

# THE POLITICS OF FOREIGN POLICY CHANGE

EXPLAINING THE SWEDISH  
REORIENTATION ON EC MEMBERSHIP



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## ABBREVIATIONS

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ATP	Allmän tjänstepension
CAP	Common Agricultural Policy
CFP	Comparative Foreign Policy
CFSP	Common Foreign and Security Policy
CMEA	Council of Mutual Economic Assistance
COCOM	Coordinating Committee for Multilateral Export Controls
CSCE	Conference on Security and Cooperation in Europe
DG	Directorate General
DN	Dagens Nyheter
EC	European Community
ECE	Economic Commission for Europe
ECJ	European Court of Justice
ECSC	European Coal and Steel Community
EDC	European Defense Community
EEA	European Economic Area
EEC	European Economic Community
EC	European Community
EU	European Union
EFTA	European Free Trade Association
EMU	European Monetary Union
EPC	European Political Cooperation
Euratom	European Atomic Energy Community
FCMA	Treaty of Friendship, Cooperation and Mutual Assistance
FDI	Foreign Direct Investment
FPA	Foreign Policy Analysis
FSI	Federation of Swedish Industries
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
HLCG	High Level Contact Group
HLNG	High Level Negotiation Group
IBRD	International Bank for Reconstruction and Development

IMF	International Monetary Fund
INF	Intermediate Range Nuclear Forces
IR	International Relations
LO	Landsorganisationen
NATO	North Atlantic Treaty Organization
NG	Negotiation Group
OECD	Organization for Economic Cooperation and Development
OEEC	Organization for European Economic Cooperation
PSOE	Partido Socialista Obrero Espanol
SAF	Svenska arbetsgivareföreningen
SAP	Sveriges socialdemokratiska arbetareparti
SCB	Statistiska centralbyrån
SEA	Single European Act
SIPRI	Stockholm International Peace Research Institute
SNS	Studieförbundet Näringsliv och Samhälle
SPÖ	Sozialdemokratischen Partei Österreichs
SvD	Svenska Dagbladet
TCO	Tjänstemännens centralorganisation
UN	United Nations
WEU	West European Union
WFTA	Wider Free Trade Area
WG	Working Group
ÖVP	Österreichische Volkspartei

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# **PART I**

## **INTRODUCTION**

# **1 A STUDY OF FOREIGN POLICY CHANGE**

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## **Aims and Questions**

The 1990s has been a time of remarkable changes in world affairs. Within just a few years, numerous conditions that were previously believed to be highly stable have undergone fundamental revision. Among the most notable examples are the end of the Cold War, the dissolution of the Soviet Union, the entire reorientation of the East European states, the outbreak of war in former Yugoslavia, the peace process in the Middle East and the peace among the states of Southern Africa.

This study deals with one particular instance of foreign policy change: the Swedish government's decision on October 26, 1990, to advocate membership in the European Community (EC). Swedish governments had up to this point been highly skeptical of EC membership, believing that this would be incompatible with Sweden's security policy as well as its ambitious welfare policies.<sup>1</sup> Swedish participation in the integration process would therefore have to be secured through various special arrangements. In the early 1960s this ambition took its outlet in an application for an association treaty, in the early 1970s the Free Trade Agreement was signed, and in the late 1980s discussions were initiated concerning the so called European Economic Area (EEA).

After more than three decades of resistance, the government reversed course and decided to make a radical break with the past. Instead of continuing to pursue a policy of political aloofness, Sweden was to join the club and become an 'ordinary'

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<sup>1</sup> The organization was in the 1950s and the 1960s referred to as the 'EEC' or the 'Common Market'. The abbreviation 'EC' came into use in the early 1970s. Through the Maastricht Treaty, this has now largely been replaced by the 'EU'. The terminology used in this study will shift depending on the time period. When referring to the integration process more generally, I have chosen to speak about the 'EC'.

West European state. The significance of this reorientation becomes even more apparent if one considers that the EC was at this time about to decide on a considerable deepening of its co-operation in the fields of monetary and foreign policy, both of which had hitherto been viewed as definitive obstacles to Swedish membership.

Dynamic aspects of international politics and foreign policy have received scarce attention in the scholarly literature. Analysts have been inclined to focus on stability and inertia rather than on the transition from one state of affairs to another. In an attempt to explain this negligence, Robert Gilpin (1981:4-6) has stressed such factors as (1) the need to understand statics before moving on to more complicated dynamics, (2) a widespread disbelief in the possibility to generalize about change, (3) and a normative bias in favor of stability. In a similar vein, Kalevi Holsti (1982:8) has argued that change was for a long time overlooked due to a strong preoccupation with the seeming stability of the Cold War, as well as an exaggerated belief in the stabilizing effects of interdependence.

There is, however, a small but rapidly growing literature that does address the problem of foreign policy change (Holsti 1982, Goldmann 1982 and 1988, Hallenberg 1984, Hermann 1990, Carlsnaes 1993a, Jerneck 1993, Rosati et al. 1994, Sundelius 1994, Pedersen 1996). A central assumption in much of this literature is that foreign policies tend to be rigid; once a particular policy has been put in place, institutional inertia and vested interests have a stabilizing effect, making it highly resistant to change. The analytical task is therefore to identify the circumstances under which such obstacles break down, thus creating an opening for change. While this has given rise to a number of analytical models, relatively little has so far been done in terms of empirical applications.

This study has both empirical and theoretical aims. *The empirical aim is to present a plausible explanation of the change in Swedish EC policy.* Why did the Swedish government in October 1990 decide to abandon its long-standing policy of non-membership and advocate full participation in the West European integration process? *The theoretical aim is to make a contribution to the study of foreign policy change.* Drawing on earlier research, I present an alternative explanatory model and argue that this

has certain advantages compared to other contributions to this field.

In a nutshell, the empirical argument of this study is that by the fall of 1990, the political conditions underpinning Sweden's policy of non-membership had ceased to exist. With the dramatic changes in Eastern Europe, the world for which the post-war version of the Swedish policy of neutrality was designed had been fundamentally altered, making it possible to relax the self-imposed restrictions on Sweden's international behavior. Because the contemplated EEA Treaty would provide limited influence over the EC's accelerating integration process, and the economic strategy referred to as the Policy of the Third Road had turned out to be a dead end, the alternatives to EC membership had at this stage lost much of their attractiveness.

These changes were perceived and acted upon by Prime Minister Ingvar Carlsson, the individual who more than anyone else was responsible for the reorientation. Ingvar Carlsson acted in a strategic way, forming an informal coalition with Minister of Finance Allan Larsson. By presenting the policy change to the cabinet in the midst of an acute balance of payments crisis, the two ministers redefined EC membership from a political to an economic issue. Capitalizing on a strong awareness of the seriousness of the economic situation, they found it possible to overcome internal resistance and marginalize potential opponents within the cabinet.

Expressed in more theoretical terms, this study suggests that the simultaneous occurrence of three particular conditions may facilitate a change in foreign policy: changes in fundamental structural conditions, strategic political leadership and the presence of a crisis of some kind. While structural conditions can create pressure for change, they cannot by themselves make change take place. In order to influence the outcome, structural conditions need to be perceived and acted upon by political agents, typically some reform-oriented individual who recognizes a moment of opportunity and decides to launch a favored political proposal. The chances of success will be enhanced if this can be tied to a crisis of some kind as these tend to unlock prohibiting institutional conditions and increase the propensity to take political risks.

## Methodological Considerations

In their much-noticed textbook on methodology, Martin Hollis and Steve Smith (1991b) reintroduce the old idea that social science research confronts the fundamental problem of 'explaining' or 'understanding'. Drawing inspiration from the natural sciences, explaining implies that the social world is thought of in terms of causes and effects. The analyst is placed 'outside' of the events, seeking to discover regularities and laws governing social conditions. In contrast, understanding implies a search for meaning, motives and reasons. The analyst takes an 'inside' position, seeing the subjective world of the actors themselves.

The argument put forth by Hollis and Smith is that there are always two stories to tell: one from the outside and one from the inside. Approaches inspired by science are fundamentally different from those inspired by hermeneutics and the two cannot be reconciled. While Hollis and Smith present their case in a highly pedagogical way, they do in my view paint these differences in too stark colors.<sup>2</sup> As argued by one of their reviewers, the social sciences are the 'meeting point between these two approaches' (James 1992:116). In order to construct an 'explanation', the analyst needs to also 'understand' the mechanisms at work. This is often done by taking an 'inside' position and entering the minds of the political actors. Observing idiosyncrasies and the subjective world of human beings does not exclude the possibility of identifying recurrent patterns. While the social world is clearly different from the natural world, I believe that it is characterized by sufficient regularities to lend itself to generalization and theory-building.

What is a scientific explanation? In an often quoted text, Arend Lijphart (1971:683) defines this as consisting of two elements: '(1) the establishment of general empirical relationships between two or more concepts, (2) while all other variables are

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<sup>2</sup> For a sophisticated discussion of their argument, see Hollis and Smith's (1991a, 1992) exchange of views with Wendt (1991, 1992), as well as Smith (1994) and Carlsnaes (1992, 1994). Hollis and Smith maintain that 'explaining' and 'understanding' cannot really be combined. Wendt and Carlsnaes argue that they are wrong. A similar attitude is displayed by Almond and Genco (1977).

controlled, that is, held constant'. Lijphart argues that this can be achieved in three different ways: the experimental method, the statistical method and the comparative method. While the experimental method is of limited use in the social sciences, it serves as a model for the two others. The statistical method implies that the experimental control situation is constructed through mathematical manipulation and partial correlations. The comparative method is based on the same general logic, but usually implies fewer empirical observations and that the impact of different variables is isolated through qualitative rather than quantitative techniques.

I find this notion of science too rigid. The position taken in this study is that the importance of an experimental control situation is often exaggerated. A scientific explanation can be constructed also on the basis of a very small number of empirical observations, using what is generally referred to as the case study method. Such a study may lack a control situation; if it is limited to a single case, that is definitely so. But few cases makes it possible to go deeper into the empirical material, facilitating a more thorough understanding of the events. Rather than engaging in 'cross-case comparison', the analyst then constructs 'within-case explanations' (George and McKeown 1985:29, cf. Yin 1981:61-62).

In constructing such explanations, it might be useful to engage in counterfactual thought experiments, that is, to pose 'what if' questions. The virtues and fallacies of counterfactual reasoning are much debated in the methodological literature (e.g. Fearon 1991, Tetlock and Belkin 1996). Skeptics dismiss counterfactuals as mere speculation, arguing that social dynamics are so complicated that there is nothing to be gained from trying to picture a different scenario from the one that actually happened. Advocates maintain that if properly conducted, counterfactuals are a highly essential tool for clear thinking about causation. There are no definitive criteria for how to distinguish between plausible and implausible counterfactuals. As a basic rule of thumb, however, the analyst should follow the 'minimal rewrite rule', implying that only one cause is manipulated at the time, and that this is located close in time to the event which is to be explained (Tetlock and Belkin 1996:23-25, Nye 1993:42-45).

The case study method is not only legitimate from a scientific point of view, but it is sometimes also superior to other available methods. With the case study method, 'the analytical freedom of action may be retained longer' (Stenelo 1984:24). The analyst can therefore keep an open mind, taking in new impressions and discovering crucial variables at a late stage in the research process. In areas where the existing theory is poorly developed, this is often highly valuable. By going deeper into the empirical material, the analyst can also reach a better understanding of the context in which the phenomenon under study took place. The case study method can thereby prevent 'oversimplified generalizations' (Stenelo 1984:21). Moreover, it is often noted that the case study method is well suited for studies where the analyst is interested in explaining not only why, but also how something happened and why it did so at some particular point in time (Andersen 1997:137-138).

Methodological discussions sometimes have the character of a retrospective rationalization of a method that was chosen for very different reasons than those presented to the reader. At an early stage in this research process, I was in fact considering an alternative research design with a larger number of cases. I chose instead to focus on a single case. To what extent this choice was influenced by my interest in the Swedish reorientation on EC membership, or by the course work on methodology that I was doing at the time, I really do not know. I do know, however, the case study method is highly useful for the study of foreign policy change and that my choice has served me well in thinking about this topic. By concentrating on a single case, I could devote a relatively long period of time to theoretical and empirical studies, leaving the eventual structure of the study open. With more cases, it would for practical reasons have been necessary to make a decision on the relevant explanatory factors at a much earlier stage. I would then have been forced to neglect some crucial insights that came to me late in the research process.

How can a case study contribute to generalizations and the construction of theory? The way I see it, there are two requirements for this. The first is that it is designed in such a way that it is potentially comparative. In the words of Alexander George (1979:61-63) the study must be both 'focused' and 'structured'; focused in the sense of being oriented towards some delimited

and specific aspect of the historical case, structured in the sense of making use of existing theory and letting the collection of data be guided by a general set of questions. This study is designed to meet these criteria. Rather than trying to capture Sweden's relationship to the European integration process in its entirety, I focus on the change in the position on EC membership that took place in the fall of 1990. Rather than selecting and presenting data according to some principle unknown to the reader, I rely on existing theory and make use of an explicit explanatory model.

The second requirement is that the analyst is clear on the theoretical aim of the study. A useful device in this regard is Harry Eckstein's (1975) typology, identifying five different types of case studies. In what Eckstein refers to as (1) 'configurative-idiographic' and (2) 'disciplined-configurative' cases studies, the aim is not to contribute to theory, but to explain the case. The difference between them is that while the former is conducted without theoretical guidance, the latter makes use of existing theory to throw light on the case. In a (3) 'heuristic' case study, the aim is to try out new theoretical ideas, not with the ambition of testing, but to get some preliminary indications of their usefulness. A so called (4) 'plausibility probe' refers to a weak test of theory. Before initiating a more extensive study the analyst might want to make a pilot study in order to find some indications of what might be the best approach. In a (5) 'crucial case analysis', finally, the case is studied because it is thought to be particularly well suited for testing the theory in question. By selecting the case in either a 'most-likely' or 'least likely' fashion, the analyst can draw important conclusions about the general validity of the theory.<sup>3</sup>

This study fits two of these types. Since I am interested in explaining the Swedish case as such, and make use of theoretical

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<sup>3</sup> A similar yet not identical typology has been developed by Lijphart (1971:691-693). More specifically, Eckstein's 'plausibility probe' has no real equivalent in Lijphart's typology. Lijphart, on the other hand, identifies another type of case study, referred to as a 'deviant case', that is not observed by Eckstein. This type of study implies a closer examination of a case known to contradict existing theory. It might therefore contribute to modifications of the theory. Lijphart sees this as the most useful kind of case study from a theoretical point of view.

notions that have been chosen only because they help me to do so, it is a study of the 'disciplined-configurative' type. I have the additional aim, however, of presenting an explanatory model of my own and to argue that this is more useful than other contributions to this field. This should therefore also be viewed as a 'heuristic' type of case study. By applying the model to a single case, I do not obtain 'evidence' that my claims are correct. The application rather serves as an 'illustration', indicating that the main analytical categories can be linked to empirical phenomena and that the model constitutes an fruitful avenue for continued research (cf. Stenelo 1972:18).

## Material

The case study method implies that the analyst makes use of a broad range of source material (cf. Yin 1984:78-98). Among the primary sources used in this study, a great deal consists of public documents of various kinds, such as government declarations, government bills and party bills submitted to the *Riksdag*, reports prepared by the *Riksdag's* standing committees, publications issued by the Foreign Ministry, and formal treaties between Sweden and the EC. Given the special nature of foreign policy and the fact that it is often 'made through words', I also rely heavily on public statements made by members of the cabinet. This includes public speeches, interjections made in debates in the *Riksdag*, debate articles published in the newspapers, statements made during press conferences, and interviews given to the media.

The written material is complemented by interviews made with certain individuals occupying central positions at the time of the EC policy reorientation. Some of these were members of the cabinet, others were high level public servants, yet some were prominent members of the business community. The interviews were made late in the research process, most of them took place in the fall of 1997. I had at this stage a thorough knowledge of other types of material related to the case. Rather than serving an 'explorative' function, the interviews were therefore relatively 'focused' (cf. Johansson 1997b:31, Yin 1984:83). My ambition was to corroborate certain facts that had been presented in the media and elsewhere, as well as to gather some inside in-

formation about the events that took place behind the public scene.

In order to inspire openness on behalf of the respondents, I chose not to work with a tape recorder, instead taking notes. Shortly after each interview had been concluded, however, I went over the notes and made a transcript. While this excludes the possibility of making long quotations, I do in some places make short quotations, the accuracy of which is supported by the fact that they were written down word-for-word during the interview situation. On several occasions, I was given information that the respondents did not want me to explicitly attribute to them. I then confronted some tough choices: whether to exclude valuable pieces of information, or to include them without revealing my sources. I often chose the latter, particularly regarding information about the decision-making process. While this has obvious drawbacks from the point of view of transparency and control, I found it best to compromise; to tell an interesting story while preserving the anonymity of my informants.

The problems of using interview material as evidence is often pointed out in the methodological literature (Misgeld 1980:14-15, Stenelo 1972:21). In retrospect, people tend to recall events incorrectly as well as to magnify their own importance. The analyst must also be aware that they could have hidden reasons for wanting to convey some particular portrayal of past events. Such material must therefore be interpreted with great caution, and preferably also 'cross checked' and corroborated by other sources (Johansson 1997b:31, Lundquist 1993:111). In some parts of the study, again referring mainly to the decision-making process, I have come across little written material. This, of course, is an inherent feature of such processes. I thus rely strongly on interview material. When this concerns information that might be of some controversy, I have made sure to have it confirmed by a number of persons with different stakes in the issue at hand.

I also make use of books and memoirs written by leading Swedish political actors in the 1980s and early 1990s. The accuracy of such material must of course be treated with the same caution as interview material. The main contribution of this kind of material is perhaps that it makes it possible to recreate some of

the ‘atmosphere’ in which the reorientation took place; to bring it to life by characterizing the personalities of the key actors and the relations that they had with each other. To the extent that I make explicit references to these texts, this usually concerns issues that are of general interest but not vital for the main arguments put forth in the study.

Among secondary sources, I make use of not only academic studies, but also of some popular accounts written by journalists that seek to interpret the political and economic developments of the time period focused upon in this study. The trained researcher often finds these books methodologically naive. But they are often valuable in other ways due to the authors’ professional closeness to the political actors and processes. Furthermore, where statistical indicators are used, I mainly draw these from established institutions such as SCB, SIPRI and the OECD.

Important government statements on foreign policy are usually officially translated into English by the Foreign Ministry and published in the annual collection Documents on Swedish Foreign Policy. When this has been the case, I make references to the official translation. Most of the sources used in this study, however, are in Swedish. When quoting this material, I have chosen to translate it into English myself. While I am an amateur at translation, I have during the years spent on this study become fairly well versed in Swedish foreign policy jargon. I thus hope and think that I have been able to find accurate English expressions without losing too much of the nuances found in the original Swedish texts.

### **Earlier Research on Sweden and the West European Integration Process**

Considering that the relationship to the West European integration has constituted a long-standing problem in Swedish foreign policy, it is not surprising to note that it has generated a great deal of literature. Much of this consists of political articles, pamphlets, edited debate books and the like. Less has been written from an academic perspective: from the late 1950s to the second half of the 1990s, this amounts to around ten books and 30 articles or book chapters. While these texts dis-

play a great number of approaches to the subject, I would argue that they can be fitted into four broad categories: historical accounts, content and attitude analyses, studies of national security and studies of interdependence and transnationalism.

Beginning with the *historical accounts*, there are two major studies that cover different time periods in Swedish integration policy. In his doctoral dissertation, the historian Mikael af Malmborg (1994) studies Swedish deliberations and actions in relation to the many international political initiatives that were taken from 1945 to 1959. Based on 'thick description', af Malmborg argues that Sweden's posture was largely defensive and reactive, and he attributes this to the fact that the country lacked the war experiences of the continental countries in combination with an alleged skepticism towards countries where the labor movement occupied a less prominent position. Bo Stråth (1992) covers the ensuing time period, stretching from the early 1960s to the early 1990s. Stråth draws inspiration from 'conceptual history' and the idea that deeper societal processes can be understood through the development of language and the political battles fought over the meaning of key concepts. His main argument is that the skepticism towards the integration process was determined by an ambition to uphold an image of the Swedish *Folkhemmet* as something distinct in relation to other societies.

Among the *content and attitude analyses*, Mats Bergquist's (1970) doctoral dissertation in political science stands out as the first major academic study focusing on Swedish policy towards the EC. By classifying arguments and presenting a systematic picture of the debate, Bergquist discerns four schools of thought: the Membership School, the Association School, the Non-Accession School, and the Anti-Accession School. A somewhat different approach is adopted by Cynthia Kite (1996) in her study of the EC debates in Sweden, Denmark, and Norway from the early 1960s to the mid-1990s. Her study is based on the notion of 'issue-areas', suggesting that the way a question is defined and presented in the public debate will have important implications for the political outcome. Kite points out that after having been viewed as a security issue in the 1960s and the 1970s, the relationship to the EC was redefined as an economic issue in the 1990s, which created a possibility for the *Riksdag* and organized interests to exercise a stronger influence.

Another valuable study in this category is an article by Klaus Misgeld (1990), dealing with the attitudes of the Social Democratic Party (SAP) towards the West European integration process. Based on a close reading of internal party documents on various initiatives regarding European political cooperation from the 1930s to the 1970s, Misgeld concludes that these have left little imprint on the party's internal discussions. While the study is basically descriptive, he also speculates about why this is the case and mentions both the restraining requirements of the policy of neutrality and a certain degree of *Behrührungsangst* in relation to the different cultures and traditions of the continental countries.

Among the major studies that emphasize *national security*, Martin Schiff (1970) provides an account of how the policy of neutrality was found to exclude EEC membership in the early 1960s. Better known is the Canadian political scientist Toivo Miljan's (1977) study of the Nordic countries with the often quoted title 'The Reluctant Europeans'. Miljan discusses both intra-Nordic cooperation and the relationships of the Nordic countries to the EC, arguing that these countries have been highly skeptical of supranational cooperation, allegedly because of a strong concern for both national security and domestic political autonomy.

Most of the academic studies fall within the category of *interdependence and transnationalism*, a label that is here used loosely to cover studies that emphasize various forms of external restrictions on national autonomy and increasing transactions across national borders. Highly relevant for the present study is Thomas Pedersen's (1993) detailed account of the EFTA-EC relationship during the late 1980s and early 1990s. In an attempt to explain why Sweden and most of the other EFTA states chose to apply for EC membership, Pedersen presents a modified version of neofunctionalist integration theory, arguing that the reorientation can be viewed as a result of 'functional spillover' resulting from growing informal integration and a politically unbalanced EEA arrangement.

Less guided by theoretical considerations are the two monographs by Paul Luif (1995) and Lee Miles (1997). Writing with great empirical detail, Luif covers various aspects of the EC policies of Sweden, Austria and Finland, arguing that one of the

main reasons behind Sweden's 1990 EC policy reorientation was capital flight and a lack of confidence in the future economic development. Miles focuses only on Sweden and discusses the development from the early 1950s to the mid-1990s. He argues that Swedish policy towards the West European integration process has been determined by a blend of factors, notably high economic dependence, its special corporatist model of societal relations, and strategic security considerations. Yet another valuable study is an article by John Ross (1991) published in the journal *Cooperation and Conflict*. Ross emphasizes the economic determinants of Swedish EC policy and his article was the first academic account to appear in print after the reorientation on membership had taken place.

While some of these studies cover certain aspects of the empirical problem at the center of this study, they do not share the theoretical approach. In other words, they are not concerned with the more general problem of explaining foreign policy change. There are two other studies, however, one by Magnus Jernecke (1993) and the other by Bengt Sundelius (1994), that do have this ambition. Both these authors discuss theoretical ideas on foreign policy change and apply these to the Swedish reorientation on membership in the EC. But given the more limited scope of these studies—they are both presented in the form of book chapters—it can hardly be claimed that this case has been sufficiently investigated. Far from invalidating the present research effort, I view these contributions as sources of inspiration for a study that uses a different explanatory model and relies on a much deeper empirical analysis.

## Organization of the Study

This study is divided into four parts. In the next chapter, which concludes *Part 1*, I discuss theoretical issues and present the explanatory model. *Part 2* consists of two chronologically organized chapters that outline the main features of Swedish policy towards the West European integration process; the first covers the period from the late 1940s to the early 1970s, the second discusses how the relationship to the EC was handled when it once again rose to the top of the political agenda during the second half of the 1980s. The aim of these chapters is not only to provide an historical background of the reorientation,

but also to firmly establish that this constituted a radical break with the past.

*Part 3* consists of three chapters in which I discuss the structural sources of the reorientation. Following the logic of my explanatory model, these deal with international political factors, international economic factors, and domestic political and economic factors. In the chapter on international political factors, I focus on the end of the Cold War and the implications that this had for the Swedish policy of neutrality. In the chapter on international economic factors, I analyze the negotiations over the EEA Treaty and the fact that this arrangement would fall short of the Swedish expectations. In the chapter on domestic political and economic factors, I discuss Sweden's emerging economic problems and the shortcomings of the so called Policy of the Third Road.

*Part 4* explores how these sources entered and were dealt with inside the government machinery. In the first of two chapters, I study the cognitive processes of Prime Minister Ingvar Carlsson. Making use of the theoretical notion of 'learning', I argue that he came to favor EC membership after having had a series of experiences that provided him with new knowledge of the political and economic development. In the following chapter, I then look at how the reorientation was handled within the cabinet, arguing that Ingvar Carlsson and Allan Larsson acted in a strategic fashion, launching the EC policy reorientation in a manner that would minimize the risk for internal dissent. In *Part 5*, consisting of the final chapter, I first evaluate the empirical results and then discuss the implications of my work for the study of foreign policy change.

## 2 THE MODEL

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### Foreign Policy as a Field of Research

This study is intended as a contribution to Foreign Policy Analysis (FPA). In contrast to the systemic perspective typical of International Relations (IR), FPA seeks to explain actions taken by states as individual units located in the international system, an ambition that is sometimes likened to the search for a theory of the firm rather than the market. Given that international structures create strong incentives for states to act in one way or another, how do we explain the variation found in how they choose to respond? There is no generally accepted ‘theory’ of foreign policy, and considerable controversy exists over how this might be achieved. Yet scholars working in this field tend to agree on the need to draw on factors located at different levels of analysis and combine these to construct multi-causal explanations.

In historical accounts of the theoretically guided study of foreign policy, Snyder, Bruck, and Sapin’s (1954) influential ‘decision-making approach’ is often treated as a starting point. In contrast to the then dominating trait of seeing states as unitary actors mainly responding to external stimuli, Richard Snyder and his colleagues argued the case for a phenomenological approach. Structural conditions were only to be taken into account to the extent that it could be shown that they had been perceived and reacted to by the decision-makers. Rather than being determined by ‘objective forces’, foreign policy was the result of the decision-makers’ subjective ‘definition of the situation’.

A second highly influential contribution to this field was James Rosenau’s (1966) article outlining a ‘pre-theory’ foreign policy. Rosenau identified five categories of explanatory variables and formulated a number of propositions regarding their relative importance, suggesting that this would vary depending on how the state in question scored in terms of size, form of govern-

ment, and level of development. In the late 1960s and early 1970s, Rosenau's pre-theory was transformed into a research program, serving as a source of inspiration for a number of large research projects located at American universities. Under the label of Comparative Foreign Policy (CFP), these projects applied quantitative methods to events data, trying to establish statistical correlations between structural conditions and foreign policy behavior.<sup>4</sup>

Few disagree with the judgment that this line of research failed to live up to the initial expectations. In an openly critical assessment some ten years ago, Steve Smith (1986) argued that CFP had become a great disappointment. Smith pointed to the lack of viable generalizations and attributed this to a naive positivistic epistemology, excessive use of statistical methods and an impossible search for a general theory of foreign policy. Similar verdicts had been given earlier also by other scholars working in this field (e.g. Kegley 1980).

As a general theory of foreign policy failed to materialize, researchers have turned to developing 'middle-range theory'. Rather than trying to construct broad explanations of foreign policy, they typically focus on some particular explanatory factor and explore how this might have contributed to the outcome. Prominent sources of inspiration are Graham Allison's (1971) study of organizational and bureaucratic factors, Irving Janis' (1972) study of social psychological factors, and Robert Jervis' (1976) study of cognitive factors. This type of research has expanded the knowledge on many of the factors that influence the formation of foreign policy. But it also has the drawback of diverting attention from the core objective of this research program: to provide broad explanations of foreign policy. Ironically, it has become rare to find studies that seek to add up the impact of different factors in order to explain why the state in question chose to act the way it did.

To focus on individual explanatory factors, however, is not the only possible way to proceed. In a recent volume assessing the state of FPA, Charles Hermann (1995:253-254) points out that 'another way to interpret the call for middle-range theories is to

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<sup>4</sup> The nature of this research is well exemplified in the volumes by East et al. (1978) and Hermann et al. (1987).

be more specific about the activity to be explained, that is, the dependent variables'. With the exception of a substantial body of literature on the causes of war, surprisingly little attention has been given to the possibility of differentiating the concept of foreign policy. While it might be impossible to formulate a viable theory that would purport to explain all types of foreign policy, there is good reason to think that theoretical progress would be easier to achieve if the ambition was limited to explaining certain types of foreign policy.

### The Study of Foreign Policy Change

The growing interest in the study of foreign policy change could be viewed as an attempt to follow these recommendations. In a recent volume devoted entirely to this topic, the editors optimistically argue that the 'lack of interest in foreign policy change has given way to a sense that the theoretical study of change and continuity is possible and important as an intellectual avenue to an improved understanding of foreign policy and international relations' (Rosati et al. 1994:15). As this is a new and emerging research area, however, relatively little has been done so far in terms of empirical studies. Many of the existing contributions have instead been preoccupied with the problem of how to go about studying foreign policy change, that is, in formulating analytical models that facilitate empirical investigations.<sup>5</sup> Among the models that have been presented so far, I would argue that it is possible to discern three different types, referred to here as 'checklist models', 'structural constraints models' and 'cyclical models'.<sup>6</sup>

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<sup>5</sup> For reasons of simplicity, I consistently speak about 'models' when referring to the different analytical constructs designed for the study of foreign policy change. But this should not conceal the fact that they differ in terms of theoretical ambition. Some basically identify a number of potentially important explanatory factors without making any more specified claims about the causal mechanisms. These should perhaps more properly be thought of as 'frameworks'. Others are more ambitious in this respect, containing certain elements usually associated with the term 'theory'. For discussions of the terms 'theory', 'model' and 'framework', see Snidal (1986:32-36) and Goldmann (1988:223-225).

<sup>6</sup> I have chosen to limit this discussion to models that are explicitly intended as contributions to the study of foreign policy change. I thus leave out a number of theoretical traditions and models that do deal with dynamic aspects of foreign

The checklist models are based on three analytical steps. First, they identify some potentially important background factors, second, they impose an intermediate step in the form of cognitive factors and factors belonging to the decision-making process, and third, they then connect these to an outcome in the form of a typology of different types of foreign policy change. These models, which include the ones developed by Kalevi Holsti (1982) and Charles Hermann (1990), do not contain any theoretical elements in the sense of hypothesizing that some factors might be more important than others. They only provide analytical tools that can be used for making empirical studies, assuming that theory will occur in an inductive way through empirical generalizations.

The strength of these models is that they take a relatively broad perspective, containing explicit descriptions of independent variables and mechanisms through which these can enter and be dealt with inside the government. But they also suffer from weaknesses. In the case of Holsti's model, it might be argued that there are too many explanatory factors. When evaluating a number of empirical case studies based on his model, Holsti (1982:14-15) himself asserts that it had proven difficult to follow. While Hermann's model is more parsimonious, it suffers from another type of problem, stemming from the unclear status of the individual decision-maker. The model identifies 'leaders' as an independent variable. But since this must also be assumed to occupy a central position in the intermediate step of the 'decision-making process', there is an obvious risk for analytical overlaps.

The structural constraints models focus more strongly on the intermediate step, identifying factors that might stabilize the existing policy and prevent pressures for change from leading to an actual change in policy. This category encompasses the models developed by Kjell Goldmann (1988) and David Skidmore (1994). Compared to the other models, these have the advan-

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policy and international politics, yet in various ways differ from the ones singled out for examination. Among these are the notion of states as adaptive systems (Rosenau 1981, Mouritzen 1988), theories of regional integration (Haas 1958, Moravcsik 1991) studies of change processes within comparative political economy (Katzenstein 1985, Gourevitch 1986) and Robert Gilpin's (1981) theory of war and change in the international system.

tage of highlighting various forms of institutional inertia. But these too have their drawbacks. As pointed out by Goldmann (1988:195), there is good reason to think that the impact of different 'stabilizers' might vary between different types of policy-making systems. Yet neither of the two 'structural constraints models' can really take this into account.

The cyclical models advocate the study of longer time periods in order to detect recurrent patterns in the processes that lead to foreign policy change. The two models belonging to this category, developed by Walter Carlsnaes (1993a) and Jerel Rosati (1994), share certain common traits. But there are also great differences between them. Carlsnaes is concerned with the agency-structure problem in foreign policy change, arguing that this should be approached by a combination of historical studies and his own explanatory framework based on methodological individualism. In contrast, Rosati puts forth a dialectical view of foreign policy change, suggesting that long 'periods of stability' are regularly interrupted by shorter 'periods of transition'. This is derived from the observation that while policies tend to be relatively stable over time, environmental conditions are under constant transformation, leading to tension which eventually triggers a political reorientation.

The advantage of the cyclical models is that they have a dynamic quality that is missing in the two other categories of models. But as do the others, they have their shortcomings. Carlsnaes' agency-structure model is complex and presumably difficult to work with, a criticism that is supported by the fact that it is the only one that has not yet been exposed to any empirical application. In the case of Rosati, the explanatory logic of the model is highly general, suggesting that in order to generate valid empirical findings, key concepts would have to be made more specified and provided with distinct operational indicators. The main features of the three categories of models are summarized in Figure 1.

	Checklist Models	Structural Constraints Models	Cyclical Models
	Holsti	Hermann	Goldmann
Foreign Policy Change	program: intended and actual typology	program graduated levels	program: verbalized and non-verbalized definition
Explanatory Logic	independent and intervening variables	independent variables and intervening process	intervening stabilizers in policymaking system
Implications from Empirical Studies	difficult to follow other variables significant	fails to capture subjective interpretation and capacity to anticipate	some variables in need of conceptualization new variables needed
View of Theory	induction induction	deduction	induction deduction
	unclear about future prospects	unclear about future prospects	defends weak theory and weak tests

Figure 1. Models Developed for the Study of Foreign Policy Change

In my view, the existing contributions to the study of foreign policy change contain both promising ideas and analytical shortcomings. In constructing the model used in this study, I have drawn on insights generated by earlier studies, but also tried to avoid some of the pitfalls that has characterized the study of foreign policy change so far.

## **Outlining the Model**

Before presenting my model, it is first necessary to specify the dependent variable, 'foreign policy change'. In defining the first part of this concept, I use what Cohen and Harris (1975:3831) once suggested was a minimum consensus definition within the field. 'Foreign policy' is thus understood as 'a set of goals, directives or intentions, formulated by persons in official or authoritative positions, directed at some actor or condition in the environment beyond the sovereign nation state, for the purpose of affecting the target in the manner desired by the policy-makers'. This definition solves two points of disagreement in the literature by postulating that governments of states are the sole practitioners of foreign policy, and that this is a purposeful act that does not include unintended behavior. The meaning of 'change' is perhaps more intuitively clear. A straightforward definition has been formulated by Goldmann (1988:10), saying that this refers to 'either a new act in a given type of situation or a given act in a situation previously associated with a different act'.

Adding these two definitions together makes it reasonably clear what it is that this study sets out to explain. In order to facilitate comparisons, however, it is useful to make an additional specification. Not all types of changes in foreign policy are the same; there can be significant variations in terms of scope and domain. In order to capture such variations, I rely on the typology suggested by Hermann (1990:5), containing four graduated levels of foreign policy change: adjustment change, program change, problem/goal change, and international orientation change. While the first represents minor changes, taking place in the level of effort put into a policy, the following three represent gradually heightened levels of ambitions, implying that first the means are altered while the basic goals remain the same, then that the goals themselves are replaced, and finally that the state

in question changes its entire orientation towards world affairs, altering not one but many policies at the same time.

### *Why Does Foreign Policy Change Take Place?*

The model presented here implies a research design that is based on a three-step procedure. I first identify a number of ‘sources’ that are mediated by ‘individual decision-makers’ who act within the ‘decision-making process’ in order to bring about a change in policy.

The sources are divided into two broad categories, following the distinction between international and domestic factors. Whereas it would be possible to break these down into a number of additional subcategories, I find it useful to make only one such specification, inserting a distinction between political and economic factors. Among factors located at the international level, I basically adhere to the established academic division between international politics and international political economy. By international political factors, I thus refer to power relations and the traditional military aspects of national security, drawing inspiration from realist theory of international politics. In contrast, international economic factors refer to cross-border economic transactions and the institutional conditions governing such transactions.

At the domestic level, the political factors involve the support needed from voters, political parties, and societal actors to uphold a certain foreign policy. Drawing inspiration from public choice theory, the focus is here placed on electoral results, opinion polls, and the coalitions formed between major political actors. The economic factors involve the general development of the economy—observed by such statistical indicators as GDP growth, the rate of inflation and the level of unemployment—in addition to institutional conditions influencing the relationship between the state and the parties of the labor market.

The ensuing step is the cognitive factor. Following the tradition of such authors as Snyder and colleagues (1954), Sprout and Sprout (1965) and Michael Brecher (1972), I adhere to the view that structural conditions can have no independent impact on foreign policy decision-making. In other words, it is not the ob-

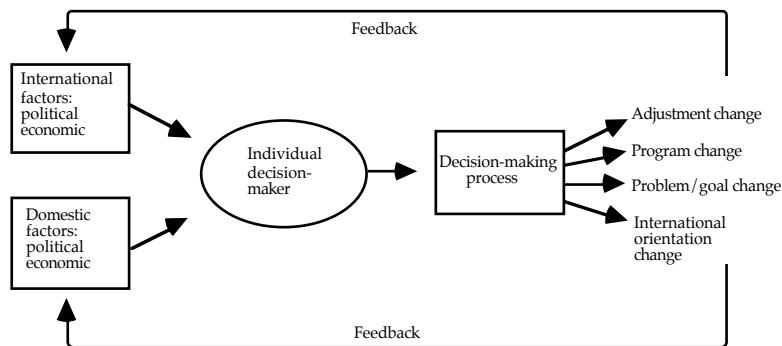
jective reality that counts, but how this is perceived and reacted to by the decision-makers. Furthermore, rather than seeing the cognitive factor as a collective factor—which seems to be the case in Hermann's model, and possibly also Holsti's—I think that it should be placed at the individual level of analysis. The government of a state is an organization, and as such it is not in itself capable of seeing, thinking, learning or preferring. Only the human beings that make up the organization can do that.

The model is therefore based on the assumption that sources of change need to be perceived by individual decision-makers and trigger alterations in their beliefs in order to have an impact on foreign policy. As it would be extremely time and resource consuming to make a complete investigation of all individuals involved in the process, it is for practical reasons necessary to concentrate on a more limited number, mainly those individuals that can be assumed to have had the greatest impact on the decision. Which and how many individuals that are to be examined would have to depend on the circumstances. This pragmatic view is admittedly somewhat unsatisfactory, but I still find it more acceptable than the reification involved when abstract collectives are ascribed human qualities.

The cognitive factor is followed by the decision-making process. The model assumes that after some key individuals have experienced a change in their beliefs, they work within established institutional structures to bring about a change in policy. When studying this, the analyst should not only examine the formal policy-making procedures, but also trace what Graham Allison (1971:171) refers to as the 'pulling and hauling' of politics, that is, the strategies that the actors use in order to persuade and manipulate others into accepting a new political orientation. Theoretical inspiration for this view can be drawn from the extensive literature on bureaucratic politics as well as the more limited literature on political manipulation in small group decision-making.

The causal dynamics of the model is illustrated in Figure 2. The three steps of (1) international and domestic factors , (2) individual decision-makers, and (3) the decision-making process is followed by Hermann's typology of foreign policy change. The typology is connected to two feedback arrows, indicating that once a change has taken place, this might affect international

and domestic factors, possibly contributing to a new round of foreign policy change.



