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Picking Winners or Bailing out Losers

by

Gunnar Eliasson and Bengt-Christer Ysander

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PICKING WINNERS OR BAILING OUT LOSERS?

Government direct involvement in manufacturing in the Nordic countries, and in Sweden in particular, differs considerably both in character and magnitude from the corresponding post-war policies in the rest of Europe. One can discern a distinct and unique Nordic choice of industrial policy strategies. Hence, in what follows, the attainments of SF will be reviewed against the background of Swedish industrial policy ambitions.

1. State controlled business enterprise in the Nordic countries

One typical characteristic of the Nordic welfare state is the combination of a "socialized" distribution of the fruits of production, with private control of industrial capital and of decisions related to investment and production. The share of state controlled business enterprises in the Nordic countries is still well below the European average and lags far behind the corresponding share in countries like Italy and France.

Various historical, political and practical reasons explain the relatively insignificant part played so far by "state capitalism" in the Nordic countries. The great depression and the post-war reconstruction was not as traumatic an experience for the Nordic countries as it was for the rest of Europe, and did not give rise to a political bias towards nationalization. The Nordic countries are small and extremely open economies, with a multinationally organized business community and with an acute political awareness of the links between competitiveness and economic prosperity. In this context nationalization appears to be a more intricate and less profitable political proposition than may be the case in countries with a less specialized and more home oriented industry. The early access to political power by social democratic parties and by highly organized labor unions also tends to make attempts at outright nationalization inefficient solutions from a welfare point of view and very impractical compared to the redistributional policies.

The rapidly expanding industrial yield, partly caused by a swelling foreign demand but probably also magnified by this "hands-off" policy, reinforced the political success of the policy itself at least until the early seventies. As long as the industrial machine was working well, modernizing and expanding to keep pace with the swelling foreign post-war demand for the products of the Scandinavian basic industries, the Social Democratic Government felt no pressure for intervention. Unions and labor Governments designed their policy to facilitate structural change. Union policies aimed at levelling wages by pushing them upwards from below, providing both stick and carrot for efficiency, and the finance of growth was stimulated by generous fiscal depreciation rules. Although most pronounced in Sweden, this was the dominant political pattern in the other three Nordic countries as well during the first two post-war decades.

The size of the state operated business sector in the Nordic countries is thus still relatively small although expanding very fast since the seventies. The main thrust of government policies was instead in the direction of socializing and expanding service production, in particular in primary education and health services, for which the local governments are responsible. The cautious approach to manufacturing policy - at least up to the seventies - was then matched by a, compared to the other West-European countries, bold and fast advance in tax-financed and Government produced social services. This is illustrated in the Swedish case by Table 1 C, which shows the relative importance of public business companies and the public production of social services etc.

In reviewing the public business sector a mention must first be made of the usual public involvements in infrastructure and utilities. Telecommunications, postal services, railroads and airports for instance are run by the state in all Nordic countries although the degree of ministerial control varies. In Sweden proposals for organizing these business agencies[1] as joint stock companies has so far been stopped by union resistance.[2] Production of certain strategic defence materials and the management of the old "crown" estates are examples of other tasks that have traditionally been handled by special state agencies. Apart from these activities there are other businesses that are organized as government agencies, and financed directly through the state budget. In Finland, for instance, this is the case with a state clothing factory and a state margarine factory and in Sweden hydropower production provides another example.

The development of state controlled business companies in Sweden through the late 60's was not part of any overall industrial policy strategy. No such "strategy" of the European type did, in fact, exist but rather a different, less explicit and more decentralized philosophy. Apart from fiscal monopolies concerned with the production of tobaccos and alcoholic beverages and with lotteries one can discern three distinct motives behind the development.

Defence requirements and the need to safeguard vital raw materials were quoted already in 1907 as the reason for state acquisition of a half-interest in the iron ore mines in northern Sweden. The mines became fully state owned after new share purchases in 1957 and 1976. Before the second world war the same argument was advanced for Government engagements in steel making (NJA in Luleå). Several state investments within the energy field during the 1940's - from peat and slate oil to nuclear energy production, had the same motivation.

But the Government has sometimes chosen to step in and take responsibility for firms close to bankruptcy. In some cases this has been out of concern for the economy - for example the involvement in the bank sector, which ultimately led to the establishment of the state-owned commercial bank-PK in 1974. Sometimes - as in the case of a major shipbuilding plant (Uddevallavarvet), taken over from private ownership in 1969 - the take-over was mainly employment motivated. Decentralization of specialized production areas or service functions with a view to raise efficiency explains the establishment of other joint stock companies. Wood processing activities were separated from the agency administering the state owned land, the Swedish Forest Service (Domänverket) and incorporated under the name of ASSI. The railroad agency set up a separate company to run its catering. It has also acquired road transport companies and companies producing railroad materials. A shipbuilding firm and an engineering concern - (the SMT Machine Company) were separated from defence material agencies. To exploit the state monopoly on alcoholic beverages further, a restaurant chain, SARA, was established at the end of the war.

Continuing efforts have also been made during the post-war period to separate out those specialized service functions within the state administrations that could be run on a competitive, commercial basis. This has resulted in the formation of new state companies selling publishing, reproducing and security services.

In 1970 this profileration of companies had resulted in some 30 "subsidiaries" and around 40 joint stock companies, 22 of which were by then organized within the newly set up holding company Statsföretag (SF). Table 1 shows that the agency group at that time was responsible for more than 3/4 of total employment, value added and investment within the state business sector.

The table also shows that these proportions have changed drastically during the 70's. A relative stagnation within the agency group contrasts with the rapid expansion of the joint stock company group. SF accounts for a diminishing share in this group. It should be mentioned, however, that the stagnation within the state agencies to some extent is countered by a parallel expansion of joint stock subsidiaries to the same agencies.

New policies and changing world economic conditions, however, have considerably altered the conditions for state business involvement since the late 60's.

Table 1. The Government share of production 1970-79

Table 1 A. Share of Central Government controlled joint stock companies in Mining and Manufacturing (percent)

	Employment		Value added		Investment	
	1970	1979	1970	1979	1970	1979
1) Statsföretag AB (State Enterprise Ltd.)	3.2	4.8	4.8	4.4	7.5	12.5
2) Other joint stock companies[1]	0.7	7.5	-	-	1.0	14.1
Sum	3.9	12.3	-	-	8.5	26.6

Table 1 B. Government share of total employment and investment (percent)

	Employment (persons)		Investment (gross)	
	1970	1979	1970	1979
1) Statsföretag AB[1] (State Enterprise Ltd.)	0.9	1.1	1.3	2.0
2) Other state-controlled joint stock companies (incl. credit institutions)[1,2]	0.6	1.8	0.5	2.4
3) State Business Agencies	3.7	3.7	6.9	6.5
4) State services	6.3	7.5	5.2	5.2
	11.5	14.1	13.9	16.1
5) Local Government joint stock companies	n.a.	0.9[4]	10.6	7.8
6) Local Government Business Agencies	1.0	1.2	6.4	4.4
7) Local Government services	14.3	22.3	16.6	11.7
Local Government total	15.3[3]	24.4	33.6	23.9
Total Government	26.9[3]	38.5	47.5	40.0

[1] The partition of the state-owned companies has been made possible by the use of dat from the publication "Statliga företag". As this source diverges somewhat from the nation accounts otherwise used - especially in 1970 - the figures should be interpreted with cau tion.

[2] The figures for 1979 include the newly acquired Södra Skogsägarna, earlier a productio company belonging to the farmers cooperative movement in forestry. The figures als cover AB Samhällsföretag, a company created for the employment of handicapped people.

[3] These total figures exclude local government joint stock companies for which data con cerning 1970 are not available.

[4] The estimate of employment in local government joint stock companies has been deriv ed from data available at the Association of Swedish Local Governments, while the othe employment figures have been calculated using official employment statistics from the Na tional Central Bureau of Statistics.

2. From labor market programs to a selective industrial policy - the background of SF

The middle sixties witnessed a change both in the external conditions of Swedish industry and in the orientation of Swedish industrial policy.

Industrial policy is supply oriented, but any dividing line between demand and supply management of the economy is somewhat arbitrary. We have chosen to regard everything outside the domain of traditionally defined macro demand and monetary management as industrial policy. From this, it follows that industrial policy can work in two different directions. It can be oriented towards improving the market process by stimulating competition and making price signalling more reliable, leaving decisions regarding investments and production in the hands of the firms. The other approach consists of direct interference in the micro decision machinery of industry through legislation, controls or direct ownership.

The Swedish policy towards manufacturing used to be almost entirely of the first anti-monopoly kind. But since the end of the 1960's Swedish industrial policy has moved in the second direction and the creation of SF can be viewed as part of this change.

Swedish industry entered the post World War II period in an extremly favorable position. A modern and intact industrial production machinery driven by cheap hydroelectric-power could supply much needed investment goods to the war-damaged countries in Europe. At the same time Swedish basic raw materials - iron and wood - enjoyed rising prices. These advantages were reflected in a fast generation of resources, at high proportion of which was reinvested, producing an exceptionally fast growth of GNP. The Swedish policy orientation until the end of the 60's was in fact rather to check strongly expanding industrial investments to make room for activities considered socially more desirable like public sector growth or residential construction.

Already from the peak of the Korean boom, however, the competitive situation of Swedish industry began to deteriorate. New competition emerged both in Europe, America and the Pacific and resulted in falling price trends for Swedish staple goods. The down-ward trend was temporarily halted by an investment boom in the late fifties and the early sixties. Trade liberalization, economic integration in Europe, the lifting of internal war-time restrictions and impediments on industrial investment and construction were driving forces behind a revival of growth through the middle sixties.

During this period of industrial expansion and fast productivity increase the government did little to influence the direction of industrial development. The industrial policy strategy was to facilitate structural change by smoothing its social effects. Government and unions aimed at subjecting the manufacturing sector to further competitive pressure while concentrating on redistributing the rapidly growing output through increasingly ambitious public budgets[3]. Profits and losses remained with industrial owners and business tax rules were generous as long as profits were reinvested in industry. A tight fiscal policy that diverted resources to public sector growth combined with an intense union policy of equalizing wage levels from below across firms, regions and industries (the so called solidaric wage policy) to pressure manufacturing firms into increasing productivity - or going out of business. An <u>active labor market policy</u>, directed towards regional "pockets" of unemployment created by this squeeze at the same time helped to speed up geographical and professional mobility. These policies included retraining as well as financial stimuli for workers to move geograhpically. Emphasis, furthermore, was on internally financed expansion within big firms favored by generous fiscal write-off rules, while a tougher tax treatment was accorded the small businessman who tried to keep his business within the family.

Around the middle sixties the growth effects of the investment boom had petered out. New international competition was on the increase and the ongoing deterioration of the competitive position of Swedish basic raw material industries again became visible. In hindsight the middle sixties can be said to mark a change for the worse in the trends for Swedish industry.

Other producing sectors had shown a quite different development. The normal growth in demand for education, health care and old age security that comes with an increased standard of living had been further stimulated by increased subsidy programs. Since the production of these sectors was almost 100 percent in the public domain this meant a strong growth in the public sector. In this way a dual economy was created with a decentralized and privately organized manufacturing sector producing internationally traded goods contrasting with a centralized, social service sector.

There were also other sectors that were to a great extent in the public domain. The construction sector was strongly influenced from the demand side by Government housing subsidies and by a growing share of local Government and cooperative ownership of residential buildings. After the war, the credit system was used more strongly to divert household savings to other uses than manufacturing investment. Formally under private ownership the banking system, through regulations and controls, came to be more or less in the public domain. The public control of the credit system was further enhanced in 1960 by the creation of a supplementary pension scheme (the ATP system) with a huge funding arrangment (the AP funds). The three initial funds were later supplemented with a fourth designed to operate as part of a new industrial policy strategy by direct acquisition of shares in companies. This huge financial institution (the four funds) was imposed upon a highly regulated capital market. As a consequence the AP funds to a large extent became the main source of cheap (below the market interest rate) finance for the housing sector.

With the continued integration of the Swedish economy with the other OECD economies in terms of trade, production and investment, a parallel financial integration followed, however, that began to make itself felt towards the middle of the sixties. Fiscal an monetary policy making in Sweden was no longer solely a domestic issue.

From the late sixties the still growing social and restributional ambitions were thus straining the resources of an industrial engine whose conditions were deteriorating both internally and externally. Politicians and professional economists alike, however, both seem to have been largely unaware of this at the time.

Two alternative ways to respond to the changing economic condition were available to the Government in principle - if indeed it wished to react. The "old" policy of market support could be both modified and strenghtened to create a more favourable climate for new offensive industrial ventures. The alternative was a selective industrial policy, i.e., more central Government involvement in the production machinery and less reliance on the self-regulatory mechanisms of the markets.

