A Drawn-Out Retreat from Corporatism: The Reluctant Restructuring of the Swedish Capital Market

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Abstract

An important case of economical internationalisation is the deregulation of the formerly nationally organised credit markets. Governments performed this process of deregulation all over the industrialised world during the period 1970-1990. In a comparison between the OECD-countries the differences in timing and sequence between countries are quite large. Comparatively Sweden was a late comer to deregulation. As regards its structures for allocation of credits and venture capital in the economic system, the aim of this paper is to contribute a historical and institutional understanding of the Swedish political economy, an understanding from which the late deregulation seems both rational and plausible. Generalising from the Swedish case, the paper also suggest a possible pattern of post-war institutional change, where nationally and historically embedded institutions were replaced by international and market based institutions.

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Introduction[1]

There are a large number of studies that focus upon the question of how different states adjust and respond to the challenges that the process popularly known as 'globalisation' poses.[2] An important case of adjustment processes, not least as it has received wide attention in the more general public debate, is the internationalisation (or deregulation) of the formerly nationally organised credit markets. Governments performed this process of deregulation all over the industrialised world during the 1970s, 1980s and 1990s. It is important to recognise that the formal and definitive decision to deregulate was preceded by a process of international capital market growth. Hence, an international economic infrastructure was created in a truly ad-hoc fashion in the post war era; important elements in this new landscape were institutions such as the Eurodollar-market and the multinational corporations. For certain actors, this created international alternatives to previously exclusive national institutions.

In this way international institutional arrangements emerged which could interfere with the national institutions in different ways. In a simple timing sequence, the new international institutions were first seen as troublesome competitors, which could be restrained in different ways. In the next phase they were seen as supplements to the national credit market. In the last phase international institutions generally superseded the national solution. Understood in this way, the processes of capital market deregulation that took place in the 1970s, 1980s and 1990s all over the industrialised world, illustrate in an ideal way the theoretical understanding of institutional change.

In a comparison between the OECD-countries, the differences in timing and sequence between countries are quite large, creating different patterns of regulation.

[1] U Strandberg's participation in the writing of the present paper is based on the research project 'The Shift in Economic-Political Doctrine. The Case of Sweden in a Comparative Perspective' (registration number 1997-5110:01, 02, 03), that has been sponsored by The Bank of Sweden Tercentenary Foundation.

[2] Among the literature that focus upon the adjustment argument one find J. Moses. 'Abdication from National Policy Autonomy. What's Left to Leave?', *Politics and Society*, Vol. 22, No. 2 (1994). J. Pontusson 'At the End of the Third Road Swedish Social Democracy in Crisis', *Politics and Society*, Vol. 20, No. 3 (1992). R. Keohane, H. Milner, 'Internationalization of Domestic Politics', in: R. Keohane and H. Milner (Eds.), *Internationalization and Domestic Politics* (Cambridge University Press, 1996). G.Garrett, *Partisan Politics in the Global Economy* (Cambridge University Press, 1998). E. Helleiner, 'Explaining the Globalisation of Financial Markets - Bringing States Back In', *Review of International Political Economy*, Vol. 2, No. (1995). E. Kapstein, *Governing the Global Economy: International Finance and the State* (Harvard University Press, 1994).

Thus, there is a large variance in national economic political response to the increased supply of, and competition for, international capital.[3]

In a comparison with the rest of the OECD, Sweden was a latecomer to deregulation. What characterises the Swedish case is also that the Social Democratic governments deregulated with large pains and under great hesitance. Given the traditional view of Swedish industry – that it was internationally oriented and comparably open to innovative processes – this might seem paradoxical. This openness ought to have made the country more open to the benefits that the international capital market offered, but it did not. Using a historic perspective, the aim of this paper is to try to explore the institutional and political driving forces for the surprisingly hesitant process of deregulation.[4]

It should be explicitly noted that the aim of the paper is not to bring about either an actor-centred or a downright economic explanation to the hesitant and late Swedish foreign exchange deregulation.[5] To produce perfect explanations down to the last detail regarding policy change certainly necessitates focusing in detail on real world actors as well as on economic figures. To pose hypothesis for such a perfect explanation one must first explore how the domestic political and economic structure was constituted historically and institutionally, that is one must understand the significance of the structures in which the battle of the players (actors) as well as the impact of the economic figures was effective.[6]

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[3] As for the different patterns of deregulation see OECD, *Exchange Control Policy*, (1993). See also J. Goodman, L. Pauly, 'The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets', *World Politics*, Vol. 46, No. 1 (1993), pp. 50-82.

[4] As for a general theoretical explication and discussion of institutional theory as an approach that seeks to analyse the pervasive effects of earlier policy choices on current policy processes and choices, see for example the following studies. S. Steinmo, K. Thelen, F. Longstreth, *Structuring politics: Historical Institutionalism in Comparative Analysis* (Cambridge University Press, 1992). T. Scocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge University Press, 1992). L. Alston, T. Eggertsson, D. North, *Empirical Studies in Institutional Change* (Cambridge University Press, 1996).

