Peter Ericsson and Patrik Winton
Department of History
Uppsala University
Sweden
E-mail: Peter.Ericsson@hist.uu.se
Patrik.Winton@hist.uu.se

Working paper for the workshop *Politics and state finance in the peripheries of the global economy in historical perspective* at UCL in 2018

Royal credible commitment and the partial default of the Swedish Diet in 1719

Introduction

In 1715, Charles XII of Sweden was in deep trouble. The costs of the war against a coalition of Denmark, Poland-Saxony and Russia – soon to be joined by Prussia and Britain/Hannover – were spiraling. The king's unyielding decision to continue the war called for a complete transformation of how the war was financed. The solution was to rely on credit and to release an unprecedented amount of liquidity, primarily in the form of token coins, into the Swedish economy. The system was clearly inspired by the French experiments with paper money, *billets de monnaie*, during the War of the Spanish Succession, as well as by the ideas of John Law. Moreover, the confidant of the king, Georg Heinrich von Görtz, who headed the administration of the new financial system, met with Law in Paris in 1716.[1] The financial system enabled Charles XII to effectively wage war on virtually all other states in northern and eastern Europe and to launch a massive assault on Norway. However, after the king's death in November 1718, the new parliamentary regime was adamant to end the war and to dismantle the new fiscal and monetary system. This resulted in a dramatic fall in the value of the token coins. In the spring of 1719, the Diet initiated a partial

[1] On the French systems, see Antoin E. Murphy, *John Law: Economic Theorist and Policy-Maker* (Oxford 1997); Richard Bonney, "France and the First European Paper Money Experiment", *French History*, vol. 15 (2001); François R. Velde, "French Public Finance between 1683 and 1726", in Fausto Piola Caselli (ed.), *Government Debts and Financial Markets in Europe* (London 2008); Guy Rowlands, *The Financial Decline of a Great Power: War, Influence, and Money in Louis XIV's France* (Oxford 2012); Hans-Joachim Voth, "Blowing Early Bubbles: Rational Exuberance in the South Sea and Mississippi Bubbles", in William N. Goetzmann et al (eds), *The Great Mirror of Folly: Finance, Culture, and the Crash of 1720* (New Haven 2013); Joël Félix, "'The most difficult financial matter that has ever presented itself': paper money and the financing of warfare under Louis XIV", *Financial History Review*, vol. 25 (2018). On Görtz and Law in Paris, see Theodor Westrin, "Frih. Georg von Görtz' bref ur fängelset i Arnhem 1717", *Historisk Tidskrift* (1898), p. 113; Gösta Lindeberg, *Svensk ekonomisk politik under den görtzka perioden* (Lund 1941), p. 139.

default by writing off around half the nominal value of the token coins, despite vocal objections from peasants and burghers, and from some noblemen.

The Swedish developments offer us a unique opportunity for a critical discussion on the concept of credible commitment and political institutions, as first articulated in Douglass North and Barry Weingast's famous article from 1989.[2] In Sweden, the roles were reversed compared to North and Weingast's model, with an autocratic royal regime much concerned with its creditworthiness, succeeded by a parliamentary regime that committed a partial default. The royal regime was able to raise very large sums, while the parliamentary regime, despite very modest foreign policy ambitions, was in effect out of funds. This fact makes it possible to argue that it is not necessarily formal constitutional arrangements, nor the mere existence of elected political assemblies that can instill public confidence in the commitments of a state. Instead, it is more a question of the general social distribution of the government's debt and the interests and influence of different elite groups in the political system.

The Swedish developments took place around the same time as other European states experimented with new ways to finance war and debts during and after military conflict. Thus, early eighteenth century Europe experienced a period of financial expansion and innovation, which entailed the issuing of larger volumes of government bonds and other securities, and more people owning and trading these instruments. Several scholars have therefore termed the period as an era of financial revolution. Almost all states halted the expansion phase around 1720 when they initiated varying forms of consolidation and liquidation processes in order to reduce liquidity and the costs of administering debts. The most well-known of these processes are the so-called South Sea and Mississippi Bubbles in Britain and France when the authorities transferred government liabilities to chartered companies as a way to liquidate the debt. These transfers resulted in two parallel speculation booms that both ended with financial crashes.[3]

By examining the Swedish case more closely, we will not just gain new insights into how a royal regime could implement financial innovation in a peripheral economy, but also why the new parliamentary regime started to reduce and liquidate the debt around the same time as other

[2] Douglass C. North & Barry R. Weingast, 'Constitutions and commitment: the evolution of institutions governing public choice in seventeenth-century England', *Journal of Economic History*, vol. 49 (1989).
[3] P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit 1688-1756* (London 1967); Larry Neal, *The Rise of Financial Capitalism: International Capital Markets in the Age of Reason* (Cambridge 1990); Helen J. Paul, *The South Sea Bubble: An Economic History of its Origins and Consequences* (London 2013).

European states undertook similar measures. Thus, the Swedish developments offer an opportunity to examine the connections between the internal political economy and external/transnational forces such as war, trade and the flow of fiscal ideas and practices.

