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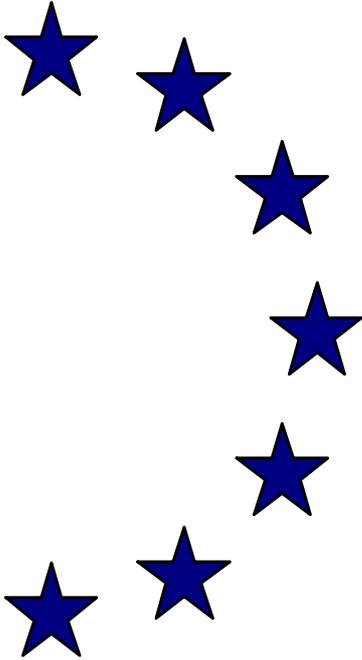
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*Benefits and costs of monetary unification
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by

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Benefits and costs of monetary unification as perceived by voters in the Swedish euro referendum 2003

Lars Jonung

Abstract

The Swedish referendum in September 2003 on adopting the euro or keeping the domestic currency, the *krona*, represents a unique event to examine the public's perceptions of the benefits and costs of monetary unification. The voters chose between the two polar cases of exchange rate regimes: either a freely floating exchange rate or membership in a monetary union. Three major conclusions emerge from the analysis of the exit poll surveys gathered on the day of the referendum. First, the optimum currency area theory proves to be a constructive framework to predict voting behaviour across socio-economic groups and regions in Sweden, assuming voters behave in their self-interest. Second, the distribution of the expected benefits and costs across groups was a major determinant of their voting behavior. As predicted by theory, the Yes-vote was strongest among voters employed in the tradable sector, in high growth regions as well as among high-income earners and well educated. The No-vote was strongest among voters employed in the non-tradable sector, in particular in the public sector, and among low-income earners, the unemployed and the less educated – in short, among groups dependent on public-sector transfers to maintain their living standards in the event of adverse economic shocks. Third, political attitudes towards the European integration process heavily influenced the views of the voters towards the euro.

JEL classification: E60, F15, F33, H11.

Key words: Euro, optimum currency area, exchange rate regime, voting, referendum, Sweden.

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The opinions expressed here are those of the author. They do not represent the views of DG ECFIN.

To be or not to be in the euro?

Benefits and costs of monetary unification as perceived by voters in the Swedish euro referendum 2003

1. Introduction¹

On Sunday September 14th 2003, voters in Sweden went to the polls to answer the question: “Do you think that Sweden should introduce the euro as its official currency?”² Three options existed: “Yes”, “No” and a blank ballot. The voters decided whether to maintain the domestic currency, the *krona*, which was introduced as the official currency unit in 1873, when Sweden adopted the gold standard, or to replace it with the euro, the currency of twelve of the then fifteen member states of the European Union, that came into physical existence in January 2002.

The Swedish referendum dealt with a clear-cut choice involving both the currency and the exchange rate regime – a choice different from that facing the voters in any previous referendum in Europe. The No-option implied that Sweden should maintain its domestic currency based on a floating exchange rate combined with inflation targeting by the *Riksbank*, the Swedish central bank. The *Riksbank*, which gained independence from the executive authority in the 1990s, announced, at its own initiative, in January 1993, a policy regime of inflation targeting. The Bank set a target of a two percent annual rate of inflation within a band of plus/minus one percentage point to be valid from January 1995. The Yes-alternative implied that Sweden would be a member of the Eurosystem by replacing the *krona* with the

¹ This paper has benefited greatly from generous help from Hans Hernborn, Swedish Television, and Sören Holmberg, Department of Political Science, University of Gothenburg, who gave me access to the data from the exit polls discussed in section 6. Many have offered me constructive comments: Michael Artis, Magnus Astberg, Ian Begg, Michael Bergman, Lars Calmfors, Per Eckefeldt, Jan Edling, Jan Fidrmuc, Jeffrey Frieden, Arne Jon Isachsen, Christina Jonung, Jürgen Kröger, Heikki Oksanen, Jan Host Schmidt, Kurt Schuler, Daniel Tarschys, Jonas Vlachos, Maxwell Watson and Geoffrey Wood. I owe a special debt to Oliver Dieckmann for insightful suggestions. Karel Havik has produced the charts. Sophie Bland has improved my English. The usual disclaimer applies. The views and opinions expressed here are those of the author. They do not represent the views of DG ECFIN.

² This translation is taken from the press release of the Government on December 12, 2002, officially announcing the referendum to take place on 14th of September 2003.

euro, at the earliest in 2005-2006. The policy of the European Central Bank (ECB) would replace the national inflation targeting by the *Riksbank*.

Other countries have held referendums on the Maastricht Treaty and on membership in the EU. However, in these cases the adoption of the new currency, the euro, was one of a larger set of issues on which the voters had to decide upon. The Danish euro referendum in September 2000 is an exception. In Denmark the choice was between adopting the euro or maintaining the fixed exchange rate between the euro and the Danish *kroner* within ERM 2. From a monetary policy point of view, the Danish referendum did not represent much of a real choice. Although the Danish No-vote meant that the domestic currency unit was maintained, Denmark still behaves after the referendum as if it were a member of the euro area. The Swedish referendum is thus different from any previous euro-related referendum in the sense that the two alternatives facing the voters represented two distinctly different exchange rate regimes: either a free float or a monetary union.

The referendum was the culmination of a long public debate in which the pros and cons of monetary unification and of a national currency were thoroughly analyzed - although Sweden had no choice but to join according to the EU Treaty. Two government investigations, one published in 1996 and the other in 2002, preceded the referendum, as well as a stream of books, pamphlets and articles, and a heated public debate in the media and all over Sweden. The Swedish economics profession took a most active part in the exchange of views, reflecting the tradition of strong involvement of economists in public debate.³ Foreign economists were involved as well.⁴ Their articles were translated and they were interviewed in the media. Issues such as the theory of optimum currency areas, central bank independence, the proper balance between monetary and fiscal policies, and the Stability and Growth Pact of the EU became familiar to many voters. In short, the standard textbook arguments for and against membership in a monetary union were part of the messages of the two camps – although given different weights and combined and blended with non-economic arguments in the campaign.

³ On this tradition see Carlson and Jonung (2004).

⁴ Thorvaldur Gylfason, Philip Lane, Robert Mundell, Andrew Rose and Joseph Stiglitz, among others, gave their views on the *krona* and the euro in the Swedish media.

To a researcher in monetary economics the Swedish referendum represents a unique opportunity to examine determinants of the voters' perceptions of the benefits and costs of two monetary regimes: a regime based on a domestic currency with a freely floating exchange rate versus a regime founded on membership in a monetary union with a freely floating exchange rate towards the rest of the world. Presently, according to the majority view among economists, these two options are the only viable exchange rate arrangements in a financially integrated world. They represent the two corner solutions or the bipolar choice so prominent in recent literature on exchange rate regimes.⁵

The purpose of this paper is to examine the result of the Swedish euro referendum from an optimum currency area approach. It is structured as follows. First, the election result is summarized. Then the views of the economics profession on the benefits and the costs of membership in a monetary union are briefly considered. Next, the main arguments of the Yes- and No-campaigns are presented. Thereafter, the voting behaviour predicted by the political economy of exchange rate regimes is described. Against this background, data compiled by the Swedish State Television through exit poll surveys on the distribution of Yes and No votes across socio-economic groups are examined. The results from a number of referendums on EU membership are then compared with the Swedish euro referendum. The role of trust and history in determining the monetary regime is briefly considered. A summary concludes.

