Regime Changes and the Structure of Swedish Post World War II Banking

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Introduction

The financial system has since the nineteenth century been characterized by a large interest, and influence, from public bodies and authorities. The reason for this is obvious. The financial market holds the key to general economic development and is of largest importance for both privately owned companies and local, regional and national communities and governments.[1] Hence, financial markets are too important to be left out of reach for public regulation and control.

Bank legislation and related regulations for other intermediaries on the financial market are important parts of the financial systems regulatory regimes. The regulatory regime is also connected to other measurements for the financial sector – for example the system for currency stability. Thus, Herr (1997) focuses on the development of international monetary relation after the collapse of the Bretton Woods system. He points at the vital importance of the international currency structure for the success of national economic policy, for example in trade or income policy. Obviously changes in the currency regulation have a strong effect on international financial relations but, as we will see later; also affect the activities of actors on a national financial market.[2]

The regulations of currency, as well as other financial activities, are closely related to the performed general economic policy – together policy goals and regulations form a *financial regulatory regime*. The aim of this paper is to analyze the changes in the Swedish financial regulatory regime after World War II and its consequences for the structure of the banking

[1] On the long-term importance of the financial sector for general economic growth in Sweden, see Sandberg (1978) and (1979), Hansson & Jonung (1997) and Ögren (2010).
[2] For an extensive discussion about regime changes, see Forsyth & Notermans (1997).

sector as well as strategies towards savers and borrowers. The development of the general welfare system and the so called "Swedish model", and the strong focus on the large-scale export industry, in the 1950s and 1960s makes it especially interesting to analyze how the banking sector was affected by the general economic policy. In the 1970s and 1980s the Swedish economy, as many other industrialized countries in the Western hemisphere, underwent profound changes, facing severe competition from new international competitors, which in turn put the financial actors in a new situation as markets were deregulated and transformed. The increasing globalization of the international economy in the last decades, in combination with the gradual dismantling of the Swedish model, once again has changed the prerequisites for the Swedish financial sector. This paper will thus describe the changes in the financial regulatory regime during this period and the consequences for the banking sector.

The regime changes approach

Financial markets are to a smaller or larger extent regulated – either in legislation or in agreements or contracts between actors on the market. The definition of a financial regulatory regime is directly connected to the role of the official policy goals and the policy performed. Thus, financial regulatory regimes can be divided into at least three different regimes styles, mirroring the role of governmental regulation and control.[3]

The free banking regime style does not involve any extensive governmental activities, instead market mechanisms governs the development of the financial system. The opposite financial regime style is *the totalitarian regime*, where the financial system is totally integrated in the economic policy. This includes detailed legislation as well as other measurements to govern the market and this gives very little room for individual activities among actors on the financial market.

The third financial market regime style is *the semi regulated regime*. This includes governmental legislation of different character, limiting for example the market activities and the size of lending. In the developed world more or less all countries use some kind of semi

[3] The following discussion about regulatory regime styles is based on Goodhart and Illing (2002), Eichengreen (2002) Goodhart (1998) and Håkansson (forthcoming 2010).

regulated regulatory regime for the financial system. This enables the government to combine legislation aiming at creating stability of the financial sector with regulations integrating the financial system with the macro economic policy or counteracting direct crises.

Thus, the semi regulated approach includes a large variety of regulatory regimes where the governments perform different activities, including among other things regulations, lender of last resort activities, ownership and control. The *mixture* of these activities reflects different grades of governmental guidance and thus also different strengths of the regime.

Llewellyn (2001) has created a more instrumental definition of financial regulatory regimes based on seven different components regulating the relationship between the government and actors on the financial markets. In this scheme public governmental activities are combined with market relations and could be interpreted as:

Governmental activities
Rules established by regulatory agencies
Supervision by official agencies
Intervention arrangements in the event of failures

Market activities
The role of market discipline and monitoring
Internal corporate governance within financial companies

Activities combining governmental and market activities
Incentive structures established by regulatory agencies, consumers and banks

The regulation and control aspect is important in all these seven components. But regulations can never be a substitute for market discipline. Instead Llewellyn strongly stresses the importance of *interaction* between the official regulator, the financial organizations and the customers in order to create an effective financial system.[4] Therefore, one important question is weather the guiding principles for actors on the market are generated within the market or

[4] Llewellyn (2001), p 16-20.

introduced from outside, preferably through legislation or other public measures. Thus, these seven components could function as indicators in the analysis of the semi regulated financial regime. In this paper the regulatory regime concept will be used as an analytical pattern in the analysis of the post World War Two development of the Swedish banking system.

