ORGANIZATIONAL LEARNING CAPACITY OF POLICY-MAKING SYSTEM FOR FINANCIAL SYSTEM RECOVERY: THE CASE OF SWEDEN WITH SOME SUGGESTIONS TO JAPAN

by

Kenji Suzuki
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Postal address: P.O. Box 6501, S-113 83 Stockholm, Sweden. Office address: Sveavägen 65
Telephone: +46 8 736 93 60 Telefax: +46 8 31 30 17 E-mail: japan@hhs.se Internet: http://www.hhs.se/eijs

Organizational Learning Capacity of Policy-making System for Financial System Recovery: the case of Sweden with some suggestions to Japan

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Kenji Suzuki

European Institute of Japanese Studies

Stockholm School of Economics

Abstract

The Swedish experience of the recovery from financial system crisis with quick structural reform has often drawn attention as one of the "best practices" from policy makers in various countries. Most of the previous observations, however, merely focused on the aspect of policy measures, such as nationalization of problem banks and divestiture of "bad assets". On the other hand, few have addressed the question why the Swedish government was able to develop such drastic and adequate measures and to apply them so quickly. Against this background, the present paper investigates the Swedish case from the viewpoint of "organizational learning capacity". The policy-making system of the financial system recovery is regarded as a virtual organization, and the paper discusses whether this "organization" had high capacity of organizational learning. Using the four-step process of organizational learning proposed by Dixon (1999) for the analytical framework, it is shown that the Swedish policy-making system has high learning capacity, at least in comparison with the case of Japan.

1. Introduction

The Swedish experience of the recovery from financial system crisis with quick structural reform has often drawn attention as one of the "best practices" from policy-makers in various countries. For instance, the International Monetary Fund in its 1997 report counted Sweden as one of the five "substantial progress countries" (Dziobek and Pazarbaþioðlu 1997). In the discussion on financial system crisis in Japan, the Swedish case had appeared rather sporadically until the mid-1990s (Yoshino 1994, Masumura 1997), but it attracted much attention in the 1998 Diet session, where the recovery measures from financial crisis was discussed most intensively. Japanese policy-makers have more often shown their interest in the Swedish case since then, but most of the previous observations, however, merely focused on the technical aspect. Hence the ordinary pattern is to point out some advantages and disadvantages of such policy measures as nationalization of problem banks and divestiture of "bad assets", and to discuss the applicability of those measures to Japan.

Nevertheless, policy measures are not the only elements to be learned from the Swedish case. This study does not discuss policy measures themselves, but rather considers why the Swedish government was able to develop such drastic and adequate measures for a short time and to apply them so quickly. Of course, this question has already been addressed from various angles. The most popular answer among Swedish observers including public officials and politicians directly engaged in the policy-making process at that time is that the necessity for quick recovery of international credit was recognized quite strongly in Sweden, as the country was a small net-debtor, facing the accession to European Union. It may also be said that such solutions as nationalization was the natural outcome in Sweden, where traditionally interventionistic social democratic party had taken office for most of the postwar period, and that the country was just lucky to benefit from favorable economic conditions.

Those views are highly convincing, but they do not seem to be sufficient to explain the Swedish success. For example, small net-debtor countries are not always able to act quickly and adequately. Failure is more frequent than success, according to the history of financial crisis in other small net-debtor countries. It should also be remembered that non-social democratic parties took office when the government took measures for the recovery from financial crisis, and the interventionist tradition was not necessarily effective at that time.

Then, what should complement the ordinary explanation of the Swedish success? To answer that question, the present study tests the hypothesis that Sweden demonstrated high “organizational learning capacity”, at least in the policy-making system concerning the financial system recovery. In general, the “organizational learning capacity” means the capacity for an organization to collect and understand inside and outside information and to address problems properly on the basis of acquired knowledge. The discussion on organizational learning including the analysis of its capacity has rapidly developed in the field of management and organization studies especially since the 1990s (see Cohen and Sproull 1996, Argyris 1999, Easterby-Smith, Araujo and Burgoyne 1999, for example). Strictly speaking, this study does not investigate a company-like organization but a policy-making system, which encompasses government agencies, politicians, relevant private groups and ultimately the public. Yet there has even been an idea of treating states as virtual organizations (Ahrne 1998, for example), and it is significant to examine the learning capacity of policy-making system as an applied study of organizational learning theory.

The study is organized as follows. The next section outlines the financial system crisis in Sweden and political reactions to it. The third section reviews the use of the concept of “learning” in the field of political science, and then examines whether the policy-making system regarding Swedish financial crisis had strong organizational learning capacity, comparing it with the Japanese case. The fourth section summarizes the discussion and concludes with some suggestions to the discussion in Japan.

