WW II and the Cold War: influences on the Swedish post-war economy

Introduction

Sweden’s self declared neutrality had to pass three tests in the period 1945–1952. In this paper I will examine the credibility of Swedish neutrality in the light of three important test cases during the first six years of the cold war: the Credit and Trade Agreement with the Soviet Union, their participation in the Marshall Plan and finally how Sweden dealt with the American embargo policy against the Soviet Union and its satellites. The question how neutral Sweden has been during the cold war cannot be answered for a simple reason: neutrality only applies to a (formal) state of war and a cold war is not a war in the sense of international law.1 Legally there is little confusion about the rights and duties of neutral states in times of war: they were laid down in 1907 at the Convention on Land and Sea Warfare in The Hague (the Netherlands) and have never been fundamentally changed.2 But there are, on the other hand, no rules of international law governing how a neutral state should behave in times of peace. So if a scholar wants to test the neutrality of Stockholm in the period after 1945 he should look at the Swedish policy as if (or pretend that) it was carried out to the background of a situation of international war. In order to analyse the Swedish politics in the cold war we should theoretically assume that a war is going on and judge the Swedish political behaviour in that light. But there is another possibility as well, offered to us by the government in Stockholm which clearly realized that there was a sharp difference (with

1 Unless otherwise indicated (or when a more complete reference is advisable), the source for this paper is my PH.D thesis Swedish Neutrality and the Cold War, 1945-1949, Nijmegen 1989.
regard to the dogma of neutrality) in a war and a non-war situation. The Swedish policy of neutrality is officially described as `non-participation in alliances in peacetime aiming at neutrality in the event of war’. The doctrine of non-participation in alliances in peacetime has neither a theoretical nor an ideological base: the guiding principle is pragmatism with the ultimate purpose to stay out of all international (armed) conflicts for reasons of national interests. Östen Undén, who served his country as Foreign Minister from 1945 to 1962 and who can be regarded as the main architect of the Swedish postwar policy of neutrality, voiced that opinion in his last speech as utrikesminister: Sweden’s foreign policy was in the first and last resort dominated by its own national interests. They were decisive; its motives lay – Undén borrowed his words from F. Nietzsche – beyond Good and Evil (jenseits von Gut und Böse).

The Swedish neutrality is not laid down in the constitution and neither is it guaranteed by the European great powers as has been the case with Switzerland ever since 1814. As Swedish neutrality is neither laid down in an international agreement (like that of Switzerland) nor in the constitution of the kingdom, it means theoretically that the policy of neutrality can be amended by the government whenever it wishes to do so. All the political parties in the Swedish parliament, the Riksdag, have supported the policy of non-participation in peacetime and neutrality in case of war.

Sweden escaped both world wars of the past century and that historical experience became the driving force behind the continuation of the neutrality dogma ever since, although it seems likely that the European Union (EU) will finally make an end to her centuries old policy. It is of course open for debate if Sweden’s escape from both wars must be attributed to its foreign policy. But there can be no doubt that the last World War has left far more and deeper traces in the national consciousness than the Great War of 1914-1918 has done. Contrary to the First World War the last one came very close to the Swedish borders. Norway and Denmark were occupied and Finland became involved as well. Attacked by Stalin’s Red Army in 1939 the Finns aligned themselves for political (not ideological) reasons with Germany. To get some basic insight in the Swedish policy of non-participation in times of peace a brief look at the Swedish conduct during the Second World War is illuminating.

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The Second World War and neutrality

Sweden was much more important to Germany, because of its exports of raw materials to the Third Reich, than it was to the Western Allies and the Soviet Union. Swedish trade with the west declined dramatically after April 9, 1940 the day that Hitler launched his attack on Norway and Denmark. By autumn the Skagerak, Sweden’s seagate to the West, was closed by the German navy. Trade with the West was only possible through the so called `Gothenburg traffic’ whereby Swedish ships needed permission from both Germany and Great Britain to pass the blockade.3

