*The Politicisation of Macroprudential Regulation: the Critical Swedish Case*

Abstract

This article explores the prospects of stabilising financialisation in Europe as a spatial-temporal fix for Anglo-American capitalism’s crisis-tendencies (Harvey, 2010; French et al., 2011). We analyse the politics of (countercyclical) macroprudential regulation (MPR) in the critical case study of Sweden. Here, MPR is introduced, in contrast with much of the rest of the EU economies, in a credit boom. We find evidence of an administrative crisis, as technocrats face the political constraints on re-regulating financialised accumulation. This suggests that the conditions are ripe for a deepened administrative crisis in Europe once countercyclical MPR is implemented.

Introduction

Since the 2007-2008 Global Financial Crisis (GFC), introducing a regulatory toolkit to prevent recurrence has been a top policy objective. Analysing its prospects for success must start from the broader understanding of the current predicament as emanating from the transformative processes known as financialisation. This assumption implies that financial (re-)regulation is no mere technical fix, but rather a multifaceted intervention in but also shaped by increasingly financialised accumulation (Bieling, 2014).

Financialisation has been understood as a quest for a spatial-temporal fix for Anglo-American capitalism’s crisis-tendencies (Harvey, 2010; French et al., 2011). The creation of the “finance-dominated accumulation regime” in Europe (Stockhammer, 2008; Hein, 2012), including European financial institutions’ integration into the Anglo-American world of finance, has in significant part been about these tendencies’ displacement (cf. Panitch et al., 2015), creating vast, integrated, opaque and complex global markets in the process (Engelen et al., 2012). Amplified by the flawed European Economic and Monetary Union (EMU), it is thus perhaps no coincidence that the greatest impact of the crisis of financialisation has been in the European Union (EU) (see Lapavitsas et al., 2012). EU post-crisis policy has entailed the reinforcement of fiscal discipline through an elaborate austerity framework, ultraloose monetary policy and the implementation of financial re-regulation. While the ECB is terminating its “non-standard monetary policy measure”, macroprudential regulation (MPR) is intended as an enduring solution (Christophers, 2016).

MPR complements microprudential regulation, concerned with risk at the level of individual financial institutions, by addressing systemic risks (Borio and Drehmann, 2009), partly in response to popular criticism of financial sector excesses and regulatory capture (Bieling, 2014). According to its advocates, many of which can be found in the world of central banking, the principal objective of MPR is to constrain pro-cyclicality in the upturn of the credit cycle (although also concerned with procyclicality in the downturn); it involves “saying no” to constituencies favouring further credit expansion. The policy articulation of MPR thus promises to become the subject of distributive conflict (Galati and Moessner, 2013). This point is reinforced by the expectation that MPR will come into conflict with existing institutional structures and policy routines within and around central banking in the finance-dominated accumulation regime (Boyer, 2013).

Concerned with potential policy pressure, policy-makers and economists have successfully argued, in line with the rationales behind independent monetary policy, that the implementation of MPR should be confined to institutions at arms-length distance from the short-term political economy cycles of electoral politics (e.g. Haldane, 2013). With the more radical reform measures watered down (Bell and Hindmoor, 2014) and sweeping economic restructuring far from the agenda, MPR assumes the function of stabilising rather than reversing financialisation. In the EU context, we therefore conceptualise MPR as a contested governing strategy intended to stabilise the finance-dominated accumulation regime (cf. Bieling, 2013). Using a Habermasian vernacular, we argue that its fortune depends on the answers to two questions. Firstly, will its introduction lead to a rationality (heretoafter “administrative”) crisis in the accumulation regime? Secondly, can MPR help securing “the requisite level of mass loyalty” to the management of the finance-dominated economy to avoid a legitimation crisis (Burnham, 2014: 193)?

To explore the fate of MPR is nevertheless difficult in crisis-struck EU because the framework is not only in its infancy, but also because it was first introduced in an economic downturn (Műgge, 2014; for early quantitative findings, see however Galati and Moessner, 2017). We therefore undertake a critical case study (Flyvbjerg, 2006), in which MPR has not only been countercyclical from the outset, but has also been implemented by regulatory bodies enjoying particularly strong “independence” from parliamentary politics. Taking steer from global and EU directives, Swedish regulatory institutions, traditionally effective (Wetterberg, 2010), rich in resources and widely seen as relatively free from particularism for at least a century (Rothstein and Teorell, 2015), are in the process of introducing MPR in an economy in ostensibly rude health, but, at closer inspection, in an extended credit boom reminiscent of pre-GFC conditions (Authors, 2017). Employing Regulation Theory (Bieling et al., 2016), recent reformulations of Habermas’ typology of crises (Burnham, 2014; Fraser, 2015) and Gramsci’s understanding of intellectuals (Olsaretti, 2014), our Critical Grounded Theory (Belfrage and Hauf, 2017) analysis of media and policy documents reveals considerable politicisation. It shows growing frustration within and conflict between the regulatory bodies tasked with coordinating the design of MPR as the political constraints on the re-regulation of finance-dominated accumulation becomes apparent. We find that these struggles increasingly spill over into wider public debates and thus paralyse the administrative system.

We conclude that the Swedish experience suggests that an administrative crisis appears likely to arise from post-GFC re-regulation with potential for escalation to legitimation crisis of the European finance-dominated accumulation regime. Nevertheless, a legitimation crisis requires counterhegemonic politics to create an alternative commonsense upon which alternative financial futures can be constructed (Fraser, 2015; Christophers, 2016). Ultimately, therefore, the displacement of the crisis-tendencies in Anglo-American capitalism in the EU hinges upon the thwarting of such politics.

The article commences with a conceptual discussion of the key issues arising from the introduction of MPR in the EU finance-dominated accumulation regime. This enables a construction of our analytical framework, which we subsequently apply with the help of Critical Grounded Theory in the critical Swedish case. The case study involves a periodisation of the introduction of MPR. The conclusion summarises our findings, which leads to suggestions for future research.

