Manufacturing Debt

The co-evolution of housing and finance systems in Sweden

Timothy David Blackwell

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Declaration

I hereby declare that this thesis has not been, and will not be, submitted in whole or in part to another University for the award of any other degree.

Signature: ....

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Any errors or deficiencies as may exist in this thesis are my own.

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Summary

This thesis investigates long-run financial dynamics in Sweden in order to understand how changes in the constitution of housing finance have both shaped and *been shaped* by the Swedish housing system from the mid-nineteenth century to the present era. Once heralded as one of the most effective housing models in the world, Sweden's housing system is, today, widely considered to be in a state of acute crisis. Housing scholars often attribute the current state of housing dysfunction to a 'system switch' which saw Sweden's *social market* system 'rapidly transition' to *neoliberalism* during the 1990s. However, by citing processes such as *neoliberalism* as core drivers of contemporary housing system dysfunction, scholarly appeals to what are largely perceived as exogenous ideological influences tend to obscure the path-dependant nature of housing and finance system development. As such, the behavioural legacies, norms, and expectations which a housing stock and attendant system of housing finance generate over many decades, and the sectoral actors and interests which help to shape the *rules of the game* vis-à-vis housing investment, production, consumption and distribution are, all too often, left empirically and theoretically unchecked.

This thesis argues that the Swedish model of housing, which was for so long held up as a paragon of social market efficiency and stability, was in fact an ephemeral phenomenon and that, far from being a contemporary aberration of *financialised neoliberalism,* the current levels of precarity and dysfunction in Sweden's housing system have a longer pedigree than many scholars assume. I show how a unique model of political economy and industrial relations created a *housing industrial complex*, producing one of the most concentrated and powerful construction and finance sectors in the world. How speculative housing dynamics and changing attitudes to financial risk generated from outside formal banking channels undermined the basis of this *complex* and, with it, traditionally decommodified housing forms. How the state moved from attempting to mitigate the risk-taking behaviours of financiers, investors and households, to promoting speculative housing dynamics and embracing the development of a *housing finance complex*. And how, sponsored by the state, debt-fuelled housing consumption has been a central feature of the Swedish model of housing for over 40 years.

Adopting an actor-centred, historicist approach, this thesis studies housing systems as *complexes* of production, distribution and exchange, which are inextricably linked to long-run evolutions in finance. Exploring longitudinal patterns and trends relating to credit flows to the housing sector, tenure composition, household debt, housing construction, and institutional governance, the thesis emphasises the centrality of housing finance system development – and the state's role therein - in engendering particular practices and behaviours which, in turn, shape housing system dynamics and attitudes to housing risk on both the demand- and supply-side. In so doing, it positions housing and finance systems as proper objects of historical enquiry, whose path-dependent, co-evolutionary dynamics can never be fully appreciated in isolation of each other, or, indeed, of broader political-economic trends. By examining the co-evolution of housing and financial forms in Sweden, this thesis seeks to answer fundamental questions such as: What impacts do changes in the constitution of housing finance have on housing system development? Which actors and expressions of interest have most influence over housing system outcomes? And: Why do housing policy regimes change?

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List of Abbreviations

BoP	Balance of Payments
CAB	Current Account Balance
EMF	European Mortgage Federation
ERM	European Exchange Rate Mechanism
ESO	Ministry of Finance’s Expert Group on Public Economics
ESRB	European Systemic Risk Board
EU	European Union
FI	Finansinspektionen
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GNP	Gross National Product
HSB	Hyresgästernas sparkasse - och byggnadsförening
IMF	International Monetary Fund
LO	Swedish Trade Union Confederation
LTV	Loan-To-Value Ratio
MBSs	Mortgage-backed securities
NPLs	Non-preforming loans
OECD	Organisation for Economic Cooperation and Development
SABO	Swedish Association of Public Housing Companies
SAF	Swedish Employer Association
SAP	Sveriges socialdemokratiska arbetareparti (Socialdemokraterna)
SCB	Statistics Sweden
SKB	Stockholms Kooperativa Bostadsförening
SKL	Sveriges Kommuner och Landsting
SOU	Statens offentliga utredningar
UK	United Kingdom
USA	United States of America

Till morfar

Introduction. *Swedish housing under pressure*

> *I think there's been a change in public thinking that is driving a temporary increase in home prices […] The change in thinking is of housing as an investment. And there's a perception that home prices have gone way up in lots of other countries so why not in Sweden as well? They think that there's more value than there really is.*

Robert J. Shiller, 2013

> *The average indebted Swede has three loans, is 50 years of age, and has a debt ratio of 296 per cent*[1].

Sveriges Riksbank, 2014

When reading Sweden's popular dailies, it is almost impossible for the discerning reader to escape the conclusion that the European Union's third largest country by area is in the midst of a severe and protracted housing crisis. Whole volumes have been written on the topic (CRUSH, 2016), and it is not difficult to understand why. In 2017, nearly 90 per cent of Sweden's municipalities reported the existence of a *housing shortage* (SvD, 2017). Queues for rental accommodation in Sweden's major cities can number in the hundreds of thousands (*Bostadsförmedlingen*, 2017), and residents on waiting lists in inner-city Stockholm can expect to wait as long as *20 years* for a rental apartment[2]. Meanwhile, with the exception of one year, Sweden has experienced over twenty years of robust house price growth, with prices rising almost 6 per cent a year on average since 2007 (FT, 2017); far ahead of incomes. Despite unprecedented house price growth and incessant demand for rental housing, however, supply has not acted as a function of demand. Housing construction output during much of the last 25 years has been lower than at any point since the 1930s; overcrowding among low-income groups is worse than in Croatia or Greece (OECD, 2017a)[3]; and levels of private mortgage debt have eclipsed those of most mature industrial economies (EMF, 2016).

Sweden today is a nation of homeowners, with the proportion of Swedes owning their homes (either as freeholders or tenant-owners) higher than in Great Britain or the United States, but this status has come at a price. With no legally enforced limit on mortgage durations prior to 2016, Sweden's Financial Services Authority (*Finans Inspektionen*) memorably estimated, on the basis of 2014 data, that it would take *140 years* for the average Swedish homeowner to pay down

[1] This refers to the ratio of debt to disposable income.
[2] This figure applies to the most oversubscribed inner-city districts. The average waiting time for an apartment in Stockholms County is over 9 years. For an apartment near the city centre, this figure increases to 13.5 years (*Bostadsförmedlingen*, 2017).
[3] Sweden has some of the highest rates of overcrowding among low-income groups in the *OECD*, with 30 per cent of low-income groups living in overcrowded conditions (OECD, 2017a).

their mortgage (SvD, 2014). With the Swedish central bank's (*Sveriges Riksbank*) deposit and lending rate having been set at zero or below for much of the last four years, mortgage credit has been *cheaper* and more accessible to Swedish households than ever before, but the era of unprecedented mortgage liquidity has assisted in generating a crisis of affordability. Ever greater volumes of mortgage debt have created a virtuous cycle of asset price and debt inflation and, according to a survey conducted at the end of 2017 by the Swedish real estate agency, *Svensk Fastighetsförmedling*, nearly 50 per cent of Swedish homeowners would be forced to move if their mortgage servicing costs rose by more than 3,000 kronor (€300) a month (*Dagens Industri*, 2017). Contemporaneously, as the nationwide rental housing shortage has become more acute, tenure security has waned, and renters are increasingly finding themselves in a rental market that is inaccessible, expensive, and precarious (Baeten *et al*., 2017). The Swedish housing system that was once underpinned by the belief in housing as a *social right* has, then, become dysfunctional and *monstrous* (Christophers, 2013).

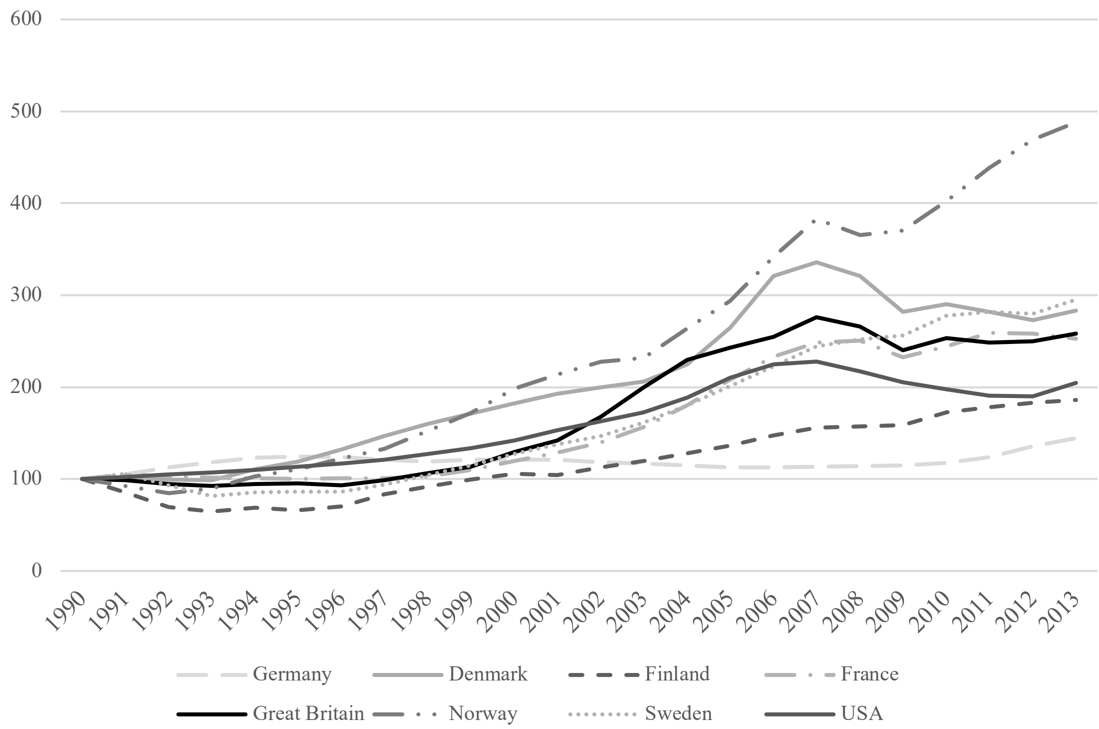
Explanations pertaining to the sources of the present housing system dysfunction are manifold, but where many scholars and pundits concur is in emphasising the importance of recent *changes* that have ostensibly transformed Sweden's housing system. The opening excerpt to this chapter, taken from a statement by Robert J. Shiller in a televised interview with *Sveriges Television* (*SVT*), provides a case in point. The journalist interviewing him, when confronted with this statement, asked: "What would be a sound reflection to do [sic.]?" To which Shiller responded wryly: "*Run!*". Shiller is not the only Noble Laureate to have cast grave assertions about the residential housing market in Sweden, either. The economist, Paul Krugman, has commented, in his usual unassuming manner, that: "Prices [in Stockholm] have gone up quite a lot and *household debt is quite high*", adding that, "Those are normally the symptoms of a bubble" (*International Business Times*, 2014).

The perceived risks of a 'housing bubble' in Sweden's metropolises[4], and the macroeconomic implications of households' housing-related debt therein, are warranting growing attention from international and domestic commentators (International Monetary Fund, 2017; Sveriges Riksbank, 2017); particularly so since the aftermath of the Global Financial Crisis which - in stark contrast to the *credit crunches* experienced throughout much of the Western world - had little impact on house prices or the supply of mortgage credit in Sweden. Indeed, with Sweden's National Institute for Economic Research (*Konjunkturinstitutet*) warning, for the first time in its history, of the potential for a *housing crash* (Dagens Nyheter, 2015b), and the European Systemic Risk Board (ESRB) - a division of the European Central Bank set up in the wake of the GFC to monitor macro-prudential oversight throughout the EU - claiming that Sweden's housing market

[4] Throughout the project I refer mainly to Sweden's three biggest cities: Stockholm, Malmö, and Göteborg. These metropolitan areas account for circa 50 per cent of Sweden's total population (>10 million inhabitants).

is *the most vulnerable in the EU* (European Systemic Risk Board, 2016), there is broad consensus that the existence of a housing bubble in Sweden presents real and present dangers to macroeconomic stability.

Figure *i*. *House prices in a selection of OECD countries, 1990-2013 (nominal index, 1990=100)*



Source: Jordà, Schularick and Taylor, 2017

Notwithstanding certain institutional specificities peculiar to the Swedish case, the broad contours of the milieu I have described briefly here seem to conform to trends elsewhere in the OECD. Indeed, the first two decades of the twenty-first century may come to be remembered as the epoch of 'housing crises'. Swathes of cities throughout the OECD face chronic housing shortages, and low- and middle-income households are increasingly confronted with a pernicious mix of worsening accessibility and affordability, tenure insecurity, and ever-increasing exposure to financial risk; a situation which has led Peter Marcuse and David Madden to claim that 'the symptoms of housing crisis are everywhere in evidence today' (Marcuse and Madden, 2016). Yet, the Swedish case represents a puzzling development. For the current crisis and apparent housing bubble seem to challenge long held assumptions about Sweden's housing system. To understand how and why, though, we need to delve a little deeper into Sweden's political economy and housing timeline.

Throughout much of the post-War era, Sweden's housing system was recognised as one of the *most effective models of housing in the world* (Grundström and Molina, 2016); an 'international leader of affordable housing policy success', according to Deborah Kenn (1996, p.

78), which was, ‘without parallel anywhere in the world’ (Headly, 1978, cited in Lundqvist, Elander and Danermark, 1990, p. 445). What this meant for households in terms of housing outcomes is summed up in the following passage by Bruce W. Headly, which is worth citing at length:

> In most countries – as in Sweden in the past – lower income groups are constrained to live as tenants of either private landlords or public authorities in relatively poor, run-down neighbourhoods. In modern Sweden, by contrast, *working class people, like middle class people, have an effective choice of living in cooperative as well as tenant housing and also being owner-occupiers*… The significance of this extension of opportunity should not be minimized. In most countries working class people are not able to choose where to live in town, close to work and entertainment, or to join the green wave living in simulated countryside. The Swedish worker is relatively fortunate in being able to house his family according to preference rather than according to the tyranny of what economists, accustomed to analysing “free” rather than socilaized markets term “effective demand” (Headey, 1978, pp. 52–53 emphasis added).

The institutional features of this model of housing can be said to have been typified by a housing policy programme *orientated towards universality and tenure neutrality*; *a large public rental sector owned by municipal housing companies* characterised by *centralised negotiations between landlords and a well-established national tenant movement*; and *a large cooperative housing sector* (Bengtsson, Ruonavaara and Sørvoll, 2017, p. 74). Further, it was underpinned by a system of housing finance and state subsidies which, as Bengt Turner and Christine Whitehead (2002, p. 204) note, emphasised, ‘…interest-rate subsidies to investment […] generous overall benefits to housing both in the form of general subsidy and income-related benefits, and *low risks to financiers, investors and households alike*’ (*emphasis added*). This system of regulation had been designed to keep speculative housing dynamics in check and, in theory at least, the stylistic features of the Swedish housing system outlined here should be inimical to the generation of housing bubbles.

The renowned housing scholar, Jim Kemeny, would come to define this distinctive model of housing as a *social market system*, operating what he termed a *unitary rental market* (Kemeny, 1995), which acts as a mechanism to create competition between public and private rental housing, reducing rents, and thereby the incentives to own one’s home (see Chapter I). While others have referred to this model as a *socialist market system*, semantic differences do not detract from the widespread agreement that Sweden’s housing system constituted a *core pillar of* Sweden’s much lauded social democratic welfare state (Turner and Whitehead, 2002; Clark and Johnson, 2009). In terms of general outcomes, as Peter Dickens *et al*. (1985, p. 49) note, housing conditions in Sweden ‘…were among the best measured in terms of access, cost and quality’ during the 1970s.

There is little doubt that housing quality is still high in Sweden today by OECD standards; but, as noted above, so too are the entry barriers and costs to tenants and owner-occupiers alike.

According to Brett Christophers (2013, p. 3), '…the current Swedish housing system palpably does not 'work''. The juxtaposition, then, between the celebrated *social market* housing system, and the contemporary situation which I briefly outlined in the opening paragraphs could barely be starker. Indeed, the housing reality many Swedish households confront today (particularly those on low- and middle-income groups, single-parent households, immigrants, and the asset-poor elderly and young), is defined more by precarity than universality; with the so-called black market for rentals[5] (*svartmarknad*) estimated to be worth over one billion kronor (€100,000,000) in Stockholm alone (*SvD*, 2014); house price-to-income ratios for the country as a whole higher than in Great Britain; and with some of the highest levels of socioeconomic and ethnic segregation in Europe (Hübinette and Lundström 2014, p. 51; Sernhede, Thörn and Thörn, 2016).

What makes the Swedish case more puzzling is that, despite the manifest housing system dysfunction, Sweden still retains many of the core institutional facets which underpinned its much-vaunted *social market* system throughout the mid- to late-twentieth century. Tenure neutrality and universality are still guiding policy principles; albeit more at the discursive plane (Bengtsson, 2015, p. 13). Housing cooperatives, which emerged during the early-twentieth century in response to some of the worst housing conditions in Europe, remain core features of the Swedish housing landscape[6]. Corporatist-style rent negotiations, which have been in place since the early 1970s still maintain a core position in the organisation of the contemporary Swedish rental market; and the rental queuing system established in the aftermath of the Second World War remains (broadly) in place. How, then, can a system which, *prima facie*, still exhibits many of the institutional hallmarks of a decommodified, social democratic welfare housing system, heralded during the mid- to late-twentieth century as one of the *most effective models of housing in the world*, exhibit such dysfunction? *What has changed?*

Shiller provides one explanation for the current levels of housing system dysfunction. His contention that there has been a *change in public thinking of housing as an investment* is an acknowledgement that contemporary residential housing has become the focus of what Samuel Knafo (2009, p. 129) has termed, *modern forms of speculation*[7]. The *change in public thinking* which Shiller references, then, is representative of a much broader stratum of society than has been accommodated by the historical record hitherto and involves *a greater range of investors* (*ibid.*), whose outlook on housing has ostensibly changed to the point where they believe that *there's more value than there really is* in their homes.

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[5] A market consisting of non-regulated subletting and illegal trading in rental apartments (Hägred and Martinson, 2006).
[6] Sweden has the largest cooperative housing sector in the world today.
[7] That is to say speculative practices which 'revolve around an increasingly *collective form of speculation'* (*emphasis added*), as opposed to the premodern 'elitist' forms of speculation 'linked to the development of arbitrage' (Knafo, 2009, p. 129).

Disregarding his rather insouciant assessment of *value* and *price determination* for now, Shiller's identification of a Swedish housing bubble raises several fundamental questions about house price growth in particular, and housing system development more generally. The dynamics underlying the household sentiment driving *housing price bubbles* have been famously articulated by Shiller with his co-author, Karl E. Case (Case and Shiller, 2003), and the following passage from this acclaimed collaboration is worth citing at length:

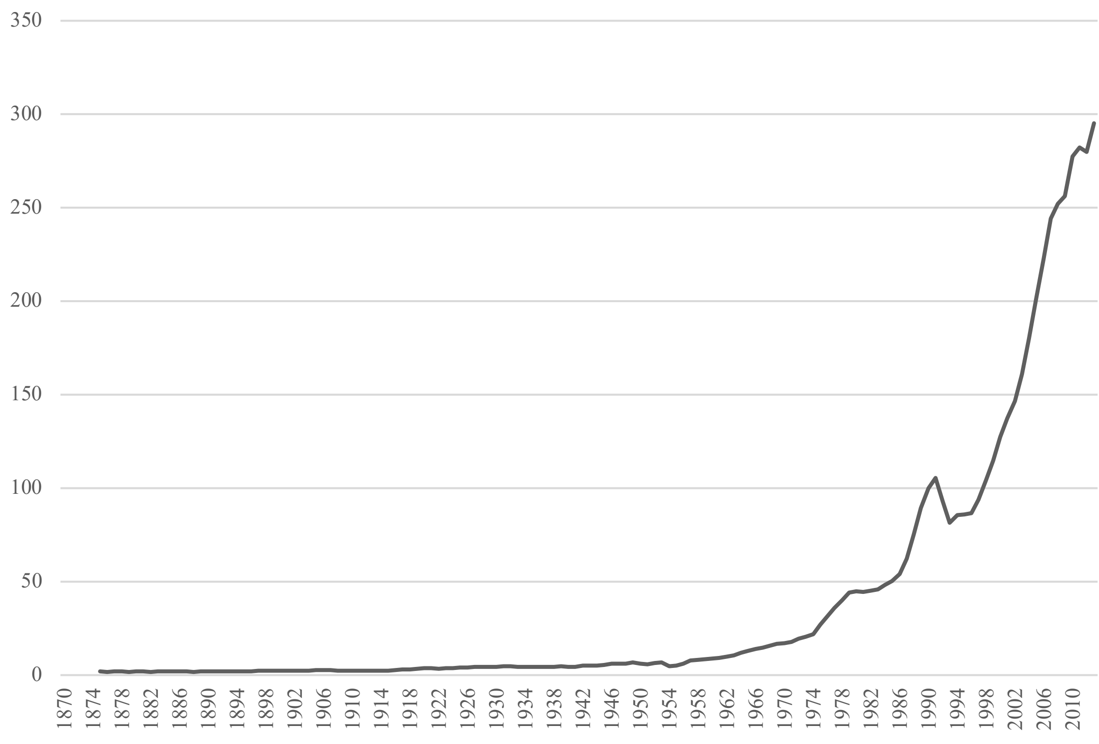
> During a housing price bubble, homebuyers think that a home that they would normally consider too expensive for them is now an acceptable purchase because they will be compensated by significant further price increases. They will not need to save as much as they otherwise might, because they expect the increased value of their home to do the saving for them. First-time homebuyers may also worry during a housing bubble that if they do not buy now, they will not be able to afford a home later. Furthermore, the expectation of large price increases may have a strong impact on demand if people think that home prices are very unlikely to fall, and certainly not likely to fall for long, so that there is little perceived risk associated with an investment in a home.
>
> *If expectations of rapid and steady future price increases are important motivating factors for buyers, then home prices are inherently unstable* (Case and Shiller, 2003, pp. 299–300, *emphasis added*).

As interesting, and important, as these observed behavioural dynamics are, what Case and Shiller neglect to do is couch these phenomena historically or interrogate the determinants which gave rise to these dynamics *in the first place*. Furthermore, by *psychologising* financial bubbles (Knafo, 2009, p. 129) in this way, they isolate demand-side dynamics from the wider workings of housing and finance system development.

Housing scholars have attributed the current state of housing system dysfunction in Sweden to a 'system switch' (Clark and Johnson, 2009, p. 184) in which Sweden's *social market* housing system witnessed, '…a rapid transition from a regulated and subsidised, social democratic housing system to a deregulated, market-based system' during the 1990s (Andersson and Magnusson Turner, 2014, p. 4). Such accounts have emphasised the centrality of policy changes and ostensibly exogenous ideological influences and processes which are often placed under the unifying banner of *neoliberalism* (Clark and Johnson, 2009; Hedin *et al.*, 2012). Political economists, too, have argued that successive 'powerful doses of neoliberalisation' (Christophers, 2013, p. 3), have contributed to the present housing dysfunction in Sweden, with Claes Belfrage and Markus Kalifatides (2018, p. 17) arguing that 'pre-neoliberal and neoliberal elements' have produced 'strong, financialising dynamics in the economy'. These accounts are not necessarily incompatible with Shiller's. Indeed, much like him, the vast majority of housing scholars with an interest in Sweden contextualise the present levels of housing system dysfunction by citing relatively recent changes, albeit at the politico-ideational and policy planes.

It is not possible to visually encapsulate the behavioural, ideological and policy dynamics which the aforementioned authors describe, but if we want to conceive the changes of which they refer within a temporal frame, a look at the development of real house prices probably represents the best, albeit imperfect, proxy. House price rises in contexts where the growth of mortgage credit outstrips the net growth in the supply of new houses and incomes, generally implies a situation of worsening housing affordability, which, *ceteris paribus*, has implications for a range of housing outcomes such as accessibility and social mix. Real house price developments also give us an inexplicit insight into housing supply, as Michael Ball (2010, p. 943) notes: 'House price rises at best have zero-sum outcomes and, at worst, show that far too little housing is being built'. A perfunctory glance at nearly a century and a half of house price data in Sweden reveals that real house prices have risen to a degree that is *unprecedented in a historical perspective* (Edvinsson, Jacobson and Waldenström, 2014, p. 51). Indeed, such is the scale of house price growth in recent decades, that the housing 'bubbles' of the pre-1970s era are imperceptible in Figure *ii* (below).

Figure *ii*. *House prices in Sweden, 1875-2013 (nominal index, 1990=100)*



Source: Knoll, Schularick and Steger, 2017

A perfunctory glance at Figure *ii* gives credence to the notion that a *change* or *switch* in Sweden's housing system may have occurred during the 1990s and, as I explore in Chapter V, the early 1990s did indeed represent a critical juncture in Sweden's housing and finance timeline. However, critical junctures do not occur in vacuums, and by citing demand-side behaviours and processes such as *neoliberalism* and *financialisation* as the core drivers of contemporary housing system dysfunction, scholars often obscure the path-dependant nature of housing and finance system development[8]. Steffan Kofner argues of 'housing market interventions' that '[t]he history of intervention has to be taken into account, as *the path of interventions through time shapes market outcomes at least as much as the current institutional setting*' (Kofner, 2014, p. 260, emphasis added). Indeed, by appealing to 'system switches', 'rapid transitions' and 'changes in public thinking', scholars largely gloss over the behavioural legacies, norms, and expectations which a housing stock and attendant system of housing finance generate over decades. As such, the sectoral actors, interests and capacities which help to shape the *rules of the game,* vis-à-vis housing investment, production, consumption and distribution are, all too often, left empirically and theoretically unchecked.

A closer look at Figure *ii* revels that, while house price growth has indeed been *unprecedented* since the mid-1990s, the upward trend did not begin then. Indeed, prices more than doubled throughout the 1970s and, in the context of subsequent growth, the calamitous boom and bust cycle of the mid-1980s and the early 1990s looks like a mere glitch in an otherwise meteoric house price trajectory. What, then, enables such phenomenal and enduring house price growth *beyond* buyer sentiment? What can historical developments in finance, institutional governance, and housing supply tell us about the propensity of firms and households to resort to debt in order to finance the production and consumption of housing? What is *distinctive* about the Swedish housing system of the post-1960s era which marks it out from the previous century? And, finally, if the answer to any of these questions is *neoliberal regulation* or *financialised growth regimes*, then what are the specific, concrete practices and processes by which actors in Sweden's housing and finance systems filter and (re)produce these phenomena?

This thesis attempts to address these questions by engaging with a broad range of literature from a variety of disciplines. I draw upon a vast array of primary and secondary sources, and unique data series, in order to provide (to my knowledge) a more detailed and comprehensive empirical survey of housing and finance system development in Sweden than has been attempted hitherto. In the pages that follow, I explore how class and sectoral cleavages have shaped housing and finance system development in Sweden; how the state (both local and national) has historically negotiated and mediated speculative housing dynamics; and how the methods and means of mobilising housing finance inexorably condition housing system development, providing the fulcrum whereby class and sectoral dynamics play out. I argue that the Swedish model of housing during the twentieth century, which, for so long, was held up as a paragon of social market efficiency and stability, was in fact an ephemeral phenomenon and that the current levels of precarity and dysfunction in Sweden's housing system have a longer pedigree than many scholars assume.

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[8] Christophers (2013) and Belfrage and Kalifatides (2018) are notable exceptions here.

I show how a unique model of political economy and industrial relations created one of the world's first *housing industrial complexes*[9], producing one of the most concentrated and powerful construction and finance sectors in the world. How, as this complex developed, housing supply came to be totally decoupled from demand from the 1970s onwards. How speculative housing dynamics and changing attitudes to financial risk generated from outside formal banking channels undermined the basis of the *housing industrial complex* and, with it, traditionally decommodified housing forms. How the state moved from attempting to mitigate the risk-taking behaviours of financiers, investors and households, to promoting speculative housing dynamics and embracing the development of a *housing finance complex*. And how the state-sponsored 'explosion' of house prices and housing related debt, far from being a contemporary aberration of 'financialised neoliberalism', has been a central feature of the Swedish model of housing for over 40 years. By resituating contemporary speculative housing dynamics in their broader social and historical contexts, then, this thesis seeks to uncover the socioeconomic context in which housing in Sweden came to be constituted as an *object of speculation* (Bryan, Martin and Rafferty, 2009, p. 471).

It should be noted here that the housing situation I have described in these opening pages, and the housing crisis innumerous scholars and commentators decry in Sweden, is one in which house-price volatility, financial system crisis, and economic dislocation are currently *not* features. As noted above, Sweden has stood almost alone in the OECD in experiencing a period of over twenty years of nigh uninterrupted house price growth and has performed better than most European economies since the GFC. This could all change rapidly, of course, but predicting the timing of crises is folly. What is more interesting for our purposes is to understand the hitherto robustness of the institutional arrangements supporting housing speculation in Sweden, and how, unlike previous eras, these speculative dynamics have interacted with the nature of regulation and industrial activity vis-à-vis housing and the built environment to a point where, as Samuel Knafo (2009, p. 137) notes in relation to the USA, '…regulating authorities have come to tailor institutions and regulations to the requirements of sustaining […] bubbles rather than stemming them'.

Rethinking the relationship between housing and finance

The central objective of this thesis is to explore how long-term financial dynamics in Sweden have shaped and *been shaped* by the Swedish housing system on both the demand- and supply-side from the mid-nineteenth century to the present era. The following pages investigate the historical co-evolution of housing and finance systems, telling the story of how Sweden

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[9] I adapt this concept from Lars Jonung (1994, p. 358).

transitioned from a poor agrarian economy with the worst housing conditions in Western Europe during the nineteenth century era of industrial urbanisation, to becoming a *social market* pin-up for progressive housing scholars and commentators throughout the course of the twentieth century. In telling this story, the thesis charts the development of Sweden's political economy through the prisms of housing and finance system development, seeking to understand the confluent sectoral interests and state capacities underlying the creation of a *housing industrial complex* during the mid-twentieth century; how this complex of production and exchange was undermined from the 1970s onwards; and how, since the 1980s, the emergence of a *housing finance complex* has seen Sweden's housing system become one of the most precarious and dysfunctional in the developed world; predicated, as it is, upon debt-fuelled housing consumption, low levels of housing production, speculative investment, and the residualisation of traditionally decommodified tenure-forms.

Throughout, I adopt a historicist approach to housing and finance system development which seeks to unpack not just contemporary housing processes and outcomes in an era of so-called *financialised neoliberalism*, but also the socio-historical and politico-economic contours which gave rise to Sweden's celebrated *social market* housing system. The impetuses for this historical focus are twofold. The first is practical: If we want to truly understand how phenomena such as neoliberalism and financialisation transform housing systems, then, first and foremost, we need to understand the systems they are said to be transforming. The second reason is more based on a concern for future pathways: If the Swedish housing model of much of the twentieth century was as exceptional as scholars such as Headly, Kenn, and Kemeny describe, then understanding what gave rise to such a system, and learning how past struggles shaped it, is of uttermost importance during an era where housing systems throughout the developed world are considered to be in state of crisis (Marcuse and Madden, 2016).

Where this work differs, in my view, from other research into housing is that this is not strictly an exercise in housing research *per se*, but more an attempt to fashion a political economy approach to the study of housing systems. I am not the first to attempt this (Schwartz and Seabrooke, 2009; Christophers, 2013; Aalbers and Christophers, 2014). However, housing researchers and political economists have generally paid far too little attention to the institutional complexion of housing finance systems (Boleat, 1985), and less still to the role of housing finance in the constitution of housing system development historically. Instead, housing scholars have had a tendency to isolate housing developments from the wider financial systems they inhabit, citing political ideology as the core driver of housing system change; with little consideration for the path-dependant nature of said systems, or the formative impact of finance therein.

While ideological concerns are, of course, important, I argue that these factors should not be propagated at the expense of examining financial processes and capacities, and their impacts on the constitution of housing systems on both the demand- and the supply-side. While political actors may decide the *rules of the game*, how that game is played, and, importantly, who helps decide the rules, is dependent upon a range of historically and socio-economically contingent factors, which interact through *time* and *space*. Sweden's largest cooperative housing association, HSB, once noted that, '[a] basic prerequisite for the provision of housing is access to capital' (HSB, 1975, p. 56). It is, therefore, quite intriguing that the role of housing finance (how it is mobilised, over what time period, and by *whom*) is so often ignored in the study of housing system development, both in Sweden and further afield (Blackwell and Kohl, 2018a).

The thesis is organised around four main research questions.

1. *What impacts have changes in the constitution of housing finance and household debt had on housing system development in Sweden on both the demand- and supply-side?* (**Chapters I-V**).
2. *Which actors and expressions of interest have had most influence over housing policy and housing outcomes, both historically and contemporarily?* (**Chapters II-V**).
3. *Why do housing policy regimes change?* (**Chapters II-V**).
4. *What role has institutional governance played in bringing about and sustaining a housing system increasingly predicated upon debt-fuelled housing consumption, growing wealth inequality, low levels of housing production, and the residualisation of traditionally decommodified tenure-forms?* (**Chapters IV & V**).

In order to address these questions, I adopt an actor-centred, historicist framework of analysis, which explores how the *distribution of preferences* (Huber and Stephens, 2001) and housing and finance system outcomes evolve path-dependently. I adopt such a framework, supported by longitudinal data analysis and an array of comparative descriptive statistics, in order to understand the geneses of housing and finance system forms and the social forces that brought them about (which contemporary housing scholars so often take for granted), as well as the constellations of interests and preferences which continue to sustain and mould them via institutional conduits.

Such an approach involves taking seriously the collective engagements of actors on both the demand- and supply-side (and their interactions), differentiated at the level of policy-making (local and national), financial intermediation and governance, households, and housing production. Particular attention is paid to the role and development of speculative housing dynamics and practices during the various phases of Sweden's politico-economic development, and the state's role in sustaining these dynamics therein. By examining the co-evolution of housing and financial forms in Sweden, charting their emergence and developmental trajectories through time, and the distribution of interests shaping housing and finance system change, the thesis seeks to challenge several core assumptions proliferating in much housing studies and political economy literature.

The first such assumption relates to the juxtaposition many scholars propagate between forms of liberal and social market governance *vis-à-vis* housing market interventions. While this intellectual debate is much broader than the issue of housing in Sweden, an analysis of Swedish housing and finance system development, I argue, provides the ideal case study to challenge preconceptions about the nature of liberal and social market governance. It is so often assumed that liberal market governance takes a passive, non-interventionist form, while social market governance is active and pro-interventionist. This liberal-social market dichotomy, as I argue in Chapters II and III, in the context of Swedish housing system development during the late-nineteenth and early to mid-twentieth centuries, is thoroughly misleading. Indeed, upon closer inspection of the historical record, it is only if one totally ignores the sphere of housing finance and the state's role in mobilising said finance, that one could convincingly draw such conclusions in Sweden. However, as I show, even then, the idea that the pre-1930s liberal state was somehow passive and 'hands-off' in relation to housing policy is highly questionable. This speaks to my method of analysing housing and finance, not as exogenous variables which may interact now and then, but as endogenously related phenomena.

Another assumption this thesis seeks to challenge concerns the relationship between housing and welfare systems posited by housing scholars. There is a long-established tradition in housing studies of relating housing system typologies to welfare systems and/or varieties of residential capitalism (Kemeny, 1995; Schwartz and Seabrooke, 2009; Wood, 2017). The basic premise underpinning this tradition is that housing system difference within Europe and the OECD can be explained along the lines of differences in welfare state constitution. This logic is most famously articulated by Kemeny in relation to rental market composition, but there are numerous iterations of this. By examining the *longue durée* of housing and finance system development in Sweden, I cast doubt on this supposed association. Whilst the constitution of welfare states is by no means inconsequential (Western European welfare states generally have much more universalist housing policies than elsewhere in the Western, and particularly the non-Western world), I argue that the case of Sweden illustrates that housing typologies causally derived from welfare state typologies are ill-suited to explaining housing system logics *within Europe*. Indeed, as Chapters IV & V make clear, any supposed link between housing and welfare typologies during the twentieth century in Europe were largely ephemeral.

A final assumption, which I deal with in detail in the final and concluding chapters, relates to the ostensible associations between neoliberalism and household debt. It has become a core assumption in political economy literature that a confluence of declining welfare provisions and stagnant real-wages have contributed to the need for low and middle-income groups to resort to credit in order to sustain basic living standards[10]. This hypothesis, which views the dramatic rise of household debt as an economic corollary of declining living standards, has become a defining feature of prevalent understandings of the associations between neoliberalism and household debt in the field of IPE[11]. Again, Sweden provides an ideal case study to challenge such causal logics. I show by focusing on housing in Sweden, that these theorems are unsuited for understanding not just the build-up of household debt in Sweden, but also in Anglo-America, and elsewhere.

Why, the reader may enquire, would one select Sweden to conduct a historical case study into housing and finance system dynamics in order to challenge these scholarly assumptions? And what about wider generalisability? A good case could be made for adopting a comparative-historical approach in this thesis in order to address these themes; for as Marc Bloch (1954) notes, '…there is no true understanding without a certain range of comparison'. In light of this observation, many of the descriptive statistics presented in this thesis are cross-sectional, and throughout, reference is made to housing and finance system developments elsewhere in Europe and the OECD, as well as to geopolitical events. However, whereas a strictly comparative-historical framework would provide *breadth*, it would necessarily compromise *depth*. The following citation from Bent Flyvbjerg superbly highlights the value of in-depth case study research:

> When the objective is to achieve the greatest possible amount of information on a given problem of phenomenon, a representative case or a random sample may not be the most appropriate strategy. This is because the typical or average case is often not the richest in information. Atypical or extreme cases often reveal more information because they activate more actors and more basic mechanism in the situation studied (Flyvbjerg, 2006, p. 229).

Sweden represents an *extreme* case. As noted above, it is considered to be the most advanced social democratic welfare state and *social market housing system* in the developed world, yet, simultaneously, exhibits some of the highest levels of household debt, housing price growth, segregation *and* residualisation. As I explore in more detail below, this combination of features confounds the expectations of much mainstream political economy and housing studies literature, and the task of this thesis will be to understand why this is so; for, as I explore in the pages that follow, Sweden has not been entirely true to the script that housing scholars and political economists have long written for it.

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[10] Various iterations of this argument proliferate throughout IPE literature, tacitly or otherwise. For explicit articulations see: (Cutler and Waine, 2001; Brewer, Clark and Wakefield, 2002; Montgomerie, 2007, 2009, 2010; Lapavitsas, 2009; Panitch and Gindin, 2011).

[11] An adjunct of this thesis, the *asset-backed welfare theorem,* argues that the augmentation of home and asset-ownership has been supported by, '…coercive mechanism[s] linked to state retreat in the provision of welfare-enhancing resources' (Watson, 2009, p. 61). According to this theorem, households are said to leverage themselves via housing conduits in order to increase their future consumption potential in the face of declining state support.

Structure

The thesis is organised as follows. In the first chapter, I survey the field of housing studies and explore literature pertaining to housing and housing finance in Sweden. Here I also flesh out the theoretical and methodological components of the thesis briefly outlined above. This chapter serves to anchor the thesis' problematic, showing how housing scholars, by isolating housing system developments from the wider financial and production systems in which they are embedded, create problematic causal inferences. I also outline the conceptual merits of a historicist, actor-centred approach to the study of housing and finance system development.

The second chapter begins the historical survey of Sweden's housing and finance system development. In this chapter, I return to events which shaped Sweden's financial system and show how developments in agrarian finance would have ramifications for Sweden's urban housing finance for nearly two centuries to come. Here I argue that we cannot fully understand the emergence and significance of the state sponsored urban mortgage banks of the early-twentieth century, without reference to the development of the rural, bond-based mortgage banks in the nineteenth century. I also show how, from the late-nineteenth century onwards, the state was much more involved in the functioning of the Swedish housing and finance systems than is commonly supposed, and how local authorities engaged in speculative land trading in order to augment their fiscal power. In so doing, I challenge the dichotomy some scholars posit between the so-called passive liberal state and the so-called *interventionist* social democratic state. I also show how, during this period, institutions emerged which would form central pillars of the *housing industrial complex* and the social democratic housing programmes of the mid-twentieth century.

The third chapter explores the age of social democratic hegemony in relation to the build-up of state capacity during the previous century and the establishment of a *housing industrial complex*. Here I argue that, far from departing radically from the housing system of the interwar years, the social democrats used the pre-existing nexus of actors and institutions to build the People's Home (*Folkhemmet*). As I show, however, there was significant lag between rhetoric and the emergence of a *bona fide* people's home. Indeed, it was not until radical changes in the pension fund system in the late-1950s and early-1960s that the Swedish Social Democrats would be able to make their indelible mark on Sweden's housing system. This was the age in which Sweden developed its *housing industrial complex*, the likes of which the world had never seen.

In Chapter IV, I examine the tensions and contradictions which built up within the *housing industrial complex* and how speculative dynamics in urban rental markets, in an era of low productivity and rampant inflation, put the Swedish model of housing onto a different trajectory from that which had characterised its development during the immediate post-War decades. While I consider demand-side factors and household demand, the focus of this chapter is predominantly on the housing supply-side. Specifically, I explore the changing dynamics between local authorities and *construction capital*. I argue here that insuperable tensions and contradictions in Sweden's *housing industrial complex* lead to the collapse of the model of housing predicated on the mass production of housing and low marginal rates of profit, and that, from the mid-1970s onwards, construction firms and developers were having a greater say over what was being built than at any time since the early-1930s.

The final chapter explores how the tensions and contradictions in Sweden's housing system during the 1970s and 1980s led to an era of so-called *neoliberalism*. My account here differs from others in that I identify the roots of housing system dysfunction (which critical scholars label 'neoliberal') as predating the banking crisis of the early-1990s. By analysing the temporal dynamics of this crisis and its 'resolution' (the build-up, *dénouement*, and recovery) I argue that the crisis was a growing pain in the development of what I term a *housing finance complex*. That is to say, a system of housing and finance in which high marginal rates of profit and low levels of production on the housing supply-side, are combined with speculative housing investment, and a system of bank lending which privileges lending to households and financial services over lending to non-financial corporations.

Finally, the concluding chapter summarises the key findings of the thesis and attempts to couch them in relation to more general observations about the nature of the contemporary Swedish political economy. While I am aware of the limits of analysing a single case, and of making broader claims about the dynamics of housing and finance system development, I hope that the theoretical and methodological approach that I build throughout this thesis, will prove coherent and instructive enough to be applied and adapted to other cases, and even to more explicitly comparative housing research and political economy studies. Many of the problems and questions this thesis raises are bigger than the issue of housing and finance in Sweden; but this is not to say that a thoroughgoing analysis of these phenomena, and the mechanisms by which they co-evolve, cannot shed light on broader historical and contemporary dynamics elsewhere in the post-industrial world.

Chapter I. *Housing, finance and theory*

A basic prerequisite for the provision of housing is access to capital

Hyresgästernas sparkasse - och byggnadsförening (HSB) 1975

1.0. *Introduction*

Sweden has long been held up as a prototypical social democratic welfare state, with a housing system that is seen broadly to reflect its welfare state tradition (Turner and Whitehead, 2002). The image of Sweden's housing system as the *social market* ideal type - with tenure neutrality, universality, strong tenants' rights, accessibility, and affordability at its core - has been challenged somewhat of late, however, with some scholars recognising that Sweden's housing system has not always held true to the expectations attributed to its social market ideals and characteristics (Clark and Johnson, 2009; Christophers, 2013). Accounts of recent housing transformations have often explained contemporary housing system outcomes in relation to neoliberal housing reforms but, as this chapter explores, all too often, such accounts fail to accommodate core processes and events which begged questions of the salience of the 'Swedish model' even prior to the era of so-called neoliberalism.

Part of the reason for this oversight is that scholars have tended to focus overwhelmingly on housing-*as-policy* (Aalbers and Christophers, 2014), while treating developments in the spheres of housing finance and housing supply as inconsequential; or even ignoring them altogether. This chapter explores how and why this is so problematic for housing scholars' and economists' attempts to account for housing system change. The chapter's objectives are twofold. First, I engage with a range of literature pertaining to contemporary housing and finance developments in order to couch the themes outlined in the introduction more concretely in relation to the project's central research questions. Second, building upon this engagement, I lay the conceptual foundations for the thesis, and advance a historicist, path dependence framework which attempts to accommodate both the determinants of short-term events and the *longue durée* (Huber and Stephens, 2001) into the study of housing and finance system development.

Despite the epistemic diversity of the scholarly approaches I explore in the following pages, they all share a common object of study: housing. And whether explicitly acknowledged, or not, these works are situated within the multi-disciplinarily field of *housing studies*. A striking theme in much of this scholarship (whether explicitly comparative or not) is the cross-sectional juxtaposition of two ostensibly discrete housing system forms: *social market* versus *(neo)liberal*. Even those scholars who do not articulate housing system difference explicitly in this manner, often engage with these binaries, to greater or lesser degrees, by deploying subtly different grammars (*regulated* versus *deregulated*; *liberalised* versus *controlled; centralised* versus *marketised,* to name but a few), and such approaches make a series of *a priori* assumptions about how each of these systems of housing *ought to behave* in light of their stylised characteristics.

Much debate has been generated within the field of housing studies from the binary distinction between *(neo)liberal* and *social market* housing systems and, derived from this, the question of whether, and the extent to which, housing systems in Europe and the OECD can be said to be *converging* along *neoliberal* lines (Harloe, 1995), or perpetually *diverging* (Kemeny, 1995), looms large. This discussion stretches back to the late-1960s (Donnison, 1967), and very much mirrors research into comparative institutional change in the fields of political economy, political science, and sociology (Esping-Andersen, 1990; Albert, 1993; Hall and Soskice, 2001; Streeck and Thelen, 2005). For our purposes, what is significant here is the special position Swedish housing occupies in this research tradition.

Jim Kemeny (1995; 2005), and Herman Schwartz and Leonard Seabrooke (2009) recognise Sweden's housing system as the *social market* ideal type, characterised by low levels of homeownership, tenure security, universality, a large non-profit (*unitary*) rental sector bolstered by a strong tenant's movement, and, according to Schwartz and Seabrooke (2009, p. 10), an ability to *target sectors* due to *the state's leverage over financial markets*. More recent research by Roger Andersson and Lina Magnusson Turner (2014), and Karin Hedin *et al*. (2012, p. 460), however, has claimed that there has been a *transition* to a *neoliberal* housing system, and Hans Lind and Stellan Lundström (2007) argue that Sweden has '…gradually become one of the most liberal market-governed housing markets in the Western world' (translated in Hedin *et al*., 2012, p. 444). Nuancing these assessments, Brett Christophers (2013, p. 4) claims that the Swedish housing system represents a *monstrous hybrid* of regulated *and* deregulated forms, which acts as a 'decisive mechanism for the creation, reproduction and intensification of socio-economic inequalities'.

While the jury may still be out *vis-à-vis* the scale and scope of *neoliberalisation* and deregulation in the Swedish housing system, a common difficulty many such analyses face when attempting to account for contemporary housing system change, is that, all too often, they say little more than: 'housing in country *y* has been *neoliberalised* along the lines of country *x*'. By way of example, Eric Clark and Karin Johnson (2009, p. 179) identify the ''system switch' in Swedish housing policy' as being a product of 'the concerted neoliberal restoration of class power', emanating 'From Chicago and Washington via Santiago, New York and London' (Clark and Johnson, 2009, p. 179). However, central to such an assessment is a curious paradox which assumes that *neoliberalism* as an outcome ('system switch'), however 'circumscribed'[12], can be

[12] The phrase 'circumscribed neoliberalism' is taken from David Harvey (2007).

explicated by citing *neoliberalisation* as a process leading towards said outcome[13] ('the concerted neoliberal restoration of class power'). In other words, *neoliberalisation* explains *neoliberalism*. Often amalgamated into this somewhat tautological logic is the idea that ostensibly both process and outcome can be theorised as an importation from other institutional contexts (principally Anglo-America, or the EU[14]). The *explanandum*, then, seamlessly morphs into the *explanans*, with an added layer of institutional diffusion, which is seldom expounded beyond references to ideational change. But what, exactly, is a *neoliberal housing system* and how does such a system come to be?

Depending on the analytical focus, neoliberalism (or neoliberalisation) can imply increasing segregation (Andersson and Magnusson Turner, 2014); growing socioeconomic and spatial inequality (Hedin *et al*., 2012); a reduction in supply-side housing subsidies (Christophers, 2013); or even greater levels of homeownership (Holmqvist and Magnusson Turner, 2014, p. 238; Ronald, 2008, p. 117; Kemeny, 1995). Yet, as noted above, in most of these cases, the very phenomenon (neoliberalism) these scholars explore in relation to housing system outcomes (i.e. segregation, spatial inequality, or greater levels of homeownership *et cetera*), also becomes the *process* which explains the outcome of said phenomenon. To be clear, this logical tautology does not necessarily negate or detract from the importance of the theoretical or empirical findings in much of this body of research, but it certainly creates a problem if we wish to understand *how* and *why* the processes and outcomes they assess have come about in the first place.

In the case of Sweden, then, any change or supposed deviation from the ideal type which the Swedish housing system ostensibly represents (or at least used to ostensibly represent), is necessarily seen as a sign of *neoliberalisation*. As I explore in this chapter and the chapters that follow, however, the problem such accounts face is that, all too often, they compartmentalise developments in Swedish housing to a 'before' (*social market housing*) and 'after' stage[15] (*neoliberal housing*). Indeed, instead of interrogating how neoliberal housing transformations gained traction, there is a tendency to treat these developments as a sudden rupture; something unleashed, rather than something that developed more gradually, dynamically, or even unevenly (both spatially and temporally), over a longer time period.

The same can be said for historical research into Swedish housing during the pre- and interwar years (see Chapter II), whereby the inverse transition is cited. Scholars have a tendency to neatly compartmentalise 'before' (liberal housing) and 'after' (social market housing) phases

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[13] I have adapted this formulation from Justin Rosenberg (2000, p. 2). Rosenberg's object of critique was the scholarly operationalisation of *globalisation*, but this critique also aptly applies to operationalisations of *neoliberalism* in housing studies, and beyond.
[14] Clark and Johnson (2009, p. 181) and Hedin *et al.* (2012, p. 445) both reference the 'adaptation to the new supranational order' in relation to neoliberal housing reforms.
[15] In Hedin *et al.* (2012, p. 445), Table 1, 'Swedish housing politics: From general welfare to market liberalism' omits the 1980s altogether. We go from 'general welfare' housing programmes in the 1960s and 1970s, straight to the era of 'market liberalism' in the 1990s.

of housing development (see: Hedin *et al*., 2012). As a consequence of such reasoning, the role of contingency is omitted, and, in the process, core events, policies, innovations, and practices generated by norms, expectations, and path dependent behavioural and institutional logics (on both the demand and supply-side), are often obscured or reduced to mere outcomes (or processes?) of *top-down* phenomena. This is not to say that periodisation and typology are not useful analytical and methodological tools; more that thoroughgoing comparative historical works should be complimented, not driven by these methodologies[16].

It is this tendency towards compartmentalising discrete eras of housing system development along typological lines in housing scholarship that, I believe, forces scholars to fall back on the tautological logic outlined above. The reasons scholars do this can be manifold, but there is one unifying facet which reinforces, and arguably even augments, this tendency in much housing studies and political economy literature: that is the general conceptual and empirical disconnect between the study of housing and housing finance both contemporarily and *through time*. Put simply, ignorance of the sphere of housing finance on housing demand and supply, often precludes scholars from *joining the dots* (as it were), resulting in a collective failure to see how the constitution of housing finance and the generation of financial capacities (whether by state or non-state actors) influences housing system outcomes in time and place. This relationship between housing and finance, and how these spheres co-evolve, then, becomes a *blind spot* common in most of the works reviewed here.

Even those studies which claim to take finance seriously when examining housing system outcomes tend only to do so by falling back on the concept of *financialisation*[17], which is all too often treated as a given, axiomatic phenomenon, which requires little explanation or evidence (Christophers, 2012). As with *neoliberalism*, scholars have been far too keen to derive their explanatory power from this concept, without so much as interrogating the basics of financial market dynamics[18] or explaining *how* and *why* these dynamics have come about; let alone how said dynamics influence housing system change. In so doing, they replace one tautological logic with another, or even combine the two[19].

This general state of analytical disconnect is particularly observable in the field of housing studies in the context of Sweden[20]. Each category, it seems, is treated as disciplinarily discrete and Swedish housing research has generally paid little (if any) attention to the

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[16] In other words, authors should be mindful of uncritically recycling typologies in both time and space. See: (Blessing, 2016).
[17] See Wood (2017).
[18] As Brett Christophers argues, 'the accumulated body of analytical (as opposed to anecdotal) evidence for 'actually-existing' financialisation is, for such a shibboleth of contemporary scholarship, remarkably and curiously thin' (Christophers, 2012, p. 272).
[19] One such example is *financialised neoliberalism*: "neoliberalism is a stage in the development of capitalism underpinned by financialisation" (Fine and Saad-Filho, 2017, p. 685).
[20] Bengt Turner's works are notable exceptions here. See: Turner (1999).

institutional apparatuses relating to housing finance; and less still to the implications of institutional restructuring for housing policy, household borrowing, and *housing supply*. Consequently, the distinctive institutional mechanisms and capacities that have helped facilitate rising household debt and consumption via housing conduits, and which have enabled developers to build lower volumes of housing at higher rates of profits (Örstadius, 2016), over the past four decades are often left unchecked. The task of this chapter is to illustrate why such oversights are problematic in both contemporary and historical research.

The chapter is comprised of two sections, each with two subsections. I begin with a survey of literature emanating from the field of housing studies, which relates specifically to contemporary housing developments in Sweden. Here, I review the contributions of housing scholars emanating from (mainly) Scandinavian research institutions in an attempt to identify the core features which are commonly said to have characterised the Swedish housing system over the past three decades. This is accompanied by a subsection in which I attempt to integrate the Swedish housing studies literature with that of broader literature concerning Swedish finance. Here I broaden the analysis to include economic assessments about the relationship between housing, tenure choice, and household debt, arguing that it is only by theorising the historical co-evolution of housing *and* finance systems that we can begin to understand the changes in Swedish housing over the past 40 years, and move closer to a *political economy of housing*. This subsection acts both as a constructive review of the main contributions of economics and finance scholars, and as a conceptual bridge between the literature on housing and the final, theoretical concern of this chapter.

The second section of this chapter begins with an engagement with the general (predominantly Anglo-centric) literature on *neoliberalism* and *financialisation*. Here, I provide a critical outline of the operational uses of these concepts *vis-à-vis* housing system development and seek to unpack some of their perceived dynamics. In so doing, I demonstrate how these concepts (as currently operationalised) are ill-suited to the study of contemporary developments in Swedish housing and finance, and how the scholarly fixation with these phenomena obscures supply-side dynamics within housing systems. I argue that, if these terms are to be used, then they should be treated as *proper objects of historical and social enquiry* (Knafo, 2009, p. 129), which are produced and reproduced by the practices of actors (both state and non-state) over time; and not as catchalls to explain everything and anything that is dysfunctional about housing in twenty-first century Sweden. I suggest a different (but not necessarily mutually exclusive) lens through which to view contemporary and historical dynamics in national housing and finance systems; one which views housing not as an institutionally isolated sphere, but as a *complex* of *production, distribution and consumption* (Dickens *et al*., 1985, p. 1), inextricably linked to the evolution of finance *through time*.

1.1. *Housing & housing finance in Sweden: Surveying the field of housing research*

For some time now, there have been calls to fashion a more holistic approach to the study of housing from within the field of housing studies. Michael Harloe and Maartje Martens (1984, p. 268) argued over thirty years ago that: 'Much […housing] literature is superficial', adding that, '…often it […] abstracts housing policy developments from their broader economic and political context, and even from the workings of the housing system as a whole'. This is, clearly, a damning indictment of the field. They continue:

> Housing policies cannot be understood without locating them in the working of the housing sector as a whole and the housing sector itself cannot be understood as something which develops according to a purely internal dynamic, in isolation from broader social developments and struggles (Harloe and Martens, 1984, p. 268).

Others have echoed these sentiments (Kemeny, 1981, 1995; Aalbers and Christophers, 2014). This section now considers contributions from housing scholars emanating from Scandinavian academies and scrutinises them on the basis of Harloe and Martens' criteria of relevance: Do these analyses provide a *broader economic and political context about the Swedish housing system as a whole*, or do they, instead, theorise housing developments *according to purely internal dynamics, in isolation from broader social developments and struggles*?

Soziale Marktwirtschaft

I turn now to a work of comparative housing research, which focuses predominantly on Sweden, in order to understand some of the institutional facets that have traditionally been said to characterise housing in Sweden. In his seminal monograph, *From Public Housing to the Social Market*, Kemeny (1995) argues the existence of two discrete housing system typologies based on the composition of national rental markets. His main focus, Sweden, represents an ideal-type, operating a mass welfare-housing model (or *soziale Marktwirtschaft)*, based on a *unitary rental system*[21]. Access to public housing (*allmännyttan*[22]) is universal and this tenure-form competes directly with the private rental sector (hence *unitary*) on a cost rental basis. Rents are mediated by the existence of this competition, in conjunction with other institutional configurations, including a strong tenants' union (*Hyresgästföreningen*) with *an almost corporatist influence on the rental policy* (Bengtsson, 2009, p. 6)[23] and rent pooling, which dilutes the effects of

[21] Kemeny notes that this system is present in germanophone countries too.
[22] *Allmännytta* literally means "public good". In theory, *allmännyttan* is public housing open to all and not social housing for economically marginal households, but practice over the last decade and a half suggest that it is increasingly for the latter, especially Sweden's burgeoning immigrant and refugee populations (see Chapters IV & V).
[23] *Bruksvärdes systemet* traditionally involved rent negotiations between municipal landlords and tenants associations.

maturation[24]. This system ostensibly keeps rents low, meaning that incentives to own one's home diminish.

Conversely, Kemeny argues that the 'Anglo-Saxon', profit-maximising model (or *dualist rental system*) residualises social housing, *hiving it off* (Kemeny, 1995, p. 51) from competition with the private rental sector. As access to public housing is restricted in such a system, Kemeny argues that demand is syphoned into commodified tenure-forms, such as private rental accommodation and owner-occupied housing. In the absence of rent ceilings, private rents are augmented and landlords, not tenants, reap the benefits of *maturation*. In such contexts, owner-occupation becomes the most attractive tenure form. This generates a commodified housing regime, which Kemeny labels *neoliberal*. A corollary of such a regime is that households are jolted into homeownership (*ibid*. p. 55). Although the causal association is not always clear, Kemeny infers that the level of commodification within a country's housing system is inextricably linked to the constitution of its welfare state (Kemeny, 2005).

Kemeny does not explicitly formulate the relationship between the Swedish housing market and households' exposure to debt and financial risk (an intriguing omission, as I discuss later), but he does acknowledge that, by nature of its composition, the dualist rental system forces marginal buyers into owner occupation and that this, in turn, might have implications for household borrowing and financial stability (Kemeny, 1995, p. 54). Referencing the *Right-to-Buy* scheme championed by Margaret Thatcher in Great Britain, Kemeny argues: 'It [...] takes progressively larger and larger subsidies to bring about progressively smaller and smaller decreases in the ever more marginalised and impoverished rump of non-buyers' (*ibid*.). He continues: '…the growing proportion of marginal buyers in the owner-occupied sector creates increasing instability in the owner-occupied housing market', adding, '[w]ith high proportions of marginal buyers in the tenure owner occupation becomes more sensitive to economic boom-slump cycles' (*ibid*. p. 55).

It has been necessary to outline Kemeny's theoretical and methodological premises here, principally because his work has been so influential, but also because, if we adapt Kemeny's analytical insights, we can infer that the compositional organisation of a housing system has profound implications for households' tenure choices and, consequently, borrowing decisions over the life cycle. The latter insight, although underdeveloped in Kemeny's research, is important and will form a pillar of this thesis' conceptual analysis.

Despite numerous merits, and the influence Kemeny's typologies continue to have on contemporary housing research (Malpass, 2008; Schwartz and Seabrooke, 2009; van der Heijden,

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[24] Kemeny defines *maturation* as the 'declining real value of the outstanding debt on a stock of dwellings' (Kemeny, 1995, p. 42). This can be expressed as a ratio *between the average debt per existing dwelling and the average debt per newly acquired dwelling (ibid.).*

2013; Wood, 2017), his analysis suffers several problems. First, at the methodological level, his use of typologies leads him to make rather generalised assumptions. On the one hand, the packaging of Swedish housing as an *ideal type*, alongside germanophone countries, glosses over the inherent institutional differences within this grouping. On the other, irrespective of their place within the *dualist model*, a perfunctory inspection of the British, Australian, and US housing systems reveals chasmic historical and contemporary differences in their respective rental markets; the latter two marked by a distinct lack of social rented housing (<5%). Second, the claim that housing systems are inextricably linked to societal predilections towards 'solidarity' and 'mass welfare' under corporatism is conceptually nebulous and readily falsifiable[25].

Third, the supremacy Kemeny's framework awards to the power of ideas and the ability of ideologically motivated policy makers to fashion housing systems is problematic. His theory is attractive for analysing differential outcomes in housing systems, and for understanding how different compositional configurations mediate tenure choice, but his analysis is conducted with little regard for the historical evolution of housing systems *or* the core events, innovations and social constellations that brought such systems into existence in the first place!

Finally, at the empirical level, Kemeny neglects entirely the impacts of financial and regulatory developments on Swedish housing in the decades preceding his publication, and their implications for housing, borrowing and housing supply. He thus ignores the structures of housing finance and the circuits of capital feeding into the Swedish housing system, which, I argue, fundamentally condition the behaviours of actors on both the demand- and supply-side, and the process of *maturation*. Indeed, the *ratio between the average debt per existing dwelling and the average debt per newly acquired dwelling* is not only affected by inflation and building costs, but also interest rates and mortgage liquidity. In the decade before his writing, liquidity ratio requirements were abolished; bank-lending ceilings loosened; and capital controls were removed. Sweden also experienced its most protracted economic dislocation since the Great Depression in the early-1990s, which Kemeny overlooks. This omission is troubling considering that the source of this economic dislocation was the collapse of an asset-bubble in the commercial and residential housing sectors (see Chapters IV & V).

Kemeny's framework cannot explain the volatility that the Swedish housing system exhibited throughout the 1980s and early-1990s. Nor can it explain the concomitant fluctuations in household debt in Sweden. Either the typology is poorly matched to the case, *or* the ways scholars theorise housing system change and the impacts of so-called *neoliberal reforms* on households therein needs to be revised. Either way, Kemeny's assumption that Sweden's housing

[25] If it were the case that, causally, the composition of a welfare regime influences the composition of the housing sector, why would Norway, a prototype of the social-democratic welfare regime (Stamsø, 2009) operate a dualist rental model, with high levels of homeownership, akin to the so-called 'Anglo-Saxon' model?

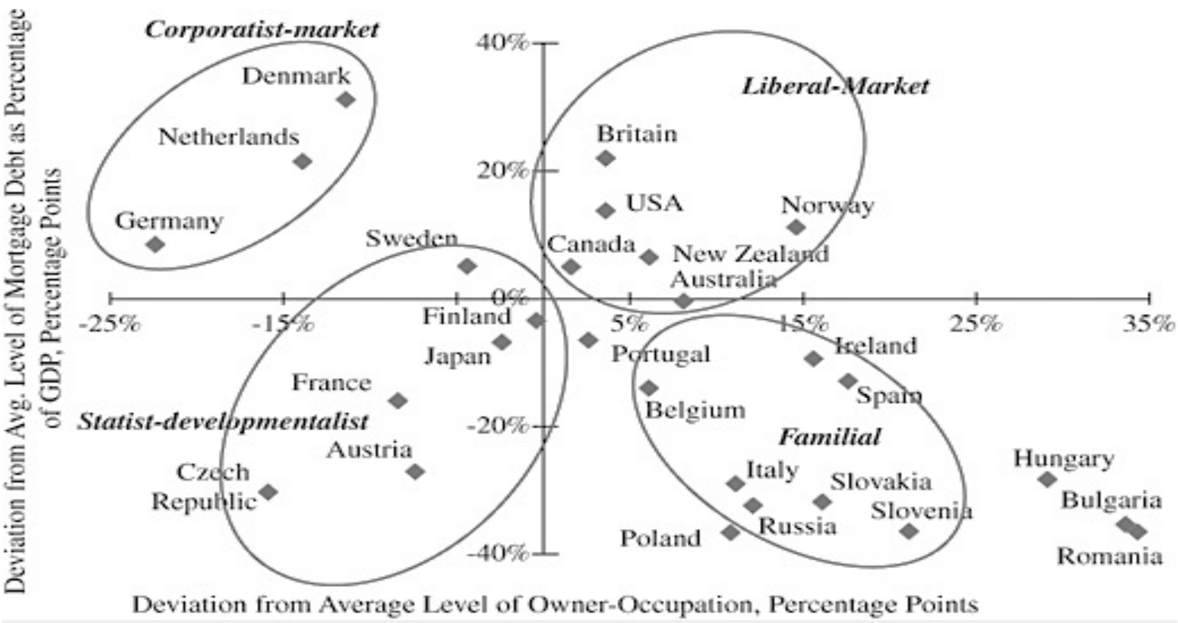
system reflects the nature of its welfare state creates a misleading picture of housing in post-1970s Sweden. I explore the period leading up to the crisis of 1990-1993 briefly below. For now, though, we turn our attention to analyses of housing in Sweden published since the Global Financial Crisis, with the aim of understanding changes which Kemeny's framework struggles to accommodate.

Towards a comparative political economy of housing?

Since the Global Financial Crisis, political economists have attempted to understand the dynamics between housing and welfare systems and how the interactions between these spheres structure household borrowing. Of these attempts, Herman Schwartz and Leonard Seabrooke's is the most renowned (Aalbers, 2015). Schwartz and Seabrooke (2009) attempt to construct new typologies centred on what they term 'varieties of residential capitalism'. Drawing intellectually on the works of Gøsta Esping-Andersen (1990), and Kemeny (1981, 1995) they argue for the existence of four distinct typologies: *corporatist market*, *liberal market*, *familial* and *statist-developmentalist*. These are schematised below in Figure 1.1, where countries are grouped in accordance to their deviation from mean levels of homeownership and mortgage debt.

Sweden is grouped within the *statist-developmentalist* assemblage, alongside France, Austria, Japan, Finland and Czech Republic. This grouping is apparently characterised by low-levels of homeownership and securitisation and high levels of *financial repression,* which is defined as: '…systematic state control over the volume, direction and price of credit' (Schwartz and Seabrooke, 2009, p. 2).

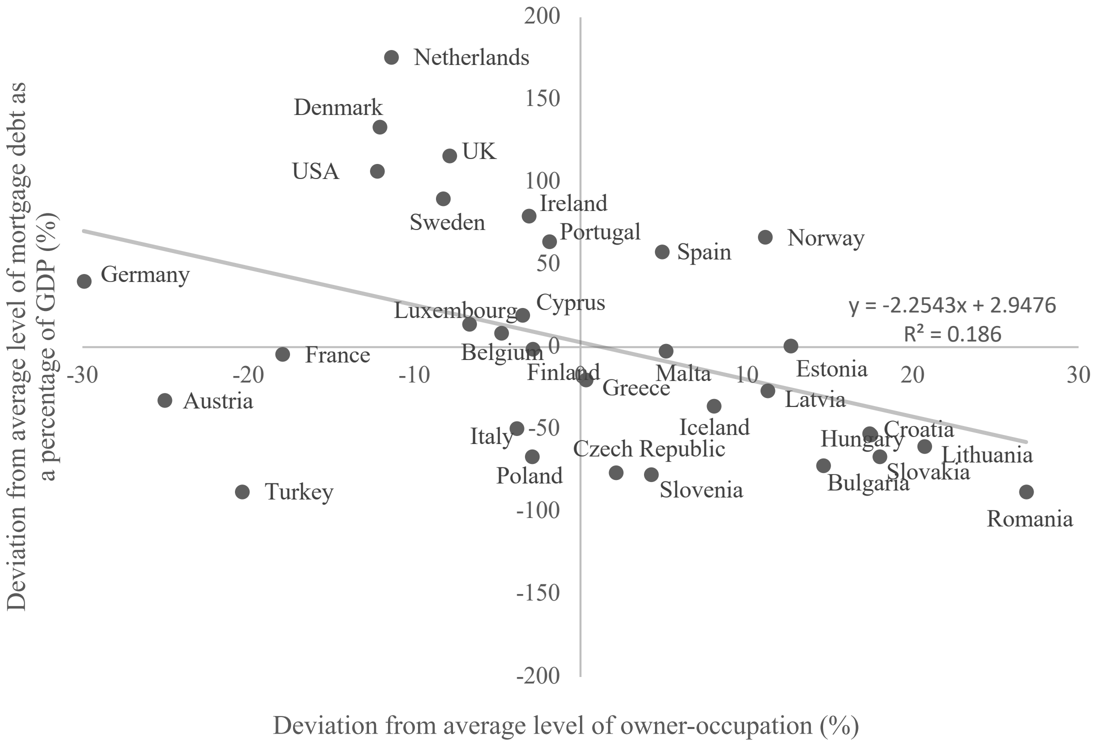
Figure 1.1. *Relative Deviation from Mean Mortgage Debt and Homeownership*



Source: Schwartz & Seabrooke, (2009, p. 9)

The first point to note is that there have been no such *systematic state controls* in Sweden since 1985; Schwartz and Seabrooke are more than two decades late with this observation. Second, the timeframe they adopt is peculiar. Had they applied similar metrics using data between 1998 and 2008 (which would have made considerable sense) instead of 1992-2002, this schema would have look very different and these categories would break down (as evidenced in Figure 1.2). Third, Sweden's position in these typologies is empirically questionable. Dramatic household deleveraging took place in Sweden after the property bust of the early 1990s. The timeframe adopted by the above authors therefore ignores the high debt-levels prior to this period and the spectacular build-up of debt from 1998 onwards. Schwartz and Seabrooke, thus, recreate the same errors as Kemeny: these categories may be convenient, but they are not, on the whole, methodologically or empirically sound for the study of housing, finance and mortgage debt in Sweden. Indeed, more contemporary data reveals that these typologies simply do not hold.

Figure 1.2. *Relative Deviation from Mean Mortgage Debt and Homeownership (2002-2012)*



Sources: Blackwell & Kohl (Forthcoming)

Figure 1.2 reveals is a clustering of high-homeownership/low debt housing systems in the bottom right quadrant (predominantly in Southern and Eastern Europe and moderate-homeownership/moderate debt clusters in the top left (much of North-Western Europe and the USA). It further reveals that the relationship between homeownership and debt is weakly negative (r^2 =0.186) but, more importantly, it illustrates the problems of theory generation based on cross-sectional snapshots. Indeed, Mark Stephens, Martin Lux and Petr Sunega (2015, p. 1212) have labelled Schwartz & Seabrooke's framework as 'substantially defective'. This criticism is perhaps a little too strong. Schwartz & Seabrooke's contribution to the development of a *political economy of housing* was most timely and it has generated much welcome debate. While we may debate the (de)merits of their empirical contribution, their theoretical contribution, then, has been important.

The Rapid Transition

More contemporary housing scholarship emanating from Sweden acknowledges changes to the Swedish housing system that Kemeny's (1995, 2005) and Schwartz and Seabrooke's analyses ignore. Roger Andersson and Lena Magnusson Turner (2014) analyse the impacts of tenure conversions in Stockholm since the early 1990s on *social mix*, noting that the *Right-to-Buy*-style policy has increased levels of socio-economic segregation. They argue that this policy has been part of a '…rapid transition from a *regulated and subsidised*, social democratic housing system to a deregulated, market-based system' (Andersson and Magnusson Turner, 2014, p. 4). This begs the question: how did a 'regulated and subsidised' housing system *transition* to a volatile, *market-based system* predicated on mass homeownership, segregation, and higher levels of mortgage-related debt than either Great Britain or the USA?

Andersson and Magnusson Turner argue that, '[f]rom the 1930s and into the 1990s, public housing (*allmännyttan*) in Sweden was a key element in the Social Democrats' ambition to construct a housing system that would secure high-quality, affordable housing for all' (*ibid*. p. 3). This appraisal echoes Kemeny's. However, they depart from Kemeny, and Schwartz and Seabrooke, arguing that this system was dismantled by the Liberal-Conservative coalition in 1991, under the stewardship of Karl Bildt. Curiously, there is no mention of one of the most significant changes enacted during this period: the implementation of the so-called Danell System (*Danellsystemet*)[26], in 1992, which implemented the phasing out of supply-side interest subsidies on new residential construction (see Chapter V). According to Bengt Turner and Christine Whitehead, this system, '…turned out to be the first decisive step in reducing general subsidies and moving towards *more targeted subsidies for both households and localities*' (Turner and Whitehead, 2002, p. 205)[27], which (one would expect) would have implications for housing affordability, borrowing and, in turn, social mix.

Whilst the general findings and conclusions of these authors (that Sweden's major cities are becoming increasingly segregated) are important and empirically sound, a closer look at Sweden's housing timeline reveals that the *transition* of which they speak was anything but *rapid*. Indeed, a study by Anna-Lisa Lindén (1989) found that, throughout the 1980s, low income groups, women, young people, and the elderly became increasingly overrepresented in Public Housing. Further, as I explore, housing affordability for homebuyers, and renters was put under strain from the mid-1970s onwards, as middle class households began taking on extraordinary levels of debt and opting for owner-occupied single-family housing to an extent hitherto unprecedented[28]; a form of what Ann Rodenstedt has termed *self-segregation among privileged groups* (Rodenstedt, 2014). I analyse these processes in more detail in the next subsection. For now, though, suffice to say that we would not expect a *regulated and subsidized housing system* to exhibit the price volatility (in both owner-occupied and rental sectors) that we witness in Sweden during the 1980s and early-1990s, or engender such high volumes of household debt, both of which have implications for social mix.

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[26]'The Danell System' was the implementation of a commission into housing led by Housing Minister, Georg Danell. based on the principle that construction companies should be exposed to the full interest rate risk. See Chapter V for detailed analysis.
[27] This, in essence, led to transference of risk from central government and municipalities, to Sweden's extraordinarily narrow clique of domestic construction companies.
[28] Indeed, between 1968 and 1981, owner occupation increased by ten percentage points and the increase in the production of single-family dwellings accounts for much of this increase (Olsson, 1986, p. 53).

