

Ivar Kreuger: An International Swindler of Magnitude

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One of the most held securities in Western Europe during the 1920s were the securities of Kreuger & Toll Inc. (a Swedish match conglomerate). The company was headed by Ivar Kreuger, known as the “Match King”. His business operation is a story of great success from 1910 to the fall of his business empire in 1932, when it became clear that Kreuger & Toll Inc., operated by Kreuger himself, had been a company built on falsified accounts, forged documents and concealed misappropriation of funds of a massive scale. Kreuger has been described as one of the worst financial swindlers during the 20th century, with the epicenter at the Great Crash of 1929. It was a swindle that was described as Napoleonic in its size compared to the contemporary swindles of Samuel Insulls, Richard Whitney, and Clarence Hatry (Galbraith 2009). This case was discussed in the Paramalat fraud case in Italy in 2003–04, when the case against the company founder Calisto Tanzi was compared to the case of Kreuger (Kumar, Flesher, and Flesher 2007). Also, the case of Bernie Madoff was illustrated as an imitation of Kreuger, with Kreuger as “the original Bernard L. Madoff” (Partnoy 2010, 432). In fact, Kreuger constructed the financial instrument off-balance sheeting which together with credit rating and regulatory licenses were one of the reasons for the financial meltdown in 2008 and to which Madoff owes credit to when he created his gigantic Ponzi-scheme.

In this essay I will discuss the case of Ivar Kreuger and the financial world which he belonged. The setting for the Kreuger

case can, in several ways, serve as an ideal type of the spirit of capitalism.¹ For instance, his prime goal was profit-making and to attain the goal of a libertarian capitalist who bred the attitudes and personal qualities that defended the free market, and would help protect his private interests and the interests of the shareholders in the corporation (Braithwaite 1988). It is a description that serves as a topic for an investigation for a critical criminological point of view, especially with the aim of unmasking the criminality of powerful and wealthy white collar criminals (Tombs and Whyte 2003). This unmasking process is understood as an empirical investigation of the “higher immorality,” referring to the moral insensitivity of blunt conscience among white collar criminals, where the only thing that matters is the amount of money, regardless how you earned it (Mills 1971; Simon 1999; Wozniak 2009).

During the 1920s Kreuger was the living symbol of the excesses of financial values and wealth. He was decorated with the Grand Cross of the Legion of Honor by the French Parliament, he received an Honorary Doctor of Business Administration degree at Syracuse University and he decorated the front-page of *Time Magazine* on Thursday 24 October, 1929 (just four days before the Great Crash). Kreuger represented the progressive standard of the world capitalism. In more respectful circles he was known as the Savior of Europe and the financial wizard on Wall Street. He made profits when everyone else lost money in markets which were heavily affected by political divergences due to the World War I (Clikeman 2009). The impact of the Kreuger-group in the world economy was very large. 1925–1931, the securities of Kreuger & Toll were one of the world’s most extensive, as well as being one of the 15 companies with the highest turnover in the New York stock market. For example, in 1929, the securities of Kreuger & Toll traded for \$76 million out of the overall \$335 million (22.68%) in the New York stock market (Eddy, 1937; Partnoy, 2010). In the

¹ Capitalism refers to an economic system where the means of production is under private ownership and the production is regulated by market forces. The State or cooperatives has a limited influence on production and the means of production. Capitalism is to its nature expansive, it assumes a constant increase in resources and production to function well. To do this capitalism demands a political system where freedom to manufacture and sell is extensive with few or none privileges by the State (Ingham, 2013).

Stockholm stock market the K&T securities stood for 64% of the market's turnover and had 25% of the aggregated stock market value. Kreuger's own total capital asset in 1929 was valued at \$1.4 billion (including private fortune, ownership and/or direct control of multinational companies). This can be compared to the total capital asset of 4 billion dollars in the Swedish banking system at the time (Cederschöld 1937; Thunholm 2003).

Kreuger's ability to financially zigzag through the political battlefields stood out amongst the financial circles. He had made money by introducing concession loans in all 15 nations in exchange for a match monopoly (including 2 additional nations in practice) during the 20s, thereby controlling around 65 per cent of the match production in the world. Through concession loans he gave US capital the possibility to invest and make profit from the urgent need that many of the European Nations suffered in the aftermath of the World War I. Beyond these he also introduced new kinds of shares by differing A-shares (one share/one vote) toward a new form of B-shares (one share/000.1 vote) in England and Sweden. This gave US corporations the possibility to invest its capital in, for example, Swedish industry which was otherwise forbidden by the Swedish Company Act. He also introduced new kinds of shares called "Participating debentures" which was a mix of an obligation and a share (giving as an obligation it guaranteed a certain minimum interest and as a share it gave higher interest if the dividend exceeded the minimum interest) whose returns were derived from the returns of other private investors in the public market in US, Sweden and England. That is, a variant of a Ponzi-scheme. He also became known as the inventor of off-balance-sheeting², a financing technique that is still practiced in the market today. And lastly, he created the corporate group Swedish Match Company, Kreuger & Toll Inc and Dutch Kreuger & Toll, which had up to 400 subsidiary and sub-sub-sidiary companies, and had fantastic profit margins throughout

² Refers to a debt beside the company's balance sheet. The debt belongs to an individual client direct or in trust while the company serves as depository for the client's debt. However the company can use this off-balance debt when it search for a loan by showing up no liabilities in its balance sheets. Even if this is the case in reality for the company.

the 1920's with up to approximately 30% revenues for shareholders in Kreuger & Toll Inc. annually (Partnoy 2010; 2011).