Regime changes on the Swedish financial market after World War II

As previously noted the Swedish financial system underwent extensive changes after World War II. In order to understand these changes the structure of the financial regime during the interwar period also has to be considered. Profound changes during the first decades of the twentieth century altered the premises for both the financial market and the banks, which should be interpreted as the introduction of a new financial regime. In spite of some alterations and gradual changes this regime governed the banking market till the end of the 1940s.

The basis for this new financial regime was changes in the legislation for not only commercial banks, but all actors on the financial market. With these new regulations markets were enlarged for some actors while others were locked in, in traditional as well as specific activities. This diminished the possibilities for some actors to create new financial instruments or in other ways enlarge their market activities.[5] However, the commercial banks were in another position. In the new banking laws of 1903 and 1911 regulations were introduced resulting in a larger control as well as extended business opportunities.

With the introduction of increased capital requirements for commercial banks in 1903 and 1911 smaller banks were forced either to enlarge their own capital or merge with larger banks. This resulted in a sharp reduction in the number of commercial banks, while the larger banks in the 1910s and 1920s expanded their market shares (table 1). The was in line with the wishes of the Swedish Bank Inspection board, that already in the early twentieth century

[5] For example the activities of insurance companies were limited to insurance, while savings banks lending was concentrated to credits to private persons. See discussion in Larsson (1998) p 83-96 and Larsson (2009) p 176-179.

expressed the need for larger banks in order to stabilise the banking sector and finance large scale investments.[6]

Table 1. The number of commercial banks and savings banks in Sweden, 1900–1945

	1900	**1910**	**1920**	**1925**	**1930**	**1935**	**1940**	**1945**
No. of								
Commercial banks	67	80	41	32	30	28	28	22
Commercial bank offices[1]	269	625	1410	1091	1045	1032	1030	1040
Savings banks	388	441	489	496	482	478	472	459
Savings bank offices[1]	748	854	885	846	1128	1053	1036	1114

Source: Swedish Banking Statistics, SCB.
1) Including head offices.

The banking legislation also through other measurements promoted the larger commercial banks. For example with the introduction of commercial banks right to own and trade with shares in the legislation of 1911, larger banks were given the possibility to integrate more closely with industrial and trading companies. Even though the commercial banks' right to trade with and own shares was reduced in the 1920s and totally abolished in the 1930s, these rules were of great importance. It enabled especially the largest banks to establish and consolidate groups of controlled and affiliated companies. Thus, the majority of the large Swedish industrial companies came under the control of one of the three largest banks.[7]

The concentration of the commercial banking sector and the build up of bank groups were of the largest importance for the structural changes of the Swedish banking sector after the World War II. The development of the commercial banks in the post war period was also affected by the large banking crises that hit the Swedish economy both in the early 1920s and early 1930s. This resulted in the liquidation or merger of a large number of several banks in crises, but also in a better understanding for the risks connected with banking which in turn might have affected the creation of new formal regulations as well as the activities of the actors on the market.

In spite of this, the Swedish banking system remained comparatively unregulated until the late 1940s. However, with the early 1950s new measures were introduced by the government and central bank (Riksbanken), i.e. there was a *regulatory regime change* in the Swedish financial

[6] Söderlund (1978) and Larsson (1998).
[7] See for example Berglöf & Sjögren (1995) and Lindgren (1988).

system. Behind this change lay a new economic policy founded by the Social Democratic government which – as in several other countries – had its roots in the wish to promote economic growth and counteract unemployment while at the same time controlling the allocation of wealth and resources.

