SAILING ALONE: AN HISTORICAL-CULTURAL EXPLANATION WHY DENMARK HAS NOT INTRODUCED THE EUROPEAN COMMON CURRENCY

by

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ABSTRACT

Denmark is the only country that is participating in the European Exchange Rate Mechanism (ERM-II), but intending to stay out of the European Monetary Union (EMU). The country meets all of the criteria for membership in the euro, is denying itself the potential benefits, political and economic, of full membership, yet has effectively surrendered control over its own monetary policy. This "halfway" policy is not easy to explain according to many academic approaches, including small state theory, realist politics, and liberal economics.

Academics have attempted to explain the reasons for the rejection of the euro, breaking down into four main theories, three of which focus on the referendum results which led to the Danish public's rejection of the euro. They are, "Second Order" theories, which explain the referendum outcomes as tangential to the population's actual feelings on EMU or European integration; "Values Oriented" theories which explain the results based on the values and beliefs of the Danish electorate; "Utilitarian" theories which explain the rejections from a self-interested, utilitarian assessment of voting patterns. And a fourth school sees the referendum results as red herrings, believing that deeper structural or economic factors have shaped the country's policy.

This paper attempts to form a synthesis of the first three schools, extrapolating on the "Values Oriented" theories, to explain the popular rejection, but elite support for EMU. The historical cultural argument, which has been developed in the historical field, and has been used with regard to some other areas of Danish euroscepticism, explains the contradiction. Ultimately, the Danish no-votes, and abstention from full participation in the EMU stem from the deeply rooted Danish political traditions of Grundtvigian egalitarian smallness and anti-elitism. The ambivalence, and apparent contradiction of the "half-in" policy stems from the eroding importance of these political traditions as a result of globalization and europeanization, as the political elite embraced the European project. This break down of political traditions represents the first significant shift in Danish political culture since the Second World War.

Table of Contents

Abstract ii

Table of Contents iii

List of Abbreviations v

Acknowledgements vi

Introduction 1

Chapter II: Current Economic and Political Situation 6

Secured Opt Out through Referendum 6

What are the advantages for Denmark of staying out? 10

What are the disadvantages for Denmark of staying out? 16

Chapter III: Competing Explanations 21

Small State Theory 22

INTERNATIONAL COMPARISONS 22

SWEDEN / UK 23

FINLAND 26

NETHERLANDS 27

AUSTRIA 28

Economic Explanations 29

Utilitarian Explanations 29

"Second Order" Theories 31

Values Oriented / Cultural Explanations 33

Chapter IV: Danish Monetary Policy and the "New Consensus" 34

Monetary / Fiscal Policy History of Denmark 35

1950s-1982 KEYNESIANISM AND THE EUROPEAN CONSENSUS 36

THE COLLAPSE OF BRETTON WOODS 37

EUROPEAN MONETARY SYSTEM 38

A CHANGE IN ATTITUDE 38

"ELITE" ATTITUDE IN DENMARK 40

Chapter V: Danish Political Culture as Explanatory Factor 42

LINGUISTIC AND IDEOLOGICAL SITUATION IN DENMARK 43

ASCENDANCY OF THE PROSPEROUS PEASANTS 44

GRUNDTVIGIANISM 46

LUTHERANISM 48

FOLKEHØJSKOLER 49

COOPERATIVES 51

POLITICAL POWER SHIFTS 52

SIGNALLING AND BANAL NATIONALISM 55

RISE OF THE WELFARE STATE 56

Modern National Identity and Political Culture 57

POWER OF THE INDIVIDUAL 59

ANTI-ELITISM / ANTI-POWER 60

SCANDINAVIAN EXCEPTIONALISM 60

Relations with the European Community / Union 61

OPINION SHIFT 65

Attitude toward the EMU / ECB 67

Conclusion 71

Bibliography 74

List of Abbreviations

CFSP	Common Foreign and Security Policy
EC	European Community
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEC	European Economic Community
EMS	European Monetary System
EMU	European Monetary Union
ERM	European Exchange Rate Mechanism
ERM-II	European Exchange Rate Mechanism II
ESDP	European Security and Defence Policy
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
NATO	North Atlantic Treaty Organization
SGP	Stability and Growth Pact

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Introduction

Most non-Danes are surprised to learn that Denmark is not a member of the European Monetary Union (EMU) and has not adopted the euro. Naturally, most people outside of Denmark are not terribly well informed on political matters in the small northern European kingdom, so their ignorance is hardly a shock. But even informed observers are often unaware of the reasoning behind Denmark's abstention from full participation in the Euro. Denmark is not instinctively anti-integrationist, and it is participating in all the phases of European Monetary Union except the last, unlike the other hold-outs, Sweden and the United Kingdom. What accounts for the present Danish diluted participation in the euro?

By many accounts Denmark should participate in the euro. Even those who are sceptical of the euro in general might well suggest that Denmark should participate fully, rather than engage in its current policy of making all the sacrifices necessary, only to give up many of the ultimate benefits. Various schools of thought, from liberal economists to realist political scientists,[1] those subscribing to traditional "small state theory,"[2] or functionalist analysts,[3] would

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[1] See for example, Kenneth Dyson, 'The Euro-Zone in a Political and Historical Perspective,' in *Political Aspects of the Economic and Monetary Union: The European Challenge*, ed. Kenneth Dyson (Aldershot: Ashgate Publishing Company, 2002).

[2] See for example, William Wallace, 'Small European States and European Policy-Making,' in *Between Autonomy and Influence: Small States and the European Union Proceedings from ARENA Annual Conference November 5, 1998*, ed. (Oslo: ARENA, 1998).

expect Denmark to participate in the project of monetary union. However, these analyses are unable to fully explain Denmark's current behaviour.

Other analysts have attempted to explain Denmark's rejection of EMU. Usually they have focused on individual factors in the referendum campaigns (primarily on the Maastricht Treaty, which laid out plans for EMU in 1992, and on EMU itself in 2000) that led to the rejection of the euro in Denmark. This approach has much merit. However, they usually do not take fully into account the broader historical and cultural argument which explains Danish attitudes toward the EU. On the other hand, broader cultural studies do not make an explicit extended comment on the Danish attitude toward EMU. This paper intends to provide something of a synthesis of broader cultural histories of Denmark, and the immediate political analyses of the issue as it has played out in Denmark since the issue came to prominence, in light of the economic argument that participation in EMU makes little to no difference to the Danish economy at this point. It is informed by an economic-cultural approach to the issue.

Ultimately, the Danish no-votes, and abstention from full participation in the EMU stem from the deeply rooted Danish political traditions of egalitarian smallness and anti-elitism. The ambivalence, and apparent contradiction of the "half-in" policy stems from the crumbling of the old cultural and political norms as a result of globalisation and europeanisation. This paper contends that Denmark has operated under a widely accepted political orthodoxy, which has

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[3] See for example, Francisco Torres, 'The Long Road to EMU: the economic and political reasoning behind Maastricht,' *NIPE Working Paper series* 8 (2007).

its roots in Lutheranism and the mediaeval peasant culture, but was first articulated in its present form in the late 19th century. The vast majority of the population has accepted this orthodoxy since at least the Second World War. The primary tenets of the orthodoxy were a deeply engrained egalitarianism; a deference to the power and wisdom of the local, and small, communal decision making units; a reverence for "the small" in any form; an aversion to power politics, violence, or military engagement; a respect for the individual, and freedom of expression, but an expectation that the community, and communal decisions will be respected; and a deeply rooted anti-elitism. In homogeneous Denmark, this orthodoxy was widely respected, and formed the basis for its institutions and their behaviour.[4] However, since Danish accession to the European Economic Community (later the EU) in 1973, and in the face of other forms of economic and cultural globalisation, this orthodoxy has begun to crumble. It is still very influential, but important constituencies have begun to reject portions of the orthodoxy. Denmark will eventually move to full participation in EMU as the orthodoxy continues to break down.

As mentioned earlier, outsiders are often uninformed on Danish political matters, and they might ask why they should alter that state. In this particular case, the importance, outside of its obvious implications for Denmark itself, lie in its revelations about the process of globalisation, and more specifically,

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[4] Tim Knudsen, 'A Portrait of Danish State-Culture: Why Denmark Needs Two National Anthems,' in *European Integration and Denmark's Participation*, ed. Morten Kelstrup (Copenhagen: Copenhagen Political Studies Press, 1992).

europeanisation. Denmark has long been one of the most eurosceptical countries in a club of reluctant Europeans that include the Scandinavian states, the UK, Switzerland, and to an increasing degree many other parts of Europe. It is not, however, reflexively anti-European, and is an active member in most ways: it has amongst the best rates of "transposition" of European directives,[5] .it has run several successful Council presidencies, participates actively and constructively in most European fora, and has improved its performance, to amongst the best in the EU, with regard to Internal Market infringement proceedings. At a time when repeated electoral setbacks present a fundamental challenge to European integration, and some commentators are even calling the whole project into question, the question of public attitudes toward EU institutions is of vital importance. Europe is a trendsetter for the world in the matter of regional integration, and Denmark is one of the main "canaries" in the mine, seemingly setting the trend in euroscepticism; its tendencies and behaviours should be of some interest abroad.

The structure of the paper is as follows: chapter two will discuss current Danish monetary policy and the economic implications of full and partial participation in EMU. Chapter three will discuss competing explanations for Danish monetary policy. Chapter four will examine the historical development

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[5] Meaning that it is efficient at turning European level directives into national level legislation. Since countries are not strictly required to do so, the European Commission keeps a ranking of how well countries have done at "transposing" EU directives.

of its monetary policy. Chapter five will discuss Danish political, economic, and cultural history as an explanatory factor in the present policy.

Chapter II: Current Economic and Political Situation

As of 2008 Denmark is a member of ERM-II (European Exchange Rate Mechanism II), along with the three Baltic States (Latvia, Lithuania, and Estonia) and Slovakia. In theory, ERM-II is a preparatory phase for full participation in the European Monetary Union in which the exchange rates are set to float ±15% with the euro. In Denmark's case, the national bank[6] has set itself the more restrictive range of ±2.25%. [7] This means that the national bank of Denmark must design its monetary policy to maintain that exchange rate, whether that means direct interventions or indirectly, by such means as adjusting interest rates. The Danish bank will be forced to take make most of its policy based on the outside actions of the European Central Bank (ECB) since it is the Danish responsibility to match the Danish krone to the euro rather than vice versa.

Secured Opt Out through Referendum

All members of the EU are expected to join the euro, and as mentioned earlier, ERM-II is meant to be a preparatory phase for full euro membership as it was for Greece, Slovenia, Malta, and Cyprus.[8] However, Denmark is a special

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[6] Denmark's *Nationalbank* has no official English title, but will be referred to as Denmark's national bank in this paper.

[7] , *Exchange rate mechanism (ERM II) between the euro and participating national currencies.* http://europa.eu/scadplus/leg/en/lvb/l25082.htm (accessed 27/03/2008).

[8] Ibid.

case because it negotiated a clause to opt-out of full participation in the European Monetary Union. In 1992 Denmark held a referendum on the Maastricht Treaty, the document that laid the framework for EMU. In the event, the population voted "no" with a majority of 50.7%. Since the Treaty could not be ratified without the acceptance of all member states a compromise amendment package was negotiated for Denmark, called the Edinburgh Agreement. These amendments included four "opt-outs" for Denmark, one of which was an exception from participation in EMU. The EMU opt-out was subsequently reconfirmed by a referendum in September 2000, this time by a relatively decisive tally of 53.1%.[9]

Both the Maastricht Treaty and participation in EMU were defeated despite support for them by most mainstream political parties, the press, and other large civil society organizations such as labour unions; the "yes" sides also enjoyed strong financial advantages in both cases.[10] Several schools of thought have emerged to explain the result. Some analysts have argued that the rejection of the treaties represent a reaction to issues unrelated or tangential to European integration or EMU rather than a decisive "no" to Maastricht or European

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[9] Sara Binzer Hobolt, 'When Europe Matters: The Impact of Political Information on Voting Behaviour in EU Referendums,' *Journal of Elections, Public Opinion and Parties* 15:1 (April 2005): 92.

