

# Economic Insights

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## Sweden's election—strong, decisive government still unlikely

The inability of the parties to deal with Sweden's new political landscape will hinder the formation of a strong, decisive government. The ongoing parliamentary election campaign is dominated by blockages between potential coalition partners. In the prevailing public opinion situation an Alliance government will probably take power, although internal tensions regarding its relationship to the right-wing populist Sweden Democrats may threaten its stability. Financial markets are likely to pay more attention than usual to Swedish politics, but due to strong government finances, a high degree of consensus on economic policy matters and a history of cross-bloc cooperation, there is little risk of financial market turmoil.

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By all indications, Sweden's September 9 parliamentary election will not result in any clear government alternatives. For a long time, the two traditional political party blocs – red-green and Alliance – have each enjoyed 37-40 per cent support in public opinion polls: far from a majority of their own. Yet there are no clear plans for cross-bloc collaboration or openings to the right-wing populist Sweden Democrats. Nor is it likely that the current election campaign will throw much light on the issue of how to form a government. Outside observers, especially financial markets, will probably show more interest than usual and try to understand the background of the deadlock that makes forming a Swedish government so hard. This article aims at providing a background description of the political situation in Sweden. It is mainly targeted to readers abroad.

### Even match between blocs ahead of the September 2018 election

2014 election outcome and public opinion situation, %

	Election 2014	Aug 2018	Min	Max
Social Democrats (S)	31.0	25.8	21.1	25.9
Green Party (MP)	6.9	5.6	3.8	6.5
Left Party (V)	5.7	9.2	8.7	12.6
<b>S+MP+V (= "red-green bloc")</b>	<b>43.6</b>	<b>40.6</b>	<b>33.6</b>	<b>45.0</b>
Moderates (M)	23.3	20.3	15.9	20.4
Centre Party (C)	6.1	10.3	6.9	11.1
Liberals (L)	5.4	6.0	4.4	6.0
Christian Democrats (KD)	4.6	3.3	2.4	4.8
<b>M+C+L+KD (= "Alliance bloc")</b>	<b>39.4</b>	<b>39.9</b>	<b>29.6</b>	<b>42.3</b>
Sweden Democrats (SD)	12.9	16.8	16.8	25.7

Source: Compilation based on Kantar Sifo and Pollofpolls.se surveys

### Government deadlock is partly explained by history

There are several special reasons behind the current deadlock in Swedish politics and in the formation of governments.

**1) The decades-long dominance of the Social Democrats** in Swedish politics (between 1932 and 2006, the party led governments during 65 of 74 years) is usually explained in part by divisions and mistrust among the non-socialist parties. The more formalised Alliance collaboration these parties created in 2004, which laid the groundwork for the accession to power of a government headed by Moderate leader Fredrik Reinfeldt in 2006,

seemed to change this situation. Joining inter-bloc coalition governments and thereby breaking up the Alliance is thus a sensitive topic for individual non-socialist parties.

**2) Unlike the situation in countries like Germany, France and the United Kingdom, minority governments have been relatively common in Sweden. This has not previously been viewed as a sign of political weakness. A grand coalition of large parties from both blocs is normally viewed as an emergency solution reserved for severe crises. So far it has only been tried once, during the Second World War.**

**3) Mainly by accepting refugees, Sweden has experienced by far the largest per capita immigration in Europe over the past few decades, which makes migrant-related issues especially divisive.** Although a large majority of both the general public and Members of Parliament now believe that the tightening of refugee policy implemented late in 2015 should be made permanent, many difficult questions remain. These include immigration of relatives and procedures for deporting those whose applications for refugee status have been rejected. There are also political tensions connected to strains on the schools, health care, social services system and housing supply.

