AUSTERITY AND THE SWEDISH POLITICAL ECONOMY

- A Case Study on the Rise of the Swedish Consolidation State -

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Abstract

Following the 1990-1994 crisis, the Swedish government embarked on an ambitious austerity programme that transformed the Swedish polity beyond recognition. This has given rise to a 'consolidation state' that operates based on a strict austerity regime combined with a sacrosanct commitment to attain budget surpluses and never default on its creditors. At its core lies a fundamental transformation of political institutions whereby the Swedish government's obligations to the people have been subordinated to servicing the country's debts so as to satisfy the demands of international financial markets. The implementation of a new fiscal framework and the transfer of important economic policy decisions to technocratic bodies outside the purview of elected governments has led to a rule-bound economic policy where fiscal policy is insulated from democracy. This institutionalisation of austerity has constrained the political wiggle-room and impeded efforts to allocate resources for anything other than tax cuts and paying down the debt. The dissertation focuses on how the establishment of a consolidation state in Sweden has reproduced austerity since the 1990s and then compares it to developments in Europe and the US.

Keywords: Sweden, austerity, consolidation state, fiscal consolidation, fiscal framework, globalisation, democracy, neoliberalism

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INTRODUCTION

Sweden experienced a severe multilayered financial-cum-economic crisis in the beginning of the 1990s (see Lindbeck, 1997). ‘Public finances, the economy, the banking system, the exchange-rate regime, and the housing market were all in a state of emergency’ (Haffert & Mehrtens, 2014, p. 134). The entire Swedish political-economic system was at stake. Sweden witnessed negative economic growth for three consecutive years between 1991-1993 (Henriksson, 2007); the public debt ratio sky-rocketed, jumping from around 45 percent of GDP in 1990 to just below 85 percent in 1998 (SOU 1997:66); interest on Swedish government debt amounted to around 15 percent of total public expenditure in 1994, the third largest strain on the budget (SOU 1997:66); the budget entered a deficit position, peaking at 11,2 percent of GDP in 1993 (Calmfors, 2013); and finally, unemployment rates tripled, reaching record-high double-digit levels and has since plateaued at around 8 percent (Lindbeck, 1997; Henriksson, 2007).

In 1994 there were rumours that the IMF was going to step in and take matters into their own hands (Henriksson, 2007). While this rumour never materialised, the severity of the crisis should not be understated. The 1990-1994 crisis was more acute for the Swedish political economy than the crises in most other European countries following the 2007-2008 financial crisis (Streeck, 2016).

In response to the 1990-1994 crisis, the Swedish government implemented a fiscal consolidation programme aimed at reducing deficits and debt accumulation (Prop. 1994/95:100). By April 1995 the austerity measures added up to 8 percent of GDP, with cuts in for example unemployment, sickness, and parental benefits (Henriksson, 2007). The number of public service employees also shrank from 1,4 million to less than 1,1 million between the period 1990-1998 (Haffert, 2019). Moreover, nearly all of the expenditure cuts made during the crisis have not been reversed (Haffert & Mehrtens, 2014). Changes to monetary policy were also made, such as in November 1992 when the fixed exchange rate of the national currency - the krona - was abandoned and replaced by a flexible exchange rate, or in early 1993 when inflation targeting was adopted and operational from 1995 onwards (Andersson & Jonung, 2019).

The 1990-1994 financial-cum-economic crisis thus triggered a dramatic shift in Swedish fiscal policy that stood in stark contrast to the ambitious welfare and full employment policies of the post-war years. Austerity measures implemented in response to the crisis have persisted long after it subsided. The crisis transformed the Swedish polity beyond recognition and placed it on a path towards a neoliberal austerity regime (Streeck 2016). As Lukas Haffert and Daniel Mehrtens (2014) put it: 'Sweden… moved from a very expansionary fiscal regime to one of the most austere regimes in the developed world' (p. 138).

Research Problem

The 1990-1994 crisis marked a critical juncture for the Swedish political economy. However it does not explain why successive governments have continued to deploy strict austerity measures ever since. Moreover, Sweden is still formally in command of the krona and is not part of the European Monetary Union (EMU), meaning that it is not bound by international agreements to consolidate in the same way that eurozone countries are (Streeck, 2016). Indeed, austerity measures in countries like Greece, Italy, Spain, Portugal, and Ireland have been particularly harsh following 2008 and the subsequent eurozone crisis with devastating consequences for the people (see Varoufakis, 2017, 2018).

The implementation of an extensive austerity regime in Sweden will here not be treated as a freestanding isolated event. Developments in Sweden are highly contingent upon developments in the global political economy. To properly situate the Swedish case, I will therefore balance the focus on the Swedish polity with a broader analysis of developments in global capitalism and carry out a discussion of fiscal consolidation and austerity in Europe and the US. In other words, the research problem will be treated as a political-economic phenomenon that requires an analysis of capitalism and democracy at the transnational level. This kind of approach is especially pertinent to the current period in which globalisation has enveloped the entire world in an unfettered capitalist structure.

Aim

The aim of the dissertation is to examine how austerity politics have been reproduced in Sweden since the 1990s and to analyse what its effects are for the people. More specifically, the goal is to contribute to the already existing body of literature on this topic and to use it as a springboard in order to provide a more comprehensive and detailed overview of the Swedish 'consolidation state' (Streeck, 2016), a state that subordinates its obligations to the people in order to service its debts. In other words, as opposed to developing new theories, the purpose is to test the validity of and to elaborate upon Streeck's (2016) theory of the consolidation state. I will tackle the research problem by carrying out two levels of analysis, as represented by the research questions below. The first level will be delimited to the Swedish case while the second will transcend the country-specific context and analyse the consolidation state at the transnational level by looking at the European and US consolidation states.

Research Questions

- How have austerity policies been reproduced in Sweden following the 1990-1994 crisis?
- How do developments in post-1990s Sweden parallel international developments?

Delimitations

The first research question of how austerity policies have been reproduced in Sweden will delimit itself to the post-1990s context. Having a delimited time frame like this will help guide the research process. The same applies for the second research question which will also focus on developments from the 1990s onwards. This delimited time frame will however not apply to theoretical and background discussions. On the opposite end of the timeline, the analysis in the dissertation will delimit itself to the onset of the COVID-19 pandemic. In geographical terms, the dissertation will in broad strokes largely revolve around the proximate North Atlantic region and countries in the OECD. Nevertheless, the globalisation of capitalism has enveloped the entire world and so other countries, despite their absence in the discussion, will not be insulated from the findings.

Theoretical Framework

There is a large debate on the current stage of democratic capitalism and how states are operating within it. In the seminal *Post-Democracy* (2004) Colin Crouch argues that with the rise of global capitalism, democracy has been hollowed out in parts of the world where it has previously enjoyed its firmest stronghold. Evoking the metaphor of a parabola, Crouch (2004) argues that democracy had its highest point in the immediate post-war period with high rates of political participation and a more democratic economy of the Keynesian kind. Since then, periodic elections notwithstanding, democratic institutions have gradually been co-opted by a small elite, placing democracies on a path towards a condition of 'post-democracy' whereby the democratic will of the people has been replaced by wealthy business interests. Crouch (2004) points out that the political setting in the 21st century in many respects has become increasingly reminiscent of the world before the dawn of the 20th century, in which politics was dominated by a select minority.

Crouch (2004) also argues that with the advent of economic globalisation, power has become increasingly vested in transnational businesses. These businesses can thanks to untrammeled capital flows impose their will across borders, beyond the capacity of nation-states and democracy. Furthermore, the business elite, through a combination of threats and offers, can unlike everyday people provide a clear market fundamentalist manuscript for governments containing guidelines as to what they should do in terms of policy (Crouch, 2004).

For the purposes of this dissertation I have however opted to use Wolfgang Streeck's theory of the consolidation state as the central pillar of my analysis. Streeck describes the concept in detail and the sequence of developments that shaped its rise in *How Will Capitalism End?* (2016), although he also presents various ideas and arguments related to the theory in other texts which I refer to. Streeck (2016) notes that many of his arguments about the political economy and markets parallel those that Crouch makes in *Post-Democracy* (2004), in particular when it comes to declining political participation, the transformation of political institutions, and the fate of societies in a marketised world. I have nevertheless decided to use the concept of the consolidation state as it puts a stronger emphasis on the long-term increase of public and private debt and the worldwide attempts to bring it under control, which I believe is a key battleground for 21st century democracy. Streeck (2016), in drawing from Haffert & Mehrtens (2014), also emphasises the importance of the implementation of budget surplus rules in shaping the post-1990s Swedish political economy and its institutions.

