Rent Seeking and Collusion in the Military Allocation Decisions of Finland, Sweden, and the UK, 1920—1938

ABSTRACT

The rent seeking and collusion of domestic actors in the interwar military acquisitions of these three countries were evaluated by: analysing their aims and strategies; exploring the public-private interaction in an opportunity-constraint framework; reviewing the different methods involved; and assessing the success of these efforts. The Finnish case offered the most extensive rents and collusion opportunities, which translated to price preferences for domestic producers. The Swedish and British domestic producers were more constrained and thus had to settle for more moderate aims. Institutional opportunities and constraints were of crucial importance in determining the scope and nature of these business-government relationships.

INTRODUCTION

The interwar period was characterised by: 1) an absence of a broad-based agreement on collective security guarantees, thus effectively rendering disarmament impossible; and 2) an absence of broad military alliances, which might have provided additional security guarantees for the selected three states. Therefore, their military spending decisions were mostly the outcome of domestic bargaining processes – influenced by certain exogenous factors – in which the various public and private organisations played a key role. Moreover, the First World War formed a watershed in regards to the political bargaining context among most Western states. The emergence of extensive business-government cooperation during the Great War in securing the supply of the armed forces during this “total” conflict had a profound impact on the procurement practices of the interwar period. The business leaders were usually retained in the planning functions of the interwar crisis management, which also enabled them to sustain and even strengthen their personal networks, for example in various committees and commissions.

Here I will review the role of domestic industries, via their national peak associations, in the interwar military allocation processes of Finland, Sweden, and the UK. Thus, I will be interested in the way that these interest groups cultivated their business-government relations. Why did they decide to seek rents from the political markets in addition to other commercial monopoly rents? And, when did this develop into collusion with the armed forces in the acquisition decisions, as the MIC (=Military-Industrial Complex) theory
suggests happens in certain situations? Finally, how effective were they in their endeavours and why? Here it is argued that the evidence on these three cases will imply that the (national) institutional windows of opportunity (referring to sudden institutional shocks or institutional “loopholes”) as well as a multitude of organisational motives were of crucial importance. In the Swedish and British cases, the institutional maturity of these countries meant fairly limited possibilities for rent seeking and especially for the emergence of outright collusion. Nonetheless, the domestic industries did receive limited preferential treatment in government procurement, and the key industrial figures were relied upon at times to provide their expertise in crisis planning. Thus, rent seeking became mixed with the complex underlying motives, such as patriotism in order to secure wartime supply. In the Finnish case, however, the unsettled institutional formation period of the 1920s made a more extensive involvement of the interest groups possible. Therefore, the domestic market industries were able to obtain more extensive procurement rents than in the two other cases. And, via certain committees and acquisition decisions there was even collusion between the armed forces and the domestic market businesses, although rent seeking was the more prominent feature of this interaction. The effectiveness of this multifaceted rent seeking was determined by the existing and evolving institutional opportunities and constraints in the political markets.

On the whole, I will examine the aims and strategies of these collective rent-seeking entities, the methods they used, their role in the military acquisition process, the importance of the windows of opportunity, as well as the outcome of this bargaining in the political markets. In the next section I will first construct the relevant theoretical framework, and then review briefly the military spending and trade patterns in these countries. The fourth section will comprise an archive-based analysis of the three respective industrial federations, followed by concluding remarks.
ANALYTICAL FRAMEWORK

The research on arms trade and military spending has largely ignored the interaction between the external and the domestic factors, arising from various decision-making levels. Usually the existing research has utilised either a systemic approach of assessing Great Power relations (i.e., political scientists and political historians), relied on analysis of the determinants of military spending demand for individual or groups of states (i.e., economists), or focused on individual firms as actors within the national and international armaments markets (i.e., business historians). In the interwar period, there were three kinds of states evident among the arms producing countries: the dominant producers of heavy armaments (such as the UK and France); the alternate producers of heavy armaments (Germany, the United States, the Soviet Union, and Italy); and the numerous “weak” states who were often dependent on the arms trade with the dominant group but also established themselves as major producers of small and medium size arms, especially in the 1930s. These countries formed the players (sellers, buyers, or a combination of the two) in the “game” for profits and national security. All in all, arms trade in the period was mostly privatised and unregulated, at least until the mid-1930s.

Historians, especially diplomatic and military historians have been keen on studying the origins of the two World Wars. Nonetheless, many of the historical studies on war and societies have taken the form of explaining developments at an elusive macro-level, often without a great deal of elaboration on the military spending decision-making processes. Economic historians, in turn, have not been particularly interested in the peacetime economic impacts of military spending. Usually economic historians have focused on the economics of global conflicts — of which a good example of recent work combining the theoretical aspects of economics with historical case studies is Harrison (1998) — and the immediate short-term economic impacts of wartime mobilisation.

The study of defence economics is related to the immense expansion of military budgets and military establishments in the Cold War era. One of the shortcomings in these
studies has been, at least so far, the preoccupation with the post-Second World War period. Another typical feature in most studies of this type, including conflict and peace research, is that they are focused on finding those sets of variables that might predict major conflicts, in a way similar to the historians’ origins of wars –approach. Furthermore, the role of national actors involved in the respective decision-making processes and the principal-agent problems characterising these relations are often ignored — thus, the macro and micro explanations do not “meet” one another.

Moreover, the spheres of collective action and rent seeking by clusters of firms have received relatively little attention in the business history literature. Although business historians have studied the interwar arms trade, they have mostly concentrated on the large countries and big firms of the period. Most efforts have focused on firms such as Armstrong Ltd., Vickers Ltd., Schneider, and Krupp, already well-established arms producers by the 1920s. One of the more prominent works in this field has been Trebilcock (1975). Another feature in the current scholarship seems to be the emphasis placed on the economic imperialism of the 1930s, especially by Great Britain and Germany. In the British context, for example, the focus of research has been on the “corporatism” and networks of the post-Second World War period. The few studies that analysed the pressure activities of industrial interest groups in particular emphasised the external trade dimension of their activities. These studies notwithstanding, the domestic market rent-seeking activities of the countries selected here have not been analysed systematically and/or comparatively.

The concept of rent seeking is important in analysing the behaviour of actors in a given polity. Firms, either on their own or more commonly through joint trade organisations and ultimately national peak association(s), attempt to obtain monopoly rents from the government via different rent seeking strategies such as campaign funding and political networking. As expounded by Gordon Tullock, rent-seeking behaviour is said to occur when the profits of this activity exceed the opportunity costs for the owners of resources
in the political markets, with the costs of these actions entailing a waste of social resources. These political rents, as opposed to profits garnered through competitive activities in the markets, can also be thought of “super profits”, which will induce self-interest maximising individuals to invest in the political markets, depending on an interpretation of the costs involved with less than perfect information. Firms can also seek monopoly rents in the competitive markets by forming cartels and other collusive organisations.\textsuperscript{13} Thus, the idea of profit, implying self-interested behaviour, is often considered essential in rent seeking. Nonetheless, describing the utility maximisation of economic interest groups, usually by clusters of firms organised for a common purpose or by large individual firms, as straightforward profit maximisation is too simplistic. As argued in Lamberg et al. (2003), the rent seeking of such agents can be based on multiple, often coinciding motives arising from various levels influence, from intra-firm dynamics to the national peak associations.\textsuperscript{14}

What about networks and other forms of cooperation, i.e. when the agents have joint interests? Following Mark Harrison (2001), it is important to make a distinction between rent seeking and collusion among the agents involved. Collusion, essentially a special case of rent seeking as the interests of principals and agents coincide, can occur in many ways, at many levels, and between many combinations of actors. For example, at the level of economic interest groups collusion enables rivalrous agents to pool their probabilities of winning the contract in question.\textsuperscript{15} Collusion is also possible between the state agencies responsible for the military budgets (such as Ministry of Defence), acting as the principal in the contractual relationship, and the domestic market industries, in turn acting as the agent. The purchase of military goods involves the decision to acquire a certain good, the relevant contract to be drawn between the contracting parties, as well as the delivery of a certain quality and quantity of this good in a specific time period. Repeated transactions and extensive cooperation are likely to occur in countries with less developed armaments production capabilities and military trade constraints, including also a limited pool of professional expertise in arms technology. This relationship also
involves transaction costs in the form of acquiring information about the possible products and suppliers, organising competitions, bargaining with the contractors, and then the writing, monitoring, and enforcing of the contracts. In short, the government as the principal has to choose the contractor or the agent, and to ensure that the agent pursues the goals of the principal. Furthermore, armaments markets and industries are commonly under regulatory control of the state to varying degrees, due to their role in crisis management.\textsuperscript{16} Collusion is more difficult in societies with secure property rights and developed political markets, such as in the interwar British case.

