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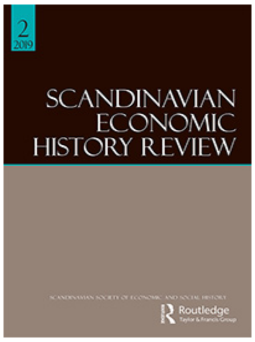

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The state as the investor of last resort: a comparative study of banking crises in Denmark and Sweden

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ABSTRACT

This article addresses the role of the state in bailouts, i.e. government objectives and measures during banking crises. Our main question concerns the incentives and measures that governments pursue in a state of a systemic banking crisis, and why they are launched. What have been the objectives and operations when a government has decided to act as an investor of last resort and take control of commercial banks? The answer is limited to cover the financial history of two countries. The study unveils government interventions in the latest crises in Denmark and Sweden, and critically analyse which objectives justified the setting up of organisations for financial stability. The two country-cases differ in terms of historical experience, context, and time-period. We compare intrinsic principles and perceptions for government intervention, with a focus on bailouts and state-owned banks. We argue that the implementation of measures dates back to the early phases of capitalism in the 19th century i.e. is part of a historical institutional pattern. The similarities shown indicate that there is an international standard for a public–private arrangement ensuring financial stability. Our results relate to the discussion of launching effective and legitimate state policies during and after a systemic banking crisis.

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1. Introduction

Banking crises are an indispensable part of capitalism, but with many negative externalities, often calling for government intervention. In the average crisis, production is down 9% over two years, and it takes 4.5 years before production reaches the level before the crisis.[1] The recent systemic banking crisis has generated a great deal of controversy about the virtues of the free-market system and the wisdom of government intervention. The crunch question still is whether a rescue of a large international bank, such as Lehman Brothers, could prevent a world-wide recession or not. However, although governments are capable of keeping a financial panic from snowballing into a complete economic disaster, along with the lines of the Great Depression and the Great Recession, the question is open as to how the public costs of the rescue should be motivated. This highly debated issue motivates further studies of the relationships between government policies, measures, regulations and bank's behaviour, including the moral hazard problem, i.e. a situation where the agents in the banking system do not bear the full consequences of their actions.

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[1]Reinhart and Rogoff (2009). See also Kindleberger and Aliber (1996) and Mishkin (1999).

The literature distinguishes between crises in individual banks and systemic crises, where the latter signifies the danger of a system-wide contagion of the crisis, which threatens the stability of the entire financial system.[2] This article concentrates on systemic banking crises, when the demand for central bank money and other liquid and safe investments exceeding supply, leading to severe liquidity problems, non-performing loans and a rapid reduction in loan volumes. The concept of systemic banking crisis differs from the concept of lender of last resort, i.e. when the central bank has to offer loans to banks or other eligible institutions that are experiencing financial difficulty, explored in the classic theory by Alexander Hamilton, Henry Thornton and Walter Bagehot. In a systemic banking crisis, there are significant signs of financial distress in a majority part of the banking system, as indicated by significant bank runs, losses in the banking system and bank liquidations. However, there are also significant banking policy intervention measures implemented by the financial authorities in response to significant losses amongst the individual components of the banking system (Virkar, 2016). Therefore, a systemic banking crisis is, beyond the actions by the central bank, associated with a call for government intervention.

Several strategical decisions have to be taken by the government during a systemic banking crisis: how many of the banks and how large shares of the non-performing loans have to be taken over, if any, and why and for how long? Likewise, when the economy improves, the government has to clarify the motives for keeping bank assets, rather than just rescuing illiquid banks. This outstretched process triggers a general discussion of whether state-owned banks in a market economy are preferable or not. Which objectives justify public bank ownership? The banking crisis might have forced the government to take control of some banks, to restore financial stability and to avoid a collapse of the credit market and losses among depositors. However, the rationale of keeping state-owned banks is another and a much larger issue, which calls for a discussion of the appropriateness of having a government as a major shareholder in the banking system.

The studying of systemic banking crises in relation to government intervention is crucial for our understanding of public policies following a crisis. Often, public bailout, lender of last resort and state-ownership of banks are treated separately. However, since the two first mentioned turn out to be the prologue of state-ownership, it is reasonable to analyse them in a sequence, in order to examine what triggers the government to pursue the grip taken during the first stages, due to troubled banks. Besides, systemic banking crises are also political.[3] Government intervention has to be defended publicly and communicated by politicians, as the optimal strategy for guaranteeing deposits and ensuring financial stability, regardless of the fiscal costs and the risk of throwing good money after bad. Furthermore, the implementation of appropriate forms of measures in due course and the introduction of further regulations have to be in the interest of both the state and the private actors, in order to reduce problems of moral hazard and the risk of further crises. Banking history proves that regulations are not enough for eliminating crises, since government's efforts to rein the banking sector will start incentives to circumvent regulations. In order to externalise the perceptions of the private actors and the government, and cover both the economic and the political dimension, we argue for a historically rooted perception of government intervention.

This article concerns contemporary historical circumstances in which far-reaching forms of government intervention are present. We do not investigate whether private or state ownership is the best solution in the banking sector per se, only to what extent state control has been considered during an economic shock, i.e. a systemic banking crisis. Our main question concerns the incentives and measures that governments pursue in a state of a systemic banking crisis, and why they are launched. More specifically, what have been the objectives and operations when a government has decided to act as an investor of last resort and take control of commercial banks? In order to reach a certain depth of the empirically based analysis, we must limit the answer to cover the financial history of two countries. However, to make it possible for some generalisation to be made, in

[2]See Reinhart and Rogoff (2009) and Østrup (2010b).
[3]See Grossman (2010), who also provides a Swedish case study covering the crises up to the 1930s.

terms of perceptions, context and period of time, countries with contrasting history have been selected; Sweden for the period of the early 1990s and Denmark for the period of the Great Recession 2008–2012. Both countries experienced similar economic shocks but were showing different attitudes towards state ownership. Our contribution explains how the treatment and operational tools of the recent crises were historically embedded, i.e. highly path dependent.

Institutionally, banking history of Denmark and Sweden has passed certain regulatory regimes, correlated to the frequency of crises. The first phase was 'The Early Regulatory Regime', which lasted from the industrial revolution to the 1930s. The liberal period was marked by many banking crises: in Denmark, more than 70 of the 208 banks that existed at the eve of the Frist World War disappeared in 10 years from 1921 to 1931 (Hansen, 1997, p. 53). In Sweden, the number of commercial banks went from 41 to 28 banks between 1920 and 1935 (Petersson, 2009, p. 27). In both countries, the banking crises were followed by more restrictions and 'The Hard Regulatory Regime' lasted from the mid-1930 to the late 1970s. The period was characterised by financial stability, with very few bankruptcies in the banking sector. The last phase can be labelled as 'The Soft Regulatory Regime', marked by a combination of decreased restrictive regulation and of new international institutions, such as the Basel I–III. Most of the crises within the Nordic capitalism belong to the relatively more liberal first and third regimes. The instance of state-ownership in the commercial banking sector in Denmark was limited to the ownership of Landmandsbanken from 1928 to 1952. In Sweden, there was a state-ownership of commercial banks from 1923 to 2013.

