

# Swedish Central Bank Policy in the Post-War Period: Some Comments

By Lars Jonung, Lund

The policy actions of the Swedish central bank — (the “Riksbank”) — during business cycles in the post-war period may in short be described as follows. During booms the Riksbank has implemented extensive administrative controls on the flow of credit to private business through the banking system. “Tight” credit controls and credit regulations have been applied — generally with the exception of credit extensions to certain high priority sectors, especially the government sector and the construction industry. The intent of the authorities has been to “squeeze” the private sector — to cut down its supply of credit — and in this way to restrain economic activity. In recessions following periods of restrictive central bank policy, there has been a rapid expansion of the money supply and of commercial bank advances to private business. At this stage of the cycle, private firms have attempted to restore and solidify their liquidity positions. As the liquidity balances of the private sector have been replenished, industrial activity has increased.

This article discusses the nature of the measures taken by the Swedish Central Bank and examines some of the consequences of these measures in the post-war period. In this context, the views of the critics of the Riksbank will be presented. Further, a review of the Riksbank’s policy will be given.

## Monetary Policy — Credit Policy

A distinction between those measures taken by the Riksbank that can be characterized as “credit policy” and those that can be described as “monetary policy” underlies much of the following argument. Monetary policy generally refers to measures designed to affect monetary aggregates such as the monetary base, banks’ reserves and the money supply. Changes in cash reserve requirements, open

market operations and changes in the discount rate constitute the tools of traditional monetary policy. Credit policy, on the other hand, signifies actions taken by the monetary authorities in order to influence the allocation of credit, the volume and availability of credit, and the level of interest rates. Credit policy primarily affects the assets of commercial banks. It should be pointed out that the distinction between monetary policy and credit policy is not unambiguous — monetary policy influence “credit” and “credit policy” affects “money”. However, this suggested distinction will prove useful in the discussion which follows<sup>1</sup>.

The main contention of this article is that the measures enacted by the Swedish Central Bank constitute credit policy rather than monetary policy. The Riksbank has chosen to direct its actions primarily towards influencing the allocation of credit and towards regulating the composition of the assets of commercial banks and other financial intermediaries. The Riksbank has simultaneously attempted to maintain “low” interest rates throughout the post-war period. Further, changes in the volume of credit to the private sector have apparently been used as a main indicator of the overall impact of the measures taken by the monetary authorities.

By relying on credit policy — specifically on the regulation of commercial bank advances to private industry in periods of restrictive policy — the Riksbank has tended to assign a secondary role to traditional monetary policy tools.

Some other differences between monetary policy and credit policy are suggested here. Traditional monetary instruments may be described as “indirect”, “general” and as “marketoriented” in the sense that they work with a minimum of interference in existing financial markets where market incentives are allowed to coordinate the activities of economic agents. Credit policy — as carried out in Sweden in the post-war period — may be characterized as “direct”, “selective” and “non-marketoriented”. The policy of the Riksbank has involved a considerable element of interventionism, which in some cases has aimed at establishing a restrictive policy by impeding the working of financial markets. In other cases, bureaucratic procedures have been substituted for market allocation.

Generally, monetary policy is viewed as a part of the stabilization policy carried out by the authorities. Credit policy, however, should

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<sup>1</sup> The difference between monetary policy and credit policy is delineated, i. a. by M. Friedman (2) and D. Hodgman (3).

not be regarded solely as a form of stabilization policy as it also aims at influencing the allocation of resources and the distribution of income. Allocative and distributional objectives are thus combined with the standard goals of the central bank (i. e. price-level stability, full resource utilization, “sufficient” foreign reserves) leading to a rather complicated goal function. There is thus a large possibility that these various objectives are at conflict with each other.

It may consequently be argued that the central bank’s ability to carry out a successful stabilization policy is severely impaired.

### **The Riksbank’s Reliance on Credit Policy**

Since the early 1950’s the Riksbank has regarded the amount of credit as a strategic variable and has attempted to control the allocation and volume of credit in the Swedish economy. The Riksbank’s adherence to such a credit policy strategy reflects the influence of several factors.

Since the end of World War II, the Riksbank has attempted to implement a “cheap money policy” — holding “the” interest rate at a “low” level, i. e., at a rate below the market equilibrium rate. This policy was inspired to a large extent by the *Keynesian* view that “low” interest rates are desirable — “the borrowing-cost position”. Further, the political authorities have been of the opinion that “high” rates have undesirable effects on the distribution of income by increasing borrowing costs for the construction industry and thus inducing higher rents for consumers of new housing — and on the allocation of resources by having restrictive effects on the volume of construction activity and by adding to the costs of financing budget deficits.

Troughout the post-war period, the Swedish construction industry has been regarded as a key sector of the economy. It has been strongly regulated. The political authorities have tried to maintain a high level of new construction activity while simultaneously enforcing a rent control program. As a part of this policy, the building sector has obtained subsidized financing — “low” rates on its borrowing and guaranteed access to financial markets.

As the policy of the Riksbank has been determined in close cooperation with the Government, the above-mentioned views have meant that the Riksbank has been reluctant to increase the level interest rates, in spite of inflationary developments, and to use changes in the level of rates as a rationing device. Pegging the level of interest rates below the



market rate implies that the monetary base, the volume of credit and the money supply are determined by the demand side. In order to exercise control over monetary developments, the Riksbank has tended to substitute quantity rationing, i. e., credit controls — for price rationing, i. e., variations in the level of interest rates. The objectives of the political authorities with regard to the financing of the housing sector and to the financing of budget deficits have thus meant that the Riksbank has been left to influence basically only the private sector with its stabilization measures. Under such circumstances, a selective policy tends to be adopted.

It should be pointed out that the Riksbank has carried out a “low” interest rate policy during the whole post-war period in spite of a rise in the level of rates in the 1950’s and 1960’s. Ex post real rates have consistently been close to zero or below zero. This has been due to a post-war inflation varying around 3 - 6 % a year and due to the Swedish tax system<sup>2</sup>.