It is here hypothesised that the military spending strategies of nations and their control (or dependence) of the domestic armaments industries are intricately linked, both at the level of international decision-making and markets as well as within states. The actors within a state consist of the following groups: 1) Voters/consumers, assuming a limited role besides influencing electoral outcomes; 2) Political parties, influenced by competition within the parliament and myopic survival perception in the next elections (as well as strong ideological convictions); 3) State agencies, especially the various bureaucracies attempting to maximise their share of required spending; 4) Economic and political interest groups, attempting to influence the level of public goods provision as well as the ensuing government acquisition policies. In addition, their contact surfaces, such as committees, are displayed therein as well. Military spending decisions, at least among interwar democracies or countries behaving similarly, were strongly influenced by the domestic political market competition. Although it must be emphasised that many arms producing firms, given especially the relative absence of international regulation, operated actively both in the domestic and the international markets, and that the interests of the private arms producers and the so-called formal actors (representing the state and its extensions) coincided only rarely.

How would the domestic market arms producers’ influence penetrate the military acquisition policies of these three parliamentary democracies?\textsuperscript{17} Firstly, it is possible to
argue that the industrial interest groups would try to maximise their domestic military capital-spending share during times of economic hardship as well as minimise their tax burden, depending on their interpretation of the cost-benefit ratio in order to pursue these aims.\textsuperscript{18} The strategies employed by the groups would, in turn, be affected by a number of variables, such as the regime type, the party system, the political culture characterising transactions in the political markets, the past transactions in the political markets, the internal characteristics of the group (as argued by Mancur Olson), and the relative power position of the group (social and political capital).\textsuperscript{19} Secondly, the methods utilised in the pressure or collusive activity (=emergence of private-public cooperation) should also be analysed, albeit only briefly in this paper. They would include, among others, 1) direct consultation and unlimited access to the decision-makers (the British case); 2) lobbying the legislative assembly (all three cases); 3) campaign funding (mostly the Finnish case; evidence lacking on others); 4) collusion with government agencies (mostly the Finnish case); 5) public relations efforts (all three cases); 6) bureaucratic obstructionism and limited, competitive collusion (mostly the Finnish case).\textsuperscript{20}

Thirdly, one could argue that industries as an interest group would attempt to maximise the binding nature of formal and informal military procurement rules in favour of the domestic players. This is, of course, directly dependent on their role in the military acquisition process (i.e., their position in the decision-making framework and acquired political capital) as well as the level of public goods provision. Fourthly, an institutional shock (e.g., revolution or war), requiring extensive military acquisition cooperation between the relevant groups, or an institutional window of opportunity (=absence of rules preventing a particular course of action or lack of enforcement of rules, thereby the cost of seeking rents declines and/or probability of success increases) should increase the amount of rent seeking and collusion between the agents involved. Furthermore, clearly defined rules of the game, with the enforcement of individual property rights encountered commonly among modern democracies should reduce the probability of actors’ of resorting to rent seeking. Conversely, poorly defined rules of the game should induce
rent-seeking behaviour, which implies profit-maximisation by the firms involved, and lead to collusion when some of the groups’ interests coincide.\textsuperscript{21} Finally, the outcome of these activities can be linked to the institutional constraint-opportunity framework in the political markets; the size and structure of the group in question; the methods utilised; and the dynamic development of the political markets, vis-à-vis the outcome of past collective action.\textsuperscript{22}

INTERWAR MILITARY SPENDING AND MILITARY TRADE FOR FINLAND, SWEDEN, AND THE UNITED KINGDOM

It could be argued that high military spending relative of GDP signifies more rent-seeking opportunities, since there would be more contracts available and more public-private interaction in the subsequent decision-making over them. Even though larger markets, as encompassed by larger GDP, would imply a stronger presence of large firms, the relative importance of this public good provision would be the similar in countries with similar spending-to-GDP ratios. Moreover, crises would change the demand structure for these contracts and military spending as a whole: 1) An economic crisis, such as the Great Depression, would lead firms to rely more extensively on the public sector to compensate for their losses, and correspondingly rent seeking would intensify; 2) Wars and preparation for them would increase the demand for especially domestic armaments, thereby also making rent seeking and collusion more attractive for the players in order to achieve maximum output in a short time frame. All in all, these three countries are well suited for a historical, comparative case study, since the archival sources are detailed and rich. Furthermore, they represent both large and small democracies, and industrialised and industrialising (Finland) countries, thus offering us a comprehensive look at how military rents were sought in the democratic political markets preceded and followed by major conflicts.

Yet, did the military contracts form an attractive alternative market for the armaments firms? It seems, firstly, that the Great Depression made domestic market support
strategies attractive for many governments. Thus the demand for military goods remained high during the depression, making these alternative sources of revenue especially attractive. All in all, military spending by European democracies declined only slightly, on average, in the 1920s, and increased again in the 1930s. Secondly, even by a cursory analysis, it seems that the interwar international political climate was not very conducive for common security arrangements. Threats increased the demand for military spending throughout the period. Thirdly, it seems that the European democratic Great Powers, in general “high” military spenders, had different military spending strategies than the European “weak” (=implying limited political and economic weight in the system) states (with Finland and Portugal as notable exceptions).

Among the “weak” Western democracies, Finland, for example, invested more on its national security than its Nordic neighbours. The Finnish military burden was similar to other high-spending democracies, such as Great Britain and France. For example, Norway’s military burden was less than half of the Finnish equivalent. The Swedish disarmament began in the mid-1920s. Although the reductions in military expenditures were still modest and were not met for the most part, it still represented a significant effort toward conscious disarmament. The Swedish government strove actively to achieve disarmament measures both domestically and in the League conferences in the 1930s. Of the other Nordic countries, Norway and Denmark made similar commitments. For example, the Norwegian governments of the interwar period felt secure and beyond military threats, which limited their foreign policy interests largely to foreign trade issues. Finland, on the contrary, did not follow the example set by its neighbours, both in military build-up as well as foreign policy, rather than followed the example of Eastern European countries like Czechoslovakia, due to geopolitical disadvantages.

What about the United Kingdom? Firstly, the British position towards the League of Nations, as well as any commitment towards European mainland defence, was one of caution right from the start. There were essentially two views on foreign policy in Great
Britain: those who favoured the British involvement in the League and its aims in disarmament, and those who wanted to improve Franco-German relations by regional agreements and political concessions. Inevitably, policy tensions resulted. Nonetheless, neither of these views expressed enthusiasm about extensive commitment on the European continent. The British “view” underscored the importance of self-defence by the individual states, and was against commitment to international troops to maintain peace. The British military burden – while comparatively high among democracies and low in comparison with autocracies – increased strongly only with the rearmament drive of the late 1930s, similar to Finland. Thus, the declining Swedish military expenditures would point towards decreasing rent seeking opportunities, whereas the two other cases offered more in terms of rents for the armaments firms.

What about the international armaments markets? Interestingly enough, the market shares of the “weak” states increased dramatically from 1925 to 1935. Czechoslovakia even assumed the top position in the world (small and medium size) armaments markets with its 24.5 percent market share in 1935. According to Milan Hauner, even this figure is understated. For the Czech Škoda concern, an estimated 55.2 per cent of its entire armaments production between 1936—1938 went abroad. The Czech government policy strongly encouraged the growth of military exports, regardless of the destination. The importance of Sweden also increased substantially in the 1930s, with Bofors as the largest Swedish arms trading company. The traditional armaments producers, such as France, UK, and the United States, maintained, however, their dominance in the heavy arms trade.