2. Swedish financial system crisis and political reactions

This section outlines the rise and fall of the Swedish bubble economy, its impact on the financial system and the reaction of the government, as a base of our main discussion in the following part.

a. The rise and fall of the Swedish bubble economy

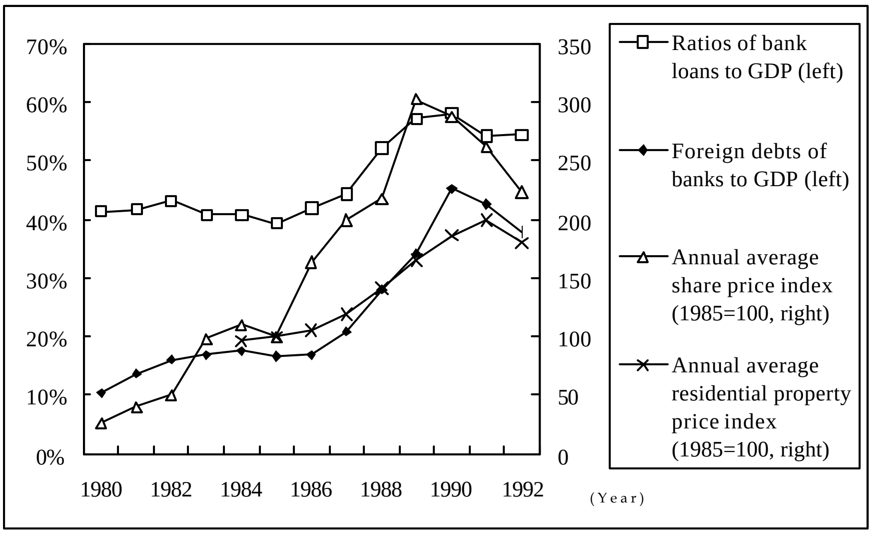
The financial sector in Sweden had long been stagnant under heavy regulation until the early 1980s. The Swedish Central Bank regulated various deposit and loan rates, as well as the amount of loans in total and by sector, and thus market competition was extremely underdeveloped in the banking sector. Since then, however, the sector has gradually been deregulated as the regulation on banks became less effective due to the internationalization of corporate finance and the development of non-bank financial corporations (Finansbolag). Moreover, the liberalization of the banking sector was an international trend, which Sweden could not resist in the face of growing economic internationalization, especially in Europe. Among others, the relaxation of loan rate regulation and the removal of the upper limit of loans by commercial banks in 1985 were the most effective in promoting market competition between banks. Banks were now more concerned about the amount of loans rather than profitability. There were ample funds for loans, as banks fully exploited the access to the international financial market, whose interest rate was lower than the domestic one. Indeed, the amount of international loans by Swedish deposit banks grew four times from 1985 to 1990.

Corresponding to the development on the supply side, the demand for loans by households and corporations also became large. The Swedish economy had steadily grown since the devaluation in 1981-1982, and the fall of oil prices reduced the production costs of exports, and hence contributed to the prosperity of export-led growth. Furthermore, high expectation for inflation and special tax deduction for interest income jointly increased the preference for loan (Jonung and Stymne 1997: 28-30). In short, there were many good conditions for the growth of loans both on the supply side and on the demand side in the late 1980s in Sweden, just as in Japan.

As a matter of fact, the amount of bank loans increased rapidly after 1986. While the ratio of bank loans to Gross Domestic Product (GDP) was around 40% from 1981 to 1985, it exceeded 50% in 1988 and became as much as 58.2% in 1990. The loans were largely directed to the domestic security and real estate markets. The annual average share price became three times as higher in 1989 as in 1985. Likewise, the annual average price of residential properties doubled from 1985 to 1991. The rise of real estate prices meant the increase of their mortgage value, hence pushing up further the amount of loans based on mortgage. While the resale of properties just for profit making was strictly regulated in Sweden (unlike Japan), the restriction for overseas securities and properties promoted the purchase of domestic properties especially by corporations as investment.

Nonetheless, the Swedish economy slowed down after 1989, reflecting high growth of labor cost and restrictive monetary policy to manage prospective inflation. This was followed by the rise of oil prices during the Gulf War and international recession, and Sweden suffered from rapid economic downturn. Some conditions for the “real estate bubble” had significantly changed as well. First, the tax reform in 1990 removed the special tax deduction for interest income, so that the demand for loan decreased. Secondly, the investment for overseas securities and properties became easier due to the deregulation of foreign exchange control, so that the demand for domestic investment decreased. Furthermore, the international interest rate went up after German Unification, and increased the cost of funding for loans both internationally and domestically. The real estate bubble collapsed as a result, and Sweden entered into a serious vicious circle, where the collapse of the real estate market caused economic distress, which further dragged down the property prices in turn.

Figure 1 Ratios of loans and foreign debts of banks to GDP, annual average share price index and annual average residential property price index: 1980-1992



Note: The data of the annual average residential property price index from 1980 to 1983 are missing.
Source: Statistiska Centralbyrå Affärsvärden.

