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Sweden's Rise and Fall as an Empire

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The Quest for Bureaucratic Efficiency: Sweden's Rise and Fall as an Empire*

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Abstract: The prevailing literature on global state capacity suggests that: 1) Europe was pulling ahead of other regions in the early modern period, and 2) state capacity in this period was mostly dedicated to the purposes of centralizing state power and increasing military power. The interplay of institutions needed to expand military power and fiscal expansion was a fundamental factor in these processes. We examine an unlikely candidate for an empire and expanding state, namely early modern Sweden, where the construction of bureaucratic structures and the development of the military went in parallel during the 16th and 17th centuries. Sweden had scarce financial and human resources, so its expansion was based on an offensive strategy to capture territory and resources, i.e. that "the war had to pay for itself." The military burden of the expansion was, in comparative European terms, manageable, and it went hand-in-hand with the development of an efficient state bureaucracy. The strategy worked well until the early 18th century, when confronted by more powerful enemies and inept domestic leadership. From the 1720s onwards, military expenditures began a slow decline. The Swedish state was often forced to rely on revenue from trade to finance wars. However, a centralized state remained as a long-term structural element for Sweden, even though it had to eventually open up to trade, commit to political neutrality, and implement a democratic system.

JEL: H11, H20, N20, N23, N40, P16

Keywords: state capacity, Sweden, military spending, empire, early modern

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1. Introduction

Sweden (including Finland and some other Baltic territories) represents an interesting case study of fiscal capacity and warfare. Despite extensive warfare efforts and territorial expansion, Sweden never suffered a bankruptcy, unlike many other states of the same era, such as Spain (see Drelichman and Voth, 2014). Sweden's ascendancy to a Nordic empire in the 17th century involved a complicated military-fiscal expansion, but in a more moderate way compared to most European powers, leading to a lean yet centralized and efficient state apparatus. From the 1720s onwards, the military sector's share of the expenditures turned to a slow decline. At the same time, warfare grew more expensive, which inevitably meant the deterioration of military performance for resource-poor smaller states. Furthermore, during this period of expansion of territory and then slow decline, Swedish living standards followed the pan-European pattern of fluctuation around a long-run constant mean (see also Lindvall and Rothstein, 2006). Because the economy was heavily reliant on low-yield agricultural output, the Swedish state was often forced to rely on inflationary seigniorage and trade-related income to finance wars (see also Motomura, 1994). In addition to effective bureaucracy and tax collection, the utilization of peasantry and local communities to support military troops, in addition to financial support from allies like France, made it possible for Sweden, a relatively small European state, to become a great power for almost a century. However, at the heart of this story is a unique institutional transformation, which produced enduring state capacity for the centuries to come.

In this article we will provide some new figures and comparisons on Sweden's long run fiscal and political transition. In addition, we argue that a focus on revenue collection alone, which has been a fairly standard practice in recent literature, can be misleading and that it is important to not only look at the spending side and credit, but also what countries were able to get for that spending – "the bang for the buck" (=state efficiency) so to speak. After all, it is possible that some states could produce more military capacity with less money, due to a more effective bureaucracy, increased industrial capacity (or otherwise more versatile economy), or lower production costs of military equipment. These considerations hopefully will be more widely taken into account in future analyses of the European (and non-European) warfare states.

2. Theoretical Dimensions of State Capacity

Was this empire a result of an economic transformation, a necessity to make Sweden more competitive vis-à-vis its competitors? Acemoglu and Johnson (2005) and Acemoglu and Robinson (2012) have emphasized connections between different kinds of economic and political institutions and economic development. They have argued that economic institutions shape economic incentives, and the political processes determine what kind of institutions prevail and how they develop. They have stressed that democratic and inclusive institutions have played an important role in favorable economic development paths. When political power was limited and distributed sufficiently broadly, the incentives for prosperity could emerge. Inclusive economic institutions create inclusive markets and encourage technological improvements, resulting in better skills and higher education (Ogilvie, 2022). Instead, if a nation is ruled by a narrow elite, political power is unconstrained and economic and political institutions are extractive, rapid and, above all, sustainable growth and development do not happen, and countries often remain poor. Political institutions also include the power and capacity of the state to regulate and govern society. Both under extractive and inclusive political institutions political centralization and state formation is essential for economic growth (for a critique of this view, see e.g., McCloskey, 2016). Sweden represents a case of centralization and efficient use of talented bureaucratic innovators, somewhat similar to China already under the Tang Dynasty.

Informal institutions (conventions, practices) and formal institutions (laws, contracts) reduce transaction costs by increasing predictability and minimizing searching, negotiation, and insurance costs. Strong institutional commitments can also increase transaction costs and have a negative effect on productivity, e.g., by delaying and preventing changes in the context of economic recessions and structural changes. Moreover, formal rules promote certain kinds of activities and exchange, but their purpose is also to raise costs of other kinds of action. Governments and states can, therefore, direct the economic development to the tracks they want. This can also lead to various types of path dependent institutional choices (David, 2001, 2007; Cioni et al., 2022; Cirone and Pepinsky, 2022). It is, however, important to keep in mind that, first, institutional structures are typically complex and always evolving, and that political activities often have unintended consequences (Pierson, 2000).

Charles Tilly's groundbreaking research established the idea that money and warfare were interrelated in the European political processes over the last millennium. Moreover,

nearly constant warfare forced Europeans to become more efficient in fiscal centralization and mobilization and share political power more broadly (Tilly, 1990). Following the debate about the importance of institutions in European long-run economic development, van Zanden (2009) has argued that Western Europe had relatively efficient institutions (and especially property rights) and low transaction costs already from the late medieval period. The important issues related to the protection of property rights and the role of the state, and more generally the relationship between the state and citizens (Withington, 2007; Dayton, 2004). These intrinsically linked relationships are part of the discussion of fair (inclusive and exclusive) institutions and the mechanisms to finance the state (military) organizations, welfare institutions and other activities and, finally, the role of taxation in economic development.

In Hoffman's (2015a) explanation as 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 (see also North, Wallis and Weingast, 2009). 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 is 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 (2018; see also Cox et al, 2024) also have 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' (Dincecco and Onorato, 2018: p. 106). They also follow the arguments Tilly (1990) and Bates and Lien (1985): when states' 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. This model has also been criticized, especially from the perspective of the complicated causal implications (Geloso and Salter, 2020).

How does this relate to the Swedish case? According to Tilly, establishing ways to maximize the extraction of revenue was vital for many polities, because they were often agrarian and not very urbanized (Tilly, 1990). Swedish early modern society was undeniably poor compared to North-Western Europe, the cities were weak, the country was centrally governed, and society was militarized (Bruno et al., 2023; Fochesato, 2018; Edvinsson, 2009). Nevertheless, the state could not have exclusively forced its subjects to make the sacrifices it wanted, because in Sweden resources had to be gathered mainly from the countryside. Therefore, in order to achieve results, the Crown had to negotiate with the main taxpayers and other stakeholders, especially elites. Regardless, Sweden was hardly an equal society before the 20th century, and the power of the peasants was rather limited in the government (Bengtsson, 2019; Gustafsson, 1998; Wittrock, 2004).

