

Seven Figures in the History of Swedish Economic Thought

Knut Wicksell, Eli Heckscher, Bertil Ohlin,
Torsten Gårdlund, Sven Rydenfelt, Staffan
Burenstam Linder and Jaime Behar

Mats Lundahl



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Stockholm School of Economics, Sweden

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For Ron and Jane

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4.1 Wage determination in the specific factors model

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Preface

I got into the history of economic doctrines by accident. In July 2000 Staffan Burenstam Linder passed away. I was asked to write a short obituary of him for an in-house publication at the Stockholm School of Economics. When I sat down to begin my task it struck me that I had actually read very little by him, hardly anything, although I had planned to do it for some time and had collected most of his books to that end. His death provided the occasion for me. In the end I wrote not only the obituary but also a longer article which appeared first in another SSE publication, thereafter in *Ekonomisk Debatt* and finally in an international journal. The article had a favorable reception. When I presented it at the annual meeting of the Economic Research Institute at the school in 2001 at least 30 persons approached me and they all said the same thing: 'I knew Staffan, but this I did not know about him.' After another year I received a telephone call from Carl Ugglå. He had read my article and wanted to write a book about Staffan whom he knew well since he had worked politically with him. Both my article and a translation of my review of Ugglå's book are included in the present volume.

I was responsible for arranging the yearly lectures in memory of Bertil Ohlin at the SSE for 25 years. Every year we invite an outstanding economist who has worked in some of the fields that interested Ohlin, notably international economics and macroeconomics. The lectures have taken place every year since 1987 and most of them have been published in book form. Bertil Ohlin was born in 1899. When the time came to celebrate the centennial of his birthday we decided not to arrange any lectures but a big symposium instead. This yielded a volume with contributions from a large number of prominent international scholars. Ohlin became a recurrent component in my life and each year I meet his children in connection with the lectures. Bertil Ohlin was, however, also a politician, and when the liberal journal *Liberal Debatt* celebrated its 60th anniversary I was invited to write an article about his economic ideas. The topic was whether they still stand up. An English translation of the article is included here.

If you say Ohlin, it is next to impossible not to say Heckscher as well, at least among international economists. The Ohlin symposium was highly appreciated and shortly thereafter the idea was born to arrange a symposium in memory of Eli Heckscher as well. It took place in 2003, commemorating the 50th anniversary of his death in 1952. The Heckscher symposium also resulted in a big conference volume. Earlier the Timbro think tank in Stockholm had taken an interest in Eli Heckscher and had published a volume with some of his texts about the state, liberalism and economic policy, and in connection with the symposium, together with Rolf Henriksson, I

edited a second book which concentrated on his methodological writings, his theoretical contributions and his discussion of the relation between economics and economic history. I have included a later essay of mine here, on Heckscher's views on theory, history and method.

In 2009 the Stockholm School of Economics celebrated its 100th anniversary. In connection with this a big coffee table book was produced about the school. In a weak moment I promised to contribute a background text about Eli Heckscher as an international economist. This resulted in an essay about a couple of his theoretical contributions which appears here in an English translation. Heckscher was, however, more of an economic historian than an economist, and in 2007 a book by Ylva Hasselberg about how Heckscher created the new discipline of economic history in Sweden was published. An extended version of the review that I wrote of the book is included here together with a chapter which deals with a special theme inspired by Hasselberg's research: Heckscher's personal relations with his colleagues.

Torsten Gårdlund was one of the teachers that I appreciated most at the University of Lund and probably also one of those who influenced me most. Without him I might never have become interested in development issues. Torsten passed away, almost 92 years old, in 2003. Together with Bo Södersten and Lars Jonung I wrote an obituary of him. This was developed into an article together with Bo, for *Ekonomisk Debatt*, and later into a book, also with Bo as co-author, *Torsten Gårdlund. Det goda livets ekonom* (Torsten Gårdlund: The Good Life Economist), published in 2009. The portrait of Torsten which is included here is an 'intermediate good' on the way from the article to the book. In 2011 Torsten Gårdlund would have turned 100. In vain I attempted to make the economics department in Lund do something on that occasion but nobody was interested, so instead I wrote a short article in *Svensk Linje* where I stressed his literary inclination. A translation is included here.

The greatest of all Swedish economists, and at the same time one of personally most fascinating, was Knut Wicksell. He has always been celebrated for his originality, with one exception: his writings about the growth of the population and its effects. In 2003 I was asked to write an article about Wicksell's views of poverty for a volume where they were to be compared with those of other great economists. I had read Gårdlund's brilliant biography of Wicksell and the account of his analysis of population was decently fresh in my mind. As far as I could recall, in that field, Wicksell was a pretty stereotyped copy of Malthus, so I was hard to convince. In the end, however, I gave in, thinking that I could probably write a short piece anyway. Once I began, however, I realized how wrong all Wicksell's critics – and there were many of them – had been. Wicksell was indeed original, in the way he set up his analysis in a general equilibrium perspective. He never published it in any comprehensive form, however. It was not until I had read and compared all his pamphlets, articles and book chapters that the pattern emerged. But

once I saw it I wrote both the article and a small book about Wicksell's views in two months. The disposition was completely clear. All I had to do was to write. The article is reproduced here, together with a related piece, published in a volume on development economics, which provides a mathematical formulation of Wicksell's general equilibrium approach. A third piece on Wicksell and population has been added as well, a chapter that deals with the reaction to the speech delivered by Wicksell in front of a temperance lodge in 1880 where he outlined his views for the first time.

Most of the texts collected here were published in 2009 in Swedish in a Timbro book that had its origin in my interaction with Fredrik Erixon, who had been instrumental also in the publication of the Heckscher text volume. His enthusiasm was invaluable. The present volume has, however, been extended not only with the essays on Heckscher, Gårdlund and Wicksell. Torsten Gårdlund was not the only one of my teachers that passed away in 2011. Another was Sven Rydenfelt. Again I tried to stir some kind of interest in the department of economics at my alma mater for an event to celebrate Sven's memory and again the idea fell flat, so once more I chose to write something, this time together with my old friend and student companion, Sven-Arne Nilsson, whose mother was Sven's cousin. We offered the piece to one of the newspapers where Sven had contributed a never-ending flow of articles over many decades, but the editor of the page where it would be published was too young ever to have heard of Sven in addition to being of Middle Eastern descent, whereas Sven came from the Scanian highlands, so our generous offer was turned down. In the end the article was published in *Ekonomisk Debatt*. An English translation has been included here. We have also written a longer presentation of Sven Rydenfelt especially for the present volume.

The book also includes a short chapter about my friend Jaime Behar, who was Professor of Latin American Studies at the Institute of Latin American Studies at Stockholm University. The final addition is an original chapter, on the position of the economists in the Swedish debate from Knut Wicksell to the present.

Mats Lundahl
Stockholm, 8 December 2014

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Introduction: Unknown Writings

The main theme of this book is publications by Swedish economists that for some reason have been more or less forgotten. The main reason for this oblivion is probably that present-day economists are not particularly interested in the history of economic doctrines.¹ It has nothing to do with the persons. Of course all of them are not equally well known today, but none of them is really 'forgotten'. Knut Wicksell is our greatest economist, all categories, and all economics students learn about the Heckscher-Ohlin theorem. Eli Heckscher and Bertil Ohlin are known by most people in the profession. It is worse with Staffan Burenstam Linder. International economists know what the 'Linder thesis' is, and, just a few years ago, his book about the scarcity of time was published in a new Swedish edition, but to Swedes he is more well known as a politician (exactly like Bertil Ohlin). Torsten Gårdlund is presumably just a name for today's economists. He is known as a biographer, for his book about Knut Wicksell, and in Sweden also for his book about Marcus Wallenberg, Sr, the 'district judge'. Some people have even read them, but that is usually the end of the story. Sven Rydenfelt is not known outside Sweden other than among the members of the Mont Pelerin Society, and in Sweden he is known mainly for his many newspaper articles. Jaime Behar, finally, is known mainly among Latin Americanists.

Actually it is even worse. Not too many people have read Heckscher and Ohlin in the original, with the possible exception of a few of Heckscher's economic-historic writings, and most of Wicksell's works are not read either. The purpose of this book, which has a number of chapters on the history of economic doctrines and biography, is to stimulate the reading of authors whose original writings are unjustly forgotten except by professional historians of economic doctrines. Some of their basic ideas have been handed down to later generations, but then in a condensed, and partly distorted form – in textbook varieties – while the original works gather dust in antiquarian bookstores and libraries. Indeed, everything is not palatable for modern readers. The way Swedish was written at the end of the nineteenth century and the beginning of the twentieth differs considerably from contemporary Swedish.

Sentences are long, with inserted subordinate clauses and reservations. The German influence is often clearly visible. But that is only part of the explanation. Staffan Burenstam Linder's Swedish is of course perfectly modern, and Torsten Gårdlund is the best stylist the discipline of economics ever had in Sweden. He is the only one who, for good reasons, may be called literary.

The reason why so many of the works of the seven economists in this book have fallen into oblivion has to be sought elsewhere. In the mid-2010s, economic writing in Sweden almost exclusively aims at publications in the very best professional journals, and then the premium is on mathematical modeling, econometrics and experiments. Present-day economists do not believe in what is not formalized. We think that it is in this form that the fifth essence of economics is contained. Already Wicksell made use of mathematics, and it is his formalized works that are occasionally read. His pamphlets and non-mathematical articles are more seldom brought down from the shelves.

Personally I think that this is a pity. Wicksell has a lot to offer to a modern reader even when he chooses not to use mathematical language, and the same is true for the other six economists in this book. Because of this, I have chosen to gather the 16 essays and reviews that together constitute *Seven Figures in the History of Swedish Economic Thought*. No economists work in a vacuum, independent of their predecessors, but my Swedish colleagues often seem to have forgotten this elementary truth. If to some extent I can stimulate my younger colleagues (and for that matter also the older ones) to read more of the works of the seven economists dealt with here, I will be happy.

The demographic rabble-rouser: Knut Wicksell

Knut Wicksell is our first great Swedish economist, still the greatest. His reputation as an economic theorist still surpasses that of any other Swede. He is practically the only one whose work has become the subject of a unified doctrinal treatment (Uhr, 1962).² Wicksell is praised by his latter-day colleagues for virtually everything that he wrote, and he still stimulates the historians of economic doctrines to new examinations of his ideas. He stands out as untouchable in all respects except one: his treatment of the population problem and related questions. Carl Uhr devotes a single page of 337 in his book to Wicksell's population analysis and does not mention it at all in the chapter that summarizes his contributions to economic theory. Later authors have tended to regard his analysis as stereotyped and too influenced by Malthus' pessimistic view of life. Virtually the only recognition that his writings on population have received has been based on his use of the concept of optimum population, the population size that maximizes income per capita.

There are several, very different, reasons why Wicksell's writings on population are passed by in silence. Most of them were not strictly 'scientific'. Often they were more or less obscure pamphlets directed to a broad audience, pamphlets which, like the lecture tours that Wicksell devoted considerable time to, in order to 'educate' the Swedish people, tended to lead to scandals, police intervention and angry protests from the established society, the bigot Swedish society of the late-nineteenth and early-twentieth century that was completely unwilling to discuss information on sexual matters. Wicksell was far too early with his discourse on celibacy or prostitution, active birth control, emigration, war and abortion.

His cause was not made easier by the fact that he advanced his views with almost religious conviction. Wicksell had been profoundly religious in his youth, but thereafter he had deserted his faith. His intensity was, however, transferred to his social preaching, and nowhere is this more evident than in his works on poverty and population. His gospel tended to appear in all kinds of circumstances, including those that did not call for any sermons at all. Both his students and his colleagues got their fair share of Wicksell's neo-Malthusian faith, a faith that had been strong in the economics profession until the mid-nineteenth century but which had thereafter gradually been pushed into the background. Not least in Sweden it met with distrust, also among economists. Wicksell was alone, the voice of one crying in the Oscanian wilderness, and he was regarded as slightly fanatical.

The second chapter of the book shows why. It deals with Wicksell's appearance in front of a temperance lodge in Uppsala in 1880 speaking on 'The Most Common Causes of Drunkenness and How to Remove Them'. In his speech, he advocated birth control as the way to lower population growth and reduced poverty. The reaction to his heretic message was violent, in virtually all circles except the most radical. Naturally, religious people were upset and painted a picture of Wicksell as a defender of savage lusts, but they were not alone. Wicksell was attacked by the Uppsala Medical Association, a local philosopher, the county governor of Uppsala, a professor of theology, the leading Swedish economist at the time, David Davidson, a soon-to-be minister in the Swedish government, and a host of other critics. In addition, his speech rendered him an admonition from the Lower University Council in Uppsala.

The 1880 speech set the course of Wicksell's future career. He published it as the first of a long series of pamphlets on population and related issues, and the critique by Davidson made him turn from mathematics to economics. The population issue remained with Wicksell for the rest of his life as the most important social issue for him. The last publication that he prepared before his death was on population.

The next two chapters (chapters 3 and 4) refute the conventional view of Wicksell's analysis of the population problem. This analysis is as original as anything else that he wrote. The originality does not reside in the

views that he advanced. Whether Sweden, or Europe as a whole, was overpopulated during Wicksell's lifetime is debatable, but in the present context this is of secondary importance. The reputation of great economic thinkers is usually not founded on their ability to deliver correct forecasts. It is the way in which Wicksell presented his views that is original, but this does not become obvious until you put all the works where Wicksell analyzes the population problem and related issues next to each other. What matters is the totality. The individual pamphlets deal with isolated problems, and without integrating these problems into a coherent whole, it is impossible to see the originality of Wicksell's approach.

Wicksell began his analysis during the 1880s and 1890s, not long after Léon Walras had put forward his ideas about an *équilibre générale*, a general equilibrium where in principle all the variables in the economic system affect and interact with each other. Wicksell implicitly worked in terms of a general equilibrium system where both foreign trade and factor mobility across national borders were incorporated, together with population growth, commodity production, factor accumulation and technological progress. In his analysis, he anticipated an approach that was not formalized until 1971, separately, by Ronald Jones (1971) and Paul Samuelson (1971). This approach is today known as the specific factors approach to international trade, where only labor is mobile between different production sectors while the other factors are specific to the sectors where they are employed. In Chapter 3, Wicksell's assumptions, analysis and conclusions are sketched in an informal way, and in Chapter 4, a mathematical general equilibrium model which can be used to check and confirm the accuracy of Wicksell's propositions is presented. The result is stunning: Wicksell is completely consistent in his analysis, 70–80 years before any formal model existed.

The belligerent Janus face: Eli Heckscher

Chapters 5–8 are devoted to another early giant among Swedish economists: Eli F. Heckscher. He may be regarded as a scientific Janus face. During his half-century long scientific career, the workaholic Heckscher made important contributions both in economic theory and in economic history. His name is forever linked to one of the most important and well-known theorems that the theory of international trade can boast: the Heckscher-Ohlin theorem, which states that countries export goods which make intensive use of production factors that are abundant domestically and import goods which build on scarce factors. Countries with abundant labor export labor-intensive goods while countries with plenty of capital export goods whose production requires relatively much capital.

