

ADMINISTRATIVE RESPONSIBILITY IN
SWEDISH PUBLIC ENTERPRISE
THE PROBLEM OF COMPLEX GOALS

BY

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INTRODUCTION

In *The Mechanical Bride*, Marshall McLuhan utilizes well-known comic strips and advertisements as vehicles for analysis of economic and social patterns prevalent in American culture. One such advertisement contains a picture of an American football game in which the referee is carrying the ball for one of the teams—in grotesque violation of the rules.¹ The advertisement is on behalf of several private electric-power companies, and the following is a quotation from the text:

You wouldn't stand for this sort of thing on a football field—but it happens every day in the electric light and power business. Government not only regulates the electric companies—it is in competition with them at the same time.

The catch is that government sets up two different sets of rules. The government's electric agencies pay little or no interest on the money they borrow and pay no Federal taxes—but electric companies do and expect to. . . . If government can get into the light and power business this way—it can get into every other business the same way.²

This sort of advertisement and McLuhan's shrewd perception that it is the reader, the public, for whom the government is "carrying the ball", suggest that, along with the political complexities of American federalism and the slow evolution of constitutional doctrine amenable to a broad interpretation of "interstate commerce", cultural predilections have militated against extensive socialization in the United States.³ A recent Swedish study on the structure of state-owned business enterprise in selected foreign countries found little such activity in the United States and necessarily focused on the Tennessee Valley Authority and the Panama Canal Corporation, which are important, perhaps, but

¹ Marshall McLuhan, *The Mechanical Bride*, Boston 1951, p. 136.

² *Ibid.*

³ E. Håstad, ed; *Statsägda företag i utlandet* (S.O.U. 1956: 24), p. 16.

are hardly manifestations of any general policy favourable to nationalization.⁴

Apart from the communist countries, it is perhaps in Sweden that the approach to socialization has been most divergent from that of the United States. Although there has been considerable nationalization in Britain, this has focused primarily on railways and utilities, and while there has been socialization in coal and steel, areas considered essentially private in the U.S., it has been on a sector-wide basis. Consequently, the British experience has involved very little direct competition between public and private firms.⁵ In Sweden, on the other hand, such competition has been extensive.

It seems clear that Sweden's socialization can be explained to a considerable degree by factors unrelated to socialist ideology. The nationalization of railways, for example, before the rise of any powerful, class-conscious labour movement was due to the impossibility of finding private capital in Sweden for such sweeping, risky investment. Consequently, the government sought huge loans abroad for this purpose, and Sweden's main railway lines have been state-owned since their creation.⁶ Furthermore, the solicitous attitude of the government towards Sweden's natural resources has generated and, more recently, facilitated state activity in industries like mining and forestry.⁷ The long-standing conception that the state has certain prerogatives of ownership and exploitation as to basic resources was used in the 1920s by a Conservative administration as a justification for using railway monopoly as a lever to force the eventual transference to public ownership of the prosperous LKAB mining company in Kiruna.⁸ One American commentator has asserted that the Swedish public has been taught to be amenable to socialization through the guardianship that the central government long ago established over natural resources.⁹

Two further examples of the early development of Swedish public enterprise might be mentioned. In 1917, when the United States and other nations were experiencing divisive controversies

⁴ *Id.*, at pp. 295-311.

⁵ W. A. Robson, ed., *Problems of Nationalized Industry*, London 1952, pp. 301 f.

⁶ Affärsverksutredningen, *Affärsverken: Ekonomi, konkurrens och effektivitet*, vol. 1 (S.O.U. 1968: 45), p. 24.

⁷ M. W. Childs, *Sweden: The Middle Way*, New Haven 1947, p. 75.

⁸ *Id.*, pp. 69 f.

⁹ *Id.*, p. 75.

over prohibition, a state-owned manufacturing company, Vin & Sprit Centralen, was founded in order to disengage the production of alcohol from private profit motives.¹ In 1915 a simple desire for additional government revenue to finance a national pension plan led a Conservative administration to establish a state monopoly over tobacco manufacturing.² At this early date, one might have expected the monopoly to be integrated into the government and not structured as a semi-autonomous company. Apparently, however, the Riksdag felt that agency status for the tobacco enterprise would be too constricting and would hinder profit maximization.³ The monopoly jurisdiction was eventually enlarged, and by World War II it covered both manufacture and importation. Consumer prices and gross retail margins were fixed by the monopoly, but only after consultation within a Government Committee on Tobacco Matters.⁴ In the sense that this external control was imposed on the tobacco monopoly, it was something of a hybrid between the older governmental commercial agency form for public enterprise and the competing, state-owned corporation structure subsequently employed in Sweden.⁵

Although the Government and the Riksdag (Parliament) conceived of the tobacco enterprise as a profit-making one with no special non-economic functions, they were not willing in 1915 to form a tobacco company which would compete with private, domestic manufacturers, as the present company theoretically has since 1966.⁶ The Government feared that profits and a much-needed rationalization of the tobacco industry would have been too unpredictable under such conditions. This monopoly or sector-wide approach to socialization is as far as Britain ever went, whereas the Swedes have subsequently made extensive use of socialized enterprises in direct competition with private ones, and the state now has a majority or a substantial interest in roughly forty corporations.⁷ This development, when juxtaposed with the financial success of the tobacco *monopoly*, suggests that the competing state-owned enterprises of more recent vintage have not been created merely to generate profit, i.e. government reve-

¹ R. Tersman, *Statsägda aktiebolag i Sverige* (S.O.U. 1956: 6), p. 61.

² Childs, *op. cit.*, pp. 91 f.

³ D. V. Verney, *Public Enterprise in Sweden*, Liverpool 1959, pp. 19 f.