During the Great Crash of 1929 Kreuger began to get into serious liquidity problems, chiefly because of the decrease of US capital flow into Europe (Lönnborg, Ögren, and Rafferty 2011). In order to distribute the huge amount of capital for the concession loans to several nations (e.g. France 971.25 million dollars, Germany 1 683.75 billion dollar, etc)³, he was forced to get short-term loans from the banks. The banks then pressed him to get even more short-term loans on securities which successively decreased in their value during the financial circumstances of the time. During this time it is alleged that Kreuger manipulated the balance sheets, used double book-keeping and falsified the validity of his securities in his emission loan negotiations with the banks. Just one month after his suicide on March 12th, 1932 (stressed by his gigantic liquidity and solvency problems in the Kreuger-group), a commission of bankruptcy in Sweden started an investigation of the Kreuger-group, including an audit investigation by Price, Waterhouse & Coppers. The Price Waterhouse report (which was actually 57 partial reports) found that Kreuger had been one of the greatest swindlers ever seen in the financial world up to that day, and according to some later commentators, also up to this day (Flesher and Flesher 1986; Kumar, Flesher, and Flesher 2007; Partnoy 2011; Shaplen 1960).

THE RELEVANCE OF CRITICAL CRIMINOLOGY

There are several reasons why an investigation of white collar criminals should be investigated by critical criminologists, not least from a policy perspective as in the case of Ivar Kreuger. The endeavor to increase the transparency of a single business or a financier's activity is also an argument for the democratization of corporations. Internal members and the external investor's need transparency of the corporation's financial standing. Hidden criminality by the powerful can affect the workers'

³ The monetary value of the dollar was adjusted to reflect updated exchange rates for 2011 by the consumer price index, in accordance with the calculator: "The Annual Consumer Price Index for the United States, 1774-2011", collected November 6, 2012 at <http://www.measuringworth.com/datasets/uscpri/result.php>.

job security and in the long-term the society's tax base will harm the general contributions toward the most vulnerable people (DeKeseredy and Perry 2006).

A second kind of policy argument would be to strengthen the position of social categories at the lowest strata, arguing for the criminalization of white collar criminals in order to achieve general justice and reduce social harm by breaking the protection of special economic and political interests through strengthening the efficiency of regulatory agents and law enforcement toward white collar crime. Otherwise, white collar criminality can further deepen the inequalities in society because white collar crime mainly strike at the first-hand social categories (women, elderly, children, etc), and not individuals, as most street criminals do (Snider 2000; Alvesalo and Tombs 2002; Alvesalo, Tombs, Virta, and Whyte 2006; Slapper and Tombs 1999).

Regarding both of these policy issues, the case of Ivar Kreuger is a good example of what can happen in the absence of corporate transparency, when a company is led by a charismatic and autocratic leader, within an environment with weak regulations of accountancy, board members or law enforcement. As a consequence, there were many individual and organizational victims.

A methodological argument for a critical criminologist to choose a case such as Ivar Kreuger is given by David Friedrichs (2004). He suggested that critical criminologists should collect data on a corporate scandal systematically by applying an integrated theory approach in criminology where data can be collected at individual, organizational and institutional levels (see also Tombs 2008; Lasslett 2010). Critical criminologist should also initiate systematic studies of cases through exploring available ethnographical data. This can be an advantage on a case that contains data collected over a period of time. This may include information given by journalists, found in memoirs, from researchers, etc, which represent the narratives and discourse for the phenomena (Lasslett 2010; Williams 2008). This is especially possible in the case of Ivar Kreuger who was, in contrast to the majority of white collar criminals, a visible criminal for public outcry and even moral panic.