Although the study is limited to Denmark and Sweden, there are great similarities with the other Nordic countries. A rapid transformation and international opening-up of the financial system in Finland, Norway and Sweden in the 1980s paved the way for a boom-bust cycle that ended with a severe crisis (Honkapohja, 2014; Jonung, Kiander, & Vartia, 2009; Knutsen, 2013). In Finland, capital injections were made to private banks, while the state-control of banks was relatively short-lived. In Norway, the state took over the three largest commercial banks. During the latest crisis, Iceland experienced a crisis that outmatched most of what could be seen elsewhere, and the three major private banks were taken over by the state on a long-term basis. Despite similarities in the Nordic coordinated market economies, the role of the state differed, historically. In Sweden, the state took an active part through ownership and politically coordinated investments, while Denmark lacked the tradition of state ownership (Fellman, Iversen, Sjögren, & Thue, 2008). Although Denmark and Sweden represent two public views on state ownership of banks in the Nordic context, we argue that both countries share the main intrinsic principles. Methodically, the survey makes use of archival sources as well as own and others' publications in Scandinavian languages.

In the following section, the rationale for government intervention is highlighted, with a discussion of the pros and cons for bailouts and state-owned banks. The next two sections deal with the context of the Swedish and Danish banking sectors and the most recent systemic banking crisis in each country. Finally, we provide a comparative analysis of intrinsic principles and perceptions of bailouts and state-owned banks, before our main findings are summarised.

2. The rationale for government intervention

When the economy is hit by a systemic banking crisis, the government has to take decisions regarding the extent and type of intervention that has to be undertaken. One decision could be to leave the responsibility to the business itself. Such a decision would call for a structural change, where illiquid banks are bought up by liquid ones, while other banks would go bankrupt and disappear as independent entities from the scene. A second possible solution would be that the central bank steps in, as a lender of last resort, by guaranteeing the payment system and increasing the liquidity in the interbank market. The reason would be a shortage of liquidity triggering the financial stress in the market. The third type of solution would be government intervention, targeting problems of both illiquidity and insolvency in the banking sector. Notably, a liquidity crisis and solvency crisis are two different things. The first occurs when a firm or a country has a temporary cash flow problem; although in theory assets are greater than debts, it cannot meet its current payment requirements. A solvency crisis occurs when a firm or a country has debts that it cannot meet through its assets; even if it could sell all its assets it would still be unable to repay its debts. The third type of government intervention could take six different forms (Culpepper & Reinke, 2014; Lammertjan & Koetter, 2012; Østrup, 2010a; Woll, 2014).

(1) Deposit-guarantees to help prevent bank runs.
(2) Explicit guarantees on liabilities to help banks retain access to wholesale funding.
(3) Capital injections to strengthen banks' capital base.
(4) Purchases or guarantees of impaired 'legacy' assets to reduce the exposure of banks to large losses in their asset portfolios.
(5) Establishment of public–private organisations including take-over of non-performing loans, with guarantees from the state.
(6) State-ownership control in one or more insolvent banks.

The objective of all these six forms of government intervention is to bring back the confidence in the credit market. If the risk of a liquidity crisis or a solvency crisis is severe, and not reduced by the first four interventions above, the government has the alternative to set up new organisations for financial stability and take ownership control in one or more insolvent banks (five and six, above). These are the most far-reaching forms of government intervention. The government rescue plans are not mutually exclusive, which means that they could be mixed, more or less simultaneously.

In the case of a banking crisis, the motive of government intervention is often to compensate for various types of market failures, e.g. social externalities, asymmetric information and enforceability (La Porta, Lopez-De-Silanes, & Shleifer, 2002). Another reason might be to increase the competition in the credit market. State-owned agents with less shareholder value incentives open up for interest rates below the prices in the private market (kind of state subsidy). There could also be political and social motives, if profitable investments are underfinanced by the private sector and the existence of state-owned banks is believed to enhance certain public investments. Thus, the state could have at least four objectives for government intervention: to maintain the safety and soundness of the banking system; to mitigate market failures that stem from the presence of asymmetric information; to finance socially valuable but financially unprofitable projects and promote financial development by giving access to competitive banking services to residents of rural and isolated areas (Yeyati, Micco, & Panizza, 2007).

A comparative study of lending responses to banking crises – 764 major banks headquartered in 50 countries over the period of 1994–2009 – found that government-owned banks played a role of balancing between risk profiles (Brei & Schclarek, 2013). Since state-owned banks increased their lending during crises relative to normal times, while private banks' lending decreased, the former actually counteracted the lending slowdown of private banks. This finding suggests that the state can play an active counter-cyclical role in their banking systems directly through state-owned banks. A similar observation was made in a study of 348 large Russian state-controlled banks 2005–2011 (Davydov, 2018). Fully state-owned and state-supported banks demonstrated counter-cyclical lending behaviour during the crisis; while overall loans growth decreased and interest rates rose, these banks increased lending and lower interest rates. It turned out that the state-owned banks were highly capitalised and better protected against asset default than the private banks.

Governments could pursue state ownership in the banking sector in order to reduce agency costs (Dietrich & Hauck, 2012). The economic reasoning of state-owned banks would be to look after the needs of public firms and organisations, and for example give service to the payment system in the public sector. The argument is that state-owned banks compensate for various market imperfections, including forthcoming banking crises. In the latter case, one or more state-owned banks ideally will function as benchmarks for sound banking. This might reduce the problem of moral hazard, when private banks harvest the ripe fruits of their customers by increasing bonuses and dividends in good times, and while counting on public rescue plans during bad times.[4]

The moral hazard problem is often discussed in relation to public bailouts in the banking sector to find out to what extent this type of safety net leads to additional risk-taking. A study of the German banking sector 1995–2006 confirms a moral hazard effect, since a change of bailout expectations increased the probability of official distress from 6.6% to 9.4% (Lammertjan & Koetter, 2012). This pessimistic view of government intervention is confirmed in another study of German commercial banks, during the 2008-crisis (Hau & Thum, 2010). The losses of the state-owned banks studied were three times larger than those of their private competitors and statistics show that the financial and managerial competence of supervisory board members was significantly lower in state-owned banks (based on 593 biographies in the 29 largest German banks).

In a study based on non-financial and financial firms from the European Union, it was found that government ownership was associated with lower governance quality. However, this was not true for all countries; while government intervention was negatively related to governance quality in civil law countries, it was positively related to governance quality in common law countries. The author also found that the preferential voting rights of golden shares were especially damaging to governance quality (Borisova, Brockman, Salas, & Zagorchev, 2012). Since both Denmark and Sweden have civil law, we might on basis of these findings, expect lower governance quality in state-owned banks compared to private banks. Government intervention might appear because of maturity mismatch beyond normal banking business, i.e. when banks possess much more short-term liabilities than short-term assets and have more assets than liabilities for medium- and long-term obligations (Farhi & Tirole, 2012). When every economic actor is part of an extreme mismatch, authorities have few other choices than to intervene, creating both current and deferred costs. This observation underlines our hypothesis of viewing the state as the last investor.