The market support policy would probably have required a major restructuring of the capital market and an improvement in the relative benefits allowed for private share owners. The combined effect of accelerating income taxes and tax laws that favoured profit plow back of capital gains and reinvestment at the expense of dividend distribution worked well during the favourable conditions of the 50's. The relative - as well as absolute - price development was then quite stable and predictable and investment generally should go to those industries where profits had been generated. During the new, changing competitive situation, however, the same system began to pull the growth machinery into reverse. Cash flows - later reinforced by subsidies - were channelled into long-term losers like the iron mines, the steel and the ship-building industries.[4]

To provide resources for the needed industries, restructuring the expansion rate of the public services would probably have had to be moderated. The growth of public consumption of e.g. medicare, education, public transport, city clearance - accelerated in the first two decades after the war, adjusting upward to the fast GNP-growth rate. This expansion kept going and even further accelerated during the slow-down of industrial and GNP-growth during the seventies. In the early seventies income redistributional ambitions by way of the income tax system were moreover drastically raised, which in later inflationary years led to severe distortions in the capital market.

The Swedish Government, however, opted for the alternative of abandoning its general policies vis a vis the manufacturing sector in a piecemeal fashion. To begin with this consisted of selective policy measures, explicitly designed to overcome deficiencies in the capital market and a perceived restricted supply of industrial finance. These measures could not be said to be part of a consistent policy program but rather the result of responses to the current and unfamiliar economic situation. Official documents of the time to some extent do reflect worries about the increasingly competitive international environment. This, however, was by no means the only or dominant political concern behind the new policy approach.

Of at least equal importance was the increasing anxiety about the "social costs of expansion". Environmental damages, regional unbalances and social distress associated with rapid structural change are stressed in the documents of the time as the most important reasons behind the policy revision. The new regional policies in the middle of the 60's constituted the first deviation from the old Swedish policy model.

The concentration of industrial power and possibly also of private industrial wealth resulting from increasing scale and specialization was also in the forefront of the political discussion at the time. Demands for a more direct representation of labor and of the public interest in the board-rooms of private business were frequently voiced from the beginning of the 70's and eventually materialized in the form of changed legislation.

As part of the new industrial policy orientation a set of new institutions for a more active Government intervention and participation were organized in the following areas:
(a) Planning procedures
(b) Financial resources
(c) Company laws
(d) State companies

An organizational structure for a central coordination of industrial development, somewhat similar to the French "Plan", emerged in the late sixties. In 1969 a new ministry for industry was formed out of the separate department already set up two years earlier within the ministry of finance (Treasury). Attached to the ministry was an advisory industrial council and associated with this were several branch committees making reconstruction plans for the branches most acutely affected by the new international competition. In 1973 this work on detailed studies and sector programs was incorporated into a new industrial agency ("Industriverket"). Meanwhile responsibility for technological and industrial research had been delegated to another new agency, STU, set up in 1968. The development of the organizational structure for industrial policy soon was followed up by a similar structure for regional development, being integrated at the agency level with the labor market policy and supposedly working in close collaboration with its industrial counterpart.

The creation of new bureaucratic institutions, designed to ease the financing of risk ventures into new industrial fields and to support latent innovations until commercial fruition started already in 1967 with the establishment of the State Investment Bank, (SIB). Although assumed to operate according to the normal profitability criteria of commercial banks, the SIB was supposed to enjoy a much greater freedom than the banks when it came to evaluation of long-term risks and demands for bonded security. Through a subsidiary the SIB could also give financial and moral support to "socially desirable" industrial mergers.

A Special Development Fund, ("Utvecklingsfonden"), was later added to the group to complement STU and the SIB by financial support in the early stages of innovative ventures - between research and production. This development fund was formally a part of the industrial agency (Industriverket). Various financial companies were also set up to accomodate the special needs of small business, like "Industrikredit", "Företagskredit" and "Företagskapital". "Regioninvest" was later supplemented (1976) to support industrial activities in regionally distressed areas and in particular to ameliorate the side effects associated with the aborted "steel work 80" project. The government also attempted initiatives on its own. Through SU - a development company set up in 1968 - unexploited industrial innovations were to get a chance of being presented in the market. Another new state company - SVETAB -

was set up 1969 to help in establishing new, state supported production companies - to turn ideas into jobs.

To be complete, two general comments to central Swedish Government involvement in the financing of industry have to be added here. The <u>first</u> has to do with the availability and price of regular credits in a system where access to long-term capital market bond a debenture finance was selectively regulated. The capital market was dominated since 1960 by the huge supplementary pension fund and credit at normal, regulated market terms were offered to high risk investments, or even likely losers, through a number of special institutions mentioned above, the most important of them being the State Investment Bank (SIB). They all implied a form of central Government subsidization of the costs of credits made available selectively. The Government either took on the commercial risks or deliberately regarded extended loans as give away subsidies.

The second aspect has to do with the corporate income tax system in Sweden with generous fiscal write-off possibilities ahead of economic depreciation.[5] The firms then in fact has a "bank line" on an interest free Government (tax) credit, that they can vary in size through their investment. Whether firms feel a responsibility to earn a market return on the part of their "implicit net worth" that is made up of this credit or simply restrict their ambitions to earn a return to what they show after tax in their books, is an open question. In the first case we can talk about an interest subsidy to industry. The second case implies that firms lower their internal rate of return standards to adjust on the margin to the interest free credit[6]. By all standards capital market dominance and regulation and the corporate income tax system (with special mention of the investment funds) together represent the major vehicles for government intervention in the resource allocation process in Swedish industry, in terms of the resource flows involved.[7]

One, of the first tasks of the new ministry of industry was to prepare a new legislation requiring public representation on the board of directors of all large companies. Two other pieces of legislation and collective agreements arising out of the experience of the sixties, were to have an important impact on the business sector. One was concerned with the security of jobs - making it considerably harder and more costly for a company to lay off labor. The other dealt with the internal decision-making in the company, requiring consultation with employees and union representatives before any action affecting work conditions and job security.

The Government also chose to enter the business sector directly by forming new companies or taking over responsibility from existing firms. There were some bold ventures into so called "future branches". The most typical were computers and nuclear technology - compare in particular the state half-interest in Data-Saab, Udd-Comb and Asea-Atom. The Swedish Government shared this hope of picking future "winners" with other European governments like UK, West Germany and France. In retrospect, however, the Swedish ventures, like the majority of similar expences abroad, cannot be judged successful. The successful government interferences were rather in the form of joint development of complex high technology products, either in the form of direct development - purchasing contract or an institutional (arrangement) like ELLEMTEL between LM Ericsson and the Swedish Telecommunication agency.

Having encouraged industrial mergers and concentration the Government sometimes considered it part of their antitrust responsibilities to have the public interest represented as share-holder in the dominant firm. This was, for example, the case with the new, private cement monopoly, Cementa, formed in 1969. Similar arguments accompanied a series of Government purchases in manufacturing sectors, considered vital to public health or security. The Government thus have bought a majority interest into the dominant Swedish brewery, (Pripps, 1975) purchased a drug company, (Kabi, 1969), established a state monopoly in drug distribution, (Apoteksbolaget, 1971) and have formed a series of new companies for technical testing purposes - e.g. SEMICO and Statens Anläggningsprovning.

The seventies also witnessed a sometimes heated political discussion on nationalization of the pharmeceutical industries - being by some considered the natural sequel to Government control of the pharmaceutical distribution system - and on similar grounds of the nationalization of commercial banks. Nothing came of this, however.

The rapid proliferation of state businesses soon made the administrative control through ministries appear unwieldly. Potential political embarrasment, furthermore, easily emanated from routine business decisions. Considerations of this kind led in 1968 to the formation of a Government Business Delegation (Affärsverksdelegationen). In some political quarters the ambition was that this delegation should develop into a coordinating agency for all Government Business activities, irrespective of judicial form and activity. Rather, in 1970, a more narrowly defined entity was formed: Statsföretag AB (SF), a state owned conglomerate under the direct control of the department of industry. The board of SF became almost identical to the earlier delegation. The major part of the Government controlled business companies - 22 firms in all - were thus bundled together under one corporate hat. Only the main financial institutes and the fiscal monopolies were excluded. It was hoped, at the time, that with so much of industrial power under Government control it should prove possible to push industrial development into socially desirable areas and regions and to increase the influence of workers and unions without having to sacrifice profitability. This hope was built on the hypothesis that private industrial power sometimes creates unnecessary social problems by default or neglect even when socially more acceptable and equally profitable solutions exist. The SF, however, never got a fair chance to test the merits of this argument. Structural problems, barely camouflaged during the sixties and early seventies, came into the open during the recession of the late seventies. SF was forced to accept the role as midwife of governmental reconstructions of bankrupt companies helping to solve short run employment problems. A series of new "national" companies emerged in shipbuilding, steel and textiles (Svenska Varv, SSAB and Eiser) - with the Government as controlling party. Only recently, with Svenska Varv forming a wholly separate group and with SSAB as a portfolio interest only, has SF been stripped of non-business commitments to the extent that it may be able to begin acting as a normally operating industrial group. SF top management has also been trying to obtain special government contract offers for activities in what they call "special programs", i.e. problem industries[8].

The new industrial policy did not stop either the Government or private business from making bad investments - ploughing back profits or tax-money into long-term losers such as the steel industry - but the experiences of the seventies taught everyone a costly lesson and has created an opening for new approaches in the eighties. What the lesson consisted of and how it was learned is very much the story of SF.

3. A conglomerate of problems - the development of SF

When SF was formed in 1970 it ranked immediately as number three among Swedish companies in terms of employment with 34.000 employees. At the end of the decade it was still the third largest company in the country, though now with almost 47.000 employees. SF was initiated as a normal commercial enterprise although it was presumed to show special concern for the social effects of its managerial actions and the ambition of the ruling social democratic party was to develop it into one of the main instruments of industrial policy. In the public mind SF became closely associated with the financial reconstruction and nationalization of some major branches of Swedish industry. The SF story thus very much mirrors the development of the Swedish economy in the seventies.

The backdrop of problems - The Swedish economy during the seventies

Swedish economic policy of the seventies will probably be best remembered for a badly timed demand management which added to the already existing adjustment problems on the supply side. The decade started as it ended, that is with stagflation and a rising trade deficit. In 1971 the social democratic government, to correct a growing external deficit, braked so resolutely that, combined with a sudden decrease of housing investments and an equally sudden and unexpected increase in household savings, the economy went into deep recession for two years. The economy emerged in late 1972, however, in very good shape - perhaps too much so - to meet the steep recovery in raw materials demand and prices through 1974.

Table 2. Some relative numbers on the size of SF

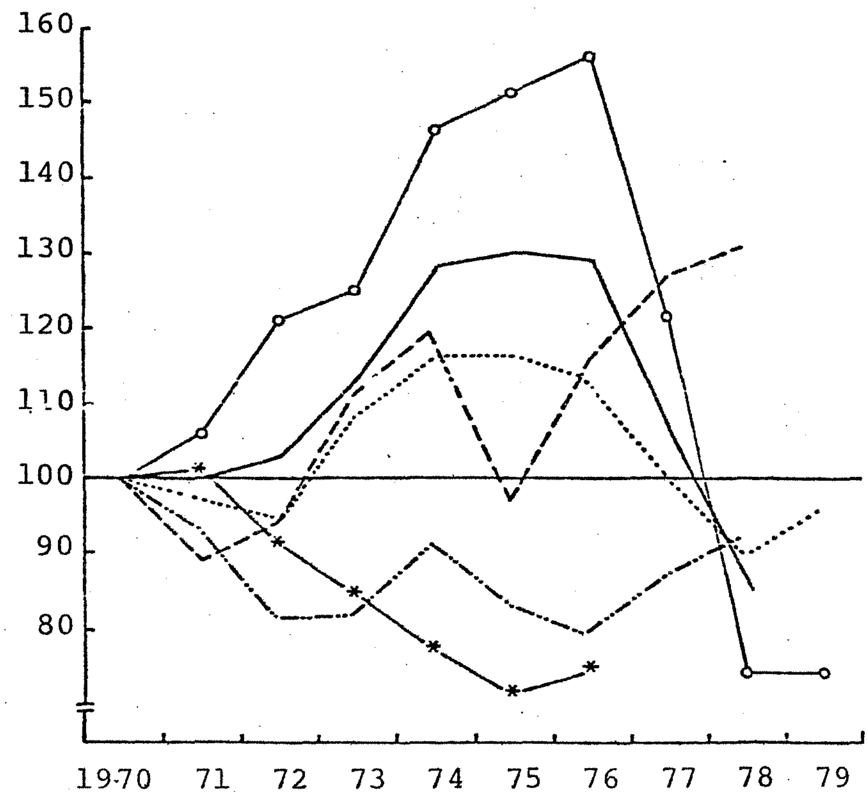
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
(1) Exports:										
- in percent of the largest Swedish exporter (Volvo)	78	73	64	70	84	58	72	62	57	53
- ditto 5 largest Swedish exporters	28	24	23	24	27	21	24	21	-	-
- all Swedish exports	5.7	5.8	5.8	5.9	6.5	5.5	6.1	5.1	5.2	5.2
- in percent of SF sales	56	57	54	56	57	50	50	47	50	(50)
(2) Employment in percent of all manufacturing employment	3.2	3.3	3.5	3.6	4.0	4.4	4.6	4.2	4.5	4.8
(3) Investment in machinery and buildings in percent of all manufactury investment	8.4	9.9	11.4	8.8	8.8	10.9	11.6	10.3	10.9	12.5

The impact of the international upswing in 1973-74 was reinforced by the raw material boom affecting our basic industrial resources and was further supported by a very expansionist fiscal policy. An extreme profits boom was generated in Swedish export industries in 1973-75, that was not present in other OECD countries (see Figure 1) with the exception of Finland. Tight fiscal and monetary policies were applied much too late and huge wage increases were let through in 1975-76, coinciding with a sudden collapse of exports and export prices compared to expectations. To prevent a sudden increase in unemployment at home the government boosted domestic demand inter alia by accelerated public expenditures and by paying business to increase inventories and keep employment at normal figures.