⁴ *Svenska Tobaks Aktiebolaget* (a brochure published by the company in 1968), p. 2.

⁵ Verney, *op. cit.*, p. 58.

⁶ STA brochure as cited above note 4.

⁷ Företagsdelegationen, *Förslag till samordning* (S.O.U. 1969: 1), p. 9.

nue. Many of these enterprises have been responses to specific social and economic problems, and they all manifest approval of socialization as a useful tool for problem-solving by government, a task for which sector-wide socialization might be too cumbersome. An early and somewhat unsophisticated example is Norrbottens Järnverk (NJA), which, as is evident from Riksdag discussion, was designed primarily to provide new jobs in an area plagued by chronic unemployment and to make Sweden self-sufficient as a producer of less refined iron products in the face of an imminent world war.⁸ A much more recent example, the ill-fated Durox Company, was purchased by the Government to avoid unemployment resulting from the company's bankruptcy and to stimulate keener competition in the inefficient building-goods industry.⁹

As a tool for social engineering and problem-solving by government, the Swedish state-owned competing corporations are an important phenomenon for comparative-law analysis. A properly functional approach assures us that the lack of such enterprises in the U.S. does not imply that the U.S. has retained a strong *laissez-faire* philosophy. It is closer to the truth to assume that the U.S. has been attacking some social and economic problems similar to those which have existed in Sweden, albeit with quite differently structured tools. The United States has attacked unemployment, for example, with monetary and fiscal policy and has used much more sophisticated anti-trust legislation than Sweden possesses to try to generate healthy competition in industry.¹ Sweden, on the other hand, has used state-owned enterprise as one means of combating these problems. The important task for comparative analysis is to deal with the different institutions utilized to cope with similar problems, in such a way that it becomes increasingly possible to make rational determinations as to which institutional arrangements are most efficient in solving particular problems. An attempt will be made in this paper to pinpoint certain structural tensions which may limit the utility of Swedish competitive public enterprise designed to effectuate multiple or complex goals and thus to make a modest contribution to the task outlined above for comparative analysis.

Very general criteria will be employed to analyse and evaluate

⁸ G. Grym "Pressdebatten kring Norrbottens Järnverk: Nov.-Dec., 1939", *Statsvetenskaplig Tidskrift* 1957, p. 176.

⁹ See the editorial on the Durox scandal in *Expressen*, March 13, 1969, p. 2.

¹ Childs, *op. cit.*, pp. 5, 162.

the structural aspects of Swedish public enterprise to ensure that the criteria cover all significant enterprise functions. First, it is postulated as a matter of prime importance that the structure of state enterprises shall be optimally suited to carrying out the goals established for them by the Riksdag. Second, it is important that the structural arrangements of an enterprise shall be such that the enterprise's efficiency in achieving its goals can be measured with tolerable precision. Thus it is here viewed as an independent desideratum that state-owned enterprises shall be capable of evaluation with enough certainty to allow reasonable decision-making as to whether the enterprises are preferable to other governmental means for carrying out the assigned tasks. For the sake of simplicity, these two criteria will be called, respectively, "the harmony of structure and goals" and "the measurability of performance". Special attention will be given to the experiences of the Swedish Tobacco Company (STA) and Norrbottens Järnverk (NJA). These two companies, it should be noted, are not being represented as models, but rather as enterprises which are particularly interesting from the standpoint of the evaluating criteria used here. The paper will end with some consideration of the structural implications of the recently established holding company, which is to oversee and coordinate the activities of most Swedish state-owned enterprises. The creation of the holding company clearly is of significance for the issues of goal attainment and administrative responsibility in public enterprise, the issues with which this paper is predominantly concerned. Consequently, it is hoped that a discussion of the holding company will provide a useful basis for applying some of the conclusions drawn earlier.

HARMONY OF STRUCTURE AND GOALS

A Swedish expert on administrative law and public enterprise, Rune Tersman, has stated that the choice of form for carrying on an enterprise implies the direction of the enterprise or reflects its goals.² The statement is at once interesting and confusing. It expresses, to be sure, the positive concept that enterprise structure should facilitate the achievement of legislatively determined goals. On the other hand, it implies that careless selection of structural arrangements can lead enterprises in directions

² Tersman, *Statsmakterna och de statliga aktiebolagen*, Stockholm 1959, p. 12.

other than those intended. This self-directing impulse in structures is particularly dangerous in situations where legislatively determined goals are absent or are poorly articulated. A very recent investigation undertaken for the Swedish Government considered this problem:

Goals for the state enterprises are not coordinated or clearly formulated. One reason for this is the varying motives which have lain behind the state's involvement in different enterprises. The Government and the Riksdag have, of course, on a number of occasions stated that the goals of state enterprises should be expansion, competitive strength, and profitability. But enterprises in many instances have been given special, additional goals. The goals, however, have not always been expressed in terms concretely apprehensible by those in charge of the enterprises.

Goals have not always been stated clearly in operative terms . . . No order of priority has been provided when several goals exist for one enterprise. Consequently, criteria for decision-making have been unclear.³

Thus there has been a problem of stating clear goals to which enterprise structures can be harnessed. In fact, the protracted debate in Sweden over the relative strengths and weaknesses of such enterprise forms as the *affärsverk* (governmental commercial agency) and the *bolag* (corporate form)⁴ can be viewed as manifesting a long-range uncertainty over the goals of Swedish state enterprise. The enterprises which have been deemed most successful have been those whose goals are clearly articulated and simple. Thus STA, which has always been conceived of as a device for gaining revenue, has clearly carried out this goal. From about 1925 to the end of World War II, the monopoly supplied more than ten and occasionally as much as thirteen per cent of the state's revenue.⁵ Norrbottens Järnverk, NJA, can be contrasted with STA as to both goals and results. The ironworks was created to improve chronic unemployment in Norrland, to provide Sweden with a domestic source of pig iron in the face of potential war shortages, to exploit extensive ore resources in northern Sweden, and, presumably, to make a profit. Considered against the background of such complex and unordered purposes, NJA's ex-

³ S.O.U. 1969: 1, p. 15. (The translation is mine.)

