

Bilateralism and Bargaining Power. Belligerent Germany and the Small Country of Sweden during the 1930's¹

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In this article the nature of German trade policies during the 1930s is re-examined². Drawing evidence from the German-Swedish case of bilateral trade agreements in the 1930s, the paper argues that small countries had opportunities to benefit from bilateral trade agreements, depending on how they drew up the agreements and whether they were willing to make some concessions to Germany in return. The German-Swedish agreements evolved from broadly-written and incomplete contracts into detailed specific contracts that placed the bargaining power between the two countries on an equal footing. The results in this paper confirm Wittmann's and Milward's findings on German endeavours to cooperate with its trade partners.

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² While scholars such as Frank C. Child, *The Theory and Practice of Exchange Control in Germany: A Study of Monopolistic Exploitation in International Markets*, *International Scholars Forum*, 10, (The Hague 1958), Albert O. Hirschman, *National Power and the Structure of Foreign Trade*, 2, expanded edn., *The Politics of the International Economy*, (Berkeley, Calif.: Univ. of California P., 1980), Arthur Schweitzer, "The Role of Foreign Trade in the Nazi War Economy," *The Journal of Political Economy* 51, no. 4 (1943), represent the conventional view that claims that Nazi trade policies exploited smaller European countries, the recent hypotheses represented by Alan S. Milward, "The Reichsmark Bloc and the International Economy," in *Der "Führerstaat": Mythos Und Realität: Studien Zur Struktur Und Politik Des Dritten Reiches*, eds. Gerhard Hirschfeld and Lothar Kettenacker, *Veröffentlichungen Des Deutschen Historischen Instituts in London* (Stuttgart: Klett-Cotta, 1981, 1981), Larry Neal, "The Economics and Finance of Bilateral Clearing Agreements: Germany, 1934-8," *Economic History Review* 32, no. 3 (1979), A.O. Ritschl, "Nazi Economic Imperialism and the Exploitation of the Small: Evidence from Germany's Secret Foreign Exchange Balances, 1938-1940", *Economic History Review* 54, no. 2 (2001), who claim there is no clear evidence of exploitation.

1. Introduction

The bilateralism of the 1930s is commonly regarded as an aggravating factor contributing to the disintegration of the world economy¹. The conventional view on interwar bilateralism is that it originated from the economic policies of the Weimar regime, with the introduction of the exchange controls that sought to balance Germany's payments to foreign creditors². According to Child, Schweitzer, Einzig, Petzina and others, however, bilateralism was a German initiative and an offspring of the Nazi regime's aim for autarchy³.

According to Ellis and Child, the control system became an appropriate platform for the Nazi aspiration for political and economic hegemony on the European continent. Biased bargaining power enabled Germany to force the bilateral clearing agreements onto its small trading partners. By doing this, Germany emerged as a bilateral monopolist and strengthened its position at the expense of its smaller partners⁴.

The exploitative German policies were reported by contemporary observers, such as Einzig and Schweitzer. The monopoly power perspective, however, was put forward by Hirschman in 1945⁵. By analysing the pattern

¹ Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton, NJ: Princeton Univ. Press 1996), p. 88.

² Howard S. Ellis, *Exchange Control in Central Europe*, *Harvard Economic Studies*, 69 (Cambridge, Mass.: Harvard Univ. Press 1941).

³ Schweitzer, "The Role of Foreign Trade in the Nazi War Economy.," Dieter Petzina, *Autarkiepolitik Im Dritten Reich: Der Nationalsozialistische Vierjahresplan*, *Schriftenreihe Der Vierteljahrshefte Für Zeitgeschichte*, 16, (Stuttgart 1968). By minimising the interface with the volatile capitalist economies in the Western world, the influence from slumps was reduced.

⁴ Child, *The Theory and Practice of Exchange Control in Germany: A Study of Monopolistic Exploitation in International Markets*, Paul Einzig, *Bloodless Invasion: German Economic Penetration into the Danubian States and the Balkans*, (London: Duckworth 1938), Ellis, *Exchange Control in Central Europe*, Hirschman, *National Power and the Structure of Foreign Trade*.

⁵ Paul Einzig was born in Hungary 1897 and moved to England in 1919 to study economics; in 1921 he began his career as a journalist at the *Financial News*. He wrote a number of publications, most of them on financial issues. Hirschman's *National Power and the Structure of Foreign Trade* was re-edited in 1980 with an extended theoretical appendix. Hirschman, *National Power and the Structure of Foreign Trade*.

of German foreign trade, Hirschman concluded that German trade frequently exceeded that of its partners in its bilateral exchanges. From this, Hirschman sketched a monopoly power theory from which he deduced that Germany gained the advantages of a monopolist. Bilateral agreements enabled Germany to exploit its smaller trading partners, hence the drive for bilateralism. More importantly, this became the foundation of the conventional hypothesis which was adopted by, for instance, Child⁸, who claimed that the German monetary authorities manoeuvred the composition and the terms of trade in their own favour, at the expense of their partners. The usually-stated evidence of the exploitative German policies has its foundations in the pattern of bilateral relations between Germany and central and southeast European countries (the Reichsmark bloc). The growing commerce within the bloc has been interpreted as one of the results of German economic penetration of the East, marking the beginning of the imperial political and economic ambitions of the Third Reich⁹. However, since archives have been opened to the public, new sources (such as government and business documents and diaries) have been used, which seem to contradict the conventional hypothesis. For instance, in 1979 Neal concluded that there is no clear archival evidence that Germany's bilateral relations were biased towards a German advantage. According to the monopoly theory, the terms of trade for Germany should have risen; instead they fell, and there were no changes in the pattern and composition of trade that could be derived from Nazi foreign economic policy¹⁰. Moreover, in 1981 Milward argued that the basis for a trade

⁸ Child, *The Theory and Practice of Exchange Control in Germany: A Study of Monopolistic Exploitation in International Markets*. Child's conclusions were derived from data on Germany's terms of trade, exchange balances and cash revenues.

⁹ Germany's trading bloc partners during the 1930s were Bulgaria, Greece, Hungary, Romania, Turkey and Yugoslavia. Milward, "The Reichsmark Bloc and the International Economy," p. 377. According to Volkmann, the penetration of the South-east was initiated in 1933. This marked the first step to annex adjacent countries to a German *cordon économique* in the preparations for war. Hans-Erich Volkmann, "Aussenhandel Und Aufrüstung in Deutschland 1933 Bis 1939," in *Wirtschaft Und Rüstung Am Vorabend Des Zweiten Weltkrieges*, ed. Friedrich Forstmeier and Militärgeschichtliches Forschungsamt, (Düsseldorf: Droste 1975), pp. 82-85.

¹⁰ Neal, "The Economics and Finance of Bilateral Clearing Agreements: Germany, 1934-8."

offensive on foreign markets was overthrown when the Nazis came into power. The Hitler regime's high priorities for the national economy were strengthened in the interests of foreign policies. Germany's difficulties in competing in international trade, due to the overvalued *Reichsmark* (RM), forced Germany to seek cooperation rather than conflict¹¹.