In addition, it seems clear that most European states adopted a strong domestic military production preference in the 1930s, especially during the Great Depression, yet they also continued to expand their arms exports, with duality to be seen in the choice over externally or internally produced military goods. There also seem to have been differences in the strategies adopted by these states, mostly relating to their different
perceptions of increasing threats either as a market opportunity or as a reason to exercise caution. This coincided with an overall trend among the “weak” European nations to rely more extensively on the domestic markets during the downturn of the early 1930s. However, as propounded in Eloranta (2002a), the individual experiences of these countries varied greatly.

The cases of Sweden and Finland illustrate the diversities in the way these preferences surfaced. Finland was an import-dependent country and did not develop military exports until the 1930s, and even then only modestly. Sweden, in turn, developed into a major military exporter especially in the 1930s. Sweden’s dependence on its military imports was also more limited. Correspondingly, the Swedish military import levels, relatively, remained fairly steady, owing to the mature level of Swedish arms production and the relatively fixed institutional “playing field”. Swedish military exports, however, increased steadily up until the mid-1930s and the beginning of the hectic international rearmament. Contrasts to the Finnish case are copious. Finland was a newly independent country that had to develop many key organisations, such as the armed forces, from scratch during the interwar period. Thus it is initially quite surprising that the Finnish military import share declined up until the mid-1920s, levelled off, and then began to decrease again.

FEDERATIONS OF INDUSTRIES AND MILITARY ACQUISITIONS IN FINLAND, SWEDEN, AND THE UNITED KINGDOM, 1920—1938

The Finnish Case: Early Rent-Seeking Opportunities and Elements of Collusion

The Finnish political and institutional “playing field” was conducive for a power struggle to occur both in the political and the administrative spheres. Why? Firstly, the achieved independence in 1917 and the Civil War of 1918 led to a situation in the early 1920s in which many key organisations, such as the military establishment, had to be created out of almost nothing. Secondly, the Finnish military establishment was not able to plan
effectively its military acquisition needs and was divided in its views on the future military threats facing the nation. This enabled certain factions of the military establishment to engage in collusive behaviour concerning acquisitions. Thirdly, the military acquisition policy in Finland was largely, due to the influence of domestic industrial interests, based on domestic production, which also led to the founding of government-owned production units.  

Consequently, the role played by the smaller organisations, such as committees and interest groups, in the allocation of military contracts was central in interwar Finland. The organisational activities of these groups were made possible by the internal power struggles within the larger political entities as well as in the military establishment itself. For example, the Board of Acquisitions in the Ministry of Defence, which maintained a tight control of military acquisitions, consisted of members of the economic elites and interest groups, such as the Federation of Finnish Industries (=Teollisuusliitto, FFI). The influence of the domestic interests in the decision-making led to an emphasis on domestic military production, which ”path” was further strengthened by the establishment of government-owned military production facilities supported by the Social Democrats, otherwise averse to military spending.  

Many of the key Finnish economic interest groups, national peak associations, were founded during the early years of the independence, 1917—1921: the Central Federation of Agricultural Producers (=Maataloustuottajien Keskusliitto) in 1917; the Central Federation of Finnish Woodrefining Industries (=Suomen Puunjalostusteollisuuden Keskusliitto) in 1918; and Finland’s Import Federation (=Suomen Tuontiteollisuusliitto), which changed its name later to the Federation of Finnish Industries (=Suomen Teollisuusliitto), in 1921. As Juha-Antti Lamberg has shown, the political weight possessed by the agricultural producers was the most extensive. The representative of the domestic market industries, the Federation of Finnish Industries, in turn had only limited successes in its pressure activities, such as lobbying for government acquisitions.  

The
beginning years of the independence were a time of political disorder and division, during which the various interest groups attempted to assert themselves in the struggle for political “market shares”. This game, especially in the context of military contracts, was influenced by the fact that many administrative units such as the Ministry of Defence were created out of nothing, which increased individual and group opportunities of influencing decision-making and pursuing rents. In addition, many groups within the government, such as the officers and the bureaucrats were hardly passive players in the game for impurely public defence contributions.\(^3^7\)

The FFI aimed to protect the interests of the domestic industries. Some of the central issues for the Federation included, in addition to tariff questions, trade agreements in general and the protection of the domestic market industries in Finland. Thus, the interests of the FFI were intricately linked to the allocation of defence contracts. Moreover, the State Council appointed a separate Board of Experts in Government Acquisitions in 1921. The Federation was able to push through a principle in the Board, which naturally affected the Board of Acquisitions in the Ministry of Defence as well, that even 20 percent more expensive domestic products were to be favoured in government acquisitions compared to foreign products. The Federation attempted to push through this principle as early as 1921, but failed at first. This principle was adopted a few years later. The Federation’s strong grip on government contracts was temporarily lost at the end of the 1920s, but with the depression this principle was adopted again. During the depression years the more lenient attitude of the State Council and the Ministry of Finances solidified the practice of favouring domestic producers. In the 1930s, the interests of the FFI emerged not only through the Board of Acquisitions, but through the Economic Defence Council as well.\(^3^8\)

The influence of the Federation was thus extended in many ways to the actual decision-making on the military acquisitions. The members of the Board of Acquisitions, which continued to function throughout the interwar period, consisted of the representatives of
the different industries within the FFI. Of, for example, the chairmen of the Federation, Finn Feiring and Robert Lavonius served also as chairmen of the Board of Acquisitions in the 1920s and 1930s. Furthermore, the FFI was engaged in an active propaganda campaign, in the newspapers for example, in order to achieve its various goals during the interwar period. The Federation’s activities were characterised by a right-wing ideological base, which fit well with the idea of emphasising domestic self-sufficiency in the development of military resources. Thus, this was a case of ambivalence of sorts in dealing with the military establishment: on the one hand, the Federation tried to maximise the profits of its members; on the other, they wanted to secure the self-sufficiency of the defence industries during a possible crisis. The latter dimension of the actions of the Federation became more pronounced in the 1930s.

The Federation of Finnish Industries was also, similar to the Board of Acquisitions, against government-owned military production, in which case its influence was weak at best. All in all, it was entirely successful in one of its key aims: It managed to maximise its share of the exclusive benefits arising from the public goods provision of national defence. However, it was not able to constrain public spending (and taxation, respectively) since the Finnish level of central government spending to GDP was 14.1 per cent in 1925 and 16.6 per cent in 1935. For example, the Swedish share, relatively speaking, was roughly half of the Finnish equivalent, whereas the British share was yet slightly higher.

The strategies and methods involved in the pressure activities were, by and large, conditioned both by the weaknesses and internal divisions of this national peak association as well as the rent-seeking-friendly political environment. Yet, this rent seeking was successful only in certain areas and usually involved an element of collusion. For example, the naval lobbying involved in the finalisation of the Navy Act of 1927 deserves a closer look. The main lobbying organisations were the various Finnish naval associations (for example, the Finnish Naval Association), the Navy Magazine, and the
Naval Officers’ Association. In addition, the naval officers in the Ministry of Defence were also very active promoters of the Navy Act. These persons and organisations issued active propaganda by “turning to influential persons and turning them favourable towards the cause” and directly handed out propaganda materials during the Diet proceedings, as well as supported these actions within the pages of the Navy Magazine (founded in 1926). Consequently, the Navy Act was passed in the form advocated by the Finnish naval officers, with heavy emphasis on large (and expensive) coastal defence vessels. Moreover, the ties of this propaganda to the economic and political elites in Finland were strong. For example V.M.J. Viljanen, the managing director of Federation of Finnish Industries and a MP, was a member of the board of the Finnish Naval Association as well. He even attempted to include a provision in the Navy Act that the ships would have to be built in Finnish shipyards. In addition, a “Navy Men’s Club” was established in 1929 to ensure the preservation of naval interests in Finland; this club included key figures from both sciences and industrial circles. This was perhaps the most blatant example of collusion between specific, small groups in the Finnish interwar case, although the aims of the agents did not necessarily match exactly.