In another article by Magnusson Turner, co-authored with Emma Holmqvist (2014), a direct claim is made about the associations between housing system composition, neoliberalism and debt. They argue that household liabilities are so high in Sweden today because of the *neoliberal* metamorphosis of housing (2014, p. 242). To their credit, they also mention macroeconomic factors. However, their analysis cannot explain the extraordinarily high historical levels of household debt in Sweden, or the abnormally low levels of amortization. If *neoliberalism* can explain all this, it is not clear how. The above authors, then, seem to use *neoliberalisation* as a catchall to explain anything that is dysfunctional with the Swedish housing system, ignoring the fact that dysfunction in the Swedish housing system predated the Conservative-Liberal coalition of the early 1990s. Rents (as early as the late-1970s) began to pull rapidly away from consumer prices and, in terms of the differential rate of change, the 1980s witnessed a more than doubling of real rents. This is *de facto* worsening affordability (even when adjusting for rising incomes), yet in the drive to compartmentalise periods of regulated and subsidised*, soziale Marktwirtschaft,* and marketised, deregulated, *neoliberalism*, the events, policies changes, innovations, social practices and supply-side dynamics which emerged in the 1970s and 1980s are almost completely ignored[29].

Monstrous hybridity

As deservedly influential as they are, what the above works lack is an analytical framework which can accommodate both gradual, accreted housing system change, and the role sectoral interests play therein. Housing system development is *sticky* and although *changes* may appear dramatic *prima facie*, they often rarely are upon closer inspection. Thus, to characterise Sweden's housing system as *neoliberal* or *marketised* would suggest that it has changed beyond all recognition from its ideal type configuration to one which more closely resembles the US housing system (or any other housing system which scholars identify as neoliberal). Yet, this is palpably not the case.

Brett Christophers (2013) endeavours to fashion a *political economy of housing in early twenty-first century Sweden* in an attempt to resolve the convergence-divergence dichotomy referenced above. Christophers argues that contemporary institutional reforms have produced a *monstrous hybrid*. Housing in Sweden, thus, represents a unique combination of de-commodified *and* commodified housing-forms, which is highly dysfunctional:

> …the Swedish housing system […] represents a complex hybrid of Weberian ideal types. It is neither one thing (centralised and regulated) nor the other (marketised and deregulated),

[29] Andersson & Magnusson Turner (2014, p. 5) comment that, '…many of the politically induced changes in regulations, taxation, and the housing allowance system since the 1980s have affected all Swedish cities', but do not elucidate further.

> but a hybrid that has certainly received numerous powerful doses of neoliberalisation, and yet which remains, in key areas, regulated and, as such, relatively isolated from market forces and configurations (Christophers, 2013, p. 3).

Distilling Christophers' argument, housing systems exhibit path-dependencies, and elements of the *social democratic housing system* in Sweden still exist, but they do so alongside other, so-called *neoliberal* elements. The reason Swedish scholars overlook this hybridity is because they implicitly adopt a convergence hypothesis, whereby it is assumed that the Swedish housing system has been transformed along *neoliberal* lines. As a consequence, they overlook some of the complex combined forms of housing system regulation, their interactions, and (importantly) the implications for household borrowing. Christophers' contribution, then, is an important one.

Christophers' asserts that Sweden has moved more towards Kemeny's Anglo-Saxon, *dualist rental system* model (if only partially and unevenly) arguing that the current system leaves home-seekers with but one option: *to buy* (Christophers, 2013, p. 21). Here, like Kemeny, he is mindful of the discursive institutional frameworks that mediate tenure choice, and how housing systems are often arranged to favour tenure *x* over (and often at the direct expense of) tenure *y* (in this case homeownership over renting). He notes that the housing reforms privileging homeownership have brought the Swedish housing system close to 'breaking point' (*ibid*. p. 23).

Despite important conceptual and empirical insights, Christophers' analysis omits a vital part of the equation: finance. Christophers analyses the residualisation of public housing and the conversion of *allmännytta* into cooperatives (*à la Right-to-Buy*), but there is no mention of the financial practices and processes which helped to facilitate such policies. This omission, in my view, makes it more difficult to understand the traction of the policy changes he describes. Christophers' analysis, then, privileges the institutional configuration of *housing tenure* over financial developments and, by so doing, leaves the build-up of household debt in Sweden and supply-side dynamics (and how these factors, separately, or in combination, influence tenure composition) relatively unchecked. In this sense, *the workings of the housing system as a whole* are somewhat overlooked.

A more general criticism about the methodologies adopted by the authors considered here is that (with the exception of Christophers) they create static portraits, which continue to promote a vision of housing in Sweden that is inaccurate; what Robert Cox has referred to as *the path-dependency of an idea* and the *"stickiness" of reputation* (Cox, 2004). The problem, then, appears to be similar to the one which Wolfgang Streeck and Kathleen Thelen (2005, p. 1) identify in relation to welfare state literature more generally: that '…most prominent theoretical frameworks employed in the analysis of the welfare state and of contemporary political economy more generally seem singularly ill-equipped to capture significant developments underway in most if not all of them'. Whilst there are signs that this is beginning to change[30] (albeit slowly) in much comparative housing research these *ill-equipped* frameworks remain alive and well (Wood, 2017). And, yet, the portrayal of Sweden's housing system as *de-commodified* largely endures (at least in the imagination of scholars and commentators outside of Scandinavia). The error here (again) is that scholars believe that the ideal-type characteristics of the Swedish welfare state should translate into housing outcomes. This is plainly *not* the case, and this is (in part) what makes the Swedish case so intriguing: it confounds expectations. In the words of Erin Metz McDonnell (2013, p. 308), however, if conventional categories 'confound more than they reveal' then they need to be revaluated.

It should be noted here that the above analyses are all welcome and important contributions to the field of housing studies. Despite certain problematic features, Schwartz and Seabrooke's work has undoubtedly moved the debate about the role of housing in political economy forward, and so too has Christophers (2013). However, all of the above analyses (with the exception of Schwartz and Seabrooke) omit a core part of the equation when thinking about housing: *housing finance*. Failure to comment on financial developments that have occurred in Sweden since the late 1970s, and how these affect the consumption *and* production of housing - in combination with a general reticence to expand the economic time horizon and engage with economic and financial history - means that the criteria of relevance set out by Harloe and Martens (this chapter's litmus test) can only be partially met by the research considered above. I now explore why ignorance of financial developments in housing research is such a conspicuous omission.

Housing Finance and Household Debt in Sweden

My argument thus far has been fairly simple: Swedish housing has not entirely remained true to the script written for it by housing scholars and political economists. I laid out possible reasons for this, but the roots of these problems, in my view, lie in the fact that most of the above studies are guilty of what Harloe & Martens' (1984, p. 268) term *abstracting housing policy developments from their broader economic and political context, and from the workings of the housing system as a whole*. This section analyses contributions from the fields of finance and economics in an attempt to highlight the importance of theorising financial and macroeconomic developments. Whilst the following contributions might not be said to belong to the field of housing studies *proper*, they all have the potential to enrich our understanding of developments

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[30] Anita Blessing (2016, p. 1) has argued the need for *conceptual renewal in comparative housing research*, criticising the *repeated recycling* of Kemeny's models. She notes that 'Despite empirical change, these models are still used to describe liberal welfare regimes, and to theorise international policy convergence'.

in housing and to give us an insight into how said developments shape *and are shaped by* housing finance.

This section serves to highlight three things. First, that the transition of Sweden from a *regulated*, *subsidised* housing and financial regime (with affordable rents and a minority of households in the owner-occupied sector) to a full-blown *housing economy* (predicated on mass homeownership, an increasingly residualised public rental sector, and huge volumes of mortgage debt) was anything but rapid. Second, financial developments in the 1970s and 1980s in Sweden were often the products of attempts by a range of financial intermediaries, developers *and* households to circumvent strict financial controls that existed prior to the 1980s. As such, we witness significant institutional lag, and this level of *regulatory arbitrage,* and corresponding regulatory change, impacted on housing and the built environment long before most housing scholars acknowledge.

Finally, the current conjuncture needs to be analysed in terms of the historical importance of the boom and bust cycle (1984-1994), which led to the banking crisis and deep recession of 1990-93. By so doing, we will be able to understand that a fundamental shift in attitudes to housing and household debt took shape; akin to that described by Robert Shiller in the Introduction. This was not merely as a result of a Conservative-Liberal alliance, which was in power for a mere three years (1991-94), or demand-side behavioural changes (although these were necessary). More, it was a consequence of cumulative processes, changes in practice at the municipal level relating to building and planning, and governance initiatives, which at first attempted to constrain, but then later promoted, speculative building and financial practices geared towards lending to households and developers. The following only provides a primer on these themes, but I take them up more comprehensively in Chapters IV & V.

Most accounts of the Swedish banking crisis (1990-93) centre on one theme: financial liberalisation leading to speculative property dynamics; curiously ignored in the above analyses. Jonas Agell & Lennart Berg (1996) present a compelling case, countering the assumptions made by many scholars that the financial deregulation of the mid 1980s was the prime motivating factor for the build-up in household debt and macroeconomic instability in the early 1990s. Key to the argument against this overview is the fact that high levels of household debt in Sweden predate the era of financial deregulation. They argue the following:

> The sharp increase in the average propensity to consume constitutes the prima facie case for the view that *consumption behaviour changed* in the wake of financial deregulation. But some facts bark in another direction. A first observation is that the debt to income ratio increased from such a high initial level (Agell and Berg, 1996, p. 584, emphasis added).

Agell and Berg argue that the fact that Swedish households had levels of household debt of over 100 per cent of their disposable incomes in the early 1980s (significantly higher than rates in other countries, including the USA and Britain) does not sit comfortably with the notion of Sweden as a social market economy with widespread regulations (*ibid*.).

Their analysis highlights the need to look at patterns of financial development and their interrelationship with consumption, as well as the role of wages. This position poses an important challenge to the mainstream conceptual associations between *neoliberalism,* housing and household debt, which the literature on housing (tacitly or otherwise) either broadly accepts or, in certain cases, neglects entirely. If debts were so high before the era of *neoliberalism* in Sweden, what then, if not *neoliberalism*, was driving housing-related debt-fuelled consumption and consumer behaviour?

Agell and Berg argue that one of the main reasons households accrued such large volumes of debt leading up to the crisis of the early 1990s was because of robust income growth - the inference here being that expectations of future income gains will give households confidence (justifiably or otherwise) in their ability pay down debts later on, thus smoothing out consumption over the life cycle. Their econometric findings are supported by longitudinal data analysis, which convincingly illustrates that, '…the consumption boom was in fact accompanied by a trend shift in the growth of wage income' (Agell and Berg, 1996, p. 584) and not necessarily the product of regulatory change in the first instance. Due to their choice of methodology (case-study), their model is supported by more nuanced analysis of norm creation and future expectations *vis-à-vis* income gains; in contrast to much of the analysis emanating from housing studies and political economy.

Another important contribution made by these two scholars relates to the inefficacy of the existing regulatory frameworks governing bank lending ratios and credit ceilings. These can be seen as *de facto* restraints on the ability of banks to lend and consumers to borrow – akin to what Schwartz and Seabrooke (2009) refer to as *systematic state controls,* which they wrongly suppose lasted until at least 2008. However, even in the face of these controls, Agell and Berg point out the following: 'There were […] ways of avoiding the constraints implied by the formal rules' (Agell and Berg, 1996, p. 596). They do not elucidate this point fully, but do argue that a, '…variety of financial intermediaries operating outside the traditional banking system' and 'borrowing within families' (Agell and Berg, 1996, p. 580), played an important part in overcoming regulatory *constraints*. Interestingly, and in contrast to the housing research considered above, they make a key assessment *vis-à-vis* regulatory change which had a core impact on household borrowing and tenure choice: 'As regards deregulations of direct relevance for household borrowing, most changes took place between 1983 and 1985' (Agell and Berg, 1996, p. 583). Note that this change in regulation happened much earlier than any of the above housing scholars acknowledge.

The reforms and the concomitant credit expansion of the 1980s provided a huge economic stimulus to an otherwise ailing economy. This credit was not only directed towards households, but also developers and the construction sector. These reforms thus had significant demand-side *and* supply-side consequences which housing scholars have broadly ignored. Agell & Berg's analysis ignores this also. They argue that the financial reforms of the mid-1980s were *necessary* for the creation of market efficiency: 'Abolishment of the requirements that banks hold bonds in 1983 implied that bank lending could be geared to the needs of new categories of borrowers', adding, 'the deregulation of banks' lending rates in May 1985 provided the prerequisite for a competitive market' (Agell and Berg, 1996, p. 583). Necessary, or not, however, the medium and long-term effects of this unprecedented expansion of the credit base and the provision of a *competitive market* was, in retrospect, not benign.

By the time the reforms of 1983 and 1985 were enacted, the financial landscape had been comprehensively transformed; and with this, Swedish households entered a new phase of debt-fuelled consumption. Englund comments that, '[n]ow that banks [had] entered into the markets previously in the domain of the finance companies, [they] were pushed into higher-risk markets' (Englund, 1999, p. 85). This led to aggressive credit expansion and asset inflation which pushed the Stockholm Stock Exchange to levels that would not be eclipsed until the tech bubble of the late 1990s; sent commercial real estate prices soaring; and facilitated historically unprecedented house price growth (Englund, 1999, p. 88). It also transformed housing finance instructions (see Chapter V). As a result, aggregate household debt continued the precipitous rises initiated in the late-1970s and early-1980s, creating a *pressure cooker effect* on housing demand. Whilst Swedish households' proclivity towards debt-fuelled consumption may not have been caused by these reforms, these reforms certainly amplified previous tendencies.

The period of debt-fuelled consumption would not last, however and, as Steffen E. Andersen comments, the consequences of the housing bubble's *dénouement* would be extraordinary. He notes: '[t]he 2004-2007 property bubbles in the US, the UK, and in the rest of Europe were minor in comparison', adding, 'The halving of Swedish property prices over the next three years was also more dramatic than the 2007-2009 decline in the US, UK, and the Continent – where property prices dropped "only" 30-40 per cent from their respective peaks' (Andersen, 2011, p. 265). That these dynamics, and their long-term legacies *vis-à-vis* housing and the built environment, are omitted from the majority of contemporary Swedish housing research, then, is intriguing. Especially so when one considers the centrality of finance both to the consumption *and* production of housing.

Accounts which theorise housing and financial developments (predominantly) through the lens of neoclassical economics have been helpful in filling some of the *gaps* in the literature which focus on what Aalbers and Christophers (2014) have termed housing-*as-policy* (that is housing scholarship with a focus on policy, not housing markets). However, they are not without their faults. Despite claims about the *wealth effects created in the housing market* (Agell and Berg, 1996, p. 581) and how this might affect consumption, housing – and the impacts of speculative investment therein - remains very much an afterthought. A more general problem with the literature reviewed here then, lies at the theoretical plane: both housing studies literature and neoclassical accounts of household behaviours fail to properly accommodate each respective field and, notably, housing and finance history are curiously absent. By failing to accommodate a historically couched theory of process formation, then, scholars neglect to consider not just the agency of financial elites, and those within the housing supply chain, but also of households. By so doing, they create a *blind spot* which obscures the dialectical relationship between housing and finance systems. The nature of this relationship is now explored theoretically.

1.2. *Historicising housing and finance systems*

Finance is now a central conduit of risk shifting and social change.

R. Martin, M. Rafferty and D. Bryan (2008)[31]

This chapter has attempted to do three things thus far. First, to challenge the theoretical and methodological frameworks underpinning much comparative housing scholarship; arguing that the stable descriptions of housing systems, which scholars tend to uncritically reproduce (often typologically in relation to social policy traditions) are largely ill-suited to enhance our understanding of both historical and contemporary housing system dynamics. Second, to challenge the associations between *neoliberalism* and the burgeoning levels of household debt we witness in Sweden (and elsewhere in Northern Europe) today; arguing that high volumes of household debt have been central to the Swedish housing model for over forty years, and that rising incomes (initially) and house price appreciation, and a decline in the cost of borrowing (latterly), better explain these trends. Third, to argue the importance of theorising changes in the constitution of finance in order to understand housing system change, both contemporarily and historically. Here, I depart from Martin, Rafferty and Bryan (2008), above, and their contention that the socially transformative nature of finance is predominantly a contemporary phenomenon. Indeed, the *shifting of risk* is *the* central driver of financial development *in genere* and transformations in finance necessarily transform society: *sic semper erat, et sic semper erit*.

In this final section, I build upon the analysis of the previous sections, arguing that the terms *neoliberalism* and *financialisation* (as operationalised in the accounts above) are conceptually poorly suited to understand contemporary dynamics in Sweden's housing system. Instead, I believe that housing scholarship analysing contemporary housing system dynamics needs to be much more receptive to historical frameworks in order to understand contemporary

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[31] Cited in Mertens (2017).

housing system change, both in Sweden and elsewhere. As Christian Lennartz (2011, p. 15) argues: '…if we want to achieve a full understanding of how power structures can lead to a certain housing system, meticulous historical analyses on [*sic.*] how housing systems evolved in individual countries are necessary'. Only by adopting such a historicist approach, will we be truly able to understand contemporary dynamics within national housing systems and place the phenomena of *neoliberalism* and *financialisation* in their *broader historical and social contexts* (Knafo, 2013, p. 10). This is *not* to say that all housing research should be explicitly historical or historicist; more that housing scholarship should, at the very least, be historically sensitive and cognisant of the drivers of housing system change *beyond housing policy*.

Some will, no doubt, be critical of such a position, and the charge will be waged that *there have been movements towards a neoliberal, marketized, deregulated politico-economic model in Sweden since the 1990s*. This assessment may not be incorrect *per se*. However, it is not wholly adequate either. As eminent housing economist, Christine Whitehead puts it, '[b]laming neo-liberalism is far too easy a way out' (Whitehead, 2014, p. 23). Indeed, generalised references to *neoliberalised* or *financialised* housing systems ignore the uniquely path-dependant trajectories which housing systems follow and relegate the influence of finance (and history) on the evolution of said systems to an analytical afterthought. Such accounts, by focusing purely on policy and ideology, also tend to exaggerate the power of state actors. Such *top-down* causality, by privileging state actors and ignoring sectoral actors in the spheres of finance and housing production, is what enables scholars to neatly compartmentalise phases of housing system development, often along party-political or ideological lines but, by so doing, said developments are conveniently reduced to products of mere ideational change.

As I have attempted to show, such analytical approaches are problematic for the analysis of housing system development. Ideology and political decision-making are, of course, important determinants worthy of analysis in their own right. However, as Stuart Corbridge (1992, p. 299) notes, '[t]o signal the power of ideas is not ... to ignore the *power of events in shaping the production of ideas*' (emphasis added). Social scientific scholars' faith in the ability of policy makers to turn ideology into reality, then, is generally overplayed and, often, misreads the dialectical relationship between *ideas* and *events*. As Kristina Boréus (1997, p. 5) notes, when underlying economic and sociological circumstances change (as they have a tendency to do), *struggles over the interpretation of these changes are what produce ideological change*.

As I show in Chapters II & III, there was (initially at least) no coherent social democratic housing program before, during, or (arguably) for some time after, the Second World War. The policies enacted by the Social Democrats during the Second World War were largely reactionary (such as the rent controls of 1942). Such policies were considered necessary (as in other countries), due to the spiralling costs of building materials and the credit liquidity constraints brought about by a warring continent. However, it took a ten-year housing review to lay down the objectives of housing policy for the Social Democrats and, even after this reported in 1946, the policies were not enacted to the letter, and the Social Democrat Prime Minister, Tage Erlander, was frustrated by what he perceived to be a marked lack of housing progress during the 1950s (see Chapter III). It was the development of the state's *financial capabilities* (i.e. the ability to raise revenue and administer financial support for the housing system as a whole) that allowed them to pursue certain goals. This development was not planned *per se* in the way many scholars assume but was an ancillary product of the Swedish wartime economy. As I argue in Chapter III, the policies enacted during the beginning of this period were very much *ad hoc*. The ideological rationalisation and justifications came somewhat later simply because political actors do not have the foresight scholars usually accredit to them[32]; they generally operate within much shorter time horizons. More often than not, then, ideology is used as an *ex post* rationalisation of changes in socioeconomic conditions, which seeks to lend coherence and cogency to a new or developing socio-economic paradigm; and housing and finance systems are no exceptions here.

The operational uses of the concept of neoliberalism is interesting here, for it reminds us that *struggles over the interpretation of socioeconomic changes* also create problems for scholars. According to the logic of swathes of Anglo-centric political-economic and housing scholarship, it is a genuine puzzle that households in Sweden should be holding so much housing-related debt (see Introduction). The reason for this is that this detail does not fit neatly with the impression of a socially democratic, decommodified housing system, which ostensibly seeks to minimise financial risk (Turner and Whitehead, 2002). To make sense of this, then, they cite *neoliberalism*, as an *ex post facto* rationalisation for a process which is, in fact, very much historically entrenched. Indeed, even if/when we accept the charge that *neoliberal governance* has penetrated the apparatuses of the Swedish state and housing policy, this still does not account for why levels of household debt have been so high in Sweden for so long. What such scholars overlook, then, is the generation of financial capacities (both public and private); and these cannot be read off welfare state configurations or varieties of capitalism (welfare, residential, or otherwise).

Much like the concepts of globalisation, *neoliberalism* tends to be associated with supply-side economic logics such as *deregulation*, tax reforms, a reduction in the size of the state, *flexibility*, and *liberalisation* (Antoniades, 2007). Within the field of housing research (as elsewhere) this term has become a synonym for general housing market dysfunction (Holmqvist and Magnusson Turner, 2014); an observation which, whilst not necessarily inaccurate *per se*, offers little in the way of conceptual rigour. Such tendencies within mainstream housing research and political economy, as has been discussed, are problematic. We need to move beyond such accounts and, as much as possible, return to the historical record in order to understand

[32] As Edward J. Kane (1981, p. 358) notes, *regulators' intentions are seldom realized in full*.

contemporary housing systems dynamics. I now seek to situate these dynamics historically. Following this, I theoretically expound the thesis' main concern: *the co-evolution of housing and finance systems in Sweden*.

General comments on housing, finance and society

Shelter has always been a most fundamental of human needs. What constitutes shelter; how it is constructed (materially and socially); how it is socio-politically and legally imbedded; how it is financed; and (importantly) who benefits from a particular system of provision at any given point in time is, however, in constant flux and spatially and temporally contingent. How people have historically gained access to shelter (and how it has been distributed) has depended upon a plethora of factors affecting property rights including (but not exclusively): general societal organisation (whether pre-feudalist, feudalist, capitalist, or socialist *et cetera*); the degree of societal representation (absolutist, liberal democratic, social democratic, totalitarian *et cetera*); the maturity of the financial system (whether gift economy, payments in kind, payment in labour, promissory notes, bond issues, securitisation *e tcetera*); the level of assistance (material and/or financial) provided under any one of the above societal configurations; the material and geographical circumstances; and the level of technological advancement within a given society at any given time. All of these factors, to greater or lesser degrees, fundamentally influence housing provision and the multiplicity of interactions between these factors in time and space helps to explain why no two housing and finance systems are ever truly alike[33].

The erection of shelter (of any kind) requires materials, labour (with varying degrees of expertise), land, and time. All these factors imply upfront costs and the ability to exercise *power*. This has historically created a dilemma for those wishing to build, as costs are generally frontloaded and, traditionally, power has only ever been held by a numerical minority. As Paul Pierson notes, '[a]lthough housing is a necessity, very few can afford to purchase their shelter outright' (Pierson, 1994, p. 74). Since the dawn of industrial urbanisation, those (the majority) without means have either become tenants, vagrant, or homeless. Tenants pay (in one form or another) for the right to dwell (however loose that right may be), and the costs incurred by tenants (whether labour-costs, monetary costs, or some other kind) will, *ceritus paribus*, reflect the costs of building and maintenance (the standards of which vary immensely through time and space), and the privileges or benefits bestowed from living there (quality of the land and environment; the level of subsistence; sanitation; amenities; job opportunities; and transport *et cetera*); as well as the extractive nature of the economic system at any given point.

[33] This is not to say, however, that we cannot deduce developmental logics or group countries (or regions) on the basis of shared characteristics and trajectories between (and within) national housing systems.

As populations burgeon, urban areas can either expand, or force those without shelter to seek it elsewhere. How they expand (and the rate at which they expand) will be contingent on multifarious social and material factors. In the modern era, industrialisation has been the main driver influencing rural-urban migrations. This combined with increasing life expectancies, and higher birth rates since the late eighteenth century, has brought about rapid and unprecedented societal change, forcing towns and cities throughout Europe (and elsewhere) to evolve and adapt in remarkable ways. Where problems and barriers have presented themselves, human systems have shown an extraordinary capacity to find solutions[34]. However, even in the age of democratic representation, the benefits of these solutions have very rarely been felt in equal measure. And, more often than not, solutions to one problem, or set of problems, often provide the foundations for others.

One of the main problems facing actors in industrial urban societies concerns *housing supply*, *access* and *affordability*. These interrelated factors are felt most acutely during periods of robust population growth and geopolitical or economic crises. Those with means and power within the existing system will be able to negotiate these problems, often creating barriers to newer entrants[35]. However, if pushed to extremes, an entire tranche of society may become marginalised and forced to the fringes of an urban housing system or excluded altogether. Under such circumstances shantytowns may develop, and with them, an increased propensity for social unrest and disorder. Historically, under such circumstances, states, municipalities, landlords, or other administrative bodies have found it difficult to control, tax or police such areas efficiently and *The Housing Question* (as formulated in many countries) then becomes a core concern, first for social commentators, and, then, for governments.

This will appear in different industrial urban societies, at different times, but the question always appears in one form or another where there is a perceived societal threat emanating from those 'excluded' or marginalised. The assessed threats (and the solutions deployed) may be different in various different locations, but iterations of fear for the social order *vis-à-vis* housing and social stability have echoed throughout the industrialised world[36]. The motivations behind these iterations and the courses of action pursued will, of course, be varied and country specific.

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[34] See Glaeser (2011) for a rather hubristic appraisal of humankind's urban achievements.

[35] So-called 'entry barriers' to new entrants (i.e. residents) can take almost an infinite number of forms, as the ability to construct said barriers will depend upon the socio-institutional constellation of actors and regulations present within any given geography. Contemporarily, scholars and commentators have identified NIMBYism as a process whereby housing insiders (i.e. those established within a given urban context) have created barriers to new entrants (i.e. new residential building and infrastructure work) through the planning system. Despite the English-language origin of this acronym, it has been applied to a variety of Western contexts, not least Sweden (Barlow, 1995).

[36] The Conservatives in Britain after the First World War made homeownership a central pillar of their economic policy, hoping that a home owning society would provide a bulwark against bolshevism (Ronald, 2008). Likewise, Herbert Hoover in the USA claimed, 'lt]he present large proportion of families that own their own homes is both the foundation of a sound economic and social system and a guarantee that our society will continue to develop rationally as changing conditions demand' (cited in Gilderbloom, 2008, p. 42).

One solution to *The Housing Question* is to ease affordability and, as Pierson (1994, p. 74) notes, '…various arrangements have to be made […] to spread the costs of housing over time'. Economic and financial development can assist in this endeavour to certain extents, although some form of state involvement is often a prerequisite. The Swedish state, for instance, began subsidising homeownership loans as early as 1904 (one of the earliest countries to do so), in order to stem the seemingly inexorable tide of emigration. The reasons were simple: households could not acquire credit to build housing, and the flow of rural migrants to the cities was proving socially disruptive. Even though this benefitted mainly rural peasant households, it was not long before initiatives to promote urban mortgage lending (at subsidised rates) were enacted with state support (see Chapter II).

This is, obviously, not the only means of easing housing supply and affordability. Britain resorted to council housing as early as the late-nineteenth century as a *top-down* solution for the working poor. But households (those usually of means) can organise collectively (*bottom-up*) without state assistance to mobilise financial resources. The first building societies emerged in Birmingham in the late-eighteenth century and, towards the middle of the nineteenth century, permanent mutual building societies were established allowing households to pool their savings in order to finance housing production and consumption (without an obligation to build). This, in turn, provided collateral to finance further construction and mortgage loans. Sweden developed a slightly different *bottom-up* system in the form of housing co-operatives; the earliest versions of which pooled tenants' savings to collectively build rental accommodation[37]. Such *bottom-up* initiatives, however, rarely helped the very poorest households (Daunton, 1990, p. 26), and even as (from mid-nineteenth century onwards) philanthropists and religious organisations began to take a bigger role in housing provision throughout Europe, these were mere palliative efforts, which would barely scratch the surface of the housing problems and destitution of the poor throughout Western Europe.

The common theme linking all the above endeavours is that actors (either individually, collectively, or at state-level) attempt to overcome financial impediments created by *maturity mismatch*, which Herman Schwartz describes as the process of *borrowing on a short term basis* in order to *reinvest the proceeds into less liquid, longer duration assets* (Schwartz, 2012a, p. 43). This *mismatch*, and how it is overcome, fundamentally affects the way housing is produced and consumed. The core premise underlying this thesis is simple: *economies construct capacities for the production of housing in various different ways and this, in turn, affects housing system outcomes*. By capacity, here, I refer to the ability of actors (state and non-state) to raise revenue

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37 As Hannu Ruonavaara (2005, p. 218) notes, '[t]here were experiments of co-operative housing dating back to the rental housing co-operatives in Stockholm and Gothenburg, formed as a response to the acute housing crisis of the 1870s'

and administer financial flows. Changes in the constitution of finance inexorably alter the nature of housing provision and consumption, in that the mobilisation of financial resources (whether by individuals, communities, private enterprises and financial intermediaries, or states), to greater or lesser degrees, determines the range of possibilities *vis-à-vis* what housing is built, by whom, and *for whom*. *Housing politics* and *housing policy* is, thus, a means of mediating these processes. The logical inference here is that as finance systems change, so too do housing systems, as the actors operating within them develop new methods and means of financing the production and consumption of housing. I now explore this relationship.

The co-evolution of housing and finance systems

This study adopts an actor-oriented, *path dependence* framework to the study of housing and finance system development. Such a framework requires us to understand how actors relate to the societal contexts (or systems) they inhabit. Following Priemus (1983), I understand a *housing system* as constituting a '[c]omplex of actors, including their many relationships and interactions, that are involved in housing' (translation in van der Heijden, 2013, p. 5). However, these relationships and interactions are not formed in a historical vacuum; they are produced and reproduced continually through the practices of actors that *interact in time and space* (*ibid*.). No single method, in isolation, can begin to satisfactorily capture the complexities of the complexes of production, distribution and exchange which comprise a housing system and, therefore, this study endeavours to integrate both qualitative and quantitative methods into its historical methodology.

As well as drawing upon archival material, rare monographs, pamphlets, and accounts from key actors within Sweden's housing and finance systems (both historical and contemporary), I also rely heavily on longitudinal data series and analysis, supported (where appropriate) by cross-sectional descriptive statistics. These data series are harmonised and have been selected in order to chart the long-term development of Sweden's housing and finance systems, and their interactions, through time. I have already emphasised the importance of understanding the means by which housing finance is mobilised, and *by whom*. As such, particular analytical emphasis is placed on the flow and direction of housing credit on both the demand- and supply-side; its sources; its evolution through time; and how changes in credit market dynamics relate to patterns and trends in construction, tenure composition and household debt.

Whilst not immutable, housing systems are inherently *sticky* (Weber and O'Neill-Kohl, 2013). Put differently the logics and norms which actors within housing systems continuously produce and reproduce, are structured by *societal power balances* which have a tendency to change but sluggishly. As Evelyne Huber & John D. Stephens (2001, p. 30) note: '…the distribution of preferences […] cannot be read off existing policy arrangements, societal power balances, and production regimes on a one-to-one basis. *They are also in part the historic creation of past struggles*' (Huber & Stephens, 2001, p. 30). Indeed, this chimes with Karl Marx's famous remark that: *Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past* (Marx, [1852] 2008, p. 1). This describes the ontological essence of path-dependence.

One must be prudent with such a framework, however. Many scholars have fallen into the trap of assuming that path dependence creates almost immutable logics. Epsing-Andersen (1996, p. 24), for instance, argues in relation to the effects of global restructuring on welfare states that, '…in most countries what we see is not radical change, but rather a "frozen" welfare state landscape'. This is an example of strong path dependence (Matznetter and Mundt, 2012, p. 277), and adherence to the idea of *frozen* institutional landscapes (particularly in relation to the housing and welfare regime literature which Kemeny's work personifies) might help to explain why the scholarly contributions reviewed in the previous section struggle to accommodate or, in some cases, even recognise contemporary housing system change.

Only very rarely will an urban housing system change beyond recognition within the purview of one generation, principally because the physically and spatially fixed nature of a housing stock itself creates powerful legacies (Blackwell and Kohl, 2018b). However, housing systems change nonetheless, and it is important to stress here that even though elements of a housing or finance system may, *prima facie*, look similar throughout time (particularly at the institutional plane), the manner in which actors relate to these systems changes. While, as Bo Bengtsson and Hannu Ruonavaara (2010, p. 193) note: 'A housing stock produced during several decades, sometimes hundreds of years, of building activity creates *a powerful historical heritage*', this rarely produces a *frozen landscape*.

Following Bengtsson and Ruonavaara, this thesis ascribes to a *weak concept of path dependence*, the dynamics of which they describes thus: 'The general idea behind the concept is that if the historical development takes one direction at one point in time, certain, otherwise feasible, alternative paths will be closed – or at least difficult to reach – at a later point' (Bengtsson and Ruonavaara, 2010, p. 193). What this implies practically is that, while certain features of housing system *x* might be attractive to housing system *y*, importing features from *y* to *x* will not necessarily translate into the outcome envisaged, because the social context (i.e. *the distribution of preferences*) and the fulcrum around which sectoral and class dynamics and conflicts express themselves will create different logics, processes and outcomes. As Josef Schumpeter once famously claimed (expediently in relation to Sweden), '…it is so absurd for other nations to try to copy Swedish examples … the only effective way of doing so would be to import the Swedes and to put them in charge' (Schumpeter, 2013, p. 325).

Schumpeter's characteristically sardonic comment here highlights an important point; that social and historical specificities bring about unique and contingent outcomes (intended or otherwise). The German housing scholar, Stefan Kofner (2014, p. 256), relates this logic to the principles of housing system development, arguing that '…the formal and informal institutional arrangements which have developed over time play an important role in explaining the structure of housing systems and in the way ''external'' developments influence them'. External influence could come in a variety of forms, ranging from ideology and political upheaval through to financial innovations and geopolitics.

That policy makers, lobbyists, academics or practitioners may have been inspired by 'neoliberal practices' which may (or may not) have originated outside of their national setting, is not to say that the transmission and fusion of these ideas and practices onto a different context will produce the same (or even similar) effects; and even if they do, the process of implementation will differ. This is simply because said effects will be conditioned by the *distribution of preferences* via the existing socioeconomic and institutional edifices which may (or may not) be conducive to said intentions or ideas. In other words, policy makers and actors within housing systems principally do not tend to *reinvent the wheel*. This is true not only of ideas and policy, but also of housing finance.

This leads me to the definition of a *housing finance system*, which I have left conceptually unchecked thus far, and how these systems interact with housing systems. In its most basic sense, as Peter King notes,

> [h]ousing finance is what allows for the production and consumption of housing. It refers to the money we use to build and maintain the nation's housing stock. But it also refers to the money we need to pay for it, in the form of rents, mortgage loans and repayments (King, 2009, p. 3).

Housing finance (even in the absence of formal financial intermediation) is central for the production and consumption of housing in contemporary urban societies. King makes an important distinction here, in that he recognises that housing finance has implications for both housing demand *and* supply. Changes in the constitution of finance, then, necessarily affect both consumers *and* producers. When analysing *the complex of actors that are involved in housing*, then, we need to acknowledge that financial actors and the institutions in which they operate are inextricably part of these *relationships and interactions* on both the demand and supply-side.

Kemeny's core insight that the compositional organisation of a country's rental market has profound implications for tenure choice and, consequently, borrowing decisions, is important and will be taken forward in this thesis. However, by adhering so strictly to his hypothesis concerning the relationship between welfare and housing, and how declines in welfare will necessarily transform countries such as Sweden into *monotenural (sic.) home owning societies*

(Kemeny, 2005), he obscures the role of housing finance in shaping the very transformations his theory attempts to account for. The task going forward, then, will be to demonstrate how, by taking this dimension seriously, and historically couching housing system developments within their *broader economic and political contexts*, a thoroughgoing analysis of the interactions between housing and finance systems can augment our understanding of housing development.

This thesis seeks to explore how housing systems evolve historically in tandem with phases of financial development, and to explore how (more contemporarily) an era of so-called *financialisation* is reshaping housing in Sweden, producing a system, which, today, leaves households laden with debt and enormous financial risk; and which, concurrently, enables developers to build lower volumes of housing than ever before, at high marginal rates of profit. It is important to note that the argument here is not that finance determines housing outcomes *per se*. The causal relationship here is not linear in the direct sense that $A \rightharpoonup B$, but rather $A \rightleftharpoons B$. Thus, A is both derived and constituent of B. This is not to say that one can simply read off financial developments and predict their effects on housing systems in each and every national context with any great degree of certainty, however. This is, fundamentally, because finance is not exogenous to housing system development, but endogenous. Even if a system of housing finance is 'transplanted' from one institutional context to another (which happens relatively rarely in Western housing systems), as was the case when Sweden first developed its bond-based mortgage banking structures (akin to the German *Landschaften* during the early- to mid-nineteenth century), the machinations of housing finance will be filtered through the pre-existing socioeconomic, sectoral and political edifices which constitute national housing and finance systems and will, thus, not necessarily create the same outcomes.

1.3. *Concluding Comments*

There is a marked lack of knowledge about housing finance systems

Mark Boleat (1985, p. 483)

In this chapter, I sought to constructively engage with a broad range of literature pertaining to developments in Swedish housing and finance over the past three decades, and to explore how housing scholars and economists have attempted to account for contemporary housing and finance system change. I found, throughout this engagement, three problematic tendencies. First was the proclivity of housing scholars to derive much of their explanatory power from loosely defined concepts such as neoliberalism and financialisation. Second, was the notion that the logics of housing system development are derived (to greater or less degrees) from the composition of a country's welfare state regime (if the welfare state changes, the housing systems change, or *vice versa*). Third, in line with Christophers' & Aalbers' (2014) findings, I found that there is a propensity for housing scholars and economists alike to treat the spheres of housing and finance as discrete categories. These inclinations, I argued, preclude scholars from *joining the dots*, and understanding how the constitution of housing finance influences housing system outcomes, on both the demand- and supply-side.

I established strict criteria of relevance for assessing these contributions, based on Harloe & Martens' (1984) indictment of the field of housing studies over thirty years ago and found that, with the exceptions of Schwartz & Seabrooke's and Christophers' analyses, most tended to theorise housing developments *according to purely internal dynamics*. Despite this, it bears noting that every scholar I engaged with here has provided valuable insights into contemporary developments in Swedish housing. Kemeny's analysis provides an important framework for understanding the relationship between tenure structures and households' preferences. Andersson & Magnusson Turner (2014), and Hedin et al. (2012), too, have provided rich analyses and novel datasets for observing patterns of segregation, and, likewise, the works of Schwartz and Seabrooke (2009) and Brett Christophers (2013) have helped to reposition the debate about the role and function of housing research within the field of political economy. Finally, the contributions from the field of economics allowed us to examine financial transformations, which the aforementioned housing scholars and political economists largely ignored.

The role of this chapter, then, has been to highlight why ignorance of the sphere of finance in housing scholarship can be so problematic for our understanding of housing system outcomes. As my analysis illustrated, the above lamentation by Mark Boleat about the *marked lack of knowledge about housing finance systems* seems, unfortunately, as accurate today as it was over thirty years ago. Political economists and housing scholars far too frequently conflate the growth of households' mortgage related debt with the growth of securitisation in incongruous contexts (Montgomerie and Büdenbender, 2015)[38], such as those where residential mortgage backed securities (RMBS) are either absent, or only comprise a relatively minor share of total outstanding mortgage debt (Fernandez and Aalbers, 2016), or claim, as Schwartz & Seabrooke do, that state financial controls and regulations that were abolished over twenty years ago still exist and bear influence over household borrowing today. Through these engagements, this chapter has sought to demonstrate how, by viewing housing and finance systems as discrete spheres of activity, so many housing scholars fail to appreciate how the constitution of housing finance systems is integral to housing systems outcomes.

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[38] In this paper, the authors argue, in relation to the United Kingdom, that 'the financialisation of housing signalled an important transformation; securitisation fundamentally re-shaped the socio-economic landscape […] and the politics of homeownership directly linked the domestic political economy to global financial flows through secondary mortgage markets' (Montgomerie & Büdenbender, 2015, p. 388). This assessment, however, only really applies to the USA, where RMBS comprise over 70% of outstanding mortgages. Applying such logic to the UK is flawed, as deposits are still (by far and away) the main source funding for mortgage origination. Indeed, here, the share of RMBS in residential mortgage debt outstanding is less than 20% (EMF, 2016).

Further to my review of literature, I advanced a theoretical lens for understanding the interaction between the spheres of housing and finance through time, drawing upon the concept of path dependency. It has not been my intention to create a deterministic logic of financial system influence on housing. More, the general argument here is that developments and innovations in finance create possibilities which translate into housing outcomes in various ways. These outcomes will empower certain actors, but they will also inevitably disempower others. This can create the impression that housing finance can act as a *structure* which reinforces and entrenches inequalities within housing systems. This is partly true, but not necessarily so. Housing finance systems are not *structures* with inherent determining logics *per se*. More, they provide the *means* for certain actors to promote their interests over, and often at the expense of, others. Knafo notes:

> When we focus on the restrictive nature of structures we limit ourselves to only one side of a social relation. What appears to be the product of structural constraints is always a product of agency when properly resituated within a social relation that takes into account the power of another actor exploiting these structural constraints (Knafo, 2010, p. 504).

At all times, the state will try to negotiate these processes and power dynamics, but, as this thesis will make abundantly clear, the state is not the only player in town. Finance affects both the demand and supply side of a housing system in different ways, and it is at the intersection of the housing supply, demand (as well as the role of institutional governance in mediating this therein), where the body of the analysis in this thesis lies.

Chapter II. *Great Transformations: Housing, Finance, the State, and Civil Society, c. 1860 – 1930*

Few developments during the century preceding the First World War were more dramatic than the population growth. It was a development which completely revolutionized the conditions of human life

Eli F. Heckscher, 1954

2.0. *Introduction*

The purpose of this chapter is to return to the historical record in order to understand how a remarkable period in Swedish history shaped the institutional forms of housing and finance still recognisable in Sweden today. I explore how seismic demographic change, incremental advances in municipal power and state capacity, credit dynamics, and social struggle, concatenated to produce a housing system quite distinct from others in Western Europe. This chapter begins the historical survey of the co-evolution of housing and finance systems in Sweden exploring, arguably, the most dramatic period of socioeconomic transformation in modern Swedish history. Using secondary sources, historical accounts and archival material, I develop the actor-oriented path-dependency framework outlined in the previous chapter and, in methodological complementarity, analyse novel datasets, with the aim of providing a broader, and (to my knowledge) more detailed empirical survey of housing and finance system development during the late-nineteenth and early-twentieth centuries than has been attempted hitherto in Swedish housing scholarship.

The period under investigation encompasses an industrial and financial revolution, which transformed Sweden from an agrarian economy (reliant upon informal domestic credit relations and primary goods exports) into a northern European economic powerhouse; producing corporate dynasties, which continue to play significant roles in the industrial and financial landscapes of Europe today[39]. From the mid-nineteenth century to the early-1930s, Sweden was one of the fastest growing economies in the world; with a per capita income growth rate higher than anywhere else in Europe (Chang and Kozul-Wright, 1994, p. 865). In, 1860, only two countries in Western Europe had lower levels of real per capita income than Sweden: Norway and Finland. By 1930, however, Sweden's national per capita income was similar to that of France's and Germany's (Maddison-Project, 2013).

The accompanying scale and pace of Sweden's financial development was no less

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[39] These include Astra (now a constituent of Anglo-Swedish firm Astra-Zenica); Electrolux; Ericsson; Volvo; Scania; and Skanska.

dramatic. In the space of forty years (1870-1910) bank-based lending expanded over sevenfold (Nygren, 1985; Lindgren, 2002), superseding the informal credit sector as the main source of credit supply. The scale and pace of industrial, financial and urban development within this period was nothing short of phenomenal and had far reaching socio-economic and politico-institutional ramifications. Undeniably, as Eli F. Heckscher noted, Sweden's *great transformation*[40] 'revolutionized the conditions of human life' (Heckscher, 1954, p. 254); inexorably transforming housing and the built environment and creating financial and urban legacies which are visible to this day.

Surprisingly, however, contemporary scholarship relating to Swedish housing system development generally pays little attention to this period beyond descriptions of general housing conditions[41]. Consequently, such analyses ignore the formative role that industrialisation, rapid demographic change, and augmentations in state and municipal power, played in shaping housing and finance system development. Wherever reference is made pre- and interwar eras, analyses are all too often terse[42], and tend to serve as neat accoutrements to particular analytical narratives, which fit broadly with the late-twentieth and early-twenty-first century views of housing in Sweden. These narratives (tacitly or otherwise) permeate many of the analyses I reviewed in the previous chapter, inasmuch as housing scholars tend to view the twentieth century Swedish housing system, prior to the so-called *neoliberalisation* of the 1990s, as a product of Social Democratic political hegemony. Kemeny goes even further, claiming that, 'The outstanding – almost unique – characteristic of the urbanisation of Sweden was that it took place under a powerfully entrenched labour movement, represented by the Social Democratic party' (Kemeny, 1992, p. 129). This view, I argue, is highly misleading.

The notion that an urban working class and the formation of an 'entrenched labour movement' could have emerged prior to, or outside of, the process of industrial urbanisation runs contrary to the historical record. The scale, timing, and pace of industrial urbanisation during the mid-nineteenth and early-twentieth centuries conditioned the processes and forms of urbanisation which, in turn, precipitated the so-called 'entrenched' labour movement, of which the Social Democrats were a central part, not *vice versa*. While the political hegemony of the Social

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[40] Chapter six of Eli F. Heckscher's celebrated monograph, *An Economic History of Sweden,* is entitled 'The Great Transformation'. This is no-doubt a nod to Karl Polanyi's *The Great Transformation,* written some ten years earlier. I borrow this formulation in the title of this chapter.

[41] These descriptions are, of course, important. But they should not obfuscate other housing system developments. As Henning Bro notes of housing scholars' attention to developments prior to the Second World War that, '[i]n general you will find that housing conditions both within the private tenement constructions and in the earliest forms of building and housing societies from the last half of the 19th century and the years before World War I are well described in both domestic and, especially, in Western European research. But this is not the case as regards the public authorities' political housing initiatives, both before World War I and particularly in the years afterwards which, especially in Denmark, has been a rather disregarded field of research' (Bro, 2009, p. 3)

[42] There are notable exceptions here, chiefly any article by Bo Bengtsson (B. Bengtsson, 2004; Bengtsson *et al*., 2006; Bengtsson and Ruonavaara, 2010; Bengtsson, Ruonavaara and Sørvoll, 2017) and Claes Ramberg (2000).

Democrats during and (particularly) following the interwar years undoubtedly played an important role in Swedish housing system development (see Chapters III & IV), this role should be seen as one played *in medias res* in the *longue durée* of the evolution of housing and finance systems in Sweden. To argue that the Social Democrats, '…influence[d] the direction in which the urbanisation process could develop' (Kemeny, 1992, p. 134), is thus highly problematic, as such a position ignores developments in housing and the built environment prior to the 1930s, where some of the most rapid rates of urbanisation occurred! Indeed, by the time the Social Democrats formed their first full-term minority government in 1932, nearly 50 per cent of Swedes lived in areas considered urban[43], and nearly one third of the population lived in towns and cities with over ten thousand inhabitants (SCB, 2011, p. 4).

This problematical historical oversight is present in much housing scholarship relating to Sweden, leading to an associated, problem: the apparent willingness of scholars to systematically underplay the role of the state (both nationally and locally) prior to the era of Social Democratic hegemony[44]. Many scholars assume the contemporary 'social market' housing system in Sweden to be a product of this unprecedented era of political hegemony (see: Kemeny, 1982; 1992; 1995; Hedin et al., 2011; Andersson, 2014), and while, unquestionably, important features of the Swedish *social market* housing system emerged and crystallised under the stewardship of the Social Democrats, maintaining such a position obfuscates key social and institutional transformations during the pre-WWI and interwar years, and the role of the state therein. In this chapter, I take my lead from Bo Bengtsson and Hannu Ruonavaara (2010), who argue that *the formative period* of housing system development in Sweden occurred in the decades leading up to the Second World War. They note:

> When comprehensive programmes of housing policy were introduced after the War it was often seen as efficient (or even taken for granted) that *the already existing, if still undeveloped, organizations and institutions should be utilized to implement the new programmes* (Bengtsson and Ruonavaara, 2010, pp. 197–198, *emphasis added*).

Understanding the forms and institutional configurations of housing and finance *before* the World Wars is thus vital to our understanding of housing policy developments subsequently. The notion that the Social Democrats could transform the Swedish housing system upon assuming office and direct the processes and forms of urbanisation *carte blanche* is, I argue, to inflate the agency of the social democratic state.

So far, we have encountered two problematic positions within Swedish housing scholarship. First, that the *social market* housing model in Sweden was generated and orchestrated

[43] The Swedish definition of urban since 1960 relates to built-up areas with no more than 200 meters between dwellings and at least 200 inhabitants (SCB, 2011, p. 3).
[44] This era ran almost uninterrupted from 1932 right through to the mid-1970s. In no other Western democracy has one party been in government for so long.

by the Social Democrats, as they were elected early enough in Sweden's rural-urban transition to dictate the condition and form of the Swedish housing system. Second, that the period before the Second World War is unimportant in exploring the housing system development of the latter half of the twentieth century because the state's role was ostensibly nominal. This leads us to a third, and arguably more ingrained, problematic viewpoint: the analytical juxtaposition of the pre-War *passive liberal state* with that of the post-War *active social democratic state*.

This view holds that the state was somehow a passive agent in the Swedish housing system prior to the age of Social Democratic political dominance[45]. The core assumption here is that liberal governance is somehow *hands-off* and passive, whilst the reverse is true of social democratic governance. Ruonavaara, notes that, 'Before the Second World War Swedish housing policy was *rather limited in nature*' (Ruonavaara, 2005, p. 221, emphasis added) and, in so doing, makes a distinctly normative assessment. I argue that only a very circumscribed definition of 'housing policy' could warrant such an appraisal. Limited, perhaps in terms of active state-led construction of housing (although the state and municipalities began to take an active role in this regard by the 1920s and, arguably, even as early as the 1910s), but the state's involvement in housing and finance was substantial nonetheless[46]. The notion of a *passive state* prior to the Social Democrat's political dominance, then, is misleading and ignores the enormous build-up in municipal power, state capacity, and the state's role in the extension of housing finance during this period. Indeed, intellectual adherence to the *social market-liberal dichotomy* is, I argue, difficult to reconcile with the historical record.

As I explore, typifying forms of housing tenure such as public housing (*allmännyttan*), housing cooperatives (*bostadrätter*), and state sponsorship of housing finance all predate the era of social democratic hegemony. There are three main components to my argument here. First, I claim that state involvement in the Swedish housing finance system from the mid-nineteenth century onwards played a central role in the propagation of an organised housing finance system and that, from the start of the twentieth century, the central state's role was crucial in shoring up urban mortgage markets, bolstering credit supply, and extending credit to previously marginalised socioeconomic groups. Second, I argue that municipalities had an *active* influence on housing and the built environment in urban areas during the late-nineteenth and early-twentieth centuries, and that local authorities' role in promoting affordable housing (both cooperative and *semi-municipal*) was well established *before* the 1930s. Third, I argue that it was broad-based social coalitions within civil society that brought forth successful housing cooperatives, not state-

[45] Sölvi Blöndal (2015, p. 6), for instance, argues that, between 1870-1935, '…the [housing] market was virtually free of regulation'.

[46] As Henning Bro (2009, p. 13) notes: 'While political science and historical research into the welfare state has characterized rather unequivocally the Northern universalistic welfare state of the post-war period which was developed during the years 1945 to approximately 1990, the research has been more cautious in characterizing in detail the form which the state assumed from World War I on and during the inter-war period'.

orchestrated housing policy in the first instance[47]. To ignore this period, then, is to ignore the social struggles and collective socio-economic and institutional processes which gave rise to the distinct forms of housing tenure which, stylistically at least, came to define Sweden's *social market* housing model during the latter half of the twentieth century.

The chapter is structured as follows. I begin by extending the purview of investigation slightly beyond the period stated in the chapter title in order to contextualise Sweden's industrial urbanisation and general financial system development. Following this, I explore the era of phenomenal urban growth, emigration, and crisis in the late-nineteenth century, and interrogate the socio-institutional and regulatory transformations in planning, housing, and finance which helped to determine the shape and form of urbanisation on both the demand and supply side in Sweden's cities. Next, I examine the growth of municipal capacity and the central state's financial support therein prior to the First World War. I then focus on the turbulent years of the Great War, and its legacies, and how housing policy (locally and nationally), the cooperative and union movement, and the state-sponsored mortgage banks helped to underpin a system of housing which is still recognisable today.

2.1. *Land reforms, agrarian finance, population growth, and the emergence of a rural proletariat*

In order to contextualise Sweden's *great transformation*, this section explores agrarian transformations which would have significant ramifications for Sweden's entire industrial and financial development, as well as the patterns and forms of the rapid urbanisation and mass migrations we witness from the 1860s onwards.

Land reforms in Sweden during the late-eighteenth and early-nineteenth centuries were central in reconfiguring property rights and, consequently, the conditions of rural and (later) urban life. The enclosure of common land throughout the late-eighteenth and early-nineteenth centuries had far-reaching implications, engendering new classes of people (*squatters*); the disintegration of traditional village communities (Fridlizius, 1979, p. 7); a wage-labour nexus (*ibid.*); and, ultimately, the *proletarianisation* of vast swathes of Sweden. It is to these reforms that I turn now in order to understand how the actions of a coercive state in an era of rapid rural population growth transformed the conditions of rural life and, in turn, how templates of agrarian finance which emerged during this period would have profound implications for developments in housing and finance in Sweden's towns and cities throughout the nineteenth century and beyond.

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[47] Indeed, the *take-off* of cooperative housing associations emerged as a result of the abolition of rent controls after the First World War (a policy supported by certain tranches of the Social Democrats) and, thus, much of the impressive expansion of cooperatives during the 1920s was *in spite* of the state's efforts, not because of them.

Land reforms: opportunity and incentive, or displacement and dislocation?

According to the Swedish industrial economist, Andreas Bergh (2014), the institutional impetus underlying Sweden's *Golden Years* (1870-1970), can be attributed to land reforms, which emerged first in the southernmost region of Skåne during the mid-eighteenth century, but which culminated nationwide in the Redistribution Act (*Laga Skifte*) of 1827[48]. These developments, he claims, are a '…natural starting point for describing institutional reforms in Sweden' (Bergh, 2014, p. 9). Bergh here draws upon an intellectual tradition, of which the economic historian Eli F. Heckscher's work is the most renowned. In his seminal monograph, *An Economic History of Sweden* , Heckscher relates the land reforms in Sweden during the early-nineteenth century to the experience of enclosures in England some two centuries earlier, arguing that the process in Sweden was *less painful* and *lengthily*. He notes that, in England, '…there was a strong attraction for the rural population of the rapidly growing industries in the cities', adding that, '…one of the main causes of the disappearance of the peasants was simply that *industry offered them better terms*' (Heckscher, 1954, p. 160, emphasis added). This ostensibly did not occur in Sweden to the same extent, because the *inducements* for flight from the countryside were weaker (*ibid*.). Intriguingly, Heckscher also suggests that the consequences of the Swedish land reforms were benign: 'Neither a flight from the land nor a decrease in the small farmers' holdings occurred in Sweden' (*ibid*.).

While the observation that the process of enclosure in Sweden was more temporally compressed than in England, and that there was no sizable reduction in the number of small farmers hold empirically, Heckscher's analysis is problematic. While he acknowledges that, to the rural poor, '…the loss of security and mutual help in the village community [following the dissolution of the commons] must have been a severe blow' (Heckscher, 1954, p. 162), his framing of these processes within the neoclassical parlance of *inducements,* and his underplaying of the deleterious effects of these reforms, is questionable when we confront his assumptions with archival evidence. The following extract, taken from an article written in 1907 by agrarian land reformer Johan Hansson, on the topic of land reforms in the previous century, is worth citing at length:

> In our country […] we find ourselves coming up against the same momentous fact, that *the growth of the towns and the blossoming of big industry originated in the countryside, with its unjust system of private land ownership*. Everywhere the same fact stares us in the face. *As a result of the short-sighted legislation and the power bestowed upon the big land-owners by the rights of land ownership, the rural population has been proletarianised*. Any possibility the propertyless [sic.] farm worker has had to become independent of the land-owner and the dreaded workhouse […] has been taken away from him. This he has done all he can to find

[48] The region of Skåne had been at the forefront of the Swedish land reforms, with most arable land enclosed by 1815 (Gadd, 2011, p. 152).

> himself a better life either on the other side of the Atlantic or in the towns (Johan Hansson, 1907; translated in, Öhngren, 1981, pp. 206–207, *emphasis added*).

Hansson eloquently explores several interrelated themes here. What concerns us presently, however, is: first, the link between private land ownership and the proletarianisation of rural populations; and, second, the notion that land reforms may have contributed to the rapid urbanisation and mass migrations of the latter half of the nineteenth century.

The land reform Acts of 1803 (*Enskifte*) and 1827 (*Laga Skifte*), in essence, allowed for a single landowner or 'market-minded' peasant to have an entire village enclosed, as Gunnar Fridlizius notes: "A few peasants could now, if they so desired, force through enclosure and disintegration of villages" (Fridlizius, 1979, p. 7). Thus, the impact of the reforms in the early-nineteenth century, by parcelling off land holdings, and consolidating strip farms into larger units, was to *dissolve village communities* (Magnusson, 2002, pp. 17–18); an outcome which can hardly be considered benign. While some peasants were receptive to these reforms (Rydén, 2013, p. 78), there was staunch resistance in certain regions[49]. Further, while it could be argued that the land reforms increased the relative power of the peasantry (Kananen, 2016), they also assisted in producing 'social differentiation' and a class of 'non-landowning rural proletariat' (*ibid*.); a situation that was exacerbated in an era of robust rural population growth (Hoppe and Langton, 1994, p. 80). These reforms, then, were imposed upon rural communities by an autocratic elite, with the support of a small cadre of burghers and 'entrepreneurial peasants', who sought out advantage where it presented itself in the form what was, in practice, state sponsored land-grabs.

Following *Laga Skifte*, agricultural output increased, and agricultural land wealth bucked general Western European- and American-wide trends; increasing over several decades relative to national income, before returning to a general, European-wide, downward trajectory later in the century (Ohlsson, Roine and Waldenström, 2013, p. 39). Neoclassical economists such as Heckscher and Bergh, would argue that this provides resounding proof that the reforms were able to unlock the nascent entrepreneurial zeal of the hitherto trammelled peasant classes, inducing productivity gains and greater societal wealth benefits. In one sense, they are not wrong. However, as with any process of social change, there were winners and losers and, as such, scholars should be mindful of relegating the deleterious effects of political reforms in order to promote the beneficial outcomes. With this in mind, I now explore the financial *means* by which certain classes of peasants and burghers were able to reap the benefits of these reforms. Here I attempt to understand how agrarian financial innovation furthered *social differentiation* and, crucially, assess the legacies of these innovations.

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[49] This was particularly the case in the county of Dalarna, where, as Lars Magnusson notes, '…there was no land redistribution in some of the villages in this area until well into the twentieth century' (Magnusson, 2002, p. 17).

Figure 2.1. *Agricultural assets as a share of national income, 1810–1930*

Source: Waldenström, 2015

The Mortgage Associations

In the context of rapidly increasing agricultural production, land productivity and population growth during the late eighteenth and early nineteenth centuries (Bengtsson, 2004, p. 143), the aforementioned land reforms were followed by an upsurge in land prices, which partly explains the trajectory we observe in Figure 2.1 between the late 1830 and the early 1860s. This, in turn, created a growing demand for mortgage credit among agrarian communities (Gadd, 2011, p. 161)[50], and it is during this formative period of agrarian development that we witness the emergence of two very distinct types of financial institution: the *rural mortgage associations* and the *savings banks*. The emergence of these institutions would shape the development of the Swedish financial system henceforth and resonate in the sphere of housing finance in Sweden's towns and cities for over a century and a half to come.

A mere six years after *Laga Skifte*, developments in Sweden's southernmost region of Skåne would revolutionise Sweden's financial system and have huge ramifications for the future development of Sweden's housing finance system. In 1833, Carl Adolf Agardh, a professor of economics and botany in Lund, published a pamphlet entitled *'Om möjligheten af*

[50] The Swedish central bank played a minor role in extending credit to agrarian communities during the early stages of the nineteenth century, but this role was short-lived (Andersen, 2011; Gadd, 2011).

hypoteksinrättningar för provinserne och synnerligen för Skåne'[51]. This pamphlet led to the foundation of *Skånska hypoteksföreningen* in 1836 (Lindström, 1986); Sweden's first bond-issuing mortgage association. Based on the principles originally proposed by Count Frederik Bogislav von Schwerin in 1815, who had wanted to establish a Prussian-style *Landschaften* system (Andersen, 2011, p. 154), *Skånska hypoteksföreningen* created the blueprint for similar associations throughout central and southern regions of Sweden over the ensuing two decades[52] (Lindström, 1986, p. 10) and, alongside the savings banks, played a major role in the growth of the agricultural sector following the enclosures (Nygren, 1985; Schön, 2012, p.38)

The mortgage associations relied upon the emission of bonds in order to originate mortgages, at first domestically, but later, increasingly abroad. The *Skånska hypoteksförening* limited its membership to owners of rural property valued at a minimum of 3,000 kronor and, thus, as Pontus Hansson and Lars Jonung (1997, p. 281) note, '[t]he main recipients of their credits were the owners of large- or medium-sized tracts of land, engaged in commercialized and export-oriented farming'. By focusing on wealthier landowners, the associations were able to reduce transaction costs (*ibid.*) and mitigate against risk, but this meant that small landholders (as with the Prussian *Landschaften*) were actively discriminated against (Andersen, 2011, p. 154; Blackwell and Kohl, 2017). For those able to obtain mortgage credit from these institutions, however, the terms were attractive. The loans were long-term and, intrinsic to this model of mortgage lending, was that the need for profit maximisation was absent[53]. Indeed, as a government report from 1935 noted, 'the mortage institutions in our country have, for a long time now, provided the nation's famers with more favourable loan terms than those available to famers in foreign lands' (Landshypotek Bank, 2016, author's translation).

This model of agrarian mortgage banking would ultimately lead to the creation of a centralised, bond-issuing mortgage bank, *Sveriges Allmänna Hypoteksbank* (Sweden's General Mortgage Bank), in 1861. Created by an act of parliament *Sveriges Allmänna Hypoteksbank* established a common lending institution for the existing mortgage associations (Andersen and Kauko, 1996) and was supported by upfront capital from the state (*grundfond*) in the form of government bonds (*statsobligationer*) (Lindström, 1986, p. 15). The bonds were guaranteed by the state (Lundström, 1991, p. 185) and, as Stefan Andersen (2011, p. 154) notes, 'The intention was that bonds issued by the *Hypoteksbank* should resemble government bonds as much as possible'. These measures were, in no small part, to make them desirable on foreign exchanges. While the process of consolidation met some resistance, not least from *Skånska hypotkesföreningen* (Lindström, 1986, p. 13), this proved relatively ineffectual to the eventual

[51] 'About the possibilities of mortgage associations for the provinces and particularly for Skåne'. Author's translation.
[52] Östgöta, Smålands, Mälarprovinsernas, Örebro, Wermland and Älvsborg (Lindström, 1986, p. 10).
[53] 'The new mortgage associations offer long-term loans without the need for profit maximisation (Landshypotek Bank, 2016, author's translation).

outcome of a more centralised system of mortgage associations. The Royal decree stated that the Chairman of *Sveriges Allmänna Hypoteksbank* was to be appointed by the King, the Vice Chairman of the board was to be designated by Sweden's National Debt Office (*Riksgäldsfullmäktige*), and the three other positions on the board were to be drawn from members of the regional associations (Lindström, 1986, p. 15).

Sveriges Allmänna Hypoteksbank was then, to all intents and purposes, a state-controlled Public Mortgage Association, created in order to mobilise long-term capital for Sweden's agrarian landowners, at favourable terms. Importantly, it set a precedent for state-sponsored mortgage lending in the decades to come; first with the rather inconsequential *Allmänna hypotekskassan för Sveriges städer* in 1865[54], and later, with the establishment of *Konungariket Sveriges stadshypotekskassa* in 1909. The latter, as I explore in Section 2.4, would play a central role in urban mortgage credit expansion.

The Savings Banks

Contemporaneously, during the first half of the nineteenth century, a very different type of financial institution was beginning to flourish. Sweden's first savings bank was established in 1821 (*Göteborg Sparbank*) by a Prussian merchant in Gothenburg (Andersen, 2011, p. 154). Whilst the initial development was slow, these deposit-based institutions began to make headway during the 1830s and 1840s, and their absolute numbers grew over six-fold between 1840 and 1900. Steffen E. Andersen characterises their management as 'amateurish, sloppy and sometimes even fraudulent' (Andersen, 2011, p. 152) but, irrespective of their firm-level structure, by the 1860s, the combined deposits in Swedish savings banks exceeded those of commercial banks.

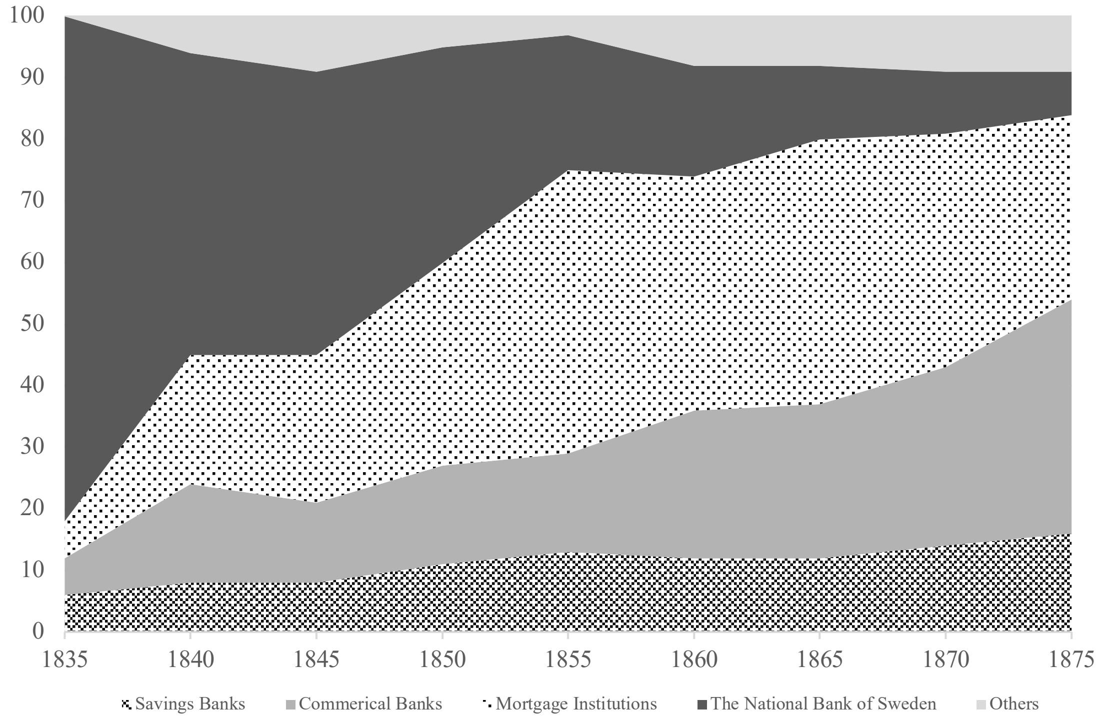
Due to the local nature of these institutions assets and liabilities, they constituted *special circuits of capital* (Blackwell and Kohl, 2018a) which were, according to Andersen, 'of little use for the purpose of financing major projects' (Andersen, 2011, p. 153). This had implications for housing and the built environment in areas where they became embedded. These institutions would play an increasingly important role in extending mortgage credit as the nineteenth century wore on, and served as a means of mobilising mortgage loans within local communities (*ibid.*), often, offering more favourable conditions to agrarians than commercial or mortgage banks (Rodriguez and Andersson, 2011, p. 36).

Unlike the bond-based mortgage institutions, the savings banks were not uniform in their lending patterns, as Tom Petersson (2000, p. 28) notes, '[s]ome lending against security of goods dominated totally, in others lending against real estate mortgages dominated'. Further, while this

[54] Forsell (2006, p. 150) notes that, '[t]his credit institution was never a significant factor and towards the end of the 1880s ceased providing loans'.

was not uniformly the case throughout the country, compared to the mortgage associations, savings institutions were slightly less exclusive, and by 1900, savings banks had a share of the institutional mortgage market of over 10 per cent (see Table 2.1). Figure 2.2. (below) shows the compositional development of the Swedish *formal* credit market as a whole between 1835 and 1875. While it does not disaggregate mortgage lending, it still illustrates the growing relative importance of the mortgage associations and the savings banks.

Figure 2.2. *The Composition of the Institutional Swedish Credit Market, 1835-1875 (% share)*

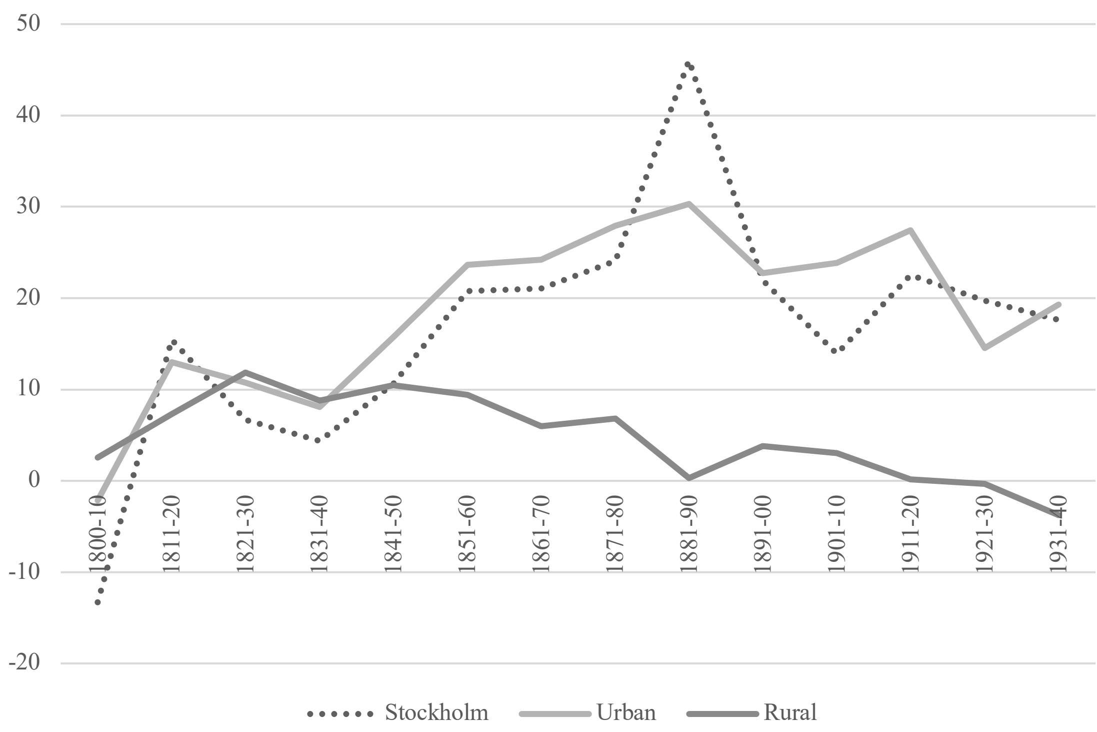


Source: (Nygren, 1985, p. 140)

The growth of both the savings banks and the mortgage associations should be viewed in the context of the land reforms initiated during the early nineteenth century. The land reforms provided a boon to wealthier rural inhabitants, who were able to mobilise capital using new institutional conduits. Some of this filtered down to small landowners, but, on the whole, both the savings banks and (especially) the mortgage institutions generally ignored peasant farmers. It is difficult to quantitatively gauge precisely the extent to which the growth trajectories of these institutions were causally related to the land reforms of the previous decades, but the increase in agricultural land prices (which were part of a longer-run trend) and the growing demand for credit following *Laga Skifte* certainly created the opportunity for landowners of means to exploit the abolition of the open field system and to exchange and consolidate strips using new financial flows.

The Land Reforms of the late-eighteenth and early-nineteenth centuries were part of a series of processes which would revolutionise agrarian life in Sweden. New forms of finance developed in the process which would have enduring significance for Sweden's urban development henceforth. However, the majority of the rural poor, who were unable to exploit the opportunities offered by the land reforms, suffered as a result. Fridlizius notes that, '…rapid population growth and proletarisation during the enclosure period meant a worsening economic situation for the large groups of rural population who did not produce for the market or enough for their subsistence' (Fridlizius, 1979, p. 33). This created very powerful imperatives for the burgeoning rural landless poor. Figure 2.3 demonstrates the extent of the remarkable demographic change in Sweden and gives the reader some insight into the sheer scale and pace of urban population growth.

Figure 2.3. *Annual population increase per decade (% change), 1800-1940*



Sources: SCB, 1929, p. 4; SCB, 1969; and author's own calculations.

It is against the backdrop of radical changes in property rights earlier in the nineteenth century, and burgeoning rural population growth, that agrarian financial development and rapid urbanisation in Sweden should be viewed. Significantly, the state accrued benefits from these reforms. This was an epoch where the chief source of state income was derived from land and property taxation (Stenkula, 2014, p. 5), and these reforms, in combination with rising land prices, thus helped to yield significant revenues. By turning common land into private land and Crown tenancies into freeholds, former Crown tenants and commoners became taxpayers (Heckscher, 1954, p. 167). The enclosure movement in Sweden, then, should not be viewed romantically in terms of incentivising industrious peasants, as Bergh and Heckscher suggest, but in terms of increasing state revenue, and power; over both the rural population *and* the Crown. The coalescence of these factors had an indelible impact on the structure and form of Sweden's urbanisation henceforth and this, in turn, had profound consequences for housing and the built environment in Sweden's major towns and cities, as I now explore in relation to Stockholm.