Sweden began to garner international attention, within Europe in particular, only after having participated in the Thirty Years' War, specifically since 1630. For example, Jan Glete (2002) and Jens E. Olesen (2016) consider that the Great Power Era of Sweden to have started from that moment. The Peace of Westphalia in 1648 was undoubtedly a central issue for the sovereignty and external strength of the kingdom, even though the limits of the geographic expansion of the kingdom came to fore circa first ten years later, following the peace of Roskilde (1658) and Copenhagen (1660) with Denmark. In other words, the rise to the status of a great power took at most up to a century. Likewise, the length of the Swedish great power period in principle might be anything between 60 to 160 years, but most usually associated with the period 1630-1721 (see map in Figure 1) (on interpretations, see Kuha and Karonen, 2023).

Between 1600 and 1721, wars took place in 76 years of the entire period. During that time span, Swedish society enjoyed at least an official peaceful time for 45 years, but even then, Sweden was preparing for full-time war. Society was highly militarized, and in this respect some scholars have used the concept of "a military state". The calm period mentioned above included a total of 21 years at the end of the 17th century. At that time, society was able to recover somewhat, although the so-called Great Famine in the 1690s struck the population hard, especially in the Grand Duchy of Finland, northern Sweden, and the Baltic provinces. The years of peace followed exactly the same length of absolute war that eventually broke the Swedish great power. The Great Northern War (1700–1721) was one of the greatest wars of the period. The victorious war brought Russia for the first time to the forefront of international politics, and from thereon Russia represented one of the main threats to Sweden in the coming years (see also Frost, 2014).

Thus, the end of the great power period for Sweden had unequivocally arrived by 1720. At that time, Sweden was forced to conclude a series of peace treaties, with the exception of the current South Sweden and North Karelia (and a small proportion of Pomerania), and all the previously conquered provinces were lost. The loss of territory in the Great Northern War would lead to a century long period of economic stagnation, putting Sweden on a similar path to that of states like Ireland and the Netherlands, where losing mercantilist wars would lead to relative impoverishment (Findlay and O'Rourke, 2007; Schön and Krantz, 2012). Concerning the Swedish great power period, most studies have focused on the themes of political history and social history, whereby the background, goals, and the consequences of the conquest policy have been at the forefront. Undoubtedly, with its human resources, Sweden was, alongside other major European states, a rather small player; and its population was the smallest of all its major competitors.

FIGURE 1. *Sweden's Expansion from 1560 to 1660 and Losses from 1718–1721*

Sources: Karonen and Hakanen 2017, 30–31 and sources mentioned there.

Researchers have had different opinions on whether the Swedish early modern society was a military state (a mighty state, *maktstat*) where the needs of a military emerged holistically and, if necessary, with coercive measures dominating this process, or whether it was based on "positive" interaction between the rulers and the ruled (Glete 2000; 2002; 2010, see also Olson 1993; Kurrild-Klitgaard and Svendsen 2003). These views have come closer together, and they are not mutually exclusive. In any case, there has been a longstanding consensus that war and the preparations for wars have played a key role in the rise of Sweden as a great power, in its development as an early modern state, and in the loss of the great power status. Losing the great power status was not a sudden or complete collapse, but a long process. However, virtually all wars were followed by a more or less severe crisis of peace, since the bills accrued from the wars had to be paid in one way or another (see Ferguson 2013).

Based on our figures (see Figures 2 and 7 below), Sweden's defense share (=military expenditures as a share of the total budget, per cent) in the 16th and even in the 17th century was between 25 to 45 per cent. In some countries, like England and France, the defense share at the end of the 17th century was typically over 75 per cent of the aggregate

government budget (Eloranta and Hoffman, 2023). The Swedish share was thus quite modest. Moreover, the military burden (=military expenditures as a share of GDP, per cent), and the other relative spending indicators, were not excessive either, as we will explain shortly, which again points to the conclusion that Sweden was able to have a great power without overtly extractive taxes or spending. This would suggest that the state formation process in Sweden had produced an effective and lean system of governance, in comparison with most European states (see e.g. Hallenberg, Holm and Johansson, 2008; Glete 2010; on modeling early modern fiscal states, see Gennaioli and Voth, 2015).

In general, the heavy taxes funding the wars fought by Spain and the other great powers in early modern Europe were unusual by world standard, and they were much higher than in seventeenth-century China or the Ottoman Empire (Karaman and Pamuk, 2013). Differences in per-capita income or the frequency of warfare do not explain the gap, and it likely had something to do with the agency problems facing rulers of larger states such as China and the Ottoman Empire, because tax levels are low in other big premodern states, perhaps because of agency problems facing rulers in huge states and the reliance on representative institutions in western Europe (Eloranta and Hoffman, 2023; Hoffman, 2015a). Moreover, it is likely that some European states were able to develop more effective state institutions to collect revenue and spend more wisely, thus increasing their odds of winning conflicts. Sweden is a case in point.

Based on Mark Dincecco's (2011) data, we can get a good overview of both the revenue and spending side relative of the population, from the 18th century until 1913. Sweden's revenue per capita was rather low for most of the period in comparative terms, similar to Prussia and Denmark, only rising temporarily due to the French Revolutionary and Napoleonic wars, and more permanent during the decades since 1860. The situation was quite similar for the spending side (per capita), and Sweden was clearly "behind" more advanced economies like the UK and the Netherlands. However, we need to be careful in assuming that low state capacity fits Sweden in the 18th century, at least before analyzing its institutional development and military capacity in some way. Centralized and limited regimes were often associated with higher revenue. As such, Sweden was most certainly a centralized regime, with an effective bureaucracy since the 17th century reforms. And the lower revenue acquisition did not translate to either poor battlefield performance or ability to govern the realm (see also Åmark, 1961).