**Figure 2.** The Causal Dynamics of Foreign Policy Change

#### *When Does Foreign Policy Change Take Place?*

It is one thing to outline some basic ideas on why foreign policy change might take place, quite another to formulate concrete propositions on when this is likely to occur. The absence of such propositions is in fact a common feature in the literature. While there are many conceptual discussions of the explanatory factors and political processes involved, there are few concrete suggestions as to when these might actually trigger changes in foreign policy. This is no doubt a consequence of the problems of theorizing about dynamics; it is much easier to present an explanation of why things are the way they are than of why they might at some point change into something new. Implicit in many of the existing contributions is therefore the idea of an inductive road to theory. It is hoped that rather than formulating theoretical ideas in advance, theory will grow from generalizations made on the basis of a larger sample of empirical studies.

While recognizing the difficulties involved, I believe that it is possible to let the description of the basic causal mechanisms be accompanied by a few more specific ideas about when these can be expected to trigger changes in policy. A popular notion in the literature on domestic reform processes is that of 'policy

windows', implying a moment of opportunity that can be used for introducing reforms. In Roger Kingdon's (1984:174) original formulation, this notion is drawn from 'space windows', referring to that particular moment in time when the stars are in the right position for a rocket launch. In contrast to rationalistic explanations of politics, which tend to see political change as a smooth adjustment to altered environmental circumstances, this type of perspective includes an element of chance.

At the center of Kingdon's analysis is the 'policy entrepreneur', placed either inside or outside the government, and who is strongly committed to some special reform. When the time is right, typically due to simultaneous changes in what he refers to as the 'problem stream' and the 'political stream', this individual seizes the moment and manages to put his or her favorite idea on the political agenda, persuading others that it would constitute an ideal solution to the problem at hand. Kingdon's notion of how changes takes place thus has a lot in common with the 'garbage can model' of politics which sees 'solutions' as floating around, waiting to be hooked up to some 'problem' (Cohen et al. 1972).

Policy windows open and close. Once a favorable situation has presented itself, it does not stay that way for very long. As noted by Kingdon (1984:178), all the really big steps therefore seem to be taken quickly or not at all. In a study containing a number of interesting amendments to Kingdon's ideas, John Keeler (1993:436) stresses the importance of crisis situations for this kind of extraordinary political action. Keeler points out that crises are associated with a sense of fear and urgency. They thereby have a tendency to unlock institutional structures and make it possible for determined policy-makers to undermine vested interests and overcome institutional inertia.

These basic ideas can easily be fitted into the model of foreign policy change. The individual decision-maker who interprets the sources of change and then acts within the decision-making process corresponds to the idea of the policy entrepreneur who capitalizes on a shift in the environmental conditions and manages to launch a favored political reform. After having succeeded in placing this reform on the political agenda, he or she acts in a strategic way, forming coalitions with like-minded colleagues and manipulating the political process in order to bring

about the desired outcome. The prospects for success will be enhanced if this can be tied to a crisis of some kind. Given the great weight attached to this element of the model, it is necessary to be more specific about its meaning. Following the conventional usage within the study of international politics, I understand a crisis situation to have the properties of (1) the perception of a threat to some established value, (2) uncertainty over the outcome, and (3) a shortage of time (Robinson 1968:508-510, Snyder and Diesing 1977:6-9, Lebow 1981:7-12).

In short, the three central elements included in my model of foreign policy change are *changes in fundamental structural conditions, strategic political leadership, and the presence of a crisis of some kind*. While still nothing like a theory, there is good reason to think that the simultaneous occurrence of these three conditions contribute to bring about a change in foreign policy.

## **PART II**

### **SWEDEN AND WEST EUROPEAN INTEGRATION**

### **3 SWEDISH INTEGRATION POLICY 1945-1972**

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In his provocative interpretation of the postwar development, the British historian Alan Milward (1992) portrays the European integration process as the 'rescue of the nation-state'. After having failed to fulfill their most basic functions, the continental states were by the end of the Second World War widely discredited. Instead of peace, prosperity and stable social conditions, Europe had been plagued by depression, authoritarianism, and another great war. In contrast to others, however, Milward claims that the integration process was never driven by an ambition to replace the state system with something new, but rather to restore its legitimacy. By cooperating along functional lines, the states helped each other regain the capacity to take efficient domestic action. The alternative would have been to take a more decisive step in a federalist direction, such as advocated by the United States.

While Milward's thesis is far from undisputed (e.g. Förland 1993), it does suggest a plausible interpretation of Sweden's reluctance to participate in this type of cooperation. The Swedish state was simply not in need of rescuing. The country had once again escaped the horrors of war, remained a stable democracy, and navigated through the economic problems better than most others. There is good reason to believe that the Swedish state was at this time more strongly supported by the general public than perhaps ever before. The postwar period was thus entered with two basic foreign policy objectives: to establish an international presence in order to safeguard Swedish national interests, while at the same time preserving the greatest possible freedom of national action.

At a time when international cooperation was being divided along East-West lines, these objectives often proved to be contradictory. Sweden chose to participate in the Marshall Plan, the OEEC and the Council of Europe. But it abstained from joining the federalist inspired ECSC and EEC. For a non-aligned

state with a strongly export-oriented economy, these organizations represented an unfortunate blending of politics and economics. As the importance of this strand of West European cooperation grew, however, it became urgent to reach an agreement. In the early 1960s this ambition took its outlet in an application for an association treaty with the EEC. Towards the end of the decade, Sweden considered joining as a member, only to discard this idea a few years later. In the early 1970s, the issue was then temporarily settled through the signing of the Free Trade Agreement with the EEC.

Throughout this period, Swedish decision-makers stressed the need to preserve national sovereignty. The supranational aspects of the EEC/EC were perceived as a threat both to the Swedish policy of neutrality and the construction of the welfare state. But variations in the Swedish posture—illustrated by the differences between the decisions taken in 1961, 1967, and 1971—indicate that this is an insufficient explanation. Swedish policy towards the West European integration process was influenced by a number of additional factors, such as the relationship between the superpowers, the state of the economy, and domestic political considerations.

This chapter discusses Sweden's policy towards the integration process from the beginning of the postwar period to the early 1970s. It is organized into three chronological sections: 1945-1959, 1961-1963, and 1967-1972. These correspond to the emergence of the conflict between Sweden's ambitions and those of the member states, the attempt to build a bridge between the two through an association treaty, and the subsequent vacillations between membership and a more limited economic treaty. Each section is provided with a brief subsection outlining the main features of the political and economic context in which Sweden's policy towards the West European integration policy was formed.

### **Sovereignty and Prosperity: 1945-1959**

The creation of the United Nations in 1945 was the first major attempt to facilitate international cooperation in the postwar era. In contrast to what had been the case with the League of Nations, Swedish entrance was never associated with any do-

mestic controversy. Although the charter stipulated certain restrictions on national sovereignty, the veto given to the permanent members of the Security Council implied that the consequences of this would be limited. Shortly thereafter, this was followed by a series of international initiatives with the aim of establishing closer ties between the West European states. In each instance, Sweden had to define an acceptable trade-off between the advantages of participation and the restrictions on the national sovereignty.

### *Contextual Conditions*

This period covers the emergence of the international conflict pattern known as the Cold War. The relationship between the former wartime allies quickly deteriorated into one of mutual hostility and the formation of two opposed military blocks.<sup>7</sup> Although the tension gradually spread to other parts of the world, Europe was the center of attention during the initial stages. The Soviet Union insisted on installing Communist regimes in the countries occupied by the Red Army. The United States formulated the Truman doctrine and took over Great Britain's role in Greece and Turkey. At the core of the emerging dispute was the unresolved problem of how to deal with the occupied Germany. Towards the end of the 1950s, the German Question became strongly inflamed, with thousands of refugees coming from the East to the West, and Soviet leaders pushing hard for an agreement on a more permanent status for the divided city of Berlin.

The ambition to restore the economic and political strength of Western Europe led to the creation of a vast number of interna-

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<sup>7</sup> Historians distinguish between three competing interpretations of this development: traditionalism, revisionism and post-revisionism. Whereas the first sees Soviet expansionism as the main trigger, the second emphasizes the US ambition to contain communism, and the third takes a more complex view by acknowledging the role of strategic as well as ideological motives on both sides. Lundestad (1992) provides a textbook account of international political development during the postwar period, written from a post-revisionist perspective. For an interpretation that focuses more specifically on the relationship between the United States and its West European allies, see Duignan and Gann (1994).

tional regimes and organizations. Among these were the IMF, the IBRD, the OEEC, NATO, the Council of Europe, GATT, the ECSC, the EEC, and the WEU. Some of these were initiated and established under U.S. leadership, others had European sources and aims. All, however, had an obvious meaning in the East-West context. In a corresponding manner, the Soviet Union established such arrangements as Cominform, CMEA, the Warsaw Pact, and the Soviet-Finnish Treaty of Friendship, Cooperation and Mutual Assistance (FCMA).

In Sweden, the domestic political development of the first postwar years is known as *Skördetiden*, characterized by the introduction of a large number of social reforms.<sup>8</sup> After having withstood a strong attack by the opposition in the election of 1948, the Social Democratic Party (SAP) in 1951 entered into a coalition government with the Agricultural Party which lasted until 1957 when an emerging conflict over the introduction of a new pension system led to a return to a more heated political climate.<sup>9</sup> The ATP Battle, named after the SAP's winning alternative, constituted something of a breaking point after which a period of successive electoral improvements for the opposition parties came to an end, and the SAP regained its image as the leading reformist force in Swedish politics. Throughout this period, the economic development proved to be much more benign than what had been expected at the end of the war.<sup>10</sup> With the help of an undervalued Krona and favorable international developments, Sweden experienced annual GDP growth levels of four to five percent, broken only by minor recessions in 1951 and 1958-1959.

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<sup>8</sup> Textbook accounts of Swedish politics during this period are provided by Birgersson et al. (1984), Lewin (1992a) and Hadenius (1995).

<sup>9</sup> Over time, the Swedish political parties have modified their ideological orientations, and in most cases also changed their names. Throughout this study, however, I will use the labels the SAP, the Conservative Party, the Liberal Party, the Center Party, and the Communist Party. These refer respectively to Socialdemokraterna, Högerpartiet/Moderata samlingspartiet, Folkpartiet, Bondeförbundet/Centerpartiet, and Sveriges kommunistiska parti/Vänsterpartiet kommunisterna.

<sup>10</sup> For discussions of Sweden's economic development and the general orientation of economic policy during the first postwar period, see Lindbeck (1975), Lundberg (1983) and Larsson (1991).

### *Swedish Integration Policy<sup>11</sup>*

The first international initiative that required a Swedish response was the launching of the Marshall Plan in the spring of 1947. While this idea had clear political implications, the Swedish government chose to downplay these and instead emphasize its economic benefits, ultimately deciding to join in the plan. In an attempt to reduce the connection to the emerging East-West conflict, the Swedish government suggested that the administration of the plan should be handled not by the OEEC, but by the ECE, a UN organ in which the Soviet Union was also a member. This proved to be futile and in 1948, Sweden became a member of the OEEC.

Sweden received loans and ‘conditional assistance’ amounting to roughly 118 million US dollars distributed over a three year period. During the peak year of 1948-1949, money from the Marshall Plan financed 37 percent of Sweden’s total imports. By accepting loans and assistance from the United States, Sweden also chose to participate in the economic embargo against the Eastern bloc. While Sweden did not become a formal member of the COCOM organization that administered the embargo, the government gave informal assurances to comply to the restrictions on a unilateral basis.<sup>12</sup>

The decision to participate in the Marshall Plan must be viewed in the light of a severe shortage of dollars and a balance of payments crisis. But there were also other reasons. In 1946 Sweden had decided to grant a large export credit to the Soviet Union, something that had been strongly criticized by the United States.<sup>13</sup> From the Swedish government’s point of view,

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11 The following section draws largely on af Malmborg’s (1994) incisive study of Swedish policy on Europe in the 1940s and 1950s. More general accounts are found in Bergquist (1970) and Andrén and Möller (1990).

12 Recent historical research also suggests that the influence exercised by the U.S. contributed to discourage an alleged socialization drive by the SAP, primarily the idea of transferring the oil industry to state ownership. See Jonter (1995).

13 The credit had been motivated by the expectations of poor economic development after the war. But there also seems to have been some ideas that Sweden could serve as a ‘bridge-builder’ by contributing to reduce Soviet distrust of capitalist states. See Noreen (1994:100-103) and B. Karlsson (1995).

there was at this time a need to balance what might otherwise be perceived as Swedish compliance to Soviet requests. By taking part in the Marshall Plan, Sweden could signal that it conducted an independent foreign policy, unlike Finland at this time.

In the spring of 1949 Sweden was invited to participate in the establishment of the Council of Europe. This was initially met with little enthusiasm; few Swedes had been present at the 1948 congress in the Hague that had triggered the initiative. The Swedish government questioned what activities the new organization would engage in. Economic cooperation was already handled within the OEEC and other types of issues were handled within the UN. As security issues were to be excluded, however, the political imperative to participate became too strong. In the ensuing discussions about the character of the new organization, Sweden sided with Great Britain and the other Nordic countries in advocating traditional intergovernmental principles of cooperation and blocking all moves towards a federalist direction.

The launching of the Schuman Plan and the creation of the ECSC in 1951 touched more directly on Swedish interests. Since this constituted an alternative path by the states that had been dissatisfied with the weak character of the Council of Europe, the Swedish government was not attracted to the political aspirations. But steel production was one of Sweden's most important export industries and the new organization was viewed as a large cartel that might have profound consequences for the international steel market. While never seriously considering to become a member of the ECSC, Sweden established a diplomatic representation with the High Authority in Luxembourg.

The Swedish posture became more complicated in relation to the so called Eden Plan in 1952. In an attempt to increase its influence over activities in which it did not participate, the British government suggested that the organizational diversity of European cooperation should be overcome by a transfer of all forms of cooperation—including the ECSC, the future defense cooperation, and customs union that its member states were planning at the time—to the overarching framework of the Council of Europe.

After having relied on coinciding interests with Great Britain, Sweden now stood alone. Even though it would be possible to abstain from taking part in the military cooperation, the very fact that this would become a part of the Council of Europe was unacceptable for the Swedish government. Thus, the government argued strongly against the plan; at a ministerial meeting within the Council of Europe, its representative Dag Hammarskjöld declared that Sweden would consider leaving the organization if it was realized. The situation was resolved, however, when the French parliament refused to ratify the creation of a European Defense Community (EDC) in the summer of 1954.

Swedish policy was more offensive in the promotion of free trade. When several rounds of GATT negotiations in the late 1940s and early 1950s resulted in modest reductions of tariffs, Sweden and a number of other trade dependent countries tried to proceed faster than what was possible in this context. In response to a Swedish proposal, these states established the so called 'Low Tariff Club' within the Council of Europe. In order to increase political support for the idea, the club chose to rally around a British proposal for a Wider Free Trade Area (WFTA), implying that tariffs on industrial products would be abolished between all the OEEC states.

These ambitions were in conflict with those that guided the establishment of the EEC in 1957. After having failed to realize their ambitions through the Council of Europe and the EDC, the states that were inspired by federalist ideas now added a customs union to their cooperation within the ECSC. The possibility of entering into the EEC was never seriously considered in Sweden. The government had already, at an earlier stage, distanced itself from this particular strand of European cooperation. Studies made by the Swedish Board of Commerce also indicated that Swedish participation would be associated with considerable economic costs. The EEC was thus met with criticism from the Swedish government, regarding the protectionist and regulative aspects of the organization.

The efforts to gather support for the British proposal of a WFTA were now intensified. Negotiations were initiated with the members of the EEC over the creation of a more comprehensive free trade arrangement. When these broke down in 1958,

the proponents of the WFTA decided to go ahead and realize their ambitions on a more limited basis. The British government submitted to Sweden and Norway to work out a suggestion as to how this could be done. In the summer of 1959, representatives of six governments met in Saltsjöbaden near Stockholm to sign the treaties establishing EFTA.<sup>14</sup> In addition to creating a free trade area for industrial products, the signatories explicitly stated that the aim of the organization was to create a stronger platform for continued negotiations with the EEC.

Throughout this period, Sweden was highly active in trying to promote closer cooperation between the Nordic countries. In 1948-1949, negotiations were held over the formation of a Nordic defense alliance that would include Sweden, Norway and Denmark. Recurrent discussions were also held over a Nordic customs union. Neither of these two ambitions could be realized.<sup>15</sup> They do indicate, however, that in this particular context, the Swedish government was prepared to accept much more comprehensive forms of international cooperation than it otherwise deemed possible. It might therefore be concluded that the Swedish attitude was largely determined by the prevailing power relations. Within this group of states, Sweden had a position similar to that of France within the EEC. Formal limitations on its freedom of national action could be accepted, given that its political and economic strength would guarantee a strong influence on the common political orientation.

The most successful attempt at establishing closer Nordic cooperation was the formation of the Nordic Council in 1952. Having been based on much lower ambitions than the defense cooperation and the customs union, the Nordic Council was designed as a purely intergovernmental organization. While it

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<sup>14</sup> The original six signatories were Sweden, Norway, Denmark, Great Britain, Austria and Switzerland. Soon afterwards Portugal became the seventh member. For a detailed account of the creation of EFTA, see af Malmborg and Laursen (1995).

<sup>15</sup> The Nordic defense negotiations failed due to different views on what the relationship should be to the other Western states. Whereas the Swedish government pictured the arrangement as a territorial expansion of the Swedish policy of neutrality, the Norwegian government sought stronger connections to the United States. The perceptions of the international situation that guided the Swedish and Norwegian governments are studied in Noreen (1994).

would later be provided with a somewhat stronger organizational structure, the Council mainly developed into a forum for discussions about the main lines of an integration process that seemed to proceed outside the procedures for common decision-making, justifying its characterization as 'a parallel national action process' (Nielsson 1990).

The different Nordic initiatives were generally triggered by international events: the defense negotiations were a response to the formation of NATO, the customs union was launched in connection to the Marshall Plan, and the Nordic Council was inspired by the Council of Europe. The historian Bo Stråth (1980:112-113) has therefore argued that Sweden and the other Nordic states never really saw the intra-Nordic cooperation as a goal in itself. It was instead a way of strengthening their bargaining position in a wider international context. While this interpretation provides important insights, it also risks underestimating the will to strengthen the ties between the Nordic states; despite the weak institutional foundations, it was still possible to achieve a level of integration that in some ways went beyond that of the EEC.<sup>16</sup>

From the end of the war and throughout the 1950s, there was little domestic controversy over the main lines of Swedish policy on Europe. The federalist ideas that flourished on the continent never really entered the Swedish political debate. Mikael af Malmborg (1994:391) has shown that the federalist advocates were limited to some conservatives that established a weak branch of the European Movement, a small number of internationally oriented social democrats and the politically insignificant syndicalists. The government's emphasis on intergovernmentalism and the promotion of Swedish trade interests during this period were strongly supported by both public opinion and the political opposition.

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<sup>16</sup> Two of the main works on intra-Nordic cooperation, Solem (1977) and Sundelin (1978), emphasize the progress that was made and partly attribute this to the very fact that it was based on a different formula than the EEC. A more skeptical view is conveyed by Miljan (1977).

## **Politicization and Association: 1961-1963**

The creation of EFTA constituted a temporary solution for those states that preferred intergovernmentalism over supranationalism as the guiding principle for West European cooperation. But Great Britain's commitment to the new organization was low from the very beginning; while Sweden and the other small states would gain significantly from better access to the large British market, Britain itself would benefit less, especially since the markets of the smaller states were relatively open to begin with. The British government indicated in 1960 that it was drifting away from its earlier position by declaring itself prepared to enter the ECSC and Euratom. On May 31, 1961, Prime Minister Macmillan then announced that the government would apply for membership in the EEC. The Danish government immediately declared that it would follow the British example and it seemed likely that the Norwegian government would choose to do the same.

The situation had now been fundamentally altered. Without three of Sweden's leading trading partners, EFTA would be of limited significance. Despite British assurances to the contrary, it was also clear that the idea of establishing a WFTA had been severely weakened. It had therefore become necessary to determine whether Sweden should follow the other countries into the EEC. The domestic consensus was at this point dissolved; the European Question became politicized and the first real debate concerning Sweden's relationship to the integration process occurred.

### *Contextual Conditions<sup>17</sup>*

This period covers the peak years of the Cold War. The controversy over Berlin took a dramatic turn in the summer of 1961 when the East German government began erecting the wall that would make the division of the city into a permanent condition. A few months later, this was followed by a deterioration in the Nordic security situation as the Soviet Union accused Swedish 'military circles' of being involved in an anti-Soviet campaign

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<sup>17</sup> For references see footnotes 6, 7 and 9.

orchestrated by West Germany. With reference to the FCMA Treaty, the Soviet leadership therefore requested that the Finnish president should meet with the Soviet leaders for consultations. The international tension then culminated with the Cuban Missile Crisis on October 1962. While this was hardly clear at the time, the peaceful resolution of the crisis marked the beginning of a period characterized by less hostile relations.

On the domestic scene, the SAP had entered the 1960s strengthened by the victory in the battle over a new pension system. For the first time in the postwar period, the party in the municipality elections of 1962 gathered a majority of the votes. Among the non-socialist opposition parties, there was a great deal of disappointment and exchanges of accusations about who was to blame for the failed attempt to seize power. The economic development was characterized by strong expansion, reaching its peak in 1961 with over five percent GDP growth. This was followed by a mild recession in 1962-1963, after which the economy set off on a growth path that would continue throughout the 1960s.

#### *Swedish Integration Policy<sup>18</sup>*

The Swedish government appears to have been relatively unprepared for the British reorientation towards the EEC. The then Prime Minister Tage Erlander (1982:117-119) writes in his memoirs that he consulted a number of foreign statesmen in order to hear their views on the character of the EEC and how this might develop in the future. He claims that his own view was finally determined during a meeting with the Socialist International in the summer of 1961. The other participants had allegedly emphasized the role of the EEC in the East-West conflict and described it as an economic complement to NATO. They had thereby confirmed the opinion given to Erlander earlier from the Belgian Foreign Minister Paul-Henri Spaak and the West German Foreign Minister Walter Hallstein.

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<sup>18</sup> Swedish policy towards the EEC during this period is covered by Bergquist (1970), Miljan (1977:239-250), Viklund (1977:28-32), Andrén and Möller (1990:163-166), Gidlund (1992:31-33), M. Karlsson (1995:83-139), af Malmborg (1996) and Miles (1997:89-109).

When the Advisory Committee on Foreign Affairs met on August 17, 1961, it became clear that there were diverging opinions on how Sweden should respond. The way Erlander tells it, the leaders of the Liberal Party and the Conservative Party, Bertil Ohlin and Jarl Hjalmarsson, both recommended that the government should investigate the possibility of becoming a member of the EEC while obtaining certain exception clauses for Sweden's policy of neutrality. Erlander did not believe in this idea, and neither did Foreign Minister Östen Undén who had discarded the possibility in a public declaration two weeks earlier. The leader of the Center Party, Gunnar Hedlund, shared the view of Erlander and Undén. In order to avoid open disagreement, however, the government decided to postpone the issue.

Within a few days, Sweden's unclear position led to international reactions. Austria's Foreign Minister Bruno Kreisky interrupted his vacation in order to come to Stockholm to discuss the issue. According to Erlander, the fact that the government appeared to hesitate, while two of the opposition parties and some major newspapers advocated seeking EEC membership, had given Kreisky the impression that Sweden might be drifting away from its policy of neutrality. A few days later there were similar reactions from the Swiss government which requested that in the event that Sweden was to join the EEC, this should first be discussed with the other European neutrals.

In order to put an end to speculation, it was decided that the government should clarify its views on Sweden's relationship to the EEC. This was done in an address given by Erlander at the congress of the Swedish Metal Workers Union on August 22, 1961. The 'Metal Speech', as it would later be referred to, was the first thorough discussion of this issue by a leading decision-maker, and it would color the public debate over the following three decades.<sup>19</sup> Erlander declared that it would not be possible for Sweden to follow the others into the EEC. The way Erlander saw it, there were two main objections, referring to both the internal and external aspects of national sovereignty. Membership in the EEC was thus believed to constitute a threat to both the

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<sup>19</sup> The speech had been written by Ambassador Sverker Åström together with Erlander's assistant Olof Palme (Ruin 1986:303). It is printed in Documents on Swedish Foreign Policy 1961.

## Swedish policy of neutrality and the continued construction of the welfare state.

Erlander's discussion of the policy of neutrality was organized along two different strands. The first was legalistic. He pointed out that by signing the Treaty of Rome, a state gave up the right to take independent decisions on its external trade policy. The way Erlander interpreted the treaty, this was to be determined mainly by the Commission, while the role of the national governments would be limited to presenting wishes and making recommendations.<sup>20</sup> As a member, Sweden would therefore risk having to participate in economic warfare against the Eastern bloc. Moreover, it was unclear how the treaty was to be applied in case of war. Erlander argued that if the assumption was that the cooperation would continue the same way as during peace-time, Sweden would not be able to fulfill its commitments to the Community without breaking the rules for neutrality laid down by international law.

The second strand of the neutrality discussion had a more political character and was based on the fact that all the members belonged to the same military alliance. While there was no formal connection between the two, Erlander argued that the EEC was often viewed as an economic complement to NATO. The United States had also encouraged the creation of the EEC and urged the member states to strengthen their cooperation. Against this background, Erlander declared that he did not believe in the idea of combining membership with exception clauses for the policy of neutrality. The members would hardly accept a state, he argued, that wanted to avoid the aspects of the EEC that they themselves viewed as the very heart of their co-operation. An application with that meaning would therefore not only be ineffective, but it could also be interpreted as 'a political move signifying that we were prepared to depart from our policy of neutrality and seek membership in the Atlantic Pact' (Documents on Swedish Foreign Policy 1961:122).

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<sup>20</sup> This was of course incorrect. While Erlander's words are not entirely clear on this point, it seems that he and his co-authors either misunderstood or deliberately chose to misrepresent the EEC's decision-making process on external trade policy.

Erlander's second type of objection to membership was based on a general skepticism towards submitting to supranational decision-making. He argued that Sweden had generally pursued more radical policies, and in some cases had served as a model by successfully introducing policies that were later taken over by others, such as the expansive economic policies of the early 1930s. According to Erlander, this would not have been possible if Sweden at that point had been bound by the kind of restrictions of sovereignty that the Treaty of Rome entailed. For the future, the government planned to continue along the path of social reform, in particular by expanding the active labor market policy. Erlander thus concluded that it was 'not surprising if we should have doubt about acceding to international agreements which can be expected to restrict our chances of pursuing this policy considerably' (Documents on Swedish Foreign Policy 1961:122).

In addition to raising these two objections, Erlander criticized the EEC for its high tariffs against poor countries, using some unusually sharp formulations. In sum, whereas Erlander briefly acknowledged the political ambitions of the member states, the speech was strongly organized around what he saw as the negative aspects of the EEC. In his analysis of the speech, Klaus Misgeld (1990:202) therefore concludes that it 'did not contain much of a positive view on Europe, but instead negative markings, and of course [domestic] interest politics inserted in criticism of the EEC.'

The 'Metal Speech' has been discussed extensively over the years. There is one aspect of the speech, however, that seems to have escaped most earlier observers.<sup>21</sup> Before bringing up the two primary objections to Swedish EEC membership, Erlander engaged in a lengthy discussion of the motives behind the British and Danish decisions. The British industry suffered from structural problems and was in deep need of both better access to the EEC and tougher competition at home. The United States had also exercised strong pressure on Britain to join. Denmark was also suffering from economic problems and was highly

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<sup>21</sup> See Bergquist (1970:47), Miljan (1977:244), Viklund (1977:29-30), Ruin (1986:302-304), Olsson and Svenning (1988:19-20), Gidlund (1992:31-32), Karlsson (1995:97-98). An exception is Stråth (1992:219-222).

dependent on the export of agricultural products to the British and West German markets.

The conclusion drawn from this was that Sweden did not suffer from any such problems. The Swedish economy was sound and strong, and much more diversified than the Danish one. Not until this had been firmly established did Erlander enter a more principled discussion of why the government chose to reject membership. In my mind, this indicates that the government's position was less rigid than what has sometimes been claimed. The policy of neutrality and the ambitions in terms of social policies were certainly interpreted as speaking against membership. But rather than as a matter of principle, this was a decision that had been reached after a more pragmatic consideration of potential advantages and disadvantages. Under different circumstances, the government might have come to a different conclusion.

The 'Metal Speech' was strongly criticized by the political opposition and the leading newspapers.<sup>22</sup> One reason for this was that Erlander had not mentioned any alternative to membership, thereby giving the impression that the government was prepared to sit by and accept a deterioration of Sweden's trade relationships. Two months later, however, the government declared that it intended to submit an application for 'association' to the EEC in accordance with paragraph 238 of the Treaty of Rome. While this provision in the treaty had originally been intended for regulating trade with the former colonies of the member states, the Swedish government hoped that it might also be used for negotiating the kind of tariff reductions that Sweden wanted to obtain.

The relationship to the EEC was debated in the *Riksdag* on October 25, 1961. The opposition parties retained the positions that they had taken during the summer. The Conservative Party and the Liberal Party both preferred an application for mem-

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<sup>22</sup> Nor was it uncontroversial within the government. Although he shared the view that membership was not possible, Foreign Minister Undén is said to have glanced through the manuscript and made the remark 'a very peculiar speech' (Erlander 1982:125). Undén was very much against the passing of moral judgments on the behavior of other states, see his 'Realism och idealitet i utrikespolitiken', reprinted in Andrén and Landqvist (1965:130-136).

bership that would be accompanied by a request for exception clauses for the policy of neutrality. The Center Party was against membership and adhered to the idea of an association treaty. The Communist Party was against both forms of accession to the EEC. A broad majority could eventually be formed, however, as the proponents of membership decided that association was better than no agreement and thus chose to support the application suggested by the government.

The application was submitted to the EEC on December 15, 1961. It had been coordinated with similar applications from Austria and Switzerland. The short text stated that association with the EEC in accordance with paragraph 238 of the Treaty of Rome 'seems to constitute a suitable basis for a solution that would be compatible both with the integrity of the Community and the neutrality of Sweden, Austria and Switzerland' (Documents on Swedish Foreign Policy 1961:139). The Swedish posture was then made more specific when Minister of Foreign Trade Gunnar Lange met with the EEC Council on July 28, 1962. In addition to repeating Sweden's interest in finding an economic solution, Lange presented three reservations necessary for the policy of neutrality. The government wanted an agreement that would make it possible for Sweden to (1) determine its own trade policy towards third countries, (2) protect the production of certain strategic goods, and (3) abstain from implementing such measures that might infringe on neutrality, in the ultimate case to withdraw from the arrangement.

Negotiations were at this stage never initiated. In January 1963, the French President, de Gaulle, declared that France would not accept British entrance into the EEC. In practice, this meant that the whole idea of enlarging the EEC had been taken off the political agenda. Sweden's attempt to build a bridge between the two different conceptions of West European cooperation had thereby failed.

### **Advancement and Retreat: 1967-1972**

A new Swedish attempt to reach an agreement with the EEC was initiated in 1967. Just like six years earlier, this had been triggered by Great Britain. The new Labor government in Great Britain had decided to test the EEC's resolve by submitting a

second application for membership. Discussions within EFTA had also made it clear that the British government would negotiate only for itself and not insist on a solution that would cover the other EFTA states, something which it believed had contributed to the rejection in 1963. The British application was followed by applications from Denmark, Norway, and Ireland. Thus, Sweden once again faced the question of whether to remain outside or follow the others into the EEC.

#### *Contextual Conditions<sup>23</sup>*

While the relationship between the superpowers continued to improve in the late 1960s and early 1970s, the basic features of the Cold War remained intact. The United States was militarily engaged in Vietnam, and the Soviet Union orchestrated the Warsaw Pact invasion of Czechoslovakia. Within the Western camp, there was now less cohesiveness and more independent behavior by the allies; France had chosen to withdraw from NATO's central military command and in West Germany the new *Ostpolitik* implied that the issue of reunification was toned down, both of which were viewed with great skepticism in Washington.

In Sweden, the non-socialist opposition parties made a new collective attempt in 1968 to remove the SAP from power. Just as in 1948 and 1958, however, the voters chose to rally around the SAP and once again the party gathered more than 50 percent of the votes. The next national election was held in 1970 under a new electoral system. Under its new leader Olof Palme, the SAP had a poor election and continued to govern only with support from the Communist Party. Despite the weakening of the SAP, the political climate took a distinct leftist turn. As in many other Western societies, this was symbolized by the radicalization of students, wildcat strikes and an effort by the Communist Party to improve its democratic image by reducing its ties to Moscow.

After a long period of strong economic growth, there were in 1969 signs of overheating, with an accelerating rate of inflation and a growing deficit in the current account. Economic policy

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<sup>23</sup> For references see footnotes 6, 7 and 9.

was given a restrictive orientation, resulting in an unusually deep recession in 1970. Spurred by an international boom, the economy then recovered in 1972, entering a period of growth that would be ended by the effects of the first oil crisis in 1973-1974.

#### *Swedish Integration Policy<sup>24</sup>*

Sweden now tried a different approach. On July 26, 1967, the government submitted an 'open application' for cooperation with the EEC. The text stated that Sweden wanted to initiate 'negotiations with the EEC with the aim of making it possible for Sweden to... participate in the enlargement of the European Economic Community' (Utrikesfrågor 1967:138). But the text did not specify whether this concerned association, membership or some other form of accession. The Swedish government hoped that the EEC would agree to begin discussing the material content of an agreement, and leave the formal aspects until a later date. The written application was supplemented by a verbal message, delivered by the Ambassador to the EEC Sten Lindh, arguing that 'the Swedish government already in 1961-1962 considered membership to be a favorable form from certain points of view' (Utrikesfrågor 1967:139).<sup>25</sup>

Why did the Swedish government, only six years after Erlander's 'Metal Speech', now appear to be considering membership? There are, in my view, two factors that stand out as highly important for explaining the modification in the Swedish posture. The first concerns changes that had taken place within the EEC. In a public speech delivered on October 23, 1967, the Foreign Minister Torsten Nilsson declared that 'the developments since 1961 have given grounds for a more open attitude' (Utrikesfrågor 1967:54). Nilsson was referring to the fact that France, guided by de Gaulle's notion of *l'Europe des patries*, had managed to suppress the supranational aspects of the EEC. Due to the 1966 Luxembourg Accord, each member state now

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<sup>24</sup> There are several studies that discuss this phase of Swedish integration policy. Among these are Miljan (1977), Viklund (1977), Hancock (1972), Waite (1974), Stålvant (1978), Andrén and Möller (1990) and Gidlund (1992).

<sup>25</sup> The Swedish application and the verbal amendment are reprinted in Utrikesfrågor (1967:138-140).

enjoyed an informal veto right in the decision-making process. Viewed together with France's decision to leave the NATO's centralized military command, which had reduced the connection between the EEC and the Western defense alliance, it appeared as if the political ambitions of the integration process had now faded away. At this point, it seemed possible that the EEC might be transformed into a more conventional organization for international economic cooperation.

The second major factor that influenced the open application was presumably the domestic political situation. While they had eventually chosen to support the earlier application for association, the Conservative Party and the Liberal Party had both been highly critical of the government's dismissal of the membership option. In the new situation, these parties once again argued for a more open attitude. The fact that a national election was coming up in 1968, and that the SAP had suffered a severe setback in the municipality elections of 1966, meant that the government was now more inclined to meet these requests. Thus, the open application was partly a concession to these parties, and it did, after all, not imply a commitment to any particular form of accession to the EEC.

French resistance once again prevented the EEC from dealing with any of the applications. This nourished the idea of a closer Nordic cooperation and the governments of Sweden, Norway, Denmark, and Finland decided to make a new attempt at establishing a customs union. After two years of discussions, the prospects for such a project, referred to as Nordek, appeared to be very good. Just as in the 1940s and 1950s, however, the inherent tension between the foreign policies of the Nordic states prevented its realization. The Danish and Norwegian governments had emphasized that they did not view Nordek as an alternative, but rather as a complement to entering the EEC. With reference to this, the Finnish government declared in March 1970 that it would be unable to participate, thereby delivering a lethal blow to the whole arrangement.

In the meantime, an opening had finally arrived within the EEC. After de Gaulle's resignation in 1969, it had become possible for the EEC to address the question of enlargement. The Swedish position remained unaltered; membership was an option, provided that there could be a solution to the neutrality

problem. In the spring of 1970, Prime Minister Olof Palme visited the governments in Bonn, Paris, and London with the ambition of gaining acceptance for the Swedish requests. Palme's argumentation was based on the view that the EEC had a self-interest in Sweden's contribution to the political stability in Northern Europe, and that it therefore should treat Sweden generously and accept the idea of exception clauses for the policy of neutrality.

Formal negotiations with the EEC were initiated on November 19, 1970. But the preconditions for Sweden's open approach had then already begun to change. de Gaulle's resignation had not only made it possible to bring in new members, but it had also led to a revival of the political ambitions of the EEC. Before conceding to enlargement, the members were determined to consolidate their cooperation by deepening the level of integration. The plans for this were outlined in the so called Werner and Davignon Reports, suggesting that the customs union was to be accompanied by a monetary union and a formalized cooperation on foreign policy, which had been presented earlier during the year.

On March 18, 1971, Prime Minister Palme declared that the government no longer saw membership as a possible solution. This was said to be a direct consequence of the fact that the EEC Council two months earlier had taken a decision to accept the content of the Werner and Davignon Reports. Palme argued that since the member states now appeared to be determined to proceed in this direction, there was no longer any reason to assume that they would be willing to grant Sweden the necessary exception clauses. In order not to complicate the negotiations, the government had therefore decided to clarify to the EEC that it was an economic agreement and not membership that Sweden wanted.

The government's objections to the Werner and Davignon Reports were outlined in more detail in a speech delivered by Foreign Minister Torsten Nilsson on March 30. When commenting on the plans for a monetary union, Nilsson pointed out that the institutional aspects for this were still unclear, especially the decision-making procedures. Yet, he was of the opinion that even if this would take the form of an intergovernmental arrangement, 'it must be assumed that in practice the chances of

using the veto will be very limited in cases where the neutral stands alone' (Documents on Swedish Foreign Policy 1971:29). Nilsson went on to argue that 'the rules of decision-making cannot be ascribed any decisive importance when it is a question of taking up a position on economic integration with the creation of a union as its final goal' (Documents on Swedish Foreign Policy 1971:29). Consequently, rather than the formal limitations on national sovereignty, it was the political implications and the ambition to move further in a federalist direction that was depicted as the problem for the policy of neutrality.

The same reasoning applied to the planned arrangement for co-operation on foreign policy. The Davignon Report suggested only consultations, without any binding instruments for reaching common positions. But Nilsson argued that it was the symbolic meaning of this, and the explicitly stated ambition to move further in this direction that would be in conflict with the Swedish policy of neutrality. The authors of the report had written that the ambition was to 'demonstrate to all that Europe has a political vocation'. Given that the policy of neutrality implied that 'we shall be free to take our own stand and rely on our own judgment', such an arrangement could not be accepted. To do so might 'give the rest of the world the impression that our actions are dependent on consultations within a certain group of states' (Documents on Swedish Foreign Policy 1971:31).

In Erlander's 'Metal Speech' ten years earlier, the consequences for domestic policy had held a prominent place in the justification for writing off the membership option. This was now absent from the official argumentation. But this did not mean that it was no longer seen as a problem. The issue was addressed by Prime Minister Palme in a speech delivered to the *Riksdag* two months before the decision to write off membership was made public. Like Erlander ten years before, Palme argued that Sweden had traditionally held higher social ambitions than most other countries. Accordingly, Sweden would also in the future 'need a considerable amount of freedom nationally when we frame our social security policy' (Documents on Swedish Foreign Policy 1971:218).

That this was not mentioned in connection to the dismissal of membership can partly be explained by the ambition to gather

support from the political opposition. The Liberal Party and the Conservative Party were not as enthusiastic about the ‘uniqueness’ of the Swedish welfare state. They could, however, be expected to recognize the problems that the new development of the EEC caused for the policy of neutrality. But there were also other reasons. The ten years that had passed since 1961 had also shown that the implications of signing the Treaty of Rome were not as profound as the government had then believed. Nor were Sweden’s political ambitions so different from those of the member states as it might have first seemed. In contrast to Erlander in his ‘Metal Speech’, Palme thus pointed out, in his speech to the *Riksdag*, that ‘also other states have tried to solve their social problems in various ways’ (Documents on Swedish Foreign Policy 1971:218).