Conceptualising EU Macroprudential Regulation

While microprudential policy aims at diminishing the likelihood of individual  
institutions defaulting, macroprudential policy aims at minimising systemic distress and  
resulting macroeconomic costs by taking into consideration feedback effects from the economy and interaction of financial institutions. Yet, although the tools and objectives of macroprudential and microprudential regulation are distinct in theory, they are interrelated and sometimes difficult to distinguish in practice (Osinski et al., 2013: 23). Many macroprudential indicators and tools originate from microprudential such, modified with systemic risk in mind.

Initial characterisations of financial re-regulation as signifying a Polanyian “double movement” appear mistaken (Konings, 2016). Some observers go so far as to characterise MPR as by and large the outcome of the financial sector re-regulating itself by way of regulatory capture (Bieling, 2013). Despite the initial conception of a raft of tools ranging from structural separation of commercial and investment banking to regulation of loan-to-value ratios, the momentum of MPR has stalled. The more radical policy ideas have been watered down (Bell and Hindmoor, 2014), while risk-weighted measures so pervasive in the Basel I and II Accords, and criticised by more heterodox commentaries for creating pro-cyclicality, have been retained. Moreover, across jurisdictions, MPR has been unevenly implemented (Young and Park, 2013).

One explanation for the slowness and selectivity by which MPR is being introduced points to epistemological and methodological frictions between orthodox and heterodox ideas among regulators. A key tension exists between, on the one hand, Minskyite ideas of the endogeneity of financial instability emphasising non-linear accumulation of systemic risk and, on the other hand, the neoclassical-new Keynesian orthodoxy focused on external shocks to general equilibrium models. For instance, it has proven challenging for central banks steeped in the latter tradition to incorporate “state contingency” (e.g. booms, defaults and busts) emanating from financial intermediation into their infinite outlook DSGE models. Regulatory bodies hence display selective inertia as the costs of producing new knowledge and introducing new policies and tools are proving significant (cf. Galati and Moessner, 2013: 854-9).

Limited and uneven re-regulation could also be grasped with reference to epistemological differences between regulators and financial engineers. Engelen et al. (2012) claim that the scientific rationality underpinning regulatory policy does not effectively address the improvisational logic characterising the “bricolage” practices of financial engineers. To the latter, new regulation is merely potential input for new innovation with differential costs attached. The selectivity and intensity with which financial lobbies resist the introduction of MPR could be explained by reference to such cost calculations (cf. Young and Park, 2013). The combined effects of inertia and resistance lead to questions as to whether MPR will be effective in stabilising financialisation.

In terms of policy implementation, Basel III now incorporates a macroprudential overlay on top of an enhanced microprudential regime. This informs EU and member state policy-making. The European Systemic Risk Board (ESRB) is a new body tasked with bringing together analyses from supervisory authorities, technical and scientific committees to monitor systemic risk. Yet, the fact that regulatory articulation remains the task of national bodies creates opportunities for regulatory arbitrage (Galati and Moessner, 2013) and competition (Young and Park, 2013). The resulting uneven playing field reduces the penetration and diffusion of MPR (ESRB, 2015). Furthermore, there is no consensus on optimal institutional division of labour between and within monetary and regulatory bodies. Consequently, there is considerable institutional variation from country to country (Galati and Moessner, 2013).

Inspired by the rationales behind central bank independence of enhancing political control, there, however, appears to be agreement on that MPR should be implemented in a depoliticised manner (e.g. Haldane, 2013; for the original EU proposals, see de Larosière, 2009). Depoliticisation, as a neoliberal mode of governance, creates distance between government and special interests, whether supportive or oppositional, by constructing the semblance of a shift of responsibility and control to technocratic bodies, while retaining power over policy direction. While mainstream economists and policy-makers thus appreciate that MPR is exposed to redistributive conflict in relation to the electoral cycle, this recognition is limited (Burnham, 2014). Inferring from Peck and Tickell, depoliticisation grants MPR “privileged status of a taken-for-granted or foundational policy orientation” (2002: 389). It fails to recognise fully how MPR is a social, political and economic intervention in historically specific processes of financialisation. This simultaneously obscures and naturalises financialised capitalism. From this viewpoint, MPR is clearly no mere technical fix, but is rather undeniably redistributive with the associated politics likely to be tense as they defy the beneficiaries of financialisation. These redistributive politics can be expected to throw the frailty of depoliticisation into sharp relief.

Drawing on Regulation Theory (see Bieling et al., 2016), we understand MPR in the EU as a regime consisting of contested policies and institutions within broader “modes of regulation”. Although guided, directed and supervised by global and EU level bodies, MPR is articulated within national modes of regulation to stabilise finance-dominated accumulation. As such, it can be seen as a new element in what Harvey (2010) calls the state-finance nexus. “Accumulation regimes” are organised around historically specific constellations of emphases on the three structural forms of the wage relation (aspects of the capital-labour relationship), form of competition (type of market structure) and the monetary constraint (the institutional configuration of the universal equivalent of money). The finance-dominated accumulation regime has developed in an uneven and combined manner across the EU, mediated by greater volumes of public expenditure than in the US (Stockhammer, 2008; Hein, 2012), but with a weakening of the working class as general tendency (Bieling et al., 2016).

Mode of regulation refers to the socially contingent ways, in which the three abovementioned structural forms are institutionally articulated. Since the contradictions and dilemmas in the coordination of accumulation are understood to be irresolvable in the abstract in capitalism, the state plays a key role in reproducing capitalist accumulation in the concrete. It creates blueprints and mechanisms for the normalisation, routinisation and coordination of everyday economic practices with the potential outcome of temporarily displacing the crisis-tendencies of historically specific regimes of accumulation across time and/or space (Sum and Jessop, 2013). An important aspect of MPR, particularly in the EU, is that its systemic concerns relate closely to other policy areas within modes of regulation. A significant topic in policy discussions has centred on the relationship between MPR, microprudential regulation and monetary policy. Not only are the objectives and policy tools interrelated, they are often contradictory. For instance, the objectives of constraining credit growth and targeting inflation at about 2% in the weak post-crisis growth environment are difficult to reconcile (Galati and Moessner, 2013: 858-859), a challenge compounded by the EU’s strict budgetary deficit rules. Indeed, the EU macroeconomic framework prevents fiscally expansionary policy, which could have stimulated demand and investment in the economic downturn (Bieling et al., 2016). The deflationary tendencies of this framework have been reinforced by austerity measures devised to rebalance state accounts following the bank bailouts (Bieling, 2013). Lacking mechanisms for substantial fiscal expansion, stimulation of growth has largely fallen upon ECB quantitative easing. Yet, with banks deleveraging and austerity squeezing debt-based consumption, ultra-loose monetary policy has at best prevented deeper recession. Citing this difficult climate, the financial lobby has sought to delay the implementation of new regulation (Bieling, 2013). The impact of countercyclical MPR on the financial sector has, as a result, been limited (Műgge, 2014; Galati and Moessner, 2017).

