

Guest editorial

Sweden is better than this

Katrine Kielos

Everyone knows that it's not what's being said about the political issues that matters. It's what can be said. Yes, politics is about 'credibility' and even more so about what is defined as 'credibility'. Ed Miliband doesn't look like a Prime Minister. He never will, unless the idea of what a Prime Minister is changes.

Ingvar Carlsson became the Prime Minister of Sweden under the worst possible circumstances. His predecessor, Olof Palme, was shot. On a cold night in February, 1986, at half past nine, walking home with his wife through the streets of Stockholm. We still don't know who did it. Or why. The theories are as many as there are Swedish crime novels.

Five years later, Ingvar Carlsson, the new leader of the Social Democrats, lost the election. It was 1991 and Sweden was in the middle of a severe financial crisis. During the 1980s, Swedish policy-makers had initiated the deregulation of many markets. Between 1983 and 1990 several deregulations of the financial sector were undertaken, all under social democratic governments. The liberalisation of loan restrictions contributed to a very rapid increase in lending. The country saw an extensive and risky credit expansion, largely concentrated in the real estate sector. In the early 1990s a fully developed banking and financial services bubble burst and between the summers of 1990 and 1993 Sweden suffered three years of negative growth. In these years, public debt doubled, unemployment tripled, and the budget deficit increased tenfold. At the time it was the largest of any OECD country – more than 10 per cent.

The centre-right government who took office in 1991 blamed the problems on the social democrats: 'this is the mess we inherited'. They told the story that, once upon a time, there was a centre-left government that over-spent. The tune echoed through the international press. This was 'the death of the Swedish model'. How does one win back power in a situation like that? The financial mess wasn't alone in shaking Sweden's sense of self. The country was torn apart by an infected debate about EU membership. A referendum was to be held shortly after the next election. Does any of this sounds familiar?

What makes the story interesting is that Ingvar Carlsson won back power for the Social Democrats in 1994. And he won on the slogan: 'Sweden is better than this' (1).

Credibility needs consistency

Ed Miliband's mantra at Labour conference in 2013 – 'We're Britain. We're better than this' – might or might not be inspired by Sweden in 1994. The situation Ed Miliband now faces is however similar enough to make a comparison with Ingvar Carlsson interesting. This has already been pointed out in an excellent article by Jeremy Cliffe last year (Cliffe, 2013).

But the Social Democrats did more than win in 1994. They balanced the budget in four years and between 1994 and 2006 the Swedish economy created 400 000 new jobs,

equal to 9 per cent of the labour force. By the end of this period Sweden had the second highest employment rate in the EU. Disposable income increased and inflation remained lower than the European average. And yes, Ingvar Carlsson brought the country into the EU. Paradoxically by not talking too much about it.

When the story about the Swedish financial crisis and its aftermath is told it is usually as a cautionary tale about the need for centre-left parties to propose even harsher cuts than their conservative opponents. Otherwise, the story goes, the left won't be viewed as fiscally credible. The Social Democrats in Sweden did propose the deepest cuts during and after the 1994 election. But the Swedish situation was special in macroeconomic terms. Budget consolidation in a small open economy at a time when the rest of Europe is doing fine is one thing. Today, when the crisis is global and many countries embrace austerity whether they need it or not, the situation is very different. Furthermore, interest rates in Sweden were in two digits during these years. As the cuts gained results, the country was rewarded with lower interest rates. The fiscal contraction was therefore balanced by a monetary stimulus.

This couldn't be more different from the situation in the UK today, which of course already has record low interest rates. The lessons for Labour from Sweden in 1994 are therefore more about narrative than about how to cut. In his memoirs Ingvar Carlsson writes about how frustrating it was as opposition leader to be blamed for the country's economic mess (Carlsson, 2003, 464). The Swedish conservatives had not exactly been against the financial deregulation that Sweden undertook in the 1980s. The whole crisis narrative was now however about over-spending. It didn't seem to matter that in reality matters were much more complex. This is no surprise. Debt is never just debt. Debt is about trust. And trust is what politics is made of. To win an election where debt, deficits, and the blame for the economic mess are factors, is to address this deeper level of the problem.

'Fiscal credibility' is not just about the debt to GDP ratio and how big the structural deficit is at what time. It's about someone you knew not being the person you thought they were. Someone who told you 'things can only get better' and they didn't. It doesn't matter whose fault it is, but it makes you not trust politicians. And when people don't trust politicians the left loses. Social democracy is fundamentally a belief in the power of politics. You cannot win as a social democrat without reinstating a belief in politics. What conservatives are really saying when they point fingers at the left and say 'you over-spent' is 'policies for more equality don't work. They create an inevitable mess'. *That* is the claim you have to take on. Everything else is a distraction.

