

Countrycase Sweden

Petter Nilsson, CMS

Summary

This study will argue that the crisis did not alter the political landscape of Sweden. Some parts of the Swedish left predicted the outbreak of the crisis, and especially some of the local effects on the Swedish economy. Their predictions were vindicated when the outbreak of the global crisis accentuated Sweden's own structural problems. But the hegemonic mainstream in Swedish politics is still intact, and the crisis didn't radicalize neither political visions nor debates. To explain why the crisis did not favour the left - as could be expected - I suggest three specificities of Sweden that can guide the analysis.

The first one is that Sweden in the last 25 to 30 years have seen growing class differences, cutbacks on welfare expenditures and increasing unemployment – almost all the while under social democratic government, sometimes backed up by the Left party. More recently the effects of the crisis in the 1990s meant enormous cutbacks that the Social Democratic Party and the Left Party was responsible for. Whether or not these cutbacks were inevitable, this still means that these two parties, the current opposition, have a hard time convincing people that they would have handled the crisis differently than the cutbacks being administered by the current right government.

The second part of the explanation is that the biggest Swedish right wing party, the Moderates, in the time preceding the last election in 2006 effectively triangulated classic social democratic rhetoric. They basically won the election by claiming to be better social democrats than the Social Democratic Party, and more true to the “old classical” social democrat politics that they claimed the Social Democratic Party had lost from being in government for too long. This meant that they rhetorically started praising the Swedish welfare model and labour market structures.

The third part is the failure of the left in not being able to formulate radical economical policies and alternatives that sharply contrasted the right's suggestions. This can in turn be explained partly by the newly constructed “bloc politics” in Sweden, where the “right alliance” stands opposed to the “redgreen coalition”. The terms for entering into the “redgreen coalition” - comprised of the Social Democratic Party, the Green Party and the Left Party – were first and foremost an adherence to certain financial norms, which included a cap on budget expenditure and maintaining a certain level of budget surplus. With these norms incontestable, little space was left for radical suggestions or visionary politics and together with the right wing rhetorical shift, meant that the Swedish political parties crowded to the centre and to the general public sounded very much alike.

This doesn't mean that the crisis left Sweden untouched, but its consequences were more in terms of accentuating structural imbalances that already existed. Cutbacks in welfare expenditure accelerated, faltering companies finally failed and so forth. All parties use the crisis as an argument for their own political proposition, despite their political background or aims. A few years after the crisis struck, and half a year before the coming election, the political landscape

remains the same. The Swedish political debate is basically back to “business as usual”.

Crisis, background and effects.

Although the crisis as such didn't come as a total surprise for the left, it seems that the depth and width of the consequences surprised even those political commentators that had predicted a financial downturn. There had been some discussions of warning signs that pointed out the imbalances in trade between China and USA as a possible threat to global stability, but the general idea was that Sweden's public finances were in order. The official mainstream stance was that a crisis would affect some of the export oriented major companies, but that a certain level of economic downturn and unemployment in such companies could be handled without any serious decline in financial stability.

But in the public debate at the time preceding the crisis, much more emphasis was placed on the wage dispersion effects within the Swedish labour market; a labour market that historically had placed much importance in wage compression as a way of clearing out ineffective capital that couldn't compete, and also as a way to produce an equal society – an end in itself. For those not familiar with the Swedish so called “solidaric wage policy”, the theory behind it is that if you regulate wages strictly on a national level, companies that are lagging in productivity won't be able to stay in the market simply by reducing wages. This forces companies to increase productivity or go bankrupt, which clears the market for more productive companies and makes it possible to transfer capital and labour power to more efficient companies and production sectors. The wage dispersion effects in Sweden were part and parcel of the same neoliberal mechanisms that produced the bubble in the USA; the continuous deregulation of labour law and policy, weakening of unions, downsizing of the public sector and so forth. But in the time just before the crisis the debate was still centred more on how these neoliberal policies directly affected Swedish society, and not as much on how they affected financial stability on the global scale. It would of course, as we now know, soon become apparent.

Wage dispersion makes it harder to organize collective bargaining for the whole of the Swedish labour market, and the superprofits caused by lagging wage increases made their way to shareholders and an increasing amount of free financial capital. The effects of tax reductions that were supposed to cause trickle down effects instead, to a staggering extent, meant increases in wealth for the richest percents.