To gain better insight into the ethico-political aspects of introducing MPR, we turn to Habermasian and Gramscian sources. Inspired by Fraser (2015), we understand the crisis in the EU to be related to capitalism’s inherent tendency toward political crisis, which, in turn, derives from the limitless drive to accumulation. In financialised capitalism, she argues, this tendency arises from the extension of credit relations and efforts to “colonise” public power, especially that which is vested in regulatory bodies. Burnham similarly argues that post-GFC, parts of Europe have been experiencing “a paralysis of the administrative system and a realisation that it is unable to steer the economy”, that is an *administrative crisis* (2014: 203). However, administrative crisis has not transitioned to a full-blown legitimation crisis, which is when “the state fails to secure a requisite level of mass loyalty” in steering the political economy (e.g. Greece) (ibid.: 193). Fraser (2015) suggests that this transition is currently constrained by neoliberal commonsense, which invites its subjects to quiescence and stoic “realism” rather than a shift to the counter-hegemonic commonsense required for legitimation crisis to erupt. Hegemony here signifies struggle over the nature and direction of change. Accordingly, and extrapolating from Candeias, we should understand MPR as a technology with which “a new capitalist societalization is [being] realized” (in Sum and Jessop, 2013: 92). In the EU context, this captures the efforts to normalise, routinise and coordinate financialised accumulation in a manner capable of resolving the administrative crisis and thus preventing transition to legitimation crisis.

Technocrats and civil servants, which we conceptualise in Gramscian terms as “traditional intellectuals”, play leadership roles in hegemony by being tasked with producing modes of regulation. Such hegemonic practices translate class, and more narrow class-fractional or sectoral, interests into broader “ethico-political” ones giving economic structures their rationale and legitimacy. They are thus tasked with the creation of a “historical bloc”; that is reciprocity between structure and superstructure. Yet, and this is crucial for our analysis, traditional intellectuals are relatively detached from productive functions and related class divisions. Instead they have their own organisational logics, rules of merit and internal hierarchies. This means that their group identities closely derive from these self-definitions, which results in that traditional intellectuals feel, with an *Esprit de Corps*,autonomous vis-à-vis the dominant social group (Gramsci in Olsaretti, 2014: 366-368). This autonomy lends credibility to depoliticisation as a neoliberal mode of governance for MPR.

Nevertheless, Gramsci also identifies countertendencies deriving from traditional intellectuals’ embedding in social networks and the agency of “organic” (i.e. class-bound) intellectuals. He argues that organic intellectuals aim at influencing or even incorporating traditional intellectuals into their fold. Moreover, while seeing themselves as exceptionally qualified and independent of particular interests, traditional intellectuals often share intellectual background and have an economic relationship, sometimes even career paths, with dominant classes (Gramsci in Olsaretti, 2014). In finance, the “revolving door” phenomenon between financial corporations and regulatory bodies is widely noted (Shive and Forster, 2017). To this should be added the more general, yet contradictory, socialisation processes, to which also traditional intellectuals are exposed as members of financialised societies. In short, traditional intellectuals’ autonomy is relative, constantly challenged and varies from context to context.

In EU post-GFC efforts to stabilise the finance-dominated accumulation regime, traditional intellectuals have performed two central roles. On the one hand, justified by a number of economies breaking the convergence rules to develop a neo-mercantilist type of the accumulation regime like Germany’s, they have exercised “leadership as domination” by effecting fiscal austerity (Bieling et al., 2016). On the other hand, they have, upon widespread criticism of financial sector excesses and regulatory capture (Bieling, 2014), exercised intellectual and moral leadership by designing and implementing financial re-regulation. MPR is a cornerstone of this endeavour. Yet, the superficiality of depoliticisation, particularly in terms of the expected autonomy of technocrats and civil servants, is typically discerned in much of Europe.

The economic downturn along with the widespread scepticism with which civil servants’ policy autonomy is perceived in much of the EU, however, complicates the analysis of the fortune of MPR. Sweden, we argue, presents itself here as a case study of strategic significance, or as Flyvbjerg (2006) calls it a “critical case study”. There, MPR has, in contrast with much of the rest of the EU, been countercyclical from the outset. The economy is in ostensibly rude health while in an extended credit boom reminiscent of pre-GFC conditions (Authors, 2017). Moreover, the Swedish civil service enjoys comparatively high levels of policy autonomy and public esteem, a point convincingly made by leading scholars from a range of perspectives (e.g. Wetterberg, 2010; Rothstein and Teorell, 2015). This scholarship insists on the sincerity of belief among civil servants in their neutrality. Furthermore, they are widely perceived to be carrying out their duties autonomously in depoliticised spaces, escaping regulatory capture.

Strengthening these beliefs and views is the fact that the autonomy of the Swedish civil service is legislated in a strong manner. Firstly, Swedish civil servants staff are not replaced following elections; they remain in office no matter electoral outcome. Secondly, state bureaucracies and institutions are uniquely large compared with ministries. These factors suggest that the Swedish state apparatus is comparatively autonomous, albeit always in the relative sense conceived by Gramsci. While regulatory capture occurs “also in Sweden”, traditional intellectuals may be more likely to call it out by:

* drawing attention to the lack or shrinking of depoliticised spaces of work, that is their autonomy, as the responsibility given does not measure up with the power afforded leading to paralysis in the construction of MPR; and/or,
* in the realisation that they are unable to steer the economy, questioning hegemonic representations of the accumulation regime, that is to seek to construct a discourse contesting the taken-for-granted, foundational policy orientation (financialisation), which they are tasked with stabilising.