The acceptance of the Riksbank’s credit policy is probably to some extent due to the dominating Swedish monetary doctrine, which has emphasized the supply of credit and interest rates. This position goes back to the Stockholm School. Swedish economists of the 1930’s and 1940’s were critical of the quantity theory. The concept of the money supply was neglected in the writings on monetary problems<sup>3</sup>. This may be a partial explanation of why the Swedish monetary authorities have not paid any heed to the money stock and its control — at least not in official documents and writings<sup>4</sup>. Further, the Riksbank has also been influenced by credit availability theories and by the Radcliffe-view. These positions are easily combined with central banking’s traditional emphasis on “credit”.

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<sup>2</sup> Borrowing costs are tax deductible and income from investments is taxed as ordinary income. Assuming a 50 % marginal tax rate and a 5 % rate of inflation — these figures are representative (if not too low) of the Swedish experience in the late 1960’s and early 1970’s — the nominal rate must be higher than 10 % in order to obtain a positive real rate. Swedish bank rates — both the short and the long rate — are thus relatively “low” (below 10 %).

<sup>3</sup> On this, see e. g. *Lindbeck* (4).

<sup>4</sup> One exception should be mentioned. In the report of the Riksbank for 1972 (published in January 1973), the money supply and its changes was given a prominent place. If this signifies a change in the Riksbank’s views on monetary policy remains to be seen.

### Some Credit Controls used by the Riksbank

The Riksbank has used several types of credit measures. These measures have generally been applied in periods of restrictive policy. Five such periods can be discerned — 1952 - 53, 1954 - 55, 1960 - 61, 1964 - 66 and 1969 - 70 — by examining the sharp swings in the growth rate of the volume of commercial bank advances and of commercial bank deposits (demand and time deposits) in diagrams 1 and 2.

At the beginning of the 1950's, commercial banks were compelled to observe liquidity ratios. These ratios, which have been used since then, constitute a method to allocate funds to the government and the building industry on advantageous terms — subsidizing their capital costs — as bonds issued to finance the activities of these sectors are included together with cash items in those “liquid” assets that form the numerator of the liquid asset ratio. The denominator of this ratio consists of commercial bank deposits. An increase in a liquidity ratio may be met by commercial banks through a rearrangement of their asset portfolios, that is bonds issued by the housing and government sector are substituted for loans to the private sector. Eventually, the funds channeled to these high priority sectors will return to the banks and may contribute to a further expansion of credit<sup>5</sup>.

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<sup>5</sup> Let  $C$  denote cash items (commercial bank deposits with the Riksbank and commercial bank holdings of notes and coins) and let  $L$  denote those liquid assets (bonds issued by the government and by credit institutes that finance new construction activity) that are included in the liquidity ratio. If  $K$  represents other commercial bank investments and  $D$  commercial bank deposits, the balance sheet of the commercial banking sector may be written as:

Assets	Liabilities
$C$	$D$
$L$	
$K$	

The liquidity ratio can now be written as  $\frac{C + L}{D}$ . If the Riksbank raises this ratio banks may increase their holdings of assets included in  $L$  by decreasing the volume of loans ( $K$ ) extended to other sectors. However, the funds channeled into “liquid assets” will be deposited with the banking system. Consequently, the total volume of deposits will tend to be unchanged, while the composition of the asset side will not remain the same. Thus a liquidity ratio will not restrict a deposit expansion in the same sense as a cash reserve ratio, (i. e., a ration defined as  $C/D$ ).

Thus the effects of changes in a liquid asset ratio are ordinarily not equivalent to the effects obtained by altering a “standard” cash reserve requirement<sup>6</sup>. The former changes may in short be viewed as a mixture of allocation and stabilization policy and the latter as basically representing a stabilization measure.

In certain periods, the Riksbank has conditioned its lending to commercial banks on the requirement that the liquidity ratios should be maintained. In such cases the liquidity ratio system carries a larger significance with regard to changes in the volume of credit and the supply of money. However, the liquidity ratio system should as a rule be analyzed as an allocative measure in the Swedish context, specifically as the liquidity ratios have been held at a fairly constant level (around 30 %).

In two periods of restrictive policy, 1955 - 1957 and 1970 - 1971, the Riksbank has placed quantitative controls on the volume of commercial bank lending — “lending ceilings”. These ceilings have imposed a “freeze” on the activities of commercial banks. Banks have been asked to decrease the volume of lending to non-priority sectors by specific percentages. From Fall 1955 to Summer 1957, commercial bank advances to activities other than those given high priority were ordered curtailed several times. In April 1970 commercial banks agreed that their volume of lending by the end of 1970 should not exceed the December level by more than 4 %. The application of such ceilings accounts to a considerable degree for the large swings seen in diagrams 1 and 2. Lending ceilings have also been placed on the volume of credit granted but not used. In 1970 commercial banks also agreed to reduce credits granted on current account for non-priority use by 20 %.

In August 1969, quantitative limits were placed on the volume of central bank credit extended to commercial banks. Banks surpassing their limits were compelled to pay a penalty rate on the excess amount that represented a 360 % yearly rate of interest. (High discount rates — penalty rates — were used several times in the 1960's.)

In regular monthly meetings between the Riksbank and the commercial banks, the Riksbank has exerted influence through “verbal agree-

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<sup>6</sup> When the monetary authorities have complete control over the liquidity base, i. e. those assets that are included in the denominator of the liquidity ratio, liquidity ratio requirement coincide from a theoretical point of view with cash reserve requirements. This situation has, however, not occurred in Sweden.



ments” concerning the amount and allocation of credit extended by banks to their customers. “Moral suasion” has been coupled with a close control of the financial dispositions of commercial banks. Such a policy of moral suasion requires that the monetary authorities can exercise a close control of the banking system and of financial markets. Since the Swedish commercial banking industry is concentrated (there are four large commercial banks and nine provincial commercial banks.) and since the Swedish economy is small, it is a comparatively simple task for the Riksbank to communicate its intentions, to administer existing regulations and to intimidate offenders<sup>7</sup>.

