

17 October 2008

World Economy

Sweden - The 1990s crisis

Banks saved - workers' and public sector paid

Per-Ake Westerlund, Rattvissepartiet Socialisterna (CWI in Sweden)

The Economist's editorial, "Save the system", recalls the Swedish financial crisis of the 1990s, as an example: "In the 1990s Sweden moved to recapitalise its banks quickly and recovered quickly...". In the media's praise of the British prime minister, Gordon Brown, we're told he was inspired by the Swedish example. But what are the real lessons from Sweden? Who paid the price for saving the banks?

Ministers of the Swedish right-wing government 1991-94, then hated by ordinary people, have been travelling around Europe as heroes, in recent weeks. For example, the then deputy finance minister Bo Lundgren, today director of the state debt agency, is portrayed as an experienced bank-saver. The fact that Sweden today is preparing a new state fund for banks in crisis should be enough to put an end to this false propaganda.

The root of the 1990s crisis was neo-liberalism. A huge devaluation in 1982 led to a sharp increase in Swedish exports and profits. In 1985, the Social Democratic government capitulated to the pressure from capitalists. Capital flow and finance businesses were deregulated (limits on loan amounts and interest rates were abolished). In 1988, loans increased by 31 per cent, a trend that continued until 1990. This was based on property prices increasing by 25% per year.

Bosses' crisis – workers pay

In the late 1980s, Swedish speculators became the equivalent of their Icelandic counterparts in the 2000s, "vikings" buying up property, in central London and elsewhere. Behind the speculators were the banks and finance companies. In 1990 the property bubble started to burst and in the end of 1991, the bank crisis had hit home.

The crisis then spread, with a hard landing for the entire economy. GDP fell for three years in a row (1991-93), by 5% in total. Between 1991 and 1995, one job in five in industry disappeared, as did a third of construction jobs and hundreds of thousands of public sector jobs. In September 1992, 61 companies a day went bankrupt. Between 1990 and 1993, unemployment increased from 1.7 per cent to 8.2 per cent.

In 1992, the crisis coincided with a currency crisis in Europe. In defence of the Swedish currency, the Krona (SEK), the central bank, at one stage, briefly raised interest rates to 500%. When the defence of the currency failed, the Swedish Krona was devalued on 19 September. The following day, the first in a series of "crisis packages" was presented. In a deal smelling of 'national unity' the right-wing government (in power 1991-94) in alliance with the 'opposition', the Social Democrats, introduced cuts in pensions, holiday days, the grant for asylum seekers, state contributions to councils and health service etc. Special taxes for workers, supposedly to cover costs for unemployment, pensions etc, were introduced. Huge tax cuts for the rich and companies in 1990 had already weakened state revenue, which increased the pressure for cuts.

The deep crisis was used by capitalists and politicians to attack the entire welfare state. The Social Democratic government of 1994 boosted a "world record in austerity", cutting 134 billion SEK from the public sector. Public sector expenses, as share of GDP fell from close to 70 per cent, to 50 per cent in 2007. In 1990, Sweden had the highest expenditure on health services as a share of GDP among OECD countries - in 2007 Sweden was ranked 13th.

"500,000 public sector employees and 150,000 in the private sector met with full or part time redundancies at their workplaces... Twelve years later, we still feel the repercussions of this shocking attempt to save the Swedish state from economic collapse" an academic researcher wrote in 2005. In the period 1992-2000, over 1.8 million people in Sweden (40 per cent of the workforce) were unemployed for some time, half of them for two years or more.

For those still in work, conditions got worse. As a result of 100,000 jobs cuts in health care, by the end of the 1990s and early 2000s, there was a sharp increase in the number of female public sector workers being forced to take long periods of sick leave.

In contrast, there was no shortage of capital to stop a run on the banks and save them. The state issued a guarantee to fulfil all obligations made by the banks. The banks' loans from foreign banks were replaced by the Swedish central bank borrowing 240 billion SEK abroad. A state banking emergency was established by the right-wing government in the autumn of 1992, also with support of the Social Democratic 'opposition'. First of its

patients was the already state-owned Nordbanken (now Nordea). In this case, the state bought shares from the 30 per cent private owners at outrageously high prices. The following state reconstruction included the sacking of 1,200 of the bank's staff. One private bank, Gota Bank, was nationalised and merged with Nordbanken. The state also issued guarantees for Sparbanken and Föreningsbanken, which later merged into Swedbank. The crisis-ridden SEB (the bank of the Wallenberg finance family) narrowly escaped state intervention, through a drop in interest rates in 1993.

The state took responsibility over the banks' bad loans and deficits, while the profitable parts could be kept by the banks. Later, some property was sold by the state. According to the state bank crisis committee in 1996, the net cost to the state was 68.2 billion SEK (6.8 billion euros), in those days about a tenth of one year's state budget. Some have later argued that by privatising Nordea later, the state got back what it paid in the crisis. This analysis does not take into account the selling-off of the wealth of the state which privatisation involves. It also disregards the general weakening of the public sector and the welfare system.

The state fiscal deficit, and later, also the national debt were reduced at the cost of huge cuts. In the shock that followed the crisis, several neo-liberal measures were introduced. A 'pension reform' lowered pensions drastically and linked them to the stock market. The big state pension fund could now be used to buy shares with 70 per cent of its capital compared with 15 per cent previously. Energy, local transport, telecom and postal services were also deregulated.

The fightback

These crisis policies also met with resistance and provoked a strong radicalisation in society. There was widespread hatred towards politicians and the "dictatorship of the market", an phrase coined in those days. In 1992, CWI members in the trade unions pushed the trade union federation, LO, to organise its first day of protest since 1928. 200,000 participated in demonstrations on 6 October. New organisations of the unemployed organised a number of protests. Rattvissepartiet Socialisterna (CWI in Sweden), doubled its membership between August 1992 and December 1993, and had quadrupled it by 1998. The Swedish crisis at this time, however, took place against a completely different international situation than today. An upturn in the economy, combined with the effect of the collapse of Stalinism and capitalist globalisation, made it possible for the trade union leadership to head off further radicalisation in the 1990s.

One key factor behind the recovery of the banks was the huge state debt which was managed by the Swedish banks. The debt increased by 500 billion SEK in five years. In 1994, 60 per cent the state debt was owed to Swedish banks and big business.

Last year Swedish banks made record profits, 86 billion SEK. These seemingly stable banks, however, are now being hit by the crisis. For example Swedbank, praised for its profits last year, had 9 billion of its capital 'secured' in Lehman Brothers. In the Baltic states – now gone from double-digit growth to recession in one year – Swedish have total dominance. Following the bailout negotiated in the rest of the EU, the Swedish government now again launches a fund to save banks.

Sweden's two 'recoveries' in the 1980s and 90s were both based on huge devaluations and increased exports. Exports, as a share of GDP rose from 29.8 per cent in 1990, to 51.3 per cent in 2006. Another reason for increased profits was low wage increases and a transfer of capital from public to private sector. There was no quick recovery for workers and the unemployed. In fact, when the crisis now again hits Sweden, the remnants of the 1990s will make the impact of the crisis even worse.

socialistworld.net
website of the committee for a workers' international
PO Box 3688, London, Britain, E11 1YE
Tel: ++ 44 20 8988 8760
Fax: ++ 44 20 8988 8793
cwi@worldsoc.co.uk