Such agency would testify to administrative crisis. If the introduction of MPR in Sweden creates administrative crisis, its chances of avoidance elsewhere appear slim.

MPR in Sweden

In this study, we employ Critical Grounded Theory (CGT) (Belfrage and Hauf, 2017). CGT, based on critical realism, involves an iterative, retroductive process. It commences with the identification of a societal problem: here, the efforts to prevent the recurrence of the GFC. We then consulted media and policy documents pertaining to MPR, before considering our favoured scientific theories to construct an initial conceptualisation of the problem and a meaningful way to approach it empirically: financialisation as a spatial-temporal fix for Anglo-American capitalism’s crisis-tendencies and the contested endeavour to stabilise this process in Europe through MPR. Trying to make sense of an opaque reality, this conceptualisation was then put into cycles of conversation with scientific, media and policy documentation specific to the critical case of Sweden in a principally eternal research process only paused with the production of critical grounded theory. While aiming at reconstructing historical processes, the research does not do so linearly, but rather dialectically. Where empirically feasible to identify continuity in discontinuity and/or discontinuity in continuity, it makes use of the tool of periodisation, albeit in this instance as periodisation within the period of financialisation. We present our critically grounded theory below.

*The New Swedish Model*

Following sharp recession in 2008, the Swedish neo-mercantilist type of the finance-dominated accumulation regime appears to have bounced back. Successive governments of different political persuasion have been able to invoke impressive growth figures as evidence of the success of a modified Swedish model. However, the nature of the model remains misunderstood. More than three decades of neoliberal restructuring, negative real wage growth and financialisation have transformed the famous model almost beyond recognition. In the post-GFC low interest rate climate, the financial sector has continued to enjoy profit growth whilst the export sector has just managed to sustain levels of investment and seen profits declining. Economic growth is increasingly based on debt-based household consumption and a related property boom (Figures 1 and 2) (Authors, 2017).

Please Insert Figure 1 here

Insert Figure 2 here

Financial regulation in Sweden is shaped by recent crises. Triggered by a small increase in German interest rates in response to the crisis of the European Exchange Rate Mechanism, Swedish financialisation faced its first crisis in 1992-1993. The centre-right coalition Government (1991-1994) led a wholesale bank bailout. Aiming at radically reducing public expenditure levels from 70% of GDP, Government, supported by the Social Democratic Party (SAP) in opposition, subsequently transformed the mode of regulation, including new budgetary rules stipulating surpluses and public pensions targeting a fiscally neutral footprint. Coupled with previously SAP-implemented liberalisation of the capital account, credit markets and tax system, the new pension system along with far-reaching housing privatisation spurred asset accumulation and indebtedness. Reduced public expenditure stifled inflation. These policies made Sweden attractive to financial investors (Authors, 2017). The economy saw high productivity growth and profit rates in the late 1990s. However, with financialisation continuing apace, the economy was prone to further crises. Sweden’s tech-stock bubble burst in 2000, yet the strong export sector and further deepening of financialisation sped recovery up (Andersson and Jonung, 2015).

In the late 2000s, a “profits without housing investment” regime emerged, with very large profits accruing in a globalised financial sector largely unconcerned with productive investment. The export sector was hit hard by collapse in demand following the GFC. The GFC also threatened the financial sector as a result of the crises in the Baltics, the target of aggressive expansion by Swedish banks. The issuing of a full banking guarantee, still favourable industrial structure, effective administrative coordination among branches of government and unintended counter-cyclicality in fiscal policy enabled another rapid recovery (Authors, 2017). However, the recovery also accelerated financialisation.

The financialised accumulation regime now revolves decreasingly around the export sector and increasingly around debt-led consumption (Authors, 2017). Ever-increasing levels of private sector, especially household, debt, a major driver of highly leveraged banking revenue, is at the core of this regime (see figures 3 and 4). So is rapidly rising inequality (IMF, 2016). These trends are in significant part due to convergence between global, European and national credit cycles. As a small and open economy, relatively vulnerable to market fluctuations and the monetary policy of the Federal Reserve and the ECB, any Swedish endeavour to deviate substantially from low global interest rates with more restrictive monetary policy would create further financial instability (Andersson and Jonung, 2015).

Figure 3 here

Figure 4 here

Remnant logics, values and institutions from the old model, not least the welfare state, can only partly cushion, in some regards even intensify, the contradictions arising from increasingly debt-led accumulation (Authors, 2017). This, as we will see next, has implications for the construction of countercyclical MPR.

*Configuring the Institutional Framework (2008-2013)*

Learning from crisis-management during the GFC triggered a period of reform under the neoliberal centre-right Alliance government, led by the Moderates (*Nya Moderaterna*). This created tensions between regulatory bodies and frustration with government. Reform was undertaken in a context of electoral struggle over the growing propertied and financialised urban and suburban middle classes. In this struggle, SAP’s perceived incompetence in matters of economic governance rendered the Party unwilling to challenge the accumulation regime and its beneficiaries without for that matter succeeding in securing much of this vote. Meanwhile, the Alliance, with Finance Minister Anders Borg at its helm, strengthened its custodianship of a “new Swedish model”. Government’s navigation of the GFC afforded it with the scope to leave financialisation unperturbed to secure (sub-)urban middle class support whilst in government (2006-2014) (Belfrage, 2017).

In conjunction with Sweden’s recovery (before recession returned briefly in 2012), Government, endorsed by SAP, appointed a parliamentary financial crisis committee (*Kriskommittén*) in 2011. *Kriskommittén* was to assess the regulatory framework and propose reforms, including the division of labour between concerned regulatory bodies, as well as to update crisis-prevention and -management routines on the basis of lessons learnt and in line with developments in the G20, Basel III and EU (Riksdagen, 2011a). This followed a memorandum of understanding from 2009 to strengthen the regulatory framework. This framework had been modified in 2008 with the National Debt Office, *Riksgälden*, given the role as provider of financial support to individual institutions during the credit crunch as well as in case of systemic risk. The memorandum, moreover, instructed the central bank, *Riksbanken*, responsible for price stability and a safe and efficient payment system,and the regulator, *Finansinspektionen*, tasked with ensuring “soundness” of financial sector practices, to clarify their respective roles and develop forms of cooperation in relation to MPR (Regeringen, 2009). Meanwhile, in January 2012, *Riksbanken* and *Finansinspektion* formed the Council for Financial Stability (*Samverkansrådet för Makrotillsyn*) to discuss and coordinate macroprudential regulation.