This traditional contracyclical policy program was followed through by the new bourgeois government that came into office in 1976. But investments boomed in the wrong sectors. Both business and government went on a spending spree, partly misreading the market signals. By further expanding capacity in steel, ship building and the petrochemical industries, new structural problems were added to the old ones. As a consequence the competitive situation for Swedish industry changed dramatically between 74 and 76.

From 1970 to 1974, Swedish manufacturing unit labor costs equalled the OECD average and were some 15 % under those of West-Germany. Two years later the Swedish figure was 15 % above that of West-Germany and 30 % above the OECD average. To maintain profit margins, Swedish firms priced themselves out of many traditional export markets, and over the next few years a dramatic down turn in market shares, profits and industrial investments was registered.

Figure 1. Development of industrial investments in Sweden, W. Germany, G. Britain and U.S.A., 1970-1979
Index 100 = OECD level.



——— Sweden, all manufacturing
---- U.S. manufacturing
-..-..- U.K. manufacturing
.... Swedish manufacturing exclusive of crisis stricken industries
o—o Swedish crisis stricken industries (Mining, steel, forest industries and shipyards)
— W.G. (West Germany)

Source: IUI

The economic situation worsened in late 1976 and 1977 saw a series of devaluations. By this means the new Government managed to rectify most of the overvaluation of the Swedish currency. However, before that, the Government had felt forced to pull several firms out of bankruptcy by various kinds of subsidies. In fact, during the years 1977 and 78 Swedish industry "earned" more by state subsidies than it generated as gross profits. Part of this "profit crisis" can be attributed to the overvalued currency, but a large part of the profitability crisis was more permanent or structural. The major recipients of Government cash support were iron and steel, ship building and later part of forest industries. In some cases outright nationalization was the final outcome. For some of these firms the situation was not only disastrous in the short run but, according to many observers, hopeless also in the long term.

Some firms had now been caught up by their investment spending mistakes in the middle seventies. In this way (e.g.) the government in 1979 aquired a controlling interest in the two wood processing firms earlier owned by farmers cooperatives. In the same year the workshops especially adjusted for physically or socially handicapped workers, part of which had earlier been financed by relief work grants, merged into one big company, (Samhällsföretag), employing around 25.000 people.

Even without bad timing of demand management, the Swedish economy would have had trouble adjusting on its own with sufficient speed on the supply side. Decentralized market adjustment had become harder to achieve: labor laws made it very difficult for firms to lay off labor short of bankruptcy and tax laws made it hard for expanding firms to attract labor through wage offers. Progressive income taxes locked labor into the wrong sectors and corporate income laws locked venture capital into the wrong sectors. The result was that the Swedish economy entered the 80's with an undersized and wrongly proportioned industrial sector.

The charter of SF

Little or none of this was foreseen when SF was initiated in 1970. Official documents emphasized the managerial efficiency advantages and the political gains of being able to delegate specific commercial decisions to the new holding company. Visions of a new industrial policy, however, reappear in the public objectives set out for the new company, which were to attain the fastest expansion consistent with a profitability requirement. Another recurring theme in the documents is the hope that the new company by the power of its sheer size and capital resources would be able to fulfil particular social and industrial obligations without having to unduly sacrifice profitability. The new company was to show particular concern for regional employment and the development of new employee relations and working arrangements, and it was to support and spread commercial and technical innovations in the industrial field.[9] Execution and financial reconstruction of whole industrial sectors was a task added later. SF in the seventies thus had five different roles.

(a) manager of a business conglomerate
(b) entrepreneur and industrial innovator
(c) pioneer in employee relations
(d) trustee of regional development and employment
(e) efficial "receiver" of businesses in need of overhaul and reorganization.

We consider each of these in turn.

(a) The conglomerate

SF was faced with several difficult initial tasks as a conglomerate. Its corporate basket contained a very wide assortment of eggs, some oddly shaped. The spread between sectors is illustrated in table 2, which gives the composition of SF 1970 and 1979. In terms of employment the iron and steel subsidiaries made up almost a third, and food and tobacco a quarter. Wood processing - chemicals and shipbuilding - engineering each contributed about a fifth. In term of sales, the importance of iron and steel has halved while that of wood processing and building materials has doubled. Food and tobacco, engineering and shipbuilding engagements have also diminished in relative size while the chemical industry and services have expanded. A new block of textile firms was added to the group after 1976. The diagram also shows that the financial importance of the so called industrial development companies has been negligible and thus not at all in proportion with the hopes and headaches associated with them.

The administrative set up of SF reflects both its commercial ambitions and special social obligations. Of the 14 board members one is the chief executive and one represents the ministry of industry. The remaining 12 seats are equally divided between the business community and the unions, four of the latter being chosen by the employees of the SF group. The members of the executive staff of the holding company are represented on the board of the main subsidiaries.

A main task assigned to SF was to disburden the government of ownership responsibility directly related to the operations of individual firms. After the establishment of a holding company, furthermore, it should be possible to distinguish between decisions of a more general kind made by the political decision makers in relation to the holding company and decisions of a more operational character made by the holding company in fulfilling her ownership obligation relative to its subsidaries.[10] A possible interpretation of these rather vague formulations is that the politicians wanted to be protected from blame for unpopular commercial decisions and wanted to avoid the role of hostage to local employment problems.

Table 2. The composition of SF 1970 and 1979

(Within parenthesis are companies in which SF holds a half interest, without having them as subsidaries)

	Thousands of persons Average number of employment		Millions of crowns Sales	
	1970	1979	1970	1979
The SF group (after internal group adjustment	34,1	46,5	3592	12177
Iron and steel	10,6 (31%)	7,7 (17%)	1485 (41%)	2230 (18%)
LKAB	7,1	7,7	1131	2174
NJA	3,4	- 339	56	
(SSAB				)
Engineering & electronics	2,3 (7%)	5,1 (11%)	171 (5%)	1167 (10%)
Kalmar Verkstad	1,1	1,0	8,1	339
Kockums Industri	-	2,2	-	440
Ship-building	4,4 (13%)	-	310 (9%)	-
Uddevallavarvet	2,8	-	257	-
Karlskronavarvet	1,6	-	53	-
Wood-processing, building materials	4,3 (13%)	12,4 (29 %)	585 (16%)	3028 (31%)
ASSI	4,3	9,4	570	2897
Rockwool	-	2,6	-	743
(Beijer Bygg				)
Chemical	1,2 (4%)	3,6 (8%)	140 (4%)	1528 (12%)
Kabi	1,0	2,5	118	701
(Sv Petroleum				)
Food & Tobacco	9,0 (26%)	7,8 (17%)	762 (21%)	1963 (16%)
SARA	6,9	4,6	357	726
Svenska Tobak	2,1	3,2	405	1237
Services	1,1 (3%)	3,5 (8%)	120 (3%)	697 (6%)
ABAB	0,5	2,1	23	192
Liber Grafiska	-	1,2	-	461
Textile	-	5,7 (9%)	-	719 (6%)
Eiser	-	5,7	-	719
Industrial development companies and others	1,2 (3%)	0,6 (1%)	48 (1%)	156 (1%)

To judge from the outside how well SF has been able to fulfil this function is extremely difficult. The politicians' wishes to stay away from down-to-earth operational problems may be more than cancelled by their desires to cash in politically on employment creating investments. Experience in the seventies seems to indicate that the problem of balancing immediate concerns about unemployment against ambitions to establish a sound economic footing for long-term economic growth is indeed a difficult and politically hazardous one.[11]

Alternatively, however, the instructions quoted above might be seen as a way of protecting managers of the state companies from political meddling. At that time the major state companies concerned, however, voiced no need to be "protected from" their political owners. They were sceptical both of the need for coordination and of the potential efficiency gains to be had by reshuffling profits within an extremly heterogenous conglomerate. The bourgeois opposition on the other hand expressed concerns that the proposed holding company might become an instrument of hiding inefficiencies.

Whether SF and its staff of some 60 persons have been able to protect its subsidiaries from political and/or competitive pressures in any significant way is impossible to know. SF management has certainly made use of the possibilities of short circuiting parliamentary intentions by internal reshuffling of profits. By transferring profits within the conglomerate, SF - like any simnilarly structural private group - can avoid paying tax and dividends to the state and also the payment of local taxes. By this kind of internal maneuvring, which is a normal practice within large corporate entities, SF has "disbursed" at least half a billion (Swedish Crowns) of potentially local Government taxes and more than a billion of potential state taxes, without reference to either Government or tax payers. Profit flows may be further aggregated by integrating permanent loss operations with subsidiaries generating handsome profits. (As in the integration of Sinjet into the Sw. Tobacco Company). Whether and to what extent this has gone beyond normal and accepted behaviour for a private commercial firm is hard to know since no comparable private conglomerate exists.

One way of insuring SF from political, non commercial influence would be to put the SF, as a whole or in part, on the equity market, e.g., by accepting private share holders of the state companies and making an exchange of shares in private and state companies a normal procedure. The idea was that this would ensure that market rate of return requirements would be properly applied and the idea was indeed explicitly mentioned as an alternative to the setting up of SF by the conservatives in 1970. It was echoed in 1978 by the Royal "One Man" Commission[12] set up to survey the future of SF and again in a publication from the Federation of Swedish Industries in 1980.[13] There has, however, so far been no official attempt to follow up on these suggestions.

Another kind of exchange between private and state business sectors also aiming at the application of tougher internal rate of return standards can be engineered through the buying and selling of individual firms within SF. So far during the seventies many firms have been purchased by SF but relatively few have been sold off. There is, however, no reason to believe that SF does not want to rationalize among its rather varied assortment of production lines. Many of the firms purchased have unwillingly been taken over by SF after political prodding because they were in a bad financial shape and there was a lack of presumptive buyers. Apart from this, political and union considerations do undoubtedly place considerable obstacles in the way of selling off any part of the state business empire on grounds of bad profit performance.

When operating units are as varied as those of SF, some order must be brought into the organizational maze by discovering what firms can gain by being more closely associated. SF has chosen to build sub-groups or subsidiary units designed to exploit the technical and commercial potential, while the holding company concentrates on finance, some organizational matters and more general policy questions. In this way the wood processing group (ASSI) has grown rapidly during the seventies to become a conglomerate in its own right. Many of the management problems of SF have been delegated to this group.

The same kind of managerial technique has been used in attempts by the Ministry of Industry to re-organize entire sectors of industry, such as steel and shipbuilding. In these cases, it has been a major aim to construct a group with a satisfactory balance sheet - or at least one that appears satisfactory - and then, as in the case of Svenska Varv (shipbuilding) and SSAB (standard steel), to leave it on its own, or rather, to leave it to the mercy of the ministry of industry. As will be seen later, the separation of shipbuilding and standard steel production from SF is the major reason for the turn around for better profit performance in 1978 (Figure 3C). The question is whether the Government will allow these commercially unviable plants to shut down as they run out of resources of their own.

(b) The innovator

The records of SF by standards of industrial innovativeness and entrepreneurship is less than impressive. This is true whether one looks at the overall production growth of the group or at the specific accomplishments of the industrial development cooperations that were established by SF to generate and transmit innovative impulses to the rest of industry. Sure enough new ideas have been launched and new products marketed, some of them with startling success. One example is the new truck developed by Kalmar Verkstad. Another and financially much more important commercial success is the pipe tobacco Borkum Riff. With this brand the tobacco company has managed to capture 9 percent of the U.S. pipe tobacco market - no small accomplishment. As a result of it the Swedish Tobacco Company has been able to contribute golden eggs to the company basket and to pay almost 3/4 of a billion for losses elsewhere within the group. This was especially true after the collapse of the iron ore market: before that, LKAB was the main supplier of golden eggs. These examples, however, are exceptions to the general picture which is characterized by a relatively low level of research and development expenditure, by few product developments and by remedial action to patch up the results of loss making.