Stockmarket dividends in Sweden reached record numbers in the beginning of this millennium, which meant increases in wealth for the richest but at the same time alarmingly pointed to the lack of productive investment opportunities. Sweden had shown, and still to some degree shows, a lot of the classical signs of a finance bubble, where the surging prices of housing in the capital of Stockholm is perhaps the most poignant sign. With the discount rate being around 0,5% there is still a booming housing market in Sweden, and little weight is being given to some commentators asking what will happen when the interest rate returns to average levels. Sweden's expected decrease in BNP growth and sharp rise in unemployment was at first greater than that of comparable small export

oriented economies. But it soon recovered somewhat and public finances are still relatively good. Therefore it still seems unclear what the final effects of the crisis will be.

The abyss of centrist politics

All of this would seem like a classic recipe for left wing success; a worsening of working conditions and wages for the lower part of the labour market, and at the same time a huge increase in stockmarket dividends for a small percentage of shareholders. But a few historical specificities in Sweden made it hard for the left to turn the widening class differences into direct political mobilizing.

Perhaps the most important factor being was that these worsening conditions in to a large extent had been created under social democratic governments, at times backed up by the Left Party. In fact, the social democrats and the left had been in power during the largest cutbacks in welfare expenditure in modern times, following the last major crisis in the 90s. The debate is still ongoing on whether or not these cutbacks were necessary, too big or too small and so forth, but it still means that the left part of the political spectrum has problems with credibility in claiming that the current crisis would have meant radically different effects with a left government.

The other important factor is that the political right in Sweden won the last election by co-opting classic social democratic rhetoric. The biggest party on the right, the moderates, shifted its rhetoric from being centred on tax reductions, to instead modelling themselves "the new workers party". To work out to what extent this was merely a cosmetic shift in rhetoric falls outside of the scope of this article, but it at least meant that the "third way" Social Democratic Party on the left and the "new workers party" on the right made claims about the origins and effects of the crisis that to the general public sounded basically alike.

At the same time the political right in Sweden is viewed, by the general public, as having handled the crisis well. According to recent polls the general opinion in Sweden is an increase in faith in how the ruling government handles rough times. This could be seen as a confirmation of the orthodox idea that the left has a certain window of opportunity in times of crisis, but if ill prepared they lose initiative to the right who then gains momentum by handling a crisis, not withstanding that they took part in creating it. But although there is some truth to orthodoxy, the shifts in political opinions have been a bit more multifaceted. The moderates always quite successfully shifted all blame for the crisis and its effects on Sweden on international finance and the USA. Ironically this meant that the moderates were able to blame the negative effects of their own policies on the international crisis, and use the downturn in the economy to gain legitimacy for further cutbacks in public expenditure "due to the harsh times".

On the one hand it seems obvious that one part of the failure of the left to gain momentum is its inability to offer analysis and suggestions that differ from the right in a qualitative way, or at least to be able to communicate this to the general public. Though there are of course some quite important differences, they are sometimes hard to sift out in a debate were both sides of the political spectra pledge rhetorically pledge their allegiance to a strong welfare.

The analysis that was published by the Left Party starts with a general affirmation that crises are an inevitable effect of capitalism, and that a financial crisis is but one manifestation of the general tendency toward disequilibrium. But just a few paragraphs later the discussion turns to the specific aspects of preventing a financial crisis, and no suggestions are being put forth that would alter the basic functioning of capitalism and the disequilibrium that causes crises. The suggestions are therefore aimed towards constricting financial speculation in favour of productive capital and private sector investments – or as it is explicitly put, “how to build a functioning financial market”.

This is what could be expected and perhaps what is possible from a small reformist socialist party, but not in essence so different from what was being put forth by the parties on the right, at least publicly. This is all the more true regarding the social democrats, and is best understood by looking at the current political climate in Sweden. Since the last election all party politics in Sweden revolves around two political blocs, the right wing “alliance” and the red-green “coalition” that effectively encompass the two possible outcomes of the coming election. This meant that the Left Party, after a long and sometimes fierce internal debate, entered a coalition with the social democrats and the Green Party long before the upcoming election. One of the central terms of the coalition was adhering to certain financial norms, the main norms being to cap budget expenditure and maintain a certain level of budget surplus. The Swedish applications of Keynesian policies, the so-called “Rehn-Meidner” model named after the union economists that invented it, had gone from being widely accepted to being criticized even to some degree by the unions that came up with it. The current consensus within the social democrat and union leadership is that the policies that underpinned the Rehn-Meidner model will not work, and that it would mean too drastic Keynesian measures that would lead to unemployment and increased inflation – consequences that the financial norms will help to prevent. The consensus within the leadership notwithstanding, the financial norms were being heavily criticized - mainly from the left party, the left wing of the Social Democratic Party and some union economists.