Furthermore, in 2001 Ritschl re-examined German strength in its bilateral exchanges with smaller ("weaker") countries. By applying the means of measurement used by Child on, until then, unused sources, Ritschl conducted an analysis of Germany's net inflow of convertible cash reserves from a supposedly "weak" country. Ritschl found that Germany's bilateral exchanges with its smaller partners frequently resulted in deficits. However, according to Ritschl there was one exception, namely Sweden¹².

1.1 The Case: the Small Country of Sweden and Belligerent Germany

The case regarding Sweden and Germany differs from that of Germany and South-eastern Europe. For instance, unlike the Balkan countries, Sweden was positioned on the periphery of the sterling bloc, both economically and politically. Moreover, Germany did not have a monopoly over the Swedish market during the interwar period, which undermines the monopoly theory. Nonetheless, the Sweden-Germany case has significant similarities to the Germany-South-eastern Europe case. Sweden was a small country, rich in raw materials and earning convertible currencies, and became of strategic interest to the German rearmament programmes and the subsequent trade offensive initiated in 1936. Similarly, Sweden and Germany had concluded a bilateral exchange clearing agreement, by means of which Germany may have

¹¹ Milward, "The Reichsmark Bloc and the International Economy." p. 401.

¹² According to Ritschl, Germany managed to extricate currency from Sweden. This may be interpreted as a result of an exploitative German policy, similar to the German - South-East European case. Ritschl, "Nazi Economic Imperialism and the Exploitation of the Small: Evidence from Germany's Secret Foreign Exchange Balances, 1938-1940."

acquired tools to implement its exploitative policies. Hypothetically, this line of interpretation is confirmed in the literature on the subject. According to Child and Ellis, German exploitation of the South-eastern European countries was evident in the biased terms of trade in favour of Germany, and in a shift in the composition of trade. Wittmann's work on German-Swedish economic exchange during the 1930s shows that there was a shift in the composition of trade between Sweden and Germany: for example, Sweden took on a subordinate role as a supplier of raw materials to Germany, but there was also a significant shift in terms of trade, in favour of Germany. Thus, this may be regarded as a result of an exploitative German policy towards Sweden. According to Wittmann, the Swedish market was "gently" annexed to the German continental economy, as has been stated to be the case with the South-east European countries, by those who continue to adhere to the conventional view¹³.

Unfortunately, Ritschl leaves this subject unchallenged by referring to Wittmann's detailed study of German trade policies on the Swedish market. However, with regard to the political nature and motivation of Germany's bilateral agreements, Wittmann, in turn, leaves the issue open for interpretation. On the one hand, the quantitative data that address

¹³ Klaus Wittmann, *Schwedens Wirtschaftsbeziehungen Zum Dritten Reich 1933-1945*, 1. Aufl. ed., *Studien Zur Modernen Geschichte*, 23, (München: Oldenbourg 1978), pp. 110-111. This conclusion concurs with Baker Fox's interpretation of small-state behaviour during the war. According to Baker Fox, Sweden adopted an intense-negotiating method by putting the German demand for Swedish raw materials in the balance. Germany would not risk being deprived of valued goods that Sweden possessed. Annette Baker Fox, *The Power of Small States: Diplomacy in World War II*, (Chicago, Ill.: Univ. of Chicago Press 1959), pp. 1-9. See also Bengt Nilson, *Handelspolitik under skärpt konkurrens: England och Sverige 1929-39*, *Bibliotheca Historica Lundensis*, 58, (Lund: LiberFörlag/Gleerup 1983), who has examined the British and German competition on the Scandinavian markets during the 1930s. See also for instance Martin Fritz, *German Steel and Swedish Iron Ore 1939-1945*, *Meddelanden från Ekonomisk-historiska institutionen vid Göteborgs Universitet*, 29, (Göteborg 1974), Sven-Olof Olsson, *German Coal and Swedish Fuel 1939-1945*, *Meddelanden från Ekonomisk-historiska institutionen vid Göteborgs Universitet*, 36, (Uppsala: Almqvist & Wiksell 1975), who have examined the exchange of strategic resources such as iron ore, fuels and steel. Fritz and Olsson conclude that the German-Swedish markets became interdependent.

the effects of the exchange support the conventional hypothesis. On the other hand, Wittmann's qualitative analysis, which addresses the rationale of the exchange, suggests that Sweden had a relatively strong bargaining position. This article is based on the assumption that both views may be correct. It is argued here that small countries such as Sweden had opportunities to gain from the bilateral agreements. However, the purpose, design and application of the agreement were of great importance to make it benefit the small country. In all probability, small countries made concessions to German bargaining offers, but Germany made concessions as well (as it takes two to conclude a continuous bilateral agreement). Therefore, losing in one sector may have been acceptable, if there were other gains, of a higher priority, that balanced the losses. Research on German trade policies, too, has been restricted to analysing the effects of the exchange in terms of winners and losers. However, before we can evaluate Germany's foreign economic policies, we need to study not only the economic macro-level effects of the bilateral agreements, but also the motives for entering into a bilateral relationship, from the point of view of contemporary politicians, government representatives and diplomats¹⁴.

Contractual theory offers suitable tools for analysis. Here, contracts are analogous to agreements, which, in turn, may be regarded as institutions that mitigate risk, uncertainties and transactions costs. The bilateralism (i.e. the payment and the clearing agreements) of the 1930s is, indeed, an excellent example of risk management by formalising institutions. In times of rapid change (in prices) or crisis, risks and transaction costs tend to increase and economic performance is put at risk due to these obstacles. However, such obstacles may be mitigated

¹⁴ Surprisingly enough, there has been little research done on interest groups. What role did they play during the period? Interest groups reflect economic conditions. According to Rogowski a country's economic structure creates political alignments that affect the policies in a direction that favours their own interests. Thus, we know what to look for and how to analyse it. Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments*, (Princeton, N.J.: Princeton University Press 1989). See also Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, (New Haven: Yale U.P. 1982).

depending, firstly, on the efficiency of the existing institutional framework, and, secondly, on the capacity of traders and financiers to bridge conflicting interests by formalising issues involving risks and/or issues associated with high transaction costs; i.e. by concluding new agreements, new institutions are created¹⁵.

Contracting parties always differ in needs (or else they would have been fully satisfied to go along with established practice and/or verbal agreements). The greater the divergence, the higher the risk aversion or the higher the incentives for opportunistic behaviour (one party may be better off than the other), the greater is the need for formal, specific "rules"¹⁶. Thus, in an attempt to retain international commerce, the bilateral agreements offered new rules that explicitly encompassed rights and obligations, hence reducing risks, uncertainties and transaction costs.

As negotiating parties seek to formalise issues at risk or those associated with uncertainty or high transaction costs, these issues become objects for negotiations and agreements. Thus, bargaining positions, as well as the design and content of the agreement, indicate the parties' motives to conclude an agreement. By analysing the German-Swedish agreements – the motives, the diverging or perhaps coinciding interests, as well as the exercise of bargaining power – the nature of the German foreign economic policies may be identified.

¹⁵ See chapter 1 in Oliver Eaton Williamson, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, (New York: Free Press 1987).

