

SWEDISH TRADE POLICY AND ITS ECONOMIC IMPACT (1873–1913)

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ABSTRACT

Protectionism and the debate surrounding it have a long history. The phenomenon can be better understood by examining a past era characterized by sharp ‘turnarounds’ in trade policy practices. For that purpose we have examined Sweden at the turn of the 19th and 20th centuries. The focus of our research was primarily on uncovering the driving forces behind the economic policy practice that broke with free trade, as well as presenting its impacts on the economy, which we aimed to do by relying on the available historical sources. We also sought to answer the question of whether the Swedish protectionist experiment can be considered a model to follow in present times. In summary of our findings, it can be concluded that the impact of tariff increases primarily affected the structure of imports, rather than their volume. Although the increase in tariffs affected the overall price level, there were certain products whose prices were more significantly impacted by global market trends. While the measures proved ineffective in achieving a lasting improvement in the balance of trade, they provided significant additional revenue for the state budget. The process of industrialisation was not interrupted by import restrictions; in fact, there are examples of successful import substitution. In terms of economic convergence with the European core countries, the protectionist period proved to be more successful than the decades of free trade. Despite its relative success, we cannot consider Sweden’s trade policy of the late 19th century as a model to follow today, because its results were achieved under the unique conditions of a specific historical era.

JEL codes: F13, F14, N13, O24, P16

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1 INTRODUCTION

Today, international trade has reached unprecedented levels. In 2022, cross-border trade in goods exceeded USD 24,925 billion (WTO, 2024), the highest ever recorded in history. This represents a forty-five-fold increase compared with the years following the creation of GATT (1947) (WTO, n. d.). This can be seen as a victory for the idea of free trade. However, after the turn of the millennium, the siren calls promoting protectionism grew increasingly strong, sometimes manifesting in the reality of economic policy (Irwin, 2009 and Oermann–Wolff, 2022). The controversy surrounding trade policy is not new and can be traced back several centuries. Since the emergence of the modern market economy, schools of political economy and later economics, along with more or less well-known thinkers, have often been in conflict with each other.

The arguments in favour of free trade generally highlight the positive effects of international division of labour and specialisation, which allow for greater production and consumption, extending the range of available products to include goods that cannot be produced locally. Additionally, the issue of limited production inputs can be overcome, and increased competition leads to higher productivity. Combined with the benefits of economies of scale, this leads to lower prices, enabling a higher standard of living for consumers (Irwin, 2009 and Bannerman, 2015).

There are also many arguments in favour of market protection. Among others, the protection of ‘infant industries’, national defence and security considerations, increasing government revenues, income redistribution among certain groups of society, preserving jobs, attempts to influence international exchange rates, reducing the balance of payments deficit, or strategic trade policy reasons (Lukauskas, 2013).

To gain a detailed understanding of the economic effects of a shift toward protectionist economic policy, it is useful to examine a country and historical period where a similar process took place. For the research, selecting Sweden at the turn of the 19th to 20th century seems practical, partly due to the availability of statistical sources and partly because, between 1873 and 1914, the Nordic country – like most European nations – operated under the so-called gold standard system, which provided predictable financial frameworks (for more on this, see: Jonung, 1984 and Schön, 2012). Thanks to this, the exchange rates of the Swedish currency remained stable during the period in question, allowing the effects of trade policy reforms to emerge more ‘clearly’.

As a first step, it is important to clarify what we mean by trade policy. Trade policy encompasses all the instruments that a state can use to influence the cross-border flow of goods and services. According to the widely used classification, there are

both tariff and non-tariff measures among the instruments. The former includes different types of tariffs and related regulations, while the latter includes export and import bans, quantitative restrictions (quotas), voluntary export restrictions, and administrative barriers such as consumer and environmental regulations. The measures commonly applied in the period under review, however, present a less varied picture, mainly consisting of trade bans on certain goods and the imposition of tariff burdens. Although it was still very common in the first half of the 19th century for Sweden to ban the export or import of certain products, by the 1870s these were completely phased out. Import tariffs had become the primary instrument for influencing foreign trade (Bairoch–Burke, 2008; Magnusson, 2000). For this reason, the focus of our study is placed on tariff policy.

The aim of the research is to examine in detail the reasons behind the protectionist-minded tariff reform in a country that had previously pursued a predominantly liberal trade policy, and how this affected the Swedish economy. In this context, we seek to answer the following questions: What was the socio-economic-political background to the reform of trade policy? What were the economic effects of the import tariff increase? Finally, I would also like to answer the question whether the Swedish protectionist turn of the 19th century can be considered a model to follow today.

Our research covers the 41 years between 1873 and 1913.

2 SOURCES AND METHODOLOGY USED

Primary sources included writings that depicted the Swedish economy at the turn of the 19th and 20th centuries, as well as outlined European development trends. Examples include the work of Paul Bairoch, Iván Berend T., Jan Bohlin, Kevin Hjortshøj O'Rourke, Lars Magnusson and Lennart Schön. In our view, the functioning of a state's economy cannot be understood without knowledge of its social and political context. Therefore, the scope of the literature we have used extends beyond narrowly defined economic history works and includes significant contributions from authors in the fields of political science and political history.

The source for the quantitative analysis was provided by data from the Swedish Central Statistical Office, Statistikmyndigheten SCB, mainly through the volumes of the publication series "*Bidrag till Sveriges officiella statistik 1851–1917*". Also published by the office was the publication "*Historisk statistik for Sverige Del 3. Utrikeshandel, 1732–1970*" which contains foreign trade data, mostly in aggregated form, as well as data series illustrating historical changes in price levels. The source of the GDP data was the "*Maddison Historical Statistics*" database. Also used were the publication "*International Historical Statistics*", the Lund Uni-

versity databases, which contain key demographic and macroeconomic indicators going back several centuries, as well as domestic prices for various consumer goods. The study by the authors Andersson and Ljungberg (2015), titled “*Grain Market Integration in the Baltic Sea Region in the Nineteenth Century*” provided an invaluable source of information on the prices of certain grains in the main Baltic Sea markets.

In order to gain as comprehensive an understanding as possible of the economic effects of the protectionist trade policy shift, a variety of indicators were used in the research. Several of these are widely used and therefore require no further explanation. Such indicators include GDP per capita, its growth rate, and its ratio compared to the performance of core countries. Additionally, indicators on the volume of imports, their composition, the size of import revenues and their share in government revenues, the output of industry and certain sectors, as well as the inflation rate were also used.

Trade openness (TO) is intended to measure a country’s integration into the global economy, comparing foreign trade turnover to the size of gross domestic product. It was calculated using the following formula:

$$TO = \frac{\sum X_{dw} + \sum M_{wd}}{GDP_d} * 100 \quad (1)$$

In the formula, X represents exports, M represents imports, d denotes the examined country, and w refers to the rest of the world, representing the totality of foreign trade partners. Openness is expressed as a percentage of the GDP of the country examined.

The normalized trade balance (NTB) shows the balance of exports and imports as a proportion of the total cross-border trade volume. It was calculated using the below formula:

$$NTB = \frac{\sum X_{dw} - \sum M_{wd}}{\sum X_{dw} + \sum M_{wd}} * 100 \quad (2)$$

The notations in the formula are the same as those described for trade openness. Again, the figures are expressed as a percentage.

The import penetration rate (IPR) is an indicator of the share of a country’s internal consumption that is covered by imports. Penetration can be calculated for individual products, product groups or the whole economy as described below:

$$IPR = \frac{\sum M_{wd}}{\sum P_d - \sum X_{dw} + \sum M_{wd}} * 100 \quad (3)$$

In the formula P stands for the size of domestic production, the other notations are the same as before. Import penetration is also expressed as a percentage.