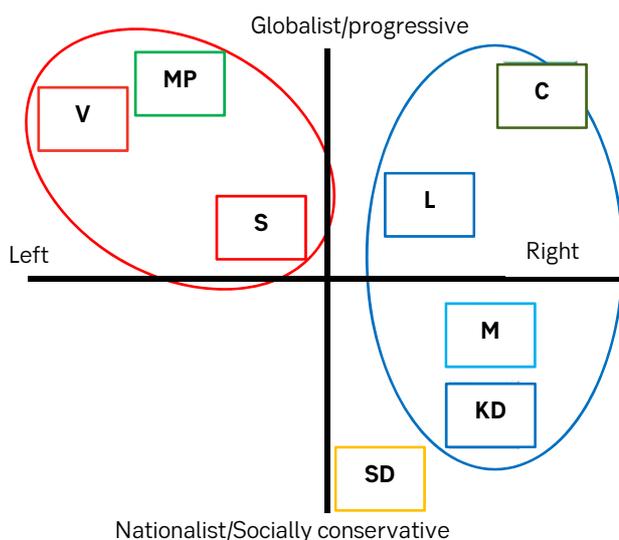
**4) Compared to sister populist and immigration-sceptical parties in other Nordic countries, the Sweden Democrats have their roots in more extreme nationalist environments dating from the early 1990s. Although SD has devoted a lot of energy to polishing its image and distancing itself from these roots, at national level it is still not regarded as a possible political partner by the other parties.** The question is to what extent the experiences of other Nordic countries can be applied to Sweden in the future (see below).

### Political tensions in two dimensions

The above four topics have largely set the tone of political discourse and the ongoing election campaign. Due to dramatic events in the migration field, conflicts in dimensions other than the traditional left-right scale (see chart below) have played a larger role than in other countries. Dual conflict dimensions increase the tensions within the political blocs. On the Alliance side, this is primarily visible in the widening gap between C and M on the migration issue. Similar tensions between S and MP – the two parties in today's governing coalition – have gradually gained strength. Such tensions are also powerful within individual parties, especially the Social Democrats,

where segments of the party find it difficult to accept the policy shift by the party leadership. But there may be tactical reasons for the political blocs to exaggerate the widening of these gaps, in order to reach the broadest possible range of voters. Within the Alliance, for example, this implies that M is focusing (in competition with S) on winning back voters from SD by emphasising its views on “tough issues”. The task of C and to some extent L is, instead, to retain voters who left MP due to disappointment with the government’s new refugee policy. In the battle for this voter category, it is important to both C and L to keep the door to SD closed.

### Positioning of Swedish parties in two dimensions



#### How is a new government chosen?

The formation of governments often has special national features. This box describes some important aspects of the Swedish system.

**Who proposes a government?** The task of appointing someone to form a government rests with the Speaker of Parliament. This makes Sweden different from most other parliamentary democracies, where the head of state often assumes this role. The speaker consults with the parties that have seats in Parliament, playing a non-political role in the sense of not being allowed to favour his/her own party. A new speaker (plus three deputy speakers) is elected as soon as Parliament convenes after an election and may not be dismissed until after a new election. Historically, the largest party in the largest political bloc has held this position, but this is not established by law, and the largest parties in particular have differing views. For example, S has formally adopted the view that the speaker should come from the largest party. In the prevailing unclear political situation, the speaker’s role in appointing someone to form a government is an increasingly important issue.

**How is a new government formed?** The speaker is responsible for dismissing a government. When a government resigns, which does not automatically occur after an election, the speaker asks it to remain in office as a caretaker government. Such a government handles current business but takes no new political initiatives and cannot call an extra election. Directly after the election, the change in speaker involves some complications. During the period until a new speaker is elected (September 10-25 this year), the departing speaker holds preparatory talks with the parties, but only the new speaker can formally propose a new prime minister. The speaker may assign one or more party leaders the task of seeking support in Parliament for a government, then propose a prime minister (as well as proposing which parties should be in the government). The prime minister is elected by Parliament under a system of “negative parliamentarism”: the candidate does not need the support of a majority, but may take office as long as a majority (at least 175 out of 349 members) does not vote against the proposal. If the speaker’s proposal is not approved by

Parliament, the speaker can make three more attempts (i.e. a total of four) before an extra election is called. In that case, a new election occurs within three months, provided that a regularly scheduled election does not occur during that period. To date, proposals by a speaker have never been voted down by Parliament.