Here, we must mention the hegemonic role of each of the three technocratic bodies referred to above. *Riksbanken* is fiercely independent and in possession of a strong *Esprit de Corps*. Almost exclusively staffed by economists, traditionally trained in the orthodoxy at the top Swedish universities, it is populated by epitomes of Gramsci’s traditional intellectual. It is held in high esteem. In no little regard is this due to the Governorship of Stefan Ingves (2006-), recruited to *Riksbanken* following his directorship of of the bank bailout (*Bankstödsnämnden*) in 1992-3. Before assuming the role of Governor, he also directed the IMF's Monetary and Financial Systems Department. He currently serves as Chair of the Basel Committee and Director of the Bank of International Settlements (BIS). *Riksbanken*’s role has changed in parallel with the transformation of the Swedish model. Under the auspices of depoliticisation, it operates inflation targeting at the 2% level. Moreover, from its inherently systemic perspective, it has become alarmist about financial sector developments and has thus partially espoused a macroprudential view of risk.

Created in 1991, *Finansinspektionen* arose out of the debris of the banking crisis. Before the GFC, its work entailed in significant part the implementation of global and EU regulation and overseeing the substantial expansion of the Swedish banking sector. After the GFC, Moderates Finance Minister Anders Borgappointed Martin Andersson, previously responsible for producing micro-focused financial stability reports at *Riksbanken*, as General Director. Under his leadership, and generously resourced by Borg, *Finansinspektion* retained a clear focus on microprudential regulation. With regards to MPR, *Finansinspektionen* adopted a “go with the flow” approach, happy to implement most new G20, Basel II and EU regulation of a microprudential nature and only some macroprudential regulation (e.g. loan-to-value ratios), but rejecting MPR measures of a more countercyclical or structural nature capable of disrupting credit growth in the economy.

The role of *Riksgälden*, created in the late 1700s to gain control over war-ravaged state finances, was strengthened after the 1992-3 crisis. During 2004-2013, Bo Lundgren was General Director. Lundgren had a rich CV in the service of the Moderates. During the banking crisis, he was deputy minister of financial affairs and minister of taxation with responsibility for *Bankstödsnämnden*. The new budgetary and foreign borrowing framework introduced under his stewardship are among the most stringent in the world and have been significant for the financialisation process. He was also a leading figure in the public pension reform in the 1990s. Bo Lundgren is undeniably a neoliberal organic intellectual paving the way for financialisation. The trust the Moderates showed in Lundgren reached its pinnacle when he was elected leader of the Party (1999-2003). As General Director of Riksgälden he handled both the exposure of Swedish banks in the Baltics and the nationalisation of Carnegie Bank. With this context in mind, we can turn back to the work of *Kriskommittén*.

At the outset of the final Report, *Kriskommittén* (Riksdagen, 2013: 18) naturalises the financial system as the bloodline of a “modern” economy, which:

cannot exist without a functioning system for making payments, allocating capital from savers to borrowers and providing risk management...These core financial services are as important to society as a functioning energy supply…financial services are of major importance to individual consumers…

While the Swedish economy had been affected by the GFC, this was not due to flaws in the Swedish financial system, but rather the comparatively high level of concentration and integration of the banking sector, Kriskommittén maintains. It therefore agreed with global and EU level initiatives to increase government involvement in crisis prevention and management. Yet, it denies the need for any major intervention, in effect decelerating or reversing financialisation. In fact, it suggests that substantial regulation of the banking sector is ineffective as regulation only spurs dangerous shadow banking. The Report goes so far as to argue that it is of strategic importance to ensure high profit levels in the banking sector so as to lessen the incentives to engage in such activities. The foundations for light-touch MPR had been laid. Moreover, by leaning on the global consensus on governance matters, it asserted the case for depoliticised MPR (Riksdagen, 2013). The Report could be seen as a hegemonic statement naturalising and normalising finance-dominated accumulation. Yet, key aspects of this document became the subject of strong disagreement. The main disagreement related to the institutional division of labour regarding macroprudential regulation.

*Riksbanken*, with Mr Ingves the leading protagonist, argued that *Riksbanken* should be the principal authority due to its expertise and cognate responsibility for price stability and the payment system, while acknowledging the need to co-ordinate with and make use of “the operative and analytical competence” of *Finansinspektionen* (Riksbanken, 2013a: 2, our translation; Finansinspektionen, 2013b). First Deputy Governor of *Riksbanken* Kerstin af Jochnick went so far in January 2013 so as to lament publicly *Kriskommittén*’s institutional innovationfor lacking a clear division of responsibility and a mandate to develop macroprudential tools (*Dagens Industri*, 2013), a suggestion that the institutional division of labour was inconducive to developing the capacity to steer the economy. Meanwhile, in parallel, *Riksgälden* was questioning *Riksbanken*’s policy discretion and financial autonomy on the basis of the latter’s “presumptuous” demands on *Riksgälden* to incur foreign debt to enable *Riksbanken* to cover the bank liabilities accumulated during the GFC (Riksgälden, 2013a, 2013b). The resulting tension spilled over into discussions about MPR policy.Plausibly, *Riksbanken*’s brazenness served to justify Anders Borg’s decision with regards to the institutional division of labour.

The centre-right Government (Regeringen, 2013), however, based on recommendation from the parliamentary *Kriskommittén*, vested *Finansinspektionen* rather than *Riksbanken* with primary responsibility and formal powers to develop macroprudential measures, while *Riksbanken* and *Riksgälden* were made supporting bodies. To coordinate the construction of MPR, Government in December 2013 created the Council for Financial Stability (*Finansiella Stabilitetsrådet*, FSR) with *Riksbanken*, *Finansinspektionen* and *Riksgälden* as members, and chaired by the Ministry of Finance.