¹⁶ Theoretically, if the interests diverge to an extent that the parties cannot meet, or if the agreement seems unprofitable, the least favoured party will seek an exit from the agreement. Thus, all agreements are based on mutuality and trust. However, to safeguard against violations of agreements, formal agreements are combined with explicit rights to impose sanctions. The greater the interests, the more the interests diverge or the higher the risk aversion, the more explicit and vigorous the sanctions are. Long-term relations interlink markets and make exiting harder, and if one party considers the agreement inefficient, it will either try for adjusted terms or exit the agreement by violating it, if the gains from the violation exceed the effects of the sanctions. However, this was not the case for Germany. Although the bilateral agreements were concluded at a government level, trade was still performed by traders, and it is unlikely that the traders would have accepted unfavourable terms in a continuous exchange. Moreover, there is no evidence from the literature that any state imposed sanctions within the bilateral exchange.

1.2 The sources

This article is based on internal trade, financial statistics and documents that originated from trade between Sweden and Germany. Empirically, the German-Swedish bilateral exchange clearing agreement consisted of several agreements on different levels. First, there was a general agreement which was accessible to the general public. This agreement created the framework for economic exchange, as it pointed out basic principles. Secondly, when this was applied, a number of sub-agreements were added to the general agreement. These agreements were concluded in various forms of protocols: revisions and additions that related directly to the general agreements. The former carried very little information of significance, while the latter were highly substantial, although, at the time, the sub-agreements were strictly classified. The disapproval of the other creditor nations regarding the Swedish demand for full payments on the Kreuger loan was deemed to require precautions: French or English intervention in the negotiations between Germany and Sweden might have affected the outcome negatively for the Swedes. These agreements were frequently re-negotiated by government or accredited business representatives.

Thirdly, the applied Swedish-German bilateral exchange clearing required a well-organised bureaucracy to supervise and monitor the exchange in accordance with the general agreement and particularly the sub-agreements. The Swedish bilateral clearing exchange was administered by the Foreign Office and the Clearing Office, under the Swedish Central Bank. The archives contain raw and computed statistics, as well as prognoses and trends on the bilateral exchange clearing. Today the archives are open to the public at the National Archives in Stockholm.

The following section (2) provides a general outline of the background of the bilateral agreements of the period. In section 3 the German-Swedish bilateral exchange is analysed, from the first negotiations in June 1933 until the agreement was signed in December the following year. The initial bargaining positions, as well as the outcome of the negotiations and the putting into practice of the

agreement are analysed. In section 4 the structure and composition of the trading is presented and commented on in brief. In section 5 conclusions are presented.

2. The Origin of Bilateralism

According to the conventional hypothesis, bilateralism was a German initiative. Indeed, it may well have been a German initiative directed to the countries of central and south-eastern Europe. Germany was the monetary as well as the financial centre of the Reichsmark bloc, and when the crises hit Europe, Germany became the bloc's creditor while its bloc partners became vulnerable debtors. As we shall see, bilateral trade and payment agreements offered the sets of rules required both to extricate financial claims and maintain trade and payments.

As far as the Western European countries and Germany are concerned, however, the initiative came from the other direction. During the 1920s Germany was a major market for foreign investments and aid for both private financiers and international economic recovery ventures such as the Dawes and the Young programmes. Germany entered the 1930s highly indebted. In July 1931 the Reichsbank estimated Germany's total foreign debt to be 23.5 billion RM¹⁷. The impact of the liquidity crisis and the Great Depression was clearly evident in German foreign trade and its monetary reserves¹⁸. The German trade surpluses of 1929-33 became deficits in 1934, and during 1931-33 German monetary reserves were drained¹⁹. As we know, the Weimar Regime and the succeeding Nazi

¹⁷ Håkan Lindgren, "Sverige och den tyska finanskrisen i början av 1930-talet", Conference Paper ("Norden i handelspolitiska maktkampen 1919-1939"), (Gothenburg 2002), p. 11.

¹⁸ Knut Borchardt, *Perspectives on Modern German Economic History and Policy*, (Cambridge: Cambridge University Press 1991), pp 144-148. Gabriel Kielland, *Fra fri valuta til vlearing: En oversikt over valutaclearing-systemets utviklingshistorie*, (Oslo 1945), p. 63.

¹⁹ In 1930 the Reichsbank's assets amounted to 2.8 billion Reichsmark. In December 1934 only 7 per cent of these assets remained. "Auswärtiger Handel. Die deutsche Handelsbilanz: Überschuss im Reinen Warenverkehr"; "Gold und Deckungsdevisen. Reichsbank und Privatnotenbanken." *Statistisches Jahrbuch Für Das Deutsche Reich*, (Berlin: Statistisches Reichsamt 1936). See also C. W. Guillebaud, *The Economic Recovery of Germany from 1933 to the Incorporation of Austria in March 1938*, (London 1939), pp. 20-31.

Regime acted vigorously. The exchange control in 1931, the standstill agreements of 1932 and, in particular, the moratorium of 1933 that prohibited payments to foreign creditors were considered an act of discrimination by the creditor nations. Of course, the Western European creditors reacted to German economic policies.

The foreign creditors appointed a committee composed of government as well as business representatives to work out and negotiate a long-term solution to extricate their financial claims. One of the first meetings was held at the World Conference in London in January 1933²⁰. The committee advocated joint action. By imposing compulsory unilateral clearing agreements, the creditors would acquire substantial means to counter the German moratorium. This suggestion may appear dramatic, but during 1931-32 several countries associated with the committee (Belgium, France, Great Britain, the Netherlands, Sweden and Switzerland) experienced trade deficits with Germany²¹. Specifically, Germany had export claims on these creditor countries, which the creditors could threaten to freeze legally by imposing a unilateral compulsory clearing law to force Germany to settle the financial claims. These assets could be expropriated and distributed to the creditors, but, more importantly, such a law provided the creditors with bargaining power²².

It was acknowledged among the creditors that Germany's capacity to carry out fully its financial liabilities was limited. With the reparations in mind, the creditors commenced negotiations internally to work out a realistic payment plan. There were several reasons for this. Firstly, the creditors realised that Germany's limited monetary reserves made it impossible for the country to fulfil completely all the financial claims which were coming

²⁰ National archives (NA). Utrikesdepartementets arkiv (UD). H 90 Ct, Vol. 2187a. PM beträffande Kreugerlånens likställighet med andra tyska rikslån, 7 Dec. 1914. The main forum for the continuous discussions was the newly formed financial organization, the Bank for International Settlements.

²¹ "Der auswärtige Handel nach Erdteilen und Ländern (Reiner Warenverkehr)", *Statistisches Jahrbuch Für Das Deutsche Reich*, (Berlin: Statistisches Reichsamtsamt 1933).

