Social Democratic government in Sweden pressed to adopt euro

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11 October 1999

The ruling Social Democratic Party (SPD) in Sweden is being pressed by key political figures and institutions to hasten the country's entry into the European Monetary Union (EMU). Sweden had opted out of joining the first wave of countries to adopt the euro in January 1999.

The SPD heads a minority government with the support of the Left Party and the Green party. It is to hold an extraordinary congress on March 10-12, 2000; the main item on the agenda will be whether or not to adopt the euro. SPD leader and Swedish Prime Minister Goran Persson has stated that no decision has yet been taken on the issue.

On September 3, Lars Heikensten, the deputy head of the Swedish central bank, the Riksbank, said, “Sweden ought to join the euro area as soon as possible." Heikensten is representative of those who estimate that continued isolation from EMU will result in Sweden being economically and politically weakened in relation to those countries who participate in the single currency.

Pierre Schori, an SPD European Parliament member who is also on the executive committee of the party, said, “The issue of a referendum must be discussed ... an answer must be given quickly.” The former Foreign Aid and Migration minister continued, “As the economy is becoming more global it is important that the currency is made European." Former SPD finance minister Erik Asbrink warned, “Sweden is losing influence by staying outside the currency union.”

The discussion on EMU entry takes place amidst the recent budget announcement of large tax cuts. Next year taxes are to be cut by 15.55 billion krona (US$1.88 billion). It was expected that tax cuts would be just over 10 billion in 2000. In 2001, tax will be cut by 22.66 billion krona and by 19.03 billion in 2002. Big business is the major beneficiary and will see taxes fall by 2.78 billion krona in 2000, 4.15 billion in 2001 and 1.8 billion in 2002. The Confederation of Swedish Industries said this was “a break from the trend that the government finally sees that tax cuts for companies are important for growth”.

In the run-up to the budget, the Riksbank warned the government to prevent wage increases and to control fiscal policy. Heikensten said, “If labour market organisations were to make unduly high wage settlements or if fiscal policy were to get out of hand, the Riksbank would no longer be in a position to secure low inflation.” The Riksbank responded to the budget by stating that an increase in interest rates was likely in order to prevent the economy overheating. On October 4, Urban Backstrom, the head of the Riksbank, said, “In the absence of negative shocks, such a direction of policy normally tends to generate GDP growth above the rate that the economy is capable of sustaining in the longer run." He warned that if interest rates were not increased, then there could be an increase in inflation and wage demands. The Riksbank could increase interest rates this week.

Although Sweden's economy is growing at a rate faster than the European average, an Organisation of Economic Co-operation and Development (OECD) report released in August pointed to contributing factors that threaten to undermine this. Sweden's per capita income standing has been reduced from fourth to fifteenth place in the world over the past decade.

The OECD proposed a number of measures in order to prevent the development of a long-term crisis. It said that “Restoring the position of Sweden in terms of GDP per capita requires further substantial action to complete regulatory reform, modify transfers and reduce labour and capital taxes, subject to the overriding requirement of a sustained structural budget surplus".

This translates as economic deregulation, cuts in public spending on welfare, wage cuts and more tax cuts for business. The report stated that Sweden's high level of income tax and highly developed welfare programmes reduced the incentive to work. It called for a cut in taxes on capital for small and medium-sized firms. It criticised the level of benefit that the unemployed receive, claiming that nearly 40 percent of unemployed people would see no, or insignificant, increases in disposable income from going back to work. The OECD said the labour market would need to be far stricter. It said that Swedish workers work fewer hours than elsewhere in Europe, which together with an increase in absenteeism had reduced the actual utilisation of labour by 17 percent over the past three decades.

A rise in wage increases was also a major cause for concern. It said that for the 1998-2000 period, wage levels had increased to around 3.5 percent, at least 1 percentage point higher than the projected average increase in the euro area. If Sweden opted to join EMU in the next few years, its interest rates would have to remain closely aligned with those in the euro area. At present, the key "repo" rate is 2.90 percent—half a percentage point above the euro level. Calling for deregulation of the labour market, the report stressed that "Monetary policy cannot compensate for structural labour market rigidities, were these to translate into excessive wage inflation, or act as more than a short-term substitute for continued fiscal policy restraint".

In his budget speech, Finance Minister Bosse Ringholm said that further wage increases would not be tolerated. "Wage deals which are higher than the economy could handle would undermine economic policies. The government expects its partners on the labour market to shoulder their responsibilities." He made this statement with the knowledge that the government is set to begin negotiations with the major trade unions over new employment contracts in 2001.

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