[10] Sara Binzer Hobolt, 'How Parties Affect Vote Choice in European Integration Referendums,' *Party Politics* 12:5 (June 2006): 631.

integration.[11] On the other hand, eurosceptics have tended to characterize the result as a victory for Danish tradition and a clear rejection of integration by the "people", despite the nearly 50% of the population who voted "yes."[12]

Ascertaining the full truth is difficult, but five important features of the votes seem to indicate that the referenda did indeed indicate a rejection of European integration, rather than a reflexive, tangential, or uninformed "no." The voter participation rate was high in both, at 83.1% and 87.8%, indicating real voter interest as well as legitimacy for the vote.[13] Independent observers remarked on the quality of information available, and the intensity of debate in the time leading up to both referenda.[14] One study concluded that the 2000 euro referendum was the most intense campaign of any referendum on European integration ever, as measured by polarization, closeness, and media attention; since voter information tends to increase with intensity, this vote likely indicates the most accurate reflection voters' attitudes yet seen.[15] Voting patterns amongst

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[11] See for example: Mark N. Franklin, 'Learning from the Danish case: A comment on Palle Svensson's critique of the Franklin thesis,' *European Journal of Political Research* 41 (2002).

[12] T Pedersen, 'The "No" in the Light of Nordic History,' in *When No Means Yes*, ed. J.R.T. Jackson and N.I. Meyer (London: Adamantine, 1993), 69-70.

[13] Although the turnouts were high, they were about average for national votes and referenda in Denmark.

[14] Lene Hansen, 'Sustaining sovereignty: the Danish approach to Europe,' in *European Integration and National Identity: The Challenge of the Nordic States*, ed. Lene Hansen and Ole Wæver (London: Routledge, 2002), 72.

[15] Hobolt, "When Europe Matters": 104.

declared party supporters tended to reflect a relative lack of loyalty to party positions, particularly in 1992, indicating a high degree of involvement in the issue, and no concerted attack on the government.[16] Besides which, the main opposition parties, and subsequent governments in both cases endorsed the agreements as well.[17] The 1992 vote was followed by a vote on the Edinburgh agreement, with similar levels of participation, but with the contentious issues regarding European political integration removed, and it received relatively strong support at 56.7%.

Fifth, and perhaps most fundamentally, one of the admitted problems for the "yes" side in this referendum, as in others, was an inability to frame the debate outside the context of the traditional nation state. Even the most ardent of supporters of integration have been reluctant to frame their arguments in favour of integration outside of the traditional "inter-governmental" framework, for fear of losing popular support. However, this focuses the debate on the loss of sovereignty and the erosion of Danish traditions. In this atmosphere it has been easy for opponents to draw attention to the traditional conceptions of Danishness

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[16] Palle Svensson, 'Five Danish referendums on the European Community and European Union: A critical assessment of the Franklin thesis,' *European Journal of Political Research* 41 (2002): 742.

[17] In 1992 the Social Democrats were in opposition to a Conservative, Liberal (*Venstre)* government; In 2000 the Social Democrats were in government, while the Liberals and Conservatives were in opposition.

and conduct a rhetorical defence of them.[18] This aversion to reframing the debate is a clear indication of the political reality that Danes are sceptical about European political integration. In fact, of the EC/EU referenda, the successful ones have been those in which the government has been able to portray the issues as primarily of economic rather than political integration or *specifically* in Denmark's interests,[19] or in which the public was less engaged.[20] In frequently saying "yes" to referenda, the Danish public has indicated a willingness to integrate in some respects, but the two defeats of the 1990s indicate the real limits of enthusiasm for a fundamental redefinition of the Danish state.[21]

What are the advantages for Denmark of staying out?

During the 2000 referendum campaign on full participation in EMU both sides inevitably had to present specific economic and political arguments concerning the euro. Naturally, both the supporters and opponents of EMU presented arguments that best suited their cases, and most of them had some

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[18] Martin Marcussen and Mette Zølner, 'The Danish EMU Referendum 2000: Business as Usual,' *Government and Opposition* 36:3 (2001): 382.

[19] Tove Lise Schou, 'The Debate in Denmark 1986-91 on European integration and Denmark's Participation,' in *European Integration and Denmark's Participation*, ed. Morten Kelstrup (Copenhagen: Copenhagen Political Studies Press, 1992), 337.

[20] Hobolt, "When Europe Matters": 104.

[21] Hans Branner, 'Danish European Policy Since 1945: The Question of Sovereignty,' in *European Integration and Denmark's Participation*, ed. Morten Kelstrup (Copenhagen: Copenhagen Political Studies Press, 1992), 321.

merit. However, the broad range of arguments were often confusing to non-specialists, and might seem contradictory. With the benefit of hindsight and nine years of actual implementation I will examine these arguments and their relative merits or lack thereof.

One of the arguments used by proponents of the euro was that Denmark would lose its influence in other areas of EU governance by not participating. A defeat would indicate to other more committed countries that Denmark was not a serious partner in the European project and they would either exclude Denmark from "inner circles" and "informal networks" of the EU as a form of punishment, or look to work with more committed partners. But the historical record has not borne this out. Denmark, as well as the other two non-participating countries, continues to maintain the same level of influence in all of the institutions of the Union.[22] In fact, they might even be considered to have above average influence when judged by the number of important positions held by nationals within the institutions, willingness of other states to work with them bilaterally, and participation in informal networks.

Proponents also warned that a rejection would lead to a situation in which Denmark would lose influence at the European Central Bank (ECB), and thus over its own de-facto monetary policy. However, since then it has been demonstrated that the national bank of Denmark maintains some real influence in the committees of the ECB. The Danish government also has some influence in

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[22] Rutger Lindahl and Daniel Naurin, 'Sweden: The Twin Faces of a Euro-Outsider,' *European Integration* 27:1 (March 2005): 83.

important institutions of the European Council such as ECOFIN, the council of finance ministers. Denmark's excellent economic performance, and strict adherence to the convergence criteria have also given it some leverage, and "ideational" power as a "model European" at least with regard to economic performance.[23]

At the same time, it has been hard to demonstrate that euro insiders such as Finland have really maintained a great deal more influence than outsiders simply because they have a single representative on the Governing Council of the ECB.[24] Neither has Denmark ever held much power over its own monetary policy, having pegged the krone to D-Mark, gold, and the American dollar (de-facto) over the past century. The Danish national bank argues that it held some influence through its seat at the European Monetary Institute during the 1980s and 90s, but scholars such as Martin Marcussen argue that ERM-II does not represent any major loss of influence, and in fact probably represents an increase through Denmark's influence at the other institutions of the EU.[25]

One of the indications that a seat at the table of the Governing Council might not be all that important for Denmark's influence at the ECB is the track

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[23] Martin Marcussen, 'Denmark and European monetary integration: Out but far from over,' *European Integration* 27:1 (March 2005): 59.

[24] Marcussen, *Denmark and European monetary integration:* 61.

This leaves aside the issue that national representatives are supposed to represent the interests of Europe as a whole rather than their homelands. As with commissioners, the reality may be somewhat different.

[25] Marcussen, *Denmark and European monetary integration.*

record of eurozone management so far — specifically with regard to the enforcement of the Stability and Growth Pact (SGP). The SGP was set up to ensure that all member states complied with certain minimum standards regarding fiscal prudence in order to maintain the stability of the euro and prevent "rogue" states from free-riding on the fiscal prudence of other members. However, the enforcement of the SGP has been inconsistent since the introduction of the euro in 1999. Although the SGP has been reformed, and many policy analysts believe that it was poorly designed to begin with,[26] the important point to note here is its inconsistent enforcement.

Smaller states, for example the Netherlands and Austria, wanted the pact strictly enforced. However, France and Germany consistently broke the pact's guidelines but were never disciplined or formally warned, despite the fact that Portugal and Greece were both threatened with financial penalties unless they cut their deficits.[27] The episode demonstrates the unequal power distribution that exists in the governance of the euro. Several of the smaller countries are very unhappy with the way that the euro has been governed, but are forced to live with it because they have little leverage within the system. By remaining outside, Denmark can continue to highlight the problems in the governance structure

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[26] Michele Chang, 'Reforming the Stability and Growth Pact: Size and Influence in EMU Policymaking,' *Journal of European Integration* 28:1 (March 2006): 107.

[27] Chang, 112.

with regard to small states, and does not legitimise the corrupt power structure which appears to do little to enhance the influence of smaller states.[28]

Despite the Danish national bank's status as a "decision taker" rather than a "decision maker", an entity enforcing overall policy rather than forming it, it still maintains some degree of independence of action.[29] It is not a "branch plant" of the ECB as other central banks now are. The Danish krone can still float ±2.25% versus the euro, which allows for some small degree of monetary adjustment to asymmetrical economic shocks to Europe. In dire circumstances the currency could be revalued by up to 15% up or down without breaking the official parameters of ERM-II. These are not insignificant policy options, and certainly allow for more flexibility than straight membership in the common currency. Although Denmark is considerably integrated into the continental European economy, it still displays some characteristics outside the normal for the Eurozone, particularly with regard to bilateral trade as a percentage of GDP with EMU countries, and output co-movement.[30] Given this divergence, some independence of action could prove valuable. Indeed, Denmark's inflation rate remains lower than the eurozone as a whole, reflecting the more difficult task of keeping inflation low across the diverse economies of the monetary union, and

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[28] Marcussen, *Denmark and European monetary integration*: 61.

[29] Marcussen, *Out but far from Over:* 57.

[30] David Barr, Francis Breedon, and David Miles, 'Life on the Outside: economic conditions and prospects outside euroland,' *Economic Policy* (October 2003): 578.

the success of the Danish National Bank and government in managing the economy.[31]

Its success in fighting inflation is just one sign of the Danish national bank's successful stewardship of the economy. The Danish economy has been one of the strongest in Europe for many years now. The inflation rate is lower than the rest of the eurozone, unemployment is significantly lower that most of the OECD, GDP/capita is the second highest in the EU, wages are high, the government is running a fiscal surplus, the economy is amongst the most innovative in the world, labour flexibility is high,[32] the economy as a whole has a slightly positive balance of payments, and GDP growth is higher than average for the eurozone. Given the economic problems that have characterized much of the eurozone since the currency's introduction, the country has apparently little to gain economically by joining the common currency. Although Denmark's economic success is not primarily related to monetary policy, there is some danger that a major shift in the monetary situation could upset the current balance.

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[31] David G. Mayes, 'Finland: The Nordic Insider,' *Cooperation and Conflict: Journal of the Nordic International Studies Association* 39(2) (2004): 188.

[32] Robert Kuttner, 'The Copenhagen Consensus: Reading Adam Smith in Denmark,' *Foreign Affairs* 87:2 (March/April 2008): 81.

What are the disadvantages for Denmark of staying out?

Although we have seen many reasons for Denmark to be wary of participation, proponents of participation in EMU have many solid arguments. One of the major advantages of a common currency is its potential to encourage foreign direct investment in the economy. With the removal of exchange rate risk, cross-border investment becomes much more attractive. In theory, investment should spread across the currency zone, as investors have access to many more opportunities within their acceptable risk parameters. Investors from outside the currency zone will also be more attracted to more marginal areas that they might otherwise have ignored. For example, Canadian companies have said that they are more likely to invest in eurozone countries than those falling outside if they already have operations in other eurozone countries.[33] This could be a big benefit, especially to a small country like Denmark without a large capital base.