⁴ See S.O.U. 1916: 6 and especially S.O.U. 1960: 32, *passim*.

⁵ Ulf af Trolle, "Femtio år av monopol och konkurrens" in STA. *Om tobak i Sverige*, Stockholm 1965, p. 12.

perience has never been capable of unequivocal evaluation, and the company has been the object alike of scathing criticism and "guarded optimism" by opposed but equally responsible commentators.⁶

More subtle than the problem of complex, unordered goals, but also troublesome, is the problem of latent or unarticulated goals. On the surface, for example, STA has admirably executed the task of providing revenue for the state. On the other hand, even at the beginning of the company's existence, members of the Riksdag expressed concern at the state's carrying on a business whose product might be harmful to health.⁷ The issue is much more alive today, since the harmful effects of tobacco are now more clearly established. Nevertheless, the Riksdag has formulated no clear policy on the problem and probably never will, in so far as the issue is closely tied to the basic directive that STA must maximize its profit. At the same time, the issue has obviously motivated certain "non-profit" actions on the part of STA, including self-imposed bans on such advertising as is calculated to induce young people to smoke and, very possibly, the issuance of bonus shares to the Government to reduce the company's large profits per share.⁸

Even in those situations where an enterprise's goals are clear and simple, there remains the problem of providing the enterprise with the structure which optimally facilitates the attainment of these goals. Part of the problem is that the historical development of the legal system provides a small range of alternative forms, none of which may be ideal for newly-conceived enterprises. The choices in Sweden have been limited to the commercial agency and the corporation, the latter including such variants as the monopoly and the corporation owned jointly by public and private interests. A recent official study of the commercial agencies examined several lines of thought as to how the use of agency and corporate forms logically reflected the goals of particular enterprises. The prevailing rationale, the study noted, is that the agency is the wiser choice in monopoly situations, which require close control to guard against abuse of the monopoly position, or for public utilities, which normally can be highly centralized. These contentions may have merit but are at least

⁶ For a typical example of a "guardedly optimistic" evaluation of NJA, see Gerard De Geer, "The Iron Industry" in Thunborg and Andersson, eds., *Norrbotten—Land of the Arctic Circle*, Stockholm 1960, p. 80.

⁷ cf Trolle, *op. cit.*, p. 12.

⁸ Interview with Managing Director Olof Söderström, March 11, 1969.

descriptively incorrect, since the Postverket (Post Office agency) competes with private banks in its banking operations and SJ, the railway agency, competes with other modes of transport, while the alcohol and former tobacco monopolies are corporations; furthermore, the Defence Manufacturing Agency (FF), among others, can hardly be considered a public utility.⁹ The study concludes that no clear criteria for the use of a particular form can be shown and that it has primarily been historical accident which has determined the forms of specific enterprises.¹

The essential structural differences between the agency and the state-owned corporation are easily enumerated. The former is controlled under administrative law, the latter under regular corporation law, sometimes as modified by contract between the corporation and the Government. Basically, this distinction means that the agencies are relatively more limited as to personnel practices (though not to the same extent as the Civil Service) and long-range economic decision making.² Despite these limitations, SJ and the Post Office have irrefutably demonstrated the ability of the agency to compete. With the kinds of goals that have been involved in Swedish public enterprise over the years, then, there has probably been too much theoretical analysis of the relative merits of the agency and the corporation.³ Nevertheless, there is a strong current preference for the corporate form. Only two agencies have been created since 1911,⁴ and there is current support for restructuring the Postbank as a subsidiary corporation of the Postverket.⁵ This emphasis seems either unjustified or representative of a significant shift in the basic philosophy of public enterprise towards the view that all enterprises must focus primarily on rationalization and efficiency rather than work towards a complex set of goals, so that the overall supply of goods and services will accurately reflect the society's demands.⁶

It is not difficult to see how this current emphasis elicits a preference for the corporation as the best form for most state enterprises. The recent official investigation on coordination of public enterprises notes that most agencies were created to pro-

⁹ *S.O.U.* 1968: 45, p. 22.

¹ *Ibid.*

² *Id.*, at p. 27.

³ *Id.*, at p. 131.

⁴ *Id.*, at p. 25.

⁵ *Id.*, at p. 140.

⁶ This is the main theme of the two recent and important investigations, *S.O.U.* 1968: 45 and *S.O.U.* 1969: 1, *passim*.

vide social services rather than for commercial purposes but that, in course of time, commercial activities have become more significant. This, in turn, is thought to cause problems because the decision-making process for the agencies is often slow and, under constitutional law, the Riksdag must annually review the agencies' finances and plans.⁷ Since, given the new emphasis on efficiency and the competitive model, internal financing and a free hand for long-term investment planning become increasingly important, the agency is indeed at a disadvantage. This conclusion is reinforced by the fact that without the shield of particular social justifications (which are now being minimized in favour of efficiency), the enterprises must scrupulously avoid the appearance of receiving partial treatment from the Government, to the detriment of competing private industry. Of course corporations can easily be given advantages like low-interest loans or increases in capital,⁸ but the close relationship between the agencies and the Government on matters of pricing and financing makes the agencies particularly suspect.