If the collective inaction by industry during a banking crisis forces the government to intervene, the outcome of the negotiations and steps taken seems to depend on three factors: the public view of private banks, the relative importance of the banking sector domestically and the effectiveness of the coordination of activities (Woll, 2014, pp. 166–169). Furthermore, it seems that the public handling of bailouts differs over time between countries. However, there is no such thing as an Anglo-Saxon or liberal market economy solution, nor a bank-based or a state-coordinated solution, and there are no small open economy solutions. The domestic weight of large banks has been noted as a structural power, meaning a deliberate use of their role in the economy as a resource in bargaining with the government, separated from lobbying (Culpepper & Reinke, 2014). In cases when large banks exercised structural power in negotiations with the government, as in the UK and Germany where most of their revenues came from other jurisdictions, the banking sector was able to prevent the government from imposing an industry-wide solution.

At least for the Great Recession 2008–2012, it has been argued that the bailouts schemes in Germany, the UK, Iceland and Ireland were more costly than the ones in France, the US and Denmark, in terms of net fiscal impact (Woll, 2014, pp. 166–169). The far-reaching form of the state-owned bank has been more criticised than bailout schemes, although there are fiscal costs involved in every government intervention. Empirical studies show that state-owned banks underperform financially compared to private banks (Hau & Thum, 2010; Lammertjan & Koetter, 2012). This gloomy prospect applies to banks in the developing world as well as in state-controlled, coordinated and neoliberal welfare state economies.

[4]Moral hazard is defined as actions of economic agents in maximising their own utility to the detriment of others, in a situation where the agents do not bear the full consequences of their actions, due to uncertainty and incomplete or restricted constraints which prevent the assignment of full damages to the agent responsible (Kotowitz, 1989).

Not to consider government intervention in times of a severe systemic banking crisis is to disregard the political economy of banking. That would be an undesirable point of departure. In fact, it has been argued that politics is the ultimate determinant of banking stability (Turner, 2014, p. 211). Laws and directives define how banks are chartered, how they are regulated, and how they interact with the state. However, welfare states are not uniform in relation to how they suffer from less credit opportunities due to crises (Calomiris & Haber, 2014, pp. 477–478). Historical circumstances that shape the formation of the political institutions and coalitions that control banking outcomes seem to be crucial in every case.

In case of no or late government intervention, the domino effect or contagion of financial stress may lead to the failure of otherwise sound businesses, to disruptions in the securities markets, and to a slowdown in aggregate economic activity (Grossman, 2010). Government intervention and state-ownership could also emanate from a lack of private owners, nationalism and scepticism against foreign influence, in combination with high trust in the state as a promoter of the common interest in economy and society, as has been suggested in the case of Norway (Lie, 2016). Consequently, the state control of private banks during the Norwegian banking crisis in the late 1980s reflected dominant traditions and values in Norwegian political economy. This notion strengthens our argument that differences in intrinsic principles and perceptions can be understood only from a historical path-dependency orientation, rather than from a pure economic theoretical analysis.

This literature section shows that most studies in the field of interest have discussed the economic and political aspects of having governments to intervene during a systemic banking crisis. Many studies indicate the classical problem of moral hazard and that state-ownership is associated with low governance quality. Most studies are built on samples of many banks, and lack a historical perspective. In contrast to that, our study illustrates and compares principles and perceptions on an organisational level. We also contribute to previous knowledge by comparing national policy plans for resolving banking crises, in two different environments where insufficiently capitalised banks have incentives to take the risk, and there is no regulation that prevents a systematic banking crisis from occurring.

3. Swedish banking crises and government intervention

The Swedish state has a long tradition of ownership control in the business sector. As early as at the industrial breakthrough in the 19th century, the state established a symbiotic relationship with key industries, through technological procurement, personal networks and state subsidies for investments (Sjögren, 2008). The institutions of the financial system, for example, the possibility for banks to hold voting shares in non-financial firms, contributed to a corporativistic culture. The state influence in the banking sector increased in the early 1920s, in the aftermaths of the deflations crisis, and especially after the Great Depression.

During the Deflation Crisis 1920–1921, the private bank Svenska Lantmännens Bank suffered from huge credit losses. In the reconstruction of the bank, the state took 90% of the voting stock and the name was changed to Jordbrukarbanken. The intention by the government was also to take control over the largest commercial bank Svenska Handelsbanken in 1922, but this private bank was able to decline that proposal thanks to a successful reconstruction. In 1925, another financially distressed bank was reconstructed and became half state-owned, Göteborgs Handelsbank. The institute for carrying the reconstructions was Kreditkassan, founded in 1922 by the commercial banks and the central bank, where the state provided the major part of the capital injections.

In 1951, the state ownership in Jordbrukarbanken was transferred into a larger commercial bank by the establishment of Kreditbanken. In a merger with Postbanken in 1974, into PK-Banken, the state ownership increased even further. The two main motives behind an alternative to private banks were to (1) control transactions and manage credit within the growing public sector, (2) increase the competition in the credit market and reduce undesirable effects of the power of private capitalists. However, the state played a passive role as shareholder and the state. Both the main right-wing and left-wing political parties declared that all banks should operate on a strictly commercial basis. Many other state-owned companies at this time were part of regional political programmes, but PK-Banken was not, which confirms the arm's length distance to the state (Larsson, 1998).

In the 1950s and 1960s, the parliament, led by the Social-democratic party, had a strong ideological motive to strengthen the state control in both society and business. During this period, some private firms were nationalised, at the same time as new state agents were established, not at least in the financial sector. One incentive to launch a state-owned bank was to match the interest of certain private banks, not to mention to challenge the power of the private financial dynasty of the Wallenberg family (Larsson, 1998, pp. 166–168).

In the 1970s, the enlarged government intervention in the industry was a response to the structural crisis in the shipyard industry and the mining industry. From the mid-1980s, when the neoliberal wave washed over the economy, the state started to withdraw from many ownership positions. However, in the case of the banking sector, this process was interrupted and reversed, when the economy was hit by a banking crisis in the early 1990s. At this time, as well as in the 1920s and 1970s, government intervention was somewhat unintentional, i.e. a consequence of insolvent key private and half-private actors in certain businesses. However, since an alternative was to leave the problems to the market, the reasoning for the operations was ideological in terms of a belief in a strong and interventionist state.

In the 1980s, the Swedish financial sector underwent a substantial transformation. A market that for 30 years had been thoroughly regulated and shielded from the rest of the world was gradually replaced by several sub-markets with considerably more liberal guiding rules than before. During a relatively short period, loan ceilings for banks were abolished, along with de-regulations concerning interest rates, bonds, and currency. In the meantime, new financial instruments were introduced and the number of financial actors in the market increased substantially. The situation gave rise to a number of imbalances, and three types of systemic problems arose. Firstly, institutional problems in terms of problems associated with legislation and legal practice. Secondly, organisational problems meaning inefficient business structures, and finally transactional problems concerning the interrelationship between the behaviour of actors and regulations in the market (Larsson, 1998, pp. 205–213).

