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Central Intelligence Agency



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**DIRECTORATE OF INTELLIGENCE**

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**Sweden: Election Outlook** (b)(3)

**Summary**

September opinion polls indicate that Sweden's ruling Social Democratic Party (SDP) will probably be able to form a new government following the 18 September national election. The SDP may lose the working majority it traditionally secured with support from the Left-Party Communists (VPK), however, and have to depend on the passive support of the upstart Environmental Party (Greens) in order to form a minority government. Polls conducted in June--prior to a scandal involving a government sponsored secret investigation into the murder of former Prime Minister Olof Palme in 1986--had shown the SDP in a dead heat with the nonsocialist bloc consisting of the Moderate, Liberal and Center Parties. Current polls indicate a decline in SDP popularity--probably reflecting a loss of SDP votes to the (b)(3) Greens, rather than an increase in support for the

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nonsocialists. The Greens--who are expected to win representation in the Riksdag for the first time--have said that they will not enter into a coalition with either the socialist or nonsocialist blocs, but will support Social Democratic government on an issue-by-issue basis. (b)(3)<sup>a</sup>

Neither a minority Social Democratic government nor a nonsocialist coalition government would be likely to significantly change domestic policy, although the nonsocialists want to hold social spending at current levels while increasing defense spending. Both blocs would continue to pursue improved relations with the US and would want to avoid the bilateral strains that festered under Prime Minister Palme. Even the nonsocialists, though, would retain the Swedish penchant for speaking out on regional security and disarmament issues in a way that tends to equate the West with the East. (b)(3)

### Will Economic Success Outweigh Political Scandals?

The Social Democrat's campaign strategy has highlighted the party's economic accomplishments since 1982--pursuing a macroeconomic policy that increased the private sector's share of GDP, reduced the budget and trade deficits, and held down the unemployment rate, which is now at its lowest level in this decade. Consequently, the SDP is boasting that Swedes are better off than ever, and are contrasting their last six years in power with the 1976-1982 period when unemployment reached record highs under nonsocialist rule. SDP domestic policy strategists--primarily Prime Minister Ingvar Carlsson and Finance Minister Kjell-Olof Feldt--remain popular because of their association with Sweden's economic recovery. Although over 90 percent of economic growth since 1982 has been swallowed by taxes, the tax burden has not become a pivotal issue to the same extent as in previous elections. As a result, the nonsocialists' advocacy of major tax reform, which they have long hoped would become a salient issue triggering a political realignment, has not benefitted them in this campaign. (b)(3)

The rise of the Greens has undercut somewhat the SDP's ability to maintain its level of support by pointing to its economic successes. Instead, many members of the SDP's "environmental wing" are defecting to the Greens because of their growing concern over nuclear power--a trend which accelerated after Chernobyl--and other environmental issues. The Carlsson government tried to staunch this flow by proposing to close down two of Sweden's 12 nuclear reactors by the mid-1990s and the remaining plants by 2010. Even though this proposal would be extremely costly given that nearly half of Sweden's electricity is nuclear-generated, environmental hardliners are unimpressed and back the Greens' demand that all Swedish nuclear reactors be closed within the next three years. Consequently, we believe the Social Democrats have written off many of these hardliners, and instead are counting on their traditional labor union base. Despite trade union opposition to the SDP's plan to dismantle Sweden's nuclear power plants, we do not expect significant labor defections to the nonsocialists; some may, however, not vote at all. (b)(3)

- 2 -

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(b)(3)

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### Political Scandals Involving SDP Leaders

A series of scandals has also overshadowed the SDP's economic success and seriously damaged the Social Democrats' image of moral superiority. By early summer, the Government had suffered through two major scandals involving Social Democratic leaders condoning illegal arms sales and the use of influence by party and trade union officials to receive special consideration for housing in the extremely tight, government controlled market. The subsequent Ebbe Carlsson affair, however, coming just before the election, could prove to be the most damaging to the Social Democrats.<sup>1</sup> (b)(3)