The other side of the Janus face of Eli Heckscher is that of the economic historian. Heckscher began his scientific career as an historian, with

a *licentiat* thesis,³ in 1903, about the most important mercantilist law in Sweden, the Navigation Act of 1724, which was designed to guarantee that Swedish ships were favored when goods were transported in and out of our country, and he continued it with his doctoral dissertation, in 1907, about the importance of the railroad for the development of the Swedish municipalities.

Seven years later, in 1914, it was clear to Heckscher that his great task in life was to write the economic history of Sweden from the end of the Middle Ages up to his own time. This lifetime task occupied most of his time during the 1930s and 1940s. He did not make it to the end. The yoke he had put on his shoulder was so heavy that it finally crushed him, literally speaking. The two volumes about the eighteenth century were published in 1949. Some three years later, at the end of 1952, Eli Heckscher died, physically shattered but still intellectually vital. His economic-historic production is overwhelming. In addition to the four fat volumes on the economic history of Sweden (Heckscher, 1935a, 1936, 1949a, 1949b) and a host of articles, he published internationally renowned works such as *The Continental System* and *Mercantilism* (Heckscher, 1918, 1931; English versions: Heckscher, 1922, 1935b).

Heckscher went through three phases during his life as a scientist. We have already noted that he began his career as an historian. During the 1910s and 1920s, he was, however, primarily an economist. In 1909, he got a chair in economics and statistics at the Stockholm School of Economics, which was founded the same year. His teaching duties there, together with the experience of Sweden during World War I, made him focus his writing on the Swedish economy, and it was also during the period up to the mid-1920s that he published his contributions to economic theory. At the same time, however, he could not let go of economic history. Much of what became *The Continental System* was written during the same period. From 1929, when he got a personal chair in economic history, Heckscher again became mainly an economic historian and remained so until his death in 1952 – without losing his interest in current economic issues.

The scientific Janus face of Eli Heckscher popped up, time after time, during his entire life. It is hardly surprising that, all the time, he was wrestling with the question of how the two disciplines should be related to each other. He consistently argued that historical aspects must be given more room in economics, an attitude that is perhaps not so surprising, since Heckscher was active during the time when the German historical school was at its peak, even though he did not embrace it himself; on the contrary, he was a neoclassical economist. Nevertheless, he stressed the importance of history. At the same time – and here he was a pioneer, not just in Sweden but also internationally – he was completely convinced that it was not possible to write high-caliber economic history without resorting to economic theory. Heckscher was an early precursor of the cliometric school that was created in

the United States in the 1950s but which with few exceptions (mainly Lund) had difficulties becoming accepted in his home country.

Chapter 5 deals with Eli Heckscher as a theorist. He made only a handful of theoretical contributions. Of these, two are dealt with here: the ones in international economics. Most well known is the article from 1919, the first building block in the theoretical complex that contains the Heckscher-Ohlin theorem, the factor price equalization theorem, the Stolper-Samuelson theorem and the Rybczynski theorem. Today, all these theorems are presented in the textbooks in the two-by-two-by-two setting: two countries, two goods and two production factors, but this was not the framework that Heckscher used in his article, an article that by the way deals more with factor price equalization than with factor-based trade. He used three or more production factors and two or more goods, a framework which is not so easy to handle and which led him to a few mistaken statements. Nevertheless, Heckscher shines like a beacon in the night of international economics. He launched the tradition that dominated the field of foreign trade during more than half a century, even though few people read his original contribution.

Heckscher's second theoretical contribution in international economics is a great deal less well known. (It was genuinely forgotten during 60–70 years.) It consists of a criticism of Gustav Cassel's purchasing power parity theory for exchange rate determination, where the price levels of the countries play the decisive role (Heckscher, 1916; Cassel, 1916). Heckscher established that Cassel's theory does not take into consideration that it is possible to transport gold (under the gold standard) and commodities (under the paper standard) from one country to another and that this puts limits on exchange-rate fluctuations that are narrower than what Cassel contended.

Chapter 6 examines Heckscher's views on the desirability of interaction between economic theory and economic history – a theme which he began to investigate at the beginning of the twentieth century and which he never dropped thereafter. The two fields were complementary, and you cannot work in one without simultaneously using inputs from the other. Explanations of events and processes in economic history had to proceed within a framework that states what is economically possible, and economists would not be able to develop meaningful theories if they lacked insights in economic history.

The chapter concentrates on Heckscher's plea for the use of theory in history. It also examines how Heckscher applied his own principles, more so in his earlier writings than in his monumental work on the economic history of Sweden. There is no question about the fact that Heckscher demonstrated that he was theoretically informed when he worked on history, but strangely enough he never made use of his 1919 article. It is mainly when it comes to the analysis of contemporary problems that international trade theory is brought in together with insights that decades later would characterize, for example, public choice theory and the new political economy, and at times

he also worked with implicit counterfactual reasoning, like the latter-day cliometricians.

Chapters 7 and 8 deal with the same theme: how Heckscher virtually single-handedly established economic history as an independent academic discipline in Sweden. The first of these chapters is a review of Ylva Hasselberg's book about this topic, about the network that Heckscher established when he built the discipline and how he drew the limits between economic history and economics and general history, respectively (Hasselberg, 2007). Chapter 8 deals with Heckscher's belligerence and his relations to his fellow economists, which were generally bad, often close to catastrophic, and which in turn meant that he did not receive any real support from them until the mid-1940s, just before the decisive step in his institution building took place. Hasselberg contends that during Heckscher's time the economists could be divided into two groups: those who wholeheartedly devoted themselves to scientific investigation and those who were drawn to 'worldly', political, activities and who then threw the scientific principles overboard. The chapter demonstrates that such a division has very little to do with reality. Hasselberg uncritically accepts Heckscher's own view of the world. His bad relations with his colleagues were not due to that he was 'scientific' while they were 'political'. He was simply difficult to deal with on the personal level. He had problems when it came to cooperating with other people. Almost without exception, it is possible to show that regardless of where Hasselberg places the Swedish economists, they devoted themselves both to science and to politics, and that – contrary to what she states – a dichotomization does not contribute anything to the explanation of the delimitation that Heckscher made between (theory based) economics and (empirically oriented) economic history.

The Keynesian opponent to Keynes: Bertil Ohlin

Eli Heckscher's ideas about international trade were developed further by Bertil Ohlin. He had acquired an interest in what determined trade between regions and countries as a student, and in a 'trilogy' that consisted of his *licentiat* thesis from 1922, his doctoral dissertation from 1924 and his monumental work *Interregional and International Trade*, published in 1933, he made his contributions (Ohlin, 1922, 1924, 1933). His basic ideas do not differ much from those of Heckscher's, but Ohlin extends the argument to include some strands of thought that feature prominently in the 'new' theory of international trade that was created during the late 1970s and early 1980s by economists such as Paul Krugman: economies of scale, transport costs and externalities that are due to the joint location of firms.

Chapter 9 deals with Bertil Ohlin's most important contributions to economic theory, in addition to the Heckscher-Ohlin analysis his refutation of Keynes' contention that the transfer of the German war reparation after

World War I would lead to a deterioration of the country's terms-of-trade which in the worst case would make it impossible to make the payment, and his contribution to the new macroeconomic theory that was developed at the beginning of the 1930s (Ohlin, 1929, 1934). Ohlin was the first Swedish economist to take exception to the idea that the normal state of the economy was that of equilibrium and stressed the importance of government intervention, mainly through monetary and fiscal measures. Among the economists in the so-called Stockholm school of economists (Ohlin, Gunnar Myrdal, Erik Lindahl, Dag Hammarskjöld, Karin Kock, Alf Johansson, Ingvar Svernilson and Erik Lundberg), he was the only one who could be compared to Keynes as a macroeconomic innovator.

Ohlin's contributions to economic theory suffered somewhat different fates. His discussion of the transfer problem had an immediate impact. It made Ohlin famous since it was written in English. It could be read and understood not only by the Nordics. The recognition of his and Heckscher's analysis of the determinants of foreign trade and factor price equalization, on the other hand, had to wait for many years. Neither the original Heckscher article from 1919 nor Ohlin's two academic theses were written in an internationally understandable language. The tradition of writing in Swedish was strong. It was not until after the publication of the great book in 1933 that other researchers were stimulated to take up the threads that Heckscher and Ohlin had begun to spin. Heckscher's article was not translated until 1949, and even then not in its entirety (Heckscher, 1949c). It was only in 1991 that a complete translation saw the daylight, together with a translation of Ohlin's doctoral dissertation (Flam and Flanders, 1991). Ohlin's macroeconomic analysis fared even worse. Keynes' thoughts had a worldwide impact already during the 1930s and dominated macroeconomic theory and stabilization policy all the way until the 1960s when Milton Friedman and other monetarists began questioning it.

In the meantime, the ideas of Ohlin and his Stockholm school colleagues were forgotten. In Sweden as well, the Anglo-Saxon analysis won. When, in 1940, Abba Lerner reviewed Gunnar Myrdal's *Monetary Equilibrium* (1939) and Erik Lindahl's *Studies in the Theory of Money and Capital* (1939), he concluded that Myrdal's analysis had nothing whatsoever to contribute as far as the relation between the interest level and investment. It was only 'an exercise in economic acrobatics' (Lerner, 1940, p. 584) – completely obsolete in relation to the Keynesian equilibrium approach. Nor did Lindahl have anything essential to add to what Keynes and his followers had arrived at. He had started something that he never managed to finish. However, the most important contribution to economic policy within the framework of the Stockholm school was not dealt with in Lerner's polemical review. Ohlin was not translated into English. His analysis only existed as an appendix to the government Committee on Unemployment (Ohlin, 1934).

The literary horse breeder: Torsten Gårdlund

Torsten Gårdlund was unique among Swedish economists, for he could write – real well. Nobody got close to him. Chapters 10 and 11 paint his portrait. The first of these chapters was written on the occasion of the centennial of his birthday. It focuses precisely on his literary qualities, on his outstanding quality as a lecturer, pouring out elegant, well-rounded phrases, and his conscious way of constructing his newspaper articles, essays and books, frequently on horseback, and on his choice of topics.

Chapter 11 provides a more comprehensive view of his life and work. Gårdlund was tremendously productive. He wrote 20 books (21 if a posthumous volume is included), but not many of them are read today. It is a pity, because in Gårdlund's vigorous production there is plenty to be enjoyed. He made his debut at the tender age of 25, and his last book was published at the age of 82. He was a student of Eli Heckscher's, Gunnar Myrdal's and Alf Johansson's at the Stockholm School of Economics and Stockholm College. Gårdlund has left a magnificent *œuvre*, above all in the biographical genre – *Knut Wicksell. Rebell i det nya riket (The Life of Knut Wicksell)*, a book about Marcus Wallenberg, Sr, the 'district judge', one about Holger Crafoord and another about the three 'geniuses of failure': Ernest Thiel, Gustaf de Laval and William Olsson – and in economic history: his doctoral dissertation from 1942 about the Swedish industrialization process, 1870–1914, and a series of monographs about the leading Swedish companies (Gårdlund, 1956, 1976, 1989, 1993, 1942, 1945, 1951, 1973, 1983, 1986). Between 1939 and 1944, he was the editor of *Tiden*, the ideological journal of the Social Democratic Party, which he turned into a general cultural journal, and from 1949 he was a regular contributor to *Svenska Dagbladet*, for more than 40 years.

Gårdlund was Professor at the Stockholm School of Economics from 1947 to 1963. During the 1950s and 1960s, he also worked as an economic advisor in Morocco and Tunisia. His moving to Lund, to a newly created chair in international economics, resulted in the first Swedish monograph on development economics, *Att arbeta i u-land (Working in Developing Countries)*, a hotly debated book about Lamco in Liberia and a general book about the role of private investment in the development process, all of them thoughtful works that have something to convey to later generations (Gårdlund, 1966, 1967, 1968).

Torsten Gårdlund is the only Swedish 'literary' economist. In his best moments, he was a brilliant stylist. He cultivated both the biographical genre and the art of the essay with great success, and he often got to what he himself called 'the soft flow of the good novel' in his works. Gårdlund was magnificent in lectures and seminars, and he was a sharp debater. His phrasing was so close to perfection that you could record it, add the punctuation and send the result directly to the printer.

With his clear blue eyes, his slightly nasal Stockholm dialect and his unique combination of precision, irony and warmth, Torsten Gårdlund was an intellectual *grandseigneur* with a personal *faiblesse* for the good life – a theme that he dealt with in one of his most memorable essays. For him, the good life was a great deal more than simple material standard, and in his writings he always returned to thinkers who shared his conviction. Torsten Gårdlund was a devoted horseman and horse breeder. He was a sharp dresser, and he liked music, women and children.

With 21 books on his record, among them a couple of masterworks, Torsten Gårdlund stands out as one of the most productive economists of his generation. He is definitely worthy of rediscovery. The majority of his writings don't betray when they were written. Gårdlund wasn't very interested in day-to-day politics, even though from time to time he wrote about contemporary problems. Although he never advertised it, he was looking for something more profound. Intellectual and cultural depth was an essential part of the good life.

The liberal who defended communists: Sven Rydenfelt

Sven Rydenfelt is a different bird altogether from the rest of the economists discussed in this volume. He was not a brilliant theorist. He didn't even devote his time to academic writing. Rydenfelt was a polemic – a tremendous one – who never hesitated to join the battle or begin one on his own. He was constantly on the lookout for controversial topics, topics that appealed to his liberal instincts. All too frequently, this brought him into trouble. Most of his life was a swim against the current. Rydenfelt was out of tune with the mainstream of opinion. He couldn't have cared less. What mattered were the principles, not popularity.

Chapters 12 and 13 are devoted to Sven Rydenfelt. Chapter 12 is based on personal memories. Chapter 13 attempts to provide a more detailed portrait of the polemic. His writings were based on the one hand on his early personal history – three years in a plaster cradle with tuberculosis – on the other on his stubborn liberal conviction – more liberal than most liberals. Rydenfelt was exposed to the ideas that were later classified as 'neoliberal' at the very latest in the 1940s when he began his studies in economics. As a student of the most 'odd' of the Swedish economists of the interwar period, Johan Åkerman, he was well prepared for unorthodox thinking, and as the ideas of Friedrich Hayek, Ludwig von Mises and Joseph Schumpeter reached Sweden, he was there to absorb them.

Rydenfelt was the first neoliberal among the Swedish economists. In addition to the doctrines of Hayek and von Mises, he gradually picked up those of the emerging Chicago school, notably of Milton Friedman and George Stigler. Rydenfelt became a diehard defender of the market economy and an equally convinced foe of regulations, whatever they looked like and

wherever they appeared. He stuck out his neck for the first time in 1947 when he began to criticize rent control in Sweden, a political measure that had acquired an almost religious status by the time he attacked it, and he continued his attacks for the rest of his life.

Around the same time Rydenfelt made his two academic contributions (Rydenfelt, 1991, 1954). The first one, from 1948, was highly original, a study of the costs of illness and health care to society, a study that was the first of its kind in the world. The second had nothing to do with economics. Rydenfelt's doctoral dissertation dealt with communist voting in Sweden, a topic that rather belonged to political science or sociology.

Academic writing was, however, not Sven Rydenfelt's cup of tea. He was a natural-born polemic, and he used his venomous pen to advantage. Rent control was not the only regulation in Sweden, but he had to deal with the credit market, the exchange rate regime, tariffs and the EU bureaucracy as well, and with the perverse effects of the Swedish welfare state: the indiscriminate subsidization of people who did not need support, to the detriment of the poor.

