

From Warfare to Welfare States: Fiscal Capacity and State Formation in the Nordic Countries in the Long Run

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ABSTRACT:

The Nordic countries today have the most extensive welfare states in the world. Most of the welfare state creation occurred from the late 19th century onwards. However, they had a long history of state capacity prior to that. In this paper we will provide, first, some estimates of Nordic state capacity (fiscal, military, institutional) in the long run. For example, in Sweden, the construction of an early modern state and the development of the military went in parallel during the 16th and 17th centuries. The military burden of the expansion was, in comparative European terms, manageable. Thus, one of the features of the Nordic paths (which had some commonalities as well as differences) was the creation of particularly efficient fiscal states and bureaucracies. Eventually, the Nordic states had severe limitations in the European competition for supremacy, especially in the age of Napoleon, and their relative military capacity had begun to decline in the 18th century. Our second emphasis will be to investigate the transition from more military-oriented state structures to early origins of the welfare states. Our argument is that the process was not a “guns vs. butter” tradeoff as often suggested in the economics literature, but rather contemporaneous growth in both into the 20th century. In the case of Sweden, the 19th century meant a slow transition toward a more modern type of fiscal state, and eventually welfare state, whereas for Finland (and to lesser extent Norway under Swedish rule) the 19th century still meant a rather minimal state capacity under the Russian rule. Denmark’s transition toward a welfare state began the earliest, providing perhaps the most clear case of transition from a military-fiscal to limited welfare state.

1. INTRODUCTION

In Sweden, the construction of an early modern state and the development of the military force went in parallel during the 16th and 17th centuries (see e.g. (Glete, 2002; Tilly, 1990; Webber & Wildavsky, 1986)). Scholars have had different views on when Sweden became a great power, but most often it is dated around the year 1630. At that time, Sweden joined the Thirty Years' War. Sweden had scarce financial and human resources, so it founded its actions on the one hand to offensive strategy and on the other hand that "the war had to pay for itself." The strategy worked well until the end of the 17th century, when Sweden was forced to defend itself at the same time against many enemies in the Great North War (1700–1721). At that time, the share of the military expenses to the state's total expenditures increased to a significant extent, and the limits of resources finally came to an end. Or, so the conventional wisdom would suggest. Here we want to, first, investigate the fiscal capacity and military burden of that period for all the Nordic countries, as well as analyze the waning of the military state in the 18th and 19th centuries, and then, second, investigate the slow transformation toward a welfare state.

Nordic countries represent an interesting case study of fiscal capacity and warfare. Despite extensive warfare efforts and territorial expansion, for example Sweden never suffered a bankruptcy, unlike many other states of the same era (like Spain, see (Drelichman & Voth, 2014)). The great power period did involve a military-fiscal expansion, but in a more moderate way compared to most European powers. From the 1720s onwards, the military sector's share of the expenditures turned to a slow decline. At the same time, warfare became even more expensive,

which inevitably meant the deterioration of military performance. Furthermore, during this period of expansion of territory and then slow decline, Nordic living standards on average followed the pan-European pattern of fluctuation around a long-run constant mean. Because the economy was heavily reliant on low-yield agricultural output, the Swedish state was often forced to rely on inflationary *seigniorage* income to finance wars. (see also (Motomura, 1994)) That, in addition to effective bureaucracy and tax collection, utilization of peasantry to support military troops, and financial support from allies like France made it possible for Sweden, a relatively small European state, to become a great power. Denmark enjoyed its own periods of military power, albeit in a more limited form.

The role of Finland and Norway as an integral territory of Sweden (or Denmark) and partner in the expansion is something that has not been studied enough. There is an abundant and growing literature in economic history that is focused on analyzing the fiscal benefits and burdens of colonies within empires. Typically, colonies were a substantial burden on the mother countries if private interests could benefit from the exploitation and the military burden of the colony was substantial. (on the debate, see e.g. (Ferguson, 2003; Hopkins, 1988; O'Brien, 1988; Offer, 1993)) For example, Finland was not exploited like a typical colony; rather, it was a part of Sweden in most respects and had at least limited political voice in the realm (on political voice and logic of empire, see (Lindert, 2003)). However, the issue of how much the defense of Finland cost the Swedish realm has not been answered yet, let alone what military investment in Finland would mean for the long-run development of the country.