The interpretations made in the eighteenth and nineteenth centuries of these European experiences have had a long-lasting impact on the historiography as well as the public mind. As Eugene White has pointed out, John Law was depicted as the "archetypal financial scoundrel, rogue, charlatan, and manipulative policy maker", who undermined the French economic and political systems and who still today can function as a warning whenever financial difficulties arise.[4] Likewise, Görtz has been accused of tricking the king, and he has been held responsible for the financial difficulties of the Swedish realm at the end of the Great Northern War.[5] In a similar fashion, several commentators have mythologized the South Sea Bubble long after the event, exaggerating its importance and the long-term consequences for the credit market and the state.[6]

Although these expansion and liquidation phases were contingent on local economic and political contexts, it has also been common among scholars to draw more generalized and theoretical conclusions from especially the British and French experiences. In particular, economists and economic historians influenced by the new institutional economics have focused on how the differences in the two countries' formal institutional set up determined not only the fiscal and monetary situation, but also their overall internal and external state capacity. Thus, Britain with its supreme but limited Parliament after 1688, secured property rights and prevented the monarch from becoming predatory. This constitutional arrangement strengthened the government's ability to borrow by providing credible commitment to honor its financial pledges, which in turn reduced the state's borrowing costs and increased the state's ability to act militarily.[7] Consequently, the various governments in power could overcome the fiscal challenges posed by the situation in the 1710s without serious upheavals. In contrast, France with its absolute rulers did not have an elected national assembly that could protect property rights and the claims of the state's creditors from a predatory monarch. The regime was therefore more

[4] Eugene N. White, "The Long Shadow of John Law on French Public Finance", in William N. Goetzmann et al (eds), *The Great Mirror of Folly: Finance, Culture, and the Crash of 1720* (New Haven 2013), p. 99.
[5] See for instance, Jan Berggren, *Rikets mest hatade man: Georg Heinrich von Görtz: en biografi* (Stockholm 2010).
[6] Julian Hoppit, "The Myths of the South Sea Bubble", *Transactions of the Royal Historical Society*, vol. 12 (2002).
[7] North & Weingast (1989); Daron Acemoglu & James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (London 2012).

likely to default on its debts when it encountered fiscal pressures, which increased the cost of borrowing. Royal absolutism was in other words not able to deliver credible commitment, and subsequently the crash of John Law's system had a more long-term negative impact in France, than the South Sea Bubble had in Britain.

Several scholars have criticized the institutional perspective in general, but perhaps the major object of criticism has been the arguments of North and Weingast in their article on British developments after the Glorious Revolution. Critics have emphasized that they have misunderstood British developments. For instance, Julian Hoppit, has pointed out that the contrast between the new regime after 1688 and the previous political order is simplified and almost teleological in nature. Thus, North and Weingast are "extracting certain features from the past held to lead to those later (and often present-day) conditions requiring explanation and emphasis". Hoppit has also stressed that institutions are considered "mainly in terms of functional relationships to modern economic criteria, not to ideas, culture, and politics of the time".[8] In a similar fashion, D'Maris Coffman highlights that North and Weingast conflated "regime structure and state structure, taking them as a single variable". Instead, she argues, it is important to note that Crown and Parliament were "integral parts of an increasingly permanent British state" and what public creditors needed was "evidence of both the state's willingness and its ability to pay".[9] Correspondingly, Anne Murphy has contended that North and Weingast failed to recognize the difficulties that were encountered in establishing the government's credible commitment, and that the process was not just driven from above by the elite and the institutions of government but also "from below by the people who invested in the financial revolution".[10]

Although most of the discussions about the credible commitment argument have focused on the British context, scholars have also debated the concept's value in understanding developments in other countries. Christiaan van Bochove has, for instance, shown how Denmark, where an absolute monarch governed without a representative assembly, inspired confidence among external investors and that the Danish government serviced its loans well during the

[8] Julian Hoppit, *Britain's Political Economies: Parliament and Economic Life, 1660–1800* (Cambridge 2017), pp. 32–33. For an overview of the discussions about North and Weingast's article, see D'Maris Coffman & Larry Neal, "Introduction", in D'Maris Coffman, Adrian Leonard & Larry Neal (eds), *Questioning Credible Commitment: Perspectives on the Rise of Financial Capitalism* (Cambridge 2013).

[9] D'Maris Coffman, "Credibility, transparency, accountability, and the public credit under the Long Parliament and Commonwealth, 1643–1653", in D'Maris Coffman, Adrian Leonard & Larry Neal (eds), *Questioning Credible Commitment: Perspectives on the Rise of Financial Capitalism* (Cambridge 2013), pp. 94 and 100.

[10] Anne L. Murphy, "Demanding 'credible commitment': public reactions to the failures of the early financial revolution", *Economic History Review*, vol. 66 (2013).

eighteenth century. The regime avoided defaults because it was worried about economic spillovers and a loss of its reputation as a reliable debtor.[11] Alejandra Irigoin and Regina Grafe, for their part, focus on Spain and Spanish America where the main fiscal challenge was not a predatory state, but rather a lack of coordination between and integration of different parts of the vast realm. Thus, in the eighteenth century, the Spanish state did not expropriate the assets of its lenders, and the state was able to borrow both internally and externally at relatively low rates.[12]

Given the many objections to the argument about the role of formal political institutions in creating credible commitment, one could ask why scholars still concern themselves with the thesis. One answer is that it, as Irigoin and Grafe have pointed out, "lends itself beautifully to generalization".[13] As such, it has attracted, and still attracts, attention from scholars, especially economists and political scientists, who wish to uncover long-term fiscal trends or to create economic models. The dichotomy between states with influential elected assemblies and absolute kings is in such a perspective attractive analytical categories.[14] It is therefore still necessary to problematize and to contextualize the arguments.