In order to hold down the long rate of interest, the Riksbank has been given extensive powers to control the timing, size and terms of new bond issues. This regulation has resulted in a bond queue where the public sector and the housing sector have been given preferential treatment. The Riksbank’s control system has also been extended to the foreign sector of the Swedish economy. Foreign exchange controls on capital movements have been in effect during the whole post-war period. Various credit controls have also been applied to financial institutions other than banks. These regulations, however, have not been “as strong” as those imposed on commercial banks.

It should not be concluded from the preceding brief description that traditional monetary policy tools such as open market operations, changes in the discount rate and in cash reserve requirements<sup>8</sup> have been abandoned. These instruments, however, have in general been assigned a supportive role. They have been regarded as insufficient on several grounds — supposedly working too slowly and having an unfavourable effect on the allocation of resources and on the distribution of income and wealth.

### **The Development of Credit and Monetary Aggregates**

The measures taken by the Riksbank have had strong effect on the volume of bank credit and bank deposits as seen in diagrams 1 and 2. These diagrams show changes in the rate of growth of commercial bank deposits (diagram 1) and of the volume of total commercial bank loans,

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<sup>7</sup> It has been suggested that the size of the U. S. economy and the decentralized U. S. banking and credit system, would render it difficult to enforce a credit policy in the United States (1).

<sup>8</sup> Cash reserve requirements were enacted in 1969 by the Riksbank and have been in effect since then.

(diagram 2) between 1950 and 1972. (Changes in the rate of growth are based on first differences of corresponding months.)

These diagrams indicate the existence of large fluctuations. On a yearly basis, growth rates for bank credit and bank deposits have fluctuated between  $-2\%$  and  $+15\%$  in several cycles. (It should be pointed out that the volume of commercial bank advances to non-priority sectors exhibited larger changes.) These fluctuations are diminished slightly if the notes by the Riksbank are added to commercial bank deposits to obtain one definition of the Swedish money supply. (The note issue of the Riksbank represents about  $20\%$  of commercial bank deposits.)

In a monetary historical context the period 1950 - 1972 may be characterized as rather unstable. Compared with the Swedish monetary history of the last 100 years, few periods have exhibited such large and recurring changes in the growth rate of bank deposits and bank credit as the post-war period.

The extent to which the Riksbank's policy has contributed to the stability or instability of the Swedish economy is an unanswered empirical question<sup>9</sup>. Conceivably a monetarist rule of thumb calling for a fixed rate of growth in the money supply would have been preferred to the policy actually carried out as far as stabilization policy is concerned. As pointed out the large and rather sudden swings shown in diagrams 1 and 2 result mainly from the Riksbank's use of various credit controls and its attempt to restrict the private sectors' activity.

The Riksbank's "squeeze" of the supply of credit to the private sector during 1969 - 1970 is illustrated in diagram 3 and 4. Diagram 3 shows the net volume of credit extended to the Swedish business sector from the organized credit market which includes the Riksbank, commercial banks, other banks, and public and private insurance institutions. The amount of credit supplied to the private sector shows rapid and large changes as compared to the volume of credit extended to other major borrowers — the Government, the housing sector and the local authorities — as seen from diagram 4. According to diagram 3, the supply of credit to private industry was cut more than 5 000 million kr in about one year, from Summer 1969 to Summer 1970. However, credit ad-

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<sup>9</sup> It is another empirical question — worth further study — to examine to what extent the Riksbank actually has succeeded in its policy of controlling "everything" — the price, the volume and allocation of credit.



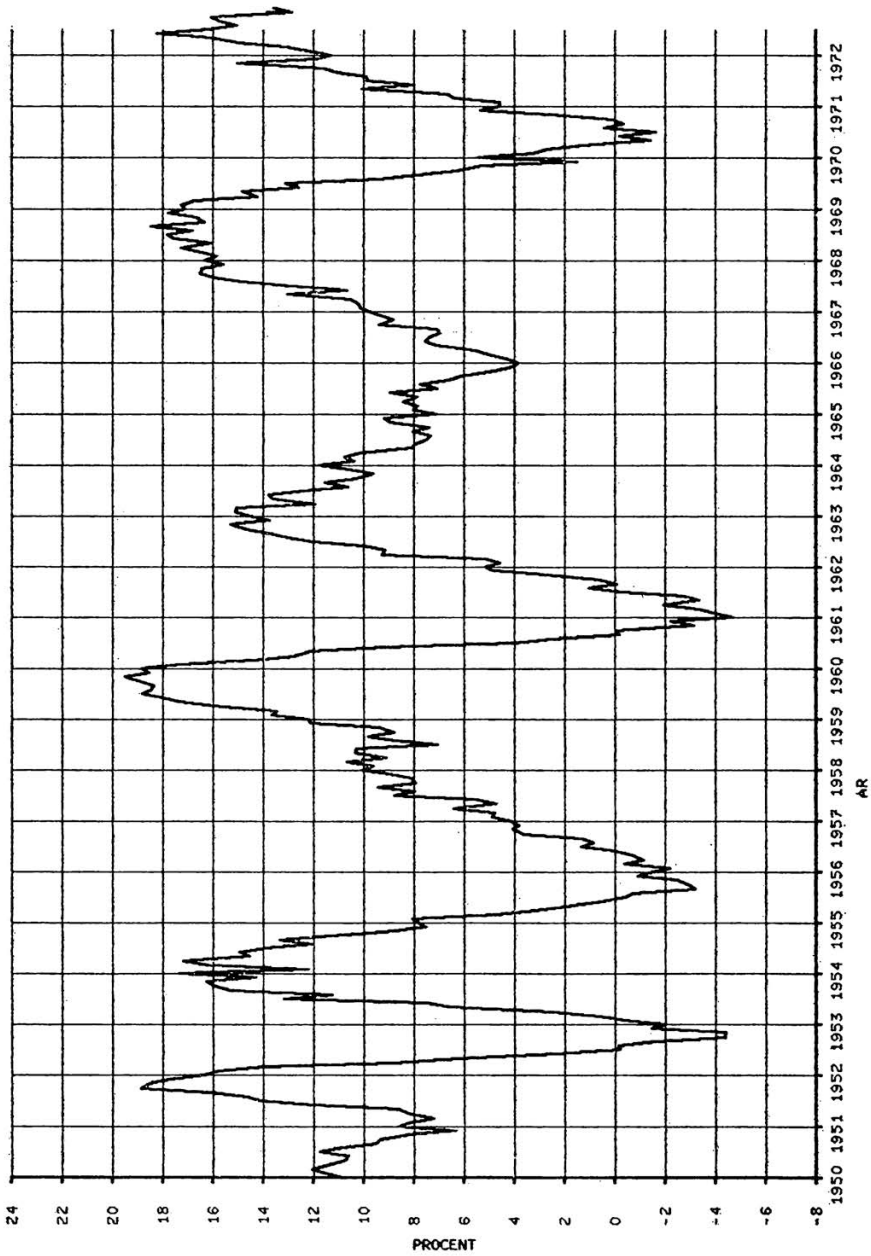


Diagram 1: Rates of change in the growth rate of commercial bank deposits 1950 - 1972 (time and demand deposits)