[5] In her doctoral thesis, the economic historian C. Telasuo concludes that the Swedish foreign exchange deregulation should be seen as an economic structurally bounded adjustment process in which the leading political actors' main incentive was to render the Swedish economy competitiveness. When discussing the slow process of deregulation in terms of path dependency as well as a case, in which the governments awaited balance of payments, Telasuo certainly touches the questions of timing and sequence. However, since it lies beyond the focus of her analysis, it certainly remains to explore why the Swedish currency deregulation was relatively late and hesitant. C. Telasuo, *Småstater under internationalisering. Valutamarknadens avreglering i Sverige och Finland på 1980-talet. En studie i institutionell omvandling* (Kompendiet, 2000).

[6] Confer with Goodman and Pauly, 'The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets', p. 80.

This paper is outlined in the following way. In the first part, the hesitancy of Social Democratic governments in relation to other political parties is described. This is followed by a section where the Government White Papers of the period 1968-1982, analysing how the capital market regulation affected the functioning of the Swedish economy, is explored. The conclusion from this exploration tells us that the negative economic effects of maintained regulation were common knowledge already in the early 1970s, at least among the group of people engaged in producing Government White Papers. All in all, the White Papers draw a picture of increased economic costs as a result of institutional austerity.

The second part of the paper consists of an overview of what might be labelled the political economy of Swedish capital market regulation, starting out from the origin of the regulation in 1932 and ending up in the 1970s. The analysis is focused upon how the Swedish capital market regulation was a direct effect of the self-sufficient conditions of the 1930s and 40s, and how it was, somewhat paradoxically, strengthened in the more open economic conditions of the 1950s and 1960s. At the same time, the international capital market and the Swedish multinational corporations expanded greatly. Thus it is further analysed how this development forced the political decision-makers to confront the question of trying to allocate between national or international sources of capital supplies.

In the last section, the paper will be brought to an end with some concluding remarks and contributions to the question regarding change of historically embedded institutional arrangements.

The debate revisited: Swedish political and official views with regard to the capital market, 1970-85

In the increasingly intense debate in the Swedish parliament during the early and mid 1980s, the non-Socialist parties demanded that the foreign exchange regulation should be abandoned entirely and immediately. According to those parties, the development and growth of the Swedish economy was dependent upon its ability to take part in a supposedly advantageous international trend towards financial deregulation. According to these arguments, only an immediate and thorough deregulation would give Swedish companies access to the same financial possibilities as competing companies' abroad. To this, the

Social Democratic governments argued that the time had not yet arrived for an entire deregulation to be possible.[7]

Besides referring to waiting for the 'right' moment with regard to the balance of payments, one of the central arguments repeatedly put forth by the Social Democratic governments was based upon a distinction between productive and speculative economic activities. In practice, this argument stated that as long as current payments and direct investments in manufacturing and producing enterprising were not restrained by the remaining foreign exchange regulation, the productive economic activities would not be harmed. Hence those parts of the regulation that restrained short-term speculative transactions could stay in place without harming productive economic activities. Thus, the Social Democratic governments in the early and mid 1980s clearly depicted short-term transactions as a fundamentally undesired and dispensable kind of economic activity.[8]

When the Social Democratic government carried out the final and formal deregulation in 1989-90, the decision was criticised from the left. When responding to this critique and defending the rational for a complete deregulation, the Social Democrats painted a very different picture with regard to the regulations' significance and impact on Swedish economy: 'Free trade is facilitated by free flows of capital. The foreign exchange regulation restrained the competitiveness of Swedish companies as well as affected the companies differently, mainly depending on, among other things, size, international exposure and their direction of production'.[9]

From a short term and party political point of view, the decision made by the Social Democratic government in 1989-90 represents a true turn-around. As this paper focuses on the institutional and economic-structural factors behind the change of the Swedish structure for allocations of credits, it leaves this political turn-around open.[10] Instead the paper discusses the historical context that necessitated these changes.

[7] For the dividing line among the parties see, SOU 1985:52, *Översyn av valutaregleringen: slutbetänkande från Valutakommittén*, p. 512, pp. 276-278.
[8] *Finansutskottets betänkande 1982/83:41 om fortsatt valutareglering (prop 1982/83:121)*, p.3; *Finansutskottets betänkande 1986/87:27 om fortsatt valutareglering, m.m. (prop. 1986/87:123)*, p. 12.
[9] *Finansutskottets betänkande 1989/90:20. Riktlinjer för den ekonomiska politiken och för budgetregleringen m.m. (prop 1989/90:114 och 1989/90:100 bil. 1 och 2)*, p. 66, Authors translation.
[10] See for example J. Lindvall, *The Politics of Purpose. Swedish macroeconomic policy after the golden age* (Department of Political Science/Gothenburg University, 2004) (doctoral thesis).