The Swedish case, which has not attracted a lot of attention in the literature on institutions in the early modern period, can offer some new empirical data to the debate, and thus widen the discussion. One problem with the literature is that the analyses have focused on the major European powers and on states with extensive colonial empires. In other words, nearly all of the studied cases were important players in the European state system and positioned at the center of an increasingly global economy in the eighteenth century. Sweden was also part of these economic and political structures, but its role and influence, its social structure and the resources it could mobilize, differed from those of the major powers. At the same time, the peripheral position could also create opportunities to seek advantages, such as subsidies, from the major powers. From a North and Weingast perspective, Sweden is also interesting because of the well-established national assembly, the Diet or *Riksdag*, which consisted of four estates and which had

---

[11] Christiaan van Bochove, "External debt and commitment mechanisms: Danish borrowing in Holland, 1763–1825", *Economic History Review*, vol. 67 (2014).
[12] Alejandra Irigoin & Regina Grafe, "Bounded leviathan: Fiscal constraints and financial development in the Early Modern Hispanic world", in D'Maris Coffman, Adrian Leonard & Larry Neal (eds*), Questioning Credible Commitment: Perspectives on the Rise of Financial Capitalism* (Cambridge 2013).
[13] Ibid. p. 199.
[14] See for instance, Avinash Dixit & John Londregan, "Political Power and the Credibility of Government Debt", *Journal of Economic Theory*, vol. 94 (2000); Mark Dincecco, *Political transformations and public finances: Europe, 1650–1913* (Cambridge 2011); Gary W. Cox, *Marketing Sovereign Promises: Monopoly, Brokerage and the Growth of the English State* (Cambridge 2016).

influence over taxation and legislation. The Diet also controlled the Bank of Sweden, founded in 1668. Although the role of the Diet was reduced in the 1680s following the establishment of royal absolutism, the institution still maintained a role in the political culture during the Great Northern War. After the king's death in 1718, the elite used the Diet as the primary arena and political tool to implement and to legitimize a new political order. However, the institution was no guarantee that the elites would recognize the debts of the previous regime.

Creating Confidence in an Autocratic Regime

The first nine years of the Great Northern War were by and large successful for Sweden, and the war was financed in conventional ways; primarily by letting the theatres of war bear the costs, supplemented by taxation and short term loans. But the defeat at Poltava in 1709 changed that. The Baltic provinces were overrun by the Russians the following year, and gradually the Swedish forces were driven out of Finland. The costs of the war now had to be sustained by Swedish resources only. Within a few years, this fact necessitated a transition to a form of war-financing based on credit. And this, in turn, made public trust in the commitments of the regime of Charles XII's crucial to the war efforts.

In contrast to most other European states, the Swedish war effort depended on resources controlled by the peasantry, which made up over 90 per cent of the population. Taxation was levied on individual farmsteads, of which a third were owned by the peasants themselves and the other two thirds were often worked under hereditary or long term tenures. Recruitment to the armed forces was also undertaken by peasants in local society. In addition, the crown needed the peasants to perform transports and maintain billeted or by-marching army units.

There were of course other parts of Swedish society that were important for the war effort. The nobility was almost without exceptions engaged in the service of the state, the overwhelming part served as military officers, while a much smaller group were civil servants. Either way, the nobles were under the formal and direct command of the king. Thus, they were in no position to negotiate with the crown and they did not constitute an alternative centre of power. Consequently, the nobility saw their privileges undermined, and they had to sustain severely increased taxation during the war.

A third group of crucial importance to the war efforts were the merchants. Vis-à-vis them, the crown showed a certain ambiguity. The all-important iron export thrived during the war, and some of the major contractors of military supplies made very handsome profits. As a whole, the merchants presented tempting objects of taxation, but since they were also the most important group of state creditors, they were not particularly hard hit by the new forms of taxation that were introduced during the war. Merchants were several times offered very favourable terms for participation in the financing of the war. At the same time, markets were increasingly regulated and the state's monetary policy could make especially international transactions more difficult than usual.

The political situation was made more complex by the fact that Charles XII spent the time after Poltava to 1714 in the Ottoman Empire, which meant that everyday politics were left to the Council in Stockholm. The Council, however, did not pursue the war with the same determination as Charles. The councillors could even at times oppose royal policies. This all changed in 1715 when Charles definitely took charge on his return to the realm and he conducted a very determined war policy until his death on 30 November 1718.[15]

Creating trust in the government and its policies was crucial to the war effort. As the war became more and more costly this became even more imperative. The efforts made by the regime of Charles XII with the purpose to create trust and to affirm that the government would stand by its commitments can be observed in the following spheres of the economy: 1) Overall economic policies; 2) Fiscal policies; 3) Politics of credit 4) Monetary policies. All these efforts were ultimately aimed at releasing new resources in order to strengthen the military capacity of the realm. The economic consequences of the measures, however, would remain long after the war had ended.