The theory appears to be working out in practice: studies have shown a slight improvement in FDI flows across the eurozone, and a slight decrease to the three euro-outsiders, from both within the EU, and outside, although it may be too early to say conclusively that decreased FDI is a result of the common

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[33] Dan Lemaire interview by Thorfinn Stainforth, Conference Board of Canada, December 19, 2007. Transcript available on the Institute for European Studies (UBC) website. http://www.ies.ubc.ca.

currency.[34] On the whole the evidence suggests that Denmark is probably missing out on a certain amount of FDI. However, the Danish economy is not dependent on FDI because its competitiveness is based on context-based tacit knowledge.[35] That is to say, it is a fairly integrated, developed economy with less need for outside investment and expertise. The economy is based on domestic knowledge networks. Lack of capital is not a big problem. The loss in FDI does not represent a significant portion of GDP.[36]

It also seems that the euro has boosted trade volume within the eurozone. In fact, this effect is more pronounced than the FDI effect, and at least one major analysis of the costs and benefits of the euro considers the trade effect to be the most substantial, sustainable economic benefit of currency union so far. However, that same study notes that the benefit for Denmark of a common currency would still be less than for existing eurozone members, and also for Sweden or the UK, and that it is uncertain how much of the increase in trade is simply trade diversion from other sources.[37]

Various sectors of the economy may be affected differently by the euro. One sector that would clearly benefit is tourism. Recent surveys have shown a surprisingly strong correlation between growth in tourism and the adoption of

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[34] David Barr, Francis Breedon, and David Miles, 'Life on the Outside: economic conditions and prospects outside euroland,' *Economic Policy* (October 2003): 601.

[35] Klaus Nielsen and Stefan Kesting , 'Small is Resilient—the Impact of Globalization on Denmark,' *Review of Social Economy* LXI: 3 (September 2003): 376.

[36] Nielsen and Kesting: 376.

[37] Barr, Breedon and Miles, 585.

the euro.[38] It is unclear if the positive impact for countries within the eurozone translates into a negative impact for countries outside the eurozone. The effect is economically significant, although again, this does not translate into an enormous difference for the Danish economy as a whole.

Politically speaking, the national bank of Denmark is certainly excluded from certain decision-making processes at the ECB. It cannot hold a seat on either the Governing Council or the Executive Board, which are directly responsible for the implementation of monetary policy in the eurozone. The national bank of Denmark has argued that this is a handicap for Denmark, and that the bank has lost influence in comparison to previous phases of monetary cooperation.[39] It is hard to argue that there is no truth to this, although as discussed earlier, the actual impact appears to be negligible.

One amorphous, but significant effect of Denmark's refusal to participate is a setback for European solidarity. By refusing to participate in the EMU, Denmark is excluding itself from one of most important and significant accomplishments of European integration. Its lack of participation is a notable blow to the solidarity and legitimacy of the project, although it does continue in spite of this. Nonetheless, Denmark's abstention does give renewed legitimacy to eurosceptics, and the other countries which do not wish to participate. As a country which has benefited from European integration, and whose population

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[38] Salvador Gil-Pareja, Rafael Llorca-Vivero, and José Antonio Martínez-Serrano, 'The Effect of EMU on Tourism,' *Review of International Economics* 15:2 (2007): 309.

[39] Marcussen, *Denmark and European monetary integration.*

generally professes to aspiring to enhance European cooperation this cannot be ignored.

One of the major benefits of entering into the currency union is the security it gives to an economy, especially a smaller one. The euro is much safer from speculative attacks than a small currency such as the Danish krone. Monetary union would also mean that Danish economic or political problems would have much less, or no impact on its currency. For example, an extended political crisis, such as occurred in Belgium after the 2007 elections might have caused serious problems for the Belgian franc. However, as a member of EMU the crisis had no impact on the country's monetary situation. Although a similar crisis now seems unlikely in Denmark, the possibility for a crisis, especially an economic one, always lurks. By remaining outside the eurozone Denmark remains more vulnerable to these risks. In fact Danish interest rates have this risk premium built into them, and the bank follows a slightly more prudent policy than the ECB has to, representing another potential cost of remaining outside the eurozone.[40]

One example of the more prudent economic policy that Denmark must follow is the case of the current account balance. Some eurozone countries, for example Portugal and Spain, have been running much higher current account deficits than they might have been able to if their countries still maintained their own currencies. Because their large current account deficits account for only small increases in the overall euro area's balance, they can continue to run large

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[40] Nielsen and Kesting, 373.

deficits without suffering serious devaluations in their currencies.[41] Denmark generally runs a slight surplus, so this scenario is currently unlikely, but the theory runs equally, but reversed, for surpluses. The monetary union would certainly give a small economy like Denmark flexibility in this regard.

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[41] Jordi Gual, *Building a Dynamic Europe: The Key Policy Debates* (Cambridge: Cambridge University Press, 2004), 101.

Chapter III: Competing Explanations

The economic picture then is perhaps slightly in favour of joining the euro outright, but not overly compelling one way or the other. As far as political influence goes there seems to be relatively little to be gained. However, Denmark has made most of the preparations, and all of the real sacrifices required to join the zone. There appears to be no real advantage in proceeding as far as it has without becoming a full member with all the potential economic benefits and full representation at the ECB. Why then continue the charade of independence? Different theories abound..

Four broad primary schools of thought exist. Three focus on popular attitudes because the referenda are the main vehicle which has determined the Danish policy stance. Political science is therefore the main explanatory rubric being utilized today, and applies primarily to the first three schools mentioned here. A fourth school is more economically focused, but has far fewer adherents. They are a) "Second Order" theories, which explain the referendum outcomes as tangential to the population's actual feelings on EMU or European integration. b) "Values Oriented" theories which explain the results based on the values and beliefs of the Danish electorate. c) "Utilitarian" theories which explain the rejections from a self-interested, utilitarian assessment of voting patterns. The fourth school sees the referendum results as red herrings, believing that deeper structural or economic factors have shaped the country's policy.

Small State Theory

According to classic small state theory, Denmark should be firmly in favour of improving international multilateralism and building institutions, such as the EMU, which share power between the more powerful states and small states.[42] In this way it could be expected to improve its influence and alter the policies of larger states.[43] Indeed, in most areas, such as participation in the Nordic Council, NATO, and the UN, Denmark fulfils this prediction completely. However, in the case of EMU, and other aspects of European integration such as the common security and defence policy, Denmark does not conform to expected behaviour; small state theory is insufficient to explain the abstention from EMU. A survey of other small states, as well as the other abstaining countries helps to demonstrate the reasoning behind Denmark's behaviour.

International Comparisons

Denmark is not the only EU country intentionally opting out of EMU. It is not the only country fundamentally challenged by the European Union, which is, after all, a radical new form of international organisation. How does Denmark's course of action compare with the other opt-outs? How does it compare with

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[42] Christopher Hill, 'The Actors Involved: National Perspectives,' in *Foreign Policy of the European Union*, ed. Elfriede Regelsberger et al. (Boulder: Lynne Rienner Publishers, 1997), 89.

[43] William Wallace, 'Small European States and European Policy-Making,' in Between Autonomy and Influence: Small States and the European Union Proceedings from ARENA Annual Conference November 5, 1998, ed. (Oslo: ARENA, 1998), 1.

those who chose to participate in the common currency? These contrasts help to illuminate the reasons behind Denmark's abstention.

Sweden/UK

The other two eligible countries to opt-out of EMU are Sweden and the UK. However, their strategy differs from Denmark's in several important ways. Most significantly they are both staying out of ERM-II. By joining ERM they would both be required to join EMU. This is how both governments are getting around the legal requirement to join EMU. This legal necessity also has the effect of making their currencies fully independent of the euro. Their independence is much more real, despite the fact that they don't have a formal exemption from EMU. It also means that the choice to stay out has more real implications for their economies. Neither is in Denmark's peculiar position of being both in and out.

Their reasons for abstaining differ somewhat from Denmark, particularly in the case of the UK. For the UK the reasons have more to do with their own relative power, or perception thereof and the separation that has bred between the UK and "Europe." Britain is really the only country in the EU that considers itself to be a thing apart from the mass of "Europe";[44] 'with,' not 'of' Europe in Winston Churchill's classic phrasing.[45] Opposition to the euro is based on the idea of maintaining the UK's independence and prestige, fundamental feelings of

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[44] Menno Spiering, 'British Euroscepticism,' in *Euroscepticism: Party Politics, National Identity and European Integration*, ed. Robert Harmsen and Menno Spiering (Amsterdam: Editions Rodopi B.V., 2004), 147.

[45] Risse: 500.

difference from Europe, and less with fear over democracy or the power of the people, although those issues are certainly not absent from the debate.[46] The debate surrounding the ideological regime governing the ECB is also framed considerably differently than in Denmark.[47] In the UK it focuses more on the global alternatives to a European Economic and Monetary Union. The UK is also less integrated with continental business cycles and many there fear that the UK economy is not a compatible partner for the currency zone.

In Sweden the debate over the euro is similar to Denmark, reflecting the two countries' similar political cultures. The considerable opposition to Europe, and by extension EMU, is based on an idea of Europe as less liberal, less democratic, les social, and essentially inferior.[48] However, in Sweden opposition to the euro is based more on an idea of Swedish strength and size, whereas in Denmark it is based more on the idea of Danish weakness and diminutiveness.[49] This is partially the result of Sweden's self-image as a larger, more important state and "leader" of the Nordic countries. Sweden is bigger, more populous, and is more predicated on large enterprises and centralized state power.

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[46] Spiering, 140-41.

[47] Andrew Gamble and Gavin Kelly, 'Britain and EMU,' in *European States and the Euro*, ed. Kenneth Dyson (Oxford: Oxford University Press, 2002), 107-9.

[48] Milena Sunnus, 'Swedish Euroscepticism: Democracy, Sovereignty and Welfare,' in *Euroscepticism: Party Politics, National Identity and European Integration*, ed. Robert Harmsen and Menno Spiering (Amsterdam: Editions Rodopi B.V., 2004), 202.

[49] Mayes: 185.

Another important difference between Sweden and Denmark is that the so-called "sound policy" consensus has not been accepted in Sweden to the same degree as in Denmark. Although, much of the policy is uncontroversial in Sweden as well, certain features such as central bank independence have not been accepted.[50] Also, the Swedish krona remains in a free float with the euro and other global currencies, so the actual policy implications of EMU are much greater and less widely accepted in Sweden. The Swedish public remains generally more sceptical of the EU and the euro than the Danish. This may reflect the relatively short time Sweden has been a member of the EU, as the country only joined in 1995, twenty-two years after Denmark. Sweden has also seen less of the neo-liberal agenda implemented than Denmark, which may help to foster a continuing sense of economic nationalism. However, the salient point is that the trends in Sweden are all more or less the same as in Denmark, towards increasing acceptance of European integration, and increasing economic interdependence.[51] The election of a new centre-right government in 2007 for the first time in decades is a sign of this trend; the ascendancy of the social democrats is over in Sweden as well as Denmark.

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[50] Jupille and Leblang: 769.

In fact, the lack of central bank independence is one of the technicalities the Swedish government is using to avoid fulfilling the convergence criteria for joining the third phase of EMU.

[51] Lindahl and Naurin: 85.

Finland

Finland also shares some aspects of Denmark's political culture and is a similarly sized state, but decided to join EMU. The main reasons for this are that the government did not hold a referendum on the issue, simply holding a vote in parliament since adoption of the euro was an integral condition of Finnish membership in 1995. Had they held a referendum simply on membership in the euro at that time it is not likely that it would have passed.[52] Finland has a couple of complicating factors that make EMU more attractive than for its Nordic neighbours. First among them is the proximity of Russia and the feeling that Finland needs to assert its independence and draw closer to Europe.[53] By participating in the euro-project Finland clearly signals its belonging to the western group of countries making up the core of the EU. This has security, economic, and cultural implications. Finland has much more a need to assert its Europeanness than Denmark, where membership in the core of Europe is taken more or less for granted, even if Danes don't trust all aspects of that identity. Today most Finns report that they are happy to be participating in the euro.[54] Interestingly, Finland is participating in the euro project out of a sense of weakness, while Denmark abstains partially out of the same sense.