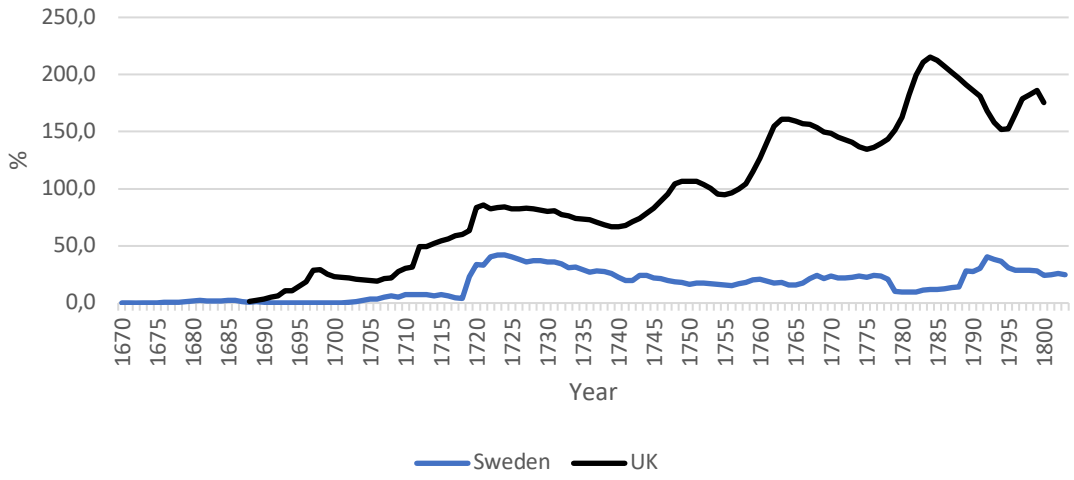
While Sweden was relatively impoverished economically both during the 17th and 18th centuries, production capability was a relative advantage, with strong copper and iron production which was attractive in foreign markets, especially in great powers like England and France (Hildebrand, 1958). The country was also more or less self-sufficient when it came to important military production, such as ships, timber, and tar, which expanded the naval and merchant fleet (Högberg, 1969). Furthermore, The Great Power Era was accompanied by growth in real wages (which would depress after 1721) and the rise and growth of Stockholm as a bureaucratic, military, and financial center of the realm (Söderberg et al., 2003). The centralization around Stockholm was likely a positive factor for increased state efficiency and capacity. While we have yet to investigate deeper the efficiencies and inefficiencies of the state in the earlier period, Heckscher and Heckscher (1954) argued that the Swedish state's use of revenue had become plagued by inefficiencies by the second half of the 18th century, for instance in subsidizing unproductive sectors such as textile manufactures producing mostly for the poor domestic market.

As pointed out by Tilly, David Stasavage, and others, warfare and state capacity were also tied to the ability of the state to obtain credit (see e.g. Stasavage, 2007). For example, the early winners in the fight for world leadership, such as England, were greatly influenced by the availability of inexpensive credit, enabling them to mobilize limited resources effectively to meet military expenses (Modelski and Thompson, 2002; Ferguson, 2013; Kennedy, 2010). The supply of inexpensive credit required making the state a credible borrower and doing that usually involved institutional change—in particular, sharing sovereignty with the representative institutions that had helped raised tax revenue (Cox, 2016; Dincecco, 2009). It was easiest to create representative institutions in urban republics and smaller states such as England and the Netherlands; in larger states, heterogeneous institutions and the difficulties of monitoring delegates made it harder to create national representative institution (Stasavage, 2011). That was a major reason behind the success of the Netherlands and England.

In the case of Sweden, credit was also available to fight the many wars of the period, along with subsidies from allies like France. For example, the Great Northern War increased Sweden's relative debt levels rapidly (Fregert and Gustafsson, 2014). The 18th century Swedish administrations tended to pay down the debt following the conflict, and the debt levels declined substantially from the 1790s onward. The levels started to increase again from the mid-19th century on, but with lower levels than during the 18th century

wars. Moreover, as seen in Figure 1, Swedish empire-building project did not lead to a massive fiscal expansion, especially public debt, as in the British case. That, of course, displays again the Swedish state's ability to do this with few resources, but it also showcases the inability or unwillingness to tap deep into the burgeoning financial markets for debt financing, unlike Britain's eventual acceptance of higher debt burdens (Eloranta and Land, 2011).

FIGURE 2. *Debt-to-GDP (%) in Sweden and the UK, 1670-1800*



Sources: Fregert and Gustafsson, 2014; Krantz, 2017; Ferguson, 2013.

Overall, Sweden's rise to be a great power in the European context and its fall has not been studied enough from the perspective of state capacity creation and accumulation. Moreover, international comparative studies often lack data on Sweden for the pre-19th century period and thus fail to provide a complete picture of the evolution of Sweden's state capacity in the long run. Here we attempt to rectify that by reviewing both revenue and spending, as well as various indicators of military and institutional capacity. Our analysis suggests that Sweden was able to rise to the position of an empire in the Baltic region with relatively modest revenue and spending levels, and initially also fairly low government debt levels. The Great Northern War led to the collapse of Sweden's small empire, and in the 18th and 19th century Sweden had somewhat limited state and military capacity. Thus, it is not a great surprise that Sweden was ill prepared for the impacts of the French Revolution and Napoleon, and the upheavals that followed. Subsequently, Sweden lost Finland to Russia in 1809 but gained Norway in a union (1814).

3. Rise of the Administrative State and Fiscal Data

Sweden's military and administrative efficiency was largely inspired by foreign influences, which were subsequently developed in an original fashion. In the 1530s, King Gustav Wasa (c. 1496–1560) invited many experts from the small German principalities to develop his still primitive central administration. This so-called Germanic period (in Swedish: *den tyska perioden*) lasted only half a decade, but it laid the foundations for a more effective Swedish administration. Tax revenue for the Crown increased as tax collection became more regular, and taxation became more stringent. With the Reformation, the state took over a large part of the Church's property, which also improved the King's ability to develop the state functions. This was also supported by the fact that in Sweden during this period no privileged group, i.e. the nobility, was able to dictate the aims of the state or decide on the allocation of resources at will (see e.g. Roberts (ed.), 1973; Roberts, 1979; Lindegren, 1985; Nilsson, 1990; Karonen, 2009; Karonen and Hakanen, 2017).

During the first decades of the 17th century, Sweden built a central administration that was both efficient and simple by the standards of the time. It was located in Stockholm, from where the various parts of the kingdom were run. In the mid-1630s, the main parts of the Swedish and Finnish provinces (*län)* were divided into counties, headed by bailiffs. Under them were a varying number of parish officers and other officials responsible for tax collection. As early as the 1610s, the administration of justice was centralized in the Courts of Appeal (in Swedish: *hovrätt*), where judgments of the town and rural parish courts were reviewed and, for example, death sentences were confirmed. For a long time, the Swedish military was based mainly on peasant forces, which was rare in Europe at the time. In other words, Sweden could rely on the loyalty of the peasants to their King. This meant savings on the financial resources of a relatively poor country, which often could not afford expensive and unreliable mercenaries. Although Sweden was only a great power for a relatively short time, it was the harnessing of the full resources of society for warfare that made it possible. At the same time, the development of administration, the centralization of bureaucratic activities, and the efficient collection of taxes made it possible to build the empire as a whole (e.g. Karonen and Hakanen, 2017, Figure 1, p. 29).