2. The outcome of the referendum

The referendum attracted a large share of the eligible voters: 82.6 per cent cast their votes, and a total of 5,843,788 voters participated. In ten municipalities the turnout was in the top range of 87.0-89.9 per cent. In some smaller districts it exceeded 93 per cent. The voters clearly viewed the choice of the currency as important.⁶

The No-alternative received a clear majority with 55.9 per cent of the votes. The Yes-vote comprised 42.0 per cent and approximately 2 per cent opted for a blank vote. A mere 0.1 per cent of the votes cast were declared invalid.

⁵ See for example Fischer (2001).

The referendum revealed a strong geographical divide. The Yes-vote was concentrated in two parts of Sweden: first, Stockholm, the capital, and the municipalities surrounding it, and second, Skåne, the southernmost province. The rest of Sweden, in particular Norrland, the northernmost part, voted against the euro and for keeping the *krona*. In short, the further north and the further away from the capital, the stronger was the No-vote.

The municipality of Haparanda, the main town on the border with Finland in the far north, was one much publicized exception to this pattern. Here the outcome of the vote was a solid Yes. The voters of Haparanda were familiar with the euro as it is in circulation in neighbouring Finland. Thus, many shops in Haparanda display their prices in both *kronor* and euros. The euro is accepted as a means of payment in most shops in Haparanda. It is generally held that this everyday contact with the euro contributed to the local Yes-majority.

The No-vote was larger than most observers had expected, although predicted by the opinion polls. The result was immediately recognized as a resounding victory for the No-camp. The government announced that the outcome was to be respected. No attempt will be made to enter into the euro area in the near future.⁷

As stated above, the referendum was preceded by many months of information dissemination and campaigning. The arguments advanced in this process most likely influenced the voters' perception of the benefits and costs of joining a monetary union. Let us look at these arguments next.

3. The economics profession on the EMU

Already at an early stage, economists were involved in the debate about Swedish membership in the Economic and Monetary Union (EMU). A Government Commission report published 1996, the Calmfors report, set the stage for the ensuing discussion, within as well as outside

⁶ The referendum gained tragic attention by the murder of the foreign minister, Anna Lindh, a strong supporter of a Yes to the euro, a few days before the election. It is most likely that her death had no significant impact on the outcome.

the economics profession.⁸ The Commission consisted of economists and political scientists, and was headed by Lars Calmfors, professor of economics at the University of Stockholm and chairman of the scientific advisory body of the Ministry of Finance (*Ekonomiska rådet*).

In short, the economic analysis of the report was based on the theory of optimum currency areas (OCA), listing the expected benefits and costs of Swedish membership in the EMU. The main benefits were identified as the efficiency gains from a common currency, in other words the reduction in costs concerning international transactions and the abolishment of uncertainty concerning fluctuating exchange rates within the monetary union, which would generate more foreign trade and more competition. The loss of monetary policy autonomy was deemed the main cost of full EMU-membership. No longer would the Swedish interest rate be set by the *Riksbank* to stabilize the domestic economy. Instead, the rate of interest would be determined for the euro area as a whole by the ECB. The surrender of monetary policy autonomy was regarded as associated with high costs for Sweden in the event of asymmetric shocks to the domestic economy. An independent Swedish currency was viewed as an insurance device.⁹

In its political analysis, the Calmfors commission focused on a political trade-off. On one hand, Sweden would gain influence within the EU by adopting the common currency. On the other hand, the political legitimacy of the common European currency was regarded as weak.

In its summing up, the commission in 1996 recommended Swedish membership in the long run, but proposed that Sweden should not join EMU at the start in 1999. The two main economic arguments in support of this view were that, in the wake of the financial crisis of the early 1990s, Sweden would be vulnerable to country-specific shocks as long as unemployment remained high and budget deficits were large. In this case, fiscal policy measures were deemed insufficient to counteract negative asymmetric shocks to the Swedish economy. The commission therefore suggested that Sweden should postpone joining the common currency until unemployment had been reduced and the budget had been consolidated. The commission also thought that public attitudes would become more positive towards EMU in due time.

⁷ The No-vote in the referendum has put Sweden in a tricky political situation as it has no opt-out clause, in contrast to Denmark and Great Britain. A strict legal interpretation means that Sweden must join the euro area as soon as all the criteria of the Maastricht Treaty are met.

⁸ See Calmfors et al (1997).

⁹ See the summary in Chapter 13 of Calmfors et al (1997).

Eventually this recommendation became the official position of the government and the parliament. Gradually, however, it was modified. In December 2002 – after the parliamentary election in September 2002 – the government decided to launch a referendum on the euro in September 2003.

The debate within the economics profession followed the OCA approach initially adopted by the Calmfors commission. As a consequence of new international research, arguments were added during the campaign concerning the trade-enhancing effects of a common currency, the impact of a common currency on capital market integration, etc. Still, the OCA theory remained the fundamental framework applied in the debate among economists. Nevertheless, the economics profession was split as different weights were attached to the costs and benefits of monetary unification. Thus, economists were active within both camps during the referendum campaign.

4. The arguments of the Yes- and No-campaigns

The public debate preceding the referendum concerned a much broader set of arguments than those stemming from the standard economic theory of monetary unification. Now a host of political views concerning the future of Sweden as a nation state, a welfare state and a democracy played a central role. It is difficult to do justice to the multitude of opinions expressed in the summer of 2003. The arguments evolved during the campaign as well.

The Yes-camp stressed the economic benefits of euro membership. Trade and competition would increase, the rate of interest would fall, and economic growth and employment would rise. Sweden was so strongly integrated with Europe that membership in the euro area was a necessary step to take. It would be able to influence EU policies to a larger extent as a member of the euro area than as an outsider. It should break away from its neutralistic stance and play a more active role in forming the future of Europe. The euro was viewed as a method of insuring peace and prosperity in Europe. Membership in the euro area would contribute to fiscal discipline. A No to the euro would contribute to isolationism and xenophobia. In a globalized world, national independence for a country like Sweden is fairly restricted anyway. Thus, it is better to be part of a common monetary union than to stay outside.

The No-camp emphasized the importance of having a national central bank that could target the domestic rate of inflation and maintain a floating exchange rate, isolating Sweden from asymmetric shocks. The euro project was described as a risky one, a political construction that had not yet proved that it was going to survive. The slow growth on the European continent, in particular in Germany, and the failure to adhere to the fiscal discipline as set out by the Stability and Growth Pact illustrated the problems of the common currency. Membership in the euro area would threaten the Swedish welfare state and its present system of high taxation. Euro membership would force Sweden to reduce taxes and consequently the size of the public sector. The process of European economic and monetary integration was a threat to Sweden's democracy. Crucial decisions would be moved from the *Riksdag* in Stockholm to Brussels and from the *Riksbank* to the ECB in Frankfurt. Swedish voters would lose power and influence in the event of a Yes to the euro.

5. Voting behaviour predicted by the OCA theory

Let us turn to the political economy of the choice of exchange rate regime to examine what patterns of Yes- and No-voting may be expected across groups in society. Our basic assumption is that voters are acting in their self-interest. We also assume that voters are informed about the consequences of alternative exchange rate regimes for their economic well-being and vote accordingly.¹⁰ This assumption, not universally accepted in the literature on international political economy, stands up as a realistic one in the context of the Swedish euro referendum. The long, intensive campaign, the flow of books and government reports, the media coverage and the lively public debate preceding the referendum provided the voters with an abundance of information about the effects of the choice of currency regime. The high voter turnout reflects the fact that the public took a strong interest in the referendum. The obvious conclusion is that for a small open economy such as Sweden the choice of the exchange rate regime was viewed as a crucial one by the voters.