The Consolidation State

Streeck's (2016) theory of the consolidation state argues that political institutions in rich capitalist democracies have undergone a deep transformation in order to serve the interests of international financial markets as opposed to the interests of society and the people. 'An established consolidation state is one that has managed to institutionalise a political commitment and build a political capacity never to default on its debt' (Streeck, 2016, p. 123). This requires the deployment of a strict austerity regime in order to bring down public debt, thereby safeguarding low risk premiums on government bonds and the state's sacrosanct commitment to its creditors. As a consequence, since a growing share of government expenditure goes to fixed expenditures, public investment decreases, there are cuts in social services, and the government is reluctant to take on new debt (Haffert & Mehrtens, 2014; Streeck, 2016, 2017a). Consolidating, Streeck (2016, 2017a) therefore argues, is largely a confidence-building measure whereby states try to signal to international financial markets that it is in a position to service its debt and not the people.

The rise of the consolidation state has consequences for democracy, which at times are of the post-democratic kind (Streeck, 2016). Haffert and Mehrtens (2014) stress that a precondition for democracy is the capacity of citizens to make choices and have options. Elections must serve as an instrument through which the majority can influence the course of government. 'If a change in government cannot translate into different policies, democracy is incapacitated' (Streeck & Schäfer, 2013, p. 1). While contingent upon the domestic or transnational context in question, the consolidation state in its very structure disempowers democratic processes in favour of customership in financial markets (Streeck, 2016). Voters are as a result disenfranchised due to the lack of political options as debt servicing takes precedence over everything else, accomplished through firmly entrenched austerity policies. Nevertheless, there is not a uniform magical recipe for the consolidation state and local variations make it take on different shapes. Budget surpluses are for instance a fundamental aspect of the Swedish consolidation state, but the same cannot be said of the US consolidation state.

The inherent structure of the consolidation state also exacerbates economic and social inequality. As opposed to being funded by taxes, the consolidation state prefers to fund its expenditures through debt. The straightforward consequence of this is that the wealth of richer citizens is not taxed and can be passed on to the next generation, further cementing inequality (Piketty, 2014). Streeck and Armin Schäfer (2013) highlight another effect which is that government debt offers safe and lucrative investment opportunities for the wealthy. Financial capital invested in public debt typically generates interest and can also be passed on to the next generation. The wealthy are thus not only liberated from contributing to the public purse, they see their wealth growing thanks to the very manner in which the consolidation state operates, thereby preserving and reinforcing inequality (Streeck & Schäfer, 2013).

Finally, it is important to stress that successful fiscal consolidation does not signify that states suddenly no longer need to preserve the confidence of financial investors and its creditors (Streeck & Schäfer, 2013). Large quantities of debt have already been accumulated over the past decades and future governments will have to continue to take up new debt in order to repay old debts. As I will go on to show, the longevity of fiscal consolidation from the 1990s onwards is especially pertinent to the Swedish case where institutionalised austerity policies and legally enshrined budget rules has placed the country on an austere path which will be difficult to steer away from in the foreseeable future.

The Fiscal Crisis of the State

The rise of the consolidation state is the contemporary response by governments to the fiscal crisis of the state (Streeck, 2016, 2017a), whose onset was envisaged as early as the late 1960s by James O’Connor (1970a, 1970b, 1973). While having taken different shapes and forms following the end of post-war growth in the 1970s, the current fiscal crisis of the state is characterised by low growth, grotesque inequality, and mountain ranges of both public and private debt. These factors all reinforce one another: low growth increases inequality by intensifying distributional conflict; inequality reduces demand and thereby entrenches low growth since the captains of industry become reluctant to invest; and high levels of debt combined with the above further impedes spending and increases the risk of financial meltdown (Streeck, 2016). Due to the fiscal crisis of the state, ‘the predominant theme of domestic as well as international politics in advanced capitalist democracies has become the consolidation of public finances through long-term institutionalised policies of austerity’ (Streeck & Schäfer, 2013, p. 17).

With the end of post-war growth in the 1970s, the resulting distributional conflict was taped over through monetary tricks in the money supply (Streeck, 2017a). The initial trick consisted of increasing inflation rates, which in the 1970s helped substitute for real growth and wiped out debt (Streeck, 2016). However these types of tricks usually only work for a limited period, and this time was no different. In a speech delivered at the University of Warwick in November 1978, then in the capacity as president of the New York Federal Reserve, Paul Volcker said that in ‘balancing the requirements of a stable international system against the desirability of retaining freedom of action for national policy, a number of countries, including the US, opted for the latter’ (Varoufakis, 2017, p. 78). As if that statement was not sufficiently clear with regards to the intent of US foreign policy, Volcker added: ‘[a] controlled disintegration in the world economy is a legitimate objective of the 1980s’ (Varoufakis, 2017, p. 78).

Ten months after Volcker delivered the speech he was appointed Chair of the Federal Reserve by President Jimmy Carter. With the levers of power now firmly in his hands, Volcker could deploy his monetary ‘weapon of mass disintegration’ more effectively (Varoufakis, 2017). In June 1981 he tamed inflation by pushing interest rates to a lofty 20 percent and then again shortly thereafter to 21,5 percent (Varoufakis, 2015). Yanis Varoufakis (2017) underscores that the interest rate hikes reduced wages and severely hampered industry and manufacturing as businesses, not least in the US, saw their business costs go through the roof.

Despite the period of high inflation, government debt relative to GDP has been increasing steadily since the 1970s in almost all OECD countries (Streeck, 2016). With Volcker's interest rate hikes and the end of high inflation rates in the 1980s however, the build-up of debt became endemic. Ever since, debt has taped over distributional conflict and has been the primary stop-gap that finances public entitlements and private prosperity, compensating for 'low growth, structural unemployment, deregulation of labour markets, stagnant or declining wages, and rising inequality' (Streeck & Schäfer, 2013, p. 17). Similar to the monetary tricks of the 1970s, it did not take long for this strategy to rear its ugly head as creditors grew increasingly sceptical, unnerved by the possibility that the accumulated promises of debt repayment will not be met. Creditors' loss of confidence of repayment in turn lies at the core of the rise of the consolidation state. The fiscal stress created by rising indebtedness under the framework of a consolidation state threatens the *raison d'être* of the democratic polity as it constrains the political wiggle-room, subordinating government policy to servicing the country's debts and satisfying the demands of international financial markets (Streeck & Schäfer, 2013; Streeck, 2016, 2017a).

Streeck (2016) points out that rising public debt only accounts for a share of overall indebtedness and has grown alongside private debt. Following the first wave of fiscal consolidation in the 1990s led by the US (Streeck & Schäfer, 2013), steeply rising private debt compensated for the temporary halt in the build-up of public debt. Crouch (2009) refers to the replacement of public debt with private debt as 'privatised Keynesianism', whereby individuals and households had to indebt themselves in order to fill the gap created by the consolidation of public finances. Privatised Keynesianism is especially pertinent to the Swedish context in which household debt has increased steadily since the 1990s while public debt has decreased (Streeck, 2016, 2017a). However when the pyramids of private debt created by the deregulated financial sector came crashing down in the 2007-2008 financial crisis, it was the state that had to take up additional debt to bail out the banks and absorb the mountains of worthless CDOs created by the private sector. Public and private debt are thus interconnected. More importantly though, following 2008 public debt increased sharply in all OECD countries except for in Sweden, Norway, and Switzerland, completely wiping out the consolidation efforts of the 1990s and early 2000s (Streeck & Schäfer, 2013).

Globalisation

The rise of the consolidation state in Sweden and elsewhere coincided with the rise of globalisation. Different conceptualisations of globalisation emphasise different aspects of it, and to invoke the concept can sometimes obscure more than it reveals about the political, economic, social, and cultural changes it has brought about (Jessop, 2001). While it is important not to neglect the role of for instance major improvements in communication and transportation technology, I will treat globalisation as a political-economic phenomenon whereby goods, money, and capital have been liberated to travel unimpededly across the globe. The roots of the current globalisation process trace back to the early 1970s with the beginnings of the transnationalisation of production and finance as well as a shift of government policies towards neoliberal prescriptions (Bieler, 2000).

