

CAN POPULIST FORCES TAKE POWER IN SWEDEN?

Anthony Morlet-Lavidalie

Cradle of social democracy, Sweden is facing a possible breakthrough of the far right. Only 12 years after entering Parliament, with only 5.7% of the vote, the Sweden Democrats (SD, far right) now threaten traditional political forces.

After a campaign marked by debates on crime in Sweden, on 11 September, the current government coalition led by the Swedish Social Democratic Party could fail to secure a third consecutive term, following on from its wins in 2014 and 2018.

Even though the latest polls show that the party, led by the current Prime Minister Magdalena Andersson, should get the largest share of the votes (with the Social Democrats picking up 29% of the votes), ahead of the far-right party (with 20% of the votes for the Sweden Democrats), the left-wing coalition would not get the 175 seats required in order to form a majority in the Swedish Parliament (Riksdag).

If such a scenario occurs, the right-wing Alliance could take the reins of the country in the event of an unprecedented deal with the far right.

SWEDEN: PUBLIC DEFICIT OF GENERAL GOVERNMENT

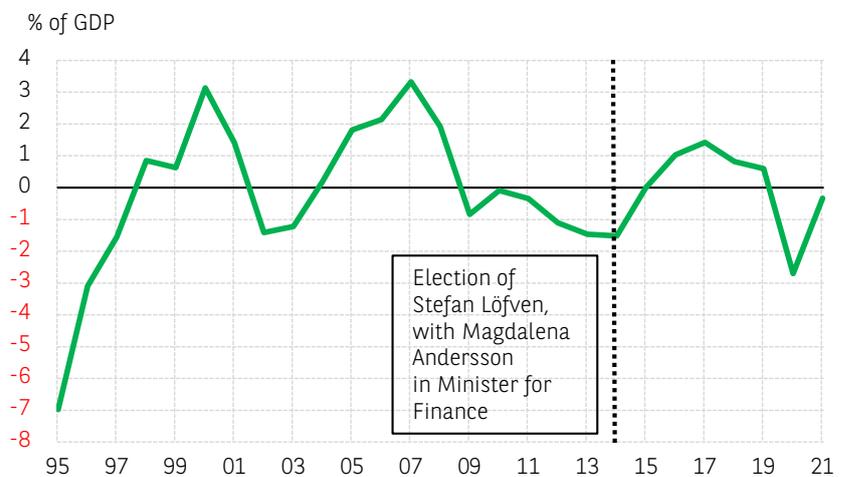


CHART 1

SOURCE: OECD, BNP PARIBAS

Election campaign debates in Sweden have traditionally focused around issues related to employment, health, the environment and education. However, the key issue this year has been crime in the country.

For the first time since the University of Gothenberg polling began running in 1979, voters have ranked crime as their biggest concern (41% of respondents). This is due to the huge rise in the number of shootings in the country. Over the past few years, Sweden has become the second worst country in Europe for numbers of firearm deaths per capita, behind Croatia, according to a report by the Swedish National Crime Prevention Council. As the overall state of the country in Sweden is currently quite good, particularly on the economic front, this could be heightening concerns about crime. Swedish growth is holding up (+0.9% Q/Q in Q2 2022), GDP is well above its pre-Covid-19 level (+5.1% compared to Q4 2019), the unemployment rate keeps falling (from 8.5% in July 2021 to 7% this year) and employment rates hit record highs (standing at 69.3% in July). Despite inflation remaining a key issue (+8.5% year-on-year in July), just as it is in many European countries, the Swedish Central Bank (Riksbank) is clearly determined to get it under control in the medium term, which is likely to ease people's concerns.

THE RIGHT-WING PARTIES ARE HARNESSING WORRIES ABOUT SAFETY TO BOLSTER THEIR ELECTION CAMPAIGNS

The conservative parties¹ and the far-right party (the Sweden Democrats) are clearly campaigning around the supposed link between the rise of crime and the country's huge levels of immigration between 1985 and 2015. Over this period, the proportion of the population of non-western origin rose from 2% to 15% of the total population². As a result, the far-right party, which was first elected to Parliament in 2010 with 5.7% of votes (*Chart 1*), is on track to become the second largest party in the country, with polls placing it on 20% of votes, ahead of the Moderate Party, which is forecast to get 18% of the votes.

THE TWO MAJOR CENTRIST POLITICAL BLOCKS WANT TO PROTECT THE POPULATION FROM INFLATION, BUT VIA DIFFERENT APPROACHES

Despite being traditionally associated with budgetary orthodoxy, the conservatives are making promise after promise to help Swedish households cope with the huge rise in consumer prices (+8.5% in July 2022 year-on-year). The Moderates, who are the main centre-right opposition party, are proposing to significantly cut income tax rates, in particular. They are also putting forward fuel-price reductions. These measures would be financed in the long term by cuts to unemployment and health-insurance benefits.

While the opposition's support for households mainly involves tax cuts, aid measures put forward by Prime Minister Magdalena Andersson's centre-left government are more focused around additional spending. The Social Democratic Party has announced a package of subsidies worth SEK 90 billion (EUR 8.4 billion), which is being delivered in the form of energy vouchers to help consumers deal with their rising electricity bills.

THE LEFT COALITION IS WEAKENED, DRAGGED DOWN BY THE SOCIAL DEMOCRATS, WHO ARE STRUGGLING TO WIN SUPPORT

On the opposite side of the political landscape, the Social Democratic Party currently in power is struggling to bring other left-wing forces on side as, since she arrived at the Ministry of Finance in 2014, Magdalena Andersson has pursued a restrictive fiscal policy that has not been unanimously approved within the government coalition. In fact, as early as 2014, the Swedish general government deficit was completely wiped out, after standing at over 1.5% of GDP in 2013 (*Chart 2*). The government, led by Stefan Löfven, continued this fiscal consolidation policy and recorded a fiscal surplus over the next five years as a result. The Social Democrats are also being accused of letting inequalities widen and, more generally, of not taking enough action on social issues. This lack of action has been seen as particularly problematic as, even though the social protection system is still very extensive, it is much less generous than it was previously. Government intervention has fallen sharply over the past 25 years, with public spending accounting for over 71% of GDP in 1993, compared to 49% in 2019.

