HELSINGIN YLIOPISTO
HELSINGFORS UNIVERSITET
UNIVERSITY OF HELSINKI

Opiskelijakirjaston verkkojulkaisu 2007

Reprinted from "The Nordic Countries and Europe in the Twentieth Century: an Introduction" by Ulf Olsson from Scandinavian Journal of History, www.tandf.no/sjhist, 1993, 18(1), 1-5, by permission of Taylor & Francis

Tämä aineisto on julkaistu verkossa oikeudenhaltijoiden luvalla. Aineistoa ei saa kopioida, levittää tai saattaa muuten yleisön saataviin ilman oikeudenhaltijoiden lupaa. Aineiston verkko-osoitteeseen saa viitata vapaasti. Aineistoa saa opiskelua, opettamista ja tutkimusta varten tulostaa omaan käyttöön muutamia kappaleita.

www.opiskelijakirjasto.lib.helsinki.fi
opiskelijakirjasto-info@helsinki.fi

The Nordic Countries and Europe in the Twentieth Century: an Introduction

Ulf Olsson

Foreign policy in its widest sense deals with the way in which nations attempt to influence the rest of the world or to handle intrusive impulses originating from it. For a smaller nation which seeks to preserve its security and autonomy this is mainly a question of the latter, more defensive, position. While strategic decisions, alliances and military considerations are central features of foreign policy, policies which influence the national economy are also significant in foreign policy terms. For many countries the threat to independence is in the form of economic penetration rather than military and political pressure. National independence therefore has an economic dimension in addition to being purely political. Consequently, one of the most important goals of foreign policy is to prevent dependence within foreign trade, patterns of investment and granting of credit without foregoing those benefits which international trade can offer. By establishing the national institutional frameworks and in the day-to-day management of economic relations with the rest of the world the national leadership constantly performs this balancing act. The economic dimension of foreign policy is also closely associated with domestic policy. Decisions affecting both the growth and distribution of domestic resources and the employment and health of the population therefore have a foreign policy dimension to them. As is the case with other foreign policy decisions, they are arrived at at the point of intersection between optimal foreign policy and optimal domestic policy.¹

This special edition of the *Scandinavian Journal of History* contains articles on Denmark, Norway, Finland and Sweden, four small countries which for a long time have had intimate economic links with the leading European powers. The objective of the papers is to bring out the economic dimension of foreign policy and to provide a basis for a comparative analysis. They have therefore been written with the following ambitions in common: that economic and political development

¹Holsti, *passim*.

will interconnect, that foreign and domestic policy will similarly be seen in a shared context, that the time frame will comprise the whole of the twentieth century, and that certain quantitative data on foreign trade will be presented.²

In the research on societal development the connection between economics and politics has often been the focus of interest. The first social science to be established, Economics, dealt primarily with precisely this connection. The role of politics in the economy was a central issue for Adam Smith. The mercantilists had claimed that political power and economic strength were intrinsically linked and that there existed no contradictions between improving a country's economic well-being, for example through foreign trade, and winning freedom of action for foreign policy. At the same time many mercantilists claimed that, with regard to both political power and economic strength, it was a question of a zero-sum game, where it was of primary importance not to wind up the loser.³

Both these truths dissolved in the rapid growth of liberal theory. The new claim was that increasing specialization and growing foreign trade were of benefit to all those involved. The effects of such a development on foreign policy relationships were not regarded as an economic issue; other social sciences were left to concentrate on that. Politics and economics went their separate ways as academic disciplines.

It was easy for such ideas to take root in the globally dominant trading nations such as Britain and, later, the United States. But the issue was naturally quite different for those countries that were small or economically weak. Here, protectionist thoughts and efforts to defend national interests from dependent relationships became much more important. These might have a purely military point of departure: Is a comprehensive production capacity not required in order to resist attacks and blockades? They might, however, be motivated more by development theory: Is it not the case that a permanent structural disadvantage results from taking on a role as an internationally specialized supplier of a certain product or commodity, especially if this involves non-industrial products?