THE ORGANIZATIONAL GUIDE AND DATA FOR THE ESSAY

In criminological theory the search for the ‘cause’ of crime and criminality is a complex issue, and using an integrated approach on individual, organizational and institutional levels is proposed (e.g. Farrington 2008). The integrative approach searches for the ‘cause’ in a hierarchy of variables, including the crime scene and personality type of the criminals, and continues to search through the levels of organizational culture of institutionalized profit-making in the market combined with the reforms that regulate or de-regulate business through politics. The overall idea in this essay is to examine how the interaction of these three abstract levels underpinned Kreuger’s actions during the period of 1910–1932. Focal points are Kreuger’s personality traits and his social background as rather static variables, to the interconnections to dynamic variables such as organizational, market factors, etc (Laub and Sampson 2003; Piquero, Farrington, and Blumstein 2007). For example, this essay will examine how the direction of the business interests among several agents’ rallied around Kreuger’s autocratic leadership, and how this set of variables coheres (or are framed) with the institutional structure of the market, the business moral and politics. This approach is then applied in a kind of a narrative through qualitative person-based analysis (Laub and Sampson 2003). The theoretical framework consists of rather general and explorative critical criminological concepts such as unmasking the crimes of the powerful, criticizing the higher immorality of big business and the lack of transparency of business operations and the need to make corporations more democratic.

The data collection includes various literatures, including, in order of priority, academic publications such as theses and peer-reviewed articles, academic-related works, journal articles, and memoirs. The literature will explore different topics such as the institutional settings of the market, the personality traits of Kreuger and, especially, the structure of the Kreuger-group. The data contends a rather high volume of investigations and commentaries from a wide variety of scientific disciplines in order to discuss the phenomena of Ivar Kreuger. This data consists partly of first-hand information, such as personal accounts, and partly of second-hand data which was dependent on infor-

mation from other sources, such as the psychological and social background. Kreuger himself did not ever write anything concerning his life or made any slightest commentary over his life. However, his brother Torsten Kreuger, and several authors sponsored by him, wrote many commentaries on Ivar which emphasized his innocence, honesty, and his significance as a great businessman, particularly for the Swedish business world. Most of the later literature about him is biased by nationalism or is conspiracy-driven, such as alleging that members of the bankruptcy commission acted in its own interest and hid their own white collar criminality when accusing Ivar Kreuger of being a swindler. Nevertheless, I have chosen not to refer this literature as data due to its highly biased and speculative character.

THE INSTITUTIONAL AND CONDITIONAL SETTING OF THE MARKET DURING THE 1910s AND 20s

The environmental character of capitalistic Sweden during the first two decades of the 20th century was characterized as an age of optimism full of visions and grand plans for the future. A lot of industrial and financial projects were initiated and executed by commercial banks as intermediary agents conducting a speculative boom in the stock market (Lindgren 1982).

Kreuger wholly identified with this spirit and used his big business solutions, such as big mergers and big cartels, as the successful model for capitalistic entrepreneurship. He promoted these ideas to potential investors with his confidence and trustworthy attitude. By 1908 he, along with Paul Toll, had already started a successful construction company. They received several prestigious construction projects in Sweden, including Stockholm stadium, Blå Hallen in Stockholm city hall, and the department store of Nordiska Kompaniet in Stockholm. They also worked in Finland and Russia, which were Sweden's biggest export market before 1917 (Lönnborg, Ögren, and Rafferty 2011). Nearly every one of the contracts was profitable and Kreuger became increasingly respected in European business circles. By becoming a business celebrity he could expand his business contacts continuously and change his direction from engineering to financial business. In 1917 he created the holding company Kreuger & Toll (K&T). During the period 1917–

1924 K&T declared an exceptional profit level of 130.7 billion Skr⁴, where Kreuger was personally in charge of 68 per cent of the profits (Thunholm 2003; Glete 1981).

As a parallel process to the process of building K&T, he also became an industrial capitalist of rank by creating The Swedish Match Inc. (STAB). He privately controlled 223,000 share units of the company's 450,000 total shares. From the very beginning, STAB showed good profit figures with 13.8 billion Skr in 1918 and up to 38.9 billion Skr in 1923. This was probably due to a lot of 'air' in the accounts by unnoticed accounting profits in STABs cash flow, at a period when the Swedish business world was generally not doing well (Thunholm 2003). As a consequence, in 1919, Kreuger was already one of the richest men in Scandinavia with a private fortune of 39 billion Skr (Shaplen 1960).

Like many other contemporaries in the market, Kreuger believed that the best way to make money was to control the market. Free enterprise in a free market was a means to control the market in order to form a monopoly and thereby increase the prices and the profits for the company. In the long-run capitalism would continuously expand the world economy and subsume more of the national markets under one international and coherent market system (Lindgren 1982).

At the start of the 1920s there was declining currency in Europe and rising demands for strong finances in order to meet the people's requests for social welfare. The people also wanted a strong military defensive position, economic growth through land reforms, and this bred a need for capital investment in most of the European nations. During these times politicians and financiers were in awe of Sweden's strong finances. Up to that time Sweden had been a small and quite insignificant financial agent in the world economy. Despite being in the periphery it had a good reputation in the business world because its banking system was well constituted although conservative and parochial in character.