²² Wittmann, *Schwedens Wirtschaftsbeziehungen Zum Dritten Reich 1933-1945*. pp. 49-52; Centre for Business History in Stockholm. Svenska bankföreningens arkiv. F1, 116. Det tyska transfer-läget medio januari, 15 Jan. 1934

due.²³ In the main, the claims were divided between government loans and private claims. The private claims differed in size, terms and value, and above all they were distributed among private claim holders, while the government loans, which generally derived from international joint ventures undertaken in the 1920s such as the funding of the German recovery programmes, were approved by the Germans and were relatively easy to settle. Moreover, these loans were guaranteed by governments, while the holders of private claims had a relatively weak bargaining position, as they were represented by single intermediaries such as banks²⁴. Countries like England and France advocated that government loans should be settled and that private claims should be left out of the payment plan.

From a Swedish point of view, this was unacceptable. The reason for this was the Swedish Kreuger loan, which was granted on a private basis in 1929²⁵. It was, by definition, a private claim, but since it was a long-term loan with low interest rates, its terms and conditions had significant similarities to the government loans²⁶. But neither the Germans nor the

²³ Private claims were a major target of the German monetary policies. The Germans made frequent efforts to lower liabilities through standstill agreements and reduced interest rates. The passing of the Emergency Decree of December 1931 laid the foundation for these policies. In 1934 the Dividends Limitation Law prohibited the cashing of dividends in excess of 6 per cent. Instead, dividends exceeding this rate were to be paid over to the Gold Discount Bank, for investment on behalf of the stockholders in Government bonds, to be distributed in 1938. Of course, the purpose was to keep the money in Germany. Guillebaud, *The Economic Recovery of Germany from 1933 to the Incorporation of Austria in March 1938*, pp. 24, 28-29 and 76-77.

²⁴ NA. UD. H 90 Ct, Vol. 2183. PM. 19 June 1933; Rapport från den svenska förhandlingsdelegationen, 22 June 1933.

²⁵ The Kreuger loan amounted to 125 million dollars and was granted by the Swedish Match Co. (the parent company of the Kreuger Group). In exchange the company was granted a monopoly in the German match market. In January 1930, at The Hague conference, when the participants in the Young plan met, the Kreuger loan was linked to the Young plan. In the opinion of the Kreuger Group this agreement equated the Kreuger loan with the Dawes- and the Young loan. NA. UD. H 90 Ct, Vol. 2183. PM. 19 June 1933.

²⁶ From a Swedish perspective, the amount at stake was considerable, and therefore the Swedes could not submit to the English and French position. In November 1934 government loan claims amounted to 143 million USD while private claims totalled 265 million USD. The Kreuger claim was the largest separate claim (101 million USD). The Swedish financial claims amounted to about 259 million USD – to be compared with the active turnover volume of Swedish-German trade which amounted to 113 million USD in 1934.

other creditors approved of the Kreuger claims. From the point of view of the creditors, the Swedish demands endangered the payment plan since they would have created precedents for other holders of private claims to raise similar demands. The Germans, for their part, saw an opportunity to reduce their financial liabilities²⁷. In view of the fact that Sweden and the more influential England and France differed in opinion as well as in bargaining power, Sweden chose to leave the joint negotiations²⁸.

2.1 The German-Swedish Bilateral Exchange Clearing Agreement Negotiated and Concluded

In June 1933 the Swedish negotiators put forward demands for full payment of all claims coming due, the Kreuger loan in particular. The negotiations were strictly classified to avoid interference from other creditors who did not approve of the Swedish claims. The Swedes adopted the means of pressure that had been discussed at the joint creditors' negotiations, albeit in a modified form. During the joint creditors' internal negotiations, a continuous bilateral clearing exchange agreement was suggested by the Swedish trade bureaucracy. It could be designed to bridge the diverging interests. But more importantly, it could constitute the basis for a new set of rules, as well as a formalisation of mutual incentives for continuing negotiations. Further, since it was formally autonomous, the terms and conditions of the agreement were under no influence from other creditors²⁹.

²⁷ Wittmann, *Schwedens Wirtschaftsbeziehungen Zum Dritten Reich 1933-1945*, pp. 72-80; NA. UD. II 90 Ct, Vol. 2183. Memo on the 6 % external loan of 1930 (Kreuger), 24 June 1933.

²⁸ The Swedish creditors were mobilised in the financial interest group, the Swedish Bankers' Association (*Svenska bankföreningen*). The Association was accredited by the Swedish government to act in the creditor negotiations with the English and French government and business representatives. Regular diplomats generally lacked the experience needed to participate in negotiations on financial or trade issues, while the business representatives (such as the banker Jacob Wallenberg of the *Stockholms Enskilda bank* and Petrus Brundell, head of the Association) were highly experienced and skilled negotiators. NA. UD. H 90 Ct, Vol. 2187 A, PM beträffande Kreugerlånets likställighet med andra tyska rikslån, 7 Dec. 1944.

²⁹ NA. UD. II 90 Ct, Vol. 2185. Rapport från Svenska beskickningen i Berlin, 1 July 1933.

In order to force the bilateral agreement on the Germans, the Swedish negotiators advanced an unconditional demand: if the Germans did not fulfil their financial liabilities fully within the framework of a bilateral agreement, Sweden would freeze and expropriate all German assets in Sweden by imposing a unilateral compulsory clearing agreement. At the time, the Swedes apparently considered risking a breakdown of the Swedish-German economic exchange to be far less expensive than accepting a discriminating German economic policy.

Although the Germans initially rejected the Swedish demands, the negotiations continued. The Swedish government were of the opinion that the Germans had to choose between risking an economic war with Sweden or accepting the Swedish bilateral agreement. If Germany chose conflict, other states might adopt the Swedish methods, as had been evident at the joint creditor negotiations, and this could eventually result in isolating the German economy. On the other hand, if Germany accepted the bilateral agreement, new negotiations had to be started, in which Sweden had to meet German counter-demands. Germany could thereby affect the setting and the outcome of the negotiations. On this basis Germany accepted the Swedish demands⁴⁰.

The German-Swedish general bilateral clearing agreement was signed in August and in December 1934. The agreement encompassed principles and rules for trade and payments on the financial claims, as well as the right to impose sanctions if the agreement was violated. Rather than setting out specific goods and quantities for exchange, the initial agreement was designed more as a broad framework for drawing up future agreements. However, there were also practical reasons. A framework allowed the negotiators to update and adjust the agreement when problems occurred. On a practical level, it was impossible to identify, predict and forestall all the eventual problems in the economic exchange. The contractual design required continuous negotiations to monitor the exchange in line with the agreement. On both sides, task groups were formed to negotiate trade and payments issues, and also to analyse trends, gather information and make

⁴⁰ NA. UD. H 90 Ct, Vol. 2185. PM rörande det tyska transfermotoriet, 28 June 1933.

strategic recommendations to their respective governments. In Sweden the organisation was made up of diplomats and businessmen. The organisation, named the Government's Committee (*Regeringskommissionen*), was active until the end of World War II.

The agreement was characteristic of the period³¹. The basic principle of the German-Swedish agreement was that Germany was to have a regular bilateral trade surplus, such as it had traditionally enjoyed. Bilateral equilibrium was defined in terms of the trade surplus, assumed to amount to about 90 million RM (137 million *svenska kronor*, SEK). The volume and composition of trade was to be decided by each country respectively. Since the exports of both countries had to develop proportionally (to avoid clearing deficits), the German import plans became the yardstick. This meant that Germany announced future import commitments, so that the initiative was in the hands of the Germans³².