Overall economic policies. The dilemma facing the government during the entire war was the balance between the demand for military recruitment and the need to retain a sufficient supply of male labour in order to maintain production. This became more urgent as the war dragged on, and from 1715 the recruitment system resembled general conscription. However, certain parts of the economy were exempted, most importantly the district of Bergslagen, where the iron-works were situated. The privileged estate of the nobility was also generally spared from recruitment, as were some categories of farmsteads that performed special duties for the crown, such as postal- or piloting services. The recruitment of extra-ordinary regiments was a major problem of

---

[15] Walter Ahlström, *Arvid Horn och Karl XII 1710 -1713* (Lund 1959); Martin Linde, *Statsmakt och bondemotstånd. Allmoge och överhet under stora nordiska kriget* (Uppsala 2000); Peter Ericsson, *Stora nordiska kriget förklarat. Karl XII och det ideologiska tilltalet* Uppsala (2002), pp. 33–41.

credibility for the state. It could be argued that the crown had already promised, with the introduction of the so called *allotment* system in the 1680s and 1690s, that the problem with recruitment once and for all had been solved. Thus, the new regiments would constitute a violation of the agreements entered into with the peasantry. To counter the argument the state, predictably, argued that if the enemy would prevail, no one would be safe. Nevertheless, the scarcity of male labour remained a problem until the end of the war.[16]

Similarly, the billeting of soldiers; supplying large army units on their marches; and performing transports on behalf of the military were duties that threatened to disrupt production. The state tried to even them up by abolishing the privileged exceptions of the nobility and the clergy so that all farmsteads participated. But the key to make the system work, and what made the two campaigns of 1716 and 1718 possible, was the fact that the peasants were paid market prices for all services that they performed. Traditionally, peasants were expected to carry out such duties for free in times of war. It was fundamentally this necessity to pay for services levied on an entirely new scale that accounted for the need to reform the entire financial system of the state.[17]

From the beginning of the war a moderate mercantilist trade policy was in place. But from 1715, and again in 1718, there was a manifest ambition from the state to take control over imports and exports. Export duties on unprocessed copper and iron were sharply raised, while most import duties were lowered. These measures did not hurt production since exports of bar iron thrived. More important were the measures taken in 1718 that stipulated that all exporters of bar iron had to import grain to an equal value. These regulations were implemented with the purpose of ensuring the supply of staple goods during the campaign of 1718.[18]

Fiscal policies. The reorganization of the state in the 1680s and 1690s and the introduction of the allotment system meant that for the peasantry the bulk of the taxation was replaced by the duty to recruit and equip a very substantial standing army. From the start of the war a large number of extra-ordinary regiments were set up, the greater part of which were

---

[16] Ericsson (2002), pp. 173–191.
[17] Ericsson (2002), pp. 191–195, 215–221.
[18] Eli F. Heckscher, *Sveriges ekonomiska historia från Gustav Vasa. Första delen. Före frihetstiden. Andra boken.* (Stockholm 1936), pp. 683ff; Lindeberg (1941), ch. VI–XII.

recruited, equipped and paid for by the peasantry. This was by far the heaviest burden of the war.[19]

At the meeting of the Diet in 1687, the four estates had granted the king the right to issue new taxes in wartime, and to take responsibility for any debts that might be accrued during war. Thus, Charles XII was in the unique position to be able to levy any taxes that he thought necessary, without seeking the consent of the estates. All in all, 48 new taxes were issued during the war, levied on all four estates. The most important of these was the *kontribution*, an annual tax levied on land, persons and incomes. The nobility's land-rent was charged the hardest, and taxes on office-holders' salaries were moderately progressive. In 1710, the rate was doubled, with the exception for the peasantry, since they had to re-recruit the field army. In 1713, a kontribution was issued that was intended to replace all other monetary duties. All subjects, regardless of privileges were to assess the value of their combined assets, and then a certain percentage, which turned out to be 2 percent, would be imposed. This method was deployed in 1713, 1715 and 1716. For 1717 and 1718 there was yet another method used. It was similar to the kontribution levied in the first part of the war, but it was much more detailed and more progressive. Thus, the regime's taxation was mainly conceived to target persons of rank, and their rates increased many times over, especially on incomes from landed estates and on salaries from high offices. From the point of view of the state, this was only logical, as the money was collected from where it was most readily available. Also, this was repeatedly announced in royal proclamation from the pulpits of all churches in the realm.[20]

Politics of credit. The Bank of Sweden was controlled by the Estates, but the king could influence key decisions. Still, the bank retained some independence and the king was very cautious about its creditworthiness. In 1709, there was a minor run on the bank, which led to a decision to stop depositors from withdrawing their deposits, but interest continued to be paid on time. The crown borrowed in total around 8.5 million dsm from the bank during the war, which was a very significant amount. However, the king did not order the bank to print money. Moreover, at the end of 1711, there was an ordinance read in all churches that assured that the

[19] Ericsson (2002), pp. 173–191.
[20] Åsa Karlsson, *Den jämlike undersåten. Karl XII:s förmögenhetsbeskattning 1713* (Uppsala 1994); Ericsson (2002), pp. 195–209.

deposits were safe in the Bank. The ordinance also stipulated that those who spread rumours that the bank would not pay back the depositors were traitors, and were to be punished accordingly.[21]

From 1713 or 1714 the shift from a tax-based war economy to a system based on credit becomes more evident. It was not a clear-cut transition, however. Forced loans were taken from church funds, and salary payments to both civil servants, and to a lesser degree, military officers were frequently lagging behind. Delayed payments and promissory notes issued as payment for military equipment and transports led to an accumulation of a considerable floating debt.[22]

In 1715, the new policies were made evident by the foundation of a new company, Peterman & Co. The purpose of the company was to take over the government debt and to offer investors to buy shares in the company. The arrangement is very much reminiscent of the South Sea company in Britain or John Law's Mississippi Company in France. In Sweden though, the attraction did not lay in long-distance trade, but that the (preferably Dutch) investors would be offered favorable terms in the export of copper and iron and a monopoly for the minting of coins in Sweden. The project met with little success, probably because of the risks involved.[23]