vanced to other borrowers changed little. The large variability in the volume advanced to private business and the relative constancy in the amount extended to the Government, the local authorities and the housing sector can be interpreted as a sign of success for the Riksbank's measures. It was to a considerable extent able to protect and isolate these sectors from the impact of its dampening policy. Note here that the construction sector appears to be well "insulated" from the restrictive measures<sup>10</sup>. This may be compared with the U.S. experience where the housing sector is often particularly affected by of restrictive policy.

A disaggregation of the net flows of credit in the Swedish economy in 1967 - 1971 further illustrates the fact that the Riksbank concentrates in its actions on regulating credit flows, specifically the flow of commercial bank credit to private industry.

According to table 1, which shows the net flow of funds per year between the above mentioned suppliers and borrowers of credit, commercial bank credit extended to private business has exhibited the largest fluctuations of all elements in the table over the period 1967 to 1971. Indeed, one may maintain that this is the only element that reflects any substantial cyclical change.

*Table 1*  
— Million kr. —

	1967	1968	1969	1970	1971	1972*
Commercial bank credit supplied to private business .....	2 072	3 394	656	— 140	3 193	4 100
Total commercial bank credit extended .....	5 927	5 668	3 580	1 308	5 212	8 125
Total credit extended by other lenders than commercial banks	11 430	14 249	13 662	14 722	16 063	19 225

From: Bank of Sweden.

\* Preliminary figures for 1972.

<sup>10</sup> At least in the short run. The decrease in aggregate demand in 1970—1972 following the restrictive stabilization policy of the previous years has resulted in a fall in the demand for new housing. (Other factors are also important in explaining this decline, however.) This development has meant that construction activity has been curtailed in relation to the planned volume, in spite of the goals set by the authorities.

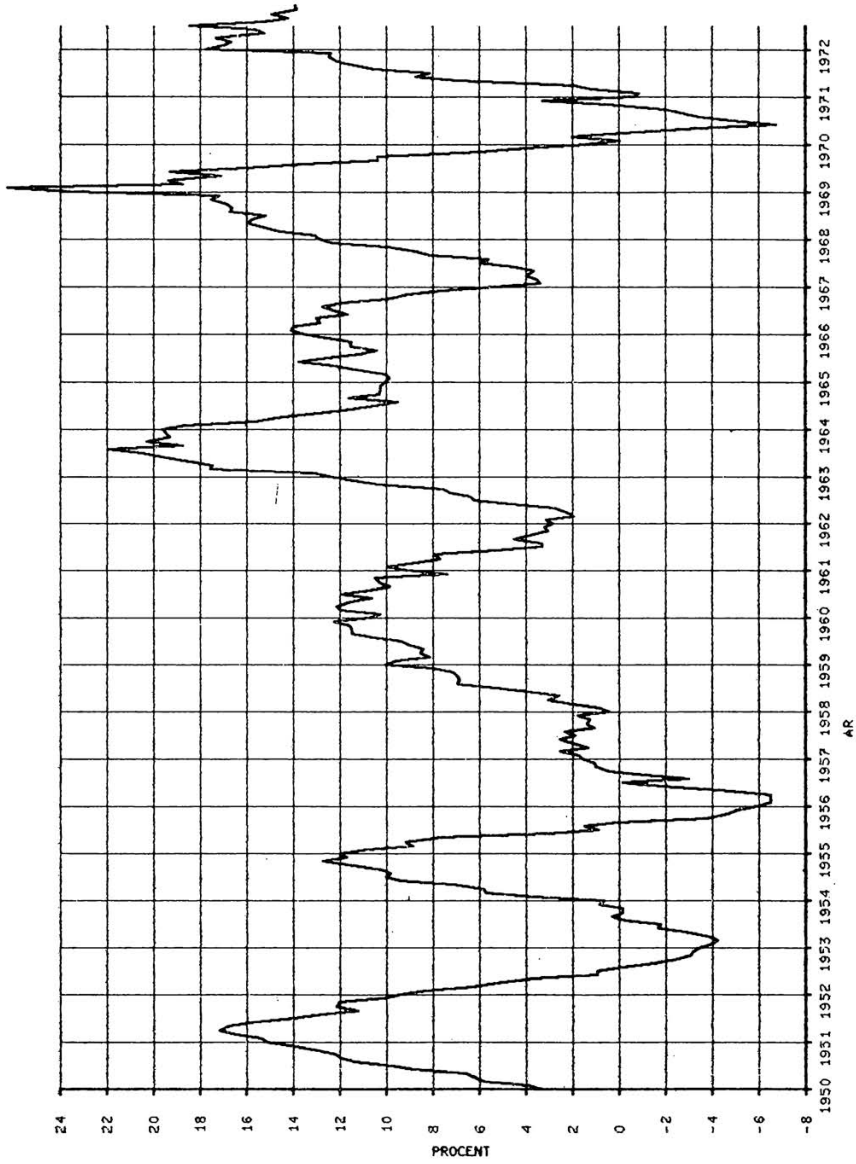


Diagram 2: Rates of change in the growth rate of commercial bank credit 1950 - 1972



In 1969, repayments of commercial bank loans by private business exceeded the volume of loans extended by commercial banks — thus the negative sign in the appropriate position in table 1. The bottom line in the same table shows that the volume of total credit advanced by other lenders underwent little cyclical change. In 1970 — a year of credit squeeze — the volume of credit extended from these institutions was actually larger than in the boom year of 1968.