One of the tenets of neoliberalism is the condemnation of monopolies. Rydenfelt chased three in particular: the Swedish radio and TV monopoly, the state school system and the trade union movement. If Sweden had a privately owned press, why were private actors not allowed into other media? It simply did not make sense. The school system had been completely taken over by the producers. The students and their parents had no say. With no alternatives to the state-run schools, it was impossible to vote with your feet. The trade unions, finally, had turned into a political monolith that served no real purpose.

Swedish regulations were, however, amateurish in comparison with those of the socialist bloc. Rydenfelt, who came from a farmer family, examined the catastrophic state of agriculture in 12 socialist states (Rydenfelt, 1985). He made fun of the official explanation for consecutive harvest failures: bad weather. The weather could not be systematically worse there than in the capitalist world. It was the system that was wrong. Collectivization and/or dismally low producer prices provided no incentives for the peasants to make any effort.

Before condemning communist agriculture, however, Rydenfelt had become known all over Sweden for having defended the local communists. In 1966, he had been commissioned to write a few articles on Swedish communists and had then tried to find out whether the Swedish security police continued to register them as it had done during World War II. He received no answer from the authorities but enough people wrote to him about their personal experience to make it possible for him to write a book about the secret registers of the security police. Rydenfelt set out to defend the right of free speech and opinion. A major scandal erupted, and a few years later the government was forced to prohibit registration on political grounds.

Rydenfelt's writings on regulations and socialism are extremely critical. He had a 'positive' side as well, however, which he displayed when he defended the market economy and when he wrote about Swedish industry and Swedish companies. Consumers were no fools. They did not need any supervision by people who 'knew better' what they were supposed to buy. The best thing that the politicians could do was to keep their sticky fingers away from functioning markets. Free consumption choice automatically ensured that resources were allocated optimally and that production was efficient. Efficiency and the dynamics of change are the topics of Rydenfelt's two books on the structure of Swedish economy (Rydenfelt, 1965, 1968): the gains from moving people from agriculture to industry, productivity increases in both sectors, peaceful relations between employers and employees in the labor market and the crucial role of entrepreneurs. His two company monographs, about the engineering firm Åkermans and Tetra Pak (Rydenfelt, 1990, 1995), are devoted to a praise of entrepreneurship.

Rydenfelt was not happy with the changes that took place in the business climate in Sweden in the 1970s. The Social Democrat government grew increasingly hostile to entrepreneurs and attempted to increase the influence of the trade unions over companies through the creation of wage-earner funds that were to gradually ensure direct ownership of firms. Needless to say, Rydenfelt interpreted this as a serious deterioration of the environment in which entrepreneurs had to work. He looked elsewhere for examples of how a positive climate could be created: to Japan and Singapore, countries where a more cooperative spirit reigned among the employees and in the government and which did not need any wage-earner funds.

Rydenfelt was an awkward polemic all his life, at a high personal cost. For a long time, his views were not taken seriously since they differed blatantly from the conventional wisdom and because he formulated his criticism in a sharp and pointed way, frequently ridiculing the adversary. But Rydenfelt always stuck to his guns. He had civil courage, and he feared nobody. In the end, his stance paid off. The times caught up with him. The neoliberal view became prominent in politics. A number of regulations were abolished in Sweden, and the superiority of the market economy was generally accepted, not least after the fall of communism. In the end, Sven Rydenfelt was the first Swede that became a regular contributor to the *Wall Street Journal*, and the Swedish government conferred the title of Professor on the sweet, soft-spoken, rabid old polemic.

The conservative radical: Staffan Burenstam Linder

When Torsten Gårdlund worked on his biography of Knut Wicksell, Staffan Burenstam Linder was his assistant. The assistant with time became President of the Stockholm School of Economics after a successful political career

in the Moderate Party (conservative), crowned with the portfolio of foreign trade. Before he ventured into politics, Burenstam Linder had made a couple of clearly original contributions to economics. His career is dealt with in Chapters 14 and 15. The first offers an intellectual portrait of him, and the second is a review of a biography of him.

Staffan Burenstam Linder was the third 'great' international trade theorist at the Stockholm School of Economics. His doctoral dissertation, *An Essay on Trade and Transformation* (Burenstam Linder, 1961), was clearly original, since it broke with the completely dominating approach at the beginning of the 1960s: that of Heckscher and Ohlin. In contrast to his predecessors, he emphasized the demand side. It is not possible to export industrial goods unless they are first produced for the domestic market. Only hereby can the characteristics of the products be stabilized enough for the market to accept them. Trade will hence take place mainly between countries with more or less the same income per capita, countries with similar demand patterns. This is the core of the 'Linder thesis', a thesis that Paul Krugman formalized in the first of a series of pathbreaking articles that eventually rendered him the Nobel Prize in economics in 2008 (Krugman, 1980). Burenstam Linder's own presentation was unfashionably non-technical. Because of this, his book was overlooked by his contemporaries. It survived as an 'underground classic' until the 'new' theory of international trade made its breakthrough.

Staffan Burenstam Linder wrote a second original book as well, *The Harried Leisure Class* (Burenstam Linder, 1970a). His theme was the increasing scarcity of time in modern industrial society. We buy so many gadgets that we never have quite the time to use them. Time-consuming activities are driven out by fast ones. To take an absentminded look at an art exhibition is much easier than to read *War and Peace*. With increasing frequency, we buy ready-made or semi-prepared food and eat it in front of the television set instead of at a nicely set table with the rest of the family. Other budget constraints may be eased with a bit of luck or skill, but the time budget is given. The day has a mere 24 hours. *The Harried Leisure Class* is a remarkable book. Burenstam Linder too had a vision of the good life, and this did not contain the treadmill ideal.

Staffan Burenstam Linder also had a vision of what the welfare society ought to look like, a vision that comes back in several of his books (Burenstam Linder, 1970a, 1970b, 1983). The welfare society cannot rest simply on public institutions. The natural solidarity based on the family must have its given place. The citizens must not be passivized in a state of acquired helplessness, which only looks to what the state, the county or the municipality can do. Burenstam Linder delivered this message at a point when it was least of all opportune to do so, during the years of the Left, around 1968, and he continued to preach it during his years in politics.

During his last active years, after leaving politics at the beginning of the 1980s, Staffan Burenstam Linder returned to international economic

issues. What interested him most was the growth process in Pacific Asia and what this implied for the North American and European industrial countries (Burenstam Linder, 1986). Were the 'Asian Tigers' a threat or a promise? Finally, after a decade as President of the Stockholm School of Economics, he was elected to the European Parliament, for the Moderates. He then got an opportunity to translate his visions into practical action. For him, the European community was a fellowship based on peace, cooperation and free trade, not on the Brussels bureaucracy.

The Tupamaro school teacher: Jaime Behar

Chapter 16 is devoted to Jaime Behar. Knut Wicksell and Eli Heckscher were before my time, and I never got the opportunity to meet Bertil Ohlin. Torsten Gårdlund and Sven Rydenfelt were my teachers. Staffan Burenstam Linder was my boss. The only economist of the seven in this book that I worked with was Jaime Behar, the least known of them. But Jaime is worth a mass in his own right.

I first got involved with Jaime in 1989, two years after I came to Stockholm. He was under consideration for an assistant professorship at the Swedish Institute for Social Research (SOFI), and he needed an informal recommendation. Of course, he got it. Jaime had not got into economics the usual way. In his native Uruguay, he had worked as a teacher in natural sciences. Unfortunately, he had also been politically active – on the left, with the Tupamaros. Came the 1973 military coup and he had to leave the country while his future wife was imprisoned and tortured. Again unfortunately, he had left for Chile. After a mere two months, he was caught in another military coup, masterminded by Augusto Pinochet. Fortunately, he made it out of there and ended up in Sweden, where he once more had to become a student.

Jaime made it, and he made it fast. In 1988, he defended his thesis in economics on trade and employment in Mexico (Behar, 1988), and trade issues were close to his heart, notably Latin American integration. His second major publication dealt with the MERCOSUR (the Common Market of the South) (Behar, 2000). In 2000, he became Professor of Latin American Studies at the Institute of Latin American Studies at Stockholm University. Before that, we collaborated in an evaluation of Swedish development assistance to Nicaragua (Behar and Lundahl, 1994), which ended in a memorable trip there to present our only real recommendation: do something to get Nicaragua's foreign debt (the worst in the world) down to a manageable level, to ideologically overcommitted radical assistance workers and not equally radical international organizations. The old school teacher looked into the eyes of our prospective critics and started to speak to them, in their own respective language. In the end, the ideological resistance receded, and the international organizations got the message and acted upon it.

Jaime was wonderful in all ways. He had deep cultural interests. You would not get bored in his presence. The loss was mine when he moved back to Uruguay. We planned to meet then, but Jaime died before we got the chance.

To write and write not: Our collective responsibility

The last chapter connects the past and the present, in a less than satisfactory way. The oldest generation of modern Swedish economists, notably Knut Wicksell and Gustav Cassel, participated very actively in the public debate of their time. So did Eli Heckscher, and in the next generation, for example Bertil Ohlin and Gunnar Myrdal. All of them considered it a duty, at the very least, to educate or enlighten the general public about economic issues. This tradition carried over also to the next generation, the economists of the 1950s, 1960s and 1970s. The thread remained unbroken for a hundred years, and a little more.

In the 1990s, the scene had changed. Economists continued to be highly visible in the debate, but not necessarily the same kind of economists as before. The academics were no longer as prominent. Bank economists and ‘analysts’ had advanced their positions. A decade later, both the academic and the non-academic economists were on the defense. The financial crisis had caught them off balance, in a situation where they could not fall back on routine answers. In due time, the latter made their comeback, as things went back to normalcy, but the Swedish academics did not. They had been overtaken in the debate by the political scientists and other disciplines had made inroads as well.

This was no coincidence. A systematic shift has occurred in the preferences of the profession. It is no longer considered classy to take part in the general debate about economic policy. With few exceptions, a tradition has been lost. What counts is to get published in top journals – nothing else. The academic reward system has become inward-looking, and students and researchers have adjusted to the change. Their range of subjects has narrowed. Topics all too often come from journal pages instead of from real life, and you stand a much better chance to make it into the major journals if you don’t scatter your efforts too widely. Specialization is everything, and few people venture to debate questions outside their immediate competence, which in practice makes it impossible to deal with economic policy. Academic appointments are ruled by *where* you publish instead of *what*, and whether you get a research grant is intimately correlated with a bibliometric score that is exclusively concerned with journal articles and nothing else. Neither *The Wealth of Nations* nor *The General Theory* will give you any points.

There is a pecking order in academic economics, with theory (which means nothing but modeling) on top. You don’t have to know anything

about what goes on out there as long as you are on top of the modeling game, and if you choose to engage in questions that are of concern to the population at large, you do so at your own risk. No wonder that the younger generation plays it safe, sticks to the tools that it feels comfortable with and looks for problems that fit the tools, instead of vice versa. For the older generations of Swedish economists, it was completely clear that economics is a social science. Today, this is not self-evident anymore. What matters is intra-academic prestige, not whether our profession can shed any light on practical problems.

* * *

The seven economists dealt with in *Seven Figures in the History of Swedish Economic Thought* all have in common that they were social scientists at the same time as they were economists. This is often not the case today. Many members of the profession see economics only as a discipline that discusses principles and by way of deduction develop theories that are as general as possible. Discussions of principles and generalizations are always welcome. It does not serve much purpose only to discuss specific cases. All social sciences, not just economics, must synthesize and generalize. There is no way around this. What may be questioned is where the inspiration comes from. The only problems that lend themselves to generalization are those generated by the society in which we live or by societies where other people once lived and worked. Today, unfortunately the problems are generated 'internally', by what happens to be contained in prestigious journals. If you can make a permutation of a well-known article, you stand a good chance to get your 'contribution' published in the same journal. This is of course a perverse order of things – a sign of degeneration.

One of the cures for this disease is to take the problems that are found 'out there' in our society, outside the journal covers, as the point of departure for the theoretical work. Earlier generations of economists understood this. Therefore, it is worthwhile to go back to their writings, in the original, instead of in brief and frequently misleading summaries. The old-timers are not necessarily devoid of interest. Some of their topics have been forgotten – hopefully to be rediscovered at some later point in time – others tend to be 'eternal'. In both cases, it may make sense to read their works. You can never get rid of the past. On the contrary, you can learn a lot from it.

Notes

1. When, some time ago, I showed a picture of Bertil Ohlin and John Maynard Keynes to one of my more well-known colleagues, he did not recognize Keynes – the most well-known economist of the twentieth century.
2. In the name of honesty, it has to be admitted that Uhr (1975) has also written a book about the economic doctrines of David Davidson, but Davidson can in no way be compared to Wicksell as an economic theorist.

3. The *licentiat* degree was an intermediate degree between bachelor and doctor. It involved some independent reading plus a short thesis.

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2

The Reaction to Knut Wicksell's First *Cause Célèbre*: The Chief Cause of Social Misfortunes

On 19 February 1880, the 28-year-old bachelor of arts Knut Wicksell made his first – but not by any means his last – *cause célèbre* – in front of the temperance lodge Hoppets Här (The Army of Hope) in a Lutheran mission hall in Uppsala.¹ Wicksell, who six years before had emerged from a religious crisis, had acquired what was in fact to become a second religion for him – a religion which he stuck to for the rest of his life.² Two years before, he had read the Swedish translation of the Scottish physician George Drysdale's *The Elements of Social Science* (En medicine doktor, 1878), and after only a month and a half he had made the main ideas of the book his own (Gårdlund, 1996, p. 47). It was those ideas that he chose to propagate in front of the temperance lodge.

The ideas were those of neo-Malthusianism. In his treatise, Drysdale had hailed Malthus as 'the greatest genius... that has appeared in history', and his law of population was 'beyond all comparison the most important law ever discovered' (A doctor of medicine, 1876, p. 315). He had, however, argued against the postponement of marriage and self-restraint advocated by Malthus and instead recommended the employment of contraceptive devices, both inside and outside the marriage. The argument made an impression on Wicksell who chose to propagate Drysdale's ideas himself in Uppsala.

The title that Wicksell had given to his speech was 'The Most Common Causes of Drunkenness and How to Remove Them'. He began by telling a story (Wicksell, 1999, pp. 83–84)

of a bishop whose wife was railing vehemently against a boozy old curate at the dinner table one day, until at length he interrupted his better half with the following words: 'You are always going on about how much men *drink*, but you never say a word about how *thirsty* they are.'

In other words, the relevant problem was not *that* men drank, but *why* they did it. The answer offered by Wicksell was that the proper name of the cause,

whatever people might choose to call it, 'physical debilitation resulting from overexertion or malnutrition... worry and disappointment... general apathy and dejection' (Wicksell, 1999, p. 86), could all be translated into one and the same: poverty, and what the poor man lacked most of all was a decent home to which he could return comfortably after the end of the day's work. To exemplify his thesis, Wicksell provided a vivid and detailed description of a visit that he had made to the stinking one-room home of a shoemaker and his family, and rhetorically asked whether, under the circumstances, anybody ought to be surprised if the man preferred the tavern to his home.