The same year, military officers and civil servants had their payments issued in the form of 'salary notes', which yielded an annual interest of six per cent and which circulated on a secondary market. A total of around 1.2 million dsm. worth of notes was issued. But that was just a temporary measure. With the failure of Peterman and Co., the basis of a new system of war finances was instead government bonds, formally issued by the Estates. Collateral for the bonds would be the entire set of fixed and movable property in the realm, which, in theory, meant that any household in the country could be called upon to pay their taxes directly to the bondholder. In reality, it meant a request for a general confidence in the government's ability to meet its obligations. By judicially involving the Diet in the issuing, the regime sought to strengthen its image as a committed debtor. The bonds were not only offered for sale. They could also be given as payments for sizeable crown deliveries, and perhaps more importantly, they were offered on favorable terms to replace older letters of credit. Even though they were not a pervading success,

[21] *Kongl Maj:ts Samtel. härwarande Råds PÅBUD, Angående Deras Straff / som understå sig utsprida lögner och ryckten emot de Försäktningar och Förskrifninigar som Kongl. Maj:t dess Ständers Banco gifwit hafwer,* Stockholm, 21 Dec. 1711; Sven Brisman, *Sveriges Riksbank 1668–1918. Bankens tillkomst och verksamhet. Den Palmstuchska banken och Riksens ständers bank under den karolinska tiden* (Stockholm 1918), pp. 217– 230.
[22] *Kongl. Maj:ts Nådige PLACAT Angående Betalning til Creditorerne, för de / uti näst förflutne Trenne Åhr / underdåninge giorde Förskotter*, Ystad 9 Jan. 1716; Erik Neumann, ”Om centralförvaltningen under Karl XII:s tid, in Samuel S. Bring (ed.), *Karl XII: till 200-årsdagen av hans död* (Stockholm 1918), p. 552; Lindeberg (1941), pp. 77-78; Ericsson (2002), pp. 209ff.
[23] Lindeberg (1941), pp. 123–137.

2.5 million dsm. worth of bonds were issued. Like the salary notes, they could be traded and they yielded six per cent annual interest.[24]

Monetary policies. The combined value of salary notes and bonds, however, were dwarfed by the massive output of token coins, starting in 1716. The coins had a nominal value of 1 dsm, but their copper content was very low and they could not be exchanged for any precious metal. As a representative currency, their value depended on the holders' trust in them. In conjunction with them, paper bills were initially issued, but they never reached the same volumes. The coins were issued in a succession of editions, each one with a different stamp and a different name. A certain edition was circulated for a limited period of time and then redeemed for a new one. However, at each consecutive exchange an ever-larger amount was released, in particular so during the year 1718. In the end, an unprecedented amount of around 25 million dsm. of token money was circulating.[25] The system displays clear similarities with the issuing of *billets de monnaie* in France.[26] It is very likely that the leading men in Sweden had studied the French experiences before implementing the ideas in Sweden.

The token money was distributed as salaries for officers and civil servants and as payments for equipment and material for the armed forces and, not least, as payment for transports carried out by the peasantry on behalf of the military. In Swedish historiography it is commonly assumed that this violent surge of liquidity caused runaway inflation.[27] There are, however, grounds to question such an assumption. Consequently, the following arguments can be made that the steep increase of liquidity did not cause high levels of general inflation: 1) There is no correlation between the amount of increased liquidity, i.e. 1,500–2,000 percent, and the increase in prices of the period. 2) If inflation was caused by a falling value of the token coins, the increase in prices would have been roughly the same for all products and in all locations. The military's demand for supplies led to rising prices on such products as rye, peas and oxen, while prices on products like bricks developed differently. Likewise, prices increased more in regions

[24] Julius Julén, *Om Sveriges statsskuld 1718 och betalningen av densamma* (Gothenburg 1916), p. 27; Lindeberg (1941), pp. 26, 85–94, 215f; Jan Lindegren, "Krig och skuld. Den svenska statsskuldens historia ca. 1600–1800", *Kungl. Vetenskapssamhällets i Uppsala Årsbok* (2007–2008), p. 97.
[25] Julén (1916), pp. 23–27; Helge Almqvist, "Om de karolinska mynttecknens ursprung", *Karolinska Förbundets årsbok* (1936), pp. 204–213; Heckscher (1936), p. 634; Lindeberg (1941); Lindegren (2007–2008), p. 97.
[26] Felix (2018).
[27] Heckscher (1936), pp. 634f; 653f; Rodney Edvinsson & Johan Söderberg, "The Evolution of Swedish Consumer Prices, 1290–2008", in: Rodney Edvinsson, Tor Jacobson & Daniel Waldenström (eds), *Historical Monetary and Financial Statistics for Sweden, vol. I: Exchange Rates, Prices and Wages, 1277–2008* (Stockholm 2010), pp. 169–173.

directly affected by the Norwegian campaign than in regions undisturbed by the army. 3) Timing is crucial to understand the process. The high prices observed at the end of 1718 and in the beginning of 1719 cannot be used as reference points, since the death of the king occurred on 30 November. *After* that, the value of the token money collapsed. Thus, the value of the token coins was reliant on a general confidence in the commitments of the political regime of Charles XII. When the king was gone, very few trusted that the new regime would honor his commitments.

