# Fascist austerity: Sweden once again the 'model' for Europe

by Tore Fredin

Tens of thousands of Swedes took to the streets on Oct. 6 protesting sweeping cuts in the nation's welfare system. Ironically, the demonstrators, organized in the National Trade Union Confederation (LO), traditionally of Social Democratic affiliation, were protesting not merely against the liberal-conservative coalition government, but de facto against their own political leadership as well. For it was only thanks to the backing of the opposition Social Democrats, that conservative Prime Minister Carl Bildt, within 10 days in late September, could push through two austerity packages in response to the recent financial and currency instability.

The austerity presented by the government is in principle nothing new, it is just meaner. The cuts have gone deep into the welfare and social security system, supposedly to show that the Swedish establishment is determined to defend the Swedish krona at all costs.

In the process, the "conservative" government is collaborating with the opposition Social Democrats to enforce the worst of both worlds: The government is fulfilling the Social Democratic dream of nationalizing the banks, and the Social Democrats are backing the free marketeers' dream of gouging the living standards of the working population. In one speech to the Oct. 6 demonstrators, the chairman of the transport workers warned of a split of the Social Democratic Party, as a result of the consensus of the established parties to impose austerity to save the banks.

Unfortunately, this will be looked to as the "model" for the enforcement of International Monetary Fund (IMF)-dictated austerity throughout Europe in response to the worsening worldwide depression.

## Cutting consumption

Part of the package is a 5% cut in the employers' fee, which employers pay to the state for each employee as a special wage-tax. This cut was incorporated into the second package the day after it was proposed by Bengt Dennis, the head of the Swedish Riksbank (central bank), who claimed that the markets were demanding the step as a means to cut labor costs in order to increase competitiveness of the Swedish export industry, to increase market share internationally.

The intention is to finance this 18 billion krona cut in revenues by decreasing consumption. The shortfall will be compensated for by cutting two days from paid holiday time, a 3% increase of the value added tax (VAT) on food, and cancellation of an already-decided decrease in the VAT in other areas. Rents are also expected to rise 10% over the next year.

The way in which this 5% reduction of the employers' fee on labor costs is to be financed is described as an internal devalution. This is the content of a national handshake between the government and the Social Democratic opposition—an ever faster erosion in the standard of living of Swedish wage earners, which over the last 15 years has already lost the equivalent of two months' purchasing power out of an annual wage. The latest offer, in this respect, is that by a company in northern Sweden which is giving its employees the choice between a 20% wage cut or being laid off. This is seen as a test for how far the austerity can be pushed.

## Prologue to the crisis

One year ago, the Swedish banking crisis came into the open. It was just after that that the Social Democratic government was voted out and replaced by a liberal-conservative coalition government. The first bank to be bailed out was the state-owned Nordbanken. The second was Första Sparbanken, a savings and loan institution which was and is controlled by the Social Democratic *nomenklatura,* and which went bankrupt in October 1991.

The free market, non-interventionist Prime Minister Bildt thought he could let the bank go bankrupt and at the same time give the Social Democrats a political black eye. Little did Bildt know. While attending the IMF annual meeting in Bangkok, Thailand, he got a telephone call from Swedish Riksbank head Dennis, telling him that international considerations demanded that no free market "fundamentalists" could be allowed to destabilize international finances by letting a bank go into bankruptcy.

Bildt thereupon bailed out the bank with taxpayers' money, and, since then, bailouts have been the policy of this non-interventionist government. So far, the government has bailed out Swedish banks for 50 billion krona, and this, according to conservative estimates, is only one-fourth of what the state will have to pay in the end. According to financial analyst Prof. J. Lybeck writing in the Sept. 26 *Svenska Dagbladet,* the Swedish banking crisis will reach its peak next year, and all Swedish banks will be nationalized by 1994.

This seems to be the irony of history. Here, Sweden has got one of its only non-socialist governments in 60 years (except for the interlude between 1976 and 1982), and this new government will end up nationalizing the banks because of its monetarist obsession. Nationalization of the banks is the policy which the Conservative Party has always accused the Social Democrats of harboring.