Theorists of imperialism, some development economists and, latterly, a group formed around the concept "International Political Economy" are examples of researchers who in a more systematic fashion have developed counterarguments against both the one-sided liberal economist and the political expert's analysis of such issues exclusively in terms of power politics. In order to facilitate a comparative reading of the following contributions we will take up a few general themes from these traditions in the present introduction.⁴

Economists oriented towards development economics have explored several routes in their efforts to quantifiably operationalize issues of international dependence. One of the simplest is to measure how big a role foreign trade as a whole plays in the total economies of the countries concerned. The term foreign trade quota is sometimes used, and the share of exports or imports is sometimes selected as a corresponding measurement. The Nordic countries offer good illustrations of the fact that foreign trade takes on a major role in small countries compared with

² This introduction is to a great extent based on oral introductions of their own papers by Professors Hans Christian Johansen, Even Lange, and Helge Pharo at the XXI Meeting of Nordic Historians in Umeå in 1991.

³ Hirschman, pp. 3-12.

⁴ Gilpin, *passim*.

larger nations such as Great Britain or France. It is easy to explain why a small country normally has a greater foreign trade quota than a larger country, which helps shape preconditions for dependent relationships.

Small countries, moreover, naturally run a greater risk than bigger ones of being unilaterally endowed with natural resources, and therefore risk becoming more easily dependent on their larger counterparts in an exchange of trade. There are many examples of a developing country's economy becoming dominated by one or several export products, often basic commodities such as coffee, copra or cocoa. The development of such a country therefore becomes extremely dependent on conditions governing these products on the world market. Since basic commodities tend to vary more drastically in price than finished goods, such one-sided commodity-dependent economies often suffer from severe fluctuations. A big country, or a country with diversified exports, is less vulnerable. For the Nordic countries, the issue is more accurately one of estimating the significance of dominant export products, such as bacon for Denmark, fish and oil for Norway and forest products for Finland and Sweden. The Nordic countries have generally tried to move away from dependence on commodity exports by aiming at industrialization of their respective countries. The conditions and success of such a policy have been varied, however - something which, among other things, can be read in foreign trade statistics.

In this context national policy becomes important. To what extent have tariffs and other protectionist measures been introduced in order to protect and stimulate domestic industry and other commerce? How have domestic groups acted in response to such a policy and what results have been achieved?

Another quantitative indicator of dependence can be foreign debt. The foreign debt issue is very central to the present discussion on developing countries. The strait-jacket which private banks, the World Bank or creditor nations can apply to debtor nations' freedom of action is often demonstrated. At the same time it is clear that international capital is often a positive element in an economic development process. The link between international borrowing and the freedom to run an independent economic policy has on several occasions been very obvious in twentieth-century Nordic history. At the turn of the century, for example, some countries in the region were highly indebted to European powers after a period of extensive capital imports. The post-Second World War Marshall Plan involved both a considerable import of capital and foreign influence on trading policy and the course of economic revitalization in some Nordic countries. This situation also involved an element of dependency.

We are now involved in the issue of the Nordic countries' relations to individual powers. A starting point here can be to clarify the role which certain countries played - in a purely quantitative sense - in the foreign trade of these smaller states. With regard to Denmark, Norway and Sweden, this primarily involves a lack of freedom in relations with Britain and Germany, and the balance of influence between these two powers. As regards Finland, relations with Russia, and later the Soviet Union, have been the dominant issue from a political point of view, although other nations have been equally important in terms of trade volume. It is clear that close economic ties - particularly in connection with the two World Wars - have explosive political implications.

To a greater or lesser extent, it has generally been expressed in the ambitions of the major powers that the Nordic countries be economically and politically attached to their own sphere of activity. This was especially the case, for example, during the 1930s, from both the German and the British sides. Since the Second World War this has instead involved the US-led Western alliance, whose politics vis-a-vis the Soviet bloc have included some important economic aspects.