2.2. *The Urban Spurt: Wolves and jackals in the city*

> *It might occur to some that the inner district of the town, which is now mainly inhabited by the lower and poorer classes, should be rebuilt to provide healthier and more efficient dwellings for these people. But further consideration should demonstrate the unreasonableness of this idea. The core of a town, the centre of industry and trade, where all communications meet, cannot possibly provide suitable dwellings for the poor, for the plots are too expensive [...] Thus the meaning here is not directly to provide the poor with healthier and better dwellings, but rather to deprive them of the wretched and unhealthy homes, which are offered them in the centre of the town.*

A.E. Rudberg, 1862[55]

David Harvey notes that, from their inception, '…cities have arisen through geographical and social concentrations of a surplus product' (Harvey, 2012, p. 5). The growing *concentrations of surplus product* (labour) in Swedish cities during the latter half of the nineteenth century, as we have seen, was not a happenchance occurrence, but a consequence of displacement and dislocation from the land, in combination with the pressure created by increased birth rates and lower mortality rates. However, the cities were unable to absorb this *surplus* in its entirety, as the dramatic scale and pace of urbanisation in Sweden from 1860 onwards was also accompanied by a series of mass migrations. While millions migrated to Sweden's major cities during the nineteenth century, from the mid-century onwards, nearly one million Swedes emigrated. Astonishingly, despite these mass emigrations, the population of Sweden still increased dramatically (particularly in the cities) over this period. For those who left, new challenges and opportunities awaited on the other side of the North Sea and across the Atlantic. Those who remained in Sweden, however, became the unwitting harbingers of radical societal transformation.

Swedish cities at the beginning of this period were ill prepared and poorly equipped to absorb the reserve army of the landless, rural unemployed, whom were migrating *en masse* in search for work. Workers in towns such as Stockholm and Gothenburg had little choice but to rent flats in jerry-built, overcrowded tenements and flimsy wooden terraces. In short, the housing

[55] A.E.Rudberg was a building magnate and city planner, with close ties to Stockholm City. Translated in Thomas Hall (2003, p. 338).

situation, as the building magnate and city planner A.E. Rudberg noted in 1862, was dire. His description of working class housing in Stockholm is worth citing at length.

> From this labyrinth of narrow, twisting, dark streets and alleys, dripping on both sides with a constant stream of stinking fluids [...] from these narrow courtyards surrounded by towering houses, wells of darkness [...] in whose depths all possible filth collects, whence poisonous fumes have risen for hundreds of years and still rise today, bearing the seed of innumerable diseases, penetrating with their stinking breath every corner of the surrounding dwellings, whose tightly packed inhabitants can open their windows and doors to let out the even fouler air from their rooms, but are denied any possibility of exchanging it for air that is fresh (Rudberg, 1862:7 translated in Hall, 2003, p. 338).

Rudberg's assessment, whilst loaded (he was a property developer), was not hyperbolic. In the late 1860s, Sweden's capital was purportedly, '…surpassed only by St. Petersburg as regards mortality rates' (Forsell, 2006, p. 126). The *towering housing* and *wells of darkness* were (more often than not) built by private speculators, who sought to reap the benefits from the acute urban housing shortages (SOU, 1945, p. 63 translated in Strömberg, 1992) brought about by insatiable demand. Around the same time, a Pauperism Committee, commissioned by the City of Gothenburg in 1865 to examine housing conditions in the city, described the life of the urban poor in Sweden's second city thus: 'In the dark and dank, and in dirty rags a wretched race is growing up here' (translated in Strömberg, 1992, p. 240).

Carl Andrae (1977, translated in Strömberg, 1992, p. 239) notes that this era created a *paradise for wolves and jackals* to exploit the housing needs of the newly formed urban proletariat. The building regulations that were in place before 1874 dated back to 1763 and had only been modified slightly in 1842 and, thus, the infrastructure and town planning capabilities in Sweden's cities were woefully impotent to adjust to the rapidly changing demographic realities. This was, as Thord Strömberg (1992a, p. 240) notes, 'the epoch of urban fires', where overcrowding, insanitary conditions, and disease prevailed.

The Lindhagen Plan, the Building & Health Acts and the growth of municipal power

It is against this backdrop that the need for more rigorous urban planning was recognised, principally at the level of local government. The Lindhagen Committee Report of 1866, headed by the judge and local politician, Albert Lindhagen (*expeditionschef*), sought to ameliorate the deficiencies in town planning in Stockholm. Influenced in no small part by James Hobrecht's city plan for Berlin (Hall, 2008, p. 69), Lindhagen's design was based around a grid system with square blocks, intersected by avenues and boulevards, and with a plentiful supply of green space[56]. The chief aims, beyond building an impressive modern European city, were to facilitate rapid

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[56] Today in Stockholm, parks make up more than one third of city.

population growth, improve the hygiene conditions of dwellings, and to reduce the risk of fires (Lundevall, 1992, p. 61). Based on the experiences of other industrialised countries, the Committee predicted that the population of Stockholm would more than double by 1890; Lindhagen's plan, thus, was one of ambitious urban expansion. Despite Lindhagen's grand ambitions, however, the inadequate legal and regulatory frameworks in place for municipalities to undertake such plans (coupled with a general lack of municipal financial clout) meant that Lindhagen's Plan, for now at least, was to remain on the drawing board, holding little significance beyond elite circles in Stockholm.

In May 1874, the Building Act, which Lindhagen played a central part in drafting, was passed by the King's Council, replacing the antiquated, pre-industrial regulations. This Act, according to the historian Håkan Forsell (2006, p. 128), marked the beginning of a *new age*. Whereas hitherto, there had been no general regulatory framework applicable nationally, this Act applied uniform building regulations across all towns and *town-like communities* in the Kingdom of Sweden. In regulatory complementarity, a general Public Health Act was also passed[57], which stipulated minimum hygiene standards for rental dwellings. Symbolically, at least, these regulations were pioneering. The Building Act stipulated that accommodation at basement level should be banned; that the width of the street should determine the height of the building (Forsell, 2006, p. 128); that courtyards should comprise at least a quarter of the building land (*ibid.*); and that planning permission should be withdrawn if a plot is not developed within five years. The latter statute was an attempt to *disincentivise* land hoarding by developers and to tackle the growing issue of speculation in building land (*ibid.*). However, this Act produced unintended consequences.

Much like Lindhagen's Plan, the Building Act was ambitious, but ultimately limited in terms of what it could achieve. The statute stipulated that, '…there were to be town plans for towns and similar communities' (Regeringen, 1920, p. 18). Yet, despite the promise and rigorous rhetoric, the hands of the municipalities were legally tied. As the Act was passed by the Government (the King's Council) and not by Parliament, it was circumscribed by civil law (Deland, 2001, p. 68). A government commissioned delegation for the Inter-Allied Housing and Town Planning Congress in London in 1920[58], commented:

> […] town plans […] frequently got no further than paper, because in carrying them into effect the community had not the support of legal rules, but was dependent on the *goodwill and good faith of private landowners* (Regeringen, 1920, p. 18, *emphasis added*).

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[57] The Health Act was of a 'very revolutionary nature' according to a government commissioned report in 1920 (Regeringen, 1920).

[58] Referred to henceforth as simply '*Regeringen*' (The Government).

As Strömberg (1992a, p. 37) notes, '…neither the state nor communities had the power to force landowners to act according to plans'. This rather bizarre predicament led to what the delegation referred to as *an impossible state of things* (Regeringen, 1920, p. 18). Significantly, also, these statues had no jurisdiction outside the cities' limits, which were rapidly developing along the lines of shantytowns (*kåkstäder*); due, in large part, to an active policy of displacement and slum clearance pursued by the City to make way for grandiose redevelopments in central Stockholm. I return to this shortly.

The *impossible state of things* in Stockholm (as elsewhere) prompted a very curious, and unexpected consequence. Faced with the disjuncture between the legal requirement to create and implement a Town Plan, and the fact that cities' capacities to actually perform this requirement were severely circumscribed, municipalities began to innovate, particularly in Stockholm. Knowing that relying solely on the *goodwill* and *faith* of private landowners to implement the City Plan (finalised in Stockholm in 1879-80) was an act of forlorn optimism, Stockholm City began acquiring land on an unprecedented scale[59]. Forsell notes that, '…the city found it necessary with borrowed funds to go into the property market as a market player, and through buying and selling properties under street layout regulations to save the city planning implementation project' (Forsell, 2006, p. 131). By buying up land, the City was able to implement vital elements of the Town Plan. Without relying on the acquiescence of private landowners, the City was able to build sewage systems, and other infrastructure, such as roads, trams, and rail and water systems (Hall, 2008).

Speculation in the city

It is worth noting that, at this stage, Stockholm City did not take it upon itself to provide residential housing directly; which is not to say that residential housing was not catered for in the City Plan. Once plots that had been acquired were ready to be developed, they were sold to private developers, '…who were required to pay for the municipal facilities and were committed to build within a certain set time' (Forsell, 2006, p. 130). The city discovered that it was profiting substantially from this arrangement, which led to systematic purchasing (Mörner 1997, translated in Forsell, 2006). The mechanism adopted by Stockholm City was quite simple: The City would pay for the new land (often purchased from the Crown) upfront, and then sell it on to private developers (often purchasing on credit). Revenues from those sales were then pumped back into land purchases, and the cycle began again[60].

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[59]Thomas Hall notes that, '…by the end of 1895 the town had acquired plots amounting to a total area of almost 5,000,000 m^2 at a cost of something in excess of 32 million kronor' (Hall, 2003b, p. 243); a truly phenomenal sum.
[60] Hall notes, '…the municipality could profit from part of the increase in land values, instead of being compelled to pay high compensation when streets had to be constructed, and making no profit at all' (Hall, 2003b, p. 385).

Thus, Stockholm City was able to finance infrastructure on the basis of rising land values and, in so doing, dominate the private property market. This strategy of implementing the town plan was novel and provides an example of growing municipal power. Far from acting as passive agents, then, Stockholm's municipal authority was beginning to decisively shape the city according to the details of the Town Plan agreed in 1880. Astonishingly, by 1903, the City had acquired nearly half the aggregate area of designated building land in Stockholm (Forsell, 2006, p. 261). Exact data records for the City's land trading are, however, sparse.

At this stage in Sweden's industrial and financial development, bank-based finance was still marginal in relation to the informal credit markets (Lindgren, 2002). However, this was changing quickly, and private developers were increasingly turning to formal banking channels such as the private urban mortgage banks (*inteckningsbolagen*) and the inner-city savings banks. *Stockholms Sparbank*, for instance, supplied many developers with credit for the entire production process (Forsell, 2006, p. 134), but the credit supply was incredibly sensitive to macroeconomic factors. Indeed, whilst the 1870s and 1880s heralded the era of grand construction projects in Sweden's major towns and cities, residential construction, for the most part, '…rest[ed…] on builders with no great command of capital, who build on credit with the intention of immediately selling the house when completed and thus becoming free for new undertakings' (Regeringen, 1920, p. 39). Indeed, as Table 2.1 illustrates, over 50 per cent of the mortgage market in Sweden was dominated by the 'informal market' even as late as 1920.

Table 2.1. *Market Shares of Registered Mortgage Lenders*

	Insurance companies	*Savings banks*	*Commercial banks*	*Hypoteks-banker*	*Stadshypoteks-bank*	*Others*	*Total*
1880	-	6	2.7	20	0.6	70.7	100
1890	5.3	9.6	3.6	17.7	0.8	63	100
1900	6.4	11.4	7.7	12.7	0.6	60.2	100
1910	6.8	12.6	13.7	7.5	2.3	57.6	100
1920	5.3	15.1	17.9	4.7	3.5	53.5	100

Source: Cramér and Fredricsson, (1942) in, Andersen, (2011, p. 156)

In a milieu where *the supply of credit varied considerably, and was frequently far too scanty* (Regeringen, 1920, p. 35), Stockholm City, soon became the biggest market player in town. It was thus the City, according to many commentators, who were land banking and speculating irresponsibly (Forsell, 2006). Ironically, it seems, instead of guarding against rapacious land speculators (one of impetuses behind the 1874 Building Act), the municipal authority in Stockholm became one.

According to Forsell, 'The city administration soon became the biggest land speculator within its own area' (Forsell, 2006, p. 130). The speculative land trading activities of Stockholm City certainly had an effect. Land and property prices (and rents) in the city began to rise precipitously; and so too did production. During this period (from the late-1870s to the mid-1880s), it was not uncommon for between 5,000 and 10,000 room units to added to the total housing stock each year in Stockholm (Hall, 2003, p. 243). According to a five-year report commissioned in 1887 by the Royal Commander of Stockholm, it was a rate of construction, '…whose unparalleled magnitude our capital town has certainly never seen before' (translated in Forsell, 2006, p. 173). Yet this phenomenal increase in units did nothing to suppress rents, or property prices.

It was not long before Stockholm City was publicly reprimanded. Emil Hjertstedt, of the Stockholm Municipal Association (*Stockholms kommunal förening*), expressed his frustration in a speech in 1886: 'I say expressly that which has long been muttered in closed circles: it is the fault of the city administration that land racketeering has reached its present level – it is the actions of city that have brought the present crisis upon us' (translated in Forsell, 2006, p. 136). Hjertstedt's damning indictment was shared by many a property owner in the mid-1880s[61]. As we will discover, the solutions to Stockholm's housing woes, according to property owner advocacy groups at the time, were to be found in the successful extension of secured credit, not the direct involvement of the City in land trading.

The housing 'crisis', 1885

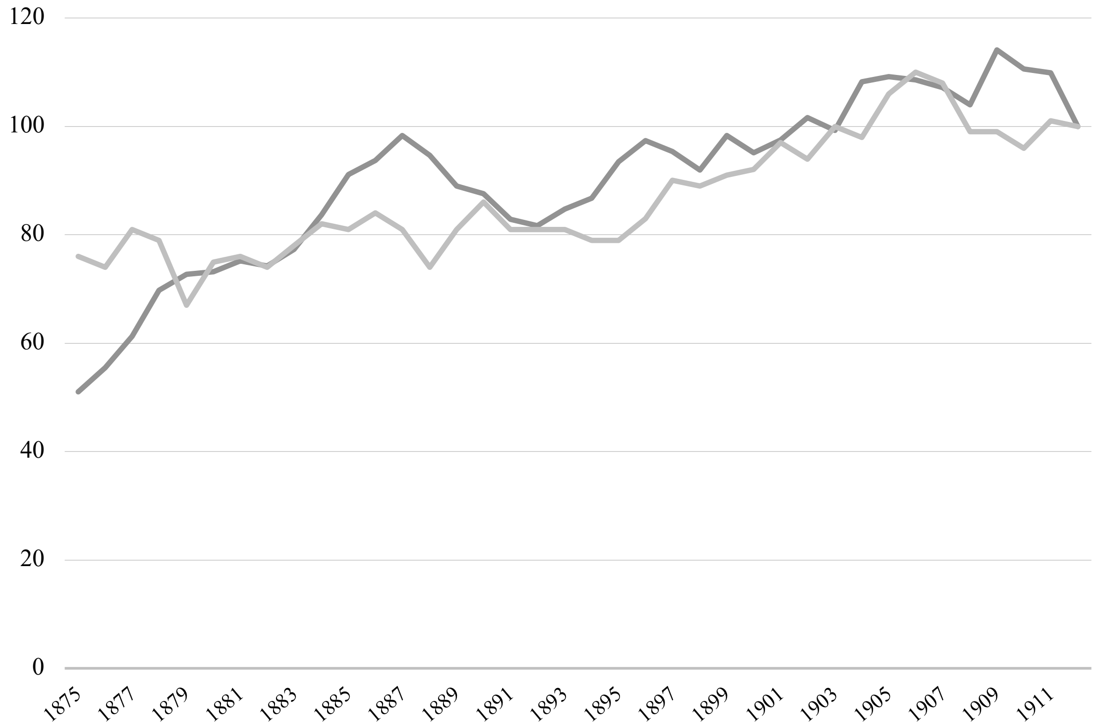
Whilst public utilities such as sewage and water networks, and tram and train systems, were built as a result of Stockholm City's speculative trading strategies in the latter stages of the nineteenth century, it would be naïve to assume that the land trading in Stockholm City (and municipal authorities elsewhere in Sweden) were acts of altruism, for the greater good of the city. Whilst visionaries such as Albert Lindhagen (who died in 1887) and certain other affiliates with influence within Stockholm City (engineers and architects and the like) no doubt felt a desire to secure a legacy and to improve sanitation and public health, most of the land trading activities to *improve* the city managed to displace the working classes residing in the city centres, forcing them beyond the city limits; just as Rudberg had desired back in 1862. Furthermore, others were intent on profiting for their own means, not those of the City. Hall comments:

> All this happened quite openly; what went on in secret, using front men and so on, has not yet been investigated and will probably now never be completely uncovered. It seems probable, however, that many members of the municipal boards and committees exploited their positions and their 'inside information' for personal speculations (Hall, 2003b, p. 318).

[61] For a more comprehensive analysis of property advocacy groups during this period, see Forsell (2006).

This conforms neatly to what Samuel Knafo refers to as *premodern forms of speculation* (see Introduction). The elite *insiders* were those working within Stockholm City and their affiliates (usually engineers and building magnates). The City's land trading activities provide an example of local state-sponsored arbitrage. However, this speculative behaviour was not benign.

Figure 2.4. *Real price house index for Stockholm and Gothenburg, 1875-1912 (1912=100)*



Sources: Bohlin, (2014); Söderberg, Blöndal and Edvinsson, (2014)

As Figure 2.4 illustrates, the period between 1875 and 1887 witnessed robust property-price rises in Stockholm. A government report, from 1890, described construction output during this period as *lively* (Stockholm Municipality, 1891), but this is probably an example of Swedish understatement. Incredibly, '…in the 10-year period between 1876 and 1885, more dwellings were constructed in Stockholm than during the preceding 75 years' (Forsell, 2006, p. 134). However**,** this boom in real prices for Stockholm properties was followed by contraction (Edvinsson, Jacobson and Waldenström, 2014, p. 71), and, according to Blöndal (2015, p. 11), 'The price decrease wreaked havoc among property owners and contractors many of which went into default causing banks to withdraw lending and raise interest rates'. This did not lead to a banking or financial crisis *per se*, but the construction sector took a financial hit and it is quite clear that a speculative property bubble had burst[62]. During this period, credit flooded out of the

[62] As Blöndal notes, '[t]he housing crisis in 1885 was in many ways similar to a modern housing crisis coinciding with a credit squeeze resulting in a credit crisis among banks and other financial institutions' (Blöndal, 2015, p. 11)

construction and housing sectors and into industry.

This was a blow, albeit temporary, to the budding formal housing finance sector and to developers and construction magnates, but the city's poor would have been little affected by this crisis; their plight was felt even before the start of this boom, when inner-city working-class dwellings were razed in order to make way for grandiose developments. The English art critic and social thinker, John Ruskin, once noted that, *buildings speak*. What he meant by this was that buildings (in both their form and constitution) have a tendency to reflect the prevailing social and moral order. The extravagant buildings, erected where slums inhabited by the poor once stood, *spoke* not only of an ambitious, increasingly wealthy city's desire to become a preeminent, modern European capital, but also of an assault on the urban poor in order to achieve these ends. The implementation strategy of the Town Plans, thus, became active in aggressively gentrifying inner-city districts, such as Östermalm, and Norrmalm[63]. We can trace the nascent tenant's movement to this period where, following the crisis in May 1886, *Stockholms Hyresgästers Förening* (Stockholm Tenants' Association) was formed. It is worth pointing out that, as Forsell notes, it was only '…a *sort of* tenants' movement' (Forsell, 2006, p. 215) at this stage.

Stockholm City cannot take sole responsibility for the boom and bust cycle of the 1880s, but it was the most important player in stoking land values, and it should certainly take responsibility for the displacement of thousands of poor, inner-city residents. Throughout this period, Stockholm City (and its stakeholders) became rich and powerful. This was the first time in Sweden that a local (quasi) democratic authority was able to command such influence over housing and the built environment. This case, then, provides several important insights about the nature of housing system development in Sweden during the late nineteenth century. First, what this case illustrates is an extraordinary build-up in municipal capacity and power within a relatively short time period, and how these capacities were able to shape housing outcomes. By capacity here, I refer to the ability of the municipalities to raise revenue and administer financial support. Second, that this power was augmented via speculative trading strategies. Third, it demonstrates not only the intricate social construction of speculation[64], but also how, in the face of what one might term *structural impediments*, municipalities throughout Sweden were able to innovate and negotiate these *impediments* in order to implement their plans. Finally, this case casts doubt on the notion that the state was somehow *passive* throughout this period, reminding us of the merit of analysing local actors (both state and non-state). As we shall see, these activities were merely a prelude to significant state involvement in the Swedish housing system at both the

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[63] As Edvinsson notes, the fact that it was mainly the high-end building sector affected by the crash of 1885, probably explains why the recovery in construction and lending after the slump was relatively swift (Edvinsson, Jacobson and Waldenström, 2014, p. 71)

[64] As Knafo notes, '[f]ar from being an option amongst many that financiers can simply pursue, speculation requires a complex set of institutions to be viable' (Knafo, 2009, p. 130).

local and national level.

2.3. The passive state? State capacity, credit dynamics, and homeownership, 1904 – 1914

Having explored Stockholm City's response to rapid population growth, and how urban planning, development, and housing finance developed during the mid- to late-nineteenth century, we turn our attention now to the prodigious build-up in central state capacity and financial power at the beginning of the twentieth century. Following the crisis of 1885-86, vacancy rates remained high in Stockholm centre (as elsewhere) for several years. It wasn't until the mid-1890s that demand began to increase again (Blöndal, 2015, p. 11), and prices and rents rebounded swiftly thereafter. The story was different beyond the city limits, in the *kåkstäder* (shanty towns), however, where overcrowded conditions and urban sprawl prevailed[65].

As previously noted, the notion of a *passive state* in Sweden prior to the 1930s is one that this chapter challenges; principally because it confounds more than it elucidates about the nature of the relationship between housing, finance, civil society, and the state, and provides a limited conceptual basis for understanding housing and finance system change. There are, of course, many different forms of state engagement. We have seen that the central government took a central role in the extension of housing finance to agrarian and (somewhat later) urban and suburban communities, and that the local municipalities took an ever-greater role in city planning and the regulation of residential buildings. However, from the beginning of the twentieth century, we begin to see very different forms of state engagement, both quantitatively and qualitatively. This was, according to Bo Bengtsson (2006, p. 106), the first time that housing conditions become *central political concerns*.

Even though the pace of Sweden's industrialisation was abounding at the beginning of the twentieth century, credit market conditions were less than optimal for a budding industrial society. As a government report noted:

> During periods of industrial prosperity, when the demand for new working-class dwellings […] made itself specially felt, it was customary to witness the peculiar state of things that building operations diminished, mainly owing to the greatly increased cost of credit (Regeringen, 1920, pp. 39–40).

There existed during this period, then, huge credit constraints, creating cleavages between the needs of various branches of the Swedish economy. These constrained credit market conditions imposed severe restraints. As noted above, the production of working-class dwellings hitherto

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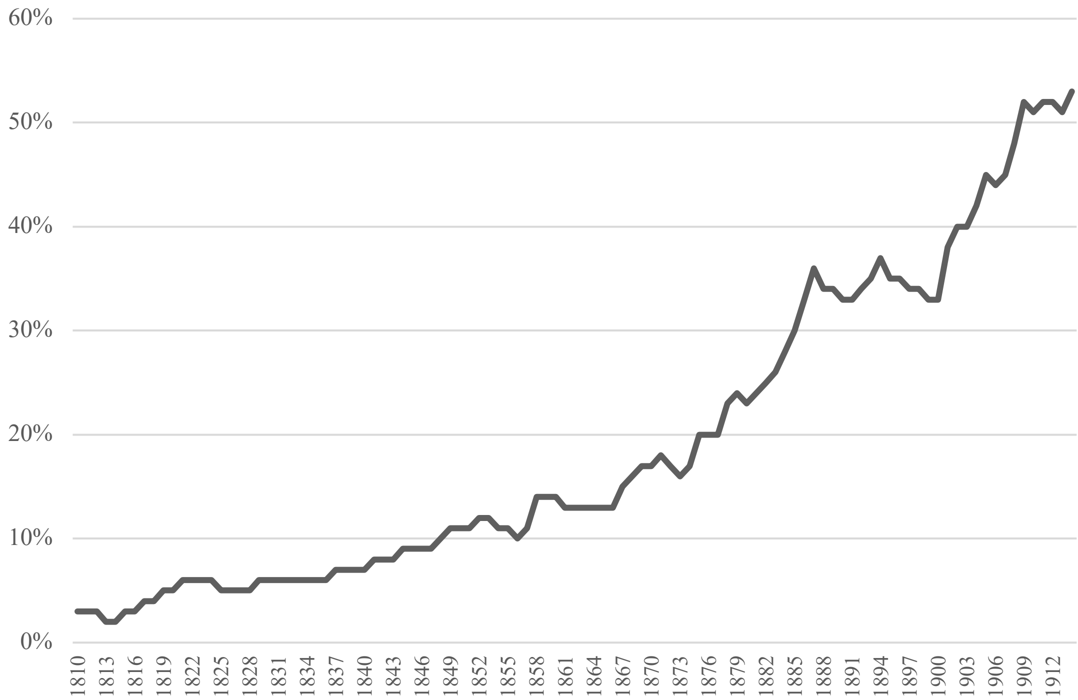
[65] Quantifying precisely the degree of overcrowding for this period is not possible, but data from 1905 and 1912 suggest that Stockholm and Malmö had some of the most severe overcrowding in Europe (*Regeringen*, 1920).

had rested on speculative builders and developers who were dependant on credit and rising property values and rents (Regeringen, 1920, p. 39). The buildings they constructed varied depending on the size of the city, but tenement buildings were increasingly taking the place of the traditional single-dwelling houses in city centres, and these buildings were *greatly encumbered with debt* and *excessively sensitive to economic variations* (*ibid*.). As a result, profit for developers and landlords, more often than not, depended on overcrowding, low maintenance and low taxes.

Surprisingly, and perhaps somewhat counter-intuitively considering the nature of the credit market restraints existing during this period, household debt was burgeoning at the dawn of the twentieth century, as Figure 2.5 illustrates. By the beginning of the twentieth century, the informal credit sector comprised roughly forty per cent of the total credit market (see Figure 2.6, below), and these liabilities were mainly on the balance sheets of Swedish households. This is a testament to the endurance of the informal credit system, which was characterised by extremely long maturities, but limited liquidity.

Figure 2.5. *The evolution of Swedish household debt as a share of national income, 1810-1914*



Source: Waldenström, (2015, 2016)

A note of caution is needed about Figure 2.5 before I proceed. These are aggregate data, which pool total private liabilities in relation to national income across Sweden. Figure 2.5 tells us nothing of the socio-demographic distribution of debt, and data before 1870 should be treated with a degree of caution. Nevertheless, it still provides an important indication of the aggregate volumes of debt in Sweden throughout this period. Despite the high levels of debt accruing to households, the credit system was still very illiquid at the turn of the century, making investments of the type needed to either build or acquire housing difficult; even the upper-middle classes were struggling to obtain the necessary credit. Demands were being made from all quarters (property owners associations; tenants; businessmen and philanthropists *et cetera*) for both the state *and* local authorities to 'intervene' in the functioning of the credit markets; and intervene they did.

At the beginning of the twentieth century, there was increasing recognition, at both the state and municipal level, that the implementation of town plans in the late nineteenth century had adversely affected the poor, relocating the housing problem beyond cities' boundaries, whilst doing very little (if anything) to solve it. In March 1904, Stockholm City began purchasing land outside its boundaries in order to prepare for a less dense, and altogether less grandiose, type of urban expansion (Deland, 2001, p. 68). This would not be a repeat of the speculative land trading that the City engaged with in the previous decades, however.

The impetus for these purchases contrasted quite markedly with the activities initiated by the City in the 1880s. As the 1920 government report notes, '[t]he motive for this acquisition of land was that the city might thereby obtain cheap and fairly well situated building-lots *for the erection chiefly of working-class dwellings*' (Regeringen, 1920, emphasis added). Here we begin to see the municipality becoming actively engaged in the provision of housing for the working classes. This, according to the aforementioned report, '…formed the turning point in the history of the housing question in Stockholm' (*Regeringen*, 1920, p. 24). It would be a few years before the emergence of what Anglophone scholars refer to as *social* or *public housing*, but this marked a highly significant intervention from the municipal authority in Stockholm. By 1908, the city had even begun the construction of Sweden's first Garden City in Enskede on the southern outskirts of Stockholm (Regeringen, 1920, p. 25). This, much as in England contemporaneously, was seen as a viable solution for providing the city's working and lower-middle classes with good quality, wholesome dwellings and formed part of the *Egnahemsrörelse (Own home movement),* of which the State's *Owner-occupier Loan Fund (Egnahemslånefond)* would play a crucial role.

The State Owner-occupier Loan Fund (Egnahemslånefond), 1904

The year 1904 was a critical one in the development of Sweden's housing and finance systems. At the local level, as we have seen, Stockholm City began to turn its land purchasing strategies towards providing accommodation for the working classes on the city's environs. Something more significant occurred at the national level, however, as Ödman and Dahlberg (1970, p. 59) note: 'Realizing that neatly planned town centres were being suffocated by the unplanned sprawl of the workers' suburbs, the State authorities offered to arrange Government loans in order to improve the workers' housing situation'. Previously housing (particularly in suburban areas) had been built piecemeal *as it was financed* much in the same way as developing countries with low levels of financial development and large informal finance systems develop today (Lea, 2009, p. 30). This, in combination with poor planning outside of central districts led to the proliferation of sprawling shanty towns.

A committee was set up in 1899 to look into the possibility of extending government-sponsored loans to potential homeowners across Sweden, but once their findings had been debated in the Swedish parliament, the remit changed, and the establishment of the State Owner-occupier Loan Fund *(egnahemslånefond*) in 1904 came to be focused more on the needs of agrarian communities, despite the committee's intentions (Öhngren, 1981, p. 206)[66]. However, municipalities soon found ways of circumventing the formal rules. Whilst the e*gnahemslånefond* was (strictly speaking) intended for rural inhabitants prior to 1908, certain municipalities provided loans to households in the city's environs. These were areas that were in close proximity to the city, but outside cities' urban planning zones (Fälting, 2000, p. 39)[67]. In addition to this, certain municipalities also provided loan guarantees to those who set up *egnahem* associations[68] (Fälting, 2000, p. 44). This guarantee, as Lars Fälting notes, acted as a form of subsidy and encouraged the Savings banks to finance the production of single-family dwellings (*ibid*.).

The *egnahemslånefond* changed the climate *vis-à-vis* the state's involvement in the extension of housing credit to working class households and also marked the beginning of a new era of state involvement in shoring up of the Swedish housing system via financial conduits. Whilst the logic underpinning this intervention in the functioning of the housing finance system was very much based upon the liberal principle of 'self-help', such an initiative was no less significant because of this. The *egnahemslånefond* also helped to change the built environment as, between 1904 and 1939, around fifty per cent of all residential construction in Sweden took the form of single-dwelling owner-occupied homes (Fälting, 2000, p. 39). To dismiss this as an era of limited state involvement and regulation, then, runs contrary to the historical record. Indeed, between 1905 and 1913, the state granted 15,500 home-ownership loans amounting to approximately 41,000,000 kronor (Silk, 1948, p. 17)[69] and, when one considers that residential housing construction nationally rarely exceeded 8,000 units per annum during this period (Ekbrant, 1986), this figure is not inconsiderable. It was at this time, according to an article by the Swedish National Board of Housing, Building and Planning (Hedman, 2008), that *the state began to take an active role*.

Whilst the *egnahemslånefond* may have been partly designed to *stem the depopulation of the countryside and emigration* (Hedman, 2008), which so defined this era, mitigating the waves

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66 This decision can be seen, in part, as a consequence of the imbalance of representation between rural and urban communities in Sweden at this time. According to Öhngren, '…rural interests had a far greater influence than their share of the population justified' (Öhngren, 1981, p. 206).
67 Lars Fälting notes, '[l]ocal governments could evade these rules by not subjecting areas in close proximity to a city to urban planning. Potential home owners in those areas would thus be eligible for State loans' (Fälting, 2000, p. 39).
68 These functioned as a form of worker cooperative which ultimately produced owner-occupied homes.
69 Approximately $11,000,000 at the then-exchange rate (Silk, 1948, p. 17).

of emigration to the United States was not only goal. The association between tenure status and moral improvement is one that was made consistently in late-nineteenth century and early-twentieth century Europe (Harloe, 1995), and this was an initiative that, rightly or wrongly, sought to give disenfranchised, landless rural communities a stake in private property and, simultaneously, improve their moral condition by inculcating them in the ways of property ownership[70], and the credit system was the means selected to achieve this goal.

Town Planning Act, 1907

At this juncture in Sweden's *age of improvement*, the state was not content to limit its involvement in the housing system merely to extending credit to the provincial working and middle classes, and bolstering credit markets. The Town Planning Act of 1907 was a groundbreaking piece of legislation, and a further example of developments in central state capacity. Where the Lindhagen inspired Buildings Act of 1874 had offered promise, it had also created several problems and contradictions, which local authorities across the land had struggled to redress. The 1907 Act, however, sought to redress this:

> The Town-Planning Act […] has the character of a civil law and was brought into existence chiefly with the object of regulating in a binding way the juridical relations between municipalities and private individuals with regard to the enforcement of the town plan (*Regeringen*, 1920, p. 18).

This was not *hands-off* regulation, as many scholars assume characterised this period. The Royal Building Board, a central state organ, provided municipalities with the clout to enforce regulations regarding the design of the buildings (Hall, 2003b, p. 243), and provided municipalities with the powers to enforce stringent, *systematic regulation of building* (Regeringen, 1920, p. 21), giving local communities the rights to expropriate land for streets and public places (Larsson, 2006, p. 244). It strengthened the power of municipalities across Sweden, creating a *municipal planning monopoly*, which, as a recent report commissioned by The Swedish International Centre for Local Democracy, notes '…is considered to be the cornerstone of Swedish urban planning and development' (Andersson, Carlson and Larsson, 2012, p. 11). This Act, then, demonstrates a quantum leap in municipal capacity and power, facilitated by the central government, and left a significant legacy which continues to shape housing and the built environment throughout Sweden to this day.

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[70] Whether misguided or not, this discursive tool would later be blunted during the two and a half decades following the Second World War (see Chapter III).

Urban Hypothec Fund for the Kingdom of Sweden, 1909

1909 was another landmark year for housing finance, with the central government making another significant foray into the functioning of *urban* credit markets. The Hypothec Fund for the Kingdom of Sweden (*Stadshypotekskassan*) was set up with paid-up capital, advanced by the State amounting to 30,000,000 kronor[71] (Regeringen, 1920, p. 30), and loans were granted by the fund to financial intermediaries, Urban Hypothec Associations (*Stadshypoteksforeningar*), not directly to households. Loans were limited to 50 per cent of the value of the property (Silk, 1948, p. 17), and it was stipulated that, '…loans must be granted subject to the *lowest possible interest*' (Silk, 1948, p. 33). The government also encouraged the establishment of *special credit institutions* (mortgage companies) whose primary purpose was to extend credit to the inhabitants of Sweden's largest towns and cities[72]. This was about extending liquidity in order to ameliorate the chronic housing situation afflicting the country's urban inhabitants. Within the space of merely three years, the Hypothec Fund, and the mortgage companies, became core constituents of the Swedish housing finance system, as illustrated in Table 2.2.

Table 2.2. *Composition of Building Credits in Sweden, 1912*

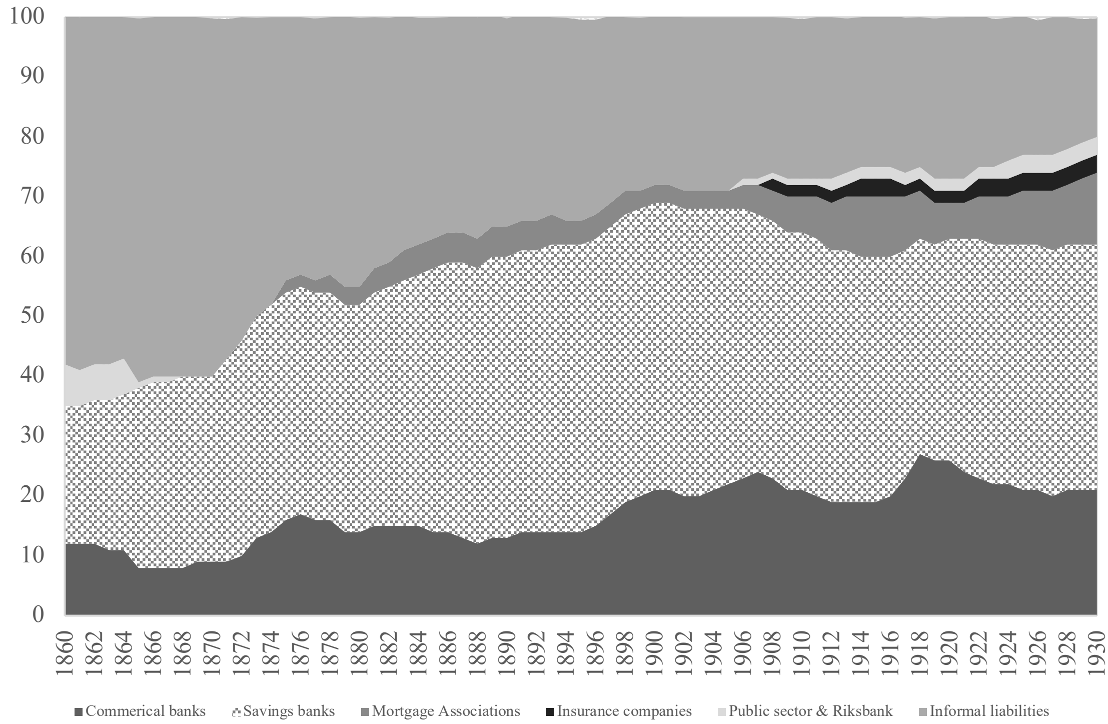
Lender	*Loans (Kr)*	*%*
Urban Hypothec Fund	141,713,981	11.50
Mortgage Companies	231,290,215	18.77
Business Banks	187,220,856	15.19
Savings Banks	290,791,012	23.59
Insurance Institutions	237,979,619	19.31
Pious Foundations	141,819,634	11.51
Other Lenders	1,655,479	0.13
Total	**1,232,470,786**	**100.00**

Source: Regeringen, (1920)

The state's direct share in the extension of *urban* housing credit made up a total of 11.5 per cent of the entire market and, as shown in Figure 2.6 (below), this share would gain ground.

[71] Equivalent to about $8,000,00 in 1909 (Silk, 1948, p. 17)
[72] In fact, as a government report notes, these banks' '…operations are restricted to a definite town' (Regeringen, 1920, p. 33).

Figure 2.6. *Composition of financial sector credits to households, 1810–1930 (% share)*



Source: Waldenström, (2015, 2016)

It is quite clear that, against this background, maintaining an academic position that posits that housing policy during this time was somehow negligible or unimportant, is untenable. Indeed, this was the time when, as Marquis Childs (1938, p. 83) notes, '…there was above all the realization that private business could not provide housing for the lowest income groups on the ordinary basis of private profit'. The state involvement which I have reviewed here, then, fits uncomfortably with the view of a Sweden as a passive, *laissez faire* state during this period. There are two possible competing explanations for this disjuncture: *i*) either the state was not liberal; or *ii*) it was liberal, but that the framing of the liberal state as *passive* is fruitless for understanding the nature of the relationship between housing, finance and the state. The latter explanation seems to be the most plausible.

2.4. *Right to the City: The First World War and the Inter-War Years*

> *The right to the city is […] far more than a right of individual or group access to the resources that the city embodies: it is a right to change and reinvent the city more after our hearts' desire. It is, moreover, a collective rather than an individual right, since reinventing the city inevitably depends upon the exercise of a collective power over the processes of urbanization*
>
> *David Harvey,* 2012

Having focused on developments in state capacity up until the First World War, and having shown that, contrary to popular scholarly belief, the state (at both local and national level) was very much an active agent in the Swedish housing and finance systems throughout this period, the present section explores the role of non-state actors and the impacts of events which occurred outside of Sweden's geographical boundaries on housing and housing finance. Clearly the divide between public and private, and national and international spheres, is not an absolute one and, thus, the state's role will not be ignored here. However, the purpose of this section is to attempt to move beyond state-centric analyses in order to explore the power of actors' collective ability to shape housing and finance system development, and how dynamics external to the housing system *per se* can impose keen imperatives. This section, then, explores how the outbreak of the First World War left an indelible imprint on the Swedish housing system, and how actors' collective responses to the restraints imposed by a wartime economy radically altered the structure and form of the Swedish housing system.

In the year preceding the outbreak of the First World War, a system of national insurance was initiated in Sweden, which combined with the formation of, '…a considerable National Insurance Fund' (Regeringen, 1920, p. 57). The purpose of this fund was to advance capital to local government authorities under the remit of *promoting public health* (*ibid.*). Within this remit, was also the promotion of what the government referred to as *communal* and *semi-communal house-building* (*ibid.*). During the War, 'no less than about 30,000,000 kronor' had been granted to local authorities for this purpose (*ibid.*). This marked the beginning of public housing in Sweden and, although modest in scope at this stage, it is worth noting that this foray into the construction of public housing was early by contemporary European standards.

Britain had completed her first council estate before 1900, but the project of building municipal housing in Britain did not gain significant traction until the *Homes fit for Heroes* initiative under David Lloyd George's government following the First World War. However, in much the same way that the construction industry in Britain could not meet housing demand (partly) as a result of Britain's dire Balance of Payments and foreign exchange position, private housing builders in Sweden could not muster the required capital to provide adequate housing for the working and lower-middle classes. Despite state and local authority efforts hitherto, credit conditions were still far too tight. This, as we have seen above, had always been a problem in

Sweden's transition to an urban, industrialised nation, and the outbreak of World War I exacerbated these problems. Indeed, the price of raw building materials rose precipitously. By the end of the Great War, however, Sweden had amassed a significant domestic capital base which had been so lacking in the previous decades. This would have implications for housing and the built environment, and the role of the state and municipalities therein.

War in Europe: Slump in residential building and the rise in effective demand for housing

Sweden's neutrality, forged over a century beforehand, turned out to be shrewd economically during the 1910s. The world's first industrial war provided 'an immense financial bonus to Sweden' (Schön, 2008) and, for the first time in decades, Sweden accrued BoP surpluses. It was at this stage that the formal domestic credit system really began to take shape; increasing state capacity and providing *new instruments for economic policy* (*ibid*.). Nevertheless, despite the favourable BoP position, the majority of Swedish society felt the impacts of war acutely; and not least in the sphere of housing. The responses to these impacts would alter the Swedish political economy inexorably; and with it, the Swedish housing and finance systems.

One of the most obvious and detrimental effects of the War on housing supply in Sweden can be illustrated with a brief statistical summary of the changes in raw material prices between 1914 and 1920.

Table 2.3. *Percentage increase in raw building materials 1914-1920.*

Material	*% increase in raw material costs*
Timber	250%
Bricks	280%
Cement	230%
Iron	300%

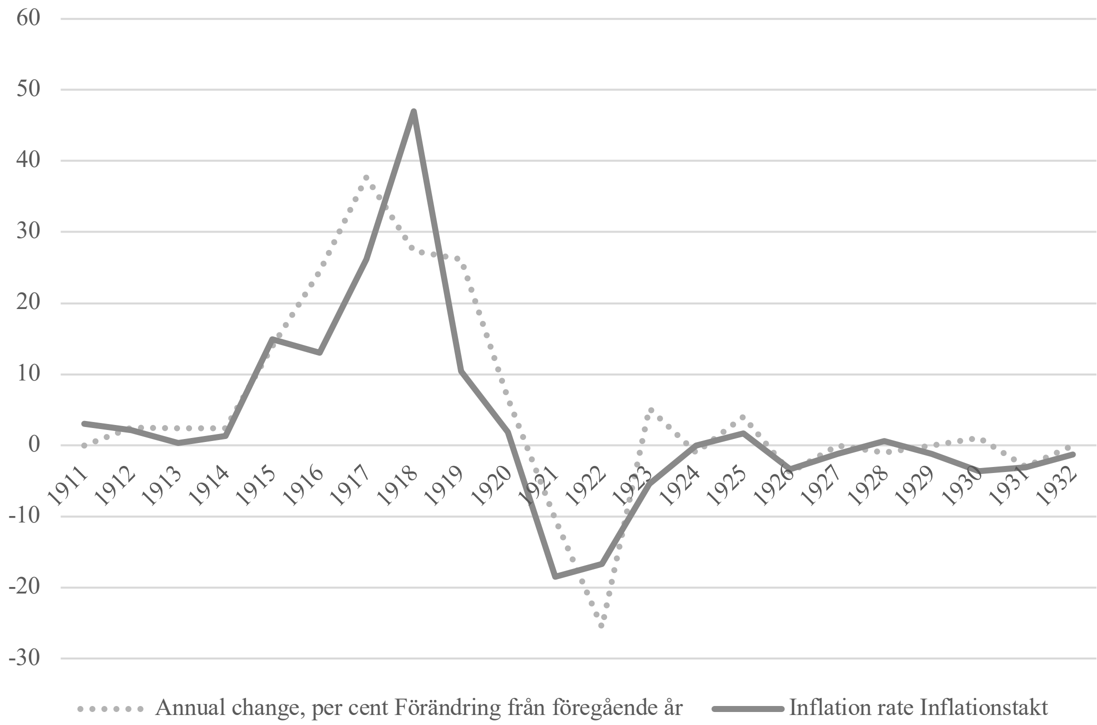
Source: Regeringen, (1920)

The price-increases evident in Table 2.3 and Figure 2.7 (below) had a huge impact on a construction industry that had historically struggled to acquire credit at what their western European counterparts would consider reasonable rates of interest. To relate these price-increases in more palatable terms, the government estimated that the cost of building per room in Stockholm had increased nearly five-fold in real-terms between 1914 and 1920 (Regeringen, 1920, p. 44). The War, then, brought Swedish housing construction to its knees:

> The rises in price for materials and labour have been aggravated by credit difficulties. It is obvious that the building industry requires a much greater capital than formerly, and the rate of interest is considerably higher in cases where it is possible to obtain loans at all. *It is only thanks to the support that the production of dwellings during the War has obtained from public funds, chiefly the National Insurance Fund, that it has been possible to arrange secondary credit for newly-built houses* (Regeringen, 1920, pp. 44–45)

The state at this stage was playing a central role in underpinning the mortgage market. The report even went as far as to say that the War had shown, in the context of Sweden, '…at once that it is impossible to count upon any private building activity with regard to working-class dwellings' (*ibid*. p. 54). This situation was brought about as a result of constrained credit market conditions, which the War had exasperated[73], and the state and municipalities had few options but to intervene and extend credit for the purposes of supplying working class accommodation by this stage, else residential housing construction would have simply collapsed.

Figure 2.7. *Construction costs and inflation, 1911-1932*



Source: SCB

Rent Tribunals and Rent Control

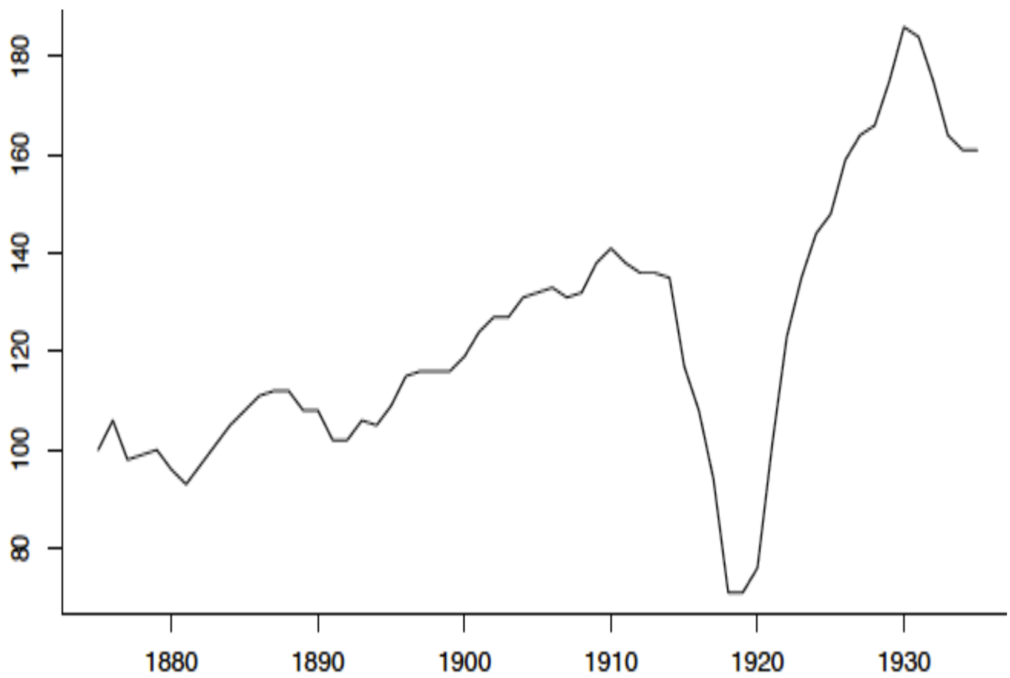
As one might expect, rents in Stockholm (as elsewhere in Western Europe) had ballooned throughout the period under consideration as a result of increased demand from a growing urban population, constrained credit supply, skills shortages, and the ever-increasing cost of raw materials. By the outbreak of the Great War, Sweden had some of the highest rents in Europe, and there was no sign of this abating. The Swedish government was reluctant to impose rent controls, as had already been done in the belligerent countries. Britain had introduced rent ceilings in 1915 after rent strikes in Manchester and Glasgow forced Lloyd George to personally intervene

[73] Further fuelling inflation was wartime governments' expenditure on defence. See Silk, (1948, p. 30).

and promise an angry crowd of Glaswegian women and children that rents would be frozen. On 5th May 1916, the Swedish government introduced a system of rent tribunals, which were organized at the municipal level to arbitrate in rent disputes (Forsell, 2006, p. 247). This was seen as somewhat of a fudge, however, as these tribunals were not legally binding, and Forsell notes that these amounted to little more than *talking chambers* (*ibid*.).

Tensions were mounting throughout the land. Around the time that the United States had declared war on Germany, the working and lower-middle classes in Sweden were waging their own offensives. It is estimated that around 300,000 people took part in the so-called 'hunger riots' during the spring of 1917 (Sernhede, Thörn and Thörn, 2016, p. 153), which culminated in an *urban uprising* involving some 40,000 people in Gothenburg on 5th May 1917 (*ibid*.). Later that month, on 25th May 1917, a much-divided parliament, faced with the threat of working class militancy and haunted by the events in Russia, passed the Rent Control Act. This legislation had the effect of *fixing housing conditions as they were in 1917* (*Regeringen*, 1920, p. 50). Nobody was legally allowed to be given notice of eviction, and thus few were able to obtain fresh dwellings. Consequently, as a government report noted, 'no one dares to move voluntarily' (*Regeringen*, 1920, p. 43). This legislation had the desired impact on rents, as is evident in Figure 2.8, but did little to solve the underlying problem of affordable rental housing supply.

Figure 2.8. *Stockholm real rent price index, 1875-1935* (1875=100)



Source: (Blöndal, 2015)

The situation for the majority of residents in Sweden's main cities was still precarious. Rent controls sheltered those fortunate enough to have a tenancy agreement prior to 1917 but did little to increase vacancies in the rental market. This initiative then, was a double-edged sword. This is not to say that rent controls cannot be effective but, as this case shows, in isolation of other measures, they are generally rather blunt policy instruments. It is worth noting here that many Social Democrats in the Riksdag were opposed to rent control at this point (Strömberg, 1992a).

Building Subsidies & Credit Markets

By 1917, in spite of the State support for the secondary mortgage markets, the situation in the construction industry was dire. The numbers of dwellings produced each year in Sweden had more than halved from 1912 levels (*Regeringen*, 1920, p. 15) and more radical solutions were being considered. At this stage, as well as attempting to support liquidity, the state offered direct subsidies to *building concerns* to the tune of one third of the cost of building completion (*ibid*. p. 55). Of this building subsidy, the central government would assume two-thirds of the responsibility and the municipality one-third (*ibid*. p. 55)[74]. As well as this, strict stipulations were imposed, such as rent regulations and limits on profits (Silk, 1948, p. 33). It is worth noting that no rent controls were imposed on new buildings during Sweden's brief flirtation with rent ceilings, *unless* the building had received subsidies (Silk, 1948, p. 34). These were exceptional and unprecedented supply-side interventions by the state, which would set a precedent for nearly a century to come[75].

Of note here is the type of building construction that the state and local municipalities were supporting:

> In a considerable number of cases there has also been private building activity of what is called public utility enterprises - by co-operative housing associations and by companies with dividends limited and of a philanthropic character. Broadly speaking, it would seem that the *semi-communal enterprises comprise somewhat more than half of the building operations subsidized* (Regeringen, 1920, p. 55).

Now the state was bolstering credit markets, underpinning the construction industry, building public housing and imposing rent ceilings. As Forsell (2006, p. 251) notes, '[m]unicipal housing agencies and the cooperative housing movement were given assistance through the extensive municipal support programmes of 1918 and 1919'. All this from a state that, according to swathes of housing scholars, did little in the way of regulating or assisting in the housing system. The state subsidy system was dropped in 1921, in part due to deflation (Silk, 1948, p. 34), but housing prices and rents rose as a result. In 1920, the state established the State Building Bureau (*Statens*

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[74] The arrangement was conducted thus: 'In practice, therefore, things assumed this shape: every town that desired a subsidy for itself or for some private builder had to apply to the proper Government authority and pledge itself to take the responsibility for one-ninth of the cost of building the houses contemplated. The State would then advance the remaining two-ninths, so far as the funds granted by the Riksdag permitted' (Regeringen, 1920:55).

[75] In 1919, the Swedish Municipal Federation had produced a programme for future housing policy, in which state and municipal housing subsidies would play a major role. (Forsell, 2006, p. 253).

bostadslånefond). As Silk (1948, p. 37) notes, this Bureau '…issued secondary-mortgage loans of up to 75 per cent of the property value, in the case of large urban properties' and were 'redeemable over periods of 20 to 40 years'. It was around this time that a cooperative housing movement, which would eventually become one of the largest and most successful in the world, began to thrive.

Cooperative housing & the National Union of Tenants

One of the most significant, and unique, features of the contemporary Swedish housing system is the presence of a powerful national tenant movement and a large cooperative housing sector (Bengtsson, Ruonavaara and Sørvoll, 2017, p. 74). Whilst the institutional structure of these organisations has changed substantially since their inception (see Chapters III-V), Sweden still has the largest share of tenant union membership in the world, and one of the largest cooperative housing sectors in Europe. Both *Hyresgästföreningen* (The Swedish Union of Tenants) and the cooperative housing sector have been viewed by housing scholars to have constituted central pillars of decommodified housing provision in Sweden throughout much of the twentieth century (Ruonavaara, 2005; Bengtsson *et al*., 2006). Exploring the geneses of these housing forms, and how they came to feature so prominently in the Swedish housing system, then, will be a core concern going forward.

It is important to note here that the pressure exerted by disenfranchised working men and women during the War years on the state and municipalities in relation to housing and the development of cooperatives by the working and middle-classes were part of a much wider social movement and struggle which, as elsewhere in the developed world at this time, produced remarkable consequences. In 1918, universal suffrage was introduced in local elections and, with the spectre of bolshevism looming large over Europe after the First World War, the Riksdag legislated for universal and equal suffrage for women and men in May 1919. The following year, in March 1920, Hjalmar Branting became Sweden's first Social Democrat Prime Minister. This was an historic moment, but much like Britain's first socialist Prime Minister, Ramsay MacDonald, Branting's premiership was ephemeral, lasting only until October 1920. Whilst he would serve twice more as Prime Minister between 1921 and 1923, and then again between October 1924 until his death in January 1925, the three governments he formed during this turbulent decade held little decisive sway over the housing question. This was a decade of weak minority government and *parliamentary paralysis* (Ruin, 1989, p. 65), where politics became a game of tactics (Davidson, 1994, p. 57). Branting's legacy *vis-à-vis* housing and the built environment was mainly indirect. His historical significance, however, should not be underplayed: Branting was instrumental in the development of social democracy as a credible political force in Sweden.

The macroeconomic, socio-political, and geopolitical context outlined above, and the state's initial reluctance to introduce rent controls can be seen as prime catalysts for the cooperative housing and tenants' movement in Sweden. Affordability issues exasperated by a combination of population growth and credit restraints had hit urban working and middle-class Swedes hard. Active mobilisation by tenants and housing cooperatives thus provided *bottom-up* solutions to the acute housing shortages which had beset Sweden since the early years of industrial urbanisation. Following the political fudge that was the rent tribunals, a group of residents in Stockholm were motivated to take matters into their own hands. One of the main inhibiting factors that had limited the formation of housing co-operatives hitherto had been the propensity for unscrupulous businessmen to use the cooperative form of tenure as a vehicle for speculating with prospective tenants' savings (Ruonavaara, 2005, p. 218). This problem, in combination with the building crisis during the Great War and the constrained credit conditions of the time, prompted the formation of *Stockholms Kooperativa Bostadsförening* (SKB) in 1916.

SKB claims to have been born as a 'reaction to the miserable housing conditions that prevailed in Stockholm at the beginning of the century' (SKB, 2013, p. 3, author's translation), with the chief aim of providing a buffer against rapacious speculators which had hitherto plagued the cooperative housing movement (*ibid*.). The premise was simple. Individuals (usually better off members of the working and lower-middle classes) pooled their savings in order to build apartment units which they would then occupy on a *cost-rent* basis. Whilst cooperative housing in Sweden can be traced back to the 1870s, and cooperatives became definite legal entities as early as 1895 (Ruonavaara, 2005), it was not until the foundation of SKB that co-operative housing really began to flourish.

The state was keen to support such ventures, which, in all probability, explains why the sector was able to develop so successfully. The building subsidies discussed above were very much directed towards cooperatives (as well as municipally built semi-public housing). As a Government report from 1920 notes:

> The largest housing association working in Stockholm is the Stockholm Co-operative Housing Association [SKB] which started its building operations in 1916. This association has so far built dwelling-houses containing altogether 638 rooms [...] The yearly rent for a flat of one room and kitchen in the house first built amounts to 360—380 kronor (about £20—£21) and in the houses most recently erected to 630—660 kronor (£35 - £37). *Almost all the houses of the association have been built with public subsidies* (Regeringen, 1920, pp. 26–27, emphasis added).

If we compare these rents to the average yearly rent in Stockholm of between £75 and £80 in the private rental sector, we can see why Sweden's oldest functioning cooperative began as a rampant success. The profit-maximising rental model dependant on overleveraged development on behalf of developers and landlords, overcrowding, lack of maintenance, and low taxes was beginning to be challenged; and this challenge came from the *bottom up*, with support from the state. However, as Table 2.4 attests, changes to housing systems generally occur piecemeal. In spite of state support on the housing supply side (and rent controls) rents between the mid-1910s and 1930 increased more than anywhere else in Central and Western Europe.

Table 2.4. *Rent level in 1930 with 1913 as a base year (=100)*

Sweden	**200**
Denmark	196
Finland	192
Switzerland	181
Norway	175
Great Britain	153
Germany	126
Hungary	86
France	71
Poland	58
Austria	21

Source: Lundevall, 1993, p. 16

Whilst wages in Sweden had been growing faster than any other Western European country between 1870 and 1910 (Schön, 2005, p. 219), the growth of rents prior to, and in the aftermath of, World War I far outstripped wage growth, and this squeeze on the cost of living entailed consequences. While the cooperative movement was in full swing, simultaneously, tenants throughout Sweden were mobilising to affect meaningful housing system change. Anders Victorin (1979, p. 235) notes that the tenants' movement in Sweden has (much like the Social Democratic Party) always been divided into conservative and militant fractions. While both wings were united in pressing for rent controls and tenant protections, rent strikes, blockades, and picketing became increasingly common throughout the 1920s and 1930s (*ibid.*), most famously with the Gothenburg rent strikes of 1933 and 1936, where transport workers refused to assist local authorities in evictions (Anderman, Neal and Victorin, 1992, p. 7).

These developments were emblematic of an emboldened, newly enfranchised, workers movement and were the prelude to substantive housing system change. In 1921 the Swedish Central Organization of Tenant Ownership Cooperatives (Sveriges Bostadsrätts Centrum, SBC) was formed and, in 1923, *Hyresgästföreningen* (The Swedish Union of Tenants) was established. This was a relatively tardy mobilisation considering that the Stockholm Property Owners Association had been founded in 1870 (Forsell, 2006), and construction workers unions had emerged already by 1889. However, as Bengtsson (2007a, p. 17) notes, the decision to remove controls in 1923 was undoubtedly, a *triggering factor* behind the establishment of *Hyresgästföreningen*. Sweden was the last in and first out when it came to rent controls. Controls were abolished before England and Wales, Vienna and the major German cities. Neighbouring Denmark, even, retained rent controls during the entire post-War period (Bro, 2009, p. 18). The rescission of rent controls in 1923, then, can be seen as a critical juncture, not just for the tenants' movement, but also for cooperative housing movement and, in turn, for the entire Swedish housing system.

One need only look back at Figure 2.7 to see the impact the rent control decision. That very same year, *Hyresgästföreningen* created *Hyresgästernas sparkasse - och byggnadsförening* (HSB - literally translated as the 'Tenant's Savings and Construction Association') with the aim of building affordable apartments for its members. HSB was founded as a vehicle for starting new associations in the country (Ruonavaara, 2005, p. 218) and is today Sweden's largest cooperative housing association. One man, the architect Sven Wallander (who we return to in Chapter III), was instrumental in this process[76]. The aim of HSB was to build affordable apartments for its members and, during the interwar years, they were successful in this endeavour. Rents in HSB built apartments were significantly cheaper than market rents during the 1920s and a series of advertising campaigns did not fail to point this out. Table 2.5 (below) highlights the differences in rents per m^2 between market prices and HSB.

Table 2.5. *Rental prices per m^2 during the 1920s*

	Rental Market price per m^2	*HSB*
25 m^2	47 kr	28 kr
28 m^2	48 kr	28 kr
33 m^2	42 kr	25 kr

Source: Lundevall, 1992, pp. 26–27

The development of SKB, *Hyresgästföreningen,* and HSB provide illustrative examples of how actors with limited agency were able to collectively negotiate and overcome structural impediments in order to promote their interests. Knafo argues that, *social relations between agents* are *mediated by structures* (Knafo, 2010, p. 504). We can observe here that the agency of some (the working and middle classes) had been restricted by the actions of others (the pecuniary class), with the latter group in this instance able to exploit the former, *mediated* through the structures of housing finance, which, during this period were characterised by informal credit relations lacking proper legal intermediation. However, a coalition of working and middle-class actors were able to form institutions such as SKB, *Hyresgästföreningen,* and HSB in order to overcome the problems inherent both within the housing finance structures that existed at the time and the initial co-operative and rental models. These initiatives thus (ostensibly) protected prospective tenants against pecuniary financial interests. As this case illustrates, the relationship between structure and agency is not unilinear, as Knafo argues:

[76] Jardar Sørvoll (2013, p. 107) refers to Sven Wallander as the *father of HSB*.

> When we focus on the restrictive nature of structures we limit ourselves to only one side of a social relation. What appears to be the product of structural constraints is always a product of agency when properly resituated within a social relation that takes into account the power of another actor exploiting these structural constraints (Knafo, 2010, p. 504).

Those excluded from, or exploited by, the current housing system formation, then, were able to increase their collective agency. These institutional conduits enabled actors to pursue and protect their interests whilst limiting the risk of financial exploitation, thereby circumventing the financial structures that would otherwise have impeded their agency. Such a position allows us to accommodate a more fluid interpretation of agency; agency is never static and relates to different actors in different ways *and* at different times. Furthermore, this case provides a microcosm of the housing and finance system macrocosm. It is through such interactions between actors and institutions that housing and finance systems evolve, albeit slowly.

Whilst it may be tempting to view these processes through a lens of working class emancipation, we should be mindful not to romanticise the cooperative movement in Sweden. According to Sven Wallander's memoirs, published in 1968, his dream when HSB was established in 1923 was to *make homeowners out of every Swedish household* (Wallander 1968, translated in Sørvoll, 2013, p. 149). Similarly, the policy commission that proposed the Swedish law of cooperative housing of 1930 – of which Wallander was a prominent member - regarded the cooperative alternative as a way to *extend homeownership to the urban population* (Sørvoll, 2013, p. 149). From its inception, then, HSB sought to provide a form of tenant ownership which certain elements of the Social Democrats were deeply suspicious of (Sørvoll, 2013, p. 109). It would be some time before Wallander's ambition was realised, however, as we will see in Chapters III & IV.

Against the backdrop of these developments, a movement, which remains strong in Sweden today, was born. *Hyresgästföreningen* represented the interests of a previously unrepresented class; those who could not afford market rents and who were too poor to buy. The founding of this union helped to forge a unique corporatist arrangement, whereby rents are negotiated between the state, landlords and the tenants' union. And so, restraints imposed on agents were overcome as class cleavages formed around a salient issue. Thus, from a legislative Act that limited workers' agency, emerged a powerful social constellation which could represent tenants' interests. From 1923 onwards, the interests of tenants were *mediated* through the structures of a tenants' union, which was institutionally embedded in rent negotiations in Sweden in 1933 with the first rent negotiation procedure. Two central pillars of the twentieth century Swedish housing system had emerged, and had done so, not only prior to the age of social democratic political hegemony, but also almost entirely independently of the state.

2.5. *Concluding Comments*

> *Neither capitalist development nor associated state forms can be so thoroughly transformed as to lack any resemblance to former incarnations*
>
> Rachel Weber, 2002

In conclusion, this chapter sought to highlight the importance of a period in Swedish history which is both overlooked and (broadly) misunderstood in much contemporary housing scholarship. Returning to the historical record, I attempted to demonstrate that the period under investigation was not merely a historical footnote, of little relevance to twentieth- and twenty-first century housing and finance formations, but a formative epoch of central importance to subsequent housing and finance system development in Sweden. This was an era in which rapid industrialisation, demographic change, and augmentations in power and capacity, both at the level of the state *and* civil society, shaped the composition of housing and the built environment, and finance in Sweden. As an influential government report from 1945 noted, 'Our cities and other urban agglomerations began, through industrialism to expand in earnest in the 1870s and 80s. *It was during this time that their current appearance was largely determined* (SOU, 1946, p. 638, author's translation). For this reason, this chapter has given special attention to a period, which, as I have shown here and will continue to illustrate in the following pages, created the foundations for the housing initiatives of the post-War era.

Throughout this chapter, I challenged the notion that the state's role in housing system development was nominal prior to the era of Social Democratic hegemony, arguing that such a position obfuscates key social and institutional transformations during the pre-WWI and interwar years. Furthermore, I endeavoured to illustrate that the analytical juxtaposition of the pre-War *passive liberal state* with that of the post-War *active social democratic state* creates a singularly unhelpful false dichotomy which is difficult to reconcile with the historical record, particularly in relation to housing finance. By adhering to the notion that the state was the main driver in the development of Sweden's housing system after the War, yet played little role beforehand, scholars ignore the manifest build-up of state capacity and agency during the pre- and interwar years. In so doing, they present a portrait of almost unfettered political agency post-1945, whilst simultaneously diminishing the importance of state *and* non-state sectoral actors and interests prior to the 1940s.

By adopting an historicist framework, this chapter has offered a revisionist history of housing system development in Sweden, in an attempt to illustrate the importance of historical institutional lineages to future housing development, and also how these forms co-evolve in conjunction with housing finance systems. I showed how innovations in agrarian finance in the early nineteenth century were linked to sweeping land reforms and how these innovations, in turn, left indelible imprints on both the structure of urban housing finance and the role of the state in extending urban mortgage credit. Further, I illustrated how these developments shaped the patterns and forms of urbanisation in Sweden's major cities, creating imperatives for municipalities, city planners, developers, and financial intermediaries which produced surprising outcomes; one such outcome being the augmentation of state and municipal power in the late nineteenth century through speculative land trading strategies. These developments in state financial capacity were the preludes to the ambitious housing finance programmes of the early twentieth century, and the *extensive municipal support programmes* for municipal housing agencies and cooperative housing of the 1910s (Forsell, 2006, p. 251).

Finally, I examined the role of civil society organisations (namely the cooperative and tenants' movement) and how the growth of working and middle-class agency began to palpably, and indelibly, affect housing system change from the 1910s onwards. While it might be tempting to view developments during Sweden's *age of improvement* teleologically, the evolution of Sweden's housing and finance systems outlined here was anything but given. This evolution was the product of social struggle. The myriad twists and turns explored throughout this chapter, and the epochal scale of change, serve to remind us that critical junctures within housing and finance systems are not only contingent upon the ideology and policies promulgated by ruling elites or the lobbying efforts of advocacy groups at any given time, but also upon events beyond those systems and, importantly, actors' collective engagements with, and interpretations of, said events. As Bengtsson notes:

> The Swedish model is not the result of some measured plan, but emerged through a series of successive decisions and events over the last one hundred years which gradually, but rather unsystematically, strengthened the "corporatist" position of the party organizations in the rental market - and in the rent policy (Bengtsson, 2016, p. 20, author's translation).

Understanding developments in housing, the built environment and finance during Sweden's *Great Transformation* has required us to interrogate how factors such as demography, underlying social conditions, the development of state capacities, geopolitics, *and* the evolution of finance assisted in structuring social struggles and ideas. Heckscher (1954) once noted pertinently that *the hand of the past never completely loses its grip*. My analysis has shown here that, although the late nineteenth and early twentieth centuries were characterised by institutional change, and punctuated by ruptures, there was also a degree of continuity, particularly in the realm of housing finance, and the state's role therein. The key point here, however, is not just the means of mobilising housing finance, but also the qualitative issue of where (and to whom) housing credit was being extended. Demands for housing finance created the fulcrum whereby class and sectoral struggles expressed themselves, and these demands became essential dynamics in shaping housing system development throughout this period and beyond as the formal credit system continued to evolve. By the 1930s, the tenants' unions and cooperative sectors had gained much ground *vis-à-vis* the property-owning landlords and speculative developers, but housing system development is *sticky* and the struggle for decent, affordable and accessible housing in Sweden's major towns and cities was still in its infancy. Elements of the working and middle classes had obtained better housing than their parents could have possibly imagined, but there was still a long way to go. They would make further, significant gains, as I explore now.

Chapter III. *Golden Years: The Financial Foundations of the People's Home, c. 1930-1970*

> *The basis of the home is community and togetherness. The good home does not recognise any privileged or neglected members, nor any favourite or stepchildren. In the good home there is equality, consideration, co-operation, and helpfulness. Applied to the great people's and citizens' home this would mean the breaking down of all the social and economic barriers that now separate citizens into the rich and the poor, the propertied and the impoverished, the plunderers and the plundered. Swedish society is not yet the people's home. There is a formal equality, equality of political rights, but from a social perspective, the class society remains and from an economic perspective the dictatorship of the few prevails*[77]
>
> Per Albin Hansson, 1928

3.0. *Introduction*

In the previous chapter, I explored the emergence and development of institutional forms of housing and finance, which came to constitute core pillars of the twentieth-century Swedish housing system. I examined the state's role in the extension or mortgage credit (first in relation to the rural mortgage associations in the nineteenth century, and later in relation to support for urban mortgage banks and owner-occupiers); the nascent growth of (semi)-municipal housing; the birth of cooperative housing associations (bostadsrätter), and the importance of general supply-side subsidies administered by the state and municipalities in concretising these housing forms. Significantly, I located these developments within the context of Sweden's broader political economy and demography, arguing that the imperatives brought about by rapid industrial urbanisation and late financial development influenced, to a considerable degree, the specific forms of housing finance that emerged; and the role of the state therein[78]. Accordingly, I urged the need to rethink the state's role (at both the national and local level) during this formative period of development; arguing that, by channelling circuits of capital into the housing system and subsidising production, the state and municipal authorities played a much greater function in the housing system than is commonly acknowledged during this era of so-called laissez-faire.

The impetus behind this investigation came from a desire to highlight what is assuredly a foundational, yet neglected, period in the development of the modern Swedish housing and finance systems. The seeds of the *decommodified* housing system of the mid- to late-twentieth century were very much sown during this time yet, intriguingly, the period leading up to, and

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[77] P.A. Hansson, translated in Rudolf Meidner, (1993, p. 212).

[78] As the need for vast quantities of capital was pressing, due to the scale and pace of Sweden's industrialisation during the late nineteenth and early twentieth centuries, equity markets and deposits alone were not sufficient to meet demand (as they had been in Britain). Instead a combination of savings bank credit and bond-based finance, supported by the state, was the recourse.

including, the inter-War years is so often neglected in contemporary housing scholarship[79]. The institutional forms of housing and finance which developed in Sweden during the pre- and inter-War periods may have come about as a result of incremental and unsystematic steps, but these accreted processes and developments were no less important or historically significant because of this.

In the present chapter, I elaborate the case that the evolution of housing and finance examined in the previous chapter left powerful institutional heritages, which would very much shape the housing initiatives of the Social Democrats throughout the 1930s, the War years, and beyond. Indeed, that these institutional heritages are so little acknowledged or theorised in analyses of mid- to late-twentieth century housing in Sweden is puzzling. The task of this chapter, then, is to historically situate mid-twentieth century housing developments, and to explore how and why the policies, programmes, and sectoral interests explored in the previous chapter became institutionally crystallised and embedded within the Swedish housing and finance systems under Social Democratic governance. This chapter, thereby continues the historical survey of the co-evolution of housing and finance in Sweden, examining the period (*circa*) 1930-1970 in which Sweden developed its housing industrial complex.

Politically, this was an era of social democratic hegemony. Unprecedentedly for a Western democracy, the same political party governed uninterruptedly (albeit in coalition at times) for over forty years, with one Prime Minsiter, Tage Erlander, holding office from 1946 to 1969. During this time, Sweden was transformed from a country with an acute housing shortage, to one with a housing surplus; transitioning from a country with some of the worst overcrowding rates in Western Europe, to having the highest housing standards in the world[80]. While improvements in the general conditions, affordability, and standards of (as well as access to) housing were nigh universal throughout Europe during this period (Sweden was part of a general continent-wide improvement trend in this regard), what distinguishes Sweden during this period is (quantitatively) the scale and pace of *improvement* and (qualitatively), the methods and means mobilised to facilitate housing improvements, and the role of the state, finance, and sectoral actors in producing a *housing industrial complex* underpinned by mass housing production at low marginal rates of profit. It would be some time, however, before such a system would materialise under the guises of what some scholars would refer to as a *social market* system. Indeed, whilst political rhetoric may have been transformed, the first two decades of social democratic hegemony (circa 1932-1950), were marked as much by continuity with the housing programmes

[79] This is not only specific to housing scholarship focusing on Sweden. Whilst there are notable exceptions, scholars seem intent to analyse the ways and means by which tenure forms such as cooperatives and public housing have been *commodified*, or *marketised*, yet show little interest in how these forms emerged *in primis*!

[80] As Thord Strömberg (1992, p. 260) notes, in terms of space and equipment, the standard of Swedish housing reigned supreme globally by the mid-1970s.

of the early-twentieth century, as rupture. The notion that there was a decisive break with the past prior to 1950, then, will be challenged.