The pressure activities also went beyond the means of direct influence, campaign funding, and networks. Propaganda was also very important. Yet, the position of Viljanen and the entire FFI were not, however, very stable as the 1930s would prove. In fact, the issue of the Federation’s own propaganda company (Suomen Ilmoituskeskus), headed by Viljanen, and the resulting deficits led to demands among the representatives of the metal industries that Viljanen’s tenure as a managing director should be terminated. Viljanen and his friends on the board of the Federation were only barely able to manage to secure his continuation in this post. These internal difficulties were also representative of this organisation’s relative weakness in the Finnish political markets. Subsequently, the Federation’s activities were aimed at building alliances between the agrarian producers, the export industries, and the domestic industries (represented by the Federation). The Federation tried actively to achieve cooperation with the export
industries in the 1920s, but without any concrete results at first. These efforts were repeated in the aftermath of the Great Depression, with more concrete results.\textsuperscript{46}

As Douglass C. North has emphasised, organisations attempt to maximise their gains within the constraints of an institutional framework. Complex forms of utility-maximisation can emerge equally well in the form of influencing military acquisitions to be awarded to the domestic producers or the changing of the leadership structure within the military establishment. Moreover, Mancur Olson has pointed out that small, homogeneous groups are often the most effective ones in their profit-maximisation, which should be extended to cover other aims as well. The reasons for this include the fact that in small groups the internal social pressures (selective incentives) as well as common goals and interests lead to greater efficiency than in large, internally divided groups. This meant in the Finnish case that the smaller committees and interest groups, especially when in collusion with other agents, were often poised to make significant gains when a window of opportunity presented itself. This was often the case in the early 1920s. On the other hand, heterogeneous groups such as the FFI, possessing limited social and political capital, in general were weak actors.\textsuperscript{47}

The continuous organisational and administrative turmoil of the 1920s, the absence of control on the use of government resources, and the high rates of return from the rent seeking targeting new contracts were pre-requisites for the group and individual rent seeking in Finland. Yet, did the rent seeking turn into collusion among the agents as the case of the Navy act has already suggested? I will briefly review certain aspects of the Finnish interwar border fortification process, which will amply portray the conflicts of interest and the windows of opportunity that were available in such a political economy. In the fortification contracts, the main decision-making body was the Ministry of Defence, wherein the Board of Acquisitions played a central role. The public discourse of the 1920s claimed that one specific company, \textit{Oy Granit Ab}, was awarded a near monopoly position in these contracts. Was this the case?
It is difficult to provide an unequivocal answer to this question. Firstly, the bidding practices that the Board carried out in the 1920s did, at least nominally, gave opportunities for other contractors to obtain the future contracts. Secondly, the projects did not always go according to the plans, even for Oy Granit Ab, because there were big disputes between the Ministry and the construction companies at times. Based on Reino Arimo’s assessment, it seems that the tough debates that took place between the principal and the agent in this case complicated their interaction: For example, one of the companies was banned for a while from the construction site due to “unsuitable behaviour”. Thus, the networks between the Ministry officials and the companies did not always make it easier for these actors to engage, for example, in negotiations over the profit margin.

Oy Granit and the former officials of the Ministry of War that joined the company apparently benefited from their personal networks mainly in the beginning of this process, during the bidding competitions. However, this was a case of merely unethical conduct that was not criminalised by law, because most of the persons did not function in multiple roles. Only the actions of a key figure, Chief Engineer Lönnroth — since he acted both as the principal and the agent in some of the early contracts — were clearly questionable, but not illegal. His actions were most likely based on individual rent seeking motives, which indeed produced a good economic payoff. The element of collusion was definitely present and resulted in the widening of the contact surfaces in this case, although outright corruption is difficult to prove in retrospect. The personal networks between the key actors clearly fudged the principal-agent relationship, yet the collusion between the persons was far from unproblematic and its duration was mainly limited to the early 1920s. It can also be argued that for example Oy Granit represented rare expertise in this matter, a monopoly of talent in a way, which made it possible for these infractions to occur. Moreover, the military establishment was in its formative stages, and it had to rely on outside experts. The more extensive public-private
interaction widened the corruptive contact surface and enabled much more extensive rent seeking, and even occasional collusion, in the Finnish case. However, this window of opportunity closed gradually during the 1920s, only to open again in the mid-1930s, when the state had to rely heavily on the economic life and its patrons on the wartime planning and the rearmament efforts.\(^{51}\)

*The Swedish Case: Constrained Rent Seeking Yet Persistent Private Military Production*

The Swedish interwar armed forces maintained quite high material readiness by European standards, even with the disarmament measures in place. For example, the fixed limits set by the Defence Plan of 1925 did not prove too much of a hindrance for the short-term material development plans of the Swedish military establishment. Due to state-owned small arms and ammunition production and the availability of strong supply of privately produced military goods, the material status of the Swedish defence forces remained adequate at least for most of the 1920s.\(^{52}\) Also, in the early 1920s Sweden could be characterised even as being a naval power in the Baltic Sea with her three battleships, four battle cruisers, seven torpedo boats, and 16—18 U-boats.\(^{53}\) Even though these armaments acquired in the 1920s aged quickly, they still provided a solid early basis for the Swedish defence. Its fleet aged mainly in terms of credible offensive potential, namely in terms of its battleships that were small by international standards anyway.\(^{54}\)

However, the continuity in the naval power was seriously dampened by the new austerity measures of the 1920s. For example, based on the new plans introduced in 1919, only one new defensive vessel (a U-boat) was constructed. As discussed in Eloranta (2002b), the total depreciated tonnage of Sweden declined drastically in the early 1920s, even in comparison with the rather slowly developing Finnish fleet, only to recover somewhat in the late 1920s and the early 1930s. This was partially due to successful efforts by the Navy Department chief to argue that the building of new destroyers in Sweden would have beneficial economic repercussions. Two more destroyers and a couple of U-boats were in fact commissioned in 1928—1931, on the basis of the new 1927 naval building
plan. The steadily declining funding in the 1930s did begin to have an effect on the naval readiness. The building of a fourth battle-ship was debated throughout the 1930s, yet concrete results were not forthcoming due to disagreements on the type of ship to be built. For example, the Defence Committee of 1930 chose not to support the government’s proposal issued in 1934.\textsuperscript{55} Thus, the tenuous political equilibrium provided by the Liberal Party’s position as the balancing influence in the Diet, despite the prevailing disarmament tendencies, seemed to foster greater military capital investments, even though at the same time the number of troops was being reduced.\textsuperscript{56}

Swedish private aircraft industry practically disappeared after the First World War. Attempts were made to initiate state production as well as state-supported private production, but no real results were achieved in this sector in the 1920s. Finally, an agreement was concluded in 1930 to start the manufacture of aircraft in Linköping, Stockholm, and Gothenburg by various producers. However, these efforts still met with only modest successes. As a result of the collaboration between the political leaders and the leading financial groups, the aircraft industry began to expand after the 1936 rearmament measures. \textit{Svenska Aeroplanaktiebolaget} (SAAB) was established with the government’s cooperation, and thus a monopoly of aircraft production came into existence in Sweden just before the Second World War.\textsuperscript{57} Therefore, the organisational disputes and a well-established political system with considerable interest group influence, as well as a political compromise between the most influential parties, provided Sweden with its distinct armaments production "path": strong privately-owned domestic armaments production, based on the robust industrialisation of the 19th century, and a diminishing flow of government funding. Moreover, the Social Democrats were not able to achieve their goals regarding the nationalisation of certain industries, and had to accept the existing premises of the military acquisition policy. In return, the rent seeking of the economic interest groups was curtailed in other respects.
The organisation of trade unions and respective employers’ groups in Sweden dates back to the end of the 19th century, when the rapid industrialisation and the changes it brought began to shape the political institutions and organisations. The first modern trade unions emerged in the 1880s, and the Social Democratic Party was the central organisation of the labour movement until founding of the Landsorganisationen (LO) in 1898. For example in 1920, the LO had 31 member unions and circa 280 000 members, whereas by 1940 it had grown to encompass 46 unions and circa 971 000 members. There were similar developments on the employers’ side, although somewhat later. Verkstadsföreningen and Svenska arbetsgivareföreningen came into existence in 1902, and they united as SAF in 1919. The labour market conflicts of the interwar period were often violent encounters in Sweden, and the rapprochement that took place between the LO and the SAF in Saltsjöbaden on the 20.12.1938 created the basis for the future corporatist, three-way negotiations between the two and the government. The foundation for this was created already in the late 1920s.