What the Swedish Social Democrats managed to do in the 1994 election, and during the painful years of turning the economy around, was to provide a moral framework for their story. This was more important than the minutely detailed projections for future spending they published (2), at least when it came to rebuilding their fiscal credibility. The party turned the economic problems into a narrative about national survival. This narrative wasn't about the left trying to convince the right that it hadn't over-spent. It wasn't about left and right at all. It was about Sweden. It was about the rest of the world saying that the Swedish model didn't work and a small country determined to prove them wrong.

This kind of narrative has deep roots in Swedish social democracy. Under Per Albin Hansson's leadership in the 1920s communitarian and even nationalist appeals became associated with the left. Equality was reframed from something threatening and revolutionary into a necessary foundation for national unity. The famously progressive and liberal politics of Swedish social democracy have in fact very often been sold to the voters using conservative language about the nation. When Ed Miliband speaks about 'One Nation Britain', he is trying to achieve something very similar (see my earlier discussion of this in Kielos, 2012). In Sweden, these themes are however deeply ingrained in the national

consciousness and the Social Democrats were able to activate them in response to the crisis. Not just with the slogan 'Sweden is better than this', but with the whole way they told their story about the country's debt.

They made the deficit about the 'sneering young financial mob on Wall Street', as the Social Democrats' Finance Minister (and later Prime Minister) Göran Persson put it. '28 year olds in expensive suits in London, Frankfurt and New York' were questioning the size of Swedish unemployment benefits. And he, the Finance Minister, couldn't tell them it was none of their business because he came to them as a borrower, cap in hand. A country that each and every day has to borrow money is in the hands of its creditors, his argument went. This leads to power shifting from the open chambers of the people's representatives to the closed rooms of the financial markets.

This was why Sweden needed to turn its economy around and *this* was why the public came to believe that the Social Democrats wouldn't 'over-spend'. They gave the public an argument, a reason, for why their new and stronger commitment to fiscal stability made sense from their old social democratic values. It made them look consistent and consistency is what all kinds of credibilities are built on – including economic credibility.

A story about a new economy

The complex and messy processes we call political reform depend equally on politics, policy and narrative. Parties accused of 'not having any policies' often have lots of policies. Page after page, with figures and proposals, ideas and projections. What they don't usually have are policies based on an analysis of the nature of the economy they think will emerge on the other side of the recession, policies that are also attached to a broader vision about what society they want to create. Without these things they don't have a narrative. And without a narrative their policies don't make it into the public conversation. Or the history books for that matter.

In the Swedish economy of the 1990s the role of low-educated workers had already diminished. This happened before the crisis, but the process was speeded up by the shock that hit the labour market. Just as economist Carlota Perez argues, in order to understand a financial crisis, you have to understand the bubble that preceded it (Perez, 2003). What technological processes were changing production systems, organisations, means of communication, transport, distribution, patterns of consumption, and styles of living in the years leading up to the crisis? These processes will have contributed to the bubble, but they will also be what the new growth after the recession needs to be built upon. New technology always leads to speculation – everyone wants to get rich from the new and society has not yet caught up. Carlota Perez argues that it is only after a crash that the opportunities of the new technology can be realised for the common good. This happens when a society succeeds in creating institutions that are better adapted to the characteristics of the new economy. The need for better solutions to the short-term problems of recession and the need for better solutions to the long-term challenges faced by a country must therefore be linked. The successful policies of the Swedish Social Democrats' government in the 1990s did just that. They were not only about taking Sweden out of the recession, but about preparing for the new economy on the other side.

Any such exercise is of course easier said than done. It requires an idea of how this new economy will look. And projections are always hard. As J. K. Galbraith put it: 'God created economists to make astrologers look credible'. The social democratic government in Sweden took a bet on knowledge, the new information technology, and green jobs. It turned out to be right, but it was not always an easy sell. Cuts to unemployment benefits are felt immediately by vulnerable groups – investments in future growth don't pay off until

much later. However, this is the other aspect of the Swedish economic turnaround that is often missed: it wasn't just about cuts – it was about strategic investments and a very clear idea about what kind of economy the country needed to be transformed into.