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[52] Teija Tiilikainen, 'Finland: Any Lessons for the Euro-Outsiders?,' *European Integration* 27:1 (March 2005): 25.

[53] Tiilikainen: 37.

[54] Tiilikainen: 40.

Netherlands

The Netherlands is, in many ways, very similar to Denmark. It is a relatively small, open economy, with a high degree of corporatism, a strong welfare state, dependent on exports and the European economy as a whole and with a history of pegging its currency to the D-Mark. However, on the question of EMU the two have diverged significantly. The Netherlands has been one of the most ardent supporters of the project, and has often tried to push for more ambitious integration targets. EMU is widely popular, facing only mild opposition, and membership was accepted as a matter of course by almost all political parties and societal organizations.[55] The difference between the two countries is very telling in its exposition of a more fundamental Danish euroscepticism. The Netherlands has consistently been one of the most enthusiastic member states when it comes to projects of European integration. But it is not true that the Netherlands has supported further European integration out of federalist idealism, or a lack of attachment to the Dutch nation.[56] Their attitude, across the societal spectrum, has always been one of pragmatic support for supranational institutions because they were seen as

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[55] Amy Verdun, 'The Netherlands and EMU: A Small Open Economy in Search of Prosperity,' in *European States and the Euro*, ed. Kenneth Dyson (Oxford: Oxford University Press, 2002), 245.

[56] Robert Harmsen, 'Euroscepticism in the Netherlands: Stirrings of Dissent,' in *Euroscepticism: Party Politics, National Identity and European Integration*, ed. Robert Harmsen and Menno Spiering (Amsterdam: Editions Rodopi B.V., 2004), 101.

indispensable for Dutch interests. However, in the Netherlands no national discourse has been able to dampen that enthusiasm for long, or to a really significant degree,[57] unlike in Denmark where euroscepticism has long, strong roots.

Austria

Austria is not as similar to Denmark as the Netherlands. Although economically similar in many respects, it has an entirely different cultural and political situation; it did not even join the EU until 1995. However, it also illustrates some of Denmark's uniqueness. EMU was relatively uncontroversial in Austria. Adoption was seen primarily in practical terms. European integration is popular across most of the political spectrum and viewed primarily in terms of practical self-interest. The only group to consistently oppose European integration is the one group that stands to lose economically, in the short term at least, from the prospect: generally young, uneducated people.[58] This is the primary constituency for the only anti-European party, the far-right Freedom Party. The most common themes of discussion follow the same trend, focusing on expansion to the east and the potential immigration of thousands of low-skilled workers. Europe as an idea is not particularly controversial.

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[57] Harmsen, 122.

[58] Anton Pelinka, 'Austrian Euroscepticism: The Shift from Left to the Right,' in *Euroscepticism: Party Politics, National Identity and European Integration*, ed. Robert Harmsen and Menno Spiering (Amsterdam: Editions Rodopi B.V., 2004), 217.

Economic Explanations

Other analyses have focused on economic explanations for Denmark's abstention from full participation, more or less ignoring political and cultural factors. For example, Barr, Breedon, and Miles have found that two economic metrics, bilateral trade as a percentage of GDP with the currency zone, and output co-movement with the other participating states are accurate predictors of how likely an economy is to join the eurozone.[59] Output co-movement is particularly accurate. Based on these metrics Denmark's reluctance to join is easily understood in economic terms because of its relatively low level of trade with the eurozone (it is in fact lower than for either Sweden or the UK) and its low level of output co-movement. According to this school, referendum results are not critical to understanding Denmark's lack of participation, since the economic factors accurately predict the country's abstention.

Utilitarian Explanations

Other studies have focused more on public attitudes and cleavages within the country rather than objective national characteristics since the euro was rejected by popular vote and it is here that the decisive decision was taken. One school examines the rejection as a function of individuals' utilitarian self-interest. These analyses focus primarily on demographics. For example, they will examine whether certain personal characteristics such as education, income, profession, or

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[59] David Barr, Francis Breedon, and David Miles, 'Life on the Outside: economic conditions and prospects outside euroland,' *Economic Policy* (October 2003): 579.

gender makes one more or less likely to be in favour of the euro. These studies find that in general a person is more likely to be in favour of euro membership if they are highly educated or working in an export dependent industry. This is true across the Union, but analysts do not agree on the main reason for it. Some believe it is simply self-interested since these are precisely the people who stand to gain from increasing integration.[60] Others believe it has more to do with their personal experiences abroad and their familiarity with foreigners which predisposes them to accept europanisation.[61]

In any case, those working in export dependent industries in Denmark would have no particular incentive to support euro membership knowing that Denmark would maintain a fixed exchange rate outside of full EMU membership, unlike Sweden for example. Thus, if public service workers harboured any reservations about the political or cultural implications they would likely not vote yes.[62] Denmark also has a large public service; these public service workers tend to be sceptical about European integration, many believing that it is a "neo-liberal" project that threatens their jobs.[63]

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[60] M.J. Gabel, *Interest and Integration. Market Liberalzation, Public Opinion and European Union* (Ann Arbor: The University of Michigan Press, 1998).

[61] Russell King and Enric Ruiz-Gelices, 'International Student Migration and the European 'Year Abroad': Effects on European Identity and Subsequent Migration Behaviour,' *International Journal of Population Geography* 9 (2003): 325.

[62] Joseph Jupille and David Leblang, 'Voting for Change: Calculation, Community, and Euro Referendums,' *International Organization* 61 (Fall 2007): 772.

[63] Jupille and Leblang, 774.

"Second Order" Theories

A third, broad school has focused on individual issues and factors, strictly speaking beyond the rational scope of EMU that may influence the decisions of voters; this is called the "second order" school.[64] One study has noted a definite trend in favour of popular support for the euro in countries with a history of very loose monetary policy, for example Italy, which has historically recorded the highest levels of public support for the common currency. Conversely, countries such as Germany with histories of tight monetary policy and strong currencies tend to have more sceptical populations.[65] Denmark has had fairly tight monetary policy for a generation now, and has always been among the more stable economies of Europe based on monetary indicators.

Another theory, related directly to the two EMU referenda in Sweden and Denmark, holds that the results are directly attributable to exchange rate fluctuations. According to this theory people are predisposed to favour strong currencies and will be unlikely to leave one for a weak currency. Despite the dubious economic basis of this reasoning,[66] there is strong empirical evidence to

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[64] See K. Reif and H. Schmitt, 'Nine second-order national elections: a conceptual framework for the analysis of European election results,' *European Journal of Political Research* 8:1 (1980), for an explanation of the broader school.

[65] Manfred Gärtner, 'Who wants the euro- and why? Economic explanations of public attitudes towards a single European currency,' *Public Choice* 93 (1997): 487-510.

[66] Having a "strong" currency is not necessarily in the economic interests of a country, and certainly not of many economic groupings in that country, despite the media spin that often portrays a strong currency as "good," or somehow a victory for the home country.

support the theory that it affects peoples' votes. Tracking long-term support levels for the euro in both Denmark and Sweden, the authors of one study found a direct link between the weakness of the euro vs. the US dollar and support for the euro in the case of Denmark, and the strength of the Swedish krona vs. the euro in Sweden.[67] In fact, the Danish referendum was held at lowest point in the euro's history vs. the US dollar, meaning that it had very little chance of success. Had it been held later or earlier it might have passed. As Henrik Dam Kristensen, the director of the government's euro referendum campaign said, "the decline in the value of the euro against the dollar was the single most important reason we lost the referendum."[68]

The broadest articulation of the second order school links the outcome of EU referenda to attitudes toward national governments.[69] This theory sees referenda, along with other "second order" elections such as municipal or regional, as proxies for issues being fought on the national or "first order" level. Voters are not always informed on all aspects of referendum issues and may use the opportunity to express their support or disapproval of a national

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[67] Sara Binzer Hobolt and Patrick Leblond, 'Is My Crown Better than Your Euro? Exchange Rates and Public Opinion on the European Single Currency,' Paper presented at the European Union Studies Association (EUSA) Tenth Biennial International Conference, Montreal, Canada, May 17-May 19, 2007 : 26.

[68] Hoboldt and Leblond: 1.

[69] M. Franklin, C. van der Eijk, and M. Marsh, 'Referendum outcomes and trust in government: Public support for Europe in the wake of Maastricht,' *West European Politics* 18:3 (1995).

government. Thus the results of referenda may not be an accurate assessment of true public support for an issue. In Denmark both major EU referenda defeats were held in the dying days of long standing governments, and their defeat could represent rebukes to the government rather than consideration of the issues at hand.[70]

Values Oriented/Cultural Explanations

Many analysts of the Danish decision have emphasized the cultural aspects of the choice.[71] According to exit polls most Danes expressed a reluctance to surrender sovereignty as a reason for voting "no."[72] Other studies have shown that economic reasons were not the decisive factor for most "no" voters,[73] and as the indecisive story of economic factors listed above shows, cultural factors seem to be the critical elements of the decision.

Cultural explanations are widely cited for attitudes toward the single currency across Europe.[74] The distinct cultural factors in any given country can

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[70] In 1992 the Conservative-Liberal coalition was defeated six months later, and the social democrats were defeated in turn in November of 2001, a year after the referendum.

[71] See, K Siune, P. Svensson, and O. Tonsgaard, *—fra et nej til et ja* (Aarhus: Politica, 1994), for example.

[72] Hoboldt and Leblond: 6.

[73] Martin Marcussen, 'Denmark and European monetary integration: Out but far from over,' *European Integration* 27:1 (March 2005).

[74] Thomas Risse, 'The Euro between national and European identity,' *Journal of European Public Policy* 10:4 (August 2003): 487.

upset the anticipated course of action in an economic model, and some knowledge of the political and cultural history of a country is required to understand public attitudes. The degrees of patriotism and nationalism are seen as critical to acceptance of the euro, but simple correlations are difficult to make.

The explanation for the Danish "half in, half out" policy lies in the particularities of Danish national and political culture, which make it extremely difficult for even a convinced political elite to sell the project in Denmark. The present system is a compromise between the hopes of the political elite, those educated, relatively well educated, and politically active people who populate the institutions of power, which gets most of what it wants, while Danish political culture is to some extent maintained, and the wider population placated.

Chapter IV: Danish Monetary Policy and the "New Consensus"

The key to understanding Denmark's present EMU policy lies in the dichotomy between its dominant popular political culture and the "New Consensus" on monetary policy which has existed since the mid-1980s.[75] These two strands of political thought push in opposite directions on the issue of EMU. Each has a strong constituency in Denmark, but they have some mutually contradictory strands which make it hard to formulate a truly coherent EMU policy for Denmark. Fortunately, the two have been reconciled for the moment

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[75] Martin Marcussen , *Ideas and Elites: The Social Construction of Economic and Monetary Union* (Aalborg: Aalborg University Press, 2000).

with some success and Denmark does not seem to be suffering for their contradictions.

Monetary/Fiscal Policy History of Denmark

Denmark is not a big country and its monetary policy has always been dependent on others. On this issue it has generally followed the dominant orthodoxies of the day. Interestingly, Denmark participated in one of the first modern currency unions — the Scandinavian Monetary Union. Sweden, Denmark, and Norway pegged the values of their currencies to gold at the same value, thus making their currencies fully interchangeable. In this way Denmark participated in the gold standard system of the late 19th century, only leaving the union after the gold standard system collapsed on the eve of the First World War in 1914.