There were also quite a few measures taken by the regime of Charles XII with the purpose of stabilizing the value of the token money. First, the token money could be used to pay taxes. Thus, the king instructed all government officials to without further ado accept token money for all types of payments, except for custom duties.[28] Possibly, the Swedish authorities had learnt from the situation in France where the *billets de monnaie* could not be used to pay taxes.[29] A few ordinances were also published, in order to repudiate rumors that the token coins would be forced on holders of deposit notes in the Bank of Sweden; or that the third type of token coins would never be redeemed with other currency.[30] However, it was foremost the regime's punctual fulfillment of all the state's commitments that kept the system functioning.[31]

By the workings of Gresham's law, the token coins would with all probability have driven other currencies out of circulation. Nevertheless, in December 1717 the king issued an ordinance that the older copper plates would lose 1/3 of their value from March the following year, and that everyone was encouraged to exchange them for token coins before that. When the measure largely failed, there was a royal directive in March 1718 that all holders of copper plates should turn in their assets in exchange for token coins. In this way, almost all copper plates would have been retracted to the crown. This was of course a measure from the state to get their hands on valuable copper, but it also left the token coins as almost the only legal tender, since the silver coins were very rare.[32]

To sum up: under the pressure of warfare a completely new system of finance based on credit was introduced. The political economy of the new system had the potential of social transformation. For the members of the traditional elite, who combined (modest, in an

[28] *Kongl. Maj:ts Öpne PÅBUD / Angående ett Myntetekn / som af Koppar blifwer slagit och myntat / til storlek lika med ett Femörstycke / hwilket skal giälla En Dal. Silfmt.* Stralsund 14/25 Mar. 1715.
[29] Felix (2018).
[30] By Görtz: Stockholm 12 Mar. 1716; by Kongl. Deputationen: Stockholm 8 Oct. 1718.
[31] Lindeberg (1941), pp. 80f, 98–105.
[32] Bertel Tingström, *Sveriges plåtmynt 1644–1776. En undersökning av plåtmyntens roll som betalningsmedel* (Uppsala 1984), pp. 52f.

international comparison) landownership with positions in the state as military officers or civil servants, this war made little sense. To them, the currents of resources in society were flowing in the wrong direction, as assets in the form of token money increasingly not only found their way to government contractors and sub-contracted craftsmen, but notable also to peasants. Instead of enriching the elite, this war was draining them of resources. From the point of view of Charles XII's regime, the important thing was to maintain the confidence of those who were supplying the resources for war, and to prove that his regime stood by its commitments. These groups were investors and contractors (often the same merchants), but also the peasantry.

The establishment of a new political order and of a new debt regime

On the death of the king on 30 November 1718, the General staff suspended the campaign in Norway and sent the army back to their recruitment districts without any preparation for their sustenance. Görtz, and his closest associates, were arrested, and after a hasty mock trial he was executed in February. Meanwhile, since the succession to the throne was undecided, the late king's sister Ulrica Eleonora had to renounce autocracy as a condition for her ascension as queen. The Diet was summoned in January 1719, and at the meeting the members decided to significantly increase the powers of the estates.[33]

It was universally agreed among the deputies of the Estates to wind down the former regime's war policy and to reduce the role of the monarchy. But, there was no concord on the question of what should be done with the financial system. The importance of the issue became apparent when the Secret Committee, which had become the main arena for foreign and fiscal policy discussions, began debating the various options. The committee was constituted by members from the nobility, the clergy and the burghers, but the peasants were barred from the discussions. The discord between different interests was significant, which indicate that much was at stake; not only in relation to what the new regime should do with the former regime’s fiscal system, but also the relative political positions of different groups.[34]

At the same time as the political deliberations commenced, the interpretation of and the reaction to the new political situation by people outside the halls of power started to affect the

[33] Lennart Thanner, *Revolutionen i Sverige efter Karl XII:s död. Den inrepolitiska maktkampen under tidigare delen av Ulrika Eleonora d.y:s regering* (Uppsala 1953); Werner Buchholz, *Staat und Ständegesellschaft in Schweden zur Zeit des Überganges vom Absolutismus zum Ständeparlamentarismus 1718–1720* (Stockholm 1979).

[34] Swedish National Archives, Stockholm (SNA), Sekreta utskottets protokoll 1719, vol. R2384, 23 Feb. and 27 Feb.

political leadership's policy options, as well as the value of the token coins. The regime change created uncertainty about the previous regime's commitments, which in turn affected people's actions. This uncertainty had begun already in December 1718, when the new regime sent out a proclamation, which clarified that the use of the coins should continue, and that they should be accepted in all types of transactions without any premium. However, the proclamation also pointed out that the government would seek to reduce the number of token coins in circulation and that money with a clear value in relation to silver or copper would replace them.[35] Since the proclamation did not specify a time or the terms for this change, uncertainty rather increased. Around the same time, reports started to come in that people either refused to deal with the token coins, or demanded a much higher price if a customer paid with such currency. In Gothenburg, for instance, notaries reported in January 1719 that the value of the token coins had been halved.[36]

Reports of and increasing complaints about the falling value of the token coins arrived in Stockholm when the Diet convened. In February 1719, the Speaker in the Estate of the Burghers, Anders Hylteen, stated that it was regrettable that that no one in the realm accepted the coins, because it affected the economic activity in a negative way. It was difficult for owners of iron-works to pay peasants for the transport of grain and bar iron, since they did not accept the token coins, which in turn hampered the export of the crucial iron commodity.[37] Similar messages came from the military, especially from the Admiralty's main base in Karlskrona. The Admirality tried to equip a number of ships of the line and frigates, in order to meet threats from Denmark and Russia, but it was difficult to get anything done since no one accepted the token coins. According to one admiral, specialist carpenters from the Dutch Republic and Lübeck, threatened to strike if they did not receive payment in specie.[38] Furthermore, deputies of the Estate of the Peasantry in Stockholm complained that they could not buy food with their token coins, and if they did not receive financial aid from the authorities, they would have to run away from the capital like dishonest men.[39]