The next logical question was what caused poverty. Wicksell's answer was clearly inspired by his reading of Drysdale. Poverty was caused by overpopulation. '[W]e are poor because there are too many of us', he wrote (1999, p. 95). The mechanism that led to overpopulation was the one described by Malthus: 'as unrefuted as a mathematical theorem' (Wicksell, 1999, p. 96), whom Wicksell had not yet studied in the original but knew only through the work of Drysdale.

Historically, population growth had led to war, emigration and infanticide, and Catholic priests practiced celibacy. During Wicksell's own time, however, other responses were more likely. The vast majority of males were not prone to celibacy. On the contrary, what Wicksell found was '*poverty, late marriages, drunkenness, prostitution and secret infanticide*' (Wicksell, 1999, p. 104). The problem was not limited to the working class. Many of Wicksell's fellow students deserved to be called drunkards as well, and the reason was to be found in their family situation. Wicksell pointed out that the average age of the Uppsala students was 25, an age when a man normally needs a woman, but the average age of contracting marriage was on its way up. The typical student could not look forward to marriage for several years to come, and, as Wicksell saw it, the consequences were predictable (Wicksell, 1999, p. 90):

Deprived of the refreshing influence of family life, often without the least family contact, the student is bound to be attracted to the noisy diversions of life with his fellows, with bottles and cards in plenty, but rarely any great profit for his better self; and since the enlivening, invigorating companionship of a good woman is denied him, since he hardly dares to raise his eyes to look upon the young girl he encounters in society, because if he is an honourable man, he cannot set about chaining a young woman's entire hope in life to his uncertain and at all events remote prospects – when all these factors come together, *and more besides*, in general (and I am afraid this now occurs not as an exception, but *as the rule*) he will seek consolation in the arms of a prostitute. A vile prostitute, terribly vile, the worst conceivable! But have you considered the fact that it is the only substitute that he is offered?

The statistics were overwhelming (Gårdlund, 1996, p. 57).

It has been said that, for most students, the chances of meeting educated girls in Uppsala were as poor as in a prisoner-of-war camp. Decent girls, living at home in the town, could be counted in tens, while the students numbered over fifteen hundred. There can be no doubt that it was mainly this womanless state that led to the bacchanalian character of student life at that time.

Late marriages, as recommended by Malthus, argued Wicksell, acted as an obstacle to a rational solution of the social problem of the time (Wicksell, 1999, p. 91):

[F]rom the moral perspective it really does not matter very much whether a man is able to marry at the age of thirty-five or whether he is compelled to wait until he is thirty-six or thirty-seven (after all, by this time his character and way of life ought in any case to be more or less steady-going); what is important, indeed, decisive for the public morals of a nation is whether its young men are able to marry at the age of *twenty-five* or not until they are *thirty-five*.

Wicksell thought it absurd that young people should not be able to marry, enjoy sex and simultaneously limit their offspring to two or three children. The latter should be '*the most sacred of all duties*' for them (Wicksell, 1999, p. 108). Only through this reduction of the family size could the ideal of a stationary or perhaps even slowly shrinking population be realized. The key to this state of affairs, he hinted, was to be found in the use of contraceptives, but he chose not to overstress his point of view, since his speech was delivered to a temperance lodge (Wicksell, 1999, note 17, p. 115). He called upon the medical profession to provide the necessary means (Wicksell, 1999, p. 198):

If there is... any means, if doctors, guided by their science, are able to indicate any way of making this duty, for some, less burdensome, for others, perhaps, possible to fulfil at all, in other words, some way of making conjugal relations possible without the woman becoming pregnant – then in truth, they ought to do hasten in this case, too, to place their knowledge in the service of the suffering humanity.

The news of Wicksell's lecture spread quickly. The following day *Upsala-Posten* (1880a) published a short, concise, summary of his main argument, and in an open letter to him a 'grateful listener' (Tacksam åhörare, 1880), in a

note loaded with superlatives, stated that he had had 'the unforgettable pleasure of listening to your *excellent* speech' and argued that he was convinced that 'the vast majority of the listeners by necessity and conviction agreed':

To have pondered a subject *to the point where* you have offered it to the public without any direct personal benefit, for the good of society, to have devoted *so much* time to something other than specifically personal interests, bears witness to an unselfishness uncommon in our time, and for this you deserve the warmest recognition.

Both this and another anonymous writer (Tacksamme åhörare, 1880) asked Wicksell to publish his views in print. In a letter to the editor of the newspaper *Upsala*, a 'Student' (1880) urged him 'once more, in a sufficiently large venue in front of the Uppsala students, to make the same speech as last Thursday at the temperance meeting':

[H]e who has received the word that opens the eyes of his fellow humans to what they cannot see themselves must not lose any occasion to enlighten those who grope in the dark. It takes courage to throw yourself with all your might, your entire self, your entire future perhaps, into the battle against ignorance, self-righteousness, perverted states and views of society; but if you obey the exhorting voice of truth, this courage will in the end find its reward; the testimony of your own conscience nobody can remove.

A third anonymous writer (itz., 1880), a regular visitor of temperance meetings, stated that he had never left a meeting with a better impression than the one given by Wicksell. Virtually all he had said was well conceived and delivered: 'If an effect is to be nullified you first have to destroy the cause. If vice is to be conquered, lust must be subdued, and if lust is to be taken away, as Herr W-II stressed, attitudes and circumstances must be changed.'

Wicksell had to stage a repeat performance within a week, on 25 February; this time in front of students and academic teachers at Uppsala University. This time, he went further in his recommendations. His conclusions were a great deal more challenging (Wicksell, 1999, note 17, p. 116):

[I]t is not a question of sophisticated pleasures, but of self-denial, of a sacrifice made in the noblest of all causes: concern for the well-being of coming generations.

Let us therefore leave this matter to the conscience of the individual; and then, if you feel as I do, we shall say no more about it. But above all, *let us not have two kinds of morality: a public morality, which sets a stigma on*

everything and everyone without further inquiry, and a private morality which equally casually turns a blind eye to all kinds of things and people. For of all vices to which a nation can be subject, I do not know of any more despicable than widespread hypocrisy.

Wicksell exhorted his fellow students to form societies to propagate the use of contraceptives and he held out the importance of the theme to them in no uncertain terms (Wicksell, 1999, p. 110):

[S]uch a society ought to work by means of the spoken and written word; and here I am thinking especially of the students. During the vacations, these students visit their home parts; many of them will return there as teachers, public officials or clergymen. They will then have the opportunity to promote this cause in many kinds of ways, in private conversations or public speeches. For I consider no place, not even the pulpit itself, to be too exalted for the preaching of these doctrines. For my own part, I did not feel I was profaning the hall consecrated to prayer where I first gave this lecture, by explicitly discussing what I am convinced will do more than anything else that can at present be done to better the moral status of our people.

Wicksell published his lecture at his own expense in a brochure with the title *A Few Remarks on the Chief Cause of Social Misfortunes and the Best Means to Remedy Them, With Particular Reference to Drunkenness* (Wicksell, 1880a, 1999). It was reprinted four times and sold a total of 6,650 copies (Gårdlund, 1996, p. 66), an incredibly large number at the time. No wonder (Gårdlund, 1996, p. 57):

Wicksell's speech, understandably enough, had a great effect on the contemporary generation of students. He had dramatically revealed to the world a vital social problem of which students had long been sadly aware: that young people had to choose between abstinence and prostitution. His wording and presentation were excellent; his facts were ordered and based on an imposing social theory which was little known but explicitly supported by philosophers already famous and by some of the new thinkers whose names were beginning to be heard.

Wicksell had made his entry into the public debate in Oscarian Sweden – the Swedish equivalent of bigot Victorian Britain – like an elephant in a porcelain store. It was an outstanding display of civil courage, the first in a series of events that Wicksell would stage during the course of his life (Swedberg, 1999). 'Over the years, Wicksell would become known as the special scandal maker of the Left', writes his biographer, Torsten Gårdlund (1956, p. 366), but all the scandals were anchored in his firm belief that 'an open debate of

social issues' (Gårdlund, 1956, p. 361) was a necessary condition for social reform.

The newspaper reception of Wicksell's ideas

The reasons for the enthusiasm of the Uppsala students who listened to Wicksell's speech were easy to understand. It was 'of course largely a result of their acute erotic starvation', writes Gårdlund (1996, p. 57) dryly. When Valfrid Spångberg in 1932 looked back at the first 50 years of the radical student association *Verdandi*, whose foundation had been directly inspired by Wicksell's appearances in Uppsala, he summarized the events of 1880 thus (Spångberg, 1932, p. 208):

On 19 February 1880, thunder struck Uppsala and caused a fire, the equal of which had not been seen during the previous forty years and would not be seen during the subsequent fifty. A student, Knut Wicksell, who hitherto had been considered extremely well-behaved and who the year before had been the president of the student union and due to his intellectual gifts had been regarded as a great promise for science, revealed himself as an 'apostle of indecency', ever more dangerous because he was obviously firmly convinced of the truth of his theses and developed them with warmth and talent.

Wicksell had spoken in public about 'subjects which at that time could scarcely be mentioned between husband and wife or among friends' (Gårdlund, 1996, pp. 45–46). That such impertinence would lead to a violent reaction by the entrenched Swedish conservative opinion was simply to be expected. The lecture immediately invited controversy. A couple of the letters to the editors of the two Uppsala newspapers that we have already referred to were presumably written by some of Wicksell's friends. Others were far less enthusiastic.

Religious listeners and readers were upset. 'Homo' (1880) stated that Wicksell's speech showed

too little faith on *Him* who lives in Heaven, a living God, who conducts the fates of men through the centuries, and to whom alone – not to any destroying angels – we ought to resign. One would perhaps have expected a somewhat more Christian world view. Mankind would probably be its own god and the physicians our final saviors.

The core argument advanced by 'Homo', however, was that Wicksell's speech constituted a violation of decency. Wicksell allegedly advocated temperance and decency, but his argument had a Jesuit ring, since the use of contraceptives would 'throw the doors wide open to subsequent, even more

secretly sneaking indecency [...] Do away with the cancer of indecency instead of cloaking it!

The alleged advocacy of indecency was also the main argument in the criticism by 'Carl M. C.[ornelius]' (1880), who (cf. below) would later expand his views into the pamphlet format. To the modern reader, Cornelius' letter to the editor stands out as a text appealing to the lowest instincts of his fellow contemporary bigots. He rejects Wicksell's proposal that the number of children per family ought to be reduced from four or five to two or three with the aid of contraceptives:

The gospel of the flesh which is thus preached... the sweet and merry message of the satisfaction of sensual desire in a perverse way so that its fruit would not be children whose maintenance and education may make the said pleasure too expensive for many people, as is the case today. The violation of Nature which the execution of this proposal implies also has a lot in common with Greek love or the atrocious excesses which are also called *sodomy*. The only difference is that the Greek love used men or young boys as the tools of satisfaction of their lust, while... [Mr] Wicksell instead wants to confer on *the woman* the honor of serving as such a means. And this honor would not be conferred on her just as a spouse but also before the marriage, since the 'preventive measures', would, according to his proposal, be made accessible to *all* women, something which would of course be unnecessary if these measures would be employed only by married women [*sic*]. [...]

My religious and moral sentiments have been so deeply hurt by the nefarious contents in... [Mr] Wicksell's... speech that it made it impossible for me not to voice my dislike of it in public.

Wicksell replied both to 'Homo' and Cornelius (Wicksell, 1880b). He called the former 'a thoroughly noble and warm-hearted personality' whose remarks he would respond to with joy. He pointed out that if every intercourse between spouses that did not aim at procreation should be considered indecent it would make virtually all intercourse close to impossible and then threw the Bible at 'Homo': Corinthians 1:7, and the description of the creation of woman in Genesis, which according to Wicksell clearly demonstrated that the main purpose of matrimony was not to beget children but to make it possible for man and woman to meet in love and confidence. The main endeavor of all parents should, in turn, be to ensure that their children should not lose their future means of living or block others from it by their excessive numbers.

For Cornelius, on the other hand, Wicksell had nothing but contempt:

I cannot reply to my *second* adversary in the same issue of Upsala. I just want to remind you that it is *he*, not I, who has called forth the pictures

of the dirtiest imagination of which his article abounds. This, by the way, bears witness of such a deep mistrust of the good of human nature, such an unabashed denial of the possibility that any human being would ever walk the road of virtue, were it not because he was under the whip of the law that I am glad not to have any personal acquaintance of the author.

A mere five days after Wicksell's speech, *Upsala-Posten* (1880b) made it clear that it would not publish any more articles or letters to editors on the matter, referring it to journals and pamphlets instead, and in addition pointed out that the paper did not necessarily share Wicksell's views. The next three days saw three more letters to the editor in the competing *Upsala*. Two of these will be dealt with below. The third one, written by 'a highly educated and respected woman' (J., 1880), requested to publish 'a few words on the *dirt* which has been thrown out in our society by the words of a young, well-meaning young man'. She assumed that Wicksell had held his lecture in good faith, because 'otherwise his enterprise had been nothing short of *satanic*', but at the same time 'he does not know what he is doing, he does not know what he has done'. The writer exhorted students and physicians to repudiate Wicksell's words. After stating that she had spoken with a 'fallen' woman who thought that he had advocated something 'inhuman', something that not even the animals, 'if they had been capable of judgment' would have lent themselves to, she felt ready to claim that 'there is not a single woman in our native country who would openly adhere to... [Herr] Wicksell's ideas'. If his recommendations were adopted, 'our country would be turned into a country full of diabolically refined libertines, and, then, woe to the adolescent generation'. On behalf of all womankind, 'J.' called upon teachers and students to stand up against this 'mortal sin', a doctrine which 'rested on the overthrow of the requirements of morality'.

The board of Hoppets Här, which had invited Wicksell to give his speech (Sommarin, 1926–1927, p. 23), in a public statement made it clear that it took exception to his views, pleading ignorance with respect to Wicksell's intention of bringing up the Malthusian population doctrine, 'in which case we would naturally have turned down... [his offer]' (Lagergren et al., 1880). On 4 March, the second local Uppsala newspaper, *Upsala* (1880), which four days before had defended its decision to publish articles on the issue (Red, 1880), also made it known that it would not open its pages to any answer by Wicksell to the critical comments that it had published but close the debate, but also that it did not think it was fair that Wicksell should not be able to reply to Hoppets Här.

In his reply, Wicksell (1880c) stated that at least five of the seven signatories of the statement by the temperance lodge – 'a fairly unequivocal attack on a person's honor' – had no idea of whether what they had signed was true or false. The statement was '*biased, untruthful and distorted*'. Two weeks before his speech Wicksell had given his topic to the secretary of the lodge and had

furthermore added that his views differed quite substantially from the one commonly presented in temperance speeches. Given that the floor would be opened to discussion after the speech the secretary had not made any objection. The same day as he gave the speech, Wicksell had been approached by the chairman of Hoppets Här and had then given him 'a *complete* relation of *all* the main points, *even the most delicate one*', in his speech. The chairman had had a number of objections but when Wicksell explained that the responsibility for his views was entirely his own, not that of Hoppets Här, he had been allowed to enter the rostrum. He also argued that several of the members of the lodge did not share the views of its board. Wicksell regretted the fact that some of them obviously had left the lodge after his speech but also made it clear that this did not entitle those who remained in the lodge to 'make... reprisals'.