Granted that the corporation is really the most suitable form for a public enterprise whose salient goals are efficiency and competitive vigour, we are faced with the more basic issue of whether this emphasis is wise. The central concern for economic efficiency expressed in the 1968 official report on the agencies has received strong criticism from LO, the powerful Swedish labour organization, for slighting employment maximization and other social goals.⁹

No existing enterprise—whether private or state-owned—should have a single goal for its activities. An economic goal—that is, the owner's desire for and expectations of profitable results from the enterprise—should not be established unless other goals or restrictions upon activity are considered at the same time. LO finds it significant that the investigation almost completely avoids the question of how to strike a balance between an enterprise's wholly economic functions and other considerations of the economy, defence programme, or social or other matters which must be taken into account.¹

⁷ *S.O.U.* 1969: 1 at p. 12.

⁸ See *S.O.U.* 1956: 24 at p. 64. for an early example of a loan that was granted to NJA for which the repayment schedule was later cancelled.

⁹ See the LO critique of the agency investigation which appeared as a news article in the review *Fackföreningsrörelsen* 1969, pp. 184 f.

¹ *Ibid.* (The translation is mine.)

LO's approach here seems to follow what has been the dominant conception of state enterprise in Sweden for the last thirty years or so, namely that although wherever possible the enterprises should not be operated at a loss, it is more important that they should function to fulfil certain social or socio-economic goals, such as the prevention or amelioration of unemployment in Norrbotten. The counter-argument that in the long run enterprise efficiency will fulfil such non-economic goals best seems difficult to maintain, since many of these goals are simply not consistent with maximum efficiency. Thus if an enterprise like NJA is forced to employ workers with no prior experience in iron manufacturing or to maintain an unusually high labour/capital ratio, its economic efficiency will surely be impaired.

Furthermore, it is arguable that the current desiderata of efficiency and competitive vigour have not gained favour simply on the basis of empirical analysis and logical deduction. Of course unsavoury profit and loss statements from the state-owned corporations are a visible source of political embarrassment to the Government, but this might logically lead to increased reliance on the agency form, special accounting techniques, or education of the public as to the special nature of state-owned corporations, as well as to the call for maximum efficiency. Also, there has been no adequate examination of the possibility that the extensive use in recent decades of the corporate form for public enterprise has itself exerted pressure in favour of efficiency and competitive vigour as exclusive goals, that *form* has had a dangerous influence over goal selection. After all, there seems to be a close connection between the rising priority of these goals in the last twenty years and the simultaneous increased use of the corporate form. As late as 1950, a Government investigation on the administration of certain mining operations minimized economic efficiency as a goal and, at the same time, defended the commercial agency form of activity:

It would appear impossible and impermissible for the state in a certain branch of its activity to apply entirely or even mainly the economic criteria of private enterprise. The state must always reserve the right to interfere in public enterprise in accordance with the needs of public finance and society. Only with this aim in view can a state enterprise, in our opinion, be operated, and for this purpose the state company form does not appear suitable.²

² As quoted in Verney, *op. cit.*, p. 91.

These facts direct one's thoughts to the argument which has been made by some sociologists that there is something in the structure of the competing corporation which is inimical to the attainment of any goal that is antagonistic to economic efficiency.³ The Swedish experience does offer some examples which support this suspicion.

Although the Swedish Tobacco Company has always been conceived of as primarily a profit-making activity, the firm itself recognizes that, as a state enterprise, it also has certain social responsibilities, particularly as regards employment.⁴ Nevertheless, in a recent interview the managing director, Olof Söderström, emphasized that the further "rationalization" of an already highly-rationalized enterprise was one of his key aims.⁵ He pointed out, to be sure, that when two factories were closed efforts were made to help the workers to find alternative employment, but this is no more than is expected of many private firms under the 1965 recommendations of the Labour Market Board.⁶ At a time when STA's profits are exceedingly healthy—a 9% dividend on the Government's ordinary shares last year, which amounted to a 35% dividend on paid-in capital⁷—its work force has declined considerably owing to rationalization. From 1958 to 1968, the number of employees dropped from 2,159 to 1,651, and the decline was almost entirely accounted for by wage earners.⁸ Interestingly enough, it was over this same ten-year period that the firm made its transition from tightly-regulated monopoly to competing company.

When Norrbottens Järnverk was established in 1940, it was primarily intended to provide jobs in an area plagued by chronic unemployment and to provide a domestic supply of pig iron against wartime contingencies. But by 1945, NJA had convinced the Riksdag to allow it to produce a potentially more profitable range of products.⁹ Expansion of marketed products and increasing competition with private steel companies for the export market have been fairly constant trends, actively pursued by

³ See, for example, R. M. Williams, Jr., *American Society: A Sociological Interpretation*, New York 1960, p. 200.

⁴ cf Trolle, *op. cit.*, p. 12.

⁵ Interview with Olof Söderström, *supra*.

⁶ Royal Labour Market Board, *Modern Swedish Labour Market Policy*, Stockholm 1966, p. 57.

⁷ Interview with Olof Söderström, *supra*.

⁸ STA brochure, *supra*.

⁹ John Jönsson, *En finansiell skandal*, Stockholm 1947, p. 15.

NJA's management in vague contradiction to at least the original intentions of the Riksdag.¹ The prime tactic has been for the company itself to determine new policy, act on the basis of the new policy, and then oblige the Riksdag to accept the *fait accompli*. This can be seen in the following statement of Gerard De Geer, managing director of NJA:

The expansion of Norrbottens Järnverk that has been decided upon, or, rather, sanctioned by the Riksdag Session of 1959 may be looked upon as a powerful lever for improving the enterprise's financial result. One outstanding weakness of the enterprise so far has been its inability to refine its entire output into finished products.²

These examples from the experiences of NJA and STA tend to confirm the suspicion that increasing use of corporate structure in Swedish public enterprise has exerted some influence on the supposedly independent choice of efficiency and competitive vigour as prime enterprise goals.