The deregulation of the financial market led to a considerable expansion in lending, which further increased already ample access to capital and in turn led to lower interest rates. The bank lending more than doubled from 1980 to 1990, in fixed prices. The most rapid increase appeared within the private business. Between 1985 and 1990 the price index for residential blocks and commercial properties jumped from 100 to 248 respectively 230. A reason of this spiralling trend was the substantial increase in competition between banks and finance companies for lending in a deregulated market. To gain market share the agents accepted collaterals with high risks. The growth strategy was rewarded with profits in the short-term but proved detrimental for many financial intermediaries in the longer run (Larsson & Sjögren, 1995, p. 63, 183).

Many institutions in the financial market were lifted, while other rules of the game in the economy remained the same. However, in the new context after the deregulation, these rules got another meaning. Thus, a so-called institutional clash appeared. For example, while the restrictions on banks to lend money were lifted, the same old tax system that already favoured bank credits gave companies and households further reason to increase their debt. Since it was possible to make substantial tax reductions based on the interests paid on loans, the price of the credit was extremely low. Subsequently, private customers became less sensitive to increased indebtedness.

The institutional clash had many implications. Banks started to redefine their roles and risk preferences – from previously having strictly followed well-defined rules and regulations to selling loans and services in a much more deregulated and competitive market. Especially banks without a history of lending to large corporate clients and real estate companies, such as Gota Bank, Nordbanken and some savings banks, took on huge credit risks by an aggressive policy of lending (Table 1). By 1990, banks were still actively marketing their loans, although that year marked the turning point for the financial market's success.

Table 1. Annual growth of total credit volumes in Swedish savings banks and large commercial banks 1985–1989, percentage.

	1985	1986	1987	1988	1989
Savings banks	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: Petersson (2009, p. 43).

3.1 The banking crisis in the early 1990s

In the early 1990s, the Swedish economy began to weaken. Industrial production declined and real estate prices fell. In 1990, a number of finance companies experienced major losses, for example, Gamlestaden, Independent and Nyckeln. In September 1990, Nyckeln suspended its payment. The situation for these companies was made worse by a substantial rise in interest rates, causing lower demand for loans and cutting into their earning capacity. The drop in real estate prices was a hard blow especially to finance companies, since a large part of their lending was in this sector.

In the downward spiral, the value of collaterals for loans decreased rapidly, and lenders became more restrictive in their lending (credit crunch). Borrowers reacted by selling their collateral, which further contributed to falling prices. Business liquidations and bankruptcies among borrowers followed in quick succession. The financial institutions that were hardest hit by the crisis were obviously those that had taken the greatest risks and thus contributed to the speculation. In the early phase, this trend was magnified by an international recession, following the break-up of the Soviet Union. What had initially been a financial crisis caused by a price decline in one sector, the real estate market, now took on the appearance of a full-fledged industrial structural crisis. Business bankruptcies rapidly rose in number and added to banks' credit losses. The large share of credit losses was attributable to commitments to financial and real estate businesses. Credit losses in the consumer-lending sector, on the other hand, were kept at a relatively low level.

Since the crisis deepened, the government had to step in as a lender of last resort, to assume responsibility for the financial system. At this time, the central bank was not an independent part of the government. In 1992, the government adopted a series of measures to strengthen the financial system. It guaranteed that banks and certain credit institutions would meet their commitments on a timely basis. This would be accomplished by providing financial support to viable organisations that could be expected to be profitable in the long run. The so-called Bank Support Authority (Bankstödsnämnden) was established in 1993 to implement these support means. The bank support was designed along the same line as was used in previous crises, since the early 19th century (Hagberg, 2007; Kärrlander, 2011). Most of the support this time went to the state-owned bank, Nordbanken, and the rest to the other banks that had adopted an aggressive policy of lending in the 1980s.

In 1990, PK-Banken had bought up the smaller Nordbanken, and changed its name to Nordbanken. Already before the crisis, Nordbanken was a partly state-owned bank, as a direct result of government intervention during the banking crisis in the early 1920s. PK-Banken had started a process of privatisation, and the intention from the state was to reduce its ownership. However, in the following crisis, the new Nordbanken experienced substantial liquidity and solvency problems, and the government decided to intervene, by a capital injection and increasing the ownership to 100% of the voting stock. The financially reconstructed Nordbanken continued to operate, while non-performing loans in the bank were transferred to a so-called bad bank – Securum (Securum, 1992–1997).[5] The government also decided to rescue the private commercial bank Gota Banken, where non-performing loans were placed in the bad bank Retriva. In 1993, this bank too had to be taken over by the state, with the same motive as in the deflation crisis 1920–1921, to guarantee financial stability and the

[5]The concept of bad bank did not emanate from earlier Swedish crises. Rather, it was taken from the crisis management in the US.

deposits of households and firms (Hagberg, 2007, p. 195). There was no law of deposit insurance at this time; that came as a result of the crisis in the early 1990s.

The government also supported in the reconstruction of the private bank Första Sparbanken, by giving non-interest-bearing loans and providing bailments. All these operations were done within the framework of the Bank Support Authority (Bergström, Englund, & Thorell, 2002), The Minister of Finance in the right-wing government, Anne Wibble, argued that holdings and assets taken over by the state should be sold out, but she also stressed that there was no hurry.[6] The dip in the market for properties and the turbulent financial market suggested a slow process of divestment, in order to wait for better prices and subsequently less losses for the state.[7]

At the outset of the crisis in 1991, the paid-out financial support by the state amounted to 4.8% of GDP. However, since many banks were able to pay back a substantial part of the financial aid, the fiscal cost only reached 1.7% of 1991 GDP in the end (Jennergren & Näslund, 1998; Jonung et al., 2009, p. 110). In comparison with previous crises, the time of the rescue operation during the 1990s crisis was shorter. In the crisis of the 1870s, it took 15 years before the railroad fund eventually was dismantled, and in the crisis of the 1920s, the government guarantee was retained for 15 years. However, the period of contingency was much shorter after the interventions in the 1920s (Hagberg, 2007). In the rescue operations of banks following the 1990s crisis, the process was over in six years (Larsson & Sjögren, 1997).

Evidently, government intervention during bank crises is a tradition in Swedish finance, an institution characterised by strong path-dependency. Nevertheless, the rescue operations and public financial support in the 1990s crisis led to a political debate on long-term government intervention and nationalised commercial banks. Since the state-owned bank – Nordbanken – had proven to be one of the worst examples of speculative lending and credit losses, the argument for more extensive state-ownership was less valid. Besides, various motives for state ownership in the banking sector that was prevalent in the 1970s became obsolete after the deregulation of the credit market in the 1980s. Nevertheless, some motives still remained in the 1990s. The former chairman of Nordbanken, Tony Hagström, argued that state-ownership fulfilled a national interest, with the means to prevent that the domestic market would be taken over by foreign banks. Another argument was that a state-owned bank could be used for regional policy interests, but also to satisfy financial needs within housing programmes and during periods of structural transformation. The motive was that certain financial transactions and infrastructural investments would never become profitable enough for private banks to consider: even a market economy needs a back-up from a close ally as a state-owned bank for an optimal exploitation of capital. But even these motives, mainly emanating from left-wing representatives of the state, were surmounted in the political rhetoric under the era of market-orientation that directed the policies and strategies in the 1990s (Anell, 1992, pp. 163–168; Larsson, 1998, p. 216; Larsson & Sjögren, 1995, pp. 156–169).