Official statistics on industrial research and development are notoriously unreliable: however the proportion of these costs in the budget of the SF group has been somewhat below the level of private firms in the corresponding branches. Moreover, the group's R&D efforts seem to have been directed more towards basic research and process improvements than to market oriented product developments. Compared to the rest of the business community SF group companies on average seem to pay more for outside patents and to earn less on patents of their own.

The industrial development cooperations SVETAB and SU have been involved in regional employment problems from the very start. In this way they became heavily engaged in and responsible for a number of small and middle sized firms, most of which were to become financial burdens rather than development resources. By the time SF took over final responsibility for them around the early and middle seventies respectively, each employed between one and two thousand people and they both faced major financial problems. SF managed to untangle their affairs by selling off some of the small firms and by distributing others to the care of more solvent subsidiaries. SU was reconstructed as a small central advisory group focusing on industrial techniques for energy conservation. The investment function within SVETAB was decentralized to four regional venture capital companies charged with the task of engaging on a minority basis in innovative ventures within the regions.

It soon became clear, however, that SF could not function as a leader of industrial advance. Too much of its time was used up in fighting rearguard actions for industries falling behind to such an extent that sooner or later they would have to close down and lay off people. There is a general lesson to be drawn from this. Instruments designed for very long term purposes should perhaps be kept out of the reach from decision makers whose concerns and preoccupations naturally tend to be more focused on the problems of the immediate future. This was also one of the original ideas behind the forming of SF.

(c) The employer

SF was also charged with special obligations of coordinating and representing the state employers in the business sectors and of being a pioneer in new methods and arrangements in employee relations. The state as employer was expected to give both authoritative interpretations and an exemplary execution of the new laws dealing with labor security and labor participation. Particularly during the last few years SF by all accounts have put in a lot of effort into negotiative, educational and experimental activities within the field of personnel relations. Due to the circumstances in which SF has found itself, much of this work has been concerned with finding ways and means of compensating, training and reemploying laid-off workers. It has resulted in a number of cooperative arrangements for state business companies in a number of fields from wage negotiations to internal delegation of decision procedures within the companies. Unfortunately, however, there are as yet no studies of how this activity of SF compares with that of private firms.

(d) Trustee of regions

From its birth, SF was charged with special obligations in respect of regional development and employment. Such responsibility was particularly directed towards Northern Sweden where most activities in basic industries like mining, steel and wood processing were centered. The official ambition - or illusion - was that regional interests could be taken into account in decisions on sites and sizes for investment, without any affect on profits. Reviewing the decade gone by there is no doubt that considerations of regional employment have weighed heavily in many of the investment decisions made by SF. It is equally clear that some of these considerations have proved very costly in terms of profitability. Some examples of this have already been cited above. By far the most important example, however, is the capital sunk into steel and shipbuilding. A combination of employment considerations and overoptimistic forecasts of foreign and domestic demand were the main reasons behind an expansion and modernization of the steel work capacity at NJA in Luleå.

In the middle of the seventies the government was even on the brink of adding another and huge plant to the one already existing and very much against the advice and desires of SF management. This so called "steel work 80" project produced great political turmoil in Sweden. Although these plants were finally and fortunately scrapped it has been calculated that the money put into the Northern steel works up to 1978 corresponds to a capital consumption of some 75.000 crowns per man and year if we accept the figures carried on the balance sheets. Swedish shipyards are currently subsidized at the tune of 2.500 Swedish Crowns and tax-paying household per year. The Government operated shipyards are, however, no longer part of the SF group.

Here again, there are more questions than satisfactory answers. In some instances SF undoubtedly managed to stave off immediate local unemployment. What SF did to the long-term regional employment situation is, however, far less certain. Nor is it possible to compare the results of the money invested in selective industrial measures with the potential development gains of more general policies, such as regional differentiation of business taxation or of the collective labor fees born by employers.

(e) The structural surgeon

SF, no doubt, is by now best identified in its role as official receiver and surgeon general of industrial sectors in need of financial reconstruction. The major examples of this are the reconstructions of shipbuilding, standard steel and textiles from which emerged the new state controlled business groups Svenska Varv, SSAB and Eiser. In all three cases the final "nationalization" was carried through after a series of earlier supporting measures had failed to put the industries back on their feet. The magnitude of the task and of the money involved was such that responsibility for the major decisions automatically fell back on the government, which used the SF partly as a technical and financial intermediary and partly as a means of unloading a responsibility it did not want. The distinction between being a structural surgeon and a dump for impossible political problems in industry therefore is extremely thin. The unloading in 1978 of two of the worst cases, the northern steel plant and the shipyards to SSAB and Svenska Varv respectively, may, however, indicate the strength of SF top management ambitions to be a commercially viable company.

From the very beginning the ambitions of the new selective industrial policy was both defensive and offensive. The offensive ambitions were concerned with finding new avenues for industrial expansion by, for example, funding and transmitting innovative ideas and providing the risk capital necessary for new ventures and industrial combinations. The defensive purpose was to deal with the social costs of structural adjustment by making industrial investments better tailored to the needs of regions and the wishes of employees as expressed in active participation. The offensive aims were soon thwarted by the turn of events, partly brought about by the governments own bad timing of demand policy. When the problems grew in terms of currency overvaluation, domestic inflation and a profitability crisis so did the clamor for more selective measures and subsidies. SF was one major instrument of government for carrying out these selective measures and had to foot part of the bill.

Despite the difficulties of evaluating the overall (social and private) performance of SF in terms of stated objectives the Royal Commission of 1978 attempts a conclusion: "Even though stated objectives and ambitions" about "maximum expansion subject to a profitability criterion", "contribution to industrial expansion", and to "activities where size, risk and long term commitments are central", "employment" etc. "have not ben fulfilled" the current economic situation would have been even "more difficult to control with the earlier organization of government business activities. It was therefore appropriate to form SF".[14]

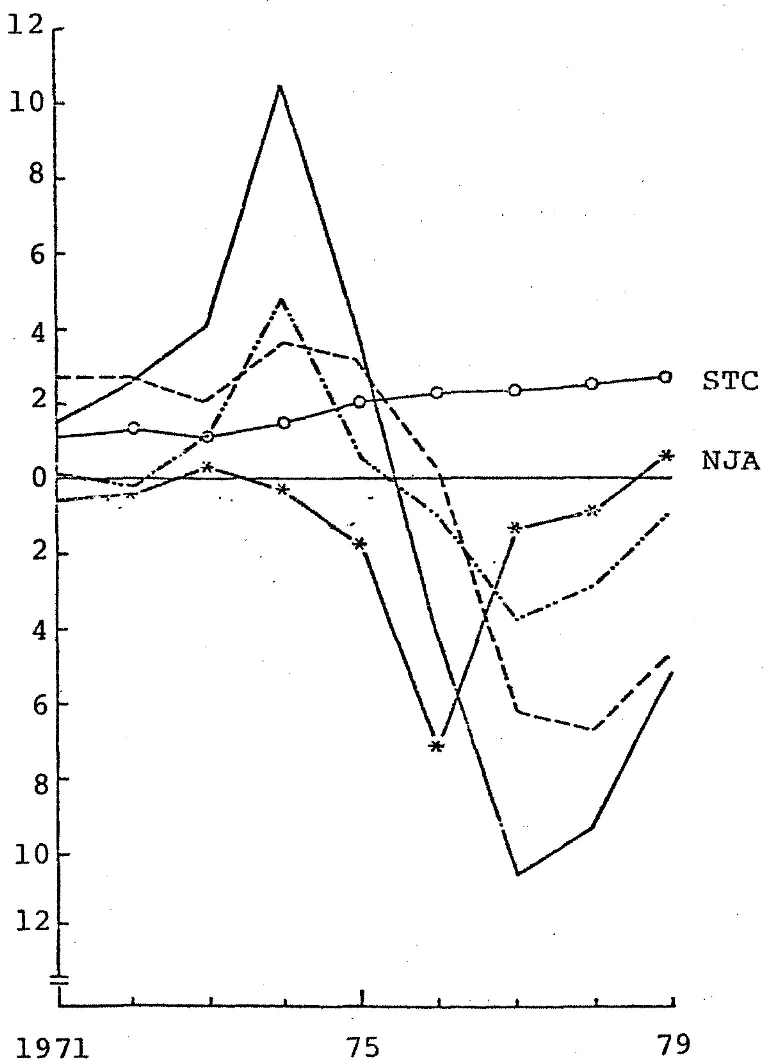
4. Commerical and social contracts - a financial analysis of SF[14]

Profit targets and profit performance in SF

Figure 2 shows gross profits over the period 1971-79 for SF and four of its main subsidiaries. The positive and for 1974 large gross profits of the group changed into losses from 1976. The general picture is very much the same for the main cash cow subsidiary before 1976; LKAB (the mine in the North). The two large and extreme exceptions to this general rule are NJA and the Swedish Tobacco Company. NJA (the northern steel plant in Luleå) has been running at a loss through most of the 70's and got its head above water only once, in 1973. The Swedish Tobacco Company, (STC), on the other hand, is the big profit-maker in the group and has shown a steady, satisfactory profit development all through the 70's.

Profits compensate the owner for parting temporarily with his or her financial resources. Figure 3 A shows a very crude rate of return measure. Net profits plus financial income according to the official income statement is divided by the book value of capital. Because of Swedish fiscal write-off rules, this is not a good performance measure though it is frequently used by analysts. It corresponds neither to a real nor a nominal rate of return concept and its time profile can easily be manipulated by the flexible capital valuation standards allowed. It rests, however, on the official accounts of SF and it tells roughly the same story as Figure 3 B, which is calculated according to a more standardized procedure and on a scale comparable to similar calculations for all industry. One curve (SF) shows the before tax real rate of return on total capital in SF. This can be compared to the same measure (IND (1)) calculated for all manufacturing. The third curve (IND (2)) gives the same real rate of return for total manufacturing reweighted to obtain the same branch composition as SF. The data on "SF before 1970" have been calculated from the accounts of all the large firms that were bunched together as SF in 1970.

Figure 2. Net profits 1971-1979 for SF and four of its main subsidiaries from the books, Million Swedish Crowns