⁴ The monetary value of Swedish kroner was adjusted to updated exchange rates for 2006 by the consumer price index, in accordance with the list: "Consumer Price Index for Sweden 1291-2006" collected November 6, 2012 at <http://www.riksbank.se/sv/Riksbanken/Forskning/Historisk-monetarstatistik/Priser/>

Kreuger realized that the accumulated Swedish capital could bring benefit and pay interest to a more expansive finance politic, and turn Sweden into a significant financial agent in the world economy. Leading Swedish politicians and economists started to talk about the second period of the Swedish age of greatness. Kreuger started by borrowing money directly or by emissions from almost all banks in Sweden. This helped his expansion endeavor, first in the Swedish match industry by merging the highly divergent Swedish match industry under his control. Then he expanded into the Nordic match industry and finally in the European match industry through buying shares to get the control interests of the companies through a straw man. When the Swedish banking system became limited in capital assets for his expansion endeavor, he came into contact with the London office of Lee, Higginson & Co., who was at that time a leading investment bank. With their help he joined the American market in order to attempt in creating a match monopoly through transferring large amount of American capital to European nations (Soloveytschik 1933; Cederschöld 1937; Partnoy 2010).

Kreuger was trusted not only because of his successful entrepreneurial history and private fortune, but also his calm and confident attitude that made it seem as if there was no problem which couldn't be solved. This attitude impressed most of the potential investors. Because of his personal capacities and the fact that he was successful in most of the emissions he promoted, many investors (small and large) came to invest in the large amount of emissions that he proclaimed during the 20s. The bulk of these emissions were financed by different kinds of shares and debentures, mainly participating and secured debentures. Most of the debentures were advertised in the USA (around 65%), then Sweden (around 15%), Switzerland (around 7%), and Great Britain (around 5%) (Glete 1981). In total 1,079.9 billion dollars⁵ was transferred to Europe from 1923 to 1932 by the International Match Corporation (IMCO) (a Swedish-American holding company established by Kreuger and Lee, Higginson & Co. in 1923) through selling debentures,

⁵ The monetary value was American CPI for 1959 converted to CPI for 2011 collected November 6, 2012 at <http://www.measuringworth.com/datasets/uscpire/result.php>.

securities, and share units to the American public (Shaplen 1960). IMCO was, in practice, controlled by Kreuger through STAB, because STAB controlled more than 50% of IMCOs shares (Byttner 1951).

However, for Lee, Higginson & Co., Kreuger gave them the opportunity for successful investments in US capital. They trusted Kreuger as a channel into war-ravaged Europe, with his plans of match monopoly in the world which Lee, Higginson & Co could take advantage of (Hassbring 1979).

Kreuger's general idea from 1925 onward was to offer concession loans to nations with a desperate need for capital through his holding company (Kreuger & Toll Inc) in exchange for a monopoly contract of the match production for IMCO or directly for STAB (Shaplen 1960). Kreuger's strategy was to offer a loan with interest of 5–6%, where around half of the profit of the match sale was given to the government. In return, the contract demanded that STAB got a monopoly contract running for 25–30 years on all match production in the nation, where the government was obligated to secure that no other entrepreneur could produce, deliver or distribute matches over the contract period (Thunholm 2003). This was a win-to-win situation for Kreuger as well as for a short-sighted government policy. But for the match workers it meant mass-unemployment; for the consumers it meant the price of matches doubled. In the long run for the nation it meant the price of matches rose up to 2.5 times more than the cost of living (Wikander, 1977).

THE SIGNIFICANCE OF PERSONALITY TRAITS

The political or social consequences of the monopoly contracts did not concern Kreuger. He was living up to the standards of a modern capitalist by conquering new markets, defeating competitors, and realizing his large projects with no other goal than to accumulate capital under his specific interests. According to the psychological analysis of Kreuger, he was a calm person, calculating, quiet and even shy; but extremely charismatic, highly intelligent, sophisticated and seemingly trustworthy. However, he had, at the same time, narcissistic traits including being emotionally distant, instrumentally engaged in his relationships and a lack of empathy for other people's feelings

(Bjerre 1932; see also Soloveyitchik 1933; Cederschöild 1937). Ivar Kreuger was the third child in a siblings of six. His father Ernest August was the fifth generation of a family emigrated from Germany. Ernest August was the opposite of an intellectual, a conservative man with both feet on the ground working as a factory manager in Kalmar (a small city in south of Sweden). A position that did not impress on Ivar. His mother Jenny Kreuger, born in South Africa, was an unruly dominant housewife bearing on the mental illness that were in her family. Jenny and Ivar did not always get along, because Ivar was considered as mysterious and coy with his poker face. Ivar was regarded as the black sheep in the family (Partnoy 2011).

