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GERMAN-SWEDISH ECONOMIC RELATIONS DURING WORLD WAR II

Introduction

During World War II Sweden was one of the few countries in Europe, which could keep its formal neutrality. The war, however, brought about important changes in the Swedish economy, not least by the fact that Swedish external trade was concentrated to almost one single country, viz Germany. The mutual economic dependence was thereby increased.

In this paper it will be investigated how the war influenced the economic relations between Germany and Sweden. On the one hand it concerns how the economic policy practically was modelled by the great power Germany versus a military and economically inferior nation. On the other hand it will be of interest to investigate how the smaller nation could solve its support problems and balance a formal neutrality against a certainly involuntary but essential incorporation in the greater German economic room.

I. Already before the war Germany accounted for 20% of Swedish foreign trade. Among German exports to Sweden dominated products for iron, steel and engineering industry, but also yarn, textiles and clothes. Swedish exports to Germany were dominated by iron ore (50%), butter, iron and steel products. The trade thus was characterized as by a Swedish export of raw products and semi-manufactures, while German exports to a larger extent were composed of more manufactured products. The outbreak of war in September 1939 did not imply any serious break in the German-Swedish trade. On the contrary it was stimulated by increased costs in the transport of goods over the North Sea.

The real important change in Swedish foreign trade occurred first at April 9th 1940 by the German attack on Denmark and Norway and the establishment of what is called the Skagerrack-blockade. The important Swedish trade with the western nations, which before September 1939 accounted for 70% of the Swedish foreign trade, came to an end. The total volume of the Swedish foreign trade was reduced to 50% of pre-war size.

From April 1940 the Swedish foreign trade was almost entirely directed to Germany and to countries subjugated of Germany. The war years also brought about important changes in the composition of the trade compared with pre-war times:

Table 1. Swedish imports from Germany 1936/38 - 1944 in %

Year	Coal and coke	Chemicals	Textiles	Metals	Machinery	War material
1936/38	8,5	13,1	15,2	17,0	19,5	0,5
1939	7,9	16,0	13,6	17,0	17,4	2,0
1940	27,3	11,6	11,7	15,4	12,6	6,9
1941	28,8	11,0	16,5	15,1	10,3	2,9
1942	23,8	13,9	12,2	19,0	11,4	1,5
1943	26,2	13,5	10,0	15,1	12,5	3,2
1944	22,4	15,2	13,9	14,8	10,6	3,8

Table 2. Swedish exports to Germany 1936/38 - 1944 in %

Year	Iron ore	Metals	Ball-bearings	Timber	Pulp and paper	Butter
1936/38	47,8	11,4	1,9	6,6	5,4	8,3
1939	50,1	10,1	2,2	9,0	3,5	7,6
1940	32,6	9,6	3,0	21,6	17,4	2,3
1941	28,3	12,4	4,5	20,7	21,4	—
1942	28,3	11,9	6,5	16,0	23,2	—
1943	34,3	12,9	8,4	10,7	19,6	—
1944	24,6	16,4	2,9	14,9	27,2	—

Already before the outbreak of war, German-Swedish trade was regulated by a clearing procedure with clearing accounts in Berlin and Stockholm. The clearing system was maintained through the war years. The governments, i.e. the trade departments within Foreign office, took an immediate responsibility for the foreign trade. The civil servants were assisted by heads of business enterprises and other experts, who on the strength of their competence often played an important role at the negotiations concerning quantities, prices etc. These negotiations took place on the threshold of every new year, and from lists of desires the negotiators had to compromise to an agreement, which of course was determined of the actual economic and political strength.

From the documents it is completely clear how the negotiators gave priority to the imports of their own country, while exports were regarded as secondary and necessary only to pay for imports. For Germany it was a question of making safe imports to secure commercial and industrial life, above all the armaments industry, for Sweden to get compensation from Germany for the lost markets in the western countries.

II. From German point of view Sweden constituted an important trade partner, particularly as Germany owing to the war was cut off from earlier important markets. With successes on the battle-fields German authorities had plans interweaving the commercial life of the both countries in the grater economic room dominated by Germany. A longer German analysis from 1940 ends with the following words: "Grundsätzlich kann man sagen, dass die Vorteile bei der Eingliederung Schwedens grösser als die Nachteile die daraus resultieren, wären".

Decisively for the German interest was the fact that imports from Sweden could help to widen some troublesome bottle-necks in German industrial life. Most important in this connection was the Swedish iron ore.