Any analysis of the contention that the corporate form has influenced the choice of goals for Swedish public enterprise should certainly include an examination of the composition of the boards of directors of the state-owned corporations. There has been controversy of a theoretical nature on this subject in many countries. A preliminary question in this area is how to justify the very existence of boards in such organizations. In private corporations, of course, the board serves as the only policy-making body. The general theory of state-owned corporations, however, vests policy-making powers in the Government—the legislature or, by delegation, an executive department. Thus, in a state-owned corporation, the very existence of a board, with an inevitably vague delineation of its powers as against those of the Government, implies potential tension between corporate activity and legislatively determined goals.³ This problem has been recognized in Sweden, and the recent Government study on coordinating state enterprises took pains to allocate decision-making responsibility between the company (i.e. the board) and the owner (formally, the Government as represented by a departmental official at the shareholders' meetings).⁴ Specifically, the Government's respon-

¹ Finansdepartementet, *Industrins struktur och konkurrensförhållanden: Koncentrationsutredningen III* (S.O.U. 1968: 5), p. 247.

² De Geer, *op. cit.*, p. 80.

³ A. H. Hanson, *Managerial Problems in Public Enterprise*, London 1962, pp. 32-5.

⁴ S.O.U. 1969: 1, p. 24.

sibilities include setting goals for the enterprise, but the board is to coordinate and plan activities to achieve the goals set. But even here, the normal role of the board of directors in a private corporation is vaguely dichotomized between separate bodies, leaving a considerable possibility for tension to develop or for goals to be shaped improperly by the board.

The board compositions of state-owned corporations in Sweden vary along certain lines discussed below and reflect, to some extent, a debate in Britain and elsewhere between proponents of so-called "policy boards" and proponents of "functional boards." A. H. Hanson is one well-known expert on public enterprise who has used this distinction. He defines functional boards as those in which individual members have specific, full-time duties in such matters as sales, personnel and purchasing. Policy boards consist of more objective semi-outsiders with no specific tasks—these boards, *in toto*, criticize activity and offer general guidance.⁵ The French have probably been the strongest proponents of the policy-board approach, and board members in French state-owned corporations generally represent broad interest groups such as the state, the relevant industry, labour, or consumers.⁶ This system has clearly hampered efficiency with respect to profit-making goals, and there has been some shifting in the direction of board expertise, but the system has the advantage of guaranteeing that boards will include defenders of all legislatively-determined enterprise goals, not only that of profit making.

Rune Tersman has analysed the composition of the boards of Swedish state-owned corporations according to the following categories: (1) persons active in politics; (2) persons in the civil service and public administration; (3) persons primarily involved in industry and usually possessing economic or technical expertise.⁷ Although the first category enjoys a plurality in the monopoly corporations, category (3) persons—those with economic or technical expertise, and those with professional business orientations—dominate in the competing companies and manifest a preference in these companies for functional boards.⁸ This is certainly appropriate in that such companies, as competitors, should use a board structure conducive to profit making. Nevertheless, as in the case of NJA, these enterprises have sometimes been created

⁵ Hanson, *op. cit.*, chaps. 3 and 4.

⁶ *S.O.U.* 1956: 24, p. 20.

⁷ *S.O.U.* 1956: 6, p. 43.

⁸ *Ibid.*

to achieve goals other than profit making, and, arguably, these goals have not received sufficient attention from boards whose members are professionally orientated towards considerations of economic efficiency. Sociologists have warned of possible tensions between professional expertise and the sometimes divergent need for loyalty to an organization's goals.⁹ The question is raised whether the Swedish preference for functional boards of directors, in sharp contradistinction to the French experience, has not generated problems of goal attainment, albeit problems which are very different from those of French enterprises.

Beside the simple board composition of particular companies, it seems significant that a very high ratio of the newer state enterprises are competing corporations.¹ The resulting increase in goal-setting influence for those professionally orientated towards efficiency and competitive vigour as prime goals cannot be gainsaid as a possible determinant of the discernible current trend away from goals other than profit making.

The fact that the competing corporation and the functional board of directors may be unduly exerting pressure for the priority of purely economic goals for Swedish public enterprise does not mean that the corporation should be shunned as a structural form. The wiser conclusions are that enterprises with salient social goals difficult to harmonize with profit making should not be placed in highly competitive situations, and that organizational analysis should be utilized to determine the proper structure and professional orientation of boards of directors of specific enterprises in the light of the goals of these enterprises.

Finally, it may even be wise policy to simplify the goals of competing, state-owned corporations in Sweden, to focus more on efficiency and competitive vigour. As we shall see, one argument in favour of this shift is the grave difficulty of measuring the performance of enterprises with complex, unordered goals. But before this shift is legislatively approved, it must be ascertained that this is wise policy independently of the pressures in its favour from the competing, state-owned corporations and their functional boards of directors, that is, independently of any feedback from structural forms supposedly neutral to the goals they are to carry out.

⁹ A. W. Gouldner "Organizational Analysis" in R. K. Merton *et al.*, eds., *Sociology Today*, New York 1959, pp. 416 f.

¹ Verney, *op. cit.*, pp. 23 f.

