Sweden: Over half a million face unemployment

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In a dramatic worsening of his economic forecast, Sweden's Finance Minister Anders Borg presented his predictions for economic performance this month. The economy will contract by 4.2 percent in 2009, according to Borg. This figure represents a substantial revision from previous government statistics, which in January claimed that the economy would shrink by only 0.8 percent this year. Most observers consider that the latest estimates fall short of the actual contraction to come.

Borg conceded that the situation facing Sweden was very serious. He suggested that unemployment would increase to nearly 9 percent this year, rising to 11 percent in 2010 and to nearly 12 percent in 2011. Just days later, a report from the national employment agency said that over half a million Swedes will find themselves out of work next year. It noted that the increase in unemployment would be felt across the labour market, but that young people and the manufacturing industry would be particularly hard hit.

In recent months, truck makers Skania and Volvo have announced job cuts in the thousands, while the ongoing restructuring process at automaker Saab led to 750 job losses last month with more on the way.

As well as larger companies, many are threatened with unemployment as small firms are forced to close down. A recent study revealed that bankruptcies among companies increased by 85 percent in March when compared with the same month in 2008.

The deepening global crisis has also hit Swedish export industries, with some sources suggesting that exports will drop by 15 percent in the next 12 months. The National Institute for Economic Research, in a report published the day before Borg's announcement, added that 250,000 jobs would be lost this year. Accepting the bleak outlook for the coming period, it called for more fiscal stimulus measures from government in order to boost demand.

The government has little room for manoeuvre, however. As economic conditions have worsened, government finances have suffered a massive fall with a budget deficit of 130 billion kronor expected for 2009. The budget deficit is projected to reach 3.8 percent of GDP in 2010 and to remain above 3 percent in 2011.

The Riksbank (central bank) has reduced interest rates to just one percent in response to the crisis. Many analysts are expecting a further reduction to 0.25 percent at the bank's next policy meeting. The problems facing the Riksbank are complicated further by the slide in Sweden's currency. Since last October, the krona has suffered a sharp fall in its value, trading at over 11 to the euro at its weakest. This was the weakest position the krona had found itself in since the formation of the euro currency and represented nearly a 15 percent decline from its 2008 level prior to October.

Since the collapse in the financial system last year, over one trillion kronor has been made available to the banks by means of a number of measures, including guarantees and commitments from the state to buy the banks' bad assets. At the end of March the government decided to extend the period during which time banks can access state aid by six months, until October 31.

In spite of the vast sums of money made available, the banking system is still precarious. Moody's released a statement on April 8 declaring it was reducing its ratings for SEB due to its exposure in the Baltic region, which is currently in the deepest recession in the European Union. SEB's long-term debt rating and its Bank Financial Strength ratings were downgraded from Aa2 to A1 and B- to C- respectively.

The extent of the exposure to the Baltic crisis is considerable. By 2008 Swedbank accounted for 49 percent of bank lending in Estonia, while SEB enjoyed a 30 percent share in Lithuania. Both countries face severe economic contractions, with Estonia likely to shrink by 8.5 percent and Lithuania by 10.5 percent this year.

Unlike the substantial resources devoted to protect the banking system, the commitments offered by the government to safeguard jobs have been minimal. In January a 20 billion kronor stimulus package was introduced which, amongst other things, provided some limited loans to the country's beleaguered auto industry. The main measure contained within the package was the decision to permit corporations to withhold payment of corporation tax for up to one year. This was presented by the Alliance government as a means to encourage economic activity, but merely allows for the continued enrichment of the financial elite at the expense of working people.

In conditions of a rapidly deteriorating economy and growing unemployment, social tensions are rising. Truck maker Volvo was forced to abandon plans to award large bonuses to 250 top employees due to widespread public outcry. The bonuses would have increased salaries for some by up to 60 percent at a time when the firm was announcing job cuts at its plants across Sweden. The government felt compelled to publish a statement denouncing such "excesses". In an article in *Dagens Nyheter*, members of the government wrote, "There must be no question that the management of state-owned companies work with the good of the Swedish people in the front of their minds.

"We are closing the door to all possibilities for variable remuneration and bonus. All the top managers at state-owned companies will only have fixed wages under the new guidelines."

Shortly after this was written, a further scandal erupted over the AMF pension company, one of Sweden's largest pension management funds. The firm has been rewarding its executives with handsome bonuses and pension pay-offs, including a pension reportedly worth 30 million kronor to former CEO Christer Elmehagen. At the same time, AMF has been consistently cutting its pension payments to ordinary people, claiming it had insufficient funds to continue payment at the previous level.

The trade unions were implicated in the scandal as Wanja Lundby-Wedin, head of the Trade Union Confederation (LO), sits on the board of AMF and would have approved any bonus payments to top executives. Fearing a popular backlash, Social Democrat leader Mona Sahlin was compelled to call for Lundby-Wedin's resignation from the AMF board, which took place on April 5. Sahlin also blamed the recent poor poll ratings for her party, which has fallen by eight percentage points to 30 percent, on Lundby-Wedin's role in the AMF scandal.

On April 6, an emergency meeting of LO agreed to permit Lundby-Wedin to continue in her post as union head.

The role of the trade unions in the case of AMF is no aberration. Rather it is a result of their nationalist outlook and attempts to secure agreements with employers at the expense of the working class. Last month, one of the largest unions, IF Metall, announced an agreement with employers to permit wage reductions by up to 20 percent through the end of March 2010 and possibly longer.

Workers are already drawing their own conclusions about the role of the unions. Last year union membership dropped dramatically, with LO losing over 30,000 members in the first nine months. This followed on from a 7.2 percent decline in union membership in 2007. The same has been true of the established political parties, with five of the seven parties represented in the Riksdag (parliament) reporting decreased memberships in recent months.

Sahlin's approval rating now stands at half that of Prime Minister Frederick Reinfeldt. At the start of 2008 the so-called Red-Green Alliance (Social Democrat-Green Party-Left Party) held nearly a 20 percent lead in the polls over the Alliance made up of the Moderate, Liberal, Centre and Christian Democrat parties.

On every major policy decision, the Social Democrats have offered no real alternative to the right-wing Alliance government. While its members abstained from voting in parliament on the financial backing for the banks, it supported the measures in principle.

In its negotiations over a potential three party coalition together with the Greens for next year's election, the Social Democrats insisted that the Left Party accept "responsible economic policies", including spending cuts to help balance the budget and an independent central bank. The Left Party, while initially raising concerns, reached an agreement at the end of last year to work together at the next election. The latest polls point to neither bloc achieving a majority in the Riksdag, with one survey suggesting that the balance of power could be held by the far-right Sweden Democrats, who could pass the 4 percent threshold for the first time, enabling them to have parliamentary representation.