There are several claims of diverging attitudes within the cabinet on the membership issue (Viklund 1977:56, Olsson and Svensson 1988:26-27, Åström 1992:186-187). The younger generation of ministers—such as Olof Palme, Krister Wickman, Kjell-Olof Feldt, and Carl Lidbom—is said to have been more interested in the membership option than the older generation, especially Minister of Finance Gunnar Sträng. In his memoirs, Sweden’s chief negotiator at the time, ambassador Sverker Åström, presents an inside account of a cabinet meeting in the fall of 1970. After Åström had finished a presentation of the current situation in the negotiations, the floor went to Sträng who called for a much more restrictive Swedish posture. Åström claims that since he was aware of Sträng’s political influence, he jotted down a personal note saying that ‘any chance that the government would ever consider membership disappeared in the very moment that Sträng spoke’ (Åström 1992:186-187).

One of the reasons why Palme was not interested in challenging Sträng was probably the risk for internal strife within the SAP. The major political parties had chosen not to politicize the European Question in the electoral campaign of 1970, implying that there had been little public discussion of the consequences of EEC membership. But it was still possible to discern a considerable skepticism within the party. Among the bills that had been submitted to the local party congresses that were to be held later that same year, there were many that expressed a negative opinion towards membership (Gidlund 1992:27).

Furthermore, developments in Norway, where the question led to heated confrontations between 'yes' and 'no' fractions within the Labor Party, served as a discouraging example.

Sweden's ambitions remained high, however, even after the membership option had been written off. The Swedish requests were now specified as concerning a specially-tailored economic treaty. Sweden wanted not only to be a part of the Community's customs union, but also to participate in the efforts to increase the mobility of services, capital and labor, as well as a number of other areas of cooperation. This arrangement was to be governed by a set of institutions that would secure Swedish influence over the decision-making process. In practice, Sweden was asking to participate in all aspects of the EEC except those that had been outlined in the Werner and Davignon Reports.

The Swedish approach was never appreciated by the EEC. The Swedish government had ever since 1967 tried to maintain the initiative by stating Sweden's economic aims while at the same time stipulating the political reservations. It would then be up to the EEC to interpret these reservations and determine what kind of accession it was prepared to grant Sweden. From the perspective of the EEC, this raised the uncomfortable question of the 'real' purpose of the integration process, something which always threatened the fragile unity of the six members. The Swedish government was no doubt aware of this and hoped that the problems of specifying a lowest common denominator would work to its advantage.<sup>26</sup>

However, while Sweden's requests were generally met with sympathy in discussions with individual leaders of the EEC member states, this did not mean that they were prepared to take the same view when decisions were to be taken by the organization as a whole. The position of the EEC was decided

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26 A telling example of the government's calculations is found in a statement made to the press by Minister of Foreign Trade Gunnar Lange already in 1967: 'What we now need is a collective answer from the EEC to how it interprets its own founding treaty. If it then answers like this: you have your neutrality provisions, we respect them, but it means that you can only receive association. Well, then our answer will be this: Why? Why does neutrality exclude membership? And then we would try to get a discussion going that might be clarifying for both parties'. The statement is quoted in Viklund (1977:36).

upon at a meeting with the Council on June 16, 1971. The Council had been provided with a report prepared by the Commission which discussed the positions of Sweden, Austria, and Switzerland. The report pointed out that there were considerable differences in their levels of ambition, but that all three wanted to abolish tariffs on industrial products. The Commission thus made two recommendations: to either postpone the issue until a later date, or to offer all three free trade agreements covering industrial products.

In his study of the negotiations, Daniel Viklund (1977) claims that the Commission had been internally divided on the issue; a suggestion to advocate only postponement had allegedly been defeated by only a narrow margin. But the Council recognized that certain promises had been made to minimize the transition problems that would occur when some of the members of EFTA left this organization for the EEC. It thus chose to take the Commission's second recommendation as the basis for continued negotiations.

The Swedish government was strongly dissatisfied with this decision. Sweden was to receive the same treatment as Austria and Switzerland, despite the fact that these states had asked for less far-reaching types of agreements. A few months later, the government therefore made a new attempt to raise the level of ambition of the agreement by submitting a long memorandum to the EEC, repeating the Swedish requests and outlining a possible institutional solution. When this was once again turned down, the government eventually chose to accept the offer of a free trade agreement.

The negotiations concluded on July 22, 1972. The Free Trade Agreement (FTA) that was then signed between Sweden and the EEC implied that tariffs on industrial products would be gradually removed over a period of four years, in some cases up to eleven years. Similar agreements with the EEC were entered into by Austria and Switzerland, and at a later stage also by Norway and Finland. In the beginning of 1973, Great Britain, Denmark and Ireland became members of the EEC. The long attempts to achieve a wider arrangement for free trade in Western Europe had thereby come to an end.

The outcome was portrayed as a success by the Swedish government. But while the FTA would entail considerable advantages for the export industry, it was still clear that much of what the government had wanted to achieve had not been realized. Rather than a customs union, which was what the government had preferred, Sweden had been forced to settle for a free trade area.<sup>27</sup> Nor had it been possible to gain access to a number of other attractive areas of Community cooperation. All that remained of Sweden's higher ambitions was a 'development clause', stating in vague terms that the cooperation between the parties might be extended into new areas in the future.

The FTA was passed by the *Riksdag* on December 12, 1972. While the four major parties stood behind the decision, there were still differences between them. The Liberal party and the Conservative Party were highly critical of the fact that the EEC membership option had been discarded without prior consultations with the opposition. Moreover, whereas the Liberal Party recognized that the internal development of the EEC made membership unfeasible, the Conservative Party argued that this option should have been retained. The position of the Center Party was, as it had been since the early 1960s, close to that of the government.

In the aftermath of the signing of the FTA, the American political scientist Donald Hancock (1974) conducted a study of the attitudes of the Swedish foreign policy elite. Based on structured interviews with 60 individuals occupying influential positions within the government, the *Riksdag*, the Advisory Council of Foreign Affairs and the media, the study showed that a clear majority was unsatisfied with the outcome. A sizable share of this group, which included people that were close to all four political parties, also stated that they would have preferred Sweden to become a member of the EEC. Hancock

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27 A customs union implies that the members not only abolish their internal tariffs, but also harmonize their external trade policies. This means that trade generally flows easier than within a free trade area where certain measures have to be taken in order to prevent goods produced in other states from entering through the member state with the lowest external barriers to trade. Which one is most favorable from an economic point of view, however, would depend upon the size of the customs union's external trade barriers. See Hansson (1990:111-113).

thus concluded that under favorable international political conditions, it might be expected that Swedish elites would seek to promote future EEC membership.

## **4 THE RETURN OF THE EUROPEAN QUESTION 1987-1990**

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In the aftermath of the signing of the Free Trade Agreement, the European Question more or less disappeared from the Swedish political agenda. The agreement had solved the most pressing trade problems and the internal development of the EC, characterized by budget controversy and increasing protectionism, served to reduce the attractiveness of membership. As long as the member states made little progress in deepening their level of integration, the fact that Sweden had failed to achieve a more extensive participation appeared to be of limited significance.

This changed in the mid-1980s when the new and unexpected momentum of the EC called the sufficiency of the FTA into question. The EC's Single Market project, implying a removal of all remaining non-tariff barriers to trade, would reintroduce an element of discrimination against Sweden. Thus, Sweden once again approached the EC, this time in concert with the other EFTA states, with the ambition to negotiate a new agreement short of membership. Shortly after formal negotiations had been opened, however, the government performed its EC policy re-orientation, declaring on October 26, 1990, that it now favored membership in the EC. After the new posture had been ratified by the *Riksdag*, an application for membership was submitted to the Dutch presidency of the EC Council on July 1, 1991.

This chapter explores the return of the European Question to the Swedish political agenda. It is divided into three sections. I begin by discussing the new momentum of the EC's integration process and the implications that this had for Sweden. I thereafter discuss Sweden's initial response to the development, concentrating on the attempts that were made to once again find a solution that would fall short of membership. In the last section, I then outline the main features of the subsequent policy reorientation.

## **The Revival of the Integration Process**

The fact that the European Question ceased to have a central place in the Swedish public debate did not mean Sweden's relationship to the EC ceased to develop beyond the FTA. While the 'development clause' was never formally invoked, the cooperation gradually expanded into a number of new issue-areas. In the spring of 1984, when the final provisions of the FTAs had been implemented, the Swedish Minister of Foreign Trade, Mats Hellström, suggested to his French counterpart Claude Cheysson that EFTA and the EC should make a joint effort to reduce also non-tariff barriers to trade. This initiative was well received and at a ministerial meeting held in Luxembourg, representatives of the 18 governments issued a declaration stating their ambition to develop the free trade area into 'a dynamic European Economic Space' (Pedersen 1991:20-21).

The declaration was followed by the establishing of a High Level Contact Group (HLCG) in which EFTA and EC representatives met on a regular basis. In practice, the so called Luxembourg Process, named after the place of the ministerial meeting, had a loose agenda, implying mainly consultations and exchanges of information on various issues with implications for trade (Pedersen 1994:26-28). But from 1984 to 1988, it still produced some substantial results, such as an extension of the FTAs to Portugal and Greece, a simplification of the rules of origin and an agreement on scientific and technological cooperation.

After a few years, however, this procedure was overtaken by the internal development of the EC. With the appointment of the Frenchman Jacques Delors in 1984, the EC had been endowed with an unusually energetic and reform-minded president of the Commission. Under Delors' leadership, the Commission in 1985 presented the so called White Paper on the completion of the Single Market. This text, which was approved at a meeting of the European Council in Milan on June 28-29, 1985, contained an inventory of around 300 measures that needed to be taken in order to fulfill the ambition of a common market with free movement of goods, services, capital, and people. This was accompanied by a timetable, outlining the implementation process over a period of seven years. The Single Market, later

mainly referred to as the Internal Market, was thus to be realized by the end of 1992.

Unlike earlier reform attempts, the Single Market project quickly gained momentum and the EC entered its most dynamic phase since the late 1950s. The market project was, in 1987, followed by the Single European Act (SEA) which constituted the first major reform of the founding Treaty of Rome. In addition to facilitating the implementation of the White Paper measures by establishing qualified majority as the main rule of decision-making, the SEA brought a number of new areas of cooperation—such as monetary policy, research and development, regional policy and foreign policy—into the overarching framework of the EC. Taken together, these two reforms indicated that the period of stagnation was now over. The EC had become the unrivaled center of West European economic cooperation.

There have been numerous attempts to explain this development (e.g. Sandholtz and Zysman 1989, Keohane and Hoffmann 1991, Moravcsik 1991, Cameron 1992, Kelstrup 1992). In their overview of different explanatory approaches, Robert Keohane and Stanley Hoffmann (1991:18-25), outline three contending explanations: (1) the ‘spillover hypothesis’, which draws on neofunctionalist integration theory and argues that the expansion of the Community created institutional problems that could only be resolved by moving to a deeper level of integration, (2) the ‘political economy hypothesis’, which focuses on the external environment and the need to maintain West European competitiveness in an increasingly mercantilistic world economy, and (3) the ‘political convergence hypothesis’, which draws attention to the fact that the political orientation in all the major member states shifted in the same direction. Considering the poor predictive record of all these approaches taken by themselves, Keohane and Hoffmann suggest that all three should be consulted for a better understanding of the development.

In the Commission’s much noticed research project on the implications of the Single Market project, presented in the so called Cecchini Report, it was argued that the removal of remaining barriers would lead to economic gains corresponding to between four and seven percent of the EC’s total GDP (Cecchini

et al. 1988:103). It was obvious that this would have consequences also for Sweden. In the time that had passed since the first enlargement in 1973, the EC had by a large margin become Sweden's most important trading partner, receiving 53 percent of exports and supplying 56 percent of imports (Sverige-EFTA-EG 1988:140).

In the absence of a new agreement, there would still be certain advantages forthcoming. When the members of the EC eliminated internal barriers to trade, Swedish export companies would also find it easier to manufacture and transport their products for the EC market. But for their competitors located within the EC, these advantages would be even more pronounced as they would benefit from the complete elimination of border controls. In order to enter the EC, Swedish products would also in the future have to go through often lengthy and costly control procedures. The Single Market project would therefore introduce an element of discrimination against Sweden that had been partly eliminated by the FTA.

Considering the complexity of the matter, Swedish economists were generally restrained in trying to evaluate the economic implications for Sweden. Considerable critique was also expressed against the Cecchini Report for making a number of questionable assumptions. But in a number of studies of different sectors, it was still argued that Sweden could generally be expected to benefit from participating in the deepening of the integration process (Hansson 1990, Flam and Horn 1990, Lundberg 1990, Lundborg 1990, Svensson 1990), a result that corresponded to a number of studies of the consequences for the EFTA group as a whole (Krugman 1988, Pintado 1988, Abrams et al. 1990).

The Single Market project carried other political implications that raised Swedish concerns. While the project was presented by the EC as a giant case of market liberalization, it could also be viewed as having a more defensive character. The deepening of the member states' internal level of integration might become a substitute for continued liberalization on a global scale, a scenario that was at this time depicted by the phrase 'Fortress Europe'. Such a development would strengthen the tendency of a division of the world into three distinct economic blocs centered around the United States, Japan and the EC, possibly le-

ading to a full-blown trade war. If this should turn out to be the case, not having full access to one of these centers might become very costly.

Against this background, the European Question moved back to the top of the Swedish political agenda. In the new situation, the existing channels for cooperation with the EC were found to be insufficient. Once again, Sweden faced the precarious task of trying to find a solution that would eliminate the risk for economic marginalization while preserving an acceptable degree of political self-determination.

## How Did Sweden Respond?

The government's response to the new development was presented in an unusually extensive bill (Proposition 1987/88:66) submitted to the *Riksdag* in the fall of 1987. While the government maintained that the obstacles to EC membership were still valid, it also argued that it had become necessary to take an initiative to participate in the process. Based on a strategy consisting of a combination of unilateral adjustment measures and new agreements with the EC, the objective for Swedish policy towards the West European integration process was described as 'the creation of a West European common market that would include all 18 countries of EFTA and the EC' (Proposition 1987/88:66:4). The bill pointed out that a customs union had been Sweden's preferred solution in the early 1970s, yet it left the institutional aspects of a new agreement open until discussions had been held with the EC.

Considering that Sweden had earlier failed to get the EC to go beyond a free trade arrangement based on an elimination of tariffs and quotas, why did it now believe that this would be possible? The way I see it, there were two conditions that indicated that this might be the case. The first was that the EC was to be approached by the EFTA states as a group, making the idea appear much more attractive than if Sweden acted on its own. The second was the fact that over the years, the EC had gradually taken a more open attitude towards cooperating with the EFTA states. Thus, the cornerstone of the strategy was the assumption that it would be possible to appeal to the EC's commitment to realize a 'European Economic Space'.

The 1987 government bill was accompanied by extensive party bills from all the opposition parties in the *Riksdag*. The Conservative Party and the Liberal Party confirmed their image as the most EC oriented parties in Swedish politics. The Conservative Party went the furthest; while the party did not explicitly call for membership, it rejected the government bill and argued that Sweden should not rule out any form of accession to the EC in advance (Motion 1987/88:U7). The Liberal Party supported the government bill, but added that in a longer time perspective, a situation might occur in which it would be possible to combine the policy of neutrality with membership in the EC (Motion 1987/88:U6). The Center Party supported the government bill, ruling out membership with reference to the policy of neutrality (Motion 1987/88:U5), and the Communist Party argued for rejection, claiming that it would bring Sweden too close to the Western military bloc (Motion 1987/88:U3).

The government bill and the party bills were submitted to the *Riksdag's* Standing Committee on Foreign Affairs. But because of the extensive implications, almost all of the other committees were involved in the process, issuing reports concerning their particular areas of responsibility. After three months of negotiations, an agreement was eventually reached that included all the parties except the Communists. On the sensitive question of membership, the parties managed to find a formulation that they all could agree on, stating that this was 'not an objective for the discussions with the EC that are now to be initiated' (UU 1987/88:24:19). The insertion of the word 'now' suggested that this might change at some point in the future, making the text acceptable also to the Conservative Party and the Liberal Party.

The negotiations in the *Riksdag* also resulted in a considerable upgrading of Sweden's ambitions. The government's formulations about a 'common West European market' were replaced by a more distinct declaration of intent, saying that 'Swedish citizens and Swedish companies should enjoy the same freedoms and rights in all areas covered by the White Paper as citizens and companies from the EC's member countries and that Swedes and Swedish companies should in no way be discriminated against' (UU 1987/88:24:19). The report from the Committee on Foreign Affairs was passed on May 5, 1988, by an overwhelming majority of the *Riksdag*. Sweden had thereby

adopted the extraordinary ambition of remaining outside the EC while at the same time having the same rights as the member states.

The new policy implied an extensive overhaul of virtually all aspects of Swedish public policy. In order to eliminate technical and non-tariff barriers to trade, Swedish legislation in a large variety of areas had to be made compatible with that of the EC. As an outsider, Sweden would not only have to adjust to the solutions chosen by the EC in the process of completing the Internal Market, but would also—within just a few years time—have to adopt large parts of the legislation that the EC had developed over a period of more than three decades.

In order to facilitate this endeavor, a number of organizational reforms were made within the government. At the ministerial level, a special group was formed—consisting of the Prime Minister and the Ministers of Foreign Affairs, Finance, Foreign Trade, and Industry—and provided with a special responsibility for policy on Europe. This was accompanied by a corresponding group at the level of Under-Secretary of State. Under the label of the Council on European Affairs, a channel was also opened for contacts between the government and leading representatives of the business community, the labor unions, and the universities. At the administrative level, 24 working groups were assigned the task of going through different issue-areas and identifying the required adjustment measures (Sverige-EFTA-EG 1988:136).

The next step that had to be taken was to contact the governments of the other EFTA states and explore the possibilities of establishing a common posture towards the EC. As the EFTA states had traditionally been divided on the preferred relationship to the EC, it was, at this point, far from certain that this would succeed.

### **From EEA to Membership**

The other EFTA states had at this point also evaluated the new situation and come to the conclusion that something had to be done. The decision to take a first common initiative was relati-

vely easy.<sup>28</sup> At a ministerial meeting in Finland, on June 15-16, 1988, representatives of the EFTA governments issued a joint declaration saying that they intended to approach the EC to discuss a major revision of the existing cooperation (Sverige-EFTA-EG 1988:12). The EC responded to this in an unexpectedly positive manner; in January 1989, President of the Commission Jacques Delors suggested in public that the two organizations might enter 'a more structured relationship with common decision-making and administrative institutions' (Europe Documents 1542/1543:9).

Despite certain problems with their internal unity, the EFTA states decided to accept the offer and enter into negotiations with the EC. From the spring of 1989 to the spring of 1990, the governments of the EFTA states and the EC Commission outlined the main features of a new arrangement, referred to as the European Economic Area (EEA), that would give EFTA access to the EC's Internal Market. When formal negotiations were initiated on June 20, 1990, it became clear that the EC took a less generous attitude than what had been indicated at the outset. Wary of its institutional autonomy, the EC was not prepared to meet the request for EFTA influence over the political orientation of the EEA. As the EFTA states tried to establish a connection between the outlying institutional questions and the demands for derogations from the EC's *acquis communautaire*, which was resented by the EC, the negotiations moved into deadlock. Thus, by the fall of 1990, the future for the EEA seemed highly unclear.

In parallel to this, the international political situation entered a state of flux, undergoing its most dramatic changes since the end of the Second World War. In the fall of 1989 and the spring of 1990, the communist regimes in Eastern Europe were ousted by popular uprisings. The Soviet Union, which was itself shaken to its very foundations, lost control over its buffer states and the Warsaw Pact ceased to function as a military alliance. At the center of attention was the 'two plus four negotiations' between the victors of the Second World War over the future of the two German states, resulting in a remarkably speedy reunification, formally completed on October 3, 1990. A month later,

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<sup>28</sup> For discussions of the developments in the other EFTA states at this time, see Laursen (1990), Wallace (1991), Pedersen (1994) and Luif (1995).

the leaders of the CSCE members signed the so called Charter of Paris, certifying that the former members of the Eastern block were now committed to upholding the principles of liberal democracy. In the shadow of the European developments, the United Nations was able to act with unparalleled resoluteness in confronting the Iraqi invasion of Kuwait, leading the U.S. president to talk about a 'New World Order'.

At the domestic level, the problems were at this stage piling up for Prime Minister Ingvar Carlsson's SAP government. After several years of high inflation and an overheated labor market, it had become clear that the economy was about to enter a major recession. Without a parliamentary majority of its own, the government found itself in a bargaining situation on every measure proposed to the *Riksdag*. In February 1990, after having failed to gather support for an economic austerity package, Carlsson and his government took the highly unusual step of resigning. As the opposition parties were unwilling to take over, the political crisis was resolved with the peculiar outcome that the Carlsson government took office once again. In a second attempt to come to terms with the economic developments, an unpopular agreement was reached with the Liberal Party, which included cutbacks of certain welfare systems and postponement of a number of promised social reforms. With the next election less than a year away, public support for the SAP fluctuated at around 30 percent, the lowest level ever recorded since the introduction of opinion polls (DN, October 20, 1990).

Against this background, the question of membership in the EC reentered the Swedish public debate. Ironically, one of the triggers came from a foreign source: the Danish Foreign Minister Uffe Elleman-Jensen. In a debate article published in *Dagens Nyheter* on March 23, 1990, Elleman-Jensen wrote that the contemplated EEA arrangement would fail to meet the Swedish government's expectations. He thus urged Sweden and the other Nordic EFTA states to reconsider their postures and apply for membership in the EC.<sup>29</sup> Some weeks later, this was followed

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<sup>29</sup> Elleman-Jensen's article, which was published simultaneously in all the Nordic capitals, raised considerable controversy. The Swedish Foreign Minister Sten Andersson accused him of making a clumsy intervention that might endanger the EEA negotiations. In a subsequent newspaper interview, however, Elleman-Jensen maintained that his timing had been well chosen, the

by a polemic exchange in the same newspaper between Anders Ferm and Carl-Johan Åberg, both top officials closely associated with the SAP, over whether the time was now right for the party to discard its traditional skepticism towards the EC (DN, April 4 and May 3, 1990).

On May 27, Prime Minister Carlsson himself chose to enter the debate, publishing a debate article in the same newspaper (DN, May 27, 1990). In retrospect, Carlsson claims that the article was misunderstood, allegedly caused by the headline, 'EC Membership Becomes Impossible', that was chosen by the sub-editor. Carlsson argues that the article was in fact intended as a first opening, testing the ground for a future reorientation. While the text did contain certain formulations that could be interpreted that way, it also included categorical statements in the opposite direction. Carlsson declared that if the EC was to proceed in strengthening cooperation within the EPC, which was something that had just been agreed upon at a meeting of the European Council in Dublin, it would not be possible to consider future Swedish membership: 'there lies the definitive limit... on questions of peace and war in the world we simply must determine our line of action by ourselves'.

If the article had in fact been intended as a first opening, it was no doubt a failure.<sup>30</sup> While Carlsson was quick to soften his statements in public, his article served as something of a catalyst for the debate, giving rise to a steady flow of critical responses from academics, retired diplomats, and unionists. Around the same time, Bengt Westerberg of the Liberal Party and Carl Bildt of the Conservative Party both declared that they wanted an application for membership to be submitted during the following electoral term, thereby breaking up the fragile party consensus that had been formed in the spring of 1988. The shift in elite attitudes was further underscored by

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aim being to gain a signal of forthcoming Nordic membership applications before the EC concluded the intergovernmental conference culminating with the Maastricht Treaty (SvD, April 10, 1990).

<sup>30</sup> According to a news article published a year later, Carlsson's article had been written by his press secretary Marita Ulvskog. Before being sent to *Dagens Nyheter*, it had been distributed to the Foreign Ministry where Foreign Minister Sten Andersson and Under-Secretary of State Pierre Schori made some minor changes (DN, June 13, 1991).

public statements in favor of membership made by representatives of the Swedish Federation of Industries (DN, June 6, 1990) and the main white-collar union TCO (DN, June 2, 1990). While the main blue-collar union LO remained behind the government's policy, two of its top officials expressed a positive view on membership and openly criticized the formulations in Carlsson's debate article (DN, June 7, 1990).<sup>31</sup>

In response to the new turn in the debate, Carlsson returned with a second article, this time taking a decidedly more open attitude (DN, July 5, 1990). Whereas Carlsson maintained that the EEA was the government's first priority, he indicated that there might be room for a change later on. This would be conditioned by the realization of an 'all-encompassing European peace order', as well as the continued development of the EPC. But instead of repeating the categorical statements of the first article, he now stated that it was 'a combined evaluation of these circumstances that will determine if we can apply for membership in the EC'.

In mid-September, Carlsson addressed the SAP's party congress, couching the possibility of an EC policy reorientation in even more positive terms (Documents on Swedish Foreign Policy 1990:82-83). At the request of the Minister of Foreign Trade Anita Gradin, the congress also issued a declaration that expanded the government's freedom of action, the crucial paragraph saying that 'An EEA Treaty does not exclude a future Swedish membership, if this should prove possible and desirable. This will be determined... by the development of the security situation in the world around us and how the EC's present members choose to develop their cooperation on foreign and security policy' (Protokoll från Socialdemokraternas kongress, September 18, 1990).

While the government had now moved a considerable distance from its original position, it still adhered to the view that there was no reason to consider an EC membership application in the imminent future. In her speech to the SAP congress, Minister of Foreign Trade Gradin had emphasized that such a discussion would have to await the conclusion of the ongoing EEA negoti-

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<sup>31</sup> For a discussion of the internal deliberations within LO at this time, see Misgeld (1997:285-300).

ations (Protokoll från Socialdemokraternas kongress, September 16, 1990). Shortly thereafter, Foreign Minister Sten Andersson declared in the *Riksdag* that he would 'answer the question of membership in 1993' (Riksdagsprotokollet, October 10, 1990).

As it turned out, the EC policy reorientation would come much sooner than that. In mid-October, the financial markets began to show their disapproval of the deteriorating economic developments, moving large sums of capital out of the country. Despite a sharp raise of the interest rate, the outflow continued, leading to rapidly shrinking currency reserves and a balance of payments crisis. In response to this, the government declared on October 18, 1990, that it was putting together an austerity package on short notice. In order to restore the lost confidence in the Swedish economy, the government was to present a number of structural measures and cutbacks of public spending amounting to 25 billion Kronor.

After a week of hectic bargaining and extraordinary measures, the package was presented at a press conference on the Friday of October 26, 1990. In a press release that had been distributed beforehand, the government declared, as the first item in a long list of measures, that it wanted 'a new decision by the *Riksdag* which more distinctly and in more positive wordings clarifies Sweden's ambition to become a member of the European Community' (Pressmeddelande, October 26, 1990). This statement expressed as a matter of course what was in fact a radical policy reorientation. After more than three decades of resistance, a Swedish government had for the first time decided to come out in favor of full participation in the West European integration process.

## **PART III**

## **SOURCES OF CHANGE**

## **5 INTERNATIONAL POLITICAL FACTORS: THE END OF THE COLD WAR**

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My model identifies international political factors as one of the sources of foreign policy change. In this chapter, I specify this as referring to the shift in the international balance of power that occurred as a result of the dramatic developments in Eastern Europe in the fall of 1989 and the spring of 1990, what is now generally referred to as the end of the Cold War. During this period, the liberalization process that had been initiated by the Soviet leader Mikhail Gorbachev underwent a radical acceleration. Within the course of just a few months, the Communist parties that had governed Eastern Europe since the late 1940s were ousted from power. The Soviet Union lost control over its buffer states and the Warsaw Pact ceased to function as a military alliance. The long period of bipolarity was thereby over, leaving the United States as the world's only remaining superpower and the world with a new and largely undefined set of power relations. In this situation, Sweden, like many other countries, faced the task of determining what implications this had for a security policy that had been developed within a very different context.

This chapter is divided into three sections. The first discusses the special characteristics of Sweden's security policy; I begin with a brief overview of theoretical approaches to the study of neutrality, then move on to outline the main features of the Swedish neutrality doctrine. The second section, which is based on a realist perspective on international politics, focuses on Sweden's international position and discusses how this was altered due to the end of the Cold War. I make two general points. The *first* is that the impact of the systemic change was not as dramatic as it might have seemed; Sweden had in fact for a long time been going through a process of relative decline, gradually reducing the effectiveness of neutrality as a solution to the Swedish security problem. The *second* point is that in the

new situation, the policy of neutrality had ceased to function as a power base for upholding Sweden's international position. When there was no longer an East and a West, being neutral was no longer 'something to be', raising the question of replacing what had been lost with something new.

In the third and final section, I then shift perspective and go down to the domestic level, asking to what extent the changes at the international level carried any implications for the formation of Swedish security policy. While it is true that international power structures push and shove, creating incentives for states to act in one way or another, it is equally true that states do not always respond with the kind of smooth adjustment predicted by realist theory. Security policies become institutionalized, implying that bureaucratic practices and vested interests serve as powerful obstacles to external pressure for change. As this has frequently been claimed about the Swedish policy of neutrality, I seek to estimate to what extent this was the case. After conducting an analysis based on the two notions of 'horizontal linkage' and 'vertical depth', I conclude that this policy was at this point less institutionalized than what might have been assumed, and thus that the end of the Cold War could be expected to have a stronger impact than what would otherwise have been the case.

## Neutrality in Theory and Practice

### *Theoretical Approaches*

Understood as a type of foreign policy orientation, 'neutrality' has been studied in three different ways, reflecting traditional divisions within the study of world politics: international law, balance of power theory and institutional theory. A fourth approach might be discerned in the form of idiosyncratic case studies; while this literature is quite extensive, it usually lacks theoretical guidance and has no ambitions of generating more general knowledge.

Students of international law emphasize that 'neutrality' is essentially a legal term, referring to a position of non-participation and impartiality in case of war between two or more states. The main legal source of wartime neutrality is usually un-

derstood to be the Hague Conventions of 1907. These stipulate that a neutral state should, among other things, defend its territory against all violations, abstain from giving military assistance to either side and balance any embargo it places on the belligerents (Cramér 1989:14-29, Strömberg and Melander 1989:135-137).

Students focusing on the international balance of power have, of course, been less interested in legal constructions, and thereby also in the term 'neutrality'.<sup>32</sup> This type of literature, however, is often concerned with states' alignment choices, such as the option of 'non-alignment' which reflects the more political aspects of neutrality. In studies focusing on small states, it is generally argued that they prefer to remain non-aligned, but if forced to choose, they will side up with whomever they see as the probable winner in a great power conflict (Baker Fox 1957:186-187, Rothstein 1968:11, Handel 1981:29). In the terminology made popular by Kenneth Waltz (1979:125-127), small states follow a strategy of 'bandwagoning' instead of the 'balancing' allegedly preferred by larger states; the logic being that since they are resource poor and cannot independently alter the balance of power, they will choose to act in a way that best safeguards their own core values.

These claims have been challenged by Eric Labs (1992) in a comprehensive study of the German unification process in the second half of the eighteenth century. Building on Stephen Walt's (1987) 'balance of threat theory', which argues that alignment is not only based on the distribution of power but also on the perception of threats, Labs argues that much of the conventional wisdom in this field is wrong. On the basis of a large number of empirical observations, Labs confirms that small states prefer to be non-aligned. But when the states in his study were put under pressure, the tendency for them to 'bandwagon' was markedly lower than what might have been expected. According to Labs, small states, much like larger states, usually 'balance' against large states that threaten them,

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<sup>32</sup> In a survey of no less than 63 textbooks in International Relations, Harjo Hakovirta (1988:1-2) found that roughly two thirds made no mention of neutrality at all, in the remainder it was generally mentioned in the passing as one out of several possible foreign policy postures.

even if this increases the risk of having to take part in military confrontations.

Studies that apply institutional theory to neutrality have been relatively scarce in the literature. In one of the few contributions to this genre, Harjo Hakovirta (1988:14-26) points to the differences between peacetime and wartime neutrality; whereas the norms for neutrality during war are well known, there is much less systematic knowledge on what neutrality requires during periods of peace. States that wish to take a neutral position in the case of war generally strive to create an image of 'credibility' and 'respectability' in the eyes of others. But after studying the postwar behavior of the European neutrals, Hakovirta concludes that the picture is scattered and that there are large differences between them. The norms of peacetime neutrality are therefore 'uncrystallized' and 'largely self-imposed standards tailored to meet the needs of the neutral states themselves' (Hakovirta 1988:258). He thus concludes that 'the main risk to peacetime European neutrality may lie in the neutrals growing temptation to believe that there are no limits to the flexibility of the normative principles of neutrality, or that these can be manipulated in a high-handed manner' (Hakovirta 1988:259).

A different approach to neutrality has been suggested by Walter Carlsnaes (1993b). He sees neutrality as a special type of power relationship in which the neutrals attempt to influence the superpowers not to violate their territory in the event of a future war. But in order to understand the logic of this policy, it is allegedly necessary to relax the rationalistic assumptions that are usually at the bottom of realist theories of IR. Over the years, the security policies of the neutral state have become institutionalized at the national level. The analyst must therefore not only analyze their behavior in light of the international balance of power, but also study the historical roots of this policy and the processes by which it has been transformed into rules and practices within each neutral state. Thus, the approach advocated by Carlsnaes means that balance of power theory is infused with institutional theory.

### *The Swedish Neutrality Doctrine*

Conventional wisdom argues that Swedish neutrality dates back to the first half of the nineteenth century and the reign of Charles XIV. This is correct in so far as that the former French Marshall elected heir to the Swedish throne sought to withdraw the country from its activist past and adjust to a new international balance of power. In the wake of the Napoleonic wars, Swedish foreign policy was conditioned by the rivalry between England in the west and Russia in the east, a geopolitical situation that has persisted since then, even if the identity of the powers has varied over the years. From the 1870s to 1945, Germany constituted Russia's main antagonist, a role that was then taken over by the United States.

The nineteenth century version of Swedish neutrality was characterized as 'independent', and it was not ascribed the permanent and unconditional qualities that it would later receive. The policy was motivated in pragmatic terms and the need to abstain from involvement in the rivalries of the great powers. Declarations of neutrality were issued in connection to international crises, but there were still great variations in the Swedish posture. Periods of cautious withdrawal were alternated with periods of more active engagement and partiality, generally to the favor of England, France, and Denmark.<sup>33</sup>

The notion of a more fixed neutrality doctrine was founded on the experiences of the twentieth century. Despite an initial bias in favor of Germany, Sweden escaped the First World War without taking part in the fighting. Though exposed to a British naval blockade, Sweden's territorial integrity was generally respected and the country could await the end of the war from the sidelines. The Second World War entailed a more complicated international environment. Sweden declared itself neutral in the war between the great powers. But when the Soviet Union attacked Finland, Sweden deviated from this and took a position of 'non-belligerent', supplying Finland with arms and equipment. After the 1940 occupation of Norway and Denmark, concessions were made to Germany in the form of the

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<sup>33</sup> Elgström and Jerneck (1997) provide one of the few theoretically guided accounts of Swedish security policy in the nineteenth century. A more descriptive but frequently cited account is found in Wahlbäck (1984).

admittance of troop transports over Swedish territory, some of which violated the rules of neutrality. Towards the end of the war, similar concessions were made to the allied forces (Carlgren 1986).

The long period of peace gave the policy of neutrality a strong standing in Swedish politics, ruling out Swedish participation in the Western alliance during the emergence of the Cold War. Unlike the policies pursued by other European neutrals, Sweden's neutrality was never codified in any binding way or guaranteed by the great powers. Swedish policy-makers have instead emphasized flexibility, arguing that 'we determine the policy of neutrality ourselves'. Yet there have been some norms guiding Sweden's conduct. Former ambassador Sverker Åström, one of the most influential foreign policy practitioners in the postwar period, has expressed the requirements of the policy of neutrality in terms of two principles: (1) '*to avoid making commitments* in peacetime that prevent us from fulfilling the obligations prescribed by international law for a neutral power in a war between other states', and (2) 'that we during peacetime pursue a policy that inspires and *sustains the confidence* of the rest of the world in our intention and ability to remain a neutral, independent state during wartime' (Åström 1983:9, italics in original).

The first principle implies that Sweden should avoid entering alliances and observe certain restrictions on its exports of arms and military equipment. The more specific implications following from this principle are possible to deduce from international law. The second principle is more problematic. This refers to the ambition to uphold the credibility of the Swedish neutrality posture. As credibility is a subjective quality, there are hardly any undisputed criteria for evaluating whether such an ambition is actually successful. Yet in the Swedish case, it has generally been argued that this is a function of a strong military defense, strong popular support for the policy, and an independent political profile on general foreign policy issues.

The last of these conditions is no doubt the most ambiguous, and thus also the most debated in the neutrality doctrine. Swedish governments have always emphasized that an independent foreign policy profile does not imply any form of ideological neutrality between East and West. Nor, it is maintained,

does it require any attempt to balance Sweden's trade between the two blocks. It has instead been taken to mean that Sweden should be a strong supporter of the principles of international organization and a sharp critic of great powers' violations of the rights of small states. It has further been interpreted as speaking against Swedish participation in certain types of international cooperation outside the military sphere, notably membership in the EC.

The Swedish neutrality doctrine must be understood in the light of the geopolitical situation. Although it was never officially admitted, the Soviet Union and its satellite states within the Warsaw Pact were viewed as the sole threat to the country's territorial integrity. Swedish military planning was also designed accordingly (Agrell 1994:16-20). Given this view, the overarching ambition was to reassure the Soviet Union that no military threat would emanate from Swedish territory, while at the same time maintaining a defense capacity that would deter Soviet expansionism. Furthermore, the Swedish neutrality posture was considered to be one component in a larger security pattern, sometimes referred to as the 'Nordic balance', with the aim of maintaining a low level of tension in Northern Europe. Denmark and Norway were members of NATO, while Finland had its special relationship with the Soviet Union. Sweden would therefore constitute a neutral buffer in the middle, strongly defended but without hostile intentions. Suggestions to strengthen ties with NATO were therefore discarded with reference to the idea that this would increase Soviet pressure on Finland and increase the tension in the Nordic region.

The special characteristics of the policy of neutrality have also led to a strong implicit norm against internal controversy. Since the government had something of a monopoly on the 'correct' interpretation of the policy, the level of politicization was relatively low; dissenting views were claimed to undermine the credibility of the policy and endanger national security. Certain issues did lead to controversy, but the political opposition generally preferred to adhere to the main political orientation (e.g. Goldmann et al. 1986, Björklund 1992, M. Karlsson 1995, Bjereld and Demker 1995). In the academic debate, it has been argued that the government sometimes used the policy of neutrality to justify actions that were in fact taken other reasons (Tarschys 1973). Another argument has been that Sweden's

criticism of great power violations of international law undermined the ambition to mediate in international conflicts (Wahlbäck 1973, Jerneck 1990b:135-136, Bjereld 1992:11-12).

Sharp criticism has also been delivered against the government's habit of making categorical statements about the requirements for upholding the credibility of the policy of neutrality. Kjell Goldmann (1973) has argued that since these requirements are impossible to know with any certainty, neutrality should be treated less as a dogma and more as an ordinary political issue where goal conflicts are openly acknowledged. Goldmann has also accused the government of giving too much weight to the verbal approval expressed by other states. Such statements were allegedly a poor guide to how these states would actually judge Sweden's intentions in a future crisis situation: A more valid indicator was instead to be found in basic structural conditions, such as military and economic resources.

More recently, a clear 'revisionist' tendency can be noted in the debate on Swedish security policy during the Cold War era. It is claimed that whereas the government proclaimed a policy of neutrality in public, Sweden was in fact engaged in extensive cooperation with the Western bloc. One aspect of this concerns trade policy and the fact that Sweden chose to abide by the Western embargo against the Soviet Union and its allies (B. Karlsson 1995). Another aspect concerns secret military cooperation and preparations for receiving Western assistance in case of an attack from the East (Agrell 1991, SOU 1994:11). While the source material is still somewhat unsatisfactory, it seems clear that Sweden had closer relations to NATO than what was earlier admitted.

### **System Change and Sweden's Relative Decline**

The following analysis of the development of Swedish foreign policy is based on a realist conception of international politics. As this theoretical tradition is both well established and thoroughly debated in the literature, I will only summarize its main features with three points. First, states are viewed as the main actors in world affairs; while other types of actors can sometimes also have an impact, these are seldom independent from the interests and manipulations of states. Second, since the re-

lationship between the states is based on the principle of sovereignty, the international system is understood as 'anarchic' in the sense that there is no overarching law enforcement. Third, because states are responsible for their own security, they are generally concerned with maintaining resources that can be used for exercising power. But since they can never be certain of the intentions of other states, the measures that they take to increase their own security tend to decrease the security of others, making the international system inherently competitive.