<u>b. The structure of the Swedish financial sector and the financial crisis</u>

The amount of loans at the end of 1990 was 2,036 billion kronor. The loan supply was composed of banks (45%), housing-loan companies (39%), other financial companies (6%) and others (10%). The Swedish banking sector at that time was composed of 12 commercial banks (except 9 foreign banks), 104 saving banks dealing with small depositors, and 373 corporate banks whose origin was farmers' corporation. Commercial banks held 79% of the assets in the banking sector. The shares of saving banks and corporate banks were 17% and 4% respectively.

As for commercial banks, the largest bank in terms of assets was Scandinaviska Enskilda Bank (26% of the assets held by all commercial banks). It was followed by Nordbanken (22%), Svenska Handelsbanken (21%) and Gota Bank (8%). These top four banks held nearly 80%. From 1991 to 1992, however, 11 largest saving banks and all corporate banks were consolidated into Sparbanken Sverige (Swedbank) and Föreningsbanken respectively.

With regard to financial companies, they had initially attracted loan takers because they had not been regulated so strictly as banks. However, their prosperity continued even after the banking sector was deregulated. On the contrary, the number of financial companies kept increasing in the late 1980s, from 213 in 1985 to 292 in 1988. Competition in the loan market became harder after the entry of banks, and less competitive financial companies increased their loans with easy investigation. As a result, those companies were first damaged by the collapse of the bubble economy. Financial companies lost credit especially after a large financial company, Nyckeln, turned out to be in a critical situation in October 1990. In fact, the number of financial companies became less than a half (133) from 1988 to 1992.

The failure of financial companies damaged banks not just by bringing a bad mood for investment, but also by causing a problem in financial management as many banks bought financial securities issued by financial companies. In 1991, Nordbanken came short of capital, which led the government to guarantee the issue of new shares and purchase them. The government also bailed out the largest saving bank, Förstasparbanken (later merged with Sparbanken Sverige), which had also fallen into debt surplus.

However, the general outlook was still optimistic at the end of 1991. For instance, “The Swedish economy appears to have reached the bottom of its recession this autumn” reported Financial Times (21 October 1991). At that time, Sweden saw Norway suffer from a negative spiral, where bank's wariness of lending caused bankruptcies, which damaged the management of banks in turn. Yet analysts believed “Sweden will avoid a similar fate since its market liquidity is much bigger than in Norway and Swedish banks have better capitalisation and strong ownership structures” (ibid.). In other words, the Norwegian crisis was largely viewed as a different case. This is consistent with what was heard from the interviews with relevant officials.

c. The 1992 crisis and political reactions

The above-mentioned outlook turned out that the previous economic forecasts were too optimistic very soon. Problems surfaced with the financial position of Nordbanken and Gota Bank in spring 1992. For Nordbanken, the government decided in June to take over all minority equity, hence making the bank wholly nationalized.

This was followed by the European currency crisis in that summer. High interest rate in Germany tremendously grew the demand for Deutsche Mark, and other European countries faced the alternative of increasing interest rate correspondingly or disengaging their currency from Exchange Rate Mechanism (ERM). Sweden took the first choice at the beginning, but the result was that Central Bank had to raise the overnight rate up to 500% in the middle of September. The currency was eventually depreciated by 12%, when Sweden left ERM in November.

The delay of the disengagement from ERM seems to have alleviated its impact by giving companies the time to hedge the currency risk (Englund 1999: 93-94). Still, the financial sector was damaged seriously by high capital cost due to high interest rate until the disengagement from ERM. The currency depreciation substantially increased the burden of foreign debts on banks. Consequently, other banks than Nordbanken and Gota Bank also found themselves in a critical situation. Now the financial sector seemed to be going into a "systemic crisis".

Against this background, the government turned its policy from ad hoc support of individual banks to comprehensive support of the whole financial system. The government published a comprehensive support package in September 1992, which was passed in the Diet in December. The main feature of this package was to specify no condition for support so as to keep flexibility for problem solving. Likewise, no limit was established for financial expenditure. The support administration was initially in charge of Department of Finance, but Bank Support Authority was established as a special agency for the support administration.

In parallel with this support package, the government nationalized Gota Bank in December. With regard to Nordbanken, the government established a servicer, or "bad bank", called Securum, which took over bad debts from Nordbanken (for Securum, see Macey 1999 for example). The government recapitalized Gota Bank, and established the same type of servicer (Retriva) to manage the bank's bad debts. The total amount of expenditure for the two servicers was 64.2 billion SEK in total. The other banks except Svenska Handelsbanken applied or considered applying for some sorts of public support, but the real public expenditure was only 1 billion SEK caused by the interest-free loan to Sparbanken.