Determining the average size of the tariff burden has been of particular importance for this research. In accordance with the general practice of the time, most products were subject to specific or, alternatively, unit-based tariffs, meaning that the amount of import tariff was not determined as a percentage of the price of the goods to be imported – like *ad valorem* tariffs – but instead was imposed per unit of the product, based on quantity or, in certain cases, weight. However, this makes it difficult to determine the average tariff burden. The simplest and most widely used way to do this is to divide tariff revenues by the value of total imports. The drawback of this method is that it ‘distorts downward’, as buyers of price-elastic products, which are subject to higher tariffs, may turn to cheaper goods with lower tariff rates. As a result, the average tariff burden appears to be decreasing even without an actual reduction in tariff rates.²

3 REVIEW OF THE LITERATURE

Empirical research on the effects of trade policy focuses mainly on the issue of economic growth, and the conclusions vary widely.

It is now considered evident that trade openness fundamentally has a positive effect on the expansion of a country’s output. However, if we look further back in time, the correlation is much less strong. One of the best-known researchers on the subject, Paul Bairoch, concluded in a study published in 1972 and in a book published in 1995 that the ‘free market’ era in Europe, which began in the 1860s, had a different impact on the performance of individual countries. Thus, the United Kingdom, which he considered more developed, was faced with its advantages, while the ‘less developed’ France, Germany and Italy were faced with its disadvantages. Following the protectionist turn of the 1880s, the continental states experienced a significant acceleration in economic growth, with increased investment and innovation. Bairoch explained this phenomenon by differences in levels of development, since at the time of the liberalisation of foreign trade, the United Kingdom was at a higher level of industrialisation, with manufacturing playing a more important role in its economy and agriculture a smaller one. At that time, the driving sector of the French, German, and Italian economies was agriculture, which was highly affected by the influx of cheap grain from overseas,

2 On the difficulties of calculating the average tariff burdens based on contemporary Swedish statistics, see: Szabó (2024).

and this generally hampered growth. Based on the above research, the so-called 'tariff-growth' or Bairoch paradox was formulated, which suggests that at the end of the 19th century and the beginning of the 20th century, protectionism facilitated economic growth.

In his writings published in 2000 and 2006, Kevin H. O'Rourke presented an important criticism regarding Bairoch's research, arguing that it was a fundamental mistake for the renowned historian to explain the evolution of economic output solely through tariff policy, when it is actually dependent on multiple factors. In his studies, O'Rourke used econometric methods to examine the GDP growth of ten 'Western' countries (United States, Australia, Denmark, United Kingdom, Canada, Germany, Norway, Italy, Sweden) between 1875 and 1914. In addition to tariff levels, he also considered factors such as the income level at the starting point, the savings rate, education levels, population growth, and changes in the capital-labour and land-labour ratios in production. In spite of the different methodology, this research basically confirmed Bairoch's findings. A criticism that can be made regarding the study is that in segmenting the examined period, the author did not take into account that the countries studied implemented protectionist measures at different rates. Although Sweden is included in the sample, country-specific results are unfortunately not available from this study.

Sibylle H. Lehmann and Kevin H. O'Rourke returned to the topic in their 2011 paper. A major difference from the previous study is that not only the average tariff level was taken into account, but also the impact of tariffs on agricultural products, manufactured goods and colonial goods was examined separately. The first two of these have a market protection function, while the latter is a tariff burden imposed for purely fiscal purposes. Their results partly confirmed the role of tariffs in promoting economic growth. Import tariffs on industrial products had a clear positive impact, while those on agricultural products had a negative impact. However, this relationship was less robust, and when the study was narrowed to European countries, it was found that agricultural tariffs might have contributed to GDP growth. Fiscal tariffs on exotic goods have proved growth-neutral.

However, there have also been studies that question whether the accelerating growth of the late 19th century was the result of increased tariffs. For example, Douglas A. Irwin's work published in 2002, in which he reflected, among other things, on O'Rourke's 2000 study. The author pointed out that correlation alone does not establish a causal link between the two phenomena. According to his argument, the apparent relationship is caused by the exceptional results of a few countries in the sample. By omitting these, the explanatory power of the models is significantly reduced.

Niklas Potrafke and co-authors (2020) focused their research exclusively on Sweden and used the synthetic control method to examine the impact of increases of tariffs on economic growth. This made it possible to compare real GDP data with that of a ‘synthetic’ Sweden in which the protectionist shift ‘did not happen’. The artificial control group created for the testing contained the output data of five countries with specified weighting, which were compared to the Swedish results. The study concludes that the increase in import tariffs did not have a substantial impact on economic growth. It is important to mention, however, that the authors focused solely on the 1888 trade policy reform and examined only a very short period.

Unlike the above mentioned studies, we aimed to provide a detailed insight into the economic impacts of Swedish market protection measures by examining a longer time frame.

4 SWEDEN AT THE DAWN OF A NEW ERA – THE IMMEDIATE ANTECEDENTS OF LIBERALISATION

At the beginning of the period under review, the Nordic country was considered part of the periphery of Europe (O’Rourke and Williamson, 1997). Industrialisation was significantly delayed in comparison to the core regions of the continent (Clark, 2007 and Findlay–O’Rourke, 2007).

In 1850, about three-quarters of the workforce was employed in agriculture, while the rest worked in industry (including construction) and the service sector. In the following period, the number of people employed in agriculture sharply declined, while the number in the other two sectors grew, outlining the picture of an increasingly industrialised society. In 1865, agriculture accounted for 68% of employment, while industry 17% and services 15% (Schön, 2012 and Ljungberg–Schön, 2013).

Although individual innovations in agriculture had been observed earlier, it was only from the 1720s onwards that the productivity of the Swedish agricultural sector increased significantly, thanks to the development of production technologies and the increasingly widespread use of soil improvement methods. This phenomenon, which lasted roughly until 1870, is often referred to as the agricultural revolution. However, it was not a rapid process, but rather a prolonged one influenced by multiple factors, occasionally interrupted by setbacks. According to Eli Heckscher’s research, the level of grain production in Sweden increased by about 75% between 1720 and 1815. Gustaf Utterström’s calculations seem to confirm that the total amount of potatoes and grain produced increased by at least 60% in the period from 1815 to 1860 (cited in Magnusson, 2000). The development is also

clearly visible in the foreign trade statistics: while Sweden was dependent on the import of grains in the 18th century, from 1830 onwards, this was replaced by an increasingly significant export of crops. The most important crop exported to international markets at that time was oats, with the primary receiving country being England, where it was primarily used for feeding horses used for urban mass transit and transportation. The boom in agriculture brought significant additional income to agricultural producers. The accumulation of wealth both provided a source of capital and demand for other sectors, and also contributed to the growth of imports of goods by transforming consumer habits. The expansion of raw material production and industry was also largely driven by growing demand from external markets. The demand for raw materials driven by industrialisation in the more developed regions of Europe led to a significant increase in the export of Swedish timber, iron ore, iron, steel, and paper industry raw materials. This was facilitated by Sweden's ability to produce these goods at a lower cost compared to most international competitors, as well as its proximity to major trade routes, which was an advantage over Russia and Finland, both of which were also specialized in producing similar products (Gourevitch, 1986; Magnusson, 2000 and Schön, 2012).

As a result, foreign trade became increasingly important in the Swedish economy. While in 1850, exports and imports together accounted for 13.8% of GDP, by 1870 this had risen to 29.4%. Although Sweden's trade openness lagged behind countries like the Netherlands (115.4%) or the United Kingdom (43.6%), it integrated more deeply into international trade than Spain (12.1%) or France (23.6%) during the same period (O'Rourke, 2010).

Among the external trade partners, the United Kingdom and Germany were of particular importance. Between 1871 and 1875, on average, 32.2% of imports came from the former, while 23.2% came from the latter country. Their share of Swedish exports in the same period was 53.5% and 7.1%, respectively³ (HSS, 1972).

3 The data on the countries of destination and origin of exports and imports should be treated with caveats for the period in question. The reason for this is that before 1905, Swedish foreign trade statistics classified goods according to the country from which they directly came or to which they were sent. The actual origin and destination-based classification was only introduced after this period (see HSS, 1972:100 and Szabó, 2024 for more details).