Since the days of Gustav Wasa, Sweden developed into an unusually centralized state; and since the early 17th century, it became a particularly well structured and supervised state. One of the key components was the Diet – consisting of the nobility, the clergy, the bourgeoisie, and the peasants – which allowed the monarch to concentrate power to the

elites. It was a special feature of the Swedish system that the peasants, who also bore the heaviest fiscal burden, were able to have some influence on the decisions that affected them. This increased the legitimacy of the government, even during times of great sacrifices (Rothstein, 1998; Hallenberg, Holm and Johansson, 2008). These were among the reasons that the resilience of the Swedish society was quite high, namely the fiscal flexibility of the state, the efficiency of the administrative structure, the high degree of legitimacy of the monarchy, and the agricultural base of the society. This resilience was greatly needed during the frequent wars Sweden engaged in the 17th century, and it was finally stretched to the limits during the Great Northern War (1700-1721) (Karonen, 2008; Karonen and Villstrand, 2017).

The condition of the Swedish state's finances during and after the long periods of war has been studied quite scarcely as a whole. In particular, a holistic and long-term review has often lagged behind. In this short overview, there is not enough space to deal with the changes in the various eras of financial administration of the Swedish state or how also the Swedish Diet (in Swedish: *Riksdag*) usually had a lot of decision-making power, for example, on the targeting and level of taxation. Instead, we want to briefly evaluate the possible sources of data on Swedish government revenue, spending, and other indicators, as well as what those figures tell us about the Swedish levels of state capacity.

First, information on central government revenue and expenditure has been fragmented since the late sixteenth century, as the oldest so-called emblem books of the nation have survived from 1573 and 1582 (Odén, 1955, 1966, 1967). More systematically, information has been preserved from the 1620s onwards (Pylkkänen, 1995; Lindegren, 1999). In the debate concerning this era, the focus has mostly been on the quality of the tax revenue collected by the Crown (mainly natural products) and the increasing new demands due to the continuous wars (i.e., the need for taxes in the form of cash and the explosive growth of costs). Concerning the 17th century, one particularly relevant study is still the work of Georg Wittrock (1914-1917) (altogether 954 p.). His study discussed in detail the difficulties caused by the peace crisis of the 1660s on state finances and the (impulsive) efforts to overcome the difficulties. The details were largely based on Wittrock's figures from the State Ledgers (in Swedish: *rikshuvudbok*) and budgets (in Swedish: *stat*). Wittrock's own point of view of central government finances was based largely on the accurately recorded events, the description of individual actors, and the evaluation of their actions. Karl Åmark's work *Sveriges statsfinanser 1719-1809* (1961) also provided a detailed

description of the development of state finances through budgets and other existing accounting documents. Åmark's careful study of inventory of accounts included nearly 100 large tables of income and expenditure on Sweden's central government finances, which is a solid foundation also for assessing the significance of the military establishment. In addition to these overviews, there is research about individual wars and their consequences (Juvelius, 1919; Häggman, 1922; Karonen, 2008). Research on changes regarding the Swedish national sovereign debt can also be helpful in determining the state's early capacity to expand (see e.g. Winton, 2009, 2012a-b; Dahlström, 1942). Thus, first, there is research and data that can give us some glimpses of how the early Swedish state functioned, and second, the development of this data is also an indication of emerging administrative capacity.

Finally, the various phases of the Swedish historical national accounts have by now produced a lot of information on the Swedish economy and its components, thus helping our analyses here (see e.g., (Christensen et al, 1995; Edvinsson, 2013; Schön and Krantz, 2012). We will make use of both the older studies on the Swedish state finances and the newer historical national accounting information. In the case of Finland, it is more difficult, given that the current estimates go back in time only to 1860 (Eloranta et al, 2016). In our case, when the comparisons required nominal GDP figures going further back in time, we used regression extrapolation estimates instead. The various demographic and macroeconomic indicators are another indication that Sweden had a society that accumulated and valued information concerning the state.

Thus, we argue that after 1720 Sweden, instead of being a great military power empire, it instead focused on slowly becoming an advanced administrative and bureaucratic form of a state. The establishments of several government agencies and the increase in information capabilities would mark the eighteenth century, rather than military dominance. First, in order to deal with the government debt brought on during the Great Nordic War, a predecessor to the National Debt Office (*Riksgäldskontoret*) was created in 1719, and it was expanded in 1762 and 1777, and eventually it was established as a proper government agency in 1789, to help finance the war with Russia.

Second, in the words of Brambor, et al (2020), Sweden greatly increased its information capacities in several steps, arguably one of more important "inputs" into state capacity. In several of these regards, Sweden even became a forerunner in the world. Sweden became the first populous country in the world to conduct a national census, in 1746, to yield more

reliable information on the populations in Sweden and Finland. This built on previous capabilities, since the census was created from parish registers, established already in 1571, second in the world only to England. These registers had become nationally uniform in their methods in 1686, greatly increasing the possibilities of collecting reliable vitality statistics. The census would also lead to the establishment of the first statistical agency in the world, *Tabellkommissionen*, in 1756. Not until much later in century would any other country, Denmark-Norway and France being the first, create their own equivalents (Brambor et al, 2020, Figure 3, p, 186). This enabled Sweden to greatly increase its administrative capacities, as knowledge and data on its population for instance made tax collection more efficient. The National Board of Trade (*Kommerskollegium*) were also given greater administrative capabilities after 1720, in for instance creating coherent national statistical series on Swedish foreign trade and shipping from 1738, which greatly improved the collection of trade taxes and similar fees. Scientific ambitions were further improved with the establishment of the Swedish Academy of Sciences (*Vetenskapsakademin*) in 1739 (see also Rothstein, 1998).

By the end of the eighteenth century, then, Sweden had relatively high total state capacity (although partially hidden, at least when measured by revenue per capita), behind only Denmark among ten measurable countries. Sweden ranked high even in fiscal capacity, in providing public goods (rather than particularistic spending), and in terms of the rule of law, but lagged behind others somewhat in rigorous and impartial public administration functions (i.e., whether government officials prudently carried out their duties) (see data in O'Reilly and Murphy, 2022). Next, we will explore the state capacity developed by Sweden in this period, highlighting various indicators that reveal this partially hidden reservoir of bureaucratic power.

4. Emergence of Military-Fiscal Power

It is possible to come up with detailed snapshots, and even time series, on the Swedish military-fiscal state in the long run and place this interesting case in a broader European comparative framework. Can we ascertain, based on the compiled figures, whether Sweden achieved this expansionary "miracle" due to the efficacy of its state apparatus, ability to obtain debt, stable institutions, ability to wage warfare particularly effectively, or something else? Here we will review different types of data related to these questions, to see if there truly was anything unusual about the Swedish (and Finnish) state.

However, first we provide a brief outline of the changes in Swedish taxation, namely the major institutional changes that were behind the great power "miracle". Sweden moved from mostly collective taxes to individual taxes in the 1540s, and the overall tax burden started to increase, with the main focus being on land taxes. This was a natural way to build up the coffers as more than 90 per cent of the population lived in rural areas. From the 1560s to the 1720s, the state moved to use extraordinary taxes the Estates imposed for a specific purpose and for a fixed period, usually to pay for costs arising from wars. In turn, in the period from the 1580s to the 1630s, the palette of taxes was complemented by the invention and application of consumption taxes, such as excise duties, mill duties, small duties (*lilla tullen*), and great sea duties (stora sjötullen). These were the types of taxes that greatly expanded the tax base of the state, and they lasted until the 19th century and beyond in some form. As we will discuss later, maritime trade provided an important fiscal source for the empire.