This blockade became an instrument for the Great Powers for extracting concessions because imports such as oil and certain foodstuffs were vital for Sweden. At the other hand ball bearings, manufactured by Svenska Kullager Farbriken (SKF) in Gothenburg and iron ore from the North Swedish mines were vital for Hitler’s war machine and exactly for that reason an important issue in the relations between Sweden and the Allies. But also the British were partly dependent on special ball bearings of SKF and that provided Stockholm a certain margin for manoeuvring vis-à-vis London. Iron ore and ball bearings became an often and hotly debated subject between Stockholm at one side and Washington and London at the other. To be sure, Swedish companies had within certain restrictions full rights to do business with both the Germans and the Allies. It was after all a `neutral’ state. But there were severe violations of the neutral status as well. A pure breach of neutrality for instance was Sweden’s approval of the German request (1941) for transit by rail through Sweden of a complete, armed, German division. In the period 1940-1943 the German Wehrmacht used up to 10 percent of the total Swedish railway capacity, transporting more than 650,000 soldiers over Swedish territory from Norway to the fronts in the Soviet Union. The Kriegsmarine got permission to use the Swedish territorial waters and the Luftwaffe flew more or less unhindered over Sweden until 1944. The concessions to Berlin before the turn of the war in 1943 exceeded far those granted to the Allies after 1943. The dominance of Germany in the North of Europe gave Berlin an excellent opportunity to extract concessions from Stockholm which was almost completely dependent for its exports on Germany. The Allies were far less

successful in their dealings with the Swedes. They demanded above all that Sweden should limit the vital exports of ball bearings and iron ore to Germany, but it was not before the Allied landings in Normandy, June 1944, that the Swedes slowly began to give in to Allied demands. Undoubtedly the word Realpolitik is a far more appropriate definition of the actual situation than neutrality. Sweden bent with the wind. Foreign minister Undén found an ingenious answer to the question if Sweden during the Second World War had stuck to its policy of neutrality. He said that `criticism concerned certain departures from neutrality to the advantage of Germany, not the policy of neutrality itself.’4 Infringements can – of course - be criticized but not neutrality itself. It is pretty obvious – with a glance at Stockholm’s concessions to the German navy, the army and the air force, that Swedish politics during the Second World War hardly could be classified as `neutral’. There were simply too many `departures’. They became the rule – not the exception - until far in 1944. After Normandy Stockholm began – once again under the pressure of (the changed) circumstances - to give in to allied demands and neither that can be called `neutral’ as it aimed at a preferential treatment of the Allies above the Germans. One of the guiding principles of neutrality is after all that a neutral state must abstain from taking sides and assisting one or more of the belligerents. The national interests determined the attitude of the Swedish government which first and foremost concern was the wish to stay out of the war. Seen from that perspective – staying out - the Swedish policy has been very successful but in terms of neutrality the politics of the government of prime minister Per Albin Hanson failed. Nevertheless the experience from the Second World War has been decisive for Sweden’s political course in the cold war era. The conviction that Sweden had successfully managed to stay out of the war thanks to their own policy determined the post war views. The Swedish government refused to take into account another, far more likely, consideration, namely that Hitler had refrained from an occupation because he would have won little by occupying the country as the government in Stockholm provided him with all the raw materials and ready made products he wished. Moreover he could make use of much of the Swedish territory, on land, at sea and in the air.

Defence, neutrality and ideology

The protection of the Swedish neutrality demands a strong defence. The Swedes realized that their dependence on foreign deliveries of defence materials implicitly made them vulnerable because it made them dependent of foreign suppliers. The air force, navy and army rely for their high tech weapon systems, radar and warning systems for quite an important part on the West European countries and the United States. The same is mutatis mutandis true for the Swedish industry that cannot operate without imports of oil, raw materials and other commodities from outside Scandinavia. After the beginning of the cold war, that dependence was only increasing. The Soviet Union as an alternative trade-partner was hardly an option. Not because that Sweden belonged ideologically to the West but sooner because of the situation of the Russian economy. The Soviet Union was rather considered a threat than as a big friendly neighbour in the East. The Credit and Trade Agreement of 1946 provides us, together with the American Embargo policy against Eastern Europe, with clear examples how difficult it was to uphold neutrality when a country is not an autarchy and when it becomes vulnerable for political pressure from countries that deliver the goods without which its military defence system would become obsolete and its industry would not be able to operate properly.