In the Swedish case, the role and the impact of the domestic producers and their representatives were constrained by the Swedish “path” mentioned earlier. The Federation of Swedish Industries (=Sveriges Industriföreningen, FSI), one of the Swedish national peak interest associations, was established in 1910 to represent the interests of domestic producers and export industries in “areas which were not represented by the employers’ federations”. The members of the board of the Federation participated actively during the First World War years in managing government acquisitions, especially the imports of war materials. Thus, a basis for government-industry cooperation was established during the critical war years. The structure of the Federation was, similar to the SAF, based on sub-organisations and member organisations, and it held one general meeting as well as several board and working committee meetings a year. The most important industries were represented by this organisation, and it was influential, to say the least, also politically. Whereas in 1910 it represented only 234 industrial firms, comprising 72 000 workers, by 1920 it had grown
to cover 1376 industrial firms that employed circa 240 000 employees. Its appeal declined somewhat in the late 1920s, and the number of its member organisations dropped to 1100, comprising 218 000 workers. The Great Depression taxed the membership further as the membership fees turned out to be too heavy, especially for some of the smaller firms. In 1934, the Federation consisted of 964 industrial firms that employed 197 000 workers respectively. The reintegration of the economic life that paced the concentration of political power in the 1930s fared reasonably well for the FSI, since they had 1044 firms with 260 000 workers as their members in 1937.62

The FSI took an active role in promoting government acquisitions to domestic producers for the first time in 1921, which eventually resulted in a Royal Circular Letter to the government authorities stating that Swedish products should be awarded preference in government acquisitions. After that, the Federation insisted upon its renewal yearly and also obtained it until 1935. In the interim, they made numerous proposals in order to improve the vague preferential status of domestic producers. These attempts, however, failed. Subsequently, the Federation pursued the establishment of more permanent acquisition rules throughout the depression years, but in vain. In the absence of more specific acquisition rules, one of the main ideas of this interest group was to tie the domestic preference rule to the aggregate performance of the economy — thus, in the event of an economic downturn, stronger measures of domestic preferences would be introduced. Therefore, the Federation attempted the restoration of the Royal Circular Letter after 1935 perhaps with less enthusiasm than before; after all, business was booming anyhow.63

As the Federation pointed out in a meeting of its working committee on February 23, 1929, the preferential treatment given to the Swedish domestic market producers was not an unusual arrangement considering other European countries. Preferences awarded to domestic producers were common, and only the extent and the formality of these arrangements varied. The investigations of the Federation produced the following, albeit
seemingly biased evidence considering its source: 1) A price advantage of up to 15 per cent on domestic goods in Great Britain; 2) A price advantage of up to 25 per cent in government acquisitions in Germany; 3) No specific price advantages in government acquisitions in Denmark, although similar preferential treatment was utilised in principle as in the Swedish case; 4) No specific price advantages in the French case, although similar preferential principle was in use as in Sweden; 5) A price advantage of up to 20 per cent in the Finnish case. The Finnish price advantages were indeed correctly reported. In fact, the data contained in these confidential minutes could be considered quite indicative. Thereby, in certain countries there were actual formal arrangements to award price advantages to domestic producers, whereas in other countries only vague principles existed.64

Another aspect of military acquisition matters in which the FSI was active concerned private ownership and its protection. For example, the Federation’s ardent support of private production surfaced in 1925—1926, when they were asked for their opinion concerning the League Nation’s efforts to ban the private manufacture of arms and ammunition. At first, the Federation simply viewed this disarmament measure as impossible to accept before assurances were given by the bigger armaments producing countries on ratification. When asked for their opinion, the member export firms complained that such measures would hurt the viability of Swedish firms, especially in terms of relative competitiveness vis-à-vis larger countries and more versatile big firms. In 1926, the Federation took a stronger opposing stance in the matter: They viewed such restrictions on private entrepreneurship as “alien” to Sweden and Swedish laws. As in other matters, the Federation acted in cooperation with other organisations to block such measures, especially in the Diet. Eventually this measure, similar to other attempts of controlling the arms trade in the interwar period, failed within the League of Nations.65

The main official access points to the political sphere, aside from other forms of pressure activity, for the FSI were the various committees. Yet, for example the Defence
Committees were mainly dominated by the major political parties and military experts, which forced the economic interest groups to pursue other avenues. They were, for example, amply represented in the *Rikskommissionen för ekonomisk försvarsberedskap* (=Royal Commission for Economic Defensive Readiness), which functioned from 1915 to 1946. The aim of this commission was to make sure that the Swedish economic life would be ready for the possibility of mobilisation of resources for a war. The major private armaments companies such as Bofors were prominently featured in these crisis plans, which is an indication of the importance of these companies in the Swedish military supply schemes. The Social Democrats, for example, could not advance a takeover of the industries by the state in the 1930s or voice very loud support for the regulation of the arms trade, since the country was essentially dependent on these companies for its wartime needs. The issues discussed in this commission included the need for centralisation in economic mobilisation, the need for information on the productive capabilities of Swedish industries, and the need for information as to which companies would form the core of the Swedish crisis management potential. The importance of viable domestic production capability also came up in the discussions more and more frequently in the 1930s, and the commission’s secret files indicate that the members recognised well the dangers of relying too much on foreign imports when a crisis occurred.66

In the Diet in particular, the success of the FSI was limited in promoting direct measures, such as the domestic purchasing quotas. The pressure activities of this group met with a difficult political climate for most of this period. Even in the 1930s, despite the depression — or indeed because the depression had been relatively mild in the Swedish case — the Federation was unable to push through its agenda on domestic purchases. For example, the Diet defeated a motion, which would have given an advantage in all government purchases of fuel to domestic producers in 1931. Another motion aimed at giving preferential treatment was again turned down in the Diet in 1936.67 And, as seen earlier, the Swedish military import share remained fairly steady, underlining the earlier
observations on the mature level of Swedish arms production and the relatively unremarkable performance of the FSI in its activities in this area. Swedish military exports, however, increased steadily up until the mid-1930s and the beginning of the hectic international rearmament. Therefore, the Swedish path was distinguished by a duality in the rent seeking for military contracts: 1) The political climate and the mature industrial base left comparatively little room for extensive rent seeking in the dwindling military contracts (although military spending as a whole was dwindling much faster); 2) The same political climate and the compromises that were necessary between the political parties ensured that the Swedish industries were not nationalised and that they were able to pressure the governments to protect their interests in the international armaments markets. Collusion between agents occurred only rarely and then usually in the various parliamentary committees. In general, the FSI was also weak in the political markets like its Finnish counterpart, due to its limited social and political capital. Yet, even though they did not achieve similar basic aims as price advantages in the Finnish case, they were successful in their basic aim of protecting their property rights, namely in their opposition to nationalisation.