All German-Swedish cross-border payments were to be made within the bilateral clearing. Two interlinked accounts were established in the central banks of each country. Payments fell into three main categories: i) *Clearing funds* that referred to payments from trade that were settled per contra. Since

³¹ In Europe, the most adopted bilateral form was bilateral clearing exchange which meant that payments were settled per contra between two specific interlinked central banks' accounts. The bilateral clearing exchange was based theoretically on a principle of the equilibrium of trade and/or payments. Politically, the agreements aimed for reciprocity, but in practice the principle was proportionality: purchases and offset purchases were distributed in separate commodity classes, and in most agreements there was a guiding principle that Germany's exports to its trading partners should exceed the offset purchases. In most of the clearing agreements, the surplus was to be used for payments on financial claims. The agreements differed in design depending on what was to be settled. The agreements had common features in principle, but in their details they were unique. The initial Western European clearing agreements were either statements of principle or they were specific and complex. However, both modes were difficult to design in a way that benefited both parties, and, when put into practice, most of the clearing agreements did not function well, as they were either too complicated to put into effect or too vague to bridge diverging interests. As a consequence, agreements were renegotiated and adjusted on an ad hoc basis. Therefore the bilateral agreements evolved during the 1930s. See chapter 1 in P. Nyboe Andersen, *Bilateral Exchange Clearing Policy*, (Copenhagen 1946).

³² NA. Clearingnämndens arkiv (C.L.N), Fk, Vol. 15. Supplement to Protokoll über Besprechungen des deutschen und des schwedischen Regierungsausschusses vom 20 Juni bis 10 Juli 1935.

the German exports were to exceed the Swedish exports, a surplus emerged in the accounts. The surplus was to be distributed on the principle of two fifths in favour of ii) *Transfer funds* that referred to the Swedish financial claims, including the Kreuger loan, which gained the same status as government loans, and three fifths in favour of iii) the Reichsbank's *Option funds* that were distributed to the German account, at the disposal of Germany for re-building the monetary reserves and financing imports.

The distribution of the surplus followed a chronological, hierarchical order of payment. The first tranche of the surplus was distributed to repayments on a) the Reichsbank, b) the government loans; the second tranche was distributed to a) private claims and b) the Reichsbank. Regarding the tranches (volume) and the distribution (payment order), Germany was at an advantage. However, Sweden benefited as well, although the Swedish government committee considered the distribution of the surplus a major concession. The distribution of the surplus was to cover German financial liabilities. The annual payments required for the government loans and the private claims coming due amounted to about 30 million RM. (Thus, the rest of the surplus was distributed to the Reichsbank.) However, the bilateral clearing agreement had weak support in Berlin, and therefore it was necessary to create incentives for the Germans to accept the agreement.

Consequently, when the German-Swedish bilateral exchange clearing was in effect, German monetary reserves increased, for example in 1938-40. Unfortunately, Ritschl's analysis does not include the first eight years of the bilateral exchange clearing. If it had done so, Ritschl probably would have found that the German monetary reserves resulted in rather modest surpluses and even deficits, since the agreement did not function well when put into practice.

3. The German-Swedish Bilateral Exchange in Practice

One of the typical features of the bilateral agreements of the 1930s was that they they revealed weaknesses when in operation. The German-Swedish case was no exception. According to the agreement of December 1934, Germany's exports were to exceed Swedish exports by 90 million

RM, but increasing German demand for Swedish raw materials, combined with increasing transportation difficulties, left the clearing system in a state of imbalance³³.

The surplus intended for distribution on capital account, however, did not materialise. A German deficit arose instead. It meant that there were no credit balances to distribute for financial claims. This may or may not have been a deliberate German breach of the agreement to force the Swedes to renegotiate and remodel the agreement to Germany's advantage. This may well be the conventional line of interpretation³⁴. It is true that the German-Swedish clearing agreement was not desired in Berlin, but it could not be abandoned without Swedish sanctions and the Swedes made it perfectly clear they would respond vigorously to such an action³⁵. Although the deficit was intolerable, the Swedish government committee connected the malfunctioning with diverging German domestic priorities and foreign economic needs, rather than with cunning German foreign-trade policies. This interpretation of events has been confirmed by Milward³⁶. The Weimar regime's aim for domestic economic growth

³³ German import plans were supervised by the exchange-control authorities (*Reichstellen*). According to the German negotiators, the problem was related to the exchange control. German import companies had to apply for authorisation. If approved by the proper Reichstelle, the importer was issued a certificate that specified the goods to import, to what amount and in what quantity. German imports were based on plans that were coordinated by the authorities. The authorities, in turn, based their plans on the importers' previous imports and commitments made in agreements. Peter Hedberg, *Trade and Payments between Sweden and Germany 1934-1945. The Swedish-German Clearing Epoch from a Contractual Economic Perspective*, *Uppsala Studies in Economic History*, 64 (Uppsala: Acta Universitatis Upsaliensis: Univ.-bibl. distributör, 2003), pp. 47, 78-79.

³⁴ As mentioned above, Child claimed that the exchange control enabled Germany to manoeuvre the composition of trade to its own advantage. However, the Swedish historian Nilson claims that this was not technically a breach of agreement, but rather an attempt to disavow the agreement. Nilson, *Handelspolitik under skärpt konkurrens: England och Sverige 1929-39*, pp. 102-104.

³⁵ The Swedish negotiators threatened to freeze German assets and compensate the deficit with an old loan granted by German banks to *Sveriges Allmänna Hypoteksbank*, a bond loan issued in 1878. In 1935 the Government's committee estimated that the German banks held claims amounting to about 4.8 million SEK. The Germans raised strong objections to the threat. NA. CLN. FIIb 17, Vol. 486. VPM, 12 June 1935.

³⁶ Milward, "The Reichsmark Bloc and the International Economy.", p. 401.

and the resolution of social unrest (in particular, the troublesome unemployment problem) evolved under the Nazis. This meant that available resources were to be used for government expenditure and for German industry's demand for raw materials³⁷. Moreover, according to Wittmann, the German attitude towards bilateralism changed in the mid-1930s. This was to a considerable extent a result of the fact that the German Government Committee emphasised the advantages of the bilateral exchange with Sweden to the leaders in *Reichswirtschaftsministerium* and *Auswärtiges Amt*: Sweden was a strong sales market, rich in raw materials and a prestigious hard currency market, and so the agreement was not disadvantageous to the German economy after all³⁸.

On these grounds the Germans announced that they would go along with the agreement. Swedish government loan creditors were to be fully compensated from the German reserves, which was regarded as a German concession and a decision to proceed with the agreement³⁹. In July 1935 new negotiations were commenced, which resulted in a modified agreement. The most important modifications were that the clearing surplus was to be divided equally, with half going to the Reichsbank and half to the Swedish creditors (previously 3/5 and 2/5 respectively). The revised distribution agreement was clearly in Sweden's favour. Furthermore, both parties agreed to aim at a surplus of about 60 million SEK, which, in practice, was sufficient⁴⁰.