Some of the general approaches to the problems discussed here were of significance throughout the twentieth century, while others were linked more to certain periods. A conscious effort has been made to provide the four papers with a similar chronology, although this also has a more natural explanation in that the outward conditions for all the countries have to a large degree changed at the same pace. In this way, the scope for domestic politics has also been determined to a certain degree, even if national freedom of action has, naturally, not been entirely erased.

Thus, an introductory period can be defined before the First World War, characterized by nineteenth-century liberal traditions and growing foreign trade. Towards the end of the century this general openness had been modified by a rapid expansion of the protectionist world trade system initiated by Germany. This applied to Sweden in particular. Increasing nationalism asserted itself, especially in Norway, which paradoxically enough, was forced to retain more of a free trade policy because of its economic structure. In general, this epoch was very favourable for the economic development of the Nordic countries. It was at this time that they made their entry into industrialized Europe.

The First World War, however, made apparent the risks of extensive foreign trade. Since Germany and Britain were at war with each other but at the same time were the Nordic countries' most important trading partners, these countries, in trading terms, were caught in the crossfire. With the exception of Finland, they nevertheless succeeded in staying out of the war, even if there were certain difficulties.

The inter-war period initially involved the four countries' participation in Western attempts to reconstruct the liberal global trade system including the gold standard. For various reasons, Finland and Sweden succeeded relatively well with this task, while Denmark and, in particular, Norway, had worse domestic conditions, which meant that they did not experience the same benefits during the worldwide boom of the 20s.

The international recession at the beginning of the 1930s meant that global freedom of trade was seriously diminished and volumes shrank. With their extensive foreign trade, none of the Nordic countries was able to avoid running into difficulties under those conditions. However, their opportunities and degrees of motivation varied as to ways of easing the pains of depression through trading policy and internal economic policy. The role of increased autarky and an active Keynesian social welfare policy marked the beginning of a new era in the economies of all these nations. This era would also extend into the years of the Second World War. The war struck the countries in a similar way, although to dramatically different degrees. The long period of increased economic isolation did not come to an end before the 1950s, when all the countries commenced a gradual liberalization. 1960, when the free trade organization EFTA was formed, can be selected as a

landmark year for the new period. The Nordic countries' reciprocal trade developed rapidly within this larger bloc despite the failure to integrate the Nordic economies by political means. And despite the liberalization of world trade internal economic policy retained its features of active control and ambitious social welfare policy.

The economic crisis sparked off by rising oil prices at the beginning of the 1970s put the Nordic countries under severe pressure. The period of virtually self-evident economic growth was over, a change which shook the foundations of the major tax-financed social welfare policy, and the countries needed to adapt their economic structures to a new internationally competitive situation. Such an adaption also included a stance on the ongoing economic and political integration of Europe via the EC. Both outward and internal political tensions needed to be handled in this way. For Denmark adaption to the European market came quickly when the country followed Britain into the EC in 1972. Sweden applied for membership in 1991, after misgivings had been overcome with regard to the effects on both the social welfare system and traditional foreign policy. The process has taken an even longer period in the other countries - in Norway mainly because of the country's economic structure, and in Finland for foreign policy reasons.

The international adaption process which has been going on in the Nordic countries during the last two decades again illustrates that small states cannot benefit from a major economic exchange program with the rest of the world without experiencing certain effects on their domestic and foreign policies. In the four articles which follow, this fundamental truth will, in a concrete fashion, be put into historical and comparative perspective.

References

- Gilpin, R., *The Political economy of international relations*. Princeton University Press, 1987.
Hirschman, O. A., *National power and the structure of foreign trade*, 1945.
Holsti, K. J., *The comparative analysis of foreign policy: Some notes on the pitfalls and paths to theory*.
The political economy of foreign policy in south-east Asia. Ed by D. Wurpel and B. Burton.
Macmillan, London 1990.

Due to circumstances beyond the control of the editors, the essay by E. Lange and H. Ø. Pharo has had to be held over until the next issue of the journal.