### *The Heyday of Swedish Diplomacy*

Any attempt to understand the postwar development of Swedish foreign policy must consider the fact that Sweden in the 1950s and 1960s developed an unusually strong resource base. The military build-up that had begun during the Second World War continued during the first postwar decades. By the mid-1960s, the Swedish military defense was considered one of the strongest in Europe. In particular the Swedish airforce was at this stage highly advanced and on par with those of the European great powers. The military capacity was further underlined by the fact that the country had its own defense industry, producing highly sophisticated arms and military equipment.

The military capacity was complemented by a strong economy. Untouched by the devastation of war, Sweden benefited greatly from the boom caused by European reconstruction. During the 1960s, the Swedish economy grew at an average annual rate of 4.5 percent. By 1970, Sweden was one of the wealthiest countries in the world, ranking third in GDP per capita (Henreksson 1992:21). Swedish companies were also highly competitive in some of the most advanced industries at that time, such as nuclear power, special tools, and fighter planes.

According to Kenneth Waltz's (1979) influential version of realist theory, the relative distribution of capabilities is the main determinant of a state's international power. Yet many authors have found this too crude, arguing that there are also other aspects of the international system that have a significant impact. These somewhat diffuse properties have been referred to as 'dynamic density' (Ruggie 1986:148-152), 'process' (Keohane

and Nye 1987:745-749), and ‘interaction capacity’ (Buzan, Little and Jones 1993:66-80). While these concepts are defined differently, they all suggest that room for action depends not only on capabilities, but also on such factors as the prevailing norms and rules, the level of technology, and the type and volume of interaction between the units.

Against that background, I would argue that there was another aspect of the international system in the 1960s that worked in favor of Sweden’s ambition to look after its national interests. This was the strong standing of the norm of ‘multilateralism’ (Ruggie 1993:8-14). At this stage, the great powers were still committed to discussing their differences within a multilateral context. This applied to both military issues, exemplified by negotiations on arms reductions within the Eighteen Nation Committee in Geneva, and economic issues that were discussed within the Bretton Woods institutions and the GATT.

For a state like Sweden, this presented the possibility of having a say in matters that would otherwise have been handled through bilateral contacts between the great powers. With its advanced military defense, strong economy, stable political system, well trained public servants, and high competence on such vital issues as, for instance, nuclear power, Sweden was well suited to capitalize on this opportunity. Moreover, due to the East-West rivalry, the Swedish policy of neutrality was at this point a valuable asset. During the Cold War, there was occasionally a demand for non-aligned states that could act as mediators, take independent initiatives, and chair multilateral discussions. Sweden was one out of relatively few states that could perform this function.

### *Sweden’s Relative Decline*

A state’s position in the international system might change very slowly, but it does change. Already in 1983, Gunnar Sjöstedt, of the Swedish Institute of International Affairs, stirred up some domestic debate when he published an essay entitled ‘Sweden—Small and Weak?’. After examining a large number of statistical indicators, Sjöstedt pointed out that Sweden’s resource base for exercising international power seemed to be going through a process of relative decline. Compared to the mid

1960s, the military defense was much weaker, the economy was less impressive, and there had been significant changes in the international system that worked to the disadvantage of a state like Sweden.

Sjöstedt suggested that after having once had the position of a 'minor great power', Sweden had now been transformed into a more ordinary small West European state. The short-term consequences of this could be expected to be limited and difficult to detect. In the long term, however, Sweden would find it difficult to uphold the role that it had carved out for itself on the international scene. As the shift in power became more manifest, other states would begin to treat Sweden in a more ruthless way and pay less attention to Swedish interests and opinions.

The trend detected by Sjöstedt was equally evident in the late 1980s and early 1990s. There are many possible indicators that could be used to illustrate this thesis. In the following, I will focus on three types of statistical aggregates that are often used to estimate a state's international power: expenditures on military defense, GDP per capita and the distribution of international trade.

From 1970 to 1990, Swedish defense expenditures declined from 3.6 to 2.4 percent of GDP (Table 1). This corresponded to a general development in the Western world, but the decline was still sharper in Sweden. It might also be speculated that the significance of the Swedish decline would have been even more pronounced if it had been possible to extract reliable figures for the Eastern bloc, in particular the Soviet Union. In the latter case, only the main features are clear; after a strong military build-up in the late 1950s and early 1960s, there was a slowdown in the 1970s, followed by a rapid increase in the 1980s. By the mid-1980s, Soviet defense expenditure was estimated to 18 percent of the national product (SIPRI 1991:139-141).

**Table 1.** Swedish Military Defense Expenditure, % of GDP

	1970	1980	1990
Sweden	3.6	3.0	2.4
OECD*	3.6	3.2	2.9

\*Includes Denmark, Norway, Belgium, France, Italy, The Netherlands, Portugal, Great Britain, Turkey, FRG, Canada, U.S.A., Sweden, Finland, Japan, Australia. Luxembourg is included for 1990 but not for 1980 and 1970. Spain is included for 1980 and 1990 but not 1970. Source: SCB, Statistical Yearbook of Sweden 1993.

Another indicator of defense expenditure is the size that this commands in the state budget. After having constituted nearly 15 percent in 1970, it had by 1990 been reduced to nine percent of all public expenditure. To some extent this reflects a growing budget; over these two decades, the state raised taxes and increased its social and economic commitments. Yet viewed together with the decline measured as share of GDP, it also illustrates a shift in the relative weight ascribed to defense.

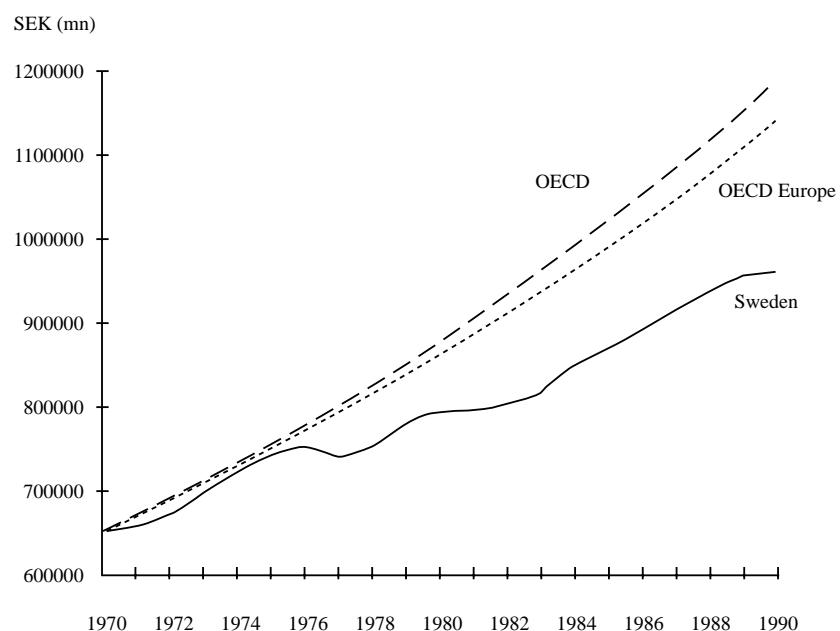
Sweden's relative economic decline is also quite obvious (Table 2). In 1970, it was one of the wealthiest countries in the world; GDP per capita exceeded the OECD average by no less than 69 percent. Two decades later, Sweden was still above the OECD average, but the difference had been reduced to 38 percent. Over the same period, Sweden's ranking within the OECD fell significantly, from third in 1970 to eighth in 1990, a position then shared with Denmark (Henreksson 1992:21).

**Table 2.** GDP per capita, US \$, current prices and exchange rates

	1970	1980	1990
Sweden	4,055	14,882	26,652
OECD*	2,401	10,241	19,334
% difference	69	45	38

\*Includes Sweden, Denmark, Finland, Iceland, Norway, Belgium, France, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Great Britain, FRG, Austria, Canada, U.S.A., Japan, Turkey, Australia, and New Zealand. Source: SCB, Statistical Yearbook of Sweden 1974, 1984 and 1993.

Economic growth rates had been falling throughout the Western world. But the decline was stronger in Sweden than in many other countries. From 1960 to 1990, Swedish real GDP grew at an average annual rate of 2.8 percent, whereas the corresponding figure for the OECD as a whole was 3.6 percent (OECD 1992:48). A further illustration of this is provided in Figure 3. While the curve for Sweden displays the real GDP development, the curves for OECD and OECD Europe displays the levels that these would have reached if they had started from the same point as Sweden in 1970.



**Figure 3.** Sweden's GDP Development Compared to Average GDP Development of OECD and OECD Europe 1970-1990 (1985 prices). Source: Henreksson 1992:12.

The third indicator of Sweden's relative decline is the distribution of its international trade. This is based on the assumption that large and strongly concentrated trade volumes tend to create dependencies that reduce national freedom of action. From 1960 to 1990, Sweden's trade underwent a quantitative change as the value of its exports increased from roughly 23 to 30 percent of GDP (OECD 1992:71-72). This development was

accompanied by a significant qualitative change. In the 1960s, the EFTA states emerged as Sweden's most important trading partners. During the 1970s and 1980s, however, this position was strongly overtaken by the EC, while trade with North America and other countries basically remained unaltered (Table 3).

**Table 3.** Sweden's International Trade Distributed on Groups of Countries, % of total exports and imports.

	1960	1970	1990
EFTA	29	42	18
EEC/EC	36	31	55
U.S.A. - Canada	10	8	9
Others	24	19	18

Source: SCB, Statistical Yearbook of Sweden 1962, 1971, 1993.

A great deal of this development can be explained by expansion of the EEC from six to twelve member states. But the ambition here is not to explain trade patterns, but rather to illustrate that a change had taken place in Sweden's international position. Whereas Sweden's trade had in the early 1970s been relatively balanced, with a certain predominance for the loose free trade arrangement of EFTA, it had by the early 1990s become strongly dependent on the much more politically driven EC.

The weakening of Sweden's military and economic resources coincided with a continuation of the systemic changes pointed out by Sjöstedt in the early 1980s, implying that the favorable conditions of the 1960s had now largely eroded. In the field of military security, the major actors were much less committed to multilateralism; negotiations on arms reductions were mainly handled through bilateral negotiations between the United States and the Soviet Union. This had been accompanied by an increase in 'summit diplomacy' through which the leaders of the great powers met face to face while being strongly covered by the media. Under such conditions, there was little need for the services of a third party.

In the economic field, the hegemonic position of the United States in the 1960s had now been replaced by a more dispersed power structure. This was a consequence of both the European reconstruction and the emergence of new important actors in the Middle East and South East Asia. There was still a kind of multilateral 'directorate', to use Sjöstedt's terminology, that had a strong influence on global economic transactions. But instead of the United States backed by the G-10, that had played this role when the Bretton Woods institutions began to tremble in the late 1960s, this was now the G-7 where the world's leading economies met on a more equal level. Whereas Sweden had been a member of the G-10 twenty years earlier, it had, of course, no place in the G-7.

Sweden's relative decline was accompanied by alarming signals from its military environment. Whereas the relationship between East and West underwent a general improvement during the second half of the 1980s, it was far from clear what this meant for Northern Europe. As Soviet troops were withdrawn from Central Europe, they were generally restationed to the Leningrad area and the Kola peninsula, thus altering the balance of power in the Nordic region.

This was accompanied by reports of violations of Swedish waters by foreign submarines. These violations were a recurrent theme in the 1980s, and there were no signs that the number of reported incidents would decrease in response to the general improvement in the international political situation. The identity of the foreign submarines was difficult to determine. But because of the much publicized 'Whiskey on the rocks' incident in 1981, when a Soviet submarine was found stranded not far from the naval base outside of Karlskrona, it was widely held that they belonged to the Warsaw Pact (Agrell 1986, SOU 1983:13:57-65).

### *The End of the Cold War*

The early 1980s were characterized by a return to the hostile East-West relations that had prevailed before the détente of the 1970s. During its first years in office, the Reagan administration stepped up the critical rhetoric against the Soviet Union, depicting it as the 'Evil Empire'. At the center of attention during

the 'New Cold War', as it was referred to at the time, was the Soviet invasion of Afghanistan and NATO's decision to counter the modernization of Soviet SS-20 missiles by placing 572 new Pershing II missiles in Western Europe. According to the new administration, the United States was to 'negotiate from strength', implying that meaningful discussions about arms reductions presupposed an initial period of military build-up.

The climate quickly improved after Mikhail Gorbachev's rise to power in 1985. Gorbachev was intent on launching radical reforms of Soviet society. Under the slogans of 'perestroika' and 'glasnost', market mechanisms were introduced in the economy, political oppression was reduced, and freedom of speech increasingly respected. In order to facilitate domestic reforms, he also sought to improve the relationship to the United States. In the so called 'new thinking' on Soviet foreign policy, the global class struggle was replaced by notions of 'interdependence' and a 'common house'. During the second half of the 1980s, the leaders of the two superpowers held a series of summits, agreeing upon, among other things, the radical INF treaty which for the first time eliminated an entire class of weapons.

As the new Soviet leadership wanted to reform the economy, it was also determined to reduce its commitments abroad. Not only were its troops withdrawn from Afghanistan, but Soviet aid and assistance was reduced to allies all over the world. While Gorbachev urged Communist rulers to embark on the path of reform, he also broke with the Brezhnev doctrine by declaring that each state was free to go in its own direction. In Eastern Europe, the new signals from Moscow led to rapid and highly unexpected consequences. Since the beginning of the 1980s, the Communist leaders in Poland had had severe problems with public discontent. They had also been seriously challenged by the Solidarity movement in Gdansk. When Soviet assistance could no longer be counted upon, the regime was forced to accept constitutional changes and hold free elections to the lower chamber of the parliament in June 1989.

This was followed by a series of events that only a few years before would have been regarded as a form of political science fiction. One after the other, the Communist regimes were ousted from power in Poland, Czechoslovakia, East Germany, Hungary, Rumania, and Bulgaria. Opposition groups that were

committed to holding free elections took over. With the fall of the Berlin Wall on November 9, 1989, the German Question reappeared on the international political agenda. As the East German regime collapsed, West German Chancellor Helmut Kohl quickly launched a plan for German reunification. Neither the Soviet Union, France or Great Britain were very enthusiastic about this. But since the United States chose to rally behind Kohl, there was nothing they could do to prevent it. As a result of the so called two plus four negotiations, the two German states were then formally reunified on October 3, 1990.

Within the course of a year, the order that had prevailed since the Second World War had fallen apart like a house of cards. The Soviet Union, which was at this point itself shaking to its very foundations, had lost control over its former empire and the Warsaw Pact had ceased to function as a military alliance. Numerous attempts have been made to interpret the implications of this development. According to one line of argumentation, that received a great deal of attention in the academic debate, there was no reason to expect a more peaceful world (Mearsheimer 1990, Krauthammer 1990). With the removal of the stabilizing 'overlay' of East-West rivalry, inherent regional conflicts would allegedly get a chance to resurface and lead to a series of new violent confrontations. This view was rejected, however, by a number of scholars more optimistic about the future, emphasizing the continued impact of the institutional structure established during the Cold War, notably NATO and the EC (Russett 1990, Risse-Kappen 1990, van Evera 1991).

While there was disagreement on the stability of the new situation, analysts tended to agree that the international system had been transformed from a bipolar to a multipolar structure (Rosecrance 1992, Nye 1992, Layne 1993). Yet the nature of the 'emerging structure', to use Kenneth Waltz's (1993) term was somewhat unclear. While still in possession of a massive arsenal of nuclear weapons, the Soviet Union had been severely weakened due to territorial losses and political instability. This left the United States as the sole superpower, stronger than others but not strong enough for hegemony. In Asia, Japan and China were both expanding in terms of capabilities as well as foreign policy aspirations. Added to this came the dramatic changes in Europe; with the new input from the east, Germany would once again, by a wide margin, be the strongest of the

European powers. This time, however, Germany was couched within the European integration process, raising the prospect of a German led EC as a major challenger on the global scene.<sup>34</sup>

### *Consequences for Sweden*

As argued above, Sweden was at this stage already undergoing a process of relative decline, gradually undermining the viability of its policy of neutrality. The systemic changes reinforced this process. During the period of bipolarity, neutrality had served as a power base for Swedish foreign policy. Following Walter Carlsnaes (1993b:85-86), it might be argued that Sweden's commitment not to ally itself with either side had constituted a 'strategic good' to the superpowers. Sweden could exploit the fact that both sides had an interest in not provoking a change in the Swedish posture. This had given Sweden a certain status and prestige on the international scene. In short, during the days of Cold War tension, being neutral was 'something to be'.

In the new situation, the policy of neutrality could no longer serve this function. Under multipolarity, the fact that Sweden did not belong to any military alliance would no longer have the same obvious value to any of the major actors. This raised the question of replacing what had been lost with something new. Looking at the international system's new structure, a shift to move closer to Germany and the EC would constitute a natural adjustment to the new international balance of power. While the EC's cooperation on foreign and security policy was still poorly developed, the integration process was at this point highly dynamic, driven in part by fears of an all-too powerful Germany. It was therefore reasonable to view the EC as an emerging actor which could, in the future, wield international power fully on par with any other actor in the system.

As a member of the EC, Sweden would lose some of its distinct 'profile' in international affairs. The value of this, however, was now to a large extent undermined anyway. In return for taking this step, Sweden could expect to gain the possibility of influencing the EC and the orientation of its policy towards other

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<sup>34</sup> For a volume in which a number of leading scholars sought to evaluate the new situation, see Haftendorn and Tuschoff (1993).

actors. Thus, whereas international developments had deprived Sweden of a power base, this could be compensated for by entering the EC.

Realist theory pays little attention to what statesmen themselves believe are the reasons for choosing a particular course of action. In the words of Hans Morgenthau (1948/1966:5-6), 'motives are the most illusive of psychological data, distorted as they are, frequently beyond recognition, by the interests and emotions of actor and observer alike'. With this caveat in mind, I still find it highly interesting to note that in 1990 and 1991, leading Swedish politicians made numerous statements which seem to fit well with this kind of power oriented interpretation. To mention just a few examples, the EC was characterized as an 'important power center for cooperation and development in our part of the world' (Riksdagsprotokollet, June 14, 1991). If Sweden was to enter the EC, 'we will gain the possibility of gathering support for our views within the EC circle, and thereby give them a far greater impact than if we had acted as an outside state' (Riksdagsprotokollet, June 14, 1991).

States seek power not for its own sake, but because they are concerned with national security. Another way of interpreting the implications of the end of the Cold War is therefore to see this as eliminating a previous restriction on Swedish foreign policy. Swedish governments had up to this point seen EC membership as a threat to the credibility of the policy of neutrality. Whereas this was not admitted in public, there was a trade-off involved. Sweden was of course strongly tied to the Western bloc, both through ideological affinity and increasing economic integration. Swedish policy-makers knew that the Soviet Union viewed this with great suspicion. In order to compensate for this, they therefore found it best to keep at least a certain formal distance to an institution such as the EC, thereby signaling that Sweden was prepared to pay some political price for its ambition to take a neutral position in the case of war.

While analysts disagreed on whether the system, as such, had become less war prone, few doubted that the basic conflict pattern had now been altered. With the dissolution of the Eastern bloc and the weakening of the Soviet Union, the risk for an 'all-out war' of the kind that had been envisioned for most of the postwar period had been reduced. However, the disintegrating

tendencies within the Soviet Union, primarily among the Baltic republics, suggested that there might still be violent confrontations in Sweden's vicinity. But given the very weakness of the Soviet state, there was little reason to think that Soviet leaders would in the foreseeable future be prepared to embark on a military campaign abroad. Consequently, if there was less of a threat to Swedish national security, it might be reasonable not to let the ambition to take a neutral position in the case of war stand as much in the way of other foreign policy aspirations as before. Thus, regardless of whether we choose to focus on 'power' or 'security' as basic foreign policy determinants, the end of the Cold War might very well be interpreted as speaking in favor of Sweden entering the EC.

### **The Institutionalization of Swedish Neutrality**

While systemic changes were working in favor of a change in policy, this in itself said little about the prospects for a policy change actually taking place. As pointed out by, among others, Kjell Goldmann (1993:329), the policy of neutrality had a remarkably strong standing in Swedish politics. Over the years, all kinds of arguments—including national security, international peace, domestic welfare, and ethics—had been claimed to speak in favor of this policy. The policy of neutrality had become institutionalized and to question or advocate a change in this policy was highly risky for anyone who wanted to be taken seriously in the political debate.

In this section, I make an attempt to evaluate just how institutionalized the policy of neutrality was. The meaning of 'institution' is in itself somewhat fuzzy and difficult to pinpoint. In a much cited article in the mid-1980s, James March and Johan Olsen (1984:741) launched the metaphors of 'frozen decisions' and 'history encoded into rules'. Douglass North (1990:3) argues that institutions are 'the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction'. More to the point in this context is Robert Keohane's (1989:163) definition, according to which institutions are 'persistent and connected sets of rules (formal and informal) that prescribe behavioral roles, constrain activity and shape expectations'.

Institutional theory is based on the observation that repeated action has a tendency to perpetuate itself. In contrast to what is generally assumed in models that are based on rational choice, this suggests that political entities do not necessarily strive for optimality. In analyzing the Swedish policy of neutrality, I rely on an analytical framework suggested by Stephen Krasner (1988:74-77). This is based on the idea that the degree of institutionalization can be estimated along two dimensions, referred to as 'vertical depth' and 'horizontal linkage'. This analysis is carried out over the following two subsections. In the concluding subsection, I then summarize the findings and argue that the policy of neutrality was in fact not as strongly institutionalized as has sometimes been believed.

### *The Vertical Depth of Swedish Neutrality*

The dimension referred to as vertical depth concerns what Krasner refers to as the 'self-definitions' of the actors. In contemporary social science jargon, this might perhaps be translated into the fashionable term 'identity' (e.g. Ringmar 1996). It is assumed that the more this is derived from the institutional structure, the more difficult it will be for the institution to change. In the words of Krasner (1988:74), 'such an institution may collapse because it fails to adapt to changed environmental circumstances, but it will not be undermined by its own members'. The extent to which an institution contributes to the self-definitions of the actors is understood to be a function of four different factors: (1) endowments in the form of property rights, (2) utilities in the sense of preferences, (3) capabilities in the form of material and institutional resources, and (4) self-identity in that the way in which individuals identify themselves is affected by their place within the institutional structure (Krasner 1988:74).

In order to apply this to the Swedish policy of neutrality, it is first necessary to determine who the main actors were. Krasner provides few guidelines as to how that should be done. I would argue, however, that two types of actors stand out as being of obvious relevance here: elected or politically appointed office holders within the government, and certain civil servants, in this case those that administered the policy of neutrality within the Foreign Ministry.

If a longer time perspective was adopted, it would be easy to single out the most important actors belonging to the former category. This would then be Östen Undén and Olof Palme, the two individuals who presumably have had the greatest impact on Swedish foreign policy during the postwar period. Undén, a law professor who served as Foreign Minister 1924-1926 and 1945-1962, was strongly involved in developing the intellectual foundations for Sweden's position between the two blocs (Möller 1986, Björklund 1992:203-205, Johansson 1995:181). Palme, who was Prime Minister from 1969 to 1976 and from 1982 to 1986, personified the shift from Undén's cautious and legalistic posture to an 'active foreign policy' (Elgström 1982, Jerneck 1990b).

In the early 1990s, no one was as strongly associated with the policy of neutrality as Undén and Palme had been. Those that came closest, however, were probably Prime Minister Ingvar Carlsson, Foreign Minister Sten Andersson, and Under-Secretary of State at the Foreign Ministry Pierre Schori. Before taking over as Prime Minister in 1986, Carlsson had had relatively little to do with foreign policy. During his thirty years in central positions within the government and the SAP, he had mainly been responsible for domestic politics, such as housing, education, and nuclear power. After taking over for Palme, he inherited the active role that the Prime Minister had in this field. But in doing so, he did not carry any load in the sense of being known to have very strong and elaborated views on international affairs and Swedish foreign policy. Andersson, who had served for a long time as Secretary-General for the SAP, was also best known for his domestic profile. When he was appointed Foreign Minister in 1986, it had been on the basis of his general political skills, rather than a strong profile on foreign policy.

None of the four factors identified by Krasner applies very strongly to these two individuals. Both Carlsson and Andersson had self-definitions that were relatively independent of the policy of neutrality. Schori, on the other hand, had reason to feel that something more personal was at stake. Schori was a foreign policy specialist and he had served six years as the SAP's international secretary before becoming Under-Secretary of State in 1982. Schori's political profile was strongly associated with the 'active foreign policy' that had been the

trademark of Palme's leadership. After Palme's assassination, Schori had emerged as the most articulate proponent of Sweden's international engagement. Unlike the other two, he had spent many years defending a political orientation in which the policy of neutrality was a key element, and this had been the springboard of his professional career.

Compared to Carlsson and Andersson, however, Schori occupied a junior position and he had a weak political base within the SAP. I would therefore argue that to the extent that the policy of neutrality gained vertical depth from these individuals, this was largely a consequence of the ideological legacy from Undén and Palme. Over the years, this policy had become an important component in the political orientation and collective identity of the SAP. The leading guardians of the policy of neutrality owed their offices to the party and they supported the party's general ideology and standing political orientation.

The second set of relevant actors were the diplomats and civil servants at the Foreign Ministry, primarily within the Political Department. It has often been suggested that the Foreign Ministry has had a self-interest in avoiding a change in the policy of neutrality. The most sophisticated version of this argument has been formulated by Bengt Sundelius (1989). Inspired by the notion of bureaucratic politics, Sundelius argued that this policy had served as an important power base in the internal struggle over competence and resources between different governmental bodies. While the Foreign Ministry had been forced to accept a certain decentralization in the field of foreign policy, it could still maintain its dominant position by holding up the policy of neutrality as a filter through which all transactions with the outside world would have to pass in order to be politically acceptable.

According to Sundelius, the position of the Foreign Ministry was challenged in the early 1960s. With an expanding and more diversified foreign policy agenda, the ministry could no longer claim to possess the special skills that had previously justified its dominance in this field. A number of important issue-areas were therefore transferred to other sectoral ministries, many of which also established their own international secretariats. The Foreign Ministry responded to this development by specialization, thus concentrating on the requirements of the policy of

neutrality. This was a field in which it still had undisputed expertise and experience. By claiming to possess unique knowledge on the outer limits of this policy, the Foreign Ministry could successfully defend its position and carve out a role as 'gate-keeper' in Swedish foreign policy.

It might therefore be assumed that the policy of neutrality did receive a certain degree of vertical depth through the Foreign Ministry. A policy that has served the organization's interests for decades would be vital for the self-definitions of the key individuals in any government agency. Yet this argument should probably not be taken too far. While civil servants may not themselves want to undermine a policy that they see as beneficial, they do not want anyone to question their professionalism and loyalty to the politicians either. Interviews made for this study indicate that there was, in fact, not much bureaucratic resistance to implementing a change in the policy of neutrality. Ambassador Torsten Örn, head of the Political Department from 1987 to 1990, stated that the very magnitude of the international political changes discouraged such attempts. Then Ambassador Ulf Dinkelspiel, who was involved in producing the political analyses that resulted in a redefinition of Swedish security policy, stated that 'the influence of the civil servants is after all limited'.

Furthermore, there is good reason to think that the degree of bureaucratic resistance would depend on the type of change that was made in the policy in question. If the actors believed that they were being deprived of resources and identity without receiving something in return, they could of course be expected to put up a stronger resistance. But the policy of neutrality was not the only power base that could be used to uphold the position of the Foreign Ministry. Even with a different type of security policy, under which Sweden would become a member of the EC, it would surely be possible to find organizational arguments in favor of a strong position for the Foreign Ministry.

### *The Horizontal Linkages of Swedish Neutrality*

The dimension called horizontal linkages refers to how the activity in question relates to other activities. Krasner (1988:75) summarizes its meaning the following way:

If a particular activity can be changed without altering anything else, then there is no linkage. If one modification requires modifications in many others, then a particular activity is densely linked. Holding other things constant, the greater the number of links, the higher the level of institutionalization.

As mentioned above, Krasner himself provides few guidelines to operationalization. But in my view, the best way to apply this to the Swedish policy of neutrality is to identify policies that are not directly related to national security, but that have at least partly been justified with such arguments. There are two basic categories of such policies: regulation and protection of various industries, and the internationalist dimension of Swedish foreign policy.

There are at least three industries where the policy of neutrality has served as one of the motives for regulation and protection. These are the defense industry, agriculture, and textiles and clothing. The Swedish defense industry is privately owned and the state has the role of buyer. Extensive regulations were motivated by the need for obtaining high quality equipment while at the same time avoiding dependency on other countries for spare parts and ammunition (Sjöstedt 1987:34-39). The agricultural sector was regulated primarily for social reasons, such as securing a reasonable income for farmers and raising the standard of living in the countryside. But it was also claimed that it was necessary to maintain a certain level of domestic production in case imports were cut off during war; this argument was also used to justify regulations of textiles and the clothing industry (Dohlman 1989:35-36, Sjöstedt 1987:43).

The crucial question is to what extent a change in the policy of neutrality would also force a change in the regulation of these industries. I would argue that in all three cases, the linkage to the policy of neutrality was rather tenuous. The main reason for continued regulation of the agricultural sector and textile and

clothing production was to avoid the risk of a rise in unemployment and the social strain that might result from this. Moreover, in both cases, a liberalization process had in fact already been initiated, without any reference to the policy of neutrality. By the early 1990s, the Swedish agricultural sector was in many ways more deregulated than that of the EC (Barnes 1996:228). Similarly, a decision had been taken in 1988 that all agreements regulating imports of textiles from low-cost countries were to lapse by 1991 (Dohlman 1989:vi).

The neutrality argument was probably of greater importance for the defense industry. As long as Sweden was committed to providing for its own defense, domestic producers could count on a stable and profitable business. If Sweden was to move in some other direction, the rationale for favoring domestic producers would be weakened. However, the net outcome of adopting more liberal practices were far from self-evident. Swedish producers were relatively advanced and competitive. Despite strong restrictions, Swedish companies sold arms worth 1.8 billion US dollars between 1986 and 1991, making Sweden the ninth largest arms exporter in the world (SIPRI 1991:211). From the producers point of view, the policy of neutrality not only provided a stable home market, but it also closed off export opportunities that might be opened if this policy was loosened up.

The second set of policies that are relevant in this context belong to what is sometimes referred to as the internationalist dimension of Swedish foreign policy. Following Kjell Goldmann (1991:127-129), this can be summarized into three points: (1) strong support for international organization, (2) the mobilization of public opinion against violations of international law, and (3) relatively unconditional development aid to the Third World. While these policies have basically been motivated by altruistic arguments, they have also been justified as supporting more narrow self-interests, such as reducing the risk for a war that might involve Sweden, and underscoring Sweden's independence from the great powers.

The official view on the relationship between Sweden's internationalist ambitions and the policy of neutrality has changed over time. In the 1960s, the government began to emphasize the mutually reinforcing aspects of these two strands of Swedish

foreign policy. The internationalist ambitions were not only understood to support the policy of neutrality, but the causal logic was also claimed to work the other way around, making neutrality into a prerequisite for changing the international political situation.

This was perhaps most obvious for the role of public opinion in world affairs and the Swedish ambition to criticize the great powers. The transformation is well illustrated by a number of quotations gathered by Nils Andrén (1984:69-72). In the late 1950s, the Swedish government argued that 'immoderate attacks on the policies of other countries counteracts the policy of neutrality that we officially adhere to'. A few years later, this had been modified so that it was 'possible for us to freely and independently state our opinion'. Regarding Swedish criticism of U.S. involvement in the war in Vietnam, the government then argued that 'we would never have inspired confidence in our position if we had refrained from taking a stand'. Thus, the official argumentation shifted from impossible to possible, and finally to necessary.

To what extent would these ambitions have to change if there was a change in the policy of neutrality? By becoming a member of the EC, Sweden would to a much larger extent have to act in concert with other states, formulating common positions on a number of questions where it had previously acted independently. But the EC also had an internationalist agenda, and there was no reason to think that Sweden could not go on working for the same basic values. The Swedish government had itself implicitly reached the same conclusion when it in 1987 noted that 'our views on many foreign policy questions are close to or even coincide with those of the EC countries' (Proposition 1987/88:66:26). Apart from minor differences in emphasis and political orientation, the main difference would be that the perception of Sweden as an independent actor in international affairs would diminish.

This would of course eradicate the alleged connection between Swedish internationalism and the policy of neutrality. But this connection had always been secondary anyway, and it had been significantly altered before. Thus, at the rhetorical level, the justification of the internationalist ambitions would have to change. This could lead to either a more strict altruistic argu-

mentation, taking away all references to the policy of neutrality, or to a reformulation of the self-interest argument, implying that this would concern Swedish security in a wider European context.

### *How Institutionalized Was the Swedish Policy of Neutrality?*

To estimate to what extent a policy is institutionalized is to beg for a qualitative and somewhat speculative answer. Yet, by investigating the two dimensions of vertical depth and horizontal linkages, it is still possible to gain some basis for a qualified discussion. There is reason to think that the policy of neutrality received some vertical depth from the self-definitions of the most influential politicians within the government and the top-level officials working at the Foreign Ministry. As argued above, however, this case should not be overstated; these politicians had broader political profiles that were not so strongly tied to this particular policy, and for the officials at the Foreign Ministry, there were probably other possible power bases from which they could fight for resources and build their identities.

The policy of neutrality also had some horizontal linkages, mainly in the form of regulations of certain industries and the internationalist dimension of Swedish foreign policy. While these had been motivated with reference to national security, the political development proved that this had always been a secondary motive, and in some cases a dubious one at that. With the exception of the defense industry, the industries in question were already in the process of being deregulated, without any reference to neutrality. For Sweden's internationalist ambitions, a change away from neutrality would imply certain changes in emphasis and political orientation, but it would still be possible to go on working for the same basic values. Sweden would, however, lose some of its distinct profile on the international scene.

There is always the risk that knowing the outcome colors the interpretation of the past. But I would maintain that, just as the analysis above indicates, the Swedish policy of neutrality was, at this point, not as strongly institutionalized as was sometimes believed.

## **Conclusion**

This chapter explores how international political conditions served as a source of change in the Swedish government's position on EC membership. Based on a realist conception of international politics, I argue that Sweden had for a longer period of time been going through a process of relative decline, which gradually eroded the viability of its policy of neutrality. With the dramatic changes in Eastern Europe in 1989 and 1990, commonly referred to as the end of the Cold War, this process was strongly reinforced. In the new situation, being neutral was no longer 'something to be', and this policy could no longer serve as a base for upholding Sweden's international position. Moreover, with a reduced risk of war, the ambition to uphold credibility would not have to loom as large as before, making it feasible to let commercial interests play a larger role in the formulation of Swedish foreign policy.

There are numerous examples of states that have not adjusted to changes in the international balance of power in the manner predicted by realist theory. Considering that the Swedish policy of neutrality was widely held to be strongly institutionalized, one might have expected Sweden to defy realist prediction. For that reason, the second part of this chapter was devoted to an attempt to evaluate just how institutionalized this policy was. Based on the analytical notions of vertical depth and horizontal linkage, I argue that the policy of neutrality was less rigid than what had often been believed. This implied that there was a chance that the pressures for change exercised by the international political changes would actually work its way into the policy-making system.

## **6 INTERNATIONAL ECONOMIC FACTORS: THE EEA NEGOTIATIONS**

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International economic factors serve as a second source of foreign policy change. In this chapter, I specify this as referring to the negotiations over the so called European Economic Area (EEA) that were initiated in 1989 and formally concluded in February 1993. The argument put forth is that the shortcomings of the EEA were an important impetus for the choice to opt for EC membership. While the government's policy reorientation occurred at a time when the EEA negotiations were far from concluded, it was, at this point, clear that the outcome would fall short of the initial expectations.

The EEA would be a one-sided agreement, designed along the lines favored by the EC. In order to receive access to the Internal Market, Sweden and the other EFTA states would have to systematically adopt legislation that had been decided upon by the EC. Contrary to what the EFTA governments had hoped for, this would not be accompanied by any voice in the decision-making process. The EEA would thus rest on an unequal balance between political obligations and political rights. However, because of the expectations that had been raised at the domestic level, turning back and settling for a less extensive agreement would be sure to have considerable political costs. Squeezed between two unsatisfactory solutions, the government faced the increasingly attractive option of moving towards EC membership.

This chapter is divided into three sections. The first discusses the structural preconditions for the negotiations; who the actors were, what interests they had, and what resources they commanded. The following section focuses on the negotiation process. This is structured by the distinction between three phases of the negotiation process: diagnosis, formula and detail. In the concluding section, I then reflect on the outcome and discuss how this served as a source for the EC policy reorientation.

## **Structural Preconditions: Actors, Interests and Power**

### *Actors*

The EC was represented in the EEA negotiations by the EC Commission. Within the Commission, President Jacques Delors took a strong interest in reforming the relationship to the EFTA states. But the main responsibility lay with the Directorate General 1 (DG1) which handled the EC's external relations. From 1985, this was headed by the Belgian Willy de Clercq who was then in 1989 succeeded by the Dutchman Frans Andriessen. The Commission was controlled by the member states through decisions taken unanimously within the EC Council. The member states negotiated internally and then decided on a mandate for the Commission. Under the new provisions of the SEA, an agreement with the EFTA states would also have to be approved by a two-thirds majority of the European Parliament.

Despite the formally subordinate role of the Commission, however, the internal workings of the EC were a bit more complex than a principal-agent relationship. Given the special characteristics of the EC's decision-making process, in which the Commission is the sole actor with the right to formulate legislative initiatives, it would be a mistake to view the Commission as a simple recipient for instructions. In practice, it took a highly active role in shaping the EC's positions and served as a powerful broker between the divergent interests of the member states (Pedersen 1994:74).

From a formal point of view, the EC's counterparts in the negotiations were the individual member states of EFTA. Unlike the EC, this organization was purely intergovernmental and did not contain any supranational elements. The institutional structure was limited to a decision-making body referred to as the EFTA Council. This acted through consensus and was assisted by a small secretariat located in Geneva, and a number of committees and working groups (Sverige-EFTA-EG 1988:134-135). An agreement on the EEA would therefore have to be codified through a number of separate treaties between on the one hand the EC and each of the EFTA states, and on the other hand between the EFTA states internally (Gstöhl 1994:348).

During the negotiations, however, the ambition was that EFTA should act as a unit. The members were to negotiate internally and then speak to the other side with one voice. The state presently holding the EFTA presidency, which rotated every six months, would represent them all and serve as the Commission's counterpart. While this principle was followed most of the time, there were also exceptions. Some issues were deemed to be so special for certain EFTA states that they were removed from the joint negotiations and settled through separate agreements (Gstöhl 1994:357).

The EFTA-EC negotiations took place within three different bodies. The main body was the High Level Steering Group (HLSG). This controlled and coordinated the discussions that were held within the five Working Groups (WGs) that were organized on an issue-area basis. As the initial contacts were replaced by formal negotiations, these bodies were renamed the High Level Negotiation Group (HLNG) and the Negotiation Groups (NGs). While the HLSG/HLNG met for two days every month, the WGs/NGs were gathered in session for longer and consecutive periods of time. Throughout the process, there were also Ministerial Meetings, generally involving EFTA ministers, the EC Commissioner in charge of DG1 and representatives of the EC Council. At these meetings, which were held more irregularly, the parties established the main guidelines for the negotiations and sought agreement on issues that had been difficult to solve at lower levels.

In the subsequent section dealing with the process of the EEA negotiations, these are mainly treated as bilateral. When this is justified by the context, I replace the bilateral perspective with a discussion of the individual states. Due to the complexity and empirical problems involved, I have chose to refrain from going down to lower levels of analysis.

### *Interests*

The term interests is here used simply to refer to what parties care about and want to either protect or realize when negotiating an agreement (Sebenius 1991:207). Every negotiation is characterized by a combination of coinciding and conflicting interests. The parties are drawn together by the fact that they

have certain interests that can be realized only by cooperating. But they also have interests that can be realized only at the expense of each others interests. The aim of negotiating is to define the intersection of coinciding and conflicting interests, sometimes referred to as the ‘zone of possible agreement’, where mutual benefits can be realized at an acceptable cost to other values (Sebenius 1991:205).