For the Swedish government the all-embracing goal was to make it possible for the government to control the structural transition from a country with a large share (25 percent of employment) in agriculture to an industrial society. This meant that a considerable amount of capital had to be allocated to three different areas:

- the transformation of the agriculture sector to fewer and more productive farms,
- the building a new dwellings in urban areas to meet the transfer of workers and families from agriculture to urban industries,
- the development of a large scale electricity generating sector in the economy to make the industrial development possible. [8]

These changes in the economy were similar to what happened in other European countries at the same time. But what made this transformation special was the important role played by the government to make these changes socially acceptable. In order to govern these changes it was of vital interest for the government to control capital flows. If the market was free the majority of capital would probably be allocated to the industry, which could pay a higher interest rate than for example building companies. Therefore the government with the help of the politically controlled central bank in the early 1950s introduced a large number of measures to govern the financial market:[9]

- The control of banks lending, meaning that credits to industry was hampered while capital flows to the erection of new dwellings and to the government were given priority.
- The control of interest rates allowing interest rates for savings as well as credits to vary within a small gap, in order to make it cheap to borrow money for those customers given priority.
- The control of the issue new bonds restricting capital flows to industries.[10]

[8] SOU 1949:13, p 16-24 and Olsson & Jörnmark (2007), p. 203–209.
[9] See for example Werin (1993) and Larsson (1998).
[10] Riksbankens årsbok 1950-1955.

These *hard* measures reduced competition on the lending market considerably and created a financial regime with strong governmental governance for the following three decades. Financial control was further strengthened by measures to control the banks liquidity, which together with restrictions on lending and interest rates easily could be adjusted to the macro economic situation. Gradually these measures also increasingly were used to counteract fluctuations in business activity – an extension of the Keynesian economic policy.[11]

This regulatory regime highlighted governmental activity on the expense on market forces. If we use Llewellyn's vocabulary; market discipline and internal monitoring were replaced be detailed regulations and official supervision, while incentive structures and consumer requests were replaced by laws and political priorities.

However, this financial regulatory regime was a cornerstone in the economic policy introduced by the Social Democratic Party. It wasn't thoroughly questioned until the late 1970s, when deregulations of the financial markets became an international phenomenon. In Sweden the old regulatory regime survived until the early 1980s, when it was replaced by a more market adjusted regulatory regime, influenced by the development in USA and Western Europe.

With the globalisation of the economy in general and the financial transactions in particular it had become increasingly difficult to uphold a national financial regulatory regime. During the first half of the 1980s all politically motivated measures for the financial markets (which had been introduced in the 1950s) where lifted off, thus allowing the banks and other financial intermediaries to compete more freely on the market. At the same time foreign banks were given the right to establish themselves in Sweden whilst the previous strict borderlines between banks and other financial actors gradually were abolished. The deregulation of the Swedish financial market went hand in hand with the introduction of new financial instruments. From the early 1980s Stockholm became an important marketplace for certificates, options and derivates.[12]

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[11] Werin 1993).
[12] Nyberg et al (2006), p 252-263. Werin (1993).

A number of changes thus constituted the new financial regulatory regime in Sweden. This regime was closely connected to the contemporary dominating political ideas, aiming at creating stronger links between Sweden and Western Europe, especially with the European Union. With the total withdrawal of the central banks regulative measures political priorities were lifted away and strive for stability in the banking sector instead became the governing principle for legislation. Therefore, the role of market discipline and incentive structures formed in the interaction between banks and consumers replaced official activities. Obviously this new regime was aiming at changes in the *function* of the financial system. Therefore extensive alterations can be seen in both the structure of the market and the activities of the banks.

Structural, organizational and market changes under "the hard regime", 1945-1985

Generally, the commercial banking sector benefitted from the strong economic growth in Sweden during the 1950s. However, when the expansion continued in the 1960s, internal financing was not enough to feed investments in the flourishing business sector. The banks didn't have enough financial capacity to match the demand of credits. In fact, the large commercial banks faced the risk of losing some of their most important customers, among them several leading Swedish industrial companies. The strictly regulated economy and capital market did not allow capital import or the banks to issue bond. The only remaining alternative was in fact to enlarge the capital base by increasing the volume of deposits.

During the financial regime in post-World War II up to the mid 1980s competition on the deposit market did somewhat increase, especially between the commercial banks and the savings banks. As a result of the strong growth in the Swedish economy and increased general welfare there was a large surplus of money among the households. The Swedish household deposit market had since the nineteenth century been dominated by the savings banks. The savings banks had a nationwide, dense network of branch offices, thus reaching practically the entire population. In order to compete more fiercely with the savings banks, the commercial banks were forced to enlarge their networks of branch offices, locally and regionally. The

number of offices in the commercial banking sector had been stable since the 1930s, with some 1 000 offices. In 1970, the number had increased to almost 1 700 offices (table 2).

