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The Political Economy of Default: Sweden and the International Capital Markets, 1810–1830

The final years of the long Napoleonic Wars as well as the first years of peace was a very tumultuous time for both the European states system as a whole and for individual states. New borders were established and many countries experienced a change of political regimes. The war required states to mobilize resources on a new and bigger scale. The mobilization efforts often included administrative and fiscal innovation in an attempt to increase revenues, but they also led to increasing economic and political strains when inflation, heavier tax burdens and accumulated debts affected the population. When peace finally was reached in 1815, there was an attempt to increase stability by restructuring the economic and political order on the continent. This included dealing with the debts accrued during the war, as well as more long-term trends of fiscal centralization and the subsequent growth of representative institutions gaining influence over taxation and expenditure.[1] Concurrently, the structure of international credit markets changed. Traditional European financial centers such as Amsterdam, Antwerp and Genoa were in relative

[1] Philip T. Hoffman & Jean-Laurent Rosenthal, 'Divided We Fall: The Political Economy of Warfare and Taxation', Mimeo, California Institute of Technology, 2000; José Luís Cardoso & Pedro Lains, 'Introduction', in José Luís Cardoso & Pedro Lains (eds), *Paying for the Liberal State. The Rise of Public Finance in Nineteenth-Century Europe* (Cambridge: Cambridge University Press, 2010), p. 1; Mark Dincecco, *Political Transformations and Public Finances: Europe, 1650–1913* (Cambridge: Cambridge University Press, 2011), pp. 18–20.

decline after 1815, especially in the field of loans to governments, while London rose as the dominating financial center in Europe. Bankers in London started to organize loans to several European countries as well as to the newly independent states in Latin America. These loans created a financial boom in the 1820s, which ended in a crash in 1825–1826.[2]

Although many states faced similar challenges, both during the war and after peace was reached, the fiscal policy choices and outcomes differed between the European states. Some, like Britain and Prussia, tried to return to stability without reorganizing the debts accumulated during the war. In 1815 the British government debt amounted to £644.8 million or 1.65 times GDP. However, because of the long established commitment of the state to honor its financial obligations, together with the fact that the debt was held by around 250,000 local investors, the government did not default.[3] Similar choices were made in Prussia, where the debt had risen during the war. Since the holders of government debt was dominated by the ruling elite, it became politically impossible to default. Instead, the financial situation was solved by introducing new taxes.[4] Another case is France, which had financed large parts of the war effort by external exploitation of occupied territories and thus had managed to balance the budgets and to maintain debt payments. Nevertheless, the new government had to pay large war reparations to the allied states after 1815. These reparations were financed by borrowing both internally and externally. Consequently, French government debt rose dramatically from 1815 to 1830.

[2] Carlos Marichal, *A Century of Debt Crises in Latin America. From Independence to the Great Depression, 1820–1930* (Princeton: Princeton University Press, 1989), pp. 12–67; Joost Jonker, *Merchants, Bankers, Middlemen. The Amsterdam Money Market during the First Half of the 19th Century* (Amsterdam: NEHA, 1996); Youssef Cassis, *Capitals of Capital: A History of International Financial Centres, 1780-2005* (Cambridge: Cambridge University Press, 2006); Marc Flandreau & Juan H. Flores, ‘Bonds and Brands: Foundations of Sovereign Debt Markets, 1820–1830’, *Journal of Economic History*, vol. 69, no. 3 (2009).

[3] Gregory Clark, ‘Debt, deficits, and crowding out: England, 1727–1840’, *European Review of Economic History*, vol. 5 (2001), table 6; David R. Green & Alastair Owens, ‘Gentlewomanly Capitalism? Spinsters, Widows, and Wealth Holding in England and Wales, c. 1800–1860’, *Economic History Review*, vol. 56 (2003).

[4] Mark Spoerer, ‘The Evolution of Public Finances in Nineteenth-Century Germany’, in José Luís Cardoso & Pedro Lains (eds), *Paying for the Liberal State. The Rise of Public Finance in Nineteenth-Century Europe* (Cambridge: Cambridge University Press, 2010), pp. 106–107.

However, in contrast to the eighteenth century the government managed to handle this increase without defaulting.[5]

Other states, such as Austria, Denmark and Sweden, sought other solutions to the situation in the 1810s. In Austria, a major currency reform was implemented in 1811 in order to halt inflation. Together with the removal of especially progressive personal income taxes introduced during the war, the regime attempted to regain stability when peace was reached.[6] A similar currency reform was introduced in Denmark in 1813. After 1815, the regime focused on reducing domestic liquidity and regain price stability. However, the external debt was principally maintained as well as the long-term domestic debt.[7] In contrast to the Austrian and Danish solution, the Swedish government decided in 1812 to embark on a path of defaulting on major parts of Sweden's external debt. Then in 1815 the responsibility for the remaining foreign debt was transferred from the Diet's National Debt Office to the king Charles XIII and his adopted son Charles John (former French Marshal Jean Baptiste Bernadotte). The royals used the resources they received when they participated in the anti-French coalition to repay the outstanding foreign debt. Consequently, by 1830 the Swedish state had no external debt.[8]

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[5] Eugene N. White, 'Making the French pay: The costs and consequences of the Napoleonic reparations', *European Review of Economic History*, vol. 5 (2001).

[6] Richard Bonney, 'The Struggle for Great Power Status and the End of the Old Fiscal Regime', in Richard Bonney (ed.), *Economic Systems and State Finance* (Oxford: Clarendon Press, 1995), pp. 364–5; Renate Pieper, 'Financing an empire: the Austrian composite monarchy, 1650–1848', in Bartolomé Yun-Casalilla, Patrick K. O'Brien & Franciso Comín Comín (eds), *The Rise of Fiscal States: A Global History 1500–1914* (Cambridge: Cambridge University Press, 2012), p. 181.

[7] Ole Feldbæk, *Danmarks økonomiske historie 1500–1840* (Herning: Systime, 1993), pp. 192–200.

[8] Göran Ahlström, 'Riksgäldskontoret och Sveriges statsskuld före 1850-talet', in Erik Dahmén (ed.), *Upplåning och utveckling. Riksgäldskontoret 1789–1989* (Stockholm: Riksgäldskontoret, 1989), pp. 95–105; Christer Franzén, *Skuld och tanke. Svensk statsskuldsproblematik i ett internationellt perspektiv före 1930-talet* (Stockholm: Acta Universitatis Stockholmiensis, 1998), pp. 241–8; Lennart Schön, 'The Rise of the Fiscal State in Sweden, 1800–1914', in José Luís Cardoso & Pedro Lains (eds), *Paying for the Liberal State. The Rise of Public Finance in Nineteenth-Century Europe* (Cambridge: Cambridge University Press, 2010), pp. 168–9.

These examples manifest the heterogeneity of government approaches to the fiscal situation at the end of the Napoleonic Wars and the beginning of the postwar period. In order to increase our understanding of these varying outcomes, especially when it comes to the handling of accumulated debts, it is crucial to examine the interrelationship between external pressures, such as demands from international creditors, and internal political struggles concerning the divisions of costs and resources. Smaller states in the European states system are particularly suited for such analyses since they tended to be more vulnerable to external pressures such as war or deteriorating sentiments among international investors. Furthermore, these external pressures were likely to greatly affect the internal political processes. Nevertheless, smaller states should not just be seen as victims of forces beyond their control since the international state system also offered incentives to the minor powers that were not available to the major powers. For example major powers could offer subsidies or rewards at future peace negotiations in order to facilitate the participation of minor powers in military operations. This in turn lessened the demand for domestic resources and could thus reduce the domestic political struggles over taxation. Additionally, the received resources could strengthen the ability to handle international payments and the administration of existing debts.[9]

In this article, the case of Sweden and the repudiation of its foreign debt during the 1810s and 1820s will be examined from a political economy perspective. The issue of the debt was closely connected to events on the inter-state arena, especially Sweden’s role in the international state system during the final years of the Napoleonic Wars and the first years of peace after 1815, as well as part of an internal political process in which the division of fiscal authority and

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[9] The nature of the international state system is analyzed in H.M. Scott, *The Birth of a Great Power System 1740–1815* (Harlow: Pearson, 2006). See also Patrik Winton, ‘The political economy of Swedish absolutism, 1789–1809’, *European Review of Economic History*, vol. 16 (2012).

government resources was renegotiated between the king and the Diet. Additionally, the process was closely affected by the relationships between the Swedish state and the European bankers and investors who had helped to organize and finance the Swedish debt. Thus, the interests of the creditors affected the actions of Swedish government officials. Consequently, the Swedish case is very suitable for an analysis of the interplay between external and internal factors in determining the outcome of a default process in a smaller state in the early nineteenth century.