According to the Swedish psychoanalysts Poul Bjerre (1932), Kreuger was an amoral person. He could, for example, engage in dangerous activities, such as during his adolescence when he threw gunpowder straight into open fire just for fun. He could also do 'good' things, like when he tried to cheat in exams for the interest of a classmate, even without any advantage for himself. Above all, he was driven by a desire for experimentation and risk-taking. When attending school for engineering studies, his class had an exercise on calculations for a bridge. He 'borrowed' a plan from one classmate and the calculations from another and handed it over to the professor as his own work. He passed the exam.

Kreuger's amorality was due to his lack of empathy. He could not feel pain, either physical or mental, such as being homesick. Cognitively he had a quite an extraordinary capacity for problem-solving, and an excellent memory, but on the other hand he was emotionally very cold. He was driven by his clear, cold and incisive logic. He was also quick-witted. Kreuger could immerse himself with every small detail, yet his ability to judge other people was strictly limited. He could be careless when it came to domestic finances, but not when it concerned financial projects.

Overall, Kreuger was a rather uncomplicated person. He had no inhibitions questioning his grand plans. No kind of self-criticism, no soul-searching, just a passion to advance for his own recognition. In his ambition, everything could be exploited for the 'good' of his projects. His organizational skills were just below the standard, but his capacity to combine different as-

pects in order to find solutions to problems was exceptional. If he found an acceptable solution on a financial problem, which stood in conflict to the law, he explained laconically before his board of trustees: "It's not me doing the wrong thing, it's the law that's imperfect." (Bjerre 1932, 166; Cederschöild 1937).

Kreuger was also very good at fitting in with various communities. When he was in Sweden, he lived as a Swede; when he was in America, he lived as an American; when he was in France, he lived as a Frenchman. According to Cederschöild (1937) this was an expression of Krueger's truly 'internationalism'. He did not like to identify himself as belonging to a specific nation. According to Bjerre, it is another example of Kreuger's absolute kind of isolated and opportunistic identity. He was capable of living comfortably in any context, without feeling any kind of psychological anguish. Another curiosity of Kreuger's character was the fact that he never got married, and so far as is known he had no serious plans to be married. According to rumors he had at least one mistress in most of the places in the world where he had an apartment: Stockholm, Berlin, Warsaw, Paris, and New York (Clikeman 2009). According to Cederschöild (1937) Kreuger was incapable of feeling love; he seemed to be distanced from his own feelings and what others felt for him.

All in all Kreuger showed some of the characteristics characterizing a psychopath as grandiose sense of self-worth, manipulative, lack of remorse or guilt and lack of empathy. To this we can probably add promiscuous sexual behavior and many short-term relationships (Babiak, Neumann, and Hare 2010)

THE KREUGER-GROUP

From the beginning of his construction engineering in 1908 with Paul Toll, Kreuger stipulated contracts which declared that if the building was delayed the construction company was forced to pay indemnity, but if the building was ready-built before the contract ran out the buyer had to pay a large bonus. In almost every construction project, they succeeded in completing the building before the contract ran out. They organized the labor force to work in such a way that the neighbors nearest to

the building sites complained about the noise throughout the day.

Another characteristic of Kreuger's leadership was the division of control of the companies. Kreuger took care of all kinds of strategic, accounting and financial issues for the company in question, but he let the daily operational activities be run by his co-workers, which he trusted, even if they were not very gifted or even competent. One example from 1931 is when Kreuger was suspected, questioned and even informally accused by the banks and the state bank of deceitful accounting in the Kreuger-group. None of the board members or CEOs reacted openly with suspicion or resigned from the boards although some of them must have been aware, afterwards, that the accounts showed serious liquidity problems and cover-up operations in several of the companies in the group. Thereby the board members were signaling to the market, to potential investors and politicians (for example the Swedish Finance Minister F. Hamrin) that the Kreuger-group was solid (Trolle 1992).

In the Price, Waterhouse & Coopers reports Kreuger's co-workers were characterized as either unswervingly loyal to Kreuger or just weak-minded people (ref. by Shaplen 1960; Arleböck 2000). Thereby, Kreugers dubious financial dealings could continue to save and keep up the business activities of the Kreuger-group by huge contributive loans from the Swedish banks through 1928–1930 (by around 256.3 billion skr, which was around 10% of the banks' total enfoldment) and from the Swedish State Bank in 1931 (around 396.75 billion skr equivalent with 2% of Swedish GDP 1931) until his suicide on March 12, 1932 (Gäfvart 1979). According to Gäfvart (1979) these huge contributive loans drained the Swedish business world of capital for other industrial investment opportunities. This weakened the financial position of the Swedish business world, forcing the Swedish government to abandon the gold standard in 1931 and caused political crises during the following years.