Thus, until 2013, MPR developments in Sweden were, despite the continued credit and property boom and despite the alarmism of *Riksbanken*,restricted to *Finansinspektionen* implementing a few general measures that it was obliged to introduce as member of the EU. MPR measures of a more countercyclical or structural nature had been rejected. Frustrated by this lack of progress, and although not in the alarmist camp, *Riksgälden* (2013b)criticised as counterproductive the Government’s prioritization of establishing the institutional configuration of MPR. Traditional intellectuals accused politicians of creating a paralysing policy environment.

Considering the potential electoral consequences of curbing financialisation, it is difficult to ignore the possibility that Government wielded control over policy direction not by openly downplaying systemic risk, but by constructing an institutional division of labour which placed the main responsibility for MPR with a body credibly preoccupied with systemic risk, but primarily from a microprudential rather than a macroprudential perspective. Government was thus able to construct a discourse of heightened concern with systemic risk and back it with action while simultaneously reducing the likelihood of upending the beneficiaries of financialisation. Without challenge from SAP on the matter, it sought to spur Swedish traditional intellectuals to find concrete resolutions to the contradictions of financialised capitalism, if only temporarily.

*Identifying Systemic Risk (January 2014-June 2015)*

In the initial period of the FSR, these tensions escalated to open conflict over the level of systemic risk. Two opposing camps had formed between, on one side *Riksbanken* and, on the other, *Finansinspektionen* and *Riksgälden*. *Riksbanken* continued to question Government’s decision to grant *Finansinspektionen* primary responsibility for MPR. *Riksgälden*’s relationship to the Ministry of Finance had, if possible, been strengthened by the appointment to General Director of Anders Borg’s state secretary (2006-2012) Hans Lindblad in February 2013.

Already the first protocol of FSR, while trying to create an impression of consensus, testifies to conflict as a result of diverging analyses of systemic risks. The Council of the FSR requested its working committee to conduct a macroprudential survey of the financial system. Household indebtedness was identified as a matter of shared concern. Yet, the three bodies raised very different coloured flags of warning about the level of systemic risk (FSR, 2014a). This disagreement shaped the conflict. A first issue of contention pertained to which principles were to be followed in the calculation and imposition of capital requirements on financial institutions. *Finansinspektionen* and *Riksgälden* supported the principle of risk-weighted capital requirements based on internal models, with *Finansinspektionen* still largely subscribing to the principles of Basel II. *Riksbanken* argued, from a prudential accounting position, in favour of a minimum level of equity capital in banks (leverage ratio), with the proposed level of equity as percentage of total assets to be 5%. *Riksbanken* pointed to that the leverage ratio of Swedish banks was worryingly low in international comparison, one indicator of several suggesting that the Swedish financial sector remains comparatively more prone to instability, with no major Swedish bank reaching the 5% level during this phase. *Finansinspektionen* altogether rejected leverage ratios, proposing that such measures would entice banks to engage in more risky practices, including shadow banking, in order to attain higher returns on equity (FSR, 2014c).

Conflict also arose in relation to *Riksbanken*’s proposal to scale back the 30% interest deductability on mortgages. *Finansinspektionen* and *Riksgälden* rejected this proposal suggesting that its implementation would destabilise the economy, by reducing consumer spending and creating significant difficulties for households, particularly those with high levels of indebtedness and low spending power, pointing to calculations presented by *Riksbanken* itself that an abolition of deductibility might entail a 3% drop in GDP. *Riksbanken* responded by recognising the imprecision of such calculations and to the possibility of gradually phasing out deductibility (FSR, 2015a).

A third source of conflict related directly to how household indebtedness could be reduced. All members of FSR supported the normative position that a “culture of amortisation” should be cultivated, yet the levels and legality of any requirement were in question. *Riksbanken* stated its deep concern with debt levels, while *Finansinspektionen* and *Riksgälden*, although acknowledging that household indebtedness was high, were less alarmist reflecting ontological differences about sources of systemic risk (FSR, 2014b, 2014c, 2015a, 2015b). Still, *Finansinspektionen* (2015a) took the step to propose mandatory mortgage amortisations. However, the proposal met, perhaps unsurprisingly, with difficulties while under consultation. The regional courtin the city of Jönköping responded that *Finansinspektionen* was expanding its regulatory mandate without legal basis (KiJ, 2015). *Finansinspektionen* (2015b) immediately announced that it would not proceed with its proposal and that it would seek clarification on its legal mandate from parliament (*Riksdagen*). Remarkably, the very body made responsible for macroprudential policy had thus been found lacking a legal leg to stand on in formulating policy, arguably a form of administrative paralysis. General Director Andersson announced his resignation from *Finansinspektionen* later the same month citing family reasons.

Now in conflict with the other two bodies, *Riksbanken* was also addressing the legacy of internal strife. Although continuously expressing great concern with growing systemic risks, it had been internally divided along ontological lines. Discord had characterised the board of *Riksbanken* during 2013*.* Deputy Governor and neo-Keynesian Lars EO Svensson criticised his colleagues’ (including Governor Ingves’) stance on monetary policy, described by Svensson as ’leaning against the wind’, that is monetary policy targeting credit growth rather than inflation (Svensson, 2014; Riksbanken, 2012a, 2012b). After leaving *Riksbanken* in 2013, Svensson publicly referred to his former colleagues as ‘obsessed with debt’ (Financial Times, 2014a; Svensson, 2014a, 2014b). However, the decision from *Riksbanken* in February 2014 to lower its short-term Repo rate to *minus* 0.1% was interpreted as vindication of Mr Svensson’s position that monetary policy should not be based on macroprudential concerns, but rather strictly on the 2% inflation target (until 2010 +/- 1) (Financial Times, 2014b). Low interest rates, nevertheless, could be expected to incentivise credit-creation and household indebtedness even further. While sustaining financial stability is mentioned in its governing documents, the discussion revealed that *Riksbanken* did not have a clear legal mandate to be concerned with financial stability, nor was it specified that this concern should guide monetary policy. As Boyer (2013) presciently predicted, MPR did here clearly come into conflict with existing institutional structures and policy routines within and around central banking. Considering that *Riksbanken* had appeared to be the body the most willing to introducing effective MPR, its inability to steer the economy away from deepened systemic risk suggested another source of administrative crisis. However, rather than conceding defeat, Ingves escalated Swedish MPR to international debate.