A social democratic housing programme took some time to emerge and, when it eventually did, it was very much forged onto the housing system inherited in 1932. Whilst there was more targeted action in relation to families during the 1930s, the general structure of subsidies; the promotion of homeownership in (predominantly) rural and suburban areas; and the direction of subsidies to cooperatives and municipal housing concerns, was not, on the whole, unlike those under non-social democratic administrations. To state otherwise, is to accept the notion that state intervention was almost non-existent prior to 1932. Yet, as Chapter II showed, such a view does not sit comfortably with the historical record if we observe the state's role in the provision of housing finance[81]. Indeed, as Silk (1948, p. 38) notes, around 15 per cent of all dwellings constructed in urban areas from 1924 to 1933 were financed, to varying degrees, by state loans; and this figure was even higher in rural areas.

The most conspicuous differences during the first couple of decades of the Social Democrat's hegemony were the scale of financial resources channelled into the housing system, and the fact that the extraordinary housing measures adopted during the Second World War were (unlike many of the measures enacted during the First World War) mostly retained. The former had much to do with Sweden's increasingly favourable BoP position and an emboldened tenant and cooperative housing movement. In relation to the former, strong foreign demand for Swedish raw materials and technical apparatuses, led to export surpluses throughout the 1930s, which, in turn, helped to facilitate lower interest rates and the *domestication of the Swedish national debt* (Schön, 2008), including housing bonds.

When the Social Democrats decided, in rather piecemeal fashion, to increase the flows of state-sponsored credit to the housing sector, then, they aimed their subsidies squarely at pre-existing institutional structures. As Bo Bengtsson and Hannu Ruonavaara note: 'A housing stock produced during several decades … creates a *powerful historical heritage* that any government has to deal with when making housing policy decisions' (Bengtsson and Ruonavaara, 2010, p. 193, emphasis added). By the mid-1950s, the pace of housing completions was breaking records year-on-year, and the state and municipalities had taken centre stage in underpinning these developments. As was the case in the belligerent countries, the Second World War created imperatives for state intervention, and these did not subside after Nazi Germany's unconditional surrender. Indeed, this was a prelude to the most conspicuous changes; those, which (for better or worse) would define the Social Democrat's housing legacy.

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[81] Indeed, as Myron T. Herrick and R. Ingalls Herrick & Ingalls note 'The objectionable feature of the Swedish [mortgage] system is that the bank is too closely connected with the Government and enjoys a monopoly' (Herrick and Ingalls, 1914, p. 218)

The achievements in the realm of housing and the built environment in Sweden during the mid- to late-twentieth century have been written about extensively. Of all the programmes implemented during this time, however, one stands out above all others: *The Million Homes Programme* (*Miljonprogrammet*). Between 1965 and 1974, over a million dwellings were constructed, alleviating the chronic housing shortages that had dogged Sweden since the nascent years of her industrialisation. By the end of this programme, around one third of Sweden's entire housing stock had been constructed in less than two decades! This programme left an indelible imprint on the Swedish housing system and was made possible, I argue, by a financial revolution. The virtues of centralised planning, rationalisation, municipal land monopolies and the *active* involvement of the Social Democrats in Sweden's *semi-market economy* have been considered core explanatory variables in this truly remarkable period and, whilst I am not inclined to disagree with these assessments *in toto*, this chapter does not seek to reiterate such analyses.

Using novel datasets, what this chapter seeks to do is quantitatively situate this astonishing epoch within an historical context, where the spheres of housing and finance are studied, not as discrete entities, but as inextricably linked, path-dependent phenomena. I explore how the Social Democrats managed to channel truly extraordinary financial resources into the housing system and how Sweden's political economy became predicated upon the development of a *housing industrial complex*. In so doing I examine policy programmes as being situated within an existing nexus of institutions and social relations, which political elites during the mid-twentieth century had little (or no) part in forming. As in Chapter II, the importance of the international sphere is emphasised. Sweden's political elites have never existed within an international void, but within a fulcrum where factors beyond their immediate control and influence (such as global finance and world politics) helped to shape the determination of ideas and policy formation.

This chapter continues to look both at *and* beyond the sphere of politics and housing policy. I *do not* attempt to reduce the importance of political decision-making on housing system change but attempt instead to provide a complimentary level of analysis; an additional layer of explanation as to why certain ideas and policies succeeded, at certain times, *in the context of the pre-existing edifices of housing and finance*. Ideas are, of course, important, but falling back on the *social construction of reality* as the causal explanation driving housing and finance system change has been rehearsed quite thoroughly enough, and I feel no need to repeat this body of work.

The chapter is organised as follows. I begin by contextualising the Swedish political economy of the 1930s and assessing the impacts of the Great Depression and the *Kreuger Crash* on domestic politics. Here I explore the early housing initiatives of the Social Democrats, the burgeoning cooperative movement and the institutional development of a unique system of *rental market corporatism*. Following this, I examine the impacts of the Second World War on Sweden's housing and finance systems, and how the state responded at both the level of housing policy and monetary and fiscal stimuli. Then, I explore the post-War years up to (*circa*) 1970, and the centrality of state-sponsored finance in underpinning the *housing industrial complex* and how, following radical pension fund reforms, the state was able to generate the financial capacity to eradicate the national housing shortage. This section ends with a discussion about legal changes affecting cooperatives and rental housing which occurred during this period.

3.1. *From laissez-faire to planned economy?*

> *That housing habits change so sluggishly depends not only upon their intimate relation to the shaping of family life and household organisation: conservatism in housing habits is conditioned also and primarily by their confinement to an existing housing supply which can be transformed but slowly.*
>
> *Alf Johansson,* 1938 *(Economist and Chief Secretary to the Social Housing Commission)*

As in most other advanced economies, the early 1930s in Sweden was a precarious time. In the midst of an agricultural crisis (*jordbrukskrisen*), tumbling exports, and spiralling unemployment resulting from *The Great Depression*, Sweden followed Britain's lead and abandoned the Gold Standard in September 1931, becoming one of the first countries to establish a monetary regime, *aimed at stabilizing the domestic price level* (Carlson, 2011, p. 29). Sweden's newfound capacity to expand the money supply, however, was no panacea in an era of great uncertainty. Having weathered the Depression years better than most, the death of the enigmatic Swedish business magnate and industrialist, Ivar Kreuger, in Paris in March 1932, would shatter confidence in Sweden's economy, and cast a long, indelible shadow over a fragile global financial system. The impact of Kreuger's death was so resonant, and the social and political ramifications so vast, that it is worth reflecting on this episode briefly.

Kreuger had built an elaborate international business empire that was *too big to fail*[82]. Using his family's match business as collateral, *The Match King* purchased bonds from cash-strapped continental European governments throughout the 1920s, in exchange for monopoly rights in match production. At its peak, Kreuger's company, *Svenska Tändsticks Aktiebolaget* (now *Swedish Match*), controlled over 60 per cent of global production, and his appeal both

[82] Some commentators speculate that his businesses owed more than Sweden' entire national debt! (*The Economist*, 2007).

domestically, and on Wall Street, was great[83]. However, despite the promise of eye-watering rates of return and tax-exempt foreign earnings, not all was well with Kreuger's business model.

From the outside, Kreuger's empire seemed as solid as the global demand for his matches, but the operational structures of his conglomerates were opaque, and his business relied heavily upon an ever-expanding pool of investors in order meet his contracts and obligations. In 1931, the *Riksbank* was compelled to guarantee half the credit at Kreuger's house bank, *Skandinaviska kreditaktiebolaget*[84], but when again, in 1932, he was unable to honour his obligations, Kreuger's empire collapsed, leading to one of the most spectacular commercial defaults in Swedish history. The shares and debentures Kreuger had issued (*Kreugerpapper*) became worthless, and losses were great, both at home and abroad. Daniel Waldenström (2014, p. 7) notes that, after the Kreuger Crash, *the Swedish stock market was stagnant*, with trading activity and new listings greatly diminished. Further, following this crash, the total national wealth share of the top income percentile reduced dramatically (Roine and Waldenström, 2009b, p. 182), marking the prelude to what some have termed the *financial ice age* in Sweden. This had significant implications for banking and finance in Sweden, as elsewhere[85].

As in other industrialised countries during this time, the mood was ripe for substantive political and socio-economic change, and the timing of the *Kreuger Crash* had huge political ramifications domestically. It was revealed shortly after Kreuger's death that the Prime Minister, Carl Gustaf Ekman, had personally taken substantial donations from Kreuger on behalf of his party (*Frisinnade folkpartiet*). Ekman (initially) fervently denied these claims, but the tides of fact and public opinion were against him, and he was forced to resign in August shortly before the general election, later that year. Exploiting this controversy, the Social Democrats won their first workable minority government under the premiership of Per Albin Hansson, who made the phrase, 'The People's Home' (*Folkhemmet*), a synonym for social democracy in Sweden[86]. Without a majority, they were reliant on a confidence and supply arrangement with the Farmer's League, which was forged out of the mutual desire to *regulate market forces* (Schön, 2012, p. 219). However, in the face of rising nationalism throughout Europe, and charges from establishment parties that the Social Democrats posed a dangerous threat to the national interest (Kielos, 2012), Hansson knew that his party had only a very short window in which to demonstrate their economic competence. Reducing unemployment, raising productivity, and

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[83] In Sweden, Kreuger was prolifically issuing debentures and shares, which proved extremely popular with investors. Kreuger's company, Kreuger & Toll, in turn, owned large blocks of shares in Sweden's main industries (Waldenström, 2014, p. 7).

[84] At that time, the largest commercial bank in Sweden. It was later agglomerated into SEB.

[85] As Maryam Hussein notes, the most significant effect of the Kreuger Crash in the USA was the creation of the US Securities and Exchange Commission (Hussain, 2014, p. 11).

[86] Previously, this term had been used as a go-to for the right-wing nationalist, Rudolf Kjellén. For further analysis of the framing of this phrase, see (Kielos, 2012).

improving living conditions were, thus, key objectives, and investment in housing would play a central role in realising them.

State Finance Programmes, Mortgage Banks and Household Borrowing

By most metrics, and in spite of the global economic dislocation following the Great Depression and the *Kreuger Crash*, Sweden was affected later, recovered earlier, and had a balance of payments more favourable than any other major Western economy (Chang, 1951, p. 166). As far as housing was concerned, residential building activity was surprisingly resilient during this period (Silk, 1948, p. 37), but it would be disingenuous to apportion too much credit to the Social Democrats here. Housing supply is, after all, inherently *sticky*, and production and financial expenditure relating to housing had been rising steadily for nearly a decade, stimulating a trend that would continue throughout the 1930s.

Governments of varying political colours had been channelling resources into the housing sector to ever-greater degrees throughout the 1920s and this would continue from the early-1930s onwards. The State Home Ownership Fund (*egnahemslånefond*) had, by the late-1920s, directed vast quantities of state-sponsored capital into the housing system for building and repair work[87], and while this Fund continued its original remit of lending to rural and suburban inhabitants, the Urban Mortgage Bank (*Stadshypotekskassan*) and the State Housing Loan Bank (*Statens bostadskreditkassan*), focused their lending activities with increasing vigour in Sweden's towns and cities throughout the 1920s and 1930s. Table 3.1 summarises the lending activity of the latter two.

[87] Between 1924 and 1933, this Fund had granted a total of 18,947 loans totalling 95,045,735 kronor in value (Silk, 1948, p. 38).

Table 3.1. *Swedish Mortgage Institutions: Lending and Obligations, 1910-1940*[88]

Mortgage Institutions			*Bonds in Circulation*	
Year	*Number of Loans*	*Loans Outstanding (Amount, kr.)*	*Stads-hypotekskassan*	*Bostads-kreditkassan*
1910	72,300	288,188,288	100,795,600	
1915	69,302	289,311,831	215,305,567	
1920	61,682	303,528,396	243,479,000	
1925	55,252	337,369,764	399,337,400	
1930	57,259	386,685,331	654,764,333	20,000,000
1935	61,290	433,508,679	1,069,098,000	98,697,000
1940	59,052	490,816,112	1,192,691,000	159,290,500

Source: SCB, 1945,author's translation

Between 1924 and 1933, these mortgage institutions granted loans totalling over 100,000,000 kronor (SCB, 1935, p. 198), and this activity expanded greatly from 1930 onwards, with lending focusing increasingly on multi-dwelling unit production. The State Housing Loan Bank, which replaced the State Building Bureau (*Statens bostadslånefond*) in 1930, focused its lending activities on would-be homeowners and cooperatives, and allowed for greater loan-to-value ratios than the Urban Mortgage Bank and an amortisation period of up to 40 years (Wendt, 1962, p. 65).

As the formation of *Sveriges Allmänna hypoteksbanken* in 1861 illustrated, the government had, for a long time, been keen to stimulate foreign demand for Swedish mortgage bonds, as domestic appetite had been underwhelming initially. After 1909, however, domestic demand proved sufficient and by the 1910s the Mortgage Banks no longer relied on raising capital on foreign exchanges (Lindström, 1986, p. 48). The reason for this was that, by this stage, Sweden was no longer the financially 'backward' country that it had been some three decades earlier and, by the 1930s, the national stock of debt was becoming increasingly domicile. Further, not having to rely on a mortgage system underpinned by bonds denominate in foreign currencies had great advantages. These specialised mortgage institutions were supported by capital from the state, and *ground funds* (*grundfonder*) continued to underpin the urban mortgage market (SCB, 1945, p. 202), serving as security for the liabilities of the funds (Regeringen, 1920, p. 30). The division of labour was thus: The Urban Mortgage Bank funded primary mortgages (up to 70 per cent LTV); the State Housing Loan Bank provided secondary mortgage loans (principally to single-family dwellings) at between 50 and 60 per cent LTV; and the established state support for owner-

[88] The data in the third column includes all urban mortgage lending in the Kingdom of Sweden. Unfortunately, it is not possible to disaggregate these data in accordance to the individual lending institutions. Also, the rest of the urban mortgage loans had the support of capital from the government (Andersen, 2011, p. 155). These *grundfonder* underlay the entire urban mortgage market (SCB, 1945, p. 202).

occupiers (*Statens egnahemslånefond*) continued lending to rural and (increasingly) suburban households.

The rates of interest paid by borrowers from these institutions was *equal to the net interest of the bonds plus a fee for administration* (Wendt, 1962, p. 77). This, like the bond-based rural mortgage banks before them, made housing finance relatively *cheap* when compared to other industrialised countries (Landshypotek Bank, 2016). Loans from the State Housing Loan Bank were redeemable over periods of between 20 and 40 years (Silk, 1948, p. 37) and, unlike the US housing finance system at the time, (which predominantly relied on deposit-based Savings and Loans Associations), the bond-based structure of housing finance in Sweden allowed for significantly longer periods of amortisation. By way of comparison, in the USA during the 1930s, average LTVs to single-family households were not unlike those in Sweden (between 50 and 60 per cent), but the periods of amortisation averaged between ten and fifteen years (US Congressional Budget Office, 1981, p. 177). These differences had significant, and enduring, implications for building form and tenure composition in urban areas (Blackwell and Kohl, 2018b).

As noted in the previous chapter, it would be injudicious to describe the Swedish mortgage institutions at this time as strictly private business concerns. They were, as Andersen (2011, p. 156) notes, hybrid institutions and, as such, the state had significant sway over the flow and direction of credit to housing. Such a capacity was nothing new but, when faced with a faltering global economy in the 1930s, the Social Democrats were able to focus their sights on housing investment, *using the existing nexus of institutional frameworks*. By taking early measures to extend the housing subsidy programmes of the previous two decades and controlling the domestic price level in the economy more generally, the worst ills of this economically tumultuous time (chiefly mass unemployment) could, it was hoped, be mitigated. As the head of the State Housing Loan Bureau, Alf Johansson, noted, '[f]ew works are more suited to counteract a depression than are construction projects' (Johansson, 1938, p. 164).

The Social Democrats made special provisions for increasing residential building activity in the emergency public works programme of 1932/33 (Silk, 1948, p. 41). Gustav Möller, the Minister of Social Affairs affirmed Johansson's assessment (above) claiming that: *To stimulate the buildings industry is to stimulate all economic activity* (Möller, cited in, Silk, 1948, p. 41). In the next year's budget (1933/34), the parliament 'appropriated' 23,000,000 kronor for housing (*ibid*. p. 43)[89], and introduced the Subsistence Homesteads Loans for Rural Workers, which was a new measure intended to improve housing in rural areas. This measure was in addition to the

[89] 18,000,000 for rural and 5,000,000 for urban housing (Silk, 1948, p. 43). Adjusting for inflation, this amounts to around a quarter of the entire lending activities of the State Home Ownership Fund (*egnahemslånefond*) in the previous decade!

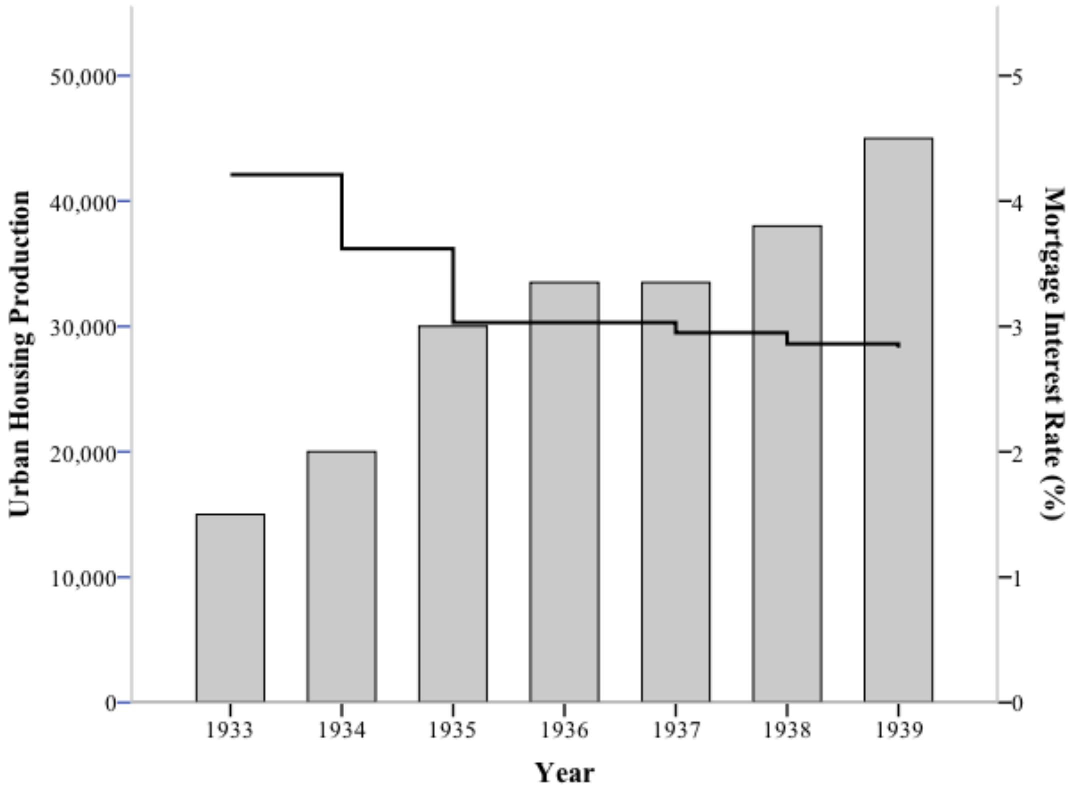
egnahemslånefond, and sought to give rural workers *the opportunity of acquiring small homesteads* (Johansson, 1938, p. 166) by offering loans of up to 6,000 kronor[90]. It is worth noting here that such support to owner-occupation from a Social Democratic party was not common in Europe at this time (Kohl, 2018a).

The impetuses behind these housing initiatives were both practical and social. From a social perspective, the need for greater volumes of decent quality, affordable housing was evident and pressing in both urban and rural areas. As Silk (1948, p. 40) notes, in many respects, *the housing situation appeared to be little better than it had been in 1913*. Whilst a general decline in the birth rate had eased overcrowding, the housing question was an enduring problem that the Social Democrats were determined to solve. From a practical perspective, as already noted, increased housing construction would stimulate economic growth. These actions represented not so much a decisive break with previous housing programmes, more a turbo-boost to them. Indeed, as Thord Strömberg notes, the still prevalent view (although not universally held within the Social Democrats) was that government support to housing *should not jeopardise market solutions* (Strömberg, 1992b, p. 249).

The state was, by the mid-1930s, in a position to increase its support to the housing industry in a way that it had never managed to before. This was, to a large extent, due to the improving financial outlook of both the state and Swedish households. Net receipts from Sweden's positive BoP, and the consequent rise in the foreign exchange reserves, led to a rise of liquidity on the money markets (Chang, 1951, p. 163) and this, in turn, further capitalized the Swedish financial market, lowering interest rates (Schön, 2008). Low interest rates, combined with the political will to stimulate the economy and improve living conditions, thus allowed for a Keynesian-style fiscal stimulus centred on housing. The State was now actively using housing policy to regulate the business cycle; much as the Addison Act of 1919 in Britain, and the *New Deal* era housing programmes in the USA. The effects on housing production, in combination with steadily lowering mortgage interest rates, can be observed in Figure 3.1.

[90] These loans bore no interest or amortisation requirement within the first five-years and were to be repaid over thirty annual instalments. Quite remarkably, as Johansson notes, the applicant was 'assisted in obtaining suitable land, with the building of the homestead, and in its cultivation' (Johansson, 1938, p. 166).

Figure 3.1. *Housing Production and Mortgage Interest Rates, 1933-1939*

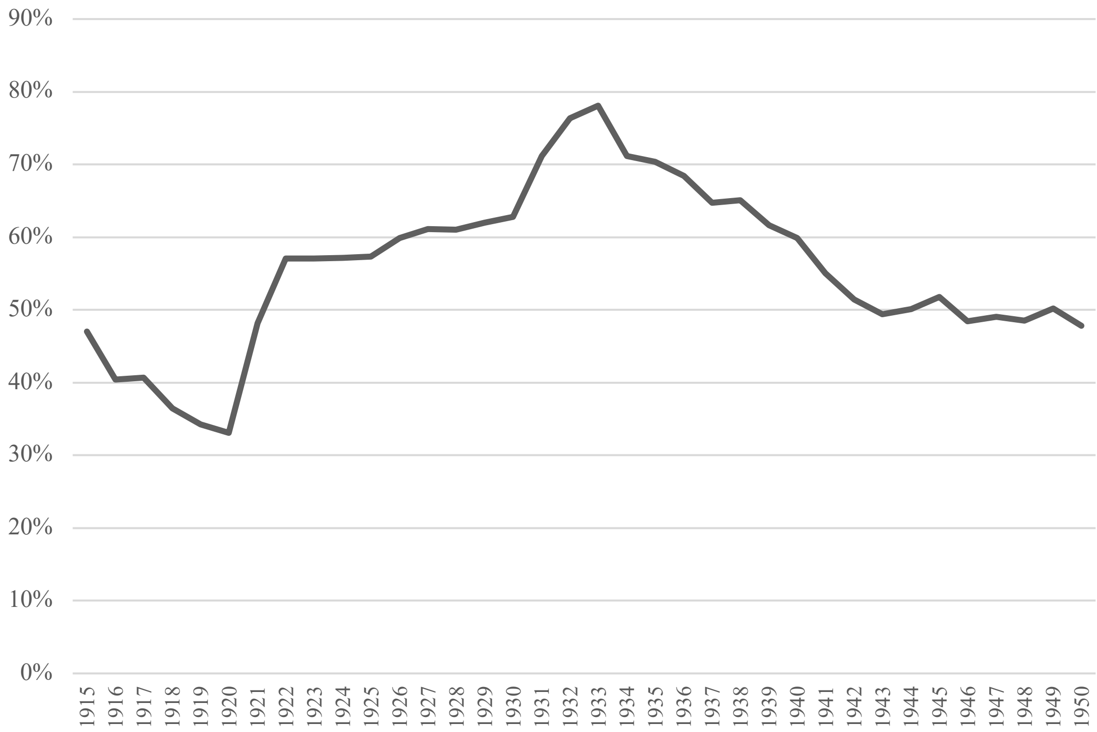


Sources: Ekdahl and Gustavsson, 1945; Silk, 1948, p. 119; and author's own calculations.

In addition to Government spending, households also played a key role. Following a period of deleveraging during the First World War, Swedish households began to borrow again. Lending from the mortgage associations and the commercial and savings banks helped to fuel this, and much of this spending was on housing. Indeed, as Jesper Roine and Daniel Waldenström (2009a, p. 165) note, this is the period when we begin to see the rise of 'popular wealth', in the form of owner-occupied housing. Mortgage interest rates were below four per cent throughout much of the 1930s and borrowing, by the mid-1930s, was at record highs. Household debt, as a share national income, astonishingly, reached a level that would not be eclipsed until the 2000s!

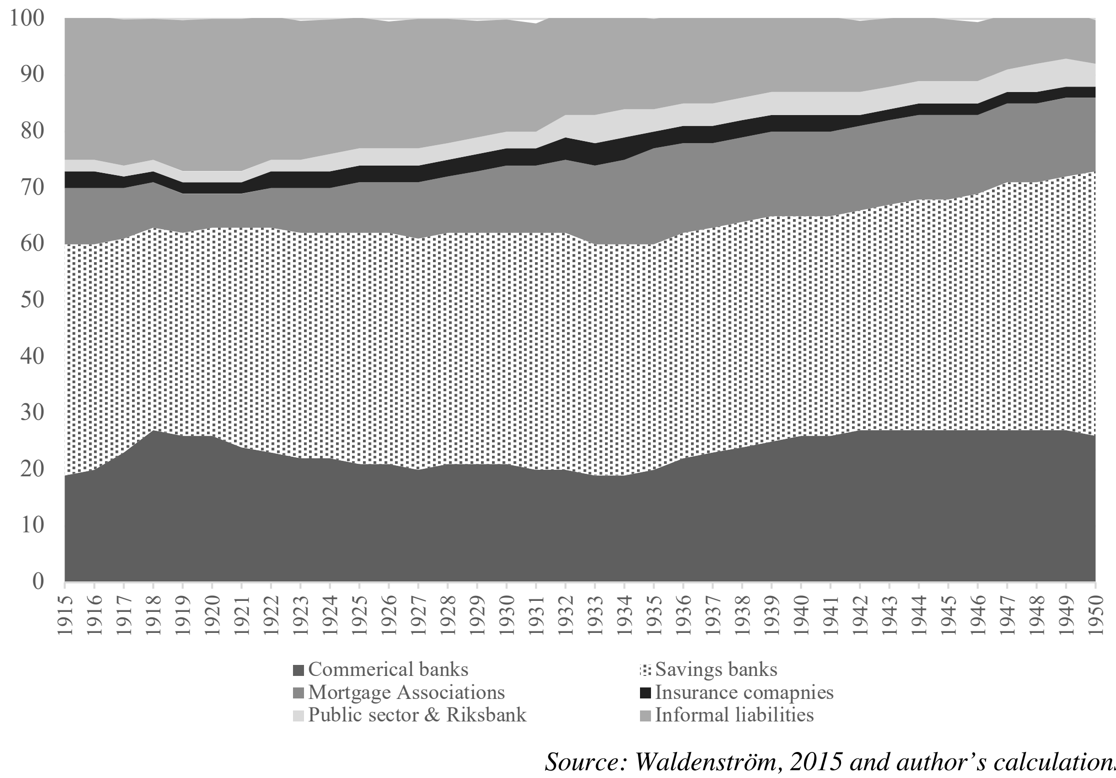
To add a comparative dimension to the mortgage interest rates featured in Figure 3.1, (above) the corresponding mortgage interest rate in 1939 in Britain was 4.79 per cent (BSA Yearbook, 2014), and in the USA, it was higher still at 5.55 per cent (Snowden, 2013, p. 54). Swedish households were borrowing more, and on more favourable terms of interest and maturity, than their Anglo-American counterparts. The availability of credit and rising incomes, in combination with the government's push to increase the housing supply, were the core determinants influencing these borrowing trends. The aggregate level, and composition, of household borrowing are presented in Figures 3.2 and 3.3 respectively.

Figure 3.2. *Swedish household debt as a share of national income, 1915-1950*



Source: Waldenström, 2015

Figure 3.3. *Composition of Financial Sector Credits to Households, 1915-1950*.



Source: Waldenström, 2015 and author's calculations

Figure 3.3 provides a breakdown of lending to households on both the formal and informal credit markets. We can see that, throughout the late-1920s and 1930s, the mortgage associations increased their market shares. However, the most important actors in town, by far, were the savings banks. Ever since the rise of the organised, institutional credit markets from the mid nineteenth century onwards, these institutions played a pivotal role in lending to households (see Chapter II). What is most striking about this Figure is the continuity of their market share. As Blackwell and Kohl, (2017) note, these institutions, in combination with state-sponsored programmes, played a central role in expanding the homeownership franchise (see Chapter II). Indeed, by the end of the 1930s, homeownership rates were higher than those in Britain, and similar to those in the USA.

There is little doubt that the growing supply of credit to households and the construction industry, as well as government housing measures, produced a short-term economic stimulus, but the Social Democrats had longer-term visions for housing beyond manufacturing debt. One of their most historic actions was to appoint the Social Housing Commission (*Bostadssociala utredningen*). This enquiry, set up by Gustav Möller, and coordinated by statistician, Bertil Nyström, and economist, Alf Johansson, was tasked with mapping national housing conditions and providing guidelines for housing policy; specifically, in relation to the structure of loans, grants and subsidies (SOU, 1946). The Commission also included renowned economist, Gunnar Myrdal, and HSB's Sven Wallander[91]. Whilst the Commission did not report until 1946, its influence (and the influence of its members) should not be understated in the period leading up to its publication. The Commission's programme, according to Richard P. Appelbaum (1985, p. 223), would become the *guidepost for three decades of Swedish housing policy*. I return to the influence of this report shortly.

For the budget years, 1933 to 1940, the Swedish parliament 'appropriated' 125,800,000 kronor for housing, of which roughly half went to rural housing improvement (Silk, 1948, p. 121). This sum was directed towards subsidies and loans for the construction, improvement, and repair of substandard dwellings (Silk, 1948, p. 42.)[92]. According to some, (Castell, 2010; Hedin *et al*., 2012; Andersson and Magnusson Turner, 2014), this was the period in which the principles of interventionist housing policy first emerged. However, as noted above, this mix of loans and subsidies was very much a continuation of the housing policies enacted prior to 1932. Thus, whilst there was a significant lag between ideas and their implementation during the Social Democrat's

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[91] Whilst Gunnar Myrdal was a Social Democrat stalwart, the same cannot be said of Sven Wallander, who was key in the establishment of HSB. Wallander was a progressive, but not ideologically welded to the tenets of social democracy.
[92] Grants were limited to 1,000 kronor per dwellings. In general, grants could not exceed 50 per cent of the estimated costs. In special cases, however, they could amount to 80 per cent of the costs. Loans could amount to as much as 3,000 kronor, or a maximum of 70 per cent (Silk, 1948:42).

first two decades in office, as both this, and the previous chapter, has shown, interventionist housing policy with social ambitions was not, strictly speaking, a 1930s phenomenon.

The 1930s was also a key time *beyond* the sphere of state housing policy. The Swedish Union of Tenants' national association, (*Hyresgästföreningen*) adopted its first rent negotiations with the landlords' association (*Fastighetsägarna*) in 1933 (a model which, despite an interlude, would influence the structure of the unique corporatist rental negotiations, which still exist in Sweden today) and HSB's, member associations were expanding throughout the country at pace[93]. Further, Gunnar and Alva Myrdal (1934) published their influential monograph, *Crisis in the Population Question* (*Kris i befolkningsfrågan*). Gunnar Myrdal, as a key member on the *Bostadssociala utredningen*, had much influence within the Social Democrats, and the publication would have wide-reaching implications.

State Fund for Low-Income Families with Many Children, (Barnrikehussatsningen), HSB, and nascent rental corporatism

In their third year at the helm of government, the Social Democrats introduced a housing policy based on the findings of the Population Commission (*befolkningskommissionen*), which, according to Per Borg, can be said to represent the first housing policy that placed social goals above all other ambitions (Borg, 2004). The Commission closely followed the approach adopted by Alva and Gunnar Myrdal in their monograph in its report (Silk, 1948, p. 44), and put forward proposals, which, it was hoped, would help to stem the decline in the birth rate. Improving housing conditions and reducing housing costs for low-income families (as identified by the Myrdals) were seen as key objectives to achieving these ends. Thus, a programme to provide adequate housing for families (*Barnrikehussatsningen*) and to alleviate overcrowding was put forward (*ibid.*, p. 44). What made this policy significant was not just that it was progressive *per se* (arguably financial support to cooperatives and municipalities from the 1910s onwards was socially *progressive*), but that the financial support was targeted at specific families, and not the housing system as a whole[94].

The loans supplemented both rents and the production of rental units, and also stipulated building standards and form[95]. The size of the allowance was dependent upon *income* and the *number of children*. Rents were determined by subtracting 30, 40, or 50 per cent from the costs of the apartment, according to whether the family had respectively three, four, or five children to support (Johansson 1938, p. 168), as follows:

[93] Between 1930 and 1940, HSB's membership doubled.
[94] This was novel, and partly as a result of better data and information about households. Before this time, there was simply insufficient data to target specific families at a national level.
[95] The apartments had to be of at least three rooms (Ramberg, 2000, p. 295).

3 children = -30%

4 children = -40%

≥5 children = -50%[96]

The need for these grants was obvious. When the Population Commission reported, it was revealed that, in the fourteen cities and towns covered, two thirds of all lodgings consisting of (at most) two rooms and a kitchen, and were lacking basic sanitation (Silk, 1948, p. 24). The picture in rural locations was, as ever, worse, with 32 per cent of all rural dwellings classified as either dilapidated or having 'basic defects' (*ibid*.).

A popular radio show at the time, *Lort-Sverige* (*Dirty Sweden*), hosted by the Anglo-Swedish author and journalist, Ludvig 'Lubbe' Nordström, sought to highlight the poor housing conditions at the time. This ran until the late-1930s and was a reminder to the Social Democrats that their housing programmes were failing to deliver in the way many low- and middle-income families had hoped. To add to the woes of the Social Democrats, rental strikes and boycotts were taking place with ever-greater frequency. In 1933 and 1936 there were big organised rent strikes in Gothenburg (Anderman, Neal and Victorin, 1983; Mayer, 2016). This forced the government to act, and led to a stopgap compromise between the Swedish Union of Tenants, (*Hyresgästförening*) and the landlords' association (*Fastighetsägarna*), which would prove to be of enduring significance, as Bo Bengtsson notes:

> A government commission, including representatives of the organisations on both sides, was initiated in order to settle the disturbances and normalize the relations … [the] decision making process was seen as a political recognition of the organisation, and one seat on the new mediation boards for rental conflicts was reserved for a local representative of the tenants (Bengtsson, 2007, p. 12).

Such a compromise had been attempted during the First World War with rent tribunals at the municipal level but had had little enduring impact (see Chapter II). This *political recognition* of the tenants' movement, though, would eventually pave the way for a more substantive and enduring, *corporatist rental programme*, not unlike the historic wage negotiations agreement between the Swedish Employer Association (SAF) and the Swedish Trade Union Confederation (LO) in *Saltsjöbaden* in 1938 (Victorin, 1979; Bengtsson, 2004). However, at this time, political recognition alone was not enough. The new Rental Act was slow to emerge (it was not passed until 1942) and, until then, tenants were still not granted security of tenure (Bengtsson, 2007, p. 12).

Diphtheria, scarlet fever, infantile paralysis, rickets, whooping cough, and a whole host of other serious infectious diseases were still prevalent in families occupying overcrowded

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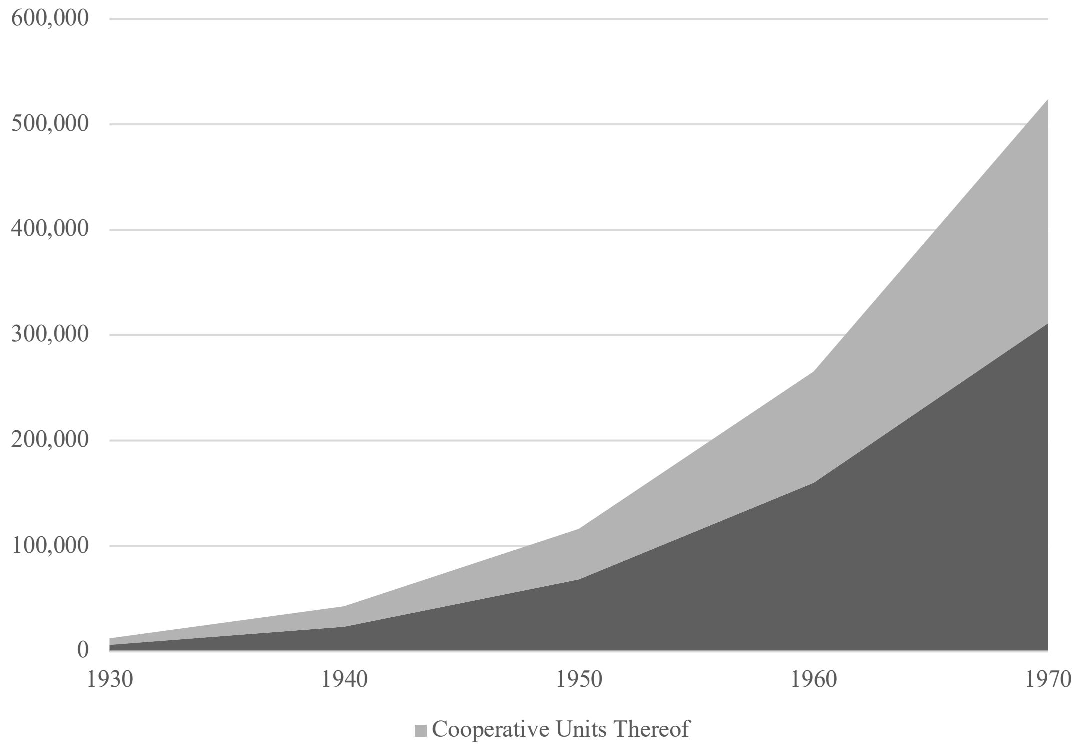
[96] Johansson, 1938, p. 168.

dwellings (Silk, 1948, p. 25). In order to remedy these social ills, the Social Democrats would need to increase their housing budgets further. Following the recommendations of the Housing Commission, they did just that. Subsidies and loans were granted to local authorities and non-profit corporations *for the construction or conversion of dwellings for families with at least three children under sixteen years of age* (Silk, 1948, p. 45). These loans were to be amortized over thirty- to forty-year periods in the case of new houses (*ibid.*), which a truly astonishing amortisation period at this time in Europe, and only possibly thanks to the state's willingness to absorb risk. Further, interest rates corresponded to the credit costs to the state.

At the local level, municipalities were playing an increasingly important role in the implementation of housing policy. Thanks, in part, to *Barnrikehussatsningen*, this was the time in which the first truly public housing companies (*allmännyttiga bostadsföretagen*) emerged. The legislation stipulated that building contractors (not the builders themselves) had to be from the public sector (Ramberg, 2000, p. 295), and municipalities *were required to provide the balance of capital needed above the state loan, and to rent the apartments at a scale of rents corresponding to the cost price* (Silk, 1948, p. 45). Municipalities, thus, used their own housing companies (many of which still exist today), but they also worked closely with HSB (HSB, 1975).

HSB were an organisation at the forefront of rationalisation, standardisation, and technical innovation. Indeed, arguably, HSB spearheaded the high technical and building standards which would later come to characterise Swedish public housing. By the mid-1930s, nearly 15 per cent of Stockholmers were living in cooperative apartment houses (Childs, 1938, p. 84) and HSB's housing experience was, to a considerable degree, utilised by municipalities across Sweden during this period (HSB, 1975). This was no coincidence. As a member of the Government's housing commission, Sven Wallander knew that this new housing programme had huge implications for the cooperative association he was so central in establishing. Wallander and his HSB representatives wasted no time in exploiting this new programme. As soon as the decision to provide state support for large families was finalized, HSB representatives were visiting local politicians, *with standard floor plans in hand* (Gustafson, 1977 in Strömberg, 1992, p. 250). As Figure 3.4 attests, a relationship was formed between HSB and the municipalities, which would last well into the 1970s.

Figure 3.4. *Aggregate Number of Apartment Completions by HSB, 1930-1970*



Source: HSB, 1975

Kenneth Snowden (2000, p. 54) argues that, to be complete, '…explanations of institutional change should not only explain why a new mechanism worked, but also *the timing and location of its appearance*'. Why was it now that Public Housing and the cooperative movement really gained traction? One obvious answer is: generous state support, which HSB and municipalities were able to benefit from. Whilst the cooperative movement predates the mid-1930s, this was the period in which it gained momentum. Indeed, both municipalities and the Riksdag were utilising HSB's expertise to extend affordable housing to low income groups and families with large children, with the latter making available 'a generous appropriation for construction of low cost apartments' (Childs, 1938, p. 89). It is important to pose counterfactuals when analysing these processes, however. Had state housing support not materialised at this specific time in HSB's lifecycle, there is reason to suspect that the cooperative sector may have, at best, remained residual or, at worst, languished. Instead, HSB became institutionally embedded within Government housing policy (Ganapati, 2010, p. 377). This was no coincidence.

The question of how the state and municipalities chose to coordinate housing policy and, in particular, production is important here. Wallander was a gifted and charismatic lobbyist, whose influence on housing policy (through his role on the Housing Commission) should not be underestimated (Strömberg, 1992b). Known even to international commentators for his talents, which combined 'remarkable skill and inventiveness as an architect with a keen business sense and a capacity for organisation' (Childs, 1938, p. 85), he was a formidable component of Sweden's cooperative housing movement. However, were we to transplant a similarly flamboyant and passionate cooperative housing advocate into, say, Britain, at this time, the result would almost certainly have been quite different. Labour-led councils in Britain *remained deeply suspicious of cooperatives* (Vall, 2015, p. 529). Labour councils in Britain, then, adopted a different path, socialising the housing stock and, to a great extent, enacting a more radical housing programme than Sweden. The path adopted by the Social Democrats was more of a *middle way*, combining municipal, council-style housing, with cooperative housing provision and private building. This was not so much a break with the housing regime of the past, but more an *institutional crystallisation* of the housing system that had developed in the previous decades.

It is, of course, possible to imagine other outcomes during this period; there was nothing inevitable about increased state support to municipalities and cooperatives for the production of housing for low- and middle-income groups. However, in the context of growing social discontent, and recognition of the existence of a national housing problem (as highlighted by the Myrdals), it is, perhaps, not surprising that the support to the housing system provided by the Social Democrats before the Second World War was aimed at existing institutional financial and tenure structures. Politicians, generally speaking, show little propensity to *reinvent the wheel*. Further, the development of Sweden's formal credit market, not to mention the improving financial outlook of both the state and Swedish households, meant that support could be increased as never before. Little did these actors know that these subsidies and loans were merely the prelude to greater state involvement.

3.2. *The Second World War*

> *To this generation of Swedes, housing is becoming the panacea for all social evils. What the cathedral was to their ancestors, the bible to their grandfather, and Kreuger debentures to their fathers, the modern spacious home (filled of course with stainless steel and labour savings gadgets) has become to them*
>
> E.G. Sandström, 1945[97]

By the outbreak of the Second World War, housing represented between one-third and one-half of all real investment in Sweden (SOU, 1968, p. 387). Private building concerns, cooperatives, and municipalities were all building at record levels, thanks to a combination of abundant credit and state-subsidies and, whilst the state's role was key, Silk notes that the main factors stimulating residential building were the *great increase in real income* and the *drop in interest rates* (Silk, 1948, p. 48). Indeed, some orthodox economists hold the year 1939 up as an example of the efficacy of the private building sector. A record number of dwellings were constructed throughout

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[97] Sandström, 1945, cited in Dickens *et al*., (1985, p. 55)

the country in this year; a textbook case, according to some, of how private, *market actors*, can efficiently calibrate the laws of housing supply and demand, without the need for State *interference* (Söderlind, cited in Ramberg, 2000, p. 102)[98]. Clearly, as this and the previous chapter has shown, such an interpretation is erroneous. However, as celebrated as this decade may be by orthodox economists, this *intermezzo* of high productivity would not last.

No sooner had Hitler's panzers rolled into Poland during the *September Campaign*, than were the effects on housing construction in Sweden felt. In a repeat of the impacts of the First World War, the construction industry was paralyzed following the outbreak of the Second World War and, yet again, the state was called upon by private building concerns, municipal housing companies, and cooperatives to act. In response, as Rudolf Meidner (1993) notes, Sweden introduced regulations, rationing, and price and investment controls; *in short, a planned war economy*. This would have ramifications for Swedish housing, and the financing thereof, which would resonate throughout the twentieth-century[99]. As elsewhere, the Second World War was a *critical juncture*, which would irrevocably alter the relationships between the state and the systems of housing and finance in Sweden.

Figure 3.5 (below) shows the extent of the housing production collapsed after 1939. As was the case during the First World War, the Government used loans, capital subsidies, and guarantees for mortgage interest payments as a means to support the housing system (Boverket, 1960, p. 120). Loans for new rental housing production were provided on the condition of controlled rents (and adherence to strict building standards), and rents on existing buildings were frozen in 1942. These extraordinary measures worked to combat the precipitous housing production decline, and halt the inflationary tendencies in rent costs, which would have inevitably been brought about by a protracted housing shortage (*ibid.*). Significantly, also during this year, the *barnrikeshus* policy was replaced with a system of universal subsidies aimed at the entire housing system.

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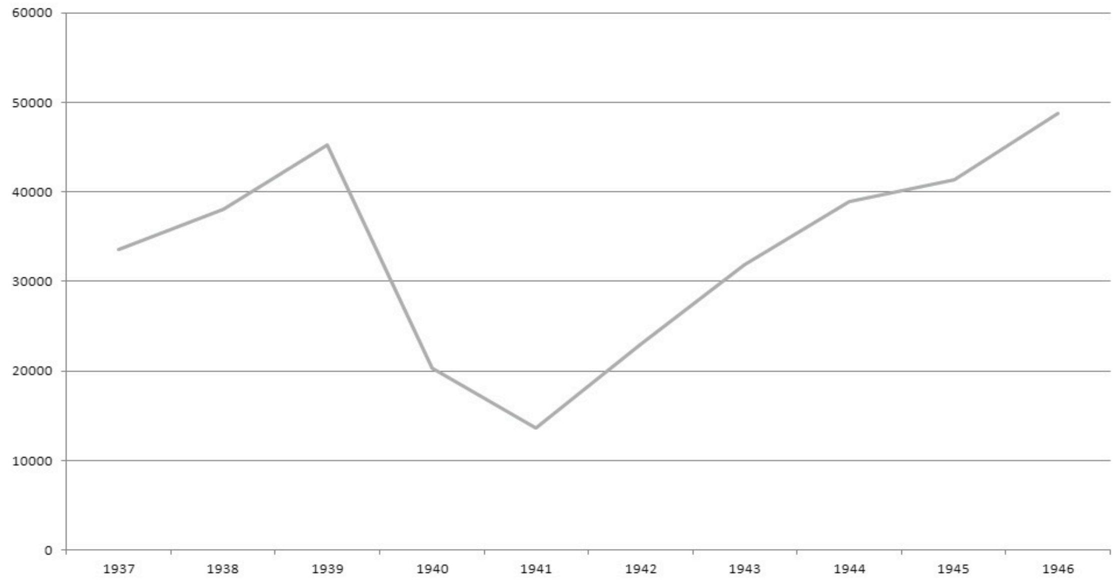
[98] Two comments are necessary in relation to this point. First, irrespective of whether housing supply and demand were balanced during the late-1930s, the housing stock was still sub-standard by Western European comparison. Vacancies in Stockholm there may have been, but overcrowding was still high, as large groups of the population were forced, "for economic reasons" to live in small, overcrowded flats (Boverket, 1960, p. 121). Second, how this exceptional year can constitute the basis of an economic rule remains to be seen.

[99] For instance, "In 1942 new State loans were introduced to support construction of owner-occupied houses", a policy which would last until 1991 (Fälting, 2000, p. 39).

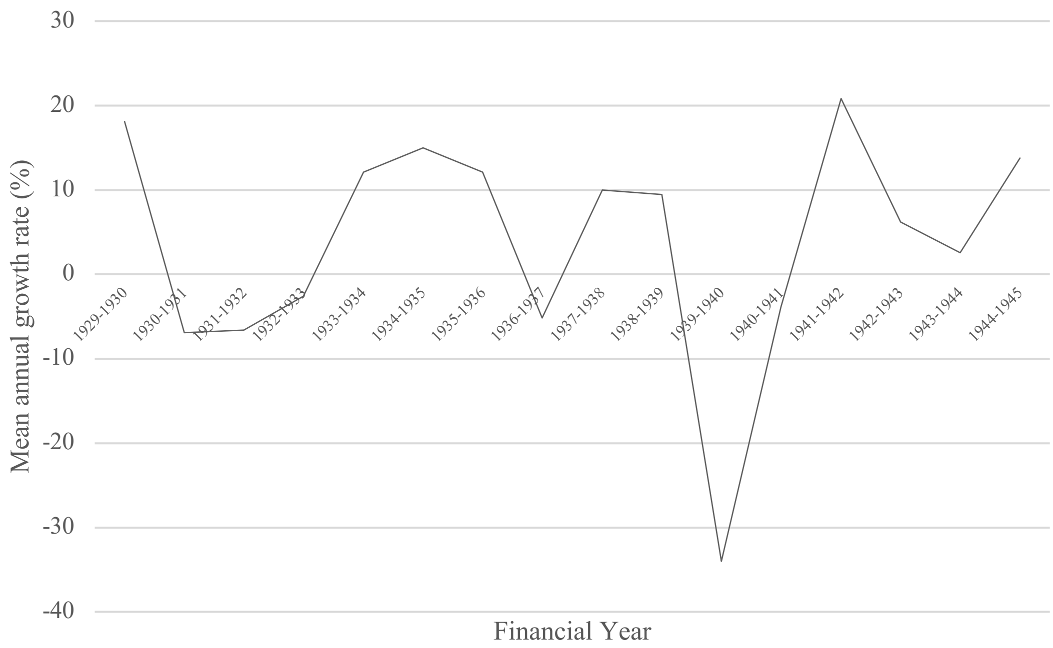
Figure 3.5. *Housing construction in urban areas, 1937-1946*



Source: SABO, 2015

By bearing the brunt of housing investment risk, the Swedish Government was able to both stimulate production *and* control rents. The former, it should be noted, expedited the latter. By ensuring that housing investment was both profitable, and that risk was mitigated, the state was in a position to be able to dictate terms on a *quid pro quo* basis. Bengtsson (2007, p. 12) notes that the decision to control rents in 1942 was *politically uncontroversial and regarded as a practical and provisional response to the crisis*. The reason for the lack of controversy (unlike the furore surrounding rent controls during the First World War) was that any objections that the building industry, or private landlords, may have had were assuaged by the presence of generous subsidies. Thus, by shoring up the profit margins of private capital, and by enacting all of the above measures, the economic risks of new construction came to rest with the state (Ramberg, 2000, p. 295). Overall, the Social Democrats subsidised, in one form or another, over 90 per cent of wartime construction during the period 1942-1945 (Franzén and Sandstedt, 1981, p. 199). This phenomenal assistance can be seen as an extension of the subsidy programmes enacted during the previous decades, but on a much greater scale; and the impact of these programmes on the construction sector had the desired effect, as Figure 3.6 illustrates.

Figure 3.6. *Annual growth rates (%) of the volume gross value added of the building and construction sector*[100]

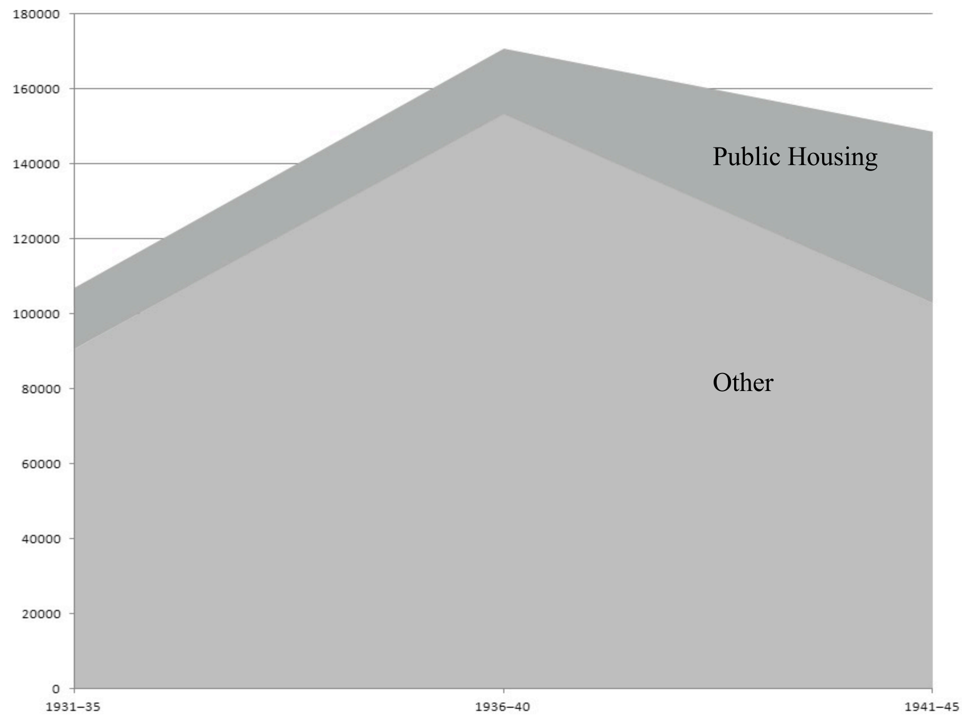


Source: Edvinsson, 2005

From this point onwards, the production of Public Housing (*allännyttan*) became central to the state's housing programmes. As Figure 3.7, below, attests, the Public Housing share of total housing production increased sizably, helping to buoy overall production, and beginning a trend that would not be reversed until the 1970s. This, as well as the Rent Control Act of 1942 (*Hyresregleringslagen*, SFS 1942:429), would irrevocably alter the terms and conditions of rental housing in Sweden. State expenditure on housing was now breaking records year-on-year, with housing 'appropriations' for the budget years, 1940 to 1945, totalling 728,100,000 kronor, and investment in 1944/45 alone totalling 277,900,000 kronor (Silk, 1948, p. 122).

[100] Basic prices and corrected for changes in the value-added share in gross output.

Figure 3.7. *Public housing share of all housing construction*



Source: SABO, 2015

Price controls during this period were not only confined to the rental sector. Also, in 1942, a law was enacted to *control the assignment and transfer of cooperative apartments* (SFS 1942: 430). The Cooperative Housing Control Act (*Lagen om kontroll av upplåtelse och överlåtelse av bostadsrätt*) did nothing to stifle the development of HSB or the cooperative movement in general (on the contrary) but was intended as a bulwark against speculation. There is little to suggest that this was strictly *necessary* from the point of view of the existing housing cooperatives as, hitherto, HSB's *raison d'être* had been to provide good quality affordable and accessible housing[101]. However, there was a fear that the *rent gap* between the newly controlled rental sector and the cooperatives would open up space for private landlords to convert rented housing into cooperatives, and sell cooperative shares at *usurious rates* (Sørvoll, 2013, p. 138). As Jardar Sørvoll notes, the purpose of the legislation was to, '…make it harder to circumvent the rent control act for landlords and prevent the cooperative sector from becoming a safe haven for […] speculative activity and profiteering' (*ibid*.). Thus, the Cooperative Housing Act provided legislative protection of the cooperative ethos.

[101] At this time, HSB could still boast much cheaper dwelling costs than the private rental sector (Lundevall, 1993), and continued to do so well into the 1960s (Sørvoll, 2013, p. 140). Further, they had their own, well-established, controls on prices. Even from the 1920s, HSB associations had stipulated that prices on second-hand contracts could *not exceed the original down payment, plus the value of amortization payments on the association's loans* (Sørvoll, 2013, p. 140).

By now, another major player in the cooperative movement had entered the fray. In 1940, *Svenska Riksbyggen* was founded in Gothenburg. This cooperative was born out of the construction union movement (affiliated with the Labour Organisation) in response to the employment crisis in the building trade brought about by the War (Ganapati, 2010, p. 369). Today, this cooperative is Sweden's second largest, after HSB. Again, as was the case with HSB in 1923, a *bottom up* organisation, born out of civil society, was formed which sought to improve the living standards of tenants and construction workers in the face of trying socio-economic conditions. With the help of state subsidies, this cooperative became a *bona fide* success.

Despite robust growth[102], by the end of the War, the cooperative sector was still relatively small, accounting for just over four per cent of the national housing stock. Nevertheless, by international comparisons, Sweden had the largest cooperative housing sector in the world. As far as other tenures were concerned, owner-occupation had been increasing steadily since the 1920s, and now accounted for nearly 40 per cent of the housing stock. This was significantly higher than in Britain, but private rentals (which constituted around 50 per cent of Sweden's housing stock) were roughly equivalent in the two countries. This difference can be explained by the fact that Public Housing was more marginal than council housing in Britain (accounting for just six per cent of the housing stock)[103]. This would change but, as I show, not as quickly as some scholars assume.

3.3. *The Post-War Years: A Brave New World?*

As was the case during the First World War, the Second World War implied an immense financial bonus to both Swedish industry and the state (Schön, 2008). By the end of the War, Sweden had developed a highly efficient and profitable industrial sector and, by the mid-1940s, had joined the ranks of the world's wealthiest countries, as measured by GDP per capita.

The Swedish state had already used methods of managing fiscal and monetary aggregates during the 1930s, and especially during the War years, but these techniques of macroeconomic management would develop further. Housing policies, even prior to the Second World War, were part of developing programme, which attempted to stimulate the rise in effective demand, improve living conditions, and regulate the business cycle, but housing would take an even more central role in the economy henceforth. The post-War period marked what many scholars have referred to as the *Golden Age* of housing in Sweden (Christophers, 2013, p. 7). This was not unique in Europe or the USA at this time. What marked Sweden out as exceptional in the post-

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[102] Cooperative housing construction accounted for around 10 per cent of all housing units produced in urban areas from 1924 to 1933 (Silk, 1948, p. 39).
[103] In Britain at around this time, council housing made up around 18 per cent of the total housing stock.

War years, however, was the constellation of actors and institutions involved, and the scale and pace of development.

Following the death of Per Albin Hansson in 1946, Tage Erlander became Prime Minister[104]. A staunch supporter of the *People's Home* ideology, he was acutely aware of the political importance of the *Housing Question* and retained Möller in his post as Minister for Social Affairs. Building on the experiences and financial capabilities that the state had agglomerated during the War, the Parliamentary decision of 1946 upped the support for the housing industry, following the recommendations of the Social Housing Commission. This would place the extraordinary programmes of the War-years on a more permanent footing. Mortgage institutions and other loan providers would provide primary and secondary loans of up to 70 per cent for the construction of houses, as had been the case previously. However, in the case of multi-dwellings buildings, the state deepened their financial involvement by providing tertiary loans at different levels of support (Niva, 1989, p. 211). Municipalities and Cooperatives were the principle beneficiaries of these loans, with the state providing 100 per cent and 95 per cent of the tertiary loan capital respectively, but private building concerns also benefitted, as Table 3.2 shows.

Table 3.2. *Structure of Tertiary Loans after 1946*

Tenure	Tertiary Loan (%)	Max. loan share (%)	Interest Rate (%)
Public Housing	100	30	3
Cooperatives	95	25	3
Private building enterprises	85	15	3

Source: Lundevall, 1994, p. 24

What this financial support implied was that the Public Housing associations (*allmännyttiga bostadsföretag*) were, essentially, no longer required to raise their own capital in order to commence building projects. Cooperatives (*kooperativa företag*) needed only 5 per cent, and private building companies (*enskilda företag*) were only required to put forward between 10 and 15 per cent of their own capital (Niva, 1989, p. 211). The amortisation period for the largest tranche of the loan (primary and secondary loans provided by mortgage associations, savings banks and commercial banks) varied slightly, but the tertiary loan amortisation period was up to 40 years and the rate of interest was set at 3 per cent (Lundevall, 1994). Such a period of amortisation, and under such terms, was extraordinary in Western Europe at this time.

Swedish Public Housing companies, cooperatives, private building concerns, *and* households, were now borrowing cheaper, and for longer, than their counterparts in Western

[104] Erlander would hold office for 23 years, making him the longest serving Prime Minister in Swedish history.

Europe and the USA, thanks to the structure of tertiary loans and the ability of the state to absorb risk in the primary and secondary mortgage markets. In 1945/46 the total nominal value of tertiary loans was around 190,000,000 kronor (Riksbanken, 1950). However, by 1975/76, that figure was 727,076,000 kronor for multi-dwelling units alone, and 1,809,728,000 kronor for *small houses* (Riksbanken, 1980)!

The immediate post-War years saw ever-greater injections of state-sponsored capital into the housing system and, by 1949, state finance accounted for nearly 10 per cent of the entire Swedish housing finance system (SOU, 1968). However, other measures beyond the sphere of finance were introduced too. Shortly after the War, the 1947 Housing Provision and Building Acts, inspired by the investigations into planning and land policy in Great Britain (Pahl-Weber *et al*., 2009), were introduced. These, as Appelbaum (1985, p. 226) notes, '…allocated to the municipalities responsibility for solving the housing shortage, along with the right to decide how all land with the municipal boundaries was to be used' and also required municipalities to draw up five-year plans (Ödmann and Dahlberg, 1970, p. 183). This can be seen as the institutionalisation of what many municipalities had, since the late-nineteenth century, sought to do. This Act institutionalised municipal local planning and building power in a way Albert Lindhagen had envisioned, augmenting the power of municipalities to utilise their planning monopolies. During this same year, housing exchanges (*Bostadsförmedlingen*) were established, whereby, as Christophers (2013, p. 15) notes *housing allocation occurred on the basis of a queuing system* to channel apartment vacancies.

The following year (1948) the National Housing Board (*Kungliga Bostadsstyrelsen*) was created, replacing the State Building Loan Office. This Board worked closely with municipalities and oversaw their plans, as Ella Ödmann, and, Gun-Britt Dahlberg note:

> [T]he [municipal] programmes [were] submitted to the county housing boards, where they [were] reviewed in light of the regional allocation of resources and then referred to the National Board. They thus constitute[d] an important source of information concerning local requirements and resources' (Ödmann and Dahlberg, 1970, p. 184).

As well as overseeing town plans, the National Housing board was, from 1949 onwards, to play a greater role in technical standardisation, when the National Board of Building Research was established by the Government (Boverket, 1960, p. 145). This organisation helped pave the way for rationalisation in the building trade and assisted in ushering in a new era of concrete prefabrication.

Such rationalisation, technological improvement and functional efficiency was seen as necessity in the post-War years. In 1945 only 21 per cent of all dwellings in Sweden had a bath or shower; 64 per cent of inhabitants had to make do with an outside toilet; and less than half had central heating (Appelbaum, 1985, p. 227). 50 per cent of housing with central heating may have been tolerable in warmer climes, but in Sweden during the mid-twentieth century, the reality of such figures was dire, and, as Appelbaum (*ibid.*) notes, these figures had only improved marginally by 1955. However, with a highly efficient industrial sector and technological advancement, as well as expanding state-support and stipulations on building standards, things were changing, and it was during this period that we witness a confluence of Sweden's functionalist tradition with the planned war economy; and the product of this confluence was a *housing industrial complex*.

In 1949, the State Owner-occupied Housing Credit fund (*Statens egnahemslånefond*), which had been key in helping to improve dwellings throughout Sweden hitherto, was, after 45 years, wound up. In its final year, it granted 5,341 loans (of which 5,252 were *interest free*), and issued loans totalling 62,387,000 kronor (SCB, 1950 p. 207). This was by no means a capitulation to the ideals of improving housing conditions in the countryside and suburbia, or an ideological shunning of owner-occupation *per se*. Indeed, throughout the 1930s and 1940s, the Social Democrats had steadily increased the activities of this Fund. Per Albin Hansson had, in 1933, introduced a new loan system with the primary aim of aiding the construction of owner-occupied dwellings for rural workers (Johansson, 1938) and the *Own-Home* rhetoric (*egnahemsrörelsen*) was even incorporated into the People's Home discourse of the Social Democrats during much of this time (Cramér, 1943; Harrison, 2014). However, after two decades of actively supporting the building and improvement of single-dwelling, owner-occupied units, there is little doubt that, by the 1950s, the pendulum had tipped in favour of financial support for multi-dwelling buildings in the form of Public Housing and Cooperatives. Nevertheless, much support was still being given to owner-occupiers via the universal, state-sponsored financial mechanisms. With the changing demographic realities brought about by industrialisation, the Fund was deemed to have run its course and this spending was to be subsumed within the general structure of grants, loans and interest subsidies.

In 1950, The Swedish Association of Public Housing Companies (SABO) was formed at a meeting of the municipally owned Gothenburg Housing Company. This would create an advocacy group which still plays a central role in the functioning of the Swedish rental market today and which, by 1958, would play a key role in collectively negotiating municipal rents and resolving disputes with the Swedish Union of Tenants (Hyresgästföreningen). The Security of Tenure Act (*besittningsskyddslagen*), passed in 1956, meant that, for the first time, the principle of rent control *proper*, was *abandoned in favour of a comparative trial with similar apartments* (Bååth, 2015, p. 4). It is important to note that, since this time, Public Housing rents (and from the 1970s onwards, private rents too) have been determined *by market parties without state intervention* (SABO, 2013, p. 1), in contrast to the deluge of misinformation in the Swedish media about the existence of *rent controls* (Bengtsson, 2016). This arrangement, which had existed in various guises since the 1930s, was thus institutionally crystallised and mirrored, somewhat, the corporatist wage negotiations between the Labour Organisation (LO) and the Employers Federation (SAF) established at Saltsjöbaden in 1938[105].

By the mid-1950s, nearly all of the components, which can (in hindsight) be said to constitute the *Swedish housing model*, (specifically rent negotiations and the system of general grants, loans and interest subsidies) were in place. Cooperatives were expanding their market-share year-on-year; Public Housing companies had formed a powerful interest group and were building at record rates (Ödmann and Dahlberg, 1970, p. 186); and tertiary state loans underpinned the entire housing finance system (with preferential treatment given to municipal housing and cooperatives). Indeed, by 1959, the state's financial support to housing comprised over twenty per cent of Sweden's entire housing finance system (SOU, 1968). Further, the rental market had developed a distinctly *unitary* character, whereby access to Public Housing was universal and this tenure-form competed directly with the private rental sector (see Kemeny, 1995). In their 1956 election manifesto, the Social Democrats even declared that: *The housing market must not be allowed to become a playground for private speculative interests* (Socialdemokraterna, 1956 author's translation), implying that, under their stewardship, the interests of private speculators had been muted. Still, this had less the feeling of a *Brave New World*, and more one of piecemeal development, best summed up by Erlander in one of his diary entries from the early 1950s:

> The housing question is becoming more and more precarious. The difference between rental rates, and the current violent price increases on building materials are perhaps not the worst. *The tensions derive from the difficulty of conducting an active housing policy while maintaining tight monetary policy*. Probably, we must conduct an nonsensical housing policy. *There are permanent conflicts between the finance and social departments* (Erlander cited in Eriksson, 2004, p. 114, author's translation, emphasis added).

It is these tensions between housing supply, housing finance, and the monetary policy effect on various other branches of the Swedish economy, that dogged the Social Democrats throughout the 1950s. Indeed, housing shortages were still felt and the seemingly perpetual Housing Question was still a politically charged issue, with parties in the Riksdag trying to out-do each other vis-à-vis their commitment to get to grips with the problem (Ramberg, 2000, p. 296). Hitherto, it is difficult to discern a rapid transition, but this would change.

[105] This, as Meidner notes, 'was the tacit understanding of the agreement that state intervention in labour market matters should be avoided' (Meidner, 1993, pp. 222–223) and, arguably, the same can be argued *vis-à-vis* rent negotiations from this period onwards.

3.4. *Financing a Million Homes*

This section explores the most (in)famous and ambitious housing project in Sweden's history: *The Million Homes Programme* (*Miljonprogrammet*). So-called because over a million dwellings were constructed within the space of a decade (1965-1974), it is difficult to describe the scale and scope of this programme without resorting to hyperbole. Per capita, Sweden produced more residential housing units within this timeframe than *any other industrialised country* (see Table 3.3). The purview of this section (and the chapter more generally) does not extend to an extensive analysis of the completion of this programme. This is quite simply because the tensions and contradictions which brought this programme to bear were vastly different from those which arose as it neared its *dénouement* in the mid-1970s; the latter, then, will be the focus of the following chapter.

Table 3.3. *Number of Completed Housing Units per 1,000 inhabitants*

	1965	1971	1980
Sweden	12.5	13.6	6.2
Switzerland	10.1	10.7	6.7
West Germany	10.0	7.8	5.9
Soviet Union	9.5	9.4	7.5
The Netherlands	9.4	10.4	8.0
Denmark	8.5	10.1	5.8
Finland	8.0	10.8	10.2
Norway	7.5	9.4	9.0

Source: Lundevall, 1996, p. 42

Table 3.3 places this building programme in international perspective. Even today, the dwellings of these *Record Years* make up roughly 30 per cent of the total housing stock in Sweden (Vidén, 2012, p. 22). Multi-dwelling units dominated production, as *the earlier phase of intimate Swedish modern, gave way to the Fordist mode of planning and construction, production* (Vall, 2015, p. 530). This, as Owen Hatherley notes, was an attempt by the Social Democrats *to solve the housing question at one prefabricated stroke* (Hatherley, 2013), but there would be social consequences to this, which would reached far beyond the 1960s and 1970s. Astonishing as these achievements were, and as successful as they were at alleviating the chronic housing shortages that had afflicted Sweden since the great urban spurt, what can seem to be the solution for one generation, can often become the problem for the next (Lisinski, 2016)[106].

During the 1940s and 1950s, much housing production had still been a manual affair, but, during the late-1950s and early-1960s, construction was becoming industrial in scope (Ramberg, 2000, p. 296), as the ideals of functionalism coalesced with the technical and financial capacity

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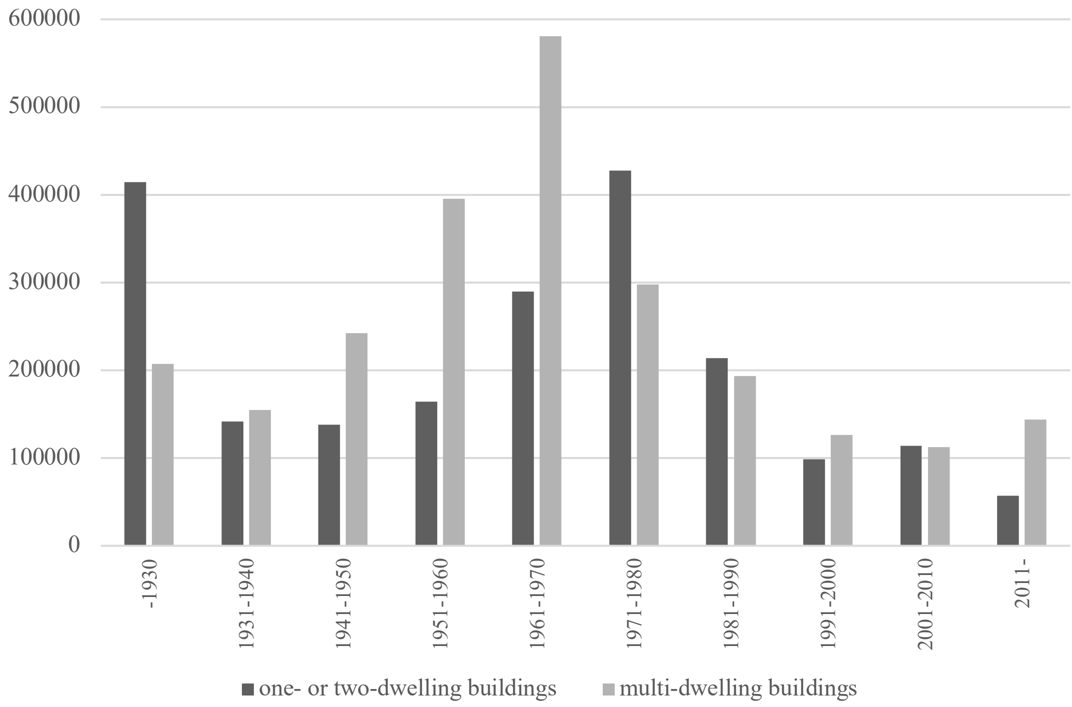
[106] 'The areas with the greatest incidence of crime, often combined with other social problems, were built between 1965 and 1975 in the so-called million program'(Lisinski, 2016 author's translation)

to rapidly expand the housing supply. The Public Housing and cooperative sectors played a key role in driving this, but there was a general consensus throughout the housing industry that rational, large-scale methods of production should become the norm (*ibid*.). Housing shortages were still being felt and, despite a slight decline in the rate of population growth, urban areas were still expanding at between 15 and 20 per cent, decade-on-decade. Modern industrial building-techniques, then, were seen as both necessary and desirable. Building on the capabilities and experiences accrued during the War, this was the period in which Sweden truly developed a *housing industrial complex*.

