the Foreign Ministry and the Chancellor's Office confirm this point. There was no higher level of international insecurity perceived from 1985 onwards (Interview No.2; Vienna, 09/05/1995; Interview No.9; Vienna, 11/05/1995). Rather, there was first the decision on membership due to economic reasons, taken by the social forces of internationally-oriented capital and labour (see Chapter 3, section 1) and then, the problem of how to combine this with neutrality was tackled (Interview No.33; Vienna, 09/05/1996).

### *2.3. Austria's new foreign and security policy after Maastricht:*

When the CFSP was added to the EC as an additional pillar in the Maastricht Treaty, Austria immediately stated its intention of active participation. Neutrality was neither renounced nor restated and the application to the EC of 1989 was pragmatically, not officially, changed into application to the new, post-Maastricht EC. This implied that permanent neutrality was also considered to be compatible with the Maastricht Treaty and the CFSP (Hummer: 1996, p.26). The CFSP, it was pointed out, was no military organisation, and its nature was purely intergovernmental, as decisions are taken according to the principle of unanimity. If there were changes towards a more supranational structure in this pillar, the Austrian government would ask for opt-out clauses (Interview No.2; Vienna, 09/05/95; Interview No.6; Vienna, 10/05/1995; Interview No.9; Vienna, 11/05/95).

From a neo-realist perspective, one could argue that the real new international instability occurred after 1989 and that Austria was happy to continue its commitment to the EC application in 1991, as the EC included the new pillar of a CFSP, offering more security via membership. There were some statements by the Chancellor Vranitzky and the Foreign Minister Mock, which indicated such a change in foreign and security policy:

Considering the international conditions of security policy, the potential of the EC for peace and stability was also one of the central arguments of the Austrian government in favour of EC membership [translation by the author] (Vranitzky: 1995, p.13).

From a geopolitical point of view, we also have to take into account that Austria is situated in the new Europe along a dangerous area in East and South-East Europe [translation by the author] (Mock: 1994, p.6).

Interviewees in Vienna, however, made clear that Austria did not feel threatened in a

military way (Interview No.2; Vienna, 09/05/1995; Interview No.9; Vienna, 11/05/1995). “There are, of course, some experts who regret the loss of stability in Austria’s security environment, but the majority seems ready to accept some instability as the price for change in a system that has been artificially frozen for four decades” (Lehne: 1992, p.206). The war in former Yugoslavia may have had an effect on the population and their decision in the referendum, but not on the political elite (Interview No.6; Vienna, 10/05/1995; Interview No.33; Vienna, 09/05/1996). Even this should not be overrated, since it did not change “the fact that a majority of Austrians still preferred neutrality to EC ... membership” (Luif: 1996, p.244).

Active participation in the CFSP was officially related to the establishment of a new European security system as the primary target. Importantly, the definition of security was not limited to the military sphere, but contained other areas as well.

Chancellor Vranitzky stated:

In this context, it appears to me to be important that European security policy will be defined in an encompassing way, beyond the framework of a merely military perspective and instruments and that it also consists of questions of social, ecological, democratic and of all policy areas described nowadays as ‘internal security’ - I only mention terms such as immigration, organised crime, terrorism [translation by the author] (Vranitzky: 1995, p.13).

To conclude, EC membership even after the end of the Cold War was not seen as a method of gaining higher security, but rather as a possibility of attaining influence on the shaping of the new European security system. According to Austria, this new system should be all-encompassing, i.e. include policy spheres such as social security and international terrorism and also countries such as Russia and Ukraine. In this sense, there was no contradiction between neutrality and active co-operation in the CFSP perceived. The abandonment of neutrality may only be discussed in the

event of having actually succeeded at establishing this new, pan-European security system (Interview No.14, 17/05/1995).

Despite this rhetoric, however, traditional Austrian peacetime policies of neutrality were abandoned. In 1994, a new article was added to the Constitution to make the CFSP compatible with neutrality. It allowed Austria to participate in measures of restricting, suspending, or cutting of economic relations with one or more states, thereby safeguarding its co-operation in possible economic sanctions of other countries by the EC via the CFSP (Hummer: 1996, p.27; Luif: 1996, pp.334/335). EC membership, as already mentioned, contradicted the requirement of non-participation in supranational economic organisations and the constitutional change related to the CFSP made Austrian support for a party/state engaged in warfare possible. Correctly, some observers pointed out that Austria's neutrality had been reduced to its military core, i.e. the non-participation in military alliances and combat (Hummer: 1996, p.44; Kunnert: 1993, pp.321-323).<sup>2</sup>

#### *2.4. Social forces and the construction of Austria's official position:*

This official Austrian position on neutrality was mainly a compromise between the pro-EC social forces represented by the two governing parties, the SPÖ and ÖVP. A strong group within the SPÖ had mobilised against application, because it perceived neutrality as incompatible with membership. To minimise opposition to the EC as much as possible the SPÖ declared before the decision on application that neutrality was not negotiable; a demand which was supported by the AK and ÖGB. The fact that

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<sup>2</sup> Austria's decision to allow the use of its air and ground space for the transit of weapons and military personnel during the Gulf War in 1991 and legal changes, which declared that measures taken by the UN against aggressors did not constitute an instance of war within the meaning of the term in international law (Jankowitsch/Porius: 1994, p.54; Luif: 1996, pp.144/145), further underlined this restriction of neutrality.

a majority eventually decided in favour of compatibility was due, firstly, to a change in the frameworks of thought, partly brought about by the study of Hummer and Schweitzer (1987), and secondly, to the evaluation by the international law office in the Foreign Ministry, which sanctioned compatibility (see Chapter 3, section 1.2.2 and 1.2.4). After Maastricht, it was especially the SPÖ, which supported the wider definition of security with the goal of avoiding situations such as in former Yugoslavia from the beginning. It never regarded EC membership as a way of entering the WEU and/or NATO through the backdoor, which were both considered to be unsuitable as the basis for a future pan-European security system. Moreover, neutrality was deemed to be an untouchable issue, at least until the day the new all-encompassing security order had been established. Even in this event, membership in military alliances such as WEU and NATO would not be on the Social Democratic agenda (Interview No.4; Vienna, 09/05/1995). While the internal party opposition to EC membership supported this position, it was criticised that a clear concept of what this new order could look like and how to bring it about was missing (Interview No.23; Vienna, 24/04/1996).

Social forces, represented by the ÖVP, on the other hand, were critical about making neutrality a non-issue of the debate. They were reluctant to include the neutrality clause into the application letter and large sections would have preferred neutrality to be renounced and Austria to become a WEU and, although to a lesser extent, NATO member (Kunnert: 1993, p.327; Interview No.36; Vienna, 15/05/1996). Neutrality was deemed to be an obstacle for Austria's foreign and security policy, hindering it from taking up full responsibility in a new European security system. Should the CFSP move towards further integration in defence, the ÖVP preferred to

avoid Austrian demands for opt-out clauses. Overall, however, the ÖVP had to pay attention to the coalition partner SPÖ and the Austrian population, for which neutrality was something like a “sacred cow” (Interview No.12; Vienna, 12/05/1995). Even the former Foreign Minister Mock, who was more in favour of membership in the WEU and NATO, identified merely traditional peace-keeping functions such as search and rescue as well as humanitarian operations, when it came to the question of Austria’s active contributions to European security policy (Mock: 1995, p.9).

The opposition parties rejected this government compromise. The Liberal Forum argued that neutrality was obsolete after the end of the Cold War and should be replaced with WEU membership. The CSCE would be too inflexible due to its 53 members and, therefore, could not provide the basis for a new European security order. Instead, this order should be grounded in the transatlantic alliance between the EC and the USA via the WEU and NATO, the structures of which had to be redefined (Hummer: 1996, pp.43-44). The FPÖ also stated that neutrality had been obsolete since the end of the 1980s because of the changes in the international security system. Now, Austria’s large borders with Eastern Europe and former Yugoslavia would require Austria to look for whatever security it could get. Because the WEU was considered to exist only on paper, NATO membership was the preferred option. Overall, a pan-European security order would be welcomed, but this was only regarded as a possibility in the long-run (Interview No.26; Vienna, 25/04/1996).

On the other hand, the GA rejected the government compromise because of its alleged negative implications for Austria’s neutrality. In contrast to the SPÖ and ÖVP, the GA did not think that EC membership was compatible with neutrality. The government was accused of deceiving the Austrian population in this respect. It would

still use the word “neutrality” to protect it against the “emotional shock” of loosing it, while it knew perfectly well that neutrality was incompatible with the CFSP (GA: 1993, pp.69/70). The EC was considered to have been developed into a military bloc, which made the overcoming of aggressive structures towards a European peace order impossible. A higher degree of international instability, exemplified in the wars in former Yugoslavia and the former Soviet Union and the danger of the proliferation of nuclear weapons, was acknowledged. This should not, however, be countered by an offensive Western European military strategy with military units of flexible intervention (GA: 1993, pp.64/65). Instead, the WEU and NATO should be dissolved and make way for an integrated, co-operative security system, which also included Russia. Participation in the development of new transnational practices of peace-movements was one way of working towards such an alternative security policy. The extension and strengthening of all-European organisations such as the CSCE at the international level was another (GA: 1993, pp.67/68). Finally, neutrality should not be undermined but reinstated in its full original meaning, as expressed in the internationalist policies of the former Chancellor Kreisky in the 1970s and early 1980s, to become one of the constitutive elements of the new European security system (GA: 1996, pp.4/5).