Another important factor in building the empire was based on the new institutional setup that improved the resilience of the Swedish realm in the face of various types of crises. Despite the rural nature of the state and relatively low living standards in comparison with Western Europe in the 16th and 17th century (see e.g., Bolt and van Zanden, 2020), the ability of the realm to withstand crises was fairly good. In some ways, the fact that Sweden was behind some of its competitors, like Denmark, was a blessing in disguise during crises. The Reformation carried out by Gustav Wasa in the 1520s and 1530s was a rather brutal way to expropriate a lot of the property owned by the Catholic Church. The changes in the tax laws, along with the Reformation, inevitably led to higher revenue flows and heavier tax burdens.

Since the 1560s, as a result of series of wars, Sweden developed into an effective warfare state (for a theoretical discussion of this, see e.g., Hoffman, 2015b). Regardless, it endured perennial shortages of money as most of the taxes were paid in kind. Yet, most of the population was able to adjust to crises periods due to the fact that they lived in rural areas, with access to food supplies in some form. This applied especially to the Finnish side of the realm, which was even more rural by nature. Only the increase in the sale of forestry products and tar provided some of the peasants more room to manoeuvre, and that also fed the emergence of smaller towns and merchant connections, as the bourgeoisie of these urban areas provided credit for this budding trade (Åström, 1986; Ojala and Räihä, 2017; Hemminki, 2014).

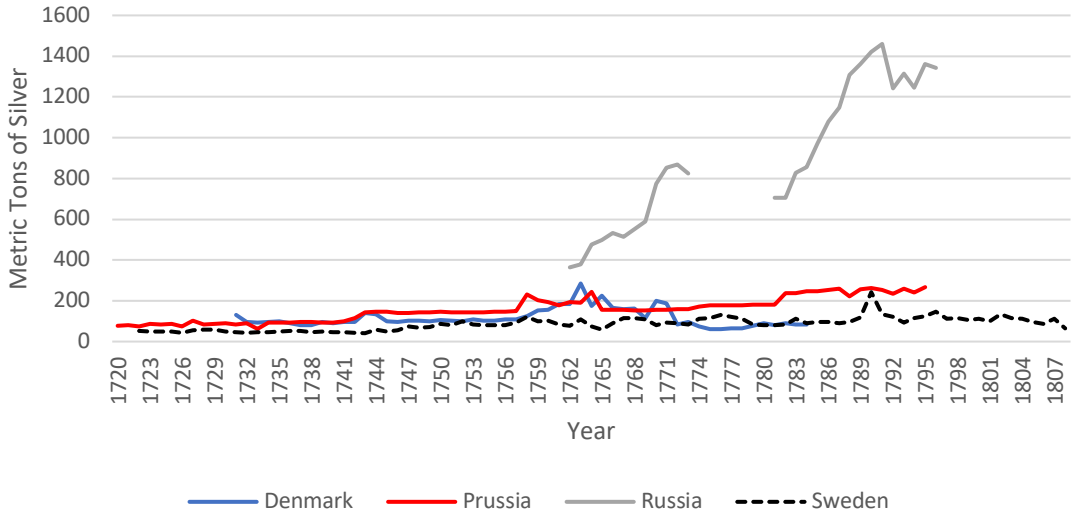
In terms of the data we currently have, first we will examine the early data, prior to the expansion and at the height of the great power period. As seen in Table 1, Sweden's defence share in the 16th and even in the 17th century was indeed lower than among many of its competitors. As we noted, in countries like England and France, the defence share at the end of the 17th century was typically over 75 per cent. The Swedish share was modest, but it increased during periods of war as well as in general during the 17th century. Moreover, the military burden, and the other relative spending indicators, were not excessive either, which again points to the conclusion that Sweden was able to have a great power without massive increases in taxes or spending. The military burden also did increase substantially during the period of the empire. However, we can also see that the point of emphasis during the empire-building was more on Sweden proper, and for example the Finnish part of the empire received less in military appropriations.

TABLE 1. *Sweden's Military-Fiscal Evolution from the 16th Century to 1771*

Year	**Revenue of GDP (%)**	**Expenditure of GDP (%)**	**Military Burden (%)**	**Defense Share (%)**	**Finland's Share of Sweden's Military Spending (%)**
1582	7.2	9.3	2.3	25.1	24.2
1661	-	11.6	5.5	47.3	-
1663	-	12.4	5.5	44.9	11.0
1665	-	13.5	6.0	44.1	10.2
1667	16.5	13.0	5.7	43.7	10.9
1669	-	14.0	5.9	42.3	11.4
1771	-	13.2	5.8	43.8	-

Sources: GDP from Krantz, 2017. 1582 from Odén, 1955, 1966, 1967. 17th century from Wittrock, 2004.

FIGURE 3. *State Revenues in Metric Tons of Silver in Denmark, Prussia, Russia, and Sweden, 1720-1808*



Source: European State Finance Database, Martin Korner. Available from: http://www.esfdb.org/table.aspx?resourceid=11766. Cited 7 July 2018.

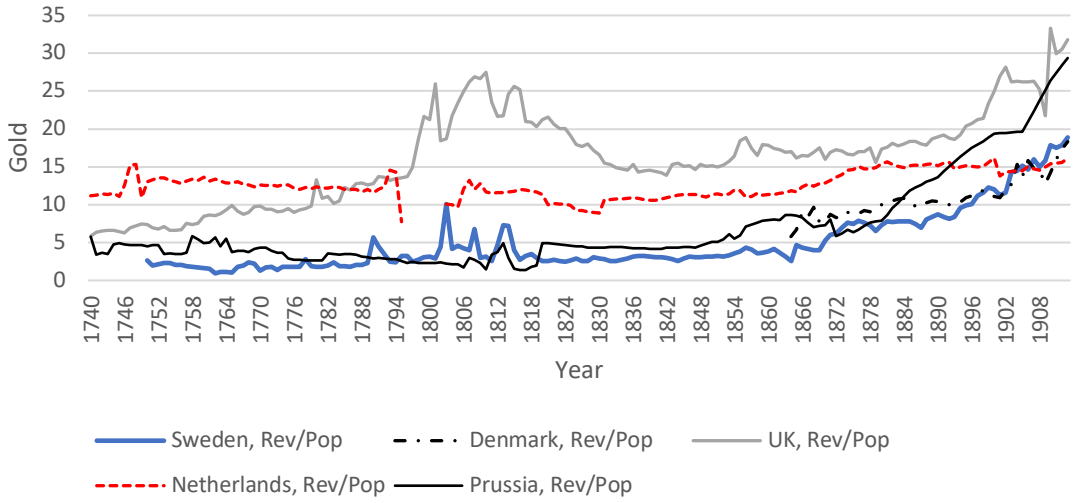
Furthermore, the heavy taxes funding the wars fought by Spain and the other great powers in early modern Europe were unusual by world standard, and they were much higher than in seventeenth-century China or the Ottoman Empire, with Europeans gaining a military-fiscal advantage. Differences in per-capita income or the frequency of warfare do not explain the gap, and it likely had something to do with the agency problems facing rulers of larger states such as China and the Ottoman Empire, because tax levels were low in other big premodern states, perhaps also due to reliance on representative institutions in western Europe (Eloranta and Hoffman, 2023; Hoffman, 2015b). Moreover, it is likely that some European states were able to develop more effective state institutions to collect revenue and spend more wisely, thus increasing their odds of winning conflicts. It is quite possible that Sweden was such a state in the 17th century. And, as seen through the data, peripheral parts of the expanding empire were a bigger part of the Swedish military budget in the 16th century than a century later, since the great power expansion was more directed to the south and southeast.