Andreas Bieler (2000) underscores that globalisation implies a restructuring of state-society relations. It can be characterised as a process that significantly expanded the borderless global economy, which 'endowed market relations and production chains with an unprecedented capacity to cross the boundaries of national political and legal jurisdictions' (Streeck, 2016, p. 64). The end result is an unfettered capitalist system in which containers and money flows are able to travel in a manner that people could only dream of. Streeck (2016) argues that globalisation has been the dominant political-economic formula since the 1990s and has legitimised the expansion of neoliberal finance-led capitalism.

This stands in stark contrast to the Bretton Woods era crowned in 1944, also known as the *trente glorieuses* of capitalism. The Bretton Woods system was 'characterised by regulated financial markets, financial stability, high rates of economic growth, and a reduction of inequality' (Bresser-Pereira, 2010, para. 7). More importantly, Streeck (2016) highlights that democratic institutions were strong during this period and functioned as an engine of socioeconomic progress. 'By redistributing parts of the proceeds of the capitalist market economy downward, through both industrial relations and social policy, democracy provided for rising standards of living among ordinary people and thereby procured legitimacy for a capitalist market economy' (Streeck, 2016, p. 21).

The 1971 Nixon Shock officially put an end to the Bretton Woods era and turned all of this on its head. Bankers and financiers were unshackled as the Wall Street model began mutating into the financial sector of global capitalism, absorbing or eliminating its counterparts in Tokyo, Frankfurt, Paris, and London (Streeck, 2016; but see also Varoufakis, 2017). What ensued was the period that we arguably still find ourselves in but in different clothing in which growth rates are low, there is high financial instability, and inequality levels are high and becoming increasingly steeper (Bresser-Pereira, 2010). Luiz Carlos Bresser-Pereira (2010) emphasises that this mode of neoliberal finance-led capitalism is intrinsically unstable and highly income concentrating due to the starring role played by unregulated financial markets, creating a society that is hostile to poor and working people as well as to the welfare state.

It is important to stress that state intervention has not been reduced under finance-led neoliberal capitalism, but that it has rather been transformed in order to serve the particular interests of private capital as opposed to the collective interests of society (Fine & Saad-Filho, 2017). Crouch (2011) points out that in practice, neoliberalism operates like an oligarchy of giant multinational firms with deep ties to the political establishment. Bresser-Pereira (2010) argues that the multiplication of financial instruments such as securities and derivatives, facilitated by deregulation, sky-rocketed the total value of artificial financial assets and brought about the decoupling of the financial economy from the real economy. Streeck (2017a) takes this one step further and argues that the decoupling of the economy from democracy has in turn decoupled capitalism from democracy.

Particularly - although not exclusively - from the perspective of countries in and around the North Atlantic region, globalisation can be understood as the outcome of a struggle that manifested itself in the transition from industrial capitalism to financial capitalism, as a result of which 'markets would no longer be locked into nation-states, but nation-states into markets' (Streeck, 2017b, p. 5). Democracy's and capitalism's ill-suited marriage in the post-war period was legitimised by the premise that states had a capacity to correct the outcomes of markets and capitalist relations of production in the interest of citizens (Streeck, 2016).

The battleground for states thus lies in balancing the requirements of two separate constituencies (Streeck & Schäfer, 2013; Streeck, 2016). On the one hand is the nation-state's citizenry: locally based, demanding of public services, and supposedly expressing their approval or disapproval of the government's policies through periodic elections. This is nothing new. On the other hand are the international financial markets and big firms: globally based, demanding of debt servicing with the fiscal crisis of the state itching them in the back of their minds, and with the capacity to undermine a country's economy by pulling out and switching their allegiance to a competing country at any moment. This is also by no means a revelation as it has been known for long that governments must devote special attention to markets in a capitalist economy in order to be successful (see for instance Dahl, 1969).

However what has changed with globalisation is that nation-states have been embedded into markets. Finance and production, which operate through markets, have unprecedented transnational reach and can enter and exit countries with ease thanks to unfettered capital flows. Untrammeled capital flows gives investors permanent leverage against democracies as any attempt to for instance lower interest rates in order to boost struggling local industries can be met by the draining out of capital from the country in search for higher returns elsewhere. Streeck and Schäfer (2013) therefore argue that the demands of the two constituencies comprising the people on one end and markets on the other are so different from one another that it is effectively impossible for governments to satisfy both at the same time, especially given the high levels of private and public indebtedness.

Commodification Unbound

Streeck (2016, 2017a) draws from Karl Polanyi's seminal *The Great Transformation* (2001) in contextualising globalisation's decoupling of democracy from the political economy and the market-fundamentalist nature of the consolidation state. More specifically, Streeck (2016) argues that globalisation has cleared away the institutional and social barriers that prevent the unbound commodification of what Polanyi (2001) refers to as the three 'fictitious commodities' of labour, land (nature), and money. Polanyi (2001) argues that markets have an inherent tendency to spread across the globe until a fully fledged market-fundamentalist system is established. At the end of this trajectory, all aspects of human life and society are ultimately commodified and the production and distribution of goods is entrusted to a market-obedient rationale; all economic activity is controlled, regulated, and directed by the market (Polanyi, 2001).

However '[t]o allow the market mechanism to be sole director of the fate of human beings and their natural environment… would result in the demolition of society' (Polanyi, 2001, p. 76). Polanyi (2001) in this spirit sets up the theory of the 'double movement', according to which the tendency of markets to spread is kept in check through 'countermovements' that protect society from the pernicious effects of markets and their spreading to the fictitious commodities of labour, land (nature), and money. These countermovements can take various shapes and forms, such as that of social movements, institutions, or a set of government policies. The theory of the double movement can metaphorically speaking be described as a pendulum swinging in either of two directions depending on the effectiveness of countermovements: the market-fundamentalist movement expanding the reach of the markets on one end and countermovements that emerge to protect society from unbound commodification through markets on the other.

Organised labour and regulatory policies that kept the financial genie in its bottle acted as pivotal countermovements during the Bretton Woods era. With such powerful countermovements in place, 'capital had to content itself with low profits and confinement in a strictly delimited economic sphere, a condition it accepted in exchange for economic stability and social peace as long as it saw no way out of the national containers within which its hunting licence had been conditionally renewed' (Streeck, 2016, p. 21-22). Globalisation however resulted in capital and markets outgrowing national borders, restructuring state-society relations and neutralising effective countermovements that hindered the unbound commodification of society.

Globalisation and the Swedish Political Economy

Andreas Bieler (2000) argues that globalisation has had a large impact on the Swedish political economy in that it has contributed to the transnationalisation of Swedish production and finance. In terms of production, Bieler (2000) points out three concrete consequences of this for labour; a larger share of the workforce became employed in production abroad, many companies decided to transfer their headquarters to other countries, and foreign direct investment began increasing dramatically in the second half of the 1980s, which substituted for expansion at home by transferring production units elsewhere. '[I]n 1989 for the first time ever, Sweden invested more abroad than at home' (Kurzer, 1993, p. 133). All of this stands in stark contrast to the nature of the government's production and labour policies prior to globalisation.

In Sweden a proposal to introduce wage earner funds (*löntagarfonder*) was tabled in a famous report published in 1975 by Rudolf Meidner, economist for the Swedish Trade Union Confederation (*Landsorganisationen*). Sven Steinmo (1988) explains that the basic idea was that 'a 20 percent profits tax was to be imposed on corporations [and that] the revenue from this was to be used to… buy out most of Sweden's major business interests' (p. 431). The funds were to be controlled by the trade unions and would transfer power over the means of production into the hands of working people, paving the way for real economic democracy (Steinmo, 1988). This democratisation of working life in Sweden never materialised as the proposal was met with massive resistance by business interests and private capital who deployed an extensive campaign against the wage earner funds (Blyth, 2001). Similar assaults on labour can be observed across the board as aggressive policies aimed at curbing trade unions were implemented in almost all countries in the North Atlantic region around the 1980s (Streeck, 2017a).

Another impact of globalisation on the Swedish political economy was that regulatory policies in the finance sector and foreign exchange controls were gradually removed from 1974 onwards (Bieler, 2000). Lars Jonung (1986) explains that in 1983 for instance the liquidity ratio requirements for banks was abolished, and in 1985 the lending ceiling for banks was also removed (*Novemberrevolutionen*). At the time this was the most significant alteration of Swedish monetary policy in the post-war period (see also Ds 1996:37). Bieler (2000) argues that the

Swedish economic crisis of the late 1970s and early 1980s contributed to the deregulatory wave. Public debt more than doubled between 1977-1983, going from 30 percent of GDP to 70 percent, and a peak budget deficit of 7 percent of GDP was reached in 1982 (Streeck, 2016). The crisis deeply traumatised the Swedish political economy and already then exposed policymakers to the ferocity of international markets - whose ferocity would repeat itself during the 1990-1994 crisis. Jonung (1986) highlights that in order to service the accumulated debts in the 1980s, the Swedish government began borrowing more and more from abroad and thus became increasingly dependent on international financial markets. As a result, 'the government's influence over monetary, credit and exchange rate policies started to decline' (Bieler, 2000, p. 41).