Once the crisis management was over, the intention by the state to reduce their ownership in the banking sector was on top of the agenda. In 1995 one-third of the stocks were sold out and in a governmental bill the year after, the social-democratic finance minister Göran Persson stressed that the parliament had agreed on selling out all shares in Nordbanken. He also put attention to the fact that one of the objectives of the Bank Support Authority was to prepare Nordbanken for a total sale, i.e. to dress the bride before the wedding.[8] However, the selling-out of shares turned out to be a slow process. Between 1997 and 2001, Nordbanken became a part of the new banking concern established in Norden: Merita-Nordbanken and later Nordea.[9] In 2007, the right-wing government was repeating the intention to sell out all shares, but in the sub-prime-loan crisis starting in 2008, the state had to

[6]Regeringens skrivelse 1992/93:251.
[7]Swedish Government, Propositioner (Government Bills), 1991/92: 153; 1995/96: 172.
[8]Swedish Government, Propositioner 1995/96, 45.
[9]Nordea was founded as a result of a merger between the Danish Unibank, the Finnish Merita Bank, the Swedish Nordbanken and the Norwegian Kristiania Bank.

activate its role as a lender of last resort once again; the state participated in the new issue of shares by making use of all its subscription rights. In 2011, the Swedish state started to reduce its ownership in Nordea, and totally left as a shareholder in late 2013.[10]

4. Danish banking crises and government intervention

In contrast to Sweden, Denmark has a limited tradition for state ownership of industrial firms in general and financial institutions in particular. The technological, political and economic modernisation processes in the early Danish capitalism was marked by a relatively weak state. It was characteristic that the imperative introduction of new dairy methods in the agricultural sector in the 1880s resulted from private decentralised initiatives, as did the establishment of new infrastructures such as telecommunication in the 1890s and electrification in the 1900s. The Danish state was also absent in the formal institutional setting concerning the regulatory market formation processes. The initial banking law came as late as in 1919 while the earliest competition law came in 1931. The financial sector was thus relatively unregulated from the establishment of the first bank in Copenhagen in 1857 to the 1910s (Iversen & Andersen, 2008).

The possible need for banking regulation was present in the contemporary economic-political debates – in particular following the banking crisis in 1907–1908, caused by a building boom in Copenhagen. The crisis caused government intervention but a legal enforcement of financial rules and regulations was avoided by a coalition of the agrarian and liberalistic political party 'Venstre' and the industrial classes in the right-wing conservative political party (Hansen, 1997).

The First World War was followed by a new banking crisis. The government made an intervention providing access to liquidity when the largest Danish Bank, Landmandsbanken in 1922 went bankrupt due to substantial losses mainly related to failed investments in Russia and partly to speculative investment 'consortiums' (Hansen & Mørch, 1997). The reconstruction of Landmandsbanken was a complicated and politically sensitive process and only in 1928, the Danish state did initiate a long-term agreement for the continuation of the bank. It was explicitly stated in the law of 1928 that the state should eventually re-privatise Landmandsbanken. This process took place from 1936 to 1952, when the Danish state sold its last shares. In contrast to Sweden, the banking crisis of the 1920s did not lead to long-term state ownership of any Danish bank. In the mid-1930s, the influential and wealthy ship-owner, A.P. Møller decided to invest in Landmandsbanken, by an ownership of approximately 20%. The ship-owner Mr. Møller publicly expressed that the motive was to avoid permanent state-ownership of the bank and consequently political influence on its businesses (Hornby, 1988). A long stable period followed with national-based, restrictive legal framework and only few banking crises (Østrup, 2010b).

The deregulation of the Danish banking sector in the 1980s was a gradual process, initiated by the termination of the strict restrictions on lending and interest rates levels in respectively 1980 and 1981. These measures were followed by the implementation of international regulation standards in the early 1990s, particularly the second EU banking directive (Østrup, 2010b). As in Sweden, the deregulation of the banking sector caused an increase in the risk-taking and lending profile of a number of primarily regional and local banks. Nevertheless, the Danish banking crisis of the late 1980s and early 1990s was solved by the industry itself and it was not a systemic crisis (Hansen, 1997). An analysis published by the Danish National Bank pointed at two important reasons, which explained the relatively mild Danish banking crisis of the late 1980s and early 1990s (Abildgren & Thomsen, 2011). The Danish banks gradually implemented their growth strategies congruently with the changing regulatory regime, and the national and most important banks kept a sound balance between lending and deposits. Secondly, the Danish crisis was encapsulated by the consolidation of the industry. Six of the largest Danish banks merged into two major national banks: Danske Bank and Unibank, and relatively large banks such as Sydbank and Jyske Bank acquired a number of

[10]Swedish Ministry of Finance (2011).

Table 2. Annual growth of total credit volumes in Danish large commercial banks 2003–2007, percentage.

	2003	2004	2005	2006	2007
Danske Bank		11	20	15	25
Nordea	0	10	17	−3	14
Jyske Bank	−33	17	22	18	25
Sydbank	14	22	28	20	3
Roskilde Bank	13	39	55	59	37
Amagerbanken	−4	16	59	38	36

Source: Finansrådet, 'Sektoren i tal' (2015), retrieved from www.finansraadet.dk.

local and regional saving banks and private banks (Abildgren & Thomsen, 2011). A third reason was the stable macroeconomic conditions in Denmark in the early 1990s based on a credible fixed exchange rate (Vastrup, 2009).

In the decade from the mid-1990s to the mid-2000s, the Danish financial sector went through a formative phase marked by aggressive growth and based on three fundamental strategies. The large banks mentioned above made a related, national diversification acquiring insurance companies, mortgage institutions and investment banks. In addition, the large banks adopted a strategy of internationalisation. The pan-Nordic bank Nordea was established in the year 2000 and Danske Bank was internationalised through acquisitions in Scandinavia, Ireland and Northern Ireland – culminating with the acquisition of Finnish Sampo Bank in 2008 – the hitherto largest acquisition in Danish business history. Finally, Danish banks expanded their activities by increasing lending and by introducing new innovative financial products. In 1996, the Danish Mortage Banks introduced a new flexible loan with a variable interest level based on short-term loans. This flexibility was enhanced with a new legislation in 2003, which made it possible to include up to ten years postponement of the repayment (Rangvid, 2013). Table 2 illustrates the annual growth of total credit in the four largest Danish banks (Danske Bank Nordea, Jyske Bank and Sydbank) plus two of the fastest expanding regional, medium-sized banks (Roskilde Bank and Amagerbanken from 2003 to 2007). In that period, a number of regional and local banks including Roskilde Bank and Amagerbanken introduced more aggressive growth strategies congruently with a high growth in the real estate prices, particularly in Copenhagen.