Once we focus on differences in voting patterns across society, the question arises: Who will benefit and who will lose from membership in a monetary union? Thus, distributional issues

¹⁰ On the role of self-interest in models of international political economy, see Gabel (2001).

immediately take centre stage. Although the literature on the impact of different exchange rate regimes on the distribution of income and wealth is not well developed, an answer to the question can be derived from the theory as well as the history of exchange rate regime choice.¹¹

The OCA approach provides the standard framework for considering the benefits and costs of monetary unification.¹² According to this theory, the major trade-off is between the efficiency gains from monetary unification - that is from a completely fixed *krona* rate - and the benefits of the possibility of domestic stabilization offered by a flexible *krona* rate. Voters exposed to international trade and the international economy would benefit more than other voters from a permanently stable exchange rate through the increased trade created by a common currency and from the reduction in exchange rate uncertainty as exchange rate fluctuations are abolished within a monetary union. The positive impact is expected to outweigh the pressure emerging from increased competition.

Looking across countries, we should expect fixed exchange rates to be maintained by countries with extremely large open sectors. Hong Kong, Singapore and city-states such as Monaco and Andorra are examples of fixed exchange rate regimes. On the other hand, countries with relatively closed economies, such as the United States and the euro area, should adhere to floating exchange rates.¹³

Within a country like Sweden, neither fully open nor fully closed, the benefits and costs of monetary unification are unequally distributed. Voters in the tradable sector or in other sectors exposed to the international economy should be more in favour of the euro than voters in the non-tradable sector or other sectors sheltered from international influences. Voters with no or little exposure to the international economy, thus depending primarily on domestic economic and political developments, would prefer national policy autonomy. Such independence gives

¹¹ The main reason for the paucity of studies about the distributional effects of alternative exchange rate arrangements is the lack of data. See for example Eichengreen and Frieden (2001, p. 12): "There is almost no empirical work that successfully measures the distributional effects of different international monetary regimes."

¹² The OCA theory still remains unchallenged although the initial contributions were made in the early 1960s. The literature on the OCA theory, starting from Mundell (1961), is immense. For recent contributions, see among others Artis (2003) and Mongelli (2002).

¹³ See for example Eichengreen and Leblang (2003, p. 805): "More open economies are more likely to peg, as predicted by the theory of optimum currency areas".

them better insurance against domestic as well as international disturbances, symmetric as well as asymmetric ones, than an irrevocably fixed rate.¹⁴

In a welfare state such as the Swedish one, voters whose income derives from wages, transfers or other forms of pay from the public sector are expected to favour the *krona*. A national currency would most likely be perceived by these voters as giving them a stronger political say than if Sweden joined the euro area, as euro membership is expected to restrict fiscal policies and keep taxes from rising. In particular, public sector employees should be expected to vote against the euro.

A number of additional predictions can be derived. Voters with high incomes and higher education are likely to benefit more from the internationalization of product, capital and labour markets than low-income voters with low education.¹⁵ As high-income earners are better protected against shocks and disturbances than low-income earners, the latter would tend to vote for the insurance and protection supplied by the public sector – and consequently they would vote for monetary autonomy.¹⁶ Furthermore, a diversified and growing economy gives better protection against macroeconomic shocks than a specialized and stagnant one. Thus, voters in diversified and expanding regions would tend to be more in favour of the euro than voters in regions depending on one or a few industries and with a history of stagnation, that is, of adverse economic shocks.

The empirical literature on the political economy of exchange rate regimes gives roughly the same prediction as the OCA approach. Starting from US economic and political history, Frieden (1994) summarizes the evidence as: “Internationally-oriented economic groups prefer fixed exchange rates, domestically based groups prefer floating rates”.¹⁷ In short, this is the pattern expected across socio-economic groups in the Swedish euro referendum.¹⁸

¹⁴ The Calmfors Commission stressed this insurance aspect of an independent currency.

¹⁵ Gabel (2001) suggests that voters with high human capital are expected to benefit from the opportunities created by international trade and openness.

¹⁶ See for example Gabel (2001). Broz and Frieden (2001, pp. 328) suggest that center-right parties would prefer a stable exchange rate, that is monetary unification, while center-left parties would favor a floating rate.

¹⁷ Using econometric tests to examine the voting behaviour in the 1896 US presidential election – an election where the choice of exchange rate system was a crucial issue - Eichengreen (1995, pp. 25-29) finds support for a political economy explanation of the share of votes of the two presidential candidates. His result reinforces Frieden’s conclusions.

¹⁸ The theory of exchange rate regimes also supplies predictions concerning the appropriate level of the exchange rate to enter a monetary union. In short, according to Frieden (1994, p. 85); “producers of tradable goods favour a relatively lower (more depreciated) exchange rate, which makes their products cheaper relative to foreign goods. On the other hand, producers of non-tradables support a relatively higher exchange rate. This also holds

To sum up, the “great divide” is thus between voters in the open sector and those in the closed sector.¹⁹ To the extent that these two groups of voters differ in their political affiliations, ideology, religious beliefs and geographical location, we will expect this open versus closed economy dichotomy to show up in other groupings of the voters as well. Of course, we do not expect the OCA approach to explain all variations in voting behaviour – only to deal with the economic aspect of the referendum.

6. Evidence from the exit polls

What factors influenced the voters’ choice of exchange rate regime? The exit poll surveys conducted by *Sveriges Television (SVT)*, the public service broadcaster, in collaboration with the University of Gothenburg and the Royal Institute of Technology, Stockholm, represent a rich data source for examining voting behaviour during the referendum. These surveys, known as *Valu*, are based on the response given by close to 11,000 voters to a questionnaire, covering 38 questions, when leaving a number of polling stations. The anonymous answers to the questionnaire were compiled, analyzed and presented by SVT during its long broadcast in the evening of the referendum.²⁰

The data from *Valu* make it possible to examine in a simple way relationships between the Yes- and No-votes and a set of variables – such as gender, age, education, political ideology, and attitudes towards the EU.²¹ We present tables and charts from the exit poll surveys that appear most relevant to the choice of exchange rate regime, thus ignoring a whole range of replies to other questions. The results reported here are based on straightforward cross-

for international investors”. The choice of entry rate for the *krona* into the euro area was not a major issue in the Swedish euro referendum, although it emerged in the debate.

¹⁹ In short, the expected voting behavior follows the traditional approach by economists when analyzing the dynamics of the Swedish economy, that is, the division between an open and a closed sector.

²⁰ For further information on the Swedish exit polls, which have been conducted at all national elections since 1991, see Hernborn et al. (2002). Data from these surveys can be obtained from www.ssd.gu.se. The data examined in this study is from *SVT Valu 2003* as compiled by Holmberg (2003), available from *SVT*. The data have been weighted in line with the result of the referendum.