The focal point was that the agreement revealed the German incentives to make provisions for a sufficient clearing surplus. If the surplus increased, the Reichsbank's share increased. If the surplus was

³⁷ Richard James Overy, *War and Economy in the Third Reich*. (Oxford: Clarendon Press 1994), pp. 61-62. See also Timothy W. Mason and Jane Caplan, *Social Policy in the Third Reich: The Working Class and the "National Community"*. (Providence, R.I.; Oxford: Berg 1993).

³⁸ Wittmann, *Schwedens Wirtschaftsbeziehungen Zum Dritten Reich 1933-1945*, pp. 119-128.

³⁹ *Ibid.* pp. 73. NA. CLN. Fk. Vol. 15. Supplement to Protocol Vereinbarung über gewisse Änderungen der schwedisch-deutschen Verrechnungs-, Reichsanleihe- und Transferabkommen vom 22. Dezember 1934, 19 July 1935.

⁴⁰ The surplus initially estimated (90 million RM) did not prove to be attainable. This optimistic prognosis was based on favourable pre-crises conditions.

stable or diminished, the Reichsbank's share diminished. The financial claims, however, were to be paid anyway. If the clearing surplus did not suffice, Germany had to use its reserves. According to the modified agreement, the Germans had to maintain their commitments (i.e. their exports) to be able to gain from it.

The Swedish Government Committee regarded the modified agreement as a success. The main purpose of the agreement – to promote trade and see to it that the Germans re-paid their debts – had been achieved. However, the Swedish private-claims creditors were not satisfied. They did not trust German export capacity to exceed Swedish exports, nor did they trust German monetary policies. However, they had weak support from the Swedish government. In January 1936 a new private claims agreement was signed, modelled upon a preceding Anglo-German private-claims agreement. This offered a conversion of private claims into funding bonds, outside the clearing system. The funding bonds agreement meant generally reduced interest rates, but also better guarantees of getting paid. The private claim holders were satisfied with the agreement, and, from a German perspective, this was a favourable agreement, since the funding bonds agreement could be accepted as a precedent for Germany's other bilateral relations. Germany – hypothetically – gained a basis for a general reduction of interest rates on all private claims.

The modified and additional agreements of 1935/1936 provided a new basis for the German-Swedish exchange. But the economic and political preconditions changed, too, in favour of a continued bilateral clearing agreement. In 1936 the second four-year plan was initiated in Germany, which gave the armaments industry high priority. Increasing demand for Swedish raw materials, such as iron ore and forestry products, and Swedish demand for fuel, consumer goods and finished manufactured goods, such as chemicals, boosted the trade flows. As *Table 1* below shows, the trade flows expanded rapidly and relatively proportionally throughout the interwar period. From 1935 till 1939 the volume of trade nearly doubled. During the period 1935-38 the clearing surplus amounted to about 55-64 million SEK which was sufficient to fulfil the financial claims, as agreed. In 1938 the Czech and Austrian markets were added

to the German-Swedish cross border payments⁴¹. This also meant that Swedish-Austrian financial relations were to be added to the German-Swedish clearing exchange⁴². The additional loans gained the same status and rank as the government loans⁴³. In 1938 the annual "Austrian" amortisations and interest amounted altogether to about 1 million SEK⁴⁴.

In 1939 armaments had a decisive effect on trade flows. In *Table 1* the German-Swedish bilateral exchange clearing for the period 1934-39 is outlined. Compared to the trade turnover of 1934 and 1937, the increase exceeded more than 321 and 400 per cent respectively. While Germany prepared for war, the Swedish government ordered a stock of staple commodities that were expected to be in short supply during the anticipated war. In 1939 the clearing surplus amounted to about 144 million SEK, a 653 per cent increase compared to 1934. The surplus in 1935, which was second largest during the period, amounted to 64.4 million SEK. In 1939, after distributing the clearing surplus to the Reichsbank and the creditors, about 76 million SEK of the surplus remained in the clearing account in Stockholm. This meant that there were means of payments available to include the private claims within the clearing. However, doing so would require a reduction in interest rates and claims coming due could be cashed

⁴¹ Sudetenland was geographically defined as Germany, whereas Bohemia administratively became a protectorate. These countries were insignificant in Swedish foreign trade. Hedberg, *Trade and Payments between Sweden and Germany 1934-1945. The Swedish-German Clearing Epoch from a Contractual Economic Perspective*, pp. 106-108. In 1936-37 the Austrian share of the Swedish trade turnover amounted to 0.07 per cent, while the Czech share amounted to about 2 per cent. Kommerskollegium, *Sveriges Officiella Statistik (SOS Handel). Berättelse För År 1936 Av Kommerskollegium* (1936); Kommerskollegium, *Sveriges Officiella Statistik (SOS Handel). Berättelse För År 1937 Av Kommerskollegium* (1937).

⁴² NA. UD. H 94 Cf, Vol. 2337. Överenskommelse med Tyska Riket angående tillämpning av den svensk-tyska avräkningsöverenskommelsen den 22 december 1934, 23 Nov. 1938; Överenskommelse med Tyska riket angående tillämpning av den svensk-tyska avräkningsöverenskommelsen den 22 december 1934, 11 Nov. 1938.

⁴³ NA. CLN. Fk, Vol. 15. Supplement B to Abkommen über die Dawes-, die Young- und die Kreuger-Anleihe sowie gewisse Österreichische Anleihen (Reichsanleiheabkommen). 28 Oct. 1938; Durchführungsvereinbarung über die Internationale Anleihe des Deutschen Reichs von 1930 (Young-Anleihe); Vol. 487. PM angående kommande svensk-tyska clearingförhandlingar, 22 Aug. 1938.

⁴⁴ NA. CLN. G IV, Vol. 844. Transferstatistik.

**TABLE 1. German-Swedish clearing trade payments,
1934-39 Million SEK. Current prices**

	1934 1 Sept. - 31 Dec.	1935	1936	1937	1938	1939
German exports	103.7	315.1	340.4	426.3	428.6	578.6
Swedish exports	84.6	250.7	284.9	366.4	370.9	434.8
Surplus	19.1	64.4	55.5	59.9	57.7	143.8

Source: NA. CLN. Filb 17, Vol. 487. PM No. 2 angående vissa handelspolitiska frågor i förhållande till Tyskland, 23 November 1937.

at only half value. The other half remained as a credit to be used in Germany⁴⁵. On the one hand, for the holders of private claims this meant a loss in value, but on the other hand it meant that the Swedish government had to safeguard their claims from future breaches of agreement.

