End of 'Thatcherism' in Scandinavia?

It will take decades and billions in taxpayers' money to undo the effects of Thatcherism.

Sweden and Norway have joined the list of countries where the "Thatcher revolution" in market liberalization has come crashing down, joining the United States, Canada, New Zealand, Australia, and of course Thatcher's own Britain, which in the last 24 months have sunk to their worst economic levels since the 1930s.

The dramatic bankruptcy on Aug. 26 of the business empire of Swedish financier Erik Penser, and the simultaneous illiquidity crises in Norway's three largest banks, were both symptoms of the same disorder: wholesale banking and financial market deregulation, introduced in the early 1980s' heyday of "Thatcher economics" by the social democratic regimes.

Sweden's largest bank, the state-owned Nordbanken, was forced to take control of the Nobel Industries arms and chemicals group formerly controlled by Penser. Nordbanken, Penser's major creditor, will also assume control of his Yggdrasil holding company. His insolvent real estate subsidiary, Gamlestaden, whose losses set off the crisis, will be under receivership of a syndicate of banks led by SE-Banken.

The social democratic government of Ingvar Carlsson, which faced a close election in mid-September, was panicked into the bailout, agreeing to "guarantee" a new 5 billion Swedish kroner share issue for the Nobel group. Swedish observers say that the government was frantic to avoid blame for the bankruptcy of one of Sweden's oldest and largest industrial firms.

Nordbanken reportedly had insider deals last year with Penser in which Penser got a whopping SKr 14.6 billion "bridge loan" from Nordbanken, SE-Banken, and other banks to prop up Gamlestaden. Penser argued that because he was so big, he could hold on until real estate prices improved. They worsened. It is alleged that Penser got preferential access to huge credits from Nordbanken because he also owned 13.5% of Nordbanken shares.

Sweden's the speculative real estate bubble grew after 1982. When Olof Palme returned to office in 1982, his finance minister, Kjell-Olof Feldt, deregulated banking and financial markets to "stimulate" the flagging economy. The "leftist" Palme government adopted the same foolhardy deregulation the "rightist" Reagan and Thatcher governments had.

Today, Feldt claims he had won a private "gentlemen's agreement" from Sweden's bankers that they would not abuse the new liberties by creating excessive real estate and other speculation. Within weeks of deregulation a construction and stock market boom began. Real estate prices rose.

But in early 1990, Sweden's kroner began sinking, forcing the Central Bank to raise interest rates to double digit levels to shore it up. Sweden's socialists had also moved to remove foreign exchange and other capital controls in their push for "free markets." As interest rates soared, the real estate boom of the century shriveled.

In Norway, similar bank deregulation was introduced by the socialist Gro Harlem Brundtland government in 1984. All of the major banks recently received state bailouts, including the three largest—Den Norske Bank, Christiania Bank, and Fokus Bank. Last January, the Brundtland government proposed a new Government Bank Insurance Fund, a "second defense" for deposits. The commercial bank insurance fund had already been exhausted in the past three years.

In the mid-1980s, shortly after the controls on banking and finance were removed by Norway's Parliament, banks lent at a feverish pace to construction and land speculation. So long as Norway's North Sea oil revenues were growing the economy seemed impervious. In early 1986 Saudi Arabia pulled the plug on world oil prices. North Sea oil dropped from $26 a barrel in late 1985 down to below $10 by early summer of 1986. A panic run out of Norway by international speculators ensued. The Norwegian Central Bank hiked interest rates into double digits to defend the kroner. Industry went into deep recession. The bad slump in North America and Britain—Norway's major trading partners—made things so bad that by early this year authorities became alarmed over the very future of the banking system.

The London *Financial Times* on July 19 noted, "Norway's banking crisis has reached such serious proportions that the government is encouraging some of the country's biggest companies to help rescue the banks from possible collapse."

In late August the Brundtland government formed an emergency committee to probe the causes for the crisis over the past four years. Fokus Bank, reported first-half 1991 losses of more than $80 million. The week before Christiania Bank, reported similarly devastating losses. For all of 1990, Norway's commercial banks recorded a net loss of $1.2 billion.