However, the board members of STAB, K&T and Dutch Kreuger & Toll and the CEOs in all the subsidiary companies and the accountants for each of the companies had little insight into the business maneuvers that Kreuger took in all issues concerning the Kreuger group as a unit. They also had no knowl-

edge or insight into other parts of the Kreuger-group other than the company that they were responsible for. Kreuger kept the information short in front of his co-workers and demanded that every kind of business transactions had to be treated with secrecy and without any objections. He, therefore, controlled almost everything on his own (Arlebäck 2000; Partnoy 2010). When he made a decision he most often did it without any explanations, even for highly respected and experienced board members, such as Donald Durant, Percy Rockefeller, Fredric Allen at Lee, Higginson & Co. and Oscar Rydbeck at Skandinavbanken. In fact, this kind of secretive dealings around the companies and business operations was acknowledged, accepted and unquestioned as part of the business culture at the time (Glete 1981).

Kreuger took advantage of this business culture and treated all companies and subsidiary companies as one corporate group, despite the fact that they belonged to different industries, different countries and were ruled by different jurisdictions. In some cases this could exceed the legalities, for example, when the Swedish Skandinavbanken demanded a reinforcement of their securities to extend the credits for the Kreuger-group in 1931. In order to do this, Kreuger transferred a position of German obligations with the value of 738 million dollars, belonging to the German department of IMCO, without reporting it to the board of IMCO and without taking notice that it was listed on the stock exchange in the USA. Of the 738 million dollars he transferred 443.1 million to Skandinavbanken and kept 295.4 million as a reserve for prospective demands (Trolle 1992).

EXAMPLES OF KREUGER'S SWINDLES

Kreuger's general business strategy was to use off-balance-sheets. From 1910, he derived the profit goals at the start of a project in which the final accounts had to be adjusted in order to impress potential investors. If the project needed extra profit margins, he contributed through overtaking an unsure demand from other projects in the Kreuger-group. The largest financial risk by doing this was when the project resulted in a bonus allocation before it had been realized. To be successful this strategy was used on a permanent expansion. The rake-off

for the current year was secured by the expectation of future profits for years to come (Glete 1981). In itself this was not an illegal strategy, but it was certainly a strategy that could lure one to act in an illegal manner if the conditions were right.

In fact, there were plenty of “right” opportunities for manipulation. One of the most well-known examples was the systematic manipulations for the accounts of American Kreuger & Toll Inc. (AK&TI). AK&TI was constituted in 1919 and had a significant position in the accounting of Kreuger & Toll Inc. (the Holding company). Generally, there was a lack of information for the investors in what kind of business AK&TI was involved in, and were given no more than the general description that it was concerned with the capital export of American capital invested in the German real estate business. This was, in fact, true and this was a rather good capital investment, because the price of real estate did not increase at the same pace as the German currency decreased which meant that the value of real estate increased in relation to the decreasing currency.

Formally, the profit of this trade was noted in the AK&TI accounts, but its substantial profit was not distributed to the investors in AK&TI. Instead, it was funding the Holding company, thus strengthening the credit standing of the Holding company toward the banks and the private investors for the 30% required rate of return. To cover-up the profit figures in AK&TI in order to increase the credibility for emissions through AK&TI, Kreuger used different kinds of securities as STAB-shares (which it turned out were fakes) in order to establish the credibility for AK&TI. These and other similar kinds of emission-phonies were successful for Kreuger, and AK&TI was noted for a value of 6 million dollars. However, in reality its joint stock was not more than 500,000 dollars. The reason Kreuger could continue with these kinds of manipulations was due to the non-transparency for investors and the substantial lack of information over how large Kreuger’s capital engagement was in the German real estate business. The investors and the regulatory agencies were referred to look only at the outcomes (Glete 1981).

A second example of his fraud was his selling of the telephone company L M Ericsson to the International Telephone & Telegraph Corporation for 11 million dollars, when the con-

troller for Price Waterhouse discovered that “about 27.5 million Swedish crowns listed as ‘cash’ actually consisted of claims against Kreuger companies.” (Wallerstedt 2001, 13). ITT wanted to cancel the contract and threatened to go to trial if he did not cancel the contract. After much pressure from ITT Kreuger chose to cancel the contract.

A third example of fraud was the annual fictitious income of 6 million dollars from Garanta (a Dutch subsidiary company in the Kreuger-group), which in reality did not operate any of the business at all. These three examples were, in fact, common examples of the way Kreuger controlled the accounts. He declared profits in the books, when in fact the profits had not yet been realized. He mortgaged and declared profits of the emissions as assets, without these having yet been realized and he mortgaged debts as assets to increase the credibility of the companies (Glete 1981). Much of these accounting operations were possible because, when Kreuger declared income and expenses in the books he used few, general and unspecified budget items which could mean practically anything (Gäfvert 1979).

Another way that Kreuger could continue to fraud the companies was through mixing up his own fortunes with the company's assets to finance a project. Quite often he'd sign a contract in his own name to hide the forthcoming affair from the competitors. After the contract had been officially declared he would transfer it to the interests of the actual company in the Kreuger-group, and reimburse his private expenses. The problem was that no one else actually knew how much money Kreuger spent signing the contract and how much money he reimbursed himself when the contract was officially declared.