During the referendum campaign, neutrality and questions of foreign and security policy did not play a dominant role, neither for supporters nor for opponents of membership. It was only the sixth and the fourth respectively most important motive for voters, influencing their decision in the referendum (Luif: 1996, p.328). As it was outlined in Chapter 4, section 2.3, economic arguments and especially the irrational debate that turned the referendum in an anti-Haider campaign dominated the

final stages of the campaign in Austria. The pro-EC social forces seem to have succeeded at convincing the population that membership did not contradict neutrality and that this, consequently, was not an issue of the campaign.

### 3. Sweden: neutrality redefined as non-alignment.

#### *3.1. The historical background of Swedish neutrality:*

Swedish neutrality goes back to 1814/15 and the Europe of the Vienna Congress. Since then, Sweden has not been involved in any war (Logue: 1989). During World War Two, Swedish neutrality was stretched to its limits. In contrast to its neighbours Denmark and Norway, Sweden managed to stay out of war. Nevertheless, it supplied Germany with war material and even allowed a whole German division to cross its territory from Norway to Finland. This experience, Carlsnaes maintains, changed Swedish neutrality. “The neutrality practised since then is essentially a post-1945 phenomenon, differing in all but name from the preceding forms of Swedish neutrality ...” (Carlsnaes: 1993, pp.72/73).

The official Swedish definition of its post-war neutrality was “freedom from alliances in peace aiming for neutrality in war” (Sundelius: 1989, p.4). Although Sweden is considered to be a “conventional neutral” without restrictions by international law (Hakovirta: 1988, p.10) and, thus, to be less limited in its foreign policy than Austria (e.g. Neuhold: 1987, p.3; Pedersen: 1994, p.17), there was no real difference in Swedish foreign policy compared to Austria’s. “Both types of neutral countries aim at maintaining their status during wartime. Therefore, they have to adjust their peacetime behavior accordingly” (Luif: 1996, p.132). Goldmann argues that credibility rested, firstly, on a firm and consistent defence policy, demonstrating

to others Sweden's ability to defend itself. Moreover, a strong public support for neutrality and the determination to remain unfettered in its foreign policy orientation further sustained Sweden's credibility. "Sweden thus has wanted to project the image of a country taking an independent stand on the issues dividing the great powers, boldly facing up to them when they make 'might into right', and taking the side of the poor in spite of being one of the rich" (Goldmann: 1991, p.126). Similar to Austria, this was further supported by an internationalist policy for peace and security with the focus on strengthening international law, especially via the UN, and on foreign aid to developing countries. Throughout the post-war era, neutrality was backed by a broad alliance of social forces from all the different parties and interest associations. Even those forces of capital, which demanded EC membership in the early 1960s, did only do so with the request for an escape clause related to Sweden's neutrality (see Introduction, section 3.3).

From the late 1970s, early 1980s onwards, a military build-up by the superpowers in Northern Europe and several intrusions into Swedish territory by foreign submarines, probably of Soviet origin (Huldt: 1995, pp.143/144), put Sweden's neutrality policy under pressure. The question arose to what extent Sweden was actually able to defend itself successfully in the case of being attacked. This pressure was increased by Sweden's difficulties of maintaining an independent arms production, since both possibilities to finance it, the export of arms and higher taxes, were extremely unpopular (Kruzel: 1989, pp.85-87), Sweden's acceptance of US restrictions on technology exports to the Eastern bloc in exchange for access to Western high technology (Dohlman: 1989, p.107; Luif: 1996, p.143.; Kruzel: 1989, p.85), and the increasing economic interdependence with the West (Dohlman: 1989;

Kruzel: 1989, p.83). Overall, however, neutrality in general was not questioned. It was the revival of European integration and the end of the Cold War, which put neutrality on the agenda.

### *3.2. Neutrality and the application to the EC:*

As it was stated in Chapter 3, section 2.3.1, the FP and MS declared immediately after the fall of the Berlin Wall that Sweden should apply to the EC for membership while retaining its neutrality policy. From their point of view, the changes in the European and international security structure had removed the last hindrances to the compatibility of membership and neutrality. The Social Democratic government, however, which had the last say in this matter, did not follow this line. In fact, Prime Minister Carlsson, assessing the changes in a speech to the Labour Movement Peace Forum in December 1989, maintained that “a lower political temperature and the democratic process in several East European countries have not reduced the value of the Swedish policy of neutrality” (Carlsson: 1989, p.140). NATO and the Warsaw Pact still maintained big military arsenals and their might be possible setbacks and increasing international tension due to the severe economic situation in the Soviet Union. Closer co-operation with the EC would be attempted except for the areas of foreign and defence policy. “Swedish membership is not an objective in the discussions with the EC which are about to take place” (Carlsson: 1989, p.138). This point was confirmed in a publication by the Swedish Ministry of Foreign Affairs, which also acknowledged the changes in the European security structure, but repeated the party compromise of spring 1988:

Swedish participation in EC co-operation in foreign policy might affect confidence in Sweden’s policy of neutrality. And a substantial parliamentary majority has affirmed that Swedish membership is not an objective in the

discussions which are about to take place with the EC (Jacobsson: 1990, p.14).

As late as 27 May 1990, Carlsson stated in his article in the daily newspaper Dagens Nyheter that “concern for the credibility of our policy of neutrality is the reason why we are not applying for EC membership” (quoted in Sundelius: 1994, p.179). He pointed to the EC’s supranational character and its security and defence policy aspirations. In short, changes in the security structure did not cause a change in the SAP’s neutrality policy. As it was demonstrated in chapter 3, section 2.4, the economic crisis in general, and the capital flight and the problems on the financial markets in particular convinced SAP leaders that EC membership was the only way forward. The predominant role of the economic problems was also reflected in the fact that it was the Finance Ministry and the Prime Ministers’ Office, which were at the centre of the decision in favour of application. The Ministry of Foreign Affairs was not in the forefront (Interview No.60; Stockholm, 21/11/1996) and the announcement of application was not cleared in advance with its senior civil servants (Sundelius: 1994, p.191).

When the decision on application had been taken, its relation with neutrality needed to be clarified. In this situation, the first official change in Swedish neutrality policy was made. It was not redefined or abandoned but simply declared compatible with membership due to the changes in the international security structure. Sten Andersson, the Minister for Foreign Affairs, stated that “Sweden’s attitude, I would say, is characterized more by continuity than by change. What has changed is not Sweden’s position. It is Europe” (Andersson: 1991, p.48). According to Pierre Schori, the influential Under-Secretary of State for Foreign Affairs, membership had been impossible during the Cold War because of the division of Europe in two alliances.

The EC had been perceived as a part of the Western bloc. Nevertheless, “when the external environment changes, the prerequisites for the Swedish policy of neutrality also change” (Schori: 1991, 62). Now, the EC could “become the hub around which broader European cooperation revolves, the core around which it is built” (Andersson: 1991, p.49). While intending to participate in this new all-European project, neutrality should be maintained. “We must avoid making any changes in our security policy that could give the impression of Sweden being incorporated in the Western security system” (Schori: 1991, p.67).

An overall assessment of foreign and security policy aspects by the Ministry for Foreign Affairs in consultation with the Advisory Council on Foreign Affairs in spring 1991 took fully into account the EC intergovernmental conference (IGC) on European Political Union, initiated in December 1990 (Ministry for Foreign Affairs: 1991, pp.37-43). The discussions within the EC on a possible future common defence policy and common defence, but also some form of link between the EC and WEU were, consequently, known in Sweden before the eventual application on 1 July 1991. Prime Minister Carlsson’s address to the Swedish parliament, on 14 June 1991, concerning Sweden’s application to the EC, was based on this assessment. He acknowledged these EC-internal discussions but concluded that it was extremely unlikely that the EC would introduce QMV for security and foreign policy questions (Carlsson: 1991, p.11). Sweden, he continued, could not participate in a common defence policy or a mutual defence commitment within the EC framework because of its neutrality. Nonetheless, “there is no reason to believe that the EC is now in the process of turning into a military alliance, or of creating other forms of binding common defence arrangements” (Carlsson: 1991, p.12). There was one incidence, for

which Carlsson foresaw the possibility of a change in Sweden's neutrality policy. "If, in the future, a durable European security order is established, based for example on the CSCE, the foundations on which Sweden's policy of neutrality has rested hitherto will change" (Carlsson; 1991, p.12). Until then, neutrality should be maintained because of the unexpected.