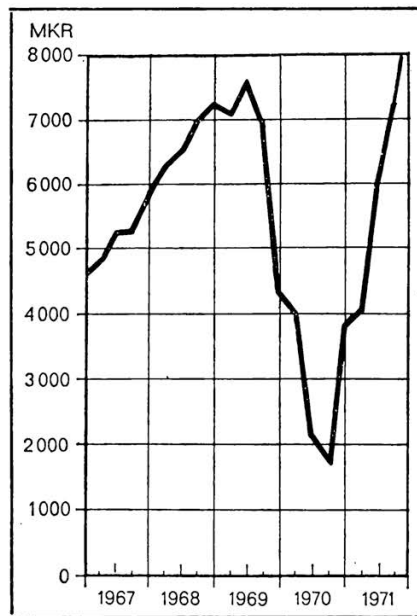


Diagram 3: Credit extended to private business from the total organized credit market. From: Bank of Sweden. Million kr.

These statistics combined with the previous discussion of Swedish credit policy support the view that the Riksbank has made commercial bank loans advanced to the private sector its main target variable. Thus the Swedish private sector was forced to carry the major burden of adjustment to the credit squeeze in 1969 - 1970. Further the Riksbank has regarded changes in bank advances as an indicator of its actions — declines in bank advances have been interpreted as signs of restrictive policy.

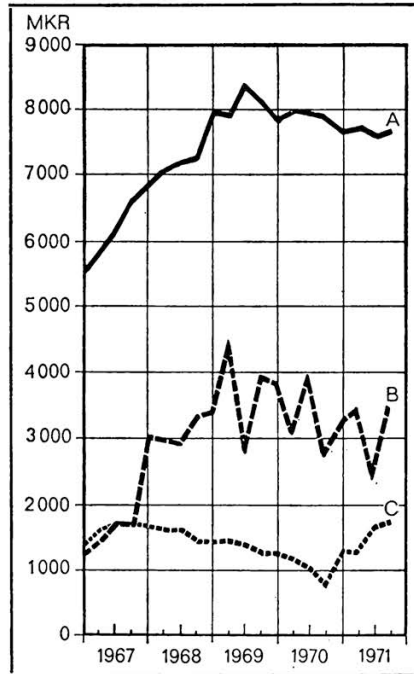


Diagram 4: Credit extended to A: the housing sector, B: the Government, C: local authorities on the total organized market. From: Banks of Sweden. Million kr.

### Some Criticism of the Riksbank's Policy

The policy of the Riksbank has been strongly criticized by Swedish economists<sup>11</sup>. Bankers have also for obvious reasons been opposed to the central bank's actions. These critics have pointed at several effects and phenomena associated with the credit policy that have been deemed undesirable. Especially, the equity of the Riksbank's measures has been questioned. The incidence of a restrictive credit policy falls heavily on the commercial banking system and on private business as the monetary authorities attempt to obtain a restrictive policy essentially by forcing one sector of the economy to dampen its economic activity. This means that the decrease in the private sector's activity has to be relatively large in order to establish a specific restrictive effect on an aggregate level. To a large extent, this explains the drastic and harsh character of the credit policy. If the restrictive actions of the Riksbank were aimed

<sup>11</sup> Specifically, E. Lundberg has presented a critical discussion of the Riksbank's measures and their consequences. E. Lundberg (5) and (6).

at influencing all sectors of the economy — not just one — it can be concluded that less extreme stabilization measures would be required than under the present policy. (Note that credit policy may be thought of as form of taxation levied on the private sector.)

The efficiency of the Riksbank's policy has also been in question on efficiency grounds. In spite of the Riksbank's attempts to maintain "low" rates through its control over commercial bank rates, foreign capital movements and new bond issues, the level of interest rates has increased in periods of restrictive policy. To explain this, it is useful to regard credit control policy as a form of price discrimination where the price of credit — interest rates — reaches a low level in sectors given preferential treatment and high level in sectors that are being squeezed. The credit market is splintered into many submarkets — each with its own price depending on the characteristics of the specific market. The policy of "low" interest rates thus fails in the sense that rates are "low" only for certain few high priority sectors.

Another consequence of Swedish credit policy is to increase credit distribution outside the banking system through non-bank financial intermediaries<sup>12</sup> trade credit, foreign financial connections, and through the development "gray" and "black" credit markets. The effect of this is to make credit policy less effective and thus to induce the Riksbank to extend its regulations to new sectors of the economy and to resort to still stronger actions.

It has been proposed that the Riksbank's policy may cause shifts in the money demand schedules of private firms. According to this view, the existence of periods of credit rationing induces private companies to revise their expectations about the future costs and returns of holding larger cash balances. Private firms may consequently shift their money demand schedules outwards (increased demand) after a period of restrictive credit policy. These money balances, which are accumulated due to shifts in money demand curves, and also due to declines in the cost of holding cash balances following a "squeeze" (i. e. movements downwards along the demand schedules) are sometimes denoted by the term "excess-liquidity" in the Swedish discussion. From the standpoint of the monetary authorities, this terminology may have some justification.

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<sup>12</sup> Commercial banks take an active part in credit distribution outside the banking system by supplying bank guarantees which are used as collateral to obtain loans from non-bank lenders. The growth of such bank guarantees was substantial during the squeeze of 1969 (25 %) and 1970 (28 %).



However, “excess-liquidity” should instead be regarded as a form of precautionary cash balances established by private companies in order to hedge against expected future actions by the central bank. These successive shifts in the money demand schedules of private firms can be regarded as a rational reaction towards an expected “tight money” policy. If this position is correct, the implication is that the Riksbank must apply progressively harsher methods in order to accomplish a given restrictive effect. Further, such a development as described above may undermine the basis for quantitative predictions of the effects of the Riksbank’s actions.