MEASURABILITY OF PERFORMANCE

Besides the problem of harmonizing structure and goals, public enterprise is confronted with a basic need to develop means for evaluating performance. To some extent this is even a problem for the modern, private corporation which must divert some of its resources towards community and labour relations, satisfaction of government regulations, and other factors which indirectly modify its pursuit of profit. But this problem becomes highly magnified in the case of the state-owned enterprise, whose goals are generally plural, often interdependent, and sometimes ambivalent. The nature of the problem has been spelled out by A. H. Hanson:

Starting out with operational statistics, one tries to eliminate from the calculation the influence of various extraneous factors affecting the enterprise's performance. The trouble, of course, is that these ... are very difficult to identify and eliminate. There are, for instance, what one might describe as the objective social and economic limits within which the enterprise has to operate; the availability of skills, factors affecting the morale of the labour force ... which are very difficult to quantify. Then there are decisions made outside the enterprise to which the enterprise must conform: decisions by the Government ...: special responsibilities imposed upon an enterprise for, for example, labour welfare; and the Government's general economic policies.²

Furthermore, according to Hanson, it cannot even be stated as an absolute rule that operating at a loss over a considerable period constitutes unsatisfactory performance for a public enterprise. The use of railways to open up backward areas, for example, is cited as a justifiable losing enterprise for the state.³

To clarify the measurement problem, we might consider the example of Norrbottens Järnverk, a state-owned, competing corporation with non-profit as well as profit-making goals. A reasonable first step would be to try to isolate expenditures and resource allocation by NJA for non-profit purposes so as to determine whether performance has been satisfactory with respect to purely economic activities. Items which would have to be quantified and isolated would include costs incurred to support labour

² Hanson, *op. cit.* p. 97.

³ *Id.* at p. 142.

above the number of employees hired by an efficient private mill of comparable size, the cost of training local workers unfamiliar with iron and steel manufacturing, unavoidable inefficiencies caused by poor location, and so forth. Even in so far as such factors can be quantified and removed to allow some reliable measurement of NJA's purely economic performance in pursuit of profit, it will still be necessary, before arriving at a final evaluation, to consider that measurement in light of NJA's measured performance towards other goals. This requires quantification not only of costs and gains with respect to all goals, but also of relative goal priorities. The alternative approach of simply weighing NJA's total performance against that of analogous enterprises in Sweden or elsewhere seems impossible because of the lack of enterprises with comparable sets of goals.

Given the obvious difficulties of quantifying certain factors bearing on the activities of state enterprises working towards complex goals, it might be asked why any high degree of certainty in measurement is necessary. Surely part of the answer is the political pressure on the Government to justify state-owned enterprise to the public. But in at least two ways the problem also approaches legal significance. First, when evaluation of state enterprises who are competing with private firms is unreliable, it becomes difficult to demonstrate that the enterprises are justified in the public interest, and their existence might be perceived as an arbitrary and unjustifiable confiscation from private companies. Such a view will certainly not become legal doctrine in Sweden, but it may generate antagonism between the Government and private industry.⁴ Second, the debate now in progress on the accountability or responsibility for the performance of state enterprises loses much of its significance in the absence of any reliable means of evaluating performance. Zealous jostling for control over the companies' accounting, between the Riksdag, the Government, and the companies themselves, will, it is hoped, ensure proper protection of the public investment. In fact, this process offers minimal security where evaluation of performance is problematical at best.

Tensions between the legal demand for accountability and the measurement problem have exerted pressure in the direction of economic efficiency and competitive vigour as salient goals for

⁴ For an article tracing sharp early criticism of NJA by *Svenska Dagbladet* to the fact that the owner of the paper was a board member in a private steel company competing with NJA, see Grym, *op. cit.*, at p. 176.

state enterprise. The state-owned corporations which compete with private firms, and the administrative departments which oversee them, have striven to prevent the Riksdag from looking into their affairs.⁵ The constitutional requirement of annual accounting to the Riksdag by the commercial agencies and the contractually established auditing arrangements for the corporate monopolies have left these structures less concerned with independence from parliamentary scrutiny. Since parliamentary scrutiny of the competing corporations has been almost exclusively of a financial nature,⁶ and since only those competing companies which have operated at a loss or required subsidies or further capitalization have normally been scrutinized,⁷ it seems a reasonable inference that avoidance of accountability to the Riksdag has pushed the competing corporations towards the competitive model, to the possible detriment of their socio-economic functions.

At the same time, recent official studies have stressed the desirability of a more certain measurement of all public enterprise performance. Recommendations for change fit into three categories: (1) the simplification of goals in favour of the competitive model; (2) segregated accounting for special non-profit-making activities; (3) the establishment of a special organ with the requisite expertise to evaluate performance.

(1) The argument for the simplification of goals is compelling to the extent that increased certainty of measurement is essential for the preservation of administrative responsibility to the public. But if it is true that state enterprises can be better evaluated the more they approach the simple model of competitive efficiency, it is also true that in so doing they lose some justification for existing at all, with the result that a very high level of efficiency will be demanded of them. If NJA were being created today, this new approach might be paraphrased as follows: "The state intends to build a new iron mill at Luleå which, it is hoped, will alleviate the high unemployment in the area and give the inhabitants a greater sense of being integrated into the national economy and receiving a just share in the distribution of wealth. Once created, however, the company's success will be measured

⁵ Verney, *op. cit.*, p. 80.

⁶ *Id.*, pp. 108-9. It is here noted that in forty years the Riksdag put only 12 interpellations and two ordinary questions to Government Ministers about the state-owned corporations.

⁷ *Id.*, at pp. 108 f.

purely in terms of profit and loss." The weaknesses in this approach are, first, that any investments which are likely to be profitable can be expected to be made privately—unless the Swedish Government has already tampered with the capital market to such an extent that this hope cannot be relied upon and, secondly, that such goals as improvement of unemployment and making a profit may simply be antagonistic.