Overall, it can be concluded that Sweden's application for membership was the response to severe economic problems, not the attempt to gain more security in a world of higher insecurity (Interview No.53; Stockholm, 18/11/1996). If at all, Sweden was characterised by a general euphoria about the developments in Europe. In 1991, the Warsaw Pact was dissolved and Soviet troops withdrew all over Eastern Europe. The military threat lost importance in the Swedish debate on European security (Lindahl: 1995, p.174).<sup>3</sup> In the time between the decision in parliament on 12 December 1990 and the application on 1 July 1991, the implications for the neutrality policy were assessed and membership was declared compatible with it. While the changes in the international system did not cause Sweden's application, they formed an important background condition in that they allowed the SAP government to justify the change in its policy on membership and neutrality.

### *3.3. The redefinition of neutrality:*

The coming to power by the coalition government under Prime Minister Carl Bildt (MS) in October 1991 marked the start of a new phase in Sweden's neutrality policy.

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<sup>3</sup> This was confirmed by interviewees across the different political parties, ministries and interest associations. Two assessments by the Swedish Ministry of Defence in 1995 and 1996 further supported this conclusion. They stated that there were no current military threats directed against Sweden (Swedish Ministry of Defence: 1995, p.4; Swedish Ministry of Defence: 1996, p.7). A contrary evaluation is presented by Wæver. He argues that the Swedish discussion about EC membership, neutrality and non-alignment "points to an intense feeling of insecurity, of loss of ground" (Wæver 1992, p.90). He offers, however, little empirical evidence for his conclusion.

Margaretha af Ugglas, the new Minister for Foreign Affairs, indicated a first shift in parliament on 17 October 1991. She described the EC as the engine of international co-operation and argued that Sweden's foreign policy should have a clear European identity in contrast to the SAP's internationalist focus on "exotic" places.

Nevertheless, she reaffirmed the traditional neutrality policy for a last time: "the strategic realities in our immediate vicinity mean that the main theme of our security policy - summarized as 'non-participation in alliances in time of peace, aiming at neutrality in time of war' - retains its significance" (Ugglas: 1991a, p.86). This was to change soon afterwards. Roughly a month later, Bildt spoke about the necessity of adjusting Sweden's foreign and security policy in the light of the new European realities and the development within the EC towards a CFSP. "It is obvious", he argued, "that the term 'policy of neutrality' can no longer adequately be applied as an overall description of the foreign and security policies we wish to pursue within the European framework" (Bildt: 1991a, p.100).<sup>4</sup> Now, neutrality and EC membership were no longer considered to be compatible. "That there is a conflict between retaining a policy of neutrality and joining the European Community is too obvious to need pointing out" (Bildt: 1992, p.222). The SAP accepted the changes with surprisingly little opposition (Carlsnaes: 1993, p.84).

The result was a compromise on foreign and security policy by all parties in parliament except for the VP (the GP was not in parliament between 1991 and 1994). In May 1992, two reports were passed. The first initiated the phasing out of the word "neutrality". "Military non-alignment" became the new official terminology. This had practical implications. "The old formula 'nonalignment in peacetime aiming at

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<sup>4</sup> This change in policy was reiterated by Ugglas on 16 December 1991 (Ugglas: 1991b, p.120).

neutrality in wartime' was qualified so as to say that Swedish nonalignment aimed at 'making it possible to be neutral' in case of a war in the neighboring area" (Huldt: 1995, pp.158/159). Lars-Åke Nilsson, Permanent Under-Secretary of State for Foreign Affairs, made clear that this change implied that neutrality "is an option, not an absolute goal in every conceivable situation" (Nilsson: 1993, p.225). What remained of the old neutrality policy was the commitment to non-membership in military alliances and a strong national defence (Ugglas: 1993, pp.300/301). The second report of the party compromise of May 1992 spelled out that "the Maastricht Treaty was compatible with Sweden's aim of becoming a member of the EC" (Luif: 1996, p.247). Significantly, motions tabled by the VP and individual Social Democrats demanding a re-affirmation of the December 1990 party compromise, in which the intention of seeking membership while retaining neutrality was stated, were not endorsed by parliament. In sum, the old policy of neutrality "is now defined as the 'hard core' of Swedish defence policy, as distinguished from a foreign and security policy outlook which will become much more adaptively orientated towards Europe and its emerging security arrangements than has been the case hitherto" (Carlsnaes: 1993, p.84).

Membership in general and the CFSP in particular were considered to be the best way of participating in the establishment of a new, pan-European system of security, peace and prosperity. "As we see it," Ugglas stated, "only the European Community is sufficiently powerful and comprehensive to serve as an engine for the reunification of Western and Eastern Europe" (Ugglas: 1992, p.120). Unlike neutrality, military non-alignment was deemed to be compatible with participation in the CFSP, provided unanimity in CFSP decision-making was retained. Consequently,

Sweden's position for the 1996/97 IGC stated, that "there is no question of abolishing the right of veto for foreign and security policy decisions. In questions which involve vital foreign and security policy interests, Sweden cannot allow itself to be outvoted by a majority of ... [EC] ... members" (Swedish Government: 1995, p.27).

Bildt and the bourgeois government attempted to follow up the new definition in all its consequences. On 17 November 1993, in a speech to the Swedish Institute for International Affairs, Bildt stated with reference to Russian threats against the Baltic States that he "finds it difficult to see neutrality as a probable choice in the predictable cases of conflict in our vicinity" (quoted in Bierfeld: 1995, p.186). This led to a heavy conflict with the Social Democratic opposition (Huldt: 1995, pp.156/157). While there was a consensus of all social forces on the need of supporting the three newly-independent Baltic States, the SAP did not want to give any quasi guarantee of military assistance. Nevertheless, it was not only the SAP, but also the coalition partner CP, which criticised Bildt and demanded the maintenance of the "limited" version of neutrality (Miles: 1995a, p.14). When the SAP returned to power in September 1994, it moved back to a stricter interpretation of non-alignment. During a parliamentary debate in February 1995, it stated that "we must not lead other states to expect a Swedish military involvement in the event of an armed conflict. Sweden neither needs or wishes to impose restrictions on itself" (quoted in Miles: 1995a, p.35). The 1996 security evaluation by the Swedish Ministry of Defence spelled this out even more clearly: "it must ... be perfectly clear that Sweden is not in a position to give security guarantees to the Baltic countries" (Swedish Ministry of Defence: 1996, p.6).

There were some indicators that the MS and the FP would have preferred

Swedish membership in the WEU and/or NATO to the defence policy of military non-alignment. Before the party compromise of May 1992, Bildt had not excluded Swedish membership in the WEU (Luif: 1996, p.246). Moreover, “in 1995, the Liberal and Conservative members of the Parliamentary Defence Committee walked out in protest against Social Democratic refusal to discuss Swedish membership in a military alliance such as NATO” (Cordier: 1995, p.17). The FP affirmed that Sweden’s current non-alignment policy did not mean that Swedish NATO membership might not be reconsidered in the future. It also demanded that the WEU was incorporated in the EC and that Sweden became a member of it (FP: 1995, pp.13/14).

On the other hand, as it was outlined in Chapter 4, section 3.3.4, both the VP and GP argued that the EC and the CFSP compromised Sweden’s status of neutrality. They demanded a cut of the link between the EC and the WEU and that Sweden be neither an observer nor a member of the latter. In short, these two parties represented those social forces, which still adhered to the traditional policy of neutrality and rejected the 1992 party compromise on redefinition. On the event of the annual meeting of the CSCE Parliamentary Assembly, 5-9 July 1996 in Stockholm, the GP together with the Green Group of the CSCE Parliamentary Assembly published its concept of a future European security order. Firstly, it advocated a broader concept of security, which went beyond military power balance and international conflict resolution via force. Instead, “aspects of an economic, social, ecological, religious, psychological and cultural nature must be a part of the concept security” (GP: 1996, p.1). The CSCE should have the leading role in the peaceful solution of conflicts and the establishment of a pan-European, collective security system, not NATO or the

WEU, which were attached to the “old-fashioned”, military-oriented security model. The conversion of the defence industry to civil production and the emphasis on economic co-operation on equal trade terms with developing countries were further parts of the green concept of security. Finally, the potential positive role of neutral countries for negotiations, information and active conflict prevention was identified. “The Greens therefore regard it as being of utmost importance that Sweden, Ireland, Austria and Finland can and may remain outside both WEU and NATO (GP: 1996, pp.1/2). Overall, the GP did not only insist on the traditional definition of neutrality, it also attempted to place it within a European-wide concept of security and to form transnational links, which could support this concept across borders.<sup>5</sup>

In conclusion, neutrality was redefined as non-alignment and reduced to its military core in 1992. However, this was not the response to the perception of increased international insecurity, since the basic decision on application had already been taken at the time. Rather, it was due partly to the new government’s different emphasis in foreign policy and partly to the understanding that traditional neutrality was incompatible with the CFSP.