The following overview takes its point of departure in several official reports (Government White Papers)[11] which were released during the 1960s, 1970s and 1980s. All of these clearly indicated that the Swedish economy was becoming increasingly integrated with the international economy.[12] Thus, at least among the group of people engaged in producing Government White Papers, the negative economic effects of maintained regulation were common knowledge already in the early 1970s.[13]

The foreign exchange regulations were described as having several kinds of constraining effects on Swedish economy. First, the regulation severely restricted foreigners to buy and sell Swedish bonds and shares in Sweden. The regulation determined how extensive the actual movements of capital could be and affected the foreign investors' trust in Swedish stocks and bonds. In the 1970s, the various Swedish governments alleged, as a reason to restrict border-crossing transactions in stocks and bonds, that such transactions could put severe pressures on the exchange reserve, pressures that could appear at the most inconvenient time from the point of view of the Swedish economy. To be precise, if foreign investors wanted clearance of their investments, the regulation rendered it possible for the Swedish Central Bank to deny repurchasing of stocks and bonds.

Consequently the regulation had a restraining effect both on trading with foreign countries and, above all, on foreign investors' interest in investing in Swedish stocks and bonds. Moreover, this was happening during a time period when the Swedish domestic saving rate was insufficient, thus leading to a deficit in the balance of payments. Swedish companies therefore were in need of open channels to the international capital markets. Because of the foreign exchange regulation, Swedish businesses could not attract seriously needed foreign credits and venture capital.[14]

Not only was the foreign exchange regulation directly restricting the flow of credits and venture capital, but the regulation also restricted the activities and prospects for the Swedish banking sector, hence indirectly undermining Swedish companies' possibilities

[11] The official reports are the finished products of the Swedish Government's own established system for commissions of inquiry, all classified as publications in a continuous sequence of so called SOU:s'.
[12] See for example SOU 1975:50 *Internationella koncerner i industriländer. Samhällsekonomiska aspekter: betänkande av Koncentrationsutredningen*, p. 8 or SOU 1983:17 *Näringspolitiska aspekter av internationella investeringar: betänkande av direktinvesteringskommittén*, p. 155.
[13] See for example SOU 1975:50, p. 8 or SOU 1983:17, p. 155.
[14] SOU 1978:13 *Kapitalmarknaden i svensk ekonomi. Bilaga 2-4: Hushållssparande och skatte-regler, Aktiemarknaden, Industrins finansiering: betänkande av Kapitalmarknadsutredningen*, p. 13, 91f.

for favourable credit conditions. To start with, the foreign exchange regulation prohibited Swedish banks from re-financing abroad their commercial credits to domestic borrowers. Since those credits were made largely on a short-term basis, extensive borrowing transactions could have had a destabilising influence on the foreign balance. If the banks, given their close contact with the international capital markets, were expecting a Swedish devaluation, it would become likely that they would liquidate their foreign short-term credits. In short: the banks would try to profit from regular financial activities. Thus, the Governments wanted to restrict the banking sectors' ability to take part in financial activities that could destabilise the currency market.[15]

Furthermore, since foreign re-financing of loans to foreign exporters/importers or to the latter's bankers was permitted, the prohibition for re-financing of credits to domestic borrowers stood out as rather problematic from the banking sector point of view. Since foreign banks were permitted to give direct commercial credits to Swedish export and/or import companies, the described inconsistency placed Swedish banks in a disadvantageous position. Even though Swedish banks generally acted as intermediaries in transactions between foreign banks and Swedish companies, the regulation hindered them greatly, especially since many of the larger Swedish multinational corporations already had direct contact with foreign banks through their foreign subsidiaries.

From the point of view of the Swedish banking sector, yet another hindrance followed directly from the described inconsistency. It would have been more favourable if Swedish banks themselves would be in charge of foreign borrowing transactions, profits from rationalisations as well as better terms of credits could be achieved.[16]

The regulatory regime did not only restrict the growth and development of the banking sector as such, it indirectly also affected the business activities in other sectors. The draconian rationing measures that regulated the domestic capital market affected the mid-sized and smaller industrial companies in a disproportionate way, as they were almost entirely dependent upon the Swedish banking sector for credits. The larger multinational corporations, on the other hand, were not affected to the same extent, since they had access to the international credit market.[17]

[15] SOU 1978:11 *Kapitalmarknaden i svensk ekonomi. Huvudbetänkande av Kapitalmarknadsut-redningen*, p. 598.
[16] SOU 1978:11, p. 598.
[17] SOU 1978:12 *Kapitalmarknaden i svensk ekonomi. Bilaga 1: Kapitalmarknader utomlands: betänkande av kapitalmarknadskommittén*, p. 164f. See also SOU 1982:53 *Kreditpolitiken: fakta, teorier och erfarenheter: expertrapporter från Kreditpolitiska utredningen*, see especially p. 200 for a discussion on externalities from maintained regulation.