In 2006, the profitability of Danish banks peaked when the return on equity reached an average of 19% for the 20 largest banks (Finansrådet, 2014). In the same year, total lending of Danish banks grew by 25%, from 1342 million DKK to 1691 million DKK, where the latter figure was equivalent to almost 100% of the Danish annual GDP. Deposits on the other hand only grew by 9.4% to 1290 billion DKK (Iversen, 2013). The surplus of private loans was largely covered by wholesale funding from the global inter-banking market. The Danish banking sector experienced rising fragility due to the imbalance between loan and deposits, combined with a general high exposure towards property and construction (Rangvid, 2013). From the spring of 2007, the Danish demand for property stagnated while the supply continued to rise. That eventually caused falling real estate prices from the summer of 2007. The falling property prices caused an immediate pressure on some of the most risk-oriented banks as large customers within the property market failed to meet their obligations.

4.1 The banking crisis in the late 2000s

Roskilde Bank, one of the ten largest banks in Denmark, experienced a liquidity pressure in June 2008 and the national bank decided to ensure the short-term survival of the bank by issuing a non-limited credit facility. By late August 2008, the Danish national authorities were facing four interrelated issues Firstly, it was clear that Roskilde Bank did not live up to the legal solvency demands. Secondly, no private institutions had showed any interest in acquiring the bank. Thirdly, the situation in Roskilde Bank, with substantially more lending than deposit combined with high exposure towards large costumers in the troubled Danish real estate market, was not unique; up to ten local, regional and national banks experienced a similar problem (Jeppesen, 2009). Finally, the global inter-banking market lost its liquidity as the American financial crisis expanded from JP Morgan Chase acquisition of Bear Stearns in April over the enforced American credit facility of Fannie Mae and Freddie Mac in the summer of 2008 to the collapse of Lehmann Brothers in September 2008. Consequently, the troubled Danish banks faced accelerating problems in the daily access to liquidity, which violated the solvency requirements.

As a response to these challenges, the Danish government, the financial supervisory agency (FSA), the national bank and the organisation of private banks (Finansrådet) initiated negotiations on the measures, which could ensure the financial stability of the country. The result was the so-called 'stability package' which consisted of two important measures. The Danish state provided an unlimited guarantee on all deposits and other unsecured claims for two years. The guarantee was provided to Danish financial institutions that were members of the 'Det Private Beredskab' – an organisation for sectoral self-insurance in relation to deposit guarantees. The guarantee was effective from October 2008, and approximately 90% of the Danish banks decided to become members of the new organisation. With a membership of Det Private Beredskab followed a fee depending on the size and risk profile of the banks. The unlimited deposit guarantee was set up in order to secure access to liquidity from the inter-banking markets. This made it possible to finance the short-term obligations of distressed Danish banks, which had financed their deficit between deposits and loans through a toxic combination of short and long-term inter-banking loans. The facility reflected an important change in the concept of a bank run. The traditional bank run appears due to failed coordination between deposit-holders, who fear that other deposit-holders will raise their deposits (Diamond & Dybvig, 1983). The modern bank run, on the other hand, is a consequence of the disappearance of the inter-banking market financing of loans (Shin, 2009). For the bank, the consequence is the same, namely a pressure on the liquidity.

Besides the unlimited guarantee, the stability package also included a new state-controlled organisation in order to take over the obligations of troubled banks, entitled Finansiel Stabilitet.[11] In the initial negotiations in September 2008, the Danish state and the private actors of the banking industry agreed that the private sector should solve the crisis itself by paying a 'self-insurance' to the state, providing a guarantee that could ensure domestic and international trust in the Danish banking system. During the negotiations, it became clear that a number of Danish banks were so economically strained that on the one hand they could not live up to the legal solvency requirements and on the other hand no private banks were willing or able to take over their obligations through mergers and acquisitions. In the by-laws of Finansiel Stabilitet, it was stated that the primary purpose of the organisation was to dismantle its own assets. It was regarded as a temporary organisation, which should ensure the Danish financial stability in a transitional and turbulent period. The costs of setting up Finansiel Stabilitet were up to October 2010 covered by the private sector, which continued to contribute to the reconstruction of other private banks. Finansiel Stabilitet was partly a public enterprise under the Economic and Business Ministry and partly a financial holding company**.** The funding of this Danish solution was based on an insurance mechanism, where the members of Det Private Beredskab had to pay a premium based on the size and risk profile. The total payment of a minimum of 25 billion DKK and a maximum of 35 billion DKK went to the Danish state, which issued the guarantee and managed the administration of the guarantee and consequently the establishment of Finansiel Stabilitet (Iversen, 2013).

In November 2008, the Danish government thus appointed the board of directors of the Finansiel Stabilitet. Two private bankers were selected for the chairmanship: as chairman the former bank manager in Nordea, Henning Kruse Petersen and as vice-chairman the former bank manager in Danske Bank, Jacob Broholm. These two private actors then decided to employ the former manager

[11]'Det Private Beredskab til Afvikling af Nødlidende Banker, Sparekasser og Andelskasser' (Det Private Beredskab) was founded on June 13th 2007, by the Danish organization of private banks (Finansrådet). The guarantee was limited to 300 000 DKR or app. 40 000 Euro.

Table 3. Danish Banks taken over by Finansiel Stabilitet, in chronological order 2008–2012.

1. EBH Bank (November, 2008)
2. Løkken Sparekasse (March, 2009)
3. Gudme Raaschou Bank (April, 2009)
4. Roskilde Bank (August, 2009, after one year ownership of the National bank)
5. Fionia Bank (May, 2009)
6. Capinordic (February, 2010)
7. Eik Banki/Eik Banki Danmark (September, 2010)
8. Amagerbanken (February, 2011)
9. Fjordbank Mors (June, 2011)
10. Max Bank (October, 2011)
11. FIH (March, 2012)
12. Sparekassen Østjylland (April, 2012)

of the Danish financial supervision agency (FSA), Henrik Bjerre-Nielsen as daily leader of the new institution. The objectives of Finansiel Stabilitet were discussed in a board meeting in mid-December 2008. In the discussion, Mr. Bjerre-Nielsen emphasised that it was 'a new company, with an unusual business'. The objective of Finansiel Stabilitet was, according to Bjerre-Nielsen, to ensure financial stability by '… fulfilling its obligations under the guarantee scheme as cheaply as possible.' A swift dismantle of assets was desirable but at the same time '… it would be appropriate to keep the assets in a state in which a quick sale due to a temporary loss of demand, could have resulted in prices that would not reflect expected future earnings – e.g. in real estate.'[12] Evidently, the objective of Finansiel Stabilitet was to define the balance between the desire of swiftly privatise activities of the failed banks and on the other hand to maintain assets if there was a legitimate expectation of improvement in the economy and thereby increasing prices (Iversen, 2013).