In the past Norway and Denmark had followed a similar neutral course as Sweden had done but the experience of the Second World War had caused drastical changes in the attitude of the neighbouring Scandinavian countries towards neutrality. Undén was the initiator of a neutral Scandinavian bloc in Northern Europe which strictly speaking was contradictory to the doctrine of non-participation in alliances in peacetime. Undén`s proposal did not come as a bolt from the blue – he would of course have preferred no pact al all – but he was alarmed by Norway`s gradually drifting towards the West after the speech of British Foreign Minister Ernest Bevin in the House of Commons on January 22, 1948. Bevin had proposed a Western defense system (Western Europe and the USA) and his proposal should 15 month later result in the North Atlantic Treaty Organization (NATO) in April 1949.5

With its Scandinavian neighbors as NATO-members Undén foresaw an increasing possibility of Sweden’s drawing into an unwanted war. But a Scandinavian Defense Union (SDU), consisting of Sweden, Norway and Denmark, might be able to build a neutral island in a Europe that since the summer of 1945 had become more and more split by the cold war. If both East and West could be convinced of the sincerity of a neutral SDU, there might be a chance that Sweden (and its neighboring countries) could avoid becoming a battlefield. But Undén’s proposal for a SDU failed. The Second World War which Sweden had convinced that its neutrality was a guarantee for staying out armed conflicts had on the contrary Norway and Denmark – due to their experiences in the last war – convinced of the opposite. The Anglo-Americans exercised heavy pressure on all three Scandinavian countries. The strategically situated Greenland and Iceland, where the US had bases, were both Danish and the Norwegian coast was of course of major military importance to NATO. The main fear of Washington and London was that Sweden would draw its two neighbors into a Scandinavian isolation which would have made it much harder for the US and Great Britain to protect their interests with regard to the Norwegian coast and the bases on Iceland and Greenland respectively. Especially the Americans have tried to influence Sweden by threatening with non-delivery of military and economic goods if it should stick to non-participation. Moscow kept a very low profile in the SDU-question. Initially a SDU was considered anti-Soviet but later it was alleged that a neutral SDU was ‘unnecessary and undesirable’ but that it, if need be, could be tolerated.6

From the SDU-episode it is evident that especially the US heavily opposed a neutral Sweden. At the other side it shows the very lenient attitude of Sweden towards its dogma of neutrality or – more correctly - non-participation in times of peace. Undén was willing to go far in order to stay outside the cold war alliances of both East and West and he was even prepared to enter into a military alliance with his neighbor states. The contents of the neutrality concept changed repeatedly, quite in line with Sweden’s national interest, but the denominator – neutrality- remained always the same. The pressure upon Sweden did not restrict itself to military affairs but included also pressure in the field of economics and foreign policy. Sweden adapted its policy to the wishes of first and foremost the United States. How far did Stockholm want to go? And was neutrality not more than an empty phrase?
The Credit and Trade Agreement

With a few other neutral countries Sweden emerged from the Second World War with its economic apparatus intact. No bombs had hit Swedish territory although the SKF-works in Gothenburg might sometimes have been quite close to that fate. The Americans were held back by the British who – like the Germans - were much depended on the products of SKF. After the war the social democratic government of Prime Minister Tage Erlander (he succeeded P.A. Hanson in 1946 and stayed in office until 1969) set out for a policy of full employment and quick economic growth. The famous economist Gunnar Myrdal was Minister of Trade from 1945 to 1947. He played an important role in the development of the post war Swedish economy which was keynesian in outlook, meaning that in times of recession the government plays an active role in order to stimulate demand. With the First World War pretty fresh in the back of their head, most economists expected in 1945 a development very similar to that of World War I: a recession. Also the Swedish government feared an economic backwash and – inspired by John Maynard Keynes - encouraged investments and production wherever and whenever it could, and intervened in the domestic economy as often as it was deemed necessary. Multilateral trade was considered crucial for economic growth and the Swedes were working hard to regain the foreign markets which they virtually had lost when war broke out. At the domestic market the Erlander government played an active role and tried to forge close ties between politics and economy. But trade with foreign countries was something completely different because that might in one way or another interfere with the Swedish policy of neutrality. As far as foreign trade was concerned Stockholm anxiously tried to separate economics and politics hoping in that way to prevent criticism.