(2) Opinion has also developed in favour of an accounting system which, to the greatest possible extent, will segregate allocations for non-economic purposes from the purely economic picture of the enterprises.⁸ As applied to SJ (the state-owned railways), for example, this means a policy of maintaining the principle of "recovery of costs and normal interest" for regular, economically feasible activities, but not for all activities. Since SJ is required to buy out currently unprofitable private railways and provide transport in some areas where to do so is not profitable, these activities would be accounted for separately, with the result that the prices for normal services would no longer have to be inflated to cover losses from unprofitable services.⁹ In this way, measurement of SJ's efficiency with respect to its specific goals would become more precise.

The curative effects of this concept of segregated accounting should not be overestimated. At least two problems are inherent in it. One is the danger that real inefficiencies can be obfuscated by characterizing essentially profit-making activities as non-economic and therefore satisfactorily performed at a loss. The other problem is that often the special goals of public enterprises involve activities inextricably connected with profit-making ones, so that segregated accounting is difficult if not impossible. The difficulty can be demonstrated by applying segregated accounting procedures to the activities of the Försvarets Fabriksverk (Defence Manufacturing Agency). In creating FF in 1943, the Riksdag was of the opinion that military preparedness demanded some excess production in order to maintain a high production capacity for potential wartime needs.¹ However, there seems to be no reliable way of allocating to any particular production units the costs involved in attaining this non-economic goal, in contrast to the fairly clear line between unprofitable and potentially profitable services offered by SJ.

⁸ Interview with Olof Söderström, *supra*.

⁹ *S.O.U.* 1968: 45, pp. 129, 141.

¹ *Id.*, at p. 26.

Segregated accounting methods in enterprises like FF or NJA, then, might just as well hide inefficiencies with respect to profit goals as increase reliability of measurement. Where activities directed towards effecting differing goals overlap, measurement of success in achieving these goals calls for simultaneous analysis. But, as shown above, simultaneous analysis of performance towards complex goals may be unsatisfactorily vague.

(3) A third proposal for helping to solve the measurement problem calls for the establishment of a special organ which will have the requisite expertise to make reliable evaluations of the performance of Swedish public enterprise. This approach is not new; W. A. Robson, a British expert on public enterprise, made the suggestion in 1952:

The feeling is growing that we cannot expect Parliament and the public to be adequately informed about the condition of the nationalized industries unless we provide some machinery for providing them with expert advice The magnitude and complexity of the organizations are such that expert guidance is needed to evaluate their performance If we are to develop effective methods of public criticism, specially devised organs of scrutiny and investigation will have to be created.

. . . An audit commission should be set up to hold efficiency audits at regular intervals. These . . . would be . . . wider in scope than the customary audit of accounts.²

Proposals similar to Robson's have occasionally been made for Swedish public enterprise. One is at least as old as a 1952 committee report to the Social Democratic Party and was finally adopted in December, 1969. This calls for the establishment of a holding company to oversee the activity of the state-owned corporations and act as an intermediary between the companies, on the one hand, and the Government and Riksdag, on the other.³ Such a new body, it has been argued, will help to solve the measurement problem because the legislature "hardly has a composition to make it equipped to deal with business questions to the extent required".⁴ It is true, of course, that the Riksdag is not an expert body on matters of financing and business, but so long as a number of the state-owned corporations maintain complex sets of goals, such matters are not the only relevant ones for judging the enterprises' performance. Consequently, the delegation of

² Robson, ed., *op. cit.*, p. 321.

³ Verney, *op. cit.*, pp. 101-5.

⁴ *Id.*, at p. 102, quoting the Committee's report.

evaluation duties to the holding company may lead to somewhat improved measurement, but unless such a delegation is tied to an overall simplification of goals, the expert body inevitably inherits the Riksdag's problem of unclear evaluation criteria and techniques. In such a case, the expert body might inappropriately influence the goals and priorities established for the enterprises by the legislature. The American experience with administrative agencies strongly suggests that administrative responsibility and fidelity to legislative intent are highly correlated with the clarity of legislative delegations of duties.⁵ For this reason, utilization of an expert organ to evaluate the performance of the competing public enterprises might be no more conducive to administrative responsibility than the present system, unless it were coupled with a general narrowing and clarification of enterprise goals and priorities. As we shall see, the holding-company legislation does include some such clarification of goals and priorities, and we can therefore expect that the holding company will enhance administrative responsibility in Swedish public enterprise.

IMPLICATIONS OF A HOLDING COMPANY

In recent years there has been considerable debate in Sweden on whether or not to establish a holding company to oversee most public enterprises. In February 1968 the Government established a committee whose role was to suggest guidelines for the long-range development of state enterprise and to examine arrangements for cooperation between the various enterprises and for the group as a whole.⁶ The committee's first official report was published in January 1969 and its central recommendation was for the creation of a holding company to be placed under the Department of Industry.⁷ The report envisaged the holding company primarily as a useful response to a need for "coordination" of the various state enterprises. However, the holding-company proposal was also linked to a perceived need for more focused responsibility for the affairs of the enterprises. The Government and the

⁵ Finer, "Administrative Responsibility in Democratic Government" in Peter Woll, ed., *Public Administration and Policy*, New York 1966, p. 256.

⁶ *S.O.U.* 1969: 1, p. 3.

⁷ *Id.*, at p. 6.

Riksdag accepted, in principle, the views of the committee. The requisite legislation was passed in December 1969, and the holding company came into existence on January 1, 1970.