From the 1960s and on, there was a sharp decrease in the number of savings banks. During the 1960s the number fell by more than 160, or nearly 40 per cent, followed by another 40 per cent decrease in the 1970s (table 2). The rationalization process within the savings banks was a result of the increasing competition with the commercial banks. In the early 1980s the rationalization, and concentration, process within the savings banks movement took a new step, as also larger, city-based savings banks began to merge with one another. In 1982 the two savings banks in Stockholm and Gothenburg merged into *Första Sparbanken*, and the result was a bank that had a balance sheet and volume of financial activities that could measure with the largest commercial banks in Sweden.

Table 2. The number of savings banks and commercial banks in Sweden, 1945–1985

	1945	**1950**	**1955**	**1960**	**1965**	**1970**	**1975**	**1980**	**1985**
No. of									
Savings banks	459	451	447	434	386	273	216	164	139
Commercial banks	22	22	16	16	16	16	14	14	15
Savings bank offices[1]	1114	1177	1265	1618	1794	1804	1690	1449	1404
Commercial bank offices[1]	1040	1019	1060	1217	1489	1679	1583	1493	1451

Source: Swedish Banking Statistics, SCB.
1) Including head offices

Concerning the deposit market one important strategy on behalf of the commercial banks was to offer the public new and more attractive savings accounts (table 3). Some of these were aiming at reaching customers that the commercial banks previously had not been especially interested of, for example students and low-income families. Also those who were saving for their own homes, a group of customers traditionally very strong associated to the savings banks, became a new target group for the commercial banks.

Table 3. Deposits from the public in Swedish banks (market share in percent) and total volume (SEK billion) 1945–1985

Year	**Savings banks, %**	**Commercial banks[1], %**	**Postal office savings banks[2], %**	**Cooperative banks, %**	**Total volume of deposits, SEK billion**
1945	38	46	15	1	14
1950	37	43	18	2	21
1955	36	43	18	3	30
1960	36	44	17	3	43
1965	35	45	17	3	64
1970	33	45	16	6	98
1975	32	62	.	6	166
1980	31	62	.	7	272
1985	29	64	.	7	409

Source: Swedish Banking Statistics, SCB.
1. Including *Sparbankernas Bank* and *Föreningsbankernas Bank* and from 1975 also including *PK-banken*.
2. From 1960 *Postbanken* and from 1974 *PK-banken*, a state-owned commercial bank.

The commercial banks were successful on the deposit market. However, the increase was less than indicated in the second column of figures above, for statistical reasons. The Postal Office Savings Bank, owned by the government, gradually abandoned its original purpose of being a bank focused on small deposits and the lower socio-economic layers of the population and turned into a regular commercial bank. In 1974 the transformation process was completed. This explains the major part of the increase for commercial banks from 1970 to 1975. Also the cooperative banks gained some influence on the Swedish financial markets. As many savings banks had left their rural traditions and target directions behind in the restructuring and concentration process, the cooperative banks became a preferable alternative for many customers within the agricultural sector.

On the market for bank advances the commercial banks gained ground compared to the savings banks (table 4). But in relation to the entire institutional credit market, including all types of financial organizations, both commercial and savings banks lost market shares. In 1945 the savings banks and the commercial banks together had about 70 per cent of the institutional credit market in Sweden. In 1985 they had only approximately 35 per cent. Instead other organizations, such as mortgage institutions, some of them closely affiliated to the banks, gained ground. Just as important was the fact that new financial organizations, especially several varieties of financing companies, were established, often by the banks themselves. These companies were not subject to the strict regulations on the Swedish

banking market and could therefore offer credits to the public that the regular banks had to turn down.