The Swedish financial system has rapidly recovered since 1993. By 1995, all of the five largest banks - Scandinaviska Enskilda Bank, Svenska Handelsbanken, Nordbanken (which acquired Gota Bank), Sparbanken Sverige and Föreningsbanken – achieved positive current profit. The Swedish economy marked substantially negative from 1991 to 1993, but it changed for the better very quickly. The average stock price and the average property price began rising in 1993 and 1994 respectively. Given those improvements, Department of Finance proposed abolishing the support package in November 1995, which was carried out in July next year. Bank Support Authority was reorganized into Deposit Guarantee Commission, and the ownership of Nordbanken was transferred back to Department of Finance. The government later sold Norbanken, and earned 67 billion SEK, which was well beyond the expenditure for its previous support (Nordea 2002).

3. Organizational learning capacity of policy-making system

As stated in the first section, a policy-making system is not an "organization" in any strict sense. However, it is possible to apply organization theory by considering a policy-making system as a virtual organization. This section first reviews the use of the concept of "learning" in the field of political science. The following parts then examine how Swedish policy-making system was equipped with organizational conditions for high learning capacity.

The study of policy-making system using the concept of learning dates back from the 1970s (Heclo 1974), but it has rapidly developed especially since the 1990s (Dolowitz and Marsh 1996; Knopfel and Kissling-Näf 1998; Stone 1999). Traditionally, the mainstream political literature such as pluralism and elitism has addressed the question of "who decides policies" or "who is the most influential on policy-making". By contrast, the "policy learning" literature focuses on the way of policy formation. In this sense, it may be classified into the same current as incrementalism (Lenbruch 1959) and classic bureaucratic choice theory (Niskanen 1994). As Hall (1993: 276) and Stone(1999: 55) point out, however, the policy learning literature does not necessarily focus on the state, since social factors and non-governmental actors may also affect policy learning. Therefore, 'learning is only a partial corrective to theories of policy change based on notions of power and conflict. It is not an alternative hypothesis, because it must always take place within the community' (Bennett and Howlett 1992: 290).

It is noteworthy that policy learning is often identified with "policy transfer" in the political science. That is, many studies on policy learning only focuses on the transfer of policy measures from one country (or other jurisdiction) to another. Nevertheless, policy learning should be defined more broadly than policy transfer, so that it includes the creation of new policy measures based on the understanding of existing information, as seen in the Swedish reaction to the financial crisis. Furthermore, the existing literature of policy learning seldom stands on the theory of organizational learning systematically. In particular, political scientists have paid little attention to the theoretical results of organization studies about the conditions of promoting/ preventing organizational learning. Hence it is necessary to seek an original framework for the analysis here.

One of the most extensive analyses on the conditions for organizational learning was conducted by Dixon (1999). Her framework consists of four steps of organizational learning: 1) widespread generation of information, 2) integrating new/ local information into the organizational context, 3) collectively interpreting the information and 4) authority to take responsible action based on the interpreted meaning; and she discusses the conditions necessary for organizations to perform properly in each step. With this framework, the subsequent part discusses the conditions for organizational learning, and considers how much the policy-making system concerning Swedish financial crisis embraces those conditions. Dixon's framework looks very useful for the analysis here, but this does not imply that it is the only framework for identifying the conditions for organizational learning. For instance, Huber (1991) proposed a similar four-step framework, but their contents are different from those of Dixon. It should also be remembered that the following discussion does not derive all aspects from Dixon's work.

1) Widespread generation of information

In her framework, Dixon used the phrase "generation of information" to 'encompass both the collection of external data and the internal development of new ideas' (1999: 93). That is, the first requirement for organizational learning is to collect a variety of information from outside, as well as to develop new ideas from inside. To collect outside information is equally important for company-based organization theory and for government-based political science.

In general, to import external success is easier and more frequent for governments than companies. After all, states are not normally put in a position to compete with each other (although they are more and more likely to compete, for example in attracting good companies, due to economic globalization). Neither does policy imitation cause problem in terms of intellectual property right. This may be why policy learning is often identified with policy transfer.

Yet the purpose of the collection of external information is not just to import other cases. From the viewpoint of organizational learning, it is rather more important that the inflow of external ideas stimulate internal ones, or that the mixture of different external ideas leads to the creation of totally new ideas. Combining information from different sources "leads not only to new information but also to new understanding" (Huber 1991: 101). As a result, organizational learning "occurs at the interfaces between persons, between organizational units, and between the organization and its external environment' (Friedlander 1983: 199). With the assumption that the diversity of information gives the effect of interaction, it would be better to collect external information from various sources through various channels.

In the process of financial recovery, the Swedish government made a number of characteristic efforts for the collection of external information. One of those efforts was to make active use of external consultants. Since the dependence on just one consultant firm was considered undesirable, the government divided the task into several different firms, even though it might be more costly. Specifically, Credit Suisse First Boston helped the Department of Finance and Bank Support Authority with financial analysis of banks, while Arthur Andersen investigated internal management. McKinsey & Compnay took responsibility for the analysis of strategy and effectiveness. The appraisal of bank-owned real estate was under the charge of Valuation Board, which was organized by Dr. Stellan Lundström, a land economist at Royal Institute of

Technology, and other real estate specialists.