In order to strengthen the analysis of the Swedish case, comparisons will be made with Denmark, which held a similar position in the international state system and had an analogous debt structure before the two states got involved in the Napoleonic Wars.[10] However, unlike Sweden, the Danish government chose to maintain its external debt and focused instead on restructuring its internal currency system. The comparison aims first to explain why the two governments chose such different paths and what consequences these choices entailed. Swedish historians have emphasized the poor state of government finances and the difficulties associated with maintaining the ties between the Swedish state and the international creditors. Thus, the decisions lessened the government's burdens. However, the analyses have been quite brief, which means that the dynamic between internal and external factors has not been fully explored. Especially the reactions of the international credit markets to the decisions have been largely ignored.[11] Danish historians have also stressed the poor state of government finances during the final years of the war, which forced the government to print money on a massive scale and then reform the system when the situation became uncontrollable. However, the different policy

[10] Winton (2012).
[11] Per G. Andreen, *Politik och finansväsen. Från 1815 års riksdag till 1830 års realisationsbeslut. Vol. I, 1815–1818* (Stockholm: Acta Universitatis Stockholmiensis, 1958), p. 125; Ahlström (1989); Franzén (1998), pp. 241–8; Schön (2010), pp. 168–9. It is primarily James C. Riley, *International Government Finance and the Amsterdam Capital Market, 1740–1815* (Cambridge: Cambridge University Press, 1980) and Danny Weber, *Das Handels- und Bankhaus Frege & Comp. in Leipzig (1739–1816)* (Stuttgart: Franz Steiner Verlag, 2008), pp. 240–52, that have briefly examined the issue.

options have not been fully explored.[12] In other words, why did the Danish government for example insist on paying its external creditors despite facing serious deficits and the threat of alienating the elite who suffered from the rampant inflation?

The second aim of the comparison is to advance our general knowledge about the economic and political processes at play during the period 1810–1830 and the costs and benefits of default. This means that the analysis will relate to two dominating themes in international research, namely state formation and the development of government finance on the one hand and the changing fortunes of international financial centers and the recurrent crises that occur there on the other. Scholars who have examined processes of state formation and government finance have tended to concentrate on internal economic and political circumstances from a quite national perspective. Thus, they focus on issues such as the evolution of government revenue, expenditure and debt, or the changing relationships between rulers and elites.[13] In contrast, studies focusing on financial centers and debt crises concentrate mainly on the relationships between debtors and creditors, as well as to map out different crises over time and the various stages of each crisis. As is usually pointed out, fiscal crises have their own inherent logic of a government either reneging on previous commitments or negotiating a readjustment solution with the creditors.[14] By including both internal and external factors in the analysis, it becomes possible to evaluate the relationship between these perspectives and their relative importance in determining the outcomes of the fiscal processes in the two Scandinavian states.

[12] See for example Feldbæk (1993), pp. 192–200.
[13] See for example Cardoso & Lains (2010), p. 3; Dincecco (2011), pp. 5–8.
[14] Christian Suter & Hanspeter Stamm, 'Coping with Global Debt Crises: Debt Settlements, 1820 to 1986', *Comparative Studies in Society and History*, vol. 34, no. 4 (1992); Barry Eichengreen, *Capital Flows and Crises* (Cambridge, MA: MIT Press, 2003); Carmen M. Reinhart & Kenneth S. Rogoff, *This Time is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009).

Default and the logic of government finance

One important tool for understanding the political economy of internal fiscal struggles during the early modern period is Jean-Laurent Rosenthal's model of divided fiscal authority. The model is based on the conflicting interests between the crown, which has limited fiscal authority, but the ability to spend as it pleases and a heavy focus on war, and the elite, which controls parts of the taxation through its influence upon different political bodies. Such a division easily creates situations where the two principal actors debate who should pay for joint projects, with the elite using its fiscal authority to influence royal policy. The king usually wants to increase spending and protect his political autonomy, while the elite try to limit and control his actions. The divisions will reduce the available resources on the aggregate level and bargaining to change the division and increase government resources can rarely be done without consequences for the distribution of wealth and power. Likewise, the fiscal constraints mean that the crown cannot rule out defaulting on its debts as a method of creating fiscal savings, since such a strategy is often associated with lower political costs than strengthening the political influence of the elite. In other words, credit markets can evolve and debts honored as long as they do not threaten the sovereign's political autonomy.[15]

The level of fiscal division and fragmentation differed between absolute states. In states like Denmark, which had a high level of centralization and no permanent representative political body which could negotiate with the king, there were limited opportunities for the elite to control the sovereign's actions. Thus, it was characterized by an undivided fiscal authority. Mark Dincecco has shown that such regimes could mobilize more resources than regimes that were

[15] Jean-Laurent Rosenthal, 'The Political Economy of Absolutism Reconsidered', in R.H. Bates, A. Greif, M. Levi, J.-L. Rosenthal and B.R. Weingast (eds), *Analytic Narratives* (Princeton: Princeton University Press, 1998).

more politically divided.[16] However, it is important to stress that even if there were no parliamentary institution in place, the king's actions could be influenced by the elite through its position at court and in the state apparatus.[17] Consequently, political struggles concerning the division of costs and resources also manifested themselves in centralized absolute systems.

Another factor that could affect the fiscal struggles was the composition of the elite. Especially divisions within the elite could be exploited by the regime to impose changes to the status quo. In Sweden for example it was common for kings to seek political support from the three non-noble estates in order to circumvent resistance from the nobility. However, if the king received support from the nobility in a crucial matter, it was often difficult for the non-noble estates to successfully resist the implementation of the royal policy.[18]

A second political economy model that needs to be addressed concerns the relationship between debtor states and international creditors. As Mauricio Drelichman and Hans-Joachim Voth have pointed out, no consensus exists among scholars when it comes to the issue of how sovereign borrowing is sustained. There are two main views: one focuses on the actions and needs of the borrowing state, as well as the state's reputation on the international credit market. In other words, the strategies states employ to become a credible debtor in order to gain access to credit play a crucial role. Another view concentrates on the lenders, especially the various

[16] Dincecco (2011), p. 50.
[17] See for example Ulrik Langen, 'The Great, the Pages and the End of Eighteenth-Century Danish Court Culture', in P. Ihalainen et al (eds), *Scandinavia in the Age of Revolution: Nordic Political Cultures, 1740–1820* (Farnham: Ashgate, 2011).
[18] Winton (2012). See also Joakim Scherp, *De ofrälse och makten. En institutionell studie av riksdagen och de ofrälse ståndens politik i maktdelningsfrågor 1660–1682* (Stockholm: Acta Universitatis Stockholmiensis, 2013).

punishment mechanisms they can utilize to get borrowers to pay. Additionally, the level of cooperation between lenders has been stressed.[19]

All of these strategies and mechanisms are relevant and have some empirical support, but they occur in a wider economic and political context that also needs to be taken into account. Consequently, it is necessary to include factors like the borrowing states' fiscal positions, the macroeconomic situation and foreign policy issues in the analysis, since these circumstances outside the lending transactions can trigger renegotiations of the existing ties between debtors and creditors. These renegotiations are often termed debt crises in the literature. However, it is important to remember that not all renegotiations are a result of uncontrollable deficits or unsustainable debt levels. Mauricio Drelichman and Hans-Joachim Voth have for example shown that the defaults of Philip II in Spain were not a result of unmaintainable debts. Instead they reflected a lack of short-term liquidity.[20]

Although not all renegotiations between debtor states and international creditors are a result of crises, there are important aspects that the growing literature on such events has highlighted. Barry Eichengreen and Peter Lindert have stressed that a debt crisis should be seen as a process with several stages. First the lending mechanism is important, i.e. how the debt is distributed and owned. Is the debt controlled by a few powerful individuals or institutions, or is it rather held by thousands of small investors? Second, the debt cycle or in other words the process from the onset of the crisis to its resolution is crucial. The number of defaults tends to be few when lending is gradual and there is no macroeconomic crisis. In such periods repayments are

[19] Mauricio Drelichman & Hans-Joachim Voth, 'Lending to the Borrower from Hell: Debt and Default in the Age of Philip II', *Economic Journal*, vol. 121 (2011).
[20] Mauricio Drelichman & Hans-Joachim Voth, 'The Sustainable Debts of Philip II: A Reconstruction of Castile's Fiscal Position, 1566–1596', *Journal of Economic History*, vol. 70, no. 4 (2010).

usually made, especially if governments have access to fresh lending to avoid having to make burdensome transfers to the creditors. When crisis hits a country, the economic and political incentives to suffer significant transfers to the foreign creditors are reduced. However, threats of retaliation and punishment, as well as 'the linkage of international debts to creditor-country politics and foreign policy' can force a continuation of payments. If these forces are not strong enough, the crisis easily leads to some sort of default. Following a default a settlement is usually negotiated between the debtor state and bondholders' representatives. The bondholders can also get their government involved. Since total defaults are very rare, the settlement usually focuses on terms for the restructuring of the debt and the subsequent partial repayments to the bondholders.[21]

The purpose of the article is to combine the two political economy perspectives, namely the internal bargaining model and the model concentrating on the relationship between debtor states and international credit markets, in order to present a novel story of fiscal developments in Denmark and Sweden during the early nineteenth century. Of particular importance is the question of how the debtor-credit relations influenced the political bargaining between elite and king. In what way did the bargaining affect the state's ability to act like a credible and committed actor on the international credit markets, and what impact did the lenders' punishment strategies have on the political negotiations? Furthermore, how did the domestic political situation affect the settlement between the Swedish state and the creditors and what long-term consequences did the default have on the Swedish state's fiscal capacity and the relationship with international credit markets after the war?