In order to introduce the then new information technology to broad layers of the population, the government introduced a scheme that allowed people to obtain a home computer through a very favourable leasing agreement with their employers. The policy was in line with a classic Swedish social democratic approach: not only embrace what's new, but try to give as many people as possible access to it. Computer penetration soon outpaced every other country and it's no coincidence that Sweden has gone on to produce companies such as Spotify and Skype.

The government drew the conclusion that the development of novel production technologies would proceed at a high speed. This would increase the need for a flexible and suitably skilled workforce. Bold measures were needed and they introduced an adult education programme unmatched in size and scope anywhere in the world. The so-called 'knowledge lift', which began in 1997, was targeted at unemployed workers with low levels of schooling. The goal was to lift productivity in the whole economy. People with basic education got the chance to complete a secondary level. An employed worker got the equivalent of unemployment benefit if he or she entered the programme and if the employer agreed to replace him or her with a jobless person. The employer's cost was unchanged, and the state's cost was limited to the education. More than 10 per cent of the workforce seized the opportunity, mainly women. When the business cycle turned up again, they became a valuable resource on the labour market.

In 1997 Prime Minister Göran Persson (who had succeeded Ingvar Carlsson) also launched his new national project, the 'green people's home'. The name referred to the 'people's home' agenda of his predecessor, Per Albin Hansson. 'The people's home' is one of the most important concepts in Swedish politics and embodies the communitarian spirit of Swedish social democracy. It is about viewing the nation as a home. This was Per Albin Hansson's vision of how the nation of Sweden should be built. In the good home there is equality, consideration, co-operation, and helpfulness. When you say that a nation should be like a home you automatically imply these values. It was a conservative frame filled with a progressive message. And it became the guiding force for more than 60 years of social democracy in Sweden (Kielos, 2012).

Göran Persson wanted to expand on this vision and tie it into a green agenda. His main policy idea was to make local government take greater responsibility for reducing CO₂ emissions while at the same time creating local green jobs (3). Over half of Sweden's local authorities participated and the state committed to a very substantial amount of funding. It is estimated that the programme helped reduce Swedish CO₂ emissions by two million tons per year between 1998 and 2008. This equals nearly 75 per cent of the total Swedish ambition for the first Kyoto period. At the same time local jobs were created (4).

All of these policies – the home computer scheme, the knowledge lift, and the green people's home – were criticised. All of them had their faults. But they all made a difference and they created optimism and forward movement at a time badly in need of both. They did not just take Sweden out of the recession, but into a new kind of economy. They also told a story. About a nation with a certain set of values and how this nation could do things better. How it could become the country it was meant to be.

A good political narrative isn't about selling. A good political narrative expands what's possible. It redefines common sense and changes the terms of the debate. When Ed Miliband says 'We're Britain, we're better than this', it doesn't need to only be a clever attack on the Conservatives. If we look at Sweden in 1994, it could be much more. In other words, there might be more there than a mantra to borrow.

In summary

1. When they point the finger at you and say ‘you overspent’, what they are really saying is ‘policies for more equality don’t work’. *That’s* the argument you have to take on.
2. You cannot win as a social democrat without reinstating a belief in politics. The fight about ‘economic credibility’ is fundamentally about this.
3. Turn the economic problem into a narrative about national survival.
4. Argue your commitment to fiscal stability from your oldest and most familiar values to create consistency and trust.
5. The need for better solutions to the short-term problems of recession and the need for better solutions to long-term challenges must be linked.
6. Policies should be based on an analysis of the nature of the economy you think will emerge on the other side of the recession.

How much of this is relevant to Labour and Ed Miliband today is open for debate. But the main point is this: the economy is never just the economy, stupid.

Katrine Kielos is a Swedish writer living in London. She is a columnist for *Aftonbladet*, Scandinavia’s largest daily newspaper. Her book *The Only Sex – Why You’re Seduced by Economic Man and How it Destroys Your Life and the World Economy* was published in Sweden by Albert Bonniers Förlag. It was nominated for the August Prize, The Swedish Publishers’ Association annual book prize for the best non-fiction book of 2012.

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Notes

1. In Swedish: ‘*Sverige kan bättre*’.
2. The so-called ‘Persson plan’, named after Ingvar Carlsson’s Shadow Finance Minister, Göran Persson. Persson was Ingvar Carlsson’s successor, serving as Prime Minister between 1996 and 2006.
3. The programme allocated SEK 6.2 billion to 211 local initiatives, which, when matched with local funding, amounted to an investment of around SEK 27.3 billion.
4. 8,400 full years’ work and an additional 400 permanent jobs as an indirect effect of the conversion to biofuels.