According to Stefan Ingves, the first Chairman of Bank Support Authority, and Göran Lind, the then liaison officer at Swedish Central Bank, the main idea behind the use of external consultants was that it would be the most effective to leave those with the experience of working for the financial crisis in the United States and Norway in order to obtain proper knowledge quickly. Furthermore, it is interesting that those officials admitted that they adopted external consultants because the government had no concept device to solve the problems, and no capability to analyze and clearly explain the situation. This may look irresponsible, but it may also be interpreted as the flexible attitude of Swedish public officials, who would primarily think of problem solution, accept their weaknesses for the sake of it and try to overcome those weaknesses in flexible ways.

One of the reasons for such flexibility in the government may be the "youth" of politicians and public officials in Sweden. This is not for biological reason, but rather because young politicians/ public officials are less likely to be obsessed with stereotypical ideas underlying the society and their organizations, so that they can come up with new ideas more easily and carry them out more flexibly. However, the government may not function well when it is composed of only younger people. Much experience of older people often plays an important role as well. The most important is the construction of the government by a variety of generations, which may cause greater interaction of ideas.

In fact, the coalition cabinet at the time of financial crisis (1991-1994) was very young, not least the prime minister, Carl Bildt. The average age of the cabinet ministers was 48.1 years, and Bildt was the second youngest (42 years old) among them. The youth of this cabinet is impressive when compared with the case of Japan, where the average age of the youngest cabinet for the last 30 years was 59.4 years (Hosokawa cabinet: 1993-1994) and the age of the youngest prime minister was 54 years (Kakuei Tanaka: 1972-1974).

With specific regard to the politicians directly in charge of financial policy, the financial minister, Anne Wibble, was 48 years old, and the minister specifically responsible for financial crisis, Bo Lundgren, was 44 years old. The average age of the top 9 officials (Chefstjänstemän) at the Department of Finance was 47.6 years in 1992. In particular, the leading vice minister who established the basic framework for the financial system recovery, Urban Bäckström, was 38 years old in 1992. The first chairman of Bank Support Authority mentioned above, Stefan Ingves, was 40 years old when he was appointed. On the other hand, the average ages of vice ministers and division heads in Japan were 58.4 years and 54.4 years respectively, according to the survey of National Personnel Authority in 1994-1995. It should be noted that the life expectancy is as long in Sweden as in Japan, and it is not convincing to say that the aging of the Japanese government reflects its society.

2) Integrating new/ local information into the organizational context

Even though much data and ideas would be generated externally and internally, they would not contribute to the learning process unless they were distributed and shared by the whole organization. Thus the next important step of organizational learning is how an organization can share those information effectively.

The degree of communication in an organization largely depends on the relational structure between its components. When each component is isolated and there is no boundary-spanning individuals or sections (Newman 1985; Tushman and Scanlan 1981), information may not be distributed properly across different components. Some components in conflict with others may manipulate information or delay the distribution of information for their own interest (Huber 1991: 101). Moreover, if the communication procedure is very formal, the distribution of information may well be delayed due to the preparation of documents and forms. Useful information may be discarded just because it is not equipped with a proper form (von Krogh and Roos 1995: 151-2).

It is not easy to discuss how much is the communication capacity of the policy-making system in Sweden. When it comes to the general corporate characteristics from the viewpoint of organizational culture, however, the Nordic (including Swedish) companies are more likely to avoid intersectional conflict and less bureaucratic in the decision-making procedure than American ones (Selnes, Jaworski and Kohli 1996). In light of the above discussions, those characteristics may contribute to the improvement of the communication capacity.

In addition to the general tendency as such, let us consider the communication capacity of the policy-making system. There are three potential “cleavages” of communication in the policy-making system: between different government agencies, between government parties and oppositions; and between the state and the society.

With regard to the first cleavage, the relationship between Department of Finance, Central Bank and Financial Supervisory Agency is the focal point in the case of financial system administration. Those government agencies have close mutuality regardless of their institutional independence, which is discussed in the next part. This is clearly reflected in the appointment of high-ranking officials across different agencies.

For instance, above-mentioned Urban Bäckström was appointed to the governor of Central Bank after working for Department of Finance as the leading vice minister. Anders Sahrén, who was the Director-General of Financial Supervisory Agency from 1990 to 1993, came from the position of the vice-governor of Central Bank. Such transfer is highly unlikely in Japan, where each financial agency has an individual personnel system, and top executives are always appointed from inside.