#### Important dates after the Swedish election

Sep 9	Parliamentary election
Sep 10-25	The government normally resigns if it does not enjoy sufficient support in the new Parliament
Sep 10-25	The departing Speaker holds preliminary talks with the parties
Sep 14	Final election results are announced
Sep 24	Parliament elects a new Speaker
Sep 25	Parliament convenes and can vote on a new prime minister

**What happens right after the September 9 election?** In concrete terms, several issues of a formal nature will become acute right after the election. One is whether Prime Minister Stefan Löfven will resign at his own initiative. After the fact, Fredrik Reinfeldt was criticised because on election night 2014 he resigned both as prime minister and leader of the Moderate Party. In practice, his decision meant that the entire government resigned and that even before the “December agreement” was reached later that year, he was following its principle that the biggest bloc should govern. It is unclear what lessons Löfven will draw from this, but the Social Democratic prime minister has indicated that he intends to force the Alliance and SD to join forces in a vote of no confidence to dismiss him when the new Parliament convenes: something that has never happened before. Such a strategy poses risks, but we believe that Löfven will follow this plan if the red-green bloc wins more seats than the Alliance, but that he will resign on election night if the outcome is the opposite.

The departing speaker, Urban Ahlin (S), will probably explore the possibility of cross-bloc governments, but only after the election of the new speaker on September 24 will we see concrete steps towards forming a government. It is not self-evident who will become the new speaker, but the most likely outcome is that Parliament will continue to apply the principle of choosing the speaker from the largest party in the largest bloc.

## “Chicken race” closes doors in the election campaign

The current positions of the parties block virtually all conceivable governing alternatives. C and L reject both a cross-bloc government led by S and an Alliance government dependent in any way on SD. In the event of a parliamentary deadlock situation, they instead prefer a grand coalition across the dividing line between blocs, but neither S nor M (which dominate their respective blocs) show much interest. For its part, M is trying to find a way to gain SD's acceptance of an Alliance government that is not repulsive to C and L. In the current chicken race, both M and S are thus trying to manoeuvre themselves into a leading position in the next government, while the “middle parties”, C and L, are frantically trying to avoid having to choose between the devil and the deep blue sea: either splitting the Alliance or breaking their promise to have no relationship at all with SD.

The parties are likely to continue this chicken race throughout the election campaign. Once the election is over and the process of forming a government reaches a critical juncture, things may change. The parties will then probably be forced to adopt more pragmatic positions, and along the way things may happen that make the parties feel it is legitimate to end earlier deadlocks. The formal process of forming a government (see box) is one important piece of the puzzle in determining how long the existing blockages will last.

### Forming a government is tricky regardless of outcome

If the Alliance (M+C+L+KD) wins more seats in Parliament than the red-green bloc (S+MP+V), **our main scenario is that an M-led coalition including all Alliance parties represented in Parliament will take office.** Based on today's party positions, this government will be exposed to major strains, with SD announcing that it will make clear political demands in exchange for tolerating such a government while L and C are not prepared for any form of dialogue with SD. But given such an election outcome, all Alliance parties have declared that they are prepared to form a government. One important element of such a calculation is certainly that they believe that SD and the red-green bloc will not be inclined to join forces in various attacks against an Alliance government, at least in the near future. If tensions inside the government should become too great when it comes to relations with SD, it is possible that after a while C and L will leave the government and that M will form an even narrower minority government, possibly in coalition with KD.

**At present, however, opinion polls instead suggest that the red-green bloc will win somewhat more seats than the Alliance.** This would lead to an even thornier parliamentary situation, among other things because C and L have declared that in such a case there is no basis for an Alliance government. **Yet we end up concluding that an Alliance government is still the “least unlikely” outcome, even in such a situation.** One can imagine a process in which C and L initially demand that the Social Democrats should join a grand coalition. But we do not believe that the time is ripe for such a coalition, and it is unlikely that S would be interested in being part of an Alliance-dominated government. After S rejects a grand coalition, C and L may very well argue that they are being forced to reassess their election campaign views. A pure M government (possibly joined by KD) would have a greater degree of freedom to seek parliamentary support from different directions, yet in a crunch we still believe that C and L will conclude that they will be more useful as part of a government, instead of forcing M to move even closer to SD. A cross-bloc government made up of S, C and L (and perhaps MP) will also be discussed at this stage. Yet it is not very likely that C and L are already prepared to kill the Alliance. In addition, there will be economic policy tensions in view of C's far-reaching deregulation proposals, especially in the labour market.