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[21] Barry Eichengreen & Peter H. Lindert, 'Overview', in Barry Eichengreen & Peter H. Lindert (eds), *The International Debt Crisis in Historical Perspective* (Cambridge, MA: The MIT Press, 1989), pp. 2–9. See also Suter & Stamm (1992).

The government phase: the National Debt Office and the international creditors

The political situation in Sweden during the 1810s was heavily influenced by the events in 1809 when the absolute king, Gustavus IV Adolphus, had been dethroned through a coup d'état organized by the elite and a subsequent new political order was established which guaranteed regular meetings of the Diet and its influence over government spending. Thus, it became very difficult for the king to start wars without seeking the prior approval of the Diet. Furthermore, the Diet controlled the two main financial institutions – the Bank of Sweden and the National Debt Office. However, the king controlled foreign policy and he could also use various funds and resources, such as foreign subsidies, without asking the prior approval of the Diet. Furthermore, the government ministers were only responsible to the king.[22] All of this meant that the fiscal divisions, which had dominated the political situation prior to 1809, had been reduced, but the king still had significant autonomy, particularly if he cooperated with the leading government ministers.

The king, Charles XIII, was old and frail, which meant that his adopted son, the former French marshal Jean Baptiste Bernadotte, wielded significant political influence, especially in deciding the path forward in the complex international situation of the early 1810s. The war against Russia in 1808–09 had resulted in the loss of Finland and the establishing of closer ties with France and Russia. Concurrently, Sweden had to join Napoleon's Continental System and thus sever its former good ties with Britain. However, when the tide seemed to turn against

[22] Nils Herlitz, 'Riksdagens finansmakt', in *Sveriges Riksdag*, vol. I:12 (Stockholm: Sveriges Riksdag, 1934); Anders Sundin, *1809. Statskuppen och regeringsformens tillkomst som tolkningsprocess* (Uppsala: Acta Universitatis Upsaliensis, 2006).

Napoleon, the new leadership in Sweden decided to join the growing coalition against France in 1812, which meant that they received lucrative British subsidies. Sweden remained in the coalition until 1814. The main aim of the war was to take Norway from Denmark, which succeeded in 1814 when the Danish king, who was an ally of Napoleon, signed a peace in Kiel.[23]

The new regime that was established in 1809 had to use a fiscal system that was principally constructed during the 1780s. A key institution in this system was the National Debt Office, which administered the government's debt. The office was governed by representatives from the Diet's four estates (nobility, clergy, burghers and peasants), which in turn received instructions from the Diet's appropriations and finance committee. Thus, the king could not increase the debt or utilize the office´s resources for other purposes without seeking the support of the Diet. At the beginning of 1810, the overall gross debt that the office administered amounted to 17.8 million riksdaler (abbreviated rdr) and it was divided into three main parts.[24] The biggest portion was the external debt, which mainly consisted of thousands of bonds issued in Amsterdam, Antwerp and Genoa in the 1780s and 1790s. Furthermore, the Swedish state had issued bonds in Leipzig in 1802–1803. Additionally, Sweden had also borrowed in Hamburg, but this debt was not spread to many investors. Instead it was primarily in the hands of the banker Averhoff and his associates.

[23] Torvald T:son Höjer, *Carl XIV Johan: Kronprinstiden* (Stockholm: Norstedt, 1943); John M. Sherwig, *Guineas and Gunpowder: British Foreign Aid in the Wars with France 1793–1815* (Cambridge, Mass: Harvard University Press, 1969), pp. 284–6; Nils-Erik Villstrand, *Furstar och folk i Åbo 1812* (Helsinki: Svenska litteratursällskapet i Finland, 2012).

[24] SNA (Swedish National Archives, Stockholm), Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1810, vol. 7020.

Table 1: Swedish gross external debt at the beginning of 1810

	Amount in riksdaler specie	Percentage
Amsterdam	4,587,417	43.0
Antwerp	3,194,616	30.0
Genoa	1,404,109	13.2
Leipzig	900,000	8.4
Hamburg	489,383	4.6
Current account	88,347	0.8
Total	10,663,872	100.0

Source: Karl Åmark, *Sveriges statsfinanser 1719–1809* (Stockholm: Norstedt, 1961), p. 653.

As can be seen in table 1, this debt equaled around 10.7 million rdr, or 60 percent of the total, at the beginning of 1810. Creditors in Amsterdam and Antwerp dominated, while the German credit markets in Hamburg and Leipzig played a smaller role.

The second part of the debt consisted of domestic borrowing, which at the beginning of 1810 amounted to 2,806,611 rdr, or 15.8 percent of the total. This part was dominated by bonds sold on the domestic credit market by the Debt Office. The bonds were bought by individuals and various welfare institutions such as poor relief foundations and hospitals. Furthermore, the domestic debt consisted of direct loans to the government from the Bank of Sweden.[25] The third part of the debt consisted of non-interest bearing promissory notes, which were issued by the Debt Office and which circulated simultaneously with notes issued by the Bank of Sweden. A fixed exchange rate existed between them, which meant that they were worth 4.3 million rdr if

[25] SNA, Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1810, vol. 7020; SNA, Riksgäldskontoret, Bokslutskontoret, Avräkningsböcker över obligationer för inrikeslån 1810–1811, vol. 8280.

expressed in the bank's notes or 6.5 million rdr in nominal terms. The promissory notes constituted 24.2 percent of the total debt in 1810.[26]

In order for the Debt Office to administer the debt they had been assigned a specific extraordinary tax (*bevillning*), which was paid by every household in the country. Additionally, a number of smaller fees and taxes were collected by the office. This revenue amounted to 1,160,886 rdr, while the expenditure totaled 827,802 rdr in 1810. Servicing the external debt cost the office 546,184 rdr. In contrast the interest payments on the domestic debt only amounted to 31,103 rdr.[27] Although the cost of international payments put a strain on the Debt Office, it was capable of handling the cost of the debt. This picture is also strengthened if the government's as well as the Debt Office's ordinary and extraordinary revenues are related to the cost of administering the debt. Such a calculation clarifies that 18.3 per cent of total revenues would be used when servicing the debt, which was significantly lower than for example in 1800 when over 30 percent of revenues were utilized for debt servicing.[28]

Moreover, when compared with the Danish fiscal situation in 1810, it becomes apparent that the Swedish fiscal position was relatively good. In Denmark, which was involved in a war with Britain, the state used 34 percent of its total revenue to administer its government debt.[29] The debt consisted, like in Sweden, of three main parts, namely an external debt based on bonds issued in Amsterdam, Antwerp, Frankfurt, Genoa and Hamburg, a long-term domestic debt and non-interest bearing paper notes.

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[26] SNA, Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1810, vol. 7020.

[27] SNA, Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1810, vol. 7020.

[28] SNA, Statskontoret, Kansliet, Svea Rikes stat, vol. 18, 1810; SNA, Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1810, vol. 7020. See also Winton (2012), p. 437.

[29] Danish National Archives, Copenhagen (DNA), Finanskassedirektionen, Hoved- og Kontrabogholderkontoret, Hovedindtægtsbøger 1784–1816, 1810; Hovedudgiftsbøger for Civiletaten 1784–1816, 1810.

Table 2: Danish gross debt at the beginning of 1809

	Amount in rigsdaler courant	**Percentage**
External debt	11,090,535	14.6
Long-term domestic debt	27,780,106	36.7
Bank notes	36,903,201	48.7
Total	75,773,843	100.0

Source: DNA, Finanskollegiet, Efterretninger vedrörende statsgælden 1784–1814, vol. 1071; J. Wilcke, *Specie-Kurant- og Rigsbankdaler. Møntvæsenets sammenbrud og genrejsning 1788–1845* (Copenhagen: G.E.C. Gad, 1929), p. 253.

As can be seen in table 2, the biggest part of the debt consisted of issued bank notes, while the smallest part was the external debt. If the debt structure and lending mechanisms in Denmark and Sweden are compared, it is clear that the Swedish state had a greater share of external debt, while the Danish state had developed a stronger domestic bond market. Furthermore, both states were relying quite heavily on the issuing of non-interest bearing paper notes.

The fact that the Swedish state had around 60 percent of its debt located abroad meant that it had to be involved in many international transactions. This was viewed as a serious burden by the Debt Office's officials since most of the office's revenue could not be used directly in international transfers. Instead the office had to exchange its mostly domestic originated revenue into international bills of exchange, which was both very costly and threatened to worsen the currency exchange rate and subsequently make the payments even more expensive. For example in May 1810, the directors were warned that the Debt Office only had 80,954 rdr in readily available assets that could be utilized for paying its foreign creditors.[30]

[30] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1810, vol. 4081, 10 and 16 May.