As we have already indicated, the data for the 17th century is limited, but also informative. However, if we look at the situation after the Great Northern War, which meant that Sweden's status changed dramatically in the Northern European context, we might expect a decline in revenues and spending as well. As seen in Figure 3, we can look

at this first from the revenue side. Sweden was collecting less revenue overall than similar sized Denmark and Prussia in the 18th century, for most of the period. Russia was, of course due its size, collecting a lot more in the latter part of the period. Prussia too was expanding and consolidating its state apparatus in the latter half of the century until the French Revolution. The onset of the various wars during the turn of the century also forced Sweden to increase its revenue collection, to finance the warfare that followed (see also Glete, 2002).

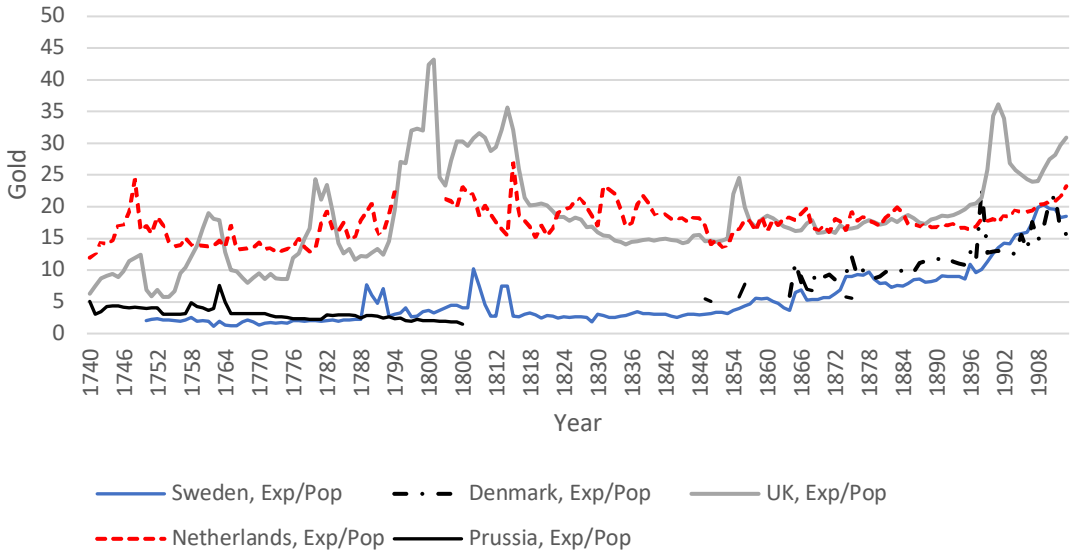
Based on Mark Dincecco's data, Sweden's revenue per capita was rather low for most of the period in comparative terms, similar to Prussia and Denmark, only rising temporarily due to the French Revolutionary and Napoleonic wars, and more permanent during the decades since 1860 (see Figure 4). The situation was quite similar for the spending side (per capita), and Sweden was clearly "behind" more advanced economies like the UK and the Netherlands, as seen in Figure 5. However, we need to be careful in assigning low state capacity to Sweden in the 19th century, at least before analysing its institutional development and military capacity in some way. As Dincecco (2009) has pointed out, centralized and limited regimes were associated with higher revenue. Sweden certainly was a centralized regime, with an effective bureaucracy since the 17th century reforms. And the lower revenue acquisition did not translate to either poor battlefield performance or ability to govern the realm, given the administrative and bureaucratic efficiencies we have already highlighted.

FIGURE 4. *North European Revenue per Capita, 1740-1913*



Source: Dincecco, 2011.

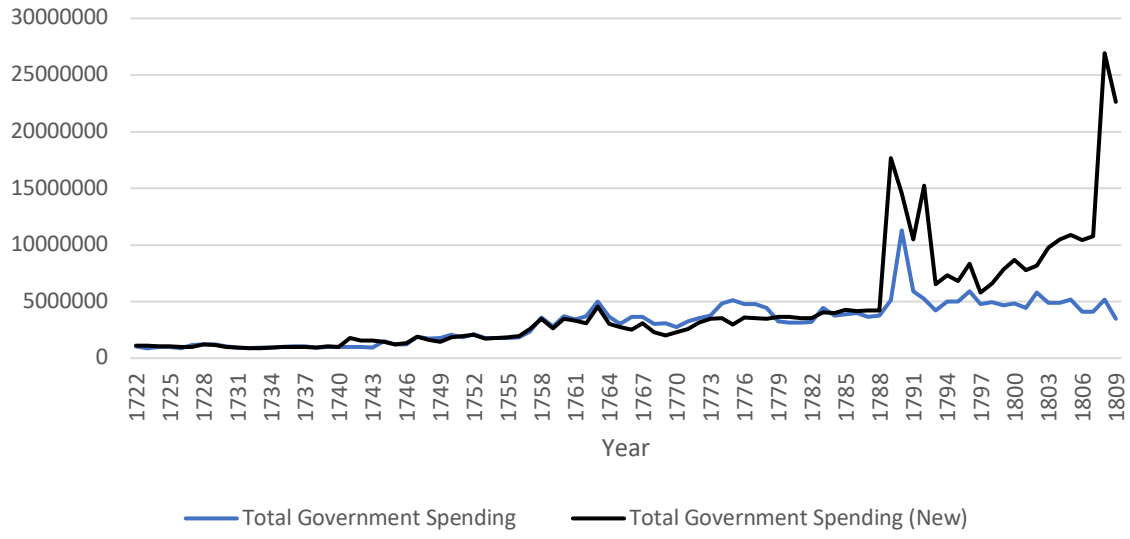
FIGURE 5. *North European Expenditure per Capita, 1740-1913*



Source: Dincecco, 2011.

Given that we are delving deeper into the 18th century spending figures, by using Karl Åmark's figures (Åmark, 1961), we must first examine if they are relevant, by comparing them to the latest data constructed by Fregert and Gustafsson (2008). As seen in Figure 6, the numbers seem to be almost the same until the 1790s, when they diverge. It is quite likely that the Åmark figures understate the spending during the war years. But for most of the period they seem to be representative, so we can use them to detangle the core spending and revenue figures.