²¹ Similar data are available from opinion polls carried out before the election. However, these are not of the same high quality. Besides, we are interested in the views of the voters at the moment they made their choice at the voting booths.

tabulations. A deeper understanding will emerge in the future, when researchers will subject the *Valu* data as well other data from the referendum to rigorous econometric work.²²

First, we turn to Table 1, displaying the distribution of Yes- and No-votes according to gender, age and employment. Women were clearly more negative towards the euro than men. The same holds for the youngest voters. Employed voters were more in favour of a Yes than the unemployed, those in early retirement and students. Blue-collar workers and farmers were No-voters. The Yes-vote had a majority only among white-collar workers and the self-employed.

Table 2 on the socio-economic background reveals two striking patterns. Firstly, education and thus income is a major determinant of the choice of currency. Members of SACO – the trade union of university graduates – voted for the euro, while members of the blue-collar union (LO) and the white-collar union (TCO) voted against the euro. Secondly, voters employed in the private sector were more positive towards the euro than those employed in the public sector. This pattern is consistent with the predictions of the OCA theory as discussed above.

Does citizenship influence the outlook on monetary unification? Table 3 gives the answer. Voters who were not citizens of Sweden (who nevertheless had the right to vote in the referendum) were clearly in favour of Sweden joining the euro. Of the voters raised in Europe, but outside the Nordic countries, 69 per cent voted Yes, and only 30 percent No. Voters with the experience of living outside the Nordic countries wanted Sweden to be part of the euro area.

Judging from Table 4, familiarity with the euro influenced the referendum. Yes-voters had visited the euro area more often than No-voters. The majority of the No-voters had not been in the euro area during the 12 months preceding the referendum. The Yes-victory in Haparanda, mentioned above, illustrates this pattern as well. Exposure to and thus practical experience of the euro as a means of payment made voters more positive towards the common currency.

²² A detailed analysis of the voting behaviour in the referendum, carried out by Sören Holmberg and collaborators, will be forthcoming in the fall of 2004.

Table 5 reveals the issues that were considered to be of “very great importance” for the decision by the voters. The exit poll survey contained thirteen options to choose between. For the Yes-voters the “possibility to influence the EU”, “peace in Europe”, “the Swedish economy”, “democracy” and the “conditions for business” were the five most important reasons to adopt the euro. The corresponding list for the No-voters encompasses “democracy”, “national independence”, “the rate of interest determined in Sweden”, “social welfare” and “the Swedish economy”.

The three highest ranked issues in Table 5 suggest that the Yes- and No-camps held diverging views on the impact of the euro on democracy and national independence. The Yes-voters viewed Swedish euro membership as a way of strengthening Swedish influence within the European Union, in monetary matters as well as in other areas. Adopting the euro was regarded as a means of improving prospects for peace in Europe as well as of boosting the Swedish economy. The No-voters, on the other hand, regarded the euro and full membership in the EMU as a major threat to Swedish democracy and to national independence, and hence as a threat to the nation state and the welfare state. They ranked “peace in Europe” and the “possibility to influence the EU” fairly low. For the No-camp, domestic control over the rate of interest, that is, a monetary policy fully geared towards domestic priorities, was an important factor behind the rejection of the euro.

The role of politics, ideology and attitudes towards the European Union is also demonstrated in Table 6 and Charts 1-3. Three parties, the Left (formerly Communist) Party (v), the Greens (mp) and the Center (formerly Farmers’) Party (c), officially supported the No-alternative. Four parties, the governing Social Democrats (s), the Liberal Party (fp), the Christian Democrats (kd) and the Conservative Party (m) were officially all in favour of a Yes. These four parties commanded a clear majority of the voters – about 80 per cent of the seats in the parliament. Still, the No-voters were victorious. Many commentators thus regarded the outcome of the referendum as a vote against the political establishment and against the elite in Stockholm. Table 7, showing that Yes-voters had greater confidence in politicians than No-voters, supports this view.

Table 6 demonstrates that the No-majority was a solid one among the three parties campaigning against the euro, most overwhelmingly among voters of the Left Party. Two parties, the Social Democrats and the Christian Democrats, which were officially supporting

and campaigning for the Yes-alternative, had a majority of voters voting No. Only the two non-socialist parties, the Liberals and the Conservatives, had a majority of Yes-voters. The euro referendum was a major challenge to party discipline among the four parties that were active on the Yes-side. The share of voters that voted according to the recommendations of their parties was lower in the euro referendum than in the three other referendums that had been held since World War II – about 64 per cent.²³

The euro referendum had a clear ideological dimension judging from Chart 1. In short, voters on the left were critical of the euro while those on the right were ready to replace the *krona* with the euro.²⁴ However, the economic forces identified earlier could be at work here as well. Voters on the left tend to be employed in the public sector to a larger extent than voters on the right, thus viewing monetary unification more as a threat to their own financial positions. Voters on the right stood to benefit from monetary unification, characterized by high income and good education, being employed in the private sector and living in well-diversified and expanding regions.

The attitudes of voters towards the euro were influenced by their general views on European political integration and cooperation. A Yes to the euro meant that Sweden would be more closely integrated within the European Union. In this sense, a Yes-vote represents a more positive attitude towards European cooperation and European commitments. Those voting for the euro were also more positive towards closer European political integration, as revealed by Chart 2. The same picture is apparent from Chart 3, which deals with Swedish membership in the EU. Those voting for euro membership wanted Sweden to remain a member of the EU. Broadly speaking, those wanting Sweden to leave the EU voted against the euro. A majority of the voters, however, wanted Sweden to remain a member of the EU. The outcome of the referendum should thus not be taken as a vote for Sweden to leave the EU.

In Chart 4 an additional database, covering the referendum outcome in each of Sweden's 288 municipalities, is used to explore the political economy of the referendum. Here the ratio of No-votes is estimated as a function of the share of "paid absence" from the regular labour market. The latter variable encompasses voters in the range of 16-64 years who are paid through public transfers for being unemployed, on sick leave longer than a year, and on early

²³ See Holmberg (2003).

²⁴ Chart 1 also reveals that more Swedish voters regard themselves as being on the left than on the right.

retirement.²⁵ This variable, which displays a high correlation with regions (located in Norrland), political adherence (left-leaning) and income (low-income), explains about 50 per cent of the variation of the share of No-votes as reported in the regression in Chart 4.

Chart 4 demonstrates that the higher the absence from the regular labour market, the stronger the No-vote. This result is what was expected from our discussion of the political economy of exchange rate regimes. Voters who are protected from negative economic shocks by public sector transfers are expected to vote for monetary – and thus for fiscal – autonomy.

Chart 4, which plots the share of No-votes in all 288 municipalities in Sweden, brings out some illuminating cases. The highest share of Yes-votes (lowest share of No-votes) was registered in Danderyd, the richest municipality in Sweden with the lowest share of paid absence from the labour market. The highest share of No-votes – more than 80 per cent – is found in Strömsund, a municipality in the inner part of Norrland. Haparanda, the municipality with the highest share of paid absence – more than 35 per cent – is a clear outlier. As argued earlier, the fact that the voters in Haparanda, bordering Finland, are used to the euro in their daily business is the most likely explanation of their desire to introduce the euro.

To sum up, the voting behaviour found in the *Valu* polls is close to what can be predicted from the political economy of exchange rate regimes as discussed above. This should not come as a surprise as the arguments of the Yes- and No-camps to a considerable extent were inspired by the OCA approach, made well known by the analysis of the economics profession. The evidence from the exit polls is consistent with the view that the voters were influenced by their economic self-interest. Their choice at the ballot box was closely interlinked with ideological or political considerations as well. To the extent that political ideology and attitudes are related to economic determinants, economic factors will appear to have even greater weight in explaining the voting behavior of the euro referendum.