Upsala did not stick to its decision not to publish any further articles on Wicksell's speech, but on 6 March it allowed the Upsala Medical Association to dissociate itself from his exhortation to the medical profession to help with the provision of contraceptives (Hedenius and Dintler, 1880). The association held that it was the task of medical science not only to cure diseases but also to 'remove all obstacles to the sound development of life both for the individual and for the race'. In its first meeting after Wicksell's two speeches it had therefore repudiated his exhortation, 'even though he might have made it with a philanthropic purpose and with an exposition which may have dazzled the feeble-minded'.

The pamphlets: The Upsala Medical Association

The pamphlet issued by Wicksell about a month after his speeches produced a handful of counter-pamphlets that unanimously condemned his views. He was up against a partly formidable, but mainly motley, crew: two real economists – one, a full professor and soon-to-be cabinet minister, the other, Sweden's leading economist at the time – and one amateur, two philosophers, an historian, a professor of theology, a county governor, an 'elderly man' and a home-made thinker in social issues. On his side he only had a student of medicine.

The most important criticism against Wicksell was advanced in a small book by four authors, published by the Upsala Medical Association (Åberg et al., 1880). In a statement at the end of the book the association made it clear that it would not follow Wicksell's recommendation to put medical science at the disposal of the neo-Malthusian cause. On the contrary, it felt that his call had 'offended the sense of morality... especially in private homes' and that the methods advocated by Wicksell 'could not be recommended to women by physicians who still had some respect for their art, its principles and purpose'. The association issued 'a serious protest against the use of these preventive methods'. It was 'convinced that in this question he

will not receive support by any physician worthy of his name' (Åberg et al., 1880, pp. 125, 126).

Wicksell also received an admonition by the Lower University Council in Uppsala. The council had taken offense especially by his declaration that not even the pulpit itself was too exalted for the propagation of his views of the use of contraceptives. It gave Wicksell a warning, rebuking him for not having considered it necessary 'before appearing in public with exhortations to resort to measures that interfere deeply with family life' to undertake 'even moderately extensive studies in the science – economics – that ... [he wanted] to use as his point of departure' (Åberg et al., 1880, pp. 119–120). The council expressed its dissatisfaction with Wicksell's laconic rejection of viewpoints that did not coincide with his own and found that his publication was offensive, that it lacked precision and easily could become misleading. On 24 March, Wicksell had to appear before the Rector Magnificus of Uppsala University to receive his admonition. It was pointed out to him that he had enjoyed the privilege of an academic education at the university and that this put certain demands on his behavior.

Sweden's leading economist

The council mentioned that Wicksell had not undertaken any formal studies of economics. (At the time he was a student of mathematics and physics.) This fact was also emphasized by David Davidson, the leading Swedish economist around 1880, at the time Associate Professor (*docent*) at Uppsala University. He first took issue with Wicksell's speech in one of the Uppsala newspapers (Davidson, 1880, reprinted in Wicksell, 1880a). Davidson had two main objections. The first dealt with Wicksell's failure to mention socialism in his discussion of possible remedies of social evils (Wicksell, 1880a, pp. 81–82):

It cannot be unknown to you that there is a party which seeks to emphasize the same social misfortunes as you do, but which believes that the cause of these are to be found in circumstances which differ completely from yours and hence recommends a different kind of remedies. I am thinking of socialism. Shouldn't you have obliged yourself to become acquainted with this doctrine and refute it before you had the right to make propaganda for the diffusion of your viewpoints? As is well known, socialism is of the opinion that poverty is a result of the present distribution of wealth and the organization of our economy. And it is through the reform of these that it mainly seeks to remedy the evil. [...]

And why have you thought that you could pass socialism by with silence, why have you not told your listeners that the solution of 'the social question' has occupied and continues to occupy other people than

socialists and that these as well have thought that they could find the roots of poverty in other circumstances than overpopulation?

Davidson's second objection had to do with what he conceived of as inadequate knowledge of the theory of population growth (Wicksell, 1880a, pp. 83–85):

Have you made yourself acquainted with the different views of the possibility of overpopulation and the general laws of population growth? Have you undertaken a careful study of the foundations of these theories so that you may consider yourself qualified to pass judgment on the value of these viewpoints and decide which of them is correct? I have valid reason to doubt that you possess this knowledge. You had not read Malthus' treatise on overpopulation when you delivered the first of your speeches. You began to read it last Monday afternoon. But *two days* is a very short time for absorbing a work of some 800 pages, especially if you are going to use your views to improve society. Have you studied Carey³ – the foremost adversary of the Malthus theory? Probably not, since if you had done so, it would have been unexplainable why you did not mention his views in your speech. You would have found that M's assumption that the human capacity of reproduction remains constant regardless of the time and the circumstances is being disputed by Carey. Nor do you seem to have read the rest of the literature dealing with this question. If you had done so and in addition given deeper thought to the question you would have found that its solution presupposes insights in physiology. You would furthermore have found that some knowledge of agricultural science, economics and statistics is not to be despised either. Do you have this knowledge?

Davidson went on, believing that he had demonstrated that this was indeed not the case (Wicksell, 1880a, p. 89):

Your good head must certainly tell you that you don't possess either the knowledge or the experience needed in order to appear as a reformer in a question like this. Do you... have the courage to publicly declare that you lack this knowledge and this experience?

Davidson ended his article by a statement of purpose: 'The purpose of these lines has simply been to make it clear to you, and possibly to one or two in your audience, that you lack most of the prerequisites that would justify that you exhort others to embrace your doctrine' (Wicksell, 1880a, p. 94).

Wicksell had a brief and elegant answer to Davidson's accusations. We will come back to it below.

David Davidson was also one of the four authors who joined forces in the book published by the Uppsala Medical Association (Åberg et al.,

1880). In his book chapter as well he exhorted Wicksell 'to acquire both more knowledge and more experience in . . . questions [related to population growth and economics], since in both these respects he leaves a lot to be desired' (Åberg et al., 1880, p. 78).

Davidson considered that the 'moral and social value' of the ideas advanced by Wicksell was 'at least, very dubious' (Åberg et al., 1880, p. 37) and argued that it was self-evident that 'the point of departure of every proposal about how to remedy a social evil must be that you have to make the demand that the nature of the remedy of the evil must not be indecent' (Åberg et al., 1880, p. 49). He referred to a book by L.F.E. Bergeret (1879) which claimed that a lot of diseases derived from the 'abuse of the sexual organs' connected with the use of contraceptives (Åberg et al., 1880, p. 51). Davidson (Åberg et al., 1880, p. 52) noted that

in France, 'the Promised Land of preventive measures', even the filthiest kinds of unnatural fornication are practiced on a large scale. For every more or less reasonable person who has not fallen prey to preconceived notions, this state of things must raise the question: does not the wide extension of these unnatural vices have any connection with the common use of the so-called preventive devices?

In addition, their use was conducive to infidelity. Why, asked Davidson, did Wicksell not deal with any of these serious problems? He was also scandalized by the fact that Wicksell had made an explicit appeal to young people and argued that 'youth and thoughtlessness are more or less inseparable' (Åberg et al., 1880, p. 54). Davidson seriously questioned 'the *purity* of Mr W's intentions', since his audience also contained '*school girls and school boys*' (Åberg et al., 1880, p. 55).

Wicksell's argument that the combination of early marriages and the use of contraceptives would reduce poverty and drinking did not find a willing recipient in Davidson. The latter hastened to say that the desire for sex would arise already at the age of 17, while men would seldom contract marriage before the age of 25. 'If you keep in mind that . . . [restraint] is difficult to practice above all during this period, you easily realize that the danger of fornication and unnatural sexual pleasures will be reduced by early marriages only to a minor extent' (Åberg et al., 1880, p. 55). By the same token, early marriages would not have much influence on prostitution. Davidson also hypothesized that the use of contraceptive devices would lead to abortions, in cases where those devices failed to be effective.

According to Davidson, it was not true that the human race only had a choice between not regulating its size, with all the evils that this would imply, and regulating it with the aid of contraceptives, which would in turn create other social evils. He held out a third alternative: the improvement of the living conditions of the poor, both in material and in intellectual and moral terms. Higher wages, shorter working hours, better working

conditions, through legislation and unionization, would certainly improve the lot of the working class, and this would in turn have an impact on family size and population growth (Åberg et al., 1880, p. 70):

If, by these means, you succeed in ascending the working class to a position which is human in every respect, the desirable limitation of the size of the families of the workers will probably come about by itself, as soon as the workers realize that it is a precondition for keeping their good position.

Davidson questioned Wicksell's argument that in order to reach a stationary population it would be necessary to reduce the average number of children to two or three. The argument did not take into account that all men and women do not marry, that some marriages either fail to produce any children at all or only result in one or two and that a number of children die before reaching adulthood.

A Boströmian moralist

Davidson's criticism of Wicksell contained a mixture of moral-based and social science-based arguments. Another chapter in the book, by the young philosopher and associate professor Lawrence Heap Åberg, also from Uppsala, was outright moralistic.⁴ Åberg belonged to the school of philosophers commonly identified as Boströmiens, without, however accepting all its ideas. The school owed its name to the Swede Christopher Jacob Boström (1797–1866) and it dominated Swedish philosophy at the time of Wicksell's appearance. It was politically conservative, but unorthodox when it came to religious matters. The main tenet of the Boströmian school was that to each individual corresponded an eternal idea in a hierarchy which had God at the top, a God who encompassed all the ideas (cf. Nordin, 1981, for a detailed account).

Åberg had already attacked Wicksell vehemently in a newspaper article (Åberg, 1880, reprinted in Wicksell, 1880a, pp. 76–78, English translation in Gårdlund, 1996, p. 61):

[The carnal gospel that we yesterday heard preached] give men an opportunity for pleasure, pleasure for which the offspring must be sacrificed; but it shall die without pain, its parents' joy shall not be spoiled by any grating cries. No, their offspring's death is nothing but a source of pleasure, reckless pleasure. Never-ending would be the immorality ensuing from the practical appreciation of his doctrine. And yet it would be perpetrated within the bonds of marriage. One of Society's most holy institutions would thus be transformed into an image of Moloch, in whose shadow the tares of lust would flourish freely. Or has not Herr

W. realized that in this way he will transform marriage into prostitution, which we know he abhors? He drags what is holy into the dust and takes us back to the worship of Baal. And in the arms of lust the disciples will cry aloud, 'Baal, hear us!'

In his book chapter Åberg developed his criticism. Exactly like Davidson, he began by pointing out that Wicksell 'completely lacked the qualifications – deep insights in a number of scientific fields' – which Åberg considered absolutely necessary for anyone offering an opinion with respect to the questions that Wicksell had dealt with. The latter had simply demonstrated 'utter irresponsibility' (Åberg et al., 1880, p. 4). Åberg stated that he wrote with 'genuine inner reluctance' but that he found it necessary do so because of the immorality of the measures suggested by Wicksell. He insinuated that Wicksell was driven, not by genuine conviction, but by a fixed idea and that it was hence meaningless to initiate any real discussion. Åberg claimed that Wicksell exaggerated the population problem wildly. Two-thirds of the surface of the earth was 'the undisputed domain of wild animals' (Åberg et al., 1880, p. 11). Overpopulation was not the cause of a single one of the evils besetting mankind.

Åberg's central point was that birth control was immoral. From the ethical point of view, the use of contraceptives was 'equal to abortion and infanticide' (Åberg et al., 1880, p. 22). Furthermore, it was conducive to a state of mind between spouses that came very close to prostitution (Åberg et al., 1880, pp. 27–28):

No considerations for an expected offspring would restrain their carnal lust. Few or no pregnancies would interrupt its satisfaction. Uncontrollably, without interruption and irrevocably they would enjoy themselves. What does Herr W. think would come out of such a liaison unless *unusually* strong principles would teach the spouses to maintain their relation on a higher level? They would soon, all too soon, learn to regard each other mainly as a stimulant, shortly perhaps *only* as such. If they still nourished a spark of more exalted feelings for each other – the ensuing physical laxity, a consequence of unhampered pleasure, will soon extinguish that too.

Åberg felt that the fear of unwanted pregnancies was one of the most effective obstacles to infidelity for women, and exhorted Wicksell to consider whose errands he was actually running.

Historical interpretation and philosophical acrobatics

The final two chapters in the Uppsala Medical Association book were written by the historian August Nilsson and the philosopher Artur Bendixson.

Nilsson took issue with Wicksell's interpretation of a number of historical episodes, arguing that 'he speaks so much nonsense about Antiquity that you will be wise not believing a word of it' (Åberg et al., 1880, p. 81). He claimed that Wicksell had misunderstood the relation between wealth and population size: 'history frequently speaks of countries where immense wealth has accumulated, but these countries have always been very densely populated' (Åberg et al., 1880, p. 84) and concluded (Åberg et al., 1880, p. 100) that

a lot of distress and misery exists, but it has not grown with the size of the population and it is not caused by overpopulation. Laziness, drunkenness and other vices, morbidity and other misfortunes cause distress and misery also in childless families or families with few children, and I have not heard of any reason why they should not do so even if the size of the population is reduced.

Artur Bendixson, who six years later would defend a PhD thesis on Kant's transcendental esthetics and then go on to a career as a high school teacher and principal, in his short address by and large concurred with Åberg. He claimed that Wicksell had failed to demonstrate that contraceptives brought anything good and sensible, that he had not proved why abortion would not be permissible if the use of contraceptives was and that he had failed to prove that restraint and contraceptives were ethically speaking on an equal footing. Hence, there was nothing in Wicksell's argument that justified the use of the means he suggested.

For Bendixson the crux of the matter was that the very act of intercourse constituted the human life. Abortion was tantamount to murder, while, of course, abstention from intercourse was not. The use of contraceptives amounted to murder as well since it prevented the constitution of human life. If moral law dictates that no more children should be born it dictates that you should *not want* the *act* that constitutes the child. If you still want it you constitute an illegitimate child, and if you use contraceptives, you commit murder. This exercise in sophistry allowed Bendixson to arrive at his condemnation of Wicksell: 'The adequate expression for what Herr W. calls a moral act is thus, firstly, that illegitimate children are conceived and, secondly, that these children are murdered – This is what Herr W. calls his religion, even a part of the Christian religion' (Åberg et al., 1880, p. 110).

The county governor

Wicksell was also criticized by the county governor of Uppsala, Count Adolf Ludvig Hamilton (1880). The key question for Hamilton was whether poverty was really the main cause of drunkenness and fornication, and if poverty, both in general and in Sweden, was founded on the excessive

growth of the population. He began by a counterexample (Hamilton, 1880, p. 7):

Isn't there an infinite number of cases when young men who belong to the richer classes and who have lacked neither sound and healthy food nor a nice abode and good company have become drunkards [...]? Don't you always find in other classes persons who have been honest and able and made a good living but who nevertheless have been enticed to drunkenness by tavern life?

Hamilton argued that Wicksell confused cause and effect. 'For natural reasons most drunkards are poor. They have fallen into poverty through their drinking. [...] The case that Herr W. refers to, that a hitherto sober paterfamilias has become a drunkard when misery has entered his abode, appears to be an exception' (Hamilton, 1880, p. 8). Hamilton was not worried about the countryside. The rural poor could not afford to keep liquor at home and there were few taverns in rural areas. The situation in the cities was far worse. 'They have the taverns at their doorstep and the poor-law system is burdened by impoverished drunkards and their families' (Hamilton, 1880, p. 9). After an examination of the available statistics for Uppsala, Hamilton found that only 8 percent of those with the lowest wages had been arrested for drunkenness in 1879 and hence concluded that poverty was not the cause of drunkenness.