5 THE SWEDISH TRADE POLICY FROM THE MID-19TH CENTURY TO 1913

5.1 The liberal period, with increasing economic difficulties

The growing international demand for Swedish export goods and the growing need for imported products induced changes in trade policy, partly driven by lobbying activities of business circles involved in the wood and iron industries (Hiscox, 2020). In the mid-19th century, the economic policy that had previously followed a mercantilist approach underwent a drastic transformation. Among the steps leading to trade liberalisation, notable measures included the abolition of tariffs on food, raw materials, and machinery products, the complete elimination of import bans, and the removal of mandatory preferential treatment for Swedish commercial ships. Another significant development was the adoption of the Decree of Extended Freedom of Trade in 1864. This legislation stated that “every Swedish man and woman has the right to engage in trade, operate a factory or craft workshop both in cities and rural areas, as well as conduct export and import activities and transport goods even abroad” (Magnusson, 2000; Chang, 2002; Bairoch and Burke, 2008; and Häggqvist, 2018). The most significant moment in the change of trade policy was the agreement with Napoleon III in 1865, through which Sweden ‘de facto’ joined the free trade system covering most of Europe, established by the Cobden–Chevalier Treaty concluded by France and England. This agreement was mainly aimed at ensuring the free movement of goods and led to the creation of a free trade area covering most of the continent by the 1870s (Berend, 2006 and Schön, 2012). However, these reforms did not mean that the state had relinquished all its regulatory needs. Quite a few regulations – such as the prohibition of foreign trade deficits – remained in place, and taxes on export-import activities were also retained (Magnusson, 2000 and Schön 2012).

By the 1870s, the country had become a symbol of free trade. For example, in 1875, manufacturing products were subject to average tariffs of 3–5%, much lower than in most states on the continent.⁴ A significant portion of food, the tools and machines required for production, as well as raw materials, were completely tariff-free (Bairoch, 1995 and Bohlin, 2005).

The transition to the gold standard in 1873, along with the expansion of capital flows, also had a positive impact on international trade (Schön, 2012). Sweden’s

⁴ In the United Kingdom, the tariff burden was 0%, in Norway 2–4% and in the Netherlands 3–5%. In other countries, this value was higher. The most extreme example was Portugal, with a tariff rate of 20–25%. The average for continental European countries was 9–12% (Bairoch, 1995).

integration into the world economy was also facilitated by the fact that by the last decades of the 19th century, the country possessed a maritime fleet of considerable size by European standards. In 1881, the shipping capacity reached 470,000 tons, surpassing the capabilities of countries such as the Netherlands or Spain (Hobsbawm, 2010).

A significant portion of the Swedish political elite advocated for the liberalisation of trade. They believed that any interference in the cross-border flow of goods, any artificial distortion of market competition, could only be harmful. This is well illustrated by the speeches made in Parliament at the time: “The principle of free trade is the principle of freedom and ... the principle of freedom is the only one that fosters strong lungs, strong muscles and sinews in the body politic.” “Tariffs will presumably have about the same effect as alcohol; for as we know, alcohol has a momentary awakening and life-giving effect but as a rule this is followed by an even greater laxity” (Lewin, 2006:35).

However, the international economic climate, favourable to the ideals of free trade, soon changed. This was partly due, paradoxically, to the boom of the 1870s. The business environment, which promised strong expansion, filled investors with excessive optimism, resulting in significant overcapacity in the industry. The slowdown in the second half of the decade primarily resulted in the bankruptcy of small businesses, and in some cases, their absorption by larger companies (Magnusson, 2000). In the 1880s, Sweden was faced with weakening exports and falling prices on the world market.⁵ The latter largely concerned products that were considered major exports. Wrought iron, for example, had lost about 50% of its value by 1886–1887, compared with its peak in 1873–1874. However, the slowdown in industrial expansion was only one of the factors that reshaped the way business and political actors viewed the free market. The liberalisation of trade and the technical innovations that made long-distance transport possible led to the appearance of cheap Russian and American grain on European markets. Moreover, in addition to crops, imports of pork from the United States of America also posed a major challenge to Swedish agriculture. As a result, the aggregate price index for agriculture and industry fell by around a third over the decade. Since imports significantly exceeded exports, the balance of payments showed an increasing deficit. At the same time, the level of national debt increased (Lewin, 2006 and Schön, 2012).

5 The global economic environment during this period was characterised by increasing competition between countries and falling prices. This was also the period of the so-called ‘long depression’, which lasted from 1873 to 1896, but was not a depression in the traditional sense. The economy mostly grew, but increasing competition continuously pushed companies toward rationalisation (Schön, 2012).

According to Kevin H. O'Rourke (1997), the influx of grain from the New World into much of the European continent led to a decline in the prices of agricultural products, which in turn affected rental fees for landowners and, not least, wages for those employed in agriculture. This politically and socially unfavourable process can be seen as the primary cause of the protectionist turn. The Swedish wage data, as calculated on the basis of IHS (2013) data, seem to support this assumption. Agricultural wages stagnated in the mid-1870s and fell sharply in the last year of the decade, and in 1879 they were only at 75.68% of the 1873 level. Since 61.45%⁶ of the employed population worked in agriculture during this period, the political pressure exerted by the impoverished masses can rightfully be assumed. Sweden's problems were further exacerbated by the fact that cheap, primarily overseas goods⁷ significantly hindered the market access of Swedish exporters. While previously the Nordic country had a cost advantage in many products, this vanished overnight. During the crisis caused by the restructuring of the world economy (1873–1896), a growing number of economic actors called for state intervention. The demand for both government subsidies and protectionist measures increased significantly. In addition, companies tried to stabilize their position through cartelisation⁸ (Gourevitch, 1986).

The political divide that emerged on the issue of free trade split Swedish society. Among the supporters were, for example, agricultural producers operating in the northern and central regions of Sweden, who were primarily engaged in livestock farming. They generally operated in unfavourable geographical and economic conditions. For them, cheap grain was an input to production and as such an opportunity to make more profit. For the growing industrial working class, imports manifested in more affordable food. Also supporting the removal of trade restrictions were the shippers operating in larger port cities, bankers involved in industry, and manufacturers of industrial goods – meaning goods considered competitive and modern on an international scale, such as dairy machinery, generators, and ball bearings – who were highly dependent on foreign markets. Protectionism was supported by the aristocrats, large and small landowners who owned the fertile land of the south, mainly involved in grain production. With re-

6 Average calculated from employment data for the period of liberal trade policy (1873–1887) (my own calculation, based on SHNA, 2017).

7 Although this initially affected only agricultural products, the rapid development of US manufacturing industry brought with it a fall in world prices for manufactured goods as well (Gourevitch, 1986)

8 This form of cooperation became even more widespread in Sweden by the turn of the century as a 'side effect' of later protectionist measures (Schön, 2012). Although nowadays it is generally seen in a negative light, this was not the case then, so there was no attempt to ban it.

gard to the divisions among agricultural producers, it is worth highlighting that those involved in crop production typically engaged in more profitable activities, which gave them greater lobbying power than the northern farmers involved in livestock farming (Gourevitch, 1986; Rogowski, 1989; and Hiscox, 2020).

The heated debate over protective tariffs reached an increasingly broad audience and mobilised Swedish public opinion to an unprecedented extent, simultaneously signalling the beginning of the modern era in politics. Several organisations were formed with the explicit aim of propagating protectionism. The voices calling for state protection for economic operators were also amplified in the ranks of the parliamentary opposition. Supporters of free trade also sought to take organised action to defend their ideas (Gourevitch, 1986 and Lewin, 2006).

Liberal and left-wing groups on the political spectrum supported the uninterrupted flow of cross-border trade, while conservative forces advocated for its restriction. According to protectionists, the term that best described free trade was not so much liberty, but rather selfishness. The Darwinian ideas believed to be behind the ideologies shaping trade policy were identified with the suppression of the weak by the strong. A significant argument for the introduction of market-protecting measures was the interest of the community as a whole, as opposed to that of individuals or particular groups, as well as the need to assist the increasingly impoverished landowners (Lewin, 2006 and Bengtsson, 2023).