It may be suggested that by focusing on the credit flow to the private sector, the central bank tends to ignore changes in the total money supply. The expansionary effect of an increase in the money supply through budget deficits and/or through surpluses in the balance of payments account may then go unobserved as long as the Riksbank uses the volume of bank advances as a target variable and changes in its magnitude as an indicator of the effectiveness of its actions<sup>13</sup>. As a result of these expansionary effects, the central bank may feel obliged to make its credit policy even more “drastic” and longer lasting.

### The Future Policy of the Riksbank

A continuation of the present Riksbank strategy would mean that the monetary authorities will face several problems — some of them have been discussed in previous sections. New obstacles may develop. Swedish private industry — especially those large export companies that produce the major share of Sweden’s export — is expanding at a faster rate abroad than in Sweden. Large firms with good foreign financial connections and with foreign subsidiaries are generally viewed as being less influenced by a restrictive policy than small and medium-sized home-based firms. This trend would imply that those sectors that will have to adjust to the Riksbank’s measures will diminish relatively in size. The rapid growth of the public sector — which rightly should include the major part of the housing sector — further strengthens this trend. Due to these developments, its failure in fighting inflation, the heavy criticism of its actions and the prospect of an even “tighter” policy in the near future, the Riksbank may consider alternatives to its present policy.

<sup>13</sup> An interpretation of British central bank actions along this line is given by D. R. *Hodgman* (3).

Monetary policy in the traditional sense constitutes the most prominent alternative to the present measures. If the Riksbank chooses to abandon its credit policy<sup>14</sup> and its target-indicator mix in favor of monetary policy, where the Riksbank would place its reliance on orthodox monetary policy measures such as market operations, changes in the discount rate and in cash reserve requirements, several consequences will follow from this step<sup>15</sup>. Some of them are discussed briefly here.

First, the existing system of credit regulations and administrative controls could be abolished as the monetary authorities rely more heavily on conventional monetary policy and thus on more indirect and general instruments. Such a monetary policy will work more “smoothly” and less “drastically” — since it utilizes market incentives to bring about its effects — compared to the present credit measures that are founded on various administrative interferences with existing financial markets. The Swedish credit market would, with such a market-oriented policy, function as an unregulated market. The Riksbank (and the political authorities) would have to accept the allocation of credit established by the market. Such a shift in policy would thus mean that the Riksbank abstains from its present attempts to influence the allocation of resources and the distribution of income through its control over the allocation of credit. The monetary authorities would concentrate on stabilization policy — which is generally regarded as the task of a central bank.

In the context of an orthodox monetary policy it is crucial that all interest rates are allowed to fluctuate freely — including rates on loans to the housing sector and the Government — and thus that the regulation of both the short and the long rate are abolished. If this is the case monetary policy will be able to influence all sectors of the economy and the prospects of a successful antiinflationary policy would be improved.

Further, it could be argued that competition between commercial banks will tend to increase of the Riksbank turns to monetary policy. The present system of regulation of commercial bank activity especially of interest rates facilitates collusion among commercial banks with

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<sup>14</sup> Such a step, however, will constitute a major revision of Swedish central bank policy, which the Riksbank hardly can initiate without sanction from the government.

<sup>15</sup> A shift in the attitude of the Riksbank may not be completely unrealistic — witnessing for example the things of a change in the policy of the bank of England.

regard to the setting of interest rates, service charges etc. However, if credit controls were abolished and interest rates were allowed to fluctuate freely, the incentives to collude would probably diminish.

In such a suggested framework of economic policy, fiscal policy — changes in taxes and subsidies — would be substituted for credit policy when actions are taken to influence the allocation of resources and the distribution of income.

Finally, it is sometimes argued that the fact that Sweden is an open economy under a regime of fixed exchange rates means that the monetary authorities possess limited independence. However, this argument does not constitute an objection to a shift from credit policy to monetary policy. Monetary policy would be preferable since it should give rise to smaller international interest rate differentials than the present credit policy does. During periods of restrictive credit policy, implicit market rates are extremely high for sectors being squeezed. This induces capital inflows outside the Riksbanks foreign exchange control, especially through large export firms. The policy of maintaining “low” rates is consequently difficult to implement when rates of international financial markets (the Eurodollar rate) are “high”. Thus a monetary policy associated with smaller international interest rate differentials may reduce the incentives for offsetting foreign capital flows.

To sum up: a shift from credit policy to monetary policy represents benefits in the form of an improved allocation of resources due to the establishment of more efficient financial markets. Such a shift will also imply that the Riksbank can concentrate on the task of stabilisation policy, ignoring allocative and distributional goals.

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## Zusammenfassung

### Schwedische Zentralbankpolitik der Nachkriegszeit

Der Beitrag befaßt sich mit den kreditpolitischen Maßnahmen der schwedischen Reichsbank in der Nachkriegszeit und untersucht einige ihrer Folgen. In diesem Zusammenhang werden sowohl die kritischen Einwände gegen diese Politik als auch die Maßnahmen selbst dargestellt.

Einleitend wird darauf hingewiesen, daß an sich schon die Unterscheidung zwischen Geldpolitik und Kreditpolitik strittig ist. Im vorliegenden Beitrag wird unter Geldpolitik die traditionelle Notenbankpolitik zur Beeinflussung verschiedener monetärer Gesamtgrößen (der Geld-„Basis“, der Reserven der Geschäftsbanken und des Geldangebots) verstanden. Als Kreditpolitik werden demgegenüber Maßnahmen gekennzeichnet, die sich auf die Beeinflussung der Zinssätze und der Verteilung von Krediten auf die verschiedenen Sektoren einer Volkswirtschaft beziehen. Das Hauptanliegen des Beitrages ist nachzuweisen, daß die Politik der Reichsbank weniger Geld- als Kreditpolitik ist, weil ihre Maßnahmen vornehmlich auf die Beeinflussung der Kreditverteilung und die Zusammensetzung der Bankaktiva gerichtet sind, mit dem Ergebnis, daß die Hauptlast der Reichsbankpolitik und ihrer Veränderungen von den privaten Sektoren der Volkswirtschaft getragen werden muß.