Policies that strictly regulated finance had been introduced in the early 1940s and strengthened in the 1950s, 'including lending ceilings, liquidity ratios, cash ratios, investment ratios, bond issue control, and interest rate regulations' (Bieler, 2000, p. 41). Bieler (2000) points out that the Riksbank was at the time also directly responsible to the Riksdag and 'functioned as an agency affiliated with the Ministry of Finance' (Kurzer, 1993, p. 175). Indeed, the government's control over financial market regulations and the Riksbank was fundamental for the government to be able to pursue its full employment policies prior to the 1990-1994 crisis (Bieler, 2000). As I will expand upon below, this relationship between the Riksdag *vis-à-vis* the Riksbank and the Ministry of Finance was turned on its head following the 1990-1994 crisis with the technocratisation of important political decisions and introduction of budget surplus targets.

METHOD

The purpose of this dissertation is to engage in a specific subject matter: the rise of the Swedish consolidation state against the background of the globalisation process and the 1990-1994 financial-cum-fiscal crisis. There will therefore not be extensive self-scrutinising epistemological and ontological reflections on the premises of the dissertation. Nevertheless, the analysis will rest on a specific conceptual framework conceived through some form of observation.

I will carry out a qualitative case study (see Ketokivi & Choi, 2014) and adopt a dialectical spatio-temporal approach in tackling the research questions of the dissertation. While not explicitly spelled out in terms of a dialectical spatio-temporal research approach per se, Streeck (2017a) argues that it is crucial in a work of macrosociology or political economy of this kind to treat the events one is studying as sequences of developments and to study them in relation to other processes in space-time. If I were to treat the rise of the consolidation state as a freestanding event that is detached from space-time and independent of global events or structures, it would be grossly misleading and constitute a disservice to the reader (see Streeck, 2017a).

My point of departure is dialectical in that I will treat capitalist society as being rooted in deep contradictions that have the potential to undermine the basis of its own fabric. Left unchecked, capitalism's self-destructive tendencies can take the form of environmental catastrophe in promising infinite growth on a finite planet, financial meltdown due to deregulation, or a self-reinforcing absence of demand due to staggering inequality. Given that capitalism abounds in contradictions and tensions, every period of growth in capitalist society ports the seeds of the next crisis. Streeck (2017a) thus emphasises that the constant patching of capitalism's various crises often turn out to be ostensible solutions that merely change the manifestation of the underlying contradictions, with the solutions themselves eventually becoming the source of the next crisis. This form of dialectical logic is commonly associated with the Marxist tradition, and while it may be more pertinent to the transnational discussions in the dissertation, it is also highly relevant to the Swedish case study.

I will complement the dialectic logic with a spatio-temporal approach. A historical lens will be fundamental in situating the present moment in space-time and will be helpful in discussing what may or may not be likely to occur in the future. For this to be feasible in this research format the study will delimit itself to specific points of reference on the historical timeline. As previously discussed, this delimited time frame will serve as parameters for the research process. The 'when' in time must also be complemented by a 'where' in space (Streeck, 2017a), which in this case study will be two-fold; one level of analysis will be country-specific and the second level will be transnational. A transnational scope of this nature may shed light on certain local variations or similarities between social contexts. The inclusion of a longer time frame is also useful in analysing institutional change, which is often gradual and only discernible over longer periods of time (Streeck & Thelen, 2005).

With that said, the analysis in the dissertation is not intended to be deterministic. My position is precisely the opposite. In dealing with capitalism, a highly complex social formation that is permanently unstable and constantly changing, a deterministic analysis would be misguiding for both the reader and myself. Furthermore, the conceptual framework presented above and expanded upon below will attempt to treat society as a whole as not to separate the economy from society or the polity. While there may be extensive focus on economic aspects, capitalism is politically and socially constructed and is therefore interlocked with the two (Streeck, 2016). Indeed, one of the perhaps most effective ways to ruin a quality is to turn it into a quantity. In this spirit, for all the numerical data that will be presented throughout the dissertation, I wish for the emphasis to be on the qualitative aspects of my findings.

Research Material

For the Swedish case study the research material will consist of academic literature that deals with the topics identified above. This will be complemented by official Swedish government publications and reports. More specifically, for the academic literature on the Swedish case, I will largely make use of sources authored by Swedish scholars, particularly in detailing the framework under which the Swedish government has operated since the 1990-1994 crisis. Thanks to the extensive expertise of the authors, these sources will be insightful in gaining a deeper understanding of the particularities of the Swedish context. In terms of theory I will draw heavily from the work of the German sociologist Wolfgang Streeck, especially his two books *Buying Time* (2017a) and *How Will Capitalism End?* (2016). These texts have not only provided much of the theoretical foundation upon which my dissertation rests, but they also inspired the methodological blueprint of the study. Finally, by way of making sense of the material and presenting my findings in a comprehensive manner that is accessible for the reader, the main tool I will rely on is storytelling (see Fawcett et al., 2014).

Methodological Reflections

Deploying a case study will allow for an in-depth exploration of the Swedish consolidation state. However as Mikko Ketokivi and Thomas Choi (2014) underline, the essence of case research is found in the 'duality criterion' whereby the study is situationally grounded in a particular context and simultaneously balanced with a more general theoretical examination. I will therefore also transcend the Swedish empirical context and situate my findings within a broader transnational setting. With that said, it is important to point out that the generalisation is in and of itself not the purpose either. The purpose, combined with carrying out the case study itself, is rather to examine the extent to which a sense of generality can be found in the Swedish case and what the broader theoretical implications are (see Ketokivi & Choi, 2014).

A major drawback of this kind of case study is the lack of transparency in the selection of certain sources and the exclusion of others as well as the content in these sources that I have or have not decided to incorporate. Ketokivi and Choi (2014) argue that transparency is fundamental in any form of scientific research. 'In order to evaluate the merits of an argument, one must have access both to the logic that generates the conclusion and the premises that support it' (Ketokivi & Choi, 2014, p. 232). The collection of research material for the dissertation and the analysis of the material will therefore be systematically conducted in relation to the research questions. However regardless of my best efforts to establish as much transparency as possible by outlining how the research will be framed and the research material that will be used, absolute transparency and objectivity is impossible and is not achieved through mere declaration. To this end, the logic of my reasoning and the empirical basis of my theoretical claims will be key in order to avoid compromising the reliability and validity of the dissertation.

Another possible danger of case research is for the researcher to fall prey to their own self-fulfilling prophecies and to merely find what they expect to find (Ketokivi & Choi, 2014). Ketokivi and Choi (2014) therefore underscore the importance of maintaining a healthy balance between theory and empirics. '[A] rigorous case researcher allows all theoretical predispositions and emerging theoretical insights to remain challenged by the data, and symmetrically, a theoretical predisposition can lead to novel ways of interpreting the data' (Ketokivi & Choi, 2014, p. 238). In this spirit, Ketokivi and Choi (2014) go on to argue that serendipity is key and that one should attempt to tackle surprising data by challenging one's own pre-existing dispositions. Serendipity is thus crucial for carrying out solid case research, but is once again something that is not addressed through mere declaration.

The Swedish Consolidation State

Austerity policies have since the 1990s been reproduced in the Swedish political economy through the establishment of a consolidation state. The Swedish consolidation state operates on the basis of a firm austerity regime with an 'ironclad commitment to a fiscal surplus generated and continuously renewed by spending cuts, to bring down the accumulated debt' (Streeck, 2016, p. 138-139). Streeck (2016) highlights that one of the primary lessons learned from the 1990-1994 crisis across the Swedish political spectrum was that international financial markets will not hesitate to punish a country mercilessly if it loses confidence in it. As a result, restoring the confidence of international financial markets and preserving it became a top priority for Swedish national economic policy following the crisis (Streeck, 2016; but see also SOU 1997:66). Sweden has since then become a role model country in illustrating the rise of the consolidation state. Moreover, as Streeck (2016) underlines, the landing path is likely to be long and uncertain given the rich history of ambitious policies aimed at universal welfare provision prior to the 1990s and the sharpness of the turn towards austerity.