During the financial chaos of the inter-war years Denmark attempted to participate in the new gold standard of the time, although it did so only from 1927 to 1931. This was an economically difficult time for the country and it led, as in most European countries, to a determination to build a stable international financial architecture after the Second World War. As a result, Denmark participated in the Bretton Woods System, with the krone effectively pegged to the US dollar. Under Bretton Woods, most of the world's currencies were pegged to the US dollar, which was itself guaranteed to be redeemable for gold (for governmental holders only). The US dollar was effectively "as good as gold."

At that time the United States' economy was overwhelmingly dominant in the capitalist world and other countries were happy to peg their currencies to the dollar in order to anchor the world monetary system. This gave the United States

some advantages and unquestioned leadership in the economic realm, but also provided stability and helped to prevent the competitive devaluations that had plagued the world in the 1930s. The stability of this system helped to underpin the rapid economic growth of the following decades.

1950s-1982 Keynesianism and the European Consensus

By the 1950s Denmark had established itself as a relatively interventionist high spending, high tax, welfare state. In line with the capitalist economic orthodoxy of the time, its ruling class governed the economy along Keynesian lines. This involved a monetary policy focused on promoting full employment through demand-side management. Demand-side management involves the government attempting to stimulate aggregate demand in the economy in order to maintain the supply side of the economy, and thus improve employment. The government prioritised growth over management of inflation. The government felt it had an obligation to use all of the macro-economic tools at its disposal to improve employment conditions and counter economic downturns without worrying too much about inflation, external debt, deficits, or interest rates.[76] This also involved strict capital controls. Most people felt that the government could profitably micro-manage monetary policy in aid of wider societal economic objectives. During the 1950s and into the '60s the Bretton Woods System was relatively stable, and it held. Denmark and Europe maintained high growth rates

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[76] Martin Marcussen, 'Denmark and European monetary integration: Out but far from over,' *European Integration* 27:1 (March 2005): 53.

until the early 1970s. The Keynesian orthodoxy persisted because it appeared to be working well until the stagnation set in.

The Collapse of Bretton Woods

The Bretton Woods system began to strain in the 1960s. The world economy became stronger, and the United States no longer dominated it to the same extent that it had. The European and Japanese economies grew considerably, and their currencies gained credibility in their own rights. At the same time, the US financial situation became proportionately weaker. American government spending increased rapidly, both to pay for the war in Vietnam and for Lyndon Johnson's "Great Society" programmes.[77] The American government paid for these expenses in part by printing new money.

Since other countries were required to buy and sell American dollars in order to maintain the relative value of their currencies, their central banks were forced to continue buying American dollars even as they glutted the market, in order to ensure that their own currencies did not rise too high relative to the dollar. In order to purchase American dollars they sold their own currencies, thus flooding the market with their own currencies and causing inflation in their countries.[78] World leaders, for example Charles de Gaulle, resented this American economic power, both for the freedom it afforded the US, and for the apparent

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[77] Øystein Noreng, 'The euro and the oil market: new challenges to the industry,' *Journal of Energy and Finance and Development* 4 (1999): 34.

[78] David Hammes and Douglas Wills, "Black Gold: The End of Bretton Woods and the Oil-Price Shocks of the 1970s," *The Independent Review*, v. IX, n. 4, Spring 2005: 504.

indifference it showed to the wishes of other partners in the Bretton Woods system.[79] To combat this effect, governments outside the US increasingly started to trade in their US Dollar reserves for gold, as was their right under the Bretton Woods system. However, it became clear that the American government could not afford to honour its obligations, and on August 15, 1971, in an event known as the *Nixon Shock*, the American government announced that it would no longer trade US dollars for gold. The result was indeed a major shock to the world economy, involving wide spread inflation and currency readjustments. The new free-floating currency markets required a new governance regime.

European Monetary System

At this time the Keynesian orthodoxy still held. European authorities tried to set up a European system of international currency regulation that would replace the global Bretton Woods System. However, it was a slow process, filled with difficulties and setbacks along with generalized economic difficulties, high inflation, low growth, and rising unemployment. In the process many economic assumptions, including the Keynesian orthodoxy came under attack and it was eventually widely discarded and partially blamed for the economic difficulties.

A Change in Attitude

The first years of European monetary cooperation, in the European Monetary System, were marked by continued adherence to a loose monetary

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[79] Niall Ferguson, "Hegemony or Empire?" *Foreign Affairs,* Volume 82 #5 September/October 2003: 154-161.

policy. The system itself underwent several changes and permutations that need not concern us here; the important change comes in the early 1980s when the consensus among European policy elites changed. The decisive moment seems to have come when the socialist government of François Mitterand in France was forced to abandon its earlier loose money policy in the face of economic difficulties and a plummeting franc.[80] Since the government had come to power on an explicit promise to promote employment and move against the tighter monetary policies of the German Bundesbank, which *de facto* set the monetary policy of EMS, the change marked a defeat for the proponents of looser monetary policy.[81]

While the French government was forced to move to a *franc fort* policy, the governor of the Danish national bank, Erik Hoffmeyer, began a public relations campaign for a similar move in Denmark. He wrote many opinion pieces in the press arguing for stricter monetary and fiscal policy as well as a loosening of capital controls. He also refused to support the application of the government for a devaluation of the krone. The application for a devaluation in April 1982 was rejected by the European Council, partially because of his refusal to assist the government in lobbying the members of the Monetary Committee, and partially because the ministers were beginning to operate the EMS under a new guiding

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[80] David Howarth, 'The French State in the Euro-Zone: 'Modernization' and Legitimizing Dirigisme,' in *European States and the Euro*, ed. Kenneth Dyson (Oxford: Oxford University Press, 2002), 145.

[81] Jeffrey Sachs and Charles Wyplosz, 'The Economic Consequences of President Mitterand,' *Economic Policy* 1:2 (April 1986): 262.

ideology much less favourable to competitive revaluations.[82] In earlier times revaluations had not been considered unusual, and a similar request in 1979 had been approved with minimal consultation.

"Elite" attitude in Denmark

Hoffmeyer was pivotal in moving elite attitudes about monetary policy in Denmark. He appeared frequently in the media, and he was generally well received by the public at large. He topped lists of the most trusted Danes for years, behind only the Queen.[83] He argued that Denmark was in a long-term economic decline and that only a switch to more 'monetarist' economic policy could halt the decline permanently. His early interventions helped to play a role in the adoption of these policies by the new centre-right government of Poul Schlüter in 1982. With the apparent success of the policies in Denmark and Europe, the elite consensus in both Denmark and broader Europe had shifted dramatically by the mid-1980s.[84] This new consensus, ambiguously dubbed the "sound policy" is now considered one of the sacred cows of Danish political discourse (the other is the protection of the welfare state).[85] The "sound policy"

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[82] Erik Hoffmeyer, *Pengepolitiske Problemstillinger 1965-1990* (Copenhagen: Danmarks Nationalbank, 1993), 90.

[83] Martin Marcussen, 'EMU: A Danish Delight and Dilemma,' in *European States and the Euro*, ed. Kenneth Dyson (Oxford: Oxford University Press, 2002), 135.

[84] Marcussen , *Ideas and Elites.*

[85] "Sound Policy Consensus" is Marcussens's term from *Ideas and Elites: The Social Construction of Economic and Monetary Union.*

consensus surrounds a relatively strict monetary policy based on "responsible" fiscal management, lowering debts, keeping inflation low and maintaining good investment conditions. All mainstream political parties, even *Socialistisk Folkeparti*, running to the left of the Social Democrats, and generally in favour of state involvement in the economy, now accept the sound policy consensus as a part of their platforms.[86]

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[86] Martin Marcussen and Mette Zølner, 'Monetarism and the Masses: Denmark and Economic Integration in Europe,' *Cooperation and Conflict* 38:2 (2003): 104.

Chapter V: Danish Political Culture as Explanatory Factor

Denmark is one of the world's oldest states, but the Denmark that existed before the mid-19th century was very different from the country we know today. Before then, it was a "composite state" in the feudal European tradition. The Danish crown controlled a series of territories, spread across a vast expanse of geography, united by little more than their political control from Copenhagen. At various points it controlled Greenland, Iceland and a variety of smaller North Atlantic islands, Norway, parts of modern Sweden, Estonia, present-day Denmark, and the primarily German speaking duchies of Schleswig and Holstein.

Denmark was a middle power in Europe, on a par with Prussia and Sweden until the 17th century, when it began a slow decline and lost several of its richest, most important territories: Skåne, in southern Sweden, in 1656, Norway in 1814, and Schleswig and Holstein in 1864.[87] Skåne had been widely considered the "heart" of the kingdom, being the richest territories and located just east of the capital. Similarly, Schleswig and Holstein were the richest, most productive territories at the time of their loss. The loss of these territories had a profound impact on the political structure of the monarchy and the ideology of its citizens.

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[87] Uffe Østergård, 'Peasants and Danes: The Danish National Identity and Political Culture,' in *Becoming National: A Reader*, ed. Geoff Eloy and Ronald Grigor Suny (Oxford: Oxford University Press, 1996), 179.

Linguistic and Ideological Situation in Denmark

Until the late 18th century Denmark displayed the typical European cleavage between elites and peasants in terms of culture and language. Peasants everywhere spoke their own dialects while the urban elites tended to use French, German, and to some extent Latin for their communication. Copenhagen was home to a large German speaking community, many of whom were skilled professionals of some kind who had immigrated or even been recruited by the Danish crown. Native Danes who were part of the governing elite tended to write and communicate in either German or French.[88]

However, at the close of the 18th century and moving into the 19th century, an elite group of Danes became increasingly aware of their own language and began to assert their rights as Danes, as well as the value of their own language. This process accelerated after the loss of Norway in 1814 as the linguistic balance of the monarchy was disrupted. The populations of Norway, Denmark proper, and Schleswig-Holstein had all been approximately equal. With the loss of Norway, the German-speaking portion gained prominence, representing approximately 35% of the entire population.[89] Danish nationalists, as they could now be called, worried about the German influence in the kingdom, especially amongst the Copenhagen elite. German-Danish tensions became increasingly

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[88] Ole Feldbæk, 'Clash of Culture in a Conglomerate State: Danes and Germans in 18th Century Denmark,' in *Clashes of Cultures*, ed. C.V. Johansen and P.E. Ladewig (Odense: Odense University Press, 1992), 80.

[89] Uffe Østergård, 'The Danish Path to Modernity,' *Thesis Eleven* 77 (May 2004): 30.

apparent until the loss of Schleswig-Holstein in 1864 when a strong Danish nationalist movement developed. To some extent this schism marked the beginning of a conflict which continued for the next century between Danish nationalist "folkists" and more traditional "elitists" which would profoundly alter Danish society.

Ascendancy of the prosperous peasants

One of the most important developments following the loss of Schleswig-Holstein was the increasing domination of the prosperous peasant class. Three primary causes can be identified: land holding reforms beginning in the 1780s, the abolition of absolutism and adoption of a new constitution in 1848, and the relatively small size and demoralisation of the urban bourgeoisie in the late 19th century[90] Disputes remain about the relative importance and interdependence of these factors.