In February 2009, the Danish government decided upon a second banking legislation 'package', which aimed to increase the liquidity of the Danish banks – and thus support the general access to credit in the Danish economy. The law was two-fold with a scope of three years. Firstly, it was decided that Danish banks could apply for access to hybrid core capital injections from the Danish state. Secondly, the banks could apply for an individual state guarantee, which could be used in relation to the issuance of bonds. The Danish Ministry of Economy and Commerce would administer the former scheme while the new financial holding company for non-performing loans, Finansiel Stabilitet, would administer the latter.

By this, Finansiel Stabilitet's activities were separated in two important spheres: (1) The take-over, sell off and continuation of troubled banks and (2) the assessment of applications for individual state guarantees including a monitoring process. From the founding in October 2008 to the end of 2012, Finansiel Stabilitet (and thus the Danish state) took over 12 medium-sized regional and smaller Danish banks (Table 3).

Despite the administrative division and sale of these banks, Finansiel Stabilitet provided individual state guarantees to 56 Danish banks amounting to 335.7 billion DKK out of which guarantees of 191.7 billion DKK were used to issue bonds on the financial markets. In its annual report of 2011, Finansiel Stabilitet stated a total balance of 54.5 billion DKK and employed approximately 500 people (Iversen, 2013, pp. 204–205). Despite the Danish tradition for limited state ownership, the Danish state was, two and half years after the acceleration of the banking crisis in the summer of 2008, now deeply involved in the Danish financial sector. It was argued that the development of Finansiel Stabilitet constituted an example of incremental yet significant institutional change (Carstensen, 2013, p. 569). The organisation was established with a political wish of consolidation of the sector. The legal framework of Finansiel Stabilitet was wide and the private actors in the management

[12]Finansiel Stabilitet Archives (FS), Board meetings, 16 September 2008.

could define the means used in order to reach the well-defined aim, namely financial stability through the handling of the distressed banks.

5. The perception of the state – a comparative analysis

A comparison of the political responses to the Swedish banking crisis in the early 1990s and the Danish banking crisis in the late 2000s unveils important similarities and differences. The similarities include the background of the economic shocks, with the pressure on the solvency in a number of banks, which in the previous booming years had executed an aggressive growth strategy. Another similarity was the lowering of the price levels on the domestic housing market. At the time of these crises, the Swedish and Danish states interfered in a number of ways in order to handle the crisis and ensure financial stability. In both countries, the governments combined all types of banking intervention measures, which illustrates the gravity of the crises.

Another notion is that the financial system of Denmark and Sweden underwent the same process before, during and after the two banking crises, i.e. re-regulation during a long period of boom followed by financial innovations, surplus of liquidity, debt accumulation among firms and households, the burst of the bubble and finally bailout schemes. These similarities confirm the existence of a deterministic cycle of crisis, suggested by Nordic financial historians (Sjögren & Knutsen, 2009). This model also predicts an active role played by the state, after the bubble has burst and the banking industry has to be re-structured. Besides, we cannot leave out the possibility that the successful way of banking crisis management in Sweden encouraged and guided the Danish government once the acute problems appeared.

Denmark only experienced a mild crisis in the early 1990s, when the other three large Nordic economies underwent a deep and lengthy crisis. In the post-crisis period, Finland, Norway and Sweden changed the rules of the economic game, for example by a tax reform that reduced the interest deductibility provisions substantially. In combination with stricter rules and more discipline within the banking industry, the level of debt finance fell substantially. Because of the institutional changes, these three Nordic countries did not take part in the boom that characterised the many assets markets before the sub-prime-loan crisis. Danish legislation, however, was more liberal and market-oriented and the banking sector lacked enough discipline for their lending. New high-risk financial innovations were introduced, such as flexible loans, and credit volumes began to increase, followed by a skyrocketing of property prices in 2007. The Danish banking sector turned fragile when the customers of the banks became heavily indebted. The mortgage bank sector in Denmark was larger than the one in Ireland, a country that was also affected severely by the crisis due to a relatively large financialisation of the economy (Kluth & Lynggaard, 2013). Not surprisingly, Denmark suffered the most among the Nordic countries during the latest world-wide crisis.

In this comparative analysis, we will focus on the most radical forms of intervention: when governments set up a new organisation for financial stability and take direct ownership control in one or more insolvent banks. Already at the beginning of each crisis, there were significant national institutional features, which explain the outcomes that followed. Firstly, one of the troubled Swedish banks, Nordbanken, was owned by the state prior to the crisis, and the financial stability in Sweden was ensured by direct state investments in three troubled banks. When the Swedish economy recovered from the mid-1990s, marked by lower interest rates, the government started to sell out assets, and the public bank support could close earlier than was expected (mid-1997). The state ownership in Nordbanken, Merita-Nordbanken and later Nordea was reduced gradually from 1995 and onwards.

In Denmark, the liberal-conservative government coalition proclaimed as early as at the end of 2008 that it was not the ambition of the state to become an owner of the banks. There were two guiding principles in the crisis legislation. It was stated that the assets taken over by the state should be divested as soon as it would be economically viable. Possible advantages of long-term state ownership were not considered in the legislation, in the by-laws, in the strategy discussion and not in the political debate in the Danish parliament when the legal framework for Finansiel Stabilitet was decided upon (Iversen, 2013, pp. 35–46). The second guiding principle was 'self-payment'. In essence, it meant that the private sector should cover the expenses of government intervention. During the negotiations between the Danish government, the Danish financial supervisory agency (FSA), the national bank and the bankers association, the liberal-conservative minister of commerce, Lene Espersen, presented the funding solution as an 'insurance-system'.[13] In the autumn of 2010, the self-payment proved a surplus of 2.5 billion DKK, which was transferred to Finansiel Stabilitet in order to finance the cases of disrupted banks that followed. The combination of divestment and self-payment as guiding principles suggests that the crisis violated the Danish liberal tradition of solely private ownership and forced the state and private sectors to find solutions without state ownership in the banking sector.

The ministries in both Denmark and Sweden declared their intention to sell out assets that had been taken over in the bailouts as soon as possible. However, in Denmark, this policy was put forward more explicitly and was implemented as an immediate response to the crisis in the fall of 2008. The perception of the state as a possible owner of financial institutions was not the same in Denmark as in Sweden. In the Danish case, there was no tradition for state-ownership of banks when the crisis started late in 2008. This market-oriented perception had direct consequences for logics behind government intervention in the banking sector and for the public discussion. Consequently, the debate in Denmark in 2010 and 2011 did not question the two mentioned guiding principles. On the other hand, it was questioned to which extent Finansiel Stabilitet had been efficient enough in securing the prime national interest, i.e. in seeking for the highest possible level of divestment under the lowest possible level of overhead.