In fact, freedom of trade meant that no political consideration whatever should affect decisions as to where purchases and sales should be made. It ought to be a matter of indifference to economic actors whether they bought steel from the

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7 National Archives, Washington, RG 169. Foreign Economic Administration. Office of Administrator Records Analysis Division, Entry 170, 570/56/26/06. Box 991, map Safehaven Study, FEA Monograph no. 5. ´Safehaven Study´ by Margarete Clarke;


United States or the Soviet Union – freedom of trade would bring about the best results for everybody, in accordance with classical liberal thinking. This way of looking at things gave Swedish politicians a weapon when taking part in European integration. If economics and politics could be kept separate in foreign trade, then it could be claimed that economic cooperation had no political implications. If supranational institutions were created and decisions were handed over to these new actors, however, this entailed a risk that economic cooperation might take on a political dimension. In this way Sweden came to represent the conception that West European cooperation ought to consist of free trade between independent states, with no supranational institutions of a federal character being created. Integration ought not to be enforced by American pressure to create new organisations but should emerge as a natural outgrowth of mutual harmony.’

It is obvious that Sweden pursued a foreign trade policy that was impossible to realize but that, unless presented with ingenious verbal virtuoso acrobatics, could be presented as (more or less) acceptable to foreign governments (in the first place the Unites States) and the Swedish population at home. This policy appeared almost impossible to continue when the Americans in the struggle between East and West began to use economics and embargo’s as weapons to influence the Swedish foreign trade (and accordingly the Swedish policy of neutrality).

The credit and trade agreement (the so called Ryssavtalet) between Sweden and the Soviet Union was signed after heavy debates on October 7, 1946. As Erlander remarked in his memoirs, in retrospect it had been the first sign that the cold war had also reached Sweden. Debates about the Ryssavtalet had already begun during the war, a time that Swedish concerns still were eager to do business with the Soviets. Swedish businessmen expected an enormous industrial overcapacity and a period of slow trade, an economic depression, underemployment and sinking prices like there had been after the First World War. The Soviet Union could be a way out of the expected economic misery but the problem was that Moscow in all probability would not be able to pay in cash and so the idea grew that Sweden should export on terms of credit. Gunnar Myrdal was a warm advocate of the agreement with the Soviets.

Exports were expected to become difficult. Sweden’s main foreign market, Germany, was destroyed and Stockholm feared that the United States and Great Britain were going to drive

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Sweden off from both their own as well as the world markets. So in the summer of 1945 the Soviet Union seemed to offer the solution for the expected and very much feared export problems. But already by the time that the agreement was signed, October 1946, Swedish businessmen had changed their minds as they had completely miscalculated the economic developments. What were the terms of the Ryssavtalet in which we see the Soviet need for industrial equipment (important for its post war reconstruction) and the Swedish hunger for raw materials (oil, coal etc.) as well as its wish to find a replacement for its old lost markets so clearly reflected? The agreement consisted of a loan of one billion Swedish crowns (about $ 280.000.000) to Moscow and a barter deal. The credit was spread over five years (1947-1952) at a rate of 200 million crowns a year (about $ 50 million). It was to be repaid in 1962 – 1967; the effective interest rate was only 2 3/8 per cent. The credit enabled the Soviets to purchase in Sweden generators, motors, heavy machinery, high quality steel and various electrical equipment. The Soviets needed above all electro-technical equipment and the products of the engineering industry. In addition Moscow should buy for 100 million crowns worth of the same commodities per annum, on a barter basis: raw materials for the Swedish industry. Once the agreement was concluded the Soviets should deal directly with the Swedish industry and not with the government that preferred to pretend that international business and politics were two completely different phenomenons.12 It was correct and very much to the point what the US News and World Report of October 29 1946 reported: ‘Swedish businessmen hold key to delivery of goods to Russia.’ The article continued:

`the businessmen of Sweden - not the Government - will determine whether or not their country is to be tied closely to the economy of Russia. (…). Joker in the agreement is that the Swedish Government does not guarantee the deliveries. The Russians are being told that their negotiations from now on must be with businessmen. The Government of Sweden merely extends credit and promises to grant export licenses, once the goods are ready for shipment. Thus, Sweden has left herself a loophole in her deal with Russia. (...). The businessmen can make the trade agreement work, or they can sabotage it by dragging their feet so far as production is concerned.’