7. Evidence from EU referendums

As argued initially, the Swedish referendum on the euro in 2003 is unique in the sense that the voters faced a clear choice of exchange rate regimes. Still, comparisons of the evidence from

²⁵ This variable is constructed by Jan Edling at LO, the central organization of Swedish labor unions. I am indebted to him for making his data available. The data set can be obtained from Jan.Eeling@lo.se.

Sweden with recent empirical work on EU referendums in other European countries may be fruitful as these were implicit referendums about the choice of exchange rate regime as well. We should thus expect that voting behaviour in these elections might be predicted to some extent by the OCA theory.

In a study of the French referendum on the Maastricht Treaty in 1992, Meon (2002), partially inspired by the OCA approach, shows that voters' perception of the economic costs and benefits of a monetary union influenced voting behavior. Using the economic characteristics of French regions (*départments*), he concludes that regions with high unemployment tended to vote No to the Treaty. However, he does not find evidence that the degree of openness to international trade across regions in France had any impact on the voters' choice.

Examining regional variations in the referendum on EU membership in Sweden in 1994, Vlachos (2004) suggests that the referendum represented a choice between two different fiscal regimes. EU membership would limit the room for manoeuvre of national policy-making. According to Vlachos (2004, p. 1590), it would be identical to "a fiscal regime imposing strict restrictions on the national discretion to handle risk-sharing and redistribution between regions." Staying outside the EU would allow more leeway for domestic insurance through taxes, transfers and subsidies and for more redistribution. He predicts that rich regions with a diversified industrial structure should vote for EU-membership, while regions receiving high transfers should vote against.

True to his expectations, Vlachos (2004, p. 1600) finds that "Regions with high average income and educational levels, small receipts of central government transfers, and trade patterns displaying comparative advantages towards the EU were relatively positive to membership." As he analyses the referendum of 1994 as a choice between two types of fiscal regimes, thus focusing on the costs and benefits of a "tighter" versus a more "generous" redistribution policy, he makes no explicit reference to the predictions generated by the literature on the political economy of exchange rate regimes. However, these predictions are similar to those he derives. In his opinion, the Yes-victory in the EU referendum may be interpreted as a vote in support of reducing the size of the Swedish welfare state rather than a vote favouring European political integration.

The referendums in Finland, Sweden and Norway on membership in the EU, which took place close in time in the fall of 1994, have been analyzed in great detail by a group of political scientists in a joint Nordic project. The voting behaviour in the three Nordic countries was almost identical, according to Jensen, Gilljam and Pesonen (1998, p. 316), “The more wealth, education, and prestige a voter possessed, the more likely she or he was to support EU membership. People in urban and suburban areas were more likely to support membership than people in rural and sparsely populated areas.” Voters in the capital or in its surroundings were more in favour of EU than voters in the periphery. Men appreciated EU membership more than women. Roughly the same pattern can be established for the euro referendum nine years later in Sweden.

Jensen, Gilljam and Pesonen (1998) and their collaborators present a descriptive discussion based on cross-tabulations and regressions without carrying out any explicit tests based on predictions derived from economic theory. It is tempting to conclude that their work could be improved upon by tying it closer to the theory of exchange rate regime choice, as the patterns they reveal are close to those suggested by the OCA approach.

The voting behaviour in the Danish 2000 EMU referendum is close to the pattern found for Sweden in 2003 in many respects. According to Marcussen and Zölner (2003, p. 117) “a No-voter is more likely to have a lower education than a Yes-voter, to have a job at the bottom end of the social hierarchy, and to be female.” However, in Denmark the No-voters were found at both ends of the party-political spectrum: either on the far left or the far right, while the Yes-voters clustered in the political center. In Sweden, the No-vote was primarily a far left phenomenon. Sweden, in contrast to Denmark, has no populist party to the far right. Nor did Marcussen and Zölner report any differences in voting behaviour according to region, education or occupational group. Here the Swedish pattern is markedly more segmented.

In a study of the support for EU membership in the candidate countries, Doyle and Fidrmuc (2003) note that the impact of economic integration diverges across different groups. For this reason they expect to find differences in the voting behaviour of various socio-economic groups. However, they are not ready to predict the effects of various determinants on voting behavior. Instead they regress support for EU membership and voters’ participation in the referendums on a large number of variables such as sex, age, household size, education, unemployment, income and employment in a search for common patterns. They find that

among voters “those with high education (or still in school), white-collar occupations, high income, young age and living in urban areas are more likely to participate in the accession referenda and vote in favour of EU membership.” To their surprise, “the elderly, blue-collar workers, less educated, those with a repeated history of unemployment, those living in rural areas and also those living in underdeveloped or agricultural regions tend to be against accession and/or do not vote.” Doyle and Fidrmuc (2003, p. 20) are surprised by this result because they expected these groups to benefit from the redistribution opportunities provided by EU membership. Voting behavior in the accession countries is broadly similar to that found in the Swedish euro referendum.

To sum up, assuming voting behavior is guided by economic self-interest, the OCA theory gives a few straightforward predictions concerning voting behaviour in the referendums on EU membership as well: voters believing that they will benefit from international goods and capital market integration are expected to be in favour of monetary unification, whereas voters believing they will be deprived of protection and insulation from economic shocks will tend to vote for a floating exchange rate, that is against the euro. Voting behavior would thus diverge according to sector of employment, source of income and level of education. The Yes-vote should be found primarily among voters employed in the tradable sector, the private sector, among high-income earners and the well educated. By contrast, the No-vote should be expected to be stronger among voters employed in the non-tradable sector, among low-income earners, unemployed, the less-educated and those receiving public support, as these groups are more dependent on public sector transfers to maintain their living standards and their political influence. These predictions are supported by evidence from opinion polls and referendums concerning membership in the EU as surveyed above.²⁶

8. Trust in the euro – the European pattern²⁷

Judging from the exit polls, voters were strongly influenced by their attitudes towards the European integration process: towards the European Union, its performance, its policies, and

²⁶ These results reject the view of Giovannini (1993, p. 18) “These observations lead me to the central thesis of this paper: there are no stable or significant constituencies for or against monetary union.” The empirical evidence from several EU Member States suggests the existence of a number of fairly well defined groups that are either for or against monetary unification.

²⁷ This section on trust is adapted from Jonung (2002).

towards economic and political events in Europe – in short, towards what is going on in “Brussels”. The No-side made frequent references to the problems of enforcing the Stability and Growth Pact, to the French and German refusal to abide by its rules, to the high unemployment rate and the low growth rate of the euro area, to problems of making the EU work honestly and smoothly. The No-side argued that Swedes could not trust the EU to carry out a policy that would be beneficial to Sweden, and that Sweden should therefore maintain its own currency, rejecting the euro.

Monetary history demonstrates that the acceptance and popularity of a currency is closely associated with the public’s trust in the institutions that supply the currency such as the central bank, the parliament, the government and other elements of the political system.²⁸ In an old established nation state like Sweden with the oldest central bank in the world, this trust and legitimacy has existed for a long time. The traditional functions of the national money, the *krona* – as a medium of exchange, a unit of account and a store of value – are taken to be self-evident.