## Phase two: austerity

This year-long banking and financial crisis in Sweden entered phase two during the recent turbulence on the international financial and currencies markets. The Swedish krona, one of the weaker European currencies, became a target for a run which was mainly carried out by 10 bit Swedish export industries' financial subsidaries, five Swedish banks, and three Swedish insurance companies. According to the Riksbank's statistics, 93% of all currency movements in and out of Sweden during the critical period were carried out by this handful of institutions.

One example shows how few control the Swedish economy. The 10 leading export companies have, in short positions and cash liquidity, 200 billion krona, which is almost twice the Swedish currency reserves, or more than these companies export in real goods in one year. More than half of this 200 billion krona sum is in the hands of companies controlled by the Wallenberg family, and more than half of all currency transactions in and out of Sweden are performed by the Wallenberg-related S-E Bank.

The run was supposedly triggered by the Finnish decision to let its currency float by decoupling it from the European Currency Unit (ECU), which meant a de facto decision to devalue the Finnish mark. Since Sweden and Finland have similar industrial structures, everyone thought that Sweden would also have to decouple its currency from the ECU.

Then, Riksbank head Dennis carried out his now world-famous fight to save the Swedish krona, a fight which, if allowed to continue, will destroy what is left of Swedish industry. Already, this depression has cost Sweden 200,000 industrial jobs out of 1 million, i.e., a 20% decrease. Swedish industry employed only 1 million out of a labor force of 4 million, so even before the acute crisis, Sweden as an industrial nation was in deep trouble.

Refusing all but monetarist "remedies," Dennis pushed the economy from the frying pan into the fire. He ended up increasing marginal interest rates, that is, the interest rate the banks must pay on daily loans from the Riksbank, to 500%. All this drove the ordinary interest rates above 20%, and with an inflation level of 2%, it resulted in a real interest rate (the difference) of almost 20%, which kills any productive investment in industry or agriculture.

## A sane voice

One of the few sane voices from the Swedish establishment, the head of the giant Swedish-Swiss company ABB, Percy Barnevik, is warning that Swedish industry will be destroyed if this crazy monetarist policy is not stopped. Barnevik has incessantly in the last year called for infrastructure programs to develop eastern Europe. He has repeatedly warned that if we do not act now, we will end up with 50,000 Russians camping outside Stockholm.

Why is an obviously insane policy being pursued by a coalition of parties which present themselves as protectors of Swedish agriculture and industry? One explanation is, that by keeping Bengt Dennis, a well-known Social Democrat, as head of the Riksbank, this new liberal-conservative coalition government made very clear, in spite of what they were saying, that they will continue a policy of anti-industrial monetarism, just as the Social Democrats did during the 1980s. This policy had seen the deregulation of the internal Swedish banking and credit market in the middle of the decade, and then, at the end of decade, the elimination of currency regulation. The deregulation of the currency left Sweden wide open for runs, like the recent ones, on its krona.

The monetarist Social Democratic policy began as soon they were back in power in the fall of 1982. The first thing they did was to install Dennis as head of the Riksbank. They also made a flying start into the speculative transactional economy they had created during the 1980s, by devaluing the krona 16% in October 1982. The prime movers of that policy were Prime Minister Olof Palme, Finance Minster K.O. Feldt, and Dennis.

All three of these top Social Democrats have been important operators on the international scene. Palme's role is known, but what is not known to the general public is that during his time in office, Feldt played an important role in carrying out the policy of the IMF as chairman of the Group of Ten. To carry out the IMF's policy toward our neighboring Baltic nations is a task which "conservative" Prime Minister Bildt has made his own. Dennis has been one of the important officials at the regular monthly meetings of the Bank for International Settlements, where heads of the various European central banks decide their policy. During the last year, Dennis has chaired these meetings.

During the 1980s, Social Democratic Finance Minister Feldt became famous for introducing the "cheese slicer" principle, in cutting the budget every year throughout the decade. The idea was to cut a small slice each time across the budget, to carry out a continuous austerity policy. The only purpose of Feldt's Social Democratic policy then, like the "conservative" policy of today, is to satisfy the demands of the "market" to cut consumption.