However, the worried sentiments among the directors needs to be qualified since payments to Amsterdam, Antwerp and Genoa had been temporarily suspended in February 1808. The suspension of payments to the Dutch investors was legitimized as a retaliatory measure against French intentions to confiscate Swedish property in the Netherlands, while the postponement of payments to the latter financial centers were explained as a consequence of communication problems during the war.[31] Hogguer & Co. in Amsterdam, who handled the Swedish loans together with Jan & Carl Hasselgreen, replied to this measure in June 1808. They complained that they had fallen victims to the blind trust that they had displayed in all their dealings with the Debt Office. Additionally, they stressed that innocent individuals who had lent money to the Swedish state would be cheated of their legitimate claims, which in turn would have serious negative consequences for Sweden's credit in Amsterdam. Hogguer & Co. therefore hoped that Swedish authorities would come to their senses and reconsider their position, especially since there were no reports of any arrests of Swedish citizens or the seizure of Swedish property.[32] Although these demands from Amsterdam were reiterated at regular intervals, together with complaints from Jean Martin Smets' widow in Antwerp who organized the Swedish loans there, the Debt Office argued that the economic and political circumstances made payments difficult to organize.[33] However, payments were made to Hamburg and Leipzig in 1808, 1809 and 1810, which shows that the Swedish state was eager to maintain its relations with German

[31] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1808, vol. 4077, 29 February.
[32] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1808, vol. 4078, 15 August.
[33] See for example, SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1809, vol. 4080, 24 August, 4 September; Fullmäktiges protokoll 1810, vol. 4081, 11 January, 15 January.

creditors.[34] In other words, the only international payments that the directors of the Debt Office had to *de facto* handle was disbursements to Hamburg and Leipzig.

The continuation of payments to German creditors manifests how crucial it was deemed by the Swedish state to have access to credit at one international financial center. Such access meant that the punishment, which the bankers in Amsterdam could threaten with, was weakened. In other words, the lack of collusion between the bankers in Amsterdam and Hamburg made the Swedish state's strategy less costly than if there had been close cooperation between the international creditors.

Nevertheless, the mounting arrears of unpaid interests meant that the external debt grew every six months. Since payments had just been temporarily cancelled they would eventually have to be addressed, especially if and when peace was reached. Additionally, the exchange rate between the Swedish currency and the Hamburg Banco was falling. In January 1809 the riksdaler was valued at 37.15 per 100 marks, but in January 1810 it had declined to 48.71 and in January 1811 it was down to 65.18.[35] Consequently, it became increasingly expensive for the Debt Office to repay the arrears as well as handling regular upcoming payments.

In order to address these issues the Diet decided to instruct the directors of the Debt Office to change the order of paying interests from a geographical system (stopping payments to Amsterdam, Antwerp and Genoa, while paying creditors in Hamburg and Leipzig) to a chronological system, which entailed paying the oldest arrears first. Thus, unpaid interests in Amsterdam, Antwerp and Genoa from 1808 would be paid before creditors in Leipzig for example would receive any resources. However, these payments would only commence when the

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[34] See for example SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1808, vol. 4078, 25 August; Fullmäktiges protokoll 1810, vol. 4081, 29 March.

[35] Håkan Lobell, Foreign Exchange Rates 1804–1914, in R. Edvinsson, T. Jacobson & D. Waldenström (eds), *Exchange Rates, Prices, and Wages, 1277–2008* (Stockholm: Ekerlid and Sveriges riksbank, 2010), p. 319.

Debt Office had collected sufficient amounts of international bills of exchange.[36] In practice this instruction meant that all debt payments were cancelled since the Diet did not assign any new sources of revenue, such as income from tolls, to the Debt Office. Concurrently, the directors of the Debt Office tried to convince its international bankers to support an idea to transform the arrears into new loans.[37] This plan was outright dismissed by Hogguer & Co. and Jan & Carl Hasselgreen in Amsterdam and by Frege & Co. in Leipzig. They argued that the market conditions were such that it was impossible to arrange new loans, especially for a debtor state which had not fulfilled its previous commitments.[38] However, De la Rue Freres in Genoa, who handled the Swedish loans there, supported the idea. Thus, they started to inform the bondholders about the offer and subsequently got them to agree to the exchange of outstanding interests into new bonds.[39] Again, this shows that there was no concerted action on behalf of the bankers to try and force the Swedish state to start assigning the necessary resources to the creditors. This lack of cooperation increased the Swedish state's manoeuvrability.

At the same time as these negotiations were going on, the value of the Swedish bonds was falling on the different markets. In June 1810 it was reported that the bonds were selling at 60 below par in Amsterdam and in Antwerp it was stated that they had fallen to as low as 43 below par.[40] These falls in value created an opening to purchase at least parts of the debt at a discount. Thus, the Debt Office announced that they would buy outstanding Swedish bonds with Swedish

[36] SNA, Statsutskottets protokoll 1810, vol. R4203, 25 March.
[37] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1810, vol. 4081, 16 May.
[38] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1810, vol. 4082, 2 July, 17 July.
[39] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1810, vol. 4082, 2 July, 3 July, 26 July, 6 September, 6 December, 13 december.
[40] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1810, vol. 4082, 2 July, 12 July.

riksdaler, at their nominal value, if the bonds were presented in Stockholm.[41] This offer produced a business opportunity for especially a number of Swedish merchants and brokers who had contacts in for example Amsterdam since they could purchase the bonds in Amsterdam and sell them to the Debt Office at a profit. In November 1810 for example, the Stockholm based merchant Thomas Hollström presented 12 Dutch bonds, with a nominal value of 12,000 Dutch Courant to the Debt Office. He received 5,475 rdr for these bonds.[42] In total, 26,281 rdr worth of bonds were purchased in 1810 and 439,366 rdr in 1811.[43] According to Smets in Antwerp, these quite extensive purchases by foreigners affected the market value of the bonds. In December 1811 it was reported that their value had risen from 30 to 42.[44]

These events show that the Debt Office did not lack resources as such or that they were battling with unsustainable debt levels. The major problem was instead the type of resources they had at their disposal, which could not directly be utilized for international payments. This meant in turn that international transactions became very costly, both in terms of its direct costs but also the indirect effects on the currency exchange rate. The type of resources that the Debt Office had at its disposal had principally been decided following political bargaining between the king and the elite in 1789. Thus, it was primarily political considerations rather than the demands of international payments that had determined the type of resources the Debt Office had at its disposal. Interestingly, nobody – not the new king nor the elite – argued at subsequent meetings of the Diet that it was necessary to change this arrangement. Consequently, the debtor-creditor relationship did not alter the basic internal power structure between the king and the elite since

[41] SNA, Statsutskottets riksgäldsavdelnings protokoll 1810, vol. R4472, 9 October, 10 October; SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1810, vol. 4082, 7 November.
[42] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1810, vol. 4082, 15 November; Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1810, vol. 7020.
[43] SNA, Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1810, vol. 7020.
[44] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1811, vol. 4083, 27 December.

the creditors' punishment mechanism was too weak and the availability of fresh international capital was limited due to the on-going war. In other words, improving the payment behavior would not automatically have led to the increasing availability of resources for the Swedish state.

In 1812, the relationship between the Swedish state and the international credit markets went into a new phase. The change was driven primarily by the Swedish decision to join the anti-French coalition and subsequently participate in the war against Napoleon. The hope was that Britain in particular would provide substantial financial support as well as back Sweden's ambition to make territorial gains at the end of the war. The Swedish state was foremost seeking to acquire Norway from Denmark and gain a stronger foothold in the Caribbean, beside the already existing colony of St. Barthélemy.[45]

It was especially the new crown prince that was driving this new policy and who was seeking to build support for it both internally and externally. He was also well aware that preparing for war against France required resources that went well beyond what the state had at its disposal from ordinary and extraordinary revenue. As Rosenthal points out in his model of divided fiscal authority it is such war preparations that tend to increase tensions between ruler and elite since the sovereign wants to gain access to resources to fight the war. Within a Swedish political context it was necessary to summon the Diet in order to bargain for resources and to seek legitimacy for the war effort.

At the start of the meeting of the Diet in 1812 it was very apparent that the Swedish government was trying to justify their new stance against France since they accused their French equivalent of violating Swedish rights when France tried to uphold the Continental System by confiscating all ships and cargoes that were suspected of being involved in shipments

[45] Sherwig (1969), p. 275.

to Britain or its colonies and allies. Although Sweden was a French ally, the French authorities also confiscated Swedish ships and cargoes without compensation. Furthermore, the Swedish government accused French forces of violating Swedish Pomerania. To make things worse, Napoleon had declared all Swedish claims in France to be null and void as a result of the war, and refused to listen to Swedish grievances. Additionally, the treatment of holders of Dutch bonds was mentioned. Here it was specified that the Swedish crown prince had lost quite significant sums following the tiërcering of Dutch bonds in 1810.[46] As Jan Luiten van Zanden and Arthur van Riel have shown, this tiërcering meant that only one third of the accrued interest was paid to the bondholders.[47]

These grievances were presented by the Swedish government in order to legitimize retaliatory actions against the French government and its subjects. The Swedish government used a very broad classification when defining the borders of the French realm and who was considered a French subject. According to the Swedish government's view, all territories that were occupied by French forces and subsequently formally incorporated into the French realm was part of the same political entity. This meant that the Low Countries and Genoa were within the borders of Napoleon's European Empire. Consequently, individuals in for example Amsterdam and Antwerp could be viewed as French subjects and thus be objects of Swedish retaliation.[48]

According to the Swedish government, all of the French wrongdoing made it necessary for the Swedish state to default on its external debt as a way of protecting against further oppression and to indemnify all Swedish subjects who had suffered as a result of the French