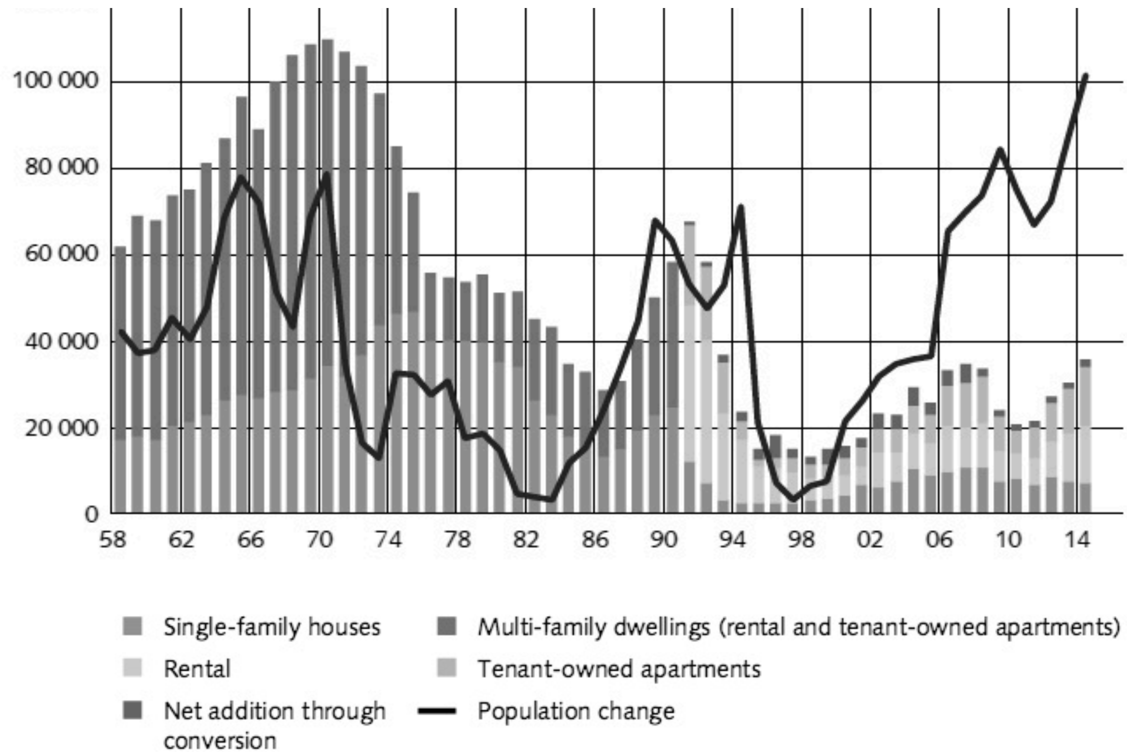
Figure 3.8. *Dwelling Type and Age Profile*



Source: SCB

As a consequence of the sheer volume of dwellings constructed during this period, Sweden still has a relatively young housing stock by European comparisons. As of 2017, just over 45 per cent of one- or two-dwelling building housing stock in Sweden was built in the period 1961-1990, and nearly 62 per cent of multi-dwelling buildings in Sweden today were built between 1951 and 1980. The mode of planning and construction that facilitated this phenomenal effort had been in the offing since the *Bostads sociella utredning* reported its findings, and HSB had, arguably, led the way in some of these techniques prior to the War. Processes of rationalisation, and scientific and technical advances in prefabrication and reinforced concrete, proliferated throughout the building trade (supported by the National Board of Building Research), would combine with the state's newly found capacity to direct extraordinarily large flows of credit to the housing system (see below), and the products of these concatenations, in terms of building output can be observed in Figure 3.9.

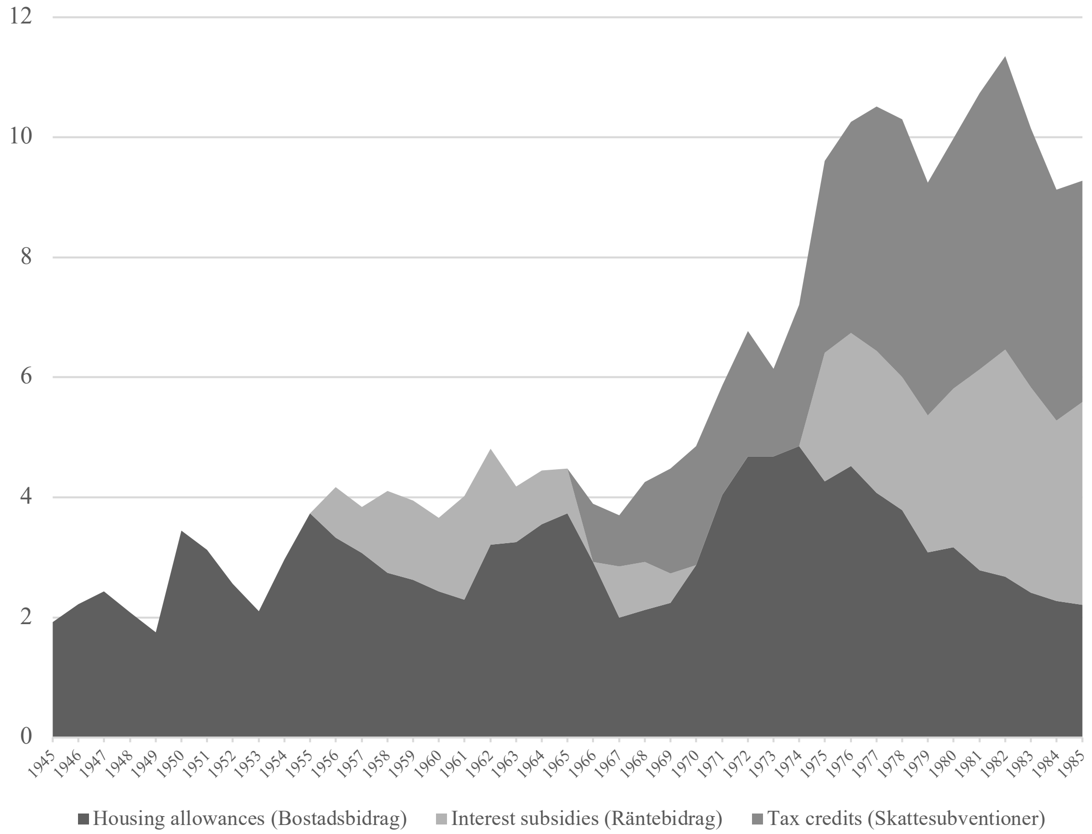
Figure 3.9. *Housing Construction and Population Change in Sweden, 1958-2014*



Source: Emanuelsson, 2015

How was it that the State was able to finance this? I have written already about Sweden's improving fiscal position and, to be sure, part of the story can be told through an examination of direct government assistance to households and the housing sector, depicted in Figure 3.10.

Figure 3.10. *Government Housing Assistance as a Share of Total State Expenditure (%)*



Source: Ekbrant, 1986, p. 29

Figure 3.10 provides a breakdown of government assistance to the housing sector (as a share of total government expenditure) covering a period of 40 years. As well as expanding assistance in the form of housing allowances to low income households and families (*bostadsbidrag*); interest subsidies for construction (*räntebidrag*) and mortgage interest tax deductions for owner-occupiers (*skattesubventioner*), households' wages too were increasing unabated throughout the 1950s and 1960s, and thus households were doing their part to stimulate the demand for production. These metrics are relative easy to monitor, but there is more to this story than the improving position of state and household finances. The keen reader will note that the period in which the *Million Homes Programme* was active (1965-1974) sees only a modest rise in total government expenditure on housing, and even a slight decline in two years. Whilst direct government support, then, had been central to the development of the housing system hitherto (on both the supply and demand side), this alone cannot account for this monumental building programme. In order to establish what can, we must look more closely at the sources and means by which credit was directed towards the housing system as, clearly, the *räntebidrag* and *bostadsbidrag* (subsidies to builders and households respectively) do not come close to accounting for this. This requires us to take a brief step back in time.

Overcoming Maturity Mismatch

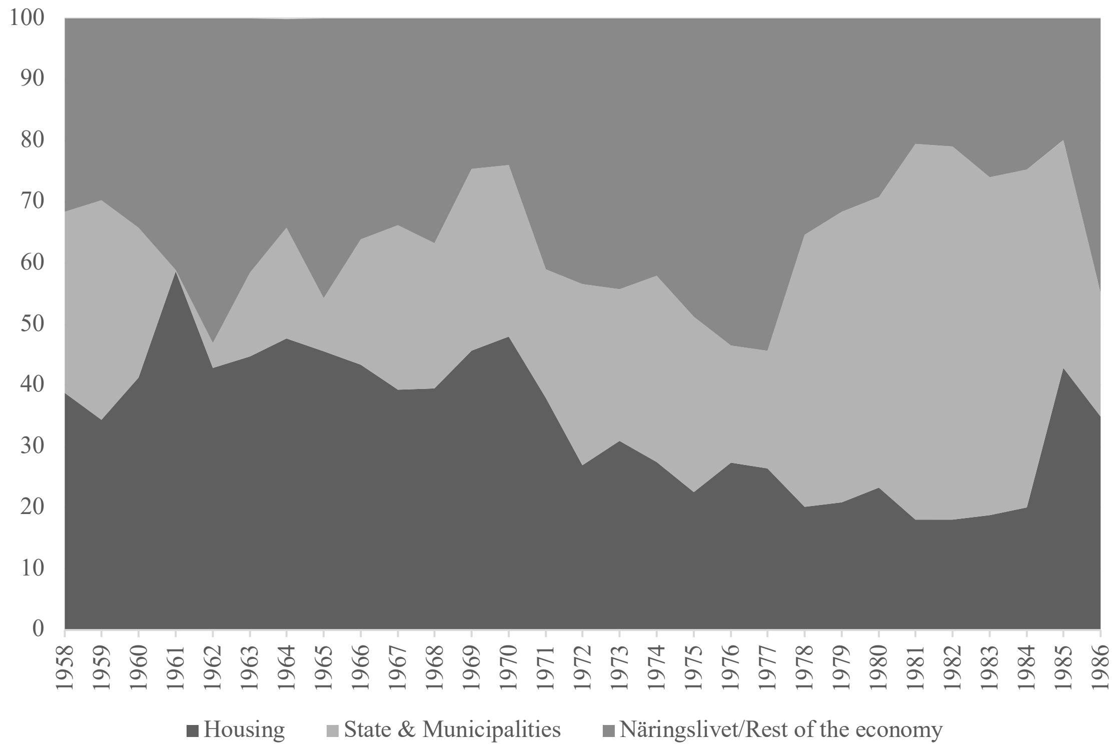
As noted in Section 3.3, credit controls were put in place as an emergency measure during the Second World War. These were not lifted. When Sweden joined the IMF in 1951, the rate of the kroner was fixed and kept constant by the Riksbank for 20 years (Jonung, Kiander and Vartia, 2009, pp. 27–28). Exchange controls were also in place, facilitated by the Bretton Woods system (Ryner, 2002) and, in addition to these, liquidity ratios and lending ceilings were established, as elsewhere in the developed world at this time. This, as Lars Jonung (1993, p. 347) notes, allowed monetary authorities to '…establish a structure of interest rates and a distribution of credit according to political preferences'. The state and the Riksbank, thus, had developed a system of controls, which, to a considerable extent, had a bearing over who could borrow, and on what terms. This had implications for one of the Social Democrat's most pressing priorities: housing. But, how should these capabilities be orchestrated to produce and improve housing on such a scale, and by which mechanisms?

One of the main drivers of financial innovation in the realm of housing and infrastructure is the desire (by a range of actors within a housing system) to overcome *maturity mismatch*; that is, the discrepancy between the maturity of assets and liabilities on a financial institution's balance sheet. Herman Schwartz notes: 'Maturity mismatches occur when an organization borrows in credit markets on a short term basis and then reinvests the proceeds into less liquid, longer duration assets' (Schwartz, 2012a). The large upfront costs required to invest in housing (a liquid, longer duration asset), then, are mismatched to the short-term borrowing which most commercial banks rely on (i.e. customers' deposits and capital markets).

The larger the project, the greater the sum (or *frontloading*) required. Herman Schwartz notes that, '…maturity mismatch arises from the fact that short term depositors can withdraw their money at any time. But it is much more difficult for the bank to extract the whole loan from a borrower' (Schwartz, 2012b, pp. 135–136). This is why banks (prior to the early-twentieth century) were often reluctant to provide mortgages to individuals that were not already part of the propertied classes. The era of universal suffrage, however, created demands on states throughout the industrialised world to intervene to ease credit lending, and/or the supply and access to affordable housing. How should government's resolve this capital mobilisation problem, without other branches of the economy and welfare state suffering?

There is no simple answer to this question. One way, however, is to attempt to calibrate the maturity of assets and liabilities in a way that will increase the credit flow on both the demand and supply side. States are in an obvious position to be able to do this, as certain industrialised countries had been since the 1920s and 1930s[107]. Another is to innovate. The function of Mortgage Backed Securities (MBSs) and covered bonds today is (in theory) to help banks, investors and households smooth out their assets and liabilities over the life cycle, whilst mitigating the risk of default and increasing the supply of credit. When the demand for credit was as great as it was in Sweden at this time then innovation was certainly required in order to accommodate this phenomenal *frontloading*. Figure 3.11 depicts the development of the Swedish capital market between 1958 and 1986. The scale of the investment in housing is quite remarkable.

Figure 3.11. *Borrowing on the Swedish credit market, 1958-1986 (% share)*



Source: Sveriges Riksbank Statistical Yearbooks

Whilst the state's role in subsidising housing production and consumption was important, state spending alone cannot, demonstrably, account for the level of borrowing and investment geared towards housing during the 1960s. What is striking about Figure 3.11 is the volume of credit directed towards the housing sector in relation to the entire Swedish credit market. Between 1958 and 1970, well over 40 per cent of the Swedish credit market was geared towards housing production and consumption and, at times, this figure exceeded 50 per cent! This investment made

[107] In Britain, council housing was seen as the solution to overcome tight mortgage conditions and extend the opportunity to live in good quality homes to lower- and middle-income groups. In the USA, better access to mortgage credit was seen as the solution. In the former case, finance was provided through general capital expenditure. In the latter, this was initially the case but, later on, securities markets were established.

up between five and seven per cent of Sweden's GNP during this period (Ekbrant, 1986, p. 24) and, interestingly, the majority of financing for housing was not derived from general capital expenditure. Whilst there was direct state support, both on the demand and supply side (and whilst this was high in terms of total state outlays) it was, curiously, *after* this phenomenal building programme that direct State-financing ballooned, as I explore further in Chapter IV. Where did the money come from?

The ATP Funds and Organised Interest Groups

The key to explaining this 'puzzle' is to be found by looking at pensions funds. Pension and insurance funds (typically) look to long-term assets, with reliable income streams, in order to balance their long-term liabilities. Housing is illiquid and costly, requiring long-term financing, and the financing of housing though either bonds or securities creates, as Schwartz (2012a, p. 43) notes, a *natural asset* for *private pension plans or funded public pensions*. As we have seen, Sweden has a long-established tradition of financing the production of housing by emitting bonds (a tradition which remains today), with the support of top-up loans from the state. Unlike the USA, and a host of other Western European countries (Britain, Belgium, Ireland, the Netherlands, Norway, Spain), who relied principally on deposits for issuing mortgages, Sweden had, since the mid-nineteenth century (not unlike Germany and Denmark) nurtured a bond-based mortgage system which had increasingly, in combination with the savings and commercial banks, been able to meet the demand for financing housing production and consumption, albeit with considerable state support. This system, as illustrated above, had allowed for greater LTVs, lower interest rates, and longer maturities than in the USA and the aforementioned Western European countries, who adopted varying provisions (state-backed and non-state-backed) of providing more affordable dwellings (whether to buy or rent) to lower- and middle-income groups. Thus, whilst the deposit-based savings banks were important market actors in Sweden (considerably more so than Germany and Denmark) it had been built into the Swedish housing system for some time, via this distinctive bond-based system of housing finance, to establish long-term debt contracts via the issuance of housing bonds (*bostadsobligationer*).

In 1959, the Government introduced a new pension system (*Allmänna Tilläggspensionen*), and the possibilities this created for the financing of housing were, quite simply, revolutionary. The National Pension Fund's First, Second and Third Fund Boards were established in 1960 in connection with the ATP reform (Första AP-Fonden, 2012). The idea behind this reform, very much driven by the Social Democrats and the Labour Organisation (LO), was *to serve as buffers in a future pay as you go* (PAYG) *and defined benefit* (DB) *system* (Belfrage, 2011, p. 118). This would provide earnings-related pensions, to supplement the flat-rate pension (*folkpension*), which was introduced earlier in the century (Palmer, 2000, p. 1), and, as Jonung notes, implied the *socialisation of the nation's savings* (Jonung, 1993, p. 356).

At the time of their inception, the rules governing the AP fund boards *permitted investment only in fixed-income securities* (Första AP-Fonden, 2012), thus bonds were their primary investments. These Funds gave the state enormous control over national savings and quickly *grew to become the largest investors in mortgage bonds* (af Jochnick, 2014, p. 3). Figure 3.12 illustrates the effects of this *vis-à-vis* investment in housing construction.

Figure 3.12. *Real Net Flows to Housing Construction on the Organised Credit Market, 1958-1986 (1958 prices)*

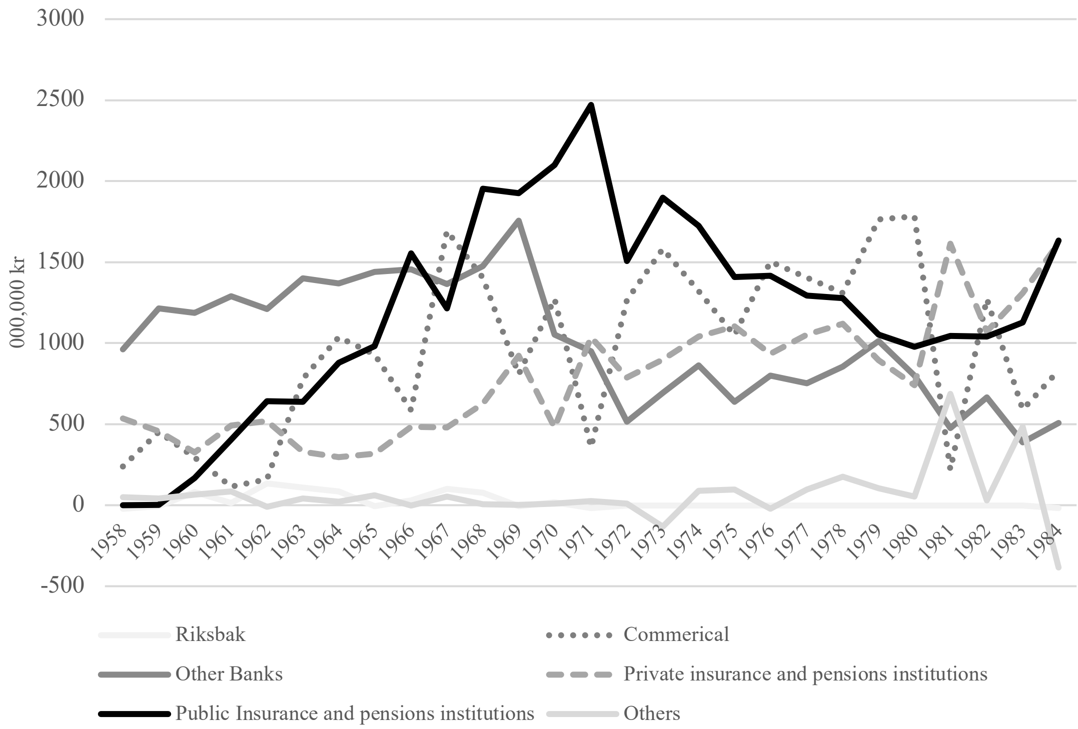
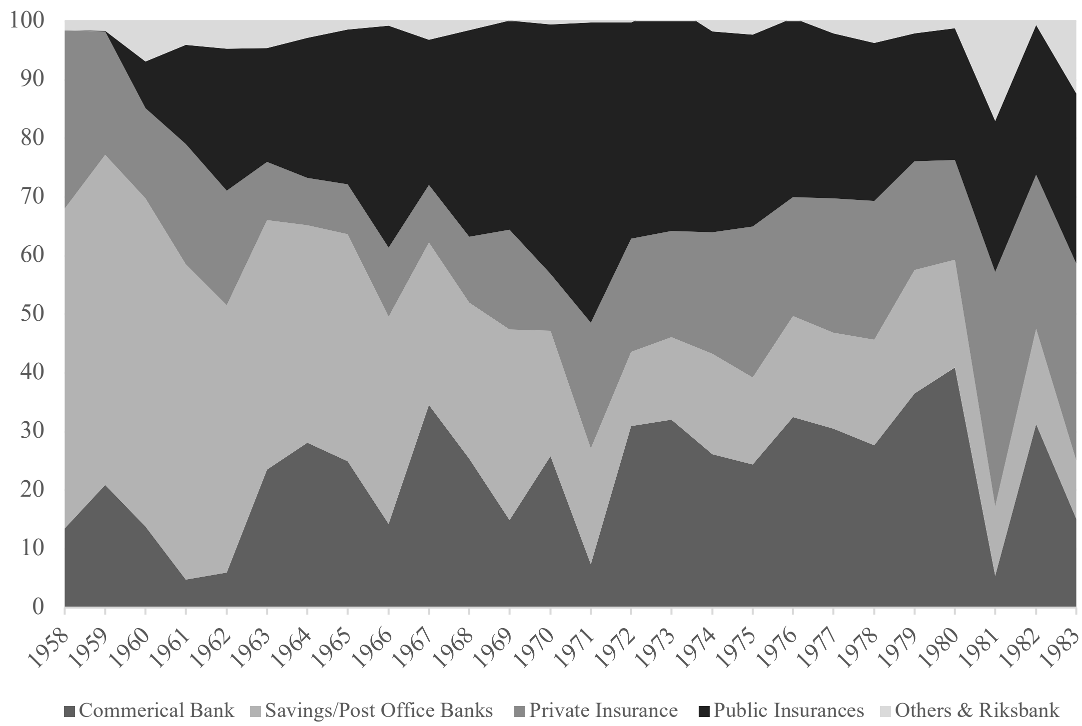


Figure 3.13. *Distribution of Credit to Housing Construction on the Organised Credit Market, 1958-1986 (% share)*



Source: Sveriges Riksbank (various years); and author's calculations

The data presented in Figure 3.12 illustrate the volume of credit flows to housing construction in *real* terms[108]. This is supply-side data. The solid black line indicates lending from public insurance and pension institutions (the AP Funds), and the volume (and market capitalisation) is astonishing. The ATP Funds became the major market players when it came to the purchasing of bonds related to housing, as can be seen from the phenomenal market capitalisation growth in Figure 3.13. Financing housing construction through the AP bond-based mechanism, as Claes Belfrage (2011, p. 112) argues, was, '…at the heart of the construction of the "Swedish model"'. The establishment of the AP Funds in the 1960s, then, meant that the state was now able to channel large circuits of capital into the housing system in order to subsidise housing production as never before, without accruing huge budget deficits.

The capacity of the state to do this was enhanced by a system of financial controls, which had been established during, and in the immediate aftermath of, the Second World War, and which had been institutionalised internationally under the Bretton Woods System. This programme was possible for several reasons. First, the general, nation-wide, housing conditions were still quite

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[108] The lending is calculated on a net basis, whereby the amounts borrowed are reduced by the amounts repaid (Riksbank, 1986, p. 118). When a metric is negative, then, this indicates that there has been a net transfer away from the housing sector (i.e. capital has been repaid, as is the case for the Commercial banks after 1985). All positive metrics indicate borrowing accruing to the housing sector (i.e. investment in the housing sector).

poor in Sweden in the 1950s. Although standards had improved markedly since the 1930s, the *housing issue* was still politically troublesome (Ramberg, 2000, p. 296). Standards across the board were too low, and overcrowding was still high, even compared to war-torn Britain at this time. Thus, the material need for high-volume, high-quality housing production, as in the belligerent countries, was pressing. Second, technological advancements and standardisation, as noted above, allowed for a system of production which would have been unimaginable, in scale and scope, only two decades earlier[109]. The universal adoption of rationalisation and standardisation in the construction industry from the mid-1950s onwards (encouraged by the state) led to uniformity in housing, which, as any observant visitor to Sweden will tell you, is quite striking in apartments built between the 1950s and 1980s (kitchens, floor plans, materials *et cetera*).

Finally: the financial component. The long-established tradition of bond-based housing finance was amplified with the introduction of the ATP reform and AP funds. Although the Swedish housing finance system relied on deposits more than Denmark and Germany, Sweden did not confront the same obstacles as Britain with her deposit-based model, or the USA with her Savings & Loans institutions. Whereas the USA turned to Public Housing and quasi-state institutions such as Gennie Mae and Freddie Mac (the pioneers of mortgage back securities) in order to provide dwellings for lower- and middle-income groups, and Britain turned to their councils and the Building Societies, Sweden turned to a Public Pensions System in order to finance housing production.

In terms of the constellation of actors involved in the systems of housing and finance during this time, Sweden, again, stands out. Not only were rents negotiated (independently of the state) in a uniquely corporatist manner between market actors (SABO and *Hyresgästföreningen*), but the cooperative share of the housing stock was, by the 1960s, standing at around 10 per cent. This, as noted earlier, was no coincidence. As Jonung (1993, p. 358) argues, one of the most influential organised interest group during this era was the cooperative, non-profit construction firms, such as HSB and *Riksbyggen*. With them, the construction unions and the tenants' associations had, since the early 1930s, curried favour with the Social Democrats, and *vice versa*. However, especially during the Second World War, private construction groups leant on the State to provide support (as they had done in the USA during the 1930s). It should be noted that while the state participated in the housing system by financing and subsidising investment (and regulating the way in which subsidies were distributed), it *did not* physically construct housing independently. The whole programme of building a *housing industrial complex*, then, was not, as

[109] HSB had been leading the way here for some time, but even by 1960, the cooperative share of the national housing stock accounted for only nine per cent and Public housing 13 per cent.

some have suggested (Clark and Johnson, 2009), socialistic[110]. As long as the profit margins of private building concerns were solid, and the state was prepared to absorb risk via subsidies and loans (see Section 3.4), the Social Democrats would have the support of these actors.

Another influential group, as Jonung (1993) notes, were the farmers and their politico-institutional interest groups. Whilst the Social Democrats had made do (for the most part) with forming minority governments since the 1930s, they still required the support of other parties, as is generally the case under proportional electoral systems. As the *bourgeois parties* (as they are known in Sweden) were, clearly, not ideal bedfellows, the Social Democrats turned to other parties, including the Democratic Farmer's League (*Sverges demokratiska jordbrukareförbund*), to push through policies. Their influence can be explained by the fact that the rural share of the Swedish population was, even by the 1960s, still much higher than elsewhere in Western Europe. This, too, can perhaps explain why the Social Democrats went to such lengths to support homeownership during the 1930s and 1940s; a support that ran contrary to most Social Democratic party ethos in Europe during this period (Kohl, 2018a). However, between 1952 and 1958, the Social Democrats went into coalition with the Democratic Farmer's League, who were firmly in favour of low interest rates. While the reasons for this were that that their electoral base (rural dwellers) was keen to have access to cheap credit for agricultural purposes, this had an impact on housing and the built environment in Sweden's towns and cities too.

It is important to consider these constellations of interests, as well as the overall nature of Sweden's political economy and financial system, during the *Record Years*. As Appelbaum (1985, p. 224) notes, '[t]he Social Democrats by no means had free rein to promote a thorough-going socialist housing program'. These may have been *The Golden Years* for Swedish housing, but, as Headly (1978, p. 59) notes, class-and sectoral-based compromises are delicate, and can break down easily:

> [R]etention of [SAP] power hinges on 5% of voters and seats so that public opinion and the parties and interest groups which represent centrist opinion have to be carefully cultivated. Compromise is a political necessity not just a national characteristic' (Headly 1978 in Appelbaum, 1985, p. 224).

Thus, we should not be lured into thinking, as some scholars and commentators do, that such an epoch could be recreated without a fundamental shift in the present alignment of interests, resources and sectoral power dynamics (Blackwell and Holgersen, 2016). Nor should we believe the notion that *political will* and *good intentions* (Al-Dewany, 2015) allowed for this phenomenal building effort. These attributes were necessary, but not sufficient; for without *means* or *capacity* (both in parliament *and* within broader civil society) it is doubtful many of the programmes

[110] Indeed, Britain's council housing programmes of this era were arguably more so (Donnison and Ungerson, 1982)

outlined above would have been possible. The constellation of political, sectoral, and class interests which had enabled these housing programmes would soon shift, and it was during the height of the Million Homes Programme that legislative changes, which would have the potential to undermine the Swedish model of housing, occurred.

Cooperative and rental politics in transition

In 1968 the Permanent Rent Act passed by the *Riksdag*. This was the introduction of the so-called 'utility value system' (*bruksvärdes-systemet*) which constitutes what some scholars have referred to as *soft rent control* (Turner, 1997, p. 485). The aim of this legislation was to assess the *reasonableness of the rent* (Boverket, 2008, p. 9), by comparing rents for apartments that are equivalent in terms of 'utility value' (*ibid*.). A report by the National Board of Housing, Building and Planning (*Boverket*) notes of this Act that, 'Its aim was *to allow for a transition to a market like development of rents*' (Hedman, 2008, p. 9 emphasis added).

The legislation was piecemeal, but, by the mid- to late-1970s, the rent control system of 1942 had been abolished and the corporatist system of rent negotiations, whereby voluntary collective agreement between the landlord associations and the tenants' unions (mediated by rent tribunals where agreement could not be achieved as a last resort) were institutionally crystallised in law in the form of the Rent Negotiation Act of 1978 (Bengtsson, 2007)[111]. This, according to a Bengt Turner, achieved 'market-like rents, subject to certain restrictions' (Turner, 1997, p. 485). Turner summarises the core components thus:

> (*i*) basing the rent on a user value concept;
> (*ii*) giving the municipal housing companies a price determining role; and
> (*iii*) establishing rents through negotiations between the local landlords and the local tenants' association (*ibid*.)

This represented a transition from a rigid system of public control of over rents to a less rigid system (Victorin, 1979, p. 239). Despite opposition from factions within the Social Democrats and the Communist Party in the Riksdag (Bengtsson *et al*., 2006) this legislative programme met little parliamentary resistance. Indeed, the Tenant's Union were broadly supportive and, in 1971, the Swedish Property Federation signed up to the negotiations.

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[111] According to Bo Bengtsson, 'Use-value comparisons are made primarily with the rents of public rental dwellings as bench-mark, which gives the non-profit municipal housing companies the role as price-leaders in the local rental markets. If a private landlord demands a considerably higher rent than the rent-level in the public sector, the tenant can take the case to the rent tribunal. This makes the Swedish rental sector an unusually clear-cut case of a 'unitary social rental market' (cf. Kemeny 1995: 4)' (Bengtsson, 2007, p. 11).

The significance of this law to the Swedish rental market system would not be realised immediately. Indeed, in terms of organisational practices, the law on negotiations was generally seen as merely a formal legal acknowledgement that stipulated, 'what was already established on the market' (Bååth, 2015, p. 32). However, as Victorin notes:

> [t]he success of the organisations on the housing market *depends to a great extent on the fact that they act as effective parties to bargaining*. They administer the rules in a way that is advantageous to both sides, and they act as representatives of the parties in disputes' (Victorin, 1979, pp. 242–243 emphasis added).

During the late 1960s and early 1970s, it could be argued that the system which was being institutionally embedded was able to deliver mutual advantages to both tenants and landlords (both public and private); but sectoral interests and power dynamics (both within and between organisations) are never static and, as Joe Doherty (2000, p. 175) notes, '…patterns of need, demand and supply alter over time responding to changing social, economic and political contexts'. While, formally, institutional arrangements and social constellations may appear similar, *prima facie*, the way actors interact and relate to each other within and between these systems changes over time. These interactions are ultimately what drive changes in what social scientists often refer to as *structure*. Agents exercise power through these *structures* (Knafo, 2009) and, as I explore in the following two chapters, the negotiations delivering *effective mutually advantageous* outcomes would not last.

In the same year that the Permanent Rent Act was introduced, another law was passed which would have wide-reaching consequences for housing cooperatives, and which would ultimately (in combination with subsequent measures and financial developments explored in Chapters IV & V) transform the Swedish housing system. The Cooperative Housing Control Act (*Bostadsrättskontrollagen*) of 1942 was abolished in 1968 and, as of January 1969, cooperative tenants were able to 'sell their occupancy rights for the highest price that the market would deliver' (Christophers, 2013, pp. 5–6). Cooperatives became less social and more commodified (Ganapati, 2010, p. 374) and, as Christophers notes, since this time, the tenant-owned apartment sector '…constitutes a subset of owner-occupancy in all but name' (Christophers, 2013, p. 6)[112].

Cooperative housing in Sweden, thus is (and has always been) a somewhat confusing, and contested, legal entity. Indeed, the legislation in 1968-69 can be seen as a particular expression of a longstanding tension inherent within the Swedish cooperative model of housing, encapsulated by the dichotomy between the Swedish law of 1930's description of cooperative dwellings as a form of *private property* (*enskild äganderätt*), and HSB's own official conception of the 'housing right' (*bostadsrätten*), noted by Sørvoll, (Sørvoll, 2013, p. 151). As noted in the

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[112] Indeed, as far as the European Commission's official statistics agency (*Eurostat*) is concerned, there is no difference between tenant-owned apartments in Sweden and owner-occupation elsewhere in Europe.

previous chapter, the HSB pioneer, Sven Wallander (who died in 1968), was not so equivocal. He summarised HSB's *movement* thus:

> The HSB movement was founded on the principle that peoples' housing should not be the object of speculation, but to put it somewhat cynically, it was never in our minds that they were to be prevented from making a profit from their own apartments. They were meant to be homeowners (Wallader, cited in, Sørvoll, 2013, p. 151).

A government commission ultimately came down on the side of Wallander, stating in their report that, '[c]ooperative housing is not wholly comparable to rented housing. (…) In some ways it is more meaningful to compare it to individual homeownership' (Memorandum, 1967, 12:105, cited in Sørvoll, 2013, p. 162). This was a significant piece of legislation, which would have far-reaching implications. Christophers argues that this was this was '…the first component of the Swedish housing system to be deregulated and marketised and, thus neoliberalised' (Christophers, 2013, p. 5); a claim which challenges many of the scholarly accounts of Swedish housing and neoliberalism I analysed in the Introductory chapter and Chapter I. Whether *neoliberal*, or not, this legislation would change the housing landscape in Sweden irrevocably, creating new opportunities for construction firms, developers, and financiers, as I explore in the next chapter.

3.5. *Conclusion*

This chapter sought to unpack some of the political-economic facets of Swedish housing and finance system development throughout the mid-twentieth century, combining an analysis of broad macroeconomic trends (both domestic and international) with specific sectoral dynamics, particularly in relation to housing finance, construction, and the state's role therein. In so doing, I attempted to connect the co-evolution of Sweden's housing and finance systems during this forty-year period to developments which occurred during the pre- and interwar years. I argued that the first two decades of Social Democratic hegemony (c. 1930-1950) were marked as much by continuity with the previous housing and finance system configurations as they were by change, and that a comprehensive, social democratic housing programme took some time to emerge. Further, I highlighted the path dependent trajectories of housing and finance system development in Sweden and stressed the role and importance of institutional legacies and sectoral interests, which pre-dated the 1930s, in Social Democratic housing programmes of the inter- and post-War periods.

The aim of the first two sections of this chapter was to challenge scholarly preconceptions about the nature of pre-1930s housing and finance initiatives of both state and non-state actors. I argued that, by coarsely juxtaposing the so-called *passive*, *laissez-faire* governance of the early-twentieth century, with that of the ostensive planned (*active*) social market economy assembled under the stewardship of the Social Democrats, scholars reinforce a dichotomy which, ultimately, promotes a misleading account of housing system development. In so doing, such analyses tend to analytically privilege a narrow tranche of *top-down* political governance over all else. That is to say, scholars take little heed of the conditioning historical, sectoral and financial dynamics on the constitution of housing systems and tend to judge housing outcomes primarily through the behaviour of individual units[113]. Such approaches, I argued, relegate the importance of historical institutional and sectoral constellations in housing and housing finance; and their effects on housing demand and supply.

By analysing the development of state capacities during the 1930s and 1940s, I demonstrated how Sweden's *planned war economy* became so central to the development of a *housing industrial complex* during the post-War era and how this, in turn, was fused onto the existing institutional nexuses of housing programmes and provisions, which had developed during the previous decades. While frustration that the housing question had still not been 'resolved' was still palpable within the Social Democrats during the 1950s, by the end of this decade, new financial conduits would revolutionise the Swedish housing and finance systems. The establishment of the AP funds would be key to the state's efforts to tackle the *housing question*, and these funds would become central pillars of the Swedish model of housing which contemporary scholars so laud. Indeed, their establishment, 'represented a massive socialization of the nation's savings' (Jonung, 1993, p. 356), and, with it, the socialisation of housing investment risk.

The construction of a million homes within the space of a decade was nothing short of sensational, but it cannot be fully comprehended without first understanding the importance of state financial capacity generated by the ATP system, and how the acquiescence of key sectoral actors in determining where financial resources were to be directed was linked to this capacity. As I explore in Chapter IV, the *quid pro quo* arrangement between the state, finance, and construction capital was central to the success of the *Golden Years* and, as such, one cannot view housing policy in isolation of the broader *housing industrial complex* which developed during this period.

I showed in the last subsection that institutional changes were afoot, which would have the potential to undermine the Swedish model of housing, even before the completion of the *Million Homes Programme*. In the next chapter I explore how the constellation of actors and interests which made the *Million Homes Programme* viable to begin with, would also be the ones who would usher in its demise. As phenomenal as this era of mass housing programmes built at low marginal rates of profit was, then, it would not last.

Sweden's *Golden Years* were more fleeting than many imagine, lasting little more than

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113 I adapt this formulation from Kenneth Waltz's *Theory of International Politics* (Waltz, 1979, p. 110).

two decades. As I explore, below, the cooperative sector would continue its radical departure from its original ethos; the concentrated building industry (fostered by the Social Democrats, construction firms and the unions) would prove that construction industry monopolies can aggravate for housing supply; the municipal planning monopolies would see the outbreak of *municipal war* in the context local budgetary restraints; and the regime of financing which made the *Million Homes Programme* possible would reach breaking point. When the *Million Homes Programme* concluded in 1975, vacancies were high and there was widespread belief among the Social Democrats, the trade unions, the cooperatives, and the tenants' movement that the urban housing shortages, which had plagued Sweden for over a century, were a thing of the past (Sørvoll, 2013, p. 165) and that the Swedish housing market was now *balanced*. However, far from being a case of *mission accomplished*, the end of the *Golden Years* would herald a new era of uncertainty and economic dislocation, with housing at its core.

Chapter IV. *From housing system 'balance' to dysfunction: the decline of the housing industrial complex, c. 1970s*

> *The essence of the Swedish Model … was the notion that full employment and economic stability could be made compatible. We argued that anti-inflationary full employment policy had to be based on two pillars: a restrictive general economic policy which does not guarantee full employment, and selective labour market policy measures which absorb redundant labour. Swedish governments have frequently neglected the first part of the recommendation and tolerated periods of excess demand in the product and labour markets. The destabilizing effects of this inflation-prone policy were obvious already in the 1970s but became fatal in the 1980s: profits skyrocketed, speculation pushed property values to unsustainable heights, growth came to a stand-still and Swedish competitiveness faltered.*
>
> Rudolf Meidner, 1993

4.0. *Introduction*

The previous chapter sought to challenge many commonly held scholarly assumptions about the composition and development of the Swedish housing and finance systems, and the role of the state therein, during the mid-twentieth century. By situating developments in housing and the built environment during the inter- and post-War periods in relation to the historical composition of housing finance and advances in state capacity, Chapter III sought to demonstrate that the inextricable nexuses linking housing, finance, and the state, during the so-called *Golden Years* were not merely products of a specific post-War political ideology or agenda promoted by a particular political party, but also of long-run, accreted dynamics, which would perdure over the course of the twentieth century, and beyond.

These dynamics, I argued, were promoted and sustained by sectoral and class cleavages (cooperatives, municipal housing associations, construction capital, unions, and financial institutions), and mediated by the state; whose long-established role in underpinning core pillars of the Swedish housing finance system and mobilising capital on both the demand- and supply-side was significantly augmented following the Second World War. The thrust of my argument was not to deny the importance of political actors or political ideology *per se*, but to advance a holistic analytical approach to the study of housing system development; one which looks beyond politics and ideology and which takes into account the multifarious range of actors, interests, and institutions involved in the production, distribution, consumption, and financing of housing *through time*.

The state's role in guaranteeing the profit-margins of private firms within the housing supply nexus through subsidy programmes had been paramount to the 'success' and creation of the *housing industrial complex*, whose most obvious manifestation was the (in)famous *Million Homes Programme* (*Miljonprogrammet*). Throughout the twentieth century, the state buttressed the creation of this unique *complex*, initially by bolstering the supply of mortgage credit, mitigating risk, and resorting to general capital expenditure (as during the pre- and inter-War years). It was during the post-War years, however, that this system was complemented and significantly augmented; with profound implications for housing and the built environment. The AP system, served to channel Swedish households' savings into housing construction on an unprecedented scale, and was an innovative instrument of *capital mobilisation* and state financial control. The *synchronisation* of credit and monetary policy enabled the *Million Homes Programme* (Ryner, 2002, p. 90) and there is little doubt that, without such synchronicity, this programme would not have been fiscally practicable, or indeed (arguably) possible. Indeed, no country had, hitherto, built so much housing per capita within such a short timeframe; this was a phenomenal feat of capital and resource mobilisation.

The present chapter is driven by a desire to interrogate an alluringly modest question raised by the analysis in the previous chapter: Once a *housing industrial complex* has been formed, and exceeds demand capacity, *what happens next?* Once a state, and almost an entire financial system (as well as a domestically-oriented industrial supply chain) has been geared towards the mass production of housing, on the basis of low marginal rates of profit - with all the ancillary social, political, financial, and economic nexuses which have been mobilised to realise this - what happens when said system becomes saturated?

To address these questions, this chapter, builds upon the analysis conducted in the previous chapter by focusing on the changing relationships and power dynamics between the state (both local and national), *construction capital* and households towards the end of the *Million Homes Programme,* and beyond. The aim of this multi-sectoral approach is both to situate housing system developments in relation to their broader macroeconomic context, and to understand how, in an era of high inflation, faltering productivity and economic uncertainty, the distribution of preferences *and* incentives, which had been so central to the development of Sweden's *housing industrial complex* hitherto, would ultimately reconfigure to undermine the basis of its very existence.

Whereas Chapters II and III examined the formation of what scholars commonly assume typifies the Swedish housing system, and the establishment of a *housing industrial complex*, this chapter is concerned principally with the mounting contradictions created by this peculiar *Swedish model* of housing and finance, and the role that the state and municipalities, households, and construction capital played therein. By *contradiction* here, I refer to the tensions created by a series of substantive qualitative and quantitative *changes* in the way housing was produced, consumed, distributed and financed. During the 1970s and 1980s a change, or *Aufhebung*, occurred whereby Sweden's housing system moved from one which was predominantly geared towards the mass production of affordable housing, at low marginal rates of profit, to one characterised by lower volumes of high-end production (particularly single-family dwellings and cooperative dwellings), at higher marginal rates of profit. In this era of high inflation, housing *consumption* played a much more central role in this emergent housing model, and it is during this period that Swedish households increasingly came to view housing, not as a social good, but as an economic good.

This was a *sublation* that was facilitated on the supply-side by actors in the sphere of construction, and fostered by the municipalities, and the structure of the state housing loan system and, while it was by no means instantaneous (the accreted, path-dependent, logics and interests built up throughout the twentieth century hitherto would not be transformed *in toto*), it is no exaggeration to say that the period under investigation represents another *critical juncture* in the history of Sweden's housing system. I argue that, by the 1980s, the decommodified, egalitarian system of housing, which has been said to have characterised Sweden's housing system for much of the post-War period, had, to paraphrase Rudolf Meidner (1993), been *fatally undermined*. Some scholars would vehemently dispute this timeframe; for, as I remarked in Chapter I, the 'breakdown' of the Swedish model of housing and the 'birth' of *neoliberal housing policy* (read: housing *outcomes critical housing scholars neither like nor agree with*) is supposed to have been the product of a decisive break with past policy by Karl Bildt's Conservative-led government in the early 1990s (see Chapter V). For the many scholars who advocate such a position, the transition to what they loosely term *neoliberalism* was 'rapid' (Clark and Johnson, 2009; Hedin *et al*., 2012; Andersson and Magnusson Turner, 2014). This chapter tells a different story, however. Where my account differs from most is in identifying the insuperable contradictions in the Swedish model of housing as beginning in the 1970s.

My point of departure from other scholarly accounts, as noted in Chapter I, is to stress that even though institutional elements of a housing or finance system may, on the surface, appear similar throughout time, the distribution of preferences, and manner in which actors interact within said systems, changes. I claim that, by the 1980s, the *housing industrial complex* can no longer be said to exist, and that the ideal-type characteristics which are so often said to typify the post-War model Swedish housing (accessibility, universality, *tenure neutrality,* and a decommodified cooperative model) are almost impossible to reconcile with reality. Following the cooperative price control reforms of the late 1960s (see Chapter III), cooperative associations were becoming increasingly conservative, building less and voting for restrictions that were more in favour of maintaining property values than extending affordable, good quality accommodation to the masses (Sørvoll, 2013, p. 292)[114]. By the 1980s, real rents in Public Housing units were pulling away from their long-term relationship to consumer prices; the value of residential and commercial real estate began to soar; the state subsidy system, which had originally been designed

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[114] As Sørvoll (2013, p. 292) notes, HSB 'opposed […] the expansion of price controls, substantial capital gains taxes, municipal distribution, rental-cooperative housing and restrictions on conversions'.

to promote tenure neutrality, quickly came to substantially benefit middle- and high-income owner-occupiers; and socioeconomic and ethnic segregation was on the rise.

The chapter is organised accordingly. I begin by couching the end of the *Million Homes Programme* within the macroeconomic context of the early-1970s. Here, I explore the aggregate shift in household demand and tenure preferences; the overcapacity of multi-dwellings buildings generated in areas of low aggregate demand; and how construction firms and developers responded to the post-*Million Homes* era. Following this, I explore households' interactions with the structures of state housing subsidies in an era of high inflation, and how middle- and high-income groups were able to mobilise this system to their advantage, simultaneously undermining the basis of the *housing industrial complex*. The final section seeks to explain the shift in power dynamics between municipalities and *construction capital*. Here, I investigate how the general system of housing subsidies, fiscal constraints, and demographic change created imperatives on municipalities to pursue housing and commercial development as a means of raising revenue, and how private construction companies were, in turn, able to use their burgeoning land banks and capital reserves to influence the structure and form of urban residential development to ever greater degrees, inflicting a systematic blow to the system of housing provision which had characterised the post-War decades hitherto.

4.1. *From housing deficit to housing surplus?*

The economic backdrop to the 1970s was not nearly as rubicund as it had been in the previous post-War decades in Sweden. In 1976, the Social Democrats ceded control of the *Riksdag*, ending over forty years of parliamentary dominance, and for the next few years until 1982 a loose coalition of so-called 'bourgeois parties' was at the helm of government. Despite six currency devaluations between 1976 and 1982, all designed to promote industrial competitiveness in the era of oil price shocks and floating exchange rates, real GDP rose less than Great Britain, Denmark, Finland and Germany (Caprio, 1982, p. 25), the Current Account Balance (CAB) reverted to deficit, and consumer prices rose more rapidly than the OECD average in seven of the ten years of the 1970s (*ibid*. p. 26), reaching 13.6 per cent in 1980 (SCB, 2016). Commentators may have awarded the dubious accolade of *sick man of Europe* to Britain during the 1970s, but Sweden was little better. In combination with the deterioration in macroeconomic aggregates, and ballooning government deficits (>10% in 1978 and 1979), there was also a shift towards a more militant approach from the unions in Sweden, with growing demand for higher wages exacerbating inflation, and an increase in strike activity hitherto unprecedented in the post-War era[115]. Having created the world's most advanced social democracy, fissures were beginning to appear, and the *housing industrial complex*, which had become so central to Sweden's post-War model of political economy, would provide no immunity.

The end of an era

The mid-1970s marked the terminus of the *Million Homes Programme*, with many scholars, commentators, and institutions arguing that housing supply had been brought into *balance* with demand (Appelbaum, 1985, p. 221; Jaffee, 1994, p. 11). Whether misguided or not, this view was influencing the outlooks of key sectoral actors in Sweden's housing supply nexus. HSB, for instance, argued that *price regulation* would be '…less needed in the *balanced housing market of the future*' (cited in Sørvoll, 2013, p. 198 emphasis added), and the influential Housing Committee (*Bostadsrättskommittén*) established to investigate price controls during the 1960s, was also of the view that, in a *balanced housing market*, price and rent controls were unwarranted. As Sørvoll notes of the Committee's report findings in the late-1969s:

> The underlying message was that price regulation was a form of legislation suited for war and post-war circumstances: necessary in times of grave shortages on the housing market but superfluous to requirements in an era when consumers had a wide choice of rented, cooperative and individually-owned housing (Sørvoll, 2013, p. 161).

The housing crisis that had plagued Sweden since the nascent years of her industrialisation had literally, or so it seemed, been *built away* (SABO, 2015b). The homes that had been built were generally of a higher quality than the contemporaneous mass housing programmes elsewhere in Europe and the *OECD* countries (Hall and Vidén, 2005), and there was no shortage of government agencies and personnel within the *housing industrial complex* willing to take credit for this accomplishment. Considering that Sweden had had some of the lowest housing standards in Europe prior to the Second World War this was irrefutably quite an astonishing accomplishment. So much so, in fact, that the American sociologist Richard P. Appelbaum (1985, p. 221) called it the *Swedish Miracle*.

Others, however, were not quite so attuned to these hyperbolic assessments. For some, particularly on the Left, the housing crisis was persisting, even in 1974 when the Million Home Programme was drawing to a close:

> Everyone can see that there is *chaos* in the housing market. Total housing production has sunk by around 30 per cent between 1970 and 1973. The production of new apartments has

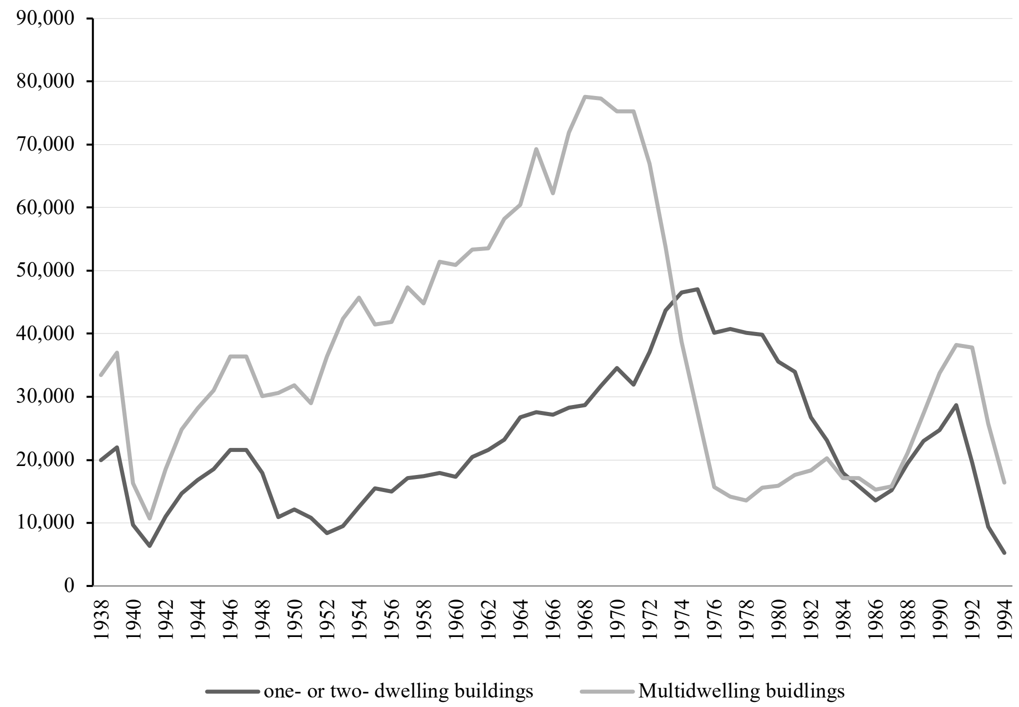
[115] The number of working days lost annually through strikes increased by a factor of ten during the 1970s and 1980s compared to the previous two decades (Bergström, 1991, p. 18), and whilst not as numerous as those in the USA, this was still a marked deterioration in labour relations. In 1980 alone, due to a breakdown in negotiations between SAF and LO, over 4,000,000 working days were lost due to industrial action (*ibid*.).

> fallen to around half the level of 1970 and, meanwhile, the production of single-family houses has increased sizeably" (Boberg *et al*., 1974, p. 7 author's translation).

Such sentiments may appear to boarder on hubris, but concern was felt, particularly in Leftist circles, during the 1970s, where there was apprehension that the rise in single-family dwellings (which typically, although not necessarily, correspond to owner-occupation in Sweden) would undermine the decommodified nature of the Swedish housing model. Indeed, the concerns expressed by Kenneth Boberg *et al*. were, in many ways, fortuitous.

After a concerted push by the state, municipalities and construction firms to house the nation in (predominantly) multi-dwelling units for rent and cooperative ownership, Swedish households, by the early-1970s, had other ideas and the demand for rented, *Million Homes*-era apartments in suburbia collapsed, with predictable consequences for housing construction.

Figure 4.1. *Total number of completed units by building type, 1938-1994*



Source: SCB

The extent of the collapse of multi-dwelling building production following the completion of the *Million Homes Programme* can be observed in Figure 4.1. However, overall housing production was buoyed somewhat by the increase in single-family dwelling housing completions. The following from Thomas Hall and Sonja Vidén, outlining the terminus of the *Million Homes Programme*, is worth citing at length:

> In the mid-1960s most people were convinced that high housing production would still be necessary after the end of the Million Homes Programme. The drastically reduced demand for rented flats around 1970 came as a *total surprise* for almost all those involved, ironically

> just after an administrative apparatus for large-scale housing production was finally established. After 1975 the production of housing, especially apartment blocks, was at a low level for a long time. This meant a distinct terminus for the ‘record years’. Without this mark of the end of an era … the programme might not have come to be regarded as a single project (Hall and Vidén, 2005, p. 321 emphasis added).

What is noteworthy about the evident shift in demand and housing production is that it was not the result of intentioned policy *per se*; it had been some decades since Social Democrat ministers or government agencies had actively tried to promote single-family dwellings or owner-occupation (see Chapters II & III). Swedish households were driving a change towards a different sort of building form (single-family dwellings) and tenure (owner occupation), and they were using mortgage tax deduction incentives (which had been in place for over two decades), and higher real wages to their advantage to realise this. On the housing supply-side, these trends ushered in a new era of lower housing production, whereby construction firms and developers sought to operative at higher marginal rates of profit, on a speculative basis.

Speculation in the city

Michael Ball (Ball, 1982, p. 61) notes of housing production that, ‘[i]n periods when housebuilding is expanding, housing conditions for most people will tend to be getting better; when it slumps the problems begin to mount up’. While there are context and conjuncture specific causal dimensions to this observation, both assertions contained in this sentence can be applied to the Swedish case both prior to, and following the completion of the *Million Homes Programme,* respectively. Indeed, according to Irene Molina and Karin Grundström (2016, p. 320), by the early-1970s, ‘…the entire Swedish population had obtained decent housing conditions’. However, following the collapse in residential building output during the mid-1970s, problems in the Swedish housing system were beginning to mount.

The *shift* in household demand and the corresponding shift in supply during the early- to mid-1970s took the state (and others) by surprise. While the abrupt change in production was admonished by the more ideologically committed elements within Leftist circles, what it indicated was that a growing number of Swedes were reverting to a building form which had been somewhat marginalised (for practical and political reasons) since the 1950s in urban areas. No longer content to inhabit what were increasingly being seen as vast, monotonous concrete buildings in the suburbs, middle class household’s tenure and locational preferences were changing. Henceforth the *gap* between multi-dwelling unit production and single-family dwelling production would return to levels last witnessed during the interwar years before the era of mass housing programmes.

Contemporaneously, as the demand for single-family housing soared, demand for cooperative apartments in ‘attractive’ inner-city areas was also on the rise, as ‘…the middle classes began to flee from municipal rental housing’ (Sejersted, 2011, p. 264). It was around this time that we witness the emergence of a new breed of institutional property investor. These investors began purchasing private rental buildings (*hyresrätter*) *en masse* in inner city areas. However, while rents were starting to pull away from consumer prices by the early-1970s, following rental market reforms in the late-1960s (see Chapter III) and higher building costs, it was not merely steady rental income which these investors sought.

The business model which these new urban investors adopted involved buying up entire multi-dwelling rental buildings and running them down, by systematically reducing maintenance and running costs. The poster boy of this new strategy of highly leveraged real estate purchases was Adam 'Lex' Backström - an architect with a Ph.D. in real estate economics from the Royal Institute of Technology (KTH) in Stockholm - who, throughout the early- to mid-1970s, built one of the largest real estate companies listed in the Stockholm Stock Exchange, *Credo*. Having run the rental stock down, Backström would then convert rental buildings into either office blocks, co-operatives, or timeshare apartments (*Andelslägenheter*). The latter represented a peculiar form of tenure which functionally created a form of owner-occupation in lieu of proper legal frameworks to accommodate freehold ownership of individual rental units within multi-dwelling buildings.

These conversions of attractive inner-city rental housing were highly profitable. Banks and finance companies were key investors in Backström's highly leveraged real estate empire. However, Backström's questionable methods were disadvantages to tenants, whose homes were increasingly becoming *objects of speculation*. The Tenants' Union were none too pleased by the actions of Lex and his cohort of speculators and, while the scale and pace of these *conversions* continued unabated until the mid-1970s, the Riksdag eventually introduced a new acquisition law for rental buildings (Lag 1975:1132) in an attempt to stem the tide of rapacious real estate speculation. Such was the extent of Backström's inner-city real estate purchases, that this new law was even colloquially named after him: Lex Backström's Law (Malmström, 2011). Following huge public criticism and investigations by the Swedish tax authorities, Backström emigrated to the USA. However, while Backström may have left the Swedish real estate market, his *modus operandi* would endure. Commercial real estate investment was becoming increasingly popular throughout the late-1970s and, in 1982, a new law was passed allowing private rental tenants to form cooperative associations and to convert their multi-dwelling rental buildings into cooperatives. These conversions represented an institutionalisation of Backström's speculative tactics and would later be extended to Public Housing (see Chapter V).

Why, the reader may enquire, were these speculative practices and behaviours flourishing now? The changes in rent regulations of the late 1960s and early 1970s (see previous chapter) were certainly conditioning factors. When first introduced, they had the effect of temporarily depressing rents, which made the private rental stock unattractive to current and prospective contractors and landlords. The law change which allowed cooperative owners to transfer their occupancy rights without price controls, however, was more significant. This new breed of speculators was attempting to use this law to their benefit, and it was having a direct impact on the composition of the Swedish housing system. There were even examples, in the early 1970s, of developers changing the tenure form of apartment units from rental to cooperatives before the buildings had even been completed (Jörnmark, 2016).

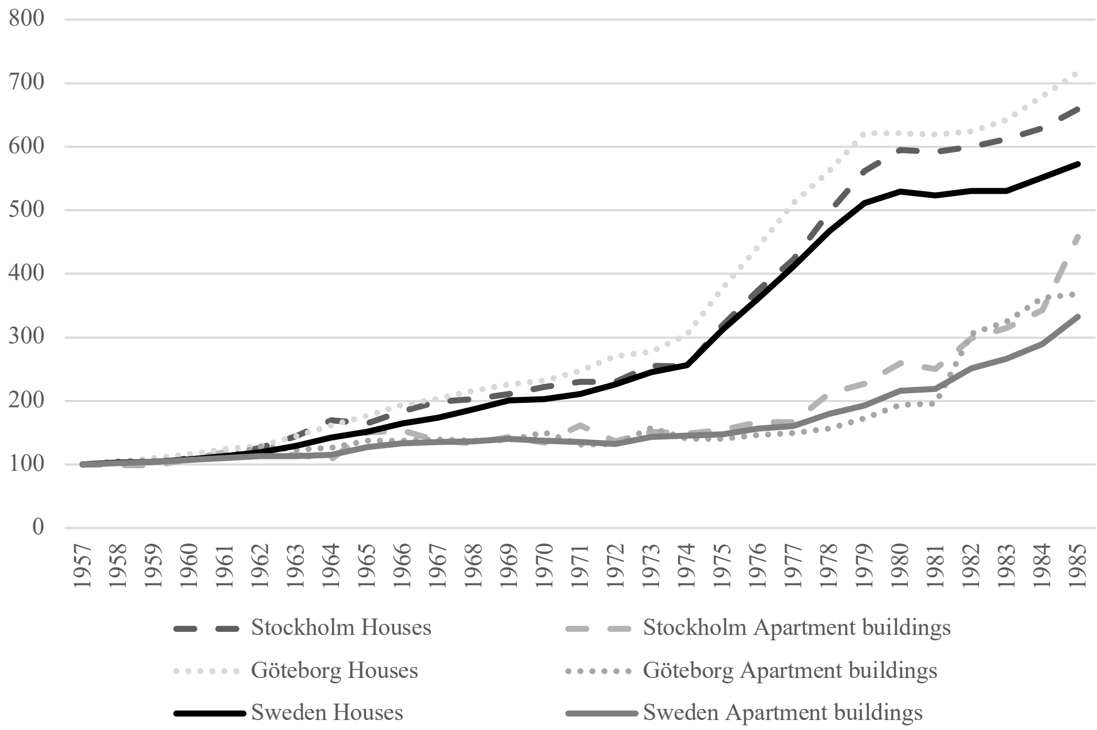
While the new acquisition law of 1975 had attempted to stifle these trends, the tenure composition in Sweden's major towns and cities was changing rapidly. The share of households living in private rental accommodation plummeted throughout the 1970s, at the same time as cooperative-ownership, and owner-occupation burgeoned. This was a fundamental shift in tenure composition, and it would have implications for future housing supply, as well as the flow of subsidised finance to the Swedish housing system. I now explore how household behaviours began to undermine the basis of the *housing industrial complex*.

4.2. *The role of household demand in shaping housing and finance system outcomes*

The shift in households' tenure preferences from the mid-1970s onwards would have radical implications for the development of the Swedish housing and finance systems henceforth. Households are, to a great extent, participants in helping to create the housing and finance landscapes which they inhabit by virtue of their actions and preferences; not only by electing governments with oversight of regulatory processes every four years or so, but also by the consumer choices they make in their everyday lives (Seabrooke, 2006). These choices would, throughout the 1970s and 1980s, help to reshape the Swedish housing and finance systems, and households' consumption patterns would become one of the most important drivers of GDP growth (Englund, 2015). The extent of financial transformations (most of which took place during the 1980s) will be explored in the next chapter. For now, though, this section focuses on households' tenure preferences and how state subsides, in an era of high inflation helped to foster this fundamental shift in demand.

During much of the 1970s, Swedish households had the lowest savings ratio of any of the Nordic countries. Equity withdrawal became more common, and house prices began to increase at levels not witnessed during the post-War period hitherto. Indeed, Jan Bohlin notes that, '[f]rom 1972 to 1979, house prices in Göteborg rose at an average annual rate of almost 13 per cent' (Bohlin, 2014, p. 45). These exceptional changes in house price trajectory can be witness in Figure 4.2, below.

Figure 4.2. *Indices of residential property prices in Stockholm, Göteborg and Sweden, 1957–1985* (1957 = 100).



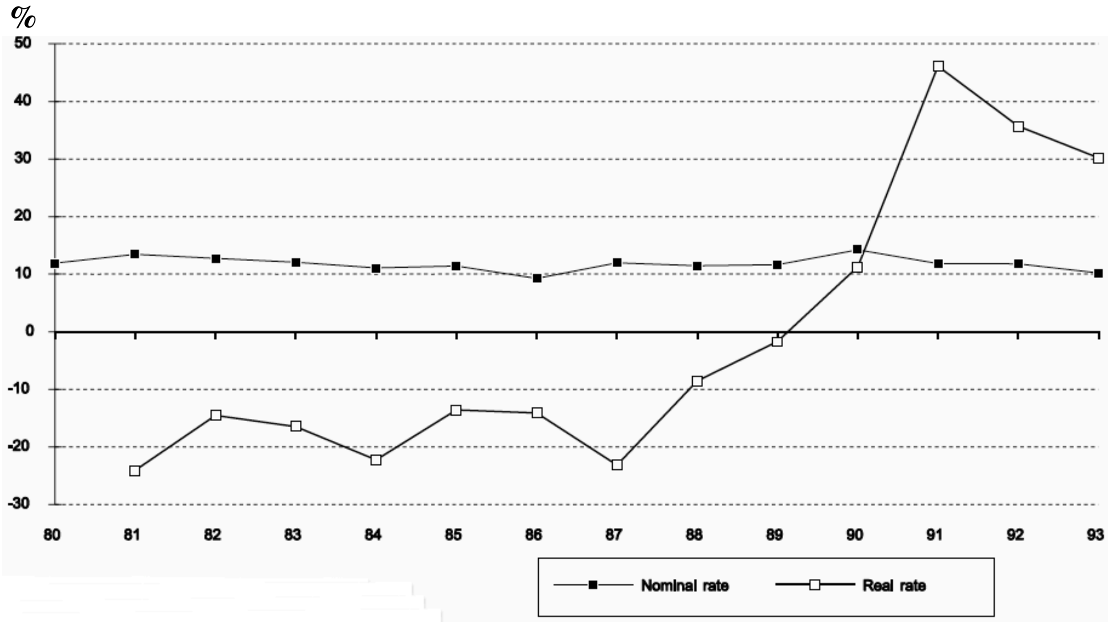
Source: Söderberg, Blöndal and Edvinsson, (2014)

The data presented in Figure 4.2 disaggregate the prices of houses and apartments. The reader will note that there is a tangible shift in the trajectory of these indices during the 1970s, and that the 'spread' between house and apartment prices increases throughout the 1970s and early-1980s up until the mid-1980s, where prices then begin to converge**.**

What were the determinants driving these price rises? Higher wages were certainly a factor; as were income tax reforms during the early 1980s (Brownstone, Englund and Persson, 1985). However, the growth of the credit stock was also key and, during the 1970s, households were taking on ever-greater quantities of debt. What is surprising is that the levels of household debt were high even before the dramatic financial reforms (or *deregulation*) of the 1980s (see Chapter V), as lenders and borrowers were increasingly meeting outside of formal banking channels, in the so-called 'grey market' (Jonung, 1994, p. 364). It was during this time that households, assisted by the banks, developed new 'creative financing' techniques, akin to those in the USA, whereby, as Mark Boleat (1985, p. 263) notes, '…seller[s] agreed not to receive the full sum demanded, but rather held a certificate with a mortgage on [their] old house as collateral', with banks acting as brokers (Englund, 1999, p. 83).

According to Jappelli and Pagano (1989, p. 1092) the average ratio of household debt to consumption 1965-83 was 117 per cent in Sweden. This compared to 84 percent in the USA and 56 percent in UK (cited in Englund, 2015, p. 7) and, as Peter Englund (1999, p. 83) notes, 'Swedish households on aggregate were among the least credit-constrained within the OECD group of countries'. The incentives for households to take on debt had been encouraged through the tax and subsidy system for some time (see Chapter III) and, during this era of high inflation, potentially unlimited mortgage tax deductibility made borrowing highly attractive for middle- and high-income groups. The combined effects of this were that *real mortgage rates* had been negative for some time, as Figure 4.3 reveals.

Figure 4.3. *Nominal and Real Mortgage Rates, 1980-1993*



Source: Jaffee (1994, p. 77)

While Figure 4.3 only depicts nominal and real mortgage rates during the 1980s and the beginning of the 1990s, real interest rates had been strongly negative through the 1970s (Englund, 1999, p. 83). Credit was, for want of a better word, unquestionably *cheap* through this period which, as former Riksbank deputy governor, Kristiana Persson, noted in an address to a conference of Social Democrats in 2002, '…pushed up the demand for credit substantially' (Persson, 2002, p. 2), further fuelling inflation. In some cases, households were actually being *paid to inhabit their credit-financed houses* (Bergh, 2014, p. 38); as a famous study by two Swedish economists, Bo Sandelin and Bo Södersten (1978) entitled *Betalt för att bo* (*Paid for being housed)*, famously claimed. Englund explains the dynamic thus:

> The marginal tax rate was varying between 50 and 60 per cent for the medium income earner until 1991 ... The interest rate was strongly negative all through the 1970s, came close to zero after 1980 but became negative again after 1985. It was only in connection with the crisis of the early 1990s that Swedish households met positive costs of borrowed funds for the first time in three decades (Englund, 2015, p. 9).

Mortgage tax deductibility, in its original guise, was not intended to skew tenure incentives towards homeownership. Indeed, the official policy of the Swedish government had been to uphold the principals of *tenure neutrality* (see Chapter III). However, whilst the policies had remained the same, the underlying macroeconomic conditions had changed; and some households (principally middle- and high-income groups) were able to turn this situation to their advantage. High inflation, in combination with high marginal taxes which households could deduct mortgage interest payments against, meant that debt financing became an incredibly attractive proposition for households of means during much of the 1970s.

Bo Sandelin and Bo Södersten (1978) use the following example: If a high-income household was to take on mortgage loan with a nominal interest rate of 10 per cent when inflation was roughly 8 per cent, then the real interest rate *before tax* becomes 2 per cent. The real rate, when deducting interest payments from a marginal tax rate of 60 per cent, then produces an *after tax* interest rate of minus 4 per cent (Sandelin and Södersten, 1978, p. 48). If (as was the case) house prices increased at the same pace as consumer prices (which they did), then this was not merely a generous subsidy, but an actual net transfer of wealth from the state to households purchasing their homes on credit (Bergh, 2014, p. 38). Indeed, as Andreas Bergh (*ibid.*) notes, the actual progressiveness of this system (which remains in place today) is much lower than the marginal tax rate (or most analyses of income inequality in Sweden for that matter) would imply.

This was not how the subsidy system had been designed to work. Indeed, the system, as implemented after the War, had not been designed to accommodate inflationary tendencies and speculation. But this subsidy was, unsurprisingly, popular with a large tranche of middle-class Swedes. As Bengtsson, Ruonavaara and Sørvoll (2017), note, while the Social Democrats were well aware that the mortgage tax relief system was unfeasible, it was seen as, '…politically too risky to undermine economic conditions for this large group of 'our people' – as the influential Minister of Finance labelled home owners' (Bengtsson, Ruonavaara and Sørvoll, 2017). Figures 4.4 and 4.5, below, provide a quantitative summary of the evolution of state housing expenditure on housing from 1950 to 1980, which complement my analysis in the previous chapter. The reader will note the development of mortgage tax credits from the late-1960s onwards. By 1980, credits to households amounted to nearly 50 per cent of all government assistance to housing (including housing loans). The shift, in the early-1970s, from the supply-side to the demand-side subsidies is more than evident. Swedish households were now being institutionally encouraged to encumber themselves with debt.

Figure 4.4. *State Housing Expenditure at Constant Prices (in million SKr)*

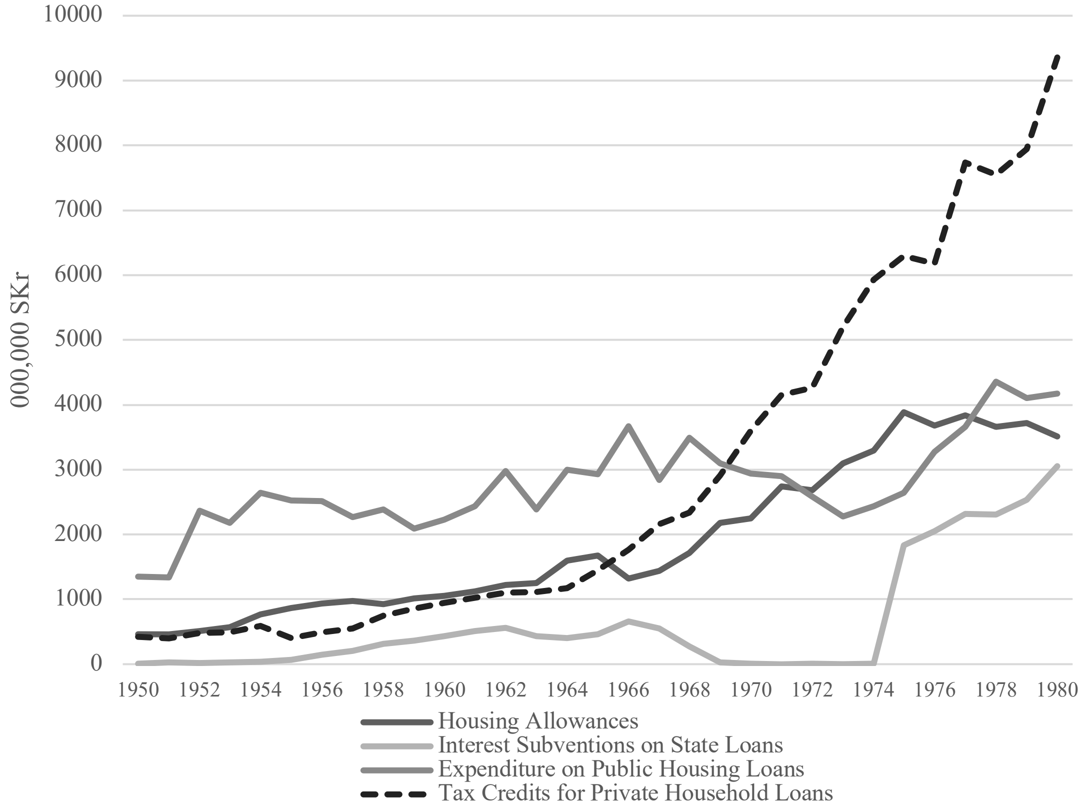
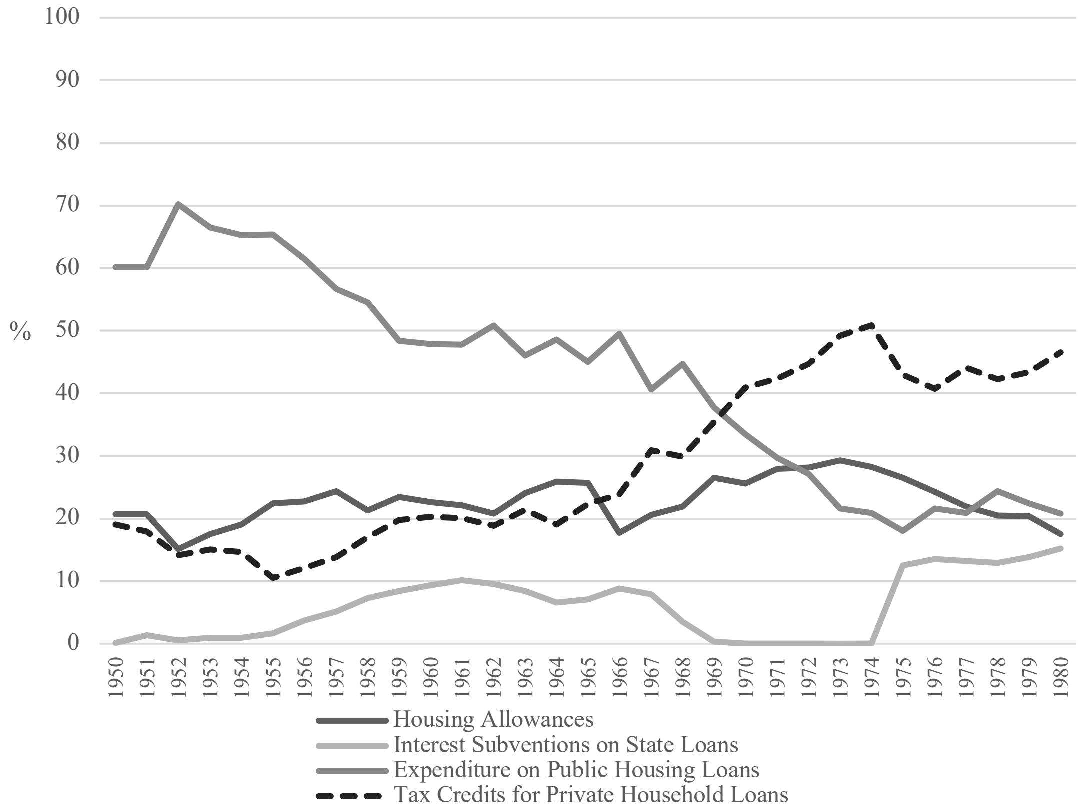


Figure 4.5. *State Housing Expenditure (% share)*



Source: Olsson (1986)

Despite the relative declining importance of state subsidies to housing construction, the state's financial exposure was still increasing at an unprecedented rate. This was due to the macroeconomic conditions (inflation), and a lack of political willingness to alienate homeowners and cooperative owners. When the policy had been formulated it was intended to put all tenures on an equal footing, but the economic fundamentals had changed. Table 4.1 charts developments in tenure composition in Sweden between 1945 and 1990.