Land holding and civil reforms in the late 18th century created the conditions necessary for a strong class of independent and relatively wealthy peasants. In an attempt to forestall criticism and improve the economy, the absolutist government, spurred on by wealthy landowners, enacted extensive reforms, ending the common field system, abolishing what was left of serfdom (primarily in Holstein), ending adscription (tying peasants to their estate of

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[90] Østergård, *Peasants and Danes*, 182.

birth), establishing a comprehensive school system, and liberalizing the customs system beginning in the 1780s.[91]

After the European revolutions of 1848 the Danish absolutist monarchy, which had been one of the most centralised in Europe agreed to a democratic reform. With the transition to a semi-democratic[92] government they cleared the way for the eventual domination of the state by the agricultural population which represented by far the largest portion of the population. The urban population, and elite, constituted an unusually small proportion of the overall population. Copenhagen was the only large city, and Flensborg, the other large city was seized by Prussia in 1864. At the same time, many of the urban elite was suffering from ideological demoralisation. The rise of German power and Denmark's apparently relentless decline led many to despair for the future of their country, and some even toyed half-heartedly with the idea of unification with Germany.[93]

In a democratic system, even a 19th century dual cameral system set up to favour established interests, those interests were inevitably overwhelmed by the more populous class of rural agriculturalists. The latter half of the 19th century was characterised by a power struggle between the monarchy and its supporters, and the peasants and other democratic interests in the parliament (*folketinget*). By

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[91] Østergård, *Path to Modernity*: 29.

[92] Semi-democratic is used in the sense that the government became somewhat representative, with some portion of the population enfranchised, but still did not represent universal suffrage.

[93] Østergård, *Peasants and Danes, 181.*

1901 the party of the prosperous peasants, the Liberals (*Venstre*), had gained control of the government, wresting it from the control of the professional civil servants and agents of the monarchy and aristocracy, and it remained in the hands of the parliamentary parties ever after that.[94] As it turned out, large-scale industrialisation was slow to come to Denmark, beginning in the 1890s and not finally emerging forcefully until the 1950s. This delayed industrialisation allowed the peasants—or agrarian interests—to establish an ideological hegemony over the country for several generations while the urban working population remained relatively small.[95]

Grundtvigianism

Into this ideological tumult stepped Nicolaj Frederik Severin Grundtvig. He was critical to building a renewed sense of Danishness, initially amongst the prosperous peasants, but eventually across all of Danish society. One biographer has argued that no other man "has meant so much to Denmark as N.F.S. Grundtvig — no one had so much all around significance as he did."[96] Although Grundtvig is not well known outside of his homeland, his importance to Danes is such that discussions of Grundtvig and Grundtvigianism, as his ideas are now known, are something of a running joke in Denmark because of their

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[94] Tim Knudsen, *Da demokrati blev til folkestyre: Dansk demokratihistorie I* (Copenhagen: Akademisk Forlag A/S, 2001), 80.

[95] Knudsen, *demokrati til folkestyre*, 105.

[96] Leni Yahil, 'National pride and defeat: A comparison of Danish and German Nationalism,' *Journal of Contemporary History* 3:4 (September 1991): 454.

pervasiveness and ubiquity. Grundtvig focused and sharpened some of the most prominent ideological trends of his time.[97]

Grundtvig was a priest and a poet who came to prominence early in the 19th century. Although he was a strong Christian, he rejected the "enlightenment ideology" of rationalism that dominated the Lutheran church at the time, which he felt robbed the church of its soul.[98] He often fought with the Church hierarchy — he was even barred from preaching for a time — but he eventually gained followers and acceptance within the government and church. He played a role in writing the new constitution in 1848.[99]

He argued that to be a good Christian, a person had to be profoundly self-aware; in order to be properly self-aware the believer had to be in touch with his or her cultural and historical background. He believed that every people had a unique "folk spirit", through which its members could find their true nature. This background, or "folk spirit" was expressed most clearly in traditions such as song, dance, language, literature and so on. He and his followers valued the eccentricities of local customs, legends (such as Norse mythology), dialects, self-sufficiency, tight communities, and distrusted "foreign" influences such as were often found in Copenhagen, for example at the university.[100]

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[97] Knudsen, *demokrati til folkestyre.*

[98] Buckser, Andrew. "Rescue and Cultural Context During the Holocaust: Grundtvigian Nationalism and the Rescue of Danish Jews," *Shofar* 19:2 (2001) p. 16.

[99] Ernest Stabler, *Innovators in Education 1830-1980* (Edmonton: University of Alberta Press, 1986), 4.

[100] Buckser, 17.

Lutheranism

Some scholars emphasize the duality of Danish political culture. The duality is aptly symbolized in the use of two national anthems: one derived from the earlier composite state era, and the other from the post-Grundtvigian, homogeneous Denmark.[101] Grundtvig's ideas blended with the pre-existing Lutheran culture of Denmark to create a new culture for the country which carried forward many existing themes, but also developed new ones which further differentiated the country both from Scandinavia and from the rest of Europe. The Lutheran culture of Denmark, which had existed in a similar form from the time of the reformation until Grundtvig's time, emphasized conformity and social cohesion to an unusual degree. The reformation had been unusually state driven in Scandinavia, and the "top-down" nature of the project had prevented the social fracturing that had occurred in Germany and the Netherlands. As a result, state and church were unusually united, helping to develop a strong national consensus with regards to morality, law, and institutions. The resulting mentality in much of the population emphasized solidarity, but also conformity.[102]

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[101] Tim Knudsen, 'A Portrait of Danish State-Culture: Why Denmark Needs Two National Anthems,' in *European Integration and Denmark's Participation*, ed. Morten Kelstrup (Copenhagen: Copenhagen Political Studies Press, 1992), 262.

[102] Henrik Stenius, 'The Good Life is a Life of Conformity: The Impact of Lutheran Tradition on Nordic Political Culture,' in *The Cultural Construction of Norden*, ed. Øystein Sørensen and Bo Stråth (Oslo: Scandinavian University Press, 1997), 163.

It is beyond the scope of this paper to delve into all the intricacies of the cultural and political norms of Denmark. However, it is important to note the dominant themes and how they have been transferred to the present day through a concrete political programme. Grundtvig was far from un-controversial in his day, but the ideas he emphasized have been integrated and accepted into Danish society to an unusual degree through institutions such as the "folk high schools", cooperatives, and the emphasis on communal democracy, as well as through literature, song, the reformed church, and the pre-disposition of Lutheran Denmark to accept a single ideological framework.

Folkehøjskoler

One of Grundtvig's central premises was a distrust of elite education. He believed in a strong and independent system of education for "the people" free from outside influences. He helped to establish a unique series of schools, which ran parallel to the official educational system, called "folk high schools" (*Folkehøjskoler).* Grundtvig himself was not particularly involved in the creation of the schools in the mid-19th century, but he provided the inspiration. It was Christen Kold who, after some initial chaos, disagreement, and competition, finally implemented the system of folk high schools that would become so important to Danish development.[103] These schools were designed to cater to the

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[103] Steven M. Borish, The Land of the Living: The Danish Folk High Schools and Denmark's Non-Violent Path to Modernization (Nevada City: Blue Dolphin Publishing, 1991), 186.

wealthy peasants, although real efforts were made to allow less fortunate peasants to attend as well, and their focus became more universal with time. In these schools the children, both boys and girls, were taught practical agricultural subjects, as well as religious instruction, literature, history, art, song, Norse mythology, geography, and what one might call anthropology. The schools' purpose was quite explicitly to help "awaken the inner spirit" of the Danish peasants; to help them realise their full potential. Kold explains from a pamphlet he once wrote:

> The three skills of reading, writing and arithmetic, which should comprise the second half of instruction for children, take up nearly the whole at the present time. These skills have in reality only a small value, because they are only means or instruments for the service of the spirit..... We have brought things so far, that all Danish children can read — but there are only a few who can really use it, because all the others are sleeping. And it doesn't help a sleeping man to have so many good tools.
>
> But we ask: how can this be made to happen— without waking the spirit of the people to clear and living consciousness, and teaching the people to know its own peculiarities so that it can understand itself and its development—without setting the people in a living connection with its past, so that its present will not appear as a disconnected and therefore unintelligible fragment, but as a link in the large chain that is the magnificent career of the Danish people?[104]

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[104] Christen Kold. 'De tre færdigheder: læsning, regning og skrivning,' in *Om Børneskolen*, ed. Lars Skriver. *The Land of the Living: The Danish Folk High Schools and Denmark's Non-Violent Path to Modernization*, edited by Steven M. Borish (Nevada City: Blue Dolphin Press, 1991), 90.

These schools had a fundamentally transformative effect, first on the Danish countryside, and then the country. They allowed the self-owning farmers to rise above the limits of their class and participate in the national discourse at a vital time in the history of the country. Secondly, they created a sense of solidarity in this class. Thirdly, they created a new class of "democratically educated, independent farmers possessing its own distinct tradition and culture."[105] This class came to play a very important role in the ensuing political struggles and societal transformations.[106]

Cooperatives

One of the most important institutions to arise from Grundtvigian ideas were the agricultural cooperatives. These cooperatives transformed Danish agriculture and society as they served as a model for other institutions to follow. The cooperatives, mainly for the processing of meat and dairy produce, were run democratically. Farmers received equal votes, regardless of investment. Although the cooperatives were in fact not completely egalitarian, and they explicitly excluded the agricultural labourers, they helped to develop the myth or idea of equality, which in terms or popular consciousness, was just as important as fact.[107]

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[105] Borish, 203.

[106] Povl Bagge, 'Nationalisme antinationalisme og nationalfølelse i Danmark omkring 1900,' in *Dansk identitetshistorie 3: Folkets Danmark 1949-40*, ed. Ole Feldbæk (Copenhagen: Reitzels Forlag, 1992), 456.

[107] Østergård, *Path to Modernity*, 36.

Political Power Shifts

The egalitarian, yet individualist, ideology that gave rise to the cooperatives had permeated Danish society to such an extent by 1913 that the Social Democrats explicitly adopted it as their ideology too.[108] Although the original Grundtvigians, and many in the cooperative movement, did not consider urban labourers to be part of the "real" Danish people, their ideas had sufficiently permeated Danish industrial society, which also relied primarily on small-scale production, that they were essentially co-opted. The Social Democrats, the party of the urban labourer, accepted the power of the prosperous peasants, again reflecting their dominance, but extended their ideology to the whole country, incorporating the urban working class as the "backbone" of the Danish people. Their ideological revision was compatible with Grundtvigianism, and borrowed most of its themes, but was not identical. It stressed the land and the people, but put renewed emphasis on the ability of the people to "build" their own society in their own land.[109]

The two parties worked together leading to the revised 1915 constitution which marked a victory against the elitist school of thought, and a return to the

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[108] Østergård, *Path to Modernity*, 36.

[109] Lene Hansen, 'Sustaining sovereignty: the Danish approach to Europe,' in *European Integration and National Identity: The Challenge of the Nordic States*, ed. Lene Hansen and Ole Wæver (London: Routledge, 2002), 60.

spirit of the 1848 constitution after the reactionary amendments of 1866.[110] The 1915 constitution marked a transition to a more inclusive form of democracy and the beginnings of the ideological hegemony of the "folkist/Grundtvigian" school. The compromises made by the Social Democrats, and their acceptance of rural power prevented their own domination of the state, as in the case of their sister parties in Sweden and Norway, but was critical to ensuring social peace for the 20th century.[111] The party simply recognized that it would not be able to hold onto power without reaching some sort of accommodation with the wealthy peasants and the Liberals.

Although Grundtvigian style ideas and parties came to ascendancy in the early 20th century, their ideas were still not uncontested. Until the 1930s at least, the "Right" party (*Højre*), and its successor the Conservative People's Party, representing mainly the landed nobility and other conservative elements, advocated a less "people/folk" oriented vision of Denmark.[112] They promoted "the defence movement" which advocated a strong Danish military, capable of fighting Germany long enough for political manoeuvring from great power allies to promote Denmark's objectives, namely the establishment of the Dano-German border at the Ejder River and incorporating large German speaking areas into the

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[110] In the years after the original constitution, its more radical reforms and provisions were gradually whittled away, and the 1866 constitution marked a victory for conservative forces.

[111] Østergård, *Path to Modernity*, 37.

[112] Tim Knudsen, *Da demokrati blev til folkestyre: Dansk demokratihistorie I* (Copenhagen: Akademisk Forlag A/S, 2001), 114.