A vital component of the Swedish consolidation state is what Haffert and Mehrtens (2014) refer to as a 'surplus regime'. Haffert and Mehrtens (2014) do not discuss the establishment of the Swedish surplus regime in terms of a consolidation state per se, but for the purposes of this dissertation I will incorporate it into the broader idea of the Swedish consolidation state. Indeed, in Streeck's (2016) analysis on the rise of the Swedish consolidation state he integrates the findings of Haffert and Mehrtens (2014) in order to set up the theory in the first place. Since the fiscal consolidation of public finances is a key part of the Swedish surplus regime, I will treat the surplus regime as inseparable from the broader conceptualisation of the consolidation state for the Swedish context.

The essence of Haffert's and Mehrtens' (2014) argument is that following the 1990-1994 crisis, one of the main structural goals of Swedish economic policy has been to attain budget surpluses. The government has been very successful in this respect, and their strategy has been for the surpluses to be primarily generated by expenditure falling faster than revenue as opposed to revenue increasing faster than expenditure (Haffert & Mehrtens, 2014). This distinction is important because the long-term result is that austerity will be firmly entrenched in order to attain the budget surpluses. Had the surpluses been achieved by increasing revenues, policymakers would have more political wiggle-room for new initiatives in public spending. However with the prevailing rationale in place, mobilising political forces to spend on anything other than debt becomes difficult (see also Streeck, 2016).

The Swedish budget surplus, Haffert and Mehrtens (2014) go on to show, has in turn not been allocated to public investments that may in the long run increase revenues, but has instead primarily been used for tax cuts. These tax cuts further renew pressure for spending cuts as government revenue decreases, effectively creating a positive feedback loop. This is illustrated by the fact that 'the public revenue ratio and the public expenditure ratio have been shrinking constantly since the crisis in the 1990s' (Haffert & Mehrtens, 2014, p. 138).

Haffert and Mehrtens (2014) note their surprise that a country like Sweden would go down this path, especially given its history of fiscal and full employment policies prior to the 1990-1994 crisis. As previously mentioned, the demise of that model and the turn towards neoliberalism and price stability was partly a result of globalisation (Bieler, 2000). In the end, the new consolidation model has led to a strange kind of culture where budget surpluses have become sacrosanct. Haffert and Mehrtens (2014) argue that '[r]unning a surplus… acquired huge symbolic importance' (p. 135) because not doing so would give the impression of behaving financially irresponsible. Across the political spectrum, politicians are 'outbidding each other in a race to see who can spend less public money' (Haffert & Mehrtens, 2014, p. 136), and governments have oftentimes 'even outperformed the surplus rules and saved more money than legally required' (p. 137). Scott Brenton and Jon Pierre (2017) also point out the fact that the budget surpluses has had institutional ramifications in that the position of the Ministry of Finance *vis-à-vis* other ministries has been strengthened, along with 'the discursive notion that budgetary control takes, and should take, precedence over public spending' (p. 570).

A New Fiscal Regime

The implementation of a new fiscal framework following the 1990-1994 crisis shaped the Swedish consolidation state. In what follows I will identify the main components of the new framework and trace the sequence in which they were introduced. As previously described, the 1990-1994 crisis triggered a deep shift in Swedish fiscal policy. Ever since, Swedish public finances have been restructured in order to bring down the public debt ratio and restore and preserve the confidence of international financial markets in the country's finances (Streeck, 2016; but see also Prop. 1994/95:100; SOU 1997:66). Pivotal aspects of the Swedish consolidation state manifest themselves in the new fiscal regime. I will then go on to analyse the consequences for democracy and show how fiscal consolidation has given rise to a neoliberal austerity regime that is intrinsically hostile to poor and working people and which disproportionately benefits the rich.

The first step towards the new fiscal regime was a review of the budget process (Ds 1992:126) published in 1992 by the Expert Group on Public Economics (*Expertgruppen för studier i offentlig ekonomi*), a small independent research council under the purview of the Ministry of Finance (Jonung, 2015, 2018). The report, put together by Per Molander, argued that the restrictions on budget deficits and public spending were insufficient and instead advocated a more top-down approach for deciding the government's budget and spending (Ds 1992:126). A parliamentary reform in 1994 effectively put into practice precisely what Molander's report advocated; a top-down approach was implemented which meant that the Riksdag was to decide the total volume and the distribution of government expenditure from the 1997 budget onwards (Jonung, 2015, 2018). As a result, once spending levels have been decided upon, the Riksdag can no longer make additional expenditures like it could prior to the reform. Furthermore, the Riksdag can no longer spend more than has been allocated on a particular budget area without making cuts elsewhere (Haffert & Mehrtens, 2014).

Another important step was the implementation of a three-year time horizon for all budget processes from 1997 onwards (Blöndal, 2001; Ljungman, 2007). Whereas previously the budget had only covered the next fiscal year, since 1997 it is legally binding for all budget documents to contain three-year forecasts for macroeconomic parameters and government spending. More specifically, the multi-year framework operates on three cascading levels (Blöndal 2001). Jón Blöndal (2001) explains that the first level constitutes the government's overarching fiscal policy objectives in terms of budget surpluses or deficits; the second level translates these objectives so that they are operational under the expenditure ceiling; the third and final level specifies the distribution of government expenditure for the 27 different expenditure areas.

Intertwined with the inception of the three-year budget framework was an expenditure ceiling which was also introduced in 1997. It is decided by the Riksdag three years in advance and except for interest payments on government debt, it incorporates all spending areas of the budget (Jonung, 2015, 2018). If government revenue were to exceed expectations, the expenditure ceiling ensures that it is not allocated towards new spending as the ceiling prohibits the allocation of unexpected revenue for anything other than tax cuts or paying down the debt (Haffert, 2019; Ljungman, 2008). Political space thus remains constrained even if there is an increase in fiscal space (Haffert & Mehrtens, 2014). The three-year rolling expenditure ceiling and the three-year budget framework entrenches fiscal discipline since 'the aggregate spending decisions [already have] been made when the annual budget is discussed' (Haffert & Mehrtens, 2014, p. 137). The decisions from the past are inherited to the present, and political initiatives are impeded by the limited financial resources available for disposal.

The three-year budget framework and expenditure ceiling were in turn both implemented in combination with budget surplus targets. The first surplus target was announced in 1997 and gradually implemented through 2001 with the target being set at 2 percent of GDP over the business cycle (Andersson & Jonung, 2019). A law was also adopted in 1999 and enacted in 2000 which prohibits municipalities (*kommuner*) and counties (*län*) from running budget deficits in order to ensure that local governments cannot undermine the national budget surplus (Andersson & Jonung, 2019; Jonung, 2015, 2018). The law furthered the national government's top-down approach of fiscal policy. In 2007 the surplus target was adjusted to 1 percent of GDP, but without any substantial impact on government policy (Andersson & Jonung, 2019). In 2010 the surplus target and the expenditure ceiling became legally binding for the government (Haffert & Mehrtens, 2014). Then in 2016 the surplus target was adjusted for a second time to ⅓ percent of GDP and operational from 2019 onwards (SOU 2016:67), but once again without any noticeable impact on government policy (Andersson & Jonung, 2019).

Despite all the technical adjustments that have been made since the budget surplus target was first announced in 1997, the overall government policy has been the same: maintain confidence in international financial markets by consolidating public debt and delivering annual budget surpluses, thereby signaling to creditors that the country is in a position to service its debts. As previously alluded to, the government has done extraordinarily well in this respect. Between 1997-2008 the government virtually witnessed uninterrupted budget surpluses (Haffert, 2019), and between 2001-2019 the average budget surplus was ½ percent of GDP (Andersson & Jonung, 2019) - the 2007-2008 financial crisis notwithstanding. Streeck (2016) highlights that delivering consistent surpluses in this manner also reduces debt by ensuring low risk premiums on government bonds. This is vital because an increase in the average rate of interest could be devastating for a government's finances, especially one that is dependent on falling expenditures for its legally enshrined budget surplus.

The 2016 government review which adjusted the surplus target to ⅓ percent of GDP also set up a debt anchor in accordance with the Maastricht Treaty at 35 percent of GDP +/- 5 percentage points, operational from 2019 onwards (SOU 2016:67). It is explicitly expressed in the review that the debt anchor is not intended to be an independent tool but that it is supposed to complement the other components of the fiscal framework. The purpose is to further fiscal consolidation and to signal what in the eyes of the government is a desirable public debt ratio (SOU 2016:67). Considering the far-reaching consolidation measures that have already taken place and the extraordinary success in attaining budget surpluses, the implementation of a debt anchor appears to be an effort to cement austerity and to supply the fiscal framework with additional pieces of armour so as to impede any efforts to steer away from the path of austerity.