The Left Party had the most outspoken critics of these financial norms but they were now explicitly required to abandon these to enter into the “redgreen coalition”. Since the concept of the opposing blocs had become so cemented in Swedish politics, most of the critics eventually conceded that it seemed impossible to win the next election without a “redgreen coalition”, and that a change in government would still mean a more progressive economic policy than the current one. This has meant that the Left Party is constantly urged to prove that they can be trusted, i.e. not to raise demands or suggestions that would conflict with the financial norms. To some extent this could explain the inability on the left to suggest economic policy that radically contrasts the one suggested by the right wing alliance, since this would inevitably mean questioning some of the financial norms. That would in turn conflict with the economic policy required to construct the “redgreen coalition”, which could very well in the end mean a lost election and four more years of even worse financial restrictions. This tactical debate, on which stance that could most effectively strengthen the left and if it would mean entering in or staying outside of the government, resembles the one that faces a lot of left parties. It is, as we all know, a complicated question, and one that can’t be answered within this paper.

Hopefully this ongoing Transform project will be able to shed some light on the experiences and consequences of the different choices.

Regardless of parliamentary jockeying, another part of the explanation that one should not shy away from is the fact that the Swedish left, broadly speaking the left wing of the social democrats and the Left Party, lack an economic vision that convincingly contrasts the one put forth by the reborn and now responsible "right alliance". This can't be reduced to problems with right wing media domination or the inefficiencies in the public communications of the left parties. It still remains a fact that there has been a decline in radical economical suggestions from the left in general, which has gone hand in hand with the last 25 years of neoliberal onslaught. Large parts of the left had gotten used to the idea that there is no alternative and therefore cautiously made their own suggestions more in line with the mainstream economical debate. After the collapse of the "wage earners fund"-proposition in the late seventies, there have been few suggestions that would radically alter the basic economic structure. This is of course the same "postpolitical" tendencies that we've seen all over Europe at least, and is not restricted to domestic conditions in Sweden. But is still meant that the Swedish left was ill prepared to suggest an alternative when capitalism was struck by major crisis.

Of course the Swedish right disapproves of suggestions like increasing state ownership in banks or reappraising the Lisbon Agenda in view of the crisis, but they have less problem in agreeing on suggestions like an oversight of the financial market and more regulation of speculative capital.

After all, crises can mean a questioning of capitalism as such, not just its more frenzied speculative phases, and a smoothly functioning national capitalism is certainly also in the interest of the governing right. If arguments from the left centre on demanding less speculatively inclined and more responsible capitalists, the right echoes that demand, and complements it with pointing out that they are more responsible than the left who are always calling for more state expenditures. Hegemonically speaking, neoliberalism has gotten a bad reputation, but the right in Sweden cast off neoliberalism, at least rhetorically, before the last election and years before the crisis. Neither capitalism as such nor the governing right has therefore been dragged down by the collapse of neoliberalism.

Direct consequences

Still, there can be no denying that there have been direct consequences of the crisis that have favoured the political left. The single deciding issue of the last election was unemployment, and the right in effect won the election by using the old social democratic concept of "workfare" and claiming that they would implement this better than the social democrats. "Workfare" in this incarnation means conditioning access to welfare by tying it harder to labour market participation. The old social democratic slogan of "a fair day's pay for a fair day's work" is turned into denying unemployed and sick people access to welfare. Rhetoric aside, this meant that the right started cutting back on social security, unemployment allowances and labour market policies in an attempt to push a larger part of the population into some sort of employment. The effectiveness of these policies has shifted a bit. The cutbacks in unemployment allowances were met with protest by the unions. The unions' membership decreased significantly,