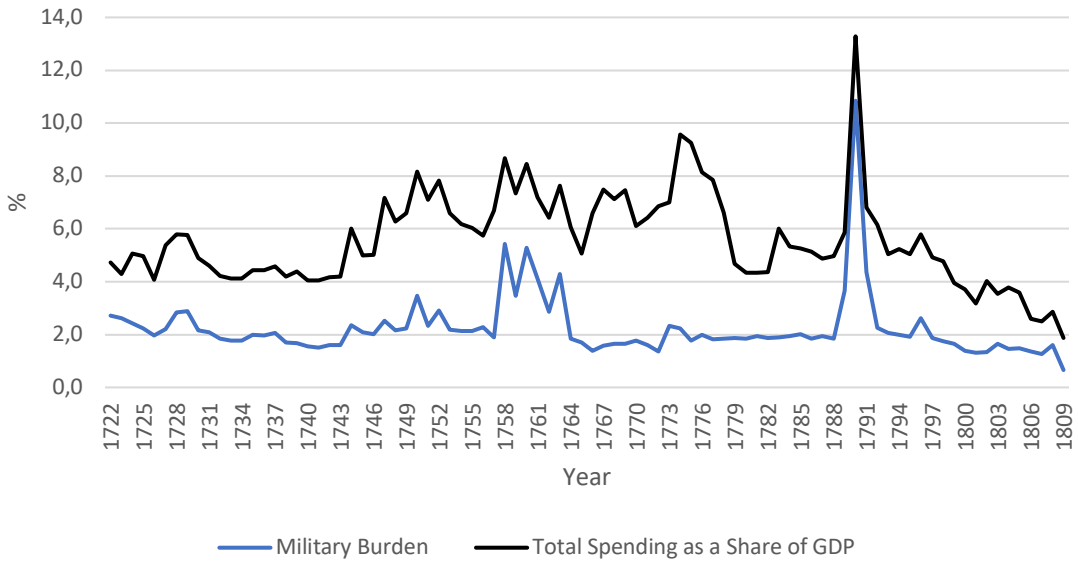
FIGURE 6. *Two Views on Swedish Government Spending, 1722-1809*



Sources: First series: (Åmark, 1961). Second series (new): (Fregert and Gustafsson, 2008).

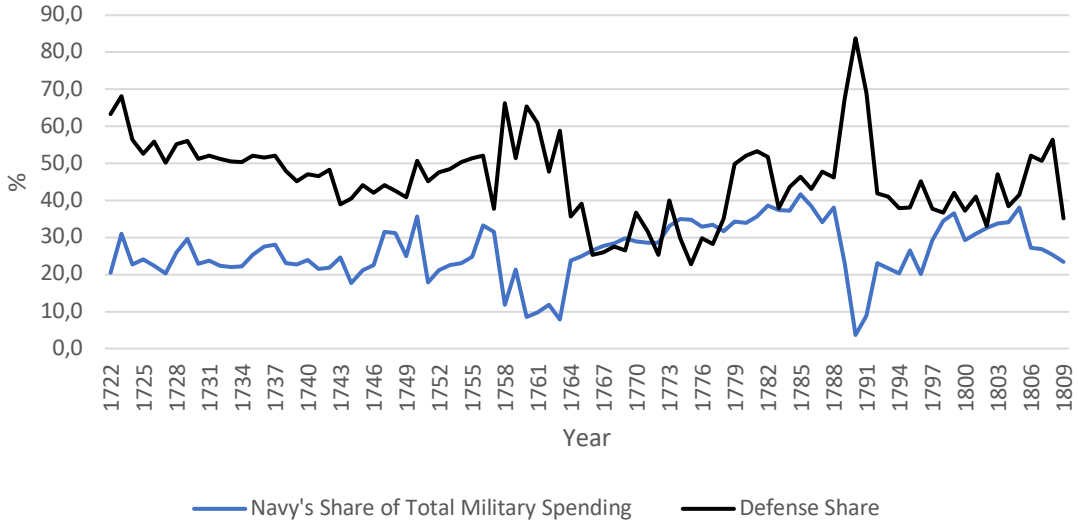
Based on these figures, displayed in Figure 7, we can say that military burden of Sweden was relatively modest in the 18th century, the few war peaks notwithstanding. Moreover, the total spending respective of GDP increased slightly until the 1770s, and then it began to decline (with the early 1790s' war as the exception). It is likely, as we pointed out above, that the spending share did not really decline in the 1790s and early 1800s, but rather stayed at a similar level heading into the 19th century.

FIGURE 7. *Sweden's Military Burden (=Military Expenditures as Share of GDP, %) and Total Spending (as a Share of GDP, %), 1722-1809*



Sources: Åmark, 1961. Schön and Krantz, 2017.

FIGURE 8. *Sweden's Defense Share (=Military Expenditures as a Share of Total Government Spending, %) and Navy's Spending Share (of Total Military Spending, %), 1722-1809*



Sources: Åmark, 1961. Schön and Krantz, 2017.

In comparison, we can see in Figure 8 that the military spending's share of the total government spending seemed to decline until the 1770s, which is in contrast with the military burden, and then started to increase slightly. The Navy's share of the total military

spending remained at a similar level, with the exception of the period of 1760s and 1780s, with deep troughs at the end and beginning of that period.

Finland's share of the Swedish realm's military spending varied a lot during the period. There were deep troughs in the 1740s and 1760s, and an increase in the mid-century. The "typical" spending share was between 15 and 20 per cent of the total. It seems likely that Sweden did not respond to the increased Russian threat in the latter part of the 18th century with increased military investment in the east, which can be observed in Figure 9.

FIGURE 9. *Finland's Share of Total Swedish Realm's Military Spending, 1722-1792*

Sources: Åmark, 1961. Schön and Krantz, 2017.

These figures give us broad strokes in Sweden's revenue and spending trends before the 19th century. It seems that the spending levels even during the great power period were somewhat modest in European terms, and relatively low in the 18th century, especially the military spending. However, we must also examine more closely various revenue sources and their implications for the accumulation of state capacity.

5. Maritime Trade, Indirect Taxation, and Government Revenue

It should come as no surprise then that the key to Sweden's rise as a great power is access to and control of maritime trade. Access to global markets is an important component for any fledgling power, and for Sweden, supporting, controlling, and counting trade was essential in developing its overall capacity to supply and fund its empire building. Trade provided both the goods and the capital to build not only state capacity, but commercial strength and reach as well.