Access to the capital market in the 1970s: The coming of the multinationals and the emergence of asymmetries

As stated earlier the effects of the new Multinational corporations were observed in the Government White Papers already during the early 1970s. Thus, the 'Concentration Commission inquiry' (*Koncentrationsutredningen*) put in a great effort, in order to analyse what impact the steadily growing share of multinational corporations had on the national economy. In a general description in one of its reports, the commission depicts the role and function of Multinational corporations in the following way: multinational corporations are specialised international systems of information. Due to their increased breadth, they could be expected to speed up different impulses that are spreading through the world economy. In turn, this would increase the demands on different national stabilisation policies.[18]

The clearest distinction between multinational corporations and other companies is that the former carries through transactions that are internal for the corporation but external to the states.[19] It was thus possible for multinational corporations to get around the foreign exchange regulation and transfer capital within the corporation, and across the national borders.[20] This is not to say that all sorts of capital transactions within the corporations escaped the foreign exchange regulation. As was the case with the truly domestic companies, regular credits between the subsidiary companies within the corporation were allowed subject to permission from the Central Bank. On the other hand, it was from the increasing volume of current payments that the possibility emerged for short-term capital transactions within the multinational corporations. Current payments within a corporation are in practice solely executed as open accounts in combination with relatively long periods of credits. This created great opportunities for the multinational corporations to make substantial relocation of payments; thus profiting from different arbitrage operations.[21]

[18] For an analysis of the advantageous conditions, inherent in the organisation of a multinational corporation, for producing surplus value on short-term transactions see: SOU 1975:50, p. 127, p. 240. Furthermore, for an account of the Swedish multinational corporations, their growth and share of the Swedish business structure, see: SOU 1975:50, pp. 85-93, especially Table 4.1 and 4.2, p. 87. See also SOU 1968:3 *Industrins struktur och konkurrensförhållanden: betänkande från Koncentrationsutredningen*, p. 18, pp. 236-251.
[19] SOU 1975:50, p. 33.
[20] SOU 1975:50, p. 239, 248.
[21] Such as devaluation's, revaluation's and interest level differences. See SOU 1975:50, pp. 248-49.

Given this background, we draw three conclusions. First, the foreign exchange regulation did not affect all Swedish enterprises in the same way. Fundamentally the regulation had an asymmetric effect on Swedish enterprises, granting big business substantial advantages over small and medium-sized business, the commercial banking sector included. Secondly, and directly following from this first conclusion, the multinational corporations had much greater opportunities than the more domestic and smaller companies to cost-efficiently finance their investments through direct import of capital.[22] Thirdly, the mere existence of the Multinational corporations allowed scope for a greater volume of short-term capital transactions.[23]

Moreover, as is formulated in the following quotation from the Concentration Commission, this situation had certainly a bearing not only on the prospect for short-term transactions of capital, but also on the amount actually affected by such capital transactions, hence affecting the national economy. ‘In the Swedish foreign exchange regulation, also short-term movements of capital are subject to authorisation. Despite this, such transactions take place to a large extent through relocation of terms of payments, which manifests itself by considerable unexplained variations in exchange reserves. It is this kind of capital movement, which the Multinational corporations have much greater opportunities conduct, which also could be a problem for the balance of the national economy and for the efficiency of monetary policies’.[24]

From this follows four other conclusions. First, the total amount of short-term capital movements could be expected to further increase as the total share of multinational corporations increased. Secondly, since multinational corporations have both legally and in practice greater opportunities to make profits from short-term transactions, it is difficult for governments to prevent or restrict such a development. Third, the continuation of restrictions on short-term transactions would continue to increase the asymmetries between small/middle-sized and big business, with regard to their supply of capital. Fourth, since the Swedish big industry was not really hindered by the foreign exchange regulation, the relatively low profile of its representative organisations seems only rational and quite expected.[25]

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[22] SOU 1975:50, p. 248-49.
[23] Already in 1975 the amount of transactions within Swedish multinational corporations represented 29% of the Swedish export and 26% of the Swedish import., SOU 1975:50, p. 251.
[24] Authors translation, SOU 1975:50, p. 251, see also Ibid., p. 25.
[25] Confer with Telasuo, *Småstater under internationalisering*, pp. 240-41 for an analysis of how in the 1980s different interest groups made different claims on the government regarding the presence of the foreign exchange regulation. Its worthwhile noticing that the representatives of the

To conclude, in the middle of the 1980s the Social Democratic governments still wanted to restrict the possibilities for 'pure' financial transactions (speculations), even though the costs were high. Doubtless this government conviction and policy of maintaining the foreign exchange regulation struck hardest at the commercial banking sector. Given that structures for the allocation of credits are crucial to the functioning of all economic systems, and given that the commercial banking sector represents this function, one may ask on what grounds Swedish governments willingly 'sacrificed' the prospect for growth, efficiency, and competitiveness in that sector as well as in smaller and middle-sized Swedish companies. Was there a special institutional disposition of the Swedish political economy in regards to its structures for allocation of credits and venture capital in the economic system which rendered the economy less dependent upon the commercial banking sector? If this was the case, the banking sector's unsuccessful promotion of its interests, and the Swedish governments' discriminatory attitude towards the sector, could be seen as rational. To follow up this hypothesis of the Swedish political economy's supposed institutional uniqueness; the next section is devoted to a historical analysis of the actual structures for allocation of credits in the Swedish economic system during the 20th century.

Subordinating the financial sector: The making of big business and the Corporatist state

The crisis of the 1920s changed the character of the Swedish banking sector in a profound way. The limitations in the ownership of industrial shares that were placed on the banks by the crisis measures that followed in the wake of the traumatic Kreuger crash, and the concomitant new banking law of 1934, implied that their ability to finance new enterprises was greatly reduced.[26] With the advent of the new Banking Law, the banks had to be content with a more limited role in the Swedish political economy. Faced with

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commercial banks puts much more efforts than the representatives of industry when claiming a thorough and formal deregulation of the foreign exchange market. An analysis of the claims for deregulation made by smaller and middle-sized companies, other than the banks, remains to be carried out.