It is an excellent analysis of the Swedish foreign policy concept: keep foreign trade and foreign politics well apart and don’t let the two under no circumstances intermingle with each other. Problems soon emerged as Swedish businessmen appeared to be unwilling to live up to

the Ryssavtalet. Why were they so negative and why did they refuse to do business with their Soviet counterparts? Political hostility together with the emerging cold war has been mentioned as a cause, but also inflation and fear for the Soviet Union that as a communist state could not be relied upon as a permanent market have been mentioned. The expected depression did not come. Instead the industry complained about shortage of labor, raw materials, machinery and energy supplies. The industry has claimed to be fully aware of good relations with the Soviets, because the country was going to become an important market in the future, certainly when the belated economic crisis after all would emerge. But it should have been irresponsible to export the huge quantities that the Soviets demanded. It laid too high a claim on the industrial capacity and hampered the export to the profitable Western markets which in the end might result in Sweden be driven out of those markets and that would in the long run have been the death blow to the concerns.13 The electrical engineering industry, with Asea (holding a key position in the deliveries) at the lead, took a very negative stand against the agreement, but also from LM Ericsson (telephone) Alfa Laval(turbines) and SKF came significant opposition. They maintained that their backlog of orders, at home as well as abroad, was so big that they were fully booked to capacity for the next two or three years. Asea’s managing director informed Myrdal, that his company was able to make only a small part of the requested deliveries and only under certain conditions such as by the government guaranteed supplies of raw materials and labour. Myrdal grew furious and proposed the government a number of solutions: a state owned electrical industry or the establishment of a daughter company in Sweden of foreign companies as Siemens, Brown Boveri or General Electric.14 The result of Myrdal’s move was that Asea on the fifth of July 1946 announced an extension of its production capacity. Apparently did Myrdal not believe Asea`s allegations, otherwise he would not have proposed the establishment of a state owned company or a foreign subsidiary: State owned companies would have suffered in the same degree from the asserted fatal shortage of materials and labour.

At the beginning of July 1946 the daily newspaper Dagens Nyheter started a campaign against the Ryssavtalet. Thorsten Ericsson, managing director of Asea and Sweden’s most famous bankers and industrialists, the tycoons Marcus and Jacob Wallenberg (they possessed substantial interests in Asea, SKF and LM Ericsson) had provided the newspaper with

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information.15 Prime Minister Erlander has wondered in his memoirs why a giant company like Asea claimed to have so much trouble with deliveries of at the most a hundred million crowns. He wondered if there were other reasons that made it desirable for Asea to abstain from deliveries.16 It could not have been because of troublesome experiences in the past: Asea’s relations with the communist giant had always been good. Also Undén has wondered why Asea was so negative to do business with the Soviets. He noticed that on the one hand the company tried to escape deliveries to the Soviet Union while it at the other hand was negotiating with other countries about deliveries.17 Perhaps the answer must be sought in the political behaviour of the United States.

Washington disliked the Ryssavalet because it was contrary to the American policy of promoting multilateral trade on a non-discriminatory basis. The Americans showed themselves concerned about the long term effects of bilateral agreements of an exclusive nature and presented a note on August 16 1946 to remind the Swedes of the possible unfortunate consequences of the agreement with Moscow. Moscow received also a note from Washington in which the same general comments with regard to the consequences for agreements like the Ryssavalet were made. Undén expressed in his answer of August 29 polite surprise and took the liberty to remind the US of numerous official declarations in which the Sweden had expressed its devotion to the principles of multilateral trade but in the difficult post war era bilateral collaboration was sometimes unavoidable. He reserved for Sweden the

`complete freedom of decision as to the opportuneness of concluding such bilateral agreements as well as of adhering to an eventual international commercial arrangement can hardly understand how the situation, being that set forth in the explanation given about Swedish commercial policy, can have given rise to conclusions of the sort contained in your Note.’18

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14 Idem, pp. 229-230. (Berätta)
15 Aalders, Swedish neutrality, p. 36.
16 Erlander, Tage, 1940 - 1949, p. 278.
Undén regarded the American note as a form of pressure on Sweden. Referring to an Norwegian-American agreement the foreign minister remarked in one of his anonymous editorials in a social democratic newspaper:

‘"We may hope that the Norwegian government (..) does not neglect to draw attention to this American defection from their high principles which they preach for us and other sinful people.’