Regarding the second cleavage, between government parties and oppositions, the establishment of comprehensive alliance in summer 1992 was important for the solution of financial crisis. The achievement of such an alliance was primarily because the economic situation, including the hyperinflation of interest rate, was so critical as to marginalize political conflict. Yet there are two other institutional factors to be noted. First, Sweden has a tendency toward consensus politics. As Katzenstein (1985) pointed out, many European small states, including Sweden, traditionally have various institutional treatments to coordinate different interests and and alleviate conflict between political parties as well as interest groups. According to his study, those states, which he labeled as "democratic corporatism", are less partisan and more conciliatory particularly in the field of economic policy.

The second institutional factor is that the Swedish party politics has been developed consistently as the one-dominant-party system with Social Democratic Party at the center in the postwar period. Social Democratic Party was not in the government at the time of the financial crisis, but it was still the largest party in Swedish politics. The right-wing coalition government did not hold the majority. Even Moderate Party, the leading party in the coalition, occupied less than 60% of Social Democratic Party (Table 1). Therefore the government needed co-operation from either of the three opposition parties (Social Democratic Party, Left Party and New Democratic Party) in order to pass its bills. In that case, the government was unlikely to choose Left Party skipping Social Democratic Party, and its choice for alliance was either Social Democratic Party or New Democratic Party. The government chose the former partly because the policy stance of the latter was not clear, and partly because the alliance with the largest party would construct a more stable base for policy-making. As a result, the government asked Social Democratic Party for cooperation, promising to share all relevant information with the party.

Table 1 Diet seats after the 1991 election.

Moderate Party	80	Social Democratic Party	138
Center Party	31	Left Party	16
Liberal Party	33	New Democratic Party	25
Christian Democratic Party	26		
Coalition total	170	Total	349

This government-opposition alliance was reinforced with the establishment of Bank Support Authority. There were six members in the board of Bank Support Authority besides the Chairman, Stefan Ingves. Three members came from Social Democratic Party, one from Department of Finance and two from private companies. This means that (unlike the case of Financial Reconstruction Commission in Japan) government politicians left the task to their public officials, while the board was regarded as the place where opposition politicians checked the performance of public officials instead. Furthermore, it should be pointed out that the establishment of Bank Support Authority helped reduce the first cleavage, i.e. the cleavage between relevant government agencies, since the separation of activities from Department of Finance made it easier to communicate with Central Bank and Financial Supervisory Agency.

As for the third cleavage, i.e. between the state and the society, it is necessary to take account of "remiss", a special procedure to draw opinions from the society in Sweden. In the remiss procedure, a policy draft is distributed to a wide range of relevant government agencies and private organizations before it is submitted to the Diet. According to a major text of Swedish politics, the remiss is still seen as an important form of influence (Bäck 2001: 182-3). However, this procedure is not free from problem. For example, Lindbeck et al. noted that 'Enquiries are carried out under too tight time constraints or with too limited objectives' (2000: 28). In fact, it was in early November 1992 that the draft of the bank support program was distributed for remiss, and respondents were required to submit their opinions within only two weeks. An article on the remiss referred to a man's complaint that the issue was relevant to him, even though he was not involved in the remiss, for his tax money would be used (Dagens industri 19 November 1992). The article did not assess the remiss procedure itself, but such a complaint brought the problem to light.

Yet it is not right to say that the remiss procedure has become totally dead because the draft is distributed to only those expected to give favorable comments, or because respondents are unable to give their opinions. In the bank-support case, it is true that the remiss procedure formally started in early November, but the outline was always published on the media in late September, and relevant parties had sufficient time in substance to consider it. The above article also reported that nearly half of the feedback criticized the draft in many critical points. From this, it may follow that the remiss procedure contributed to reducing the state-society cleavage at least to some extent.

3) Collectively interpreting the information

After generating and transmitting information, an organization needs interpretation, i.e. “the process through which information is given meaning and actions are chosen” (Daft and Weick 1984: 294). Interpretation is the central step for organizational learning.

Generally speaking, ‘more learning has occurred when more and more varied interpretations have been developed, because such development changes the range of the organization’s potential behaviors’ (Huber 1991: 102). Nevertheless, the variety of interpretation can be prevented easily by diverse factors. Out of those factors, let us first focus on the issue of hierarchy, which was also discussed by Dixon. This is followed by the discussion on “organizational defense”, which often draws attention from organization theory.

All organizations have more or less hierarchical elements. The more hierarchical an organization, the more likely its leaders are to impose their interpretation on others, which may reduce the scope of organizational interpretation. In hierarchical organizations, moreover, leaders are less likely to be criticized by their subordinates, and thus more likely to overestimate their abilities. In other words, those who originally have greater learning capacity may be promoted to higher positions, but paradoxically, the closer to the top they reach, the more they lose the opportunity to learn by the criticism of others. Argris labeled this as “leadership dilemma” (1999: 139-148).