Despite this change in the official Swedish foreign and security policy, the population continued being in favour of neutrality. “In August 1992, 71 percent of all Swedes wanted the government to continue with neutrality policy. Only 18 percent thought that in view of the changing world Sweden should abandon its traditional foreign policy stance” (Luif: 1996, p.248). This implied potential problems for the yes-side in the referendum. “It was a well known fact that the military aspect of

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<sup>5</sup> The fact that the Austrian GA was a part of the Green Group of the CSCE Parliamentary Assembly and, thus, co-author of this concept for a future European security order indicated first forms of such transnational links.

security - the envisaged 'Common Defence Policy' and 'Common Defence' mentioned in the ... [Maastricht Treaty] ... - for a large part of the electorate would constitute a psychological obstacle that could have a decisive effect on their vote in the referendum" (Lindahl: 1995, p.176). It consequently concentrated on the non-military aspects of foreign and security policy and emphasised that the EC "should be seen as having at its disposal the most important means - economic and political - of ensuring peace and stability in Europe" (Lindahl: 1995, pp.178/179). Eventually, Sweden's security and non-alignment policy played only a minor role in the referendum to the disadvantage of the no-side. "Sweden's severe recession between 1990 - 1993 meant that ultimately the electorate placed economic recovery above all else" (Miles: 1995a, p.26).

#### 4. Conclusion:

In both countries, neutrality was reduced to its military core of non-participation in military alliances and combat. This was openly acknowledged in Sweden and silently brought about via political practice in Austria. Social forces represented by conservative parties in both countries, i.e. the ÖVP and FPÖ in Austria and the MS and FP in Sweden, would have preferred to abandon neutrality all together and to join the WEU and/or NATO, while the Social Democratic parties and additionally the CP in Sweden opposed such a step. This discussion, however, was not related to EC membership, but had to do with general foreign policy. On the other hand, the Green Parties in both countries and the VP in Sweden favoured the retaining of the traditional neutrality policy, which they continued to consider incompatible with accession to the EC.

With reference to the countries' drive towards EC membership, the analysis of the impact of changes in the security structure has clearly shown that they were not a primary force. There was no perception of higher levels of international insecurity in the two countries, which made them apply to the EC in order to gain the security guarantees of the WEU and/or NATO through the backdoor. Rather, there was first the decision on application due to economic reasons and then neutrality was defined in a way which made it compatible with membership. The changes - in Austria it was Gorbachev's liberal foreign policy and a general decline in Soviet power, in the case of Sweden the end of the Cold War - were, however, an important background condition, which facilitated the redefinition of neutrality and made pro-EC strategies feasible.

There was a slight difference between the two countries. In Austria, neutrality had been discussed from the very beginning of the EC debate and was mentioned in the letter of application, while this occurred only after the SAP's turnaround in October 1990 in Sweden and remained unsaid in the application. This can be explained by referring to the different timing of the two applications. When Austria applied in July 1989, the Cold War was still in its place. Neutrality was a much more sensitive issue. Two years later, the Swedish government could be more easy about this.

**Conclusion: Globalisation, EC membership and the limits of neo-liberalism in  
Austria and Sweden.**

**1. Theories of Integration and the 1995 EC enlargement:**

During most of the post-war era, Austria and Sweden did not join the EC for two reasons. Firstly, they considered their Social Democratic economic-political systems to be superior to those of the EC members. Policies to avoid unemployment, the development and maintenance of a generous welfare state and the move towards more equality in society seemed to be endangered by membership in a community, dominated by conservative governments. Secondly, both countries had chosen to pursue a neutral policy between the USA and Soviet Union during the Cold War. Membership in the EC was deemed to be incompatible with this policy. Although the EC was not a military alliance, it predominantly consisted of NATO members and had close ties with the USA. In this situation, trading links were the furthest both countries were prepared to go in their relation to the EC. After the bids for association had failed during the 1960s, FTAs provided the basis for the relations between 1973 and 1985.

Against the background of globalisation, Austria and Sweden, similar to other Western countries, although slightly later, experienced the end of the Fordist accumulation regime and endured dramatic economic recessions at the beginning of the 1980s. The superiority of the two countries' economic-political systems was doubted and they were eventually abandoned - in Austria in 1985/1986 and in Sweden approximately five years later. In this situation, rather than representing a hostile system, the EC, revived around the Internal Market initiative, offered some hope for a

fast recovery and help for the necessary restructuring of the apparently backward Austrian and Swedish systems. Additionally, the international system was changing. While this did not push Austria and Sweden towards membership, it ensured, as outlined in Chapter 5, that neutrality was a much less severe obstacle to EC membership than during the previous four decades. Gorbachev's liberal foreign policy and the decline of the Soviet Union in the case of Austria and the end of the Cold War in the case of Sweden made a redefinition of neutrality and, thus, the formulation of a pro-membership project feasible. While the rough outlines of the story are told quickly, this does not say much about the actual processes leading first to application and then to membership after a referendum. It does not say anything about the main actors involved, the opposition put forward against the EC and the reasons why the pro-membership forces won. In order to do so, a theoretical lens is required for the analysis.

In Chapter 1, it was demonstrated that established theories of integration have to-date been unable to provide an adequate lens in this respect. Neo-functionalism, although it experienced a revival in the wake of the new dynamics of European integration from 1985 onwards, was a partial explanation at best. It was employed to highlight the role of transnational actors and central EC institutions, but the original neo-functionalist notion of automatic spill-over excluded a full-scale neo-functionalist analysis of Austria's and Sweden's accession to the EC. Intergovernmentalist approaches also had their limits. They failed to take into account the impact of neo-liberalism as a set of economic ideas and the role of transnational actors such as Swedish TNCs, the reach of which goes beyond national borders. Finally, intergovernmentalist concentration on the negotiation process between states

overlooked the crucial importance of the process leading to application and the conflict around the referenda on membership.

It was argued that these problems were partly due to the positivist foundation of the established theories of integration. They were ahistoric and took existing social and power structures as given. Their inability to take the independent role of ideas into account was due to the separation of facts from values. Structural changes such as globalisation since the early 1970s, characterised by the transnationalisation of production and finance at the material level and the shift from Keynesianism to neo-liberalism at the ideological level, could not be accounted for. Neo-Gramscianism, it was maintained, was remedying these analytical deficiencies. Firstly, its emphasis on the sphere of production and social forces as the main actors, allowed neo-Gramscianism to take into account globalisation. As Chapter 2 demonstrated, globalisation has engendered new social forces, which led to an intra-class conflict in Austria and Sweden. In Austria, nationally-oriented social forces of capital and labour opposed internationally-oriented forces. Both were engendered by a domestic production structure, but had a different geographical orientation as expressed in their trading patterns - the former produced solely for the domestic market, while the latter exported to markets outside Austria. By contrast in Sweden, labour mainly from the national, public sector opposed transnational social forces represented in the big Swedish TNCs. Thus, unlike intergovernmentalist approaches, actors such as the Swedish TNCs could be accounted for in their transnational significance.

✍ The focus on social forces did not imply that the state was excluded from the analysis. In contrast to state-centric approaches, however, it was not assumed to be a unitary actor, but split into the various state institutions, which were treated according

to their place in the global economy. A distinction was made between institutions linked to the global economy and those which merely dealt with national issues. Moreover, similar to pluralist approaches, parties and interest associations were deemed important in the domestic policy-making process. Nevertheless, again, they were not regarded as unitary actors, but considered to be institutions, within which various social forces attempted to establish their particular interest as the one generally accepted. This different treatment of the state and interest associations resulted in the generation of new empirical material, since not only the final positions of states and interest associations, but also the internal processes, which led to these positions, were considered.

Furthermore, in contrast to established integration theories and thanks to the combination of constructivist and cognitive insights, neo-Gramscianism was able to account adequately for the role of ideas. The importance of neo-liberalism as a part of the structure in the form of intersubjective meanings could, thus, be highlighted. This made it extremely difficult for forces opposed to the EC to formulate a convincing alternative to membership. Simultaneously, pro-EC social forces gained credibility for their course of action by justifying accession to the EC in neo-liberal terms.

Membership simply appeared to be the natural solution to Austria's and Sweden's economic problems.

Finally, neo-Gramscianism eschewed any notion of determinism in its analysis. Swedish and Austrian accession to the EC were neither due to an automatic process of functional and political spill-over, nor a response to structural necessity in the wake of a new international distribution of economic and military capabilities. Rather, it was one of several possible outcomes of an open-ended struggle between

different social forces against the background of global structural change.

Overall, the neo-Gramscian approach to Austria's and Sweden's accession to the EC constituted a coherent, analytical framework, capable of overcoming the theoretical shortcomings of the established integration theories. Moreover, it generated additional empirical material, which is presented in the following section.

## 2. Social forces and the Austrian and Swedish accession to the EC:

### *2.1. The social forces behind the drive towards membership:*

During the process leading to application between May 1987 and June 1989, a historic bloc was formed in Austria. It consisted of an alliance of internationally-oriented social forces of capital and labour. It was rooted in the economic structure through its location in the internationally-oriented sector of production and extended into the superstructure by defining the dominant ideas of a neo-liberal economic policy and a re-interpretation of neutrality, deemed compatible with EC membership. It formed a solid structure of political society and civil society by encompassing both institutions of the state apparatus such as the ANB and the Finance Ministry and organisations of civil society including the two main parties SPÖ and ÖVP and the four social partners, the BWK, the LK, the AK and the ÖGB. The driving force behind the establishment of this historic bloc were the "organic intellectuals" of the VÖI. They developed the hegemonic project based on the re-interpretation of neutrality and on neo-liberalism, arguing that EC membership and participation in the Internal Market would lead to more efficiency via higher competition and eventually to the creation of wealth and more jobs.