The reaction from Moscow was one of ‘utmost surprise’. The Kremlin informed Washington that she and, as she believed, Stockholm as well

`do not feel the need to consult the administration of the USA about the advantages and disadvantages of the trade agreement. The government of the Soviet Union is the more surprised about the Contents of Your note, since the government of the US herself practice conclusioning of long-term bilateral credit-and trade agreements regarding the providing of credits directly or through the Export-Import Bank for purchasing of American goods.(..) In this connection can your interpretation of the projected trade agreement between the Soviet Union and Sweden only be understood as an attempt to American interference in trade negotiations between two sovereign states.’

From a diplomatic point of view the American note must be considered as a rather ill considered action since the reactions from Moscow and Stockholm were quite predictable. Was it - may be - a kind of bizarre `diplomatic accident’? The staff members of the American Legation in Stockholm were (as early as 1946) remarkably hostile vis à vis the Soviet Union and they might have supplied the State Department with unreliable information. The note did not come from the highest regions of the State Department and its Undersecretary, Dean Acheson, has called the note `idiotic’, but that might have been for political reasons. Anyway, the tone was set. The Soviet Union has used only 517 million Swedish crowns despite the favourable conditions of the agreement. The failure cannot be

19 Harry S. Truman Library, Independence, USA, Box 20, Naval Aid Files Folder State Briefs, September 9 1946, Summary of Telegrams.
20 Morgon Tidningen, November 11 1946 (for Undén`s anonymous editorial).
22 Aalders, Swedish neutrality, pp. 40–43.
blamed exclusively on the Cold War but neither can it be denied that it played a considerable role.23

Marshall Aid

`Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos.' said George C. Marshall on June 5 1947, but according to Erlander the Marshall Plan did quickly change into an instrument of the cold war. Erlander would have gone even further by claiming that the Marshall Plan was created as an instrument of the cold war. When Marshall presented the Plan that bore his name, he had emphasized that it was not directed against any country or doctrine but it was nevertheless evident that the US did not want to join the Soviets in what should become known as the European Recovery Program (ERP), although he never said that in so many words. Moscow could never have accepted a program that was purely based on western terms and neither would it have been acceptable for Stalin that Europe was going to be treated as one economic entity. Washington`s open invitation to all European countries to join the ERP was just a ploy: the United States did not want to be branded as the power that divided Europe. `A surprising number of historians are reluctant', wrote the historian Alan Milward, `to admit that Marshall and the State Department wished to exclude the Soviet Union rather than merely wishing not to be seen to have excluded it.' 24 Undén concluded, after together with Myrdal having analysed the Marshall Plan that the Americans wanted an `entirely West European economic bloc.'25 The Plan consisted of a political and an economical component which could impossibly be separated from each other. It aimed at the forming of a bloc of states with similar social, cultural, political and economic values and it was evident that the communist Soviet Union would not fit in a social order that was so clearly based on American values and that promoted an economic environment that was purely capitalistic in outlook. Sweden accepted, together with 16 other European nations, an invitation to Paris (1948) and joined in the organization of the Committee of European Economic Cooperation (CEEC) which should prepare a plan for the economic recovery of Europe. Sweden was very well aware of the

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23 See for the numerous reasons of the failure: Aalders, *Swedish neutrality*, pp. 43-44.
25 Undén`s Private Diaries, June 15, 1947.
direct influence that Washington, thanks to the structure of the ERP, could exercise on the economies of the participating countries.

The American ambassador in Stockholm, Freeman H. Matthews, considered – not without reason - the Marshall Aid as an excellent opportunity to tie the Swedes to the West:

‘However much Undén may publicly proclaim that ERP is economic and not political the closer Sweden is associated with it the more it will gradually be tied to the West whether the government likes it or not.’