since unemployment allowances were organized by unions and one of the biggest incentives for union membership. But as long as Sweden had a booming economy this meant that the right could display increasing employment as the effect of harsh policies. Now that the economy falters it turns out that very few of the new jobs were effects of a structural shift, and most of the people that found jobs during the last years were people that have a hard time competing in the labour market. They soon found themselves unemployed again. The cutbacks that were supposed to push people back into employment have no effects on the structural employment, and have given rise to public debate about the living conditions of people that are forced to apply for jobs that don't exist. The cutbacks in social benefits have had catastrophic effects on the lives of some people, and when the economic downturn struck more and more people found themselves in this situation. When most people in Sweden now seem to know someone whose life has been severely affected by the cutbacks, the legitimacy for harsh policies is declining rapidly. The automatic stabilizers like unemployment allowances and labour market policies, which were supposed to have countercyclical effects on downturns, are now diminished and left the Swedish economy more vulnerable to fluctuations. On the other hand the cutbacks and selling of previously state owned corporations have meant that Sweden's balance sheet is much better than most comparable countries, which is being used as an argument by the right. The argument being is that they are now in a position to meet crises with stimulus packages using budget surpluses that hadn't been available if the left had been in power. The left answers by pointing out that unemployment and financial instability wouldn't have been as grave without the cutbacks and deregulation of markets enforced by the right.

Political confrontations

The debate surrounding the E.U. has been split generally among lines established before the crisis. The ones that had been in favour of the membership have seen the relative stability of the euro-zone as a vindication of their arguments. They have in turn used this as an argument to enter into the monetary union, claiming that this has been a vital part of relative European stability during the crisis. The critics on the other hand point out that the deregulation of markets that is one of the major aims of the European union is exactly that type of market fundamentalism that caused the latest crisis, and furthermore the countries that are not part of the monetary union have done much better in coping with the crisis.

Most critique of supranational regulation, be it EU or the IMF, has centred on stability pacts and financial restrictions as hindering a more classical countercyclical approach to managing the crisis. The EU restrictions on underbalancing budgets were used as an argument from the rightwing government to reduce stimulus packages, and the left centred its critique on the rights apparent passivity in the face of the crisis.

At the moment the outcome of this debate isn't really settled in terms on the effects on public opinion. On the one hand the right can point to the fact that Sweden has survived the first part of the crisis with its state finances intact, on the other hand the left points to consequences in terms of falling BNP growth and rising unemployment that could have been reduced with more active economic policies. This argument has been duplicated by the fact that

decentralization of the social security system has transferred some of what were previously government obligations to the municipalities. In a regionally diverse country as Sweden the differences between the financial healths of municipalities can vary greatly, but budget restrictions made it almost impossible to underbalanced budgets when cost for welfare expenditure rose. This even led to some municipalities openly contesting the government and refusing to pay out certain welfare expenditures. It turned out that a previously centralized system in fact didn't have sanctions to overcome this.

The last election for the European parliament was a big disappointment for the Left Party, and this was in part interpreted as a failure to mobilize EU-critics in elections for the parliament. The Left Party has since made public statements about withdrawing their demand for Sweden to leave the EU. Since the Left Party was the only party in parliament to raise this demand, the debate has since shifted more to the monetary union. After the last public vote on the monetary union resulted in a decisive no, there has been increasing discussion about the need to hold a new referendum. The argument for this is that the general public in Sweden seems to have become more positively inclined towards the EU since joining, and that this could possibly translate into a shift in opinion about the monetary union. Some commentators also claim that this would be an act of solidarity against the European countries that have been struck worse by the crisis. This is countered by financial commentators on the left that point out that a lot of the problems of countries like Greece and Spain have been caused by being unable to adjust their currency because of the structural weight of Germany. This would only be made worse by another country with positive trade balance, such as Sweden, joining the monetary union. Far from being an act of solidarity it would mean just the opposite.

Suggestions from the left

On the national level the suggestions from the left have been generally the same as before the crisis, but with the crisis providing a sense of urgency and legitimacy. Suggestions have been raised to organize a national oversight of the financial market, comprised of representatives from all political parties as well as academics and labour market organizations.

An increased production of affordable housing would decrease growth of prices on the housing market and decrease the risk of booms and busts. The policies suggested by the left points to an increased democratic control over investments and financial markets. This would mean more legislation to try and restrict financial speculation, as well as slackening of the financial norms regarding budget surplus and expenditure that was discussed previously.

The fate of major national companies such as SAAB has been a major issue, but suggestions regarding political action have primarily been about the extent of the salvage packages for those in danger of layoffs. This is perhaps also the one issue where the ecological debate has coincided with the debate on crisis, since automobile production is often the primary example of an outdated industry. But the green perspective, in this issue as well as regarding the crisis, has never exceeded pointing out that all investments should be followed by general demands on "green production".