The arguments in favour of introducing protective tariffs could be categorised into three groups. The first argument was that consumers benefiting from cheap imports were also workers whose jobs were threatened by free trade. The second argument was that the economic recovery expected from protectionist measures would benefit everyone. Those working in the agricultural sector directly 'profit' from the introduction of tariffs, as they do not have to look for new means of livelihood, while industrial workers benefit indirectly, as labour market competition does not intensify due to the masses left without jobs. The third group of arguments in favour of tariff increases was that its effect is not fully reflected in prices, and it does not lead to a significant rise in food prices, as the burden of increased costs is largely absorbed by foreign exporters. Politicians committed to free trade argued that the goal of protectionists was nothing more than to shift the burdens from landowners to workers in industry and agriculture through grain tariffs. They simply referred to the tariffs as a 'starvation tariff' (Lewin, 2006).

With the intensification of the debates, a parliamentary inquiry committee was established in 1885 to investigate the social impacts of tariff-free trade, which concluded, among other things, that the increasing volume of grain imports had a positive effect on the dietary habits of the Swedish population. The lower classes, who previously tended to eat only oats and barley, increasingly consumed rye and wheat. They argued that restricting imports with tariffs would definitely be harm-

ful. However, the report did not convince everyone and by the second half of the decade, the issue of freedom of trade became the dividing line that predominantly dominated the political landscape. As a result of the parliamentary elections held in the autumn of 1887, the majority of free market supporters melted away and the protectionists were able to seize power. In 1888, Robert Themptander was replaced by Gillis Bildt as Prime Minister. Although Bildt had previously been a free trade advocate, his experiences in Germany led him to describe himself as a ‘moderate protectionist’ by the time he came to power (Rustow, 1955; Lewin, 2006 and Bengtsson, 2023).

5.2 The return of protectionist trade policy

Starting in 1888, a gradual tariff reform was implemented. First, tariffs were introduced on certain agricultural products, and a specific range of iron industry products was also subject to tariffs. Most industrial goods remained tariff-free, thanks to international agreements concluded earlier. However, from 1892 onwards, it became possible to impose import tariffs on these products as well, which was indeed implemented. At the same time, however, tariffs on agricultural products were temporarily reduced. For these products, the lower tariff was raised again in 1895⁹. Another trade-restricting measure was the termination, in the same year, of the interstate agreement with Norway that had allowed the tariff-free import of goods into Sweden via Norway (Rustow, 1955 and Bohlin, 2005).¹⁰

The newly introduced ‘solidaristic tariff policy’ followed the German model. Its primary goal was to provide protection to all national industry players in need, so they could compete with imports. At the same time, it was also crucial that support for one industry not come at the expense of other sectors that source their production inputs from abroad. An example of this was the introduction of an import tariff on cast iron in 1892, which was later repealed in 1897. It became clear that only an increase in tariffs of such magnitude would provide effective protection for domestic producers, which, however, would lead to significant losses for manufacturers relying on imported iron. The justification for granting tariff exemption also lay in the fact that a significant portion of Swedish iron industry products were exported, meaning that domestic businesses mostly did not have

9 Several sources (such as Bohlin, 2005) erroneously date the agricultural tariff increase to 1896. In reality, the tariff increase took place in 1895, as confirmed by foreign trade statistics (BISOS F).

10 Sweden and Norway formed a personal union from 1815 to 1905; however, both states maintained a relatively high degree of independence. Trade between the two states was guaranteed by a separate agreement.

to compete with importers. They also paid special attention to ensuring that if individual interests clashed with those of the community, the latter would prevail (Bohlin, 2005).

After this, Swedish trade policy reached a period of stability, right until the outbreak of World War I. No further comprehensive reforms took place during the period under review, with only minor adjustments made to the import tariffs of a few products.

6 THE ECONOMIC IMPACTS OF THE SWEDISH TRADE POLICY

6.1 Import tariffs and import structure

Between 1873 and 1887, with few exceptions, both plant- and animal-based products could enter the Swedish markets tariff-free, including most processed and unprocessed grain, livestock, and meat products. However, fruit, so-called horticultural products, colonial goods and drinks were still largely subject to tariffs. The protectionist measures of 1888 included tariff increases and the making of free circulation goods subject to tariffs. Few agricultural products remained unaffected by the changes, such as potatoes (according to BISOS F).

In 1892, tariffs on agricultural products, particularly grains, were significantly reduced, and in some cases, even abolished. However, it is important to note that this did not mean a return to the situation before 1888. On the other hand, there was a significant expansion in the range of goods subject to import tariffs, along with an increase in existing tariff burdens, particularly for textile products and fabrics, goods made from leather, fur, or other animal-based materials, metal goods, and various machinery items, including machines and instruments.

The 1895 tariff increase was almost exclusively limited to grain, with the existing tariffs being doubled, and in some cases, nearly tripled for certain products.

Table 1
Average tariff burdens in the periods under review

	1873–1887	1888–1891	1892–1894	1895–1913
Tariffs for product categories	Agriculture: –	Agriculture: ++	Agriculture: +	Agriculture: +++
	Industry: –	Industry: –	Industry: ++	Industry: ++
Periodic average of average tariffs	10.33%	12.01%	11.51%	10.09

Note: The indication of the tariffs for each product category is used to identify the periods under review. The interpretation of the notations in chronological order is as follows:

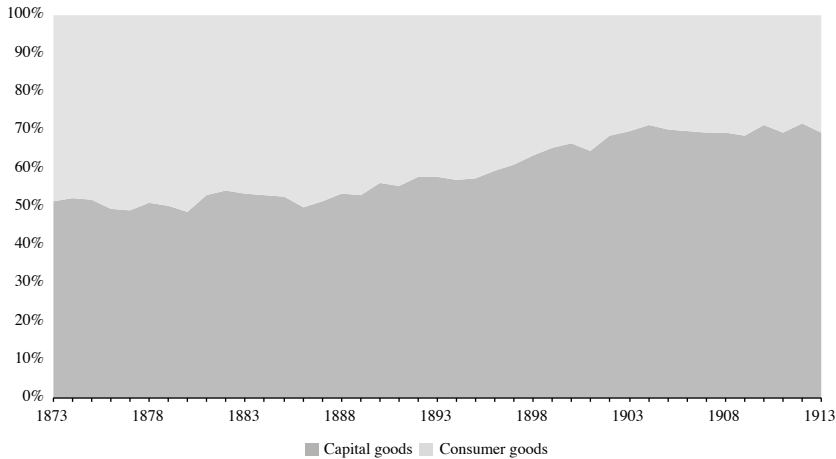
- relatively low tariffs during the liberal period,
- ++ tariffs after the first increase, applied to agricultural and then industrial products,
- + temporarily reduced import tariffs on agricultural products
- +++ the final period, characterized by much higher tariffs on agricultural products than previously.

Source: My own calculation based on IHS (2013) and Schön (2015)

As shown in *Table 1*, the extension of agricultural import tariffs increased the average tariff burden, which remained high even after the increase in tariffs on industrial goods. At the same time, the further increase in the import burden of agricultural products did not have a similar effect; on the contrary, the value indicating the average decreased. This is due to the phenomenon mentioned above, whereby tariff increases are causing a shift in the import structure towards lower-cost imports. In our case, a significant shift occurred in the proportion of capital and consumer goods (*Figure 1*). While in 1873 their distribution within import utilisation was 52% and 48%, by 1913 it had shifted to 69% and 31%.¹¹

¹¹ The share of capital goods peaked at 72% in 1904 and 1912. The lowest value was 49% in 1876, 1877 and 1880.