Als Gründe für die einseitige Bevorzugung von Kreditkontrollen durch die Reichsbank werden die Versuche zur Erhaltung eines „niedrigen“ Zinsniveaus hervorgehoben; dabei wird der Einfluß der *keynesianischen* Ansichten, der „Availability“-Theorie und der Stockholmer Schule der Nationalökonomie auf die schwedische Notenbankpolitik besonders unterstrichen. Das Ergebnis ist, daß der Marktmechanismus bei der Allocation von Krediten weitgehend außer Kraft gesetzt wird.

Dies zeigt sich auch bei der Darstellung der verschiedenen Instrumente, die zur Beeinflussung der Allocation von Krediten angewandt werden. Hierzu gehören u. a. der Zwang zur Einhaltung bestimmter Liquiditätsquoten (die als Verhältnis der Bestände an Zentralbankgeld und öffentlichen Titeln zu den Einlagen definiert werden), die Kreditplafondierung, die quantitative Begrenzung des Notenbankkredits der Geschäftsbanken, das Gänsemarschprinzip bei der Emission von Anleihen, die Kontrolle des grenzüberschreitenden Kapitalverkehrs und natürlich auch die „moral suasion“, d. h. die mit leichtem Druck verbundene Überredungskunst der Notenbank.

Der Wechsel zwischen Perioden, in denen diese Instrumente voll eingesetzt wurden und anderen, in denen die Reichsbank keinen restriktiven Einfluß ausübte, schlägt sich in der schwedischen Kreditstatistik in außerordentlich starken Schwankungen im Zuwachs der Kredite und Einlagen privater Kunden nieder, während die als vordringlich angesehene öffentliche Verschuldung (einschl. der zur Durchführung des Wohnungsbaus) relativ stetig wuchs.

In der kritischen Wertung der Reichsbankpolitik wird zunächst ihre Gerechtigkeit in Frage gestellt. Es wird geltend gemacht, daß die Ausklammerung des öffentlichen Sektors bei Restriktionsmaßnahmen eine um so stärkere Belastung des privaten Sektors erforderlich macht, die insoweit als eine zusätzliche Besteuerung angesehen werden könnte. Da zudem die Aufrechterhaltung niedriger Zinssätze nur für die Deckung des Kreditbedarfs des öffentlichen Sektors gilt, müssen die Sätze für den privaten Sektor um so höher sein. Andererseits wird die Wirksamkeit der Kreditpolitik durch die Bildung von finanziellen Nebenmärkten bzw. die Entstehung von grauen und schwarzen Kreditmärkten durchkreuzt. Dies zwingt wiederum die Reichsbank, ihre Kontrollen auf immer neue Sektoren auszudehnen und immer schärfere Maßnahmen zu ergreifen.

Ein wesentlicher Einwand gegen die bisherige Notenbankpolitik in Schweden ist, daß sie die Geldnachfrage des privaten Sektors in Zeiten ohne restriktive Maßnahmen vergrößert. Es werden also vorsorglich liquide Mittel gesammelt, um sich gegen künftige Maßnahmen der Notenbank zu schützen. Sie muß deshalb ständig härtere Methoden anwenden, um den jeweils erwünschten Effekt zu erzielen. Sie vernachlässigt dabei jedoch den expansiven Effekt, der sich aus der Ausdehnung des Geldangebots durch Budgetdefizite oder Zahlungsbilanzüberschüsse ergeben kann. Auch dies kann sie zu einer immer drastischeren und länger anhaltenden Restriktionspolitik veranlassen. Trotzdem ist auch in Schweden bei weitem keine Preisstabilität erreicht worden, dagegen allerdings ein geringer Grad an Arbeitslosigkeit.

Da sich die bisherigen, primär kreditpolitischen Maßnahmen der Notenbank — insbesondere im Kampf gegen die Inflation — weitgehend als wirkungslos erwiesen haben, wird in dem Beitrag ein Übergang zu einer orthodoxen Geldpolitik empfohlen; dazu würde ein stärkerer Rückgriff auf Offen-Markt-Operationen, Änderungen des Diskontsatzes und der Reserveanforderungen gehören. Dies würde zwar bedeuten, daß sich die Allocation der Kredite nach den Marktkräften richten würde. Dafür könnte sich jedoch die Reichsbank besser ihrer eigentlichen Aufgabe, der Aufrechterhaltung der Geldwertstabilität, widmen. Die Stelle der Kreditpolitik würde in einem solchen System die Wirtschafts- und Finanzpolitik übernehmen, die die jeweils angestrebten Ziele durch Änderungen in der Besteuerung und in den öffentlichen Ausgaben erreichen könnte.

Abschließend wird darauf hingewiesen, daß der Übergang von der Kreditpolitik zu einer orthodoxen Geldpolitik auch die außenwirtschaftliche Absicherung

erleichtern würde. Es würde vor allem zu geringeren Unterschieden zwischen in- und ausländischen Zinssätzen führen und damit Kapitalimporte verhindern, die trotz aller Kapitalkontrollen stattfinden, weil die „impliziten“ Zinssätze in Zeiten der Kreditrestriktion so hoch sind, daß sich vor allem große Exportunternehmen die jeweils benötigten Mittel im Ausland beschaffen.

## Summary

### Swedish Central Bank Policy in the Post-War Period: Some Comments

This article discusses the nature of the actions taken by the Swedish central bank — the Riksbank — in the post-war period and examines some of the consequences of these measures. In this context the views of the critics of the Riksbank are presented. Further, a review of the Riksbank's measures is given.

A distinction between monetary policy and credit policy underlies the discussion. Monetary policy refers to traditional central bank actions designed to affect various monetary aggregates (the monetary base, commercial banks' reserves and the money supply). Credit policy, on the other hand, signifies measures taken to influence the level of interest rates and the allocation of credit among different sectors of the economy. Generally, credit policy is associated with the use of administrative procedures aimed at controlling flows of credit. The main contention of this article is that the Riksbank's policy can be characterized as credit policy rather than monetary policy, as the Riksbank has chosen to direct its actions primarily towards influencing the allocation of credit and towards regulating the composition of the assets of commercial banks. Further, the private sector has had to carry the major burden of adjustment to the Riksbank's policy.

Factors which may explain why the Riksbank has relied on credit controls are discussed. Specifically, the implications of the attempts to maintain a "low" level of interest rates are emphasized. Further, the influence on the Riksbank from *Keynesian* views on central banking, the theory of credit availability and from Swedish monetary doctrine are stressed.