Table 4.1. *Forms of Tenure in Sweden, 1945-90 (%)*

	Homeownership	*Tenant-owner (co-op)*	*Private Rental*	*Public Rental*	*Total*
1945	38	4	52	6	100
1960	34	9	43	14	100
1970	34	13	30	23	100
1980	41	14	21	24	100
1990	40	15	20	25	100

Source: Turner (1997, p. 478)

It is evident from Table 4.1 that the biggest tenure shifts occurred during the 1970s. Households, supported by the savings banks, were using tax incentives and higher wages to their advantage, and conversions of private rental accommodation to cooperatives (following the reform in 1982) continued apace. Further, as I explore in Section 4.3, construction consortia and developers were having a greater say over urban development, helping to facilitate, and augment, these trends. Why, the reader may enquire, do we witness no dramatic change in tenure composition during the 1980s? Quite simply, the credit that did flow into the housing system from the banks and finance companies during this decade served not to increase the homeownership and tenant-owner (co-op) franchises, but simply to inflating prices. I discuss these dynamics more in the following chapter.

Imbalances between supply and demand

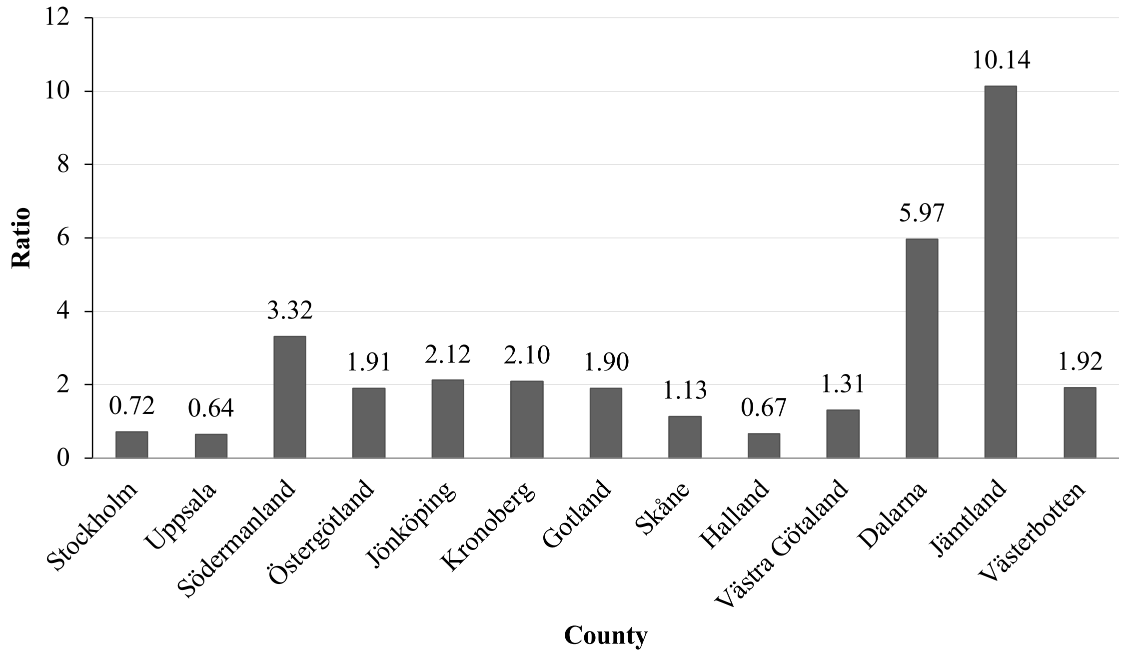
One effect of this *shift* in aggregate household demand and housing supply away from rental apartments during the 1970s and early-1980s was that the number of vacant dwellings in multi-dwelling rental units soared, reaching a peak of nearly 40,000 in 1982. This may have only represented just over one per cent of the entire housing stock in Sweden at the time (SCB, 1990), but having been transformed from a country with a housing shortage to one with a *housing surplus* (Hall and Vidén, 2005, p. 324), Sweden had now built so much housing that accommodation, particularly multi-dwelling municipal rental units, were lying empty. Sweden was in the historically novel position of having *too much* housing; or, at least, too much of the 'wrong' type of housing and, critically, in the 'wrong' place.

Pål Castell (2010) comments that, '…landlords began to have difficulty filling all the new apartments with tenants', and it was the oversupply of rental units that made them attractive for conversions. There were now more multi-dwelling buildings than household demand could accommodate and, municipal housing companies, in particular, had developed far too much capacity (SCB, 2012). While this was considered a problem by the state and local authorities, this situation, as we have seen, proved ripe for investors, who were keen to exploit the shift in household demand.

Vacant housing, *per se*, may not be worthy of note beyond general sentiments of indignation about poor resource allocation. What is worthy of note, however, is that, even in those areas with vacant housing visible for all to see, new construction of both private and municipal rental units continued unabashed and unabated (Wiklund, 2016) throughout the 1970s and 1980s; albeit not to the same extent as the *Record Years*. Thus, whilst housing construction volumes fell in absolute terms from their early-1970s record highs nationally, the construction that did take place during much of the late-1970s and 1980s was in what might be termed peripheral industrial towns and cities, with little aggregate demand. Indeed, as the Ministry of Finance's Expert Group on Public Economics (ESO) report commented, the biggest increases in construction occurred in municipalities with fewer than 30,000 residents (ESO, 2002, p. 80).

These levels of construction appear to have been driven neither by need nor demand and, in the context of the inner-city rental conversions taking place during the early-1970s, such an increase in rental housing supply is intriguing. This requires explanation, some of which can be understood through an analysis of construction output data. Figure 4.6, below, provides a more fine-grained regional picture of housing supply. Using a metric employed by Dwight Jaffee (1994), it depicts the ratio of housing completions to population growth in the 1980s in various counties in Sweden. For the purpose of this particular analysis, I restrict the analysis to regions where the population *grew* throughout the decade.

Figure 4.6. *Housing Completions/Population Growth in the 1980s*

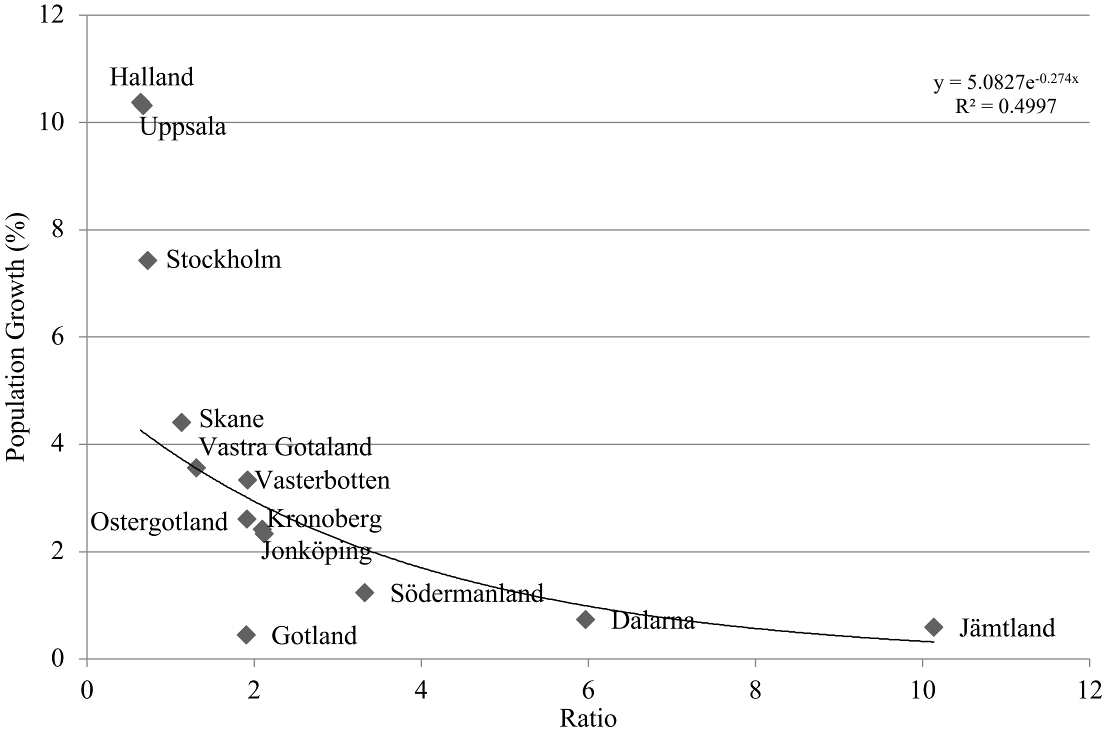


Source: SCB and author's own calculations

The ratio employed in Figure 4.6 (housing completion/population change) is by no means a perfect gauge of housing supply and demand, as it uses aggregate measures, which provide merely a snapshot of one decade (1980s). It tells us little of the housing situation prior to 1980 and one could wonder, for instance, whether the areas with higher ratios in the 1980s were also those with significant housing deficits in the 1970s; perhaps Dalarna and Jämtland were playing *catch-up*. Testimonies from this period and analyses conducted subsequently, however, suggest that there were no such deficits (Boverket, 2013). Indeed, as Castell (2010) surmises, the housing deficits of the past had been *eradicated* during the *Million Homes Programme*. When one considers that the headship rate (ratio of households to population) hovered around 0.45 during the 1980s in Sweden as a whole (Jaffee, 1994, p. 57), it becomes evident that, in all cases, the ratio of housing completions to population growth exceeded this rate and, in some cases, markedly so.

What is most interesting is that the ratio is highest in areas of least probable demand, as illustrated in Figure 4.7, below. Indeed, by running an exponential regression model, we can see that there is a strong negative relationship between housing construction and housing need, as measured by the population change over the course of the decade ($r^2 = 0.4997$).

Figure 4.7. *Population growth and the ratio of housing completions to population growth in Swedish counties in the 1980s*



Source: SCB and author's own calculations

What such an analysis cannot accommodate is the even more extreme cases where the population declined over the decade. Jaffee (1994, p. 57) notes that, in the city of Sundsvall in Västernorrland, 8,234 housing units were constructed throughout the 1980s, despite the fact that the population actually fell by 500 people. Sundsvall was not alone. My analysis shows that, in Västernorrland County, despite a 2.5 per cent population decline throughout the 1980s, 11,176 housing units were built, and in Norrbotten County, 13,930 units were built, despite a population decline of 3,319. A very similar (but less extreme) pattern played out in the counties of Kalmar, Blekinge, Örebro Värmland, Västmanland, and Gävleborg. This predicament led Ola Nylander, of the National Association of Swedish Architects to declare in an interview to SVT that*: Surprisingly they had caught up enough to resolve the housing crises of the past too*! (Wiklund, 2016). What explains this oversupply of residential housing? And why were the state, municipalities and construction companies so keen to support the steady supply of rental housing in areas with a palpable lack of demand?

4.3. *The housing supply nexus and the balance of power*

There are, of course, no simple answers to the above questions. As noted previously, a *housing industrial complex* involves a range of state and non-state actors whose actions and expressions of interest are multifarious and multifaceted. The interactions of different spheres of interest within a housing complex may, *prima facie,* appear, to be mutually reinforcing (*balanced*) or antagonistic (*imbalanced*) to the preservation of the *status quo* but, at all times, as Joseph Schumpeter observes so pertinently of economic activity in general, *the process of industrial mutation incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one*. These mutations may take many forms (some more manifest than others), but in order to understand these inexorable processes of *mutation*, we need to interrogate both how and why the *housing industrial complex* in Sweden following the *Million Homes Programme* could continue to produce so many housing units well after a housing surplus had been identified, and at a time when vacancy rates were at all-time highs.

In this section, I conduct a sectoral analysis, examining the various intersecting spheres of Sweden's *housing supply nexus*. I avoid the use of the term *supply chain* here as this implies a linear developmental logic with fixed processes and preferences, whereas, in reality, the social and material inputs and relations required to plan, produce and finance housing are both fluid and dynamic. While I explored the evolution in households' tenure and locational preferences in the previous section, this section looks at the changing power relations and dynamics *vis-à-vis* local government, national government, and *construction capital*.

Municipal War?

One answer to the above problem of over-supply could lie at the municipal level. In order to appreciate how, a brief explanatory digression is required. Swedish municipalities have an extraordinary degree of autonomy and tax raising powers, both in absolute and relative terms. Throughout the 1970s and early 1980s, local government taxation as a share of overall taxation was on average just under 30 per cent (OECD, 2017b)[116], and today, Sweden has a municipal tax share of over 36 per cent, compared to a European Union average of 10 per cent[117]. There are historical reasons for this[118] and, as I explored in Chapter II, city regions and municipalities had been keenly vying for more autonomy (particularly regarding control and discretion over

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[116] This local taxation equated to roughly 12 per cent of GDP (on average) throughout the decade (Gustafsson, 1983, p. 55).
[117] This compares to a municipal tax share of roughly 10 per cent in the United Kingdom during the same period, less than 5 per cent in Belgium and Spain, and less than 2 per cent in the Netherlands and Italy (OECD, 2017).
[118] Agne Gustafsson (1983, p. 52) points out that the tradition of local autonomy in Sweden dates back at least to the Middle Ages, and possibly even earlier.

planning, infrastructure and housing) as early as the 1860s[119], when the urban population in Sweden was growing more rapidly than anywhere else in western Europe.

A central pillar of Swedish municipalities' autonomy is the ability to generate tax revenue from residents' incomes. In 1981, 42 per cent of all municipal revenues were generated through income tax (Gustafsson, 1983, p. 109) but, whilst there may be numerous merits to such a local-orientated system of taxation, it does mean that Swedish municipalities are more reliant upon income tax receipts from residents within their administrative boundaries than almost anywhere else in Europe. And here we come to the crux of the matter. In rich areas of growth, with low unemployment and high wages, such as the Greater Stockholm region[120], municipalities have the potential to generate high tax revenues, but there is, of course, a flipside to this. In areas where unemployment is higher than the national average, and/or where the population is declining, municipalities face budgetary imperatives. In a system where municipalities are so reliant on income tax to generate revenue, then, the incentive structure is clear. The more jobs that are created, the more tax revenue that is available to pay for services, amenities and personnel costs. The latter costs were not insubstantial in a country where 25 per cent of the population were employed by local government. Indeed, direct personnel costs made up roughly 60 per cent of municipal and county council running costs in 1981 (Gustafsson, 1983, p. 105).

Ronny Svensson notes that, '…in the case of places to work, *all authorities in principle are at war with each other*, trying to obtain *as many job opportunities as possible*' (Svensson, 1975, p. 66 emphasis added). The notion of municipalities being *at war* with each other may seem overstated, but the level of intra-regional competition was clearly felt in Malmö where, in the mid-1970s, the municipality there became the first in Sweden to appoint an economic advisor to promote a municipal growth strategy (Billing, Olsson and Stigendal, 1992, p. 298). Indeed, from the commencement of the *Million Homes Programme*, and even more so throughout much of the 1970s and 1980s, commercial urban development and the building of new homes was increasingly viewed as a means of encouraging inward investment, jobs and growth by municipal authorities. This was especially the case in areas and regions whose industrial base had been exposed as *obsolete* by *stiffening international competition* emanating from Germany and Japan (*ibid*.).

The longstanding principle of local autonomy *vis-à-vis* municipal planning and land use, enshrined in the Town Planning Act of 1947, meant that it was principally for municipalities to decide how land was to be used and developed within their administrative boundaries (see Chapter III). While their five-year plans had to be approved by the National Housing Board who could, in theory, supersede planning decisions, in practice this seldom happened (Svensson, 1975, p. 53).

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[119] The principle of municipal autonomy was first formalised by a Local Government Act of 1862 (Andersson, Carlson and Larsson, 2012, p. 9).

[120] Throughout the 1970s and 1980s, Stockholm consistently accounted for around *one-fifth of all employment in Sweden* (Fournier and Axelsson, 1993, p. 292).

Given practically free rein, then, and operating under the assumption that any investment in housing and infrastructure would be good investment in housing and infrastructure, municipalities used their planning powers to drive residential and commercial real estate development.

While the view that urban development could be used as an instrument to spur regional growth might have appeared logically sound, *prima facie*, such an approach to revenue generation failed to pay the expected dividends in the over one third of Swedish counties which experienced declines in their populations throughout the 1970s and 1980s. However, as housing construction was so heavily subsidised by the state during this period (see Chapter III), the short- to medium-term financial outlays and risks, particularly for Municipal Housing Companies, were borne principally by the central administrative apparatuses of the state, and not the municipalities.

Housing subsidies & perverse incentives

This leads us to the question of how it was that risk was distributed in such a way. I outlined the anatomy of the subsidy system in the previous chapter and briefly again in section 4.2, and there is no need to rehearse this again fully here. Suffice to say that the entire impetus behind the subsidy and state loan system (which, in essence, allowed municipal housing companies and cooperatives to meet the entirety of their initial capital outlay (30 per cent LTV) at a heavily subsidised rate) was to promote *non-speculative* housing construction in a time of housing shortages, and to improve housing standards at a time when Swedish housing conditions were among the worst in western Europe (see Chapters II & III). This programme came at great expense[121] but, without doubt, succeeded on its own terms[122].

By the late-1970s, the national housing situation that the subsidy system had been designed to ameliorate had changed almost beyond recognition, and many scholars (chiefly economists) have pointed to the nature of the subsidy system in stimulating the oversupply of housing, especially outside major urban centres throughout the 1970s and 1980s (Jaffee, 1994; Warsame, Wilhelmsson and Borg, 2010). In a system with general building subsidies provided centrally, it was the state, as noted above, that bore a significant proportion of the financial risk. This system of socialising risk, there is little doubt, provided perverse incentives for both municipalities and construction companies, applying, as it did, wholesale throughout Sweden and irrespective of housing demand and need.

This arrangement constituted a tacit *quid pro quo* between developers, cooperatives, municipalities and the state, which had underpinned the subsidy system since the Second World

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[121] The state's share in the provision of housing finance nationally reached over 20 per cent in the late 1950s and early-1960s (SOU, 1968).

[122] As noted in the previous chapter, whilst not a belligerent nation, Sweden's housing conditions were amongst the worse in Western Europe in 1945. As Sune Jussil (1975, p. 178) notes: '…the proportion of all flats that have central heating has risen from 46% in 1945 to 91% in 1970'.

War. In return for a degree of control over what was built and *where*, (as well as general standards) housing providers, whether municipalities, cooperatives or private developers, would be provided with stable access to loans at heavily subsidised rates, as well as developable land and a *guaranteed market* (Newman and Thornley, 2002, p. 209). As the majority of housing projects (>90%) were carried out by private contractors (irrespective of whether they initiated these projects or not) this acted essentially as a *profit guarantee* (Grundström and Molina, 2016) for private construction firms and other actors within the *housing supply nexus*.

Until the early-1990s (see Chapter V), developers were able to receive subsidies regardless of whether they were building in areas of high demand. Suffice to say that, perhaps unsurprisingly, municipalities and developers used these subsidies to their advantage, demonstrably choosing to build in areas where land and overheads were cheaper (i.e. usually not in inner city areas), and where profits were buffered to a large extent by the structure of state subsidies and the willingness of municipalities, (particularly those in more peripheral areas with a declining industrial base) to promote economic growth and employment. Warsame et al. note:

> [I]t is quite apparent that subsidized interest rate [was] more important in regions where demand [was] weak, such as in population contracting regions, than in growing regions. The production cost sensitivity [was] higher in growing regions than in contracting (Warsame, Wilhelmsson and Borg, 2010, p. 242)

This assessment supports my quantitative findings, above. Both municipalities and private construction firms seemed willing to bend the subsidy system to their mutual advantages, in an era of inflation and burgeoning building costs. As I show in Chapter V, when the subsidy system was phased out from the early-1990s onwards, private construction firms clambered to initiate projects with absolutely no intention of seeing them through to completion in order to receive a tranche of the subsidised state loans (Dagens Nyheter, 2015a). This proved, if there was ever any doubt, that construction firms had much to gain from these loans and that the system, to all intents and purposes, was no longer able to serve its intended purpose.

One should be cautious before decrying the nature of subsidy systems *per se* on the basis of a single case study. The role of subsidies and municipalities undoubtedly helped to *eradicate* the housing shortages of yesteryear in Sweden, and Swedes today enjoy some of the highest housing standards in the world. Further, even in a housing system without comprehensive subsidies, overbuilding in areas where demand is weak is not uncommon, as the cases of Spain and Ireland in the 2000s attest. The fact remains, however, that during much of the 1970s and 1980s, the urban development decisions of certain municipal authorities were poor (Jaffee, 1994, pp. 10–11; Baeten and Listerborn, 2015, p. 251), and the decisions of some to promote commercial and residential property at all costs, and in the face of depopulation, was based more on blind faith in a new model or urban regeneration than on any realistic assessment of need or demand. This model, then, was not sustainable, and by the late-1970s, several Municipal Housing

Companies in areas of population decline were facing heavy losses, as the numbers of vacant dwellings soared[123].

In part due to the oversupply of housing in central and northern regions, Sweden, by the early 1980s, had the lowest ratio of persons per dwelling in Europe[124]. Sweden also had the highest state spending on housing by the midpoint of the decade, with spending at around 10 per cent of overall government expenditure. Whether this was a price worth paying is a normative issue, and one I look into more closely in the following chapter. For now, though, the primary concern is to explain the overcapacity generated in the aftermath of the *Million Homes Programme* and, in order to do so, we must consider the issue (or problem) of *concentration* in the building industry.

The ascendency of construction capital

By the late-1970s and throughout the 1980s, the relationship between municipalities and developers was undergoing profound change. Municipalities in Sweden were not immune from the macroeconomic difficulties facing Sweden throughout this period and, increasingly, many were facing financial difficulties. Declining tax revenues (particularly in regions of population decline) and a cap on state aid grants created a pincer movement on fiscal flexibility and municipalities were, by the late-1970s and early-1980s, facing a level of *financial stringency* (Wise and Amnå, 1993, p. 343) not witnessed for several decades. Indeed, driven by the Swedish Federation of Local Authorities' (*Sveriges Kommuner och Landsting, SKL*) desire to *balance* municipal budgets, Sweden was one of the first countries to adopt *accrual accounting* and *consolidating accounting* techniques at the level of municipal administration (Grossi and Tagesson, 2008, p. 339) in order to promote *productivity gains* and *efficiency*. These New Public Management measures were enacted to instil budgetary discipline on local authorities and would help to reshape the way municipalities made planning decisions.

The level of fiscal restraint and the adoption of new accounting practices which acted as fiscal straightjackets had implications for the way municipalities approached building projects. Municipal land banks had been much depleted throughout the *Record Years* (Barlow and King, 1991; Davidson, 1994, p. 151) and, increasingly, it was not simply the case that private developers and construction companies were awarded contracts by local authorities to build on municipal-owned land in line with local authorities' five-year plans. Indeed, following the completion of the *Million Homes Programme*, developers and construction firms had developed sizable land banks which, as Dickens et al. note, would *threaten the whole strategy of providing masses of cheap housing* (Dickens *et al*., 1985, p. 56). Construction firms, by the late-1970s and early-1980s, were

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[123] See Baeten & Listerborn (2015) for a case study overview of housing policies in the 'ordinary city' of Landskrona, from the deindustrialisation of the 1970s to the present day.
[124] Measured aggregately by the average number of persons per occupied dwelling.

no longer simply acting as building contractors as they had previously (Barlow and King, 1991, p. 13). Instead, they were having a greater say in *what* was being built (which increasingly included a far greater degree of commercial buildings) and, importantly, *where*.

It is important to note that this was all in spite of the fact that there had been no *de facto* major change in planning law or policy. James Barlow and Adrian King describe this as a move towards 'semispeculative' operations, arguing that firms were now ‘initiating large schemes, often on their own land, for the profitable commercial sector but with a social housing component as 'bait' for the communes’ (Barlow and King, 1992, p. 392). Ignoring the somewhat semantically problematic use of the term *semispeculative* for now, in a related paper Barlow and King highlight the process and means by which this *baiting* was achieved:

> The firm approaches the commune, which negotiates the size of the housing component. This form of development must be seen partly as the result of *oligopolistic pressure* from large builders but also the *increasing financial pressures* on local authorities to maintain their housing programmes in the face of *tightened finances* and *declining land banks* (Barlow and King, 1991, p. 13 emphasis added).

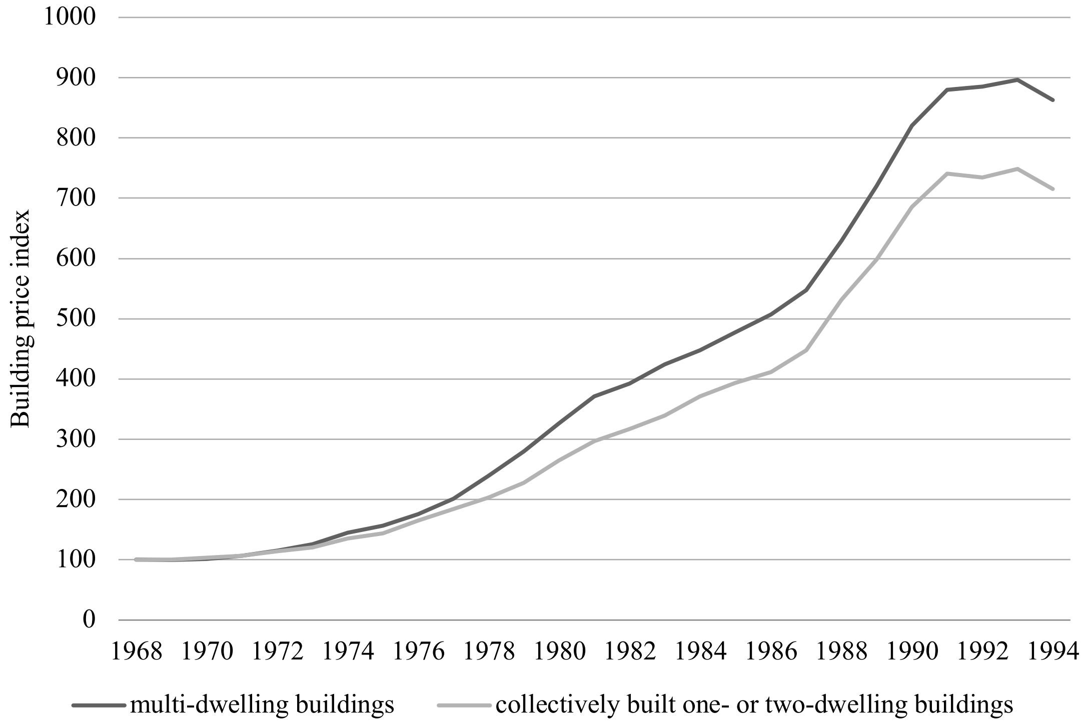
What was changing was the balance of *power* between major construction firms and the municipalities. Duncan and Barlow note that, ‘[l]arge private sector construction firms are becoming more economically dominant and, in that they can overshadow local and regional state authorities, are *becoming more important in setting the housing agenda*’ (Duncan and Barlow, 1991, p. 216 emphasis added). This was a fundamental shift in dynamics and would have enduring implications for the very nature of Swedish housing system development henceforth.

What these developments illustrate is that *practices* at the level of planning, development and procurement can change without a change in policy *per se*. Construction firms were now gaining more control over the types of projects municipalities engaged with and financed, and they were also providing more of their own capital to realise these projects Indeed, as Newman and Thornley (2002, p. 213) note, ‘…the negotiations over commercial development in the 1980s occurred in the context of the weak financial position of municipalities’. Thomas Hall outlines out the new *modus operandi*:

> A consortium, consisting of building contractors and insurance companies, negotiates with the municipality. The consortium provides something which the municipality wants, while the municipality exploits its planning monopoly in granting generous building permits, and the insurance company takes care of the financing (Hall, 2003a, p. 272).

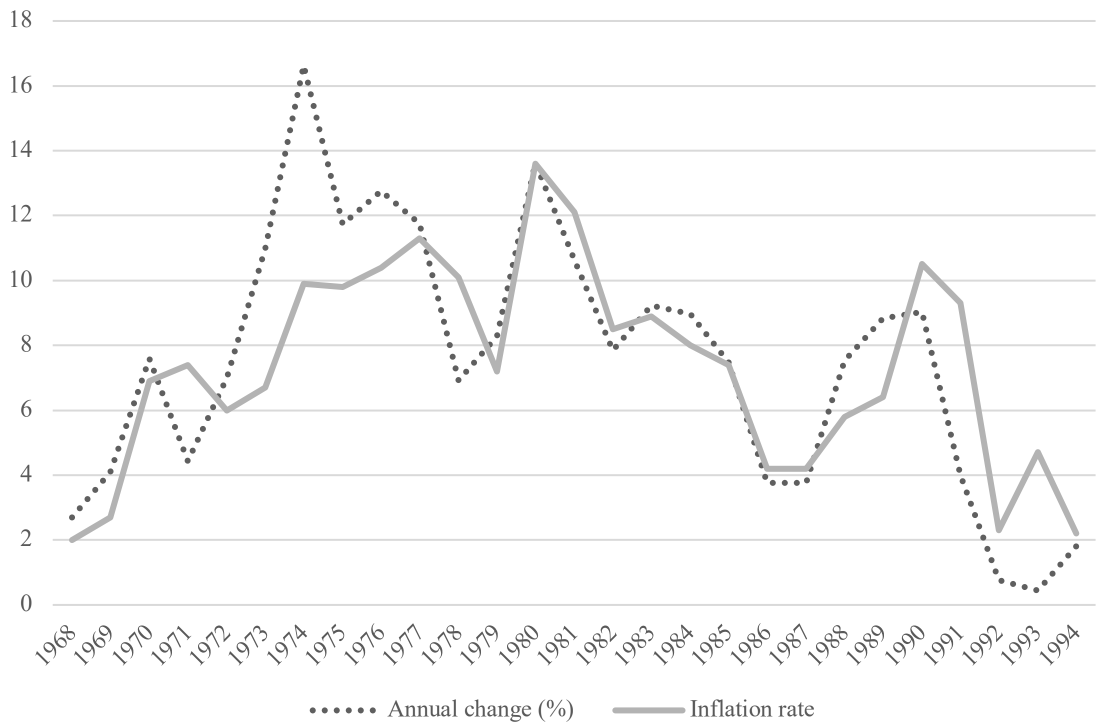
Whereas, previously, construction firms had relied on municipalities to initiate and award contracts - predominantly on municipally owned land - construction firms, from the late-1970s onwards, were now increasingly able to attract new sources of finance – from insurance companies, finance companies and banks - and this was changing the rules of the game *vis-à-vis* the residential housing provision. Another game changer throughout this period was the cost of building housing which, from the mid-1970s onwards, began to soar, as evidenced in Figures 4.8 and 4.9. This created a pincer movement, with rising costs compounded by falling productivity and, goes some way to accounting for rising rents throughout this period.

Figure 4.8. *Building Price Index (BPI) for dwellings under construction, including VAT, by type of building, (1968=100)*



Source: SCB

Figure 4.9. *Construction costs and inflation 1968-1994, annual change (%)*



Source: SCB

The Swedish construction industry, customarily one of the most concentrated in the developed world, was becoming even more so throughout the 1970s and 1980s, and this process of concentration was intensified by ballooning construction costs. One might suppose that high levels of sectoral concentration (through mergers and acquisitions and vertical integration), low productivity and spiralling prices would be cause for government concern, but that would be to assume that the state's role in Sweden's political economy was one of neutral arbitration of 'market forces'. Such a view would be misguided; for it was, in part, government intervention which had helped to create this system.

The process of industrial concentration was very much a function of the *Swedish model,* and central to the creation of a *housing industrial complex*. The LO economists, Gösta Rehn and Rudolf Meidner had, decades earlier, as Belfrage notes, '…argued for a strictly solidaristic wage policy through central wage-bargaining in combination with taxes on corporate profits in order to mitigate *wage drift*' (Belfrage, 2011, p. 115). The idea behind this was that wages should remain as uniform as possible across industries and sectors (construction being no exception here). This was an arrangement which had initially been negotiated by LO and the Employers Association, dating back to the Saltsjöbaden agreement in 1938, but was further developed by Rehn and Meidner and adopted as an official stance by LO in 1951, and the Social Democrats in 1955 (Ryner, 2002, p. 86). In terms of industrial composition, however, what this meant in practice was that weaker actors were squeezed out; a central component to the design of the so-called *Rehn-Meidner model*.

The Swedish model of housing construction had been characterised by *high capital-to-labour ratios to minimise production costs* (Dickens *et al*., 1985), which also systematically disadvantaged smaller firms. With increasing sectoral concentration, spiralling building costs, and new financial channels undermining the tacit *quid pro quo* between developers and the state, this model (which the state had helped to orchestrate with its subsidy system), was under severe strain by the 1980s. *Skanska*, (Europe's sixth largest construction company during much of the 1980s - now the fourth) built around one third of total output in Sweden during this decade, and this level of concentration would only increase in the construction sector, with mergers and acquisitions, vertical integration (OECD, 1992), and burgeoning residential and commercial property portfolios. The housing supply nexus, throughout the late-1970s and 1980s, was being dominated by an ever-decreasing pool of highly profitable and highly powerful actors, and this was having ramifications for residential housing.

Barlow and King (1992, p. 390) and Duncan and Barlow (1991, p. 213) have referred to the level of *concentration* within the Swedish construction industry during the 1980s as *oligopolistic* in nature, but it would be imprudent to think that this was solely the product of capital-labour relations. It bears noting here that sectoral concentration was also fostered at the municipal level. Indeed, there exists a very strong tradition in Sweden of municipal leaders becoming board members of housing companies and/or important local industries (Newman and Thornley, 2002, p. 241). In the case of Malmö, there were multiple scandals throughout the 1980s in relation to vast building projects (Billing & Stigendal 1994; Newman & Thornley 2002, p. 240) whose public value could be said to be highly doubtful. These projects were agreed by municipal leaders, many of whom also happened to sit on the boards of the construction firms who were awarded the contracts (Billing et al, 1994).

It was becoming clear that the *oligopolistic* nature of the construction industry, and its close relationship to the municipalities, was cause for concern. During the 1970s and 1980s, Sweden's Competition Commission (*Konkurrensverket*) carried out over 50 investigations into price fixing (Konkurrensverket, 2004, p. 29). These investigations led to little in the way of meaningful change, however, as from 1993 onwards, the construction industry is reported to have had the highest number of revealed or suspected cartels of any industry or sector in Sweden (*ibid*. p. 40). Indeed, in 1991, an official government report noted that 'open tendering collusion has increased in the construction industry' (SOU 1991, p. 219). This, of course, implicates municipalities too. A report from the Swedish National Council for Crime Prevention notes of this relationship that:

> The construction and civil engineering industry is governed by political decisions and *requires good contacts with the public sector*. Such contacts may be necessary for entrepreneurs and contractors who want to carry out projects, grow and be successful. The public sector accounts for a large part of the construction and civil engineering investments and are therefore major clients with the private construction companies. In view of the problems existing in the construction industry, with all kinds of economic crime, not least corruption, *there is much more to do by way of clean-up, both on the part of the government authorities and the industry* (Brå, 2013, p. 73 emphasis added)

Throughout the 1990s, the construction industry in Sweden became the focus of multiple cartel investigations by the Competition Commission (OECD, 2007), with the charge that the industry had been systematically rigging bids submitted in public procurements and sharing the market geographically between them for decades (Male, 2009, p. 178). It is difficult to assess precisely the degree to which these behaviours impacted on public procurement or building costs. However, with this industry accounting for the most revealed and suspected cases of cartels in Sweden, and with price fixing the most common misdemeanour (Konkurrensverket, 2004, pp. 30–40), it is difficult to imagine that the concentration in Swedish construction industry, in combination with its close relationships to the municipalities, would have had benign effects.

Concentration in the construction industry was one means by which construction companies and developers were able to augment their power and agency *vis-à-vis* the municipalities and, from the mid-1980s onwards, the level of concentration within the construction industry would intensify. With the oversupply of residential housing generated throughout the 1970s and 1980s - driven largely by a combination of untargeted state subsidies and municipalities' planning monopoly - commercial property became the most lucrative form of investment for construction firms, and these firms were able to promote this type of development as never before, as I explore in the following chapter.

This section has explored how municipalities and construction firms were adjusting to the post-*Million Homes Programme* era, and how confluent factors on the housing supply-side steadily eroded of the *quid pro quo* which had sustained the *housing industrial complex* hitherto. I identified four main dimensions to this. First, municipalities during the 1970s and 1980s saw investments in commercial and residential property as a means of promoting regional growth and increasing the tax base. This mantra, however demonstrably ill-founded in retrospect, was only effective in growth regions, but this did not deter municipalities with declining populations from commissioning projects which were demonstrably ill founded in retrospect. Second, the structure of state housing loans and subsidies provided significant and compelling incentives for municipalities to draw on their remaining land banks in order to promote commercial and residential development, irrespective of demand.

Third, although, local authorities still retained their planning monopolies, their fiscal positions had weakened throughout the 1970s, and their land resources were much depleted. Negotiations concerning the provision of commercial property development (and the residential housing mix therein) thus occurred in the context of the *weakened financial position of municipalities*. With dwindling finances and land banks, and new technologies to enforce budgetary discipline, the municipalities increasingly looked to construction consortia to finance urban development and the construction industry found itself increasingly able to set the planning and development agenda; including the scope and extent of residential housing construction. Finally, the level of concentration within the Swedish construction industry fuelled anti-competitive behaviours which, in combination with the 'revolving door' between construction firms and municipalities, led to a lack of openness on the part of the municipalities (Bejrum et al., 1995, cited in Newman and Thornley, 2002, p. 213), and the delivery of building projects (both residential and commercial) whose public values could be considered doubtful. The era of mass housing programmes had come to an end and it was those who had gained the most from the *housing industrial complex* who sounded its death knell. The new era would look quite different.

4.4. *Concluding comments*

All Socialists must hate inflation

Gösta Rehn, 1957

The purpose of this chapter has been to interrogate a simple question: once a state, and almost an entire financial system - as well as a domestically-oriented industrial supply system - has been geared towards the mass production of housing and housing-related infrastructure - with all the ancillary social, political, economic nexuses which have been mobilised to realise such as system - what happens when said system reaches saturation point?

When one considers the discursive use of terms such as 'balance' by various institutions (state and non-state) to describe the Swedish housing system of the late-1960s, and early-1970s, the contrast with the situation we encounter by the early-1980s, is quite striking. Towards the end of the period under investigation, the *difference between private and cooperative ownership had largely been erased* (Strömberg, 1992b, p. 263; Boleat, 1985); rents were pulling away from consumer prices apace (more than doubling between the late-1970s and mid-1980s); house-prices were increasing unpretendingly (Edvinsson, Jacobson and Waldenström, 2014, p. 45); the subsidy system, which had been designed to promote tenure neutrality was subsidising owner-occupiers to ever-greater extents; housing supply was totally out of step with demand; speculative tycoons were buying up swathes of inner-city rental stock; and segregation and overcrowding were increasing. If a 'healthy' housing market is one that is *stable*, *affordable*, and *inclusive*, as Robert

Shiller contends (cited in Foroohar, 2016, p. 213), then by the 1980s, Sweden's housing system was beginning to show signs of disease.

In this chapter, I attempted to illustrate, in relation to demand-side dynamics, that the preferences and behaviours of middle- and high-income households (who were, by the 1980s, adopting a *forward-looking perspective* to house purchases), assisted in rendering the pre-existing system of credit controls and subsidies unmanageable. Private firms and households were utilising rising asset values in this era of high inflation as collateral for further leveraged investment (Jonung, Kiander and Vartia, 2009, p. 18) to an extent that had not been witnessed since the 1930s, and this was impacting on the state's ability to control the flow and direction of credit to housing. Meanwhile, on the supply-side, construction firms and developers were utilising their growing capital reserves and burgeoning land banks in order to exert ever-greater influence over local planning decisions. Central components to this growing influence were the increasing concentration and anti-competitive behaviours evident in this sector and rising building costs. New financial channels empowering *construction capital* and middle- and high-income households assisted in generating insuperable tensions and contradictions in the subsidy system which had hitherto developed throughout the post-War decades; and this, in turn, undermined the capacity of the state to buffer the pre-existing system of financial controls, which had been so central to the creation of the *housing industrial complex*.

That the above developments are not more commonly recognised in Swedish housing scholarship is intriguing. Indeed, housing scholars, so often, fail to make a distinction between policy and *practice* and, by focusing purely on policy, have a tendency to obscure core sectoral dimensions and interactions, ignoring the fact that policies do not have the same effects *ad infinitum*. This chapter has attempted to show that rapidly expanding housing supply to meet increases in demand (whether real or perceived) is not without consequence. As Michael Ball notes (Ball, 2003, p. 901), when a house building boom is over, *all those resources have to be redirected elsewhere*, which *generates substantial re-adjustment costs*. The quantifiable 'costs' during the 1970s and 1980s have been relatively easy to assess: the bulk of the state's financial support to the housing system, by the 1980s, was being heavily directed to the demand-side (homeowners) in the form of mortgage tax relief; and multi-dwelling units were built in areas where there was no commensurate level of demand. However, understanding the process of *re-adjustment* following the *Million Homes Programme*, required us to look a little deeper than the immediate consequences of temporary oversupply and fiscal overshoot.

It was predominantly the private construction sector that delivered the *Million Homes Programme*[125], with the state providing subsidised loan tranches, and actively promoting

[125] One, Skanska, provided about 10 per cent of the entire programme (*Skanska*, 2017).

rationalisation in the building supply chain. The construction companies which benefitted principally from state support (Skanska, Peab, NCC), profited massively; as did those within housing-related supply-chains and industries, such as Ingvar Kamprad's *IKEA*[126]. Thus, far from being the outgrowth of an ideologically virtuous social democratic programme, the system of housing production and finance which developed during the mid-twentieth century in Sweden was, in fact, *built on the logic of private capital and profit* (Grundström and Molina, 2016, p. 321). What was produced was a highly concentrated and monopolistic system (Billing and Stigendal, 1994) which had been sponsored by the (predominantly) social democratic state, and which some scholars have described as *oligopolistic* (Barlow and King, 1991). As I argued, this *construction oligopoly* was no accident. More, its creation was a central component of the supply side of Swedish housing throughout the *Golden Years*, which the state was instrumental in fostering through targeted subsidies, and a system of *wage bargaining* - which developed broadly independently of the state - which favoured only the largest construction firms.

The period under investigation here was one of profound housing system flux, in which substantive qualitative and quantitative changes on both the demand- and supply-side altered Sweden's housing and finance systems irrevocably. This was an era in which the mounting socioeconomic contradictions generated by Sweden's *housing industrial complex*, led to the embryonic emergence of a palpably different system of housing production, distribution, and consumption. The *housing industrial complex* was not succeeded by a new system overnight, and the *re-adjustment costs* in the wake of the *Million Homes Programme* would take some time to filter through. To paraphrase Antonio Gramsci, *the old was dying, but the new had not yet been born*. However, as I explore in the following chapter, this period of *interregnum*, would evolve quickly. When the housing system changes explored in this chapter coalesced with changes in the constitution of finance during the 1980s, the results would be explosive.

The actors and institutions involved in the creation of the *housing industrial complex* of the mid-twentieth century would also be the authors of its demise, and these very same actors would hasten the emergence of another system: what I term the *housing finance complex*. As I explore now, changes in the constitution of housing finance during the 1980s and beyond would fuse onto the new demand- and supply-side dynamics explored in this chapter; and financial practices and modes of speculation which had been (somewhat) constrained and legislated against hitherto, would gradually been institutionalised. It would be the embrace of speculative practices by the state which would, ultimately, concretise Sweden's *housing finance complex* and, as we shall see, from the 1980s onwards, the state would not be merely a neutral arbiter of speculative dynamics within the Swedish housing system, but rather an enabler. The piecemeal behavioural

[126] As Rudolf Meidner notes, 'IKEA had its domestic basis in furnishing the million apartments' (Meidner, 1994, p. 226).

and institutional developments and logics leading to the creation of the *housing finance complex*, would be the preludes to something far more dramatic. By the mid-1980s, Sweden was in the midst of an economic boom. The stock market rose by over 1000 per cent throughout the decade; and construction companies, finance companies and financial institutions experienced rises in their equity prices not witnessed since the heyday of Ivar Kreuger. Unlike the boom of the 1920s in Sweden, commercial and residential property transactions would become the central objects of speculation. However, like Kreuger's day, the boom would not end well. Neither before nor since has Sweden experienced a financial crisis of such magnitude; and housing, housing finance, and *construction capital* would be at the epicentre of this economic dislocation, as I now explore.

Chapter V. *Financialisation and housing systems: the case of Sweden*

> *Until recently, when people asked me what kind of a society I wanted to see, I had a stock answer: "Sweden in the summer of 1980." Why Sweden? Because I am a soggy liberal, and Sweden has traditionally been the exemplar of what used to be called the "middle way," a market economy with the rough edges smoothed by generous government programs. Why summer? Because Stockholm, arguably the world's most beautiful city on a sunny day in June, has precious little daylight in winter. And why 1980? Because by the early '90s the Swedish model was falling apart. The one-time model society had contracted Euro-sclerosis, with sagging growth and an unemployment rate of more than 8%. And the Swedish welfare state seemed to be going broke: In 1993 the budget deficit reached an absurd 12% of GDP.*

Paul Krugman (1999)

5.0. *Introduction*

In the previous chapter, I investigated some of the institutional modalities of Sweden's *housing complex* during the 1970s and 1980s, and how the tensions and contradictions generated following the winding down of the state's mass housing programmes of the previous decades exposed not just the fragility of the Swedish housing system, but the *Swedish model* of political economy itself. It sought to understand how the linkages and power dynamics between state, local authorities, and construction capital were altered inexorably during this tumultuous period of economic uncertainty, declining profitability, rampant inflation and spiralling government deficits; and, crucially, to assess how Swedish households responded to this new and uncertain economic milieu.

This final chapter focuses on what many scholars view as the *neoliberal turn* in Sweden, and the role of housing therein. Swedish housing scholars maintain that it was during the 1990s that Sweden's housing system *transitioned* from one which was *regulated* and *subsidised*, to one which was *deregulated* and *market-based* (Andersson and Magnusson Turner, 2014, p. 4). However, while much contemporary Swedish housing scholarship interprets this as a distinctly post-1980s phenomenon[127] (Turner and Whitehead, 2002; Clark and Johnson, 2009; Hedin *et al.*, 2012)[128], championed by the Conservative-led coalition government in the early 1990s, this chapter challenges such accounts. I argue here that the contemporary scholarly focus on the early-1990s as the source of an ostensive ideological or paradigmatic shift, obscures key processes and transformations that occurred within the Swedish housing and finance systems during the 1970s and 1980s on both the demand- and supply-side.

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[127] Of course, there are exceptions to this, notably Christophers (2013) and Grundström & Molina (2016).

[128] In an influential article on the neoliberalisation of housing in Sweden by Karin Hedin *et al.,* (2012), the 1980s are omitted from their tabular schematisation of key housing transformations (see: Table 1 in the Appendix). This omission is a tacit illustration of one of my central arguments here in this chapter: that, curiously, the 1980s have received little analytical attention in Swedish housing scholarship.

In this chapter, I make the case that the perceived *neoliberal shift* in the early-1990s, which many of the aforementioned scholars attribute to the election of Carl Bildt´s *bourgeois government* in 1991, was more akin to what Rudolf Meidner (1993, p. 220) has referred to as *a formal confirmation of an ongoing process rather than its cause*. Indeed, the regulatory changes in capital and currency markets administered by the Social Democrats during the 1980s delivered a *fatal blow* to the social democratic systems of regulation (Ryner, 2002, p. 161); and this, in conjunction with the attendant insurgence of power, influence and concentration of the construction and finance sectors, would have profound impacts on housing and the built environment.

I argue that these transformations were not simply a capitulation to technocratic, neoliberal market dogma on behalf of certain factions within SAP; although there is a degree of truth to this assessment. More, they were the result of insuperable tensions and contradictions endogenous to a model of housing and political economy that had been crucial to the production of a *housing industrial complex* over the course of the previous decades. The regulatory apparatuses required to mobilise the phenomenal social, material and financial resources needed to create *and* sustain such a complex had, in essence, become nominally redundant and, by the 1980s, the state authorities found that they no longer had the capacity to control the flow, volume and direction of credit that they had had hitherto. Whilst nothing was inevitable about the courses of action and programmes pursued in response to this predicament, the interaction between systematic regulatory arbitrage and the politico-institutional responses to said arbitrage would lead inexorably to the worst financial and economic crisis in Sweden since the 1930s. The economic boom foreshadowing this crisis would fundamentally transform the way households, finance, and construction capital, relate to housing; and the legacies of these transformations would prove enduring.

This chapter continues the story of how, within the space of less than three decades, Sweden went from housing abundance to housing shortage and crisis; transitioning from a position of building more homes per capita than any other Western country during the 1960s and 1970s, to building the least in the new millennium. It seeks to explain also how and why households in one of the world's most egalitarian societies came to rank among the most indebted in the world; and, crucially, to understand how a housing system ostensibly grounded on the belief of housing as a *social right*, and once feted for its efficiency, could become one of the most dysfunctional (Christophers, 2013), segregative (Orange, 2017) and expensive[129] in the OECD (2017a). Significantly, this analysis is anchored in an exploration of the development, *dénouement* and aftermath of the Swedish Banking Crisis, and is driven by a central question: How could a

[129] As measured by the price-to-income ratio.

housing system predicated upon debt-fuelled consumption, speculation in commercial and residential property and growing wealth inequality, and which had shown itself to be so inherently unstable, survive and thrive following a crisis of its own making?

Understanding why speculative financial practices emanating from the 'shadow banking' sector were later operationalised within regulated banking circuits and how practices such as cooperative conversions of rental housing units, which were politically reproached prior to the crisis, were then championed by the state thereafter, will be a core concern of this chapter. I argue here that these operationalisations represent merely the institutional crystallisation of the *modus operandi* of speculators, which had flourished throughout the previous decade in the lead up to the banking crisis.

Whereas the previous chapter sought to investigate the sectoral interests and socio-economic determinants influencing the demise of the *housing industrial complex*, and the embryonic emergence of what I have termed the *housing finance complex*, the present chapter seeks to understand how this precarious *housing finance complex* - which precipitated the most profound and protracted economic dislocation in Sweden since the Great Depression - could be promoted, embedded and sustained beyond the banking collapse of the early-1990s.

Having adopted a strategy of periodisation in order to guide the structure of the thesis hitherto, the periodic distinction between the present chapter and Chapter IV is somewhat more indeterminate. The reason for this is that this chapter gives significant analytical weight to the Banking Crisis that was forged during the 1980s and erupted in the early 1990s, but whose legacy is still palpably felt in the Swedish housing and finance systems today. Due to the significance of this crisis, the phases of development warrant special attention. The central concerns of this final chapter, then, are divided into three sections organised around the temporal dynamics of the banking crisis of the early 1990s: the boom of the mid-1980s, the bust of the early-1990s, and the 'recovery'. First, I explore the lead up to the Swedish banking and economic crisis, where particular focus is given to the growth and role of *finance companies* and the regulatory frameworks governing bank lending activity, taxation and housing policy during the mid-1980s and early 1990s. Second, the *dénouement* of the boom: the bust. And, third, the road to 'recovery' and the legacies of the crisis; how it was negotiated from a socio-economic and regulatory perspective in the immediate aftermath, and importantly, how enduring institutional and sectoral permutations developed as a result. This is then followed by a discussion section in which I explore the macroeconomic implications of Sweden's *housing finance complex*, and a conclusion.

5.1. *Regulatory arbitrage, deregulation and the boom*

The post-War period in Sweden leading up to the 1980s has frequently been referred to as, *The Golden Age* (Schön, 2008); the 'care free' years (Andersen, 2011, p. 225) of unbridled prosperity, equality and economic growth, in which Sweden's *Keynesian welfare state housing model* (Grundström and Molina, 2016) was recognised as one of the most effective in the world (Dickens *et al*., 1985). As the previous chapter illustrated, however, Sweden was in no way immune from the global economic maelstrom brought about after the collapse of the Bretton Woods System and the oil crises of the 1970s. The strategy of controlling the distribution and flow of credit, subsidising stricken industries, and aggressively devaluing the kronor throughout the 1970s an early-1980s in order to promote productivity and paper over fundamental fissures in Sweden's political economy (Bergh, 2014, pp. 37–39), progressively gave way, throughout the course of the mid-to-late-1980s, to an altogether different approach of macroeconomic management; or *mismanagement* as former Social Democrat minister and *Riksbank* Deputy Governor, Kristina Persson, would later claim (Persson, 2002)[130].

Whether by accident, design, or a combination of both, it is fair to say that the 1980s (as elsewhere in the industrialised world) signalled a fundamental realignment of the post-War system of political economy and regulation in Sweden. This realignment can best be described at the macroeconomic-level as an incremental shift from an economy dependent on export-orientated industries such as steel, pulp, automotive, and shipbuilding, to one where domestic consumption played a much more central role in generating aggregate demand. An insight into the dynamics underlying this shift can be observed from a cursory comparison of productivity metrics - growth, investment, and foreign trade - with earlier periods studied in this thesis. The post-1970s era stands out as one of anaemic and sclerotic productivity and investment, which was compounded by high inflation. Even by comparison with two-hundred-year trend-data (1800-2000), per capita GDP and investment were weak during this period and inflation was uncharacteristically high, as evidenced in Table 5.1.

[130] In a discussion addressing fellow Social Democrats in 2002, Persson claimed that the problems generated during the 1980s boom years were 'made worse by the fact that the deregulation and the major tax reform came in the wrong order. Real interest rates after tax were actually negative for households for a period and thereby pushed up the demand for credit substantially' (Persson, 2002).

Table 5.1. *Annual growth rates in per capita production, total investments, foreign trade, consumer prices and population in Sweden*

Period	Per capita GDP	Investments	Foreign trade	Consumer prices	Population
1870-1910	1.7	3.0	3.3	0.3	0.6
1910-1950	2.2	4.2	2.0	3.0	0.5
1950-1975	3.6	5.5	6.5	5.0	0.6
1975-2000	**1.4**	**2.1**	**4.3**	**6.0**	**0.4**
1800-2000	*1.9*	*3.4*	*3.8*	*3.0*	*0.7*

Sources: Schön (2008); SCB; and author's calculations

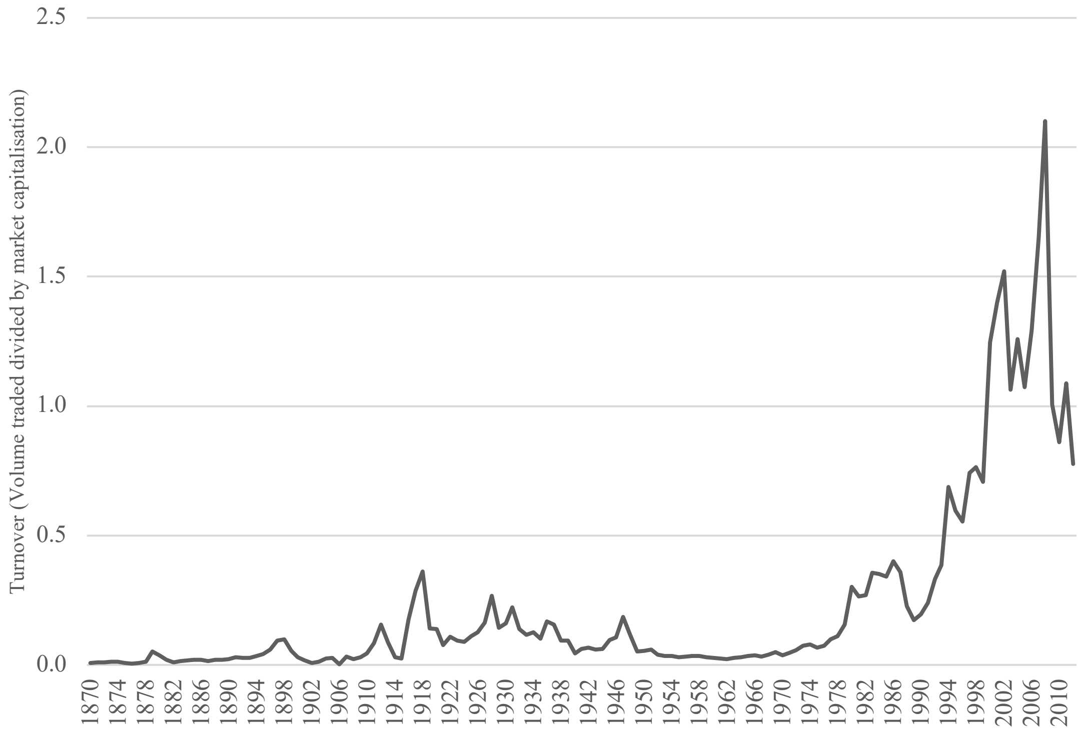
Declining industrial productivity and languid export growth, in combination with stubbornly high inflation, had created a pincer movement on the Swedish economy during the 1970s and 1980s, which the growth of domestic consumption was only able to offset to some extent (Jonung, Kiander and Vartia, 2009, p. 19). Fuelling this rapid swell in consumption was the growth of the credit stock and a *trend shift in the growth of wage income* (Agell and Berg, 1996, p. 584), which, as Chapter IV discussed, was undermining the very basis of the *Rehn-Meidner Model*. This was a very different type of economic growth to that which Sweden had been accustomed to hitherto.

To appreciate the significance of this *shift,* we need to look at the practices of state and non-state actors *and* their interactions. At the regulatory level, the exchange and capital controls that had been in place since the Second World War (see Chapter III), and which had allowed the state to elaborately orchestrate liquidity ratio requirements, lending ceilings and the bonds emissions in a way which bolstered Sweden's *housing industrial complex*, were rendered effectively redundant by financial actors' and households' abilities to circumvent them. This was a period of *institutional lag*, in which financial deregulation was playing *catch-up*; with the state attempting to reflect the new realities and culture that systematic regulatory arbitrage had created. The interface between these two processes (arbitrage and deregulation) is where the analysis in this section lies. This section explores how new behavioural logics, previously considered corrupt, or even criminal, only a decade or two earlier would become institutionalised throughout the course of the 1980s, ushering in the age the of the *housing finance complex*.

The boom begins…

Despite Sweden's robust economic growth throughout much of the post-War period, the Stockholm bourse had essentially been stagnant since the Kreuger Crash precipitated what some scholars have termed the *financial ice age* (Waldenström, 2014, p. 230). This changed dramatically from the late-1970s onwards, however, instigating an upward trend which only the banking crisis of the early-1990s, the dotcom bubble of the early 2000s and the Global Financial Crisis would interpose. Swathes of Swedish firms, which had hitherto engaged solely in manufacturing, now began to engage with financial activities, creating *supplier-owned* finance companies specializing in financing purchases of said supplier's products (Jennergren, 2001, p. 4), and yielding an increasing share of their profits through the buying and selling of firms and stock market speculation (Ryner, 2002, p. 147). It was the age in which, as Lars Engwall (1994, p. 229) notes, 'the borderlines between banks and other industries were becoming increasingly less clear-cut', and in which banks were, 'forced to reconsider their role'. Figure 5.1 illustrates one outcome of these changing dynamics and their impacts on the stock market turnover rate.

Figure 5.1. *Turnover rate at the Stockholm Stock Exchange, 1870-2012*



Note: Turnover rate is defined as the value of the total volume traded divided by market capitalisation (value of listed shares)

Source: Waldenström (2014, p. 225)

There is an alluringly simple explanation, which is frequently deployed to account for these changes: *financial deregulation*. This process in Sweden, as Jonas Agell and Lennart Berg note, '…started at a modest pace towards the end of the 1970s, and … was completed in 1989' (Agell and Berg, 1996, pp. 582–583). However, using *financial deregulation* as an explicans for these changes can only tell us half the story. Indeed, as Leo Panitch and Martijn Konings (2009) observe, there is more to this process than simply ideologically charged regulators tearing up the statute books in an attempt to unleash dynamic *market forces*:

> 'Deregulation' was determined not so much by ideological commitment to neoliberalism as by a series of pragmatic decisions, usually driven by the exigencies of the moment, to *remove legal barriers to financial dynamics that had already gathered decisive momentum within the old form of regulation* (Panitch and Konings, 2009, pp. 68–69 emphasis added).

The regulatory and financial frameworks and controls, which the Swedish authorities had relied upon since the Second World War to control the flow of funds to preferential sectors of the economy (such as housing), were becoming increasingly strained during the 1970s and 1980s. As we saw in the previous chapter, during 1970s, the government had pursued *expansionary fiscal policies* (Jonung, 1994, p. 368) and currency devaluations in order to promote growth and industrial competitiveness. These did not have the desired outcomes. Instead, local government budgets were squeezed, inflation was rampant (stoking demand for higher wages) the so-called *twin deficits* (the budget deficit and in the balance of payments deficit) spiralled out of control and, what is more, there was a rapid growth of evasion*, undermining both the tax system and the system of credit controls* (Jonung, 1994, p. 368). Quite simply, basic forms of regulatory arbitrage were rendering the Swedish system of capital controls obsolete at the level of financial services, industrial firms, and households. Swedish economist and Nobel laureate, Gunnar Myrdal (1978), even mused whether Sweden had become a *population of swindlers* (translated in Bergh, 2014, p. 38). How should we explain these dynamics?

The growth and role of finance companies

Besides the unfavourable macroeconomic milieu, with rising costs and new spheres of global competition undermining export-oriented Swedish firms, a significant problem facing Swedish commerce during this period was the ballooning public debt which had been incurred by the state's attempts to ameliorate lagging productivity and demand during the 1970s. Banks were compelled to hold government bonds under the regulatory frameworks constructed after the War and, as this debt steadily increased, they were necessitated to increase their government security portfolios as part of their liquidity quotas. This, in turn, meant that lending to the private sector and households was, to some extent, checked (Gerding, 2014, p. 288; Drees and Pazarbaşioğlu, 1995). It was at this moment that an assemblage of institutions operating in the so-called *grey credit market*[131] (Gerding, 2014) began to gain market share rapidly. These institutions were not beholden to the same regulatory frameworks as banks and were not required to hold government securities. They would play an important role in the extension of credit in the Swedish economy and within a relatively short space of time, assisted in transforming the Swedish financial system; and with it housing and the built environment.

Finance companies were not a novelty of this period; nor had these institutions been

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131 Henceforth referred to as the *shadow-banking system*.

created with the specific intention of manoeuvring the economic and regulatory uncertainties of the 1970s and 1980s. Whilst they had existed in various guises since the 1960s, their rates of growth, both in terms of absolute number and credit volumes, were striking during the 1980s. In 1970 there were around 67 finance companies in operation in Sweden, but by 1988 this number totalled nearly 300 (Gerding, 2014, p. 288). These institutions did not carry out uniform tasks and can broadly be placed into three categories: *independent, bank-owned*, and *supplier-owned* (Jennergren, 2002, p. 4). It is the independent and bank-owned finance companies, and their interactions, which concern us here.

Finance companies may not have been regulated like the banks and mortgage institutions, but that is not to say that they were not subject to regulations. The independent finance companies were not permitted to take deposits or issue bonds; unlike banks, which were strictly regulated in this regard prior to 1982. In lieu of this, a large proportion of finance companies' funding was attained by a combination of promissory note and unsecured loans and so-called investment certificates (*marknadbevis*). The former accounted for roughly 50 per cent of their funding and latter around 30 per cent (Jennergren, 2002, p. 5). These certificates had incredibly short maturities of around 90 days or less (*ibid*.). These companies were engaged in range of activities from instalment finance and leasing directed towards different firms, to extending credit and hire purchase finance (similar to leasing) to households (Svenska Bankföreningen, 2010).

While it is possible to appreciate the absolute lending volumes of these companies (see Figure 5.2), the extent of their lending to households and commercial and residential property firms is somewhat difficult to establish. This is, in part, due to the nature of the *shadow banking system,* of which they were part, and the lack of associated data in terms of lending breakdown[132]. However, we do know that much of their corporate financing (both directly and indirectly) was directed towards the construction and real estate sectors (Jaffee, 1994, p. 90) and that they were active in investing in real estate companies more generally (Englund, 2015, p. 16). As the 1980s wore on, they were even key investors in real estate loans with so-called *low priority claims* (Englund, 2015, p. 11), which, in contemporary parlance, would be termed *subprime lending*. These institutions provided a new source of finance, outside of the hitherto *formal channels,* and directed large volumes of credit towards developers, real estate companies and the construction industry. Indeed, these institutions, and their interactions with banks and equity markets, played a central role in augmenting the financial capacity of developers and construction firms, facilitating leveraged investment on a scale unprecedented hitherto in the post-War era in Sweden.

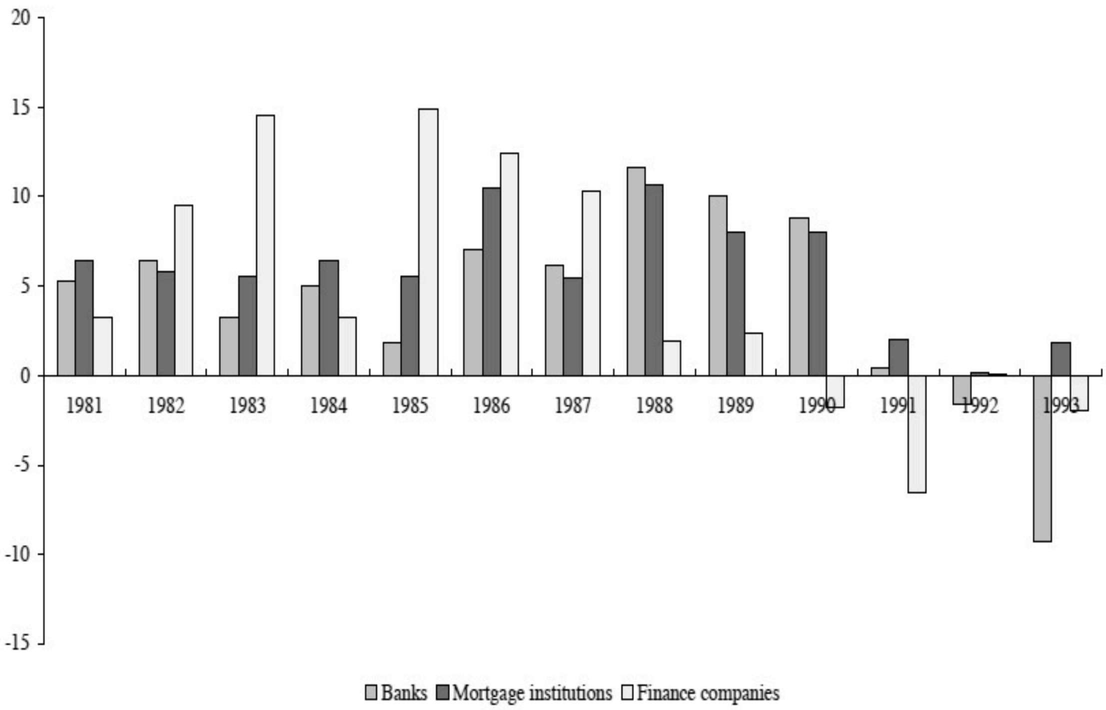
L. Peter Jennergren notes that, '…finance companies became involved in high risk lending with … junior claims on collaterals in connection with real estate projects' (Jennergren,

[132] Even outside of the shadow banking system, as Jaffee (1994, p. 87) argues, 'Swedish bank statistics do not identify real estate loans as a separate lending category'

2002, p. 5) adding, '[t]hey also started financing investments in shares' (*ibid.*). Whilst their investments were multifarious, then, they were core enablers of the increased liquidity throughout the 1980s and their role in extending the domestic credit base during this decade was not insignificant. Indeed, by the year-end in 1988, it is estimated that finance companies accounted for *ten per cent of the total credit stock* in Sweden (Drees and Pazarbaşioğlu, 1998, p. 10). Beyond this sizable quantitative measure, though, it is their practices and behaviours, which would have the most enduring significance on Swedish finance, developers and households.

Despite being in direct competition with the finance companies, the so-called *regulated banking sector* was also their principal source of finance. *Investment certificates* were issued under loan programme agreements and banks would typically guarantee these certificates before selling them to institutional investors (*ibid.*). Banks were thus able to generate income via the finance companies and refresh tranches of their balance sheets, creating secondary markets. However, as a result of this interaction, banks became exposed to substantial credit risk (Englund, 1999, p. 85). Banks also created their own finance companies (*bank-owned*) in order to navigate the complexities (and uncertainties) of the regulatory environment. The extent of the growth of finance companies' lending can be seen in Figure 5.2.

Figure 5.2. *Lending from Banks, Mortgage Institutions, and Finance Companies (% change)*



Source: Wallander (1994), cited in Englund (1999)

Thus, in an era of ostensibly stringent regulatory controls (Englund, 1999; Andersen, 2011; Gerding, 2014), which included a broad gamut of restrictions on bond emissions, ceilings on bank deposit rates, requirements for banks to hold government and housing bonds, and ceilings on bank loan rates (Drees and Pazarbaşioğlu, 1998, p. 10), the banks were able to use finance companies, not beholden to these same rules and practices. Quite simply, finance companies and banks were able to *avoid the constraints implied by the formal rules* (Agell and Berg, 1996, p. 596). These non-bank financial intermediaries *operating outside the traditional banking system* (*ibid*.), then, played a significant, and increasingly important, role in overcoming regulatory *constraints* and, crucially, directing credit towards commercial and residential real estate.

This, understandably, created a dilemma for regulators. Steffen Andersen notes that, by this stage in the early 1980s, '…the Riksbank had concluded that its elaborate rate system of controls and "friendly discussion" with the banks had lost whatever effect they originally might have had' (Andersen, 2011, p. 259). This is when internal struggles within the Social Democrats came to the fore *vis-à-vis* appropriate policy responses. How should they respond to these practices?

Deregulation

Louis W. Pauly (2008, p. 263) notes of the global political economy of the early 1970s that, '…capital controls were, with good empirical evidence, depicted as increasingly ineffective', adding, '[f]or industrialized counties, they were indeed obsolescent, if not never entirely obsolete'. Nowhere was this truer than in Sweden during the late-1970s and 1980s. Indeed, for the first time in decades, the public and private sectors in Sweden were increasingly borrowing in currencies not denominated in SEK, which further reduced the efficacy of controls (Jonung, 1994, pp. 363–364), and the effects of this regulatory obsolescence would be felt across all sectors of the economy.

As we have seen, the shadow banking system, which the banks were increasingly operating within (and had direct exposure to) were undermining the authorities' ability to control the money supply (Ryner, 2002, p. 150). There could have been three responses to this impasse. First, the government and central bank could have done nothing. This was the least plausible option, seeing as the finance companies were, in effect, assisting in undermining the state's ability to generate revenue. Notwithstanding this course of action, then, there were two other plausible options. They could either have attempted to regulate the finance companies to the same degree as the banks, thus creating a more level playing field, or they could aim to create a level playing field using alternative methods: By changing the regulatory position of the banks to bring them closer to the model of the *shadow banking system*. The authorities' response was the latter. This process did not occur overnight, as Table 5.2 (below) illustrates, but none of the changes documented below would not be reversed.

Table 5.2. *Chronology of financial liberalisation in Sweden, 1978-1990*

1978	*Ceilings on bank deposit interest rates were abolished.*
1980	*Ceilings on issuing rates for private sector bonds were lifted. Controls on lending rates for insurance companies were removed. A tax on bank issues of certificates of deposit was removed. Foreigners were allowed to hold Swedish shares.*
1982	*Ceilings on new bond issues by private companies removed.*
1983	*Requirements on banks to hold government and housing bonds to meet liquidity quotas were abolished. Use of liquidity ratios to guide bank lending was discontinued and replaced by recommended growth rates for lending.*
1983	*Requirements on banks to hold government and housing bonds to meet liquidity quotas were abolished. Use of liquidity ratios to guide bank lending was discontinued and replaced by recommended growth rates for lending.*
1985	*Ceilings on bank loan rates lifted.*
1986	*Placement ratios for banks and insurance companies were abolished. Foreign banks allowed to establish subsidiaries in Sweden.*
1986-88	*Foreign exchange controls on stock transactions relaxed.*
1988-89	*Swedish residents permitted to buy foreign shares.*
1989	*Non-Swedish nationals allowed to buy interest-bearing assets denominated in SEK. Remaining foreign exchange controls removed.*
1990	*Foreign banks permitted to operate through branch offices and are entitled to participate in Riksbank's clearing system on the same terms as Swedish banks.*

Source: Adapted from Drees and Pazarbaşioğlu (1998, p. 10)

The years 1982, 1983 and 1985 stand out as significant here, as ceilings on new bond issues were removed, liquidity quotas were abolished and ceilings on bank loan rates were lifted. This essentially gave private financial institutions almost free rein to expand the credit stock. More significantly still, in 1983, banks were no longer compelled to hold government and housing bonds. This was, as Ryner (2002, p. 161) has noted, a *fatal blow to social democratic regulation*, which spiralling deficits and Sweden's deteriorating balance of payments had fuelled. One of the consequences of these programmes is evident in Figure 5.2 (above). Banks began to increase their lending and claw back market share from finance companies. Further, in 1985, the state created SBAB, a state-owned mortgage financing agency, which was given responsibility for financing 'higher risk' housing loans (Bengt Turner, 1999, pp. 684–685) that were previously financed through the government budget (SBAB, 2018). By the mid-1980s, the credit boom was in full swing and banks, finance companies and the state were extending credit to construction firms, households, and real estate companies in a manner, hitherto, unprecedented. Why did the Social Democrats pursue this course of action?