In this latest scandal, Justice Minister Anna-Greta Leijon--previously one of Carlsson's most popular ministers--admitted to using her position to support a privately financed, secret investigation of the Palme assassination by Ebbe Carlsson, and appeared to place herself above the law in a country that holds the legal system sacrosanct. Prime Minister Carlsson himself came under strong criticism for his staunch defense of Leijon, but his confident performance before a parliamentary committee investigating the affair helped him recover some lost ground. It is unclear what effect the hearings--the first to be nationally televised--had on the populace as many Swedes were on summer holiday, but we believe the whole affair probably further eroded public faith in the SDP government. (b)(3)

The nonsocialists, for their part, still suffer from the perception by most Swedes that they are incapable of leading the country--a point emphasized by a recent poll which showed that half of the likely nonsocialist voters believe that the Social Democrats will form the next government. Although they have tried to capitalize on the recent scandals involving the Social Democrats, the nonsocialists have instead had to devote a significant portion of their campaign to convincing voters that the three parties present a viable, cohesive option. Despite their efforts, we do not believe the nonsocialists have been able to override the memories of policy failures when they governed from 1976-1982, especially in economic policy. By contrast, the Social Democrats have successfully claimed that their economic policies have corrected the economic ills caused by the nonsocialists during that period. (b)(3)

### Social Democratic - Led Government Still Likely

The Social Democrats are likely to slip from their current level of 159 seats (out of 359) in the Riksdag with most of their lost support going to the Greens rather than the nonsocialist parties. In order to remain in power after the election, the Social Democrats will either have to continue their cooperation with the Left-Party Communists (VPK), garner the support of both the VPK and Greens, or form a coalition government with the nonsocialist Center Party. Some Social Democrats traditionally vote for the VPK in national elections to ensure a socialist majority. This year, however, the Social Democrats may lose additional votes to the left because the party's squeaky-clean image has been badly tarnished by the recent scandals. In addition, many SDP partisans

<sup>1</sup> Ebbe Carlsson--no relation to Prime Minister Ingvar Carlsson--is a wealthy publisher with close ties to the SDP.

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believe the government has not been aggressive enough on environmental issues and are turning toward the Greens. (b)(3)

Nonetheless, we believe that a Social Democratic-led government remains the most likely outcome in the election, given nonsocialist party divisions and lack of public confidence in their ability to govern. A Social Democratic government would continue with its present domestic and international agenda--maintaining a tight fiscal policy to eliminate the budget deficit while trying to honor its pledge to increase annual paid vacation from five to six weeks, and participating in international peace and disarmament efforts. A strong showing by the Greens, particularly if the VPK fails to remain in parliament--which cannot be ruled out given recent polls--could force the Social Democrats to address controversial environmental issues, such as an accelerated closing of all 12 of Sweden's nuclear reactors within the next three years. We do not believe, however, that they would accede to the Greens' demand to close all plants so rapidly due to the high cost of finding other energy sources. If the Social Democrats do not meet most of the Greens' environmental demands, we believe that the Greens would not support the Social Democratic legislative agenda and the Social Democrats would then be forced to seek compromises with one or more of the nonsocialist parties on an issue-by-issue basis. (b)(3)

If the Social Democrats are unable to form a government with the support of either the VPK or the Greens, we believe the SDP leadership would explore the possibility of forming a coalition with the Center Party rather than forfeit power. The Social Democrats have already sent some signals to the Center Party through Stig Malm, the leader of the major labor organization in Sweden, who has suggested that the two parties can find a basis for cooperation. Although Center Party leader Johansson has publicly rejected these overtures, claiming his preference for joining a nonsocialist coalition, we believe he would seriously consider an invitation to form a SDP-Center government as a (b)(3) opportunity to rebuild support for his party, which has flagged while in opposition.