[26] The banking law of 1911 had intended to turn the banks into financiers of new industrial enterprises, by allowing them to hold industrial stock directly and through the financing of special stock issuing institutes. It was these institutes and industrial enterprises that collapsed during the financial downturns of 1920-21 and 1929-33. As their creditors, the banks became the owners of these entities during these periods. The story is covered by, amongst several others, M. Larsson, *Staten och kapitalet* (Stockholm 1998), Ch. 3 and U. Olsson, *I utvecklingens centrum* (Almkvist&Wicksell 1997), Ch. 3. L-E. Thunholm 'Affärsbankerna och den industriella utvecklingen' in *Skandinaviska Enskilda Bankens Kvartalstidskrift* 1/1981 is very interesting in relation to this problem, as well.

this, the strategy chosen by the banks was to concentrate their energy and resources on a kind of “investment trusts”, which only to a certain extent could be governed by the bank. These trusts were especially used to hive off the banks problematic credits from the preceding Kreuger era.

Concerning the company sector, the role of the banks changed drastically, not only because of the Law of 1934, but also because of an industrial growth strategy implement-ted by the Social Democratic Minister of Finance, Ernst Wigforss. The essential element of this strategy was the Depreciation Law of 1938 that created highly generous depreciation allowances. In combination with substantially increased tax rates for distributed profits, the policy made industrial self-financing much more attractive.

The implications of these policies are important to understand in order to conceptualise the significance of ‘deregulation’. What was created in the late 1930s was an alternative structural solution with regard to the allocation of credits and, ultimately, to industrial change. In the structure that existed before 1933 the relationship between commercial banks and corporations was characterised by interdependence, as banks financed firms through credit creation.[27] It was this role for the commercial banking sector that now grew less significant in the late 1030’s, and had to be substituted by some other kind of structural solution for allocation of credits.

The structural solution of 1938 was to internalise credit flows within companies. Consequently the industrial companies, rather than the banks, became the acting subjects within the system for credit allocation. What remained for the banks was a limited role as intermediary subjects, acting on the behalf of the state and the industrial companies.[28] Structurally, the leading industrial companies thus became much more of independent actors in the system for allocation of credit.

The described structural change of the Swedish system for allocation of credits can be viewed as the basis for the ‘Swedish model’, if we are to understand this model as a more or less coherent set of national structural solutions defining the political economy. The goal of these structural solutions was to produce economic growth, which then was to be distributed nationally. Moreover, it was a model that facilitated the state’s capacity to manage the economy. In the heyday of Keynesisan economic theory and macroeco-

[27] On the importance of banks and credit creation, see J. Schumpeter, *Theory of economic development* (Oxford University Press, 1961)
[28] Consequently, it is questionable if the banking sector could be seen as a ‘productive’ business sector in itself anymore.

nomic management as well as an emerging corporatist structure for political influence, such a model for allocation of credits certainly did have a crucial role.

The corporatist model was first challenged during the late 1940s, as the Swedish economy re-entered the growing international economy. After more than half a decade in relative self-sufficiency, even the very limited opening towards the surrounding world that was carried out between 1945-47 led to profound tensions within the system. The split that emerged between industry and the Social Democratic governments in the great post war debate over whether or not the state should have a planned economy was the most visible result of these tensions.[29] Since the regulations of the 1930s had made industrial companies the most important subjects within the Swedish economy, it was certainly not the banks that were in the forefront of this debate of the late 1940s.

The depreciation rules, the credit squeeze, national autarky, and its concomitant breeding ground for the creation of cartels, all contributed to a basis for large vertically integrated national industrial groups. The great market power of these groups made extensive internal cash flows possible. The dependency on outside financing decreased as a direct result of this.[30] Thus, in themselves, the industrial groups brought together both the role of the producer and the role of the financier. Consequently this industrial supremacy rendered the Swedish capitalist system increasingly autonomous from the traditional financial sector.

It was primarily the growing industrial groups with relatively large interests in export markets that benefited by the partial liberalisation that got underway between the late 1940s and the rest of the 1950s. The liberalisation was a direct result of the earlier tensions but reflected also the emerging American-led multilateral international trading system. To become a part of the international trading system, it was almost an imperative to open up the national economy in order to allocate resources more effectively.[31]

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[29] On the problems of the late 40s, see E. Lundberg, *Konjunkturer och ekonomisk politik* (SNS, 1953), J. Jörnmark, *Innovationer och industriell omvandling* (EHF, 1998), Ch. 3; J. Glete, *ASEA under 100 år*, (ASEA, 1983), pp. 123-126, and A. Söderpalm, *Direktörsklubben* (Raben och Sjögren, 1976). For a political science analysis of the debate, see L. Lewin, *Planhushållningsde-batten* (Almqvist & Wiksell, 1967).