EFTA and the EC were brought together by economic considerations. Simple trade figures provide a good indication of the rationale that motivated them to reach an agreement. The two organizations were each others largest external trading partners. For EFTA as a unit, around 60 percent of its total trade measured in value terms was conducted with the EC. For the EC, these figures were less pronounced, around 25 percent was conducted with EFTA. But this was still almost as much as the total trade with the United States and Japan combined. Moreover, EFTA was the only trading bloc with which the EC regularly recorded a trading surplus (Pedersen 1994:30). Thus, both sides had a clear interest in achieving better access to each others’ markets.

The two parties had conflicting interests on the question of how this should be realized. The EC’s overarching goal was to achieve greater unity between its member states. It therefore had an interest in avoiding any agreement with EFTA that might interfere with the possibility to move in that direction. The ideal solution from the EC’s point of view would be for EFTA to be included in the Internal Market without being granted any influence over its future development. This would require the EFTA states to make legally binding commitments to adhere to the EC’s legislation, without receiving representation in its organs for surveillance, jurisdiction, and, perhaps most importantly, decision-making. Under such conditions, the EC could reap the benefits of a closer relationship to EFTA, while at the same time maintaining full control over the continued development of the integration process.

The EFTA states did not share the political ambitions of the EC. They had chosen not to enter this organization because they wanted to preserve their national freedom of action. From their point of view, the ideal solution would have been to gain full access to the Internal Market and certain other attractive areas

of EC cooperation without being forced to concede national control over public policy. This would require that the EC agreed to a free flow of goods, services, capital, and people from the EFTA states, without demanding that they should be held accountable for adhering to the EC's legislation. Under such conditions, the EFTA states could benefit from the openness of the EC while retaining the possibility of preserving national characteristics and certain protectionist measures in their own markets.

Neither of these two solutions could be realized. In order to open its market to EFTA, the EC wanted guarantees that producers located in these states would compete on the same terms as those located within the EC. The EFTA states would therefore have to adhere to a common set of rules and submit to certain organs for surveillance and jurisdiction. But in order to make such a commitment, the EFTA states wanted to be represented in these organs and have a say in the decision-making process. Consequently, the aim of the negotiations was to locate the point where the EC's demand for institutional autonomy could be reconciled with the EFTA states' demand for political influence.

### *Power*

The concept of 'power' is subject to considerable controversy in the scholarly literature. A main dividing line concerns whether power should be understood as a property or as a relationship. The former position, typically followed by realist theory on international politics, implies that the analyst should focus on the relative distribution of resources (Morgenthau 1948/1966, Waltz 1979). This is assumed to provide a reliable shorthand for assessing the power that the actor actually wields on the international scene. In contrast, those who advocate a relational approach point out that the correlation between resources and power is far from always clear (Baldwin 1980:496-500, Jönsson 1981:251-254). One of the main tasks of the analyst is therefore to explore the processes that intervene between resources and outcomes.

Even with a relational approach to power, it is still necessary to know what resources the actors possess at the outset. A useful

way of simplifying such an analysis is to explore what Roger Fisher and William Ury (1982:101-111) refer to by the acronym of BATNA, short for 'best alternative to a negotiated agreement'. This means that the analyst identifies the most attractive routes that are open to the actors in the absence of a common solution. By comparing these with each other, it is supposedly possible to gain some indication of their propensity to make concessions and retreat from their positions.

When this is applied to the EEA negotiations, it becomes obvious that there was a major asymmetry between the parties. For the EC, the alternative to an EEA arrangement was simply to concentrate on its own internal development. The EC at that time encompassed twelve states with a total population of 321 million and a total GDP of 6,015 billion US dollars (SCB 1991). The completion of the Internal Market would, in itself, generate far greater benefits than the EEA. Failure to reach an agreement would mean that the EC missed out on an opportunity to make additional improvements. But it would hardly lead to an economic deterioration.

The stakes were greater for EFTA. The organization encompassed six states with a total population of 31 million and a total GDP of 859 billion US dollars (SCB 1991). Given the small size of the EFTA market, and its strong dependence on EC trade, reaching an agreement was necessary in order to secure a favorable future economic development. For Sweden and the other EFTA states, the alternative to the EEA was not to continue to rely on the existing Free Trade Agreements for regulating the relationship to the EC. It would instead have to try and negotiate new bilateral agreements with the EC, or, alternatively, to do this together with a smaller group of EFTA states. It was possible that the EC would agree to this. But the costs associated with such an undertaking suggested that it would be difficult to achieve the kind of results that might be possible if EFTA negotiated as a unit.

To summarize: the EEA negotiations are understood here as being essentially of a bilateral nature, involving, on the one hand, the EC, represented by the EC Commission, and, on the other hand, EFTA, represented by the state presently holding the rotating presidency. Some issues, however, were negotiated directly between the Commission and individual EFTA states.

The parties were drawn together by a common interest in improving the conditions for trade. The main conflict concerned how this should be done; to what extent EFTA should adopt legislation decided upon by the EC and to what extent it should be granted representation in the institutions needed to govern the EEA. Due to the difference in size, there was a major power asymmetry between the parties; whereas EFTA was in great need of an agreement, the EC had the option of concentrating on its own internal development.

### **The Negotiation Process: Diagnosis, Formula, and Details**

It is common in the literature to discern different phases in the chronological development of a negotiation. William Zartman and Maureen Berman (1982) have developed an analytical framework that contains three such phases. The actors are assumed to (1) diagnose the problem and see if there is enough common ground to initiate negotiations, (2) agree on a 'formula' or common definition of the conflict in terms that will facilitate an agreement, and 3) then negotiate the details needed to implement the formula. While Zartman and Berman (1982:9-10) argue that the basic logic of the model usually corresponds to reality, they also point out that the idea of clear-cut phases is an analytical construction. In practice, the boundaries are often unclear and the phases tend to overlap. It is also possible for the process to go back and forth, thereby violating the chronology of the model.

I find Zartman and Berman's framework highly useful for organizing and simplifying a study that might otherwise be clouded by a haze of empirical details. It also fits well with this particular case. The EEA negotiations were formally divided into the three phases: fact finding talks, exploratory talks, and formal negotiations. With the terminology adopted here, the diagnostic phases preceded these three phases, whereas the formula phase covered the fact finding talks and the exploratory talks, and the detail phase covered the formal negotiations.

### *The Diagnostic Phase*

This phase generally begins long before the first formal sessions; it is the period when the parties recognize that a common problem exists and evaluate the possibilities of finding a resolution (Zartman and Berman 1982:42-86). One of the parties will usually be the first to identify some element of friction in the relationship to the other. It will then try to convince the other to share this view by arguing that an already painful situation will become worse in the future and that this can be resolved by reaching an agreement.

The diagnostic phase of the EEA negotiations began in the spring of 1988, and ended in the spring of 1989. As described in chapter four, representatives of the EFTA governments met in Tampere on June 15-16, 1988, and issued a declaration saying that they wanted to discuss a revision of their cooperation with the EC. The first official confirmation that the EC was prepared to explore this possibility was delivered by Commissioner Willy de Clercq on November 29. In mid-January the following year, this was followed by a crucial signal from the President of the Commission, Jacques Delors. In an address to the European Parliament, delivered on account of the appointment of a new Commission, Delors not only expressed a positive view on the idea of revising the relationship to EFTA, but he also entered into a substantial discussion of how this could be done.

Delors argued that there were essentially two different ways of achieving a closer cooperation between the two organizations. The first, was to 'stick to our present relations, essentially bilateral, with the ultimate aim of creating a free trade area encompassing the Community and EFTA' (Europe Documents 1542/1543:9). While Delors did not develop this much further, it seemed to correspond to the solution that the Swedish government had envisioned in its bill to the *Riksdag* in the fall of 1987 (Proposition 1987/88:66). The FTA's would continue to serve as the institutional foundation, but they would be complemented by a series of adjustment measures and new agreements that together would give EFTA access to the EC's Internal Market.

Delors appeared to be skeptical, however, as to just how far this could lead. In a rhetorical way he declared that '[w]e all

know that the Single Market forms a whole with its advantages and disadvantages, its possibilities and its limitations. Can our EFTA friends be allowed to pick and choose? I have some misgivings here' (Europe Documents 1542/1543:9). This argumentation struck a familiar chord. The EC had always maintained that the relationship to EFTA must rest on a balance between rights and obligations. Those who did not want to take on the political commitments of membership would also have to expect more limited economic advantages. Thus, what Delors was saying was that it might be possible to modify and expand the scope of the FTA's, but this could not satisfy such high expectations as full access to the Internal Market.

The second alternative, which Delors appeared to prefer, meant that another principle that had guided the EC-EFTA relationship in the past, would be loosened up. This was the member states' autonomy on decision-making. Contrary to what leading EC representatives had always argued in the past, Delors suggested that the parties could 'look for a new, more structured partnership with common decision-making and administrative institutions' (Europe Documents 1542/1543:9). While emphasizing that this would require EFTA to strengthen its internal structure and model itself after the EC, Delors argued that the parties could establish new common institutions and abandon the idea of a free trade area in favor of a customs union.

Delors was of course speaking strictly in his role as President of the EC Commission. But his initiative still indicated that there was a surprising openness within the EC for finding a new solution to the relationship with the EFTA states. Several analysts have concluded that Delors was in fact driven by the ambition to discourage new membership applications (Hayes 1990:58, Gstöhl 1994:355, Pedersen 1994:34-35). Interviews made with leading Swedish officials at the time indicate that this was also how it was viewed by the Swedish government. If the EFTA states were to reconsider their postures and apply for membership, the EC would be forced to open up the temporarily settled debate on 'widening versus deepening'. At a time when the members were in the process of implementing the Internal Market, this was something that the Commission wanted to avoid. Thus, by suggesting a generous solution to the EFTA states, Delors was trying to ward off an internal contro-

versy over the continued development of the integration process.

If the EFTA states were to accept Delors' offer, they would have to concede much of the political freedom that they had worked to safeguard in the past. In order to inspire their internal discussions on whether they were prepared to do this, Delors ended this part of his speech by posing a number of crucial questions:

Are our partners prepared to abide by the common commercial policy that any customs union must apply to outsiders? Do they share our basic conceptions? The Single Market also implies harmonization. Are our partners willing to transpose the common rules essential to the free movement of goods into their domestic law, and in consequence, accept the supervision of the Court of Justice, which has demonstrated its outstanding competence and impartiality? The same question arises in connection with state aids and the social conditions of fair competition directed towards better living and working conditions. These are the questions that arise; these are the questions we will be asking (Europe Documents 1542/1543:9).

When the EFTA prime ministers met for a summit in Oslo on March 15, 1989, the discussion indicated that they were divided on how to respond. While the Swedish, Norwegian, and Finnish governments were enthusiastic over the new prospects, the Swiss government had major reservations. The Austrian government declared that it had its mind set on EC membership, and that an agreement along the lines suggested by Delors would not serve as a substitute for that. Yet, it was decided that the group should not, at this early stage, close any doors. In a joint declaration, the governments formulated a positive, albeit vague, response, stating that they were 'ready to explore various options and ways and means to strengthen the institutional links' and that they would 'not exclude any such option' (Europautsikt 1989:4:2).

A few days later, on March 20, 1989, an informal ministerial meeting was held in Brussels. Both EFTA and the EC confirmed their interest in the proposal put forth by Delors and decided to

initiate more structured discussions in the near future (Europautsikt 1989:4:3-4). Within the course of ten months, the parties had thus recognized the existence of a common problem and decided that efforts should be made to find a common solution.

### *The Formula Phase*

The idea of a formula phase rests on the observation that once a decision to seek an agreement has been made, the parties often seek to develop some general principles that serve as guidelines for the subsequent negotiations. In the terminology of Zartman and Berman (1982:89-94), this signifies a 'deductive' as opposed to an 'inductive' approach to negotiation. The parties start out by agreeing on fundamentals—a formula—and then move on to negotiate the details. More specifically, the notion of a formula is understood to have such properties as a shared conception of the conflict at hand, some joint ideas on possible solutions, and an applicable criterion of justice (Zartman and Berman 1982:95-109).

In this case, the formula phase lasted about twelve months, beginning in the spring of 1989 and ending in the spring of 1990. During this period, a series of sessions were held by the HLSG and the five WGs. From April to October 1989, these sessions were formally referred to as 'fact finding talks'. When the HLSG then issued a report summarizing the findings and recommending a continuation, new discussions were initiated under the label of 'exploratory talks'. These were carried out from December 1989 to April 1990.

During the formula phase, agreement was reached on the basic concept of the EEA. The new arrangement was to comprise the four freedoms of goods, services capital and labor, the so called 'flanking' and 'horizontal' policies, and a cohesion fund for the reduction of regional economic differences. EFTA had initially suggested that the two markets should be integrated through an extensive application of mutual recognition of equivalent legislation. But it was instead decided that the legal foundation of the EEA would be the EC's *acquis communautaire*. The EFTA states would agree to take over existing EC legislation, but would be given the possibility of negotiating derogations in such

areas where they had strong national interests (Gstöhl 1994:238-240).

The formula was incomplete, however, in the sense that the institutional aspects of the EEA remained unclear. The EC Commission argued for a 'two pillar model', implying that EFTA would set up separate organs for surveillance and jurisdiction that would be parallel to those of the EC. On the central question of decision-making, the Commission had now taken a less generous position. Instead of joint decision-making, which had been the original suggestion, a distinction was launched between 'decision-making' and 'decision-shaping' (Pedersen 1994:44-45, Luif 1995:155-156). While EFTA would receive certain channels for exercising influence during the early stages of the decision-making process, the EC would maintain the sole right to take initiatives and final decisions would be taken by the two organizations separately.

There is reason to think that the tougher position on decision-making was influenced by the dramatic international developments. The emerging democratization in Eastern Europe meant that one of the driving forces behind the integration process had now ceased to exist. In the new situation, it seemed possible that some of the most important members, notably West Germany, would downgrade the EC and direct its attention eastward. As argued by Thomas Pedersen (1994:44-45), the EC Commission had therefore become less interested in the negotiations with EFTA, and more concerned with consolidating the EC's internal development. But the new position was also triggered by the European Parliament which feared that its own influence would be diluted if a new actor was brought into the process (The Economist, July 7-13, 1990, pp. 12-14).

The EFTA side objected to the EC Commission's new position and insisted that both sides should have the right to take initiatives and that final decisions should be taken through a joint procedure. EFTA also positioned itself for the future negotiations by formulating a large number of requests for derogations from the *acquis communautaire*. Some of these were raised by all EFTA states. Apart from these, Switzerland launched the most comprehensive agenda by far, asking to avoid a number of central elements in the contemplated arrangement. While Austria, Norway, and Iceland occupied a middle position, Sweden and

Finland took a much more accommodating posture (Pedersen 1994:46-47, Luif 1995:160).

### *The Detail Phase*

During the final phase of negotiations, the parties work out the more specific aspects of the agreement. Unlike the search for a formula, which is often viewed as a joint project requiring mainly some innovative thinking, this leads to polarization and gradual convergence through the exchange of concessions (Zartman and Berman 1982:150). The parties are often on guard against the risk that the other side's acceptance of the formula will either be withdrawn after concessions have been extracted on details, or turn out to have some unexpected consequences that gives it a decisive advantage. A relatively quick agreement on a formula can therefore be followed by a lengthy search for agreement on details.

The detail phase of the EEA negotiations coincided with what the parties referred to as 'formal negotiations'. Beginning on June 20, 1990, this phase was to be dominated by two major themes: institutions and derogations. In her study of the negotiations, Sieglinde Gstöhl (1994:342) argues that the strategy of the EFTA side was to establish a *quid pro quo* between these two issue-areas; the EFTA states' demands for derogations from the *acquis* could thus be reduced in exchange for more favorable institutional solutions. In an interview made for this study, Ulf Dinkelspiel, who was at this stage Sweden's chief negotiator, did not recall this to be part of a conscious strategy. Dinkelspiel instead argued that these were separate issues that were being negotiated in separate contexts. Yet, he also admitted that at the political level, these two issue-areas did of course have an influence on each other.

The Swedish government had suggested a highly ambitious time table, arguing that the negotiations should be concluded before the end of 1990. The EEA could then enter into force together with the completion of the EC's Internal Market on January 1, 1993. It soon became clear that this had been too optimistic. EFTA took a stiff position on derogations and the EC refused to budge on institutions. The negotiations moved into deadlock.

A meeting held by the HLNG on October 17-18 was described by one observer as a 'downright disaster' (Pedersen 1994:49).

The situation changed the following week. It was EFTA that made the first move; at an informal meeting of the EFTA ministers on October 23, it was decided that in many cases, the demands for permanent derogations could be replaced by transition periods and various safeguard arrangements. In exchange for this, EFTA demanded that the EC would 'accept legal and institutional arrangements allowing for common management and development of the EEA, in particular a genuine common decision-making mechanism' (Pedersen 1994:49, quoted from EFTA News no. 8, November 13, 1990). This initiative restarted the negotiations. At a Ministerial Meeting on December 19, the parties took the first step towards solving the institutional questions by agreeing on an EEA Council, consisting of representatives of EFTA, the EC Council and the EC Commission (Sverige-EFTA-EG 1990:170).

On the crucial question of decision-making, however, the EFTA side now found it best to give in. It was decided that EFTA would receive certain channels for exercising influence during the early stages of the process. But the right to take initiatives would be reserved for the EC and the final decisions were to be taken by the two organizations separately. This concession on behalf of EFTA probably reflected an awareness that the power relations, which had been asymmetrical already from the beginning, had now become even more pronounced. This was the result of the fact that within the EC, the question of the internal development of the Community had now risen to the top of the political agenda; the EC Commission was at this stage preoccupied with the upcoming intergovernmental conference that would culminate in the Dutch town of Maastricht. Furthermore, according to Paul Luij (1995:161), the Commission had at this stage released to EFTA the uncompromising negotiating mandate that it had received from the EC Council.

The question of a judicial mechanism was solved four months later at a Ministerial Meeting held on May 13, 1991. The parties were to establish an EEA Court that would consist of five judges from the EC and three from EFTA. The EFTA states also made a commitment to insert provisions in their domestic legislation so that EEA law would prevail in case of a conflict bet-

ween the two. All EFTA governments had thereby accepted that the EEA would contain an element of supranationalism. But it was also agreed that the treaty would include a safeguard clause that could be invoked unilaterally. This would make it possible for the EFTA states to opt out from EEA law with reference to economic, social, or environmental problems (Pedersen 1994:52-53, Gstöhl 1994:345-346).

The negotiations were now running far behind schedule. While most of the substantial issues had been solved, three were still outstanding: fishing in Norwegian and Icelandic waters, transit traffic through Switzerland and Austria, and the financial contribution to the cohesion fund. As pointed out by Sieglinde Gstöhl (1994:344-345), all these issues could be understood as constituting 'side payments' to the least wealthy EC states that wanted some compensation for opening their markets to EFTA. Fishery issues proved to be the most difficult to solve; while Norway and Iceland wanted the agreement to include free trade in fish, they strongly resisted the Commission's counter demand that this should also imply free access to national fishing waters.

In order to increase the pressure to reach an agreement, a deadline for the negotiation process was set for the Ministerial Meeting in Salzburg on June 25, 1991. Despite this moment of 'eyeballing', the parties refused to make the necessary concessions and the meeting passed without an agreement. The breakthrough was instead achieved on October 25. The Commission then made large concessions in the demanded fishing quotas. But there is also reason to think that there was an element of *quid pro quo* between different issues as the parties at the same meeting agreed also on the final design of the cohesion fund (Pedersen 1994:56-58, Gstöhl 1994:346-347).

While the prolonged negotiation process now appeared to be over, there were to be two more unexpected delays. The first occurred in late November when the European Court of Justice (ECJ) raised objections to the design of the EEA Court. According to the ECJ, the EEA Court would threaten its own position as the highest legal authority within the EC, thereby violating the Treaty of Rome. After renewed negotiations in the beginning of 1992, a new solution was found that was technically complicated but legally acceptable. EFTA was instead to

establish its own court. If there was a conflict between the EFTA Court of Justice and the ECJ, the issue was to be submitted to the so called Joint EEA Committee. This was to ask the ECJ for a prejudicial decision. But if this was unacceptable to the EFTA states, these would be free to go in their own direction by invoking the safeguard clause.

The EEA was then delivered a second blow when it was rejected in a Swiss referendum on December 6, 1992. The popular majority was marginal and the no side gathered only 50,3 percent. But the EEA was also rejected by 15 out of the 22 cantons (Pedersen 1994:62). In response to this development, the EC Commission demanded that the remaining EFTA states should take over Switzerland's contribution to the cohesion fund. It also used this opportunity to raise new demands for market access for agricultural products from the southern EC member states, something which had earlier been excluded from the agreement.

A new EEA agreement was finally reached on February 25, 1993. The EFTA states agreed to certain compensation measures for the Swiss drop out from the cohesion fund and made some concessions on agricultural products. The final protocols of the treaty were then signed on March 23. Nearly five years of discussions and negotiations over a new EFTA-EC accord had finally come to a close.

### **Implications for Swedish EC Policy**

The agreement on the EEA constituted a major revision of the EFTA-EC relationship. The arrangement covered the four freedoms, 'flanking' and 'horizontal' policies, a cohesion fund and certain provisions for trade in fish and agricultural products. The EEA was not a customs union, but rather an improved free trade area. A certain degree of border control would thus be maintained and the EFTA states would not adopt the EC's trade agreements with third countries. Nor would they take part in the CAP, Euratom, the EMU, or the CFSP (Proposition 1991/92:170, Gstöhl 1994:349-355, Pedersen 1994:64-74).

The institutional structure followed the 'two-pillar model' insisted upon by the EC. While the EC would continue to rely on

the EC Commission and the ECJ, the EFTA states were to secure compliance to EEA law by establishing an EFTA Surveillance Authority and an EFTA Court of Justice. The right to take legislative initiatives would be reserved for the EC, but the EFTA states were given certain channels for making their preferences known during various stages of the decision-making process. The final decisions were to be taken by consensus between the two organizations within the common bodies of the EEA Council and the Joint EEA Committee.

From the Swedish government's point of view, the material content of the EEA was quite satisfactory. It would not totally eliminate the element of discrimination of Swedish companies and citizens, but it would secure a high level of participation in the EC's internal market. The way that this was to be achieved, however, was more questionable. As has been shown by Sieglinde Gstöhl (1994:355-359), the outcome of the negotiations was far from what had been hoped for at the outset. The EFTA states tried to obtain mutual recognition of equivalent legislation, the right to take initiatives, permanent derogations, and joint institutions. But the EEA came to be based on the *acquis communautaire*, transition periods, EC initiatives, and separate institutions. Furthermore, the EFTA side had not anticipated the size of the side payments that proved to be necessary in order to obtain the support of the southern EC states.

The institutional design of the EEA was therefore a one-sided arrangement, based on the preferences of the EC. Following Gstöhl (1994:356-359), I would argue that this had been determined at an early stage in the process. Already when the EFTA states accepted to take the *acquis communautaire* as the legal basis of the agreement, they had in fact subordinated themselves to the EC. Rather than a novel arrangement between two equal partners, the EEA then became a limited form of accession of EFTA to the EC. It is possible that the EFTA states had not been aware of this during the formula phase when this had been agreed upon. But developments during the detail phase, when they quickly gave in and accepted the EC's demands, indicates that they had by then realized the weakness of their position.

In order to achieve the desired level of integration, Sweden would have to make a commitment to systematically adopt le-

gislation that had been decided upon by the EC. For a democratic country, the legitimacy of such an arrangement might be difficult to uphold in the long run. Given that the EEA fell short of the government's initial expectations, it might be asked what the alternatives were. The way I see it, there were in principle two other avenues open at this time.

The first would have been to retreat and try to obtain a more limited form of agreement with the EC. This would have been less beneficial from an economic point of view, but also imply less political subordination. The drawback with this option was the decision taken by the *Riksdag* in the spring of 1988. Since the *Riksdag* had adopted complete non-discrimination of Swedish citizens and companies as the main goal of Sweden's policy towards the EC, the government was committed to strive for the best possible access to the Internal Market, regardless of other considerations. Any retreat from this would most likely lead to a strong politicization of the issue and entail a high political cost for the government.

The leader of the Conservative Party, Carl Bildt, has in retrospect claimed that the formulations adopted by the *Riksdag* were in fact part of a long-term political strategy that aimed at altering the Swedish position on EC membership (Bildt 1991:113-155). The way Bildt tells it, he and his associates had already in 1987 decided that they would work for EC membership. Instead of making this public, however, they allegedly chose to bide their time. By insisting on the elimination of all forms of discrimination, the government was to be locked in. The party would then raise the question of membership in 1990 or 1991, when it could be shown that no other solution could secure the objectives that the *Riksdag* had decided upon.

I have elsewhere argued that these claims bear signs of retrospective rationalization (Gustavsson 1992:298-300). There is little reason to think that Bildt already at that stage had a clear view of when he would raise the question of EC membership. As late as in the summer of 1989, Bildt had been engaged in a polemic exchange with the editorial page of *Svenska Dagbladet* during which he discarded membership with reference to the tension between the Swedish policy of neutrality and the EC's cooperation within EPC. He then declared that 'the policy of neutrality cannot easily be brushed aside at a time when that

appears convenient' (SvD, July 15, 1989). I thus find it likely that Bildt did not at this stage see any self-evident solution to this problem. When his membership ambitions were made explicit in the spring of 1990, the international situation had been altered in a way that neither he nor anyone else had predicted a few years earlier.

The fact remains, however, that the formulations adopted by the *Riksdag* did close the option of settling for a less comprehensive agreement. A comparison with the early 1970s might be instructive at this point. When the EC had at that stage refused to meet Sweden's requests, the government retreated and chose to accept the more modest offer of a free trade agreement. This was possible because the government had been less committed prior to the negotiations. It could therefore describe the agreement as a success that would solve at least the most pressing trade problems. Two decades later, such an option was not available.

The second alternative would be to move ahead and submit an application for EC membership. This would of course constitute a radical break with the traditional Swedish posture. But the traditional skepticism had been based on the understanding that by remaining a non-member, Sweden would preserve its freedom of action regarding political solutions chosen at the national level. This assumption no longer seemed to hold up. In the new situation, non-membership seemed to imply either political subordination or economic marginalization. In contrast, by entering the EC as a member, Sweden could obtain both full access to the Internal Market and a voice in the decision-making process.

By the fall of 1990, the Swedish government was squeezed between Scylla and Charybdis. The EEA was not attractive as a long-term solution. But because of the expectations that had been raised, there was no turning back. Thus, rather than having to defend either of these two unsatisfactory solutions, it had the possibility of coming out in favor of EC membership. Ironically, the solution that both the Swedish government and EC had initially intended as a substitute to membership came to serve as an impetus for a development in the opposite direction.

## **7 DOMESTIC FACTORS: SWEDEN AT THE END OF THE THIRD ROAD**

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For practical reasons, I have chosen to let political and economic factors blend in the discussion of how domestic factors contributed to the EC policy reorientation. In this chapter, I thus explore Sweden's economic development and the political implications that this had for the government. The Swedish economy was heading for a sharp downturn; soaring inflation had created a cost crisis and an extended period of expansion had been broken by stagnation and rising unemployment. The emerging recession symbolized something more than just the ordinary swings of the business cycle. It also put a definitive end to the economic strategy pursued by the SAP since its return to power in 1982. Referred to as the Policy of the Third Road, this had been based on the idea that Sweden could find its own way out of the problems that had plagued the world economy since the mid-1970s.

It had now become clear that this ambition had failed. The reasons for this were complex and multifaceted. The government itself had made a number of political mistakes, thereby failing to put a lid on inflation. But there had also been certain structural changes in the international environment, making it more difficult to deviate from the macroeconomic orientation pursued by the major economies. As it turned out, the Policy of the Third Road had basically bought Sweden some time, postponing a development that other countries had gone through roughly a decade earlier.

The argument put forth here is that these developments implied that there were two advantages to be had from altering the position on EC membership. The first was that it could be useful for breaking the deep-rooted expectations of continued high inflation. The government was at this stage strongly in need of something that would strengthen the credibility of its commitment to the fixed exchange rate. By declaring that it was prepared to enter the EC, it could tie its own hands and rely on external norms for economic policy. But to put low inflation be-

fore high employment was hardly a very comfortable choice for a SAP government. The second advantage of EC membership was therefore that it could be described as part of a more long-term strategy, aimed at changing the international economic environment so that it would be more in accordance with the preferences of the labor movement.

This chapter is organized into three main sections. The first discusses the policy of the Third Road and outlines Sweden's economic development in the 1980s. The second seeks to explain this development; What went wrong? Why was the country once again heading for a deep recession? In the third section, I then discuss the political implications and how these contributed to the reorientation on EC membership.

## **The Policy of the Third Road**

### *From Crisis to Crisis*

The SAP government that took office in October 1982 inherited a stagnant economy. Lack of growth was accompanied by high inflation, unusually high unemployment, and a large deficit in the current account. As a consequence of the recession, the public finances were highly unbalanced, leaving the new government with a huge budget deficit of nearly 13 percent of GDP. The sources of the crisis could be traced to the Keynesian policies that had been pursued in the mid-1970s. In response to the first oil crisis, the government had tried to avoid an increase in unemployment by the so called policy of 'bridging over', that is, by introducing heavy subsidies to the export industry. The international downturn was to be used for producing goods and filling up stocks that would be ready for delivery when the situation improved.

This constituted the first real test of stabilization policy in Sweden. The postwar period had up to this point been remarkably successful; even during recessions, the economy had grown by one or two percent annually (Larsson 1991:123). As it turned out, the expectations had been much too optimistic. The combination of high employment and high inflation caused wage negotiations to get way out of hand. From 1975 to 1976, labor costs increased by more than 40 percent (Söderström

1996:207). This led to a severe cost crisis which made it impossible to capitalize from the international upturn that began in 1976 (Myhrman 1994:176-181). While economic development improved somewhat towards the end of the decade, the economy was thrown back into recession by the second oil crisis in 1979.

The intellectual foundations of the Policy of the Third Road were developed during the two years before the 1982 election while the SAP was in opposition. Several top politicians and economic advisors were involved in the process, but three people appear to have constituted a core group: Kjell-Olof Feldt, SAP spokesman on economic issues and subsequently Minister of Finance, together with Erik Åsbrink and Michael Sohlman, both economists who would later occupy important positions within the Ministry of Finance (Bergström 1991:290-298, Feldt 1991:57-73). The main component of the strategy was a very large devaluation, aiming to create a large under-valuation of the Krona. They hoped that this would trigger a structural change in the economy and make the export-oriented sector regain the strength that it had lost in the 1970s.<sup>35</sup> Historical precedents were found in the large adjustments of the exchange rate in the early 1930s and late 1940s, both of which had been followed by periods of high growth.

The strategy was appealing also from a political point of view. The various non-socialist governments that had been in power since 1976 had been accused of being passive and even paralyzed by the mounting economic problems. The SAP wanted to begin its term in office by taking a radical and unexpected step, hoping that this would send a signal of energy and political optimism (Feldt 1991:62-63). The devaluation was to be followed by a number of measures aimed at curbing the expected inflationary pressure. An initial period of price controls was to be accompanied by a shift to a hard currency policy; the period

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<sup>35</sup> The economic logic of the devaluation is best described by Henreksson (1991). Of particular importance is the distinction between a real and a nominal devaluation. In order to achieve a structural change in the economy, it is necessary to let prices and wages in the trade-oriented sector rise in relation to prices and wages in the protected sector. This, of course, is not what happened. See also an interview with labor union economist Villy Bergström in *Dagens Nyheter*, October 18, 1990.

of devaluations was to be declared over and the Krona tied to the D-mark. Furthermore, the SAP was to use its good relations with LO, the large confederation of blue-collar labor unions, by seeking assurances of wage restraint. In exchange for the introduction of 'wage earner funds' and a withdrawal of some of the corporate profits that would be generated by the devaluation, workers were to accept reduced real wages and not demand compensation for lost purchasing power.

The plan was set in motion on October 8, 1982, when the Krona was devaluated by 16 percent. The original ambition had been an even larger devaluation of 20 percent, but objections from the other Nordic countries had persuaded Feldt to make a reduction. Together with the ten percent devaluation that had been implemented the year before, which had not yet had its full effect on the economy, it was believed that this would be sufficient to create the desired growth impulse (Feldt 1991:75-76). This turned out to be correct and Sweden pulled out of the crisis with remarkable ease. Between 1983 and 1987, the Swedish economy grew at an average annual rate of 2.7 percent, the current account deficit turned into a surplus and the huge budget deficit was eliminated. Contrary to what had become conventional wisdom in the Western world, this was possible without cutting welfare entitlements or sacrificing full employment.

The Policy of the Third Road was for a period of time perceived as a great success. But the Achilles' heel of the policy was clearly visible already at an early stage: the government was never able to bring down the inflation rate to the OECD average. During the first years, targets were declared in public. The ambition was that the rate of inflation would be three percent in both 1984 and 1985. But the actual rate for these years turned out to be eight and six percent respectively (Jonung 1989:16). By the end of the decade, the situation had become untenable. With an overheated labor market and sharp wage increases, the Swedish inflation rate exceeded ten percent. The OECD average was at this stage below six percent (OECD 1992:878). When the United States entered an economic slowdown in 1989, the Swedish export industry experienced a sharp decline in demand. With a full-blown cost crisis and a weakening of one of its most important export markets, Sweden

was once again facing a severe recession and an increase in unemployment.

### *Political Rescue Attempts*

In order to deflate the overheated economy, the government proposed a series of austerity measures, almost signaling a sense of desperation to come to terms with the situation. In April 1989, when the signs of an emerging recession were first beginning to be taken seriously, it made an unsuccessful attempt to raise the value-added tax. As an alternative, an agreement was made with the Center Party on the introduction of 'mandatory saving', implying that a fraction of all wages were to be made unavailable for consumption and temporarily deposited in savings accounts. In February 1990, nervous reactions on the financial markets made the government take the dramatic step of proposing a two-year freeze of prices, wages, and dividends. This was to be accompanied by a legislated ban of strikes and higher fines for wildcat strikes.

As described in chapter four, the so called Stop Package triggered fierce resistance from the opposition and eventually led to the government's resignation. While Ingvar Carlsson came back and formed a new SAP government, Kjell-Olof Feldt chose to leave his position as Minister of Finance and retire from political life. Feldt was replaced by Allan Larsson, former director of the National Labor Market Board. Under Larsson's leadership, two new measures were introduced. The first was an agreement made with the Liberal Party on cutbacks in welfare systems and a postponement of certain promised reforms. The second was the appointment of the Rehnberg Commission that was to persuade the economic actors to accept a freeze of prices and wages on a voluntary basis.

Additional measures were expected in an economic government bill (1990/91:39) that was submitted to the *Riksdag* in the beginning of October . But when this was made public, it turned out to be relatively empty of content; the government emphasized the need to bring down the inflation rate, yet presented few concrete suggestions as to how this would be done. For the second time in 1990, large capital flows began to pour out of the country. Despite two consecutive hikes of the interest rate,

the Bank of Sweden's foreign reserves were quickly diminishing and there was strong pressure on the fixed exchange rate. On October 18, 1990, the government announced that it was putting together an austerity package on short notice, containing a 25 billion cutback of public spending.

### **Why Did the Third Road Come to an End?**

At a time when international economic development was still relatively stable, Sweden was once again facing a severe recession. What had gone wrong? There have been numerous attempts to explain the eventual fate of the Policy of the Third Road. These are usually based on one of two basic interpretations of the events. The first holds that the government itself was responsible for destabilizing the economy by making a number of mistakes in the formulation of economic policy. The second emphasizes the impact of certain structural conditions, arguing that the resulting recession was a more or less inevitable adjustment to changes that had taken place in the international economic environment.

This section examines both of these interpretations. I begin by reviewing a number of political measures that can be referred to as 'mistakes' in the sense that they had an expansive effect on the economy and thereby fueled inflationary pressures. I then discuss the structural changes that had taken place. These reduced national political autonomy and made it necessary to concentrate on bringing down the rate of inflation, even at the expense of higher levels of unemployment. My position is that the latter of these perspectives contains more explanatory power. While it is true that it might have been possible to achieve a somewhat better trade-off between inflation and unemployment had certain pitfalls been avoided, there is little reason to think that Sweden in the long run could have avoided adopting a macroeconomic orientation that had been introduced throughout the OECD area.

### *Political Mistakes*

When evaluating political developments, it is tempting to make a long list of measures that might have altered the outcome in one way or the other. Such discussions often contain an element of anachronistic reasoning, failing to consider how the political actors perceived the situation at the time. In the following, I will limit myself to identifying four aspects of the government's economic policy that had a significant impact on the outcome: (1) the size of the 1982 devaluation, (2) the ensuing arrangement for pegging the Krona, (3) the order in which certain economic reforms were implemented, and (4) the general orientation of the government's fiscal policy.

Beginning with the 1982 devaluation, it might be argued that this was in fact too large. The ambition had indeed been to spur strong economic growth. But the actual size of the devaluation had been based on the assumption that the international economic development would continue to be weak with slow growth and restrictive policies pursued by the major economies. This had been the general opinion among economic analysts at the time (Feldt 1991:119). These predictions turned out to be wrong, however, due to the expansive fiscal policies followed by the Reagan administration after 1982. Furthermore, when a slowdown was on its way in 1986, this was offset by a sharp drop in oil prices, making the 1980s into one of the longest periods of economic expansion in U.S. history (Myhrman 1994:202-203). Since the strong U.S. economic development led to a significant increase in the demand for Swedish exports, the devaluation of the Krona resulted in a much stronger stimulation of the Swedish economy than what had been intended at the outset.

As pointed out by Jonas Pontusson (1992), relying on an undervalued Krona and increased corporate profits to create growth was in itself a risky strategy. A main element of the so called Rehn-Meidner model, that had guided SAP economic policy in the past, was that corporate profits were to be kept low, forcing companies to either increase productivity or go out of business. Pontusson shows that the new strategy placed the unions in an awkward position. At a time when profits were soaring, the government asked workers to accept reduced real wages. From a union point of view, this constituted an unfair redistri-

bution from labor to capital. Since conditions in the labor market made it possible to obtain considerable wage increases, there was little chance of organizing peak-level bargaining based on wage restraint. Instead, LO and its white-collar counterpart TCO were placed under strong pressure from its affiliates, leading to intra-union strife and a weakening of the system of centralized wage-bargaining.<sup>36</sup>

The second mistake was that the Krona was never pegged to the D-mark as had been planned. Ironically, the fact that this was never realized might have been the result of a simple misunderstanding. Feldt (1991:74-76) claims that when the Governor of the Bundesbank, Karl-Otto Pöhl, was informed of the Swedish plans, he expressed strong objections. Pöhl allegedly argued that Sweden could not take such a step on a unilateral basis but needed formal permission from the Bundesbank. In retrospect, it seems clear that this was wrong (Bergström 1991:298, Wihlborg 1993:236). At the time, however, Feldt accepted his opinion. With many other urgent issues to attend to, this was temporarily put off the agenda. Since Sweden quickly developed an inflation rate that was considerably higher than the West German one, it became impossible to take this step at a later point.

Instead of the D-mark, the Krona remained pegged to a basket of currencies, based on a weighted average of the currencies of Sweden's major trading partners. This served roughly the same technical purpose, even if it did permit a somewhat higher inflation rate. The main difference, however, was probably that the basket did not have the same symbolic value. If the Krona had instead been pegged to the D-mark, it would have sent a stronger signal that Sweden had shifted to a hard currency policy and that its inflation rate could not be any higher than that of West Germany. To what extent this could have influenced the parties of the labor market can only be speculated

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<sup>36</sup> Feldt (1991:20-25) argues that he was quite aware that higher profits would be a major break with traditional social democratic policy and that this would be difficult for the unions to accept. Yet in the light of the problematic 1970s, he saw no other alternative. For two inside accounts of how leading representatives of the labor unions experienced the Policy of the Third Road, see Malm (1994) and Arvidsson and Wettergren (1997).

upon. But it would at least have provided them with a more explicit and visible reference point.

The third mistake concerned the deregulation of the financial system. After a gradual liberalization that had been initiated in the early 1980s, a decision to remove the remaining lending ceilings was taken in October 1985.<sup>37</sup> It was widely believed that the regulations had ceased to function in the intended way and mainly caused economic waste through the economic actors' efforts to circumvent them. This proved to be a major misjudgment: from 1987 to 1989, easier access to credit led to an increase in private borrowing of 27 percent (Myhrman 1994:216). At a time when the economy was in need of restrictive measures, this had an expansive effect, leading to a consumption boom which fueled the already high inflation rate.