In *Wirtschaftswoche* (2015) in April, Ingves predicted the low-to-negative interest rate climate to stay for some time, at least in the Euro area, which Swedish monetary policy tends to follow closely. He warned of continued asset price increases, especially in the housing market, and extolled the other regulatory authorities and Government to formulate concrete measures to tackle these developments. Ingves again called for phasing out tax deduction on interest payments, a move which he believed would dampen credit growth. Ten days later, he voiced his frustration with *Riksbanken*’s impotence in the *Wall Street Journal* (2015): “Given what’s going on in our housing market, we would actually need two different policy rates but that’s impossible to engineer”, a reference to the so-called Tinbergen principle stipulating that for each policy objective a policy tool should be available (Galati and Moessner, 2013). In warning about growing systemic risk and calling for urgent action when the other bodies did not, Ingves took the first steps towards constructing a discourse contesting the taken-for-granted, foundational policy orientation of financialisation. As a traditional intellectual, he sought to exercise moral and intellectual leadership for the sake of reproducing capitalism in general. Therefore, not only was there growing inter-institutional conflict on display, but also evidence of a budding administrative crisis.

*Shifting Alliances (June 2015-December 2016)*

As recovery from the recessionary conditions in 2012 had gained momentum, now increasingly debt-led, a new, but very weak, SAP-led Government, supported by the Greens, was elected in September 2014. While unable to get its first budget through *Riksdagen* and subsequently just escaping new elections, Government nevertheless expressed intent on spurring progress in the construction of MPR and to forge a cooperative spirit in FSR to that effect. This was smoothed somewhat by Erik Thedéen being made General Director of *Finansinspektionen* in October 2015 with an impressive revolving door CV including staffing at *Riksbanken*, Deputy General Directorship at *Riksgälden*, CEO for the Stockholm stock exchange and State Secretary to the Minister of Financial Markets under the previous centre-right government.Yet, as the credit boom persisted, new conflicts first emerged and then spilled over into public debate as alliances shifted and new actors getting involved in the conflict.

In FSR’s June 2015 meeting, there were signs of convergence. Opinions on capital requirements for banks stayed divergent. However, on the matter of household indebtedness, FSR now produced a joint analysis identifying its causes: ‘macroeconomic factors such as falling real interest rates, but also structural factors such as increased levels of home ownership, tax changes, and low levels of housing construction’ (FSR 2015a: 2, our translation). These concerns were jointly reiterated in August in an opinion piece in the leading daily *Dagens Nyheter* (2015a) urging the introduction of mandatory mortgage amortisation. Minister of Financial Markets Per Bolund immediately showed determination to have his Ministry prepare for these requirements to be in place by Spring 2016 (Dagens Nyheter, 2015b). International alarm bells about growing imbalances had grown louder (e.g. IMF, 2015; OECD, 2015; European Commission, 2016). Also credit rating agency Moody’s (2016: 1) warned of an asset bubble and suggesting failure of policy-coordination. Even the banking, property and construction sectors began to express concern about household indebtedness and rising property prices (Sveriges Radio, 2015; Eklund, 2014). Pressed by Government, FSR (2015a: 9) appeared to be converging on assuming moral and intellectual leadership by forging “a culture of amortisation”. Also with regards to banking regulation, consensus, however fragile, replaced dissensus.

In Autumn 2015, fragile consensus was being reinforced by centre-right party leaders’ call for a grand coalition on a number of previously untouchable policies, including decreasing or altogether dismantling tax deduction on interest payments and increasing property taxation (Björklund and Ullenhag, 2015; Lööf and Johansson, 2015). Government had early on in 2015 ruled out *Riksbanken*’s idea of removing tax deductions on distributive grounds claiming that, while it benefitted more affluent households, it would hit heavily indebted households the hardest. This was a u-turn as SAP Finance Minister Magdalena Andersson had been attacking previous centre-right governments for not also abolishing tax deductions when dismantling property taxation, as these two measures had been previously justified as coupled (Svenska Dagbladet, 2015a). Yet, as 2015 unfolded, Andersson opened up to their gradual removal (Dagens Nyheter, 2015c), plausibly influenced by a shift in public opinion towards concern with systemic risk.

In December, FSR repeated the unease with household indebtedness and expressed commitment to mandatory mortgage amortisation. However, the consensus had already started to break down with old divides resurfacing as *Riksgälden* and *Riksbanken* quarrelled over issues relating to *Riksbanken*’s expansionary monetary policy as well as its role in crisis-management. Here, Thedéen’s interventioncontributed to allegiances shifting, bringing his institution closer to *Riksbanken.* As the FSR secretariat accounted for its work with *Riksbanken* and *Finansinspektionen* on the risks associated with a persistent low interest rate climate, especially its impact on household indebtedness (FSR, 2015b), *Riksgälden* moved to disqualify this analysis by calling for an “even broader macro- and equilibrium analysis” to grasp the systemic effects of this policy (FSR, 2015c: 1-2, our translation). It expressed disbelief about “that the tensions created by the combination of prevailing trends…were not considered to greater extent” (FSR, 2015c: 4, our translation). *Riksgälden* received support from Minister Bolund on the matter (FSR, 2015c: 2). To downplay both its room for manoeuvre and the systemic risks caused by its expansionary monetary policy, *Riksbanken* underlined that monetary policy was expansive globally (FSR, 2015c: 8, our translation) and that negative interest rates were aimed at driving up inflation towards its target. While acknowledging the risks and backing closer monitoring of affected financial market subsectors, notably life insurance (suffering from a shortfall of creditors willing to fix interest rates for longer time periods), *Riksbanken* appeared once and for all to have given up on its policy of ”leaning against the wind”. Yet, *Riksbanken* was exploring alternative means to reduce systemic risk.