[30] The connection between industrial self financing and the credit market is covered by, for example U. Olsson, *Bank, familj och företagande*, (SEB, 1987), Ch. 2, esp. p 78-93 and T. Browaldh, 'Nyemissioner och bankkrediter' in S. Algott (Ed.) *Stockholms fondbörs 100 år* (Rabén, 1963), pp. 264-76. The strength of individual industrial groups is covered by many authors, see for example G. Bondesson *Aritmos* (Esselte Wezäta, 1988) and Glete, *ASEA under 100 år*.

[31] Jörnmark *Innovationer och industriell omvandling,* Glete, *ASEA under 100 år,* U. af Trolle 'Från monopol till fri konkurrens' in *Om tobak i Sverige* (STAB, 1965)

Liberalisation during the 1950s consisted, most importantly, of the breaking of cartels, the abolishing of price controls, and the deregulation of several markets. However, it is very important to note, that these changes did not effect the regulation of the credit market. Quite to the contrary, credit regulations were strengthened in 1951-52, as lending controls and liquidity ratios were introduced.[32] The main reason for these increased controls was that large sectors of the economy continued to be regulated. The banking sector had to be regulated in order to finance these sectors. Most important in this regard was the building sector, along with the public welfare service sector which was being prioritised by the governments.

The problems that the regulations created were well understood at the time: a prosperous economy created an increased demand for credits. If credit expansion started, interest rates increased along with inflationary pressures. These pressures threatened, directly, the politically prioritised sectors, something that could not be passively tolerated. One distinct potential problem was that industrial financing could face a threatening shortage. During the 1950s, as profits in the industrial sector continued at very high levels, however, this potential threat remained largely under control.

Overall, it was the explicit goal among all the interested parties involved to dismantle the credit regulations. Several official investigations, the trade union (LO), and the most influential government officials were of the same opinion by the early 1960s: credit market liberalisation was seen as impending, as it was necessary for industrial restructuring.[33]

Stuck in traffic: The credit market after 1960 and the limits of Corporatism

Instead of becoming the decade of deregulation, the 1960s became a decade of a sharpening credit squeeze, primarily because publicly financed housing programs increased at unprecedented levels. At the same time, competition increased in the world

[32] Olsson *Bank, familj och företagande*, L. Jonung, 'Riksbankens politik 1945-1990', In: L. Werin (Ed.), *Från räntereglering till inflationsnorm*, pp. 315-17.

[33] Gunnar Sträng, the then Minister of Finance, in 1961 appointed a committee which was assigned the task of doing a thorough and unprejudiced assessment of the foreign exchange regulation. Strängs' directive actually gives the committee permission to analyse the effects of a completely deregulated foreign exchange market (Fi:39, *1961 års Riksdagsberättelse*, pp. 203-208). LO, *Samordnad näringspolitik* (LO, 1961), Ch. 6, K. Wickman, *Kapitalmarknaden och den ekonomiska politiken under 1960-talet* (Svenska Bankföreningen, 1961)

market, and profits in the industrial sector started to level off and decline, thus increasing industry's need for "external" credits.[34]

Thus, the economic development of the late 1960s implied that the established structural solution for allocation of credits reached a critical point. Since the structural solution all since the 1930s was that industry developed its own supply of capital, decreasing profits and growing needs for investments undermined this established system for allocation of credits.

A new structural solution, where outside credit facilities were coupled to the industry, was urgently called for. A workable strategy would have implied a reconnection between the financial sector and the industrial sector. In turn this would have necessitated a liberalisation of the financial sector, rendering it possible for that sector to grow and become competitive. Partly because of problems in the building sector, this was deemed impossible from the government's points of view. Instead, the government resorted to ad hoc measures.

Thus, by the mid 1960s the allocation of credits between industry and housing had become the prime headache for the country's Minister of Finance, Gunnar Sträng.[35] As the situation became more and more tense, credit regulations became increasingly detailed. The commercial banking sector was, by this point in time ruled by Sträng's right hand man, Per Åsbrink, who was CEO of the Bank of Sweden during the period 1956-73.[36]

It was the politicians' unwillingness to liberalise while at the same time trying to guarantee economic space for industry, which led to the decision to create several new industrial financing institutions around 1967. The new department of Industry, the state owned Investment Bank, and the new state owned holding company (*Statsföretag*), were thus intended to function as industrial financiers, in this new government-led search for structural solutions to the problem of allocating credits to the industrial sector.[37] With these institutional innovations, the State itself thus tried to play the role of the financier.

[34]Glete, *ASEA under 100 år*; J. Bohlin, *Svensk varvsindustri 1920-75* (EHI, 1989); Browaldh, 'Nyemissioner och bankkrediter'.
[35] Sträng was Minister of Finance between 1955-76.
[36] Jonung 'Riksbankens politik 1945-1990', Ch. 14; J. Wallander, *Från Vängåvan till Kungsträdgården* (Stockholm, 1991), pp. 124-26.
[37] See, for example, K. Wickman, *Statligt företagande i Sverige* (box 4*) Staten och näringspolitiken*; *Planhushållningsdebatt igen*; *Staten och den industriella utvecklingen* (box 2); *L Éxperience Suedoise* (box 3). All this material is available in Krister Wickman's personal archive, which is deposited at the archive ARAB in Stockholm. The numbers refers to different boxes. Many of the articles were as well published in different papers and journals. Quite significantly, 'L Éxperience Suedoise' was published in *Le Monde Diplomatique* in February 1968. Wickman was