Table 4. Advances to the public from Swedish banks (market shares in percent) and total volume of advances (SEK billion), 1945–1985

Year	Savings banks, %	Commercial banks[1] %	Postal office savings bank[2], %	Cooperative banks, %	Total volume of advances, SEK billion
1945	39	55	5	1	11
1950	39	52	6	3	18
1955	40	44	13	3	24
1960	41	42	13	4	33
1965	37	45	13	5	53
1970	37	44	12	7	78
1975	32	59	.	9	129
1980	28	64	.	8	229
1985	23	71	.	6	362

Source: Swedish Banking Statistics, SCB.
1. Including *Sparbankernas Bank* and *Föreningsbankernas Bank* and from 1975 also including *PK-banken*.
2. From 1960 *Postbanken* and from 1974 *PK-banken*, a state-owned commercial bank.

Structural, organizational and market changes under "the soft regime", 1985-2010

From the mid 1980s and onwards – during "the soft regime" – one important component in the deregulation and internationalization process of the Swedish banking sector was that Sweden in 1986 opened its borders to foreign-owned banks. Rather slowly though, foreign banks began to establish subsidiaries or branch offices in Sweden. The present day banking market consists of four types of banks: Swedish commercial, joint stock banks; foreign commercial banks; savings banks and cooperative banks. However, the cooperative banks are very small financial organizations and had only marginal market shares, less than 1 per cent, on the domestic market.

One of the most important structural changes on the Swedish banking market in the last two decades is without any doubt the transformation of a number of very large savings banks into one joint-stock commercial bank in the early 1990s. This transformation process was

propelled by a number of savings banks' managements in their aspiration to create larger, and what they believed to be more competitive, financial organizations and their attempts to become more like the commercial banks in general. What further pushed the process, however, was the very deep financial crisis that struck the Swedish financial system from late 1990 and a couple of years on.

As a response to the crisis, and in order to find new sources to generate the additional equity capital necessary to survive at all, the Savings Bank Group was consolidated in 1992 to the more centralized *Sparbanken Sverige AB* (*the Savings Bank of Sweden Inc.).* The legal form was thus changed from foundation to corporation. The participating savings banks initially sold their operations to the Savings Bank of Sweden Inc., receiving shares in the new bank as payment. In 1995 shares were also emitted to the public and the company was registered on the Stockholm Stock Exchange.[13]

But the story of mergers was still not over. In 1997 the Savings Bank of Sweden Inc. merged with the smallest of the remaining national banks, *Föreningsbanken* (the National Farmers' Cooperative Bank) and formed *FöreningsSparbanken*. Finally then, in 2006, FöreningsSparbanken changed its name to *Swedbank*, a bank that is one of the present four big commercial banks in Sweden.

Table 5. The number of savings banks and commercial banks in Sweden, 1985–2009

	1985	**1990**	**1995**	**2000**	**2005**	**2009**
No. of						
Savings banks	139	104	91	79	68	53
Commercial banks[1]	15	21	30	47	56	62
Savings bank offices[2]	1265	1228	349	269	232	210
Commercial bank offices[2]	1451	1366	2252	1790	1805	1733

Source: Swedish Banking Statistics, SCB.
Remarks: 1. Commercial banks including foreign banks and foreign bank branches. 1990 – 9 foreign banks, 1995 – 11 foreign banks, 2009 – 30 foreign banks.
2. Including head offices.

The savings strategies of the general public, and their financial options, have undergone dramatic changes during the last two decades as a result of the globalization of the financial markets. Traditional saving, i.e. on savings accounts in banks, has decreased constantly as the

[13] Forsell (2003) and Bergendahl & Lindblom (2006), p. 1665.

general public has been investing increasingly in funds and insurance policies. Around 75 per cent of the Swedish population, including children, currently have at least some of their savings in funds or equities, which by international standards is a high proportion. Approximately 25 per cent of total household savings can be classified as traditional bank saving, insurance policies stand for another 30 per cent, shares another 20 per cent and funds the last 20 per cent.[14] Due to the organizational changes on the Swedish banking market, commercial banks since 1992 totally dominate the Swedish deposit market (table 6).

Table 6. Deposits from the public in Swedish banks (market shares in percent) and total volume of deposits in the banks, (SEK billion), 1985–2008

Year	**Savings banks, %**	**Commercial banks, %**	**Cooperative banks, %**	**Total volume of deposits, SEK billion**
1985	29	64	7	409
1990	26	66	8	666
1996	7	93	..	860
2000	5	95	.	1309
2005	5	95	.	1641
2008	6	94	.	1936

Source: Swedish Banking Statistics, SCB and Swedish Banking Association, July 2008.
Note: Foreign commercial banks have, in July 2008, a 7 per cent market share on the Swedish deposit market.