Danish state, against their will. However, this school of thought gradually lost prominence after the 1920 plebiscite in Schleswig returned the province to Denmark.[113] Questions surrounding the Danish state's attitude toward the Duchies after the First World War had marked the final struggle concerning the nature of the Danish state. The more conservative faction, espousing a pre-Grundtvigian notion of the nation pushed for a more aggressive attitude, still hoping to re-incorporate largely German speaking areas, for example the relatively large city of Flensborg. The King was sympathetic to this position, and he attempted to intervene by naming a new government, not based on the elected parliament. In the ensuing "Easter crisis" the King was finally forced to recognize the legitimacy of the parliament as the basis of Danish government, which had so far been a point of contention with the monarchy.

This apparent victory for "the people's" Denmark, coming as it did through their self determination, and cultural autonomy, contrasting with the military disasters of 1864, convinced many that Denmark should pursue an actively "anti-power politics." This politics of patience, negotiation, and non-confrontation led to a broad consensus on Denmark's role in Europe, as well as final acceptance of the Grundtvigian "people" across the political spectrum.[114] The popular slogan adopted after the losses in Schleswig-Holstein, "What we lost externally, we shall gain internally"[115] had had a truly transformative impact

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[113] Hansen, *Danish Approach to Europe*, 58.

[114] Knudsen, *demokrati til folkestyre*, 145.

[115] Brincker, 424.

on the Danish state. Final remnants of the old school objections to the new democratic, limited Denmark disappeared during the Second World War when the monarchy and population rallied behind the symbols of Danish smallness and democracy.[116]

Signalling and Banal Nationalism

One reason for the successful spread of "Grundtvigian nationalism" was a campaign of promoting national symbolism through song, images, literature, and other cultural markers. Starting around the time of the loss of the duchies in 1864, the Danish flag, for example, was used with unusual frequency in the most banal situations as a form of "solidarity" with the Danes living in Germany; today it continues to appear regularly at children's birthday parties, religious festivals of all kinds, blow out sales, flying in back gardens, decorating celebratory cakes and other food, on kitchen ware, and in many other every-day places.[117] In line with Michael Billig's theory of "banal nationalism,[118] this flagging has helped to identify "Denmark" with house and home, hospitality, family, local businesses, and other familiar aspects of daily life, reinforcing the power of Denmark as an imagined community. Flagging has helped to familiarize all

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[116] Henrik S. Nissen, 'Folkelighed og frihed 1933: Grundtvigianernes reaktion på modernisering, krise og nazisme,' in *Dansk identitetshistorie 3: Folkets Danmark 1949-40*, ed. Ole Feldbæk (Copenhagen: Reitzels forlag, 1992), 673.

[117] Karen Wren, 'Cultural racism: something rotten in the state of Denmark?,' *Social and Cultural Geography* 2:2 (2001): 149.

[118] Michael Billig, *Banal Nationalism,* (London: Sage, 1995).

aspects of the Danish state, to identify it with peoples' lives, and has thereby built an unusually strong sense of national solidarity. The imagined community in Denmark, and the features it developed in the late 19th century, remains quite strong, thanks in part to the unusually persistent flagging mechanism at work there.

In northern Schleswig, where Danish language teaching was forbidden, and the German state officially tried to Germanize the population, Grundtvigian thought and institutions were crucial in maintaining Danish feeling until 1920 when a plebiscite returned it to the Danish state.[119] The perceived need to maintain links with Danes outside Denmark in the late 19th century, and the strategies employed to do so, help to explain some of the effectiveness of nationalist discourses in Denmark today.

Rise of the Welfare State

The ideological congruence between the Social Democrats and the Liberals, and the acceptance of "anti-power politics" starting in the 1920s established a cultural and political hegemony which now marks almost all aspects of Danish life. The Social Democrats were successful in establishing a social welfare state more or less on their terms, and that social welfare state is now strongly associated with the Danish state itself. In fact, hardly any elements of the political spectrum question the fundamentals of the welfare state, although they may attack details of it. It is now seen, by many, as an expression of

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[119] Buckser, 19.

solidarity and respect for the individual in the Grundtvigian tradition. It is also seen, by many, as explicitly superior to rival models in the rest of Europe.[120]

Modern National Identity and Political Culture

One important aspect of Danish political identity is the importance of the local. Although Denmark is a centralized state, municipalities and other local decision making units play an important role. This is more so than in other Nordic states, especially Sweden or Finland.[121] This stems in part from the long-standing tradition of relatively autonomous churches, which could, for example, choose their own priests. Those priests were then also expected to represent the parish in the central government, and vice-versa, creating a dialogue between central authorities and local populations, since churches were almost extensions of the state from the time of the reformation until the 19th century.

The apparent contradiction between a strong centralised state authority and significant local powers is resolved by the confluence between state, church and morality. Since the church was widely accepted, morality and the state were not widely questioned. Most people were working from the same set of assumptions, and cultural conformity was widespread. As a result, a certain degree of local autonomy did not threaten the state.[122]

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[120] Richard Jenkins, 'Not Simple At All: Danish Identity and the European Union,' in *An Anthropology of the European Union*, ed. Irène Bellier and Thomas M. Wilson (Oxford: Berg, 2000), 167.

[121] Stenius, 170.

[122] Stenius, 167.

Once the more individualist, localist split in the culture and the church arrived in the mid-19th century, the old consensus cracked somewhat, but as was explained above, came to be replaced by a new Grundtvigian hegemony within a relatively short time. The tradition of local decision making was reinforced by Grundtvigian distrust fro the elite, but the collectivist power of "the people" still maintained common cultural assumptions to bind the local decision making units together. Danish society is today made up of thousands of local organizations, associations, municipalities, parishes, trade unions etc... which are all, even relatively subversive groups such as Marxists, granted a degree of autonomy.[123] However, any subculture which is seen as falling outside the whole—rejecting the overall consensus culture—is immediately marginalized, and these groups have generally been unsuccessful.[124] This may be one explanation for the difficulty in integrating immigrant groups. The assumption is that all sub-groups will accept the decisions of society as a whole, despite their objections. Any pragmatic choice of whether to conform to laws and norms or not undermines the overall system.

Danish municipalities have gained even more importance since the municipal reform of 1973.[125] Since then the municipalities have had a lot of responsibility for implementing state policy, as well as the means to pay for it. In fact, the national federation of municipalities is so influential that it is sometimes

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[123] Borish, 262.

[124] Stenius, 171.

[125] Knudsen, *Da demokrati blev til folkestyre*, 152.

considered an unofficial first chamber of parliament.[126] Although questions have arisen over the efficiency or transparency of this system, it is certainly a reflection of a deference to local authority.

Power of the individual

Despite the focus on the collective, and on groups, Danish culture also places a great deal of emphasis on the individual. The individual must choose to accept or reject society on their own. Grundtvig himself was very explicit on this point: that the individual must find his own path. This is in part inspired by Lutheranism and its emphasis on an individual reading and understanding of the bible. However, Grundtvigianism amplified the libertarian aspect of Danish society, because of the peasants' anti-authoritarianism and their need to justify disobedience. Grundtvig's own writings were informal and unsystematic, lending them a somewhat chaotic character, which engendered a flexible interpretation.[127] Today this can be seen in the Danes' regard for freedom of expression, notoriously evident in the Mohammed Cartoons Affair.[128]

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[126] Knudsen, *Da demokrati blev til folkestyre*, 152.

[127] Østergård, *Peasants and Danes*: 14.

[128] The Mohammed Cartoons Affair refers to the events surrounding the publication of cartoons of the Islamic prophet Muhammed in *Jyllands-Posten* in September 2005.

Anti-Elitism/Anti-Power

One of the most important points to note about Danish political culture is its unusually high level of anti-elitism.[129] The main point to remember is that Danes do not necessarily distrust their state as such, since it is seen as being the assembly of its parts, but that they will distrust anyone seen as taking too much of a leading role in this state or society. Similarly, Danes do not trust concentrations of power, private or public. They do not want to participate in "great power politics" even if it is seen as generally advantageous for them to do so, because it is seen as inherently corrupt and dangerous.[130]

Scandinavian Exceptionalism

Another complicating factor for Danish political culture is Scandinavian exceptionalism and Nordic solidarity. Much of the history discussed so far is to greater and lesser extents true for most Scandinavian countries. Denmark tends to be the more libertarian and locally centred of the countries, but they all share the same basic traits. It is certainly conceivable that given a slightly different trajectory they could ultimately have formed one country and one nationalism with regional variations. Scandinavism, a movement which sought political solidarity, even had some success in pushing for such a move in the mid-19th century, but in the end it never happened.[131]

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[129] Borish, 223.

[130] Hansen, *Danish Approach to Europe*, 59.

[131] Hansen, *Danish Approach to Europe*, 57.

However, since then Scandinavians have been fairly active at promoting solidarity among their countries with initiatives such as a common currency (1873-1914), solidarity on foreign policy, free movement of people, the Nordic Council, and legislative cooperation. During the years after 1945 many in Denmark considered a Nordic or Scandinavian Union to be more advantageous than European integration. As it turned out Denmark did not want to isolate itself from the rest of the continent. However, many people in Denmark have expressed regret over the lost possibilities of Nordic Union, and fears that Denmark is swamping itself in the larger grouping or turning its back on its Nordic partners. The idea of Nordic union represented a realistic alternative to the EC/EU for large portions of the population as late as the 1970s.[132] Today it is considered as more of a romantic notion, but the iconography and discourse of a united north is still used to some extent in anti-European circles.

Relations with the European Community/Union

Bearing all of this in mind helps to explain Denmark's history of ambivalence with the EU. It did not join the original EC, and only decided to join in 1972 when it became clear that the United Kingdom would also be seeking admission.[133] Denmark has been a "good European" in many respects, especially

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[132] Henrik K. Nissen, 'Danskeren 1972: Billeder og budskab,' in *Dansk identitetshistorie 4: Danmark og Europa 1940-1990*, ed. Ole Feldbæk (Copenhagen: Reitzels forlag, 1992), 414-416.

[133] Thomas Pedersen, 'Denmark and the EU,' in *The European Union and the Nordic Countries*, ed. Lee Miles (London: Routledge, 1996), 86.

with regard to the Single Market, but it has also displayed a great reluctance for deeper European integration on many occasions. The most notable instance of this came in 1992 when the Danish population narrowly rejected a referendum on ratification of the Maastricht Treaty. This result led to something of a crisis in the European Community (later the EU), and, together with the narrow French "yes" to the same question, is considered to mark a watershed in popular euroscepticism across Europe.[134] Along with the UK and Sweden, Eurobarometer polls in Denmark continue to show a strong scepticism toward further European integration, although not membership itself. The referendum rejection of the euro in 2000 was just the latest example of pronounced euroscepticism in Denmark.

In a realist account of the situation, Denmark should be an enthusiastic proponent of European integration. Small countries tend to have a vested interest in mitigating the power of their larger neighbours, and in constructing rules based international regimes to promote their interests.[135] Indeed, in most respects Denmark does follow this predicted behaviour, enthusiastically supporting, for example, the UN, the World Trade Organisation (WTO), and international development. However, the cultural background discussed above prevents it from taking this enthusiastic stance with regard to the EU.

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[134] Robert Harmsen and Menno Spiering, introduction to *Euroscepticism: Party Politics, National Identity and European Integration*, by Robert Harmsen and Menno Spiering (Amsterdam: Editions Rodopi B.V., 2004), 25.

[135] Wallace, 1.

Several of the features of Danish national consciousness combine to make European integration unpopular. The most important features are the mental congruence of ethnicity with the traditional Danish state, out of which flows many of the popular objections to the EU. The other important factor is the traditional aversion to power politics.