The expansion of borrowing must be viewed in connection to the design of the Swedish tax system. This was based on highly progressive income taxes and generous rules for deductions of borrowing. A new tax system, with a less progressive tax scale and more limited possibilities for deductions had been planned for some time and was finally introduced in 1991. A good case can thus be made that these two reforms were implemented in the wrong order. Had the tax reform preceded the financial deregulation, rather than the other way around, it seems likely that the expansion of borrowing would have been more limited.

Finally, it might be argued that the government could have pursued tighter fiscal policies. While the government did bring the budget back into balance, this was largely a result of the transition from recession to growth which reduced outlays and increased incomes. The structural aspects of the deficit were also strongly reduced by the high inflation rate which tended to magnify the real tax incomes. Given that Sweden was heading for a new cost crisis, it would have been necessary to take more radical measures, and presumably also at an earlier point in time. From the spring of 1989, there were a number of attempts to tighten the general level of demand. But at that stage the cri-

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<sup>37</sup> For an incisive study of the motives and procedures of the deregulation, see Svensson (1996). A discussion of the economic aspects is provided by Werin (1993).

sis was already on its way and the effects of such measures highly uncertain.<sup>38</sup>

If these four issues had been handled differently, Sweden might have achieved a better trade-off between inflation and unemployment and thereby avoided the oncoming recession. Understood as an explanation, however, this is clearly insufficient. Given that the government failed in bringing down the rate of inflation to the OECD average, why was it not prepared to do what it had done in the past and devalue the Krona once again? This could have eradicated Sweden's lost competitiveness and prevented the expected rise in unemployment. In order to understand why this option was now believed to be foreclosed, it is necessary to examine some fundamental changes that had taken place in the economic environment.

### *Structural Changes*

The preconditions for economic policy-making were very different in the 1980s than during earlier postwar decades. In the wake of the stagflation of the 1970s, all the major economies—first West Germany, then Great Britain, the United States, and finally France—had chosen to take decisive steps to curb inflation. Consequently, the average rate of inflation came down to much lower levels than before (OECD 1992:87). While restrictive policies were successful in bringing down inflation, they were also accompanied by a considerable increase in unemployment. Despite a long period of stable

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38 Feldt (1991) devotes a great deal of his memoirs to describing how he and his colleagues within the Ministry of Finance argued for fiscal prudence. The picture he gives is that the other ministers, as well as the labor movement in general, were prepared to accept some hardship in the beginning. This was accepted on the assumption that it would be followed by a return to more 'normal times' of social reform. Feldt argues that when the initial crisis appeared to be overcome, restraint was replaced by party tactics and ideological convictions. This is a theme that permeates the whole text, but for typical examples see pages 183-193, 369-373 and 436-453. To what extent Feldt himself saw the oncoming crisis, however, might be disputed. When he blew the whistle on the budget in late 1989, just as this had been agreed upon within the cabinet, Prime Minister Carlsson appears to have been surprised and angry that Feldt had not raised this issue at an earlier stage. See Elmbrant (1993:213-214), Kratz (1996:171) and Feldt (1991:445-446).

economic growth, the average level of unemployment within the OECD was, in 1990, above seven percent, as compared to roughly three percent in the 1960s and the 1970s (OECD 1992:43). It thus appeared as if the lowering of inflation had been achieved at the expense of a permanent increase of unemployment.

The change in the international macroeconomic regime confronted Sweden with a dilemma. While the Swedish rate of inflation had to come down to much lower levels than before, it would of course be very difficult for an SAP government to accept the unemployment levels that this seemed to require. In theory, Sweden could have continued with a soft currency policy; with a currency that either floats or is regularly devaluated, real wages can be adjusted downwards so as to compensate for excessive inflation. By the end of the 1980s, this was also the position taken by union economists. As the unions have an organizational interest in high nominal wage increases, this was perhaps not so surprising. But this policy was also advocated by more autonomous actors. Most noticed was a report on the Swedish economy prepared by a group of U.S. economists working for the Brookings Institution. The so called Brookings Report argued that the social costs of bringing Swedish inflation down to international levels might be too high. It therefore suggested that Sweden should learn to live with higher inflation and counteract its effects by systematic manipulations of the exchange rate (Rivlin 1987:91-99).<sup>39</sup>

Contrary to such recommendations, the Swedish government strongly emphasized the need to bring down the rate of inflation. In order to underscore this ambition, it took a series of measures that were aimed at influencing the expectations of the economic actors. The first of these was, of course, that the government regularly declared its commitment to the fixed exchange rate, thereby trying to signal that the period of repeated devaluations was over. The second measure was taken in 1984 when the government placed a ban on public borrowing abroad

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<sup>39</sup> The Brookings' Report was published by *Studieförbundet Näringsliv och Samhälle* (SNS) and replaced *SNS Konjunkturåd*'s annual report on the Swedish economy. It was, however, provided with an extensive comment from *SNS Konjunkturåd* which deviated strongly from the report. See Söderström (1987), and for further comments Söderström (1996:70-83).

(Wihlborg 1993:284-285). The implications of this self-imposed norm was that if the country should once again enter a deep recession, the government could not rely on foreign loans for pursuing countercyclical policies. To the extent that the government needed to borrow money, this would have to be done through the Swedish market.

The third measure was that the government followed the international trend of abolishing capital controls. Like the deregulation of the domestic financial markets, this was a gradual process that took place over a number of years. But from the summer of 1989, most controls had been removed and capital could be transferred more or less freely across national borders (Wihlborg 1993:274-276). Deregulated capital movements have profound implications for monetary policy. With controls, central banks enjoy a certain autonomy in raising and lowering interest rates, even under a pegged exchange rate. When the controls are taken away, this is no longer possible. Domestic interest rates will then be completely determined by international interest rates. Under such conditions, monetary policy cannot be made more expansive than what is allowed by the exchange rate.

Through these three steps, the government had sought to tie its own hands. By making itself strongly committed to defending the fixed exchange rate, placing a ban on foreign borrowing and abolishing capital controls, it had made it highly difficult to reintroduce the kind of policies that had been pursued in the 1970s and early 1980s. The impression that the government wanted to convey was that even if it would at some point want to counter the effects of a new cost crisis, it would then no longer be in control of the instruments needed to do so. If the labor market parties could be made to take this seriously, they would hopefully refrain from reaching wage agreements that led to inflation rates that eroded Sweden's international competitiveness.

Expressed in the terminology of economic theory, this was a shift to a non-accommodating macroeconomic orientation. If the economic actors failed to observe the implications of the fixed exchange rate, they would suffer the consequences of this themselves. A highly interesting interpretation of this development has been formulated by Ton Notermans (1993). Taking a broad

historical perspective, Notermans views this policy shift, implemented in Sweden as well as the other OECD countries, as a natural adjustment to the inherent price instability of monetary economies. According to this line of argumentation, the earlier Gold Standard regime had a built-in bias in favor of deflation. This had then led to deep-rooted expectations of deflationary developments, accumulating over the years and culminating during the Great Depression.

In order to break these expectations, the governments changed their policy orientation and adopted full employment as the main goal of macroeconomic policy. This orientation, however, proved to be equally vulnerable to expectations of price movements in the opposite direction. During the postwar period, the governments' commitment to full employment thus led to inflationary spirals. Since it proved impossible to curb inflation while maintaining full employment, Notermans argues that it eventually became necessary to shift policy orientation once again and return to a policy that aimed at preserving the value of money.

What sets Notermans' interpretation apart from others is that he sees this policy shift as triggered solely by factors located at the domestic level. Accordingly, the fact that it also happened in traditional social democratic strongholds, such as Sweden and Norway, was not caused by international pressure stemming from the shifts that had first been made in the larger economies. Notermans argues that it was instead caused by identical domestic factors that operated separately in all the OECD countries. This was because none of these countries had developed institutional structures that could reconcile full employment with low inflation. If this had not been the case, it would have been fully possible for any single country to avoid the shift and maintain a policy of full employment.

In his discussion of Sweden, Notermans attributes the success of the 1950s and the 1960s to the growing world economy and the fact that the Krona was pegged to the dollar through the Bretton Woods arrangement. Under these circumstances, the government could rely on an 'external anchor' that made it possible to curb inflation by resorting to restrictive policies, mainly by putting a squeeze on credit and thereby obtaining wage moderation. This permitted growth to continue without

requiring any intermediate rise of unemployment. With a breakdown of the Bretton Woods arrangement and slower international economic growth rates, this was no longer possible. Sweden had to either tolerate higher unemployment, or create its own growth stimulus and then rely on domestic institutions for keeping inflation in check.

With a strong preference for full employment, Sweden chose the latter option, introducing large-scale Keynesian measures and turning to a soft currency policy. Due to the many devaluations, however, the Bank of Sweden gradually lost control over the growth of money, thus paving the way for the financial deregulation of the mid-1980s. This in turn caused LO and TCO to lose control over their wage setting capacity. The two domestic institutions that had been previously relied upon for curbing inflation—regulations on credit and wage restraint through peak-level bargaining—had thus broken down. In response to this, the government established a new external anchor for the economy in the form of a strong commitment to the fixed exchange rate, placing a ban on foreign lending and abolishing capital controls. Consequently, when Sweden eventually found itself in the same situation as the larger economies had been in about a decade earlier, there was little choice but to resort to the same political solutions as they had.

These claims have been strongly disputed by Jonathon Moses (1994). The way he sees it, inherent price instability and weak institutions had little to do with Sweden's economic reorientation. He argues instead that the causes are to be found at the international level, primarily in the increasing mobility of capital. Moses points out that during the interwar period, capital markets had been relatively integrated. But the effects of this had been compensated for by various restrictions on trade, making it possible for states to avoid current account deficits and maintain their external balance. After the Second World War, this order had been reversed: while trade was to be free, capital movements were not.

With capital controls, the states could uphold their external balance while devoting fiscal and monetary policy to domestic policy objectives, such as pursuing a policy of full employment. But Moses argues that when capital eventually began to free itself from its national shackles—a process that was allegedly

driven both by technological innovation and an ideological trend of deregulation—this was no longer possible. The instruments that previously had been used for managing the internal balance now had to be redirected to the external balance. This imposed a deflationary bias on economic policy and made it necessary to abandon the policy of full employment.

If these were the implications of free capital movements, it must be asked why Sweden contributed to this by abolishing its capital controls. While Notermans sees this as a measure that was taken to curb inflation, Moses argues that this might have been a consequence of the deregulation, but not the main motive. In his view, the capital controls were instead abolished both because they had become inefficient and because they stood in the way of other aspects of Swedish economic policy, such as the ambition to gain access to the EC's Internal Market. For a small country in an increasingly global economy, there was little else to do but to adhere to the rules laid down by others. Hence, the way Moses sees it, the Swedish policy shift was a more or less unavoidable response to factors located out of the reach of Swedish policy-makers.

Taken by themselves, I do not find either of these interpretations entirely convincing. Notermans attributes explanatory power solely to price instability and claims that this was located entirely at the domestic level. In contrast, Moses attributes explanatory power solely to the increasing mobility of capital and claims that this was located entirely at the international level. These arguments have both been cast in a too polemic way. With slight modifications, they are in fact not mutually exclusive. A more plausible explanation can be gained if they are combined. I would argue that both price instability and the increasing mobility of capital influenced the Swedish policy shift. Moreover, in both cases, the causes are to be found at both the domestic and the international level.

Beginning with the problem of price instability, it seems reasonable to think that this served as the main trigger for the economic reorientation. But the claim that this was located entirely at the domestic level seems more suspect. The fact that different states changed their policies at different points in time suggests something else. I would instead propose the following interpretation. In the early cases, domestic factors might have

been entirely decisive. But as more and more states adopted the new macroeconomic orientation, they progressively changed the economic environment for the remaining states.<sup>40</sup> For the states that tried to hold out and maintain a policy of full employment, it became increasingly difficult to do so as their trading partners concentrated on bringing down inflation at the expense of higher unemployment. Thus, when states like West Germany, Great Britain and the United States changed their priorities in the late 1970s, they did so largely because of factors special to their own political economies. But when Sweden took this step several years later, the relative weight of domestic and international factors had been altered, precisely because of the shift that had been made in the earlier cases.

One might object that even if this effect is taken into account, the causes should still be understood as being located at the domestic level. If Sweden had been endowed with more efficient institutions for keeping inflation in check, there was nothing about the international development that would have prevented it from maintaining full employment. But such an objection disregards the fact that institutional efficiency is a matter of degree. Even relatively efficient institutions will eventually break down if they are placed under strong pressure. While this can only be speculated about, it is possible that if the international environment had been somewhat less biased in favor of fighting inflation, Sweden's domestic institutions might have withstood the test. As it turned out, however, the international rate of inflation came down to levels that even relatively efficient institutions might have been unable to cope with. If this is recognized, it seems reasonable to argue that the economic shift was a response to factors that were at least partly located at the international level.

The increasing mobility of capital reinforced the pressure to shift to a non-accommodating macroeconomic orientation. In a world with free capital movements, not only is the autonomy of monetary policy undermined, but there are also stronger restrictions on fiscal policy. Money holders that want to protect their money from inflation caused by fiscal expansion can choose to do so by moving it out of the country. But to see this

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<sup>40</sup> For an argument along these lines, see Streeck and Schmitter (1991:145) and Martin (1996:34-35).

as the main cause of Sweden's economic reorientation may be misleading. Sweden was also suffering from a problem of cumulating inflationary expectations. If that had not been the case, the government could have chosen to give up the fixed exchange rate and devaluated the Krona. Under the circumstances, however, such a step would have strengthened these expectations and led to an even faster spiral of higher wages and prices.

From this it follows that the Swedish capital controls were mainly abolished with the intention of fighting inflation. But one motive does not exclude other motives. Analysts seemed to agree that the capital controls were becoming increasingly difficult to uphold (SOU 1985:52:414-417, Wihlborg 1993:285-286). In order to maintain a degree of control over the capital flows, it would have been necessary to revise the system and impose much stricter regulations. If this path had been chosen, it would sooner or later have become difficult for Sweden to participate in other forms of economic cooperation, primarily in any relationship with the EC. I therefore find it likely that while the government was indeed trying to strengthen the credibility of its commitment to fight inflation, it also believed that the abolition of capital controls was a step that could hardly be resisted in the long run.<sup>41</sup>

My position is therefore that the 'Third Road' was in fact nothing of the kind. By relying on an unusually large devaluation of the Krona, Sweden created growth and maintained full employment in the short run. But this was a Pyrrhic victory, bearing the seeds of its own destruction. In an environment that was characterized by low inflation and increasing capital mobility, Sweden inserted a strong inflationary impulse into its

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41 The political process of the abolition of capital controls has yet to be investigated. In an interview made for this study, Bengt Dennis claimed that Kjell-Olof Feldt was the driving force. According to Dennis, Feldt had not been involved in the domestic deregulation, but in this case it was he who took the initiative. In public, the deregulation was mainly defended by Erik Åsbrink. At the time, Åsbrink served as both Under-Secretary of State at the Ministry of Finance and chairman of the Bank of Sweden which formally took the decision. In a debate article in *Dagens Nyheter*, Åsbrink mentioned a number of arguments, yet specifically argued that 'experience shows that capital controls tend to imply that measures that are necessary in order to correct a faulty economic policy are delayed as long as possible' (DN, November 8, 1990).

economy. The Swedish inflation rate eventually had to come down; this could be achieved by tighter policies, a severe recession, or, in the worst case, both at the same time. Regardless of which, the result would be a significant increase in unemployment. Like others before it, the Swedish government thus found it impossible to uphold its commitment to the objective that had been at the forefront of economic policy-making since the 1930s.

### **Implications for Swedish EC Policy**

The main argument put forth in this chapter is that the emerging economic problems served as a source for the policy reorientation on EC membership. More specifically, I argue that the economic developments indicated that there were two types of political advantages to be had from taking this step, one in the short term and another in a more long-term perspective. These are outlined in the following subsections.

#### *Membership as a Commitment to Fight Inflation*

By the fall of 1990, the economic actors showed little confidence in the government's ability to bring down the soaring inflation. In a situation of zero growth and rising unemployment, collective wage agreements were made that resulted in double-digit wage increases. This was accompanied by persistent rumors of an imminent devaluation. Leading economists at LO openly criticized the pegged exchange rate. Politicians from the opposition parties as well as academic economists expressed strong doubts that the government would be prepared to let the level of unemployment continue to increase.<sup>42</sup> For the second

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<sup>42</sup> For examples of how the LO economists argued at the time, see Andersson and Edin's debate article in *Dagens Nyheter*, June 24, 1990, and Edin's article in the same newspaper on October 12, 1990. These statements were claimed to have caused strong irritation within the Ministry of Finance (DN, October 21, 1990). In a newspaper interview on October 8, 1990, economist Assar Lindbeck questioned whether the government could avoid a new devaluation. Similar statements were made to Norwegian media by Swedish economist Lillemor Thalin. For a discussion of the rumors of a devaluation, see Elmbrant (1993:241-246).

time that year, speculative attacks against the Krona led to massive outflows of capital and put strong pressure on the exchange rate.

The government was at this point determined to avoid a currency devaluation. But after many decades of politically guaranteed full employment, it was suffering from a credibility problem. The behavior of the labor market parties was based on the calculation that when the economic situation deteriorated, pressure from public opinion would make it impossible for the government to avoid taking accommodating measures. The government was of course aware of this. But if the new strategy was to succeed, these expectations would have to be broken.

The problem of how to retain a predetermined course of action is well investigated in political theory. An actor who mistrusts his or her own capacity to act in a rational way might voluntarily concede the possibility to act in any other way. This is usually illustrated by the ancient story of Ulysses who let himself be bound to the mast of his ship in order to withstand the seductive song of the sirens (Elster 1979). In a similar vein, it is often emphasized that it is highly useful to be ‘committed’ when placed in a bargaining situation. As Thomas Schelling (1960:22-28) points out, the credibility of one’s position can be enhanced if measures are taken that would make it very difficult to retreat.

In the course of international negotiations, the statesman can try to achieve such a commitment by promising the domestic constituency in public to stay the tough. Considering the great attention that has been given to this insight, surprisingly little work has been done on the reverse possibility, the fact that governments can use international commitments in order to strengthen their positions in domestic bargaining games. Yet there are many indications that this is a common motive for international cooperation. For instance, the complexities of multilateral trade negotiations are sometimes viewed as providing free trade oriented governments with an external scapegoat that can be used for resisting domestic demands for protection (Lipson 1982:426, Frieden and Lake 1991:336). A good case can also be made for arguing that this is a common phenomenon within the EC/EU. As pointed out by Andrew Moravcsik (1994), there are a number of aspects of the integration process that tend to

strengthen the executive branch of government at the expense of other domestic actors.

For the Swedish government to declare that it wanted to enter the EC would not constitute any strong form of commitment. The EC members enjoyed considerable autonomy in the formulation of their economic policies and the historical record shows large national variations in the rate of inflation and level of unemployment. But as a collective, the EC states were still much less sensitive to high unemployment and more concerned with low inflation. After applying for membership, Sweden would be expected to defend its fixed exchange rate and refrain from the 'beggar-thy-neighbour' devaluations of the past. Thus, by deliberately exposing itself to pressure from the EC, the Swedish government could strengthen its position in the domestic bargaining game and find it easier to resist calls from organized interests for a softer currency policy.

#### *Membership as a Strategy to Restructure the Economic Environment*

Much more was at stake than just a temporary recession. The fact that Sweden had been unable to find a viable alternative economic strategy had a strong symbolic value, dealing a blow to the mindset and rhetoric that had guided social democratic policy in the past. For a political party that had built its legitimacy on the claim that the negative aspects of capitalism could be controlled by political means, the effects of economic interdependence were not easily acknowledged. With the Third Road in shambles, however, there were clear indications that things had changed. More specifically, the economic deterioration highlighted that there had been a shift in the balance of power between social groups; the position of capital had been strengthened while that of labor had been weakened.

There were three conditions that contributed to this. The first, and possibly most important of these, was the prospect of having to accept significantly higher levels of unemployment. Following the so called 'power resource model' to explain the political strength of the labor movement, it might be argued that in an economy where full employment is politically guaranteed, the political power of labor will generally be strengthened. If

unemployment increases, creating a surplus pool of workers, it will in a corresponding way be weakened.<sup>43</sup>

Economic theory holds that in the long run, there is no trade-off between inflation and unemployment; in the case of a recession, the economy will eventually recover and return to full employment. The problem was that modern labor markets had proved to be much less flexible than what was previously understood. The experience from other European countries indicated that once unemployment went up, it had a tendency to remain at much higher levels than before. The reasons for this are still very much disputed; popular explanations focus on weak incentives due to generous welfare systems, technological improvements that reduce the demand for low-skill jobs, and new competition from low-wage countries in South East Asia.<sup>44</sup> Whatever the answer, which probably involves a combination of these factors, the lessons for Sweden were clear. If Swedish unemployment was to increase the same way as it had in many other West European countries, there was little reason to think that Sweden would not also find it difficult to bring it back down again.

The second condition that worked to the disadvantage of labor was the increasing mobility of capital. In addition to its effects on macroeconomic autonomy, and thus on the labor market situation, free capital movements have significant implications for power relations at the domestic level. With capital controls, capital owners can in principle be made to finance such policies that make production more expensive than in other countries, for instance high standards on working conditions and environmental regulations. Without capital controls, capital owners are no longer forced to accept a lower yield than what they would get if they placed their assets in some other country. Consequently, the burden of paying for such policies shifts from capital to labor (Cooper 1986:6-7, Hansson 1990:108-110).

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<sup>43</sup> The original formulation of the power resource model is found in Korpi (1983). For useful summaries, see Kurzer (1993:9-12) and Martin (1994:62-65).

<sup>44</sup> A highly useful summary of this literature as well as statistics covering these developments is provided by Martin (1994). For a statement on the differences between the European and the U.S. development, see Krugman's (1996) much noticed article with the apt title 'Europe Jobless, America Penniless?'.

This was not only a result of short-term movements of financial capital, but also of a strong increase in foreign direct investment (FDI). During the 1980s, Swedish multinationals strongly increased their investment abroad. This development is illustrated in Table 4, showing a steady expansion of outward FDI from 1981 to 1990. This is not accompanied by a corresponding inflow; inward FDI followed an irregular pattern and was every year significantly below outward FDI.<sup>45</sup>

**Table 4.** Swedish Outward and Inward Foreign Direct Investment (bn SEK)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
FDI out	4.2	6.1	8.1	8.7	10.9	21.8	20.2	32.4	48.8	69.6
FDI in	0.9	1.2	0.6	1.4	2.4	5.9	2.2	5.7	7.7	11.7

\* Figures have been cleared from reinvested profits. Source: adapted from Stråth 1992:101-102, stated original source the Bank of Sweden, balance of payments section.

With the integration of capital markets and the internationalization of Swedish business, the relative position of labor had been weakened. While labor remained relatively immobile and tied to the national level, capital owners had been provided with an 'exit option', implying that investment decisions could, to a much larger extent than before, be made conditioned on the general orientation of public policy. In the new situation, capital owners had the means of making credible threats and playing off different locations against each other.<sup>46</sup>

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45 From 1987 to 1990 there was also a qualitative shift as investment directed to the EC increased heavily in combination with a relative fallback in investment directed to the United States and other OECD countries. The strong expansion of outward FDI is discussed in a study by Thomas Andersson (1993). Andersson suggests that the explanation must be sought in two steps. The first concerns general international trends related to progress in technology, communications, and integration. This led to changes in the strategies pursued by the Swedish multinationals. The second step concerns characteristics special to the Swedish labor market, such as low productivity increases and weak economic incentives.

46 The business community, like the unions, has various channels for making its preferences known to the decision-makers. For two recent attempts to do so through public opinion, see the debate articles in *Dagens Nyheter* on September 12, 1994 ('Permit Us to Invest in Sweden') and February 23, 1997 ('The

The third condition that affected the position of labor was the changes that had taken place in the industrial mode of production. Beginning in the late 1970s, there had been a general trend to replace traditional Fordist methods with more small-scale production units. These are typically characterized by relatively flexible work procedures and less hierarchical relations between workers and management. It has often been pointed out that in a longer term perspective, this may have profound political implications; by creating new types of jobs bordering between blue-collar and white-collar, the shift to 'Post-Fordism' alters the relative power of social groups and affects the incentives for collective action (Bernard 1994:225-226, Cox 1994:46-47).

Fordist production methods and the existence of a large segment of semi-skilled workers are generally seen as an important reason for the political strength of the Swedish labor movement. As argued by Jonas Pontusson (1992:324-326), the rise of new production methods posed a serious threat to LO, the large confederation of blue-collar unions, by irrevocably reducing the size of its core group of members. It also suggests that there might be future problems in maintaining the very high levels of union organization. With its emphasis on flexibility and flat organizational structures, labor unions might face increasing competition from management in winning the loyalty of the work force.

It can safely be assumed that the business community had never been very satisfied with the corporatist structures of Swedish societal relations. But it was accepted as long as there were no attractive alternatives. This had now begun to change. It is interesting to look at this development in relation to the more self-assured attitude displayed by Swedish business. Beginning in the early 1980s, the Swedish Employers' Federation (SAF) embarked on an offensive strategy, fiercely opposing the introduction of wage earners' funds and arguing for a dissolution of centralized wage negotiations. This was combined with calls for new and more corporate friendly ways of organizing the economy. In order to underscore its new orientation, SAF chose to withdraw from its representative seats in the state bureaucracy (Lewin 1992b:99-120).

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Confidence is Now Ruined'). For general discussions of the 'exit option', see Helleiner (1994:173) and Strange (1995:61-67).

Against this background, I would argue that there was a second possible advantage for the government in changing its position on EC membership. This step might not only help to bring down inflation in the short term, but also be part of a longer term strategy of changing the economic environment. With higher unemployment, free capital movements and new production methods, the preconditions for pursuing traditional social democratic policy preferences had been altered. SAP governments might continue to hold office in the future. But their political autonomy would be strongly reduced. For a political party that had always portrayed politics as the 'art of the possible', these prospects were highly problematic.

The EC had, up to this point, not been very concerned with macroeconomic policy coordination, reintroducing capital controls or formulating high common social standards. The historical record was rather the reverse; the actions of the EC and its member states had contributed to the unfavorable changes that had taken place in the economic environment. But the EC was still an international arena in which such concerns could be raised and argued for. With the Third Road in shambles, EC membership might constitute an alternative political strategy. By cooperating with other social democratic forces within the EC, the Swedish SAP government could try to alter the EC's agenda and regain the political power that had been lost at the national level.

## **PART IV**

## **COGNITION AND PROCESS**

## **8 THE INDIVIDUAL DECISION-MAKER: CARLSSON'S LEARNING PROCESS**

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In order to have an impact on policy, the 'sources' first need to be perceived and acted upon by 'individual decision-makers'. It would, in principle, be desirable to investigate all the cognitive processes of all decision-makers involved in the process. Yet this study examines only one: the then Prime Minister Ingvar Carlsson. As will become clear later on, this choice is only partly motivated by practical reasons. Ingvar Carlsson had a key position in the process and no individual exercised a stronger influence on the decision than he.

I make the argument that Ingvar Carlsson came to favor Swedish entrance into the EC after having gone through a learning process. From the spring of 1988 to the fall of 1990, he had a number of important experiences that led to significant changes in his belief system. During this period, he modified his views of the 'sources' discussed in Part 3. Carlsson thus adopted a new set of beliefs regarding the international political situation, the Swedish relationship to the EC and domestic developments, all of which pointed in the direction of membership in the EC.

This chapter is divided into five sections. I begin by presenting an analytical model of learning. In the following section I then examine Carlsson's belief system and identify the changes that this went through. This is followed by two sections in which I discuss the experiences that led to these changes and the different phases in his learning process. In the concluding section I then address the problem of how to separate real changes in Carlsson's beliefs from the mere rhetorical use of new ideas.

### **A Model of Learning**

Learning approaches have been gaining ground in the study of foreign policy and international politics (e.g. Breslauer 1987, Keohane and Nye 1987, Nye 1987, Haas 1990, Breslauer and Tetlock 1991, Mendelson 1993, Gross Stein 1994, Levy 1994).

But there is no professional consensus on what ‘learning’ should be taken to mean. In an overview of different research traditions, Philip Tetlock (1991:23-38) discerns five conceptions of learning: (1) the neorealist approach (learning implies a rational adjustment of policy to incentives provided by the international system), (2) the belief system approach (learning implies a change in basic values or beliefs in causal relationships), (3) the cognitive structural approach (learning implies a change in the form of greater complexity or capacity for self-reflection), (4) the organizational, political and cultural approach (learning implies a change in the institutional procedures or cultural norms that shape how governments respond to international events), and (5) the efficiency conception of learning (learning implies that the capacity to match ends and means becomes more efficient than before).

I will here rely on a definition suggested by Jack Levy (1994:283), implying that learning is understood as ‘a change in beliefs (or degree of certainty in one’s beliefs) or the development of new beliefs, skills or procedures as a result of the observation and interpretation of experience’ (Levy 1994:283). Situated within what Tetlock refers to as the belief system approach, such a conception of learning differs from others in that it does not presuppose that learning leads to either a change in policy, a more complex cognitive structure or a more ‘accurate’ understanding of the world.

I reserve the notion of learning to the individual level of analysis. The way I see it, organizations and collectives are constructed entities, as such they are incapable of learning by themselves. The idea of collective learning becomes meaningful only if the collective is first broken down into individuals who learn and then transfer their new knowledge into the rules and practices of the organization. For practical reasons, however, it might, in some cases, be useful to deviate from this methodological individualism and assume that organizations also can learn, provided that the analyst is aware that this is an analytical shorthand for a much more complicated process.

Cognitive theory sees individuals as holding a set of beliefs that are organized into a hierarchy. In a seminal article on the value of this type of theory in the study of foreign policy, Alexander George (1969) suggests a distinction between the fundamental

category of ‘philosophical beliefs’ and more practical ‘instrumental beliefs’. In a related manner, Robert Jervis (1976:297-308) distinguishes between ‘central beliefs’ and ‘peripheral beliefs’. I will rely on a similar yet three-fold hierarchy suggested by Robert Tetlock (1991:28), consisting of ‘fundamental assumptions and policy objectives’ located at the top, ‘strategic policy beliefs and preferences’ at an intermediate level, and ‘tactical beliefs and preferences’ at the bottom. The more specific meaning ascribed to these terms will be addressed in connection to the empirical analysis.

Scholars working with cognitive theory generally agree that beliefs located higher up in the hierarchy will be more rigid and resistant to change than beliefs located further down. Apart from that, there are great differences in their views on how change takes place. Many studies in this field have been based on ‘cognitive consistency theory’ (e.g. Jervis 1976, Heradstveit 1979, Starr 1984). This holds that individuals are endowed with coherent belief systems and always seek to maintain consistency between beliefs located at different levels of the system. Cognitive consistency theory therefore has a bias in favor of rigidity, emphasizing various psychological mechanisms that might stabilize the existing set of beliefs and exclude new and unwanted information (Jervis 1976:291-297). When change does take place, the theory predicts that it will do so in a relatively abrupt manner as new ideas located at one level quickly trigger changes in beliefs located at the other levels.

A rival understanding of how cognitive change takes place is provided by ‘schema theory’ (Rosati 1995:63-64, Vertzberger 1990:156-160). This theory sees belief systems as somewhat less internally coherent. Instead of tightly interconnected beliefs, individuals are assumed to hold a set of beliefs that are sometimes inconsistent with each other; different beliefs are invoked in different situations in order to make sense of the situation. Since it puts less emphasis on coherence and consistency, schema theory allows for change to occur in a more incremental way. Studies that contrast schema theory with cognitive consistency theory suggest that their accuracy may depend on a number of factors, such as the background of the individual and the role that he or she occupies (Rosati 1995:64). My interpretation of the changes in Ingvar Carlsson’s belief system is primarily by schema theory.

Empirical studies of learning are associated with complicated methodological problems. Since there is no way of directly monitoring the mind of the research object, there is no way of definitely determining how the learning process took place, or for that matter that it did take place at all. Considering that decision-makers are tempted to use new ideas in an instrumental way, embracing them not because they believe in them but because they help justify decisions that are taken for very different reasons, any claims about causal relationships must be made with great caution. In order to minimize these problems, the ideal research design implies that the cognitive development of the individual is followed over a long period of time. The aim of the analyst should be to clarify which beliefs have changed, what might have contributed to this, and to what extent changes in beliefs coincide with changes in interests following from new roles or professional positions (Levy 1994:306-310, Tetlock 1991:44).

To sum up, the model applied in this chapter sees learning as a change in beliefs following from the interpretation of new experience. Following the principle of methodological individualism, learning is reserved for the individual level of analysis. I also assume that individuals hold belief systems that are organized into a three-level hierarchy. Beliefs located at higher levels will be more resistant to change than beliefs located at lower levels. Following the main argument of schema theory, I further assume that individuals can hold beliefs that are not always perfectly consistent, permitting for change to take place in an incremental way over an extended period of time.

### **What Were Carlsson's New Beliefs?**

Ingvar Carlsson had been a party man throughout his professional career. Born in 1934, he had already during his teen years become active in the SAP Youth League, later serving as its chairman for six years. After having completed his university studies with a degree in political science and economics, he was in 1958 recruited as political secretary to Prime Minister Tage Erlander. Carlsson became Under-Secretary of State in 1967, Minister of Education in 1969, and Minister of Housing in 1973. During the years in opposition from 1976 to 1982, he served as

an ordinary member of the *Riksdag* and worked with the ideological development of the SAP. When the party returned to power in 1982, he was appointed Deputy Prime Minister, a position in which he was in charge of government coordination and political strategy.

Carlsson then took over as Prime Minister and chairman of the SAP after Olof Palme's death in February 1986. Carlsson had up to this point been in Palme's shadow. The two had been close friends and had known each other since the mid-1950s. While Carlsson was seven years younger and less charismatic, he had over the years built a reputation for being highly knowledgeable, well organized, and in possession of considerable social skills. He had therefore come to serve as something of a troubleshooter for the SAP, being given responsibility for a number of highly sensitive issues. Among these were the problem of establishing a party line in the 1980 referendum on nuclear power, developing an economic policy for the 1980s and reforming the party's position on freedom of choice in the public sector. When the executive board of the SAP faced the unexpected task of having to find a replacement for Palme, Carlsson was the natural candidate and no rival stepped forward.

In what follows, I will present an analysis of Carlsson's belief system. It stands to reason that such an endeavor cannot be exhaustive. I will focus on a limited set of beliefs, all of which concern the three sources identified in Part 2 of the study. The ambition is to show that around the time of the reorientation on EC membership, Carlsson had acquired a number of beliefs that had not earlier been part of his belief system. Studies of cognitive change often suffer from the problem of being unable to find; the individual in question must leave a sufficient offprint from which his or her beliefs can be deduced. Analysts using this approach have therefore preferred to focus on decision-makers that have made frequent statements in public and preferably also displayed their views in books and articles (Vogler 1989:140, Rosati 1995:54-60).

Carlsson is in this respect not the ideal object of study; his own publications are few and before taking over as Prime Minister he had made few public statements on foreign policy. In discussing Carlsson's beliefs prior to the learning process, I will

therefore assume that these corresponded to the SAP's official position. While this might appear presumptuous, it is in fact not entirely unsatisfactory. Carlsson was not an expert on foreign policy—that had been Palme's domain. During the many years that the two worked close together, Carlsson attended to the domestic scene. I find it likely that Carlsson shared Palme's basic views on foreign policy; to the extent that he held strong beliefs in this area, there is reason to think that these were not very original.

In documenting Carlsson's new beliefs, there is more material to go on. In addition to having interviewed Carlsson myself, I rely on a number of incisive published interviews made by experienced political journalists, as well as speeches and statements that he made to the media and the public. Some of the material that I use for evidence was produced after the change on EC membership had taken place, dating from 1991 and 1992. A critical mind might therefore rightfully suspect that what Carlsson said should be understood as political rhetoric rather than as indications of a true learning process. As will become clear later on in the chapter, however, I will argue that this was not the case and that Carlsson's words did in fact reflect a significant change in his beliefs.

### *Fundamental Assumptions and Policy Objectives*

The top level of the belief system contains basic values and perceptions of the world, that is, what political scientists refer to as ideology. In the case of Ingvar Carlsson, this would correspond to the basic ideas of the SAP.<sup>47</sup> Having decided early on to advocate democracy and reformism over revolution and socialization, the party has expanded its social base to cover large segments of the middle class. Its main ideological claim is that the negative aspects of capitalism can be countered by extensive state interventionism and welfare policies. The SAP accepts private ownership and the principles of a market economy. But rather than as a value in itself, this is seen as an in-

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<sup>47</sup> For a popular presentation of the SAP's ideas, see the pamphlet *Vad är socialdemokrati?*, co-authored by Ingvar Carlsson and Anne-Marie Lindgren (1984). Przeworski (1985) provides a theoretical presentation of social democracy.

strument that can be used to eradicate class differences and establish a more equal society. Since the 1930s, theoretical justification for the active role of the state has relied heavily on Keynesian economics and the idea that the fluctuations of the business cycle can be countered by variations in the level of public spending.

In the field of foreign policy, the SAP is strongly associated with the so called Undén-Palme line in Swedish foreign policy.<sup>48</sup> At the heart of this body of thought lies the 'realistic' conception that wars are caused by great power rivalry. Two types of more specific prescriptions are deduced from this. At the regional level, where national interests are clearly at stake, it is believed that a small state should be prepared to defend itself in order to deter aggression. At the global level, this is combined by a marked strand of 'idealism', emphasizing the value of international law and organization. This is partly seen as an alternative power base for states that lack other resources. But it also reflects a belief in the possibility of human progress. While the Undén-Palme line assumes neither harmonic interests nor the possibility of a change in human nature, setting it apart from more liberal as well as Marxist views on international affairs, it does believe that man is capable of making political and institutional improvements. It thereby denies that balance of power would be the only way to achieve more stable and peaceful international relations.

There are no indications that Carlsson altered his belief in an equal society based on an extensive welfare state, or for that matter his views on peace and war in the world. But he did adopt certain new ideas about the nature of the global economy and the restrictions that this imposed on domestic state intervention. Carlsson came to recognize the effects of interdependence and as a result he adopted a more pessimistic view of what could be achieved by political measures that were confined to the domestic level. This is a theme that he often talked about at this stage. I will here cite only a few remarks drawn from a book (Färm 1991:117-118, 103) consisting of a series of in-depth interviews with Carlsson:

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<sup>48</sup> A useful summary of the ideas that I here refer to as the Undén-Palme line is provided by Goldmann (1991).

The importance of national borders will decrease. Today also Swedish companies have more employees abroad than here at home. Capital and credits are being moved more and more freely across the borders. Interest rates and inflation in Sweden are thereby affected by what they do in other countries... This implies that the room for national political action decreases. . . Internationalization and a stronger position for the capital owners are new phenomena... There is a risk that the capital will gain an advantage again that it has not had in Sweden over the past 60 years.

#### *Strategic Policy Beliefs and Preferences*

At this intermediate level, ideological convictions located at the top are transformed into general principles for policy. From the belief in the growth inducing qualities of the market economy, it followed that the SAP wanted Sweden to take part in the international division of labor and participate in the international institutions that support the functioning of the world economy. Given the high ambitions for social policy, however, the SAP also emphasized the importance of safeguarding national sovereignty. In order to intervene in the economy, the state needed to be free from external constraints. When these two ambitions were collided with each other, the party took a pragmatic view and weighed costs against benefits from case to case.

In the field of national security, the Undén-Palme line was closely associated with the Swedish policy of neutrality. In the expression that this had been given after the Second World War, the main ambition was to avoid provoking the Soviet Union. Sweden was therefore to refrain from joining NATO and instead commit itself to taking a neutral position in the case of war. In order to enhance the credibility of this policy, it was believed that Sweden should not only maintain an independent military defense, but also avoid taking on certain other international commitments that might infringe on its freedom of national action. As goal conflicts could also arise in this field, it was sometimes necessary to make trade-offs, for instance, by sacrificing some freedom of action in return for access to Western technology. Since such decisions might have a compromising effect on the credibility of the Swedish neutrality

posture, Sweden should try to compensate for this by emphasizing the independence of other aspects of its foreign policy.