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[46] SNA, Handels- och finansexpeditionen, Statsrådsprotokoll i finansärenden, January–May 1812, 13 May 1812.
[47] Jan Luiten van Zanden & Arthur van Riel, *The Strictures of Inheritance. The Dutch Economy in the Nineteenth Century* (Princeton: Princeton University Press, 2004), pp. 72–3.
[48] SNA, Handels- och finansexpeditionen, Statsrådsprotokoll i finansärenden, January–May 1812, 13 May 1812.

actions. Thus, the owners of Swedish bonds should blame Napoleon for the default and they should seek compensation for their losses from the French government. However, the Swedish government was at the same time trying to portray the Swedish king as a merciful ruler since it was stated that the king could recognize one third of the claims at a later date if this was deemed necessary. Consequently, the default could be mitigated.[49]

Although the government's plan focused on the French actions, it also included a discussion on the state of the Swedish economy. More specifically, it focused on many of the challenges that the economy was facing: the falling value of the Swedish currency, existing trade deficits, low prices on Swedish bar iron, which was the country's most important export commodity, and the drastic reduction in the availability of herring. All of this made it very difficult for the Debt Office to purchase the necessary bills of exchange in order to pay the creditors, especially at a time when the government's resources were needed to bolster the country's military and when there was a need to import grain. Additionally, interest payments would have further depreciated the Swedish currency. Therefore, the Swedish government argued that the realm could not fulfill its obligations to its international creditors.[50]

These arguments clearly manifest that the Swedish government viewed the French actions and the subsequent retaliatory measures as a political tool that could be used both to legitimize the war against France and to avoid having to pay the international creditors. The admission that the resources were needed elsewhere indicate that it foremost was a question of political priorities. In other words, and in the vocabulary of Eichengreen and Lindert, the economic and political incentives to provide resources to the creditors were reduced when the ruler and his ministers wanted to use the resources for other purposes. At the same time, there is no discussion

[49] SNA, Handels- och finansexpeditionen, Statsrådsprotokoll i finansärenden, January–May 1812, 13 May 1812.
[50] SNA, Handels- och finansexpeditionen, Statsrådsprotokoll i finansärenden, January–May 1812, 13 May 1812.

about what effects such measures would have on the state's credit and standing in the eyes of the investors in Swedish bonds. Thus, it shows that the regime was not expressing any alarm about potential punishments or the opportunities to borrow in the future. It was the ongoing European war that reshaped priorities, but also created new policy opportunities.

The government's plan was discussed by the Diet during May, June and July 1812. The discussions were first held in the secret committee (*hemliga utskottet*) and in the appropriations and finance committee (*statsutskottet*), before it was submitted to the four estates for final approval. In the committee deliberations it was foremost a number of leading burghers involved in foreign trade that voiced their concern about the plan. One such critic was the merchant Bernt Harder Santeson from Gothenburg, who questioned the use of the default tool. The Swedish state should instead use sequestration as a way of guaranteeing the return of Swedish assets and manifest the unacceptable behavior of the French government. A sequestration would clarify the Swedish state's benevolence toward its creditors and lead to respect. The creditors would blame their government and the new system of liquidation. However, if the Swedish government went ahead with a partial or full default the creditors would ultimately blame the Swedish Diet.[51] Another critic was the merchant Peter Malm from Gothenburg, who recognized the unfairness in the French actions, but at the same time argued that it was not in accordance with the king's noble and merciful mindset or the interest of the Swedish nation to seek compensation from other innocent people who already suffer under the yoke of foreign domination. According to Malm, Sweden was seen as a very trustworthy country by all other civilized nations and would never lose that reputation unless its own actions would give rise to such sentiments. A default would severely damage that reputation and bring the biggest misfortunes to the country in the future. He

[51] SNA, Hemliga utskottets protokoll 1812, vol. R4521, 27 May.

therefore argued that it would be much better to simply postpone payments to the creditors until the next meeting of the Diet.[52]

The government's plan was primarily supported by many noblemen, clergymen and peasants at the Diet. For example the peasant Eric Ericsson argued that it was necessary to default on the external debt since the state was in dire need of resources when it was mobilizing its defenses against all possible attacks. Theology professor Sven Wijkman for his part stressed that the first priority for a state was to preserve itself. Consequently, moral considerations regarding the rights of creditors had to yield to political circumstances.[53] A similar argument was used by the medical doctor and royal physician David von Schulzenheim, who thought that it was very problematic to not pay back what you had borrowed, but that the situation required the members of the Diet to consider the hostile treatment of the French government. Thus, the need to retaliate was more important than the obligation to honor one's debts. Furthermore, he argued that a default would not lead to such great losses for the creditors since the original owners of Swedish bonds probably already had sold their assets on the secondary market. This meant that it was primarily speculators who owned the bonds.[54] In other words, von Schulzenheim questioned the authenticity of the bondholders' claims.

The arguments presented in the committees were subsequently also expressed when the issue about the external debt was debated in the four estates. After long deliberations it was ultimately decided that the Swedish state would default on two thirds of the external debt in Amsterdam, Antwerp and Genoa and that the last part could be recognized by the king at a later date if it was deemed advantageous for the Swedish state. Thus, there was no guarantee that one

[52] SNA, Statsutskottets riksgäldsavdelnings protokoll 1812, vol. R4473, 30 June.
[53] SNA, Hemliga utskottets protokoll 1812, vol. R4521, 27 May.
[54] SNA, Statsutskottets riksgäldsavdelnings protokoll 1812, vol. R4473, 30 June.

third would be repaid to the creditors. The measure was supported by the nobility, the clergy and the peasants, while a majority in the burgher estate opposed the default.[55]

The unilateral measures taken by the Diet in 1812 affected the Swedish state's fiscal situation. At the beginning of 1815, the Swedish government gross debt had been reduced to 8.3 million rdr from 17.8 million rdr in 1810. The external debt had been slashed to 4.2 million from 10.7 million rdr in 1810. Concurrently, the domestic long-term debt had increased to 4.1 from 2.8 million, and the promissory notes had increased to 8.6 from 4.3 million in 1810. The cost of administering the debt in 1815 had at the same time been reduced to 190,183 rdr.[56] If the cost of servicing the debt is related to the ordinary and extraordinary revenues of the state in 1815, it becomes obvious that only 3.8 per cent of the state's income was used to administer the debt.[57] This proportion was dramatically lower than what was used in 1810.

The partial default on the international debt consequently reduced the costs of administering the debt. The savings that were made led to a transfer of resources from the Debt Office to the government, which used it for military needs. Consequently, 1,354,900 rdr were transferred from the Debt Office to the government in 1812. This meant that the Debt Office only had 215,407 rdr in revenue remaining to cover its expenses.[58] The elite, who controlled the Debt Office, could agree to such transfers of resources from an institution they controlled to an institution that was controlled by the king since it did not entail the raising of any new resources. Thus, partly because of the partial default, no new taxes had to be introduced in order to pay for the growing military costs. Since the sums that had originally been allocated to the Debt Office

[55] Franzén (1998), pp. 244–5.
[56] SNA, Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1815, vol. 7025.
[57] SNA, Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1815, vol. 7025; Statskontoret, Kansliet, Svea Rikes stat 1815, vol. 23.
[58] SNA, Riksgäldskontoret, Bokslutskontoret, Koncepthuvudböcker 1812, vol. 7022; Statskontoret, Kansliet, Svea Rikes stat 1812, vol. 20.

were already provided for, it became a choice between giving them to the military or the external creditors. Given that choice many members of the elite chose the first option. At the same time, it is clear that many members of the elite did not feel the need to restrict the king's access to resources in order to try and influence his actions. In other words, they were not worried about royal moral hazard.

However, the political elite were not united. The opposition to the default consisted mainly of merchants from Gothenburg and Stockholm, who were worried that a government default would hurt their own credit relations in for example Amsterdam. Thus, they were concerned that creditors, bankers or governments could punish them because of the Swedish state's actions. In their view the punishment mechanism meant that it was better to maintain existing debts, despite of the costs involved. Although the merchants were an important economic and political group, they had limited ability to block key political decisions when the regime had the support of three other estates. Consequently, the regime could use the division within the elite to get its plan passed by the Diet.

Another crucial factor that affected the government's actions and that can help to explain why the opposition to the default and to the war was so limited is the fact that Sweden received large subsidies from Britain, which is shown in table 3.

Table 3: British subsidies to the Swedish state 1812–1814

	Amount in £ Sterling	Amount in Swedish riksdaler
1812	500,000	3,091,050,
1813	1,300,000	8,036,730
1814	800,000	4,945,680
Total	2,600,000	16,073,460

Source: SNA, Kommitterade för allmänna medels förvaltning, Krigs- och subsidiefonden, vol. 7, vol. 10, vol. 11, 12.

In order to get some perspective on these sums, a calculation of some of the main resources that the Swedish state had at its disposal in 1812 is done in table 4.

Table 4: The Swedish state's resources in 1812

	Amount in Swedish riksdaler	Percentage
British subsidies	3,091,050	28.8
Government ordinary and extraordinary revenue	2,937,818	27.4
Transfer from the Debt Office	1,354,900	12.7
Confiscated enemy goods	1,200,000	11.2
Loan from the Bank of Sweden	809,000	7.5
War funds from the Diet	500,000	4.7
Debt Office	385,903	3.6
Surplus and savings from 1810	295,705	2.8
Convoy commission	100,000	0.9
Resources from the war fund	44,341	0.4
Total	10,718,717	100.0

Source: SNA, Statskontoret, Kansliet, Svea Rikes stat 1812, vol. 20; Kommitterade för allmänna medels förvaltning, Krigs- och subsidiefonden, vol. 7.