——— SF Total

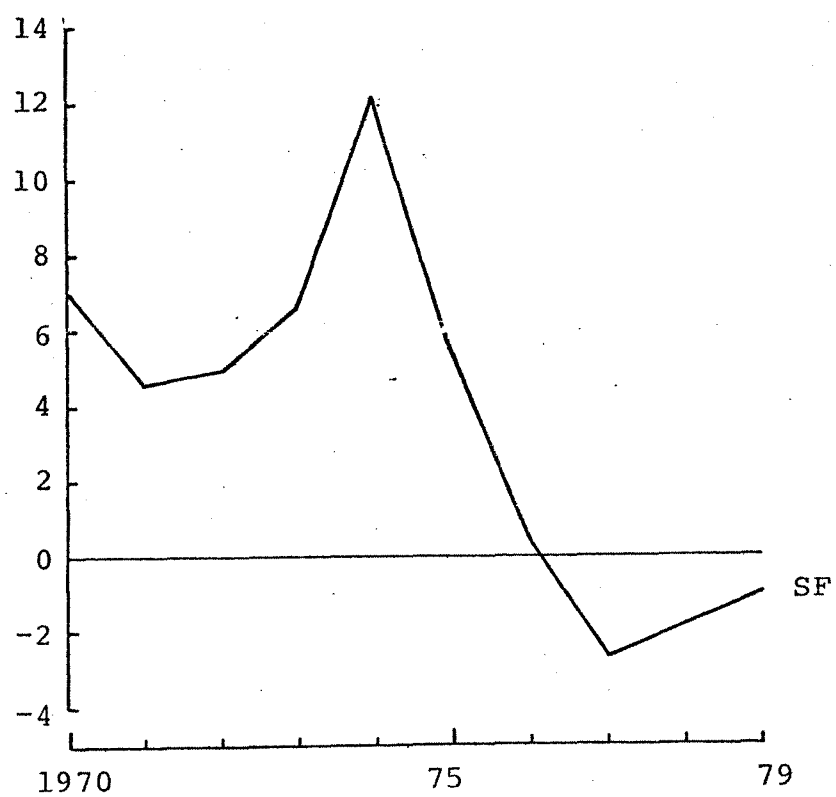
o——o STC = Swedish Tobacco Company

—— NJA = Northern Steel Plant in Luleå

-..-..- ASSI = The Wood Processing Company

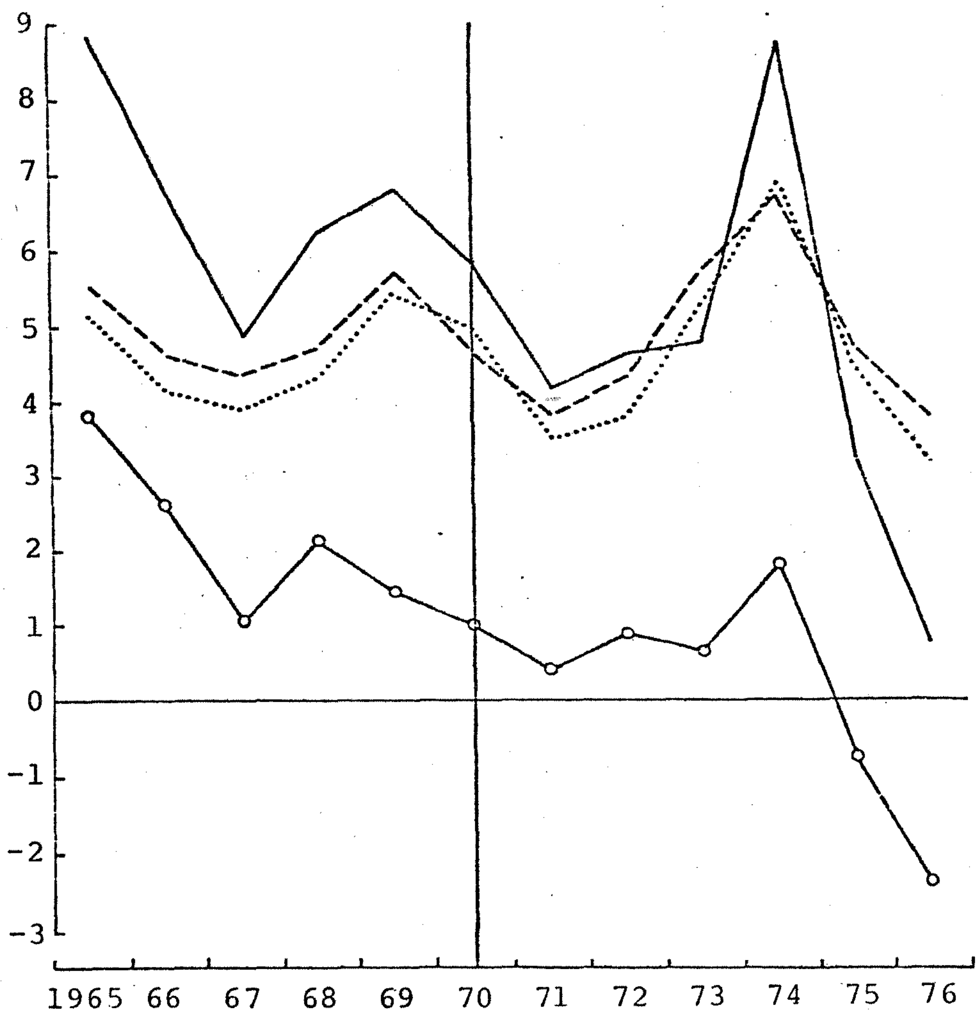
- - - - LKAB = The Northern Iron Mine

Figure 3 A. SF - Returns to total assets according to the books
Percent



Note: Profits defined net of financial income and costs. Assets from the books.

Figure 3 B. Real rate of return to total assets in SF and in total manufacturing, percent



Notes:

——— SF = Real rate of return of SF

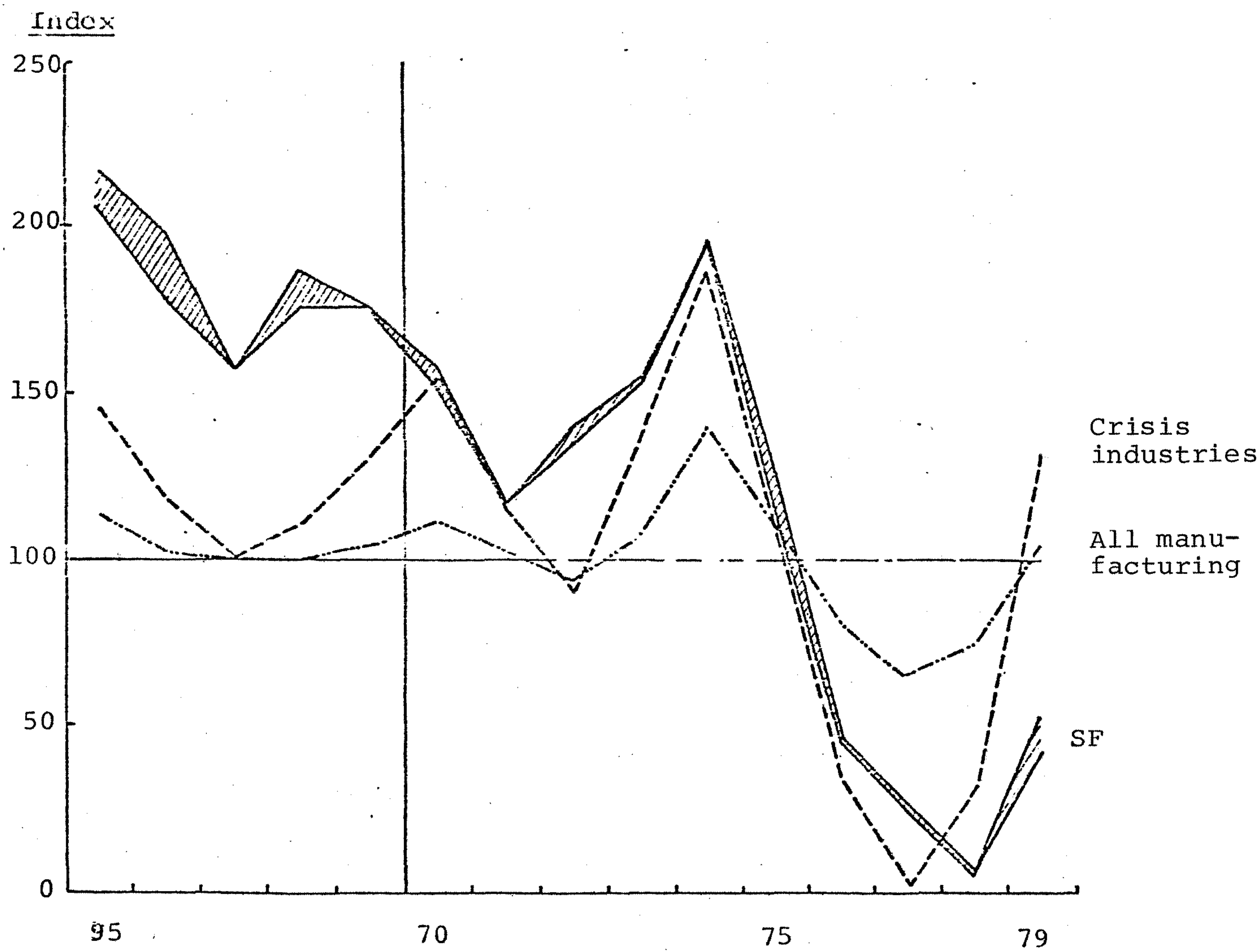
– – – – IND (1) = Ditto for all manufacturing, excluding mining

.... IND (2) = Ditto, when IND(1) has been reweighted to reflect SF sector composition. Note, however, that mining is not included.

o——o DIFF = SF - IND(2)

Assets are valued at replacement costs from cumulated, price corrected investment. Same depreciation rate in denominator and numerator.

Figure 3 C Profit margins in SF, crisis industries and in all manufacturing
Index 100 = Average for the period 1970-79



Note (1): SF profit margins have been measured both in terms of sales and value added. The difference is, however, negligible.

Note (2): Crisis industries are defined to be mining, steel, forest industries and shipyards. There is an interesting accounting device in the shipyard profit series. Despite large losses, adding shipyards to the crisies industries increases profit performance the years 1976-1979. The reason is probably that ships in process or ships completed but not sold are entered as cost plus a reasonable mark up in the profit and loss accounts. When sold at a staggering loss, it appears as a write off.

The official target set for the SF group in 1969 was to expand within a "satisfactory" profitability constraint. What satisfactory profitability meant was not very clearly stated. In comparisons with the average real rate of return in manufacturing, however, as shown in Figure 3 B, profits appear satisfactory up to 1974. However, the real rate of return of SF includes the northern mine, which displayed strong profits until the middle 70's, but since then has shown heavy losses. When the real rate of return for total Swedish manufacturing is reweighted into the SF branch composition, the result is a scale of comparison that takes out the effects of a different and changing sector mix. One can say that the difference between the two differently weighted macro (all industry) measures tells how skillful manufacturing managements have been in getting out of the less profitable SF structure in time or perhaps how lucky they have been never to have had it.

The difference in Figure 3 B between the SF real rate of return and the reweighted rate of return measure for all manufacturing is positive until 1975, and then strongly negative. The difference measures differences in short term operating performance excluding effects of the long term investment decisions and SF comes out quite favourably in that comparison until 1975. After 1975 LKAB losses in particular reduce SF's real rate of return strongly. Due to lack of data, mining is not included in the total industry measure. As far as we can see, however, there is no evidence in the figure to suggest that SF is not a well run company compared to the average Swedish manufacturing firm. Including mining in total industry figures would probably reduce the positive difference before 1975 and reduce the negative difference thereafter. Mining has a much greater weight in SF than in manufacturing as a whole, and its impact on SF performance is heavy.

The winners and the losers

The winners in the post oil crisis situation are easily counted. When ASSI and LKAB became seemingly permanent loss operations after 1975, the task of propping up SF financially was taken over by tax payers and by the Swedish Tobacco Company and an odd assortment of other companies. The Swedish Tobacco Company is partly a government monopoly, but, as earlier noted, has succeeded in becoming a profitable export company in pipe tobacco. KabiVitrium, the pharmaceutical company, recorded a steady flow of profits through 1978 and seemed to be a future winner, with high R&D spending and a good-looking mix of advanced products. It overextended itself, however, and went into a slump in 1979[16] (cf. the scatter in Figure 5) from which it is now slowly recovering. Kalmar Verkstad has been very successful in producing and selling heavy trucks. Positive profit contributions have also been recorded by the publishing company LIBER. Liber, however, thrives on an implicit monopoly arrangement for Government printing and publishing. The chain of restaurants, SARA, went through a tough rationalization program in the early 70's and is now a profitable business.

Net current losses over the decade were very much concentrated to two firms. Uddcomb, the nuclear reactor subcontracting firm, accounted for about 200 millions in losses and NJA, the standard steel plant in the north, for more than 800 millions. These numbers would have been much larger if losses from the early part of the 70's had been upgraded for inflation; however, they are peanuts in comparison with the big losers. SSAB (the new standard steel group, including NJA) and Svenska Varv (the new shipyard group), both publicly owned but now separated from SF, generated losses of 670 and 1650 millions respectively in 1978[17]. For SSAB this amounted to 15 percent of turnover and for Svenska Varv almost 35 percent.

Financing investments

Over the 70's both the value of sales and the book value of capital in the SF group trebled. To expand SF needed a great deal of new financing (Table 4). Taken together, for 1971-79 more than 17.5 billion of external finance was used. 1 1/4 billion of this went into covering current losses within the group, so that 16 1/4 was available for capital accumulation, of which around 11.5 were investments in buildings and machinery, and 3 billions for inventory increases. About 1 1/4 of the remainder was invested in shares etc., much of it in connexion with the financial reconstruction of the steel and shipbuilding industry. The remaining half billion is accounted for by increases in financial assets and net purchases of new firms.

The amount of real investment sunk into SF is undoubtedly high even taken into account the capital intensity of its major firms. Again, the investments are very much concentrated in a small number of firms. The main part of investment expenditure was in LKAB, in ASSI, in NJA, in Berol Chemicals, and in the shipbuilding firm, Uddevallavarvet. The rather unfortunate allocation of part of this investment money has already been noted: over the 70's, and especially during the investment boom in the middle 70's, more than a billion was sunk into a shipbuilding yard and into a new plant for basic chemicals that is still showing a very unsatisfactory return, while more than 2 billions were invested in the steel works at NJA in Luleå. If we accept the book value, 700 millions, at which NJA was sold off in 1977 to the newly established SSAB, the capital consumption at the steel works in Luleå was of the order of 2.3 billion between 1971 and 1977. In Figures 4 A and B the development of gross investment of the SF group is compared both with the similar investment series for Swedish industry and with the development of internally generated funds within the SF group. The investment boom in the middle 70's was common to all industry: however, the major share of the investment boom occurred among the crisis stricken industries (mining, steel, forest industries and the shipyards) accounting for about 40 percent of manufacturing investments, and in the relatively profitable engineering sector. From Figure 4 A it can be seen that SF, itself heavily burdened by crisis industries, followed the investment path of the crisis industries, but failed to cut down investment spending strongly enough in 1977, despite a much earlier drop in earnings.