The British Case: Limited Rent-Seeking Possibilities, Yet Efficient Networks

It has been said that the First World War formed a distinct watershed in business-government relations, and even providing the foundation for the formation of the MICs in the post-Second World War period. For example, in the United States the federal government, the business community, and the military services had become interlinked in the supply chain even before the First World War, which tendency was greatly reinforced by the wartime experiences. Similar structures were also created in other countries, especially in countries possessing a Great Power status and fast-growing public sectors. These tendencies were carried over to the post-First World War period both in Europe and extending even beyond the “Western” economic system. The mobilisation needs of the Great War had brought the businessmen into government, and especially its supply management, more or less permanently.
The British political markets were influenced by certain endogenous and exogenous factors. Of the three states analysed here, Great Britain was certainly one of the leading political and economic Great Powers in the period and the British position in the world economy was still strong after the First World War.\textsuperscript{70} The British economy, like other Western countries, experienced a slump in 1920—1921, the worst depression of the interwar period in terms of output. Another such downturn occurred in the mid-1920s. From 1929 to 1933, the Great Depression caused unemployment to rise, and real GDP per capita decreased. Recovery started in 1933 and was sustained throughout the 1930s. Compared to for example the French economy in the 1930s, the difference was pronounced.\textsuperscript{71} However, by the interwar period the long-term decline of the UK compared for example to the United States was quite evident.\textsuperscript{72}

In Britain public spending\textsuperscript{73} continued to grow throughout the time period. This modest trend was initiated during the First World War, since the growth of governmental activities affected also the local governments. The persisting wish of the Conservative Party to “pull back” to the central government spending role that had existed in the pre-war period was not fulfilled in the 1920s.\textsuperscript{74} The percentage share of central government expenditures to GDP, in turn, remained almost the same; only slight growth occurred. The only notable increase took place during the latter part of the 1930s. One reason for this must have been the unusually good performance of the British economy during the Great Depression.\textsuperscript{75} As mentioned earlier, the British military burden remained quite high comparatively.\textsuperscript{76}

The declining economy, the more introverted foreign policy of the period, and the stabilisation of the military spending to a rather consistent level melded the business-government relations in the sphere of military acquisitions. Due to the long tradition of comparatively high military spending and the long evolution of military supply management, the British military markets were fairly established. Moreover, the absence
of a noticeable growth trend in public goods provision prohibited the continuation of widespread collusion and even large-scale rent seeking in government acquisitions. Rent seeking had to be targeted towards certain acquisitions as well as towards the maintenance of certain basic goals. In essence, by the early 1920s industry-government relations did not really differ from those prevailing in 1914, only the networks created during the war remained. And since the governments were interested in mainly three policies until 1931 — namely, restoring the pound to the Gold Standard, balancing the budget, and pursuing free trade — many of the industrial interest groups and trade associations faced an uphill battle in these areas.77

For example, the armaments firms had to adjust to this state of affairs, and demand was low even in the growing sphere of aircraft production. In the 1920s, the Air Ministry adopted a policy of rationing design contracts between 14 different firms, of which 11 were wholly or primarily dependent on the government contracts for survival. As a matter of fact, due to the limited number of contracts in the 1920s and the effects of the Great Depression, many firms that had entered the aircraft business returned to their former activities.78 In addition, the interwar years were a time of consolidation for the British armaments firms. The domestic markets were dominated by the two giants, Vickers and Armstrong. For example, in 1928 Vickers purchased Supermarine, and Armstrong Siddeley Development Company acquired both A.V. Roe and aluminum alloy producer High Duty Alloys.79

The supply management system in the United Kingdom reflected these developments in the political markets as well as the internal power struggles in the armed forces. The supply organisation that had evolved by 1927 in Great Britain was the result of intra-service struggles to reach a compromise after the First World War. The organisation was headed by the Committee of Imperial Defence (CID) and supported by the Principal Supply Officers Committee (PSOC), which had been established in 1924 for the formidable task of coordinating inter-service acquisitions.80 The Contracts Coordinating
Committee (CCC), which had been founded in December 1920, is perhaps the best comparative reference as far as the influence of the interest groups is concerned due to the confusion in the British acquisition organisation in the early 1920s. The purpose of the CCC was: 1) to view comprehensively markets and sources of supply as well as maintain up-to-date data on national production capacities; 2) to prepare the productive resources of government-owned and private factories in the case of sudden crisis; 3) to coordinate methods of purchase and contract policies; 4) to develop contract mobilisation arrangements for a time of crisis. In short, the CCC was aimed at ”securing by agreement economy on purchases”.81

In Great Britain, business organisations remained highly fragmented well into the 20th century. The first of such disjointed and essentially weak associations, the Association of British Chambers of Commerce (ABCC), emerged in 1860. In general, the industrial organisations in Britain surfaced as a response to external pressures, since a major crisis was required for collective action to take place at the national level. National peak associations followed after the trade associations were well established, and resulted from the increased competition at home and abroad in the early 20th century. In addition to the industrialists’ own collective associations, there were also other, partially competing and partially superseding associations functioning in the national political markets; namely, the British Employers’ Confederation (BEC) and the National Association of British Manufacturers (NABM). Individual industry associations, such as in coalmining and engineering, pre-dated an industry-wide association, and were established usually during the last quarter of the 19th century. Moreover, most industrialists were content to act through their trade association or approach the appropriate government departments themselves, not to mention the rivalries between the industries. In addition, a hot-button issue to drive collective action such as tariffs was absent until the First World War and the interwar years.82
Since the British economy was placed on war footing in 1915, businessmen realised the need to organise. A leading figure in this was Dudley Docker, who had acquired his stature in the British business circles as a result of his achievements at the Metropolitan Co. War was suddenly seen as an opportunity to halt British industrial decline, and these ‘productioneers’ wanted protection for the British markets and urged greater unity among manufacturers. Thus, the Federation of British Industries (FBI) was established in July 1916, with the principal aim of acting as a ‘business parliament’, after other similar attempts had failed. It was meant to coordinate the views of the manufacturers and lobby the government in favour of policies conducive to the industries’ aims. Soon the FBI became the biggest and the most representative industrial organisation in the country. Initially it had 124 companies as members, within a year over 400, and in 1931 2480 firms and 157 associations.83 Other key organisations attracting industries that entered the markets during the First World War included the National Union of Manufacturers (1916), and a distinct body for industrial relations, the National Confederation of Employers’ Organisations (1919, later the British Employers’ Confederation).84

By a superficial assessment, the early 1920s were favourable time for collective pressure activities. For example, in 1919 41 per cent of the elected Conservative MPs were active businessmen. However, the number of active businessmen involved in politics dwindled to 35 per cent by the 1924 elections, and even they were politicians first and businessmen second, bound by and large in their actions by party discipline.85 The FBI was also, on the whole, constrained by its internal divisions on certain key issues, reminiscent of the two other country cases reviewed earlier. Tariffs and labour issues were the most divisive topics for the FBI. Tariffs, as well as other ways of protecting of the domestic producers, were among Docker’s primary goals, yet as the membership expanded the leaders of the Federation found it more and more difficult to reach any type of consensus in the matter. Majority of the leadership also did not want to alienate the Conservative Party because of this issue.86 Already in October 1919 the Grand Council meeting of the FBI brought forth the possibility of a split “on the question of Protection”.87 Accordingly, it was not until
the Great Depression, when the issue in fact was not contentious anymore, that the FBI was able to integrate the call for higher tariffs and “the widest possible extension of Inter-Empire preference” into its strategy. 88

The overall aims of the FBI were very typical of an economic interest group: 1) maximisation of the share of exclusive governmental benefits; 2) minimisation of the costs of doing business. The strategies that stemmed from these aims were strongly conditioned by the relatively stable and settled political markets, as well as the internal difficulties of the organisation. For example, it pursued, quite successfully, reductions in corporate taxation. In fact, the FBI Grand Council remarked complacently during their meeting of May 17, 1924 that the Corporation Profits Tax had been removed. 89 In general, taxation ceased to be a top priority for the FBI until the late 1930s, when the fiscal pressure of the rearmament and the increased public spending made their presence felt in earnest. The so-called National Defence Contribution, which the government proposed as a tax on profits, was opposed by the Federation’s members for many reasons. Primarily, they were opposed to coercive taxation to achieve this goal. They were willing to settle only for a temporary tax on profits and they did not want differential rates of taxation for companies directly engaged in the rearmament program. As it turned out, by this time (1937) the armaments industry was considered so instrumental for national survival that their conditions were met in the final draft of the bill. 90 This newfound position of authority was projected onto the activities of the FBI in the late 1930s due to the demands of the rearmament program as well as the needs of the crisis management planning.