Then, how hierarchical is the Swedish policy-making system? There is no study on organizational hierarchy specifically focusing on the government, but Swedish organizations are in general seen as less hierarchical than others at the level of organizational culture. In a comparative study by Trompenaars and Hampden-Turner (1993), for example, Sweden was classified into the “Equality” category in the “Equality”-“Hierarchy” scale (Japan was classified into “Hierarchy” in the same scale).

Likewise, the large-scale international comparison of leadership (Global Leadership and Organizational Behavior Effectiveness, GLOBE) indicated that Sweden was ranked as 50 out of 61 countries in the aspect of power distance, i.e. the distance between leaders and subordinates in organizations (Holmberg and Åkerblom 1998: 11). Given such a low degree of hierarchy, the appointment of relatively younger officials may be easier in Sweden. Conversely, the appointment of younger officials seems to be helpful in keeping flexibility and less hierarchy. Therefore it may be said that the "leadership dilemma" is less likely to prevent organizational learning in Sweden.

While it is necessary to avoid hierarchization to secure the variety of interpretation, however, it is also essential for organizations to have leadership in order to "choose actions", which is also an important element of collective interpretation of information.

In fact, the Swedish policy-making system sometimes witnessed hard measures under strong leadership. An example was that the Chairman of Financial Supervisory Agency, Anders Sahrén, was suddenly appointed to another post abroad in autumn 1993, speculatively because he was not very much in harmony with the financial minister, Bo Lundgren (although Lundgren himself rejected that speculation see Lundgren 1998: 290). There was no remarkable dissension between Department of Finance and Central Bank in the case of bank support, but it should be pointed out here that the political independence of Central Bank was comparatively weak in Sweden, at least until the early 1990s. For instance, Alesina and Summers (1993) marked 2 in the 4-grade scale, which was even lower than Bank of Japan (2.5). It is of course quite difficult to keep leadership while avoiding hierarchy and leadership dilemma. It may be said, although merely with hindsight, that the Swedish policy-making system achieve a good balance in that respect.

Besides hierarchy, “organizational defense” is another important factor to reduce the performance of collective interpretation. According to Argyris’s double-loop learning theory (1999: 67-91), members would, unconsciously or somewhat consciously, avoid measures that are likely to induce the disturbance of the governing value of their organization, no matter how useful they are for the solution of their problems. This evasive action is organizational defense, which prevents proper interpretation for problem solving.

Government politicians are the final decision-makers in the policy-making process. What they are most afraid of is the destruction of their regime, and the loss of their supporters. The recovery from financial crisis was no doubt essential to preserve the governing value. The recovery from financial crisis was no doubt essential in order to avoid those results. Since there was no ultimate solution, however, politicians would choose policy measures not only by their economic effect, but also by their impact on the existing governing values. In Japan, for example, it was out of question to support banks with tax money, no matter how economically effective the measure was. Banks were the major source of political donations, and the collusive relationship between banks and public officials at Ministry of Finance was widely recognized. Under those circumstances, the public was unlikely to support the idea that the government would help banks that had already been criticized as the principal cause of the bubble economy. Moreover, many politicians and public officials were themselves reluctant to give public support, which would result in the resignation of their friends - bank managers. In any case, the government actually discussed the plan to support most damaged banks by the purchase of real estate with public funds. Nonetheless, the plan was abandoned due to strong opposition from the public.

Then how was the relationship between the government and banks in Sweden? Let us examine political donations first. The total financial size of major Swedish parties was 355 million SEK (approximately 4.3 billion JPY) at the time of the election year 1991. This was only 2.5% of the corresponding figure in Japan, published by the annual report of political finance (150-200 billion JPY). In Sweden, moreover, more than a half of it was financed by tax money (Finansdepartmentet 1994). Even the Moderate Party, which was the closest to the business world, owed more than half of its finance to public money. According to Bäck and Möller (2001: 135), even this party does not receive corporate donations any longer. Personal donations may include those from the managers or owners of banks, but the Swedish public did not seem to consider the relationship between politicians and banks as so problematic that people would suspect their collusion.

Regarding the relationship between public officials and banks, it is not prohibited in Sweden for those with the career at Department of Finance or Financial Supervisory Agency to work for banks. Most symbolically, Anders Sahrén got his job at Föreningssparbanken, which was established by the merger of the banks he had supervised as the Chairman of Financial Supervisory Agency at the time of financial crisis. Furthermore, the relationship between the government and banks had been in a sense more institutionalized in Sweden than in Japan until the early 1990s. Not only partly-national Nordbanken but other totally private banks also had to offer seats in the board to “government-appointed executives” to secure public supervision of management. It should be noted, however, that those executives were neither specifically chosen from public officials, nor exploited for the purpose of their reemployment after retirement. As a result, it is not surprising that this bank-government connection had not been criticized in the same way as amakudari in Japan.