From the comparison of gross investment and internally generated funds in Figure 4 B, it can be seen how far gross profits went in paying for gross investment and how much external financing that was needed (the shaded area in Figure 4 A). Especially for the last five years internally generated funds contributed negatively to investment financing. Table 3 itemizes the ways in which the SF group obtained finance during the 70's. The first column gives the total amount of finance used. It should be remembered that for SF as a group the figure given for total capital use is calculated net of losses, which were, so to speak, already covered out of profits. The remaining five columns to the right show the various ways in which this capital use was financed for SF as a whole and for its main four subsidiaries. For the whole SF group only about 1/8 of total capital requirements were internally generated. The main cash cows were the mining company LKAB, the Swedish Tobacco Company and to some extent the forest company ASSI which recorded a total self-financing ratio of 50 percent for the 8 year period 1971-79.

Figure 4 A. Investment in SF, crisis industries and in all manufacturing 1971-1979
Index 100 = 1971

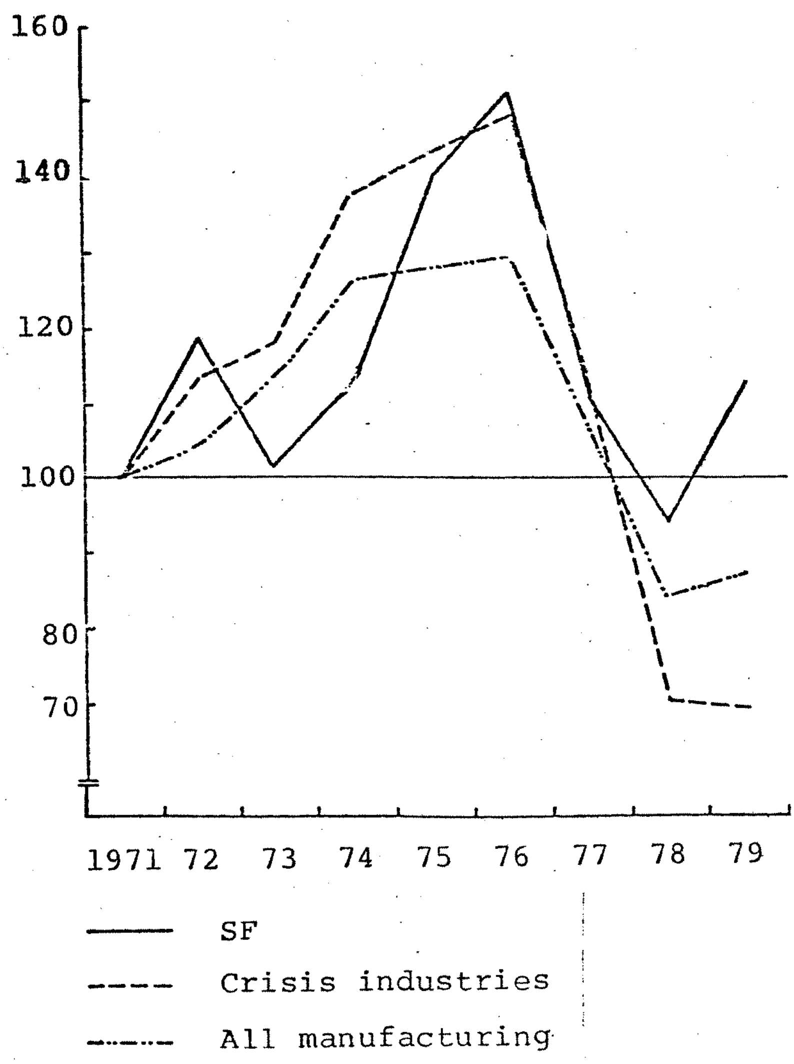
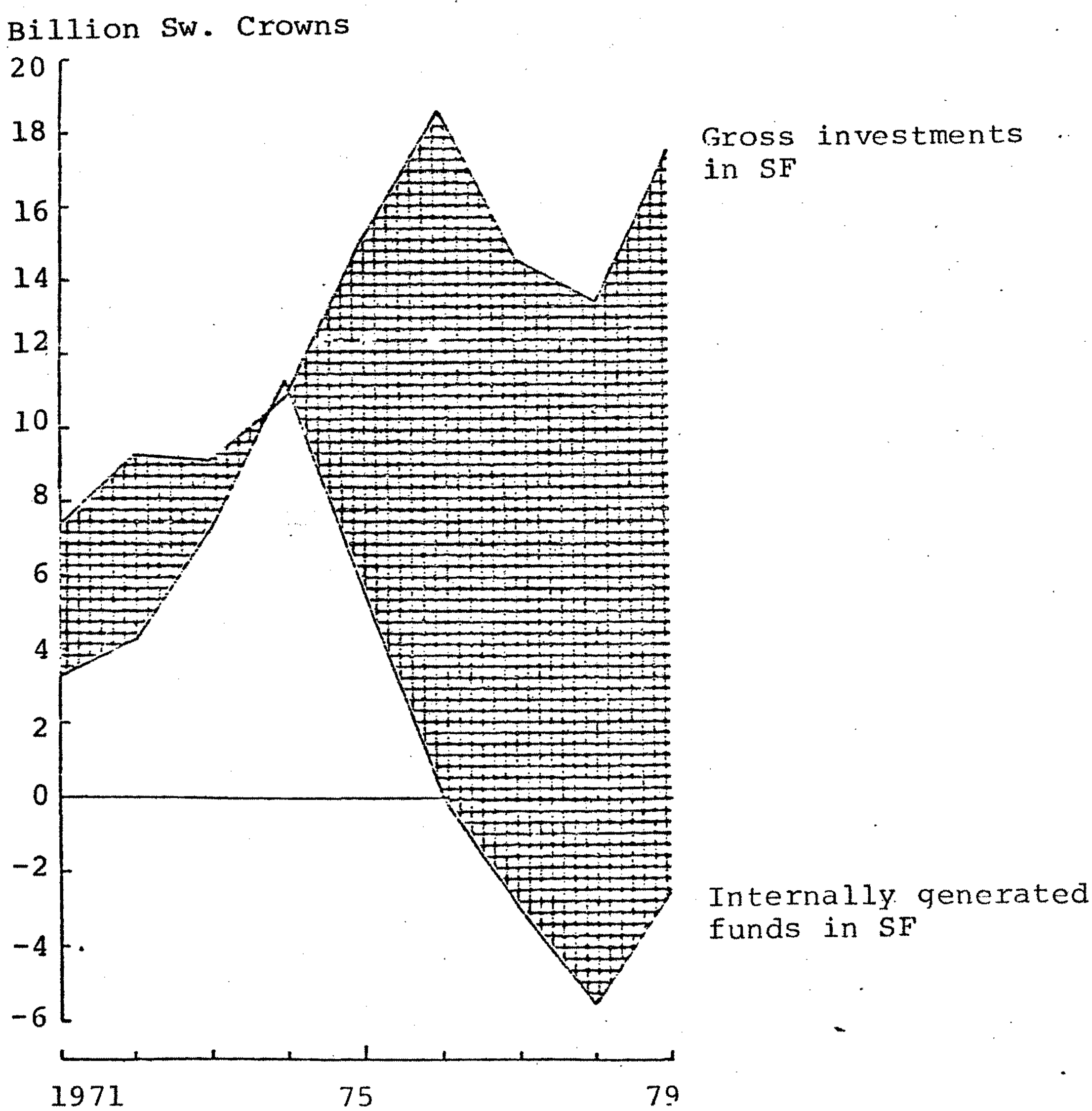


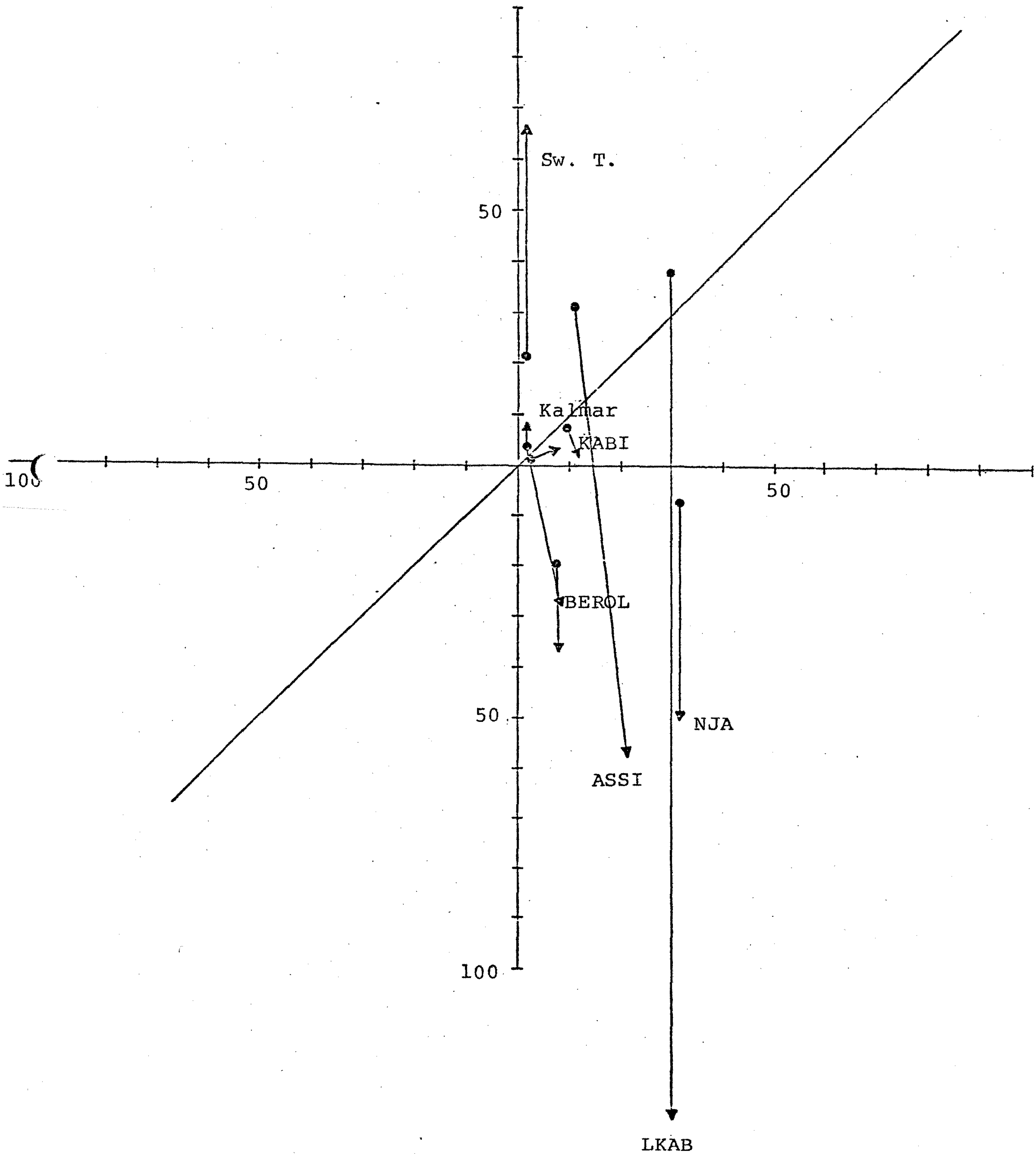
Figure 4 B. Gross investment and external financing requirements 1971-1979



Shaded area: External financing requirements

Note: External financial requirements are defined as the difference between gross investment and SF gross saving. Total group financing requirements are obtained by adding the net increase in inventories and financial assets (including new equity purchases) to gross investment.

Figure 5. Relative profit contribution and investment spending within SF group



Note: Vertical axis: Percent share in sum of (positive) profits. Negative figure means loss.
Horizontal axis: Share of total SF investment.
Horizontal coordinates for all SF subsidiaries add up to 100 percent because investment is always positive. The sum of vertical coordinates is generally above 100 since the denominator is the sum of positive profit contribu-

Table 3 The financing of SF and some of its main subsidiaries 1971-79 (8 years)

Millions of SEK

	Total capital use (net of loss coverage)	Thereof investments in plant and equipment	Internally generated	Dividends to government	Intra-group subsidies and dividends	From the Government: New emission of shares	Loan and capital sales	In other forms
LKAB	-2 962	-	+1 109	-	-526	+ 200	+ 913	1 266
NJA	-2 826	-	- 834	-	+228	+ 450	+ 537	2 445
ASSI	-2 618	-	+ 660	-	+ 61	+ 340	+1 097	582
Sw Tobacco	- 950	-	+1 508	-	-867	-	+ 309	-
Other (net)	-6 897	-	- 506	-	?	?	?	?
SF (total)	-16 253	11 666	+1 937	-58	-	+2 200	+6 370	+5 804

Note: By total capital we now mean investments in machinery and buildings plus net increases in working capital.

Seven of the more than 16 billions of financing needed 1971-79 were contributed by the state, either as emissions of shares or in other forms, while 5 ½ billions were taken up as loans. Some 800 millions were obtained by selling off assets. The wide divergence in the profit performance of the subsidiaries is again evident, with the Swedish Tobacco Company as the leading profit maker, LKAB second and ASSI third. NJA is the great loser. From the fourth column one can also observe a substantial shifting around of profits in the form of intra group subsidies, altogether amounting to some 1 ½ billion over the decade. The table, however, blurs the dramatic change that has taken place between the first and the second half of the 70's, turning for instance the cash cow of the early 70's (mining operations) into a long run problem for the SF group.