Table 3. Germany's iron ore supply 1936/38 - 1944
(1000 tons iron content)

Year	Domestic production		Imports		Total
	Altreich	Reich + Einflußge- biete	Sweden	Others	
1936/38	2 793	—	5 265	4 085	12 142
1939	3 928	853	6 226	4 092	15 099
1940	5 019	2 354	5 339	666	13 378
1941	4 755	8 624	5 027	298	18 704
1942	4 137	9 005	4 205	806	18 153
1943	4 080	10 338	5 568	264	20 250
1944	2 636	5 633	2 628	83	10 980

From the table we first see an expanded production in "Altreich" Imports from France and Luxemburg before the war were registered as production in "Reich" and "Einflussgebiete". Among other export countries only Sweden was left.

Why then were the German leaders so anxious about the Swedish iron ore?

Two reasons were determining. First, Swedish iron ore had a comparatively high iron content. This meant that the German steel industry could economize on manpower, furnace capacity and coke, all serious bottle-necks. The economize on coal — 2 mill. tons per year — also meant that manpower could be saved in the German coal-mines and in the transport. Compared with domestic mining, imports of iron ore from Sweden were a very profitable business for Germany and legitimated an increased coal export to Sweden.

The other reason was that Germany only from Sweden could get some special qualities of iron ore (with low phosphorus content) which were necessary for high quality steel and armaments production. These qualities were "nicht ersetzbar".

From Swedish side there were no problems to maintain the export of iron ore, especially as Great Britain disappeared as buyer. On the contrary one can speak about a Swedish "joy of delivery", just to secure imports from Germany.

In the pre-war years there already was a lively German-Swedish trade exchange in iron and steel products. Germany deliveries constituted mainly of ordinary iron, the Swedish of quality steel, used in the German armaments industry. For the Swedish steel industry it was also important to compensate lost markets in Great Britain.

During the war Swedish exports of ball-bearings got a special interest. With Allies successes in 1943 and 1944 demands were raised for a reduced Swedish export of ball-bearings, which by the Allies were attributed a great importance for the German military force. For Swedish authorities this was a delicate question. On the one hand Swedish economic life had a vital interest to keep good trade relations to Germany. On the other hand, for political reasons, Sweden would not oppose Allied desires. Formally Swedish authorities complied with Allied claims but the German ball-bearing industry was compensated — the Allied completely unconscious — by increased deliveries of ball-bearing steel and ball-bearing machinery for domestic German ball-bearing production.

Table 4. Swedish export to Germany of ball-bearings and ball-bearing steel 1938 - 1944 in tons

Year	Tons	
	Ball-bearings	Ball-bearing steel
1938	2 395	6 850
1939	1 650	6 470
1940	3 482	10 980
1941	5 405	12 570
1942	5 543	12 910
1943	6 129	12 520
1944	1 016	20 820

III. The Skagerack-blockade implied three important — partly connected — changes for Swedish economy. First the foreign trade of the country shrunk and got directed almost exclusively towards Germany and that of Germany dominated Europe. Consequently there were serious shortages of some fundamental goods, which only partly could be compensated with domestic production. Some Swedish export industries also stagnated owing to lost export markets.

Secondly an important part of Swedish production was directed to military demands, which favoured iron and steel and engineering industry.

Table 5. Index of employment (1939=100) for some branches of Swedish industry 1940 - 1943 (4th quarter)

Year	Iron and steel	Engineering	Sawmills	Pulp	All branches
1940	100	107	74	55	89
1941	107	110	66	67	91
1942	107	120	57	66	94
1943	105	125	57	59	94

Thirdly the war also gave rise to a reduction of the private consumption and there were no possibilities for increases of real wage.

Table 6. Annual income of male industrial workers, cost of living index 1936/38 - 1944 and the consumption in Sweden 1939 - 1944

Year	Income	Cost of living	Total consumption	Consumption of food
1936/38	100	100		
1939	107	105	100	100
1940	114	119		
1941	121	134		
1942	134	146	86	82
1943	139	148	90	86
1944	143	149	95	92

With this in mind it was necessary to keep good trade relations with Germany and the German-dominated Europe. Within all spheres — with the exception of oil and rubber — Germany could fulfil Swedish requests.

As Sweden has not got any deposits of their own, coal and coke were among the most critical import goods. In pre-war times Great Britain delivered 38%, Poland 32% and Germany 17% of Swedish imports. With the Skagerack-blockade Sweden became completely depending on German-Polish deliveries of coal. The total Swedish import was cut down since Germany got responsible also for the French and Italian support. In the whole, however, the fuel situation was not alarming and in comparison with other countries in Europe Sweden was favoured. The German deliveries of coal and coke were of course not due to any goodwill, but dictated of Swedish deliveries of iron ore.