The tying up of Sweden (but also Switzerland) was considered to be important: if not for economic, then at least for political and psychological reasons. Publicly, Undén claimed indeed – he had no other choice – that the Marshall Aid was hundred percent economic and that there were no political implications whatsoever. But in spite of his soothing words there were grave doubts everywhere in Sweden, not in the least within his own social-democratic party, that Sweden was walking on dangerous grounds. There is no doubt that neither Undén nor the cabinet he belonged to, believed in what they publicly were saying: that the Marshall Aid was purely economic. Such utterances were done for home consumption and furthermore it was an attempt to convince Moscow of Sweden’s neutral course, now as well as in the future. The real reason for Sweden to join the program was pragmatism inspired by national interests. Sweden’s economy depended to a large extent upon a successful cooperation with the non communistic European countries. They all participated in the ERP and that was for Sweden a good reason to join; becoming a member of the West European community that they expected to become one of their most important business associates in the near future. Moreover Sweden had a dollar shortage and imported a considerable amount of commodities, raw materials and machinery from the US. In short: Sweden needed the US as it needed the members of the ERP and it had nothing to gain by staying outside the West European markets. But it was definitively not a purely economic affair, and it was the task of Undén to ‘sell’ the Swedish participation in the program to the Swedish public and politics in such a way that it fitted in the official policy of non alignment. He took great pains to show that Sweden stayed more or less an outsider and did not really get tied up. Sweden received its

27 Idem, p. 315. US ambassador Caffery in France to Secretary of State, July 8 1947.
28 Aalders, Swedish neutrality, pp. 50-52.
financial aid in the form of loans (not grants) and even that amount was quite modest: for the budget year 1948-1949 it did not exceed a humble 22 million dollars. For Sweden the flow of U.S. dollars to the impoverished Western economies was of utmost importance. The economic recovery of Europe was a condition sine qua non for the economy of Sweden. Only a recovered Europe would be able to buy Swedish products and could on its turn produce goods that Sweden needed for its own industry. Sweden could simply not afford to stay outside the new economic Western bloc. Bertolt Brecht would have explained the situation like this ‘Erst kommt das Fressen, dann kommt die Moral.’

The relations with the US were because of the past war and the Credit Agreement with the Soviet Union not very good and with the (more or less symbolic) acceptance of Marshall Aid (the 22 million was not of substantial interest for Sweden’s economy) Stockholm expected to get some goodwill from Washington. Moscow has criticized Sweden’s acceptance of Marshall Aid but showed understanding. The Marshall dollars surely did increase the influence of the US in Stockholm but not to such an extent that Undén was forced to admit the decline of Swedish neutrality. The next test for Undén’s statesmanship was the American embargo policy against the Soviet Union and its satellites.29

Embargo policy and neutrality30

The Marshall Aid, announced in June 1947 may be considered as the first phase in the economic warfare against the Soviet Union and its satellites in Eastern Europe. Gradually it led to the American embargo policy versus the European communist bloc. From 1947 onwards licenses were necessary for all US exports to Eastern Europe. Commodities with alleged strategic value were forbidden to be shipped (or re-exported by third countries) to the Soviet sphere. From the beginning it was obvious that a unilateral embargo was not effective and that Western Europe should be involved in the American cold war policy. The European allies were not eager for the simple reason that their trade with Eastern Europe was too important. But they had little choice as the indispensable Marshall Aid was directly linked to the embargo policy. Cooperate or perish. Western Europe had no real choice. Moreover there were serious doubts if such a policy of restricted exports would be a proper solution. It seemed impossible to implement the policy in an effective way and it was not expected to hurt

Stalin and his paladins so much that they would be willing to chance their policy. The CoCom (Consultative Group Coordinating Committee), installed in November 1949, coordinated the embargo policy which the Europeans after hard bargaining with Washington had agreed upon.

The CoCom operated in complete secrecy. Even the name was classified until 1953. It had neither a legal charter nor enforcement powers, at least not officially. Sweden (and also Switzerland) had participated in the talks that led to CoCom but both countries had refused to join the organization as it was undeniably incompatible with neutrality. For Sweden the secrecy surrounding CoCom was a blessing as public debates could be avoided and neither parliamentary approval was needed.