Secondly, the FBI attempted to curtail government spending in general. However, it considered government contracts a separate issue from “the question of Government economy”. For example, when it came to specifics the members of the Federation wanted to be cautious. Consequently, its ruling body did not want to make specific references to the Navy, whose contracts were instrumental for some of its members, in its drive for
lower public spending. Thus, the FBI was against a specific proposal by the Admiralty to close down a dockyard: “Mr. Calder stated that the objection at any rate in regard to Rosyth was that the Admiralty had in recent years encouraged the expenditure on public services there and now without any warning had decided to close down the dockyard”.91

Moreover, the FBI was an ardent supporter of preferential treatment for domestic producers in government acquisitions. For example, it made a proposal to this effect in early 1923, “now that prices between British and foreign goods were comparable”.92 In fact, the FBI tried to impose preferential treatment for domestic actors also in townships and municipalities through the various ministries, especially since such rules were in place in some of the governmental departments. Apparently, however, the Federation did not achieve what it had hoped for in this instance.93

The FBI relied on two primary methods for achieving their goals: 1) direct influence on key Cabinet members, the Parliament, and especially the Prime Minister; 2) propaganda campaigns realised through various mediums. The links of the FBI to the wartime and post-First World War Conservative governments were usually direct and even of personal nature. For example, two of the FBI’s directors came from the Commercial Section of the Foreign Office. These links were crystallised in the selection of Sir Eric Geddes, Minister of Transport, as the president of the FBI in 1922.94 The internal divisions of the FBI, the fact that it became more conservative and cautious during the course of the 1920s, and its strained relationship with the Labour Party rendered these networks less effective, although at lower levels of government and especially in committees they still maintained their influence. Some of this social and political capital was salvaged during the rearmament years, when the industries were seen as the backbone of the mobilisation plans. As a matter of fact, in November 1938 the FBI was promised “full access” to the Prime Minister. Pure rent seeking would not be forthcoming, however, in a situation like this: Similar to their colleagues in Finland and Sweden, the British industrialists combined the motives of profit seeking and nationalism to serve their complex aims.95
The second method, propaganda, was utilised on many occasions. The biggest success of the FBI in this respect was the production of numerous industrial films that were intended to create “public interest in the industries of the country”. Apparently, for example its 1924 showing of these films at West End was a success, both judging from the contemporaries’ reactions and the comments from the press. These films were tightly linked to the FBI’s desire to promote and support domestic filmmakers. Apparently the Federation was also instrumental in the passing of the Cinematograph Films Act of 1930, which introduced protectionist measures targeting foreign films. Another example (perhaps more telling of the Federation’s lack of power) of direct propaganda was the so-called “Buy British” –campaign. This type of campaign, similar to the other two countries, was meant to be an advertisement campaign for British goods, to emphasise the superior quality and the employment effects of these goods. It was to be based on newspaper ads and supplemented by posters. The FBI tried to push for the initiation of this campaign in 1924—1925, with lacklustre results. At first there was no interest among its members to fund such an effort, and also the government and the Board of Trade turned out to be unenthusiastic about this project. Finally, when the project got underway in 1931, it was basically too late for this effort. In fact, the FBI wanted to emphasise to the government that this “should not be regarded as alternative to protection”. Once again, the FBI’s efforts did not bear fruit until the depression years, both due to the lack of internal cohesion as well as the lack of political capital.

The most significant difference compared to for example the Finnish case was the absence of domestic industries’ direct involvement in the acquisition decision-making, for example directly in the CCC, in the 1920s and early 1930s. Moreover, the FBI and the CCC had several disagreements over acquisition issues. The British producers’ position in the British political economy was already well established by this time, which also coincides with the Swedish case. In fact, the CCC’s predecessor, Government Co-ordinating Committee (GCC), came into being due to the pressure efforts of the FBI as well as other interest groups. Thus, the continuation of contracts and connections
established already earlier was secured in the CCC. The FBI’s contacts with the Committee, as well as with certain Ministries, were frequent and well-established. Mainly, however, the efforts of the FBI were centered on fixing contractual issues, not to oversee the “Britishness” of the government purchases. As a matter of fact, it was not necessary, since especially after the mid-1920s the Committee even took a tighter attitude towards domestically produced goods that were based on foreign materials. The only noticeable, clear opposition emerged on the issue of monopolies, or “rings”, which also displays the high level of organisation among the British defence suppliers.99

Thus, even though the FBI lamented of not having direct representation in the CCC, they achieved guarantees in the CCC in 1926 that “the use of British commodities in materials [should] be encouraged” and “a preference in price should be awarded to Empire materials in competition with foreign materials”.100 Yet, none of these were specific or binding per se. Overall, the price advantages in the British case alluded to by the Federation of Swedish Industries in their 1929 study were already established in the pre-First World War era. Interestingly enough, similar to the Finnish case, there were complaints issued by the Treasury in the early 1920s that officers sometimes acted in dual roles in the military acquisitions, which did not surface for example in the Swedish case.101 The so-called windows of opportunity were usually small, and the FBI had to adjust its goals and actions to this state of affairs. Additionally, the lack of internal cohesion and political capital, not to mention the cautious outlook of the Federation’s leaders, provided the FBI with only a limited role in the British political markets, at least until the rearmament drive of the 1930s. The rearmament galvanised the FBI’s business-government networks and guaranteed their members direct access all the way to the top.

CONCLUSION

This paper has focused on analysing the aims and strategies; the methods used; their role in the military acquisition processes; the importance of the windows of opportunity
relative of the political markets; and the relative success of the domestic pressure activities in Finland, Sweden, and the United Kingdom.

Firstly, it is possible to argue that the industrial interest groups would try to maximise their domestic military capital-spending share during times of economic hardship as well as minimise their tax burden (=aims). These were typical aims for these groups, although at times they had to emphasise other, more basic aims (such as the protection of their property rights) as well. Usually, however, they could not pursue both successfully, mainly due to their lack of social and political capital as well as due to internal disagreements. The Federation of Finnish Industries was the most successful in regards to the first aim, since it was able to secure specific price advantages for domestic producers. The other two federations had to settle for more informal agreements, with the Federation of Swedish Industries achieving the least in this respect. The Federation of British Industries was perhaps the most successful in terms of limiting its members’ tax burden. The strategies employed by the groups were contingent of the realities of the respective political markets and the limited windows of opportunity, at least in the Swedish and British cases. Moreover, industries as an interest group attempted to maximise the binding nature of formal and informal military procurement rules in favour of the domestic markets in these countries. Yet only the Finnish case (with some evidence of similar arrangements in the British case) offered an ample window of opportunity for successful rent seeking in this respect. In all three cases the industrial federations and their members considered the political monopoly rents as an important complement to their commercial activities and worth the cost.

The methods utilised in the pressure or collusive activity included: 1) direct consultation and unlimited access to the decision-makers (the British case); 2) lobbying the legislative assembly (all three cases); 3) campaign funding (mostly the Finnish case; evidence lacking on others); 4) collusion with government agencies (mostly the Finnish case); 5) public relations efforts (all three cases); 6) bureaucratic obstructionism and limited,
competitive collusion (mostly the Finnish case). The most effective means of achieving
the aims of the interest group were the numerous personal networks that emerged already
during the First World War. In addition, many persons had developed direct connections
to certain government agencies, for example due to their previous employment. Collusion
emerged only in the situations where the institutional playing field offered increasing
returns for both of the rent-seeking parties. This was usually quite rare, since the aims of
the public and private actors did not coincide often. More limited evidence of this could
be seen in the case of the Finnish naval acquisitions in the late 1920s. Public relations
efforts, such as the industry promotion films commissioned by the Federation of British
Industries, were usually of secondary importance for these organisations.

Finally, the success of the rent seeking and collusion of the federation of industries in
these three countries was dependent on: 1) the opportunities (rules and their enforcement)
in the political markets; 2) the size, strategies, and structure of the group seeking rents; 3)
past political and social capital; 4) exogenous factors (especially economic and political
crises). Accordingly, the individual firms were similarly constrained in their actions in
the political markets, especially inasmuch the political and social capital possessed by
their collective representative group dictated their success of obtaining rents. All in all,
however, the institutional windows of opportunity were of greatest importance in
encouraging domestic market rent seeking. For example, in the Finnish case the
institutional loopholes and lack of enforcement of the emerging rules enabled extensive
rent seeking and encouraged collusion. Moreover, the Federation of Finnish Industries
was able to obtain the most extensive monopoly rents of the three countries in the 1920s.
A similar situation emerged in the late 1930s, when rearmament needs guaranteed
extensive access to the government leaders, especially in the British case.