Also the Swedish credit market has gone through some important changes in the last decades. On the institutional credit market as a whole, the credits granted by all of the banks constitute approximately 25 per cent, mortgage institutes another 25 per cent and financial intermediaries from the rest of the world another 25 per cent. Regarding the advances from the banks only, commercial banks once again dominates totally (table 7).

[14] *Banks in Sweden*, March 2010.

Table 7. Advances to the public from the Swedish banks (market shares in percent) and total volume of bank advances (in SEK billion), 1985–2008

Year	Savings banks, %	Commercial banks, %	Cooperative banks, %	Total volume of bank advances, SEK billion
1985	23	71	6	360
1990	21	66	5	922
1995	6	94	..	730
2000	6	94	.	1183
2005	4	96	.	1729
2008	5	95	.	2554

Source: Swedish Banking Statistics.
Note. Foreign commercial banks have, in July 2008, a 14 per cent market share on the Swedish market for bank advances.

During the entire twentieth century there has been an ongoing concentration process on the Swedish deposit and credit markets, regarding the individual bank's market shares. For example, in the year 1900 the five largest banks together held only 20 per cent of the entire credit market. While these banks in 2010 holds around 80 per cent of the Swedish market.[15]

There has also been a strong concentration process from an organizational and market perspective. Up to the mid 1980s, Sweden had 10-12 regional financial markets, each and everyone dominated by one (or in the case of Stockholm, Gothenburg and Malmo, two or three) regionally oriented commercial bank and a number of savings banks, often collaborating extensively with each other instead of competing. As the merger movement in the Swedish banking sector continued in the 1980s, it became obvious that Stockholm was the one and only financial center in Sweden. All of the large banks' head offices were now situated in the capital close not only to other important financial markets as the stock exchange, but also to the politicians and the leading Swedish businesses.

The merger and concentration process was heavily stimulated by the deregulation in the early 1980s. With the soft regulatory regime it was easier for banks to acquire competitors and merge with other financial institutes. Another important reason for the structural changes in the banking sector after the 1980s was that legislation opened for the banks to perform other financial activities than banking. For the first time, it became possible to integrate banking with insurance and other financial activities. This opened for the introduction of large scale

[15] *Banks in Sweden*, March 2010.

financial department stores on the Swedish market (compound trading). However, with these changes, risks connected to financial activities were also altered.

The banking crisis in the 1990s and its consequences

A direct consequence of the deregulation was a substantial increase of credits and liquidity: between 1985 and 1989 the total credit stock in Swedish banks was doubled. Besides, credits from new finance organisations on a less regulated market – a grey credit market – more than doubled. This was an undesirable effect of the deregulation, since the state intended to help traditional banks to retain their position on the credit market, threatened by aggressive organisations on the grey market, some of them daughter companies financed by their mother-banks. Nevertheless, the relation between total credit volume and gross national product increased during the second half of the 1980s from 80 per cent to 140 per cent. Considering the low demand for credits in the industrial sector at this time, the change of the credit market was abnormal.

Table 8. The annual growth of total credit volumes in Swedish banks (in per cent), 1985–1989

	1985	**1986**	**1987**	**1988**	**1989**
Savings banks[1]	11	27	9	36	25
Nordbanken	8	10	7	51	31
Handelsbanken	3	0	23	11	21
SEB	-12	9	27	26	26
Gota Bank	24	4	8	29	27

Source: Wallander (1994).
Remark: 1. Including only those savings banks that in 1991 formed the Savings Banks Group.

The transition from the hard regime to the soft regime meant higher risks on the credit market. Credit expansion led to higher liquidity and a press down on nominal interest rates. The increasing competition between lending organisations was also a factor behind the decreasing interest rates. Strategically, cautious lending (a policy of sound banking) restricted by sharp state regulations had been replaced by strong competition between various lending organisations, on a market where the state had withdrawn its regulatory role in favour of neoliberal policies. In order to increase market share, the banks began to accept collaterals

with high default risks. This growth strategy was rewarded in the short run, but in the longer run it more or less ruined the most optimistic actors in the market.