The recurring issue in the negotiations was the size of the Swedish creditors' and the Reichsbank's clearing surplus tranches. *Table 2* below shows the shares of the Reichsbank and of the Swedish holders of government loans (the Kreuger loan included) from the distribution of the clearing surplus. The payments to the Swedish creditors amounted to about 30 million SEK annually. During the first half of 1935 the clearing did not function well and the distribution of the surplus was revised to a 50/50 distribution of the surplus. From the modified agreement in 1935, there were means available in the clearing accounts that sufficed to pay the Swedish creditors fully. Thus, the distribution of the clearing surpluses was carried out according to the agreements in 1935 and the four years that followed. In 1939, however, the surplus amounted to nearly 144 million SEK. The use of the excess surplus in 1939 was to be decided in future negotiations. Neither the Germans nor the Swedes paid more than that stipulated in the export contracts or financial agreements. It is,

⁴⁵ NA. CLN. Fk. Vol. 15. PM beträffande Privatschulden-Abkommen, 31 Oct. 1938; CLN. Filb 17, Vol. 487. Meddelande angående Reglering av avkastning under år 1939 å svenska s.k. privatfordringar i Tyskland Genom kommissionärerna Skandinaviska kreditaktiebolaget, Svenska handelsbanken, Stockholms Enskilda bank, Göteborgs bank och Stockholms intecknings garanti. 1 April 1938; NA. UD. H 94 C', Vol. 2337. PM No. 4 Angående handelspolitiska förhandlingar med Tyskland, 4 Nov. 1938.

TABLE 2. The distribution of the German-Swedish clearing surplus to the Reichsbank and the Swedish holders of Government loans, 1934-39. Million SEK. Current prices

Year	1934	1935	1936	1937	1938	1939
Clearing surplus	19.1	64.4	55.5	59.9	57.7	143.8
The Reichsbank's share	11.2	30.4	29.6	28.4	29.1	30.8
The Swedish Government loan creditors	12.3	30.4	29.6	28.5	29.1	37.1

Source: NA. CLN. Vol. 488. Transferstatistik.

however, most interesting, that the German share of the surplus never exceeded the Swedish. Even though German bargaining power (hypothetically) kept pace with Nazi rearmament, the Swedish share exceeded the German share; thus Nazi power was not reflected financially.

3.1 A Solution for the Private Claims

The large surplus of 1939 allowed for a reimbursement of the private claims within the clearing. Previous settlements had not been very successful. Even though the parties agreed on reduced interest rates and a conversion to funding bonds, there were only a few payments in 1935 and 1936. Until then, private-claims creditors had not been favoured. This was, on the whole, the result of German monetary policies, but also of weak support from the Swedish government, which left these claims unregulated as they were difficult to include in the clearing without a reduction of the government loans. The low status of these claims was clearly manifested in the negotiations and the agreements. The initial Swedish bargaining position was to settle first the Kreuger and the government loans by agreeing on a new set of rules to make the Swedish-German exchange an operable system. The status of private claims was enhanced as the clearing functioned. From the perspective of a private-claims creditor there were both possibilities and reasons for re-entering the clearing. The surpluses of 1938 and 1939 indicated that the clearing was functioning as planned and that there were sufficient surpluses to guarantee the private claim creditors, both practically and formally – as the private-claims creditors gained status as a part of the clearing.

4. The Structure and Composition of Trade

As mentioned in section 1, Child stated that the German monetary authorities used their bargaining position to manoeuvre the composition and the terms of trade in favour of Germany, at the expense of its small partners. It is also true that the clearing trade was specialised. The expanding trade flows from 1936 onwards coincided with the implementation of the Second Four-Year Plan. According to Schweitzer, the aim of the overall plan was autarchy⁴⁶. Specifically, the main objective was to strengthen German domestic industrial capacity for military as well as civil demands⁴⁷.

Ironically, the former included a dynamic trade policy that resulted in increasing German demand for Swedish raw materials. As raw materials were given high priority in German monetary plans, mining and forestry were regularly favoured, while imports of finished goods were placed under German restrictions. Clearly, Sweden's role as a supplier of raw materials and primary products grew. However, the importance of the German market should be viewed in a wider context. From 1890 to 1930, Sweden experienced a transition from a semi-agrarian to an industrialised economy. Industrial branches like mining, steel, engineering and forestry expanded. This affected the structure and composition of Swedish trade during the first decades of the century. On the one hand the Swedish economy relied to a greater extent on the import of finished and consumer goods, whereas exports were composed of raw materials (such as iron ore) and primary products (such as pulp)⁴⁸. Perhaps the most significant

⁴⁶ Schweitzer, "The Role of Foreign Trade in the Nazi War Economy."

⁴⁷ Mason and Caplan, *Social Policy in the Third Reich: The Working Class and the "National Community"*, pp. 300-301.

⁴⁸ For instance, in 1890 the share of pulp and paper exports amounted to a modest 5 per cent of the export volume, while in 1930 it was up to 30 per cent. Lennart Schön, *En modern svensk ekonomisk historia: Tillväxt och omvandling under två sekel*, 1. uppl. ed., (Stockholm: SNS förl. 2000), ch. 4; Maths Isacson, "Den högindustriella epoken," in *Industrialismens tid: Ekonomisk-historiska perspektiv på svensk industriell omvandling under 200 år*, ed. Maths & Morell Isacson, Mats (Stockholm: SNS förl., 2002), ch. 5; Mats Larsson, "Storföretagande och industrikoncentration," in *Industrialismens tid: Ekonomisk-historiska perspektiv på svensk industriell omvandling under 200 år*, ed. Maths & Morell Isacson, Mats, (Stockholm: SNS förl. 2002), ch. 6

example is the share of iron ore in Swedish exports to Germany, which increased from 38 per cent in 1935 to over 50 per cent in 1938⁴⁹.

Nonetheless, the composition of German-Swedish trade was discussed when the Swedish government committee met for internal discussions in November 1937. From the Swedish point of view, it was argued that the demand for Swedish finished goods on the German market was increasing, but that the import plans gave priority to raw materials and primary products; i.e. the manufacturing industries were put at a disadvantage⁵⁰. On this basis the Swedes contemplated imposing trade restrictions on, in particular, the export of iron ore⁵¹. However, such restrictions were of little interest for the Swedish economy, nor were they feasible to introduce. Mining and forestry belonged to the most profitable sectors. Furthermore, diminishing international trade made such markets as Germany highly valuable in a long-term perspective. Reduced iron ore or forestry exports would have resulted in troublesome diminishing income, shut-downs and regionally concentrated unemployment⁵².

Another long-term consideration was that the German market provided for strategic gains. Fuel prices in Poland and Germany were lower than in the British market, but in addition transport costs across the Baltic sea were lower than those from Britain. From this perspective, the gains from the German fuel market were massive. Since the Germans would have reacted to any restrictions, the prospects of a continuous exchange would

⁴⁹ NA. CLN. Fk. Vol. 15. Rapport från Svenska beskickningen i Berlin rörande de svensk-tyska handelspolitiska förhandlingarna, 8 Jan. 1938; PM No. 2 angående vissa handelspolitiska frågor i förhållande till Tyskland, 23 Nov. 1937; PM No. 3 angående vissa handelspolitiska frågor i förhållande till Tyskland, 26 Nov. 1937.

⁵⁰ NA. UD. 11P 64 Ct, Vol. 2334. PM av Hägglöf angående vissa handelspolitiska frågor i förhållande till Tyskland, 5 Nov. 1937.

⁵¹ NA. CLN. Fk. Vol. 15. Rapport från Svenska beskickningen i Berlin rörande de svensk-tyska handelspolitiska förhandlingarna januari 1938, 4 Feb. 1938.