To replace the *krona* with the euro would be a radical step to the Swedish public. The new European currency needs a high degree of credibility before it is accepted. However, the Swedish public have little trust in the euro as demonstrated by Chart 5. The data for Chart 5 is obtained from EU-wide opinion polls (the Eurobarometer for the Spring of 2003), where representative samples of the public are first asked to give their view of the European Commission and later are asked about their attitude towards the euro. The question about the European Commission is phrased as: “Please tell me if you tend to trust or tend not to trust it?” The question about “A European monetary union with one single currency, the Euro” is phrased: “Please tell me whether you are for it or against?”

According to Chart 5, the poll for the United Kingdom displays the lowest degree of trust in the European Commission. Trust in the European Commission is also low in Sweden and Denmark. The fact that these three countries have all remained outside the euro area is partially related to their low level of trust in “Brussels” or “Frankfurt”. A simple regression using trust in the European Commission as the explanatory variable behind the Yes to the euro – see Chart 5 – brings out a strong positive relationship across the Member States of the

²⁸ For a brief discussion of “trust”, see Cohen (1998). The concept is close to that of credibility underlying much of the analysis of modern monetary theory and policy.

EU.²⁹ Countries such as Italy, Belgium, Luxembourg, Ireland, the Netherlands and Spain are at the opposite end of the scale from the United Kingdom, Sweden and Denmark.

History may explain the pattern in Chart 5. The United Kingdom, Sweden and Denmark – all monarchies and stable democracies – have been independent and successful nation states for unusually long periods of time. The three countries have not experienced domestic political violence for centuries. Sweden and the United Kingdom have not been occupied by foreign powers in modern times. Denmark only experienced foreign occupation during World War II. Their domestic political systems enjoy considerable public respect and support. Their democratic traditions are well developed and entrenched. Public institutions are usually regarded as efficiently and honestly run. Domestic politicians and bureaucrats are respected to a larger extent than in most other EU Member States. Sweden has not been actively involved in wars for almost two centuries, contributing to both a strong belief that the country and its welfare state is unique, and to an attitude of isolationism.³⁰ Sweden and Denmark have a well-developed sense of national identity based on a common language, religion, culture, political institutions and history.³¹ The late entry of Sweden into the EU in 1995 is a consequence of this sceptical and isolationist attitude towards the European integration process.

Looking at European cooperation from this domestic perspective, the institutions of the European integration process, and thus the common European currency, appear less trustworthy and legitimate than may be the case in other EU Member States where confidence and trust in domestic institutions are lower. This relative lack of trust in EU institutions compared to domestic institutions was most likely an important determinant of the Swedish euro referendum.

²⁹ The high correlation between trust and acceptance of the euro may also be viewed as caused by a third factor: a positive attitude towards the European integration process, which is transformed into trust for the institutions of the EU including the euro, the currency of the Europe.

³⁰ The experience of Switzerland is similar to that of Sweden, contributing to Swiss isolationism vis-à-vis the EU.

³¹ See Marcussen and Zölner (2003) and Östergård (1994) for the history and characteristics of the process of nation-building in Denmark. Stråth (2000) describes the Swedish path to national identity.

9. Summary

The Swedish referendum on the euro in September 2003 is an exceptional event for researchers of monetary unification. The voters chose between the two polar cases of exchange rate regimes: either a freely floating exchange rate or membership in a monetary union. Our analysis of the referendum provides some major conclusions concerning the predictive power of the OCA theory, the role of distributional issues, and the impact of political attitudes towards the European integration process on voting behavior. Let us briefly consider them.

First, when analyzing the choice of currency – whether to join or not to join a monetary union – economists commonly start from the optimum currency area theory. As a rule this approach is adopted on an aggregate or nationwide basis to bring out the trade-off between the benefits of increased micro-economic efficiency (achieved by membership in a monetary union) and the costs of reduced ability of macro-economic stabilization (loss of monetary autonomy when joining a monetary union). As demonstrated here, when acknowledging that these benefits and costs are not identically distributed across socio-economic groups, the OCA approach may also improve our understanding of the way self-interested and informed voters make up their mind. In short, those benefiting from international trade and integration will vote for the euro, while those benefiting from monetary independence will vote for preserving the domestic currency, the *krona*.

Second, as a rule the evidence from the exit polls supports the predictions of the OCA approach.³² The referendum demonstrates that the expected distribution of benefits and costs was an important determinant of voting behavior. The fear, in particular among public sector employees, women, blue-collar workers and the unemployed, that the euro will bring about restrictions on public sector employment and on transfers from the public sector contributed to the victory of the No-camp. In short, the No-votes originated from voters with a high dependency on the public sector and often with low incomes – although these voters would not be exposed to increased international competition. A similar response emerged in the Danish euro referendum in 2000 as well, where the No-camp made euro membership a major

³² The predictive power of the OCA approach to assess the creation and destruction of monetary unions is commonly regarded as low. See for example Goodhart (1995, p. 452) and Bordo and Jonung (2003, pp. 62-63).

threat against the welfare state. On the other hand, high-income earners oriented towards the international economy, employed in the private sector and living in regions with a diversified economy were in favour of the euro.

Third, political attitudes and ideology influenced voters as well.³³ The No-voters regarded the common currency as a threat to national independence and to Swedish democracy. They feared that joining the euro meant that decisions of major importance were taken out of the hands of domestic voters and domestic politicians and transferred to Frankfurt and Brussels to be made by policy-makers that were not democratically accountable according to their understanding. Yes-voters on the other hand were positive towards increased European political integration. Many of them expressed support for the idea of a United States of Europe. The further to the left, the stronger was the No-vote. Only the two parties to the right, the Liberal and Conservative Parties, had a majority of Yes-votes. Voters to the left also tend to be low-income earners and more dependent on public transfers than voters to the right.

The OCA approach improves our understanding of how the economic benefits and costs of monetary unification are perceived by voters across society. However, it should be combined and supplemented with ideological and political factors, as these were important determinants of the outcome of the referendum. This remains a challenge for researchers on monetary unification.

However, in this study dealing with the differential impact across society of the choice of exchange rate regime, the OCA theory is able to generate a number of testable implications.

³³ True, political integration and national sovereignty is explicitly mentioned by Mundell (1961) in his seminal contribution as determinants of currency arrangements. He suggested that these factors might not be as strong in Western Europe due to the creation of the Common Market. The Swedish referendum indicates, however, that these factors are still decisive.

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Table 1. Yes and No: gender, age and occupation. Percentage of the votes.

	Yes	No
Gender		
Women	36	62
Men	48	50
Age		
18-21	26	70
22-30	41	56
31-64	45	54
> 65	41	57
Occupation		
Blue-collar	29	69
Farmer	32	65
White-collar	52	46
Self-employed	54	44

Comments: Blank ballots are ignored. They represented between 1 and 4 percent of total votes.

Source: *SVT Valu* 2003.

Table 2. Yes and No: trade union affiliation and private/public employment. Percentage of the votes.

	Yes	No
Blue-collar members (LO)	30	69
White-collar members (TCO)	45	53
Academic members (SACO)	53	45
Employed in the private sector	47	51
Employed in the public sector	37	61
Of which:		
Central government	44	54
Local government	34	64

Comments: Blank ballots are ignored. They represented between 1 and 4 percent of total votes.

Source: *SVT Valu*, 2003.

Table 3. Yes and No: citizenship and country of childhood. Percentage of the votes.

	Yes	No
Swedish citizenship	41	57
Non-Swedish citizenship	57	42
Raised in Sweden	41	57
Raised outside Sweden	59	40
Of which:		
In another Nordic country	60	40
In another European country	69	30
In a country outside Europe	49	49

Comments: Blank ballots are ignored. They represented between 1 and 4 percent of total votes.