Hamilton went on to the question whether it was possible to eradicate all poverty and whether poverty is such a great evil. He contended that Wicksell was wrong when he argued that the growth of the population was the cause of poverty. Instead, the reason was that a worker could only produce a certain output, and this quantity was hardly large enough to meet his and his family's immediate needs. It was only when the population had grown to the point where a more elaborate division of labor would increase productivity that a higher standard of living was possible.

Hamilton did not think that it was possible to eradicate poverty altogether, but neither did he think of poverty as a major calamity. With a logic worthy of Doctor Pangloss he concluded (Hamilton, 1880, pp. 12–13):

Since a wise providence has arranged society in such a way that poverty can be reduced, but not to the point where it would cease to exist, and mankind must carry on a perpetual fight against poverty, we must be assured that it is for the good of mankind. The fight against poverty and the endeavor to acquire a better position bring out many of the nobles characteristics of man, like serious work, thrift and the courage to abstain. It is also this fight which mobilizes a many-sided development of human faculties for higher purposes. How many slumbering faculties have not been awakened when misery has been knocking on the door?

Hamilton was quite confident that the advance of civilization would in due time reduce human suffering, and, examining once more the Uppsala statistics, he found that in his county rising incomes had gone hand in hand with an increasing population during the past 30-year period – the very opposite of the relationship postulated by Wicksell. In addition, agricultural yields increased faster than the population.

Hamilton also examined the state of drunkenness and fornication in France, the country where contraceptives were already in use and where the rate of population growth was low. Hence, he stated, drunkenness and fornication should not be any problem there. He found, however, that the French drank more than the Swedes and that apprehension for drunkenness were more frequent than in Uppsala. 'These facts', he wrote (Hamilton, 1880, p. 20), 'do not point to exceptional soberness'. And: 'As far as fornication is concerned, well-known considerations contradict the assumption that France should occupy a high place with respect to moral. The slower population growth in France has hence not led to the results postulated by Herr W.' (Hamilton, 1880, p. 20).

The professor of theology

Wicksell's pamphlet was reviewed in *Teologisk Tidskrift* by Professor Martin Johansson (1880). The professor considered it important that the Swedish clergy (Johansson, 1880, p. 233)

opened its eyes to the fact that among our people views are beginning to be spread that hitherto have been relatively unknown to us but which, if they become known and practiced in real life will undoubtedly have amazing consequences. That such a danger exists should be clear from the fact that Herr Wicksell's book has already sold several (six, it's said) thousand copies.

Johansson concentrated his criticism on Wicksell's suggested remedy, and then only on the ethical aspects. He argued that if married couples had more children than the two or three recommended by Wicksell, this could not be considered indecent, especially since the possibility of emigration existed, and then he threatened (Johansson, 1880, p. 236):

We must also remember that marital restraint, however important it may be from many points of view and on many occasions, may also turn out to be a reprehensible attempt by the spouses to replace the divine providence. If, on the one hand, the parents are the tool for the creation of the children, then the children, on the other hand, are a gift of God, and those who unconditionally want to determine themselves how large this gift is to be may easily regret their deed. The God who gave the gift may for example take it back and not replace it with any other.

Johansson argued that Wicksell's recommendation to use contraceptives rested on the assumption that this prevented something evil and compared it to Jesuit logic (Johansson, 1880, p. 236):

The consequence of such reasoning is obviously that if, for example, I want to prevent someone from going to the tavern and destroy his body and soul there, I kill him on the way or at least cripple him so that the visit to the tavern becomes impossible, I have behaved morally. It is not necessary to remind of which school this reasoning resembles.

Like Åberg, Johansson argued that it was precisely the fear of unwanted pregnancies that limited the passions of unmarried men and women. 'Remove this fear and we may be certain that an unlimited lewdness will result in many layers of society. The experience from countries where contraceptives are being used do not contradict this presumption' (Johansson, 1880, p. 237).

An economist and soon-to-be minister

At the end of April 1880, a pamphlet against Wicksell, by 'C.G.H.', was published (C.G.H., 1880). The man hiding behind the transparent pseudonym was the Uppsala professor of economics and financial law, Carl Hammarskjöld, who the week after the publication would first become Minister without Portfolio and then Minister of Education and Ecclesiastical Matters in the weak government led by Arvid Posse, head of the Agrarian Party, that lasted until 1883. Hammarskjöld continued to serve in the same position in two more governments, until 1886, before becoming a judge in the Supreme Court in 1888 (Springchorn, 1969–1971).

Hammarskjöld's pamphlet is, by far, the most carefully argued of all the critical publications directed against Wicksell. It focuses on Malthus' theory and contrasts it with Henry Carey's far more optimistic view. The bottom line of Hammarskjöld's argument is that Wicksell overstates the negative factors that produce the Malthusian outcome and underplays the elements that counteract them: the movement from inferior to superior soils as the population grows, technological progress, the increasing division of labor and increased ease of exchange between producers and consumers due to an increasing concentration of population. Most important of all is the increasing standard of living itself. People accustomed to a high standard of living will think of the future to a larger extent than poor people and let Malthus' preventive checks come into play.

Hammarskjöld rejected the hypothesis that Sweden was overpopulated. In 1880, a much smaller fraction of the labor force than before could produce enough food for the population and in addition an exportable surplus. Man's power over nature had increased at a pace faster than that of the growth of the population. There was no imminent risk of overpopulation in Sweden.

Hammar skjöld lamented that Wicksell had let his analysis be contaminated by 'biases, exaggerations, and abominations that make his work poison rather than a healthy medicine' (C.G.H., 1880, p. 35). He concluded that Wicksell's account was based on a Eudaimonistic philosophy of life, that is, it considered happiness to be the ultimate goal. Eudaimonism, claimed Hammar skjöld, was behind Wicksell's 'overestimation' of 'marriage and sexual urge' (C.G.H., 1880, p. 35) and it served to 'defend or excuse depravation' (C.G.H., 1880, p. 37).

An amateur economist

An argument that resembles those of Davidson and Hammar skjöld was advanced by 'Gaetano', alias Teodor Keyser (1823–1904), Commander in the Permanent Reserve of the Swedish Navy. Keyser was an amateur linguist who had written a book on the Swedish language (R.R., 1875) and in 1882 he would publish a 15-page pamphlet on 51 concepts of political economy (Gaetano, 1882). He agreed with Wicksell that the temperance lodges were inefficient since they did not address the question of what caused drunkenness and he hailed him for dealing with his topic 'without fanaticism' (Gaetano, 1880, p. 8).

Keyser, however, did not accept the Malthusian foundation of Wicksell's speech. He argued that the growth of food production was held back by 'artificial obstacles' (Gaetano, 1882, p. 5), notably by inadequate property rights (Gaetano, 1880, p. 6):

[The science of] political economy demonstrates that each law that violates personal rights or property rights creates or increases misfortune or losses and that it is the evil which has arisen through faulty legislation that is the true cause of the insufficient increase of the means of subsistence.

The influence of social life on the increase of the means of subsistence is one of the most beautiful discoveries of political economy. When men are given *freedom* to join their powers in work, to divide the latter, to compete with each other and increase the result of the work of the forces of nature, then the products of labor or the means of subsistence also increase in greater proportion than the human beings, or, in other words: *the economic production capacity then becomes larger than the genital one.*

Keyser proceeded to an arithmetical demonstration of how this would work, based on the assumption of increasing returns. He assumed that two people working on their own and not together could produce one unit of food each but that when they worked together they would produce not two but three units and that three people working together would not produce three or

six units but seven, etc. When the number of workers increased according to the series $1, a = 1 + 1, a^2, a^3, a^4, \dots a^n$, food production would increase in the progression given by $1, 1 + a, 1 + a + a^2, 1 + a + a^2 + a^3, 1 + a + a^2 + a^3 + a^4, \dots 1 + a + a^2 + a^3 + a^4 \dots + a^n$, that is, faster than the number of workers. The main reason why this was not the case in practice was deficient (inefficient) property rights, but 'neither Mr Wicksell nor any of his numerous adversaries... have any idea of this' (Gaetano, 1880, p. 8). Needless to say, the validity of Keyser's argument depends crucially on the existence of increasing returns in agriculture, not an altogether realistic assumption, since sooner or later diminishing returns to labor would presumably set in.

'An elderly man'

The pamphlet by Carl M. Cornelius, 'an elderly man', according to Wicksell (1880d, p. 81), began with a comparison between Wicksell's pamphlet and Drysdale's treatise on the one hand and the 'primary or pure Malthusianism', on the other (Cornelius, 1880, p. 5) and emphasized that the latter denied the moral justification of contraceptives. The pure Malthusianism rested on Christian foundations while Wicksell admitted that the preventive measures he recommended were not compatible with Christian principles. Instead they rested on the principle that humans 'should not receive the laws guarding their actions from any other source but *Nature*' (Cornelius, 1880, p. 11). Hence, they were sinful.

Cornelius time after time emphasized that man should be the master of his habits and temptations. He was especially worried about the students. Those who went to prostitutes 'lost their force and lost their courage' (Cornelius, 1880, p. 15):

For it is not at all probable that that the unmarried state as such among the '*present academic youth*' has provoked this *unmanly* 'lack of cheerfulness and vital courage', since *it has not had this effect* on *earlier* students, among which you certainly do not count more paterfamilias than among the present. – No, the frequently cited 'lack of cheerfulness and vital courage' cannot have any other foundation than precisely the *fornication* by youths pointed out by Herr Wicksell.

Needless to say, the consequences of fornication were dreadful (Cornelius, 1880, pp. 15–16):

[T]he lad begins, way before his body has reached its mature stage, to waste the power that is predestined to the production of new beings. The consequences hereof are clear. Such people remain unfinished, half-made beings, and by the time that our parents first began to make use of the power of procreation, they have usually drained it, feeling nothing but

nausea and satiety when enjoying it, and they have for ever lost one of the most important stimulants of life; they are old men at 20 years and they die even during the 25th, old and tired of life.

The reasons were easily found (Cornelius, 1880, p. 16):

We are under the influence of a number of circumstances through which the sexual urge firstly is aroused too early, secondly becomes more intense than it ought to. Exciting food and unsuitable clothes, frivolous lecture and exuberant pictures, bad examples and numerous other circumstances combine to make the sexual urge arise far before than it would if we had enjoyed only clear and healthy spring water, instead of exciting wines and similar drinks; if we had eaten simple and strengthening food, instead of artificial and enervating strongly spiced dishes; if we had devoted ourselves diligently to ennobling and useful studies instead of to reading indecent and obscene novels.

Cornelius concluded that what matters for the decency of a people is not whether you marry at 25 or 35, but that '*education ennobles the soul of man and develops it to a true and sacred expression of the true essence of mankind*'. When education has developed 'a religious and dutiful spirit in combination with the capacity of self-restraint', men can turn their senses away from lust toward a decent life (Cornelius, 1880, p. 18).

The Cornelius pamphlet rambles for 40 pages about the self-restraint which is indispensable in all kinds of circumstances and which furthers diligence, temperance and the spirit of orderliness, cleanliness and what not. The author states firmly that what brought customers to the taverns was not the deplorable situation in their homes but the strong drink. The only road to the improvement of the lot of the poor was that of education. This would both take care of the problem of drunkenness and ensure that due chastity prevailed – moral restraint.

Cornelius' argument reaches a climax that leaves no doubt whatsoever of where he stood: 'If matrimonial intercourse is practiced, this must... take place for the cause envisaged by the Creator; but *never* in order to obtain *merely* carnal pleasure' (Cornelius, 1880, p. 30). In no way did he accept Wicksell's argument that the use of contraceptives should be considered a virtue. '*Such* a state of morality clearly is nothing but a *treacherous appearance*. It is like the apples that grow on the shore of the Dead Sea: – their surface is beautiful and fresh, but the interior is – *ashes*' (Cornelius, 1880, p. 33). When Wicksell spoke of love he did so 'in the spirit of the inferior Stockholm type of love' (!) (Cornelius, 1880, p. 34) and his attempt to justify the use of contraceptives, according to Cornelius (and Johansson), held the false Jesuit proposition that the end justifies the means to be true. Finally, argued Cornelius, Wicksell had not managed to prove that Sweden was overpopulated. 'Nevertheless, he thinks nothing of prescribing,

as frivolously as a quack, a remedy against an evil that he has seen only in his imagination' (Cornelius, 1880, p. 40).

More pseudonyms: One for

Frans Peter Lindblom, who nine years later would finish a degree in medicine, work in medical gymnastics and in 1892 emigrate to South Africa, where he died in Johannesburg five years later, divided Wicksell's argument into two separate questions (m., 1880). The first was whether overpopulation existed and if so, whether it was necessary to remedy it by a reduction of the size of the population, and the second was whether the use of contraceptives was justified and necessary.

Lindblom wanted a comprehensive program capable of moving society ahead, based on a picture of what the ideal society looked like. If the main contours of this society and the main instruments necessary to approach this ideal in a stepwise fashion could be specified, it would also be possible to find out what role the reduction of the size of the population suggested by Wicksell would play. Work is necessary, stated Lindblom, on the most basic level to produce food, and thereafter to produce the 'force and harmony' both within man himself and in relation to the external world (m., 1880, pp. 8–9). Only he who works can 'develop into a completely normal, able and good human being' (m., 1880, p. 16). Work should be a blessing, but if the burden of work becomes so heavy that he feels that he cannot reach physical and spiritual satisfaction, it will turn into a curse.

Lindblom presented his ideal by contrasting two societies. The first is an overpopulated one with not enough food, in spite of long working days, that has to borrow from abroad to satisfy the wants, increasing the public debt over time. This society cannot produce anything that goes beyond the mere necessities. The second society has a smaller population, it has developed through capital accumulation and technological progress and imports not food but goods which make it possible to satisfy not only the most immediate wants. Lindblom argued for the foundation of a 'social', progress-minded, political party and he offered his vision as an alternative to the Wicksellian societies.

Lindblom went on to argue that the worst defect of contemporary society was lie. The example he offers is amusing. He states that Sweden was never a Christian country, in spite of all claims to the contrary. The fundamental idea of Christianity was to love your God above all else and to love your neighbor as you love yourself and that you should do unto others what you want them to do unto you. This was a tough criterion (m., 1880, p. 21):

[W]hat, in addition to this, has been counted as Christianity by different peoples, epochs, sects or individuals, may not be all made up, but probably at least 99% is simply made up.

For an individual to call himself a Christian, he must be so penetrated by this fundamental idea of Christianity that it determines his acts; in order for a people to be 'Christian', at least half of its members should be Christian or at least the vast majority must be approaching this stage. After all, as far as I can see, I would make a big concession if I would admit that one percent of our population is Christian.