[35] *Placat Angående Myntetekns och Ständernes Mindre Zedlars owägerlige emottagande til des annat redbart Mynt blifwer anskaffat*. Stockholm 11 Dec. 1718.
[36] SNA, Det odelade kansliet, Rådsprotokoll, vol. 127, 11 Dec. 1718; Gothenburg Regional Archives, Göteborgs rådhusrätt och magistrat före 1900, Notarii publici protokoll, vol. 7, 23 Jul. 1724.
[37] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 27 Feb.
[38] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 9 Mar. See also H. Wrangel, "Svenska örlogsflottan 1719 och dess förhållande till ryssarnes härjningar", *Historisk tidskrift* (1892), s. 120.
[39] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 21 Apr.

These descriptions show that there were funds available in society and that the government's coffers were not empty. The Admiralty, the iron-works and the peasants all had money at their disposal, but it was mainly in the form of token coins that had lost their value after the fall of the old regime. The falling market value of the token coins affected the debates in the Secret Committee. Many saw the rising prices on goods when using token money as a clear sign that it was necessary to do away with the coins altogether. One of the harshest critics of the old regime's fiscal system was the nobleman and civil servant Conrad Ribbing. According to Ribbing, it was severely deleterious for a realm to have false and incorrect coins in circulation. It led to the loss of credit, increases in prices, a deteriorating exchange rate and the exodus of holders of capital. Moreover, peasants, who owned many token coins, preferred to consume their assets rather than to sell their produce, or to work in exchange for the coins. Ribbing also stressed that the enormous size of the debt and the lack of specie assets made it necessary to drastically reduce the value of the token coins.[40]

Several members of the committee questioned Ribbing's arguments by stressing the negative consequences of even a partial default. Jonas Cederstedt for instance, who was a civil servant in the Board of Mines, acknowledged that the token coins were a cancer in every household, but he also highlighted that in order for a society to function it needed liquidity. Moreover, if the state declared a bankruptcy, credit would be hurt and many people would be totally ruined. The crucial role of credit in society meant that a liquidation process would have to be gradual. Especially the military, with the war still raging, needed resources and access to credit.[41] The fear that a drastic liquidation of the token coins would lead to a reduction in the state's military capacity while still at war, caused two high-ranking military officers to present their grievances to the committee. They pointed out that rather than liquidating the debt, the Diet should use available resources to fund the military and the defense of the realm.[42] Other members were also worried about the government's revenues; since most inhabitants only had access to token coins, there was a big risk that a default would result in the inability of the subjects to pay their taxes.[43]

[40] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 5 Mar. See also SNA, Det odelade kansliet, Rådsprotokoll, vol. 128, 23 Apr.
[41] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 5 Mar.
[42] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 27 May.
[43] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 5 Mar.

Critics of Conrad Ribbing's harsh line had an interest in trade and the iron-works sector, where great volumes of token coins circulated. This sector had close-knit ties with foreign merchants in places like Amsterdam, Hamburg, Hull and Lübeck. Merchants, both inside and outside of the realm, used the token coins as means of payment, which meant that many foreign merchants owned scores of them. For instance, Johan van der Wall in Amsterdam owned 7,850 coins; Johan Langrech from the same city 16,000; Haubert Lyders from Hamburg 15,792; Thomas Pierson from Stockton 13,589; and William Crovole from Hull owned 11,976 coins in 1719.[44] Such foreign holdings meant that there were worries what a default on the token coins would mean for the ability of the state, as well as for Swedish merchants, to gain access to credit and goods abroad. In other words, they were worried about possible spillover effects of a default.[45]

Another group, which collectively owned most of the token coins, and which staunchly opposed a default on them was the peasantry. They emphasized that they had always considered the coins as valid and that they could not afford to lose anything on their holdings. They therefore argued that in the same way as they had accepted the coins at their nominal value, they would also return them to the state at their nominal value. The peasants also stressed that they only had token coins for the payment of their taxes, and that if the other estates agreed to a default, the peasants would not sign such a decision. Moreover, the members of the peasant estate expressed concern about their personal safety on their return home if the Diet decided to go ahead with a reduction in the coins' value.[46]

Despite opposing views and the fears that were associated with them, a majority at the meeting of the Diet agreed to default on the token coins and to accept the fall in their value. Thus, the arguments presented by several noblemen and clergymen about the necessity to remove the state's reliance on what they saw as an unreliable currency, had won the day. The peasants, the merchants and noblemen with trade and manufacturing interests had not been able to persuade a majority to protect the state's credit. The decision was in many ways a victory for the established elite, which had seen the previous regime's war policy and the new fiscal system as an increasing threat to their interests. Since they relied economically on land rents and government salaries,

[44] SNA, Riksens ständers kontor, Kammarkontoret, Nummerlistor över 14-öres försäkringssedlar, vol. 1787, Göteborgs och Bohuslän, Göteborgs stad.
[45] See for instance, SNA, Det odelade kansliet, Rådsprotokoll, vol. 128, 23 Apr. 1719.
[46] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 9 Apr., 16 Apr., 29 May.

they were determined to regain social stability and the hierarchy that went with it, rather than supporting a rising credit state that disregarded established privileges. Dismantling royal absolutism and the fiscal policies that went with it was therefore necessary for them. Concurrently, many of the groups which had been involved in the expanding credit system and which had benefitted from it lost political influence. Especially the peasants, which had strengthened their relative position because of the regime's need for the resources the peasants could deliver, lost out politically and economically when the new regime was established. Their loss of political influence was a precondition for the traditional elite's ability to target the peasants' holdings in the default.