As can be seen in table 4, the British subsidies amounted to close to 3.1 million rdr in 1812, which represented more than a quarter of the total available resources. These subsidies meant that the regime did not have to mobilize more resources within the country, which in turn reduced the risk of the elite opposing the war. In other words, the regime's manoeuvrability grew. The subsidies also affected the state's relationship with the international credit markets since the transfer of the British subsidies from London to various Swedish actors and institutions required the assistance of merchants and bankers. For example Peter Godeffroy and Luis & Jencquel in

Hamburg and Whitmore and Irving in London helped the Swedish state with its transactions.[59] Especially the credit relations in London offered a new alternative to the severed relations with the creditors and bankers in Amsterdam following the default.

All of this meant that it was very difficult for the creditors in Amsterdam, Antwerp and Genoa to creative incentives, such as promises to provide resources, or threaten to reduce the availability of credit, in order for the Swedish state to reconsider its actions. Nor could the creditors try to seek the support of the French government since the French government also had defaulted on existing debts when the Dutch debt was tiërcered. Thus, it was improbable that France would recognize and promote claims made by for example Dutch holders of Swedish bonds, since such recognition would ultimately also affect the relationship between the investors and the French state. Consequently, bondholders in Amsterdam, Antwerp and Genoa paid the price for the Swedish state's participation in the war against Napoleon, while domestic taxpayers were largely saved from having to pay higher contributions during the war.

However, the creditors did not just resign themselves to obeying the unilateral decisions taken by the Swedish government and the Diet. First the bankers, who had organized the loans, wrote to the Debt Office complaining about the *de facto* breach of existing contracts as well as highlighting the suffering of the bondholders. The bondholders themselves also organized meetings where they demanded a revocation of the cessation of all payments in 1810 and the default in 1812. Several bondholders also nominated representatives who either travelled to

[59] SNA, Kommitterade för allmänna medels förvaltning, Krigs- och subsidiefonden, vol. 8.

Stockholm or sent letters to the Debt Office or the government. The bondholders became especially active after the war had ended in 1815.[60]

If the Swedish developments are compared with the situation in Denmark a few key differences become apparent. The war against Britain was starting to create serious strains on the Danish finances, especially when it became increasingly difficult to raise new taxes and the market conditions for selling bonds became harsher.[61] Nevertheless, the Danish state was eager to maintain its relations with international and domestic creditors since payments were made to both in 1812 when a total of 37.5 percent of annual revenues were utilized to service the debt.[62] Consequently, the Danish state prioritized paying its creditors even in a quite dire financial situation in which it became increasingly difficult to fund the growing gap between revenues and expenditures.

However, the fiscal crisis forced the government to utilize the only available option left: to dramatically increase the number of notes in circulation. Thus, in 1812 the number of notes had reached 144.8 million rdc from 36.9 million in 1808.[63] This massive increase in the supply of money created liquidity, which meant that the government had resources at its disposal. In other words, government revenues grew rapidly in nominal terms from 20 million in 1808 to 49 million in 1812. However, if these figures are deflated into prices that existed in 1800, it is clear that they were actually falling from 19.2 million in 1808 to 7 million in 1812.[64] Thus, the state's resources

[60] See for example SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1814, vol. 4086, 7 July, 15 September; SNA, Kabinettet, Huvudarkivet, Skrivelser från enskilda, vol. 2, 4; Bernadotte family archives, Stockholm (BFA), Karl XIV Johans arkiv, vol. 138, 140, 145c, 148.
[61] Feldbaek (1993), p. 192.
[62] DNA, Finanskassedirektionen, Hoved- og Kontrabogholderkontoret, Hovedindtægtsbøger 1784–1816, 1812; Hovedudgiftsbøger for Civiletaten 1784–1816, 1812.
[63] Wilcke (1929), p. 253.
[64] DNA, Finanskassedirektionen, Hoved- og Kontrabogholderkontoret, Hovedindtægtsbøger 1784–1816, 1812. Price series from Kim Abildgren, 'Consumer prices in Denmark 1502–2007', *Scandinavian Economic History Review*, vol. 58, no. 1 (2010), p. 23.

were fast losing value. Likewise, the severe inflation hurt especially civil servants and officers who were paid in cash.

The leadership in Copenhagen was well aware of the problems associated with the hefty price increases which followed the growing number of notes in circulation. Although the regime could blame the international situation in general and the war with Britain in particular for the pressing circumstances, it was not politically viable to ignore the increasing criticism of the economic policies. Consequently, the political costs related to the system of war finance had to be reduced by implementing reforms. It was not until January 1813 that a plan to reduce the number of notes was introduced. The scheme included the establishment of a new banknote-issuing bank, the *Rigsbank*. The new bank was allowed to issue a maximum of 46 million worth of notes, which were guaranteed by a first-priority mortgage in silver for 6 per cent of the value of all properties in the realm. This would create a silver fund that could be used to exchange the old *kurantrigsdaler* into new *rigsbankdaler* in the ratio of 6 to 1. The new currency would thus be backed by the new silver assets.[65] The debt situation at the beginning of 1814 indicates that the total gross debt, including the new bank notes, had risen to 175,555,653 rigsbankdaler (hereafter rbd). The new bank notes in circulation amounted to 53.4 million rbd, while the long-term domestic debt totalled 101.7 million and the international debt reached 20.5 million rbd.[66] This shows that the reform in 1813 was not targeted to reduce the domestic long-term debt or the size of the international debt.

The developments in Denmark manifest that it was the Danish state that had the greater debt burden of the two Scandinavian states and that it was the Danish state that was facing a

[65] Knud Erik Svendsen & Svend Aage Hansen, *Dansk pengehistorie 1700–1914* (Copenhagen: Danmarks Nationalbank, 1968), pp. 104–107; Feldbæk (1993), pp. 193–4.
[66] DNA, Finanskollegiet, Efterretninger vedrørende statsgælden m.m. 1784–1814, vol. 1071; Wilcke (1929), p. 319.

severe crisis with a debt spiraling out of control. Despite these challenges, the government in Copenhagen still insisted on honoring its commitments to both the external and internal bondholders. Although the Danish state temporarily suspended payments on the external debt at the end of the war, there was never any mention of defaulting on this debt. This shows that it is problematic to argue that it is debt levels in general that determine if a state will default or not. The comparison of the two Scandinavian states thus give empirical support to Drelichman and Voth's argument that states can default even if their debts are sustainable.

How then should the Danish commitment be explained? One answer is that a default on the external debt, which only amounted to around 12 percent of the total debt, would not have addressed the issue of the massive amounts of paper money in circulation. Another answer is the resources that the Danish state had at its disposal, which were heavily based on taxing trade and consumption. These resources were very suitable for international payments. In other words the Danish state did not face the same type of expensive transactions of turning domestic revenue into international bills of exchange as the Swedish state did. These revenues had helped the Danish state to build a good reputation on the international markets during the second half of the eighteenth century. For example Danish bonds were always viewed as safer investments than Swedish equivalents by investors in Amsterdam or Antwerp. The Danish government was therefore hoping to be able to continue relying on international borrowing in the future. Consequently, market access and threats of punishment from the bankers played an important role in the Danish case.[67]

[67] See for example Christiaan van Bochove, 'External debt and control mechanisms: Danish borrowing in Holland during the pre-industrial period', unpublished paper.

The private phase: Bernadotte and the international creditors

The relationship between the Swedish state and the international credit markets entered into a new phase in 1815, when the responsibility for the remaining external debt was transferred from the Debt Office to the king and his adopted son, crown prince Charles John. The background to this decision was the supply of resources that Charles John managed to secure from a number of foreign governments when the coalition against Napoleon was built. These resources were given to him personally and not to the Swedish state. They were divided into different funds, which were administered separately, although there were transfers between them at times. One was the so called Piaster fund, which amounted to 500,000 Spanish piasters and which was given to Charles John in 1812–13 by the British following the Swedish agreement with the Junta in Cadiz. Another fund was the so called Ruble fund, which amounted to 1.5 million rubles or 716,000 rdr. The amount was originally given as a loan to Sweden, but was later transferred as a personal gift to Charles John by the Russian state at the peace conference in Vienna in 1815. A third fund was the Pomeranian fund, which totaled 1,550,000 riksdaler Prussian Courant. This sum was given to Charles John by the Prussian state following the secret agreement between Sweden and Prussia in 1815, which included the transfer of Swedish Pomerania to Prussia. The fourth and most substantial asset was the so called Guadeloupe fund, which amounted to £1,056,092 sterling. This was given as compensation by the British government following the Swedish decision to hand back the island of Guadeloupe in 1815. The French island, which had been occupied by Britain in 1810, had been offered to Sweden in 1813 as part of the coalition building against France. However, after surveying the island and its economic potential and after the French government had requested that it would be returned to France, the Swedish government decided to hand back the island in exchange for monetary compensation. This choice meant that Sweden only had a small colony – St. Barthélemy – in the Caribbean. The administration of this island, which had become Swedish in 1784, was transferred from the Swedish state to the king in 1812. Thus, the so called Barthélemy fund constituted the fifth and last private fund for Charles John.[68] The revenue that the island generated was quite significant during the last years of the Napoleonic Wars. In 1814 for example, 123,932 rdr was transmitted to Sweden. However, when the war ended the opportunities for functioning as a safe transit point in the region ceased, which caused a severe economic downturn. Consequently, the island was not a profitable asset after 1815.[69]