Lindblom was quite certain that in Sweden there had been 'any number of families' that, generation after generation, had never had a single Christian member or even anyone who had attempted to become a Christian. It made no sense to pretend to be a Christian instead of getting involved in the 'real, slow and toilsome reform work' (m., 1880, pp. 22–23). Man is moved by his interest, and this fact could be used in the work toward a common goal, but for this to happen, men must also be moved by love of each other. The development of the inner faculties of humans would be easier with many people per square kilometer than with few, but if the population grows faster than the means of subsistence, a vicious circle will develop where general poverty and individual misery interact and perpetuate each other. It is precisely in this situation that it becomes necessary to reduce the growth of the population. According to Lindblom, it was in this light that Wicksell's proposal had to be viewed. In order to create a better society, the undermining force of excessive population growth had to be destroyed, or at least minimized, and to this end, means had to be put at the disposal of the individual which made it possible for him to reduce the difficulties to a level where it would be possible for him to cope with them and live 'a reasonably human life' (m., 1880, p. 32).

Lindblom finished by asking, rhetorically, whether this is possible, without putting obstacles in the way of something *really* good, and furthermore, if not, do you gain or lose? The answer, he says, is virtually impossible to give. Only experience can tell us. Lindblom states that he has not offered any proof either for or against Wicksell's views. All he wanted to do was to put them into a wider context: that of social reform in general. Still, he cannot refrain from providing at least indirect support for Wicksell, by emphasizing the importance of providing knowledge to poor individuals of how they can help themselves: 'He who brings them a single practical tool to this end does a thousand times more than he who provides large sums for their direct support' (m., 1880, pp. 35–36).

And one confused

The most curious of the pamphlets provoked by Wicksell's speeches was written by the pseudonym 'Pelle Jönsson, worker in the deepest shafts of the layers of society', so curious that Wicksell barely cared to comment on it when he responded to his critics. At the end of his pamphlet, 'Pelle

Jönsson' felt that it was necessary to put in an excuse (Pelle Jönsson, 1880, p. 59):

[W]e must ask for the indulgence of the reader with respect to the form that may characterize this little essay. In this context it may serve as an excuse that we have never been lucky enough in our youth to enter a secondary school other than as dumb listeners during graduation ceremonies.

Unfortunately, this showed not only in the form, but even more in the analysis. 'Pelle Jönsson' hardly dealt with Wicksell's views at all but mainly used them as an excuse to present his own home-made theory of how society should be organized, for if his own ideal could be realized, there would not be any population problem at all.

The basic assumption made by 'Pelle Jönsson' is that it is 'the method of development' of society that determines the 'degree' and 'kind' of poverty and moral misery, and until you have investigated the causes of the economic and social developments, he states, it is too early to recommend 'means, the consequences of which must be very different under different social circumstances and among different social classes' (Pelle Jönsson, 1880, p. 7). The fundamental problem of contemporary economic organization, as 'Pelle Jönsson' saw it, was that it built almost exclusively on speculation and unabashed acquisition, in other words: greed. It had nothing to do with population pressure. Switzerland and France were seven or eight times as densely populated as Sweden and yet not overpopulated. Instead, 'centralized' economic systems, that is, systems with a high concentration of incomes, display more poverty than 'decentralized' or 'democratic' systems, regardless of the population pressure.

Jönsson contended that the factor that must be put in the foreground is the responsibility of the individual, the awareness, acquired early in life, that you have to work for your bread, 'before the fanciful feeling of love, devotion and pleasure' steps in, claims its share of the spiritual activity and becomes the master of human behavior. This is easier in agrarian societies where children get used to working within the family at an early age than in industrial societies where the workers are not their own masters but are at the complete mercy of the employers. Moving a couple of steps up on the social ladder, those who have an education, as civil servants, rely on the state for their living, and the rich simply arrange their lives as pleasantly as possible.

The only thing that can unite a people is 'the national work and the individual responsibility' (Pelle Jönsson, 1880, p. 20), but in societies ruled by greed this will never happen. In this respect, France provided a stark contrast to Britain. In France, '[l]uxury and greed . . . yield to responsibility and reason, simplicity, seriousness and work', and under those circumstances

'the remedy of what... Wicksell speaks of as the scourge of our time, overpopulation' will 'come in a natural and correct way that will hence lead to the goal' (Pelle Jönsson, 1880, p. 22). In Britain, centralization ruled and 'the working population... [was] so dominated by machinery and financial capital' that it could not arrive at the same stage of responsibility as in France (Pelle Jönsson, 1880, p. 22). The preconditions for the French developments were created by Napoleon's – 'the greatest genius of the century' – 'view, all encompassing and still untouched by egoism' (Pelle Jönsson, 1880, p. 40) and his egalitarian inheritance laws, while the British economy had been dominated by speculation, colonial exploitation and a fraudulent credit system. 'Luxury and poverty, palaces and earth-caves – behold the result of the English culture, as it must be wherever the English system rules' (Pelle Jönsson, 1880, p. 26).

The diligent and thrifty French had managed to rise again, 'after each storm' (Pelle Jönsson, 1880, p. 41):

This people shows us even today the earnestly beautiful characteristic of a society where the number of marriages increases and the size of the population still is limited so as to exclude overpopulation and misery. All this amounts to real events which speak a different language than the fantastic phraseology of Herr... W., since these facts enable us by way of comparison to see how cause and effect work.

In France, 'the duties of industry, thrift and care and the feeling of responsibility that derives from these', inculcated from early childhood, had 'taught the Frenchman to consider his and his children's future' (Pelle Jönsson, 1880, p. 42). Work was the key to progress (Pelle Jönsson, 1880, p. 42):

Where in a society some do not have to work and yet others do not have any opportunity to work you may attempt any magic to prevent crime and vice, drunkenness and misery. It will still not work. Among the fruits to be harvested are not an increasing number of marriages, but you will simply get an even wider diffusion of prostitution. The addiction to pleasure on one side and loitering without work on the other drag along this dray of filth whose weight increases from decade to decade, from generation to generation until the gloomy death bell of society tolls.

Wicksell's suggestion would not work, stated 'Pelle Jönsson', with an argument that is not entirely clear (Pelle Jönsson, 1880, p. 45):

We believe, ever so much more, that Herr W's method must be combated, since according to his pet thesis, those early marriages, could lead to, because each family would have a little nursery, that our entire country would instead become one large nursery, and this, we think, would be the

worst of all [scenarios]. If children in the school of life are to bring up children, nothing is likely to become anything but childishness and . . . [Herr] Wicksell has certainly not reduced our fear in this case.

In the end, if Wicksell's views were accepted, it would lead to crime, for then, a society where incomes are concentrated to the few, if wealth is reduced and lust remains, would not hesitate to 'prevent a human life that already exists from seeing the light of day' (Pelle Jönsson, 1880, p. 45).

The future of Sweden looked gloomy. No contemporary people dealt as frivolously with itself and its country as the Swedes. The Swedish economic system amounted to 'dancing ahead like a circle of deranged on a volcano with fanaticism in their eyes and greed in the depth of their hearts' (Pelle Jönsson, 1880, p. 48). Women appeared in costumes, each one of which cost as much as the income needed by a working-class family to live for a year. The uneven national character in combination with an unsound economic system eventually would lead to an extreme frivolity, which, if left to itself, in a couple of generations would become hereditary. The Swedes had already 'partied' away one and a half million kronor because 'one of its most energetic citizens' (Adolf Erik Nordenskiöld) had by chance managed to force the Northeast Passage, while at the same time 40,000 to 50,000 of the most able middle-aged citizens had had to leave the country for ever, out of fear for their subsistence. The Swedish path was 'unconditionally and doubtlessly' (Pelle Jönsson, 1880, p. 57), the path of Britain, not that of France, that is, the one conditioned by 'the governing power of the centralization of capital' and the overpopulation that went hand in hand with it (Pelle Jönsson, 1880, p. 56). The faster the journey toward centralization, the sooner the creation of a proletariat, a class 'without any firm economic foundation on which to stand'. On both counts, Sweden was rapidly on its way toward the 'climax' (Pelle Jönsson, 1880, p. 58).

Wicksell's reply

Wicksell had been accused of a lot of things by his critics: of not being acquainted with either the writings of Malthus or the latter's main adversary, Carey; of not discussing socialism; of having both his cause-effect analysis and his facts wrong; of fighting imaginary evils; of advocating abortion and murder; of promoting unnatural vices, infidelity and prostitution; and in general, of being outright immoral. He replied to his critics with another pamphlet (Wicksell, 1880d), which sold 2,000 copies (Gårdlund, 1996, p. 66). In this, Wicksell stated that he was grateful for the attention that his little publication had caused. It had been reviewed in the newspapers and a number of private individuals had expressed their sympathy for his views. It could, of course, not be avoided that views that diverged so much from the conventional wisdom would also invite criticism, but that,

he wrote, with a bit of false modesty, was not nearly as bad as the silence that he had feared would meet his speeches and pamphlet.⁵

Wicksell did not take much issue with Davidson's chapter in the pamphlet published by the Upsala Medical Association. In fact, he stated, he and Davidson basically agreed. As far as Wicksell could see, Davidson was also a Malthusian. The rest of his reply to Davidson consists of a discussion of minor details and of an attempt to prove that Davidson's pamphlet chapter to a large extent contradicts his newspaper article.

Far more important was Wicksell's reply to the article, in footnotes to the appendix to his first pamphlet where the Davidson article was reprinted. The first issue was that Wicksell had failed to acquaint himself with and refute the doctrine of socialism. To refute socialism, however, wrote Wicksell, was out of question, because many of its propositions appealed to him, and it would furthermore not make any sense, because once you accept the validity of the population law, you also understand that socialism alone will never 'achieve but a temporary improvement of the conditions of the poor, unless it would not by itself cause a decline in nativity, an assumption not justified by anything' (Wicksell, 1880a, note, p. 82).

Davidson's second main point, that Wicksell had not studied the different views of the laws of population growth carefully enough, simply invited ridicule, and Wicksell (1880a, note, p. 83) was of course right:

Given that they are proposed by an associate professor of economics these questions appear quite childish. If Herr D. does not share the views that I have advanced in my speech he should have attempted to refute them. If he cannot do that, it is really irrelevant how much or how little I have studied in order to arrive at these views.

By the same token, the fact that Wicksell had borrowed the original work by Malthus from Davidson only after his speeches was of no importance, since Davidson had not been able to prove that Wicksell had misunderstood any part of the Malthusian doctrine. In fact, insinuated Wicksell, from what Davidson wrote, it appeared as if the latter had been asleep during part of his second lecture. His remark that Wicksell had not read Carey either in the original simply made Wicksell put a counter-question: Did Davidson really endorse any of Carey's objections to Malthus? 'Is it really possible that Herr D. pays any attention to this nonsense?' (Wicksell, 1880d, p. 84).

In his two replies to Åberg, Wicksell (1880a, 1880d) told him that he did wrong when 'for the thousand-first time' he brought up the 'Baal worship of the poor Israelites' (Wicksell, 1880a, note, p. 78),

for it was not, at least not always, the drunken scream of shameless libertines, this 'Baal, hear us'. It was as often the plaintive cry of poor, thoughtless people when, in times of famine and inexpressible misery,

they sacrificed some of the children that the exaggerated fertility of their women had presented them with. *I do not intend to join this cry. On the contrary, on my part I will try to silence it in our country.*

Åberg's argument that contraceptives were immoral, the equivalent of abortion and infanticide, was dismissed by Wicksell on very simple grounds: 'Abortion is *to kill*, preventive measures *not to give lives*. Between these two, no ethical equivalence is possible, or any physical' (Wicksell, 1880d, p. 55).

In his comment on Åberg's fear that the use of contraceptives would make the intercourse between spouses degenerate to an act that came close to prostitution, Wicksell replied that this, 'word for word', could be applied also to all marriages that by nature are sterile or less fertile, because also in those cases no pregnancies would interrupt the satisfaction of the sexual urge. The spouses could then enjoy themselves irrevocably and without interruption. 'If it is actually the case that within such marriages the intercourse generally degenerates to the level of *prostitution*', wrote Wicksell, with an ironic twist, 'then Herr Å. is right; if not his assertions come out of thin air and his accusations are unwarranted – not to say anything worse' (Wicksell, 1880d, pp. 56–57).

As for Åberg's fear that the use of contraceptives would lead to increased infidelity among women, Wicksell (1880d, p. 58) rhetorically asked:

Is it really the case that a woman who only out of fear for the external consequences of her action fails to surrender herself to a man hereby without further ado is... physically or spiritually preserved for virtue? If the woman in this respect is anything like the man this is probably not the case. What cause does it serve to stand guard outside the door when the window cannot be shut anyway?

Wicksell's final verdict of Åberg was clear enough (Wicksell, 1880d, pp. 62–63):

Finally, although this is related to my subject only to a minor extent, I cannot refrain from expressing my grief finding that Herr Å. at least in this essay of his has volunteered to make himself a partisan of *obscurantism*. [...] if a philosopher thinks that he needs to make use of his readers' *faith* – what is then left for the theologians? Under these circumstances, wouldn't it be better to immediately don the clergyman's gown?

In his answer to Count Hamilton, Wicksell pointed out that the fact that only 8 percent of those with the lowest wages had been arrested for drunkenness in Uppsala did not provide any information whatsoever with respect to whether poverty caused drunkenness or not, since Hamilton did not give any figures for other social classes. His figures for France had not been

correctly calculated, and if a correction was undertaken, and cities were compared with cities, not a city with an entire country, in order to beat Stockholm it would be necessary for Paris alone to have almost as many arrests as the figure reported for all of France. The same was true for the consumption figures. Wicksell also rejected the contention by Hamilton that it was common that young men from better families would become drunkards. Those were rare cases: 'The influence of a good home can hardly be beaten by anything when it comes to providing prevention against aberrations' (Wicksell, 1880d, p. 10).

In his reply to Johansson, Wicksell made fun of the fact that the former exhorted the Swedish clergy to make sure that Wicksell's views were not spread among people in general (Wicksell, 1880d, p. 64):

[K]nowing the good discipline that still prevails within our Church it can of course not be doubted that in many quarters this call will be obeyed, even though, as a result of the presently widespread ability, also among the peasantry, to *read the written word*, it may not be assumed to have the same effect as a century or two ago.

Wicksell took strong exception to the fire-and-brimstone threat by Johansson that God may punish spouses using contraceptives by taking away their children prematurely and not granting them any new children. Instead, he claimed, his purpose had been to make sure that the spouses could enjoy their children instead of considering them as a burden (Wicksell, 1880d, p. 71):

To call such a noble self-denial, such a loving, thoughtful consideration, stemming from utter necessity, a presumption that calls for punishment by God, to me appears to be tantamount to making the ruler of the worlds a bloodthirsty and capricious despot instead of the incarnation of consummate justice and kindness.

In his reply to Hammarskjöld, Wicksell did not accept the latter's uncritical use of Carey. It was only in America that less fertile soils would be the first to be put under the plow (since the more fertile ones required more labor), and that was simply because the American continent was still in the process being colonized, whereas in the old countries of Europe, this stage had been passed centuries ago. Wicksell also expressed doubts with respect to the possibility of technological progress. Throughout his life he would be a pessimist in this respect (Lundahl, 2005, pp. 35–38), and his reply to Hammarskjöld was the first occasion when he expressed his pessimism. Few epochs in history had seen so much technological change as his own, and this simple fact made Wicksell doubt that the immediate future would be capable of matching it. The division of labor, in turn, had already been carried to the extreme

where it had a negative influence on the workers and the increased ease of exchange due to population concentration was of little importance when compared to the advantages obtained through the use of modern means of transportation. 'Is it really, in our times, the neighbor who trades with his neighbor? Or is it the European who trades with the American and the Indian?' (Wicksell, 1880d, pp. 28–29).