There were other alternatives on the Social Democrat's table. One such alternative was the implementation of the *wage-earner funds* proposed by the unions and advocated by LO economist, Rudolf Meidner, whose basic idea was to, '…skim the excess profits and transfer them from the capital owners into the collective ownership of the employees' (Meidner, 1993, p. 217). In short: the proposal advocated a shift from democratic socialism to forthright socialism. Despite lacklustre attempts to implement this, little ever came of the wage-earner funds, from the perspective of the staunch socialists within the Social Democrats[133]. These funds were treated as more of a symbolic gesture rather than a serious policy programme (Ryner, 2002, p. 167). In any case, the programme of reforms adopted around this time rendered the implementation of socialisation somewhat redundant. What was occurring within the corridors of power?

Tensions reportedly rose in a conversation between the Social Democrat Prime Minister, Olof Palme and his Finance Minister, Kjell-Olof Feldt, concerning the reformulation of regulatory frameworks and the pace of regulatory change in 1985. Feldt had argued that the existing policy frameworks to channel capital and investments to housing and other priority sectors were futile and counter-productive. An irate Palme reportedly chastised Feldt thus: *Do as you please. I still don't understand anything!* (translated in Andersen, 2011, p. 260). As Palme was assassinated walking home from the cinema with his wife in February of the following year, it is difficult to fully gauge the level of disagreement between him and his finance minister during this exchange. However, Feldt has subsequently been explicit about the implications of these regulatory changes in his memoirs:

> The political meaning was crystal clear: it meant that social democracy, after decades of resistance, abandoned one of its most symbolic bastions for managing the Swedish economy to the market powers. *Although the management during recent years had been just that, i.e. symbolic, it was still a major concession to the neo-liberal ideology* which we as social democrats had spent so many years fighting (Feldt, 1991, translated in Jonung, Kiander and Vartia, 2009, p. 66 emphasis added).

Such was the apparent exasperation of policy makers at the time. The source of this frustration, as noted above, was surprisingly simple: '…the old system permitted a number of straightforward tax arbitrage operations, which undermined the tax base and stimulated borrowing' (Agell, Berg and Edin, 1995, p. 276). Agell, Berg and Edin elucidate this point, arguing the following:

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[133] Indeed, the policy initiative could be argued to have been counter-productive. It helped to mobilise the Employers' Confederations against the unions and SAP and to disrupt the otherwise reasonably solidaristic wage policy and corporatist structure of industrial relations. See Ryner (2002, p. 150-151) for more detailed analysis.

> A […] major impetus for the reform was the multitude of tax avoidance operations available under the old system. While often quite complicated in appearance, many of these operations relied on the simple idea of generating a net taxable income loss by purchasing lowly taxed assets with borrowed money, and deducting the interest expenses (Agell, Berg and Edin, 1995, p. 279).

The regulatory checks on financial institutions and households were ineffective and unpopular with households and policy makers alike. As Ryner notes, '…markets were deregulated because the Central Bank *no longer had the capacity to sustain such regulation*' (Ryner, 2002, p. 126, emphasis added). Steffen Andersen argues likewise that the core policy changes (such as the abolition of liquidity ratios requirements for banks abolished in 1983, and the removal of bank lending ceilings in 1985) were, '…a recognition by the Riksbank that by the early 1980s, the elaborate cobweb of controls it had set up no longer served their original purposes' (Andersen, 2011, p. 26). Whilst they may well have been counter-productive, however, this is not the entire story. Indeed, the programme of reforms enacted throughout the 1980s was not merely a simple *de facto* acknowledgement of financial developments hitherto.

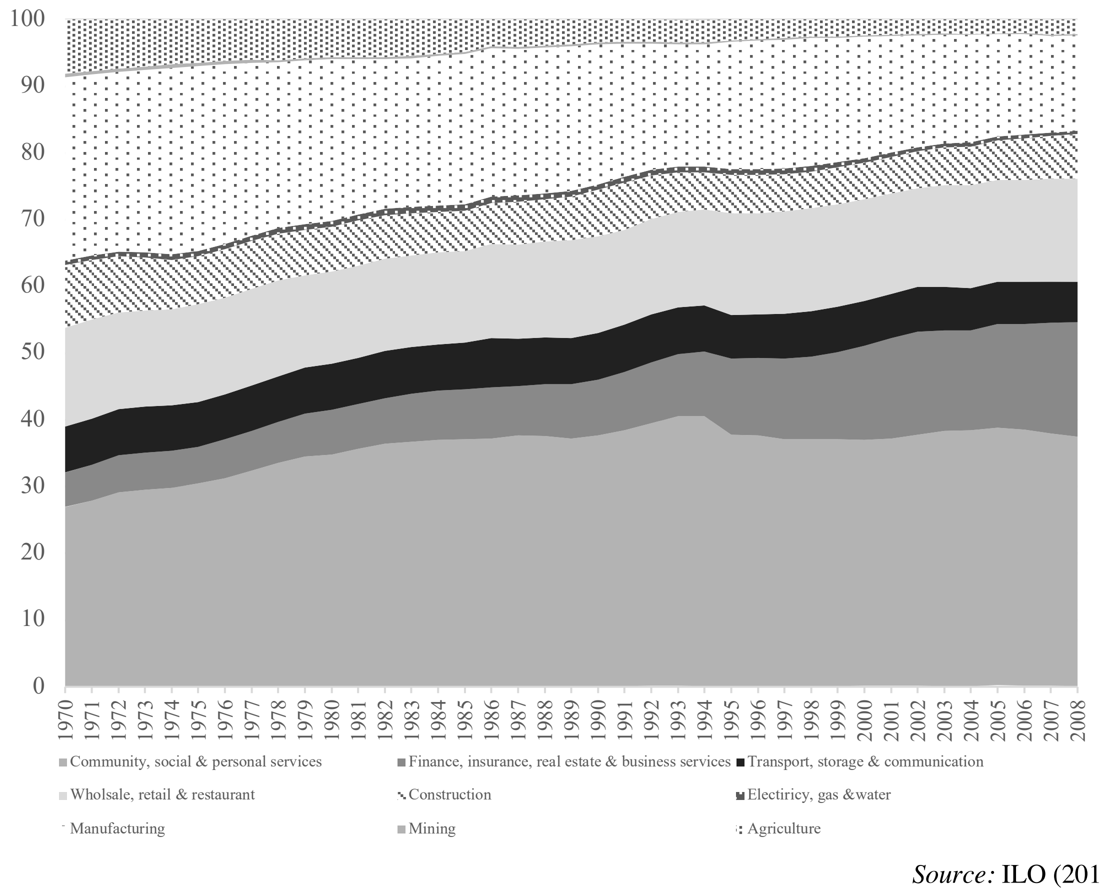
Whilst regulatory arbitrage, rising incomes and tax reforms played an important role in boosting household consumption in housing and other durable goods, it is also important to consider the motivation of regulators to increase bank profits (Gerding, 2014, p. 288; Jaffee, 1994, p. 89), and the macroeconomic implications of this. The reforms principally served to help two categories of actors: those working within finance (at home and abroad), and middle- and high-income households who had already become moderately adept at decreasing their tax burdens (see Chapter IV). However, the reforms also went further than this, essentially opening up the Swedish credit market to foreign competition. Deregulation, thus, went further than the activities which financial actors and high-income households had engaged in hitherto. The state, having been viewed as a *manager of market powers*, (Feldt, 1991) for so long, was now an enabler and promoter of these powers and, in the process, was actively assisting a speculative economic boom.

Further assistance of direct significance to stimulating economic activity in housing would also be forthcoming beyond the sphere of financial regulation. In 1983, the Palme government introduced the ROT-avdrag system (*Renovering, Ombyggnad, Tillbyggnad* = Repairs, Conversion, Extension); an initiative designed to promote dwelling improvement. This programme made repair, conversion and extension work tax deductible and was indicative not only of a shift in policy towards supporting renovation activity (Clark and Gullberg, 1991, p. 502), but also of the state's willingness to further stimulate the construction industry in an era of low productivity growth (Jacobson, 1986, p. 183; Priemus and Metselaar, 1993).

Berg and Edin note that the peak of this boom is evident from an analysis of consumption expenditures, which, to a great extent, were '…driven by strong growth in purchases of durables' (Berg and Edin, 1995, p. 285). It is no coincidence that, following the major waves of regulatory reform and tax changes, housing construction trebled between 1985 and 1991 and private construction increased fivefold (ESO, 2002). In the short term, at least, the ability of private business concerns and households to readily access credit did boost commercial and residential construction, and this state-assisted credit boom unleashed a debt-fuelled wave of consumption in housing and durable goods, which was accompanied by an employment increase in the construction sector of 20 per cent (ILO, 2018) from 1985 to 1990. This, in turn, was supplemented by an increase of employment in the financial service sector of 20 per cent during the same period (Engwall, 1994). Astonishingly, banks increased their balance-sheet size 90 per cent of GNP in 1985 to 200 per cent in 1989 (Davis, 1995, p. 256).

For the first time, Sweden now had more of its population employed in the services and government sectors than all other sectors combined. This was a significant politico-economic transformation, which would not be reversed. Figure 5.3, below, charts these employment changes over the course of nearly four decades. The solid grey areas (of varying shades) represent the service and government sectors, whereas the patterned areas represent non-service sectors and industries.

Figure 5.3. *Labour Market Trends in Sweden, 1970-2008*



Source: ILO (2018)

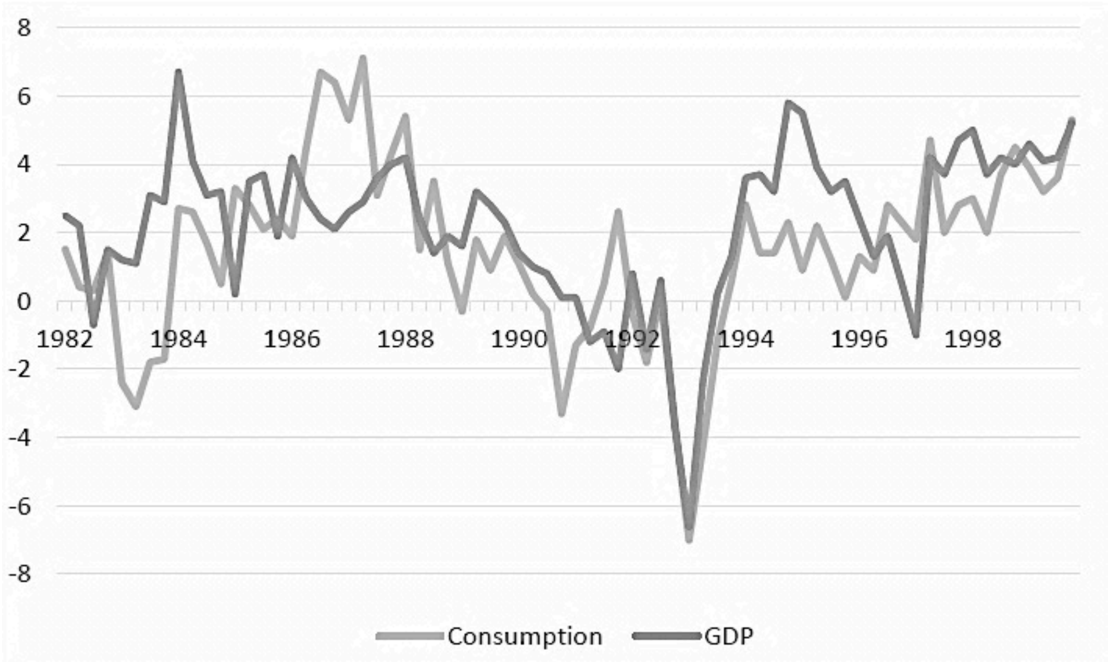
What we witness from the 1970s onwards, then, is the *tertiarisation* of the Swedish economy. During the 1960s, 1970s and 1980s, the pace of urbanisation in Sweden accelerated. In

1960, around 73 per cent of Sweden's population was classified as urban. By 1990, however, that figure was closer to 85 per cent (SCB, 2011). The decline in the rural population was driven by diminishing employment opportunities in manufacturing, agriculture, and the rural public sector, the effects of which - to some extent - were offset by the growth in retail and other consumer-oriented services in urban areas (Hedlund and Lundholm, 2015, p. 130). Martin Hedlund and Emma Lundholm note that, '…a consumption-oriented, knowledge-intensive service sector limited the absorptive capacity in rural areas, which spurred the large increase in urbanisation between […] 1960 and 1980' (*ibid*.). Indeed, these dual processes of economic restructuring and accelerated urbanisation inevitably had ramifications for Sweden's major cities and - as I noted in the previous chapter, and as I will make clear below – the increased urban housing demand would create upward pressure on house prices during the late 1970s and, particularly, during the 1980s housing finance revolution.

Households & House prices

Thus far in this section, there has been little mention of households. This is quite simply because we cannot speak of the effects of financial system mutability on households without first understanding the sources and drivers of said mutability. Only when we have done this can we truly gauge the significance of these changes in relation to households' and the implication of this for housing and the built environment. By the mid- to late-1980s, household consumption was one the most important drivers of GDP growth, as Figure 5.4 shows.

Figure 5.4. *Household consumption and GDP (real four-quarter percentage changes)*



Source: Englund (2015, p. 55)

Agell & Berg, (1996, p. 583) note that, with regard to deregulations of *direct relevance for household borrowing, most changes took place between 1983 and 1985*. As Peter Englund (2015, p. 10) argues, '[d]eregulation opened up *new opportunities* for competition over market shares' (emphasis added). This competition did not occur in a vacuum in spite of household preferences. Englund further adds that it was mortgage lending, which had been *most directly hit by the regulations*. Indeed, lending by mortgage institutions increased by 167 per cent between 1985 and 1990 (*ibid*.). Demand for mortgage credit, then, became insatiable. The new regulatory milieu allowed this to some extent but, in many ways, it was a continuation of trends already noted above (see Chapter IV). The effects of this on per capita growth rates, consumption, wage-income and debt can be observed in Table 5.3.

Table 5.3. *Growth rates of consumption, disposable income, and debt ratios (1980-94)*

	Per capita growth rates					
	Total consumption expenditures	Pure consumption	Nondurable consumption and services	Disposable income	Gross household debt to disposable income	Gross household debt to total household wealth
1980	-0.010	0.008	-0,006	0.026	0.981	0.291
1981	-0.003	0.009	0.001	-0.020	0.988	0.222
1982	0.007	0.001	0.000	-0.032	1.038	0.229
1983	-0.020	-0.009	-0.013	-0.013	1.037	0.228
1984	0.013	0.013	0.012	0.013	1.054	0.237
1985	0.025	0.018	0.022	0.026	1.033	0.233
1986	0.041	0.010	0.022	0.030	1.128	0.244
1987	0.041	0.018	0.020	-0.000	1.207	0.252
1988	0.019	0.019	0.009	-0.001	1.354	0.256
1989	-0.002	0.011	-0.001	-0.003	1.358	0.244
1990	-0.006	0.018	0.003	0.037	1.250	0.231
1991	0.003	0.017	0.005	0.040	1.079	0.216
1992	-0.020	0.009	0.005	0.029	1.007	0.212
1993	-0.043	-0.044	-0.027	-0.042	0.975	0.206
1994	-0.003	-0.011	0.000	0.017	0.916	0.199

Source: Agell and Berg (1996, p. 585)

What Table 5.3 illustrates is the household dynamics of the boom and bust cycle throughout the 1980s and early-1990s. The consumption was driven by a combination of rising incomes (simulated by higher wages and tax reforms lowering the marginal tax rate) and the increase in the supply of credit. The evidence for the latter is clear from the data in the sixth column: *gross household debt in relation to disposable income*. What is surprising about this is that the levels of household debt were high even before the reforms in tax and financial regulation. Indeed, in comparison to other industrially mature economies (including the USA) Swedish households were carrying nearly twice as much debt in relation to disposable income.

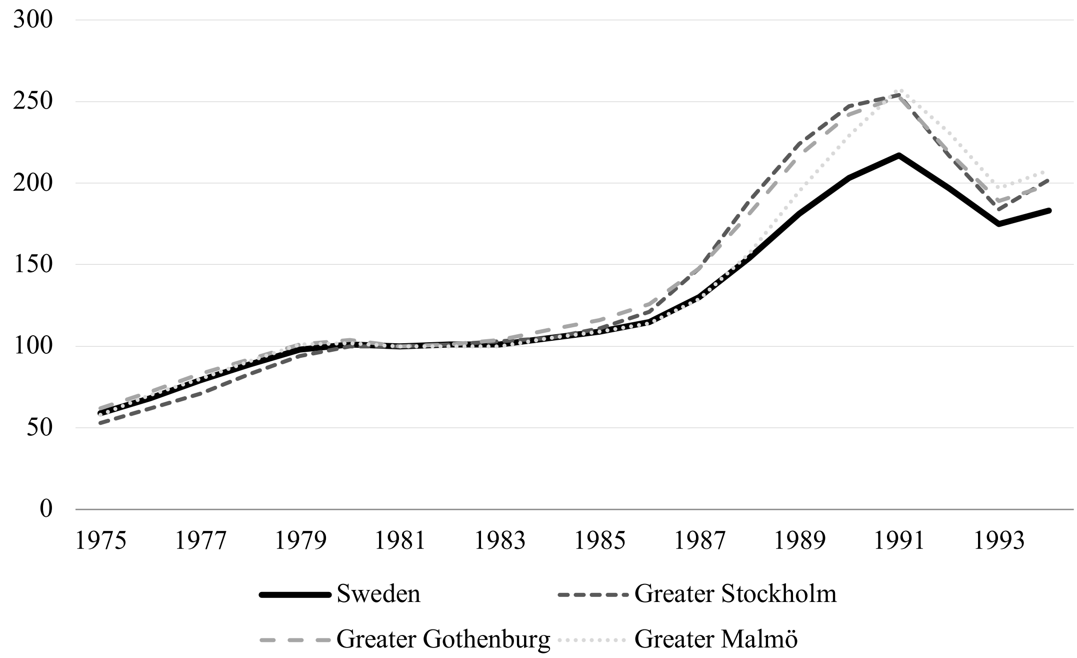
Thus, a combination of policy, practice, financial arbitrage and regulatory change in response to said arbitrage resulted in a situation whereby, as Englund (1999, p. 83) notes, 'Swedish households on aggregate were among the least credit-constrained within the OECD group of countries'. This view is supported by Jappelli and Pagano, (1989) and Agell and Berg (1996). The effects on housing were that house prices across Sweden rose as a function of increased demand. Despite stimulating construction in both the commercial and residential real estate sectors, the growth of mortgage loans far outstripped housing supply, leading to a rise in house prices. During the 1980s in Sweden, then, the increase in the supply of mortgage credit did not function to increase affordability but aggravate it. These socioeconomic dynamics are best summed up by Jan Bohlin (2014, p. 46):

> Deregulation in the 1980s altered the behaviour of prospective buyers. Prior to the 1980s, properties had often been valued from a "building contractor perspective": the income from

> tenants' rents should comfortably exceed running expenses and capital costs. In the 1980s, this gave way to a more forward-looking perspective; the value of a property was now seen as being equal to the sum of future incomes from owning it, discounted to present value by a rate of interest that represented the required rate of return. It was not uncommon to add in a future rest value of the property at the end of the horizon. Applying this perspective made many properties appear to be undervalued in the first half of the 1980s, which set the stage for the rapid price rise in the decade's second half. Banks and other financial institutes considered that loans to buyers, often specialised property companies, were secure, since prices were rising rapidly for the properties which buyers could pledge.

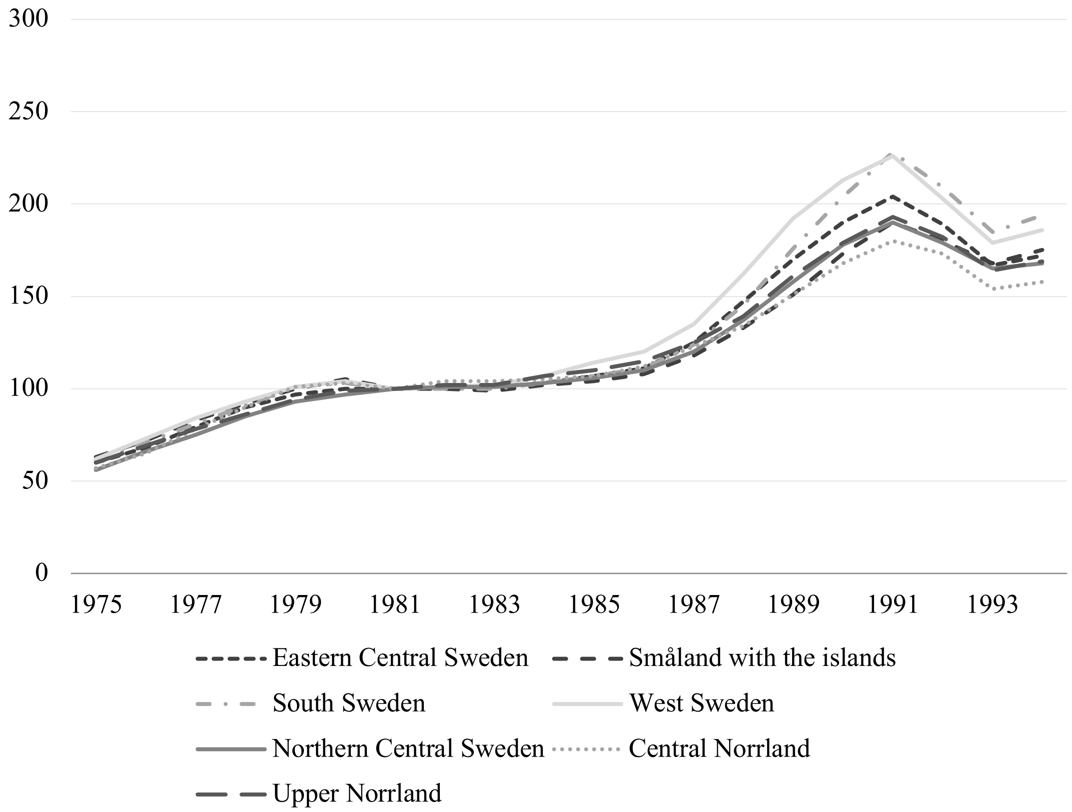
The Figures below illustrate the effects of this *building contractor perspective* on house prices. Figure 5.5 reveals country-level and major city-level trends over a twenty-year period; whereas Figure 5.6 provides a regional, county-level overview of prices.

Figure 5.5. *Real estate price index in Sweden's three main city regions, 1975-1994* (1981=100)



Source: SCB

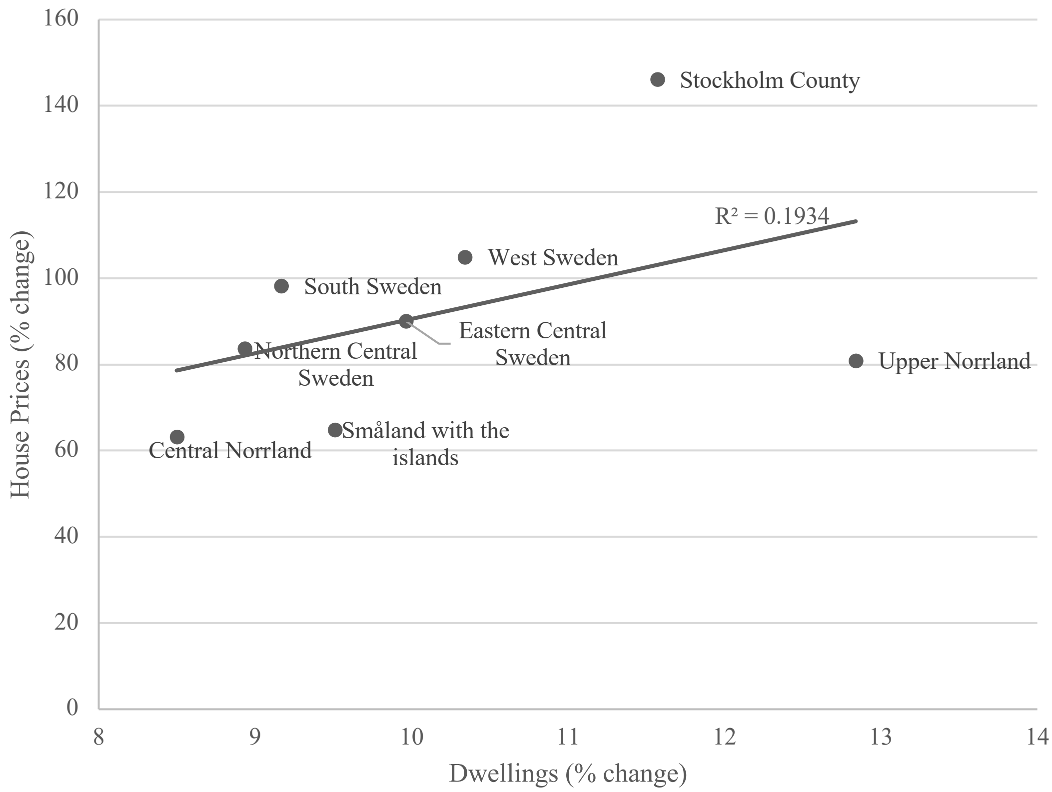
Figure 5.6. *Real estate price index in Sweden's regions, 1975-1994* (1981=100)



Source: SCB

The *altered behavior* (*sic*.) which Bohlin identifies affected prices across Sweden from the mid-1980s and was assisted by the changes in financial and regulatory structure outlined above. Whilst house-price increases were more acute in the major cities (increasing over 150 per cent in real terms over the course of the decade) elsewhere similar trends were repeated. The increase in the credit stock was being directed towards housing in depressed economic regions such as Northern Central Sweden and Central Norrland, where the population was declining; the same regions where rental apartments which had been constructed in the 1970s and early-1980s were lying empty (see Chapter IV). Even in Central and Upper Norrland, prices increased by over 75 per cent in real terms over the course of the 1980s. A basic regional analysis of house prices and net dwellings is presented in Figure 5.7.

Figure 5.7. *Net increase in dwellings and house prices in the Swedish regions between 1980 and 1990 (% change)*



Source: Folk och bostadsräkningar, (1984 & 1990) & SCB

Whilst house prices increased everywhere across the decade, and expectedly more so in Stockholm, the net regional housing stock increase appears to bear only a very weak relation to prices, and at low levels of significance. If we assume house prices to be a function of demand, then clearly housing supply was decoupled from this during the 1980s. Indeed, if we remove Stockholm County from this model, the coefficient of determination (r^2) falls away to 0.04. The relationship between the net housing stock and house prices throughout the 1980s regionally in Sweden, then, was out of step.

5.2. *The bust, the bailout and Dannell*

Sweden, during the mid- to late-1980s, experienced rapid domestic expansion, which was in marked contrast to the previous decade. However, the construction and consumption boom driving this expansion would prove to be all too temporary. The frenzied mortgage lending of the banks (and the liquidity which the finance companies had helped to generate), in combination with generous state-sponsored subsidies to the construction industry, owner-occupiers and tenant-owners, had assisted in pushing up asset prices in both commercial and residential real estate, despite the growth in housing supply. This, in turn, promoted the utilisation of rising asset values as collateral for further borrowing within the private and household sectors (Jonung, 2008, p. 19). As long as prices were increasing, this speculative strategy could work. But the longer this process continued, the more it resembled what Hyman Minsky would refer to as *Ponzi finance*. The speculative ratchet effect, which propelled the Swedish economy of the late-1980s, would eventually run out of steam and, the state, banks, construction industry, and households would be woefully unprepared for the imminent *evaporation of their collateral base* (Dougherty, 2008). Without doubt, the housing and finance landscape that emerged following the crisis was a transformed one. A series of bankruptcies, mergers and vertical integrations would lead to even greater concentration in the banking and construction sectors, and this would have long-term implications for the entrenchment of the Swedish *housing finance complex*.

The bust and the bailout…

Whilst it was not well known at the time, a number of finance companies began to experience liquidity difficulties in the first few months of 1990s. In the spring of 1990, Sweden's largest finance company, *Nyckeln,* (*The Key*) reported that a number of clients in both Sweden and Britain were unable to honour their contracts (Jennergren, 2002, p. 7). At the time, it was not evident that a systemic crisis was in the offing, but by September of that same year, as commercial real estate prices began to fall, *Nyckeln* found itself unable to extend maturing investment certificates (*marknadsbevis*). The country's largest finance company was essentially insolvent and this, unsurprisingly, prompted a run on *Nyckeln,* with investors refusing to reinvest and scrambling to salvage whatever collateral they could (*ibid.*). According to Karl-Henrik Pettersson (CEO of Sweden's largest savings bank at the time, *Första Sparbanken*), before this point, '…not a single person – not any banking chief executives, nor the Financial Services Authority, nor the head of the Riksbank, nor Sweden's Finance Minister' were aware of the risks of a financial bubble under way' (Pettersson, 1993, p. 11 my translation). Indeed, at an annual meeting of The Swedish Banker's Association (*Svenska Bankföreningen*), in 1990, they could not understand how the 'cream' of the finance companies (*Nyckeln*) had landed itself in so much trouble (*Svenska Bankföreningen* 1990, (translated in Jennergren, 2002, p. 26). Whilst notoriously difficult to empirically observe *ex-ante*, in hindsight, the term 'disaster myopia' seems to provide a fitting description of financial insiders' attitudes during this period.

Nyckeln defaulted in October 1990, as the market for investment certificates dissolved. It was closely followed by the defaults of two other major finance companies, *Beijer Capital*, and *Obligentia,* over the following six weeks (Jennergren, 2002, p. 7). Whilst these companies had invested heavily in commercial real estate, they had also been central to extending liquidity to residential building concerns and real estate companies, and mortgage and savings banks were also heavily exposed to them (Jes-Iversen & Sjögren, 2014, p. 14). It was during this era, that the savings banks strayed dramatically from their original remit of providing mortgage loans and other services originated on the basis of customers' deposits. Instead these institutions took *huge credit risks*, lending 'extensively to large corporate clients and real estate companies', despite having no real history or experience of such investments (Jes-Iversen and Sjögren, 2014, p. 14). Significantly, they became much less reliant on deposits as the basis of their lending and, instead, turned to publicly listed companies and international investors (Östman, 2009, p. 12), much like commercial banks.

The crisis within the finance company sector, then, had serious ramifications for the entire Swedish housing and finance system. As interest rates rose following the reunification of Germany, credit demand was stifled further, and banks became more restrictive in their lending (Jes-Iversen and Sjögren, 2014, p. 15), which had further devastating effects on finance companies, those investing in them, and the real estate projects they collectively financed.

Nycklen was declared bankrupt on 8th January 1991 (Dagens Nyheter, 1994), which accelerated the panic within the nascent Swedish *housing finance complex*. This was followed by a series of defaults in the finance company sector. *Cabanco* defaulted in November of the same year, filing for bankruptcy in August of the following year (Dagens Nyheter, 1992c), and the parent company of finance company *Gamlestaden*, *Noble*, was forced to transfer its shareholdings to one of Sweden's largest banks, *Nordbanken,* in the summer of 1991 (Drees and Pazarbaşioğlu, 1995, p. 42). This was just the beginning, however, and the finance company crisis would not remain confined to this sector. Indeed, as the previous section made clear, despite being in direct competition, the main Swedish banks were integrally linked and highly exposed to the finance companies. *SEB Banken's* and *Första Sparbanken*'s exposure to *Cabanco* alone was in the realm of hundreds of millions of kronor (Dagens Nyheter, 1992c).

Much like the subprime crisis which would originate in the USA over a decade and a half later, there was little transparency in the Swedish financial system, and the extent of banks' exposure to losses on investment certificates and other securities was not immediately clear. The major Swedish banks soon began to suffer huge losses, including losses on loans to finance companies and real estate companies (Jaffee, 1994, pp. 90–91). By Autumn it became evident that two of the six major banks, *Första Sparbanken* and *Nordbanken*, needed new capital

(Englund, 1999, p. 91). The takeover of *Gamlestaden* by the latter proved to be a colossal mistake. As the largest shareholder in *Nordbanken*, the government contributed 4.2 billion of a 5.2 billion kronor equity issue (Drees and Pazarbaşioğlu, 1995, p. 43). In order to alleviate the former's financial difficulties, the state provided 3.5 billion kronor loan guarantees to enabled *Första Sparbanken* to meet their capital requirements (Drees &, Pazarbaşioğlu, 1995, p. 43; Englund, 1999, p. 91). However, the problems in these two heavily exposed banks, and the extent of the state's bailouts, would not end there.

By the summer of 1991 the economic maelstrom was well underway. The Social Democrats were voted out of power in the midst of a recession in the Autumn and, for the first time in over half a century, a Conservative, of aristocratic lineage, Carl Bildt, became Sweden's Prime Minister. The *Moderates* had run on a pro-homeownership platform, declaring in their manifesto that: 'Everyone will be able to own their homes!' (Moderaterna, 1991). They also made an important policy commitment to allow conversions of public rental housing (*allmännytta*) into cooperatives[134]. This was inspired by Margaret Thatcher's *Right-to-Buy* scheme, but was also an expansion of the pre-existing legislation of 1982, which allowed private tenants to convert their rental buildings in cooperative-owned units (see Chapter IV). Perhaps more significantly, however, it was the institutional crystallisation of what speculators like Adam Backström had, since early-1970s, been engaging in at the fringes of the law.

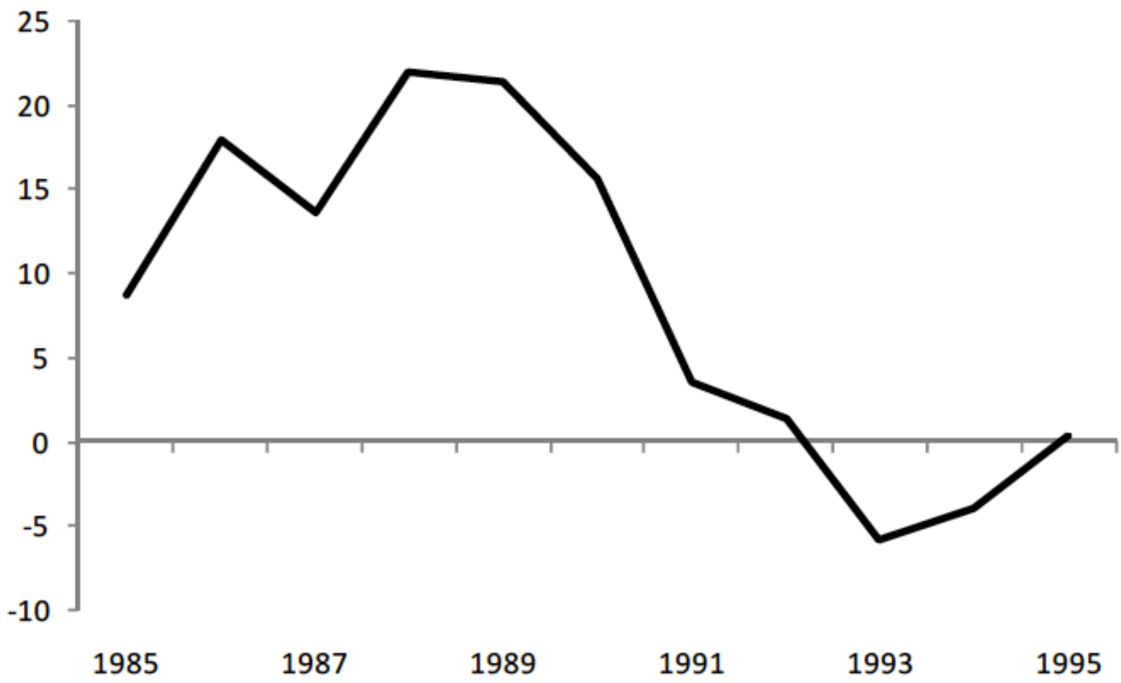
Housing conversions such as these have the potential to profoundly change tenure composition. Indeed, while freehold ownership of single-family dwellings barely increased following the dramatic growth in this tenure form during the 1970s (see Chapter IV), cooperative ownership increased from 14% nationwide in 1970 to 18% in 2000. And this change has been more pronounced in city-regions. Roger Andersson and Lena Magnusson Turner (2014) note that in areas where the Moderates have had overall municipal control, such as Stockholm, the share of public housing has decline from 32% in 1990 to 18% in 2010, largely due to conversions.

The logic in the *Moderates'* manifesto, then, was unabashedly set out *vis-à-vis* housing policy: 'Lower taxes, increased competition and less bureaucracy force down housing costs' (*ibid*.). Ambitious as their programme for government was, the economy the *Moderates* encountered when coming to power was undoubtedly the worse any party had inherited since the 1930s. The finance company crisis and an insolvent banking sector precipitated a liquidity crisis, which, in turn, was followed by the worst recession in Sweden in nearly 70 years. Households began to deleverage, and the savings rate went positive for the first time in almost a decade. Figure 5.8, below, illustrates what is conventionally known as a *credit crunch*. Whilst the crisis had a

[134] 'Those renters who want to will be able to purchase their apartments from the municipal companies' (Moderaterna, 1991).

huge impact on the growth of the credit stock, though, the worst was not felt until 1992-93, when the phenomenal credit growth of the 1980s came to an abrupt end.

Figure 5.8. *Annual Growth Rate of the Volume of Credit in Sweden, 1985-95 (%)*



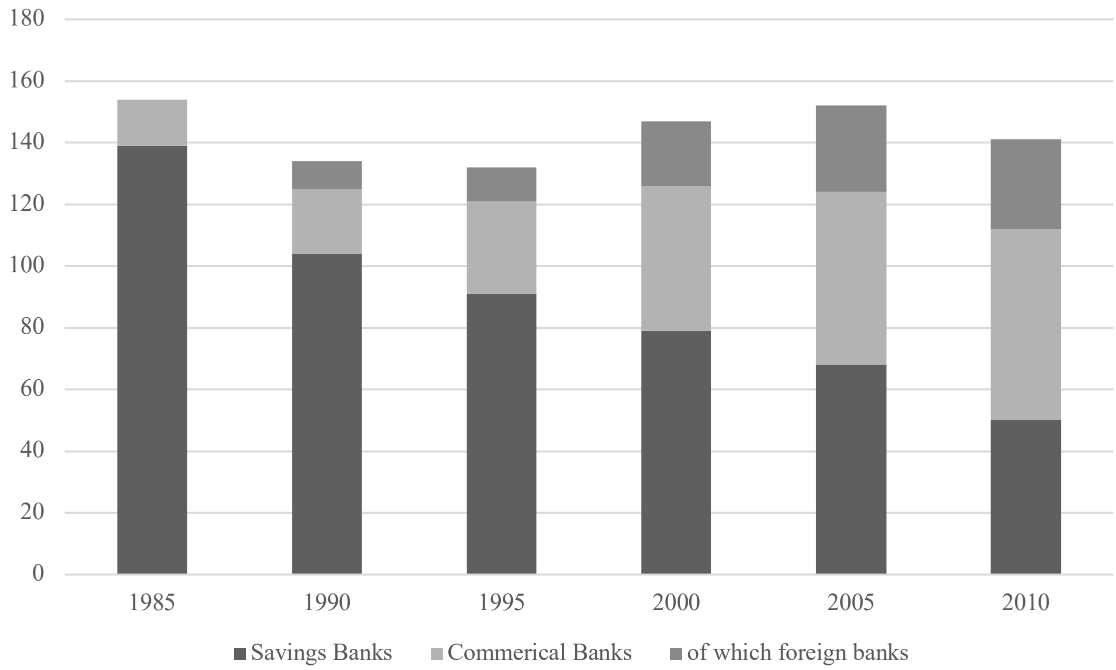
Source: Jonung, Kiander and Vartia (2009)

Despite being bailed out only one year earlier, by the Spring of 1992, it became evident that *Nordbanken* and *Första Sparbanken* were in further trouble (Drees &, Pazarbaşioğlu, 1995, p. 43)[135]. This lead to drastic measures by the new government, which bought out all the existing shareholders of *Nordbanken* for SKr 2.1 billion (Englund, 1999, p. 92). Following this, *Nordbanken* was restructured. A 'bad bank', *Securum*, was created to deal with the non-performing loans, with a book value of SKr 67 billion (Drees and Pazarbaşioğlu, 1995, p. 43), and what was left of *Nordbanken* (the 'good bank') was left with the performing loans, supported by SKr 10 billion of loan guarantees (*ibid*.). *Securum* was also injected with SKr 24 billion of equity capital to cover further expected losses. The ailing savings bank, *Första Sparbanken,* on the other hand, was rescued by interest free loans totalling SKr 7.3 billion from other savings banks, guaranteed by the government (Andersen, 2011, p. 267). The composition of the Swedish banking sector, which had changed so much in the last decade, was continuing to change apace. Throughout the mid-twentieth century, the savings banks, along with the bond-based mortgage

[135] As well as losses related to the failure of other finance companies, in April the Stockholm-based finance company, *Independent* (formally *Infina*) was declared bankrupt, owing 50 million kronor to *Nordbanken* (Dagens Nyheter, 1992a).

institutions and the state, had been key sources of credit for the residential housing sector. However, as evidenced in Figure 5.9, following the banking crisis, the savings banks began to be squeezed, and commercial banks were dominating the Swedish finance system to a degree not witnessed since the 1920s.

Figure 5.9. *Number of savings banks and commercial banks in selective years, 1985–2010.*



Source: Jes-Iversen and Sjögren (2014, p. 19)

Despite these phenomenal bailouts and consolidations, however, the Swedish banking system was still reeling. In the Autumn of 1992, the conservative-led coalition was faced with another major bank failure, as well as a currency crisis. *Gota AB* (owners of Sweden's fourth largest bank, *Gota Bank*) had experienced heavy losses throughout the course of the crisis and it had become clear that it was unable to meet its capital adequacy requirements (Drees and Pazarbaşioğlu, 1995, p. 43). *Gota AB* were declared bankrupt in September and *Gota Bank* was nationalised with all non-performing loans being transferred to *Securum*. What was left of *Gota*'s performing assets were merged into *Nordbanken* (Andersen, 2011, p. 267).

Following this bailout, the hitherto piecemeal approach to crisis management was supplanted by a more drastic, durable one. Sweden was in the midst of the *ERM Crisis* when *Gota Bank* collapsed and the Riksbank had had to raise the overnight interest rates to *500 per cent* in order to defend the krona in the aftermath of the UK's and Italy's departure from the European *Exchange Rate Mechanism* (Englund, 2015, p. 22). Following this, the government announced a *general bank guarantee*. This unprecedented measure was intended to allay fears of a total financial system collapse and '…played a crucial role in securing continued international funding for the Swedish banks' (*ibid*.). In December, the government passed the motion through parliament, which provided a general guarantee to *all banks and finance institutions with a Swedish charter* (Drees and Pazarbaşioğlu, 1995, p. 43). The Swedish government, then, had become the underwriter of the entire Swedish financial system, significantly, with cross-party support (Ryner, 2002, p. 153).

The following year, in 1993, the state created the Bank Support Agency (*Bankstödsnämnden*). All major banks, with the sole exception of *Handelsbanken*, received support in some form or another. By the end of 1993, the credit losses of banks had amounted to a staggering SKr 200 billion with the fiscal cost to the state estimated to have reached 3.6 per cent of GDP (although this figure is contested[136]). Table 5.4, below, taken from Kurtuluş Gemici, (2016), places this in recent historical perspective. Significantly, this table shows that the economic contraction in Sweden resulting from the banking crisis was more severe than that in the USA following the GFC.

Table 5.4. *The Big Five Crises and the Great Recession*

	Decline in house prices	*Output loss*	*Fiscal Cost*	*Peak NPLs*	*Increase in Public Debt*
		(% GDP)	*(% GDP)*		*(% GDP)*
Finland (1991-95)	-50.4	69.6	12.8	13	43.6
Japan (1997-2001)	-40.2	45	14	35	41.7
Norway (1991-93	-41.5	5.1	2.7	16.4	19.2
Spain (1977-81)	-33.3	58.5	5.6	5.8	3.8
Sweden (1991-95)	-31.7	32.9	3.6	13	36.2
USA (2007-11)	-33.8	30.6	4.5	5	23.6

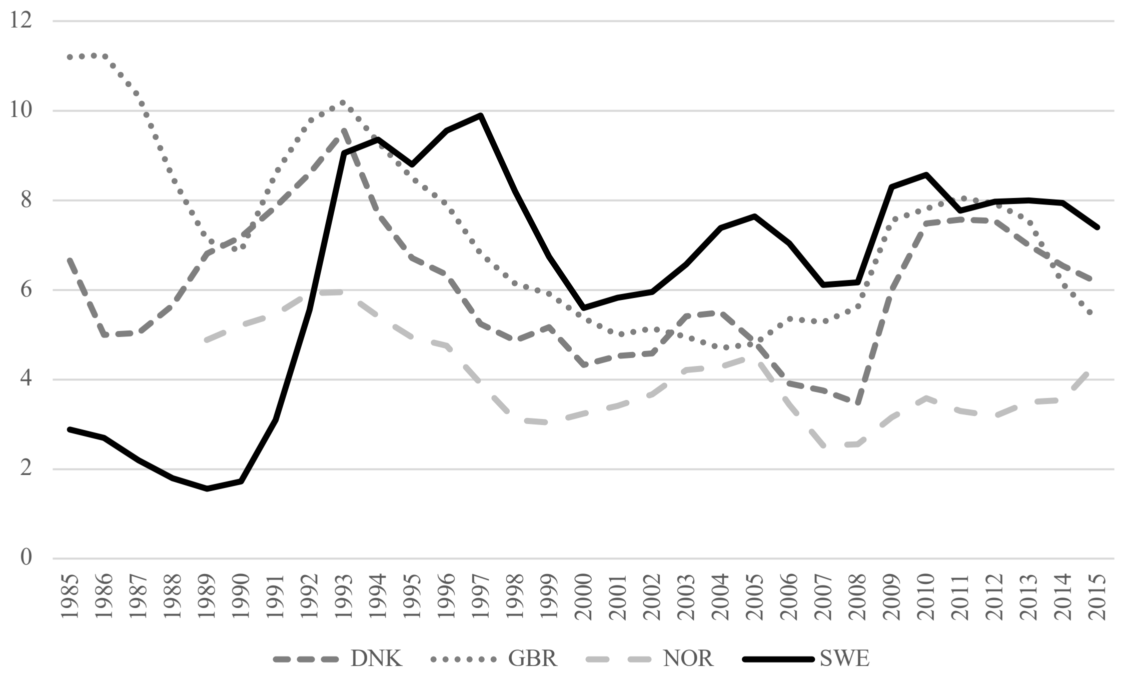
N.B. NPLs refer to *non-preforming loans*

Source: Gemici (2016, p. 18)

A dramatic growth in unemployment also accompanied the crisis (see Figure 5.10, below). Having committed to a policy of sustaining near full employment throughout the post-War years, Sweden's unemployment rate would never again, hitherto, reach the low levels which had been so central to its political economic model throughout most of the second half of the twentieth century. That such high levels of unemployment would and could be politically 'tolerated' henceforth, marked a profound paradigmatic shift.

[136] Steffen Andersen (2011, p. 267) notes that most of the costs have now been recouped.

Figure 5.10. *Harmonised Unemployment Rate in selected Northern European countries, 1985-2015*



Source: OECD (2018a)

The causes and inputs which fuelled the banking crisis in Sweden have been likened to those in the USA in the run-up to the *Great Recession* (Krugman and Wells, 2010). Indeed, there are several commonalities, often cited in relation to both crises: loose regulatory oversight; speculation in real estate; irresponsible lending practices by an unscrupulous financial elite; over-indebted households; financial innovation; *disaster myopia,* and woefully inadequate instruments for calculating and assessing risk. None of these assessments are incorrect *per se*. While, in Sweden, many of the bankruptcies and losses were related to lending on commercial real estate (and foreclosures were generally far fewer), the *objects of speculation* were, broadly speaking, similar. Both residential housing construction and house prices boomed[137] in response to increased credit liquidity and subsequently abruptly slumped soon thereafter (with prices preceding the slump in construction). Yet the consequences (for housing in particular) were not so similar and, qualitatively, there were obvious differences.

Sweden embarked almost immediately on the path of *austerity retrenchment reforms* with cross-party support (Ryner, 2002, p. 153). But it was not only retrenchment in social insurance that was affected. Unlike in the USA, which had long since abandoned supply-side subsidies in favour of demand-side tax breaks to homeowners, nearly 10 per cent of Sweden's *total state*

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[137] Construction investment increased by around 20 per cent in Sweden between 1986 and 1990 (Dagens Nyheter, 1992b).

expenditure was spent on housing subsidies. Indeed, by the late 1980s Sweden was spending over SKr 30 billion annually on subsidising the housing industry (Blücher, 2013). This would change.

The Danell Commission and its legacy

The banking crisis hit Sweden hard. The speculative frenzy in lending directed towards commercial and residential real estate which had developed during the mid-1980s had created a bust that would have lasting consequences for housing and the built environment. State debt and unemployment grew dramatically in the immediate aftermath and both the private sector and households responded to this economic uncertainly by deleveraging. House prices fell precipitously from their previous peaks and commercial real estate prices dropped even further. In terms of housing supply the effects, expectedly, lagged slightly. However, by 1994 housing construction had sunk to levels not seen since the German occupation of neighbouring Norway and Denmark in 1940.

During the crisis, there was general cross-party recognition that the cost of housing subsidies had become an unsustainable fiscal burden on the state (Borg, 2004, p. 141; Sørvoll, 2013, p. 444). Indeed, as the former head of the Swedish National Housing Board, Gösta Blücher (2013), noted in a debate article in the Swedish daily, *Dagens Nyheter*: subsidies had *exploded* throughout the 1980s, reaching a staggering SKr 36 billion in 1993 (Turner and Whitehead, 2002, p. 207). In a time of fiscal restraint and austerity, a steep reduction in housing subsidies became a core target in the strategy of deficit reduction; in no small part because the effects on housing supply would be lagged and the complexities of the subsidy system were not well understood by the average voter (Lindbom, 2001). In December 1991, the government set up a commission led by a *special investigator* tasked with the responsibility of *submitting proposals for state aid for housing funding* (SOU, 1992, p. 3 author's translation). The special investigator was Georg Danell, a man who had been party secretary for *Moderaterna* during the early 1980s, and assistant to the housing minister in the Centre Party-led coalition of the late-1970s.

Danell had one objective: to reduce and ultimately remove housing subsidies. He was successful. By 2002, subsidies had been reduced to SKr 2 billion and by the middle of the 2000s, interest subsidies for new construction had all but ceased. This was a new approach to housing which had not been witness since the War years. As Turner and Whitehead (2002, p. 205) note, '[t]his turned out to be the first decisive step in reducing general subsidies and moving towards more targeted subsidies for both households and localities'. The structure of subsidies would change, then, from having any semblance of supply-side support, to a more marginal, targeted system which focused solely on the demand-side. However, it would be a mistake to think that, at this stage, Public Housing was still the universalist model which the Social Democrats had championed during the mid-twentieth century. Indeed, a study by Anna-Lisa Lindén (1989) found that, throughout the 1980s, low income groups, women, young people, and the elderly had become increasingly overrepresented in Public Housing. Danell did not cause this trend shift, but his proposed reforms would certainly amplify them.

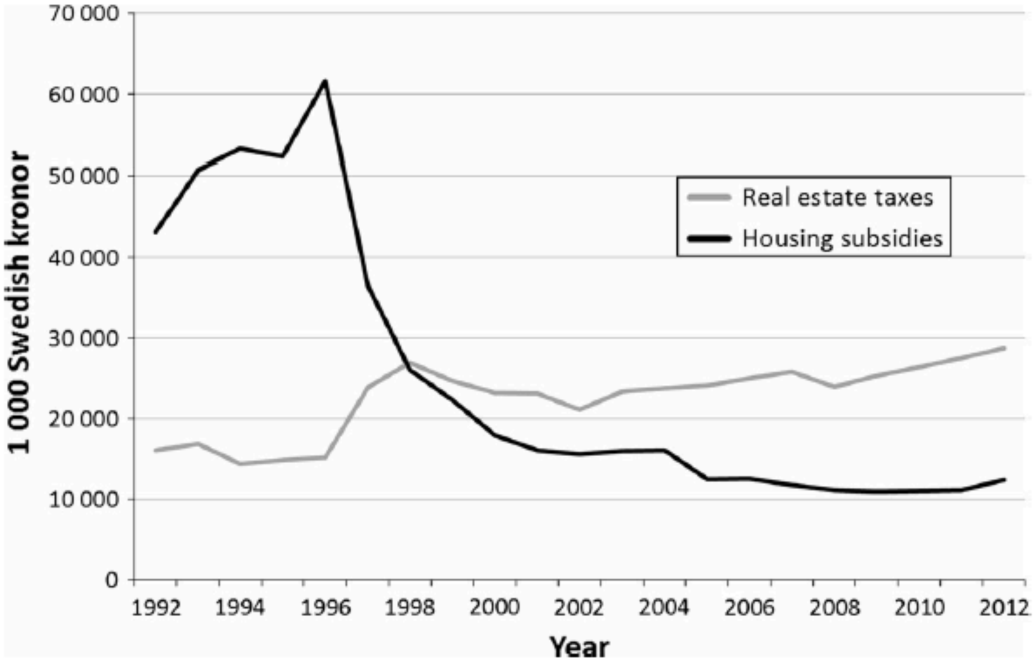
Danell presented his findings in May 1992 and they were, by and large, adopted. There were, however, consequences to achieving the goal of subsidy reduction. In the Autumn of 1992, following the implementation of Danell's reforms to steadily reduce the interest subsidy to zero by the 2000s, the residential construction industry scrambled to begin projects before the new funding formula came into effect. It is estimated that around 12,000 foundations were built in 1992 merely so that construction firms could benefit from the old system of subsidies (Dagens Nyheter, 2015a). However, many of these foundations (Danell foundations: *Danellgropar*) remained just that (*ibid*.). Residential construction collapsed shortly thereafter and would not recover to pre-crisis levels for over twenty years.

Despite consensus surrounding the diagnosis of a housing subsidy malady, there was no such consensus (initially at least) concerning the remedy. In 1993, the Social Democrats vehemently opposed the implementation of this Commission's findings. Oskar Lindkvist (the Social Democrat's vice chairman of the *Housing Committee*) had explicitly admonished Danell's findings, saying that he would *rip up the interest allowance system proposed by Danell* (FBIS, 1993, p. 54). This opposition would be short-lived, however.

The Social Democrats returned to power in 1994 with the Swedish economy still vying for the unflattering position of *sick man of Europe*. Yet, as Clark and Johnson note, '[r]emarkably little was done to reconstruct housing legislation and policy administration' (Clark and Johnson, 2009, p. 181). Indeed, the Ministry of Housing, which the Moderates abolished between 1991 and 1993, would not be resurrected, and the Finance Minister Göran Persson (who became Prime Minister in 1996) completed the dismantling of state support to housing as a central part of the reorganisation of state finances (Dagens Nyheter, 2007). Housing costs increased substantially as a consequence (Turner and Whitehead, 2002).

Intriguingly, the Social Democrats went even further than Danell. In 1996 a government commission (SOU, 1996) was set up to establish whether housing subsidies should remain neutral (as I have indicated, the claim to neutrality was already a misnomer by the late-1970s). This pointed to a way forward whereby housing could become *a net contributor to the state's finances*, rather than dependent on government subsidies (Whitehead, 2003, p. 59). This goal was achieved quickly. Karin Hedin *et al* (2012, p. 445) note that: '…the housing sector went from being a net burden on state finances … in the late 1980s to providing a net income of roughly 31 billion crowns ten years later', adding, '[t]his process involved nothing less than a major redistribution of national income'. Furthermore, between 1995 and 2009 there was a 70 per cent decrease in the number of households eligible to claim housing allowances (Christophers, 2013, p. 11). Figure 5.11 charts the development of this reduction in housing subsidies. Note the dramatic reduction post 1996; the year Göran Persson became Prime Minister.

Figure 5.11. *State real estate taxes and housing subsides, 1992–2012*



Source: Holmqvist and Magnusson Turner (2014)

Danell's name will forever be associated with the fallout from the introduction of his subsidy programme and the *Danellgropar* which proliferated throughout Sweden. Yet, in many ways, his reform proposals worked better than he could have possibly imagined. In the short-term, they were implemented by the Bildt government with few amendments. But, from a longer-term perspective, the Social Democrats not only took the subsidy reduction programme forward but augmented it. Danell now works for the Brussels-based Swedish consultancy, PR and lobby firm *KREAB*, with his former boss, Carl Bildt. *KREAB*'s business model is based on the mantra of *solving problems* and *maximising opportunities* (KREAB, 2018). The housing reforms several of *KREAB*'s current employees implemented certainly *solved* one problem: housing subsidies, which constituted a sizable share of Sweden's fiscal deficit, were reduced markedly and this reduction, as Turner and Whitehead argue, helped Sweden to maintain the Maastricht convergence criteria (Turner and Whitehead, 2002, p. 202). However, by solving one problem, they created others.

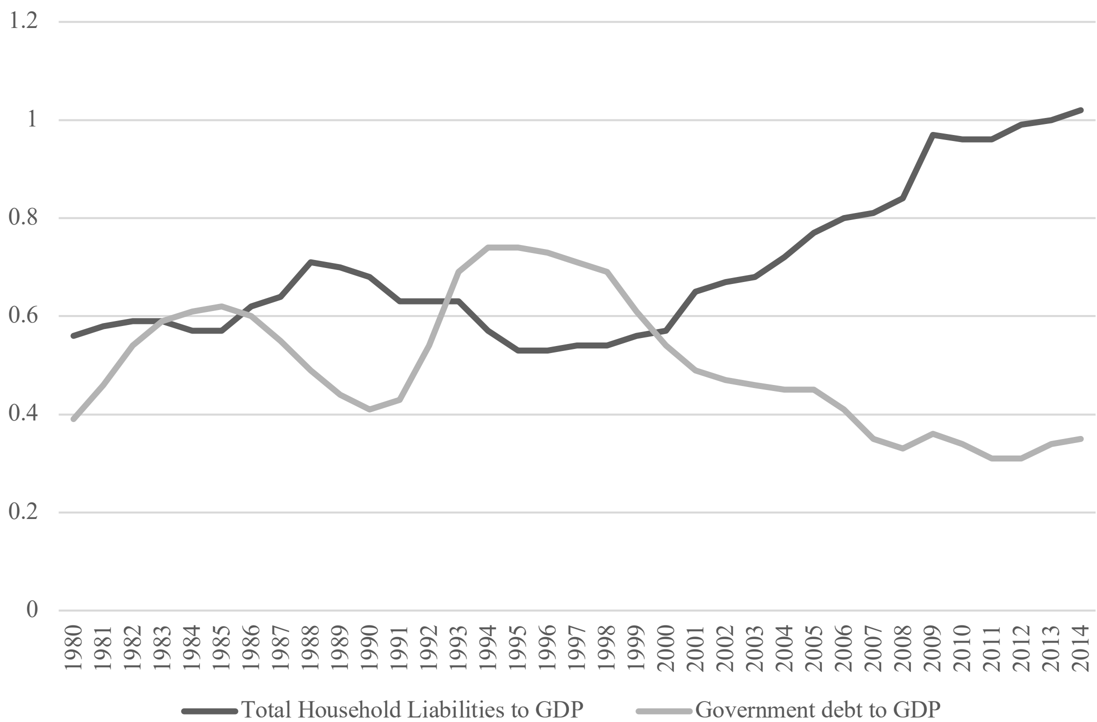
5.3. *The Recovery, the next debt-fuelled bubble, and sectoral concentration*

We have built too much and our building sector is too large. It should be reduced.

Nils Lundgren, Chief Economist at *Nordbanken,* (Dagens Nyheter, 1992b)

The road to recovery in Sweden following the early-1990s banking crisis was arduous. What we witness during this period is substantial deleveraging across all sectors, but especially among households (see Figure 5.12). This occurred in, arguably, the most austere environment an industrially mature economy had been subjected to since the Second World War (Erixon, 2011, p. 272), which challenges the causal logics of scholars who posit a relationship between social expenditure retrenchment and rising household debt (see Introduction & Chapter I). Indeed, as is evident Figure 5.12, the reverse dynamic was true. As wages and the economy expanded during the 1980s, so too did household debt; and as wages stagnated and the economy contracted in the early-1990s, so too did household debt.

Figure 5.12. *Household & Government debt as a share of GDP 1980-2014*



Source: Waldenström (2015) *and Riksgälden (2018)*

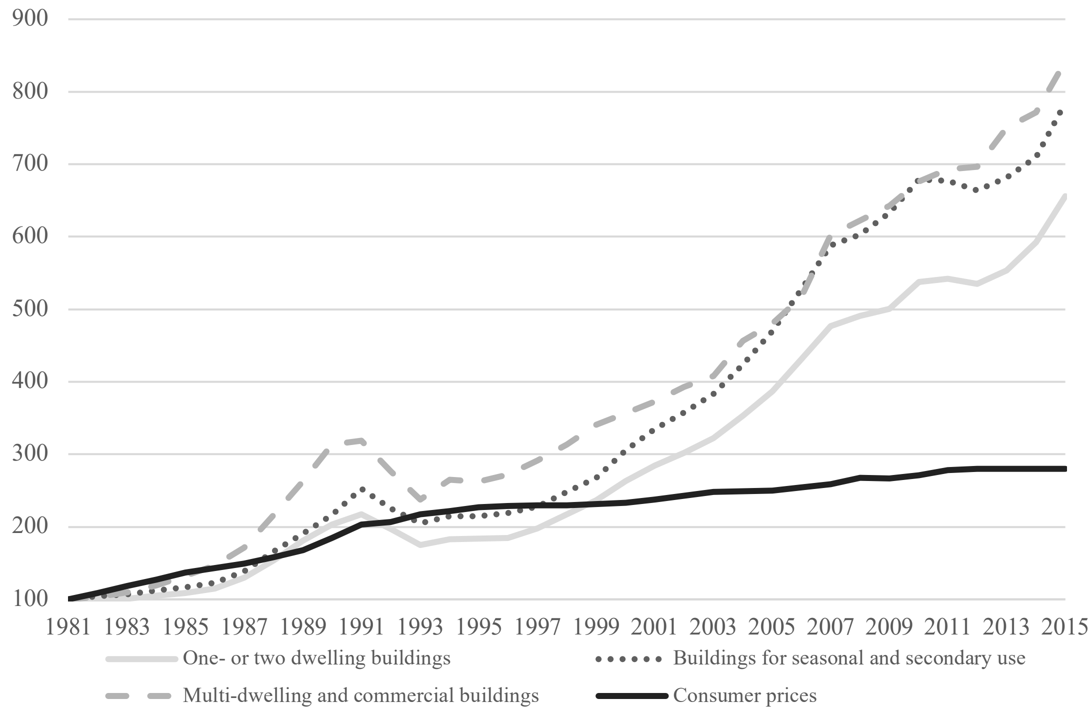
Had lessons been learned from the banking crisis? According to Steffen Andersen: *yes*. Andersen claims that '[i]f the crisis of the 1990s was agonizing, it taught everybody a lesson', adding, '[i]t probably helped Sweden come through the 2007-2009 crisis much easier than many other countries did' (Andersen, 2011, p. 248). Andersen is not alone in this assessment. Indeed, on the government's *official site of Sweden,* in an article called, 'How Sweden created a model economy'(Sutherland, 2013), the author writes that, '[t]he road back to … success [following the financial crisis] was not easy for Sweden. But by pursuing inventive and courageous reforms and sticking to them, Sweden has transformed its economy and stayed strong in the face of the new global recession'. This assessment may, or may not, be true. Yes, Sweden weathered the GFC far better than most – and Sweden would be held up as an exemplar of crisis and economic management during the GFC (The Economist, 2013). Further, house price declines in Sweden during the *Great Recession* were negligible (see Figure 5.13, below). However, unlike other countries, there was no deleveraging and household debt has continued to grow. This obviously implies a degree of risk, as many economists, international, and domestic organisations have highlighted (see Introduction).

In terms of legacies, despite the painful collective memories of the banking crisis, Swedish households had experienced phenomenal and unprecedented house price growth throughout the 1980s. Some households had benefited from this, others had not. But as long as there are 'winners' there will be people ready and willing to try to emulate them and, following the rapid decline in house prices, much of the housing stock in 1994 was looking undervalued. Similarly, the financial sector was now dominated by new actors who knew that inordinate sums could be made from speculation in housing and commercial real estate markets. To these actors too, house prices (which had fallen precipitously, but not as much as commercial real estate) were undervalued following the crisis. The era of housing and consumption-based growth, then, did not end with the banking crisis of the early-1990s. This was more of a glitch; a developmental *growing pain* in the establishment of a *bona fide housing finance complex*. Indeed, the trends we witnessed in the 1980s (the growth and dominance of finance and financial actors; the associated commodification of housing; spiralling household debt; an increasingly concentrated construction sector; and a shift in households' tenure preferences) would, after an extremely brief *intermezzo*, return with an increased dynamism, supported by new financial flows, increasingly from abroad.

These credit flows would bolster house price growth which, since the recovery in the mid-1990s, has been nothing short of phenomenal (even unprecedented in a Western European economy). Indeed, as Figure 5.13 attests, house price growth since the mid-1990s makes the boom and bust cycle of the late-1980s and early-1990s look like a minor blip in an otherwise meteoric trajectory. Similarly, with rents, the steep upward trajectory in real rents, beginning in the mid-1980s, has continued unabated (see Figure 5.14).

Figure 5.13. *Real estate price index*

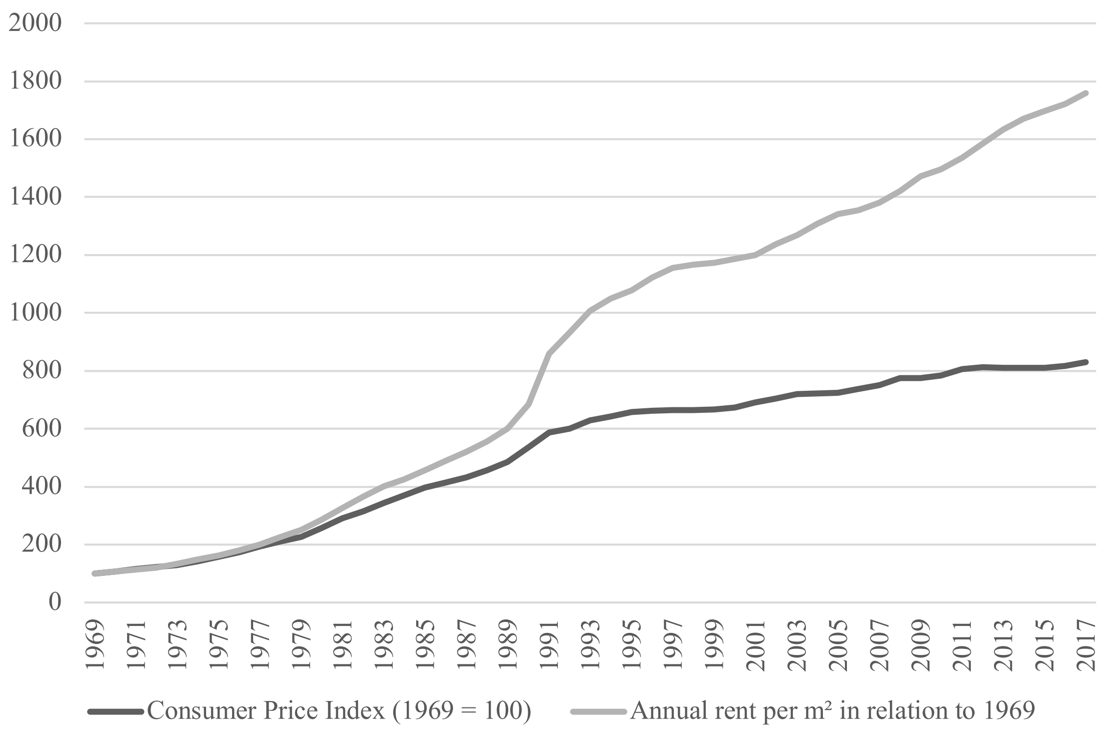
Index 1981=100



Source: SCB

Figure 5.14. *Rents and general price level (1969-2017)*

Index 1969=100



Source: SCB

Yet, despite these trajectories in house prices and rents, Sweden (between 1993 and 2015) was the single biggest construction laggard in Europe. This is a puzzle that many housing economists fail to come to terms with. High prices and rents should, we are told, lead to an increase in housing supply (Emanuelsson, 2015). Indeed, the lack of housing construction leads some commentators to suggest that the only reason prices in Sweden are so high is because of *fundamentals:* if little is being built then, naturally, prices and rents will be high. Such assessments are usually accompanied by explanations as to why construction output is so low: too much planning regulation (Lind, 2003) and rent controls (Wilhelmsson, Andersson and Klingborg, 2011) are recurring themes here. In this view, the state (both locally and nationally) and so-called *NIMBYism* is deemed to be the culprit of constrained housing supply. While there may be at least *some* element of truth to this, such appraisals are generally extremely circumscribed and partial in their arguments against the current regulatorily frameworks vis-à-vis rents and planning (Christophers, 2013, p. 20).

A central narrative in Sweden is that the Swedish systems of so-called 'soft rent control' (see Chapters III & IV), and planning deters developers from building. The common solutions advanced by neoclassical scholars and commentators, then, is to limit the planning process, remove rent restrictions and *build more*. Whilst I have stated these assessments rather brusquely (some might argue flippantly), theoretically, these diagnoses *and* prescriptions are well embedded in neoclassical economic analysis both in Sweden and further afield (Arnott, 1995; Glaeser and Luttmer, 2003; Lind, 2003; Jenkins, 2009; Wilhelmsson, Andersson and Klingborg, 2011; Lindbeck, 2013). And these proposed solutions have had an impact in Sweden. Indeed, the Public Municipal Housing Companies Act of 2011 (*Allbolagen*), stipulating that Municipal Housing Companies should operate according to business principles (*affärsmässiga principer*) and the regulation of 2014 ushering in lower housing standards, can be seen as a *step in support* of these neoclassical (or neoliberal) narratives and prescriptions (Grundström and Molina, 2016, p. 328). The following section seeks to explore why such analyses are misdirected, and how many of the solutions to increasing housing supply and affordability - as espoused by neoclassical commentators - ignore the fundamental importance of sectoral concentration in constraining housing supply and exacerbating housing affordability.

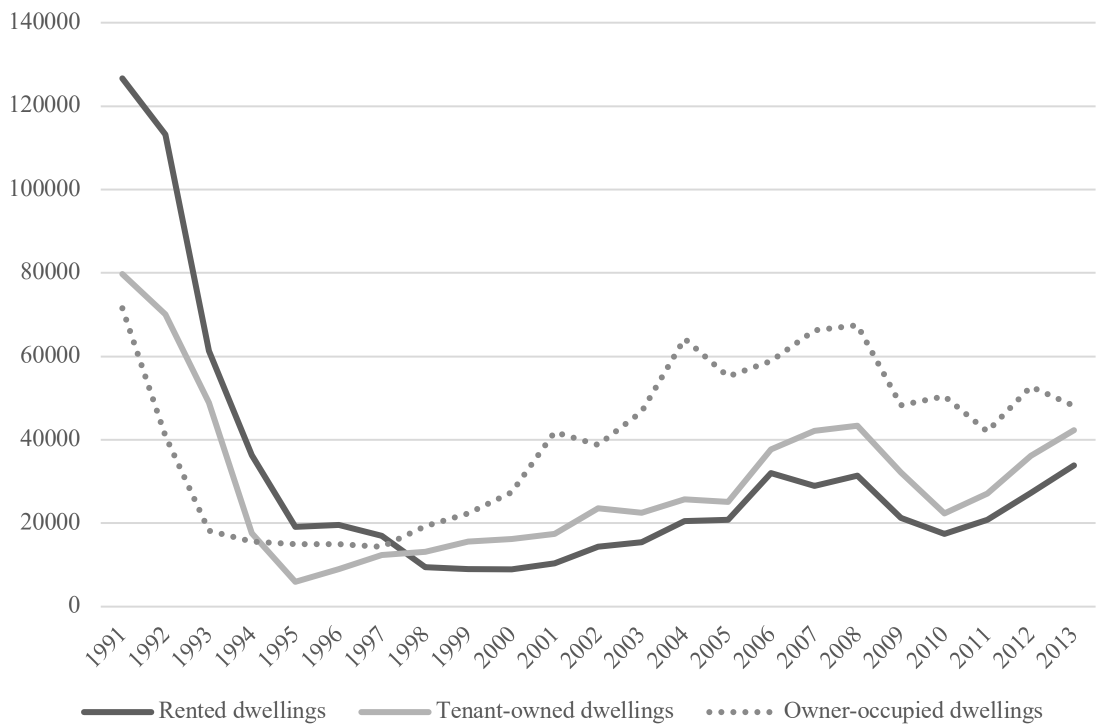
Sectoral concentration in the construction industry

Nils Lundgren, Chief Economist at *Nordbanken,* declared in the midst of the Swedish banking crisis in 1992 that Sweden *had built too much and that the building sector should be reduced*. His wish came true. Residential housing completions collapsed following the banking crisis (see Figure 5.15) and with this collapse - linked to the dynamics of the housing cycle and exacerbated by Danell's reforms – that same year, nearly 3,000 construction companies filed for bankruptcy in Swedish District Courts (SCB, 1997). That figure was still staggeringly high the following year with 2,425 bankruptcies filed nationally (*ibid*.). These failures were also part of an accompanying trend of vertical integrations and takeovers (Dickens *et al*., 1985). The consequences of this were that the Swedish housebuilding industry became more concentrated than ever by the mid-1990s.

According to a government statement issued prior to the *GFC*, '[t]he goal for housing is long-term well-functioning housing markets where consumer demand meets a supply of housing which corresponds to their needs" (Swedish Government 2007d, 15, translated in Hedin *et al*., 2012, p. 458). If that is the goal, it has palpably failed. On an efficiently-functioning market, supply is expected to increase when prices rise as a function of increased demand (Emanuelsson, 2015, p. 58). Clearly, however, the Swedish housing market is dysfunctional and anything but *efficiently-functioning*; and as I showed quantitatively in the previous chapter, this had even been the case throughout much of the 1970s and 1980s.

Figure 5.15 depicts the decline in housing output across tenure categories. What is striking about the data in this figure is not only the absolute decline of aggregate construction, but also the shift in housing tenure composition. As a share of total construction, more owner-occupied and cooperative housing - owner-occupied, leasehold apartments in all but name (Boleat, 1985, p. 259) - is being constructed post-1999 than at any point before the 1980s. Meanwhile, the construction of rental housing has collapsed and is near all-time lows. The housing crash in the early-1990s and the policy responses to said crash can explain some of these dynamics: a sector reliant on subsidies and *cheap credit* had had both withdrawn, but there are other explanations beyond this.

