Denmark: Referendum rejects euro heightening Europe's currency crisis

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The September 28 referendum in Denmark on adoption of the euro was the continent's first ever plebiscite on the European single currency. In over a 90 percent turnout, Danes opted to keep the krone by a majority of 53 to 47 percent. The No vote has delivered a serious blow to the faltering European rival to the dollar, which will have ramifications far beyond Denmark's borders.

In a few short months, a comfortable opinion poll lead for the "Yes" camp has been transformed into a defeat despite the combined efforts of the Danish media and a united campaign by Denmark's five leading political parties and the trade unions.

Prime minister Poul Nyrup Rasmussen said the vote did not mean the country had turned its back on Europe, and it would continue to play its full part in the future development of the European Union (EU). But Danish Finance Minister Mogens Lykketoft said it could take four or five years to reverse the result.

Although preserving the krone, Denmark's economy remains tied to the euro through a version of the old Exchange Rate Mechanism (ERM) that preceded the creation of the single currency. There is little doubt that the No vote was encouraged by the euro's almost one third decline against the US dollar since its launch two years ago, which this month prompted intervention by the G7 countries to prevent a further fall. But it was primarily motivated by more long term hostility to the attacks on welfare provisions on which millions of workers depend—that are an inseparable element of the drive towards European integration on a capitalist basis.

The ability of the EU and the euro to compete against America and the dollar demands widespread economic restructuring and sweeping cuts in social spending in particular. Many voters' hostility to the attacks on Denmark's welfare state by the social democratic government of Rasmussen and his predecessors has become associated with opposition to further European integration and a defence of Danish sovereignty.

While the No vote represents a sharp rebuff to the Danish government and the entire EU political establishment, there are political dangers expressed in the undifferentiated nature of the "No" campaign. The widespread identification of the social gains of the working class with a defence of the Danish state and its currency is the political responsibility of groups such as the former Stalinists of the Socialist People's Party (SPP) and was successfully exploited by the extreme right wing and racist Danish People's Party (DPP). It enabled the DPP to proclaim the result as a victory for nationalism and, “a very good signal to the political correctness [lobby] in Denmark to slow down the political integration in Europe, and say that we still want the individual states.”

The "No" campaign presented the euro as a threat to social services and living standards, which could only be alleviated by maintaining Danish independence to decide its own tax and welfare levels. This set the agenda for the entire referendum, coming as it did following the fuel tax protests throughout Europe that attracted popular support due to widespread discontent with the rising indirect taxation of working people.

The "Yes" camp, led by the governing Social Democratic Party, tried to convince voters to support the euro by warning that remaining outside Euroland threatened a financial crisis and would represent a far greater danger to social spending. Rasmussen told a special conference in May, "The greatest threat against our welfare system are the speculators on the world's money markets who will throw themselves at us if we reject the euro. Our best insurance against this is adopting the common currency.”

Under conditions where the euro has been weakened by continual capital outflows from Europe to the US, however, efforts to portray its adoption as a way of safeguarding social benefits failed to stem the growth of opposition sentiment.

Commenting on the G7 intervention prior to the Danish referendum, Bloombergs, the financial agency, noted, "the week before the vote has seen a coordinated and so far successful intervention to bolster the euro [which] has been a plus for the Yes campaign. But the weeks before that saw the currency sink to new lows against both the dollar and yen. That made it seem a currency in permanent crisis. It was no coincidence that as the euro sank in value, so did Danish support for the euro."

The consequences of the Danish referendum must be examined from the standpoint of both its economic and political impact.

There were immediate fears that the Danish rejection of the euro would further undermine confidence in the single currency and lead to a run of speculation favouring the dollar. Immediately the first exit polls indicated a probable No vote, German Bundesbank governing council member Klaus-Dieter Kuehbacher called for European Central Bank intervention should the euro begin to fall dangerously. "The European Central Bank would not stand accused of acting only once...further interventions could therefore be expected," he said.

The German government, however, responded by minimising the significance of Denmark's decision, stressing its total confidence in the euro. French Prime Minister Lionel Jospin said, "The Danes are making their choice as a sovereign people. I have a lot of respect for this country, but its size for the European economy is not major."

Their argument is based on the fact that Denmark's 5.3 million people only generate a gross domestic product of $185bn, compared with the euro zone's 11-member's $6,993bn and that the krone is still tied to the euro through ERM II.

Nick Parsons, a currency analyst at Commerzbank, enquired rhetorically, “Are we seriously asked to believe that the votes of a few thousand Danes will alter the fortunes of an economic area of 275 million people?"

It was Denmark's central bank that was forced to raise interest rates by half a percent in order to prevent a run on the krone, while the euro has initially kept steady at just over 88 US cents. Nevertheless, the financial markets may not remain sanguine. The No vote could yet be seen as a wider expression of waning confidence in the euro. The *Financial Times* cited Carl Weinberg, chief economist at New York's High Frequency Economics, stating, "The immediate problem is that Denmark's rejection of EMU [European Monetary Union—the euro] is being seen as a no-confidence vote in the common currency... The euro is about to come under pressure again. Unattractive economic conditions have made Euroland an unappealing venue for international investors for a long time now. The 'No' vote in Denmark, coming on top of poor economics, assures another downdraft."

The Danish result confirms the growing unpopularity of the political agenda that has dominated big business's striving towards European integration. It creates new difficulties for those governments that have not yet signed up to the euro, such as Britain and Sweden, to push through its acceptance.

The Labour government in Britain reaffirmed its commitment to joining the euro, “when economic conditions were right to do so”, and is also pledged to hold a referendum. But anti-euro forces were jubilant about the Danish result, with opposition Conservative Party leader William Hague gloating over Prime Minister Blair's predicament.

Demonstrating their characteristic belief that every political problem can be addressed using the lexicon of marketing, a British government spokesman argued that the Danish referendum simply showed the importance of framing the right campaign with the right messages. Blair is to make a speech on the future constitution of Europe in Warsaw next week, which a government source said, “will try to be pro nation-state, even Gaullist on the one hand, and pro-European Union on the other.”

For his part, Swedish Prime Minister Goran Persson admitted the result would influence domestic debate in Sweden. He still has to decide whether to hold a referendum on entry.

The "two-speed" Europe advocated by France and Germany, with the present euro members orbited by others more reluctant to sign up, appears ever more likely.

German Foreign Minister Joschka Fischer and French President Jacques Chirac have proposed the formation of a core of euro-enthusiasts willing to take a “fast track” towards political and economic integration, leaving Denmark, Sweden and Britain in the “slow lane”. December's EU summit in Nice will debate this proposal.

Such a course contains the danger of formalising an economic and political split within Europe. The *Financial Times* warned, “the Danish ‘no' suggests that prosperous, financially disciplined northern European countries may never play a central part in European integration.” This would imply that the next group of euro-zone entrants after Greece—if ever there are any” would be impoverished and unstable east European states like Estonia, Hungary, Poland and Slovenia. “This could cause politicians and public opinion in some existing euro-zone member states to shift in favour of closer co-operation among themselves rather than to make a priority of incorporating central and eastern Europe,” they conclude.

In a similar vein, Bloombergs commented, "The split in the European Union between the euro-ins and the euro-outs, meant to be no more than temporary while the outs were talked into the fold, will start looking like a permanent division — and one that will cast a long shadow over the European economy over the coming decade."