SWEDEN: LEGISLATIVE ELECTION PROJECTION

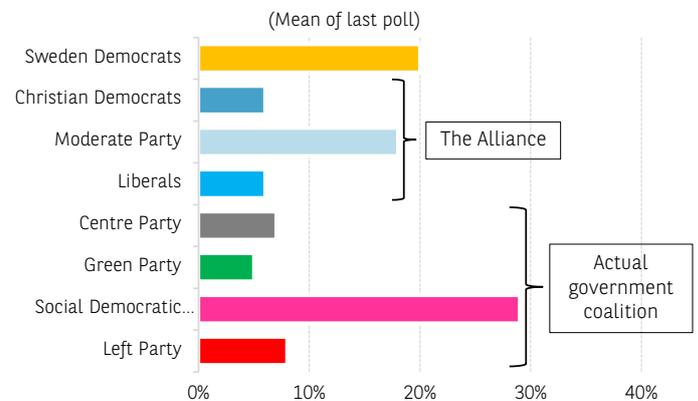


CHART 2

SOURCE: POLITICO, BNP PARIBAS

SWEDEN: SEATS REPARTITION IN RIKSDAG PROJECTION

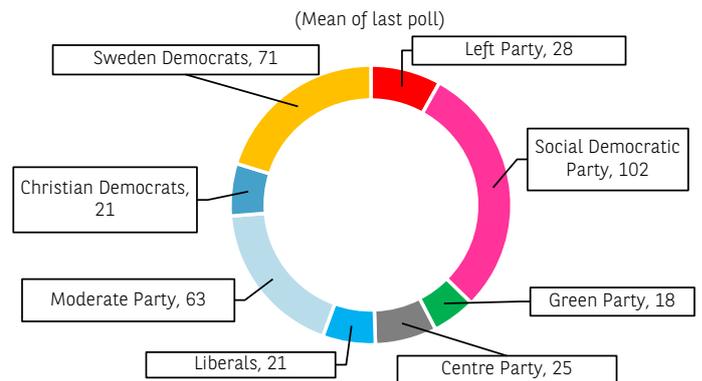


CHART 3

SOURCE: POLITICO, BNP PARIBAS CALCULATIONS

THE LEFT-WING COALITION COULD LOSE ITS MAJORITY IN PARLIAMENT

While it is highly likely that the Social Democratic party will come out on top in the elections (*Chart 3*), it is highly uncertain whether the entire left coalition can win the 175 seats needed to form a majority in the Riksdag. Admittedly, the latest polls put the party leading the government on 29% of the votes, compared to just 20% for the Sweden Democrats, but the entire left-wing coalition would win less than 50% of the votes. As a result, the coalition would only have 173 seats (*Chart 4*), according to the latest forecasts. If they fail to get a majority, the Social Democrats would probably be unable to get Magdalena Andersson re-elected as the head of the next government. Their only chance would lie in convincing some liberals to join their coalition.

¹ The Christian Democrats, the Moderates and the Liberals

² Fondapol «Swedes and Immigration: End of the Consensus?», September 2018, written by Tino Sanandaji, a business and economic history researcher at the Stockholm School of Economics Research Institute



THE RIGHT-WING ALLIANCE COULD TAKE THE REINS OF POWER, BUT WOULD HAVE TO MAKE A DEAL WITH THE FAR RIGHT TO DO SO

If the left-wing coalition fails to get Magdalena Andersson re-elected, the Speaker of the Parliament will then turn to the opposition to ask them to present a candidate. Ulf Kristersson (leader of the Moderate Party) is currently the leader of the opposition. However, the right-wing alliance is unlikely to obtain enough seats to make Kristersson the head of the government. The only way that it could regain power would be by making a deal with the far-right party. Up until now, the right-wing alliance has always refused to reach out to the party founded on 6 February 1988 by neo-Nazi supporters, but the boundaries between the two parties are now porous. A number of voices are speaking up, saying that they are ready to govern with the far right. While the Christian Democrats and Moderates are more likely to negotiate with the Sweden Democrats, the same cannot be said for the Liberals who have always seen the far right as "beyond the pale".

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SWEDEN: HISTORICAL PERSPECTIVE OF VOTES OBTAINED BY THE DIFFERENT PARTIES

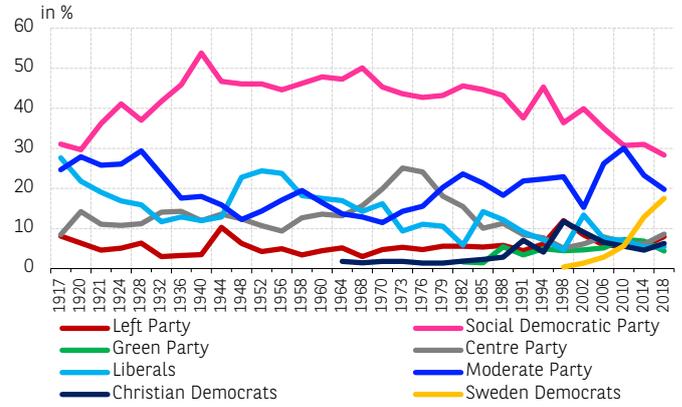


CHART 4

SOURCE: RIKSDAG, BNP PARIBAS CALCULATIONS

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