The historic bloc was reconfirmed after the successful negotiations. As shown

in Chapter 4, concessions to various social forces were acknowledged. The protected industrial sectors and the agricultural sector were guaranteed financial restructuring help and the setting-up of work foundations. The social partners were given the right to participate in the decision-making process in EC matters at the national and European level. While an ideological consensus was an important element of the historic bloc, material pay-outs were also crucial at attracting other social forces.

In Sweden, there was an alliance of transnational social forces of capital and labour and forces emanating from the agricultural sector in favour of membership. They were supported by the institutions linked to the global economy, notably the Prime Minister's Office and the Finance Ministry. In contrast to Austria, however, this alliance did not develop into a historic bloc. While its members agreed on the need for EC membership, the reasons for it differed significantly. On the one hand, transnational capital regarded membership as a way of continuing the neo-liberal drive, which had started to dismantle the Swedish Model since 1990. They were not interested in a strong social dimension and joint employment programmes at the EC level. The convergence criteria, regarded as the guarantee for the continuation of neo-liberalism, should not be watered down or amended. On the other hand, transnational social forces of labour looked at the EC as a broader context in which to regain some control over capital. Globalisation, it was argued, made autonomous national economic policy impossible. The EC, therefore, provided a platform to counter the increased power of the international financial markets and TNCs and to modify, if not to halt, neo-liberalism.

A second apparent difference in Sweden was the lack of a hegemonic project related to EC membership. There was no institution similar to the VÖI, which

provided the platform for “organic intellectuals” to launch a project of this type. Two clear reasons can be identified. Firstly, in contrast to the SPÖ, the SAP had been hegemonic in the Swedish party system and the decision on application was taken by it. Until the economic recession of 1989/1990, the SAP had always considered an EEA-type strategy to be sufficient vis-à-vis the EC. Only when it had lost the confidence in its own ability to run the economy differently from the rest of Europe - when the “third way” strategy had failed - the SAP started to change its economic policy. During 1990, it first accepted that full employment could no longer be the primary policy objective and then announced its decision to apply to the EC in parliament. Secondly, Swedish capital did not have this absolute necessity of formulating a political strategy. The transnational production structure and the deregulation of the Swedish financial markets gave it the structural power to transfer production units to the EC. Thereby, it became a part of the Internal Market and applied pressure on the SAP government towards application at the same time. In the end, the ongoing capital flight was a major reason why the SAP saw no other option than to seek EC membership. In Austria, on the other hand, internationally-oriented capital, with its national production structure, had to achieve membership in order to gain access to the Internal Market. The transfer of production units was no alternative.

## *2.2. The forces against membership:*

In both countries, various social forces opposed EC membership. The Austrian historic bloc achieved its aim of accession to the EC, but it only obtained a position of supremacy, not hegemony. Opposition came from two sides, indicating a nationalist

and a progressive form of resistance to supranational integration and globalisation.<sup>1</sup> Firstly, the FPÖ's xenophobic anti-EC campaign, concentrating on issues such as anti-immigration with "Austria first" slogans and stressing the importance of national sovereignty including the maintenance of the AS, clearly represented the first form. The same is valid with regard to the anti-EC group "Bürgerinitiative gegen den Verkauf Österreichs an die EU", which warned against the flooding of Austria by foreigners and the sell-out of Austria's wealth.

On the other hand, the GA put up progressive opposition to EC membership. The "Initiative Österreich und Europe" before the application and the "Kritische Europainformationen" during the campaign exhibited a similar tendency. Instead of retreating to a nationalist outlook, the GA favoured active co-operation in Europe between sovereign states in tandem with reforms at the national level. Rather than concentrating on efficiency via neo-liberal convergence criteria, an expansive fiscal policy to create employment was demanded. Additionally, environmental and social standards and an environmentally-friendly agriculture should be economic priorities. The EC was also rejected for its democratic deficit. Democratic control should be decentralised rather than centralised. At the security level, an integrated, co-operative security system based on all-European organisations such as the CSCE was favoured over the EC, which was alleged to have developed into a military bloc. Austria's neutral status in its original meaning could provide a useful role in bridge-building between Eastern and Western Europe and, thus, become one of the constitutive elements of a future European security system.

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<sup>1</sup> A similar division into a nationalist and a progressive form of opposition is identified by Rupert in relation to workers' response to neo-liberalism and global capitalism in the USA (Rupert 1995, pp.198-203).

By contrast, there was no nationalist, reactionary challenge to EC membership in Sweden. The VP and GP had been sceptical about closer ties with the EC throughout the 1980s. After the Swedish application to the EC, these forces were joined by large parts of the SAP and CP, but also the trade unions mainly from the public sector. As discussed in Chapter 4, membership was rejected for endangering the Swedish Model with its policies of full employment, a generous welfare state and gender equality. The EC was also alleged to threaten Sweden's environmental standards and to display a democratic deficit. Additionally and similar to the Austrian GA, the VP and GP argued that the EC and CFSP compromised Sweden's neutrality and thus undermined its potential role as a bridge-builder between East and West in the new European security order.

While the social forces opposing the EC were quite strong in both countries, they proved to be unable to form a joint platform based on a common project, which offered a credible alternative to membership. Numerically, the FPÖ's shift to an anti-EC stance strengthened the opposition forces before the referendum in Austria. In practice, however, as demonstrated in Chapter 4, its right-wing ideology split the anti-EC camp down the middle. A united opposition of the nationalist FPÖ and the progressive forces around the GA was impossible. Moreover, the progressive resistance opposed the EC for a variety of reasons ranging from economic via military to environmental concerns. In this situation, it was the lack of "organic intellectuals", which precluded the formulation of an alternative hegemonic project, able to transcend these particular interests and to provide the basis for a counter neo-liberal historic bloc. A further problem was the reluctance of nationally-oriented capital and labour to join openly the FPÖ or GA. Once they had lost the struggle within their

interest associations, little resistance was put forward.

In Sweden, a joint movement against membership could be established. Nonetheless, apart from rejecting membership, the no-side did not develop a coherent alternative to the neo-liberal EC. The potentially strong platform between national labour and the GP and VP was undermined by the rejection of the former to give the two parties a stronger role within the no-camp. These forces, moreover, failed especially in the economic sphere in that they were unable to present a viable alternative to membership, partly due to the forces represented by the CP, which opposed membership but accepted neo-liberal economics.

Overall, while the opposing social forces lost the struggle about membership in both countries, their numerous existence indicated that there might be a successful challenge to neo-liberalism and, if not EC membership itself, the current neo-liberal course of the EC in the future. These forces might be supported by transnational Swedish labour, which, although it argued for membership, opposed the neo-liberal convergence criteria.

### *2.3. The timing of application:*

Austria applied to the EC two years earlier than Sweden. This can be explained by the different Austrian and Swedish economic situations during the 1980s and the different position of the labour movements in both countries, expressed by the strength of the two Social Democratic parties in the political system and of the trade unions in the sphere of interest associations. In the early 1980s, the Austrian economic situation was as bad as the Swedish. In contrast to the SAP, however, the SPÖ and its trade union allies did not have a tradition of developing their own reform programmes.

When Keynesianism seemed to have failed, Austrian forces of labour, consequently, were much more receptive to neo-liberal ideas as the new way of capital accumulation and to a “hegemonic project” of EC membership by internationally-oriented capital. An alternative to neo-liberalism, now a part of the overall structure, could not be formulated. The importance of achieving a just distribution of the gains, expected from a neo-liberal course of deregulation and liberalisation, was stressed, but the policy of focusing on inflation instead of full employment was readily accepted as an economic necessity. In particular, internationally-oriented Austrian labour supported the restructuring of the Austrian state towards the night-watchman state and regarded EC membership as a good way of continuing the new neo-liberal policy course, most importantly with reference to the opening of the sheltered sectors to international competition. However, even if the Austrian labour movement had proposed an alternative, it would have found it difficult if not impossible to put it into practice. In contrast to Sweden, it did not enjoy a hegemonic position. The SPÖ was part of a grand coalition together with the ÖVP and the trade unions were faced with equally strong forces of capital in the ESP, mainly represented by the BWK and VÖI.

In Sweden by contrast, as outlined in Chapter 2, the SAP back in government in 1982 relied on its hegemonic position and programmatic capacity. It developed a “third way” strategy as an alternative to traditional Keynesianism and neo-liberalism alike. Thus, the neo-liberal revival of the EC from the mid-1980s onwards did not present a logical continuation of domestic restructuring. Rather, it appeared as a different system, the adoption of which was not tempting due to the domestic economic success. In short, the SAP’s programmatic capacity allowed it to withstand the structural pressures of neo-liberalism throughout the 1980s. Only when this

strategy ended in another economic recession in 1989/1990, did the Swedish SAP government decide on application. The SAP had lost its confidence in being able to manage the national economy. It turned away from full employment and adopted price stability as the main concern of economic policy. At this stage, membership suddenly became attractive as a solution for the continuation of capital accumulation after the failure of Keynesianism and the end of the Fordist accumulation regime.