The US had some effective means to their disposal to coerce neutrals into a gentlemen’s agreement. To mention a few: denial of essential raw materials, machinery, spare parts, military technology and export licenses. Discretion became the key word in Stockholm vis-à-vis the embargo policy. Stockholm received the American embargo lists as ‘information material’, but despite all discretion and secrecy the Soviets appeared soon to be aware of what was going on. Sweden followed a line of voluntary cooperation but that was not enough. A joint American, British and French demarche could not change the Swedish attitude which was accounted for in an official answer on January 1951:

`The autonomous policy which Sweden has pursued already for a considerable period of time as regards exports of commodities of international security interest, is characterized mainly by the following two principles. Firstly, the Swedish authorities permit exports of war materials only to such countries or group of countries which have been traditionally been purchasers of war materials manufactured in Sweden. Secondly, exports of commodities which, according to available technical information, are of strategic importance, although not classified as war materials in the technical sense of the word, are allowed to expand only to those same countries or groups of countries. In view of the relatively low level of exports of such commodities to other markets than the ones referred to, this commercial policy, based on the concept of 'normal trade', has been considered satisfactory from the point of view of general security interests. As to a possible departure, on grounds of security, from the principles outlined above in the way of a discriminatory reduction of exports in relation to one particular trading area below the traditional level of those exports, it may be pointed out, judging the cases from a purely practical standpoint, that such a policy would involve evident risks for Sweden's own possibilities to secure an adequate supply of goods essential to the economic and military strength of Sweden. It is not possible to anticipate that the trading partner in question would...

30 As background is used: Aalders, Swedish neutrality, pp. 164-180.
limit itself to countermeasures corresponding only to the reduction of exports; far reaching reprisals in such fields, whereby Sweden supposedly is particularly vulnerable, must also be expected.’31

It is obvious that Sweden could not go too far in the export restrictions. When she did, she might have jeopardized essential imports from the Eastern bloc. Coal from Poland was in that respect of crucial importance. It was important for the Swedish industry (imports from Great Britain had stopped) but it might also be used by the Soviets as an instrument of pressure. Summarizing the Swedish attitude towards the embargo policy we can establish that Sweden refused to be officially related to CoCom but that the Erlander administration went along as far as she could within the frame of its police of neutrality. But sometimes Stockholm trespassed the line of what can be seen as acceptable within the framework of neutrality. Such departures were defended with an appeal to the own national security or national interest. Selling war materials for instance to the Eastern bloc would undermine Sweden’s own national security. Stockholm had also to be on guard for the Soviet Union that through Polish coal could exercise pressure on Sweden.

In Washington the Swedish cooperation was considered to be insufficient and the US government sought through pressure on certain private Swedish companies and individuals to improve the Swedish cooperation. When Washington could not extract cooperation from the official Swedish government why would she not try to coerce Swedish corporations and/or private persons into collaboration. Companies and citizens upon which Washington could exercise pressure because of incidents that had happened during the Second World War and whereby the US law was trespassed? But that history lies beyond the scope of this article.32

32 See Aalders, Gerard & Cees Wiebes, The Art of Cloaking Ownership. The secret collaboration and the protection of the German war industry by the neutrals. The case of Sweden, Amsterdam, 1996. The Wallenberg brothers (Jacob and Marcus) and their Stockholms Enskilda Bank (SEB) had cloaked (a sham transaction with the help of false contracts) the American Bosch Corporation (ABC) – a subsidiary of Robert Bosch GmbH in Stuttgart – in order to prevent confiscation by the US authorities through the US Trading with the Enemy Act. The considerable funds of the Wallenberg and SEB in the US were frozen for many years. The relations between the governments in Stockholm and Washington in general and between Washington and Jacob and Marcus Wallenberg in particular deteriorated through this so called ‘Bosch-affaire’ for years. More evidence and cloaking-affairs with the assistance of the Wallenberg brothers is presented in my new book about Operation Savehaven (published in the Netherlands, Amsterdam 2006) as Operatie Safehaven. Kruistocht tegen een Vierde Rijk (‘Operation Safehaven. Crusade against a Fourth Reich’).
Conclusion

`Who can be wise, amazed, temperate and furious, loyal and neutral, in a moment? ` Macbeth asked Macduff. The Swedes have - at least - tried. But how does Sweden step forward from this Shakespearian setting? Undén has constantly tried to uphold the illusion that economics and politics could be kept separate in foreign trade. Through verbal acrobatics Stockholm has defended and recommended her foreign policy as `neutral', but the Erlander government has trespassed the idea of non participation in peace time so often that neutrality, at least at times, was reduced to an empty phrase. Neutrality in words, not in deeds.