Some aspects of the election outcome will have the potential to change this picture. **One is if SD should become the largest party in Parliament.** According to traditional public opinion surveys (see above table), SD is quite far behind S, but it is worth noting that

betting firms give about the same odds for S and SD to become the biggest party. The background is that in recent elections, public opinion surveys have underestimated SD's support, which may be due to a lingering disinclination among some voters to reveal their SD sympathies. If SD should become the largest party, this would have major symbolic value and might marginally increase the likelihood of a grand coalition. But in itself, this would not be of such great importance to the party's role in Swedish politics.

Of course it remains uncertain which way the election winds will blow during the final weeks of the campaign. Extreme weather and drought appear to have helped MP gain a firmer foothold, but the recent large number of car fires in problem suburbs has again shifted the focus of attention towards integration of immigrants as well as law and order issues. This benefits SD and to some extent M. For a long time, public support for several parties (L, MP and KD) has been just above the 4 per cent threshold needed to stay in Parliament. Whether or not they make it into Parliament will be instrumental in determining which bloc will end up being the largest. Aside from MP, L has also moved up to levels of support that provide a certain safety margin above the threshold. KD has also picked up public support, but its situation is still precarious and we estimate the probability that the party will end up outside Parliament at around 50 per cent.

### What do betting firms say about a new Swedish government?

Voter support in per cent (Aug) and betting odds

	Per cent	Odds
M+L+C+KD	39.9	3.0
M	20.3	7.0
S+MP+L+C	47.7	7.5
S+MP+V	40.6	7.5
M+SD	37.1	8.0
S+M	46.1	8.0
M+L+C	36.6	11.0
S	25.8	11.0
S+M+C	56.4	11.0
S+L+C	42.1	12.0
M+SD+KD	40.4	15.0

Source: Kantar Sifo and Betson/Unibet

### Different from Denmark and Norway, but also similar

Although there are important differences between Sweden and its neighbours Denmark and Norway, the experiences of these countries are worth bearing in mind. After the Norwegian election of 2013, the leading non-socialist party – the Conservatives – formed a coalition with the immigration-sceptical, populist Progress Party (FrP). Several parties in the middle of the spectrum chose to remain outside the coalition, but both the Liberals and Christian Democrats were part of the government's parliamentary base. After the 2017 election, the Liberals also joined the government. FrP has mainly acted pragmatically within the government, although it has retained its aggressive rhetoric mainly on migration-related matters. The party also seems to be accepting of its declining support in public opinion surveys as a consequence of its participation in government. FrP's voter support has now fallen to about 12-13 per cent. In Finland, the right-wing populist Finns Party have also experienced a sharp decline in popular support as part of the government.

In **Denmark** the largest traditional non-socialist party, Venstre (more conservative than is implied by its name, which means Left), formed a one-party government after a Social Democratic-led government lost the 2015 election and resigned. Unlike Norway, the populist and immigration-sceptical Danish People's Party (DfP) chose to remain outside the government, even though it actually had more MPs than Venstre. Instead DfP is guaranteed an influence on policy matters through extensive negotiations with Venstre. As one might expect, DfP has found it easier than Norway's FrP to retain high public

opinion figures, since it completely avoids taking responsibility for government policies.

**It would be strange if Sweden's Moderates did not study what has happened in Norway and Denmark.** If they can somehow include the seats of immigration-sceptical parties in their parliamentary base, traditional conservative parties are suddenly guaranteed a place at the focal point of the political spectrum. The change in the political playing field is so dramatic because immigration-sceptical parties enjoy a rather high degree of support from working-class voters who left the Social Democrats, especially in Denmark and Sweden. In a Western European perspective, the Swedish Social Democrats stood out for decades because of their ability to broaden their voter base to the middle class. Now that S is instead being challenged by SD as the dominant party among its previous core voters, for example in the blue-collar unions belonging to the Swedish Trade Union Confederation (LO), it is understandable that the party is facing an identity crisis. **On the other hand, the Moderates will also take big risks** if and when they try to move closer to SD. Because of its ultra-nationalist roots, SD's position in Sweden is different from that of its sister parties in neighbouring countries. It did not win seats in Parliament until 2010. Its Norwegian and Danish sister parties have been represented in Parliament largely without interruption since 1973, and support for them was mainly fuelled by non-socialist dissatisfaction with high taxes and an increasingly bloated public sector.