Another major building block of the new fiscal regime was the founding of the Fiscal Policy Council (*Finanspolitiska rådet*) in August 2007, whose origin traces back to proposals that were put forth in 2002. The Fiscal Policy Council operates under the purview of the Ministry of Finance and has an annual budget of approximately €1 million. It has substantial influence as a supervisory and advisory institution in shaping policymaking and public opinion (Andersson & Jonung, 2019). Indeed, it was the Fiscal Policy Council that argued that the surplus target should be retained in 2016 and for it to be adjusted downwards to ⅓ percent of GDP over the business cycle from 2019 onwards, which is precisely what the government did (Jonung, 2018).

The Fiscal Policy Council's official mandate is to assess whether the Swedish government's actions are consistent with the surplus target, the debt anchor, the expenditure ceiling, and to 'monitor the government's adherence to the rules of the fiscal framework' (Andersson & Jonung, 2019, p. 10). Put more colloquially, it operates like 'a watchdog ready to bark when the rules of the framework are threatened' (Jonung, 2018, p. 142). The Fiscal Policy Council accomplishes its mandate via its annual report published in the spring and presented to the Riksdag shortly thereafter, who in turn responds to the report in the Budget Bill which is presented in the autumn (Jonung, 2018).

The Fiscal Policy Council is a small self-perpetuating body consisting of six members with fixed-term appointments who all have backgrounds working in the government or within academia (Jonung, 2018). Once members' terms finish, it is the Fiscal Policy Council itself that proposes the replacement to the government, who has so far not denied a single proposal (Jonung, 2018). Thus, as Haffert and Mehrtens (2014) underline, '[m]any fiscal policy decisions are now in the hands of experts and bureaucrats and can no longer be altered by elected politicians' (p. 137). This is a crucial component of the fiscal framework as it cements the new Swedish fiscal regime, impeding any significant change or deviation from it.

Finally, tax cuts, especially on capital which disproportionately benefit the rich, and overall regressive tax policies form an integral part of the new Swedish fiscal regime. As previously mentioned, Haffert and Mehrtens (2014) show that the government has opted to use its budget surpluses for tax cuts. Keeping in mind that the Swedish consolidation state operates based on these sacrosanct budget surpluses generated and renewed by spending cuts, a set of tax policies that continuously lowers the tax yield plays a starring role. Indeed, Sweden has observed a steady decline in tax revenue since the 1990s, and the decline is much steeper and more pronounced than in countries like Germany, Italy, France, and the US (Streeck, 2017a).

A major tax reform was carried out in 1990-1991 which later became known as the 'tax reform of the century' for being 'the most far-reaching reform in any industrialised country in the post-war period' (Agell et al., 1996, p. 643). Jonas Agell et al. (1996) also highlight that it was projected that the reform would result in a revenue loss of 6-7 percent of GDP due to the massive cuts in marginal income taxes, especially for high-income earners, as well as cuts in corporate taxes. Other important changes included the broadening of the tax base through the elimination of loopholes, increased VAT rates, and the introduction of separate tax schedules for wages and capital, with a proportional capital income tax set at 30 percent (Agell et al., 1996). These changes were supposed to finance the dramatic cuts in income taxes. However the official evaluation of the reforms nonetheless concluded that the tax reform was underfinanced and that it exacerbated the 1990-1994 crisis (Agell et al., 1998).

Overall, the 1990-1991 tax reform had regressive effects and lowered the tax yield as income from capital was taxed lower than incomes from labour. The reform also had 'long-term implications that have been manifesting themselves only gradually over time' (Haffert & Mehrtens, 2014, p. 135). Tax policies since the 1990-1991 reform have continued in the same vein and have been carried out by both red and blue governments. In 2004 the inheritance tax (*arvsskatt*) was abolished, which in 1989 totaled 5 percent of the receipts of the government (Haffert & Mehrtens, 2014). The gift tax (*gåvoskatt*) was also scrapped in 2004, followed by the wealth tax (*förmögenhetsskatt*) in 2007, the property tax (*fastighetsskatt*) in 2008, and finally a tax on high-income earners known as the defence tax (*värnskatt*) in 2019. The abolishment of these taxes has not only lowered the tax yield even further and put more pressure on fiscal consolidation, but they were also originally supposed to finance 40 percent of the 1990-1991 tax reform (Agell et al., 1996). Since the 1990-1991 tax reform the tax burden has thus gradually been transferred from high-income earners and the wealthy to workers and everyday people.

The various components identified above that together have transformed the Swedish fiscal framework all reinforce each other. Indeed, the three-year budget framework, expenditure ceiling, and surplus target were implemented in unison in 1997 and are in that sense interlocked. Moreover, the institutional framework shapes policymaking, new policies alter the political discourse and party interests, new strategies lead to further institutional reform, and so on. As Haffert (2019) underlines, 'the analysis of fiscal policy should not just consider how struggles between coalitions shape fiscal policy, but also how fiscal decisions feedback on the goals and power of these coalitions' (p. 1059). In other words, when digesting the framework outlined above, it is important to keep in mind that A does not only lead to B, but B also leads to A. This is not the same as taking a deterministic stance and arguing that the new fiscal regime has been set in stone. A financial meltdown or a sudden shift in the political-economic rationale can uproot the established regime at any moment. The point is to show that the transformation of the Swedish polity is not a straightforward one but rather a result of the interplay of different factors that reinforce one another.

The Swedish Success Story?

Fredrik Andersson and Jonung (2019) argue that the new Swedish fiscal policy framework has been a great success, highlighting the steep decline of the Swedish public debt ratio, going from being among the highest in the EU during the peak of the 1990-1994 crisis to one of the lowest. Andersson and Jonung (2019) also argue that the current debt anchor of 35 percent of GPP is too high and that 'Sweden should aim for a central point of no more than 25 percent with a tolerance band of +/- 5 percentage points' (p. 21) in order to continue consolidating the public debt. The authors underline that once the public debt ratio has reached 25 percent with a debt anchor in place, the surplus target would become redundant and could be discarded. The advantage of opting for a lower debt anchor as opposed to surplus targets is that the adherence to the former can be easily monitored by the Fiscal Policy Council while the latter is more demanding to keep up with (Andersson & Jonung, 2019).

Andersson's and Jonung's (2019) claim that the 'Swedish fiscal policy framework has been a success' (p. 24) and that it 'could serve as a model for the rest of Europe' (p. 24) turns a blind eye to the elephant in the room: austerity. This is not to deny the fact that the public debt ratio was increasing at an alarming rate during and in the wake of the 1990-1994 crisis and that the sustainability of public finances needed to be put into question. However Andersson and Jonung

(2019) barely mention how the implementation of the new fiscal framework coincided with a steep increase in inequality, the dismantling of the welfare state, the partial privatisation of public services, the widening gap in income distribution, and the plateauing of the unemployment rate at around 8 percent, levels unimaginable prior to the 1990-1994 crisis - not to mention the conditions under which work is carried out. Andersson and Jonung (2019) instead argue that further fiscal consolidation is necessary because when the next economic crisis hits, a low public debt ratio 'reduces the likelihood that the government has to implement major austerity measures during or immediately after the crisis' (p. 4). What the authors fail to mention is that the current levels of public debt have been achieved precisely through harsh austerity measures. The medicine that the doctor wishes to avoid giving to the patient in case of hospitalisation is the exact same medication that has been prescribed to the patient all along.

As I described earlier, Haffert and Mehrtens (2014) show that the Swedish budget surpluses have been attained by expenditure falling faster than revenue. This strategy is however ultimately self-defeating and simply does not work in the long run because austerity policies of cutting government spending in order to reduce budget deficits so as not to allow public debt to accumulate is only likely to cause further economic contraction (Blyth, 2013). The commonly deployed allegory of proponents of austerity who speak of belt-tightening at the national level so as to shrink the public debt in order to stabilise public finances and that economic growth will pick up once this is done is erroneous. At the level of the individual or the household, income is independent from expenditure. Money not spent today is money saved and money that can be spent tomorrow or some time in the future. The government on the other hand does not enjoy this luxurious independence of income and expenditure. If the government reduces its public expenditure while the private sector is also not spending, total expenditure goes down. As a result, total income declines because total income is dependent upon total expenditure. The Swedish strategy of permanent austerity for the people so as to attain budget surpluses and service the country's debts is therefore unsustainable in the long run. The strategy is a self-inflicting slow motion defeat as it will eventually undermine itself when the foundation upon which it rests cripples.