There had been significant changes at this intermediate level of Carlsson's belief system. He continued to believe that there was no alternative to an open economy: 'For us as an internationally dependent country pursuing a policy of free trade it would have enormous consequences on employment and standard of living if we were to deviate from this by raising tariffs and regulations' (Färm 1991:123). But instead of seeing this as something that would have to be balanced against the need for national political freedom of action, he had come to the conclusion that there was not always a conflict between the two: 'Our possibilities to pursue a national social democratic policy which differs from other countries will diminish. . . but they will diminish regardless of whether we are inside the EC or not' (Färm 1991:121, *italics in original*). The way Carlsson viewed the situation, it would become 'more and more difficult to realize the social democratic ambitions if every country tries to do this on its own...Sweden could earlier go against the stream, but in the long run that becomes very difficult' (SvD, September 1, 1992). 'The question is: is it still possible to follow a social democratic policy orientation? Yes, but it cannot be followed only in Sweden' (Färm 1991:103).

Expressed in academic terminology, Carlsson had now come to observe a distinction between 'sovereignty' and 'autonomy'. By retaining its national sovereignty, Sweden preserved the formal right to take its own decisions. But because of the pressure exercised by the internationalized economy, the actual room for domestic political action would be highly limited. Carlsson believed that this called for a new and more outwardly oriented political strategy. 'If we continue like before we will always be at a disadvantage' (SvD, September 1, 1992). 'Both labor unions and a strong government can be faced with extortion, where [the capital owners] say—do as we want or we will move to Spain or some other country' (Färm 1991:103). He therefore argued that 'we now have to expand our field of action to all of Europe. . . [if we are to] advance our positions we must formulate an international social democratic strategy' (Färm 1991:103). 'It has to be more efficient if we [work] together with social democrats in all of Europe...for a bolder and

more ambitious policy of employment' (SvD, September 1, 1992).

Carlsson had also adopted new beliefs regarding international political development and the Swedish policy of neutrality. During the spring and summer of 1990, he made numerous statements in which he acknowledged that there had been a significant improvement in the relations between the superpowers. While Carlsson did not believe that this had eliminated the risk for a war in Sweden's vicinity, he did see it as an end of the division between East and West. Not only was the Warsaw pact being dismantled, but 'NATO's role as a defense alliance' was also 'rapidly changing' (Protokoll från Socialdemokraternas kongress, September 15, 1990). Carlsson believed that this might open up a new type of security order, referred to as an 'all-European peace order' (DN, May 27, 1990 and July 5, 1990). The idea was that the Conference on Security and Cooperation in Europe (CSCE) would be used to build 'a system for collective security on our continent' (Protokoll från Socialdemokraternas kongress, September 15, 1990). But there are no indications that Carlsson had a very clear picture of what this would actually mean; he said very little about how it would be established, or how it would relate to other existing systems for collective security.

While Carlsson might have been unclear about what would replace the old East-West division, there is no doubt that he believed that this development carried great implications for the Swedish policy of neutrality. Carlsson saw the possibility of a situation where 'military thinking on security in Europe no longer dominates' (Protokoll från Socialdemokraternas kongress, September 15, 1990). He believed that under such circumstances, 'the policy of neutrality would not have to carry the same burden as before' (Protokoll från Socialdemokraternas kongress, September 15, 1990). Thus, early in the fall of 1990, Carlsson had come to the conclusion that it might be possible for Sweden to loosen up the restrictions imposed by the policy of neutrality. With a reduced risk of war, the so called credibility argument would not have to loom as large as before and Sweden would be free to take on international commitments that had previously been rejected.

#### *Tactical Beliefs and Preferences*

The bottom level of the belief system is here understood as containing more specific ideas and preferences about the orientation of policy. Concentrating on the relationship to the EC, this had traditionally been viewed by the SAP as a dilemma. Whereas the party identified a clear interest in taking part in the economic aspects of the integration process, it was highly skeptical of its political implications. The party not only believed that Swedish membership might compromise the policy of neutrality, but also that the required concessions of sovereignty would constrain its ambitious social policies. Sweden's participation in the integration process would therefore be secured by various special arrangements short of membership.

After having acquired a number of new beliefs, Carlsson was no longer of the opinion that Sweden would have to abstain from entering the EC. Under the new international political conditions, Sweden would retain its policy of neutrality, but it would not be necessary to adhere to the same restrictions as before. The way Carlsson saw it, the crucial question was therefore if the EC could be regarded as a military alliance, the answer being that it was not. While Carlsson realized that the EC had political ambitions to add a military dimension to the existing cooperation within CFSP, he did not believe that these would lead to any far-reaching changes: '[t]here are no preconditions for... transforming the EC into a military alliance with operational military assignments' (*Riksdagsprotokollet*, June 14, 1991).<sup>49</sup> Even if this was to happen sometime in the future, he believed that '[we] can assume that... consideration will be taken to those EC states that do not wish to participate' (*Riksdagsprotokollet*, June 14, 1991). Neither did he believe that there would be any major changes in the decision-making process: '[t]he principle of unanimity for vital national decisions on foreign and security policy will with great likelihood be maintained' (*Riksdagsprotokollet*, June 14, 1991). The way he now understood the situation, Sweden would, even as a mem-

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<sup>49</sup> The quotations in this paragraph are taken from the declaration in which Carlsson informed the *Riksdag* about the upcoming EC membership application. This declaration was partly a collective product, having been negotiated with the leaders of the parties that supported the application. Yet there is no reason to think that the section quoted here did not correspond to Carlsson's personal views.

ber of the EC, have the option of taking a neutral position in the case of war.

Carlsson had also become much less skeptical of the domestic implications of participating in the supranational decision-making of the EC. Membership would imply both advantages and disadvantages; in some cases it would mean that Sweden would have to make sacrifices. But in a debate article published in *Dagens Nyheter* on May, 27, 1990, Carlsson still declared that 'we do not have to [render] sovereignty issues the same importance as before'. While Carlsson did not elaborate on why he thought this was the case, this was a logical implication from his belief that there had been a general reduction in the national political autonomy: economic interdependence and the increasing mobility of capital had reduced the scope for national policies with distinct characteristics. Moreover, Sweden had already committed itself to gaining full access to the EC's Internal Market. If this was to be achieved, there was little choice but to adhere to the legislation adopted by the EC.

Since Carlsson believed that the two traditional obstacles to EC membership were no longer valid, he found that Sweden had greater latitude in its EC policy than before. That he wanted to use this latitude to apply for membership, however, was because he thought alternative strategies would be insufficient. While the contemplated EEA arrangement would provide Sweden with the desired economic benefits, the EC would not meet the Swedish demands regarding institutional questions and participation in the decision-making process: '[The EEA treaty] will take care of many things... but most of all we lack influence. . . I had hoped that we would get further on the question of influence' (SvD, September 1, 1992). In contrast, by entering as a member, Sweden would receive a voice in the decision-making process: '[i]t is only as a member... that we can fully participate and shape the formation of policy' (SvD, September 1, 1992). Carlsson had thus come to the conclusion that in order to reconcile the ambition to gain access to the EC's Internal Market with an acceptable degree of influence over domestic political conditions, the EEA should be reduced to a fall back option in the waiting for full membership.

## Where Did They Come From?

Learning processes usually imply that a vast number of factors interact in a highly complicated pattern. An empirical investigation of the causal links in such a process requires a great deal of simplification. Ingvar Carlsson was, generally speaking, a well informed person; he followed news reports in the media, received briefings from his aides, and was constantly in touch with major political and economic events. The task here, however, is to identify the more specific factors that influenced his thinking. In the following three subsections, I will argue that Carlsson had three types of experiences that had an effect on his views on EC membership. These were his meetings with foreign statesmen, the analytical work done by the so called Future Group, and his meetings with business elites and organized interests within the Council on European Affairs.

### *Meetings With Foreign Statesmen*

Statesmen's memoirs suggest that they often attach great weight to their meetings with foreign colleagues. It is easy to see why this may be the case. Like most people occupying the same jobs, they can easily identify with each other and find it useful to compare their experiences. Given that they are not engaged in negotiations involving national interests, the fact that they represent separate constituencies also often eliminates the competitive element that might be present in contacts with domestic politicians. The potential for open and friendly conversation is obviously enhanced if they share the same ideology and represent sister parties in their respective countries.<sup>50</sup>

There is no reason to think that Ingvar Carlsson was an exception to this tendency. When I asked him about foreign influences on his thinking regarding Sweden's relations to the EC, Carlsson quickly identified a group of three individuals: the Austrian Chancellor Franz Vranitzky, the Spanish Prime Minister Felipe Gonzalez, and the President of the EC Commission Jacques Delors. In addition to sharing Carlsson's social democratic convictions, these men were all strongly committed to the West

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<sup>50</sup> The significance of this type of political contacts is underscored by the recent growth of transnational party networks. See Jerneck (1990a, 1994, 1997) and Johansson (1997a, 1997b).

European integration process. The prominence of this group also corresponds to his schedule for official visits from 1988 to 1990; with the exception of the Prime Ministers of the Nordic countries, with which Swedish Prime Ministers always have frequent meetings, these were the ones with whom Carlsson had most frequent contacts during this period.

*Franz Vranitzky* had started out as a banker, became the Austrian Minister of Finance in 1984 and Chancellor in 1986. He had taken over the leadership of the social democratic SPÖ in 1988. The SPÖ had traditionally been skeptical of membership in the EC, much along the same lines as the Swedish SAP (Luif 1991:129). But there were pro-EC sentiments within its coalition partner the conservative ÖVP, organized business, and some of the labor unions. As Austria had for some time suffered from sluggish growth rates, Vranitzky had come to believe that entering the EC would be an injection that could trigger economic reform. Under his leadership, the government altered its position and submitted an application for membership in July 1989. The problem of Austria's policy of neutrality was handled by downplaying the political aspects of the integration process. The EC was depicted as essentially just an economic organization, something which was claimed to fall outside the constitutionally grounded restrictions on Austrian foreign policy (Pedersen 1994:82).

Carlsson and Vranitzky met in Austria in 1988, at an EFTA summit in Norway in March 1989, in Sweden in June 1990, and then again in Austria a few weeks thereafter. Carlsson himself identifies Vranitzky as the statesman with whom he had the most thorough discussions on EC policy. There are some indications that the last of their meetings was particularly important. This took place about one year after the Austrian government had submitted its application for membership and about four months before the Swedish government would do the same.

The Swedish Minister of Finance Allan Larsson, who accompanied Carlsson on this trip, recalls that Vranitzky argued that membership was a natural continuation of the EEA. Furthermore, Vranitzky emphasized that it would take time to prepare for membership negotiations; an application would have to be submitted far in advance if Sweden was to have a chance of entering in the next round of EC enlargement. Apart from the

general argumentation in favor of membership, which had been sharpened in the course of a national debate that had then been going on for several years, it seems likely that Carlsson was influenced by the view that this could be reconciled with the Austrian policy of neutrality. Moreover, Vranitzky had set an example by successfully challenging the internal opposition within the SPÖ.

*Felipe Gonzalez* had become a leading figure in the Spanish social democratic party PSOE in the 1970s, at a time when this operated underground, receiving political and financial assistance from the Socialist International and the Swedish SAP. After the democratic breakthrough, Gonzalez became Prime Minister in 1982 and was reelected in 1986 and 1989. In addition to leading the PSOE to abandon Marxism and take its place within the social democratic camp, one of his main political achievements had been Spain's entrance in 1986 as a member of the EC.

Gonzalez was the most prominent social democratic politician then in power within the EC. The Swedish skepticism towards the integration process was not shared by him. For Gonzalez, EC membership had been a way of consolidating Spanish democracy and putting an end to the country's long period of international isolation. It had also served Spain well in restructuring the previously protected economy and providing financial assistance from the EC's regional funds. But Gonzalez was also a leading advocate of the so called social dimension of the EC, he wanted the deregulation process to be accompanied by the formulation of common norms for working conditions and social policies. In order to increase the political support for this, Gonzalez had an interest in seeing new states with strong social democratic parties enter the EC.

Carlsson and Gonzalez met first in Spain in May 1988, and then in Sweden in September 1990. The then Under-Secretary of State at the Foreign Ministry, Pierre Schori (1992:390-391), has suggested that the second of these meetings, just one week before the SAP's party congress, was of particular importance for Carlsson. This took place under relaxed conditions at the Prime Minister's summer residence of Harpsund. Carlsson and Gonzalez allegedly spoke freely and at length about various political issues. Judging from Gonzalez' personality and general

political outlook—he is often regarded as a charismatic type of politician—there is reason to believe that this inspired Carlsson to see the integration process as a social democratic project. Entering the EC would thus not have to be viewed as a concession to organized business and the political opposition. It could instead be formulated as a more offensive strategy; the SAP would join forces with other social democratic parties and establish a political counterweight to internationalized capital interests.

*Jacques Delors* was something of an outsider in the French political establishment, having reached top positions without passing through the prestigious elite institutes for higher education. He had started out as a public servant, then made a career as a unionist before being appointed Minister of Finance in 1982. As such he had been responsible for altering the French economic orientation after the first Mitterrand government's initial policy fiasco. In 1985, Delors was the first Frenchman to become President of the EC Commission, an appointment that was renewed in 1987 and 1989. In this position, Delors had been highly successful, both in revitalizing the staggering integration process, and in securing a prominent role for the Commission.

As the foremost defender of 'European' interests, Delors worked to strengthen the supranational aspects of the EC at the expense of the member states. There are indications that he was not very enthusiastic about the prospect of taking in new members with neutral security policies; his support for the EEA was partly based on the calculation that this might discourage Austria and Sweden from applying for full membership (Hayes 1990:58, Gstöhl 1994:355, Pedersen 1994:34-35). But there are also indications that he felt a certain affinity with Sweden. He had, according to his own account, visited the country more than twenty times over the years and he often pointed out that his ideological convictions corresponded closely to those of the Swedish SAP (Grant 1994:48, Schori 1992:394).<sup>51</sup>

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<sup>51</sup> The following remarks, made in a 1982 radio interview, at a time when Delors urged the other ministers to recognize need for more restrictive policies, seem worth repeating: 'In Sweden, when people said they wanted to make a reform, they began by thinking about it for five years, then they put it into place and then they made it work'. In contrast, he believed that the French were suf-

Carlsson and Delors met at the EC Commission in Brussels in May 1988, in Sweden in September 1989, and then again at the EC Commission in January 1990. In addition, Carlsson recalls having talked to Delors a great deal, indicating that they had frequent contact other than face-to-face meetings. Whereas Carlsson asserts that Delors also 'supported' a Swedish membership application, there is reason to believe that his influence might have been more indirect. Delors probably did not explicitly encourage Carlsson to take this step. But in his role as President of the EC Commission, Delors personified the integration process more than any other individual. Through their meetings, Carlsson found out that Delors was both easy to talk to and held political views that were close to his own. The fact that such a man was now in charge of the EC Commission, which had in the early days been viewed by Swedish governments as a bastion of conservatism and French regulation mentality, was bound to make a positive impression on Carlsson.

#### *Analyses by the Future Group*

When serving as Deputy Prime Minister from 1982 to 1986, Carlsson had had more time for political analysis and long-term planning than what is normally the case for top-level politicians. To support him in this, he established the so called Future Group, a group of academics and political experts close to the SAP which constituted something of a think tank located within the Prime Ministers Office. Carlsson regularly posed to the group widely formulated questions about the political, economic, and social development. The group would do research, have informal seminars, and then report back to Carlsson in the form of extensive written reports. After he took over as Prime Minister, Carlsson had less time for this and the size and importance of the group declined. Yet Carlsson continued to give the remaining staff of the Future Group assignments to investigate questions that he believed were of great political significance.

One of these assignments was to investigate how the welfare system might be affected by the increasing internationalization

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ferring from 'the Mediterranean style, which means that we talk three kilometers away from the reality'. Quoted in Grant (1994:48).

of the Swedish economy. In June 1988, the group responded in the form of a written report entitled *Internationaliseringens möjligheter* ('The Opportunities from Internationalization').<sup>52</sup> This is a highly interesting text; in over 38 fact-filled pages, the group analyzes various aspects of Sweden's external contacts and discusses their implications for public policy. The main argument is summarized by the phrase 'the benign circle of internationalization', implying that international openness has traditionally served Sweden well, leading to expanding resources and thereby economic and social progress.

Two such 'benign circles' are identified as standing out in modern history: the first beginning in the 1870s and ending with the First World War, the second beginning after the end of the Second World War. The authors suggest that Sweden by the end of the 1980s was facing a third 'circle', caused mainly by a strong leap forward in the technological development. Unlike earlier such periods, however, this one is said to contain certain disintegrative elements that weaken the nation-state and threaten to undermine the welfare systems. They therefore argue that whether Sweden is entering a 'benign' or 'malign' circle is still unclear and will depend on the choice of political response.

The report is considerably weaker in formulating what this response should be. The authors point to a number of domestic measures—such as raising the general level of education, improving the conditions for medium size companies, and strengthening the public's influence over all levels of society—and claim to be highly optimistic about what this might achieve. This conclusion rests uneasily, however, with another section of the text, arguing that '[i]n our view, an internationalization driven forward only by the business community and where the peoples' social welfare and safety is undermined at the domestic level, is not sustainable in the long run' (Framtidsgruppen 1988:29). While this argument is not developed any further, the need for international cooperation and the formulation of common social standards stand out as an implicit implication. There is no conclusive evidence that Carlsson was influenced by the report. But it is in no way far-fetched to think that this was

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<sup>52</sup> The authors of the report, and the members of the Future Group at this time, were Anna-Karin Berglund, Måns Lönnroth, Curt Malmborg and Leif Pagrotsky.

the case. Carlsson has often pointed out that he was strongly shaped by his experience of working close to Prime Minister Tage Erlander in the late 1950s and early 1960s. Erlander had gathered a group of young and talented individuals to the Prime Minister's Office, referred to by the media as 'Erlander's Boys'. This group, of which Carlsson himself was an important member and Olof Palme another, held morning meetings on a regular basis, discussing political problems with the Prime Minister under seminar-like conditions.

Carlsson shared Erlander's rationalistic approach to policy-making. He wanted facts to be gathered and arguments to be carefully drafted before a decision was taken. The Future Group was therefore one of his pet projects. Måns Lönnroth, who was one of the authors of the report, also recalls giving a verbal presentation during which Carlsson appeared to be well acquainted with its content. The text did in no way advocate that Sweden should apply for membership in the EC; in fact, it even ended with a brief section where the EC was criticized for its exclusionary tendencies and a not so distinct alternative was presented in the form of a 'borderless Europe' which would allegedly open up 'meeting places' (Framtidsgruppen 1988:37-38). But that seems less relevant to the arguments made here. By being exposed to the report, Carlsson received an advanced analysis of contemporary political and economic developments, an analysis that corresponded well with the views that he would at a later stage present as his own.

#### *The Council on European Affairs*

In the spring of 1988, a number of organizational reforms were made in the government's handling of European affairs, one of which was the formation of The Council on European Affairs. This was a consultative body in the Swedish corporatist tradition, consisting of four members of the cabinet and 14 prominent individuals drawn from government agencies, universities, trade unions, and business.<sup>53</sup> With no other formal authority

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<sup>53</sup> In 1990, the members were Ingvar Carlsson, Sten Andersson, Allan Larsson, Rune Molin, Anita Gradin, Leif Blomberg, Gunnar Brodin, Bengt Dennis, Torbjörn Ek, Pehr G Gyllenhammar, Tom Hedelius, Antonia Ax:son Johnson,

than to provide for a two-way exchange of information, the group generally met every third month. Prime Minister Carlsson chaired the meetings, generally starting off by giving a presentation of the proceedings of the EEA negotiations, in many cases assisted by the government's chief negotiator Ulf Dinkelspiel. This was then followed by free discussions without a formal protocol.

Through this channel, Swedish business elites had direct access to the government on a regular basis. But there was no consensus within this group. When the relationship to the EC rose to the top of the political agenda in 1988, a conflict had occurred, following the traditional antagonism between Pehr G. Gyllenhammar of Volvo and Peter Wallenberg, strongman of a business empire controlling roughly half of Sweden's total exports. Wallenberg had little faith in the strategy proposed by the government. In his position as chairman of the Federation of Swedish Industries (FSI), he had in 1988 signed a written opinion submitted to the *Riksdag's* Standing Committee on Foreign Affairs. In this text he criticized the government's ambition for being too low, then went on to argue that 'there is at present considerable uncertainty concerning to what extent Sweden and other EFTA countries will participate in the EC's realization of the Internal Market... it can not be expected that the industry will sit still and await prolonged negotiations between Sweden and the EC without any real guarantees for a satisfactory outcome... [many companies] see themselves as forced to secure a base within the EC through purchasing subsidiaries or by other means' (SI Dnr 16/1988:10-11).

Gyllenhammar is reported to have taken a more positive attitude, seeing the EEA as the most realistic alternative given the political circumstances. As there was, at this stage, no support for an EC membership application from the political opposition parties, this line eventually won out. Swedish business elites chose not to raise any united call for membership and assisted the government with information for the negotiations with the EC. The participants that I have spoken to testify that these meetings were generally held with a good spirit and little explicit confrontation. Much of the discussion is said to have con-

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Leif Lewin, Bertil Jonsson, Curt Nicolin, Björn Rosengren, Karl-Erik Sahlberg, Peter Wallenberg and Karl-Erik Önnestad. See *Sverige-EFTA-EG* (1990:155).

cerned technical problems in different sectors and the group seldom touched upon the fundamental question of whether it would be better to abandon the strategy as such.

This changed in the beginning of the fall 1990. According to an ambitious newspaper article based on interviews with several of the participants, the business representatives decided to launch a collective offensive in favor of Swedish EC membership at a meeting that was held on September 4 (SvD, June 30, 1991).<sup>54</sup> The article portrays Torbjörn Ek, at the time chairman of the National Association of Small Businesses, as the leading spokesman of the group. At a time when the EEA negotiations seemed to have moved into a deadlock, Ek allegedly claimed to have received special information saying that the EC was no longer interested in the EEA and would concentrate on its own internal development. Backed by his colleagues, he therefore urged the government to submit a membership application.

While the main features of this account appear to be correct, Torbjörn Ek does not seem to have been the main architect behind the offensive. The driving force was instead Peter Wallenberg. The business group had been gathered for an internal pre-meeting, held at the facilities of the FSI. This was the normal procedure as the group relied on the research capacities of the FSI for statistics and technical information that was conveyed to the government. This time, however, there was a different agenda. At Wallenberg's initiative, it was decided that the time had now come to make their preference for EC membership clear to the government. Arguments were drafted and a strategy for the upcoming meeting was laid down.

During the meeting, the group found that it was not alone in its advocacy of membership. Leif Blomberg, chairman of the Metal Workers' Union, is claimed to have argued along similar lines, expressing concern over the uncertainty of the EEA process and wondering whether not membership would be a better option. Ingvar Carlsson did not at this stage indicate that the government was about to change its position. Yet, in retrospect, many of the business representatives think that this meeting had an

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<sup>54</sup> The business community's waning support for the EEA was also expressed in the media, see Sahlberg's article in *Dagens Nyheter* already on June 6 and Gyllenhammar's articles in the same newspaper on August 26 and September 9.

impact on the subsequent EC policy reorientation. In the newspaper article referred to above, they are quoted as saying that the ministers listened attentively to their arguments and that they believe that this made them realize how important it was to opt for EC membership.

Such statements are of course of little value as evidence; there is no way that they could know to what extent they made an impression on Carlsson. But this does not mean that the Council on European Affairs can be dismissed. By being present at these meetings, Carlsson was on a regular basis confronted with a group of influential economic actors who were strongly interested in full access to the EC's Internal Market. At the crucial meeting in the beginning of September, he came to the conclusion that they were losing faith in the EEA process. Due to the uncertainty over Sweden's future status, investments that might otherwise have been made at home would instead be made within the EC. Thus, regardless of whether the skeptics would in the end be proven wrong, and the EEA negotiations brought to a successful close, not aiming for membership might be detrimental to Sweden's economic development.

#### *Other Influences on Carlsson's Thinking*

None of the experiences discussed so far can be assumed to have had a great impact on Carlsson's thinking on national security. With the possible exception of his discussions with Franz Vranitzky, the intellectual input that he may have received seems to have concerned mainly the nature of the West European integration process and the changing preconditions for national economic policy-making. This asymmetry is probably not accidental; Carlsson's new ideas on these issues seem to have been much better developed than those on national security. Since the development of the EC and the changes in the economic environment were processes that had been building up for many years, there had been enough time for new ideas to develop, ideas that Carlsson could incorporate and make into his own. In contrast, the sweeping changes in Eastern Europe had occurred in an abrupt way and the continued development was still largely unclear.

Considering the implications of international developments—including the highly unexpected fall of the Berlin Wall and the formal reunification of the two German states—it must be assumed that Carlsson monitored these events closely through the media. In addition to news reports, he obviously had access to privileged information from the Swedish foreign service, presumably conveyed by Hans Dahlgren, Ambassador stationed at the Prime Minister's Office and Carlsson's special advisor on foreign policy. Carlsson's views on these events were thus partly shaped by the reports sent to Stockholm from the Swedish Ambassadors in the major states, such as Lennart Eckerberg in Bonn, Örjan Berner in Moscow, Anders Thunborg in Washington D.C., Carl Lidbom in Paris, and Leif Leifland in London.

### **Phases in Carlsson's Learning Process**

A number of more specific questions need to be asked about how Carlsson came to favor Swedish membership in the EC: Was it a gradual or a rapid process? In which order were his beliefs altered? At what point did he make up his mind? Such questions are of course highly difficult to answer with any accuracy. As a point of departure for a tentative discussion, however, I will take a statement that Carlsson made to the media in 1992, and that he also confirmed to me in the interview that I had with him for this study. When asked about the point at which he changed his mind, Carlsson described this as a 'gradual process that started on November 9, 1989 when the Berlin Wall came down' (SvD, September 1, 1992).

I find the idea of a gradual process highly plausible. It also fits well with schema theory which holds that individuals can live with a certain degree of cognitive inconsistency, permitting change to take place in an incremental rather than an abrupt way. But I also think that the starting point for this process should be dated further back than to the fall of 1989. I would suggest that Carlsson's learning process can be divided into three phases. The first begins in the spring of 1988. Carlsson is at this stage receiving a great deal of information and new ideas on the internationalization of the economy and the accelerating development of the EC. This is conveyed by a number of channels and actors, but his own creation, the Future Group, serves

as an important source of inspiration. Certain beliefs located at the strategic and fundamental levels of his belief system are weakened and in some cases replaced by others; Carlsson develops a new conception of the tension between the internationalized economy and a territorially bound political system.

The second phase begins in the fall of 1989. The unexpected toppling of the communist regimes in Eastern Europe and the emerging rapprochement between the great powers on the German Question has a strong impact on his views of the international situation. These events do not only add a security dimension to his learning process; the way I see it, there is reason to think that they also reinforce the certainty with which he holds his new beliefs regarding the economy and the EC. As long as he had been certain that the policy of neutrality excluded EC membership, Carlsson had not had any incentive to think through the full implications of his new beliefs. When he now believes that it might be possible to loosen up the restrictions imposed by the policy of neutrality, he becomes increasingly convinced of their validity and begins to develop them into a higher degree of sophistication.

By the spring of 1990, Carlsson's belief system has undergone significant changes. His biographer suggests that he has already at this stage changed his view on EC membership. The various initiatives that he takes during the spring and summer, which loosen up the established position yet fall short of advocating membership, are therefore claimed to be intended to prepare the public for the coming policy reorientation. This is underscored by a statement by Jan O Karlsson, then political expert at the Prime Minister's Office, who believes that Carlsson becomes convinced in the beginning of the year (Kratz 1996:126).

I would suggest a different interpretation. While Carlsson has in the spring of 1990 moved a considerable distance from his original position, he is still not entirely convinced that he wants EC membership, nor is he clear on when a policy reorientation should take place. His views on this are instead fixated during a third phase, beginning with his meetings with Franz Vranitzky during the summer. From this point on, Carlsson has a number of highly important experiences over a relatively short period of time: the EEA negotiations move into a deadlock, the business elites profess that they lack faith in the government's EC policy,

Felipe Gonzalez comes for a visit, the two German states are formally reunited, and the Swedish economic problems appear to be deeper than expected. As these events unfold, Carlsson makes up his mind and takes the final step.

### Ideas versus Interests

The argument put forth in this chapter rests on the assumption that ideas can be analytically separated from interests. This is a traditional battleground within the social sciences. At the one extreme are 'materialist' approaches, arguing that ideas belong to a superstructure that is mainly determined by a materialist base. This is the position of, for instance, Marxism, microeconomics, and realist theories of IR. At the other extreme are 'idealist' approaches, seeing the world as driven by the force of ideas and the intellectual structures created by the use of language. Idealist arguments are found in legal approaches to international affairs and in the recent surge of constructivism and discourse analysis within IR.

It might therefore be asked to what extent Ingvar Carlsson's new ideas corresponded to his interests. If there was a perfect fit, materialist approaches might argue that the notion of learning carries no independent explanatory power. What appeared to be a shift in beliefs would then be regarded simply as a strategic shift in rhetoric; Carlsson collected a number of new ideas and used them in an instrumental way to justify a step that was taken for very different reasons. Following in the spirit of public choice theory, I will here assume that Carlsson as an individual had two types of interests in this: to avoid being voted out of office in the election of 1991, and to strengthen his position as leader of the SAP.

The prospects for being reelected were far from bright. The SAP was, in the fall of 1990, experiencing an unprecedented decline in public support, down to 31.5 percent as compared to the 43.2 percent it received in the latest election (DN, October 20, 1990). At the same time it appeared as if the government's EC policy was becoming a burden for the SAP. The previously skeptical EC opinion had already during the spring swung up to 50 percent favoring EC membership (DN, April 27, 1990). During the summer months, this trend continued, reaching over

60 percent in October (Lindahl 1991:78). Moreover, both the Liberal Party and the Conservative Party had come out in favor of EC membership. In the campaign for the upcoming election, these parties would no doubt describe this as a necessary cure for the staggering economy.

From Carlsson's perspective, things were probably bad enough as they were. If he was to continue to reject EC membership, he could expect to always be on the defensive, open for accusations of discarding the one solution that could halt increasing unemployment and pull Sweden out of the recession. In contrast, if he came out in favor of EC membership, he would partly disarm the opposition and enhance his chances in the upcoming election. It can therefore easily be argued that the way it seemed at the time, taking this step coincided with his interest in achieving a favorable electoral result.

It was perhaps less clear how this would affect his leadership of the SAP. After having emerged victorious in the 1988 election, Carlsson's position seemed to be secure and there was no contender in sight. Whether this also would be the case in the future would depend on the result in the upcoming election. In that respect Carlsson's two interests coincided; if a change on membership would help him win the election, it would also strengthen his position as chairman of the SAP. Yet there was also an element of risk involved. It could not be ruled out that some leading SAP politicians would chose to dissent, thereby giving legitimacy to the skeptics among the party's supporters. This might lead to deep conflicts and fractions within the party. With such a development, his position as chairman would eventually be questioned.

This was apparently a risk that Carlsson was prepared to take. Part of the reason for this might very well be found in his particular leadership style. It is widely acknowledged that Carlsson was somewhat formalistic and showed great respect for democratic procedures (Feldt 1991:487-489, Färm 1991:55-56, Kratz 1996:249). He wanted an issue to be well prepared and all concerned parties to have a say before a decision was taken. Apart from that, he usually gave his ministers a great deal of freedom within their sectors. Since he also had the unique experience of having worked close to two previous prime ministers for nearly three decades, however, he probably also thought that there

were situations when the leader must take the initiative and lead, not merely await the formation of a clear-cut party opinion. Thus, it is not unlikely that precisely because Carlsson had such a strong reputation for prudence and for listening to the views of others, he now felt that he should take the initiative and launch a new position by himself.<sup>55</sup> Even if this did in the end result in a challenge to his leadership, it would always render him with an image of political determination to future historians.

It can therefore be concluded that Carlsson was driven by interests. But this does not invalidate the claim that he also acted on the basis of new beliefs. In my view, the position taken by materialist and idealist approaches are both too crude. A more balanced position is provided by Max Weber. By launching the concept of 'elective affinity', drawn from eighteenth century chemistry, Weber occupies the middle ground in the debate (Hall 1993:42-48, Spruyt 1995:69). According to Weber, both ideas and interests influence the course of history; political actors may select ideas that suit their interests, but interests are defined and pursued within intellectual boundaries that have been shaped by ideas in the first place. In an often quoted passage from his essay on the social psychology of world religions, he thus argues that '[n]ot ideas but material and ideal interests directly govern men's conduct. Yet very frequently, the 'world images' that have been created by 'ideas' have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest' (Weber 1922/1967:280).

The railroad metaphor highlights the interdependence of interests and ideas. Carlsson acted in his own self-interest in the sense that he wanted to win the election and consolidate his position as chairman of the SAP. But he also believed in his new ideas. Had he not done so, he might have reached a different conclusion about how to further his interests, for instance by assuming that the pro-EC membership opinion would weaken in time for the election, decide that the election was lost anyway or conflate the risk for fractions within the party. It thus brings to the fore the subjectivity of the definition of inter-

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<sup>55</sup> Kjell-Olof Feldt (1991:489), who has more experience working with Carlsson than most others, appears to interpret the policy reorientation along these lines.

ests and reinserts an element of choice; Carlsson easily could have acted differently, but he chose not to do so because his beliefs had been altered by a learning process.

An interesting parallel can be made here to one of Carlsson's contemporary colleagues, the Soviet statesman, Michail Gorbachev. In her widely noted study of the so called 'new thinking' in Soviet foreign policy, Janice Gross Stein (1994:174) faces the problem of whether Gorbachev really believed in these ideas, or if he merely used them in order to free resources for domestic economic reform. Gross Stein discards this question, however, referring to it as a 'false dichotomy'. The way she sees it, Gorbachev had been driven by a duality of motives, wanting to both reform the economy and improve relations to the United States. His initial priority had been the economy, but as he gradually learned more and more about international affairs, 'the importance and autonomy of 'new thinking' grew' (Gross Stein 1994:179).

While I believe that a similar argument can be made about Carlsson, this does not mean that his rhetoric was free from a more instrumental use of new ideas. The so called 'all-European peace order' stands out as a candidate for this category. This suspicion rests on two observations. First, unlike Carlsson's other new ideas, it was never very clear what this meant. While he made frequent use of the term as such, he never presented any specific views on such crucial problems as how it would be realized, if it meant that not only the Warsaw Pact, but also NATO would have to be dissolved, or, considering the poor historical record of collective security, why this would imply an improvement of the security situation in Europe. Second, after the policy reorientation on EC membership had been made, this idea appears to have more or less disappeared from Carlsson's rhetoric.

It is quite possible that the 'all-European peace order' was mainly a phrase that was used to rationalize a less restrictive interpretation of the policy of neutrality. While Carlsson was of the opinion that the international situation had improved to such an extent that it might be possible for Sweden to enter the EC, he had not yet been able to formulate this in a more principled way. Since the phrase was relatively empty of content, it provided him with a practical solution. Carlsson could wait for

the conclusion of the ongoing international discussions about a strengthening of the CSCE with the intention of declaring that the outcome constituted the new 'peace order'. This could then have been used to justify a new position on EC membership. As a substantial strengthening of the CSCE failed to materialize, he eventually decided to go ahead and launch the policy reorientation anyway.

## **9 THE DECISION-MAKING PROCESS: POLITICS WITHIN THE CABINET**

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In the final step of my model, individual decision-makers act on the basis of their new beliefs, trying to push a change in policy through the ‘decision-making process’. The more specific aspects of this—the actors involved, the rules and practices applied—will typically vary between different types of political systems. In the case investigated here, however, it is located in the cabinet. In the terminology coined by Margaret Hermann and her colleagues (1987:311–312), the Swedish constitution identifies the cabinet as the ‘ultimate decision unit’ in the creation of foreign policy.

This chapter explores how Prime Minister Ingvar Carlsson acted in order to get his cabinet to accept a new position on EC membership. I present an interpretation of this that contains a great deal of tactical manouevring and internal cabinet politics. While Carlsson himself was the driving force, he did not act alone, but formed an informal coalition with Allan Larsson, the new Minister of Finance. Larsson served as Carlsson’s vehicle within the cabinet and exercised considerable influence over the tactics and timing of the EC policy reorientation. By placing it on the cabinet’s agenda in the midst of an acute balance of payments crisis, the two ministers redefined EC membership from a political to an economic issue. Drawing on the seriousness of the economic situation, they could thereby put a lid on internal criticism and marginalize potential opponents within the cabinet.

This chapter is divided into five sections. The first begins by making a few general points about decision-making in Swedish cabinets, then outlines some of the more specific features of Ingvar Carlsson’s cabinet. The second section discusses the role of Allan Larsson and the formation of the Carlsson-Larsson coalition. The third section examines how EC membership was transformed from a political to an economic issue and placed on the cabinet’s agenda in the midst of a balance of payments

crisis. The fourth section discusses the indications of a cleavage within the cabinet and how certain key ministers were excluded from the inner circle that made the crucial decisions. The fifth and concluding section then addresses the ‘footnote debate’, the claim that the EC policy change did not take place in the manner a decision of such great significance deserved.

## **Decision-Making in the Swedish Cabinet**

### *Patterns of Authority and Power*

The formation of Swedish foreign policy involves a broad range of actors, including the *Riksdag*'s Standing Committee on Foreign Affairs, the Advisory Council of Foreign Affairs, various state agencies and organized interests. But the highest authority within the executive branch of government lies with the cabinet. Under the Swedish constitution, the members of the cabinet are collectively responsible for all decisions taken at the ministerial level. While issues are normally prepared along sectoral lines within the ministries, the actual decisions are formally taken only when the cabinet is gathered as a whole.

The cabinet is dominated by the Prime Minister who determines its political orientation by appointing the other ministers and chairing the cabinet meetings. The relationship between the other ministers depends on the structural composition of the cabinet; for single party cabinets, which have been the norm when the SAP has been in office, differences tend to crystallize along sectoral lines. Thus, in the field of foreign policy, the Foreign Minister holds a special position. This is regularly challenged, however, by other ministers who either compete for scarce resources or wish to take on international activities of their own. As an additional actor, the Prime Minister usually takes on a highly active role in this field.

The Minister of Finance is usually regarded as the second most influential member of SAP cabinets. In charge of government funding, this minister is more or less in a constant state of opposition to the sectoral ministers. But while the Minister of Finance occupies an exceptional role in the cabinet, this is not accompanied by any formal superiority. It is therefore expected that the Prime Minister should support the Minister of Finance

in the cabinet's internal budget negotiations. There are numerous testimonies of how this relationship has constituted the backbone of SAP cabinets; for the sectoral ministers, such a coalition is virtually impossible to beat (Lindström 1970:334-335, Ruin 1986:128-141, Leijon 1992:228, Kask 1996:250-251).

### *Ingvar Carlsson's Cabinet*

The special relationship between the Prime Minister and the Minister of Finance was a distinct feature also of Ingvar Carlsson's cabinet. Kjell-Olof Feldt (1991:275) describes in his memoirs how he was approached by Ingvar Carlsson some minutes before the latter agreed to take over as SAP chairman and Prime Minister in the spring of 1986. Carlsson wanted to make sure that Feldt stood behind his nomination, promising in return to support Feldt within the cabinet. While this pact seems to have worked well in the beginning, it came under increasing strain towards the end of the decade. As Feldt grew more and more dissatisfied with the economic development, he found himself in numerous conflicts with the other ministers, leading to strong tension and in some cases even animosity within the cabinet (Feldt 1991:442-444, Kratz 1996:161-173, Sahlin 1996:102-103).

Ingvar Carlsson appears to have been relatively unaware of the degree of Feldt's dissatisfaction. When Feldt contacted him just before the Christmas of 1989 to express his disapproval of the recently concluded budget negotiations, the Prime Minister is claimed to have been both surprised and disappointed that this had not been brought to his attention at an earlier stage (Feldt 1991:445-446, Elmbrant 1993:213-214). Their relationship continued to deteriorate in the first months of 1990. While Feldt argued for a reduction of public spending and the postponement of certain promised social reforms, Carlsson preferred to try to bring down the soaring inflation rate through a legislated freeze of prices, wages, and dividends. The Prime Minister had his way and a so called 'Stop Package' was submitted to the *Riksdag* in early February. When the *Riksdag* failed to pass the package, the cabinet resigned and Feldt decided to retire from political life.