A review of the credit controls used is given. These encompass liquidity ratios, lending ceilings, quantitative limits on commercial bank borrowing from the Riksbank, moral suasion, bond queue, foreign exchange control. Further, some statistics on the development of credit and monetary aggregates is presented. After this, the criticism of the Riksbank's policy is presented. The equity and the efficiency of the Riksbank's measures have been questioned. It has been pointed out that the credit policy will in the long run be less efficient as new channels of credit distribution will develop.

Finally, it is suggested that a shift from the present credit policy to a traditional monetary policy would improve the Riksbank's ability to carry out a successful stabilization policy.



## Résumé

### La politique de la Banque Centrale en Suède dans l'après-guerre

L'article examine les mesures prises par la banque centrale suédoise sur le plan de la politique du crédit depuis la guerre et leurs conséquences. Dans ce contexte tant les objections critiques contre cette politique que les mesures sont décrites.

On souligne dans l'introduction que la distinction entre politique monétaire et politique du crédit est déjà en soi contestable. L'étude entend par politique monétaire la politique traditionnelle de la banque centrale pour influencer les différents éléments monétaires (de la « base » monétaire, des réserves des banques commerciales et de l'offre monétaire).

Par politique du crédit on entend par contre les mesures prises pour influencer les taux d'intérêt et la distribution du crédit entre les différents secteurs de l'économie. L'étude tend à démontrer que la politique de la banque centrale est moins politique monétaire que politique du crédit, les mesures tendant surtout à influencer la distribution du crédit et la composition des actifs bancaires, avec comme principale conséquence que le secteur privé de l'économie a dû supporter la charge principale de la politique de la banque centrale et de ses modifications.

Les motifs invoqués pour favoriser unilatéralement les contrôles de crédit par la banque centrale sont les tentatives de maintenir des taux d'intérêt « bas »; on souligne à cet égard l'influence exercée sur la banque centrale suédoise par les idées de Keynes, la théorie de l'« Availability » et l'Ecole Nationale d'Economie de Stockholm. Cela a eu comme conséquence que le mécanisme du marché dans l'octroi du crédit a été largement éliminé.

Ceci se voit également à l'occasion de la description des instruments utilisés pour influencer l'allocation de crédit. Parmi ceux-ci on compte notamment l'obligation de maintenir des taux de liquidité (définis en rapports entre d'une part le montant en monnaie de la banque centrale et de titres publics et d'autre part les dépôts), le plafonnement des crédits, la limitation quantitative des crédits de la banque centrale aux banques commerciales, le principe de la « file indienne » appliqué aux émissions d'obligations, le contrôle du marché des capitaux international et naturellement la « persuasion morale », c. à. d. l'art de persuader de la banque centrale en exerçant une légère pression.

Les passages de périodes, pendant lesquelles ces instruments furent utilisés pleinement, à d'autres périodes, durant lesquelles la banque centrale ne prit pas de mesures restrictives, se répercute dans les statistiques de crédit suédoises sous forme de fortes fluctuations de l'accroissement des crédits et des dépôts de la clientèle privée, tandis que la dette publique (y compris la part affectée au soutien de la construction de logements), considérée comme prioritaire, augmenta sans arrêt.

Dans l'évaluation critique de la politique de la banque centrale on pose d'abord la question de son équité. On fait valoir que le fait de soustraire le secteur public des restrictions de crédit exige un effort accru du secteur privé, et peut être considéré comme un impôt supplémentaire. Comme en outre le maintien de taux d'intérêt bas ne vaut que pour la satisfaction des besoins de crédit du secteur public, les taux au secteur privé sont d'autant plus élevés. D'autre part l'efficacité de la politique du crédit est contrariée par la création de marchés financiers parallèles c. à. d. le marché noir du crédit. Ceci oblige à son tour la banque centrale d'étendre son contrôle à de nouveaux secteurs et de prendre sans cesse des mesures plus sévères.

Un reproche fondamental à la politique menée jusqu'à présent par la banque centrale en Suède est qu'elle accroît la demande monétaire du secteur privé pendant les périodes sans mesures restrictives. On s'approvisionne ainsi en moyens liquides, afin de se prémunir contre les futures mesures de la banque centrale. Celle-ci doit par conséquent utiliser sans cesse des méthodes plus sévères pour atteindre la résultat désiré. Elle néglige cependant alors l'effet d'extension pouvant résulter de l'accroissement de l'offre monétaire par des déficits budgétaires ou des excédents de la balance des paiements. Ceci également peut la conduire vers une politique de restrictions toujours plus sévère et toujours plus longue. Cependant la Suède n'en a pas pour autant connu la stabilité des prix, bien au contraire, mais tout de même un taux de chômage plus faible.

Les mesures actuelles, avant tout en matière de politique du crédit, de la banque centrale — surtout dans la lutte contre l'inflation — s'étant avérées comme largement sans résultat, l'article conseille l'adoption d'une politique monétaire orthodoxe; celle-ci comprendrait un recours accru à des opérations d'« open market », à des modifications du taux d'escompte et aux exigences de réserves. Ceci signifierait que l'allocation de crédit se ferait selon les lois du marché. Ceci permettrait cependant à la banque centrale de mieux se concentrer sur sa propre tâche, le maintien de la stabilité monétaire. Le rôle de la politique de crédit serait dans ce système repris par la politique économique et financière qui pourrait atteindre les objectifs poursuivis par des modifications de l'imposition et des dépenses publiques.

On souligne finalement que le passage de la politique du crédit vers une politique monétaire orthodoxe faciliterait également la défense de l'économie vis-à-vis de l'extérieur. Cela mènerait avant tout à des divergences moindres entre taux d'intérêt intérieurs et extérieurs et empêcherait les importations de capitaux, qui ont lieu quelles que soient les contrôles sur les mouvements de capitaux; en effet les taux d'intérêt pratiqués pendant les périodes de restrictions de crédit sont tellement élevés, que les grandes entreprises exportatrices se procurent le cas échéant les moyens nécessaires à l'étranger.