Equally interesting is the corresponding development of investment spending within the group. Figure 5 exhibits for the main SF subsidiaries 1970-79 the share of total SF investment plotted against the share of the sum of SF positive profit contributions[18]. A perverse relationship appears. Not only did low performance subsidiaries receive a relatively higher contribution of total finance for investment in the good years 1973-75 but during the bad years that followed the low performance companies and the big losers have been the relatively heavy investors within the SF group. This reinforces the picture shown in Figure 4 B. The internal allocation of investment funds wihin SF thus exhibits an extreme version of the misallocation of resources within Swedish manufacturing during the seventies shown in Figure 4 A. It should of course again be remembered that most of these "misallocations" are of the "special program", type the enactment of which for all practical purposes has been imposed on SF by the Government and to our knowledge often against the will of SF management.

To evaluate the degree of Government subsidization apart from the 7 billions of direct contributions it would be necessary to know how much of the 5 ½ billions of loans were soft or specially tailored for the needs of the SF group. It appears that most loans were obtained on the usual commerical conditions in the capital market. It is more difficult to judge to what extent the special standing of SF as a big Government-owned group paved the way to the capital market and made for a more easy access to long term borrowing than is normal for a private firm. What can easily be calculated from the accounts given is that the outside supply of financing has allowed the SF group to retain a slightly higher formal net worth/debt ratio than has generally been possible for the rest of the industry.

The SF group provides an excellent example of the intricacies involved in profitability analysis. What does profitability mean in a group that initially earned large profits from land rents on capital that traditionally is not fully or at all activated in the books; a group that later turned into a heavy and seemingly permanent loser. The best examples are the "stock of forests" and "the mine deposit" in the North. How should capital be valued in such a group?

Due to generous fiscal write-off rules, assets in an average Swedish manufacturing operation as recorded in the books are normally considered to be undervalued compared to the real market value. But this is not so for SF - at least after 1975. Assets in shipbuilding and standard steel operations, net of formal debt, have no market value. SF would in fact have to pay to get rid of some of its assets, at least as long as an employment responsibility was attached.

The standard presumption is to calculate real rate of return figures as in Figure 4 B, based on replacement values for plant and equipment. This can be done in different ways but one common procedure is to cumulate investments from the past, corrected for inflation and net of depreciation. But what does a flat rate depreciation factor mean in a long term loser like SF? The real rate of return calculated in this way tells a sad story of very bad profit performance. Suppose, however, that this is due to a once and for all, large investment mistake. The company will then have to await the end of a slow depreciation process to start afresh. Why not cut the permanent losses immediately through writing off all dead capital? In a company with SF's background that relied on the commercial capital market this would have happened long ago through bankruptcy or financial reconstruction.

This can be reformulated as follows. Suppose all investments in SF has been a complete waste of resources: they have no capital value and should be written off the books[19]. Does SF have an earnings potential after this financial surgery? With no depreciable assets on the books a relevant profit concept is the gross operating profit margin. Does it show a positive contribution and what are the future prospects? Gross operating margins of SF are shown in Figure 3 C. The same pattern appears. Until 1975 the SF index developed well ahead of the manufacturing average. Then it nose dives together with the other crisis industries. It does not recover, however, until after it has managed to divest itself of standard steel and the shipyards in 1977 and 1978.

When we know how much the Government paid, the next question is to ask what the Government had hoped to get in return for the money. How much of the money was considered a normal commercial investment and how much was paid to get other policies executed or to get SF to perform special duties?

Government contract offers - a new line of business

It is particularly difficult for a publicly operated business to adhere strictly to the profit motive. A firm of SF's size cannot close down an unprofitable plant in a regional unemployment area to protect its profits without generating political turmoil. Nor can the Swedish Railroad monopoly (SJ) terminate transport services simply on grounds of an insufficient number of customers to cover costs. Thus a system of Government contracts has been used for many years by the railroad monopoly (SJ) to finance unprofitable transport services. This idea can be extended to cover the employment of such and such a number of people in a region or the restructuring of a particular loss company.

The problem for the Government is then (1) to determine what the companies would have done were there no such subsidies and (2) to determine the need for, say, extra transport or employment services. This is no easy thing. The efficient solution is for the Government to put the unprofitable service on the market as soon as SF or SJ ask for subsidies and invite competitive offers from both private and public firms. Competitive bidding between several independent companies is essential for this to work both in the sense of determing the magnitude of the task and minimizing costs. This is clearly a possible solution for a subsidiary operation that SF wants to close down but not for a link in an interconnected network, like the railroads.

It still remains, however, to determine how desirable the activity is from a welfare point of view. How much is the public willing to pay for it? For a market for subsidy payments of this kind to be more than an accounting device its social net benefits have to be clearly specified and evaluated by way of some kind of standardized cost-benefit calculus.

Actual Swedish practice displays a wide spectrum of such subsidy arrangements. Some examples, like the opening of the new mine of Stekenjokk, seem to fulfil the competitive conditions mentioned. But on the other side of the spectrum are many cases where the subsidiy was tied to a financial reconstruction or a straight hand-out to cover current losses. As long as there are no strict rules about the use of the offer system, the appearance of the word in various accounts of subsidies does not really give us any help in trying to delineate what part of the total subsidies should be considered as payment for special tasks.

For SF the contract offer system was formally recognized in the Bill to the Parliament in January 1980 (prop. 1979 180:79). At the same time the profitability objectives originally formulated in 1969 were repeated and emphasized. Contract offers had also been emphasized in the 1978 annual report as the best method to compensate SF for non-commercial business ventures urged upon them by the Government.

Looking at the money disbursed to SF to take care of defunct companies, it indeed looks as if it is very profitable business. SF in turn argues that this is not a fair assessment[20]. For one thing the assets of defunct companies usually have no value. SF does not want to write them off against its own profits. Second, the salvaging of defunct companies take an unduly high proportion of management resources and attention away for more profitable activities elsewhere. Furthermore, SF management does not learn very much from such activities[21]. Third, and perhaps even worse, the very fact that SF engages in these activities means that it becomes even more difficult to apply tough, internal profitability standards elsewhere within SF[22]. Fourth, many of these activities have no real business future, even after being rescued and reorganized. To engage in such activities SF wants to be well paid.

It is very difficult to assess the merits of such arguments. Any firm with a profit motive should of course charge as much as the market can absorb. So the problem is rather whether the Government is paying an undue amount of taxpayers money to a select group of workers in defunct companies.

Let us look at some figures.

Kockums industries[23] (transport etc. equipment for foresty work) with 1250 employees and 385 million Swedish Crowns in annual sales received an equity contribution of 235 million and a 150 million loan with conditional repayment obligations to cover losses 1980-81. Already the equity contribution amounts to 190 thousand crowns per employee for 3 years, or almost 75 percent of wage costs for the three years. To pay out that much, a huge amount of accumulated losses must have been hidden away in the Kockum accounts. There was an immediate outcry from the three competing firms in the market, one of them being the only efficient and profitable one. They argued that the Government was upsetting the whole market, driving them out of business. If a firm should go, the first to go should be Kockums[24].

The Eiser (textiles) rescue operation is more explicit on the subsidy purpose.

The Government Bill (prop. 1979/80, 79 p. 25 f) tells that 29 million Swedish Crowns will be handed out to keep production alive at "the Norsjö and Sollefteå" plants from January 1, 1979 to June 30, 1980. These plants employed less then 180 people during that period. The subsidy thus amounted to 160 thousand Swedish Crowns per employee for a period of 1 1/2 years. This is just about the entire wage sum including all additional charges (retirement fees, payroll taxes etc.). The intention explicitly mentioned was to maintain production.

After this guided tour of the SF accounts let us return to the crux of the issue: the customer versus taxpayer confrontation. The taxpayers undoubtedly have had to pay quite a lot. What the customers have gained seems guite unclear.

The non-profitable part of the Government invested capital mostly seems to have gone into ill-timed capacity increases, the covering of losses on current operations and the payment of various other tasks of regional and industrial policy. In this way the taxpayer may have had to pay for a good deal of inefficiency within government firms, even though there are as yet no signs that such policies have undermined the competitive positions of other firms at home or abroad. It is also far from clear to what extent the objectives of the policy, say more secure employment, have been obtained. In several of the sectors in which SF is engaged, there have been complaints by domestic competitors about the unfair advantage of the easy financing enjoyed by the state combine. There is, however, no data to sustain or refute this contention.

5. Customers versus tax payers - how to evaluate SF?

The general problem of formulating an industrial policy strategy

Many problems concerning Government business have to do with the relation between customers and taxpayers. The development and results of a common private firm in a competitive environment is supposed to be determined in the long run by the customers' willingness to pay for the firm's products and services. With Government ownership, rate of return requirements may not only be relaxed. The taxpayers may even be persuaded into paying part of the bill for intended or unintended departures from the pure profit motive. Swedish experience over the last few years certainly demonstrate that this road can be opened up also to private firms. The traditional expectation, however, is that access to taxpayers' money is more easy and more institutionalized for the state owned firms.

Misuse of tax money undoubtedly can lead to an inefficient use of resources in the economy. Government money could be used to cover up inefficiencies in the receiving firm as well as to undermine the competitiveness and efficiency of other firms, if it is used to undercut their prices. Inefficiencies may, as well, be exported if used as export subsidies or subsidies to import-substituting firms.

Departures from the pure profits motive, however, raises the question what one obtains instead and what the costs are in terms of given up profits. Generally speaking any evaluation of SF will have to be framed as an optimization problem. This can be done in at least two ways:

(i) by determining an optimum "solution" to compare with, given some chosen social welfare function, or

(ii) to compare with what was achieved before, and see to what extent improvements have been achieved.

There are some easily recognized difficulties with applying the first criterion. Even if an optimal alternative could be assumed to exist and be approximately stable, it is usually difficult or impossible to identify empirically[25].

What possibilities do we have of establishing a stable absolute reference in evaluating SF performance?

Pure theory provides the traditional bench mark for judging whether or not there has been a misuse of taxpayers' money - comparison with firms working in a perfectly competitive economy. You assess the possible non-competitive advantages of the Government business firm by comparing its input prices and bargaining position with that of private firms. If you discover any such advantages you examine the product prices and financial results to find out whether these advantages have been used to cover up own inefficiencies or to spread inefficiencies around.

This all sounds easy in theory. In practice, however, the task is extremely complex and difficult. Even access to all relevant information would still leave formidable problems of measurement and standards of comparison. Let us indicate four such problems that are relevant to the evaluation of SF performance.

First, when business operations involve the selling of a non-renewable resource there will be an element of pure rent embedded in profits. If this rent is declining due to the resource being exhausted or to an unfavourable price development of the resource, this change in rent must be subtracted before making any evaluation of the operating performance of the firm. Management responsibility, however, also includes decisions to contract or expand operations. Dwindling land rents may make the whole business unprofitable and be a reason for closing down the entire activity. This is very much the problem that LKAB in SF faces when trying to evaluate the future for the Swedish phosphate-rich iron ores, deep in trouble and deep in the ground in the North of Sweden. Stiff competition from surface mining in Australia and Brazil is keeping world market prices at levels that probably won't support the huge investment needed in a few years to take mining one step deeper into the ground. In economic terms the northern mine may therefore already be emptied. Even forest industries seem to have reached a capacity limit in terms of their basic resource. Here the rent earning forest-owners confront the wood processing industry. With an imputed after tax wage to own work comparable to the industrial wage some previously harvested forests yield no or negative rents. No raw material is forthcoming from an increased area of marginal forests at prevailing prices, that are still above supply prices in the U.S. and in Canada[26].

Second, other measurement difficulties arise from the fact that we are not living in a competitive world. In many cases, Swedish firms have a dominant position in the economy and are enjoying special advantages in relation to home customers. On the one side this means that various kinds of linkage effects in the Swedish economy have to be taken into account. We have earlier mentioned the backward linkage from the oil price hitch, via shipping and shipbuilding to the Swedish steel industry. To find standards of comparison you have in this case to go abroad to obtain, say, a market reference price for steel. Since much of world trade (in steel and ships in particular), is anyhow subsidized, directly or indirectly, your very bench mark for comparison becomes highly arbitrary.

The third kind of problem is related to the fact that in real life, unlike in the competitive model, we have to consider a Government that decisively influences the competitive situation of firms, both private and public. In dealing with the over-valuation of the Swedish currency in the middle 70's one has to calculate its impact on various sectors and firms and the reasonable amount of possible compensation, before one can measure the degree of distortionary subsidizing.

These were all profit and efficiency criteria. To be realistic, however, an evaluation model has (fourthly) to account for distributional goals as well as political restrictions on policy. Employment considerations is such a factor that in the short run may be traded against efficiency. The Government may want firms to pay relatively more attention to "employment" than to efficiency and profits and be willing to compensate firms for their loss in profits.