Finland was a part of Sweden until 1809 and had to bear some of the burden of the warfare, which can be seen in the preliminary figures. Since the early 19th century, Sweden annexed Norway and no longer participated in international conflicts, thus starting a slow transition toward a modern fiscal state. Finland remained as a part of Russia until 1917. However, we can also see the early origins of transition out of the warfare state phase in Finland in the 19th century. The wars of the 20th century both hastened the transition as well as provided a reason to keep military spending higher periodically, leading to a growth of government overall. In Sweden, this development went deeper and faster, resulting in a modern type welfare state after the mid-20th century, whereas in Finland it happened a bit later. Norway became more embedded with Swedish and common Nordic institutions in the 19th century instead, which provided a faster building platform for early welfare policies (as well as early labor market unrest). In all four countries, the extensive welfare is today both well entrenched as well as under some duress due to the aging of the populations as well as migration

In both theoretical and empirical terms, in Hoffman's (2015) recent explanation to why Europe became so dominant economically and militarily in the last 500 years, the constant military and economic competition (large military spending) for domination can explain Europe's global success. He posits that the answer can be found in a model of tournaments, i.e. that the constant military and economic competition for domination in Europe, in conjunction with other cultural and historical developments, explain Europe's global success. The key to Hoffman's explanation are near constant warfare and the fact that sovereigns consistently spent large portions of their budgets on war. His model links the high probability that European rulers would go to war to the high value of the victor's prize, similarity of resources, military technology, and ability to mobilize those resources (absence of a hegemon is crucial). Therefore, Hoffman's four conditions for

Europeans' path toward global dominance include frequent war, high (and consistent) military spending, adoption and advancement of gunpowder technology, and relative lack of obstacles to military innovations. According to him, Europeans enjoyed low fixed costs for going to war, distances were small, variable costs for mobilization were low, and there was a merchant base that helped with the financing of conflicts.

Dincecco and Onorato (2017) have also recently emphasized the significance of warfare in the formation of Europe and its economic success. In their 'warfare to wealth' -interpretations they argue that in preindustrial Europe – with high political fragmentation and a low land-labor ratio – rural inhabitants migrated to urban centers and cities became "safe harbors" which contributed favorable economic development. Unlike in more centralized and bureaucratic China, in politically fragmented Europe legal environment became favorable when rulers granted 'local political and legal freedoms in exchange for new tax funds, thereby promoting a business environment that was conducive to economic development'. (106) They also follow Tilly's (1990) and Bates's (2008) arguments: when state's extractive capacities and fiscal strength grew, European states could promote local and domestic peace. In his previous study Dincecco (2011) has already shown that in many countries in Europe the political transformation progressed from absolutist to parliamentary regimes and fiscal transformation from fragmented public sector to a more central one.

While the burgeoning interdisciplinary literature focusing on early modern to modern transitions of mostly European states has achieved important new patterns, it has also some significant weaknesses. For example, as Philip Hoffman has pointed out, the impacts of military spending have not been analyzed enough yet. And scholars have not analyzed enough, first of all, the spending side (versus the revenue collection as a measure of state capacity), or second, the what the spending was for. This is also related to the discussion of public debt patterns and what the ability of being able to raise funds from domestic sources meant. (see e.g. (Drelichman & Voth, 2014; Ferguson, 2001; North & Weingast, 1989; Reinhart & Rogoff, 2009; Stasavage, 2003)). Finally, we have not studied enough the so-called bang for the buck, i.e. the efficiency of the military spending in history. (see e.g. (Fontanel & Ward, 1993)) This would take us deeper into the debate about what state capacity truly means, and its long-run consequences.

Furthermore, we have less of an idea, ironically, of how the 19th century states (again, with the focus mostly on Europe) transformed into the modern fiscal and welfare states. Most of the studies focus on the 20th century. The 19th century was a century of transformations, including two industrial revolutions, the intensification of the first era of globalization, move toward conscript armies, industrialization of warfare, and so on. It was also the era when income taxes became a more widespread tool in fiscal policy, especially in conjunction with warfare. Concerning industrialization and the role state, Alexander Gerschenkron (1962) emphasized that governments had a role as a growth catalyst in classic analysis of the advantage of relative backwardness. According to Gerschenkron the early industrialized countries and the latecomer countries developed in different ways. Gerschenkron stressed the importance of manufacturing industries in the progress of latecomer countries – the more backward a country is the faster the potential growth of industrial output. In the latecomer countries the state can accelerate growth. Thus, the processes of industrialization went hand-in-hand with the process we describe above, and European states capitalized on that in order to gain global supremacy over the remaining areas not yet conquered.

Eventually, we also saw some early movement toward welfare states in the late 19th century and early 20th century. According to Lindert (2004), the growth of social spending was one of the most remarkable changes among the Western societies during the 20th century and this growth was linked to three other great social transformations: the transition to fuller democracy, sustained economic growth, and the ageing society.

Our goals here are as follows: 1) What was the extent of fiscal and military expansion of Sweden and other Nordic countries during and after 17th century? 2) How much was this in comparative terms? Was Sweden “unique”? Were the other Nordic countries? 3) Did the military-fiscal expansion lead into the extensive taxation and early welfare state development, as is often hypothesized? Were these transitions typical “guns vs. butter” processes or something more complicated? 4) What was the role of institutional legacies arising from Nordic rule (e.g. for Norway in the 19th century) vs. Russian rule for Finland? Did more authoritarian colonial rule retard the transition of state capacity into a more modern form?

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