On foreign policy, Prime Minister Carlsson has sought to return Sweden to a constructive dialogue with the US in an effort to repair the damage from the more turbulent Palme era. Although Carlsson and other party leaders at the 1987 party congress managed to defeat a grassroots effort to tighten the Social Democrats policy on nuclear-capable ship visits, a Social Democratic government would remain active in international forums for nuclear disarmament. The Social Democrats will continue to believe that they should act as the world's conscience, and moral concerns will remain the driving force behind Swedish foreign policy. At the same time, Stockholm will remain wary of Soviet diplomatic advances and will continue to stress that Sweden will only discuss arms control and confidence-building measures in conjunction with its Nordic neighbors and in such a way as to respect Danish and Norwegian membership in NATO. Nonetheless, Stockholm considered the recent agreement with the Soviet Union on the boundary dispute in the Baltic Sea as a sign that relations with Moscow will continue to improve following strains in the early 1980s. (b)(3)

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**If the Nonsocialists Win**

A nonsocialist coalition would be unlikely to pursue domestic economic policies that differ significantly from the current government's, especially because they have not agreed on a common platform that seriously challenges Swedish social democracy. In addition, a nonsocialist coalition would probably clash on some of the key issues that garnered it voter support. While the Moderates and Liberals would like to privatize many government services, reduce taxes and pursue EC membership, these moves would put them at odds with the Center Party. For instance, the Moderates and Liberals support partial privatization of the cradle-to-grave health care system, while the Center Party wants to maintain the current trouble-plagued system by allocating additional funds in an effort to make it more efficient. The three nonsocialist parties are also split on the nuclear power issue. The Moderates support continued reliance on nuclear power, asserting that greater pollution in the future would result from the increased use of fossil fuels, but the Center Party supports the Social Democrats' plan for closing the two reactors by 1995 and subsequently shutting all plants. (b)(3)

On defense and security policy, the nonsocialists would probably try to increase the defense budget and would remain wary of Soviet diplomatic gestures. A nonsocialist government would probably push for a review of the 1988-1992 defense plan as early as 1990 and would be somewhat more likely to trade off higher defense spending for restraints in social expenditures. Although Moderate Party leader Carl Bildt takes a harder line towards the Soviet Union than other nonsocialist leaders, we do not believe there will be a significant change in Sweden's relationship with the Soviet Union in the absence of a repeat of the 1982 "Whiskey on the Rocks" incident. (b)(3)

Overall, we believe a government of nonsocialist parties would resume its internal bickering--usually abandoned during the campaign--which would thwart its post-election momentum. In the worst case scenario, disagreement among the nonsocialists would prevent the parties from concentrating on a unified legislative program and could lead to a parliamentary stalemate as each party sought a cosponsor for its pet issues. (b)(3)

**Implications for the United States**

Regardless of the outcome of the election, we expect the next Swedish government to place high priority on fostering good relations with the US. Nonetheless, Sweden will continue to "agree to disagree" with the US on several international issues, particularly on US policy in Central America. (b)(3)

If the Social Democrats return to power, the US can expect relatively little change in relations with Sweden. A returning socialist government will probably continue to resist rank-and-file calls for tightening Swedish nuclear ship visit policy or for supporting an acceleration of the Nordic Council's deliberations on a Nordic Nuclear-Weapons-Free Zone. If the Greens play a significant role in the next government, they may be able to stir significant grassroots pressure on the government to reverse these positions. In any event, a Social Democratic government is likely to continue to criticize US policy on

- 5 -

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regional issues, such as Central America. Eventually, the Social Democrats may begin to shed the caution that has tempered their rhetoric since the Carlsson visit to the US last year and revert to their traditional moral posturing on "North-South" issues. (b)(3)

While a nonsocialist government may temper the rhetoric against US policy in Central America even further--particularly if Permanent Undersecretary of Foreign Affairs Pierre Schori is replaced--the Liberal and Center parties would probably continue to seek some role for Sweden as a "moral conscience" on the world scene. The nonsocialists would continue the Carlsson government's efforts to play down Soviet security proposals for the Nordic region and calls for establishing tighter rules for visiting warships. Although either a socialist or a nonsocialist government would implement policies to facilitate adaptation to the EC's 1992 internal market reforms, a nonsocialist government would probably be fraught with bickering between the Moderates, who want to join the EC, and the Center Party, which opposes such a move. (b)(3)

- 6 -

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