Among other German goods, which were of extraordinary importance for Swedish support, can be mentioned fertilizers, chemicals and war material.

With the experiences from the first world war there were strong desires from Swedish authorities to keep prices firm, above all the coal and coke-prices, which attached great importance for the general development of prices. In spite of this increases of prices took place, above all in the year 1940 when the German negotiators could use the political situation for unilateral increases.

Table 7. Price development in the German-Swedish trade (1938=100)

Period	Swedish exports to Germany (fob)							
	Agricultural products	Iron ore	Timber	Pulp	Paper	Iron and steel	Others	Total
1939	99	91	98	84	89	93	107	93
1940 2 : nd half year	112	94	114	111	117	127	120	106
1941 1 : st half year	128	97	119	116	128	118	116	110
1941 Aug.	128	99	122	114	137	125	128	112
Period	Swedish imports from Germany (cif)							
	Coal and coke	Chemicals		Textiles	Iron and steel	Others	Total	
1939	114	113		85	91	101	106	
1940 2 : nd half year	179	132		117	118	112	153	
1941 1 : st half year	211	144		139	123	124	177	
1941 Aug.	216	144		151	129	131	182	

It is thus possible to regard the price development as a mirror of the strength-position between the two countries. At an international comparison (Finland, Switzerland), however, Sweden appears as a very favoured nation.

In this connection it is also worth mentioning the trade credits Sweden was obliged to offer Germany from the autumn of 1941. By the military efforts against the USSR a reduction occurred in the German deliveries and thus a deficit in the clearing. Political reasons made it impossible for the Swedish government to refuse. With the reversal political situation 1942/43 the Swedish authorities got more and more restrictive and the credit was repaid, not in goods but in gold.

Conclusions. From April 9th until the turn of the year 1944/45 Swedish foreign trade almost completely was directed towards Germany and to Europe, dominated by Germany. Both countries got great advantages of this arrangement. The Swedish deliveries helped to widen some serious bottle-necks in German industrial life. So Sweden gave an essential contribution to the German war economy. On the other hand German goods were quite necessary for the production capacity of Sweden and the support of the Swedish population. For both parts imports were essential, and to maximize imports it was a striking "export pleasure".

It is reasonable to speak about an economic symbiosis between the two countries during the war. As long as the large-scale trade harmonized with the military position in the world, the relations were not at all problematic. During the earlier part of the war Sweden's weaker position was expressed in credit giving and unfavourable price-development. Of course during these years Sweden's trade policy could not be a policy of principles, but owing to the structure of trade goods and a flexible management a certain independence could be maintained.

With Germany's deteriorated position from 1943 onwards a changed situation arised. The Allies — especially the United States — now began to insist upon a reduced export from Sweden to Germany. At the same time, as a closer connection to the Allies at the mere political level was desirable, it was completely clear that the Allies by no means could replace Germany as a trade partner. For Swedish authorities it was now necessary — at least illusory — to adjust to Allied claims but yet maintain as much as possible of the trade with Germany in order not to upset Sweden's economic life. This was a difficult balancing, which however got simpler with German set-backs on the battle-fields.

Two obvious examples shall be given how Swedish authorities settled the conflict between Allied claims at reduces deliveries and actual desires to preserve a trade with Germany at the highest possible level.

Before the German-Swedish negotiations at the turn of the year 1943/44 the Allies had enforced limitations in Swedish iron ore exports in the year

1944 from earlier 10 to 7 mill. tons. The German protested but accepted the reduction since it not hit that part of the iron ore deliveries which was most important for the German armaments industry, namely the low-phosphorus qualities, which also during 1944 should be delivered in undiminished quantities.

The other example refers to the Swedish export of ball-bearings. Also in this case Allied claims were fulfilled, but Germany was compensated by increased Swedish deliveries of ball-bearing steel and ball-bearing machinery. In both cases the Allies were quite ignorant.

Under Allied pressure the German-Swedish trade collapsed in autumn 1944. When the German chief negotiator regretted the unilateral Swedish restrictions, the Swedish foreign minister frankly explained that "the Swedish government in this subject in principle adopted the same attitude as it consequently holded up during the war, namely that Swedish policy in the first hand protected Sweden's own interests". The answer was a distinguished expression of the "practical politic" as mutual and throught had characterized the German-Swedish economic relations during World War II.