By the late 1960s, the constraints of the commercial banks had increased to the point where the most business oriented Swedish bank, the Stockholms Enskilda Bank, had to merge with Skandinaviska Banken. Although this merger was perceived at the time (and has often been perceived afterwards, as well) as a demonstration of the strength of 'Swedish Monopoly Capitalism', the real situation was quite the reverse. It was the increased limitations that the regulatory system put upon the actions of the bank that forced the Wallenberg family to give up the independence of the Stockholms Enskilda Bank.[38]

One might see two different roads opening up, with regard to credit market solutions during the 1960s. The liberalisations of the 1980s might, in this view, be seen as the merging of these two roads into a motorway. First of all an international capital market – the Eurodollar market – had been created by the late 1950s. A decade later, it was expanding rapidly. In effect, the market had been created by the expansion of world trade, as the dollar shortage vanished and turned into a glut. The reason why investors and companies preferred to keep their money in the international Eurodollar market was the national regulations that existed all over the Western world up till around 1980. Indeed, one could understand the developing international credit market as the mirror image to (or infrastructure of) increased world trade. Multilateral markets and multinational credit markets, and multinational corporations could thus be understood as expressions of the same general development. The appearance and the effects from this development, which are crucial to the argument in this paper, were increasingly manifest in the Swedish economy already in the early 1970s.[39]

The Eurodollar market was both a cherished prize and a deadly threat. It was destabilising in the way that it undermined the possibilities to defend overvalued currencies, but it was a prize to be won in the enormous business possibilities it opened up in offshore banking sectors. By 1970, offshore sectors existed in several European-banking centres. It was these international markets that Swedish industry as well as the Swedish banking sector was confronted with during the 1970s.

The first serious failure of the attempts to regulate national and international capital markets had come in 1971, when Bretton Woods collapsed. In this collapse, the existence

Undersecretary (Statssekreterare) at the Ministry of Finance 1961-67, Minister of Industry 1967-71 and CEO at the Bank of Sweden 1971-76.

[38] Olsson, *Bank, familj och företagande*, Ch. 7; U. Olsson, *Furthering a fortune: Marcus Wallenberg: Swedish banker and industrialis 1899-1982* (Stockholm:Ekerlid, 2001), Ch. 8.

[39] H. van der Wee, *Prosperity and upheaval* (London, 1986), Ch. 11.

of the Eurodollar market had been critical. During the rest of the economically turbulent 1970s, the increasingly liquid Eurodollar market emerged as one of the most potent forces in national policies, as well as in international trade.

In Sweden, a chain of events signalled this increasing dependence on the international capital market. In the first sequence there was an increased demand on the national capital market where governments avoided raising the price of money (the interest rate) as long as possible. In the next sequence, pressures increased with the oil crisis and national demands for compensation, and at this point in time the government choose to liberalise the access to the international capital market for Swedish private businesses, in order shorten the credit queues.

As it were, the largest Swedish industrial companies, which had been among the pioneers in the new multinational trade system, were very much able to make use of the international capital market. By 1974, they were excluded from the credit regulations, and allowed to make full use of the international credit market.[40]

To the Minister of Finance Sträng, it was a question of the bait that the international capital market offered: if industry were allowed to enter the market, it was thought that recessions could be smoothed out, without risking to overheat the national market. It would thus be possible to strike a 'fair' balance between the public and private sector in the national credit market.[41] This effectively implied that the second road, the national, could be closed off to as much competing traffic as possible. To finance the public sector, which was growing at an extensive rate during the 1970s, thus became the main role of the national banking sector.

In addition to this, a dominant Swedish political discourse of the relationship between the national and international capital markets was established. At the same time as the national economic structure grew more and more close to the international during the rest of the 1970s and into the 1980s, the discourse was built upon an image of the ability to choose, not least the ability to choose the 'productive' but reject the 'speculative'. The problem with this discourse was that the Swedish capital market was functioning in an increasingly choked manner.

[40] On the effects of this liberalization see, for example H. Lundström, 'Hur finansiera bytesbalansunderskottet'; N. Cavalli -Björkman 'Bankernas roll'; S. Malmström 'Företagets problem', all published in *Ekonomisk Revy*, No. 3 (1975); L. Otterbeck 'Företagens finansiella utlandsberoende', *Ekonomisk revy*, No. 5 (1975) and 'Industrins behov - en enkät', *Ekonomisk Revy* No. 6 (1975). Of particularly great interest is 'Den svenska utlandsupplåningen – behov, former, konsekvenser', *Ekonomisk Revy*, No. 10 (1977).
[41] K. Wickman, 'Bytesbalansen och den ekonomiska politiken', *Ekonomisk Revy*, No. 9 (1975).

An unintended effect of the politics of credit regulation was that the Swedish multinational corporations became even less dependent upon Sweden. To the Swedish banks, this was a large threat, as they risked turning into evermore limited and national institutions. This was a frightening proposition to the banks, and it seems to have been the most important factor in their demands for deregulation after the late 1970s.[42]

The international credit market freed up a 'national room' for the huge public deficits of the 1970s and early 1980s. Problems associated with crowding out effects were mitigated when important actors were allowed to use the international capital market to an increasing degree after 1974-75. In connection to this, one can percieve the Eurodollar market as a safeguard that sheltered Swedish political-economic developments for close to a decade.