Figure 1
The proportion of capital and consumer goods within imports



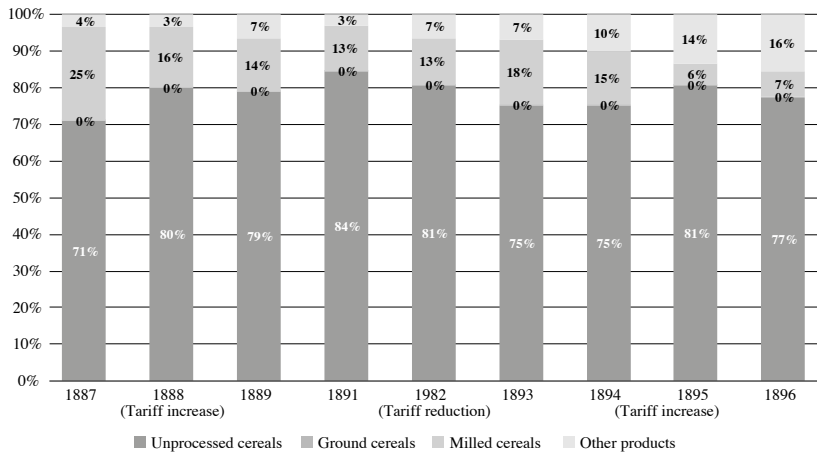
Source: My own calculation based on SHNA (2017)

The substitution of products with a higher level of processing with less processed products was strongly evident for grains, for example, where tariff increases and reductions caused significant shifts between milled and unprocessed grain. The reason for this can reasonably be assumed to be the lack of uniformity in tariff burdens. Until 1887, the product group was completely exempt from tariffs, except for maize. From 1888 onwards, import tariffs increased, depending on the type of the grain, to 1–3 öre¹² (typically to 2.5 öre) per kilogram for unprocessed grains. The tariffs on milled products (flours) were uniformly raised to 4.3 öre at the same time. In 1892, import tariffs on the former category were mostly halved, in some cases abolished, and the tariff on flour products was reduced to 2.5 öre. In 1895, the tariff on unprocessed grain was raised to 3.7 öre in almost all cases, and the tariff on milled products (flours) was increased to 6.5 öre.¹³ The figures for grain imports during the years immediately preceding and following the tariff reforms is shown in *Figure 2*.

¹² The öre is the subunit of the Swedish krona. 1 krona = 100 öre.

¹³ The phenomenon of tariff escalation, where import tariffs increase with the level of processing, is naturally not unique to Sweden. A similar pattern could be observed in Germany, where consumer goods were subject to high tariffs, intermediate goods faced moderate tariffs, whereas the import of raw materials generally remained tariff-free (Berend, 2012).

Figure 2
Breakdown of grain imports by level of processing



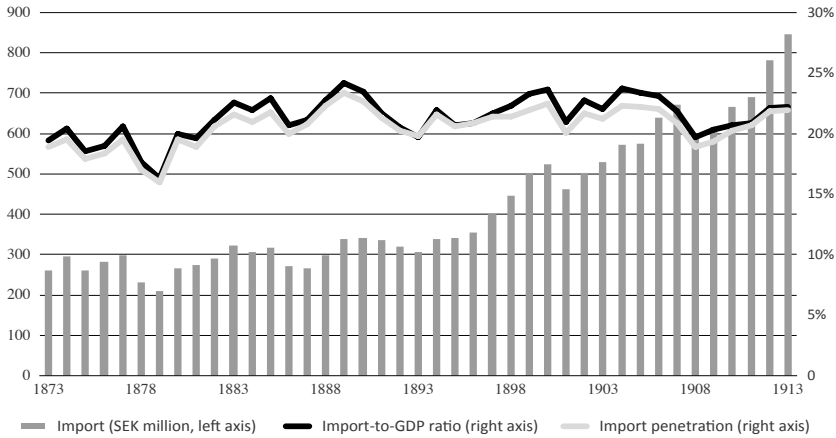
Source: My own calculation based on BISOS F

In the last ‘tariff-free’ year, 1887, milled grain still accounted for 25% of the product category’s imports, a value that significantly declined in the following years due to the tariff increase. From 1892, the reduction of import tariffs led to a temporary increase, but the repeated increase in 1895 reduced the demand for flour products.

As regards the structure of imports, it is interesting to note that the composition of imports in the manufacturing sector appeared more stable and underwent only minor reorganization. The slow increase in the proportion of agricultural products (averaging 25.37% between 1873 and 1887, 26.52% between 1888 and 1891, and 28.59% between 1892 and 1894) only halted during the final period characterized by high agricultural tariffs (1895–1913: 26.04%) (SHNA, 2017).

The tariff reforms also did not bring about drastic changes in the volume of imports, their proportion relative to GDP, or the extent of import penetration (Figure 3).

Figure 3
Import volume, import-to-GDP ratio, import penetration rate



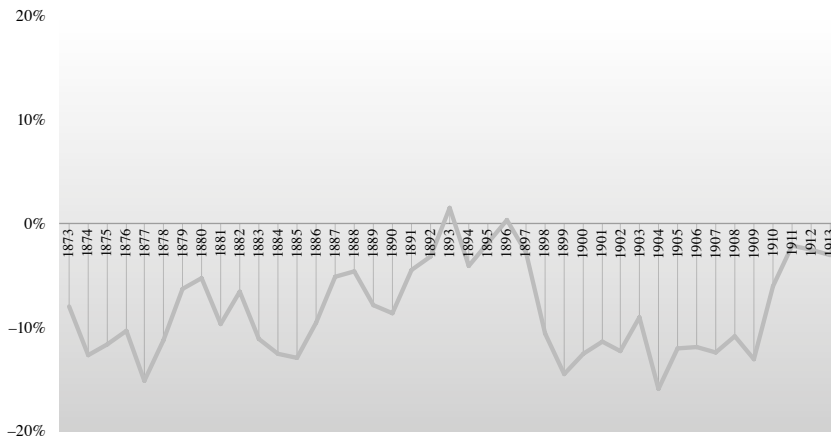
Source: My own calculation based on SHNA (2017)

Major downturns and booms do not correspond clearly to turning points in trade policy. Overall, all three data series show an upward trend, with the weight of goods imports basically increasing despite the protectionist turn.

6.2 Foreign trade balance

The persistent trade balance deficit was a significant problem for the Swedish economy, which theoretically could have been positively influenced by raising tariffs. Between 1873 and 1887, the normalised trade deficit fluctuated between 5% and 15%, with an average of 10% (Figure 4).

Figure 4
Normalised trade balance



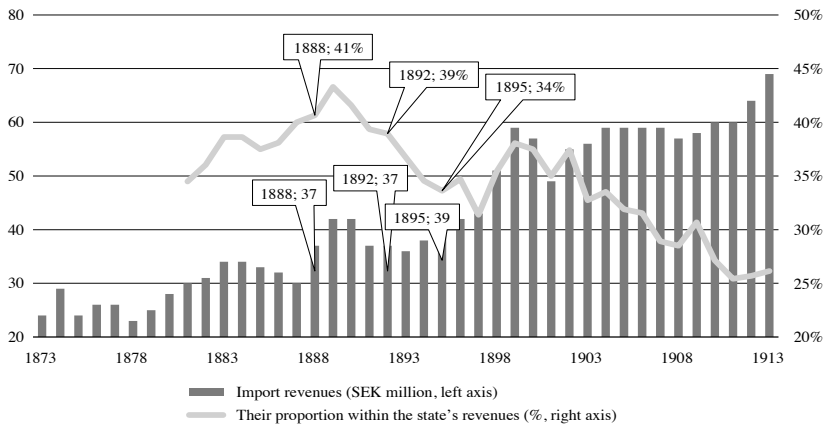
Source: My own calculation based on SHNA (2017)

After the 1888 tariff reform, the balance of trade deficit was reduced, albeit temporarily, and in 1893 the trade surplus was 2%, while in 1896 it was 0%. By the turn of the century, however, the balance had deteriorated sharply, with a deficit of 16% in 1904, for example. Improvement occurred again only at the end of the period under review, but this was already independent of the level of import tariffs, as no further significant increases were made at that time.

6.3 Revenues of the state budget

The increase in import tariffs was not solely for market protection purposes; there were also significant fiscal considerations in favour of it. In the 19th and previous centuries, the primary financial sources of the central budget were mainly linked to foreign trade. The turn of the century brought a major change in the role of tariff revenues (Figure 5). With the imposition of new types of taxes (such as excise, income and property taxes), the state became less and less reliant on revenue from tariffs.