Another important reason for minimizing the criticism about the bank-government connection at the discussion on bank support was that the government was not hesitant to accuse bank managers and owners. For example, the government, as the largest shareholder, either dismissed or pressured to resignation all board members at Nordbanken in early 1991, even when no tax money had been spent for its support. In the case of Gota Bank, the government supported Gota bank itself, while leaving its owner, Gota AB. On top of that, the government fought against S-E Banken over the share value of Gota bank. The share of Gota bank was first acquired by S-E Banken as collateral and then assigned to the government. While S-E Banken requested the government to pay 4 billion SEK for the assignment, the government overrode the request, asserting that the share of Gota bank had no value at all. Furthermore, the nationalized banks filed a damage suit against its former managers, although it ended up with compromise.

It is noteworthy in the Swedish case that Bank Support Authority owed the cost of its own management and the consultancy fee to the banks that had applied for its support. The total amount of the cost was 130 million SEK, which was not very large compared with the total amount of support. Nevertheless, this policy might be significant for showing the government’s impartiality as the support framework had displeased the competitors of the subsidized banks, such as financial companies, insurance companies and non-supported banks, notably Handelsbanken.

<u>4) Authority to take responsible action based on the interpreted meaning</u>

The fourth element for organizational learning raised by Dixon is to give organizational members the authority to act properly on the knowledge from their interpretation. In other words, organizational members 'must have enough discretion in their actions to make changes when and where they are needed' (1999: 121), and 'The reduction of risk is as necessary to taking responsible action as is having the authority (ibid.: 122). While the decision-makers in the policy-making system are politicians, those who implement their decisions are public officials. Basically, Swedish public officials are seen as quite autonomous (see Pierre 1995, for example). Yet it should also be noted that political appointees sometimes occupy top-level posts, and that the organizational framework of public agencies is flexible enough to secure political control. Swedish public officials are autonomous, although political control seems to function effectively, contrasting with Japan.

The tendency to respect the autonomy of public officials was clearly indicated in the bank support framework. As explained earlier, one of the most important characteristics of the support framework in autumn 1992 was to avoid specifying particular support measures and conditions in order to keep flexibility. The limit of financial expenditure was not specified, either. Government politicians did not engage themselves in the management of Bank Support Authority (although Social Democratic politicians participated in the executive board).

It must be stressed that public officials could keep their autonomy in that way largely because the bank-government relationship was not such that it would cause unnecessary social doubt or distrust. Of course, there were numerous criticisms about the government and public officials in the context of the economic slump, but most of them were not so hysterical as to attribute all economic and social problems to the responsibility of public officials.

Even in Japan, it is true that some observers have called for the establishment of the environment under which public officials was able to be fully functional. For example, Tomita warned that ‘too much bashing of Ministry of Finance creates problems for the future’ (1999: 45). Ikeo emphasized the necessity to increase human resources at Financial Supervisory Agency (2002: 18), while the general public atmosphere was just to require public officials to be as thrifty as possible.

Still, the mainstream argument in Japan is such that “it is obvious that the greatest responsibility lies in bureaucrats, while politicians, company managers, journalists and the public are responsible in part (Sakaiya 2002: 153). It is no doubt important to discipline public officials. Nonetheless, the organizational learning theory and the Swedish policy-making case imply that it would not always be a right way to restrict the authority of public officials, or to allow much intervention of politicians.

4. Conclusions

This paper has examined the financial system crisis and the policy reaction in Sweden, and discussed how much was the organizational learning capacity of the policy-making system relevant to that process, comparing Swedish and Japanese cases when necessary. Dixon’s theoretical framework was applied to assess the organizational learning capacity, but it should be remembered that the above discussion did not cover all aspects of the framework, and that her study includes far more than the framework presented here.

Moreover, we should be cautious not to interpret hastily that the good organizational learning capacity had saved Sweden from the financial system crisis. As noted at the beginning, the Swedish policy reaction should rather be attributed to the country’s position in international political economy and its historical state interventionism. Also, its success seemed to rely much on various accidental factors such as international economic climate. Without those environmental conditions, the result might well be different even though the Swedish policy-making system had great learning capacity. The argument of this study is that the result would not have been so favorable even under the same conditions, unless the Swedish policy-making system had had enough learning capacity.

When discussing the Swedish case, Japanese observers tend to focus on policy measures. The consequence is either that they depreciate the case with too much concern about the differences of environmental conditions, or that they appreciate it too much with little concern about the differences, devaluing their discussion. Some observers have discussed certain elements of the policy-making system such as quick decision-making, information disclosure and the use of external specialists (for example, Sato 1999; Yamada 2001). Yet most of their discussions are rather sporadic, and this study is a challenge to develop a more systematic discussion on the issue.

It is important to learn policy measures from successful cases in other countries, not only for the case of financial system recovery. As this study shows, however, it may be important to develop the discussion not only on policy measures but also on the policy-making system, including the assessment of the framework suitable for analysis.

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