However, if the peasants had been able to make an alliance with the merchants and the noblemen with manufacturing interests, they would probably have been able to prevent the default. There were individuals with detailed knowledge of the fiscal system, and who presented alternatives to a default, who could have led such a coalition. Casten Feif, for instance, who owned a sulfur works and whom Charles XII had ennobled, stressed that the state needed to commit to a liquidation process that guaranteed the holders full compensation.[47] Likewise, the noble civil servant Daniel Niklas von Höpken, argued that the coins could be exchanged into government bonds that the state would guarantee.[48] However, these men were too closely associated with the previous regime to have an impact on the decision. It was also problematic for them to cooperate with the peasants. Although their interest in the upholding of the token coins converged, this common stake could not transcend their differences in estate affiliation or political status. What mattered for von Höpken and Feif was the situation in the Estate of the Nobility; in the Secret Committee; and in the Council of the Realm, and it would not make a difference in those arenas to bring the peasants into the discussions.

The default in April 1719 entailed a 50 percent cut in the value of the token coins, while the Diet did not target salary notes or government bonds. Consequently, during a few weeks in June, more than 200,000 transactions were conducted, in which token coins with a total value of more than 20 million dsm. were exchanged for so called 'insurance notes'. These notes were only redeemable as part of a new customs duty, but they circulated on a market. However, their value

[47] SNA, Sekreta utskottets protokoll 1719, vol. R2384, 8 Apr.
[48] SNA, Det odelade kansliet, Rådsprotokoll, vol. 127, 17 Feb. 1719.

on that market remained low for nearly a decade, but prices started to improve in the 1730s. The market for the insurance notes existed into the 1760s.[49]

Politics and finance in the periphery

The royal regime was dependent on maintaining its credit and thus very determined to honour its commitments. Because of the socio-economic composition of Swedish society, this led to flows of resources that disadvantaged the nobility and favoured the peasantry. The new parliamentary regime, on the other hand, did not have the same ambitious foreign policy as Charles XII. As the new regime intended to end the war it was not depending on credit, and the elite therefore had few incentives to honour the commitments of the previous regime. In fact, their main objective seems, at least initially, to have been to reverse the flow of resources that was a consequence of the war policy. This was possible, because the meetings of the Diet in 1719, 1720 and 1723 were dominated by the leading figures of the nobility while the peasantry was almost completely marginalized.

It was the war that produced the incentives for the royal regime to implement a whole new fiscal system in the 1710s. The new system tried to address some of the challenges that hampered the extraction of local resources from a society that was characterized by low levels of market integration and monetization, and a general shortage of legal tender. By drastically increasing liquidity and the number of people owning different financial instruments, the regime hoped that it would be easier to mobilize resources and thus reduce the need for explicit coercion. The success of this new strategy manifested itself during the military campaign in 1718 when equipment and supplies arrived to the army on time and in great volumes. The population's quick acceptance of especially the token coins indicates that they filled a demand for currency in general. The same role monetization can have on a more peripheral society has also been observed in some of Britain's American colonies during the eighteenth century.[50]

---

[49] SNA, Riksens ständers kontor,. Kammarkontoret, Nummerlistor över 14-öres försäkringssedlar, vol. 1775–1795.

[50] B. D. Smith, "Some Colonial Evidence on Two Theories of Money: Maryland and the Carolinas', *Journal of Political Economy*, vol. 93 (1985); E. Wicker, "Colonial Monetary Standards Contrasted: Evidence from the Seven Years' War", *Journal of Economic History*, vol. 45 (1985); P. L. Rousseau & C.Stroup, "Monetization and Growth in Colonial New England, 1703–1749", *Explorations in Economic History*, vol. 48 (2011); R. Michener, "Redemption Theories and the Value of American Colonial Paper Money", *Financial History Review*, vol. 22 (2015); F. Grubb, "Colonial New Jersey's Provincial Fiscal Structure, 1704–1775: Spending Obligations, Revenue Sources, and Tax Burdens during Peace and War", *Financial History Review*, vol. 23 (2016); F. Grubb, "Colonial New

The reliance on internal resources does not mean however that Sweden was isolated from the rest of Europe. The bar iron exports thrived during the war, and before and during the Norwegian campaign, international merchants took an active part in trade with Sweden. It was primarily German merchants who exploited the demand generated by the Swedish armed forces, but there were also Dutch merchants, and despite the fact that their country was at war with Sweden, even Scottish and English ones. Foreign trade provided crucial supplies to the army and navy, but it also brought customs revenues in international currency that could be used for purchases abroad, and more importantly, it strengthened the state's credit. Charles XII's war efforts were strengthened by this combination of, and interaction between, a domestic resource base and international trade.

How, then, should the fact that the Swedish authorities, under both Charles XII and the parliamentary regime, took actions that were very similar to those undertaken by the leading western European countries. The answer is that, even though the flows of resources, in the form of payments and supplies were not entirely unrestricted, the flow of information was. The leading men in the Swedish state, including Charles XII, were very well aware of what was being done in the field of war finance in other parts of Europe. The measures that they finally opted for were revised to fit the domestic conditions. And above all, they were ultimately the results of political considerations rather than economic necessities.

Jersey Paper Money, 1709–1775: Value Decomposition and Performance", *Journal of Economic History*, vol. 76 (2016).