Source: *SVT Valu*, 2003.

Table 4. Yes and No: number of visits during the past 12 months to the euro area. Per cent.

Number of visits to the euro area:	Yes voters	No voters	Total
Many	36	17	25
A few	31	28	29
None	33	55	46
Total	100	100	100

Comments: Blank ballots are ignored. They represented between 1 and 4 percent of total votes.

Source: *SVT Valu*, 2003.

Table 5. Yes and No: issues of “very great importance”. Per cent.

Yes voters		No voters	
Possibility to influence the EU	57	Democracy	67
Peace in Europe	56	National independence	62
The Swedish economy	53	The rate of interest determined in Sweden	60
Democracy	47	Social welfare	58
Conditions for business	40	The Swedish economy	56
Employment	40	Prices	51
Social welfare	36	Employment	47
Equality	29	Equality	43
Prices	28	Peace in Europe	40
National independence	22	Possibility to influence the EU	28
The rate of interest det. in Sweden	18	Conditions for business	19
Refugees/immigration	15	Refugees/immigration	18

Source: *SVT Valu*, 2003.

Table 6. Yes and No: party sympathies. Per cent.

Party:	Yes	No	Blank	Total
Parties advocating a No:				
The Left Party (v)	10	89	1	100
The Greens (mp)	12	86	2	100
The Center Party (c)	18	80	2	100
Parties advocating a Yes:				
The Social Democrats (s)	45	53	2	100
The Christian Democrats (kd)	41	57	2	100
The Liberal Party (fp)	67	30	3	100
The Conservative Party (m)	72	27	1	100

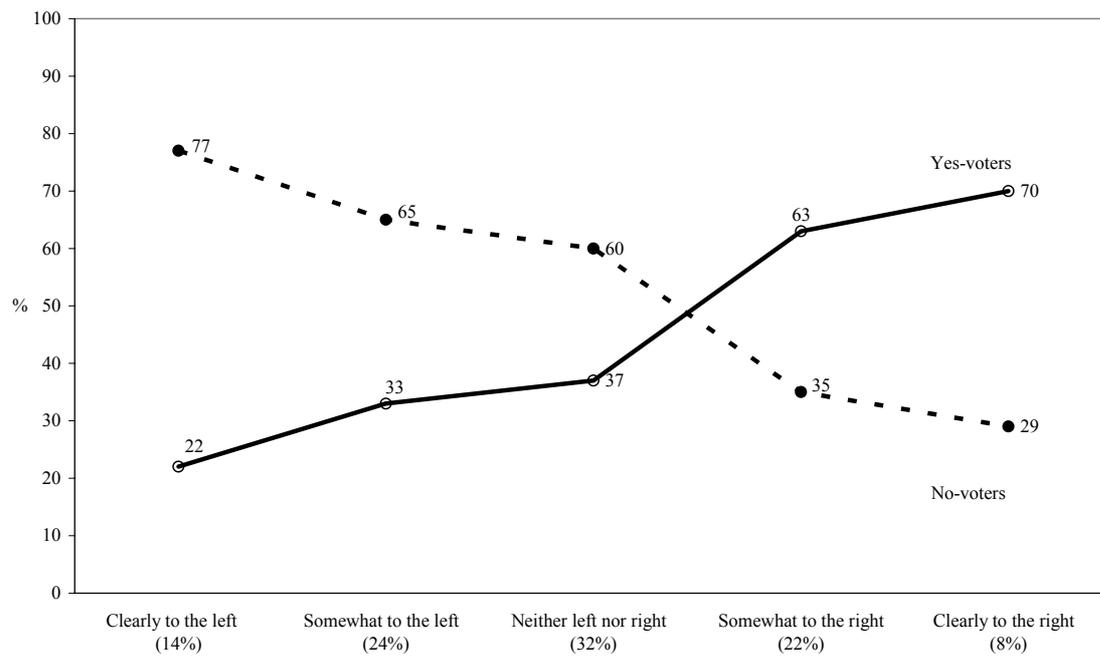
Source: *SVT Valu*, 2003.

Table 7. Yes and No: trust in politicians. Per cent.

	Yes voters	No voters	Total
Much/quite a lot of trust	70	44	55
Very little/rather little trust	30	56	45
Sum	100	100	100

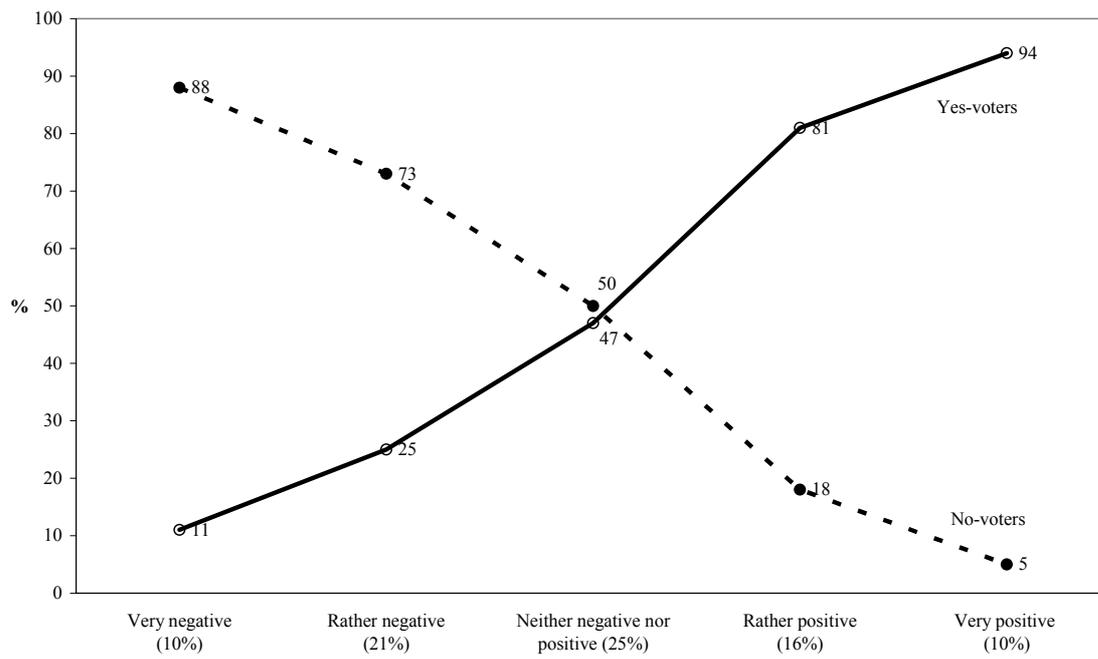
Source: *SVT Valu*, 2003.

Chart 1. Yes and No to the euro and left/right political view of the voters. Per cent.



