Bridge project triggers government crisis in Sweden

by Tore Fredin

One week before the European Union summit meeting in Corfu, Greece on June 23-25, Swedish Prime Minister Carl Bildt attempted to break a two-and-a-half-year political logjam and gave the go-ahead for construction of a bridge to Denmark that would make Sweden part of Europe for the first time. Opponents of the project reacted with fury: Environmental Minister Olof Johansson, the chairman of the Center Party, resigned, destabilizing the four-party ruling coalition and leaving the country with a caretaker government until the national elections on Sept. 18. The financial community proclaimed its lack of confidence in the government, and refused to buy government bonds.

The idea of building a bridge between the southern Swedish region of Skåne and the Danish island of Sjælland, on which Copenhagen is located, goes back 100 years. (See "Denmark Is Bridging the Baltic," *EIR*, April 12, 1991.) The plan to build the bridge was adopted by the last Social Democratic government, together with the conservative government of Poul Schlüter in Denmark, three years ago. But then the non-socialist parties won the Swedish elections in the fall of 1991, and the Center Party, as one of its conditions for taking part in a coalition government, demanded that all sorts of environmental aspects of the project be examined by the Court for Water Conservation.

That charade went on for over two and a half years. It went so far that the present Danish government, led by Social Democratic Prime Minister Paul Nyrup Rasmussen, was just about ready to declare war on the Swedes. Denmark made sure that the bridge would be named as one of the important European infrastucture projects at the European Union's Corfu summit. Prime Minister Bildt, a Conservative, finally put his foot down and agreed to the project, in order to please his European pals, like Germany's Chancellor Helmut Kohl.

Sweden, which is not a member of the European Union, was taking part in the EU meeting together with three other countries that have applied for membership: Norway, Finland, and Austria. At Corfu, these four governments signed the final document applying for membership at the government level. The last step in the process to be accepted as full members of the EU is that the accord has to be ratified by each country's parliament in the fall. Before the parliaments can ratify the accord, referendums are going to be held in Finland, Norway, and Sweden. Austria has already held a referendum, with a majority voting to join the EU.

The Sweden-Denmark bridge is one of the 11 European infrastructure projects included in the compromise program reached at Corfu. The bridge will be a boon to both countries, and to Europe as a whole. The plan specifies the construction of one long (7.4 kilometer) bridge, plus several shorter bridges connecting various small islands, a total of 4.2 km in length. In addition, a tunnel of 3.7 km must be built. The estimated cost is $1.9 billion.

Reactions from 'the market'

The fact that Sweden now has a lame duck government has already had an effect on the catastrophic state of public finances, with state budget deficit financing running at 14% of the Gross National Product (see *EIR*, May 6, 1994). Now, things are even worse than they were last spring. The same week that the government crisis became public, the Swedish state found itself able to sell only 70% of the bonds it put on the market.

Keep in mind that 40% of the Swedish state debt (now amounting to over $200 billion, or 80% of Gross National Product) is in the hands of short-term investors, which explains why Sweden now has 3-5% higher interest rates on state bonds than in Germany, while the inflation rates are the same for the Swedish and German economies. The difference in interest rates was 1.5% in February, when the U.S. Federal Reserve began to raise its interest rates.

But the real shock came one week later. On July 1, the head of Skandia, the biggest insurance company in Scandinavia, Björn Wolrath, declared that Skandia had sold out all its holdings in state bonds because it had no confidence in the political establishment in general and the present government in particular. Wolrath's proposed solution was more of the old medicine, that is, more vicious austerity; this time, he was backed up by the Social Democratic opposition.

All this drove interest rates even higher. On July 4, the state finally managed to sell all its bonds, but at an interest rate 1.5% above the level previously offered. Clearly this is only a temporary solution, because it means an increase of over 10% in the state debt, which is already more than 100 billion Swedish crowns per year. Almost 25% of the state budget is spent on paying interest on old debts.

The solution for the political establishment is to get the media to drum up an ideological barrage whose message is that the ordinary Swede has to became "debt-conscious"—*skuldmedveten* in Swedish, which also means to be conscious of one's guilt. To muster popular support for this "debt-conscious austerity policy," the Swedish counterpart of Texas populist Ross Perot, Ian Wachtmeister, is mobilizing to form a new movement with the explicit aim of solving the crisis in public finance. Wachtmeister and his collaborators are taking out big ads in the papers, selling fake "state bonds" for 100 Swedish crowns each, to raise funds for his operations, as well as to get the point across in a populistic way.

Is an explosion coming?

The fact that Skandia's Wolrath is declaring "no confidence" in the state indicates that heavy infighting is going on among the Swedish elite, under strong international pressure. International investors know that Sweden financially is a banana monarchy, with a budget deficit running out of control, a crumbling real economy, and a paralyzed government.

This makes the Swedish economy one of the possible triggers for an international financial blowout. Remember that 1) the Swedish economy was one of the first to undergo a deep banking and financial crisis, in which the banking sector was barely saved by the state bailing it out; 2) Swedish corporations are deeply into speculation in financial derivatives; and 3) Sweden now has an interest level above 10%, with virtually no inflation; that kills any idea of industrial investment. These factors, along with the paralysis of government, point to the possibility of a run on the Swedish currency.

It will be a race against time to see whether the Bildt government will be able to keep the lid on up until election day. Right now, Bildt and his coalition partners are playing the same trick as the Kohl government in Germany: If nothing else works, keep up the "virtual reality" propaganda about an economic upswing and financial stability until the election.

Meanwhile, the coalition government politically is up against the wall. The Social Democratic opposition is getting over 50% in the opinion polls, talking about the need for a "strong government." That means a strong-man solution, but no one would ever dare to say that in public. The strategy of the Social Democrats is to pursue a policy which will attract the Liberal Party and the Center Party, and thereby split the coalition government. A new Social Democratic-led coalition government, with more than 60% of the votes behind it, could emerge out of the coming election. Sweden would then get its "strong" solution, with a Mussolini-style austerity policy—that is, if the caretaker government is able to keep the lid on until Sept. 18.

Currency Rates