

# Swedes offer U.S. possible road map on crisis tactics

## Lenders made to pay for rescue in 1990s

By Carter Dougherty

A banking system in crisis after the collapse of a housing bubble. An economy hemorrhaging jobs. A market-oriented government struggling to stem the panic. Sound familiar?

It does to Sweden, which was so far in the hole in 1992 — after years of imprudent regulation, shortsighted macroeconomic policy and the end of its property boom — that its banking system was, for all practical purposes, insolvent.

But unlike the United States, whose Treasury has made a proposal to deal with a similar situation, Sweden did not just bail out its financial institutions by having the government take over the bad debts. It also clawed its way back by pugnaciously extracting equity from bank shareholders before the state started writing checks.

That strategy kept banks on the hook while returning profits to taxpayers from the sale of distressed assets by granting warrants that turned the government into an owner. Even the chairman of Sweden's largest bank got a stern answer to the question of whether the state would really nationalize his bank: Yes, we will.

"If I go into a bank," Bo Lundgren, Sweden's finance minister at the time, said, "I'd rather get equity so that there is some upside for the taxpayer."

The tumultuous events of the last few weeks have produced a lot of tight-lipped nods in Stockholm. And for all the differences between Sweden and the United States, Swedish officials say there are lessons to be learned from their own nightmare that Washington may be missing. Lundgren even made the rounds in New York in early September, explaining what the country did in the early 1990s.

A few American commentators have proposed that the U.S. government extract equity from banks as a price for the bailout they are likely to receive, as Sweden did. But it does not seem to be under serious consideration yet in the Bush administration or in Congress.

That's despite the fact that the U.S. government has already swapped its sovereign guarantee for equity in Fannie Mae and Freddie Mac, the mortgage finance institutions, and American International Group, the insurance giant.

Putting taxpayers on the hook without offering anything in return could be a mistake, said Urban Backstrom, a senior Swedish Finance Ministry official at the time. "The public will not support a plan," he said, "if you leave the former shareholders with anything."

The Swedish crisis had strikingly similar origins to the American one. Norway and Finland went through related experiences, and they also turned