When the bubble burst and the banking crisis was a fact the asset prices fell and consequently the value of collaterals also fell. The lenders became cautious leading to a state of credit crunch. The borrowers reacted by selling assets, which put a further press down on prices. The rate of private and business bankruptcies peaked and insolvent financial firms were taken over by solvent ones. The pattern of the crisis followed the scheme and historical examples earlier mapped out by Minsky & Kindleberger.[16]

Not surprisingly, the creditors that suffered most in the crisis were the ones that had taken the largest risk and expanded most during the speculative boom in the first phase of the soft regime. Many up the finance organisations that had mushroomed thanks to the deregulation totally disappeared from the market, while the traditional banks were rescued by the state as a lender of last resort. In the traditional banking sector, the worst case of corporate governance were seen among those that had least experience of lending to large firms and the property market, but on the same time were keen on challenging more experienced banks in a chase of market shares.

The reconstruction of the banking sector followed the example of earlier crisis in the financial history of Sweden, not to say the Western world. The state founded bad banks where non-performing loans were gathered, but also pushed mergers between banks and financial companies, foremost the state-owned Nordbanken and the insolvent Gota Banken. The restructuring process in the aftermath of the crisis and the rest of the 1990s were concentration. Through mergers and acquisitions large-scaled and internationally more competitive banking were developed, leading to the financial department stores including services within insurances, mortgage, risk management, investment banking and deposit banking. This structural change was not only a consequence of the national crisis, but also the Swedish entry into the EU and the globalisation of business and financial services.

When the traditional banks were occupied cleaning up after the crisis, new entrepreneurs were attracted to the market. The public trust in the financial system was lost and the banks were forced to increase their interest rate spreads (low deposit interest rate and high interest rate for

[16] See for example Kindlberger (1978) and Sjögren & Knutsen (2009).

credits) in order to make profits. Some niche-banks specialised on deposits and credits on the consumer market were founded and they rapidly received a reputation as consumer friendly actors with economically attractive services.

Together with the compound trading, made possible by the change of legislation, the structure of the Swedish financial sector in the mid 1990s had changed substantially, compared to the situation before the soft regime was launched. Many Swedish banks had begun to collaborate and build alliances with foreign organisations. Thus, the next step had taken in the process of wider geographical representation and integration of banking services, starting with local and regional integration in the early twentieth century, followed by national integration of resources and entities in the second half of the century. In the early twenty first century, the Swedish and Nordic commercial banks were fully engaged in strategic operations to build strong representations in Europe and on various emerging markets around the world.

Concluding remarks

In this paper we have focused on the changes of the financial regulatory regime in Sweden after the Second World War and its consequences for the market and its actors. There was a sharp difference between the hard regulatory regime during the 1950s, -60s and -70s – with significant extraordinaire official regulations – compared to the softer regime which was introduced in the early 1980s. Before the early 1980s governmental rules and supervision were extensive while market discipline and internal monitoring were suppressed.

The older regime resulted in an oligopolistic market were commercial banks where locked in, in there relationships with customers (table 9). The creation of new financial instruments and contacts were probably hampered and the banks' willingness to take higher risks where reduced. In the longer run this probably stabilized but also lowered economic growth.

Table 9. Regime changes in Sweden's financial system 1950-2010

	Structure	*Market development*
Hard regime 1950-1979	Stable Un dynamic	National market Risk avert
Soft regime 1980-2010	Flexibility Concentration	Globalisation Enlarged market Increased risk

The softer regime from the 1980s was based more on market discipline and interaction between banks and costumers. Political regulations were withdrawn and the stability of the financial sector was instead the guiding principle for official regulations. This introduced a sharper competition between actors on the financial market that resulted in an enlarged market with higher risks. This was reflected also in the financial crisis in the early 1990s – the first one since the early 1930s – which finally could be terminated through the intervention of the government. As an affect of both the competition and the crisis, the structure of the Swedish financial system was altered. Mergers became more common but at the same time the possibilities to establish new banks increased and therefore the number of active banks increased. Thus, the four dominating banks in Sweden were supplemented by a large number of small and sometimes specialized banks.

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