This is not a new story in the early modern world, as Britain relied heavily on maritime trade to build its own empire. Naval investment provided opportunities for Britain to expand its reach throughout the global markets, which in turn, provided new and greater opportunities for its private citizens to accumulate wealth (Armitage and Braddock, 2002). This imperial and economic growth provided both the impetus and resources for the English state to grow substantially and to extract a greater amount of revenue and become more efficient in the process (Brewer, 1988). The question that remains is which comes first: maritime trade or state capacity? Sweden serves as an excellent case study to examine whether state capacity or maritime trade fueled Sweden's rise as a great power.

FIGURE 10. *Total Swedish-Finnish Exports and Imports, in Constant Prices of Riksdaler Specie, 1738-1750, 1738-1805*

Source: Edvinsson and Gad, 2018.

As mentioned earlier, part of Sweden's relatively capable (or predictable fiscal) state may have stemmed from its own production of and self-sufficiency in goods like iron, copper, tar, and timber. The availability of tar and timber provided a cheaper and abundant supply of exactly the goods necessary for building ships and maintaining a large and effective navy. Sweden was able to outcompete its immediate neighbors in accessing timber to build ships, tar to seal and weatherproof the ships, and iron for cables and cannon. Sweden's privileged access allowed Sweden to spend less to build more, increasing the efficiency of the state, at least for a short time. The availability of key strategic goods and resources is vital during

periods of war, especially since those can be scarce (see also Le Billon, 2004; Davis and Engerman, 2006; Rönnbäck, 2010).

These goods were also desirable for foreign markets, and timber and iron made their way around Europe in large quantities during the early modern period. For instance, Sweden became the foremost provider of bar iron to Britain during the early and mid-18th century, before gradually being outcompeted by cheaper Russian iron during the second half of the century (Hildebrand, 1958; Högberg, 1969). Despite this relative decline in importance on the British market, there are indications that the realms' trade capacity increased during the long 18th century, with steady export increase from 1750 until about the 1790s when it declined (see Figure 10). The strength of the merchant navy also increased, with total shipping tonnage going up by more than three times from the 1720s to the 1780s, with most of the increase coming during the later decades (Högberg, 1969; Müller, 2004). This capacity increase may have been the result of conscious mercantilist policies, as the Swedish merchant fleet was in effect partly protected from foreign competition with the adoption of the "commodity ordinance" (*produktplakatet*) in 1724. The ordinance, based on British equivalent, was aimed at keeping out British and Dutch re-export, other than re-export from their colonies, on their own keel, while also promoting that Swedish export would be brought out with Swedish ships. This was regulated by making foreign shipping in Swedish-Finnish ports more expensive, through a differentiated tariff which was, in general, 50 per cent higher for foreign ships (Högberg, 1969, p. 28). This was not an outright prohibition of non-Swedish-Finnish shipping, but the extra tariff was certainly high enough to be prohibitive in effect.[1] By all accounts, Swedish exports were increasingly shipped by the domestic fleet during the 18th century (Häggqvist, 2015).

[1] The ordinance increasingly lost importance after the end of the Napoleonic Wars, eventually dying out completely in the 1830s.

FIGURE 11. *Finland's Share of Total Swedish Realm's Military Spending, 1722-1792*

Source: Åmark, 1961, table 26, pp. 400–414. Note: Base-taxes include mainly different taxes on land. Customs revenues include mainly tariff revenue from imports and exports, but also smaller transport taxes and fees. Specific consumption excise was singled out only for a few years during this period. Total current government revenue does not include foreign loans, revenue moved over from previous fiscal years, or other government loans.

Swedish-Finnish trade increasingly became more global during the 18th century, initiating commercial exchange both with the Americas and parts of Asia, leading to an increased influx of previously uncommon consumption goods such as spices, tea, porcelain, coffee, rum, and sugar (Müller, 2018). These were among some of the goods which became the large share of indirect taxation. Customs revenue based on the taxation of importation, but also on exportation, and consumption excise taxes together made up the brunt of the receipt termed indirect taxation (see Figure 11). There was a short but notable upsurge in these receipts share of total government revenue after 1722, resulting from a general increase in tariffs as part of a tightening protectionist trade policy (Danielsson, 1930). Customs revenue and excise then decreased in relative importance from about 1750 until bottoming out in the 1760s when part of the customs administration was privatized. This lessened the administrative costs for the state, but also effectively meant less revenue since it was shared with the private administrator (Åmark, 1961; Högberg, 1969). Indirect taxation was a large receipt during the end of the 18th century and beginning of the 19th but did not overtake base-taxes as the single largest receipt until after the end of the Napoleonic Wars when larger fiscal burden was put on a smaller number of consumption imports through heightening tariffs (Häggqvist, 2015). Moreover, the two

types of taxes tracked very closely from the 1770s onwards, providing some evidence that the Swedish state became more efficient in managing its fiscal flows.

6. Concluding Remarks

As we have indicated, Sweden's rise to a great power, in fact an empire, was an unlikely story that has not been explored enough so far, especially from the perspective of state capacity creation and accumulation. We contend here that Sweden developed a more versatile tax system that provided a variety of revenue sources: it was able to transition to an effective and efficient state that could concentrate its military resources for the expansion; it was able to create legitimacy through effective institutions and more participatory political system; and it encompassed a resilient society that backed the state via various crises.

The various earlier comparisons of European state capacity would suggest that Sweden had fairly modest relative state capacity, at least based on revenue per capita levels. However, we argue that these views understate Sweden's state capacity during the empire expansion both during the build-up of that empire and during its subsequent decline. Moreover, we contend that the Swedish state thrived due to its ability create a multifaceted tax system, which in turn relied on new forms of taxation, especially indirect taxes arising from maritime trade. For a smaller state, external trade relationships and access to important trade routes were vital – quite likely a primary reason for imperial expansion in the first place. Furthermore, the fiscal and institutional structures created during this era proved to have long-run implications, maybe even for the later creation of bureaucratic structures that facilitated the build-up of the 20th century welfare state. While the Swedish warfare state shrunk in the 18th century, it still retained all the institutional structures and hidden capacity that made the empire-building project possible.

However, there were also limitations to the Swedish empire, both fiscally and geographically. First, Sweden had lower standards of living than its emerging competitors in Western Europe, especially in terms of ability to attain public debt and poorly developed capital markets. Second, developing the empire "on the cheap" also meant that it was unable to match some of the larger states with massive economic and military resources. Third, Sweden's empire was almost by design limited to the Baltic Sea area, and the emergence of a stronger, more unified Russia in the East in the 18th century became a key strategic threat it was unable to contain in the long run.

This article is meant to explore and understand Nordic state capacity formation in the long run, and we are here only providing some limited, comparative data to understand this phenomenon. We are still lacking quite a bit of data for the 16th and 17th centuries, and comparative data on the Nordic countries/regions is also hard to come by. We are currently working on remedying these weaknesses, so that we can provide a fuller picture of why Sweden became an empire and why it fell apart. Even with these shortcomings, we hope to inspire both more exploration of the early modern state capacity among the European periphery and discussion on the need to expand the concept of state capacity to reflect more comprehensively the various hidden aspects enduring state power and ability to manage conflicts.

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