

Swedes have had it with austerity policy

by Tore Fredin

Sweden's leading advocate of International Monetary Fund austerity policies, Finance Minister Kjell-Olof Feldt, resigned from his post in the Social Democratic caretaker government on Feb. 16, one day after the government had resigned. Feldt had more or less singlehandedly run Sweden's economic policy since the Social Democratic party came back into power in 1982.

Under his regime, wage earners were convinced by the Social Democratic trade union leaders to tighten their belts. These austerity policies were premised on the idea of the "post-industrial society," the malthusian zero-growth model, which the late Prime Minister Olof Palme introduced in the mid-1970s. One important step in the direction of crushing the potential for growth in the real economy, was the nuclear referendum in 1980, which aimed at dismantling Sweden's independent nuclear industry and reaching zero growth in energy consumption by 1995. Palme in 1975 got the agreement by all the parliamentary political parties for that insane goal.

The refusal by the political establishment to ditch such zero-growth policies is the main reason why Sweden today is facing a political crisis, and the growing risk of a financial blowout.

Swedes have reacted with labor unrest which is unmatched in modern history. That mass strike ferment for the first time forced a Social Democratic government to resign. Feldt's plan for a two-year ban on strikes reminded people of communist or fascist dictatorships.

Workers' paradise?

Olof Palme's small-is-beautiful policy was never questioned by the Social Democratic leadership during his lifetime, and after he was murdered in 1986, his "Swedish model" was treated as almost sacred.

Sweden, formerly known as the "workers' paradise," is turning into a nightmare. The industrial sector is small, employing at most 25% of the total labor force. The productivity of industrial workers has increased minimally. Sweden, like the United States and Great Britain, never recovered from the depression-like breakdown of the late 1970s and early 1980s. During Feldt's regime, nominal wage increases and the inflation rate have been almost equal, at the same time that the unending Social Democratic drive to impose new taxes led to a decrease in purchasing power.

Feldt has been running a much-applauded speculative financial bubble, which is similar to the madness that prevails in Anglo-American finance. He deregulated the Swedish credit markets as well as the national currency, the krona, and the weak krona became an easy target for speculators.

At the same time, the speculative bubble has produced a generation of *nouveaux riche* yuppies. The Stockholm stock market increased its nominal value tenfold in the 1980s—or fivefold, if one adjusts for inflation. The top Swedish banks for several years have been among the most profitable international banks. SE-banken, the flagship of the Wallenberg family, has been leading this trend, and has been able to finance corporate mergers and takeovers through its industrial arms, as in the case of ASEA-BBC and Electrolux.

The "workers' paradise" has been tuned into a "bankers' paradise"!

A big illusion peddled by the propagandists of the "Swedish model" was that the economy would be socialized. Nothing could be further from the truth. Swedish industry is 90% privately owned; the only thing that the Social Democrats socialized was the family, because their policy forced both parents out onto the labor market.

How has the ordinary citizen reacted to the breakdown of the economy? One new phenomenon is that elderly, fairly well-dressed people walk around emptying waste baskets in order to pick up bottles and other things they can sell. The state-guaranteed pension is not sufficient to live on. Households have been maintaining their purchasing power by heavy borrowing. Household indebtedness has been growing by 20% annually since the mid-1980s. Over a five-year period, debt obligations and debt service doubled.

One of Feldt's last moves was to get the central bank to increase interest rates 3% to 16%, and some predict that they will not stop until they reach 20%.

This financial crisis is a result of the political crisis, as well as of the steady capital flight. Sweden has a negative balance of payments, which was taken as a justification for the increase of the interest rate. But the trade balance showed a steady surplus between 1982 and 1989, of cuts in domestic consumption.

These austerity measures undermine the potential for real growth in the national economy, and that is what a growing majority of Swedes has understood. They are ready to scrap the Palme version of the Swedish model. Staunch members of the Social Democratic party are throwing away their party cards. "My parents were Social Democrats," said one. "I was born to become one, I have always voted for them, but now I am fed up. First they implemented compulsory savings, whether we liked it or not, through the wage earner funds; then they tried to forbid strikes. That was too much."

In 1988 the Social Democrats lost 10% of their voters in the national elections, and results in an election today would be far worse. The Social Democrats are losing their power, and Feldt's head was the first to roll.