However, the costs associated with the regulations of the credit market increased. The measures that forced the commercial banks to finance the public deficits became increasingly cumbersome, as the banks were used as vaults for state debt.[43] As the banks' amount of government bonds grew, their liquidity increased. One result of this was a proliferation of new investment companies and credit institutions. As the so-called "grey" credit market started to grow in a vigorous fashion, the competitive pressures increased on the traditional banking sector.

As a result of these pressures, a slow strategy of deregulation was started during the late 1970s. The most important factor that furthered this process was the escalating budget deficits. With liquidity ratios around 50%, there was a limit to how the commercial banks could be used.

Instead, a new kind of market-conforming Government Bonds (*Statsskuldväxlar*) were introduced in 1982, in order to tap into the new and freer markets. By the early part of the 1980s, the combination of a large state debt and an unusual number of multinational industrial companies made way for a situation where increasingly liberal solutions appeared at a surprisingly quick pace. As the Swedish professor in Economics

[42] See for example A. Roos, 'Bankmarknadens förändring', *Ekonomisk revy*, No. 8 (1980).
[43] See for example: Jonung, 'Riksbankens politik 1945-1990', pp. 331-32; and Larsson, *Staten och kapitalet*, pp. 205-6. See especially Note 1, Ch. 5. After 1982, liquidity quotas (which included government bonds) were raised to 55%. This implied that banks held huge quantities of government bonds. In turn, this meant that the banks were very well capitalized in 1985. At that point in time, the huge quantity of government bonds could serve as the starting point for the infamous Swedish credit expansion of the late 1980s.

Johan Lübeck puts it: "In contrast to many other countries, Sweden was dependent upon professional financial institutions and operators...".[44]

The final result of the change over was remarkable. A closely controlled policy aimed at credit repression had dominated the institutional landscape for more than three decades. During the early 1980s, all of this was replaced with a largely unfettered credit market in less than half a decade. In many ways, the results of this were traumatic.

Concluding remarks

Having analysed and depicted the Swedish regulated structure for allocations of credits as a historically deeply embedded institution, how, then, could change be possible? Which were the economic structural factors and incentives that eventually led the Swedish governments to deregulate the foreign exchange market, hence laying the ground for a new structure for allocation of credits? First of all, structures for allocation of credits are crucial for the functioning of all economic systems and governments are supposedly anxious for attaining continued growth and prosperity not least by designing structural settings so as to offer favourable conditions for productive activities. From this the rapidly growing international capital market and the radically changing conditions for the big industrial enterprises (increased competition, decreased margins of profits, increased demands for investments, decreased productivity) all in all called forth a thorough restructuring of the institutional arrangements for allocation of credits in the Swedish economy. For the Swedish economy to be competitive and to be able to grow, the industrial sector had to have a full-fledged counterpart in the national commercial banking sector. In turn, to be competitive and to be able to offer favourable credit conditions, the banking sector had to have full access to the international capital market. All this could be summed up as an inevitable process of adjustment and institutional change, a process that was clearly anticipated by several commissions of inquiry set up by the Swedish Government in the 1960:s and 1970:s.

As for both the timing and sequence, the late and hesitant Swedish deregulation of the foreign exchange market signifies the impact of historically embedded institutions. Not only had the Swedish regulation of foreign exchange existed for long time, serving its purpose in making it possible to institutionalise a genuinely nationally based structure

[44] Cited from J. Lübeck, *Den Finansiella sektorns utveckling i modern tid*, SOU 2000: 11. See, as well, T. Svensson, *Novemberrevolutionen. Om rationalitet och makt i beslutet att avreglera kredit-marknaden 1985*, (Stockholm, Fritzes, 1996) and I. Nygren, *Från Stockholms Banco till Citibank*, (Stockholm, Liber 1985).

for allocation of credits, but is also provided shelter from the credit markets of the surrounding world and was built upon an idea and a practice that the industrial companies should be both producers and financiers. Also, and indirectly, this institutional arrangement was closely bound up with the broader and general institutional arrangement of the Swedish political economy, an arrangement where the state, the large industrial companies and the labour unions were co-ordinated as a tripartite corporatist body.

Accordingly, to deregulate the foreign exchange market did not only imply a shift of ideal for macroeconomic management (monetary regime). It did also amount to a shift as for the established institutional configuration and co-ordination of interests within the Swedish political economy. To deregulate the foreign exchange market and, consequently, liberalise the structure for allocation of credits and venture capital, implied that the commercial banking sector (financier) and the industrial sector (producer) were re-united as the two basic players within the field of growth and industrial change. This in turn meant that the role of the State became less significant as for the allocation of credits and venture capital. Consequently and indirectly, the labour movement as a whole lost influence upon the capitalistic market economy. In short, the relative power of diverging interest was indeed put at stake in the process of foreign exchange deregulation, thus rendering the decision-making process difficult for the Social Democratic Governments.