AN EXPLANATION

Ivar Kreuger was, according to the literature, never sued over his lifetime. In the memoirs on him he is described as a gambler during his school years, prepared to take large risks against his and his acquaintances' best interests. Although a polished gambler when younger, his propensity for risk-taking became more grandiose over the years because of the financial resources he controlled. This preparedness to take risks was a static variable of Kreuger's. In fact, much of his eagerness in conquest can be

explained as a static variable, even if the successfulness of the conquest must be understood in the context of dynamic variables interacting with the static variables. At least one source suggests that Kreuger started to manipulate the accounts by 1917, and he continuously made manipulations until his death in 1932 (Glete 1981). If this is true then Kreuger was a career criminal⁶ for years, starting his criminal behavior at 37 years old and increasing his criminal activity up until his death at 52 years old.

Two other static variables of importance were Kreuger's amoral character and lack of empathy. In the psychological analysis of Kreuger, Bjerre gives evidence to describe him as anti-social. For instance, he lived without fear, and quite probably without guilt. He threw explosives into an open fire, bluffed his exams, showed no remorse for the consequences of his conquest plans, and expressing no soul-searching over the plans he made. Instead, he exhibited no feelings of fear or shame, just a calmness and restraint (or maybe better described as stoicism) as if there was nothing worth caring about. Cederschöld (1937) even described his social character as cynical. Through his attitude of "mind your own business" he could justify his criminal actions of falsified accounts (he had the right to do it), and in front of others he simply told nothing of the state of the companies' finances.

Other static variables when discussing his personality was his alienation from society and his opportunistic identity which allowed him to adjust to circumstances without showing any obvious psychological anguish, such as his ability to settle anywhere in the world. Instead he focused all of his attention on work and his aim to conquer and create a match monopoly across the globe through permanently negotiating loans, takeovers, offering emissions, debentures, etc. He was, in this sense, a true international businessman captured of the spirit of capitalism.

Linked to the above static variables is the fact that he had no children and was never married, which is identified as one basic protective factor toward criminality (Laub and Sampson 2003). By this, he simply had no one else to take care of, except the

⁶ A career criminal is a person who have done at least four crimes or more during his life-time (Piquero, Farrington, & Blumstein, 2007:132-135).

rather superficial relationships with his mistresses and family in Kalmar (which he visited only at Christmas time). The only person he took care of, to some extent, was his youngest sister Britta, who visited him several times in Paris and London. Overall, he held, as far the literature tells it, a very discretionary attitude toward his family when discussing his business activities, even with his younger brother Torsten, who was known as a successful businessman in Sweden (Trolle 1992). He stood alone with his feelings, probably caused by his discretionary attitude (refusing intimacy) and his preoccupation with work. Thus, to him there was nothing else of equal importance to his work. This says something about Kreuger's history of employment (counted as another protective factor of significance toward criminality). Kreuger was never unemployed during his lifetime, which does not mean that he was a wealthy man from adolescence, but that he received a regular income from the labor market from an early age (Thunholm 2003).

Given the impact of these static variables and how they interact with the institutional setting at the time that Kreuger came into the business world, it is seen as a crucial link in explaining how Kreuger could progress his career. Obvious cultural factors such as the optimistic era of capitalism which encouraged entrepreneurship of all kinds were one factor of importance for the decade of 1910 to 1920. Another important cultural factor was the acceptance of monopolies in business, especially in the European nations. A third important factor was the acceptance of un-democratic business-dealing with accounting and hidden decision-making. A fourth important institutional factor was the political reconstitution of the European nations after World War I, where the demand for expensive social reforms required capital from the governments. Some of the requests were hard to meet because of the absence of capital in several European nations. When a request could be met, this created a fifth kind of institutional factor, by the rather well consolidated but limited Swedish banking system and by the US financial system which contended with an over-abundance of capital which wanted to be invested profitably somewhere.

All these institutional factors created an ideal setting for Kreuger. He was raised in an entrepreneurial family which held entrepreneurial values. He was encouraged by the markets to

build a monopoly which suited his psychological fixation of conquering the world. Especially through the latter institutional setting he could perform as a hero through saving the world with his conquest, yet eagerly at the same time guaranteeing high profits for the Krueger-group and high revenues for investors.

An example of higher immorality could be shown when the expectation of business, given by Lee, Higginson & Co., was a claim that everything “that worked” was “good business”, especially such business that avoided taxes and met a required rate of return of around 10%. This type of ‘good business’ was accepted without any further questions or explanations needed (Shaplen 1960; Glete 1981).