One way in which it sought to do so was by growing its government bond market holdings. *Riksgälden* objected that this threatened market liquidity. *Riksbanken* retorted by repeating its call for leverage ratios (see FSR, 2015c: 11, Figure X) and liquidity reserve requirements in the Swedish *krona* for banks. This would also serve the purpose of reducing *Riksbanken*’s own exchange rate exposure. *Riksgälden*, supported by *Finansinspektionen*, again rejected leverage ratios, continuing to argue for potentially procyclical risk-weighted capital requirements. *Riksgälden* added that liquidity reserve requirements in *krona* are unnecessary since “in a scenario in which dollar and euro assets cannot be exchanged for krona[,] the financial system suffers from other and larger problems” (FSR, 2015c: 5, our translation).

*Riksgälden’s* perhaps most powerful contention challenged the fundamentals of Swedish crisis-management. Referencing Standard & Poor’s, *Riksgälden* pointed out that Swedish banks are the only banks in Europe expected to be backed by the state in a crisis (FSR, 2015c: 12). This issue was again raised at a public seminar (SNS, 2016) in March, when *Riksbanken* and *Finansinspektionen* presented their views on capital requirements for banks, to an audience largely consisting of the banking community. *Riksbanken* Deputy Governor Martin Flodén and Finansinspektion’s Thedéen presented a common front, problematizing various forms of subsidies to the banking sector and the challenge of sustaining systemic stability. Thedéen opened to *Riksbanken* for the possibility of introducing leverage ratios as risk-weighted methods were proving inadequate, suggested by mounting evidence of banks manipulating internal models. Yet, the standout issue at the seminar pertained to *Riksgälden*’s criticism of how the Swedish model of crisis-management undermined a European level playing field with Swedish banks, in contrast with their European competitors, enjoying full state backing. This uneven playing field was becoming an elephant in the room in EU discussions over banking regulation and competition policy. Apart from illuminating Swedish deviation from EU directives, *Riksgälden* thus highlighted the very reason for the competitiveness of Swedish banks. The Bankers’ Association protested by complaining that financial re-regulation was already too burdensome.

In June 2016, *Finansinspektionen* finally introduced mandatory amortisation, albeit only on new mortgages, with seemingly only marginal effects on the housing market. In FSR, a consensus was nevertheless reached to push for far-reaching reform in the construction and housing sector although such reforms are beyond these institutions’ mandate. Alongside these limited endeavours, criticism against *Riksbanken*’s monetary policy, spearheaded by *Riksgälden*, intensified (in FSR, 2016; Dagens Nyheter, 2016). Paralysing dissensus thus remained, not least due to *Finansinspektionen*’s persistent cautiousness with regards to e.g. loan-to-value caps, reduced interest deductability and leverage ratio requirements, as proposed by *Riksbanken*.

In Ingves annual speech to the National Association of Economists in April, he expressed frustration with the lack of progress and *Riksbanken*’s marginalisation in the process. He described the institutional division of labour as “an odd bird” by international comparison, lacking legal clout to implement effective policy, even as a failed project altogether. Presenting his major review of *Riksbanken* monetary policy and role in maintaining systemic stability (2010-2015) to the Finance Committee of *Riksdagen* a month later, former governor of Bank of England Lord Mervyn King further politicised Ingves’ claim by suggesting that the institutional division of labour was never designed to accomplish anything of genuine substance (Goodfriend and King, 2016).

Conclusion

MPR is a new contested policy area arising in response to the GFC. Its implementation in Europe is part of a project to stabilise financialisation in Europe, itself a spatial-temporal fix for Anglo-American capitalism’s crisis-tendencies. As with modern monetary policy, its mode of governance is one of depoliticisation, which serves to naturalise and normalise not only the policy of stabilisation itself but also the regulatory object: financialisation. With most of the economies of the EU finance-dominated accumulation regime suffering from weak economy and credit growth, we have in this article studied the articulation of MPR in the critical case of Sweden. Here MPR is introduced in a credit boom, in an economy in ostensibly rude health. Moreover, its civil servants or, as we prefer to conceive of them, traditional intellectuals enjoy comparatively high levels of policy autonomy, giving them better scope to make policy but also to call out infringement upon that autonomy.

Yet, traditional intellectuals’ autonomy is always relative, constantly challenged and varies from context to context, and from one regulatory body to another. The brief history of Swedish MPR may illustrate the reluctance with which Governments introduce countercyclical MPR in a context of credit growth, and the lengths to which they are willing to go to constrain its development. The result has been the creation of institutional paralysis with regulatory bodies unable to develop MPR tailored to the Swedish political economy without asking for further support from politicians who are reticent to “saying no” to the financialisation process upon which growth and thus their electability depends.

We have highlighted how traditional intellectuals, at all three regulatory bodies,have drawn attention to the lack of depoliticised spaces of work, that is their autonomy, as the responsibility given does not measure up with the power afforded. This politicisation has led to paralysis in the construction of MPR. We have, moreover, pointed to how *Riksbanken*, in the realisation of impotence, have sought to exercise moral and intellectual leadership by starting to construct a discourse contesting the taken-for-granted, foundational policy orientation of financialisation by calling the Swedish MPR project a failure for the sake of reproducing capitalism in general. While not presenting conclusive evidence, we suggest that the Swedish case demonstrates that the conditions are ripe for a deepened administrative crisis in Europe once countercyclical MPR is implemented. Future research should therefore explore the fate of MPR in other significant case EU economies as the credit cycle picks back up.

Yet, the creation of alternative financial futures (Christophers, 2016) requires counterhegemonic politics capable of generating a legitimation crisis of financialised capitalism (Fraser, 2015). Our Swedish case study shows only very limited evidence of such shifts. In our critical realist interpretation, curbing the financialisation of the economy entails interfering with a strongly entrenched and leveraged alliance between the financial sector (especially the big four banks) and indebted homeowners. This alliance is not openly represented by any particular party, but no centrist party appears willing to disrupt it thus far, yet more than happy to thwart counterhegemonic politics proposing to challenge it. Future research should therefore study how politicians in the EU negotiate class interests, as other class fractions may mobilise behind a shift towards a more productivist accumulation regime.

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