Firms may devote more attention and efforts towards complying with Government wishes than to competing efficiently in the market place. If the Government wants the firm to do special services, modifying its investment decisions, say, to guarantee regional employment, and if it pays a reasonable price for what it is asking, the acceptance of government money could not be taken to represent an inefficiency in a social sense. The crux of the matter is of course whether you can in fact delimit the extra service involved and set a "reasonable" price for it. What does it cost to achieve this extra social benefit and what is the cost minimizing soluution? This problem is basic to any kind of industrial policy strategy. The introduction of the "social contract offer" system in Swedish industrial policy, and the intermittent use of social cost benefit analysis in evaluating the offers, means that this problem is recognized, although seldom satisfactorily solved.

Taken together already the above mentioned difficulties of adopting an absolute (i) standard in evaluating SF performance appear formidable. Both theoretical and practical reasons, hence, suggest that we opt for the (ii) standard, and ask whether the establishment of SF means an improvement in economic efficiency and in overall and regional employment compared to what would most likely have been the case without SF.

What has been achieved with SF?

The original ambition of SF was to
(a) "achieve maximum expansion under a minimum profitability restriction"[27], and
(b) at the same time fulfil a series of social objectives, like improving industrial structure, making the regional distribution of job opportunities more acceptable, softening the unemployment consequences of structural change etc.

The "Royal Commission" that was set up to review SF performance concluded that the first objective (a) was not attained[28] and we concur on the basis of our analysis.

As for the second ambition (b) we will here restrict our discussion to the efforts to keep up employment in especially afflicted locations. Our conclusion may be summarized in the following way.

The efforts can be evaluated by asking two successive questions:
(a) could the results have been achieved less costly through SF, or
(b) is there a different and socially less costly alternative?

We consider two alternatives, either a selective subsidy program of the kind that has currently been enacted in Swedish industry or a more general policy package using the whole Swedish fiscal repertoire (for instance pay roll and value added tax parameters) allowing the inefficient firms to die.

SF management has been systematically pushing the commercial profit motive, often against the desires of its owners. This is illustrated by the fact that the really "terminal cases" (the shipyards and standard steel plant) have been forced out of the SF organization and the responsibility "handed back" to the Swedish Government. With standard steel and the shipyards out SF exhibits a profit performance that is close to other industries with the same sector mix. The data even seem to suggest that SF has been very skilled in obtaining profitable Government contracts to reconstruct ailing firms and to solve short run unemployment problems. If this has been considered costly for the Government it is rather a problem of government competence, that should be solved by a more competitive bidding for Government contract offers. Thus given the charter of SF, its internal allocation of resources has probably been considerably more efficient than what would have been the case if the same activity had been organized directly under ministerial control.

Alternatives to arrangements of the SF-type could be:
- a <u>selective subsidy program</u> with no direct management involvment, or
- a <u>general, cost reducing,</u> fiscal policy package, simply allowing the non-viable firms to close down, or
- <u>stimulating more private competition with SF</u> for Government contract offers.

We cannot here present a thorough evaluation of these alternatives against each other and against SF. Our earlier discussion suggests, however, that a selective subsidy program must be inferior to the SF arrangement. It would in fact mean returning to the situation before SF was organized, i.e. having no profit oriented financial intermediary between the politicians and the production units. In so far as private firms in distress are to be "socially managed" during the adjustment period a politically managed subsidy program is likely to be more costly than a professional management solution. It may slow down or even worsen the adjustment process and, with or without intention, subsidize lenders to and share owners in distressed companies as well.

The second alternative could be exemplified by the proposals, often put forward during the seventies in the Swedish policy discussion, of combining currency depreciation with regionally differentiated cuts in the payroll tax, and some financial inducements to firms for marginal increases in capital investments and employment. With no subsidies and several close downs of firms a temporary increase in frictional unemployment would most likely follow before the growth effects begin to dominate. We think that in hindsight most political decision makers would now tend to prefer such a solution. It is extremely difficult to evaluate such policies empirically. We have so far neither a satisfactory dynamic theory nor fully tested empirical tools for such an analysis.[29]

In the third alternative the Government purchases management competence not only from SF but also from private firms. If the SF administrative solution is a viable alternative to the ad hoc handing out of subsidies then it would do no harm to make a more efficient use of management competence in other firms as well by engaging them on a larger scale in bidding for a minimum cost solution to the social adjustment problems. Furthermore, future SF management teams may not be as good as the current one and may prefer to fall back into more comfortable and politically more yielding behavior. With no competition to exhibit the alternatives SF may in the longer run turn less efficient. A further check on SF management of course is to put part of SF equity out for competitive bidding in the stock-market. This has been discussed[30] and would be a natural continuation of the current SF management philosophy with its emphasis on market solutions in achieving social objectives.

A lesson to be learnt - concluding remarks

The story of SF and of Swedish industrial policy in the 70's, as reviewed above, does not sound very edifying to an economist - not at least from the point of view of a competetive economy with economic efficiency as the overriding goal. Applied to a Swedish economy, where factor markets are closely regulated and in which almost two thirds of all disposable money are channelled through public budgets for reasons other than efficiency, a more complex judgement is needed.

Applying efficiency criteria to SF in isolation would be unfair and also wrong. It would be equally misleading to polarize our view so that social motives are the only ones that cause Government intervention in the business sector. This is why we decided to introduce and analyze SF in the context of direct state intervention in business management activities.

From official records accompanying the new kind of direct Government involvement in business management in the 70's, we learn that it was originally propelled by high ambitions to improve and innovate industry. From the records of the 70's, we can read that such involvment became mostly defensive, supporting declining industries with the hope of getting them back on their own feet. Records of success are restricted to a few activities, notably within SF, where efficiency and profitability stubbornly have been pushed as the overriding objective, often against the wishes of the political governing bodies.

The lesson from the SF story in the seventies are mostly concerned with proper and less proper ways of handling losers.

Any industry contains a tail of losers. Any firm of some size has a string of both profit and loss operations. Normally luck shifts around over time, but even so, a careful inquiry would probably show that medium sized and large firms continue with loss operations for years, wasting resources that could have been employed more profitably elsewhere.

One reason for this is, of course, uncertainty about the future. By closing down something a future winner may be lost. The idea of diversification is supposed to take care of that aspect. The special situation of SF is that the company is paid to continue operating plants whose future is deemed completely hopeless by SF management. The taxpayer pays for the extra costs to fulfil a social objective. Such Government contract offers are not unique to SF or other public bodies. When a private firm enters the subsidy market the intent, however, is to make a profit above the subsidy, at least in the long run. The Swedish engineering combine Electrolux has done that several times by moving its own products into the factories of defunct firms. ("Facit" is a case in point). Conceivably this could be a prosperous business part of SF as well. Looked at from this point of view the optimal policy of the Swedish Government should be to put rescue operations on the market, with as many bidders as possible, in order to secure a minimization of its subsidy costs.

Whether intended or not, a major part of industrial policy so far has consisted in disbursing subsidies to impossible operations to preserve employment in the short run.

One should note that this is just the opposite to a profit oriented firm or merchant bank that absorbs losses for years on the chance to cash in handsomely some time in the long run future.

Private conglomerates are based on the idea of a tightly reined in merchant bank and investment institute in combination: they are the extreme form of remote management control and guidance. The efficient operation of such a firm requires delegation through simple measures of performance such as profit controls based on good standardized profit measurement systems.

One is tempted to say that this should be the last organizational form to choose for a politically dependent body like SF. Multiple conflicting objectives like profits and employment responsibilities would jam the decision process. Strictly enforced profit targets on defunct operations do not tally with elected politicians, in the neighborhood of the decision process. Considering this, it is surprising that SF has performed so well in comparison with other firms and especially during the last few years of crisis. And the alternative, with all decisions passed one by one in an disorganized fashion in the ministries must surely be an inferior one.

Given the circumstances the SF arrangement may be a second best solution - when a "first best" fiscal policy is not a politically feasible option - provided a highly qualified and politically independent management team can be rounded up. Since this cannot be guaranteed in advance with the current charter of SF an improvement should be (1) also to actively engage private firms in the bidding for the "social offer" contracts performed by SF, and (2) to put SF itself in the equity market to ensure that enough interests are locked up in the profit motive. Praise, however, undoubtedly must go to top SF management that has performed even beyond expectations. A further test of it will come, nevertheless, when the northern iron mine and the associated city Kiruna may have to be reduced to a fraction of their present size.

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Notes

[1] Note our terms. Business agencies are government owned joint stock companies to be distinguished from state or government agencies that are non-incorporated.

[2] The Karlskrona shipyard - formerly a business agency - is an exception. Unions have also accepted the establishment of "joint stock subsidiaries" to state agencies during recent years like the Swedish Railroad Monopoly (SJ), and the Swedish Forest Service (Domänverket).

[3] The philosophy behind this policy was outlined in several documents from the Central Union Organization (LO). See for instance Utredningen angående ekonomisk efterkrigsplanering SOU 1944:7, 12, 13, 25, 57 and 1945:11, 30, 31, 36, 42, 54. Also see Fackföreningsrörelsen och den fulla sysselsättningen, LO, Stockholm 1953.

[4] See Eliasson-Lindberg (1981) and Carlsson-Lindberg (1981).

[5] Or even ahead of the actual acquisition of a capital good, through the renowned Swedish Investment Funds System. See Eliasson (1965).

[6] See Eliasson-Lindberg (1981).

[7] At least until the extensive subsidizing of failing industries began in the late 70's. See Carlsson-Bergholm-Lindberg (1981).

[8] These "special programs" currently include Berox, Eiser, Kockums, LKAB, Svetab, Uddcomb and Ceaverken, employing some 35 percent of SF's Swedish employment in 1979, most of it in distressed regions.

[9] For a documentation of these ambitions see for instance Royal Parliamentary Bill No. 121, 1969 and Statligt företagande i samhällets tjänst, SOU 1978:85.

[10] See Royal Parliamentary Bill No. 121, 1969.

[11] That these problems occur on a larger scale in planned economies is demonstrated in Kornai (1980).

[12] See Statligt företagande i samhällets tjänst, SOU 1978:85.

[13] See Lundgren N - Ståhl I, (1980 pp 141 ff).

[14] See Statligt företagande i samhällets tjänst, SOU 1978:85, pp 11-15.

15 Thomas Lindberg at IUI has been very helpful in providing data for this analysis from his research project at the Institute.

16 See Affärsvärlden, No. 46, November 14, 1979.

17 See Affärsvärlden, No. 20/21, May 1980.

18 I.e. for each year the sum of net profits in companies earning a positive net profit.

19 Alternatively we can consider Government subsidies only as a waste, which would leave some depreciable assets on the books.

20 See Ekonomisk Debatt, No. 4, 1980, p 306 ff.

21 See interview with Managing Director Sköld in Affärsvärlden, No. 40, 1980. Also cf Eliasson (1976).

22 See again interview with Sköld, Affärsvärlden, No. 40, 1980 and interview with the finance director in Dagens Industri, March 4, 1980, p 12.

23 See prop. 1979/80:79.

24 Complaints were immediately filed with the minister of industry by one competing firm (AB Börjes Mek. Verkstad, January 28, 1980), by all competing firms (February 2, 1980) and jointly by the unions for workers, salaried workers and supervisors at another competing company (Östbergs Fabriks AB, February 12, 1980).

25 This is the main reason why business organizations generally opt for the second method and aim at stepwise improvements. See Eliasson (1976, p 232 ff).

26 See Eliasson-Carlsson-Ysander (1979, p. 355 ff).

27 See e.g. Statligt företagande i samhällets tjänst, SOU 1978:85, Chapter 1.

28 Statligt företagande i samhällets tjänst, op cit p. 15.

29 Some preliminary results from a recent study on the long-term allocation effects of the Swedish subsidy program using a complete micro-(firm)-to-macro economic model indicate the following conclusions. A general subsidy program is set against a general decrease in the payroll tax. The experiment is designed to be fiscally neutral during the first year. The subsidy program tends to exercise a short term demand stimulus, increasing the utilization of inefficient capacity that would otherwise have been clos-

ed down. The wages share in total output is kept higher than would otherwise have been the case and expansion is held back in other industries. The demand effect on total output dominates for more than five years before the supply effects from the improved allocation in the no subsidy, fiscal stimulus, close down of plants altenative begins to generate a substantially higher total output. The employment differences, however, are quite small and of short duration, in particular if the firms expect the subsidy to be only temporary. In the alternative with a general lowering of the payroll tax labor released from closed down firm are rapidly being rehired in growing firms and the experiments suggest that subsidies tend to hold back growth in other firms. These results are still at an experimental stage and should only be regarded as illustrations of the magnitutes and time dimensions involved. See further Carlsson-Bergholm-Lindberg (1981).

[30] See Veckans Affärer, No. 7, February 19, 1981, p. 3.