Although the sums exceeded several years' worth of government revenue, the political debate concerning the allocation of them to the royal family was quite limited. The only fund that created some controversy was the Guadeloupe fund, which a number of government ministers thought belonged to the state. However, other ministers supported Charles John's claims.[70] One major reason behind the lack of opposition to the crown prince's stand was the offer presented to the Swedish government and Diet in 1815 by the king and the crown prince. The royals offered the Swedish state to use the resources in the Guadeloupe fund to liquidate the remaining external debt in exchange for a yearly 200,000 rdr perpetual payment to the royal family from the Debt Office. This sum amounted to five percent of half the Guadeloupe fund or roughly around five percent of the remaining external debt in nominal terms. This offer was supported by the government ministers and the four estates without any debate. All leading politicians expressed their admiration and gratefulness for the royals' sincere intentions and their deep sacrifice.[71]

The supply of a number of funds to the royals created a new political momentum since the fiscal divide between the regime and the elite grew at the same time as the royals gained political

[68] Höjer (1943), pp. 412–21.
[69] *Statistisk Tidskrift* 1865, p. 263.
[70] Höjer (1943), pp. 397–8; Andreen (1958), pp. 278–82.
[71] See for example the discussion in the burgher estate in 1815, *Borgarståndets protokoll 1815*, vol. 2:2, pp. 1637–8.

autonomy. In other words, the crown prince lessened his need to seek resources from the Diet on a regular basis. Such a situation could be perceived as threatening by the elite, since it reduced their opportunities to control the actions of the royals. In order to reduce the elite's worries about potential royal moral hazard, it can be argued, if we follow the logic of Rosenthals's model, that the royals were forced to manifest their generosity by moving resources from the royal side of the fiscal divide to an area that was the responsibility of the Diet, namely the debt. By offering to liquidate the debt, and thus make it possible for the elite to either spend their resources on something else or reduce taxation, the risk of political struggles concerning the private funds diminished. Consequently, it was politically difficult to criticize a regime that manifested its generosity with its own resources and which did not demand the elite to contribute financially to the solution of an issue that was the responsibility of the elite.

A contributing factor to the political elite's support for the royal plan was Charles John's use of the funds to provide additional salaries, payments and loans to several members of the elite. For example a total of 528,931 rdr in loans were issued during the period 1815–1824.[72] The payments ensured that the elite received part of the spoils from the successful war, which in turn reduced the threat of dissension among the elite. Thus, the funds were utilized to establish and maintain personal ties between Charles John and the elite in both Norway and Sweden.

After the Diet had approved the new arrangement regarding the debt, the king declared that the remaining one third of the external debt in Amsterdam, Antwerp and Genoa would be recognized and that he would liquidate it. Furthermore, he would liquidate the debt in Leipzig

[72] BFA, Karl XIV Johans räkenskaper, vol. 1; SNA, Kommitterade för allmänna medels förvaltning, vol. 41. See also Höjer (1943), pp. 420–23.

and Hamburg, which had been left out of the default process in 1812.[73] All of this outstanding debt was valued at 4,155,926 rdr when it was transferred from the Debt Office to the royals.[74]

The liquidation process was organized by a number of loyal assistants to the crown prince who did not have a formal role in the government. One was Louis Marie Camps, who was a childhood friend of Charles John and who functioned as his private secretary and confidant in several economic and political matters. Another confidant was Sigismond Jean Baptiste Dehn, who had been a banker in Altona. Dehn became the crown prince's private diplomat and economic representative. Charles John also established ties with several leading merchant firms in Stockholm, such as Schön & Co. and Michaelson & Benedicks. Additionally, a number of leading government ministers and civil servants became part of the process.[75]

The officials involved attempted to reach broad debt settlements, including specific terms, conditions and time frames when the bonds had to be presented, with all the bondholders in order to speed up the process and to prevent having to negotiate with individual bondholders. At the same time, the Swedish official sought to separate the different negotiations and thus prevent bondholders from different markets to cooperate and present joint demands to the Swedish state. The fact that bondholders in the Netherlands, Genoa and Leipzig had organized meetings and elected representatives made settlements easier to reach. While there was a desire to reach agreements with the creditors, with clear terms and conditions attached, the Swedish officials were concurrently purchasing bonds on the secondary markets, mostly through intermediaries. This had been going on since 1810, but it accelerated after the default as the value of Swedish bonds in Amsterdam, Antwerp and Genoa was gradually falling. The fall in value created even

[73] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1815, vol. 4087, 31 August.
[74] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1815, vol. 4087, 3 August.
[75] BFA, Karl XIV Johans arkiv, vol. 139; SNA, Kabinettet, Huvudarkivet, F1B, vol. 5.

greater opportunities for merchants and bankers to purchase the bonds at a discount and then sell them to Swedish officials. Smets for example reported that the Swedish bonds were down to around 22 below par in Antwerp in March 1816. In comparison, Danish bonds were valued at 66 and Russian assets were traded at 84.[76]

The exact division of profits concerning these transactions between individual bankers and Swedish officials is difficult to specify since the agreements with the bankers as well as the exchange rates differed. In the case of the bonds in Leipzig for example, an agreement was signed in 1816 between Michael Benedicks and the crown prince. In the agreement, Benedicks agreed to liquidate all bonds for a sum of 650,000 Hamburg Banco.[77] This meant that the merchant took the risk, but he could also profit from the transactions if he managed to buy bonds at a clear discount. In other cases, such as the operations in Genoa, Dehn managed to purchase bonds at 28 below par instead of the agreed 33. In this case Charles John pocketed the profit.[78]

The bondholders basically used two different strategies to tackle the situation in 1815. One was to liquidate the assets as quickly as possible by selling them on the secondary market. The other strategy was to meet with other bondholders in an attempt to mobilize resistance against the Swedish efforts. These bondholder meetings were held in Amsterdam, Antwerp, Genoa, Leipzig and Dresden. In the Dutch case, G.W. van de Poll was elected representative. He travelled to Stockholm in 1815 to present the bondholders' grievances at the meeting of the Diet and to negotiate with leading Swedish officials. In a similar fashion the merchant Johann Jacob Mesmer from Leipzig was elected by bondholders in Saxony to present their grievances at the meeting of the Diet in 1817. The hope was that such actions could lead to a change in Swedish

[76] SNA, Kabinettet, Huvudarkivet, Skrivelser från enskilda, vol. 2, Smets to Wirsén, 20 March 1816.
[77] BFA, Louis Camps arkiv, vol. 11.
[78] Höjer (1943), p. 419.

policies, or at least a mitigation of the terms of the liquidation. Additionally, individuals and groups of creditors wrote directly to the Swedish king requesting a redress of grievances.[79]

In the case of the debt issued in Amsterdam, an agreement was reached between van de Poll and the Swedish officials at the end of 1815, which basically guaranteed that the bondholders would be paid 33 percent of their bonds' nominal value. Thus, the Dutch bondholders did not manage to alter the decisions taken at the Diet in 1812 and 1815. Payments were arranged in 1815 and 1816, which meant that most bondholders seemed to have accepted the agreement. In total 1,300,000 Hamburg Banco was assigned for these transactions.[80] Likewise, an agreement was reached with the bondholders in Genoa in July 1816, which guaranteed them 33 percent of their bonds' nominal value. Thus, like in the Netherlands, the bondholders had not managed to change the Swedish decisions. Subsequently, payments were arranged to Genoa in 1816 and 1817 totaling £96,599 sterling.[81]

Whereas an agreement was reached fairly quickly with the Dutch and the Genoese, the negotiations with the bondholders in Saxony became more protracted. One reason for this was the decision by many bondholders to the turn to the Prussian state to assist them in the negotiations with the Swedish officials. Since Prussia had taken control of parts of Saxony in 1815, many of the bondholders were now Prussian subjects and could thus seek that state's protection. This was

[79] See for example BFA, Karl XIV Johans arkiv, vol. 138, 139, 140; SNA, Kabinettet, Huvudarkivet, F1A, vol. 6; F1B, vol. 5, 6; SNA, Kabinettet, Huvudarkivet, Skrivelser från enskilda, vol. 2, 4; Sächsisches Hauptstaatsarchiv Dresden, Geheimes Kabinett, vol. loc. 30059.

[80] SNA, Kommitterade för allmänna medels förvaltning, vol. 41; SNA, Statsutskottets riksgäldsavdelning 1817–1818, vol. R4479.