Kreuger became known as a trustworthy person and reliable profit-maker regardless of the business cycles. When war-ravaged European nations needed large and relatively quick loans, Kreuger was already in a position of being a resourceful financier with significant contacts in the market. Encouraged by the monopoly-building culture, he saw a chance to take control over the match industry. His willingness to take risks helped these circumstances flourish. By using his capacity for problem-solving he could hide eventual unprofitable deals through transferring money between accounts from different companies in the Kreuger-group and cover it up. He could avoid detection partly because he was charismatic and the public trusted him, and partly because of the highly undemocratic structure of the business culture. One could say that the goal of profit maximization was, for Kreuger, not only a goal for the corporation but also a goal for his own ego (Braithwaite 1988).

Other dynamic variables at organizational levels were the recruitment of board members and CEOs to the subsidiary companies that was more or less unswervingly loyal to Kreuger or just incompetent in managing a company. For a conspiracy-driven author this variable could give the impression that Kreuger planned to swindle companies long before he was alleged to have done it, by recruiting members that he knew would keep quiet or be too ignorant to understand his plans. To some degree this is true, as in the case of Garanta, who was managed by a person who looked like ‘Santa Claus’ (Partnoy 2011). But, in general, I do not find this explanation probable

for the whole Kreuger-group. We have to be aware that even if Kreuger had some exceptional cognitive capacities, he also had negatively corresponding capacities through his lack of empathy inability to show emotion, and his poor organizational skills. He probably could not recruit the right man for the right job, and by his attitude of discrete politeness and even shyness (probably related to his fear of conflict) he recruited those who seemed to be the most eager to work for the financial 'wizard'. Other people, who demonstrated both competence and those who had the experience to run a company such as Lee, Higginson & Co. board members or board members in the Swedish banking system, were loyal to Kreuger because of his calm manner, his charisma and his reliability to deliver profits.

THE CONSEQUENCES

There are just a few examples of the consequences of his risky business and swindles which are best illustrated when Kreuger took over the Estonian match market in 1928. The overtake was managed through a typical two-front strategy of Kreuger, first through a price competition when STAB prohibited Estonian match producers to get into the British market to secure STAB's own market shares. Secondly, by over taking each of the Estonian match factories by a straw man under direct direction of Kreuger. In all this lead to an increase of match prices by three times, and an increase of two times of the Estonian living expenses. Simultaneously, as the number of labor forces in all the Estonian match factories decreased by nine times (from 450 to 50 workers), the Estonian match production was obliterated and the match production was replaced by imports from Sweden (Wikander 1977). With no specific numbers for other nations it's hard to say what the consequences were exactly. However, taking the Estonian match market as an example of Kreuger's match monopoly strategy, the effect must have been considerable because the price increase of matches pressing living expenses and the rationalization of decreasing labor force were two standing elements in Kreuger's strategy.

However, the deepest social consequences of Kreuger's business strategy were most likely given in the financial field, especially through the damages caused by Kreuger & Toll going bankrupt in 1932. The Swedish banking system, which had

lent large sums of money, were not damaged; they got their accumulated values and money back. Also, several big business leaders in Swedish business such as Axel Wenner-Gren and Marcus Wallenberg even made a substantial profit in the bankruptcy of the Kreuger-group. However, private investors (mostly from the middle class) were reimbursed only 0.0798% of the total debt of 1 billion skr by the bankrupt estate (Arlebäck 2000; Shaplen 1960). According to Arlebäck, the majority of the private investors were from America and England and only a small part from Sweden. Yet, according to Shaplen, the majority of the private investors were middle class Swedes, roughly indicated by their annual tax declarations showing a 10% decrease of their capital income as a group. In fact, counting on the decrease of capital income from 1931 to 1933 when the aftermath of Kreuger's fall was most notable, the decrease was 15.34% ,a decrease from 414.7 million skr to 350.8 million skr (*Historisk statistik för Sverige Statistiska översiktstabeller*, 1960). According to the report on living conditions and household income (*Levnadsvillkor och hushållsvanor i städer och industriorter omkring år 1933*, 1938:49) this decrease in capital income had no significant effect on the living conditions for households, but for the Swedish companies, they experienced a drastic income of capital decrease of 67.7% between 1931-1932 (*Historisk statistik för Sverige Statistiska översiktstabeller*, 1960).

However, the known consequences of the Kreuger crash are the legal consequences. In USA, the Securities Act of 1933 introduced by President Franklin D. Roosevelt was a direct consequence of the Price Waterhouse Coopers report on Kreuger. This act stated that the investor's primary goal was to ensure that they gave complete and truthful information on the securities they offered to sell, something that Ivar Kreuger's business plan did not do. The year after, the Securities Exchange Act of 1934 was introduced to forbid buying and selling orders that had too rapid a turnover, which gave the impression of active trading (Clikeman 2009). This was a specialty that Kreuger used in many of his emissions over the years. Also, in Sweden, the Kreuger crash led to legal consequences such as the introduction of The Companies Act of 1944, which stated that public accountants should become compulsory in listed companies,

signing the balance sheet in the single company as well as between the parent company and its subsidiaries (Wallerstedt 2001).

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