A Neoliberal Austerity Regime

The implementation of the new fiscal framework has also given rise to a neoliberal austerity regime that is intrinsically hostile to poor and working people and disproportionately benefits the rich. Streeck (2016) argues that '[c]ombining a surplus policy with lower taxes makes for a shrinking state share in the national economy, producing a leaner state increasingly in line with neoliberal prescriptions' (p. 139). The institutionalisation of the Swedish consolidation state outlined above has been accompanied by a steep decline in public investment and the welfare state has been gradually dismantled and privatised (Haffert & Mehrtens, 2014; Streeck, 2016). As a result, profit-hungry private sectors fill the increasingly large vacuum left behind by the deregulation and privatisation of public services. In line with the idea of delivering consistent budget surpluses, this was taken to an 'ideological extreme' as the government pursued a 'profit-like goal for the public sector' (Brenton & Pierre, 2017, p. 564).

One of the most striking examples of the dismantling of the welfare state on the expenditure side is the reform of the pension system that was initiated in the early 1990s and with most of the legislation enacted between 1994-1998. The new pension system no longer guarantees a normal standard of living, deliberately spelled out in the policies, and is highly contingent upon developments in capitalised security markets (Belfrage & Ryner, 2009). Financially, pensions became completely independent from the government budget as it is only the revenues raised by the financialised pension system itself that are paid out (Haffert & Mehrtens, 2014). Haffert and Mehrtens (2014) underscore that with this model in place, pension benefits will deteriorate if contributions decline, and given the demographic shift towards an ageing population this is a very probable outcome. Pensioners are thus increasingly forced to rely upon private insurance and their own savings as the market-oriented cash nexus comes with no guarantees. Other changes, such as the replacement of the universal flat rate with a means-test based pension guarantee, leads to even greater social stratification (Belfrage & Ryner, 2009).

This is not the place for an exhaustive analysis of the pension reforms, and other important components of it undoubtedly deserve further scrutiny. The new pension system is also highly complex and even opaque at times which makes giving a comprehensive overview of it difficult

(Belfrage, 2017). However with what appears to be some of the most important changes for the purposes of this dissertation, it is evident that the new pension system prioritises a balanced budget over the needs of pensioners. Data from Eurostat (2021) shows that the standard of living for pensioners in Sweden has deteriorated significantly since the reform; more than 300,000 pensioners - or around 15 percent - now live below the threshold for risk of poverty, the majority of which are women.

Any change to the new pension system must also go through the Pension Group (*Pensionsgruppen*), a special pension policy working group that deliberates cartel-like behind closed doors (Willén & Weaver, 2014). The Pension Group was set up to safeguard the pension reforms, and at the time of writing only six out of eight parties in the Riksdag are in it, meaning that the other two parties have no capacity to change the pension system as it currently stands. Moreover, five out of the six parties in the working group are the same original parties that agreed to the pension accord in the early 1990s. Finally, 'it is not difficult to see that the introduction of the new system drastically redistributes the incidence of risk from the state and employers to the individual' (Belfrage & Ryner, 2009, p. 263). Claes Belfrage and Magnus Ryner (2009) emphasise that with the current pension system in place, the government does not have to intervene in order for it to function since the entire pension system effectively has been automated as it is independent from the state budget.

Decoupling Democracy

Another aspect which is also absent in Andersson's and Jonung's (2019) characterisation of the new Swedish fiscal framework as a success is that important economic policy decisions have largely been transferred to regulatory bodies and committees of experts such as the Fiscal Policy Council and the Riksbank. Handing over the management of the economy in this manner to technocratic bodies outside of the purview of elected governments has consequences of the post-democratic kind and risks making the democratic process run dry. The institutionalisation of the Swedish consolidation state through the new fiscal framework has led to a rule-bound economic policy whereby fiscal policy is insulated from democracy. Legally enshrined debt limits and surplus rules under a multi-year framework combined with tax cuts also impedes efforts to allocate resources for anything other than paying down the debt, restricting political alternatives. This line of reasoning is also consistent with Polanyi's (2001) theory of the double movement; in the absence of effective countermovements, important decisions that affect the life chances of the Swedish people have been depoliticised and decoupled from democracy so as to adhere to a market-oriented rationale.

An integral part of this story that should not be overlooked is that the Riksbank was made independent in 1999 (Andersson & Jonung, 2019). Due to the magnitude of its decisions and its far-reaching implications both domestically and internationally, the Riksbank operates through small bodies deliberating in secrecy. Similar to the Fiscal Policy Council, it is devoid of democracy. Whether or not their economic policy conforms to the needs of the market is also not mediated through public debate but determined by the markets themselves (Streeck, 2016). It is the technocratic experts that shape the rules of the game according to which policy is bound under. Democracy is thus decoupled from overall decision-making in the process of making these technocratic bodies the principal agents of economic policy.

Streeck (2016) highlights an additional and more subtle way in which the Swedish regime of the consolidation state undermines democracy, namely that there is less to decide democratically when increasingly more public services are privatised. As markets become the principal mechanisms of decision-making, 'the economic democracy of capitalism - one dollar, one vote - begins to replace political democracy' (Streeck, 2016, p. 140). Streeck (2016) also underscores that '[p]ublic-private partnerships [often are] based on complex commercial contracts, large parts of which have to remain confidential to protect trade secrets' (p. 141).

To sum up, the sustainability of the Swedish consolidation state model must be put into question. Permanent austerity for the people in order to service the country's debts in the form of cutting public spending at a sufficiently fast rate so as to ensure that the government's revenues are higher than its expenditures is not a tenable model. Furthermore, continuously cutting spending in this fashion to attain budget surpluses and opting to use the fiscal breathing room this creates for tax cuts that disproportionately benefit the rich while simultaneously dismantling the welfare state implies a government strategy in favour of private capital, neoliberal austerity and market fundamentalism. With that said, a more exhaustive analysis which scrutinises how each particular component of the Swedish welfare state has been dismantled, deregulated, or privatised would strengthen the argument that the consolidation state has paved the way for a neoliberal austerity regime. However due to spacing this is simply not possible, and I have instead attempted to paint broad strokes on a large canvas to outline the general trends pointing in the neoliberal direction.

The International Consolidation State

In order to explore how developments in post-1990s Sweden parallel those in the international setting, I will conduct a brief analysis of the European and US consolidation states. Streeck (2016) conceptualised the idea of the European consolidation state in such a way that it should not be understood as an umbrella term for all countries in Europe. It is instead delimited to EMU countries and operates like a transnational consolidation state that has incorporated countries with different historical, cultural, economic, social, and political pasts and presents into a one-size-fits-all austerity regime.

The single market experiment of the EMU in particular with the euro is in Polanyian terms a swinging of the pendulum so far towards the market-conforming end that diverse European societies have converged into a way of life dictated by market fundamentalism. Streeck (2017a) underscores the similarity between the gold standard of the 19th and early 20th century and the inability of EMU member states to devalue their currency in order to improve the conditions of their citizenry. Eurozone countries must instead resort to internal devaluation in the form of lower wages, longer working hours, and less welfare provision. While Sweden is not part of the EMU and can still devalue the krona, it is similarly dependent on the Riksbank's conformity and co-operation with the financial sector for its economic success.

The European consolidation state differs from nationally based consolidation states because of its transnational reach. Countries in the EMU - which are sovereign on paper - have been incorporated into a supranational monetary framework whereby a technocratic regime dictates the fiscal and financial policies (Streeck, 2016). The 1992 Maastricht Treaty stipulated that budget deficits for member states should be capped at 3 percent of GDP, that debt-to-GDP ratios should be below 60 percent, and that monetary policy is to be conducted by the soon to be founded and inflation-busting European Central Bank (ECB). The debt and deficit rules have never actually been adhered to, however the ECB - the EMU's central bank - plays a starring role in the European consolidation state. As previously described, a similar technocratisation of important political decisions can be observed in Sweden with the relatively newly independent

Riksbank, the establishment of the Fiscal Policy Council in 2007, and the increasing power of the Ministry of Finance relative to other ministries.