This also supported the conclusion of Chapter 5 that the changes in the security structure did not drive Austria and Sweden towards application. Austria did not wait until the end of the Cold War, which could not be foreseen in 1987 and even the summer of 1989, for the launch of its application. The perceived economic necessity drove the process and then made a reappraisal of the compatibility of neutrality and membership necessary. Similarly, the Swedish SAP, initially, did not deem a change in the EEA course necessary in relation to the EC after the fall of the Berlin Wall in late 1989. Only when it saw no other way out of the economic recession and had lost its confidence in a special Swedish way, did it opt for application. The end of the Cold War facilitated this policy shift, but it did not cause it.

### 3. An evaluation of neo-Gramscianism as an approach to European integration:

In Chapter 1, neo-Gramscianism was outlined as an alternative approach to European integration. The discussion of Austria's and Sweden's accession to the EC demonstrated that neo-Gramscianism can provide a detailed analysis of the processes leading first to application and then to membership.

There are, however, some qualifications to be made. Firstly, as already stated

in the Introduction, the results of this analysis cannot be generalised and transferred to other cases of EC enlargement as, for example, the Finnish EC membership. It is not the goal of critical theory such as neo-Gramscianism to generate general findings. It is only the method of how to analyse a case of European integration in general and of EC enlargement in particular, which can be transferred. Moreover, in Chapter 1, it was argued that globalisation makes cross-class alliances between transnational/internationally-oriented capital and labour on the one hand and national capital and labour on the other likely. This proved to be correct in the Austrian and Swedish cases. Nevertheless, the firmness of such cross-class alliances should not be exaggerated. It has already been pointed out that the alliance of transnational capital and labour in favour of EC membership in Sweden was formed to achieve the same goal for totally different purposes. In Austria, the alliance was strong enough to form a historic bloc. This did not, however, imply that there were no conflicts between internationally-oriented capital and labour. As the Association of the Austrian Textile Industry made clear, while labour and capital of this sector pursued membership for the same reasons, a combined strategy was not devised. The employers did not want to give labour any kind of bargaining chip for future wage negotiation rounds (Interview No.24; Vienna, 24/04/1996). In short, cross-class alliances are likely against the background of globalisation, but the main conflict in capitalism is still between capital and labour as such.

Furthermore, the neo-Gramscian emphasis on “organic intellectuals” and “hegemonic projects” tended to give the impression that events such as the application and accession to the EC could only occur via a well developed project. The Swedish case contradicted this. There, it was the decision of a few crucial individuals within

the SAP government, which led to the Swedish application. Considering transnational capital's pressure on the SAP through the transfer of production units to the EC, it can be concluded that structural power might make long-term political strategies unnecessary. A "hegemonic project" in Sweden can only be identified by looking at a longer period between the mid-1970s and the early 1990s, when transnational Swedish capital led by the SAF was engaged in the successful launch of a neo-liberal project against the Swedish Model. EC membership was only the logical last step in this undertaking.

Finally, it has to be pointed out that, although neo-Gramscianism is an alternative to the established theories of integration, it is not the only possible one. Another could be a feminist approach to European integration.<sup>2</sup> Women in both countries were less in favour of membership than men. In Austria, 70 per cent of the men voted "yes" in comparison to 62 per cent of the women and in Sweden, 59 per cent of the men voted "yes" compared to 46 per cent of the female population (Luif: 1996, pp.324/327). As one interviewee stated, from a feminist perspective, the EC could be viewed as a male, macho project concentrating on centralisation, motorways, traditional, unecological economic growth and big projects such as bridges across waterways in Scandinavia between Denmark and Sweden (Interview No.45; Stockholm, 12/11/1996). It can be countered that the high female rejection of the EC in Sweden was not due to gender but to the fact that women were predominantly employed in the public sector. The possibility of a feminist approach to European integration, however, should not be rejected.

Similarly, European integration could also be analysed from a "green politics"

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<sup>2</sup> For an overview of critical feminist IR theory, see, for example, Sylvester: 1996 and True: 1996

critical perspective.<sup>3</sup> In both Austria and Sweden, the EC was rejected by a significant number of forces, mainly represented by the Green Parties, for its lower environmental standards and its focus on the traditional logic of economic growth. Again, one could reply that this was primarily due to the neo-liberal course of the EC and its focus on efficiency and profits, but this does not mean that a “green politics” analysis of European integration should be rejected in general.

To conclude, while neo-Gramscianism was able to provide a critical alternative to established integration theories, it also had a particular perspective. It put primary emphasis on the sphere of production and concentrated on the struggle between social forces over the development of the economic-political system. This excluded a focus on other issues such as gender and “green politics”. This is acceptable, even unavoidable, but it also indicates that other alternative, critical approaches to European integration could be constructed.

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<sup>3</sup> For an overview of the critical “green politics” approach, see Paterson: 1996 and Sachs: 1993

Appendix: Tables.

Table 1: Growth in current value of world foreign-direct-investment outflows, exports and gross domestic product, 1983-1989:

	1983-1989 compound annual growth rate (percentage)
World FDI outflows	28.9
World exports	9.4
World gross domestic product	7.8

Source: UN: 1991, p.4.

Table 2: Outflows of foreign direct investment, 1986-1995 (billions of dollars); and outward stock of foreign direct investment, 1987-1995 (billions of dollars).

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
FDI	88	137	167	211	225	210.8	203.1	225.5	230.0	317.8
Stock	-	1000	1169	1382	1616	1799	1949	-	2400	2730

Sources: UN: 1992, p.14 (FDI, 1986-1990); UN: 1993, p.14 (stock, 1987-1992); UN: 1995, p.7 (stock, 1994); UN: 1996, p.4 (FDI, 1991-1995); UN: 1996, p.5 (stock, 1995).

Table 3: Elections to the Swedish Riksdag 1932 - 1994 (in percentage of votes).

Election year	SAP	VP	GP	MS	FP	CP
1932	41.7	8.3	-	23.5	11.7	14.1
1936	45.9	7.7	-	17.6	12.9	14.3
1940	53.8	4.2	-	18.0	12.0	12.0
1944	46.7	10.3	-	15.9	12.9	13.6
1948	46.1	6.3	-	12.3	22.8	12.4
1952	46.1	4.3	-	14.4	24.4	10.7
1956	44.6	5.0	-	17.1	23.8	9.4
1958	46.2	3.4	-	19.5	18.2	12.7
1960	47.8	4.5	-	16.5	17.5	13.6
1964	47.3	5.2	-	13.7	17.0	13.2
1968	50.1	3.0	-	12.9	14.3	15.7
1970	45.3	4.8	-	11.5	16.2	19.9
1973	43.6	5.3	-	14.3	9.4	25.1
1976	42.7	4.8	-	15.6	11.1	24.1
1979	43.2	5.6	-	20.3	10.6	18.1
1982	45.6	5.6	1.7	23.6	5.9	15.5
1985	44.7	5.4	1.5	21.3	14.2	9.8
1988	43.2	5.8	5.5	18.3	12.2	11.3
1991	37.7	4.5	3.4	21.9	9.1	8.5
1994	45.3	6.2	5.0	22.4	7.2	7.7

SAP: Socialdemokratiska Arbetarepartiet (Social Democratic Party);

VP: Vänsterpartiet (Left Party);

GP: Miljöpartiet de Gröna (Green Party);

MS: Moderata Samlingspartiet (Moderate Party);

FP: Folkpartiet liberalerna (Liberal Party);

CP: Centerpartiet (Centre Party);

Data for 1932 - 1968 refers to elections to the Lower House.

Other parties are not included in this table.

Percentages given are for valid votes cast.

Source: Petersson: 1994, p.226.

Table 4: Elections to the Austrian Parliament 1945 - 1995 (in percentage of votes).

Election year	ÖVP	SPÖ	FPÖ	GA	LibFo	Combined shares of SPÖ and ÖVP
1945	49.79	44.59	-	-	-	94.4
1949	44.03	38.71	11.66	-	-	82.7
1953	41.25	42.10	10.94	-	-	83.4
1956	45.95	43.04	6.52	-	-	89.0
1959	44.19	44.78	7.70	-	-	89.0
1962	45.43	43.99	7.04	-	-	89.4
1966	48.34	42.56	5.35	-	-	90.9
1970	44.69	48.42	5.52	-	-	93.1
1971	43.11	50.03	5.45	-	-	93.2
1975	42.94	50.42	5.40	-	-	94.0
1979	41.90	51.02	6.06	-	-	92.9
1983	43.22	47.65	4.98	-	-	90.8
1986	41.29	43.12	9.73	4.80	-	84.4
1990	32.06	42.80	16.63	4.78	-	74.9
1994	27.67	34.92	22.50	7.31	5.97	62.6
1995	38.32	28.30	22.08	4.57	5.28	66.6

ÖVP: Österreichische Volkspartei (Austrian People's Party);

SPÖ: Sozialdemokratische Partei Österreichs (Austrian Social Democratic Party);

FPÖ: Freiheitliche Partei Österreichs (Austrian Freedom Party);

GA: Grüne Alternative (Green Alternative Party);

LibFo: Liberales Forum (Liberal Forum);

Other parties are not included in this table.