Figure 5
The magnitude of import revenues and their proportion
within the state's revenues



Note: Prior to 1881, there are no adequate sources on the total state tax revenues. The revenues of the state in this case include tariffs, excise, property and income taxes.

Source: My own calculation based on IHS (2013)

Overall, the absolute size of tariff revenues increased significantly over the period under review. While in 1873 it was only 24 million Swedish krona, in 1913 it reached 69 million krona. Its proportion within budgetary resources peaked following the first tariff increase, reaching approximately 43% in 1889. From 1899 onwards, its significance gradually decreased, although it is worth noting that until 1910, it remained the most significant source of tax revenue. In that year, however, excise tax became the primary source of revenue, and by the middle of the decade the size of property and income taxes had already surpassed that of import revenues.

The impact of tariff increases is most evident in the transformation of the structure of import tariff revenues. While in 1887, agricultural products, food, and beverages¹⁴ accounted for only 7.78% of tariff revenues, by 1889, their share had jumped to 22.58%.¹⁵

14 Excluding the so-called colonial goods (e.g., coffee, tea, chocolate, and sugar, rice).

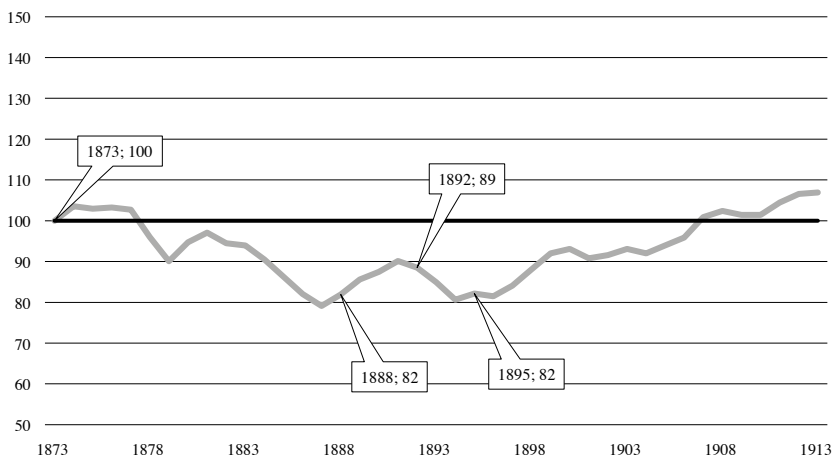
15 Among tariff revenues, colonial goods held the greatest weight in 1887, accounting for 60.88%. Within this, the role of sugar and sugar syrup is particularly noteworthy, as they accounted for 37.49% of import tariff revenue in the mentioned year. Colonial goods were subject to high tariffs even during the free trade period, and the shift towards protectionism brought further increases in the applied tariff rates. In the 1895 tariff increase, for example, tariffs on rice were raised. Since this step is difficult to explain solely by market protection, it reinforces the views emphasizing the fiscal role of import tariffs.

Following the reduction in agricultural import tariffs, their share fell to 22.02%. After a repeated tariff increase, it reached 38.67% in 1896. Industrial products such as machinery, vehicles and instruments had seen a similar, albeit less spectacular, change. Before 1892, their share within tariff revenues consistently remained below 1%. In the year of the tariff reform, their weight rose to 2.9%, and then, with an increasing trend, reached 5.09% in 1896. As there were no further import tariff increases in this period, this is explained by the increase in machine industry imports despite the high tariff burden (my own calculation based on IHS, 2013 and BISOS F).

6.4 The impact of tariffs on price levels

The inflation rate over the whole period under review was quite low, averaging 0.41%. During the more liberal trade policy period between 1873 and 1887, the average deflation rate was 0.97%, while following the shift towards protectionism, this value turned into a slight inflation of 1.2% (based on Statistics Sweden, 2023). The annual data show rather hectic fluctuations, so it is more appropriate to look at the price level (*Figure 6*).

Figure 6
Price level 1873–1913 (1873 = 100%)



Note: calculated on the basis of the consumer price index. The benchmark is the price level in 1873, which in our case is taken as 100.

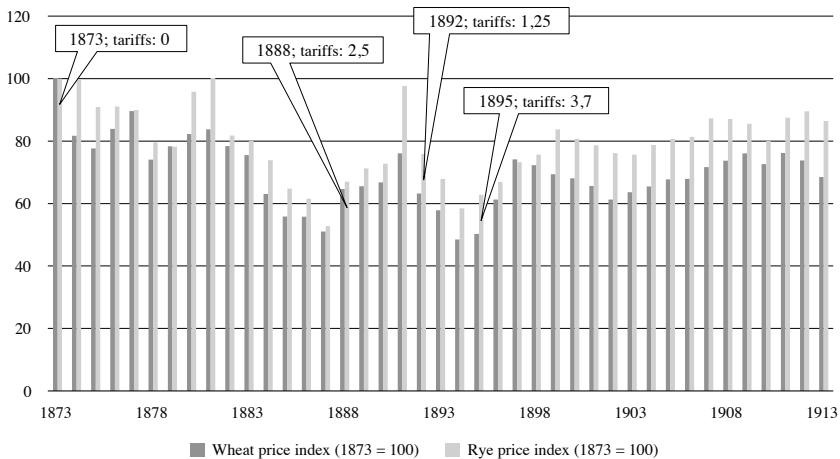
Source: My own calculation based on Sweden (2023)

From 1873 to 1887, the price level fell sharply. At its lowest point in 1887, it reached only 79.11% of its initial value. Following the trade policy shift in 1888, the price level approached 100%, a process interrupted by the 1892 reform, which included both tariff increases and decreases. However, the repeated increase in agricultural tariffs in 1895 had a noticeably inflationary effect. Although the price level did rise, it only reached the level of 34 years earlier by 1907.

To verify the impact of import tariffs on prices, the data series were analysed using regression (OLS).¹⁶ The model shows a significant correlation between the two variables, with a high level of positive correlation, meaning that higher tariffs have an inflationary effect. The change in the average tariff burden can explain 75.91% of the variance in the price level.¹⁷

However, not all product prices were affected by the increase in tariff burdens. There is no significant relationship between the prices of the two most important import commodities – wheat and rye – in Sweden and the size of the tariffs, as determined by regression analysis.

Figure 7
Price levels for wheat and rye (1873 = 100%), import tariff (öre/kg)



Source: My own calculation based on LU-MADD

16 In this case, the dependent variable was the price level, and the independent variable was the average tariff size for the entire period from 1873 to 1913.

17 With a 95% confidence interval, the significance level is below 1%, $r = 0.8713$, and $r^2 = 0.75912$

In the case of the two types of grain, the increase in import tariffs did not cause a significant price rise, despite the fact that the increase was far from negligible. Compared to the current domestic average prices, the average size of import tariffs for wheat was 17% and for rye 21% between 1888 and 1891.¹⁸ These proportions decreased to 11% and 13% between 1892 and 1894, respectively, and then increased to 27% and 32% between 1895 and 1913.¹⁹

A valid question arises: if changes in tariffs do not significantly impact the prices of the two examined commodities, what then causes their fluctuations? If we compare the domestic average prices with those characteristic of the most significant grain markets²⁰ in the Baltic Sea region²¹, we can find a clear correlation.²² In the case of wheat, 90.47%, and for oats, 87.25% of the variance in domestic prices can be explained by price changes observed in international markets (based on LU-MADD and Andersson–Ljungberg, 2015).²³

The global market competition, with the influx of cheap overseas and Russian grain flooding Europe, had a price-suppressing effect on these two products. Trade policy measures could only mitigate this impact to a certain extent.

6.5 The situation of industry after the 1892 tariff increase

Throughout the entire period under review, this was the era when Sweden gradually transitioned from an agrarian state to an industrial country. This was particularly true from the 1890s onwards. The traditional industries, such as the iron and

18 Between 1873 and 1887, the import tariff for both products was 0 öre/kg.

19 The comparison of tariffs and prices is somewhat complicated by the fact that the available data sources use different quantities and units of measurement, which have also changed over time (for more information, see Szabó, 2024).