Figure 5.15. *Housing completions by tenure, 1991-2013*



Source: SCB

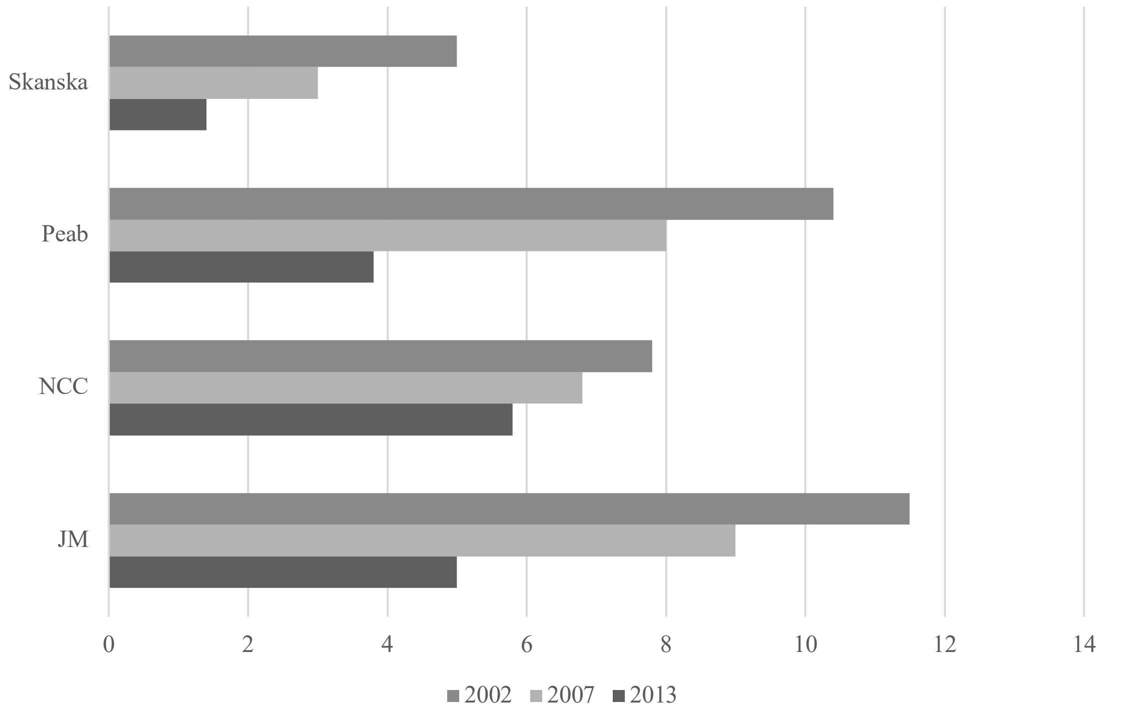
Robert Emanuelsson, in a report commissioned by the Riksbank, notes that, '…the construction industry in Sweden is characterised by a shortage of competition with major entry barriers and a small number of large participants, making it difficult for new companies to become established' (Emanuelsson, 2015, p. 62). He adds, '[t]he large construction companies can thus make use of their oligopoly position and charge higher prices, which holds back construction' (*ibid*. emphasis added). This assessment of the contemporary housebuilding industry in Sweden supports my analysis in Chapter IV into anti-competitive behaviour and rising construction costs. Further, it opens up an avenue of enquiry that is not often trodden in housing economics or political economy more generally. As I noted in this and the previous chapter, the adverse effects of ever-growing construction sector concentration, vis-à-vis housing supply, were not fully realised during the 1980s, as loosening credit conditions (initially at least) had helped to stimulate construction. However, the changes in financial structure explored above also intensified the trend towards takeovers and mergers, which, according to Barlow and King (1992, p. 390) *accentuated the oligopolistic nature of Swedish housebuilding*. Following the crisis of the early-1990s, then, adverse effects would be felt.

Before I elaborate on this, let us return briefly to the notion that housing supply is restricted due to *too much regulation,* in both the rental market and planning system, which ostensibly makes residential rental housing construction simply unprofitable. Whilst these contentions may contain a degree of truth, in relation to the former, the divergence between rents and consumer prices, that began in the 1970s (observable in Figure 5.14), casts at least some doubt on this assessment. Further doubt is cast on this assessment by the Swedish housing economist Hans Lind (2003). In his analysis of rents during the period 1995-2001, he finds that rent regulation had a very limited impact on the supply of new rental dwellings. In relation to planning, an analysis of building permits and housing completions between 2000 and 2016 reveals that the ratio of planning permits to completions is only negative in four of the 17 years; i.e. more permits were granted than residential buildings were constructed in 13 of the last 17 years (SCB, 2018). Controlling for the lag between permissions and completions, substantially more permits were granted than buildings completed in the past 17 years (average ratio = 1.12). This casts some doubt on the contention that the planning process is too restrictive, and supports the findings of a special investigation by Dagens Nyheter into the residential construction industry in 2016, which found that it is the construction firms, and not the municipalities, slowing the construction process down in order to maintain prices (Örstadius, 2016b).

Intriguingly, whilst trend construction in residential housing, (at least prior to 2015) has been at record lows, NCC have boasted an increase in total shareholder return of 79.2 per cent over the past 5 years (NCC, 2018); Peab, in the five-year period between 1st January 2012 to 31st December 2016 provided a total return on Peab's B share of 160.3 percent (Peab, 2017) and in the first quarter of 2018 claimed to have a *record high order backlog* (Peab, 2018). Not wanting to be outdone, Skanska, in 2015, claimed it was aiming for the highest total return for shareholders in its sector (Reuters, 2015)[138]. Part of this can be explained with reference to international expansions and increased profitability in markets outside Sweden, and the growth of shareholder value ideologies (Belfrage and Kalifatides, 2018), but not all. Indeed, with the exception of Skanska, Sweden is the main market for the other *Big Four*. Their dominance in the domestic housing construction, is evidenced in Figure 5.16.

[138] Skanska has since, however, issued profit warnings due to substantial project write-downs in the USA (Milne, 2018).

Figure 5.16. *The Four Largest Construction Companies' share of housing construction in Sweden, selected years, (2002-2013)*



Source: SOU (2015, p. 122)

The recession of the early-1990s, by eliminating weaker competition, provided an impromptu round of rationalisation in an industry which was already extremely concentrated by international standards (see Chapter IV). As a result, it became even more so. While this tendency has declined somewhat over the last decade, it is still pronounced, as Figure 5.16 illustrates. Indeed, nationwide, in 2002, 36 per cent of the housing completions were produced by the *Big Four*. In order to put that figure in context, the top 400 housebuilder's share of residential housebuilding in the USA, was only 32 per cent (Ball, 2008). Within the OECD, only Britain comes close to such levels of concentration, with the top four housebuilders producing 29 per cent of the residential housing stock in 2002 (*ibid*).

Regionally in Sweden, however, the picture is even more pronounced. Astonishingly, in 2013 in the city of Karlstad (a city of over 60,000 inhabitants), 100 per cent of residential housing was provided by just *three* construction companies.

Table 5.5. *Residential housing construction share of the Big Three*[139] *in Swedish city regions and nationwide, (2002 & 2013)*

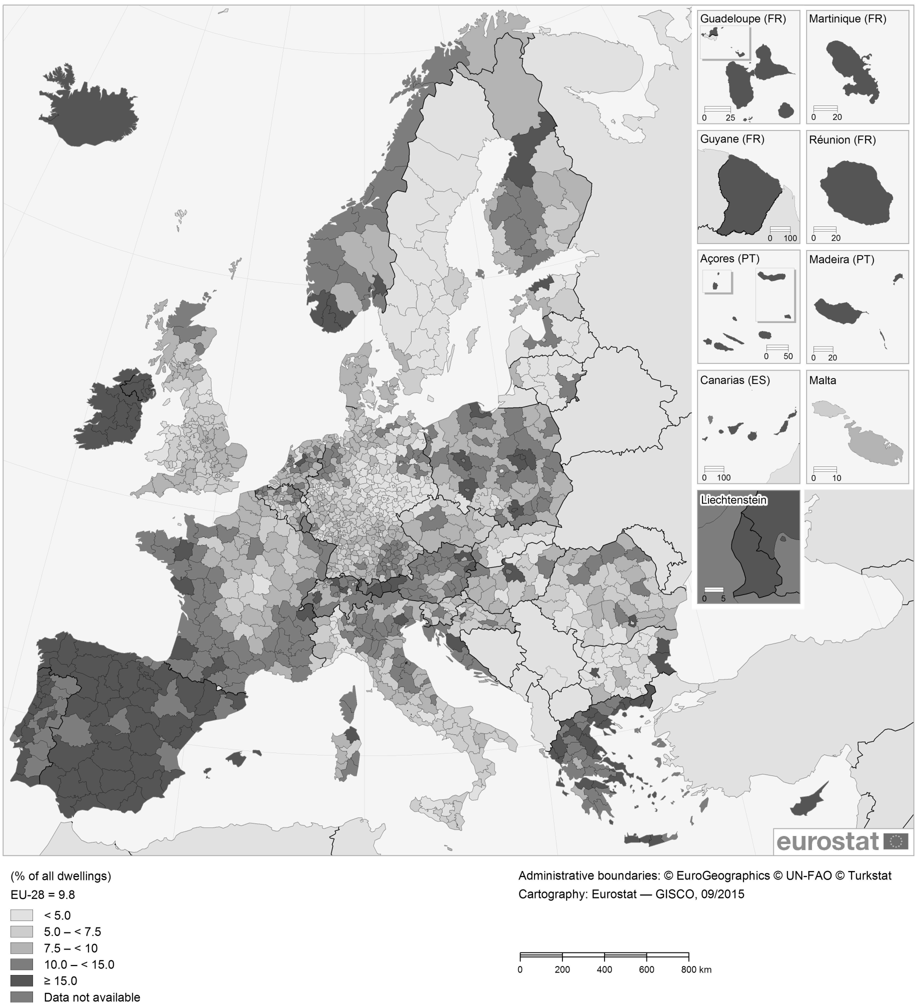
A-Region	2002	2013
Gothenburg	48 %	23 %
Malmö/Lund/Trelleborg	75 %	34 %
Umeå	97 %	64 %
Linköping	91 %	65 %
Örebro	100 %	45 %
Uppsala	60 %	58 %
Växjö	100 %	78 %
Stockholm/Södertälje	24 %	28 %
Karlstad	92 %	100 %
Norlänge/Falun	100 %	85 %
Sweden	36 %	22 %

Source: SOU (2015)

The index of construction sector concentration in Table 5.5 reveals a reduction in concentration between 2002 and 2013, but it is almost unprecedented in Europe for three companies to be so dominant: again, only Britain comes close, with the trend in sectoral concentration increasing following the recessions of the early 1990s and the Great Recession following the GFC (Archer and Cole, 2014b). One possible consequence of this level of concentration can be observed in Figure 5.17 below.

[139] The *Big Four* minus Skanska.

Figure 5.17. *Share of Dwellings built after 2000, by NUTS level 3 region, (2011)*

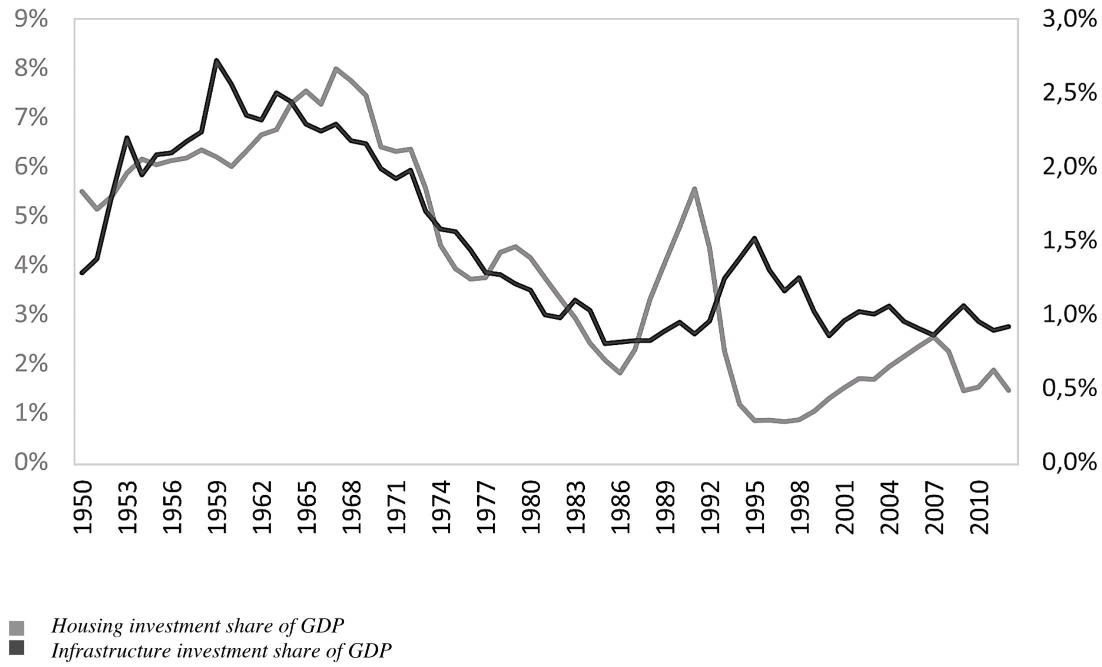


Source: Eurostat

Note that the areas which have produced the most housing in Sweden since 2000 are also those where construction sector concentration is lower (i.e. Stockholm and Malmö) since the early-2000s. Tom Archer and Ian Cole (2014a, 2016) and Michael Ball (2008) have found similarly in the UK, but in order to make a more general causal claim about the relationship between construction sector concentration and residential housing output over time, further comparative quantitative and/or case-study analysis would be required which, unfortunately, is not within the scope of this thesis.

While the building booms in Spain, Portugal, Ireland and Greece are more than evident from Figure 5.17, so too is it evident that Sweden, since 2000, has been the housing construction laggard of Europe. No other country in the European Union produced so little housing proportionately in relation to the existing housing stock between 2000-2011. Throughout the Euro Area, investment in residential housing sits at around 6 per cent of GDP, whereas, as evidenced in Figure 5.18 (below), current Swedish investment in residential housing is less than half that. Financial flows are now predominantly directed towards the consumption of homes, but no commensurate increase in production, at least prior to 2015, appears to have materialised. The volumes of credit directed towards housing have risen exponentially on the demand side (see Figure 5.19), at a time when investment in housing and infrastructure is near historic lows. As a consequence, house prises, and therefore household debt, have ballooned.

Figure 5.18. *Investment in housing and infrastructure in Sweden as a share of GDP, 1950-2013*

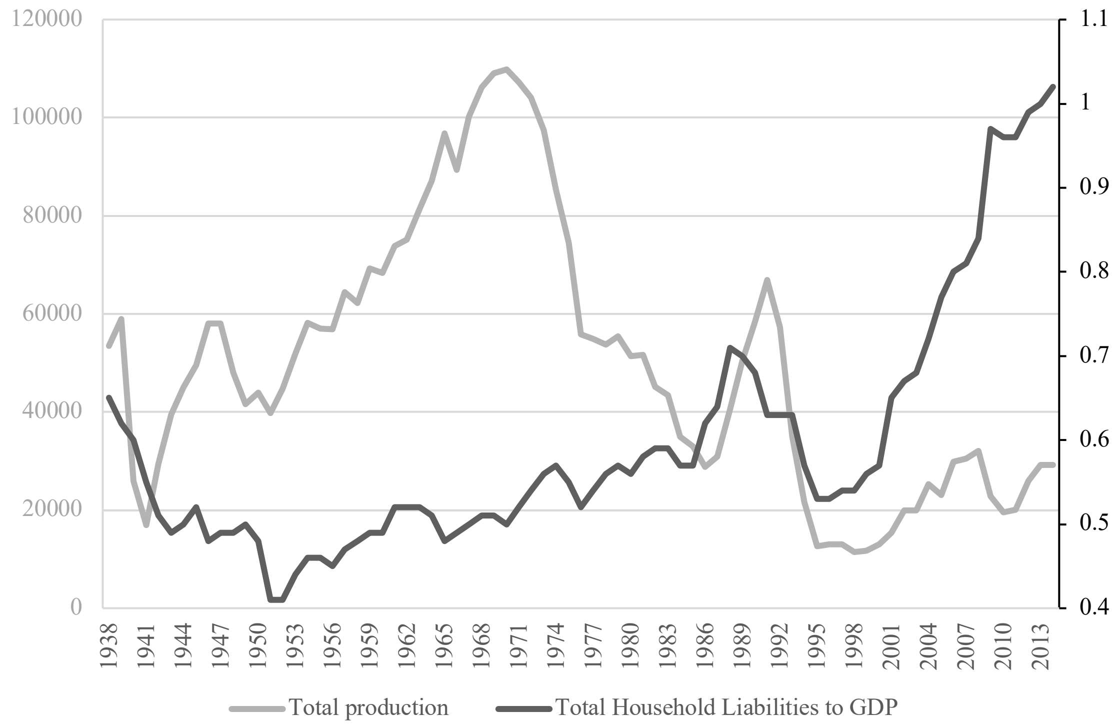


Source: Sveriges Byggindustrier (2015)

The degree of concentration in the Swedish housebuilding industry is no coincidence: it is, as I argued in the previous chapter, an ancillary of the *Swedish model*. Indeed, industrial concentration (across all sectors) was central to the Rehn-Meidner model (see Chapters III & IV). Stagnating and weak firms were 'punished' (Ryner, 2002, p. 86) by the enforcement of higher wages and active labour market policies, which helped to redirect labour and capital away from unprofitable firms and towards the expansion of successful sectors (*ibid*.). This, as Michael Ball (2014, p. 38) notes, produced '…huge vertically-integrated industrialised firms [that came] to dominate the industry *under state patronage*' (*emphasis added*). Whilst Ball (*ibid*) noted, during the 1980s, that this had benefits in terms of streamlining production (as Rehn and Meidner had hoped) the demerits are more than observable following the banking crisis of the early-1990s which these firms, with the help of banking and finance company sectors, helped to precipitate. The concatenation of intense industrial concentration, and the changes in financial structure which took place during the 1980s is key to understanding the entrenchment of Sweden's *housing finance complex* and the palpable dysfunctionality inherent in the contemporary Swedish housing system.

It is worth noting here that the dynamics of the housing crisis which is said to exist today in Sweden, are not altogether similar to those of the late-1980s and early-1990s. The anatomy of the 1980s and 1990s housing boom and bust, as we have seen, was more akin to those which would unfold in Ireland and Spain in the lead up to the GFC. Indeed, as evidenced in Figure 5.19, investment in housing during the height of this boom (c. 1990) would rise to levels not witnessed since the *Million Homes Programme* was in full swing. The anticipation of future price rises, then, was one characterised as much by the construction sector's expectations of exponential real estate growth, as it was by households'. Today, however, the housing landscape in Sweden is defined by one of low investment on the supply-side, but insatiable household demand, fuelled by unprecedented mortgage liquidity. It is not easy to capture this dynamic graphically, but Figure 5.19 provides a suitable illustration for our purposes.

Figure 5.19. *Housing Production and Household Debt, 1938-2014*



Source: SCB & Waldenström (2015a)

The above figure captures the relationship between building output and household debt over the period covered in Chapters III-V. The *housing industrial complex*, as I made clear, did not develop overnight but is visible in Figure 5.19 from the early-1940s onwards. Housing production and investment were high (peaking in 1971) and relative levels of household debt were low. This was a system, as noted here and in the previous two chapters, characterised by high levels of residential housing production at low marginal rates of profit, which limited both households' and construction firms' exposure to financial risk. From the mid-1970s, however, following the completion of the *Million Homes Programme,* production and investment slumps, and households take on ever-more debt. This is when we can observe the rise of the *housing finance complex*. Initially, it is evident that, by the mid-1980s, this *complex* stimulated household demand and, with it, housing production. However, following the cataclysmic banking crisis of the early-1990s, a different dynamic emerges: debt grows exponentially, with no discernible relationship to housing supply in what is essentially an inverse of the dynamic observable prior to the 1970s. Far from destroying the housing finance complex, then, the banking crisis of the early-1990s was the prelude to an unprecedented boom in household debt and house prices.

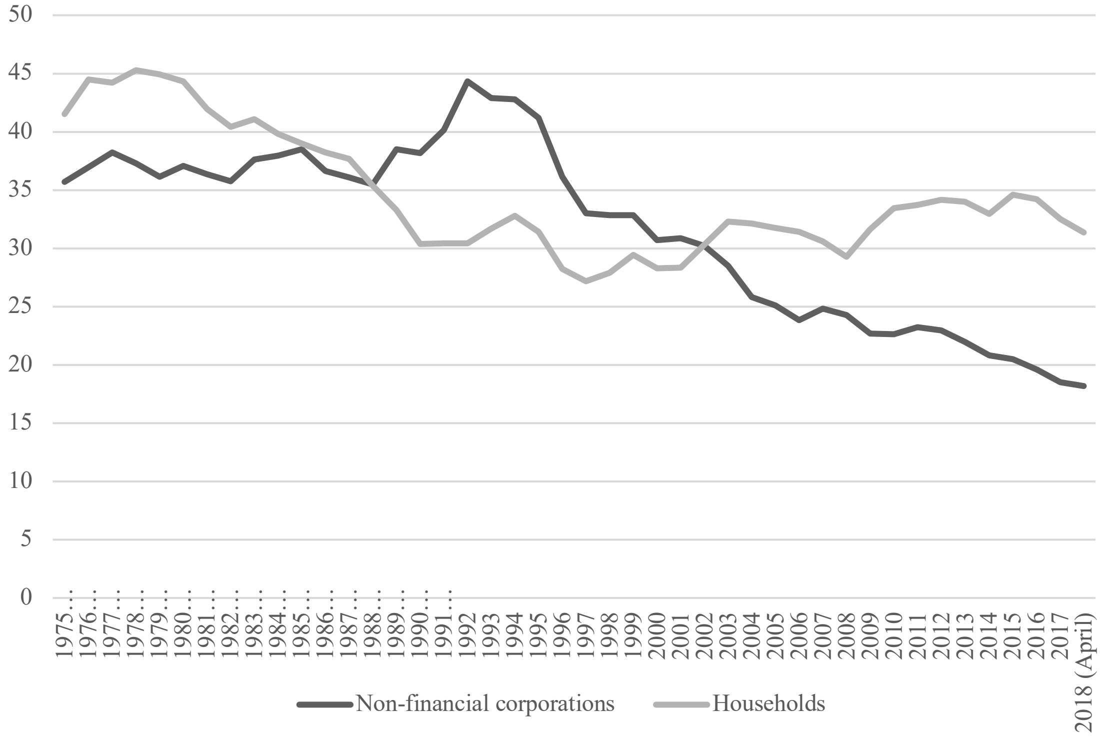
5.4. *The long boom: The Global Financial Crisis, household debt & inequality*

> *I think the young generation in Sweden has forgotten that we had a crisis in the early 90s and they believe that house prices will always go up and that is one of the reasons that it is so dangerous now. If everyone is expecting that prices can't go down, that they must go up, then that is a very clear sign that there is a bubble*
>
> Jan Nylander, SVT News' economic correspondent (Sveriges Radio, 2015)

No banks failed in Sweden during the GFC. House-prices remained buoyant and consumer demand strong in the midst of the worst global economic dislocation since the Second World War. What is more, government debt reduced over the period 2007-2012 in Sweden (Jonung, 2014). It is tempting to conclude, then, that previous experience and reforms of the ilk described above had given Sweden a degree of imperviousness. Sweden avoided the worst ills of the GFC and numerous scholars and commentators have argue that the experience of the early-1990s had played a positive role in mitigating the worst effects of the GFC (Andersen, 2011; Sutherland, 2013), with the Washington Post referring to Sweden as 'the rock star of the recovery' (Washington Post, 2011), and the Economist holding Sweden up as a paragon of fiscal prudence (The Economist, 2013).

The Governor of Sweden's central bank said in an interview to the Washington Post that, '[i]f you don't have a fiscal problem, you have more degree of freedom', adding that '[t]his time around, the issue was not ever even close to being about solvency' (Irwin, 2011). This is said to have given Sweden a degree of *safe haven status* (Popper, 2012), not enjoyed by the likes of Britain or the Eurozone countries in the immediate aftermath of the GFC. Despite turning negative, investor´s appetite for Swedish government and mortgage bonds remained robust. Indeed, the Swedish covered bond market was hailed by the Royal Bank of Scotland as a 'safe havens in stormy conditions' in 2011 (ASCB, 2011). However, this had implications for house prices and household debt. Unlike the experience in most countries where there was substantial deleveraging by households after the GFC, both house prices and household debt increased substantially after 2009, continuing an unprecedented trend of credit expansion and debt; the consequences of which have been far reaching.

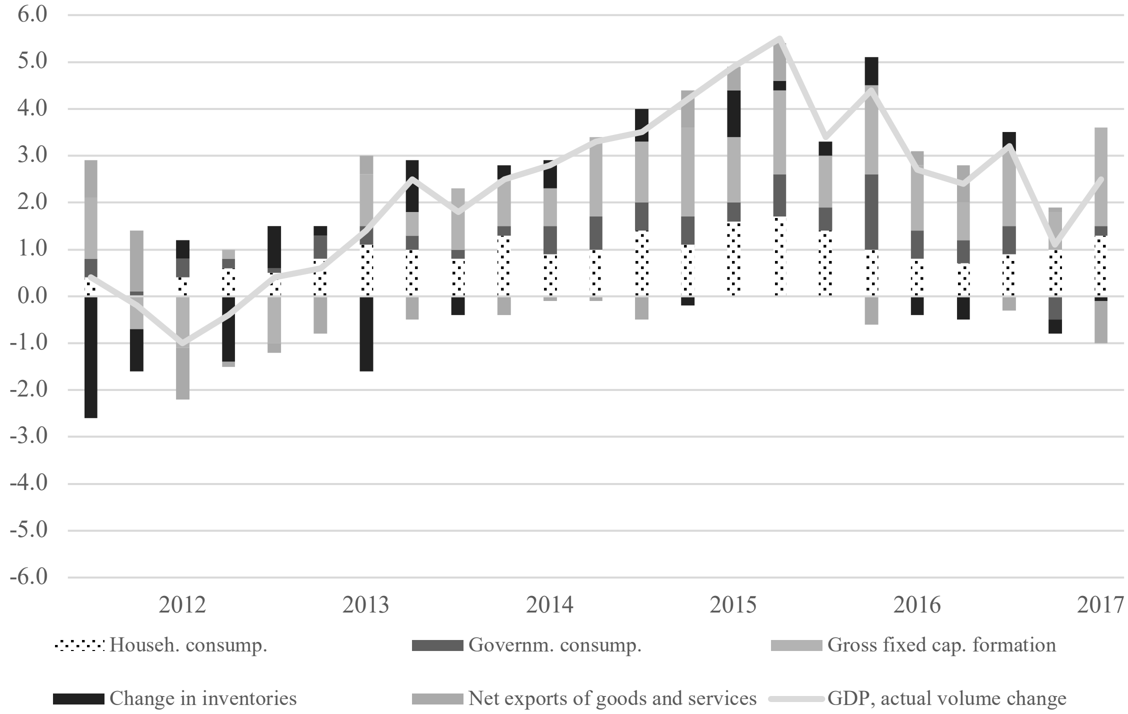
Figure 5.20. *Share of total MFI lending in Sweden (%), 1975-2018*



Source: SCB

One such significance is the widening gap between bank lending to non-financial corporations and households in Sweden. This phenomenon sits comfortably with what many scholars would describe as *financialisation*. Costas Lapavitsas' definition that, '…financialisation, reflect[s] the increasing involvement of individuals in the financial system and the concomitant rise in individual debts' (Lapavitsas, 2009, p. 118) is, then, reflected in Figure 5.20, which provides a unique breakdown of quarterly MFI lending to non-financial corporations and households since the mid-1970s. Furthermore, when we consider the drivers of contemporary GDP growth in Sweden (see Figure 5.21, below), households' *increasing involvement in financial systems* is clearly a core driver.

Figure 5.21. *Contributions to change in GDP, percentage units, 2012-2017*



Source: SCB

Financialisation in Sweden, however, has combined with a system of income related support, generous unemployment benefits, pensions, and universal health care, to produce one of the most unprecedented and robust housing booms in recent history (Englund, 2011). A common view that, '[t]he overall effect of rising living costs, stagnating private sources of income and declin[ing] state support has been a reliance on debt to bridge the gap between income and the cost of essential goods and services' (Montgomerie, 2010), then, does not sit particularly neatly with the Swedish case (or at least not yet). The processes scholars describe in the USA, and elsewhere, do not operate by the same mechanisms in Sweden or, indeed, elsewhere in Scandinavia. What we see in the Swedish context is more an example of middle and high-income groups leveraging themselves as incomes grow and as state support has remained (broadly speaking) robust; and this is replicated throughout Scandinavia, which is home to the most indebted households of any region of Europe.

Somewhat paradoxically, it could be stated that the very edifices which have historically provided Swedes with such high living standards (high wages, a generous welfare system) and the high taxes supporting this system have actually exacerbated the ballooning of household debt. However, the fallout from any marked decline in house prices, and associated credit crunch and bank failures could be no less severe because of this. Indeed, some scholars have raised concerns that '…most studies of Swedish political economy are too optimistic about the condition and prospects of the reformed Swedish model' (Belfrage and Kalifatides, 2018), and there is certainly more than a grain of truth to this assessment.

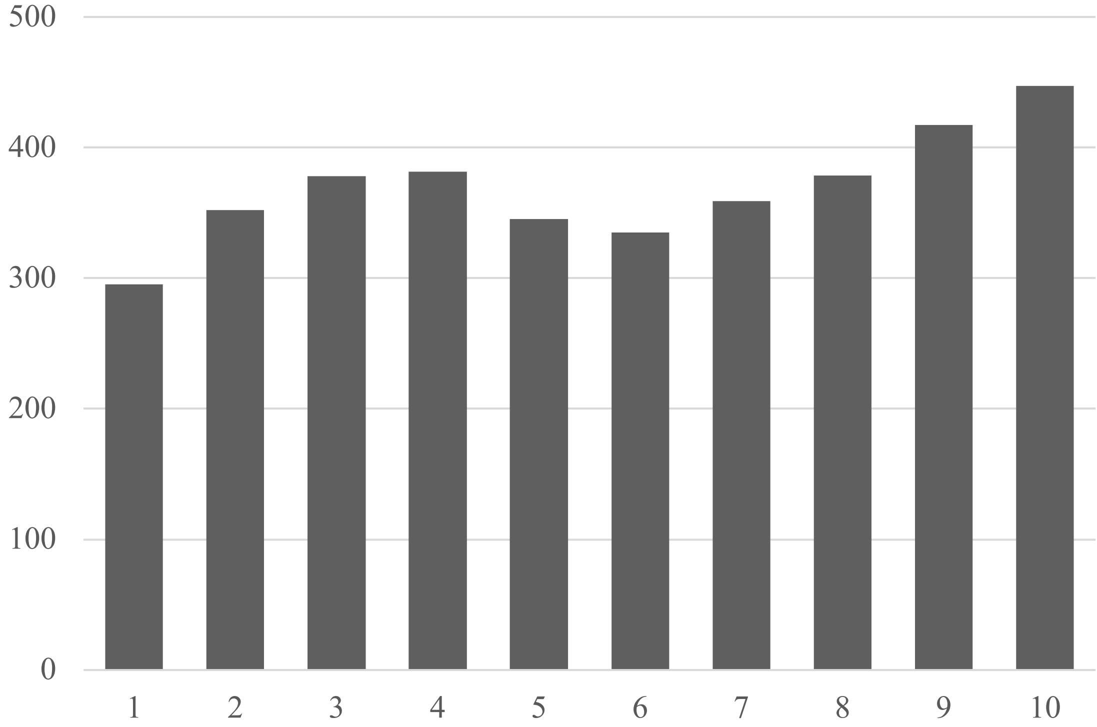
Household Debt & Inequality

Before I conclude, it is necessary to consider the effects of the aforementioned transformations on households. Thomas Piketty (2014) famously argued that when the rate of return on capital exceeds that of overall growth in economic output and wages ($r>g$), inequality is the corollary. Household consumption and gross fixed capital formation are not evenly accessed, and thus the growth in the credit stock in Sweden and households' uneven consumption of housing and other assets has implications for inequality in modern Sweden (as elsewhere).

It has become a key assumption within IPE literature that a confluence of declining welfare provisions and stagnant real-wages have contributed to the need for low and middle-income groups (particularly in the USA) to resort to credit in order to sustain basic living standards (Rajan, 2011). This hypothesis, which views the dramatic rise of household debt as an economic corollary of declining living standards and growing income inequality has become a defining feature of prevalent understandings of the associations between neoliberalism and debt in the field of IPE (Panitch & Gindin, 2011, p. 12).

In light of this hypothesis, the Swedish experience (as I have noted above) is intriguing. Thus far, I have focused on aggregate household debt volumes in Sweden. Using a more fine-grained approach, however, yields even more unexpected results. As Figure 5.22 shows, it is the wealthiest households who have leveraged themselves the most, with the top income decile (that is, those households earning over $6,000 per month), having borrowed the most in proportion to their incomes.

Figure 5.22. *Average debt-to-income ratio in different income groups, 2014*

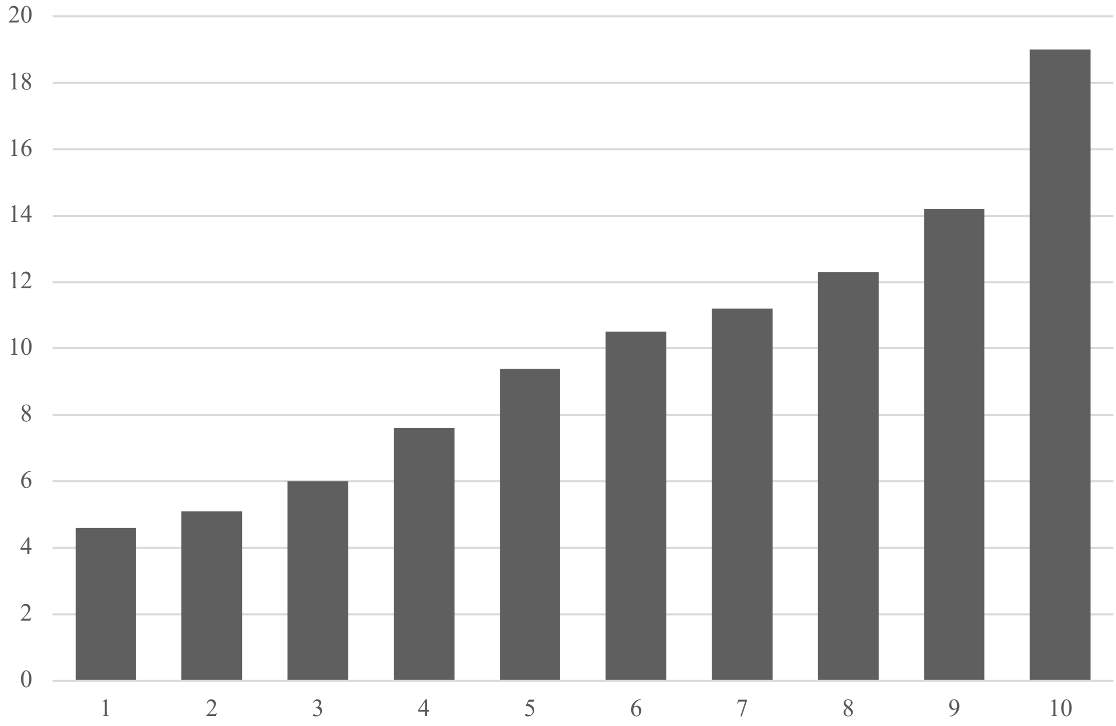


Note: The thresholds for the income deciles are 1: SEK 0 – SEK 20,626, 2: SEK 20,626 – SEK 24,473, 3: SEK 24,473 – SEK 29,100, 4: SEK 29,100 – SEK 34,342, 5: SEK 34,342 – SEK 39,155, 6: SEK 39,155 – SEK 43,576, 7: SEK 43,576 – SEK 48,188, 8: SEK 48,188 – SEK 54,167, 9: SEK 54,167 – SEK 63,709, and 10: SEK 63,709 –

Source: Finans Inspektionen (sample data)

In no small part due to the housing finance revolution of the 1980s, but also due to the structure of housing subsidies and tax benefits available to homeowners, Sweden is now a country of homeowners, with over 96 per cent of owner-occupiers having a mortgage (the highest figure in the EU). As my analysis has made clear, that Swedish households are carrying so much debt today is not a novel feature of the Swedish political economy. Indeed, Swedish households have been institutionally stimulated to take on debt for over 40 years now. In many ways, this has been central to the post-1960s Swedish model. The main difference today is the *scale* which modern innovations in finance and regulatory structure have allowed.

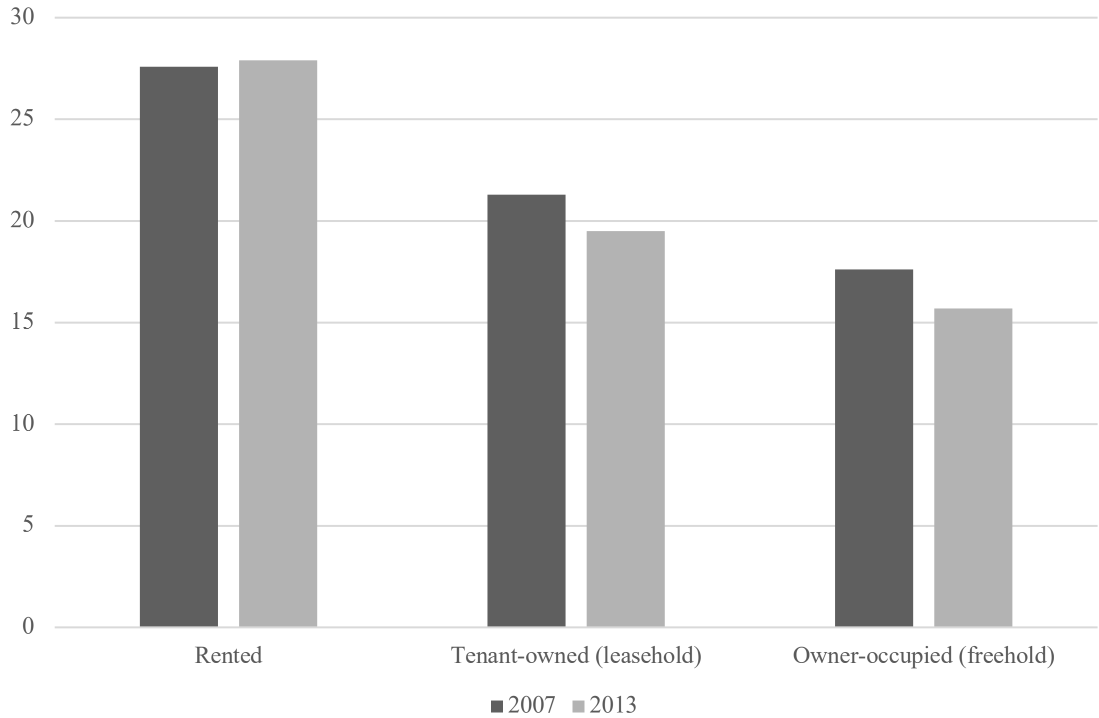
Figure 5.23. *Proportion of total debts per income decile for indebted households (%), 2014*



Source: Winstrand and Ölcer (2014)

Figure 5.23 illustrates the sheer scale of lending to the wealthiest Swedish households as a proportion of total debts. Meanwhile, lower incomes groups, immigrants and refugees, who are increasingly at the fringes of the *housing finance complex,* are experiencing a state of permanent crisis and are left with little alternative but to rent in poor suburban *Million Homes*-era apartments. In a previous era, this would not necessarily have been detrimental, but today, rental accommodation in Sweden is residualised, expensive and vindictive. Nordfelt (1999) has found that, throughout the 1990s, single mothers were disproportionately affected by evictions from public and private rental accommodation and, since then, a wave of so-called *renovictions* (the process of evicting tenants through renovating their apartments and increasing their rents by up to 50 per cent) has swept the country, aggressively displacing lower income groups and forcing them from 'desirable' inner-city areas; and those households whose relative position within the *housing finance complex* is weak are paying the price.

Figure 5.24. *Average housing expenditure per household for different forms of occupancy*



Source: SCB

Figure 5.24 shows that it is renters who are proportionally spending more of their income on rent than owner-occupiers. This trend is driven by a combination of the increasing overrepresentation of lower income groups in rental housing and rising rents, on the one hand; and generous tax incentives to tenant-owners and owner-occupiers, on the other. If tenure neutrality exists in Sweden today, it is in name only. The consequences of this are that Sweden's biggest cities, since the 1980s, have become among the most segregated in Europe (Sernhede, Thörn and Thörn, 2016); with unemployment, poverty and *urban uprisings* (such as the Stockholm riots in 2013) puncturing the stereotypes perpetuated about modern Swedish urban life, both at home and abroad.

5.5. *Concluding remarks*

> *We have created a financial system in which housing bonds are the cornerstone, inpart, due to the fact that we have low government debt compared to many other countries. But it means that the risks surrounding the Swedish housing market are about far more than households and their consumption.*

Stefan Ingves, Governor of *Sveriges Riksbank*, 18th November 2015[140]

This chapter has investigated the institutional crystallisation of what I have termed the *housing finance complex*; defined here as the generation of financial capacity which (seemingly) relentlessly stimulates housing demand, without a commensurate stimulation in investment in housing supply. In so doing, I have tried to highlight how changes in financial structure fundamentally transformed the Swedish housing system from the 1980s onwards, on both the demand- and supply-side.

What has been produced is a model of political economy which is increasingly reliant on debt-fuelled consumption in order to generate growth, and where housing bonds have become the *cornerstone of the financial system* (Ingves, 2015). This development has had little to do with declining welfare or wages, and more to do with the dominant role of finance and construction capital in the modern Swedish political economy. The effects of this dominance, as I have made clear, are not inert, and the present housing system serves to magnify socioeconomic inequalities and entrench the interests of a narrow stratum of actors within the financial service and real estate industries. It receives its political 'legitimacy' (for now at least) by enriching property owners and middle- and high-income homeowners but has had the effect of pitching rich against poor, old against young, and established residents against newcomers. Given these outcomes, and if we extrapolate from current trends, it is difficult to imagine how such a system can remain socially, politically, and financially tenable over the medium term.

As I documented in this chapter and *Chapter IV*, the *housing finance complex* emerged embryonically in the immediate aftermath of the completion of the *Million Homes Programme* in the mid-1970s. This complex was not a result of express intention or political calculation *per se*, but of (more or less) gradual changes in the structure of finance and an accretion of contingent policies programmes which attempted to manage and (later) foster these changes; none of which were inevitable. These began in the 1970s and accelerated throughout the course of the 1980s under the patronage of the Social Democrats.

As noted in the introduction, scholars often argue that the *neoliberal system of housing regulation* in Sweden was a product of the Bildt government during the early-1990s (Hedin *et al.*,

[140] Cited in an article in Svenka Dagbladet (Andrén Meiton, 2015)

2012). However, this argument stands only if we assume that changes in the structure and regulation of housing finance have a passive impact on housing systems. I have made the case here that, in terms of regulation with direct relevance to housing, such a system of what could be described as *neoliberal regulation* was, more or less, established by the time Bildt came to power in 1991[141]. The main legacy of the Bildt era was the *Danell System* and the importance of this should not be underplayed. Indeed, as I noted in section 5.2, there is a reason little was done to reverse or even halt the progression of this system. Expanding the *Danell System* became an expedient means for the Social Democrats to regain economic 'credibility' following a crisis which happened on their watch. While Jón Rúnar Sveinsson notes, then, that the Social Democrats, '…did not in any significant way try to turn back the wheel' (Sveinsson, 2000, p. 167), I would argue that a more appropriate analogy would be to say that they actually helped to accelerate the revolutions.

This chapter has made the case that systems of housing and finance cannot be viewed in isolation of one another: they are intrinsically and necessarily bound in all advanced industrial economies. The changes in finance from the 1970s onwards inexorably transformed the structure of Sweden's housing system; and the effects were profound on both the supply- and the demand-side. The palpable loss of state control over the flow and direction of credit during the 1970s and 1980s occurred at the same time as construction capital, developers and finance gained power; and this was no coincidence. The new channels empowered private actors, whilst *prima facie* diminishing the agency of the state, but the state was by no means a wretched bystander in this process. Whilst no-one in government had envisaged the dynamic potential of a *housing finance complex* during the 1970s and much of the early-1980s, the state was still central to its creation and, following the boom of the mid- to late-1980s and crisis of the early-1990s, successive governments were keen to harness its politico-economic potential.

Once this potential is harnessed, however, it can be difficult to control. Swedish policy makers (as elsewhere) have become effective patrons of house-price inflation and instrumental in the process of converting the Swedish economy to a 'housing economy' increasingly reliant on debt–fuelled consumption. This consumption, although politically and economically expedient, has consequences, however. Indeed, in response to warnings of a housing bubble made at an IMF meeting in Washington in 2015, the Social Democrat Swedish Finance Minister, Magdalena Andersson, responded by stating that, '…although I am not averse to a tightening, any changes must be made carefully as it affects households' finances. If there are major changes, prices can be affected, which in turn affects consumption and hence GDP growth' (Magdalena Andersson

---

[141] As Meidner notes, '[w]hen the social democratic government was replaced by a new bourgeois coalition in 1991, the model was already in a process of erosion and decay' (Meidner, 1993, p. 220).

cited in Arenander, 2015). Tellingly, shortly after Andersson made this statement, the Financial Services Authority (FI) withdrew their proposals to limit mortgage durations[142].

On the supply side, the construction industry, which has historically been immensely powerful in Sweden, was able to exploit new financial flows outside of state-subsidised circuits from the 1980s onwards. New flows from finance companies, banks and a range of investors (institutional and non) enabled the construction industry to become even more concentrated and powerful. This quiet revolution enabled them to re-write the rules of the game and occurred in the context of diminishing municipal land banks and a growing municipal reliance on private investors to finance projects (see Chapter IV). The consequences of this, as we have seen, are that the construction industry is now able to dictate, to a greater degree than at any point since the 1930s, *what* is being built, *where*, and crucially, *how much*. This system of production is one characterised by low volumes of high-end housing production, at high marginal rates of profit; but the necessary conditions for such a system are not merely confined to financial flows directed towards construction firms and developers

On the demand side, households also responded to the new incentives and opportunities that changes in the structure and composition of housing finance created. However, not all households would be in a position to exploit these opportunities. Let us not forget the axiom that one household's house-price rise is another's deteriorating affordability; and as prices have risen as a function of increased demand across Sweden (generated by unprecedented mortgage liquidity following the early-1990s crisis), so too has debt. This explosion of debt has led to a nation seemingly obsessed with house price rises and whose very financial system is inextricably tied to the housing market. Supported by the mortgage tax relief system, high-income households have been able to leverage themselves to a significantly greater degree than lower and middle-income households, and this demand has helped to facilitate the high-end housing production construction firms and developers in Sweden so cherish. All the while, the balance of housing production has tipped away from the supply of affordable rental buildings, and towards the construction and conversion of co-operative units and single-family dwellings. From the zenith of being heralded as one of the most effective housing systems in the world in the 1980s (Grundström and Molina, 2016), the Swedish housing system has now, indeed, become *monstrous* (Christophers, 2013).

142 These were eventually introduced the following year, however.

Conclusion. *Where are we now?*

> *The planes of utopia and of reality never coincide.*
> *The ideal cannot be institutionalised, nor the institution idealised.*

Edward H. Carr (1981)

> *The Swedes themselves are not entirely sure what they have done right.*

Paul Krugman (1999)

This thesis has endeavoured to chronicle the remarkable, and in many ways unlikely, development of one of the world's most prosperous and egalitarian societies, using the co-evolution of housing and finance systems as the fulcrum of my analysis. A central point which I have made throughout is that changes in the composition of housing finance are invariably preludes to changes in behaviours on both the housing demand- and supply-side. The contemporary burgeoning of housing credit on the demand-side is one facet of this and, as I noted in Chapter V, this also establishes and reinforces new logics and imperatives on the housing supply-side. As such, we cannot fully grasp the nature of housing systems - and households' preferences within said systems - without first attempting to understand the systems of finance and production underpinning them, and their interactions. Whilst analysing policy formations of direct relevance to housing, and how political ideologies inform these, are perfectly rational and worthwhile undertakings when seeking to understand housing system dynamics, what I have attempted to show here is that these alone are not enough.

Throughout this thesis, I have highlighted the apparent reticence of scholars to take the spheres of housing finance and housing production seriously, arguing that, contemporarily, this might help to explain why many housing scholars and political economists have been so slow to identify the changes in Sweden's housing and finance systems which I detailed in Chapters IV & V. Latterly, I identified two groups of scholars: those who understand that changes had occurred from the early-1990s onwards and claim that these can be understood with reference to the neoliberal reforms of the *bourgeois coalition* in the early-1990s; and those who seem to think there were few or no changes in Sweden's housing system during the 1970s, 1980s and 1990s. The task of Chapter I was to try to understand this reticence; and the task of the subsequent chapters was to explore why it has been so problematic for both historical and contemporary understandings of Sweden's housing and finance systems. By failing to take the institutional spheres of housing finance and production seriously, what I discovered is that scholars had intellectually 'boxed themselves' into a view of housing which was characterised by dichotomies between social and liberal markets, welfarist vs. non-welfarist states, and renters vs. homeowners.

I found many studies of Swedish housing, then, to be akin to what Brett Christophers and Manuel Aalbers (2014) have referred to as housing-*as-policy*; whereby the sphere of *housing* is ostensibly reducible to housing policy, housing tenure trends and - often in combination with these two spheres - welfare state reforms. While many of the policies and institutions in Sweden today appear, *prima facie*, similar to those that had existed throughout the mid-twentieth century, the other elements which make up a housing system - and their impacts on housing system outcomes – have so often been glossed over, leaving the impression of Swedish housing as a figuratively *frozen landscape* (Esping-Andersen, 1996). Indeed, Robert Cox (2004) notes that, *the most distinctive characteristic of the Swedish model today is the "stickiness" of its reputation, rather than the institutions and policies that make up the model,* and this assessment seems to apply aptly to many scholarly views of housing in Sweden throughout much of the last 30 years.

The original impetus behind this thesis was the desire to understand a simple puzzle regarding the contemporary relationships between neoliberalism, housing, and household debt in a country with one of the most generous welfare systems in the world: Why was it that households in Sweden, and other advanced social democratic states, were more indebted than their counterparts in the USA or Great Britain? The longer I mused over this, the more it became evident that housing was the central component for understanding this phenomenon; and with this realisation, the less it seemed like a puzzle. Indeed, this is only puzzling if we assume, as many scholars do, that the contemporary burgeoning of household debt throughout 'Anglo-America' and the OECD is a logical corollary of declining welfare provisions and wages (Cutler and Waine, 2001; Brewer, Clark and Wakefield, 2002; Montgomerie, 2007, 2009, 2010; Lapavitsas, 2009; Krippner, 2011; Panitch and Gindin, 2011; Montgomerie and Büdenbender, 2015).

The problem with this (predominantly) Anglo-centric theory is that, even in the USA, the empirical support for a *welfare-debt trade-off* is questionable. Moritz Kuhn, Moritz Schularick and Ulrike Steins (2015) have found, from a comprehensive analysis of long-run Survey of Consumer Finances data that, '[r]elative to income, household debt tripled since 1950, but this is predominantly an (upper) middle-class phenomenon, linked to rising mortgage borrowing'. They further claim that, '[t]he share of debt held by households below the 80th percentile of the income distribution has fallen' (Kuhn, Schularick and Steins, 2015, pp. 1–2). These findings are not unlike the dynamics I have highlighted in Sweden. Indeed, as I showed in Chapter V, the vast majority of borrowing in Sweden is among middle and high-income groups and, as Mattias Persson (2009, p. 134) of the Riksbank's Financial Stability Department claimed in a report following the GFC, '[t]he most vulnerable households [in Sweden] – those that have no financial cushion for unexpected expenses – are largely debt-free'. But this does not mean that because there is ostensibly no *subprime* sector in Sweden (or at least not as discernible as in the USA) that the high-indebtedness of households does not pose a risk to financial or macro-economic stability. As the Banking Crisis of the early-1990s illustrated, highly-leveraged speculative investment, even when it is commercial actors and wealthy households engaging therein, are more than sufficient to generate cataclysmic financial and economic dislocations.

Instead of pursing a line of enquiry fused to existing literature on *neoliberalism* and *financialisation*, then, this thesis has attempted to situate the current era of rampant household debt and asset-price inflation within a wider historical context in order to understand housing system development in Sweden more broadly. In the Introduction, I outlined some of the core tenets which have been said to characterise the Swedish housing model for much of the mid- to late-twentieth and early twenty-first centuries and, further, showed how this system of housing was so revered by scholars and commentators (both domestic and international). I then contrasted these idealised views of Swedish housing with the reality facing many households today in order to highlight the juxtaposition in housing outcomes. More than simply wanting to understand what had led to the housing system dysfunction we witness in Sweden today, however, I was also keen to understand what gave rise to the *social market* housing system which placed Sweden firmly on the global housing map in the first place. It is my contention that if we want to truly understand how the trajectories of phenomena such as *neoliberalism* and *financialisation* transform housing systems, then we need to first understand the systems they are said to be changing; and this we can only do, I believe, with thoroughgoing historically grounded, empirical research.

A central argument of this thesis has been that *housing finance* – how it is mobilised, how it is distributed, and by whom - *matters* to the constitution of housing systems on both the demand- and supply-side. What I have attempted to highlight throughout this work, then, is the importance of focusing on capacities and, significantly, the means by which capacities are generated, negotiated, and sustained or undermined. Chapter II explored how the creation of the savings banks and bond-issuing mortgage banks during the early and mid-nineteenth century by actors attempting to resolve capital mobilisation imperatives - in the face of robust population growth and the growing demands of agricultural modernisation - created a housing finance system which would endure for well over a century; how the birth of the co-operative housing associations - which sought to overcome the usurious practices of rapacious speculators with *bottom-up* savings and housing construction initiatives - produced a co-operative housing sector which would become the largest in the world; and, finally, how the establishment of the state's urban mortgage bank, and state housing finance subsidies during the early twentieth century to overcome the burgeoning demand for credit as Sweden's cities expanded, would provide the template for the mid-twentieth century system of state-sponsored housing finance. The examples provided here were the outcomes of solutions to particular types of capital mobilisation imperatives faced by a range of actors in Sweden and, while it would not have been evident at the time, all left enduring institutional legacies which would coalesce to produce a nascent *housing industrial complex* which was revered throughout the Western world.

Having explored the emergence and growth of key components of Sweden's housing and finance systems in Chapter II, Chapter III then illustrated how a wartime economy and the establishment of the AP system in 1959 - which effectively socialised the nation's savings - permitted Sweden to *build away* the housing shortages of the past, facilitating the creation a bona fide *housing industrial complex*. I argued that the phenomenal housing programmes of the mid-twentieth century were only possible because of the control the state had developed vis-à-vis which actors had access to housing finance, and on what terms. As long as effective capital controls derived from Sweden's planned wartime economy were in place, the state could determine the extent to which Swedish households' savings and pensions were directed towards housing production through the AP funds' purchasing of mortgage bonds, and compliment this with a system of direct loans and subsidies from government coffers. Furthermore, as long as profits were assured under this elaborate system of controls, the construction industry could, as Billing, Olsson and Stigendal note (1992, p. 294), '…accumulate capital through carrying on industrial production and not through property speculation'. Whether by accident, or design, this intricate complex became one of the most efficient the world had ever known.

As we saw in Chapters III & IV, the state controlled the purse strings, whereas the municipalities controlled the planning side (*where*, *when* and *how much*) throughout the early post-War decades. What construction firms got in return was cheap and secure, long-term finance (Barlow and King, 1992). This synergetic relationship, - in tandem with technical innovations emanating from the cooperative sector, a model of industrial labour relations which benefitted concentrated firms, and state-sponsored rationalisation - was central to the creation of Sweden's *housing industrial complex*. However, this was a tentative and uneasy arrangement between capital and labour, which would prove to be all too prone to inflation shocks, regulatory arbitrage, and, as Rudolf Meidner (1993, p. 220) noted, a willingness of successive governments to *tolerate periods of excess demand in the product and labour markets*. As one of the key architects of this system, Meidner would later argue:

> The destabilizing effects of this inflation-prone policy [the toleration of excess demand] were obvious already in the 1970s but became fatal in the 1980s: profits skyrocketed, speculation pushed property values to unsustainable heights, growth came to a stand-still and Swedish competitiveness faltered (Meidner, 1993, p. 220).

As I demonstrated in Chapters IV and V, the *quid pro quo* between construction and finance capital, the unions, and the state, which had endured successfully from the Saltsjöbaden agreement of the late-1930s until the early 1970s, began to break down thereafter. With this breakdown, the *housing industrial complex* would be fatally undermined and new speculative dynamics emerged which were anathema to the ideals of full employment, economic stability, and high-volume housing production at low marginal rates of profit.

The capacities which the state had accreted throughout the nineteenth and twentieth centuries vis-à-vis planning and finance, would not go unchallenged, particularly when the profits of Swedish finance and construction capital came under pressure during the 1970s, and Swedish construction firms were able to channel new financial flows from actors outside of state-sponsored circuits. Following the demise of strict domestic and international capital controls, on which the Swedish model of political economy and housing finance had so much depended (Ryner, 2002; Belfrage, 2011), the growth of finance companies would gradually and inexorably undermine the capacity of the state to control the flow and direction of credit to housing. This change in financial composition would change the *rules of the game* by which housing was produced, consumed and distributed.

In an age of inflation and declining profitability[143], the major banks and construction firms were able to utilise new financial conduits, which systematically undermined the systems of housing finance, production and distribution that had enabled the *housing industrial complex* and, with it, it's most (in)famous achievement: *The Million Homes Programme*. In combination with households' growing appetite for debt-fuelled housing consumption, and the state's tolerance for *excess demand* (Meidner, 1993) throughout the 1970s and 1980s, one complex was gradually replaced by another: a *housing finance complex*. Whereas the creation of the *housing industrial complex* implied the gradual accretion of capacities for residential housing production, the *housing finance complex*, by contrast, can best be defined by financial capacity generation which (seemingly) relentlessly stimulates housing demand, without any commensurate stimulation in output; and in which the housing that is produced is done so at high marginal rates of profit.

No matter how *sticky* housing and finance system development may appear to be, then, no institution(s) or system(s) of housing production and exchange is immutable. The story of capacity generation *vis-à-vis* housing and finance in Sweden during the twentieth century, is not, as I have made clear, solely about the state. Indeed, throughout this thesis, I set out to interrogate many scholarly preconceptions surrounding the developmental trajectories of the Swedish housing and finance systems. From questioning core assumptions relating to how liberal and social market forms of governance affected housing and finance system development during the nineteenth and early-twentieth centuries, on the one hand, to emphasising the centrality of housing finance system development - and the state's role therein - in engendering particular practices and behaviours which, in turn, shape housing system dynamics and attitudes to housing risk on both the demand- and supply-side, on the other; this thesis has sought to position housing

143 As Claes Belfrage notes of the 1970s: 'with profit rates under threat, capital's support for the Swedish model was falling away (Belfrage, 2011, p. 122).

and finance systems as historical objects of enquiry whose path-dependent, co-evolutionary dynamics can never be fully appreciated in isolation of each other, or, indeed, of broader political-economic trends. In the process, I have attempted to question core tenets regarding the relationships between state and market, (neo)liberal and social democratic governance, supply and demand, and housing, welfare and household debt, arguing that none of these sets, in isolation, is sufficient for understanding housing system development, or contemporary housing system change in Sweden, or elsewhere.

At the methodological plane, I have attempted to demonstrate the benefits of applying a historicist approach to the study of housing and finance; one which views these systems as historically embedded in broader societal relations, where the role of the state (both national and local), finance, construction capital, and households, are viewed as inextricably linked drivers of development, and not as atomised units with their own impermeable developmental logics. The production, consumption and distribution of residential housing do not exist independently of the finance systems they inhabit, and what I have tried to illustrate throughout these pages is that the demand for finance from both the producers and consumers of housing, and the role of the state in mediating these demands, creates the fulcrum wherein class and sectoral dynamics play out to produce uniquely contingent, path-dependent outcomes.

Applying a historicist approach is relevant not only for satisfying historical intrigue or carping over the interpretation of historical events, but also for understanding potential future pathways and trajectories. So often, policy makers and commentators criticise the lack of *political will* to solve the present housing crisis in Sweden (Al-Dewany, 2015). Scholars and commentators on the Left argue for a return to a *Golden Era-style* of government-driven social housing programmes (Nordén, 2015); while those on the Right, who favour more neoclassical solutions claim that regulatory burdens, a municipal monopoly on planning and land use and NIMBYism are the root causes of ballooning housing costs (Eklund, 2014). Both camps are united in the conviction that *we need to build more housing*, but whereas the former views active state involvement as the solution, and *neoliberal* retrenchment (or marketisation) as the problem, the latter views the state as the cause of the current housing-related ills, and *more market* as the solution. In my view, both assessments are misguided. The supposedly iron cast laws of economic *supply-and-demand* very rarely apply to the realm of housing, and by examining the *longue durée* of housing system development in Sweden I have (hopefully) made the case that reducing the *housing question* to dichotomous variables (state vs. market; supply vs. demand) is intellectually and practically unfruitful.

It is easy to say: *We need to build more good quality, affordable housing*. But how we do this is a different matter. Swedes ‘enjoy’ more residential floor space per capita (47 m^2 per resident), on aggregate, than any other nation in Europe bar Denmark[144]. The issue, then, is more one of distribution and allocation, than housing supply *per se*, as the geographer, Danny Dorling (2014), has argued of the housing crisis in Britain. Perhaps rather disappointingly, what I discovered by delving into Sweden's historical housing and finance timeline, was that while *political will* may, *per se,* be necessary for the recreation of a *Golden Era-style* system of housing, it is by no means sufficient. The question as to whether it would be possible (or even desirable) to recreate the housing prosperity of the *Million Homes Programme* years looms large here. How could such a system of housing (or indeed political economy) be (re)created and sustained when the collective memories and strictures of hardship, and the geopolitical upheavals of war and revolution on Sweden's doorstep, are so distant?

As profound as this question is, the thesis has given no concrete answer. Recent research has suggested that there is little cause for optimism. According to Walter Scheidel's (2017) seminal book, *The Great Leveler*, only *violent shocks* significantly lessen inequality (housing or otherwise). It has been beyond the scope of this thesis to delve into normative prescriptive assessments, but what I will say here is that this view is perhaps a little too pessimistic; and a history of Sweden's housing timeline can help us to understand why. It is tempting to view the trajectories of twentieth century history societies as a series of traumas whereby violent proletarian uprisings and the spectre of communism were enough to transform the elites in the West to giving muted concession to their working classes. However, as Paul Mason (2017) notes, between these poles grew social democracy. Indeed, as Marquis Childs claimed, prior to the Second World War (see Chapters II & III), Sweden managed to chart a *middle way*, and there is nothing to stop them (or others) doing so again. We will not be able to look to the same actors and constellations of interests to recreate the past. We should learn from the Social Democrats and co-operative and labour movements of the early twentieth century in Sweden and elsewhere, but we should not be bound by their actions or think that we can ape them – for that would be to misunderstand a crucial lesson from history. As Mark Twain once purportedly quipped: history does not repeat itself, *but it sure does rhyme*!

One source of optimism is that, while there is little agreement on solutions to the housing crisis (as I have explored) there is, at least, widespread acknowledgement that the current housing system in Sweden is dysfunctional. The current policy formulation for a 'well-functioning housing markets where consumer demand meets a supply of housing which corresponds to their needs' (translated in Hedin *et al*., 2012, p. 458) in Sweden, clearly, falls remarkably short of serving the needs of many Swedish households today, as nearly all commentators agree. With developers building primarily for affluent households, and sitting on land with building

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144 This is a crude measure, which calculates the total residential floor space per capita.

permissions while prices rise (Örstadius, 2016a), they have exposed the seeming inability of the private sector to supply affordable and accessible housing in Sweden. Further, housing co-operatives, having once been the backbone of what could be termed *decommodified housing provision*, are now obstacles to the very creation of such provision. The rental 'controls' and rental corporatism, which have, variously, characterised Sweden's rental market throughout the twentieth century, are, today, wholly inadequate, and too easily circumventable (Baeten *et al.*, 2017); and what measures the government have taken to promote affordability and access have, since the 1980s, served to exacerbate these perturbing trends. Indeed, much as in Great Britain, demand-side stimuli appear to have had the sole effect of pushing up prices, without having a commensurate impact on supply[145].

Whilst this thesis has provided methodological and theoretical insights and attempted to forge a political economy framework for the historical analysis of housing and finance systems, I also hope that it has filled empirical gaps, which other scholars may be able to draw from and take forward. Much time has gone into the creation of consistent and harmonised time series ranging from demographic data, to mortgage and savings banks' lending shares. I have also compiled data pertaining to the net flows of finance to housing over time, and regional data which explores the relationship between construction, building stock and house prices. Further research should aim for more robust quantitative analysis of the historical data and trends I have presented longitudinally in order to test some of the causal relationships I have hypothesised, and the approach I have developed here would not be incompatible with comparative-historical methods. I hope that the data I have compiled will provide the basis and inspiration for further research, not just into Swedish and Nordic housing systems, but also further afield.

Finally, this thesis has aimed to have both scholarly and policy significance. In relation to the former, the project has assembled, aggregated and harmonised data relating to the flow and direction of credit throughout much of the nineteenth and twentieth centuries in Sweden. Further, theoretically, it has demonstrated the importance of analysing the composition of housing finance in relation to housing system development, both historically and contemporarily; and how this affects the production, exchange and distribution of housing. As an ancillary to this relationship, I have shown that there is more to the processes of neoliberalism and financialisation than meets the eye, both in Sweden and elsewhere. Income related support, generous unemployment benefits, pensions, and universal health care combined, mean that the processes of neoliberalism and financialisation scholars describe in the USA (and elsewhere) do not operate by the same

[145] As ex-member of the Bank of England's monetary policy committee, Adam Posen noted of Britain, 'The idea of pumping up credit for middle to upper-middle class people to spend more on housing, when people have already spent too much on housing, is dysfunctional' (BBC, 2014). Indeed, with cost of borrowing even lower in Sweden than in Britain, and mortgage tax deduction still entrenched in government housing policy (unlike Britain), this *dysfunctional idea* is clearly alive and well in Sweden today.

mechanisms in Sweden, or, indeed, elsewhere in Scandinavia. If a Swedish resident becomes unemployed (and has unemployment insurance), the chances of their home being repossessed, or them falling into rent arrears is slim. Likewise, the concept of *medical debt* is a foreign one to Swedish and most Western European households. Income and (particularly) wealth inequality has been growing apace in Sweden over the past twenty years (Roine and Waldenström, 2009), but middle and high-income households have never had it so good. While the model of welfare in Sweden today is not what it was in the 1970s, by OECD standards, Swedes still enjoy one of the most comprehensive, redistributive welfare states in the world (OECD, 2018b). In combination with this nigh universal social security, then, households above the median income range have been able to leverage themselves to ever-greater degrees in an era of unprecedently cheap credit. One could argue that, by international comparison, Swedish households have been *spoilt* by a combination of generous social protections and an abundance of credit! But, of course, not all households are as spoilt as others.

In relation to policy, the thesis has shown in the context of Sweden that increased access to housing credit has done little to ease affordability and, further, that taking the long view, burgeoning levels of household debt appear to be little related to declining welfare provisions, and more an embracing of debt by the middle and upper classes. This compliments the findings of recent analyses conducted in the USA (Kuhn and Schularick, 2015) and elsewhere (Kohl, 2018b). While these findings do not downplay the impacts or hardship of overleveraging and worsening affordability on low-income groups, they do suggest that the rising debts of low-income groups are not the driving forces behind the recent phenomenal increases in household debt in Sweden and elsewhere. However, this is not to say that these trends do not create inequalities through other channels, such as growing wealth inequality, housing precarity, growing segmentation, and macroeconomic imbalances. Housing has been central to augmenting these tendencies, and Sweden's political economy has harnessed them increasingly since the Global Financial Crisis.

Capital income, of which housing is key, has become ever more central to Sweden's political economy (as elsewhere), over the past 30 years and, while a focus on income inequality may put Sweden in a flattering light, the internationalisation of wealthy Swedes' asset holdings means that – to quote Jesper Roine and Daniel Waldenström (2009a, p. 154) – '…official statistics are likely to underestimate the recent increase in wealth concentration, possibly quite substantially'. Indeed, according to a study by Frank A. Cowell, Eleni Karagiannaki and Abigail McKnight (2012, p. 1), despite being one of the most equal countries in terms of income distribution, 'Sweden is ranked as one of the most unequal countries in terms of wealth, even more so than the US'. Indeed, in 2012, the top 10 per cent of wealthy households in Sweden owned 47.7 of gross housing assets; higher than in the UK or the US (Cowell, Karagiannaki and McKnight, 2012, p. 22). While Roine and Waldenström (2009a, p. 169) have argued that increases in real estate values since the 1980s have reduced wealth inequality in some regards, (as many Swedes own their homes), this is a highly precarious and uneven means by which to compress wealth inequalities.

In terms of future policy implications, the historical record shows that, while undoubtedly a necessary condition for many of the successful and lauded housing and finance programmes of the nineteenth and twentieth centuries in Sweden, state support was often not sufficient *per se*. Indeed, whether we look at the savings banks of the early nineteenth century (the first of which was established by a Prussian-born merchant); the mortgage associations which formed across the country less than two decades later (the first of which was established by members of the Scanian nobility); the philanthropic individuals and organisations which encouraged the *egnahemsrörelse* (*Own home movement*); or the cooperative movement of the early twentieth century; we find that the state's involvement was, on the whole, not anterior to these initiatives, but posterior. In other words, state actors should not think they can simply 'solve' the current housing crisis alone but, instead, should look to draw upon socially sustainable and innovative housing solutions both at home and abroad, much as they did during the nineteenth and twentieth centuries.

Progressive politicians and stakeholders in Sweden should be looking to do two things presently. First, attempts should be made to transform the existing nexus of housing-related institutions to make them more socially accountable and democratic. This transformation should extend from political parties and cooperative housing associations, to *hyresgästsföreningen* (The Swedish Union of Tenants) and SABO (The Swedish Association of Public Housing Companies)[146]. There should be a cessation of cooperative conversions at subsidised rates, mortgage tax relief should be phased out in favour of more universal subsidies which promote affordable housebuilding, and the notion that Public Housing Companies should be run on the basis of generating long-term profits should be abandoned. That being said, transforming the existing nexus of housing institutions will also need to extend beyond such measures. As this thesis has made clear, housing finance needs to be transformed too, and this task is not as simple as merely introducing new policies or measures. Magnus Billing, the chief executive of one of Sweden's largest pension funds, *Alecta*, has suggested a way forward here, maintaining in a debate article in *Dagens Industri* that his pension fund, '…wants to allocate additional capital to sustainable investments' in housing and infrastructure, but adding that, '…we would need the

[146] Hans Lind notes of the latter two that the Tenants' Union's current resistance to rent increases within SABO's older rental stock places a stranglehold on new supply, effectively abandoning the rent pooling principle and reinforcing an *insider-outsider* dynamic within Sweden's rental system (Lind, 2014, pp. 94-95). To overcome this obstructive dynamic, *hyresgästsföreningen* need to not merely consult their own members, but also reach out to prospective tenants and those on housing waiting lists too.

help of government to make it possible for a sustainable society and a sustainable pension system' (Billing, 2017, author's translation). *Alecta* has invested approximately SEK 13 billion in *green bonds earmarked for environmentally-friendly investments* (*ibid*.), but Billing argues that the market is currently 'too small' (*ibid*.). This is where, as in previous eras, the state could actively foster the development of new circuits of capital to be directed towards socially and environmentally sustainable housing investment, acting, in effect, as a *market shaper* (Mazzucato, 2018), and incrementally shifting financial resources away from the demand-side, and towards supply. This would have the effect of increasing the public housing stock and puncturing the pernicious expectation that house price rises can continue *ad infinitum*.

Second, the central state and municipalities should look to foster new, *bottom-up* initiatives which aim to promote affordable and accessible housing across tenures. There are promising initiatives in this regard. Organisations such as *Bokoop* are reinvigorating the cooperative movement, bringing it more into line with the promises and principles of the early cooperative pioneers a century ago. An organisation from the west coast of Sweden, *Egenhusfabriken,* is drawing upon the ethos of the *egnahemsrörelse,* and helping immigrants, the elderly, and young people to produce housing through collective endeavours. While these are merely two, nascent examples - and while they may not individually make headway - the ideas underpinning the work of these organisations (and others like them) are certainly promising and worthy of patronage. The election manifesto of *Vänsterpartiet*, published on 27th March ahead of the Swedish general election in October 2018, claims that, '…society must regain its initiative and restore democratic influence and responsibility over housing supply' (*Vänsterpartiet,* 2018). This ambition should be uncontroversial, but such action will require a broad-based coalition of political parties and civil society organisations, as well as the active involvement of elements of the finance and construction sectors, in order to be realised.

I explained in the introduction to this thesis that the current housing crisis in Sweden is one which is currently not marked by systemic financial instability or economic crisis. This is a crisis of supply, affordability and accessibility, which are the corollaries of the generation of a *housing finance complex*, and it has given oxygen to those wishing to exploit it for political gain. The far-right Swedish Democrats are currently making political capital from the housing crisis in Sweden, claiming that it is Sweden's immigration policy which lies at the heart of the housing crisis. While there is robust empirical evidence to the contrary (Andersson and Dahlberg, 2018), dissatisfaction with the current Swedish housing system means that this message has found an audience.

It has not been within the purview of this thesis to make predictive claims but, at present, there is little indication that the processes and trends of worsening affordability and accessibility will be reversed any time soon. Sven Steinmo (2003, p. 44) once lamented the possibility that what he termed 'growing ethnic heterogeneity' would, one day, '…undermine the traditional 'nordic' Swede's willingness to pay taxes for social programmes that may increasingly go to racial and ethnic minorities'. Writing in 2003, he added: 'At this point, however, we see little direct evidence of this problem erupting in Sweden to anything like the same extent seen in several other European countries. The sky is not falling in in Sweden, at least not yet'. The far-right Swedish Democrats are currently polling just behind the Social Democrats, with a general election due in October 2018 and, as in the UK, this formerly fringe organisation has transformed the centre-right. Not since the emergence of the Social Democrats over one hundred years ago has a political party in Sweden enjoyed so much political success, and so quickly. With house prices at records highs, and middle and high-income households more indebted than ever before, growing wealth inequality, housing precarity and ethnic segmentation are putting strain on the social fabric of Sweden. The risks of a systemic financial and economic dislocation have rarely, since the late-1980s, been greater and, in an era when nationalism in Europe is resurgent, a dislocation of such magnitude would have profound socioeconomic, and political consequences, both nationally and regionally.

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