Percentages given are for valid votes cast.

Source: Müller: 1996b, p.74 (1945-1994 elections); Lauber: 1996, p.277 (1995 elections); Dachs: 1991, p.266 (GA result for 1986); Dachs: 1991, p.273 (GA result for 1990); Müller: 1996b, p.91 (combined shares of SPÖ and ÖVP).

Table 5: Austrian outward and inward FDI (in million US dollars), 1982-1990.

	Outward FDI	Inward FDI
1982	148	203
1983	162	217
1984	67	109
1985	66	164
1986	243	162
1987	389	376
1988	186	404
1989	672	550
1990	1601	557

Source: EFTA:1991, pp.43/44.

Table 6: Swedish outward and inward FDI (in million US dollars), 1982-1990.

	Outward FDI	Inward FDI
1982	1226	359
1983	1462	238
1984	1509	294
1985	1783	396
1986	3707	938
1987	4496	583
1988	7231	1497
1989	9683	1523
1990	14136	2328

Source: EFTA:1991, pp.43/44.

Table 7: Regional Distribution of outward FDI in Austria, 1982 - 1990 (in per cent):

	EFTA	EC	North America	Other	Total
1982 - 1985	12.0	32.5	37.2	18.3	100
1986 - 1988	21.4	44.8	32.8	1.0	100
1988 - 1990	17.7	48.0	11.0	23.2	100

Source: EFTA: 1991, p.27.

Table 8: Regional Distribution of outward FDI in Sweden, 1982 - 1990 (in per cent):

	EFTA	EC	North America	Other	Total
1982 - 1985	8.2	29.9	22.0	39.9	100
1986 - 1988	14.0	40.7	16.8	28.4	100
1988 - 1990	6.7	62.1	7.0	24.1	100

Source: EFTA: 1991, p.27.

Table 9: Regional Distribution of inward FDI in Austria, 1982 - 1990 (in per cent).

	EFTA	EC	North America	Other	Total
1982 - 1988	19.0	64.8	5.6	10.6	100
1989 - 1990	8.7	79.4	1.5	10.4	100

Source: EFTA: 1991, p.29.

Table 10: Regional Distribution of inward FDI in Sweden, 1982 - 1990 (in per cent).

	EFTA	EC	North America	Other	Total
1982 - 1988	43.6	12.7	2.2	41.5	100
1989 - 1990	28.8	33.7	7.0	30.5	100

Source: EFTA: 1991, p.29.

Table 11: Swedish and foreign share of TNCs' employees and production in 1965 - 1994 (in per cent).

	Employees		Turnover	
	Sweden	Abroad	Sweden	Abroad
1965	66.1	33.9	74.1	25.9
1970	-	-	72.9	27.1
1974	59.8	40.2	71.1	28.9
1978	57.6	42.4	64.6	35.4
1986	50.8	49.2	57.7	42.3
1990	39.4	60.6	48.6	51.4
	(34.1)	(65.9)	(43.2)	(56.8)
1994	38.9	61.1	47.8	52.2

Figures in parenthesis are percentages including Asea Brown Boveri in the sample.  
Source: Braunerhjelm et al: 1996, p.10.

Table 12: Shares of main areas and countries in Austria's total trade (in per cent):

		EC*	EFTA**	Germany	USA
1981	Imp.	58.6	7.5	38.7	4.1
	Exp.	52.2	11.9	28.7	2.6
1985	Imp.	62.1	7.6	40.9	3.7
	Exp.	56.1	10.5	30.1	4.7
1986	Imp.	66.9	7.7	44.0	3.2
	Exp.	60.1	11.8	32.7	4.0
1987	Imp.	68.0	7.8	44.2	3.5
	Exp.	63.4	11.1	34.8	3.6
1989	Imp.	68.3	7.1	44.1	3.6
	Exp.	65.1	10.7	35.8	3.5
1990	Imp.	68.6	7.1	44.0	3.6
	Exp.	65.2	10.1	37.4	3.2

EC\*: ten members including Greece in 1981; plus Spain and Portugal in 1985-1990;  
 EFTA\*\*: 1981: Finland, Iceland, Norway, Austria, Portugal, Sweden and Switzerland; 1985-1990: without Portugal;

Source: Luif: 1988, p.161 (1981-1987); EFTA: 1991, pp.62 and 69 (1989/90).

Table 13: Shares of main areas and countries in Sweden's total trade (in per cent):

		EC	EFTA	Germany	USA
1981	Imp.	48.2	16.7	16.0	8.2
	Exp.	45.7	20.1	11.0	6.1
1985	Imp.	56.0	15.7	17.9	8.4
	Exp.	48.7	19.2	11.5	11.7
1986	Imp.	57.3	16.2	20.5	7.8
	Exp.	50.0	20.7	11.6	11.3
1987	Imp.	57.3	16.5	21.8	6.9
	Exp.	51.0	20.7	11.9	10.7
1989	Imp.	55.5	17.0	20.7	8.2
	Exp.	53.6	19.0	13.1	9.3
1990	Imp.	55.2	18.2	19.8	8.7
	Exp.	54.2	19.0	14.1	8.6

EC\*: ten members including Greece in 1981; plus Spain and Portugal in 1985-1990;  
 EFTA\*\*: 1981: Finland, Iceland, Norway, Austria, Portugal, Sweden and  
 Switzerland; 1985-1990: without Portugal;

Source: Luif: 1988, p.163(1981-1987); EFTA: 1991, pp.62 and 69 (1989/90).

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## **2. Interviews:**

### **I.Austria:**

1. Section for Foreign Trade and Integration, Arbeiterkammer (Chamber of Labour, AK); Vienna, 2 p.m., 08/05/1995.
2. Director of the Section for Fundamental Questions of European Integration responsible for the 1996 IGC, Foreign Ministry; Vienna, 10 a.m., 09/05/1995.
3. Verband Österreichischer Banken und Bankiers (Federation of Austrian Banks and Bankers, VÖB); Vienna, 2 p.m., 09/05/1995.
4. International Secretariat, Sozialdemokratische Partei Österreichs (Austrian Social Democratic Party, SPÖ); Vienna, 4 p.m., 09/05/1995.
5. Section for Integration and Trade Policy, Bundeswirtschaftskammer (Chamber of Commerce, BWK); Vienna, 10 a.m., 10/05/1995.
6. Section for European Integration, Chancellor's Office; Vienna, 1 p.m., 10/05/1995.
7. Section for European Integration, International and Economic-Political Issues/ Section for Budget Policy, Finance Ministry; Vienna, 9 a.m., 11/05/1995.
8. Director of Austrian Industries (1986-1993) and Member of the European Round Table of Industrialists (1989-1993); Vienna, 11 a.m., 11/05/1995.
9. Director of the Section for Coordination of Emergency Supply, State Crisis Management and Foundation of Security Policy/Director of the Section for Coordination of Emergency Supply and Foundation of Security Policy, Chancellor's Office; Vienna, 2 p.m., 11/05/1995.
10. Director of the Section for fundamental Issues of European Economic Integration, Economic Ministry; Vienna, 10 a.m., 12/05/1995.
11. Austria Presse Agentur; Vienna, 1 p.m., 12/05/1995.
12. Director of the Political Section, Österreichische Volkspartei (Austrian People's Party, ÖVP); Vienna, 3 p.m., 12/05/1995.
13. Section for National Economy, Österreichischer Gewerkschaftsbund (Austrian Federation of Trade Unions, ÖGB); Vienna, 4.30 p.m., 12/05/1995.
14. Director of the Section for Questions of Political Integration, Chancellor's Office; Vienna, 12 a.m., 17/05/1995.
15. Member of the Board of Directors, Creditanstalt-Bankverein, and Member of the Association for Monetary Union in Europe; Vienna, 3.30 p.m., 17/05/1995.