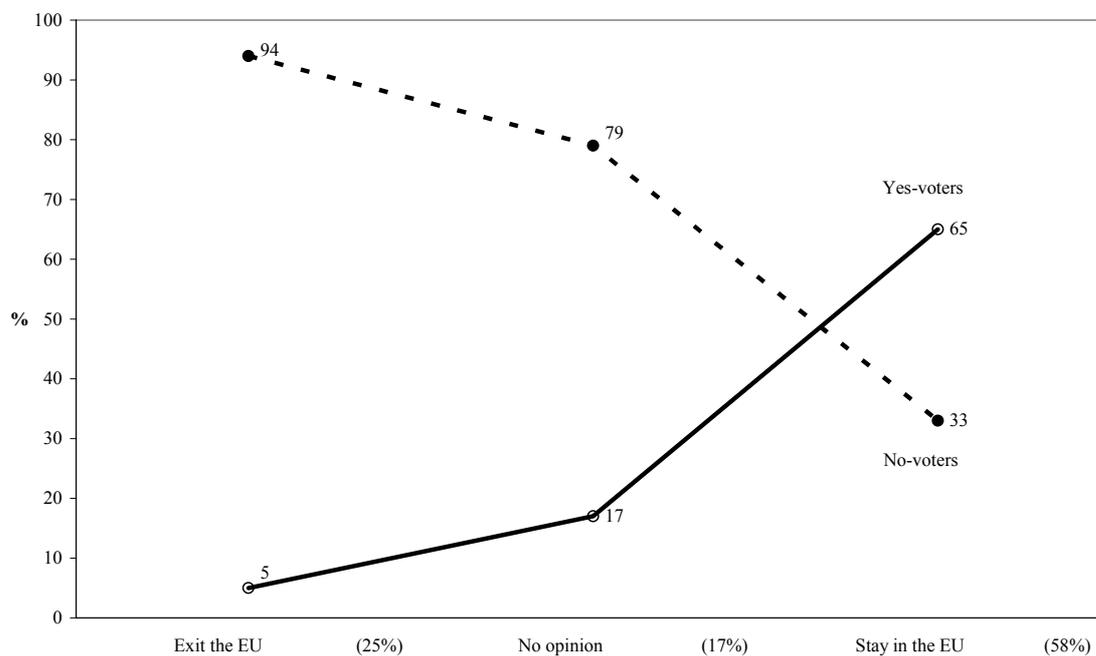
Source: *SVT Valu*, 2003.

Chart 2. Yes and No to the euro and attitudes towards a United States of Europe. Per cent.



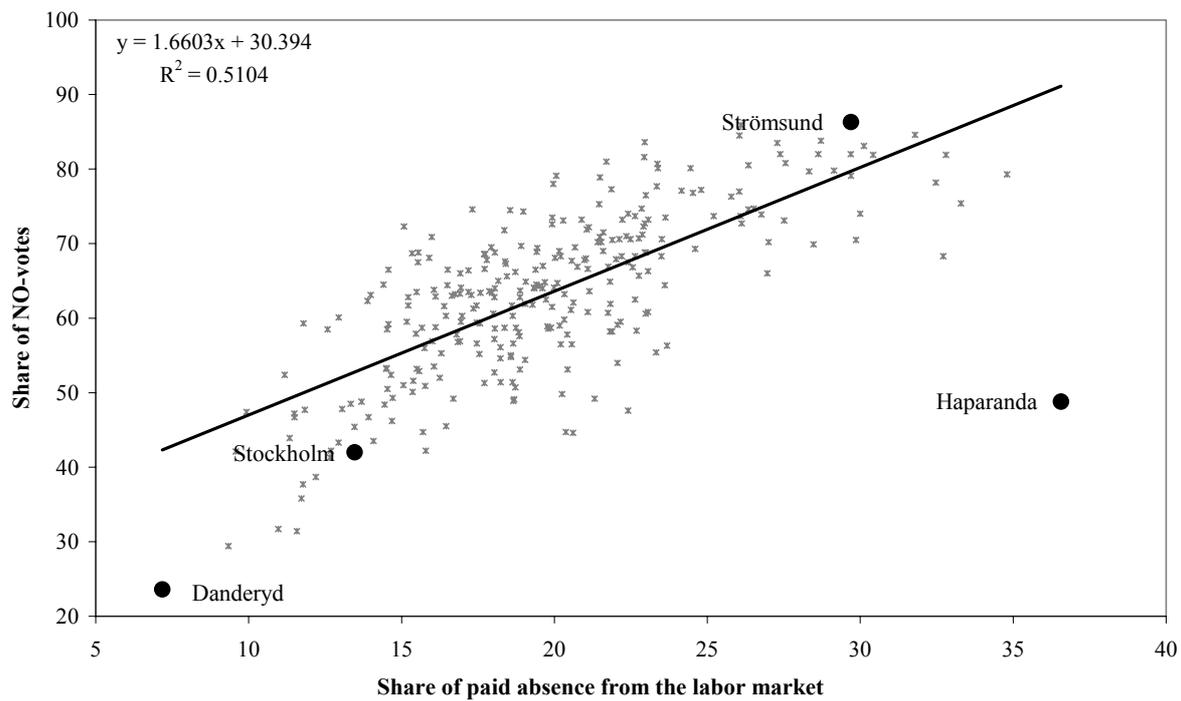
Source: *SVT Valu*, 2003.

Chart 3. Yes and No to the euro and attitudes towards Swedish EU-membership. Per cent.



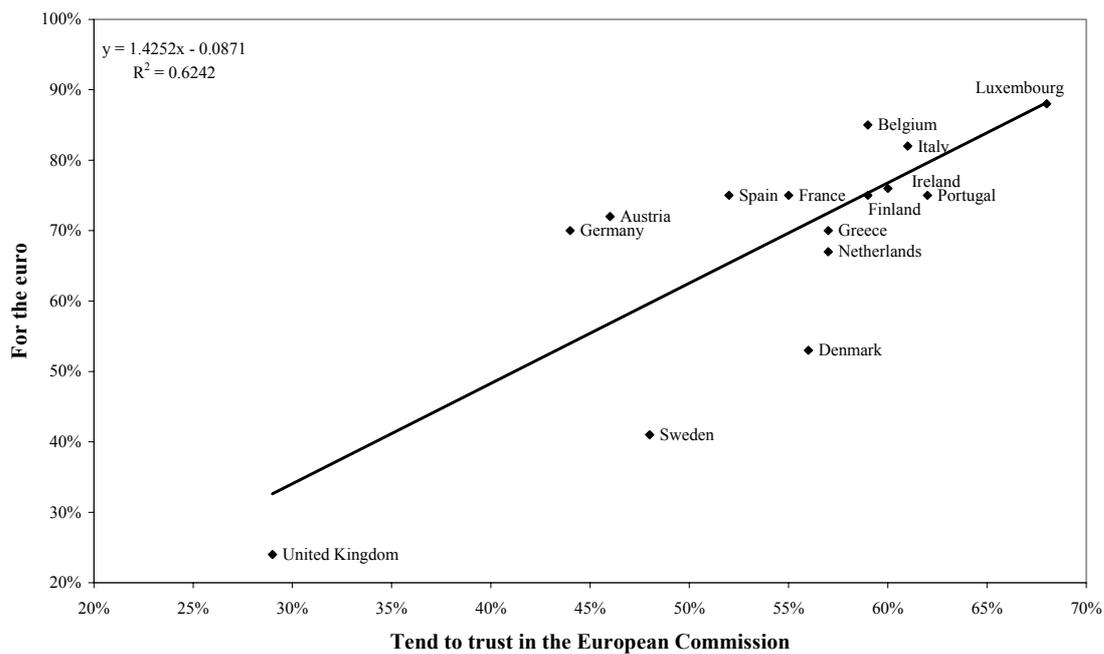
Source: *SVT Valu*, 2003.

Chart 4. Share of No-votes as a function of paid absence from the labor market.



Source: Data supplied by Jan Edling, LO, Stockholm.

Chart 5. "For the euro" and trust in the European Commission. Spring 2003.



Source: Eurobarometer.