20 According to the study by Andersson and Ljungberg (2015), the most significant grain markets in the Baltic Sea region were as follows: for wheat, Danzig (now Gdańsk), Kiel, Copenhagen, Königsberg (Kaliningrad), Lübeck, Riga, Rostock, Stettin (Szczecin), Saint Petersburg, and Wismar; for rye, Danzig (Gdańsk), Kiel, Copenhagen, Helsinki, Lübeck, Riga, Rostock, Stettin (Szczecin), Saint Petersburg, and Wismar.

21 Unfortunately, detailed grain prices for the Baltic markets are only available for the period 1873 to 1893, but it is reasonable to assume that a similar correlation exists during the period between 1894 and 1913.

22 Since the current market prices in the Swedish and Baltic markets were provided in non-convertible quantities, the price indices were used in the calculations. For both grains and for both markets, the value for 1873 is set as 100 (for more details, see: Szabó, 2024).

23 When applying linear regression, with a 95% confidence interval, the significance level in both cases is below 1%, and the correlation level is very high. (Wheat: $r = 0.95112$ and $r^2 = 0.90474$. Rye: $r = 0.9340$ and $r^2 = 0.8725$.)

steel industry or the timber industry, remained important. However, numerous new enterprises emerged, particularly in the fields of machinery manufacturing, energy production, the paper industry, and the clothing and footwear industry. Several of these companies became internationally renowned, such as Ericsson and SKF (Schön, 2012).

Although agriculture contributed more to the gross domestic output until 1905, the expansion of industry proved to be much more dynamic, and its momentum was not hindered by the tariff increases (based on SHNA, 2017).

6.5.1 Impact of industrial tariff increases on imports and industry

The 1892 trade policy reform brought a significant increase in tariffs on industrial goods (consumer goods and semi-finished products), while the tariff burden on agricultural products was reduced, albeit only temporarily. This also had a strong impact on the composition of imports.

Comparing the data from the three years before and after the trade policy reform (1889–1891 and 1893–1895), an increase in the value of imports can be observed for certain agricultural products, such as vegetables and fruits, as well as grains, and also for raw materials used in industry, including minerals. The most significant declines were observed in alcoholic and other beverages (46%), live animals (39%), goods made from fur, leather, bone, and horn (35%), as well as textile products and fabrics. This latter category warrants deeper analysis because, while the share of the former items within imports was negligible, textile goods constituted the most significant item in imports before the 1892 tariff increase, with a share of 16.40%. As a result of the increase, this value decreased to 12.25%²⁴, making the product group only the third most significant, slightly behind mineral raw materials (16.20%) and colonial goods (13.01%) (my own calculations based on BISOS F).

Although overall the size of import penetration had not decreased significantly (see *Figure 3*), the picture is quite different for textiles (based on SHNA, 2017).

The import penetration of this product group was consistently above 40% in the 1870s, peaking at 53% in 1883. Following this, the value began to decline even before the tariff increase, and after the increase in import tariffs, it fell below 30%. This phenomenon is not only due to shrinking imports of finished textile products, but also to the success of import-substituting production. While in 1892 the industry's output was only 78 million krona, by 1913 it had increased to 287 million krona (my own calculation based on SHNA, 2017).

²⁴ This also meant that this category of products was only the third most important in imports, behind minerals and colonial goods.

One of the largest items in this import product category was clothing. In their case, the specific import tariff – unlike the standard unit-based tariff, which was applied as the main rule – depended on the tariff levied in terms of the fabric used to make the clothing, increasing the applied tariff rate by a specified amount. For new ready-to-wear street clothes, for example, the tariff on the fabric was a uniform 20% before the tariff reform, but this rose to 50% for cotton and linen fabrics and to 100% for ‘finer’ fabrics. This had a significant impact on imports. If we compare the average import values for the three years before and after the tariff increase, we can observe a 53% decrease (my own calculation based on BISOS F). The domestic production of clothing²⁵ had already been expanding before the introduction of protective measures in 1892, and it surged afterward. However, this growth was due to an increase in the number of employees²⁶ rather than an improvement in technology, as evidenced by the output data per industry worker (based on BISOS D).

During the period under review, total industrial output increased significantly, reaching about five times the level of 1873 by 1913. This growth had already begun in the 1880s, and the increase in tariffs on raw materials did not halt this process. Industrialisation also brought with it increases in the number of people employed in industry and in their wages, although these had lagged behind productivity growth (based on IHS, 2013 and SHNA).

6.6 Economic growth and convergence

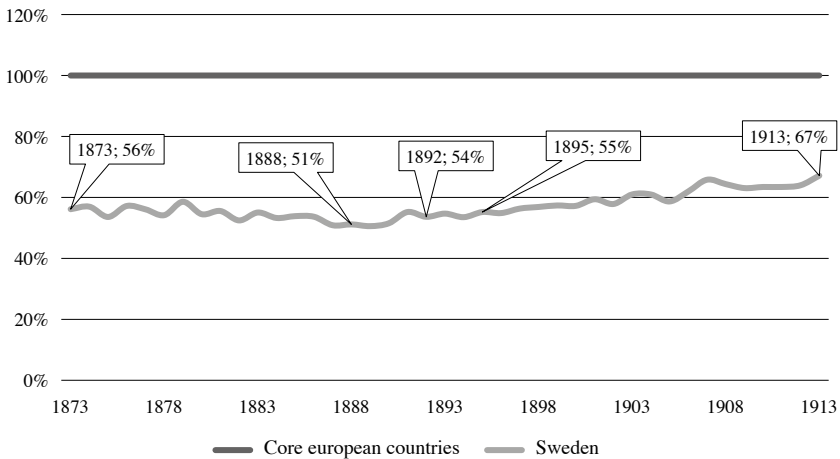
Between 1873 and 1913, the GDP per capita (calculated in 2011 USD) increased from \$2,284 to \$4,581, and not even the increase in import tariffs hindered the growth of gross domestic output (based on Maddison, 2020).

To assess the pace of economic growth, it is helpful to compare the Swedish figures with the average performance of Europe’s industrialised core countries (based on O’Rourke and Williamson, 1997: Belgium, United Kingdom, France, Germany, the Netherlands, Switzerland) (*Figure 8*).

25 Unfortunately, the statistics only show domestic production data of clothing factories until 1895. After that, they were categorized under weaving mills, creating a much broader and more comprehensive data reporting category.

26 The number of people employed in the industry in 1892 was only 11,967, rising to an unprecedented 17,123 by 1895. The number of factories, however, did not increase, at 39–39 for both years.

Figure 8
Sweden's real GDP per capita
as a percentage of the average output of the core countries
(Average output of the core countries at any given time: 100%)



Source: My own calculation based on Maddison (2020)

In 1873, the Nordic country achieved only 56% of the performance of the advanced industrial countries. During the period of free trade, no convergence was observed; instead, there was a slow divergence. In the year of the protectionist turn (1888), Sweden's relative performance fell to 51%. However, from the early 1890s, it started to catch up, reaching 67% of the core countries' output by 1913.

Sweden's real GDP per capita growth averaged 1.74% per year over the period under review, compared with 1.32% for the continent's developed countries (Table 2).

Table 2
Annual average GDP per capita growth rates of Sweden and core countries

	1873–1887	1888–1891	1892–1894	1895–1913
Tariffs for product categories	Agriculture: – Industry: –	Agriculture: ++ Industry: –	Agriculture: + Industry: ++	Agriculture: +++ Industry: ++
Sweden GDP growth rate	0.60%	2.69%	0.52%	2.64%
	1.04%		2.35%	
	1.74%			
Core countries GDP growth rate	1.24%	0.61%	1.57%	1.42%
	1.11%		1.44%	
	1.32%			

Note: The indication of the tariffs for each product category is used to identify the periods under review. The interpretation of the notations in chronological order is as follows:

- relatively low tariffs during the liberal period,
- ++ tariffs after the first increase, applied to agricultural and then industrial products,
- + temporarily reduced import tariffs on agricultural products
- +++ the final period, characterized by much higher tariffs on agricultural products than previously.