16. Director of the Section for Issues of Integration and International Financial Organisation, Österreichische Nationalbank (Austrian National Bank, ANB); Vienna, 10 a.m., 18/05/1995.
17. General-Secretary Deputy/Section for Trade Policy, EU and Integration, Präsidentenkonferenz der Landwirtschaftskammern Österreichs (Confederation of regional Chambers of Agriculture, LK); Vienna, 2 p.m., 18/05/1995.
18. Director of the Europe Information Service, Vereinigung Österreichischer Industrieller (Federation of Austrian Industrialists, VÖI); Vienna, 9 a.m., 22/05/1995.
19. Board of Directors, AgrarMarkt Austria (regulatory institution for the agricultural market, 1993-1995), Director of the Economic-Political Section of the Arbeiterkammer (Chamber of Labour, AK) (1985-1993); Vienna, 9 a.m., 23/05/1995.
20. Central Secretary, Gewerkschaft Agrar, Nahrung, Genuß (Trade Union of Food Processing Industry, ANG); Vienna, 10 a.m., 22/04/1996.
21. Managing-Director, Federal Association of Bakers, Millers, Confectioners, Butchers and Food Processing Industry (affiliated to the BWK); Vienna, 8 a.m., 23/04/1996.
22. President of the Trade Union for Textile, Clothes and Leather and Head of the ÖGB Integration Committee since 1987, responsible in the SPÖ for the drawing up of the coalition agreement of 26/06/1989; Vienna, 10 a.m., 23/04/1996.
23. Foreign Secretary (1983/84) and co-founder of the "Initiative Österreich und Europa"; Vienna, 11 a.m., 24/04/1996.
24. Section International Trade and Environment, Association of the Austrian Textile Industry; Vienna, 3 p.m., 24/04/1996.
25. Second President of the Nationalrat, responsible in the ÖVP for the drawing up of the coalition agreement of 26/06/1989; Vienna, 10 a.m., 25/04/1996.
26. MEP and Head of the Fraction in the EP (until April 1996), Party Deputy-Director, Freiheitliche Partei Österreich (Austrian Freedom Party, FPÖ); Vienna, 1 p.m., 25/04/1996.
27. Political Advisor on Europe in the Grüne Alternative fraction of the Nationalrat/Europe - Co-ordinator of the Grüne Alternative (Green Alternative Party, GA); Vienna, 11.30 a.m., 02/05/1996.
28. Head of the Section for Goods and Processing, Österreichischer Raiffeisenverband; Vienna, 9 a.m., 03/05/1996.
29. General-Secretary, "Österreichische Gesellschaft für Europapolitik"; Vienna, 1 p.m., 03/05/1996.

30. Head of the Section for International Employment Policy, Ministry for Labour and Social Affairs, Vienna, 6 p.m., 06/05/1996.
31. Office of the Minister, Ministry for Public Industry and Transport (1995-96), Office of the Minister, Finance Ministry (1996 --); Vienna, 2 p.m., 07/05/1996.
32. State-Secretary for Integration and Development Co-operation in the Chancellor's Office, responsible together with Dr. Mock for the accession negotiations (1993 - 1994), State-Secretary for European Affairs in the Chancellor's Office (1994 - 1995), Managing-Director of the SPÖ (since 1995); Vienna, 1 p.m., 08/05/1996.
33. General-Secretary, International Institute for Peace; Vienna, 3 p.m., 09/05/1996.
34. Political Scientist, Institut für Konfliktforschung; Vienna, 5 p.m., 10/05/1996.
35. Head of the President's Office, Gewerkschaft der Privatangestellten (White Collar Workers' Union, GPA); Vienna, 8 a.m., 14/05/1996.
36. Foreign Secretary (1987-1994), Chairman of the ÖVP (until 1989), Austria's main negotiator in Brussels (1993 - 1994); Vienna, 11 a.m., 15/05/1996.

## II. Sweden:

37. Senior Advisor, International Secretariat, Sveriges Riksbank (Swedish Central Bank); Stockholm, 2 p.m., 07/11/1996.
38. Head of Swedish EU-Secretariate, Vänster Partiet (The Left Party, VP); Stockholm, 10 a.m., 08/11/1996.
39. Fackföreningsrörelsens Institut för Ekonomisk Forskning (Trade Union Institute for Economic Research); Stockholm, 1 p.m., 08/11/1996.
40. International Secretary, Tjänstemännens Centralorganisation (Swedish Confederation of Professional Employees, TCO); Stockholm, 11 a.m., 11/11/1996.
41. Senior Advisor, Sveriges Akademikers Centralorganisation (Swedish Confederation of Professional Associations, SACO); Stockholm, 2 p.m., 11/11/1996.
42. Director of Information, Centerpartiet (Centre Party, CP); Stockholm, 4 p.m., 11/11/1996.
43. Director of International Affairs, Svenska Arbetsgivareföreningen (Confederation of Swedish Employers, SAF), Stockholm, 9 a.m., 12/11/1996.
44. Europe - Co-ordinator, Socialdemokratiska Arbetarepartiet (Swedish Social Democratic Party, SAP); Stockholm, 11 a.m., 12/11/1996.

45. Party Secretary, Miljöpartiet de Gröna (Green Party, GP); Stockholm, 2 p.m., 12/11/1996.
46. International Officer, Industri Facket (Industrial Workers' Union, LO affiliate); member of the LO Committee on the EC; Stockholm, 10 a.m., 13/11/1996.
47. Political Advisor, Ministry of Finance, Leading activist in the SAP-internal yes-group; Stockholm, 2 p.m., 13/11/1996.
48. Political Advisor, Ministry of Industry and Trade, employed in various ministries between 1990 and 1995, SAP member; Stockholm, 9.30 a.m., 14/11/1996.
49. Deputy Auditor General, The Swedish National Audit Office (since 1995), Ministry of Finance (1980-1995), Head of inter-ministerial co-ordination team on European integration, expert aid to Finance Minister on economic questions during accession negotiations; Stockholm, 1 p.m., 14/11/1996.
50. Director of Strategic Planning, Lantbrukarnas Riksförbund (Federation of Swedish Farmers, LRF); Stockholm, 3.30, 14/11/1996.
51. Political Co-ordinator European Affairs, Moderata Samlingspartiet (The Moderate Party, MS), Political Advisor to Prime Minister Bildt responsible for co-ordination of coalition partners in the areas of foreign affairs, defence, labour and trade (1991-94); Stockholm, 10 a.m., 15/11/1996.
52. Political Advisor, Prime Minister's Office (since 1995), Journalist for the Swedish National Broadcasting 1981-94, based in Brussels 1989-93, Political Advisor to Mats Hellström, Minister for Foreign Trade and European Affairs (1995/96); Stockholm, 1 p.m., 15/11/1996.
53. Research Associate, Utrikespolitiska Institutet (The Swedish Institute of International Affairs); Stockholm, 9 a.m., 18/11/1996.
54. Senior Advisor, Industriförbundet (Federation of Swedish Industries, SI); Stockholm, 12 a.m., 19/11/1996.
55. MP, Folkpartiet liberalerna (Liberal Party, FP), Minister for Health and Social Affairs (1991-94); Stockholm, 2 p.m., 19/11/1996.
56. International Department, Landsorganisationen i Sverige (Swedish Trade Union Confederation, LO); Stockholm, 10 a.m., 21/11/1996.
57. Researcher, Transportarbetareförbundet (Transport Workers' Union, LO affiliate), member of the LO Committee on the EC; Stockholm, 12 noon, 21/11/1996.
58. Press Officer, Facket för Service och Kommunikation (The Union of Service and Communication Employees, SEKO, LO affiliate), member of the SAP yes-campaign; Stockholm, 9 a.m., 26/11/1996.

59. International Secretary, Kommunalarbetare Förbundet (Municipal Workers' Union, LO affiliate), member of the LO Committee on the EC; Stockholm, 1 p.m., 26/11/1996.
60. Special Advisor on European Security, Ministry of Foreign Affairs, Political Advisor in Ministry of Defence (until 1995); Stockholm, 4 p.m., 26/11/1996.
61. President of the Swedish Trade Council, high civil servant under SAP government (1987-91), Chief Negotiator of EEA (1989-92), Chief Negotiator of EC accession treaty (1993/94), Minister for Trade and European Affairs (1991-94); Stockholm, 5 p.m., 26/11/1996.
62. Steering Committee Secretariat, Landsorganisationen i Sverige (Swedish Trade Union Confederation, LO); Stockholm, 8.45 a.m., 27/11/1996.
63. Administrator, Studieförbundet Näringsliv och Samhälle (Centre for Business and Policy Studies, SNS); Stockholm, 10 a.m., 27/11/1996.
64. Director, Arbetsmarknadsstyrelsen (Swedish National Labour Market Board, AMS); Stockholm, 9 a.m., 28/11/1996.
65. Deputy Director, Industriens Utredningsinstitut (The Industrial Institute for Economic and Social Research, IUI); Stockholm, 1.30 p.m., 28/11/1996.
66. EU - Co-ordinator, Research Department, Metallindustriarbetareförbundet (Metal Workers' Union, LO affiliate); Stockholm, 9 a.m., 29/11/1996.
67. Senior Vice President, Public Affairs, Verkstadsindustrier (Association of Swedish Engineering Industries, SAF and SI affiliate); Stockholm, 11 a.m., 29/11/1996.
68. State Secretary, Ministry for Foreign Affairs, Chief Negotiator in the 1996 IGC; Head of Foreign Affairs Department, Ministry of Finance (1982-88), State Secretary, Ministry of Finance (1988-91); Stockholm, 10.45 a.m., 02/12/1996.
69. Project Manager, Företagarna (Federation of Private Enterprises representing small- and medium-sized companies); Stockholm, 9 a.m., 03/12/1996.
70. Secretary of the standing advisory committee on the EU, Miljöpartiet de Gröna (Green Party, GP); Stockholm, 10 a.m., 03/12/1996.
71. Political Scientist, Department of Political Science, University of Stockholm; Stockholm, 4 p.m., 04/12/1996.

### **3. Secondary Sources:**

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