The political crisis in mid-February appears to have constituted something of a turning point in Ingvar Carlsson's leadership. Since the opposition was, at this stage, unwilling in taking over, and the opinion polls discouraged the SAP from calling for an extra election, Ingvar Carlsson formed a new cabinet on the basis of his party's minority status in the *Riksdag*. The Prime Minister now found himself in a highly problematic situation. At a time when the next election was only a year and a half away, the economy was rapidly deteriorating, the public support for the SAP had reached record lows in the opinion polls and one of the most prominent members of the cabinet had left in more or less open dissent. Yet with his back up against the wall, Ingvar Carlsson seems to have been revitalized. During the remainder of the electoral term, the cabinet launched a series of measures that had been long debated but not realized. One of the main architects of this development was Allan Larsson, new Minister of Finance and a person with whom Ingvar Carlsson quickly established a close and well functioning relationship.

### **Forming the Carlsson-Larsson Coalition**

Allan Larsson had previously occupied executive positions in the state bureaucracy, but he also had a past as a journalist and a researcher for the labor unions. During his time as a top level bureaucrat, he had built a reputation for being highly energetic, innovative, and a man of great personal integrity. Ingvar Carlsson and Allan Larsson also knew each other well, having worked together at the Prime Minister's Office in the days of Tage Erlander. In the eyes of both Ingvar Carlsson and the departing Kjell-Olof Feldt, Allan Larsson was the ideal candidate for the vacant position as Minister of Finance (Feldt 1991:464, Kratz 1996:177-178).

While Allan Larsson was honored to be offered the Ministry of Finance, he also felt that he would be doing Ingvar Carlsson a favor. He had just left the directorship of the National Labor Market Board and was about to take on a new executive position for a government investment fund. Ingvar Carlsson is claimed to have worked long and hard to persuade Larsson to accept the offer (Kratz 1996:174-177, Kask 1996:169). It seems likely that Carlsson assured Larsson that he could count on the

full support of the Prime Minister. The two were thus close allies already from the beginning. Given the state of the economy, Carlsson needed a Minister of Finance that could act decisively. Larsson, who despite his general competence, was new in the game, and needed advice and backing from the Prime Minister. During the period they spent together in the cabinet, Carlsson and Larsson were always in close contact, socialized family-wise and even traveled abroad together.

With Allan Larsson at the helm of the Ministry of Finance, the cabinet got back on track. Not only did many ministers see it as a relief to make a fresh start with a new Minister of Finance, but Larsson also made an effort to cultivate relations with the SAP parliamentarians, another group with which Feldt had had strained relations towards the end. During the spring of 1990, a series of measures were taken with the aim of bringing down the soaring inflation rate, such as an agreement with the Liberal Party on cutbacks in welfare systems, the postponement of some promised social reforms, and the appointment of the *Rehnberg Commission* that was to persuade the economic actors to agree to a freeze of prices and wages on a voluntary basis.

How did Allan Larsson come to favor EC membership? The membership question was occasionally discussed within the Ministry of Finance in the spring and summer of 1990. Interestingly, there appears to have been an external influence on these discussions, coming from a rather unexpected source: Kjell-Olof Feldt. Having spent over twenty years as minister and leading SAP politician, Feldt was relieved to be out of the day-to-day business of politics. But he had not completely dropped his involvement in government policy. After his resignation, he put together an action plan, consisting of a series of measures that he believed should be taken in order to straighten out the problematic situation. One of these measures was membership in the EC. At a time when the business community was losing confidence in the Swedish economy, Feldt saw this as an easy and relatively cheap way to try to turn this development around.

Feldt's ideas were not published or otherwise presented in public. But he spoke about them at private gatherings with prominent social democratic politicians and former colleagues from the government. He also had contact with the Ministry of

Finance, speaking directly with both Under-Secretary of State Gunnar Lund and Allan Larsson. Feldt is claimed to have had considerable influence on the Ministry of Finance even after he had left the cabinet. To what extent this concerned the question of EC membership is difficult to know. But Lund, who had frequent conversations with Feldt, was an early advocate of EC membership within the ministry. Moreover, Feldt himself recalls having on one occasion explicitly recommended Larsson to take this step.

This argumentation might have made an impression on Allan Larsson. But he was not the kind of man that would reveal his personal deliberations to others. In an environment driven by verbal communication, Larsson was a writing person, usually clarifying his ideas and preferences in the solitude provided by his word processor rather than at long meetings with aides and colleagues. Larsson's own account, however, corresponds to that of Ingvar Carlsson's. He sees the policy reorientation as a gradual process that began with the dramatic changes in Eastern Europe in the fall of 1989 and then culminated in the fall of 1990. As a crucial experience, Larsson identifies the trip that he made together with Ingvar Carlsson to Austria in the summer. Without a formal protocol, Carlsson and Larsson met with Chancellor Franz Vranitzky and the Austrian Minister of Finance. The four social democratic ministers went for walks in the Alps and had long discussions about the international political developments and the domestic situations within their two countries. The way the Austrians talked about EC membership made a strong impression on Larsson, in particular the argument that this was a lengthy process and that an application would have to be submitted well in advance if Sweden wanted to take part in the next round of EC enlargement.

Ingvar Carlsson and Allan Larsson talked about this, discussing the possibilities of following the Austrian example. Larsson was well acquainted with the history of Sweden's relationship to the EC, having covered the 1962 application as a journalist and then written about the negotiations in the early 1970s when working at the research department of the Swedish Metal Worker's Union. He was therefore fully aware of the traditional obstacles to membership and the political risks involved in taking this step. In order to make such a policy reorientation, it would be necessary to make sure that this did not backfire

within the SAP, something which could be ensured at the upcoming party congress that was to be held in Gothenburg on September 15-21, 1990.

In his opening address to the congress, Ingvar Carlsson continued his public reconsideration of Swedish EC policy. He outlined two 'visions' that might open up the possibility for future Swedish EC membership, noting a 'new system of collective security that applies to all the nations of Europe', and that 'the EC cooperation on foreign and security policy will. . . among other things not include a common defense policy' (Documents on Swedish Foreign Policy 1990:83). The implications of these points being that EC membership would no longer be in conflict with the Swedish policy of neutrality.

In the debate on foreign policy, Anita Gradin, Minister of Foreign Trade and responsible for the EEA negotiations, then took the floor. Anticipating that the congress delegates wanted to debate the EC membership issue, she argued that 'to have that debate here is not very meaningful' and that it was necessary to 'use all strength to solve the problems that we face in the short term'. After having implicitly assured the delegates that there was no need to take up a debate on EC membership before the EEA negotiations were concluded, she suggested that the issue be submitted to the editorial committee of the congress. This would then work out a statement that would 'place the issue in the European context of the day' (Protokoll från Socialdemokraternas kongress, September 16, 1990).

Many have commented on the lack of debate at the SAP congress and the fact that Gradin was not followed by one single interjection that concerned the relationship to the EC (Luif 1995:213, Kratz 1996:127, Miles 1997:182). Few have noted, however, that the editorial committee, which now took over, had been provided with a special member: the skillful writer Allan Larsson. Working together with Michael Sohlman, Under-Secretary of State at the Trade Section of the Foreign Ministry, Larsson put together a text that would open up for the possibility of a policy reorientation. Drawing inspiration from a declaration adopted by the LO's managing board just a few weeks before, they produced a page-long statement. In a key section it was argued that '[a]n EEA Treaty does not exclude a future Swedish membership, if this should prove possible and desir-

able' and that this would 'be determined... by the development of the security situation in the world around us and how the EC's present members choose to develop their cooperation on foreign and security policy' (Protokoll från Socialdemokraternas kongress, September 18, 1990). With little debate and only one minor adjustment, the statement was approved by the congress on Tuesday, September 18, 1990.

Ingvar Carlsson and Allan Larsson now had their minds set on EC membership. But they still did not have any clear conception of how and when this step should be taken. Sooner than they expected, however, a situation would present itself which gave them the opportunity they needed to make the desired policy change.

### **The Politics of Framing: The October Crisis**

Prospect theory teaches that people tend to be risk averse with respect to gains but risk seeking with respect to losses (Quattrone and Tversky 1988:720-724). The policy-maker that wishes to gather support for a controversial reform might thus find it useful to launch this idea in a crisis situation, defining the proposal in such a way that it seems like a possible solution to the problem at hand. In the literature on 'manipulation' in small group decision-making, this common sense observation is generally referred to as 'framing the issue' (Maoz 1990:88-90, Hoyt and Garrison 1997:263-266).

Swedish membership in the EC had previously been discussed solely in political terms; Ingvar Carlsson had assured that the contemplated EEA arrangement would take care of all economic problems. The question of whether Sweden should take the additional step of EC membership would therefore depend on political factors related to Sweden's international influence and national security. As the economic situation deteriorated, however, leading to an acute balance of payments crisis in mid-October, 1990, it was redefined and framed as an economic issue. Rather than something that concerned Sweden's place in Europe and the world, EC membership was transformed into a highly concrete question of jobs, welfare and re-election.

The balance of payments crisis started to develop during the first weeks of October, 1990. With a soaring inflation rate and an emerging slowdown of economic activity, the actors on the financial markets wanted to see radical cutbacks in public spending. There were some expectations that the Minister of Finance would take such an initiative at the SAP party congress. When this did not happen, the expectations were instead shifted to a major economic bill that was submitted to the *Riksdag* on October 4. When this also turned out to lack the desired signals, the financial actors began to show their disapproval. During the second week of October, the Bank of Sweden recorded an outflow of 3.8 billion Kronor. Despite a two percentage point increase in the interest rate on October 12, the outflow continued. On October 18, the Bank of Sweden thus reacted again, raising the interest rate by an additional three percentage points.

The foreign currency reserves were now melting away at an alarming rate. In the absence of political measures, it was only a matter of time before it would be necessary to give up on the fixed exchange rate. After having been in touch with the Governor of the Bank of Sweden, Bengt Dennis, the Minister of Finance contacted the Prime Minister and requested the government to take immediate action. In the afternoon of October 18, a press conference was quickly arranged at the Prime Minister's headquarters at Rosenbad. Accompanied by Deputy Minister of Finance Erik Åsbrink, Ingvar Carlsson and Allan Larsson declared that the government was putting together an austerity package at short notice. By the end of following week, the government was to present a number of radical measures intended to halt the capital outflow and restore the waning confidence in the Swedish economy.

While Ingvar Carlsson and Allan Larsson were aware of the need to act quickly, they were not entirely clear on what the package should contain. Larsson wanted to aim for a reduction of public spending totaling 25 billion Kronor, and he had concrete suggestions as to how this should be done. A series of possible austerity measures had been worked out beforehand within the Ministry of Finance. But Carlsson wanted to use this opportunity to take further political initiatives. At the press conference he had spoken of letting the forthcoming austerity measures be accompanied by certain 'structural measures'.

Ingvar Carlsson and Allan Larsson met at Rosenbad to discuss the package in the afternoon of Sunday October 21. They were accompanied by their Under-Secretaries of State, Kjell Larsson and Gunnar Lund. The four of them spent several hours tossing around ideas and planning a schedule that would have the package ready by the next Friday. Carlsson raised the idea of including with the package an announcement of a committee investigating constitutional changes. The way he saw it, the electoral system and the difficulty of forming majority governments was a main cause of the poor economic development. Larsson raised the idea of including a declaration on EC membership; he argued that since a reorientation was forthcoming anyway, now was a suitable time to act.

Later in the evening that day, the cabinet was gathered for a meeting. The ministers were provided with saving assignments; within just a few days, they were to go over their sectors, make new priorities and suggest to the Ministry of Finance where cutbacks could be made. They were also informed that the package would include a declaration on EC membership. It remains unclear exactly how this was presented to the ministers. But since the wordings of the eventual declaration were still far from ready, it seems likely that it was presented in a rather general way. At the time, however, the issue seems to have raised little discussion and no objections.

The meeting marked the beginning of a hectic period for the ministers. The work on the austerity package took place under strong media coverage and constant speculation about what was about to come. Due to an internal organizational reform implemented earlier during the year, a key role in this process was assigned to Foreign Minister Sten Andersson, Minister of Social Affairs Ingela Thalén, and Minister of Industry Rune Molin. As these ministers had been provided with a special responsibility for coordination within certain widely defined policy sectors, they were to represent not only their own ministries but wider sectoral interests. They were thus to be engaged in two-way negotiations with the other sectoral ministers and the Ministry of Finance.

In parallel with the internal government negotiations, the SAP group in the *Riksdag* was brought into the process. The parliamentarians were urged to come up with suggestions for cut-

backs within their areas of specialization and a series of meetings with government representatives were held during the week. Throughout this process, the Minister of Finance did what he could to inspire a strong sense of crisis. In a statement to the media, he boldly declared that earlier public protests against government cutbacks would seem like a 'mild breeze' compared to what he expected this time (DN, October 24, 1990).

In the morning of Tuesday October 23, Ingvar Carlsson met with the board of the SAP group in the *Riksdag*, seeking support for austerity measures and a declaration on EC membership. Later that day, both he and Allan Larsson attended an additional meeting with the entire SAP group as well as the managing board of the party. Carlsson once again declared that he wanted the package to contain a declaration on EC membership and that this should be accepted by the *Riksdag*. Of those who commented on this request, all appear to have been in favor (Andersson 1997:562).

Having informed the cabinet and the SAP parliamentarians about what was about to happen, it was now time to determine what the actual declaration should say. It had been decided that the package should be presented on the Friday of October 26, and the exact wording of the declaration appears to have been discussed until the very end. Both Ingvar Carlsson and Allan Larsson point to Carlsson himself as the author. But others were also involved. One influential government official, outside the Carlsson-Larsson sphere of aides, received a draft for comments as he came home from a trip abroad on the day before its presentation. As he found the idea of letting the reorientation be a part of the austerity package highly dishonorable, he tried to prevent it from being carried through. Ingvar Carlsson and Allan Larsson had already made up their minds, however, and the objections were ignored.

In the morning of Friday October 26, the cabinet was first gathered to take a formal decision on the package. In order to circumvent the sluggish process of submitting a government bill, it was to be presented in the form of an official letter to the *Riksdag*. A press conference was then arranged in the afternoon. In order to accommodate the massive media crowd, this was held in the spacious second chamber hall of the *Riksdag*. Like

the week before, the government was represented by Ingvar Carlsson, Allan Larsson, and Erik Åsbrink. The Prime Minister started out with a brief introduction, saying that the government was today presenting a 'political orientation for the 1990s'. After having discussed a few general points in the package, mainly the idea of appointing a committee to investigate constitutional changes, he gave the floor to the Minister of Finance.

Allan Larsson began by describing the economic situation, then went on to outline the more specific measures of the package. The first point concerned Sweden's relationship to the EC. The message was short and concise:

The government wants a new decision by the *Riksdag* about policy towards Europe which more clearly and in more positive wordings clarifies Sweden's ambitions to become a member of the European Community. To support such a development Sweden will intensify its efforts within the Conference on Security and Cooperation in Europe to contribute to a new security order in Europe. The negotiations between EFTA and the EC concerning an EEA treaty will be pursued with all strength.

Larsson described the EC membership ambitions as a matter of fact, suggesting that this had been the government's position for a longer period of time and that the problem was a lack of clarification on behalf of the *Riksdag*. But this was of course a radical change in policy. The words had been chosen so as to slightly reveal the significance of the turnaround. For the very first time, however, a Swedish government had declared that it wanted Sweden to become a full member of the EC.

The declaration corresponded to a press release that had been distributed earlier during the day (Pressmeddelande, October 26, 1990). In the official letter to the *Riksdag*, the issue was discussed at somewhat greater length. While the key paragraph was identical to that of the press release, the government added that 'due to the positive development in Europe, the pre-conditions for a Swedish membership in the EC have been altered' and that 'membership in the EC lies in our national interest' (Regeringens skrivelse 1990/91:50:5). But the issue was not given any extensive treatment in this text either. The government

basically stated its new position and left it up to the *Riksdag* to work out the intellectual foundations for an application for EC membership.

The government did not at this stage give any explicit reasons for why it now wanted Sweden to become a member of the EC. But the context loomed large over the policy reorientation. The new position had been included in an economic austerity package, presented not by the Prime Minister, or even the Foreign Minister, but by the Minister of Finance. At a time when economic policy was highly prioritized and the Minister of Finance enjoyed an unusually strong position within the cabinet, this was a recipe to successfully launch a controversial reform while minimizing the risk for internal dissent.

### **The Politics of Exclusion: How Andersson and Gradin Were Overruled**

Students of small group decision-making identify ‘manipulation of group construction’ as a highly efficient strategy for securing a favorable outcome (Hoyt and Garrison 1997:255-257). Policy-makers that want to gather support for a particular course of action may either try to expand the group so as to put potential opponents in a minority situation, or reduce the size of the group so that these are excluded. By framing EC membership as an economic issue, Ingvar Carlsson and Allan Larsson did not only discourage objections to the decision. But this was also a way to ‘reduce the circle’ (Halperin 1974:123-127), meaning that the important decisions were all taken within the Prime Minister’s Office and the Ministry of Finance while the other ministers were excluded.

The most conspicuous aspect of this is the withdrawn role played by Foreign Minister Sten Andersson. While Andersson was regarded as a highly influential member of the cabinet, there are no indications that he played a very important part in the EC policy reorientation. There are indications, however, that he was not very well coordinated with Ingvar Carlsson on this issue. Both had earlier during the year declared in public that Swedish EC membership was impossible at the moment, but that this might change later on. But whereas Carlsson’s statements had been relatively consistent, using similar formu-

lations on every occasion, Andersson expressed himself differently from time to time. He sometimes also mentioned obstacles not touched upon by Carlsson. In a debate in the *Riksdag* as late as on October 10, 1990, Andersson started out by identifying no less than 'five reasons for why it is wrong and unwise to bring up the membership question here today'. He ended his last interjection in the debate by stating that he would 'answer the question about EC membership in 1993'. Andersson was a highly experienced politician. Had he understood just how interested Ingvar Carlsson was in EC membership, he almost certainly would have tried to make himself less committed to this position.

I have been unable to get this confirmed by Sten Andersson himself. But others close to these events assert that 'he wanted to go in another direction'. What was this direction? As indicated by the quotations above, he had tried to keep a lid on the emerging EC membership debate, arguing that this would have to await the conclusion of the EEA negotiations and a more clear conception of the international political developments. Whether Andersson was in fact against entering the EC and simply hoped that the issue would seem less pressing at a future point in time is difficult to know. But there is no a priori reason to think that he was categorically against EC membership; after the step had been taken, he defended it vigorously.

With his background as a long time Secretary-General of the SAP, however, I find it likely that Sten Andersson was highly concerned with the unity of the party. He was probably more than anyone else aware of the risk for the kind of divisions that this issue had caused within the SAP's Danish and Norwegian sister parties in the early 1970s. In order to prevent such a development, he might have seen the possibility of the Nordic states acting in concert. The leader of the Norwegian Labor Party, Gro Harlem Brundtland, had taken the position that their EC membership debate should be postponed until the party congress scheduled for 1992. If the SAP followed this example, it might be possible for the leadership of the two parties to coordinate their actions and thereby draw strength from each others decisions, regardless of whether this would be for or against entering the EC.

Sten Andersson and Ingvar Carlsson had a special type of relationship. As the oldest member of the cabinet, Andersson was Carlsson's senior by eleven years. In the confusion and shock-like atmosphere that reigned after the murder of Olof Palme on February 28, 1986, Andersson had been the one who had acted to find a successor, proposing Ingvar Carlsson's name and rallying support for his quick nomination. While Carlsson had grown into the leadership role, he still had a weakness for Andersson. He seldom, if ever, ruled against him in cabinet discussions and others deemed an open conflict between the two unthinkable. What complicated things was that Andersson saw himself as the prime tactician of the SAP. With his long experience in organizing electoral campaigns and party congresses, Andersson took pride in his own ability to act shrewdly and make the right move at the right point in time. There is little reason to think that he did not have very strong views on how the EC membership issue should be handled.

Allan Larsson, however, carried no emotional luggage regarding Sten Andersson. Larsson had never belonged to the top ranks of the party anyway. He had made his career as a top bureaucrat. As such he was executive, hard-headed and used to having his own way. By putting the EC policy reorientation on the agenda in the midst of a balance of payments crisis, Ingvar Carlsson let Allan Larsson take charge, thereby keeping Sten Andersson out of the process. This would also explain why the EC membership declaration was not, as some government aides suggested, taken out of the austerity package and presented by the Prime Minister at a separate press conference. If such a procedure had been chosen, it would have been more or less impossible to keep Sten Andersson out of the loop. Only if the policy reorientation was presented in a strict economic context would it seem reasonable that the government was not represented also by the Foreign Minister.

Given that Sten Andersson enjoyed such a strong political position, why was he unable to prevent this from happening? One reason was probably that he, like the other members of the cabinet, was fully preoccupied with negotiating the budget reductions that followed from his saving assignment. It is interesting to note that out of a reduction of government spending totaling 15 billion Kronor, the sector that Andersson represented in the

negotiations with the Ministry of Finance was ascribed cutbacks of 1.2 billion.

There might have been another reason. In the fall of 1989, Sten Andersson had been involved in a controversy that followed from an ill-considered remark that he had made about the status of the Baltic countries. In order to compensate for this, he had found it necessary to agree with the opposition parties on a joint declaration expressing sympathy for Baltic independence. Ingvar Carlsson had been critical of this declaration, feeling that it went too far. He was therefore irritated with Andersson and thought that the whole Baltic issue had been handled in a clumsy manner (DN, December 12, 1996). From the Prime Minister's perspective, the Foreign Minister's credibility as the main guardian of Swedish interests had probably been tarnished by this event. Andersson was, of course, aware of this. In a showdown over EC membership, Carlsson had the option of using this against him.

Sten Andersson was not the only important minister that was sidestepped in this process. Minister of Foreign Trade Anita Gradin was also marginalized by the Carlsson-Larsson coalition. During the week when the austerity package was put together, she spent two days in Geneva where she attended a ministerial meeting discussing the problematic development of the EEA negotiations. Her Under-Secretary of State Michael Sohlman was at the same time on a visit to Japan. When she came home two days before the presentation of the package, the issue was already on the agenda and there was little she could do to prevent its realization.

Anita Gradin was not against Sweden entering the EC. But she had strong objections to both the timing and the way that this was to be presented. As the only minister that worked with EC relations on an everyday basis, she probably believed that the circumstances under which the policy reorientation took place represented an encroachment into her area of responsibility. It also put her in a difficult position in relation to her colleagues from the other EFTA governments; the fact that she had been unable to inform them in advance would not be well received. Furthermore, as noted above, she had presented this issue at the SAP's party congress just five weeks before, assuring the congress delegates that there was no need to take up a debate

on membership before the EEA negotiations had been concluded. Anita Gradin was irritated and upset—but that was a price that Ingvar Carlsson and Allan Larsson were prepared to pay.

### The Footnote Debate

The Swedish government's reorientation on EC membership is often referred to as a 'footnote' that was sneaked into an economic austerity package (cf. DN, November 28, 1990; SvD, May 5, 1991; Elmbrant 1993:248; Giljam and Holmberg 1993:159; Luif 1995:215; Kratz 1996:128; Miles 1997:183). If taken literally, this is not correct. In the twelve page press release distributed on October 26, 1990, the declaration on EC membership was presented as the very first item in a long list of measures. It also held the same prominent place in the official letter to the *Riksdag* that constituted the formal evidence of the decision.

The footnote allegations make sense only if this is understood as a metaphor, suggesting that the EC policy reorientation did not take place under the circumstances that it deserved. Rather than as a political issue of the highest order, with profound implications for the Swedish form of government, the context indicated that the government viewed this as an economic measure, introduced in order to halt an acute balance of payments crisis. Ingvar Carlsson's biographer hints that in retrospect, even he himself has second thoughts about how this was done; the declaration could have been taken out of the package and presented at a separate press conference a few days earlier (Kratz 1996:128).

With the perspective adopted here, this is an anachronistic way of reasoning. Ingvar Carlsson had been contemplating EC membership for quite some time, yet hesitated from challenging other influential members of the cabinet and the opinion within the SAP. When the balance of payments crisis began to emerge, a situation occurred which gave him the courage and opportunity to go ahead. In the context of the problematic economic situation, there was little reason to think that he would encounter any strong resistance to his leadership. Moreover, by placing Allan Larsson and the Ministry of Finance out front, he could

'reduce the circle', ensuring that key decisions were taken by people that were in favor of taking this step. Hence, at the time of the EC policy reorientation, this was a procedure that suited Ingvar Carlsson well.

**PART V**

**CONCLUSION**

## **10 EXPLAINING FOREIGN POLICY CHANGE**

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The declaration on October 26, 1990 put an end to a long-standing problem in Swedish foreign policy. While Swedish governments had always been interested in the economic aspects of the European integration process, they had resisted the political implications of entering as a full member. When the question first rose to the top of the political agenda in 1961, it was argued that both the policy of neutrality and the continued construction of the welfare state stood in the way of membership. When EC membership was discarded once again in 1971, the requirements of Sweden's policy of neutrality were emphasized, while the alleged consequences for the welfare state were downplayed. In the fall of 1990, neither of these obstacles were believed to be valid.

This final chapter is organized into two sections. Following the two-fold aim of the study, the first discusses the Swedish policy change on EC membership. I begin by summarizing the argument put forth so far, then characterize the change in terms of the typology presented in chapter two, and finally evaluate the relative impact of the different explanatory factors. The second section deals with the explanatory model. I discuss how my model differs from other contributions and argue that it has a number of advantages that makes it better suited for a more extensive study of foreign policy change.

### **Changing Position on EC Membership**

This study argues that the EC policy change was caused by a combination of fundamental structural changes, strategic political leadership, and the presence of a crisis situation. By the fall of 1990, the preconditions for the policy of non-EC membership had been altered by the end of the Cold War, the poor prospects of the EEA negotiations, and the collapse of the Policy of the Third Road. These structural changes were perceived and

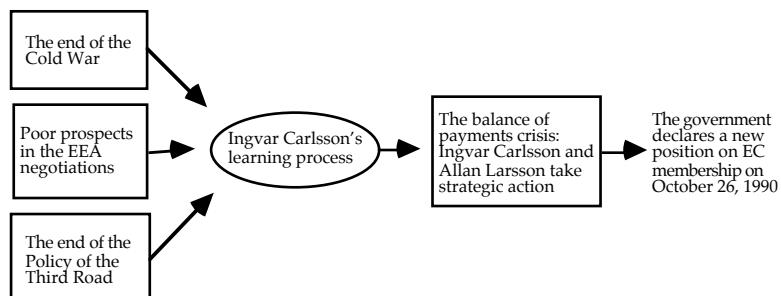
acted upon by Prime Minister Ingvar Carlsson. Together with Minister of Finance Allan Larsson, Carlsson launched the EC membership issue in the midst of a severe balance of payments crisis. The relationship to the EC was thereby redefined from a political to an economic issue. By capitalizing on the seriousness of the economic situation, the Prime Minister and the Minister of Finance found it possible to marginalize potential opponents within the cabinet and push the new position through the decision-making process.

What type of a foreign policy change was this? The typology presented in chapter two identifies four graduated levels of change, labeled 'adjustment change' (in the level of effort), 'program change' (in means), 'problem/goal change' (in goals and purposes), and 'international orientation change' (in the state's entire approach to world affairs). Two different suggestions as to which of these the Swedish case represents have already been formulated by others. Magnus Jerneck (1993:30-31) views the reorientation as so significant that it would qualify as 'international orientation change'. In contrast, Bengt Sundelius (1994:186-187) argues that it represents the less extensive level of 'program change'.

I agree that the government's reorientation on EC membership does not fit the most modest level of 'adjustment change'. But neither does it easily fit into the most extreme level of 'international orientation change'. In my view, this level should be reserved for the possibility that there had been even greater changes, such as a decision to join not only the EC but also NATO, or perhaps to totally withdraw from world affairs. The choice would therefore have to be between the two intermediate levels. These are based on a distinction between changes in means and goals. Such a distinction might seem clear in the abstract. When it is to be operationalized, however, much will depend on how the analyst goes about defining goals. If these are formulated at a very high level of abstraction, the possibility of a change taking place will be small, making 'problem/goal change' into a rare empirical category. If the goals are instead made more specific, many policy changes would have to be referred to this category.

Bengt Sundelius sees 'prosperity' and 'security' as the main goals of Swedish EC policy. If this assumption is accepted,

'program change' is a logical choice. While the shift to EC membership represented a change in the means applied to reach these goals, it could hardly be argued that there had been a change in the policy-makers ambitions to facilitate economic growth or to preserve the state's territorial integrity. I would object to this interpretation, however, by arguing that there is one crucial element of goal definition missing. The traditional goals of Swedish EC policy were not only 'prosperity' and 'security', but also 'sovereignty', here understood as the legal right to self-determination. Even though this aspect had been gradually downplayed in the official rhetoric, it had always constituted an important reason for not opting for EC membership. In the fall of 1990, this goal was ascribed much less value than it had in the past. I therefore see the new position on membership as a case of 'problem/goal change'. The main features of the causal dynamics of the change are summarized in Figure 4.



**Figure 4.** Explaining the Swedish Government's Change on EC Membership

In a review article some two decades ago, Ib Faurby (1976:215-218) noted that much of the literature on foreign policy suffered from 'explanatory overkill'. Faurby argued that scholars working in this field had a tendency to compile long lists of explanatory factors, yet seldom discussed the relative impact of these factors or tried to determine sufficient and necessary causes. All the explanatory factors identified in this study point in the direction of a change in policy. An attempt should therefore be made to evaluate to what extent each of them contributed to the outcome. As the study of a single case does not provide an

experimental control situation, such a discussion will have to be of a qualitative nature, based on a close familiarity with the case and making use of counterfactual reasoning.

To what extent did the Cold War contribute to the change? In chapter 5 I examine how the 1989-1990 collapse of the postwar political order created pressure on Sweden to adjust to a new international balance of power. In the new situation, the value of neutrality for upholding Sweden's position in the international system had been strongly reduced. Important benefits were therefore to be had from establishing a closer relationship to the EC which was at this stage emerging as a major actor on the international scene. Realist theories of international politics would see this as a fully sufficient explanation, arguing that there is no need to pursue the issue any further by examining other factors or lower levels of analysis.

I see this as a necessary but not sufficient factor. States and statesmen usually do respond to changes in the international balance of power. But this is not always the case, and even when they do, it is often with a considerable time-lag. Although the Cold War came to an end, without other factors working in such a direction, this need not have led to a change in EC policy, particularly not at this point in time. The limitations of this factor are underscored by the Swedish government's reaction to the August 1991 coup in the Soviet Union. At a time when it seemed quite possible that the world would return to a state of East-West tension, Prime Minister Ingvar Carlsson stated at a press conference that 'the coup in the Soviet Union in no way affects the Swedish decision to apply for EC membership' (DN, August 22, 1991).

What about the EEA negotiations? If the EC had taken a more conciliatory attitude in the negotiations, sticking to the Delors initiative from the spring of 1989, it would have seemed possible for the EFTA states to obtain more generous institutional solutions. The rationale for applying for EC membership would then partly have been eliminated. Whether this would have altered the outcome is difficult to say. I would suggest, however, that the impact of the EEA negotiations was strongly dependent on the third type of structural change: the emerging Swedish recession and the collapse of the Policy of the Third Road. Economic success leads to self-confidence and defiance

of ‘structural imperatives’. Economic failure leads to uncertainty and a search for quick fixes. With better economic prospects, I think that the government would have retained its policy of non-EC membership, regardless of how the EC acted in the EEA negotiations.

It might at this stage be instructive to make a brief comparison. The natural reference point in this context would be the choices made by the other EFTA governments. With the exceptions of Iceland and Liechtenstein, all the EFTA states chose to submit membership applications to the EC. But if this dependent variable is replaced by those states that actually did enter into EC membership—a strong modification that is here introduced only for the sake of argument—there is a highly interesting pattern. The EFTA states differed with respect to both their security policies and the state of their economies. But in all of the three states eventually chose to join the EC (Sweden, Finland and Austria), there was a strong sense of economic crisis. In the two states that chose not to join the EC (Switzerland and Norway), that was not the case. Though Switzerland was a neutral and Norway was a member of NATO, both of them were in a relatively good economic situation, raising limited concern about being left outside the EC. Thus, while being both superficial and addressing a different question than the one examined in this study, this brief comparison nevertheless underscores the great importance of the economic factor.

A closer evaluation of Ingvar Carlsson’s cognitive processes and political leadership leads to some interesting reflections. Would another person occupying the position of Prime Minister also have opted for EC membership? Generally speaking, I think the answer is yes. If this person had come from the opposition, such as the leader of the Conservative Party, Carl Bildt, this would almost certainly have been the case. But this would probably have been the case even if another person from the SAP had been Prime Minister. Olof Palme had been highly interested in taking this step already in the early 1970s. Being relatively young and new in his position, he chose not to challenge some of the other powerful and EC-skeptical members of his cabinet. Göran Persson, Ingvar Carlsson’s successor as leader of the SAP, was strongly pro-EC membership when he was Minister of Finance, 1994-1996. Since taking over as Prime Minister in 1996, his attitude towards the integration process

appears to have become somewhat more restrained. If he had occupied this position already in the late 1980s and the early 1990s, however, there is no obvious reason why he should not have reached the same conclusion as Ingvar Carlsson did.

Considering the structural conditions, Ingvar Carlsson as an individual was not vital for the fact that the policy change took place. He was, however, of crucial importance in the *timing* of this event. Learning processes, like the one he went through, are highly complex; the specific phases can be triggered by experiences that occur at random. It seems highly unlikely, to say the least, that such a process would have been identical from one person to another. The balance of payments crisis was also of great importance in this regard. This served as a final trigger, providing Ingvar Carlsson with a window of opportunity that could be used for launching a new position while keeping potential opponents within the cabinet out of the inner circle of decision-makers.

If such a situation had not occurred, he might have attempted to make the change anyway, presumably some time before the election scheduled for September 1991. Would he then have run the risk of not succeeding? With the superior authority of his office, he would of course always have had the possibility of simply neglecting dissenting voices. But if he had done so, there is good reason to think that there would have been a deeper division within the cabinet, possibly exacting a political cost from Carlsson himself as well as from the SAP. Since he would have been aware of this, he might have hesitated to go ahead. But there would then have been other circumstances that served as incentives to do so anyway. If he had let both the fall of 1990 and the spring of 1991 go by without taking a stand for EC membership, he would have provided a succeeding non-socialist government with a chance to do so after taking power in the fall of 1991. In the eyes of the SAP voters, Swedish EC membership would then have been associated with Carl Bildt, Carlsson's main ideological adversary and the top-level politician who had built the strongest pro-EC profile.

In the case of such a development, Carlsson would have found it difficult to support the EC membership option in a referendum, even if he personally was convinced that this was the right step to take. It therefore seems likely that even in the ab-

sence of a crisis situation, he would have taken this step. But it would then have taken place at a somewhat later point in time. Whether this would have facilitated or impeded Sweden's final entrance as a member of the EC, which was ultimately determined by the 1994 referendum and the *Riksdag*'s passing of the membership treaty, is another story, falling outside the scope of this study.

In sum, the argument put forth here is that it was changes in fundamental structural conditions that determined the general political orientation, with the end of the Cold War serving as a necessary yet not sufficient cause. But it was a combination of Ingvar Carlsson's learning process, his leadership, and the occurrence of a balance of payments crisis that determined the timing of Sweden's EC policy change, making this take place in October 1990.

### **Implications for the Study of Foreign Policy Change**

When reflecting on the contributions to their edited volume on foreign policy change, Joe Hagan and Jerel Rosati (1994:269-274) note that these are characterized by a very broad range of analytical perspectives. Students of foreign policy change tend to focus on either international factors, domestic factors, or factors related to the decision-making process. In chapter 2 of this study, I similarly point out that a number of the explanatory models that have been designed to study foreign policy change emphasize different aspects of the sources and processes that bring this about. It might therefore be argued that what is missing is a synthesis that brings all these aspects together in a coherent explanatory effort.

The model presented in this study is intended as a step in that direction. It differs from other contributions to this field in three different ways. *First*, it takes into account sources located both at the international and the domestic levels, as well as the need for these to enter and pass through the decision-making process. None of these elements is ascribed analytical priority over the other. *Second*, it introduces a cognitive element, placing the minds of individual decision-makers as recipients of the sources. *Third*, it emphasizes the importance of political agency and crisis situations, drawing on insights generated by domestic

reform politics. While some of the existing models give attention to some of these aspects, none is designed so as to include all three.

The usefulness of the model this illustrated by its application to the Swedish case. Rather than highlighting some particular factor, the model emphasizes the combined importance of structure, agency, and process. What images of the policy change would the other models convey? Beginning with the 'checklist models', there are a great deal of similarities. Just like my model, these identify a number of sources of change, connect these to an intermediate decision-making process and describe the outcome in terms of a typology of foreign policy change. These models differ from mine, however, in that they ascribe a much less prominent role to individuals. To the extent that the cognitive processes of individual decision-makers are present in these models, this is viewed as one factor among many that might or might not influence the outcome. In contrast, my model sees this as a step that the sources of change necessarily must pass in order to influence the outcome. Nor do these models include a clear notion of crisis or the expanded room for political agency that this creates. Hence, while the 'checklist models' might come to a similar conclusion about why a change took place, they are less well suited for explaining why it did so at one particular moment in time.

The 'structural constraints models' would paint a different picture. These models are oriented towards explaining inertia, directing the analyst's searchlight to such power relations and institutional conditions that might serve as barriers to change. Viewed through these lenses, a study of the Swedish case would focus on different 'stabilizers', examining why they broke down and failed to preserve the policy of non-EC membership. This might generate interesting information on certain aspects of the case which receive less attention in my model. But it would also imply a more narrow perspective, leaving out a close examination of the sources that build up pressure for change. Furthermore, just like the 'checklist models', these models do not primarily focus on the leadership exercised by individual decision-makers. For a study aiming at explaining change rather than the absence of change, the 'structural constraints models' would thus provide a more limited type of explanation.

The ‘cyclical models’ share my model’s combined focus on structure and agency. They differ from mine, however, in that they see it as insufficient to study one single decision. Instead they argue for studies that cover longer periods of time, claiming that this is the only way to capture the complicated process through which structures and agents produce and reproduce each other over time. From this perspective, my model would be criticized for making a strong simplification of reality, treating structures and agents as fixed in one particular moment in time. Rather than pursuing the social dynamics in all their complexity, my model gives something of a snapshot photo of a given situation for political choice.

While it is true that the cyclical models include a stronger dynamic element than my model, the importance of this should not be overstated. Increased ‘realism’ also has its costs. In the words of one influential theorist, ‘departing from reality is not necessarily good, but unless one can do so in some clever way, one can only describe and not explain’ (Waltz 1979:7). The analyst must therefore extract certain essential features of the real world, making it possible to identify causal mechanisms that would otherwise be lost in a haze of empirical detail. If these models were applied to the Swedish case, there would be a strong increase in the empirical workload. But the result would still fail to capture many of the essential features emphasized in my model. In one of the cyclical models (Carlsnaes), there is a focus on structure and individual agency, yet no notion of crisis. In the other (Rosati), there is a focus on structure and crisis, yet no individual agency. Neither of the two pay much attention to the decision-making process. Compared to my model, these models would provide a bird’s view of the policy development, constructing explanations that were less precise in accounting for both the causes and the timing of the change.

Students of foreign policy have given scarce attention to those occasions when states make radical changes in their foreign policy orientations. There are two good reasons why this should not continue to be the case. The first concerns the search for recurrent patterns and the development of foreign policy theory. A great deal of energy and analytical ingenuity has been devoted to identifying relevant explanatory factors. But valid generalizations are still few and theory has been slow to emerge.

One reason for this is, presumably, that the relevant set of explanatory factors varies greatly depending on the type of foreign policy that is to be explained. Theoretical progress might therefore be easier to achieve if more studies were based on a differentiated concept of foreign policy. To focus on foreign policy change is one possible way to proceed in such a direction.

The second reason to pursue this topic concerns the major changes that have taken place in world politics. When the East-West division ceased to function as a stabilizing 'overlay', many states chose to make far-reaching changes in their foreign policies. This might very well become even more common in the future. As the world moves towards a multipolar balance of power, many states might experience an increasing freedom to shape and reshape their own foreign policies, making alliance patterns and foreign policy relations much more volatile than in the past. But systemic changes only set the basic parameters for state action; individual states will respond differently to the same structural incentives. What is needed is therefore an approach to foreign policy change that observes the combined importance of international and domestic structural conditions, political agency, and the decision-making process. The model presented here is designed to meet these requirements.

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