⁵² Swedish specialisation in raw materials and primary products is evident in the historical statistics. During 1915-35 the forest and the iron ore industries' shares of total Swedish export volumes expanded from about 35 to 50 per cent. Whereas the forest industry dominated Swedish exports as a whole, iron ore export dominated Swedish exports to Germany. In 1935 the iron ore share totalled 38 per cent and in 1938 50 per cent. Kommerskollegium, *Sveriges Officiella Statistik (SOS Handel). Berättelse För År 1936 Av Kommerskollegium*.

have been jeopardised⁵³. Technically, the modified agreement of 1935/1936 specifically allowed the Germans to choose their imports. The Swedish government was aware that the Swedish raw material market was the major German incentive to continue with the agreement, and it seemed risky to change the conditions that made the system function. After all, as long as the financial issues were settled, the principal Swedish aim of the bilateral clearing exchange agreements was achieved⁵⁴.

5. Conclusions

There are several conclusions to be drawn. Bilateral agreements bridged diverging interests, evident in incompatible economic policies. The bilateralism of the 1930s is commonly regarded as an aggravating factor leading to the disintegration of the world economy. According to Child, Schweitzer, Einzig, Petzina and others, bilateralism was a German initiative and an offshoot of the Nazi regime's aim for autarchy. The German-Swedish case differs significantly from this view. Bilateralism should be viewed not as destructive, but rather in terms of reactive institutional change. Diverging interests that emerged from the crises (seen in incompatible economic policies) had to be bridged with a new set of rules that defined and formalised the parties' rights, liabilities and commitments. Empirically, it was the German monetary policies which suspended payments to foreign creditors that triggered the West European creditors' reaction. In order to extricate their frozen assets, the creditors united. A compulsory clearing law was advocated as a means to force Germany to fulfil its financial liabilities. Even though the joint venture failed, the means were adopted and applied by separate countries in negotiations with Germany. It is to be noted that these initiatives directed the construction and design of the bilateral agreements. The shaping of the bilateral systems was generally favourable to the creditors, although German incentives to continue with

⁵³ Hedberg, *Trade and Payments between Sweden and Germany 1934-1945. The Swedish-German Clearing Epoch from a Contractual Economic Perspective*, pp. 139-141.

⁵⁴ NA. UD. H 94 Ct, Vol. 2334. Korrespondens Hägglöf, Utrikesdepartementet till Vinell, Svenska beskickningen i Berlin rörande de svensk-tyska handelsförbindelserna, 8 Dec. 1937.

the agreements were one of the foundations. In this sense, bilateralism was beneficial compared to the probable alternative – a continuous downward spiral in world trade and finance.

It is important to recognise the underlying principle of mutuality that permeated the construction and design of the German-Swedish bilateral exchange. This principle contrasts sharply with the conventional view on German trade policies. It is true that German bargaining power was strengthened *pari passu* with the armaments and the political power that followed from the Second Four-Year Plan in 1936. Also, after being put into practice, most of the bilateral agreements were modified, which may have created an opportunity for Germany to coerce its partners to concede to German demands, as claimed by Ellis, Child and others. It is also clear that the Swedish market became of strategic interest to Germany after the introduction of the Second Four-Year Plan. According to Hirschman and Child, this created a strong incentive to initiate a forceful policy with regard to small countries like Sweden. However, as Nyboe Andersen has pointed out, even though the agreements were adjusted and modified, principles and methods were generally not changed (i.e. proportional balance or bilateral balance, the priorities and contents of the agreements that aimed for financial issues). The German-Swedish case differs from the conventional view. The contractual adjustments made in 1935 were in favour of the Swedes (i.e. dividing the clearing surplus 50/50 brought guarantees for a long-term settlement of the financial issues). Thus, the modified agreement should be regarded as a German concession that manifested the will to continue or, as Milward and Wittmann expressed it, to cooperate. Of course, both parties disagreed on several issues that had to be negotiated. Even *if* the bargaining power became biased in favour of Germany, and *if* there was a strategy of exploitation, they were restrained by some factors.

Foremost among these factors was the contractual design: general agreements were supplemented and/or adjusted in sub-agreements in a process of trial and error. As a result, the bilateral system evolved gradually. The system (in terms of agreements) expanded both vertically, as separate issues became codified, and horizontally, as the agreements included more and more exchange-related issues. Every single issue had to be negotiated, but the negotiations always started from the initial principle that an

exchange must be advantageous to both economies. This contractual principle and method, however, created a complex set of rules that could not be revised easily. As a result, Sweden's bargaining power was surprisingly strong compared to that of Nazi Germany, when it was a matter of adjusting the terms of bilateral trade to changing circumstances. Due to the costs and efforts of drawing up a new functional agreement, this was never an option. An agreement that was in favour of only one party would most certainly have closed off all trade and thus all financial relations⁵⁵.

From a Swedish perspective, two issues may be regarded as disadvantageous. The private claims of Swedish investors were obviously not supported by the Swedish government. The Swedes were aware of the strained German monetary reserves and the general resentment against private claims by foreigners. The possibility of including them in the agreement probably appeared difficult. In the light of the overall gains to Sweden, however, this was an easy sacrifice for the government to make. The other possible disadvantage for Sweden was the regression in its pattern of exports back to raw materials and primary products. But this was a temporary setback without serious long-run costs, while the iron ore and timber industries renewed their profitability in the meantime.

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⁵⁵ This became more obvious during the wartime bilateral exchange. After the blockade of the Skagenak, which isolated Sweden from the Allied powers, Germany emerged as a bilateral monopolist. From the summer of 1940 until the end of the war, Germany made attempts, most of them futile, to coerce the Swedish government to make political and financial concessions. Hedberg, *Trade and Payments between Sweden and Germany 1934-1945. The Swedish-German Clearing Epoch from a Contractual Economic Perspective*, Ch. 8.

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Appendix

Bilateralism and Bargaining Power.
Belligerent Germany and the Small Country
of Sweden during the 1930's

TABLE 1. German-Swedish clearing trade payments, 1934-39 Million SEK. Current prices						
	1 Sept - 31 Dec 1934	1935	1936	1937	1938	1939
German export	103.7	315.1	340.4	426.3	428.6	578.6
Swedish export	84.6	250.7	284.9	366.4	370.9	434.8
Surplus	19.1	64.4	55.5	59.9	57.7	143.8
<i>Source: NA. CLN. Filb 17, Vol. 487. PM No. 2 angående vissa handelspolitiska frågor i förhållande till Tyskland. 23 November 1937.</i>						

TABLE 2. The distribution of the German-Swedish clearing surplus to the Reichsbank and the Swedish holders of Government loans, 1934-39. Million SEK. Current prices.						
	1934	1935	1936	1937	1938	1939
Clearing surplus	19.1	64.4	55.5	59.9	57.7	143.8
The Reichsbank's share	11.2	30.4	29.6	28.4	29.1	30.8
The Swedish Government loan creditors	12.3	30.4	29.6	28.5	29.1	37.1
<i>Source: NA. CLN. Vol. 488. Transferstatistik.</i>						



notes

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