### A political risk premium for Sweden is still distant

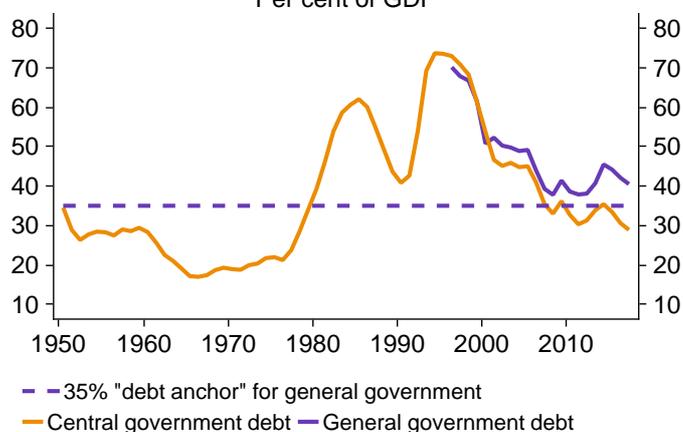
Even though Sweden is entering a period of continued uncertainty about how to achieve decisive political governance, **other factors must also be included** when assessing the likelihood that the financial markets will begin pricing in a political risk premium. Compared to the lengthy political crises in various other European countries, the problems of forming a Swedish government appear relatively minor. **Strong government finances also represent an important protective buffer**, in an international perspective. The public sector is showing surpluses, and general government debt is now below 30 per cent of GDP, very low compared to other countries. There is also a broad political consensus on the value of strong government finances. We also believe that there is solid support for European Union membership in Swedish public opinion. There is thus rather little risk that V and SD could successfully pursue the "Svexit" issue: Swedish withdrawal from the EU.

**tendency to want to stoke the left-right conflict** in order to shift the focus from issues that benefit SD. In fact, **the differences in how parties view economic policy are narrower than for a long time**, especially between S and M. The differences in their proposals for the tax system and government spending are far from systemically important. Instead, both parties are making it their highest priority to try to guarantee the continued quality of the schools, health care and social services and other core public sector activities, thereby calming fears of breaches in the social contract. The two parties are not alone in promising more money for local governments and for public safety, defence and the judiciary system.

Aside from a relatively high degree of consensus in many fields, there is also **a tradition of pragmatic cooperation in Swedish politics**. During the 2014-2018 term of Parliament, important cross-bloc agreements were achieved in such areas as energy and defence policies. **But there have been major blockages in labour market, tax and housing policies.** In emergency situations such as the krona crisis of the early 1990s, the Lehman Brothers crash of 2008 and the refugee crisis of 2015, Swedish political parties have also managed to join forces and conclude far-reaching agreements in sensitive areas. The big tax reform of the early 1990s, which included big cuts in marginal income taxes, is one example of how a breakthrough could be reached in an important area without pressure from an acute economic crisis situation. Although things are quiet on this front ahead of the September 9 election, there are signs of behind-the-scenes collaboration and dialogue between parties that provide hope for cross-bloc agreements on taxation and housing policies.

Sweden's relative position compared to other countries – especially in Western Europe – combined with its earlier experience of a pragmatic working climate suggest that financial markets need not demand any significant risk premium for Sweden. Although we cannot be certain that the Swedish political system will be able to come together in ways that result in stronger, more decisive government action in important and neglected areas, the country will at least have substantial lead-time before these problems grow so severe that they will lead to major financial market turmoil.

Lowest public sector debt since 1977  
Per cent of GDP



Source: Eurostat, Macrobond, SEB

In the ongoing election campaign, the parties are trying to conjure up a picture of major ideological differences between them in economic policy. The Social Democrats contrast the proposed investments in their national development plan with the Alliance's tax cuts. The Alliance responds, in turn, by accusing S of being a "dole party". Although the parties differ on their priorities, such rhetoric includes a