If more sharply focused responsibility for Swedish public enterprise is the prime concern, less radical changes than the institution of a holding company might be satisfactory. For example, all the state-owned corporations might simply be brought under the control of one Government agency, the Department of Industry. (Before the establishment of the holding company, companies were widely spread between several different departments.) But this solution has two drawbacks. First, as we have seen, pinpointed responsibility is no real safeguard unless there are adequate means for evaluating enterprise performance. Second, the Swedish political system does not call for *individual* ministerial responsibility to the Riksdag,⁸ so that responsibility theoretically focused on one minister would be specious. With the holding-company alternative, however, real individual responsibility is possible. The political head of the Department of Industry or his close associate will, according to the committee report, be personally answerable to the Riksdag *qua* managing director of the holding company.⁹

Certainly the committee report was correct in asserting that a holding company would also generate coordination of the various state enterprises. However, such coordination must be seen as a mixed blessing. Coordination of Swedish public enterprises is advantageous to the extent that it implies non-duplication of tasks and genuine economies of scale. Along with the increased possibilities of internal financing, these are strong impulses for conglomerate mergers generally. But internal financing is a two-edged weapon. On the one hand, it may place private companies at an unfair disadvantage if they compete with state-owned companies but are forced to resort to the regular credit market for financing. On the other hand, the holding company will provide an overall income statement for Swedish public enterprise, which should have the salutary effect of taking pressure off those enterprises *earning little or no profit because their goals are largely social and not profit-making*.¹ Furthermore, the possibility of internally financing these ventures rather than subjecting the Riksdag to the embarrassment of appropriating funds for "losing" companies should help to preserve the use of public enterprise for solving

⁸ Verney, *op. cit.*, p. 62.

⁹ *S.O.U.* 1969: 1, p. 40.

¹ *Id.*, at p. 52.

specific socio-economic problems. In Italy internal financing has been used to good advantage in this way by the Italian Government's holding company to maintain certain enterprises as employment reservoirs.²

Although the Bill for the establishment of the holding company made no direct attempt to satisfy the need for clearly defined goals for specific enterprises, for concrete and reliable evaluation criteria, and for focused administrative responsibility in public enterprise generally, it does include some constructive suggestions in these areas. First, the Minister of Industry articulates a hierarchy of goals for the holding company and, therefore, for Swedish public enterprise generally. He argues that attention should be given to social concerns such as worker morale, employment, and area development, but implies that these concerns must be subordinated to the attainment by public enterprise of maximum growth, subject to the need for profit.³ Second, it is recommended that segregated accounting be utilized where non-profit activities are involved, that general accounting for the enterprises under the holding company be complete, informative, and carried out by disinterested auditors, and that representatives of the Riksdag be encouraged to participate in the holding company's "shareholder" meetings.⁴ The attempt to articulate some hierarchy of goals, the establishment of rigorous accounting procedures, and the focused administrative responsibility inherent in the structure of the holding company should have salutary consequences for the administration of Swedish public enterprise.

However, there are at least two potential problems connected with the holding-company machinery as conceived by the legislation, and to avoid these problems very close scrutiny of the organization will be necessary, at least in its formative years. First, any perversion of the conceived role of the holding company could impair overall administrative responsibility in two ways. As a new organization, the holding company will, of course, be interested in carving out a fairly wide administrative jurisdiction for itself. This, as LKAB noted in its critique of the holding-company proposal, could lead to tensions and conflict between the company, the Government, and the Riksdag, all of whom feel

² V. Lutz, *Italy: A Study in Economic Development*, London 1962, pp. 270 f.

³ Kungl. proposition 1969 no. 121, pp. 34 f.

⁴ *Id.*, pp. 8, 9, 50.

some "ownership" responsibilities for the state-owned enterprises.⁵ This problem seems unlikely to arise, however, since the very creation of the holding company implies a willing and extensive delegation of ownership responsibilities by the Government and the Riksdag to the expert body. A more subtle potential problem was also raised by LKAB and other interested parties—that an overzealous arrogation of responsibilities by the holding company could involve the company too directly in the affairs of the enterprises whose activities it is to oversee.⁶ This could reduce the morale and sense of responsibility of the executives in charge of specific enterprises which, in turn, might generate a further arrogation of responsibility by the central organ. Such a development could lead to a rigid bureaucratic arrangement which might impair the competitive ability of various enterprises. The only clear safeguard against this development is the contemplated size of the holding company. It is conceived of as a relatively small organization, necessarily limited in the range of its activities.⁷

A second potential problem connected with the holding company stems from its assigned duty to stipulate goals for specific public enterprises.⁸ The crucial question is how the holding company will interpret its own goals, as defined by the Minister of Industry, in imposing goals on its subsidiary corporations, which, as in the cases of NJA and STA, originally had highly divergent purposes. Does the fact that the holding company's prime concern is to be for expansion and profit mean that *all* its subsidiaries must have the same emphasis? If so, then the original goals of companies like NJA are likely to be modified in the absence of any clear legislative mandate for such modification. The wiser interpretation of the holding company's goals would seem to be that its overall emphasis must be on expansion and profit, but that some of its subsidiary corporations, according to the apparent legislative intent, need not maintain this emphasis. Any peremptory rule by the holding company that its subsidiaries should emphasize expansion and profit might permanently weaken public enterprise as an instrument for solving localized problems which are not purely economic in nature. One means of discouraging the adoption of any such peremptory rule might be

⁵ *Id.*, p. 11.

⁶ *Id.*, p. 20.

⁷ See the Minister of Industry's comments on the limited scope of the holding company's activities, *id.*, at p. 44.

⁸ *Id.*, pp. 33 f.

to give the holding company a "policy" board of directors rather than a "functional" one, to appoint to the board at least some members who are not solely dedicated, by professional orientation, to profit and technical considerations. Since the holding company will not itself be engaged in production, such a board composition would not necessarily lower efficiency and might help to retain the possibility of using Swedish public enterprise for a variety of social goals.