Denmark's homogeneity has led to a situation where most of the population believes that,

> A people is happy when it can pass laws on its own and then make a commitment to obey them. Elsewhere in Europe one finds a kind of pragmatism where the law is just one thing among others to take into account when choosing a course of action.... In Denmark and Sweden there is a strong pragmatism, but of a different kind. The essence of this pragmatism is that society can be changed and that these changes should be brought about in particular by instituting new laws.[136]

Thus, while the Danish political system has a multitude of actors, they are all bound by the same code. The EU political system appears to many Danes to contravene that code because not all elements ultimately adhere to it. Even the EU's subsidiarity[137] principle does not appease Danish concerns, because it does

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[136] Stenius, 170.

[137] Under the principle of subsidiarity, in areas which do not fall within its exclusive competence the Union shall act only if and insofar as the objectives of the intended action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level.

not respect the universality that Danes are used to. Under subsidiarity, responsibility is handed over to local authorities, with little reference to the wider society. Under this model local authorities constitute and element *below* the over-arching authority, rather than an integral component of it.

Many in Denmark, particularly on the left, view the EU as a super power in waiting, and although Denmark would be a part of it, they view all powers with suspicion.[138] Although Denmark officially abandoned the neutrality that marked the period from 1864-1940 after the Second World War, most of the population remained deeply sceptical of power politics, particularly with regard to the military. The country became a member of NATO, but could certainly be considered as one of the most reluctant members during the Cold War, with a low military budget, and a reluctance to commit troops to combat situations. Membership in NATO was entirely pragmatic in the bi-polar Cold War world. However, large, vocal constituencies were opposed to NATO.[139] The rise of the EU as a super-power, largely controlled by elites in the rest of the continent is worrying to many of those same constituencies, and leftist parties have capitalized on that fear in their electoral campaigns.[140] This fear is not simply that Danes will not have a say in the new super-power, but that concentrations of power are inherently anti-democratic and "bad" for "the people."

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[138] Hansen, *Danish Approach to Europe*, 70.

[139] Mikkel Vedby Rasmussen, '"What's the Use of It?": Danish Strategic Culture and the Utility of Armed Force,' *Cooperation and Conflict: Journal of the Nordic International Studies Association* 4):1 (2005): 75.

[140] Nissen, 404.

Opinion Shift

However, public attitudes toward power politics, NATO, and military engagement are among the most interesting areas that show the shift in Danish attitudes, paralleling the ambivalence toward EMU. Since the end of the Cold War, Denmark has become increasingly willing to engage in combat missions around the world, in the former Yugoslavia, Iraq, and Afghanistan, something that was largely unthinkable before the fall of the Berlin Wall.[141] The shift is partially a response to a new strategic situation. In a 1998 white paper the Danish government determined that the main threats to Danish security were "indirect" threats to stability, and that active engagement was required to counter them rather than deterrence.[142] This shift is, in a sense, not unusual, as it reflects the broader shift within NATO itself and the west in general, since the end of the Cold War. What is illuminating about this case is the degree to which popular attitudes have shifted.

Initially, the public was sceptical about military deployments. However, since the turn of the century the public has become much more supportive of military engagement, even in controversial conflicts such as the Iraq War.[143] This

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[141] Rasmussen: 76.

[142] Rasmussen: 78.

[143] Rasmussen: 79

The Iraq War was far from controversy free within Denmark, but it was surprising the degree to which different parties accepted the *principle* of the war. Controversy arose primarily out of disagreements over timing, specific justifications, and the apparent cosiness of the government with the Bush administration in the US.

has made it possible for the government to maintain lengthy and relatively large deployments in Afghanistan and Iraq. Denmark has not insisted on the same operational restrictions as many other European partners in Afghanistan, and has one of the largest forces on a per-capita basis. The shift in attitudes appears to be in part a response to a popular reassessment of the threats facing Denmark, particularly in connection with the terrorist attacks in New York, Madrid, and London early in the 21st century, as well as the response to the Muhammed Cartoons Affair of 2006.[144] Many people, even on the traditional non-interventionist left, now fear for Denmark's safety, and promote a more active defence policy.

The details of Danish defence policies and attitudes need not bother us too much here. Important to note are the initial abandonment of the 20th century peaceful consensus by political elites, pushing for a more active defence policy, engaging with the European Security and Defence Policy (ESDP), participating in bombing Yugoslavia in 1999, and redesigning the armed forces, initially against the tide of public opinion, and sometimes secretly, or only excusing itself symbolically, as in the case of EMU.[145] Prime Minister Anders Fogh Rasmussen summed up much of elite opinion, "We must have the courage to break with our

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[144] Peter Lawler, 'Janus-Faced Solidarity: Danish Internationalism Reconsidered,' *Cooperation and Conflict* 42:1 (2007): 117. The Muhammed Cartoons Affair refers to popular protests across the world in response to publication of cartoons of the Islamic Prophet Muhammed in *Jyllands-Posten*.

[145] Gorm Rye Olsen and Jess Pilegaard, 'The Costs of Non-Europe? Denmark and the Common Security and Defence Policy,' *European Security* 14:3 (September 2005): 348.

inferiority-complex of being a small state. We have to understand that a small country can set an agenda and make itself heard on the international scene. We therefore have to make a strategy for our foreign and security policies which will strengthen Denmark's position in selected fields."[146]

In more recent years, Danish popular opinion has swung around to strongly support ESDP and foreign military interventions.[147] The change is quite remarkable, and shows the collapse of the old orthodoxy. The strategic discourse is much more in line with the rest of Europe than it has been for decades.[148]

Attitude toward the EMU/ECB

EMU, like European political integration in general, large-scale immigration, and foreign military engagement, confronts the assumptions and institutions of centuries of Danish cultural and political tradition. With regard to EMU the primary conflicts arise out of Denmark's cultural homogeneity, and the loose corporatism that that homogeneity has allowed. The institutions of the EU fall outside of the fairly strict web of contact that allows for the "libertarian" and decentralized culture in Danish society.

Similarly, EMU is explicitly elite driven. The political orthodoxy in Denmark since at least the 1940s has been unusually hostile to elite projects. The

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[146] Olsen and Pilegaard: 339.

[147] Gorm Rye Olsen, *Denmark and ESDP*, ed. Klaus Brummer. Gütersloh: Bertelsmann Stiftung, 2007), 28.

[148] Rasmussen: 82.

last major division in Danish political culture was centred around a "people" versus "elite" discourse, which may be returning to the fore now, centred around relations with Europe and the limits of parliamentary vs. supranational authority, rather than the earlier conflict around relations with Germany, German minorities, and the legitimate source of domestic power. To generalise, this is a new split between a relatively elite group, meaning highly educated, relatively wealthy, urban, white collar workers, which wants Denmark to cede some of its sovereignty and parliamentary authority to multinational institutions vs. a generally less educated, more blue collar group which is opposed to globalisation, and its most apparent agent, the European Union.

Although the two camps have come to a compromise over EMU for now, the new split represents a fundamental challenge to the political orthodoxy of the last several generations. Attitudes toward the EU and EMU seem to be slowly changing, but opposition is deeply ingrained and will not disappear quickly.[149] However, evidence exists in the form of public opinion polling, electoral results, and the change in policy on issues such as defence and economics, that the Danish orthodoxy is undergoing a fundamental shift. Elements of it remain strong, and will likely endure, but some aspects of Danish culture that have been taken for granted will change, with potentially enormous implications.

The reasons for this change stem from two primary causes. One is a changing perception of "the West," or "Europe," or "us" amongst many Danes, primarily in response to large-scale non-European, non-Christian immigration,

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[149] Hobolt, *How Parties Affect Vote Choice,* 632.

which is overwhelmingly Muslim. The perceived conflicts between Danes and Muslims have served to highlight similarities with other Europeans and Westerners. Global events such as Islamist terrorism, and most notably the Muhammed Cartoons Affair have further served to reframe Danish perceptions of "the other" and their perceptions of threats to Denmark.

A second cause appears to be related to the relative success of the Danish economy following accession to the EU, and more importantly, following domestic economic and institutional reforms. At the same time as these reforms were fairly radical, and were certainly presented as radical, many Danes still perceive their country to be different from the rest of Europe.[150] The special character of Denmark has not been lost, and that gives formerly skeptical people a more positive outlook on change, and more confidence in the Danish model's ability to withstand the pressures of europeanisation and globalization, even if they compromise some of the essential features of the Grundtvigian orthodoxy

One of the questions which will be interesting to examine in future will be the degree to which the features of Grundtvigianism and traditional Danish political culture are compromised. The younger generations, especially in urban areas, appear to be abandoning some of the central tenets of the old orthodoxy, embracing a more competitive, less-egalitarian, consumerist philosophy than would have been acceptable earlier. The transition to a post-modern, post-industrial society, in which blue collar workers are increasingly marginalized, has been spurred on by globalisation. Those who benefit, mostly younger urban

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[150] Kuttner, 93.

people, will conflict with older people for some time to come, but as with all generational struggles, the ravages of time will determine much. As a result, it appears likely that European projects, EMU for example, will become more and more acceptable as time passes.

Conclusion

Denmark occupies a unique position in the European Monetary constellation: both in EMU and out. It is clear that the explanation for this position lies in Denmark's unique circumstances. Although, some economic evidence exists to predict Danish non-participation in EMU, on the whole Denmark's economic and political position would suggest a favourable attitude like the Netherlands' or Austria's. However, like Sweden, Danish political history leads to a very strong and deeply held opposition to structures like EMU, outside of Danish society's web of organizations and mutual obligations, and explicitly elite driven. Unlike Sweden, Denmark has been more integrated into the European monetary policy consensus and a full participant in European integration. The Danish policy elite has long since accepted the basic assumptions governing EMU. Thus, they tend to favour EMU, while the population does not accept all of the assumptions, particularly on the political side. The political construction of EMU is antithetical to the prevailing political orthodoxy that has existed in Denmark since at least the 1930s.

The schism over the issue, along with European integration more generally, may well mark the beginning of the first real challenge to that orthodoxy since then. The foundations of Grundtvigian society appear to be crumbling in the face of globalisation. Various assumptions, such as the aversion to power politics are being widely rejected; the structure of society is being remodelled, away from the strict egalitarian, communitarian welfare state of the last half of the 20th century. As these assumption fall aside, Danish society

appears to be splitting again, along lines reminiscent of the elite/Grundtvigian divide of earlier times. A new urbanised, cosmopolitan elite has emerged which rejects the old assumptions. This is because of the pressures of globalisation and europeanisation which are presenting challenges and opportunities which the old assumptions and institutions are not capable of handling.

Using the population at large's general ignorance of European level politics, those in favour of participation in EMU have been able to integrate Denmark into the EMU system without going all the way, reaping most of the economic benefits without forcing a confrontation on the political side for the moment. As the population changes, and the generational shift occurs it appears inevitable that with the overthrow of the old political orthodoxies, projects like the euro, and the other Edinburgh opt-out projects will become increasingly accepted. However, if the preceding conflicts are any indication, the old ideas will not disappear quickly, and the conflict will be bitter, as it was earlier in the 20th and 19th centuries.

Interestingly, Sweden so far shows fewer signs of this shift. The new centre-right government led by Fredrik Reinfeldt may, however, be a harbinger. Sweden has always differed from Denmark, in its heavier corporatism and centralization; it has been in the EU for less time, and perhaps more sheltered from globalisation and europeanisation. Anti-EU, anti-immigrant, and anti military discourse is more institutionalized, so its extreme variants are therefore more marginalised. It may simply be a matter of time before these strands explode and follow a similar course to Denmark. In any case, it is clear, as the half and half policy toward EMU demonstrates, that in Denmark at least, the

cultural and political orthodoxies of Scandinavia are slowly unraveling and reforming, but not disappearing, in the face of outside pressure.

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