Yet, certain key companies such as Bofors in Sweden and Vickers (and Armstrong) in
Great Britain were so instrumental in the rearmament strategies of these nations that they
were significant players themselves. This is certainly a dimension that has not been
studied before: single, market leading firms acting as sole rent seekers as well as acting within their respective interest group. Often, the relative political importance of the armaments industries during the 1930s promoted the industrial interest groups also to a more prominent position among the national peak associations.

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NOTES:


2 See also Jari Eloranta, *Different Needs, Different Solutions — The Importance of Economic Development and Domestic Power Structures in Explaining Military Spending in Eight Western Democracies During the Interwar Period*. A Licentiate Thesis in Economic History at the University of Jyväskylä (Jyväskylä, 1980) on an application of such a typology.


4 See Mark Harrison (ed.), *The economics of World War II. Six great powers in international comparison* (Cambridge, 1998). Classic studies of this type are Alan Milward’s works on the European war economies; see e.g. Alan S. Milward, *War, Economy and Society 1939—1945* (London, 1977).


7 Although some attention has been paid to business-government relations (see e.g. Steven Tolliday, *Business, Banking, and Politics. The Case of British Steel, 1918-1939* (London, 1987); Tim Rooth, ‘British Business, the Tariff and Economic Diplomacy in Europe Between the Wars’, in *Business and European Integration since 1800. Regional, National and International Perspectives*, ed. by Ulf Olsson. Meddelanden från Ekonomisk-Historiska Institutionen vid Göteborgs Universitet 71 (Göteborg, 1997)); as well as certain key business figures in the interwar period (see e.g. Terence Rodgers, ‘Sir Alan Smith, the Industrial Group and the Politics of Unemployment 1919—24’, *Business History*, Vol. XXVIII, No. 1 (1986)), detailed analyses of rent seeking in various economic sectors have not been undertaken. See also John F. Wilson, *British business history, 1720—1994* (Manchester, 1995), e.g. pp. 1—4. Some exceptions are e.g. Steven Tolliday (ed.), *Government and business*, International writings in business history, No. 2 (London, 1991); Matthias Kipping, Ruggero Ranieri and Joost Dankers, ‘The Emergence of New Competitor Nations in the European Steel Industry: Italy and the Netherlands, 1945-65’, *Business History*,


11 For such an attempt, see Eloranta, External Security.


17 For a more comprehensive set of hypotheses, see Eloranta, External Security.


20 Adopted from Ball-Millard, Pressure Politics, pp. 269—275.
23 Eloranta, *External Security*, e.g. Chapter 3.
30 For more, see Eloranta, *"Weak" European*.
33 See Eloranta, *External Security*, e.g. Chapter 7.
34 See Eloranta, *Different Needs*.
38 Archive of the Central Federation of Industries (ACFI), *Teollisuuden Keskusliitto*, Helsinki (Finland), minutes of the Federation of Finnish Industries 1920—1925, 11.12.1920, 28.1.1921, 28.5.1921, 9.11.1921;

39 Military Archive (MA, Sota-arkisto), Helsinki, Board of Acquisitions, Minutes 1919—1926; Pesonen, Teollisuuden, pp. 14—15.

40 See Lamberg, ‘Vaalirahoituksen’ for further details.

41 Calculated from the database and sources in Eloranta, External Security.


43 Turtola, Laivastokysymys, pp. 132—133; Eloranta, Different Needs.

44 See Lamberg, ‘Vaalirahoituksen’.


46 ACFI, Minutes of the Federation of Finnish Industries, 1920—1925, e.g. 10.5.1922, 5.12.1924; Minutes of the Federation of Finnish Industries, 1935, 23.1.1935.

47 See Olson, The Logic, e.g. pp. 53—65. See also North, Institutions.


49 Arimo, Suomen linnoittamisen, pp. 50.

50 See Eloranta, ‘Harmaa alue’.

51 See Eloranta, External Security for more.


54 See the database in Eloranta, External Security on the naval tonnages.


56 Eloranta, External Security, Chapter 7.


61 Sveriges Industriförbund 1910—1920, pp. 43—47; Sveriges Industri (Sweden’s Industry), Översikt utgiven år 1948 av Sveriges Industriförbund (Stockholm, 1948), pp. 76—79.

62 Archive of the Federation of Swedish Industries (FSI), Industrihuset (Infocenter), Stockholm, Board Protocols 1920, general meeting 20.4.1920; Board Protocols 1929, general meeting 23.4.1929; Board Protocols 1935, general meeting 7.5.1935; Board Protocols 1938, general meeting 26.4.1938.


67 Swedish Parliamentary Documents (Riksdagens protokoll med bihang), 1919—1939, First Chamber motion 149, Second Chamber motion 238, First Chamber 16:84d, Second Chamber 16:10d, 1931; Second Chamber motion 195, Second Chamber 20:85, 1936.

68 See also Eloranta, "Weak" European.


71 S. N. Broadberry, The British Economy Between the Wars. A Macroeconomic Survey (Oxford, 1986); Solomos Solomou, Themes in Macroeconomic History. The UK Economy, 1919—1939 (Cambridge, 1996), pp. 113—115 — however, the British growth in the 1930s was modest compared to e.g. Germany.


75 Eloranta, External Security.

76 Eloranta, External Security, 110.

77 For more, see Wilson, British business, (e.g. pp. 169—171).
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87 Modern Records Centre (MRC), (University of Warwick, UK), MSS.200/F/1/1/1. Minutes of Meetings of FBI Grand Council, 15.10.1919, pp. 26—29.
89 Ibid., 29.11.1922, pp. 28—30; 17.5.1924, p. 69. See also Blank, ‘Britain’.
91 Ibid., 29.11.1922, pp. 28—30; 14.10.1925, pp. 105—106.
92 MRC, MSS.200/F/1/1/2. Minutes of Meetings of the FBI Grand Council, 17.1.1923, p. 27.
93 MRC, MSS.200/F/1/1/9. Minutes of Meetings of the FBI Executive Committee, 11.10.1922, pp. 49—50; 13.6.1923, pp. 119—120.
95 MRC, MSS.200/F/1/1/16. Minutes of Meetings of the FBI Executive Committee, 18.11.1938, p. 139. See also Eloranta, *External Security* for a broader analysis of the Finnish and Swedish cases. The FBI’s attitude towards the Labour Party can been seen quite plainly in connection with the 1924 elections, when the FBI considered them “totally unacceptable to the Federation”. See MRC, MSS.200/F/1/1/2. Minutes of Meetings of the FBI Grand Council, 20.10.1924, p. 84.
96 MRC, MSS.200/F/1/1/9. Minutes of Meetings of the FBI Executive Committee, 9.4.1924, pp. 209—210; 14.5.1924, pp. 221—222; MSS.200/F/1/1/12. Minutes of Meetings of the FBI Executive Committee, 18.6.1930, pp. 41—42.
98 PRO, War Office, WO 221/1: Proceedings of the Contracts Coordinating Committee, Meetings 1—9, 1921: 2.5.1921, 14.7.1921, 20.2.1921; WO 221/3: Proceedings of the Contracts Coordinating Committee, Meetings 16—22, 1923: 22.1.1923; WO 221/4: Proceedings of the Contracts Coordinating Committee, Meetings 23—28, 1924: 10.7.1924, 6.10.1924. FBI was actually against protective tariffs in order to protect domestic production in the 1920s, which in turn made the domestic production interests somewhat weaker in e.g. military acquisitions. The situation was not altered until the onset of the Great Depression. See Rooth, ‘British Business’, e.g. pp. 192—195.

MRC, MSS.200/F/1/1/158. FBI Contracts Committee, 14.10.1926, pp. 192—193.

PRO, War Office, WO 221/1: Proceedings of the Contracts Coordinating Committee, Meetings 1—9, 1921, 6.1.1921.