The ECB is completely insulated from political pressure that comes from elected governments and enjoys a degree of independence far superior to even the German Bundesbank as it does not have a democratically elected supranational government as its political counterpart (Streeck, 2016). The ECB administers the monetary policy of all eurozone countries, which themselves do not have their own central bank. It is simultaneously sufficiently distanced from the domestic politics of the eurozone countries ‘to make monetary policy support for national governments conditional on their co-operation with respect to fiscal policy and institutional reform’ (Streeck, 2016, p. 130-131).

The ECB gets help from its two accomplices: the IMF and the European Commission, another European supranational body devoid of democracy which supposedly monitors the compliance of member states to the fiscal straitjacket. Known as the European troika, the ECB, the European Commission, and the IMF have directly intervened in the domestic politics of member states in a anti-democratic fashion and imposed harsh austerity measures, such as in the notorious Greek case (see Varoufakis, 2018). Varoufakis (2017) shows how debt-to-GDP ratios increased dramatically during the eurozone crisis in Greece, Italy, Spain, Portugal, and Ireland so as to service the countries’ debts, primarily to big banks in Northern Europe.

Streeck (2016) argues that the EMU operates like a transnational consolidation state that has successfully decoupled the management of the economy from democracy. Moreover, ‘[s]ince the ECB must be concerned above all about the confidence of financial markets in the currency that it administers, the reforms it demands from member states can only be of a market-conforming kind’ (Streeck, 2016, p. 131). Streeck (2016) goes on to argue that the market-conforming nature of the EMU is deeply tied to its unprecedented political independence, which in turn results in an unprecedented reliance on international markets. Its transnational reach also puts it in an excellent position to cater to these markets while at the same time imposing strict austerity regimes upon member states for debt servicing. While beyond the scope of this dissertation, it is important to highlight that the main beneficiary of the EMU is Germany, which in practice governs the EMU in the form of a German economic empire (Streeck, 2016; but see also Varoufakis, 2017).

The US, according to Streeck (2016), also comes close to being an ideal consolidation state as it combines draconian anti-taxation policies with a sacrosanct commitment not to compromise its credibility in international markets. '[I]n the [US], as in no other country, it is understood across the political board that properly servicing the public debt must take precedence over everything else, including public pensions' (Streeck, 2016, p. 123). The servicing of the debt is sometimes even accomplished through the incurring of additional debt. However it should be kept in mind that the US is an exceptional case as it enjoys the exorbitant privilege of having the dollar, which despite the unravelling of the Bretton Woods system remains the global reserve currency. The US can therefore indebt itself internationally in its own currency almost indefinitely and then repay the debt by printing unlimited amounts of dollars (Streeck, 2016).

Streeck (2013) highlights that the 1992 presidential election in the US was dominated by the idea of eliminating the twin budget and trade deficits. Bill Clinton had campaigned heavily on this promise, and with his victory and assumption of office, the US set off a global tidal wave of fiscal consolidation 'aggressively promoted under [US] leadership by international organisations such as the OECD and the IMF' (Streeck, 2013, p. 274). In other words, the global fiscal consolidation wave that emerged in the 1990s spawned out of the US. Public expenditure decreased by 4 percent of GDP between 1993-2000 under President Clinton while tax revenue increased by 2 percent, just enough to turn the federal budget deficit of 4 percent of GDP in 1993 into a surplus of 2 percent in 2000 (Streeck, 2016). Streeck (2013) stresses that a key part of this was the implementation of far-reaching austerity policies which buried any prospects of welfare provision. This was combined with massive financial deregulation, first initiated under President Ronald Reagan and then accelerated during the Clinton administration (Stiglitz, 2003) so that private debt could replace public debt.

Declining Political Participation

The build-up of public and private debt since the 1970s has coincided with a decline in electoral turnout in parliamentary and presidential elections in almost every single OECD country, although Sweden is one of the few countries that has not witnessed the same dramatic decline (Franklin, 2004; Streeck & Schäfer, 2013). The rise of the consolidation state since the 1990s has arguably further severed political participation as the more recent an election, the larger the likelihood of an all-time low electoral turnout. Overall trust in the political process and parliaments has also declined, trade unions have lost much of their power, strikes have almost disappeared completely, party membership has decreased, and the satisfaction of the peoples' aspirations relative to the actual operations of the polity has plummeted (Streeck & Schäfer, 2013; Streeck, 2017a).

While the decline in electoral turnout can be observed across the board in advanced capitalist democracies, there are large discrepancies within these countries. 'Voters with more resources - education, income or social capital - participate much more frequently than the resource-poor' (Streeck & Schäfer, 2013, p. 13). Streeck (2017a) highlights the regrettable fact that despite having the most to gain from a political shift, electoral turnout for people from lower-income groups and social strata has declined the most. Furthermore, local or regional elections tend to have even lower turnout than national elections; the more local the election, the more dramatic the decline (Streeck & Schäfer, 2013). The universality of the decrease is perhaps a testament to the futility of elections in societies where austerity has taken a firm grip and debt servicing has become the top priority of the government. What is more, '[t]he political resignation of the underclasses consolidates the neoliberal turn from which it derives, further shielding capitalism from democracy' (Streeck, 2017a, p. 55).

With financialised globalisation, international markets have replaced the people as the primary constituents of consolidation states. Streeck (2016) argues that the all-encompassing global financial sector has effectively turned into a private government of its own, establishing control over households and states by providing them with credit and disciplining them with a market-conforming whip when they disobey. This transnational financial industry is no way democratically accountable. In 2007 when asked about which candidate he supported for the US presidency, former Chair of the Federal Reserve Alan Greenspan stated the following:

> ‘We are fortunate that, thanks to globalisation, policy decisions in the US have been largely replaced by global market forces. National security aside, it hardly makes any difference who will be the next president. The world is governed by market forces.’ (Streeck, 2017a, p. 85).

It is coming straight from the horse’s mouth: the democratic substance has been taken out of national politics. The political arena has shifted beyond the reach of the nation-state where there is at present no popular sovereignty, without which there is no democracy. Control of national politics and elections has been severely incapacitated by the withdrawal of governance into a global sphere dominated by markets, a sphere that is not accessible for democracy. Moreover, the rise of the consolidation state has transformed politics to the single-minded goal of maintaining the confidence of the owners of capital by giving credible guarantees through policy that the state will ‘protect and enforce market justice in the shape of suitable returns on capital investments’ (Streeck, 2017a, p. 62).

Conclusion

Since the 1990-1994 financial-cum-fiscal crisis, austerity policies in Sweden have been reproduced through the establishment of a consolidation state. The Swedish consolidation state has transformed political institutions and subordinated its obligations to the people in order to service its debts, and by extension the demands of international financial markets. Permanent austerity for the people in the form of welfare dismantling and continuous cuts in public spending has been at the forefront of this strategy so as to safeguard the government's ability to repay its old debts and take on new debt. Fiscal consolidation has been a confidence-building measure whereby the Swedish government has through its cuts in public investment and reluctance to take on new debt built a political capacity to never default on its debts and signaled to international markets that it is in a position to adhere to its creditors' demands. The same logic of debt servicing through a consolidation state can be observed across the world, as here exemplified by the European and the US case, although the manifestations and consequences differ due to local variations.

A tight fiscal framework was implemented following the 1990-1994 crisis in Sweden which gave the attainment of budget surpluses a sacrosanct status. Since surplus targeting was first announced in 1997, the Swedish government has almost witnessed uninterrupted budget surpluses - the 2007-2008 financial crisis notwithstanding. These budget surpluses have been achieved by cutting public spending at a sufficiently fast rate so as to ensure that the government's revenues are higher than its expenditures every year. How long this type of austerity model that slowly chips away at the country's own economic foundation will survive remains to be seen. Moreover, the government has opted to use the budget surpluses to cut certain taxes that disproportionately benefit the rich and further renews pressures for fiscal consolidation. The political wiggle-room of the Riksdag is constrained by the fact that a large share of government expenditure is predetermined by the new fiscal regime which, combined with promises of tax cuts, impedes efforts to allocate resources for anything other than paying down the debt.

The new Swedish fiscal regime has also impacted political institutions as the position of the Ministry of Finance has been strengthened *vis-à-vis* other ministries. The institutionalisation of the Swedish consolidation state through the new framework has also led to a rule-bound economic policy whereby fiscal and monetary policy is insulated from democracy. It is instead increasingly market-conforming technocratic bodies such as the Fiscal Policy Council and the Riksbank that take the important decisions that determine the socioeconomic life chances of the Swedish people. In Polanyian terms, in the absence of countermovements the pendulum has swung so far towards market fundamentalism that the democratic process risks running dry as the lack of political alternatives disenfranchises voters.

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