Both the actual structure of the Danish interventions and the following public debate mirrored a Danish perception of the relationship between the state and the private banks which were different that the perception of the perceived role of the state in the Swedish case of the 1990s. We know that institutional change is a deliberate process shaped by 'the perceptions of the actors about the consequences of their actions', and that these perceptions partly result from cultural heritage (North, 2005, pp. 22–23). Thus, perceptions concerning government intervention in the banking sector reflect explanations and interpretations, as a part of a narrative (Hansen, 2012). Both Scandinavian banking crises caused formal institutional changes in terms of new regulations and laws, but also informal institutional changes in terms of less risky and less growth-oriented banking practices.

The Danish and Swedish cultural heritage was different in terms of traditions for state ownership of banks. The Swedish intervention in the early 1990s followed on a tradition of government intervention and state ownership, while the Danish solutions to the accelerating crisis in the fall of 2008 built upon a deeply rooted aversion against state ownership, shared by the government and the private actors. The collective risk sharing for bank failures mirrors the Danish corporatist history and the characteristics of a negotiated economy. According to Pedersen a negotiated economy 'entails political and economic processes and relations that are neither strictly public nor private but are situated between public authority and private autonomy' (Pedersen, 2006, p. 246). This description constitutes the institutionalised legacies of Finansiel Stabilitet in Denmark, in which the execution of the public interests of stability was given to a number of private actors in a state-owned organisation.

The prime motive to set up the state-controlled organisations for financial stability was the same in both Denmark and Sweden, namely to help banks to help themselves. Therefore, there was a striking similarity in reaction to the liquidity and solvency crises, resulting in substantial capital injections and state control. The two different governments acted pragmatically in order to mitigate the effects

[13]It meant that the private sector should pay an insurance fee of 15 billion DKK for the state guarantee, plus an additional 10 billion DKK, which covered the running costs of dissolved banks over two years. On top of these 25 billion DKK an additional 10 billion DKK could be supplemented if the funding was required. Totally, the private sector would supply up to 35 billion DKK equivalent to more than two per cent of the Danish annual GDP. The possible costs over 35 billion DKK would be covered by the Danish state. This proved to be unnecessary as Finansiel Stabilitet's warranties went up to 22 billion DKK (Iversen, 2013, p. 205).

of the economic shock. The public–private arrangements that were set up were similar types of organisations, i.e. Järnvägshypoteksfonden in 1878/1979, Kreditkassan in 1922, Bankstödsnämnden with Securum and Retriva, and Finansiel Stabilitet in Denmark. Referring back to a list of forms of government intervention, Sweden applied distinguished versions of forms no. five and six, i.e. public–private organisations including take-over of non-performing loans, with guarantees from the state (5) respectively state-ownership control in one or more insolvent banks (6). In Denmark, a hybrid of these two far-reaching forms of government intervention was applied.

The government interventions in the latest Swedish and Danish crises suggest a common solution in Scandinavia for managing severe banking crises, regardless if banks are state-owned or not when the crisis appears. The national interest of keeping the banking sector as 'going concern' seems to be more important than reducing fiscal costs and taking the risk of becoming deeply involved in the private business, at least on a short-term basis. In both countries, there was an act of balance between re-establishing the private foundation of commercial activities, whilst not violating the value of the assets by selling during an economic downturn. The difference that remains is how the bailout schemes were set up, where the target to guarantee the stability of the financial system was combined with a willingness of even more profound state-ownership than before the crisis only in the Swedish case.

6. Conclusion

Since governmental interventions in the banking sector have not always come uncompelled, we need to analyse motives behind the public policies during and after banking crises. We have externalised objectives that have justified public bailouts and subsequently state-ownership of banks in the Nordic banking history. Especially, we follow intrinsic principles and perceptions, and explain them in a historical and a contextual manner in the case of Denmark and Sweden. We have shown that even if the perceptions of government intervention differed for historical reasons, the outcomes of the crisis management were similar.

The Danish and Swedish economy history is quite different in terms of traditions for state ownership. Thus, the Danish government has been reluctant to accept state-ownership in the banking sector, while the operations in Sweden in the 1990s, made by a right-wing government, followed on a long tradition of state involvement. However, we have shown that both countries have applied similar institutions concerning financial stability, capital injections and plans for reconstruction and divestments of assets. The state, primarily the government, acted upon a historical understanding of crisis management and adjusted far-reaching international forms of government intervention to their historically based perceptions, in the intersection between self-insurance and state-control. The government acted upon vital national interests, and had a strong belief in improved economic conditions, once the business cycle turned upwards. Therefore, the government intervention and the state-controlled organisations had an overall purpose: to serve as a stabilising and counter-cyclical power in the market for credits, in order to keep an economy and a business sector 'going concern' during a state of crisis.

Moreover, in Finland and Norway, around 1990, organisations for crisis management were also set up, administratively separated from the central bank and the financial supervision authority. Just as in Denmark and Sweden, it relieved the Ministry of Finance from front-line duties and helped to play down conflicts within the banking industry. Finland, Denmark and Sweden introduced state-controlled banks for non-performing loans, while in Norway some of the banks set up internal bad banks (Honkapohja, 2014, p. 200). The institutions applied were historically embedded, i.e. path dependent. Thus, there is a long history of similar ways to tackle economic shocks and financial turmoil in the Nordic countries.

We state that bank crises are major issues for each government to tackle, since the consequences of bank failures can be disastrous for the whole economy. From an economic and democratic point of view, the alternative to bailouts might be even worse. This consideration has led to a pragmatic view on government intervention in the banking sector. The capability to compromise across public and private interests was an important component behind the arrangements set up; an institutional capability in Scandinavia labelled negotiated economy (Pedersen, 2006). In a European perspective, this notion is interesting, since it implies that contemporary ideology and party-colour means less. In both Denmark and Sweden at the time of the crisis, the ruling government was liberal-conservative. The way the crises have been managed illustrates a high degree of path-dependency in relation to state interference, regarding the choice of financial crises measures and the implementation. As early as in the beginning of the 19th century, recognised measures had proven to be an effective method for financially distressed private actors in Germany. By 1850, both German and Swedish economists propagated for government intervention.

We have shown that there are both economic and political reasons for rescuing troubled banks. For example, government intervention is positively correlated with vital nationally based interests, including an explicit ambition to restore faith in the market economy among households and investors. Our results suggest there is an international standard portfolio of instruments (a toolkit) for crisis management, to use to reach the target of an economy going concern. However, each country has to search for its most appropriate instruments. What determines the very choice of instruments is the likelihood to obtain legitimacy for the use of them, and to what extent previous solutions have been economically successful in a national and international perspective.

Our results suggest that the argumentation for government intervention has to be massive, resolute and rapid. The reason for this is that all types of government intervention affect market incentives and taxpayers. For an intervention to be economically effective and democratically accepted, the public support and argumentation have to be firm and explicit. With an explicit target – to reach the highest possible level of divestment under the lowest possible level of overhead – the governmental operations have a chance of being successful, not being a financial burden for the taxpayers. However, for this to happen the institutions must be strong in terms of law enforcement, bankruptcy rules and policy transparency. Consequently, if the economy is overwhelmed by nepotism, corruption major political disputes, the chances for an effective crisis management is much hampered, which might explain why the Nordic crises have been relatively short.

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