Source: My own calculation based on Maddison (2020)

The average growth in output during the decade and a half from 1873 to 1887, a period of free trade, was modest by international standards (0.60%). Since the second and third phases (1888–1891 and 1892–1894) cover relatively short periods, it is worth comparing them with the last period, which also saw high tariffs on agricultural and industrial products. The economic growth during this period was 2.64%, which significantly exceeded the 1.42% performance of the core countries.

The fact that raising import tariffs does not reduce but may even increase a country's economic performance may seem counter-intuitive. Kevin H. O'Rourke, in a paper published in 2000, summarises the most commonly formulated theories that explain this phenomenon. According to this view, economic growth can be positively affected if tariffs help to effectively protect 'infant industries' and if protectionist measures lead to a relative price change in favour of capital goods over consumer goods, thereby increasing their demand. This assumption is supported by the fact that Swedish imports also showed a significant shift towards capital assets (see *Figure 1*).

Another aspect worth mentioning is that government revenues from import tariffs can also be used for industrialisation and infrastructure development purposes, which can positively impact economic growth, even in the long term.

7 THE GENERALISABILITY OF THE SWEDISH EXAMPLE

The Swedish trade policy shift took place at a time often referred to in the literature as the first wave of globalisation. During this period, the world economy was characterised by a rapid expansion of international trade in goods and a consequent fall in overall price levels. This was due to the rapid development of the technical conditions of transportation and the resulting drastic reduction in transaction costs. Additionally, the expansion of foreign investments and the increasingly strong international migration – primarily to the United States – characterised the new era. At the global level, GDP per capita grew at an average annual rate of 1.3%, well above the 0.5% growth rate of the previous fifty years (Collie–Dollar, 2002). Not even the protectionist wave that began in the late 1870s and mid-1880s could break the momentum of development in Europe. In Sweden, the increase in tariffs did not lead to economic decline or uncontrollable inflation. On the contrary, market protection had rather favourable effects.

In the Swedish example, the fact that major business and social groups lined up in favour of the tariff reform is not insignificant, nor is the fact that through this step Sweden aligned itself with international, or at least European, trends.

However, it is highly doubtful that a similar shift would have favourable effects today. One reason for this is that the global economy has been radically transformed in recent times. The leading economic powers of the 19th century, with the exception of the United States of America, were located in Europe, while the rest of the world was often in colonial dependence on these great powers. Many states considered sovereign – Portugal being an example – were forced to enter into disadvantageous trade agreements with more developed countries, leading to a state of dependency (see Costa et al., 2016). The primary actors in international economic relations were states rather than business entities. Another important difference is that foreign trade primarily involved the flow of finished goods and raw materials. The latter usually served the manufacturing industries of developed countries.

Today, this situation has fundamentally changed. Many goods are produced in modular systems, in global value chains (GVCs). Around 70% of cross-border trade occurs within GVCs, primarily involving the movement of raw materials, components, and semi-finished products between countries. This allows various stages of production to be carried out in the parts of the world where they can be done most efficiently (OECD, n. d.) If a country were to take much stricter protectionist measures to protect its market – contrary to the regulations of the World Trade Organization (WTO), among others – it would have unpredictable effects on existing production structures.

By the turn of the 20th and 21st centuries, multinational corporations had become the primary actors in international trade. These corporations are generally opposed to market protection measures. In the event of a comprehensive tariff increase, political elites would likely face increasing pressure from large corporations with significant economic power. In extreme cases, such conflicts could even lead to the withdrawal of major players in the business sector. The relocation of production capacities abroad represents a political and economic risk, which can act as a strong deterrent. This, in turn, may encourage decision-makers to maintain the status quo. Regarding the narrow scope for policy action, it is worth recalling Thorstein Veblen's 1904 paper, which is more relevant today than when it was written: "Because of this settled habit of seeing all the conjunctures of life from the business point of view, in terms of profit and loss, the management of the affairs of the community at large falls by common consent into the hands of business men and is guided by business considerations. Hence modern politics is business politics (...) This is true both of foreign and domestic policy. Legislation, police surveillance, the administration of justice, the military and diplomatic service, all are chiefly concerned with business relations, pecuniary interests, and they have little more than an incidental bearing on other human interests" (Veblen, 1904:269–270).

Although the positive correlation between economic growth and import tariffs was largely valid and confirmed for 19th century Europe, the phenomenon known as the Bairoch paradox disappeared by the second half of the 20th century. Athanasios Vamvakidis, in his 2002 study examining empirical data, confirms that during the period between 1970 and 1990, it was primarily trade openness that contributed to GDP growth. At the same time, he points out that the reason for this lies in the widespread adoption of free trade. The economic impact, or 'success', of a country's trade policy is not independent of the similar policies of other countries around the world. Bairoch's research (1972, 1995), cited earlier, also suggests that when choosing between market protection and the freedom of trade, the economic development of the state concerned must also be taken into account. The specific impact of the decision largely depends on the level of industrialisation and economic development.

8 CONCLUSIONS

In our research, we sought to answer several questions. First, we examined the economic, social, and political phenomena that prompt a country with a previously liberal trade policy to make a strong shift towards protectionism. The reasons in this case are manifold. On the one hand, the excessive optimism of

previous periods of economic boom can be mentioned, which manifested in significant production overcapacities. On the other hand, an important factor is the increasing cost-effectiveness of long-distance transportation due to technological advancements. This made it possible for cheap overseas grain to enter European markets. In Sweden, these phenomena generated domestic political tension, mobilising a number of lobby groups. In the end, the advocates of protectionism emerged victorious and set a new direction for trade policy.

The second question concerned the economic impact of the import tariff increase. Following the protectionist shift, the volume of imports continued to rise, and overall import penetration largely remained unchanged, although there were significant declines in certain products. The proportion of agricultural and industrial goods in imports did not change significantly. However, there was a shift from consumer goods to capital goods, and from processed products to unprocessed ones. Additionally, there was a move from goods subject to higher tariffs to those with lower tariff rates. The side effect of this was that the average tariff burden had been decreasing over time without any actual reduction in import tariffs. The improvement in the trade balance was only temporary and the deficit was not eliminated on a permanent basis. However, the rising tariff revenues provided significant additional resources to the budget. From this, it can be cautiously concluded that, in addition to the need to protect domestic economic actors, fiscal reasons may also have been behind the tariff increases.

The increase in import tariffs came at a time when the Swedish economy was largely deflationary. The increase in import tariffs demonstrably contributed to the rise in price levels, although inflation remained moderate thereafter. The prices of certain important consumer goods, such as wheat and rye, proved 'immune' to tariff increases. They were much more influenced by international market processes, so the price-raising effect did not apply in their cases.

In the decades under review, the role of industry had become increasingly important and productivity had expanded rapidly. This process had already begun in the liberal period and the tariff reform did not slow it down. New industries were established and Sweden changed from an agricultural to an industrial country.

In terms of economic growth, the protectionist phase can be considered more successful. While the period of liberal trade policy was characterized by a slow decline, after the tariff increases, Sweden began to catch up with the core European countries. Of course, it cannot be unequivocally stated that the favourable processes were solely attributable to the increase in import tariffs. However, it can be concluded that the protectionist trade policy did not hinder them.

The third question was whether the Swedish market protection of the 19th century could serve as an example to follow today. In this regard, it can be concluded that

the protectionist shift occurred in a rather unique historical period, during which the structure of the global economy was still significantly different from today's. The functioning of production was not yet determined by global value chains, and protective tariffs were able to have an 'incubation' effect on the emerging industries. Applying the 19th century Swedish recipe would have powerful side effects if the historical, social and political context were ignored. At the same time, if protectionism were to become a general global trend again, it would be beneficial to thoroughly understand historical examples.

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