[81] SNA, Kommitterade för allmänna medels förvaltning, vol. 41; SNA, Statsutskottets riksgäldsavdelning 1817–1818, vol. R4479.

something that the Swedish crown prince and his advisors had not counted on. Consequently, the issue of the debt became part of a wider settlement between Prussia and Sweden.[82]

Although Michael Benedicks, who had signed the contract with Charles John, offered to liquidate the bonds at their nominal value in Saxon currency, he set an exchange rate for the transactions that entailed a *de facto* reduction by around 35 percent.[83] Still, many bondholders accepted the offer, but there were also numerous individuals who refused it. After a long process, which included a gradual improvement in the terms offered, almost all bonds were liquidated by 1832.[84]

This leads to the question of why the Dutch and Prussian governments' reaction to the Swedish liquidation process differed so markedly. There is no evidence in the source material that the government of Willem I in the Netherlands was actively trying to back the bondholders' claims and grievances, while several leading Prussian and Saxon officials were corresponding with both the bondholders and Swedish officials. One possible explanation of this difference is the fact that the Dutch authorities were dealing with the aftermath of Napoleon's tiërcering of the debt. The government's approach entailed paying interest on one-third of the debt, while the rest – the so called deferred debt – was slowly readopted into the interest bearing part over time.[85] This divide between different parts had some similarities with the Swedish policy, which meant that it became difficult for the Dutch state to argue that holders of Swedish bonds should be treated better than holders of Dutch bonds. As a consequence, the Dutch state let the participants on the capital market deal with the issue on their own. In comparison, the Prussian state

[82] SNA, Kabinettet, Huvudarkivet, F1B, vol. 6; SNA, Statsutskottets riksgäldsavdelning 1817–1818, vol. R4479; Sächsisches Hauptstaatsarchiv Dresden, Geheimes Kabinett, vol. loc. 30059. See also Weber (2008), pp. 244–9.
[83] Höjer (1943), p. 419; Weber (2008), pp. 244–5.
[84] SNA, Kommitterade för allmänna medels förvaltning, vol. 41; Sächsisches Staatsarchiv Leipzig, Frege & Co., vol. 152, 153. See also Weber (2008), pp. 244–51.
[85] The Dutch state's policy is described in van Zanden & van Riel (2004), pp. 97–9.

maintained its accumulated debts after the war and was thus not forced to deal with any internal disgruntled creditors. This policy created a situation in which the government could be more active in promoting the interests of the bondholders, and in the process strengthen its standing in the eyes of its new subjects. Additionally, the debt could be used as a brick in an attempt to seek concessions from the Swedish state in the diplomatic negotiations.

The liquidation process shows that the Swedish officials were to a large extent able to implement the decisions taken by the crown prince and the Diet in 1812 and 1815. Their negotiation position was strengthened by the fact that there was no interest on the Swedish side to maintain existing ties. In other words they were not worrying about future market access in Amsterdam or Genoa. One reason for this attitude was the generous payments from the coalition partners, which increased the royals' political autonomy but also created some ties with the credit market in London. A return to the old international markets would have entailed getting the Diet and the Debt Office involved and thus would have threaten to reduce the political position of the royals. The creditors on the other hand could not intimidate the Swedish officials by referring to punishments. Instead they had to focus on moral arguments about paying one's debts and the negative effects on their economic situation. It was only the Saxon creditors who could allude to sanctions when they sought the support of the Prussian government. This strategy had some effect, since it was only Saxon creditors who had some success in seeking a change of terms. But on the whole, it was difficult for the international creditors to have an impact on the internal political bargaining in Sweden. There was no political group, except merchants, who was willing to take their side.

The liquidation of the debt – both the internal and the external – meant that the Swedish state was basically debt free by 1830. In that year only 8,033 rdr was used for interest payments.[86] However, this did not mean that all financial problems had been solved, or that it was easy to borrow when necessary. When the Swedish state attempted to borrow again externally in 1830 and 1832 on the German market, it ended in utter failure. Instead of building long-term relations with a number of bankers, Swedish officials thought that it would work to publish an invitation in a number of journals to bid on a loan with already fixed terms. The Debt Office blamed the political situation in Europe for the failure, but it is clear that the proposed lending mechanism and an overestimation of Sweden's credit standing contributed to the problems.[87]

If the situation in Sweden is compared with the Danish case, a number of differences can be identified. First of all it is clear that the Danish state was committed to re-establish its relationship with both domestic and external creditors after the war since it assigned sufficient resources to cover all necessary payments. The resources – tolls and excise in Denmark and the German duchies, interest payments from the state's debtors, payments from Prussia and the Sound Toll – were also of the character that they were well suited for especially international payments. Although the Danish king also received financial compensation from Prussia, this was used to bolster the ability to handle existing debts rather than liquidation. Consequently, there were no plans to initiate any defaults after the war even if the debt level was relatively high. The cost of administering the debt amounted to around 29.5 per cent of the total income in 1816, which was lower than 1812.[88]

Furthermore, Denmark did not just try to maintain existing debts; they also started to borrow again on the international capital markets in Hamburg and London in order to replace old

[86] SNA, Riksgäldskontoret, Bokslutskontoret, Tryckta utdrag ur riksgäldskontorets huvudböcker, vol. 6780, 1830.
[87] SNA, Riksgäldskontoret, Huvudarkivet, Fullmäktiges protokoll 1830–1832, vol. 4102–4104, 27 May, 1 June, 3 August, 8 November, 13 November 1830, 19 December 1831, 9 January 1832. The Debt Office did not follow the practices that Flandreau & Flores (2009) have highlighted in their analysis of the debt markets in the 1820s.
[88] DNA, Finanskassedirektionen, Hoved- og Kontrabogholderkontoret, Hovedindtægtsbøger 1784–1816, 1816; Statsgældsdirektionen, Regnskap for Statsgældsdirektionen 1816–1847, 1816.

expensive loans with cheaper ones.[89] This led to an increase of the international debt to 72.7 million rbd, which was an increase of around 58 million rbd since 1816. The cost of administering the total debt amounted to 27.7 per cent of total government revenue in 1830.[90] Consequently, the Danish state could benefit from its old established relationship with the international credit markets.

Conclusion

The Swedish and Danish cases show that it was not the level of debt or the relation between debt payments and annual revenues in general that determined how the two regimes approached the fiscal situation in the 1810s. Thus, it is problematic to argue that the concept of debt intolerance is relevant in order to understand the process.[91] Nevertheless, it has been common in both Danish and Swedish historiography to view developments as driven by a poor state of government finances and the problem of covering the discrepancy between growing expenditures and stagnant revenues. The fact that both states relied on paper money have been seen as a manifestation of that weakness. The comparison has shown that we need to look beyond such simplifications. Instead of focusing on debt levels or revenues alone, it is clear that the debt structure and lending mechanisms in combination with the type of resources that the states assigned to administering the debt played a more crucial role in determining the outcome. The allocation of resources was in turn closely linked to internal political struggles between king and elite. The undivided fiscal authority in Denmark meant that the regime basically could assign the

[89] Feldbæk (1993), pp. 196–8.
[90] DNA, Statsgældsdirektionen, Regnskab for Statsgældsdirektionen 1816–1847, 1830; Finansdeputationen, Hoved- og Kontrabogholderkontoret, Hovedindtægtsbøger 1817–1848, 1830.
[91] Compare Carmen M. Reinhart, Kenneth S. Rogoff & Miguel A. Savastano, 'Debt Intolerance', *Brookings Papers on Economic Activity*, no. 1 (2003).

type of resources that the debt market valued, which strengthened the state's credit but also its reliance on external debt. In other words, the demands of the international credit markets as well as fears of losing the established credit, affected the division of resources in Denmark. Therefore, no default on the external debt was made. Sweden on the other hand was characterized by a divided fiscal authority between the king and the elite, which led to a situation where it was not the demands of the debt market that determined the resources of the Debt Office. Instead it was the internal political struggle that decided the division of resources. The king sought to increase his political autonomy and influence by seeking foreign subsidies and payments, which could at least temporarily solve existing divisions by offering the elite the chance of not having to contribute as much resources as otherwise would have been required. Thus, the subsidies created a situation where the regime foremost adapted to the international state systems in order to take advantage of the opportunities that could be gained there rather than to the requirements of the international credit markets. As a consequence, the control mechanisms that external bondholders utilized were quite ineffective, especially when there was no interest on the Swedish side in maintaining access to the market. Thus, it became possible to initiate a default.

Denmark can thereby be placed in a category of states, which both before and after 1815 adapted to the demands of the international credit markets and thus gained access to important resources. Sweden on the other hand adapted to these demands during the second half of the eighteenth century, but the internal political struggles and the resources provided by major powers meant that the leadership in Stockholm chose a different path at the end of the Napoleonic Wars, which included default and liquidation of existing debts.

The analysis has shown that there are important connections between internal factors such as a division of fiscal authority and external factors like creditors' punishment strategies. The evidence from this study and others suggests that countries that were characterized by a divided fiscal authority often solved issues relating to accumulated debts by defaulting. This in turn meant that control mechanisms had more limited effect. Countries that had a more undivided fiscal authority did not have to deal with such struggles and could thus assign resources to maintain debts. This in turn increased the adaptation to the demands of the international credit markets. In Flandreau and Flores's analysis of the London market in the 1820s it is clear that countries with an established tradition of fiscal division, such as Portugal and Spain, defaulted, while more centralized states like Denmark, Prussia and Russia did not default.[92] However, it is important to also look at the type of resources that the states had at their disposal. It was not all states with a fiscal division that had a crown prince that controlled massive private funds that could be used for patronage and liquidating government debts.

[92] Flandreau & Flores (2009), pp. 668, 678–9.