Finance minister proposes “Swedish model” to solve European debt crisis

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Sweden’s finance minister Anders Borg has spoken out in favour of a “Swedish solution” to resolve the deepening debt crisis gripping the European continent.

In an interview with AFP, he remarked that the example of how Stockholm dealt with its banking crisis in the early 1990s should be adopted across Europe. However, his comments come as it becomes increasingly evident that Sweden’s economic outlook is deteriorating rapidly.

Despite a relatively strong performance when compared against other European economies, the outlook for growth in the coming period has been reduced dramatically, mainly due to fears of the spread of the debt crisis to Scandinavia. As Borg acknowledged in the same interview, “I don’t think that we can see the European banking system as just a Eurozone banking system. There is a vulnerability that we have such a high degree of currency financing (from the Eurozone)... (So) if we don’t get stability in the European banking system that could also cause big problems in Sweden.”

To achieve stability, Borg has called for a substantial write-down on Greek debt, while at the same time supporting the strengthening of the European financial and stability fund (EFSF). These policies must be combined with an intensification of spending cuts by governments, he insisted. “We also need to see a very stringent dealing with the bank restructuring, because if Swedish, German and British tax payers are going to put tax money into other countries’ banks, (they) are going to want to safeguard their money,” he continued.

A major concern in Swedish ruling circles is the drying up of liquidity for its banks. As Borg explained in a separate interview with financial daily *Dagens Industri*, “Sweden does not have access to the liquidity which the ECB (European Central Bank) provides the Euro countries.”

Going on to note that borrowing in foreign currencies had risen sharply in recent years, he added, “That represents a serious stability risk for the Swedish economy... (We are) dependent on our own central bank and our own krona and we are therefore more vulnerable than many other countries.”

The latest expression of the growing crisis came on Wednesday, when Nordea bank, the region’s largest, posted a fall in third quarter profits of over 300 million euros. The figures represented more than a 40 percent drop in profits compared to the same period in 2010. Nordea CEO Christian Clausen commented, “It has been one of Europe’s most dramatic and problematic quarters in the history of the euro.”

Nordea’s performance has been worsening throughout 2011, with the announcement at the end of August that it would be making 2,000 redundancies across Scandinavia.

The recently published budget forecast that the economy would slow next year, growing by little more than one percent. The slowdown in the world economy will wipe out a projected budget surplus of 65 billion Kronor (7.13 billion euros), with the budget stating that no surplus would accrue in 2012.

Despite announcing several measures to create temporary jobs and training programmes, unemployment remains close to 8 percent. This year it stands at 7.5 percent, but it will rise to 7.8 percent next year and 7.7 percent in 2013.

It is in this worsening economic climate that sections of the ruling elite are seeking to hail Sweden’s response to a previous downturn as a viable means to deal with the current crisis of capitalism. Even a cursory comparison of the current situation with that which Sweden confronted in the early 1990s proves that there is no basis for such claims.

The banking crisis which confronted Sweden in 1991-92 was chiefly a regional one. It emerged out of a vast increase in property speculation during the 1980s, as well as a deregulation of the banking sector. While it had a significant impact in neighbouring Finland, Norway and Denmark, only a brief economic slowdown was felt internationally. The new markets opened up for the capitalist system by the collapse of the Soviet Union and its satellite states in eastern Europe, together with the rapid rise of financial speculation centred in the United States, allowed capitalism to experience a period of boom during the mid-1990s.

In an article published earlier this month, Borg and foreign minister Karl Bildt claim that the government's decision to take control of the banks and cover their losses with taxpayers' money was the key to the subsequent stabilisation in Sweden. They go on to state that the government made back its investment by selling off valuable assets at a later date when economic conditions had improved. "We learned then the importance of restoring confidence and that capital injections are vital—if necessary with government money," they write.

The problem which their analysis does not address is that such conditions do not exist in 2011. No serious economic observer has predicted a significant recovery in the global economy over the next period, with the growth rates of the 1990s ruled out. In addition, the balance sheet of the Swedish government was much stronger in the early 1990s than those of government's throughout Europe today.

They also choose to leave out the impact of the decision to assume responsibility for the private debts of the banks. For the working class in Sweden, it represented the beginning of a serious attack on their living standards. As the English language news service *The Local* noted tellingly of the 1990s, "Sweden also cut public sector jobs, slashed pension and unemployment benefits, sold off publicly-owned companies and hiked union membership fees as part of efforts to stabilise the economy and its public finances."

These cuts were imposed by governments led by both Social Democratic and the older right-wing parties. The sharp shift to the right of the Social Democrats during its period in government from 1994-2006, allowed the victory of the right-wing Alliance in 2006, who upon taking power were able to launch the largest and most widespread privatisation drive in Sweden's history.

In reality, the measures for which Borg is calling are not fundamentally different from the massive state bailouts of the banks which took place in 2008-09. Governments across the globe have assumed responsibility for billions in banking debt. Whereas in an earlier period it was partly possible to deny the impact of a bailout of the financial elite with the use of public funds, today such measures must be accompanied by a vicious intensification of austerity measures directed against working people. Sweden will not be an exception to this.