Altogether, wrote Wicksell, he could not understand how any of the Carey arguments could be used to shed any light on the question whether the rate of population growth in Europe and Sweden was too high or too low. A much better way would be to look at phenomena that would probably not be present unless they were caused by overpopulation, notably emigration.

Finally, on the somewhat esoteric point of Eudaimonism, Wicksell (1880d, p.43) made a caustic reply:

Furthermore, if the view which sees marriage as the only effective protection against the perils of immorality should be called Eudaimonistic, not only are *Luther's* writings full of this kind of Eudaimonism, but we find it in many places in the Bible, all the way from the first page, where you find a not altogether unknown verse: 'it is not good that the man should be alone'.

Wicksell did not find much substance in the Cornelius essay (Wicksell, 1880d, p. 81):

I had wished to pass by the publication by *Herr C.M. Cornelius* in silence. The author is an elderly man . . . and he seems to be guided by an honest conviction. On the other hand, this conviction makes him completely blind, not only to the possibility that even the opinion of an adversary might contain something valuable, but also to the most obvious evidence of experience.

Still, since Cornelius' pamphlet from a major newspaper had received 'the somewhat surprising verdict that it was a striking refutation on all points' of his theories, Wicksell felt himself compelled to deal with it (Wicksell, 1880d, pp. 81–82). He agreed with Cornelius that education could do a lot of good, but not 'when it puts stern restraint as the virtue that education should first and foremost further' (Wicksell, 1880d, pp. 82–83, 84):

[T]he value of this virtue is, in fact, completely relative. The suppression of one of the most important acts of physical life cannot possibly be good. Only the most pressing need can result in such a patent violation of Nature (which due to the close connection between body and soul cannot either be without influence on the health of the latter) under the name of virtue. [. . .]

There is probably within the entire sphere of human life no field where so little real success is to be found together with so much vain struggle, so much hypocrisy and self-righteousness.

Needless to say, Wicksell did not at all agree with Cornelius' contention that the only purpose of intercourse was reproduction, since this would require it to cease as soon as there was any well-founded reason to assume that the wife was pregnant, which was tantamount to requiring an almost complete continence also from spouses.

Wicksell considered Pelle Jönsson's pamphlet too insignificant to take issue with (Wicksell, 1880d, pp. 79–80):

The essay written by the pseudonym *Pelle Jönsson* has not, as far as I can see, attracted much attention; not do I see fit to take issue with it here. The book contains one or two valuable grains of thought, but most of it is such a mess of loose talk, childishness or pure nonsense that it would be almost unmerciful to subject it to a detailed scrutiny.

One factual point was brought out, however: the high population densities of Switzerland and France and their implication for Sweden. Wicksell pointed out that the Swedish climate, especially in the north, was not as suitable for cultivation as the Swiss mountainsides and French plains.

The aftermath

Wicksell's two lectures would decide his future. The population issue was to become a life-long preoccupation for him, both as a scientist and as a social reformer. His first pamphlet dealt with population and when he died in 1926, he was preparing the second issue of his booklet on population (Wicksell, 1926) – what had originally been the first chapter of his *Lectures on Political Economy* (Wicksell, 1901, 1934). It appears that the criticism by Davidson after his two appearances in Uppsala was one of the main reasons why he took up economics (Nordqvist, 1985, p. 62). In his response to his critics he had mainly dealt with issues of social medicine and not so much with the economic aspects of population growth (Gårdlund, 1996, p. 66), but Davidson made him read Malthus in the original, and when Wicksell had finished his *licentiat* degree in mathematics and physics in 1885, after 16 long years of study, he switched to economics.

Throughout his life the population question remained the central social issue for Wicksell. He gave a series of public lectures in the early 1880s and published a pamphlet on emigration in 1882 (Wicksell, 1882) and upon his return to Sweden in 1886, after a study trip to London, he began touring the country speaking on subjects related to the population issue, such as the family, prostitution and of course the population question itself, tours which inevitably led to new scandals and vain attempts

by the authorities to stop him, since his views offended the conservative moral and conventional wisdom. He published pamphlets on the dangers of high population growth for Sweden (Wicksell, 1887a), prostitution (Wicksell, 1887b) and sexual issues (Wicksell, 1890) and he took part in the 1891 Prix Rossi essay competition advertised by the Académie des sciences morales et politiques de l'Institut de France in Paris on the causes of and obstacles to population growth (Wicksell, 1891). Ten years later, when his *Lectures* were published, their opening chapter dealt with population (Wicksell, 1901, 1934). In the end, Wicksell arrived at an amazingly coherent view of the relation between population growth and poverty, argued in a general equilibrium framework which very closely resembles the specific factors model of international trade developed by Ronald Jones (1971, cf. also Samuelson, 1971a, 1971b) – only that he never formalized it (Lundahl, 2005).

The importance of Knut Wicksell's two 1880 Uppsala lectures did not end with the development of his analysis of the population problem. Their repercussion was much stronger than so. In the end, Wicksell's entry into the public debate turned out to be one of the decisive events that triggered the intellectual radicalism of the 1880s, the radical decade *par excellence*, in Sweden (Kock, 1944, pp. 75–76). The admonition that he received and his first two pamphlets made him a well-known public figure in Sweden, and they were followed by a number of translations of Malthusian-inspired writings. The very fact that he was controversial also made it impossible to close the pages of the major daily newspapers to his views.

Knut Wicksell would continue to be a highly controversial public figure for the rest of his life. He never adhered to any party or organized political group. His crusade was his own, and he pursued it stubbornly, all his life. Wicksell 'opened' the debate climate in a highly conservative, snowed-in, Sweden. He stated that he saw the education of the Swedish people as his foremost duty (Gårdlund, 1996, p. 305) and 'he gathered a generation around the demand for an open debate of social issues' (Gårdlund, 1956, p. 361) – no small feat (Spångberg, 1932, p. 219):

Knut Wicksell's strength was that to all his other gifts he could add a virtue which was more rare than everything else, so rare that at times it is viewed as an anomaly, namely *le courage de son opinion*. It made him a bad politician, caused much offense and was regarded as his great weakness. Still, this was what made an imprint in time.

Notes

1. A preliminary version of this chapter was presented at the symposium 'Population, Poverty and Welfare in the History of Economic Thought: An International Comparison', Waseda University, Tokyo, 8 March 2010. Thanks are due to the participants in that seminar, especially to Katsuyoshi Watarai and Atsushi Komine, for constructive comments.

2. A detailed analysis of Wicksell's contributions to the analysis of population growth and poverty is available in Lundahl (2005).
3. Henry Charles Carey (1793–1879). Carey argued that in America conditions differed widely from those postulated by Malthus and Ricardo. There was plenty of land and raw materials, the existing institutions were favorable, and human inventions would serve to neutralize the effects of diminishing returns. In contrast to the sequence presented by Ricardo, cultivation would proceed from inferior to superior land. The masses could confidently look forward to an improved living standard as a result of rising wages due to the accumulation of capital over time. For short introductions to Carey's doctrines, see for example, Spiegel (1987) and Dawson (2000). Carey's main works related to population are Carey (1835, 1836, 1837–1840).
4. Still, he would commit suicide in 1895.
5. Wicksell did not bother to explicitly discuss those of Nilsson's and Bendixson's arguments that we have presented here. His reply to them only dealt with less significant details. Nor did Wicksell discuss Lindblom's views, naturally enough, since they by and large coincided with his own. Gaetano, finally, he did not even mention.

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3

Population Growth and Diminishing Returns: Knut Wicksell on the Causes of Poverty

Arguably, Knut Wicksell is the greatest Swedish social scientist of all times. However, the subject of poverty and population is one of the few areas where the conventional wisdom is that he failed to produce anything very original. The only credit usually given to Wicksell for his writings on these subjects is for what he had to say about optimum population (Robbins, 1927, note, p. 118; Gottlieb, 1945, pp. 291–292; Spengler, 1983; Pitchford, 1974, p. 87; Hutchinson, 1967, p. 391; Fong, 1976, p. 314; Lindahl, 1958, p. 35; Schumpeter, 1954, p. 582; Sommarin, 1926–1927, p. 29). The remainder of his writings on population are generally considered not to belong to his most original pieces. Thus, writers on Wicksell either tend to pass them by altogether, give them a mere cursory treatment, or state more or less explicitly that they are doctrinaire and lacking in originality (Uhr, 1951, pp. 832–834, 1962, pp. 3, 59–60, 328–329, 1991; Gårdlund, 1996; Gustafsson, 1961, pp. 203, 226; Fong, 1976, p. 314; Henriksson, 1991, p. 40; Pålsson Syll, 2002, p. 241).

The only economist who seems to have understood what Wicksell actually did in the field of poverty and population was Johan Åkerman (1933, p. 114): ‘Wicksell gave to the theory of Population a new impulse which proved of capital importance. He demonstrated that for every estimate of an optimum of population a thorough knowledge of the whole economic mechanism is essential.’ This is what the present chapter is about. We will present Wicksell’s views of the causes of poverty, its consequences and remedy. It will then be argued that there is a great deal more originality in Wicksell than what is commonly realized. Wicksell’s views on population growth, diminishing returns and poverty, in fact, constitute a fairly full-fledged general equilibrium system of international trade and migration (and possibly also capital movements). It is mainly here, and less in his insistence on Malthusian characteristics or in his discussion of the optimum population, that Knut Wicksell’s original contribution to the analysis of poverty and population lies.

A Swedish Behemoth

Knut Wicksell's entrance into the public debate on population was a Behemoth one. Inspired by his readings of *The Elements of Social Science*, a book by the Scottish physician George Drysdale (1876), he gave a speech at the temperance lodge Hoppets Här (The Army of Hope) in Uppsala on 19 February 1880. The subject was 'The Most Common Causes of Habitual Drunkenness and How to Remove Them' (later published as Wicksell, 1880a, 1999a). Wicksell posed the question of why people drink. His answer was that drunkenness is simply a symptom of poverty. But, said Wicksell, poverty had not been man's eternal companion, and there was a remedy for it. In order to understand the proper remedy, it was, however, necessary to be familiar with 'the view of the causes of poverty that is named after the English clergyman and economist Malthus', because through his profound studies of the question he provided 'once and for all' (Wicksell, 1999a, p. 95) the firm foundation that the theory has to build on.

Wicksell moved on to discuss contemporary remedies. The majority of the male population hardly considered celibacy an alternative. Instead, the 1880s had '*poverty, late marriages, drunkenness, prostitution and secret infanticide*' (Wicksell, 1999a, p. 104). The alternative was clear (Wicksell, 1999a, p. 108): '*every married couple ought to regard it as a sacred duty, indeed, as the most sacred of all duties, not to increase their family to more than two or three children without careful consideration*'.

Wicksell's lecture which was repeated less than a week later, in front of an audience consisting mainly of his fellow students and academic teachers at Uppsala University, brought a strong reaction. A number of pamphlets were written where his views were condemned (e.g. Cornelius, 1880; Hamilton, 1880; Hammarskjöld, 1880; Pelle Jönsson, 1880; Lindblom, 1880), not least by the Upsala Medical Association (Åberg et al., 1880), which had no intention whatsoever to heed his call for information, and he received an admonition by the Lower University Council at Uppsala. The council was especially upset by the fact that Wicksell during the second of his lectures had argued that he considered 'no place, not even the pulpit itself, to be too exalted for the preaching of these doctrines' (Wicksell, 1999a, p. 110).

Toward the end of 1880 Wicksell responded to his critics (Wicksell, 1880a, pp. 71–95, 1880b). He had chosen to become deeply involved in a debate that would occupy him for the rest of his life. There was no question in Wicksell's mind. Poverty was caused by population growth, and the only road to reduced poverty went through early marriages between spouses who had been educated with respect to the use of contraceptive devices which could be used to limit the size of their families and hence also of the total population. Only then would it be possible to raise the incomes and living standards of the population in general.

These ideas Wicksell would develop in a large number of published and unpublished writings all the way until his death in 1926, and once you

put the writings next to each other it is obvious that together they constitute a completely coherent general equilibrium theory of the interplay between population growth and poverty. The remainder of the chapter will be devoted to an examination of his theory. We will then begin with its core element: diminishing returns.

Diminishing returns

Since diminishing returns prevail everywhere in the economy there is an inexorable tendency for population growth to result in a reduction of per capita income and wages. In his discussion of population growth and agriculture Wicksell was more of a classic economist than a neoclassic. The mechanism he envisaged is familiar (Wicksell, 1892, p. 309):

If, following too strong a population increase, production is displaced to ever more barren tracts, it will not only be the 'pioneers on the frontier of cultivation' that will suffer, but the entire labor force. Wages will fall across the board, in analogy with the simple hydrostatic law of communicating vessels. At the same time, the capitalist class is granted a favor, as unwarranted as it is shocking for the sense of justice and the requirements of humanitarianism, because of the glaring opposition between superabundance on the one hand and destitution on the other.

Production in agriculture can always be increased by increasing the capital stock and the number of workers, but '*never in full proportion to the increases of labor and capital themselves*' (Wicksell, 1914, p. 4). Increasing the population leads to a decline of the wage rate, whereas land rents and the return to capital increase. Wicksell contrasted agricultural labor productivity in extensively cultivated Argentina and intensively cultivated Sweden, referring the difference precisely to diminishing returns to labor.

Diminishing returns are present in other branches as well. In his essay on population for the French *Prix Rossi* (Wicksell, 1891, p. 41) Wicksell dealt with England's problem of securing a coal production that would allow industrial output to grow in the future as well. He argued that the peak had already been reached. Sweden, he contended, was in equally bad shape, if not worse (Wicksell, 1902, p. 548):

Our economic development since the 1860s has essentially been *abnormal*; it has not been by a harmonious development of all our industries, with agriculture in the vanguard, but by a one-sided, ever more intensive elaboration of a few of these, especially our wood and partially also our iron industry that we have been able to procure employment and bread for so many people. Both these industries, however, unfortunately belong to the class of extractive industries; they allow a strong

momentary flourishing, as has actually been the case, but in the long run it is impossible to live on them.

The capital stock could be increased, but given the capital stock there is no difference, and besides, it is hardly possible for manufacturing to live a life which is isolated from agriculture. On the contrary, 'it must necessarily build on agriculture as its foundation and be limited by the extent of the latter' (Wicksell, 1914, p. 7). Hence, what goes for agriculture must, in one way or another, be true also for industry.

Diminishing returns were also present in the creation of the infrastructure on which economic production was dependent. The growth of the population called for an increased consumption of foodstuffs, but in the countries of old culture such growth would hardly be possible unless the infrastructure was developed (Wicksell, 1999c, p. 121). Once the most important infrastructural works had been finished, diminishing returns to this activity set in. Thus, these works were undertaken to a lesser extent than before. That in the first place led to unemployment. If the population continued to grow, sooner or later the number of redundant workers, and hence consumers, would increase and be compensated by nothing. It was from this sequence, Wicksell argues (1999c, p. 122), that for example the unemployment problem of contemporary Germany derived.

The problem could also be approached from the point of view of the savers who are looking for '*capital goods that yield a monetary return*' (Wicksell, 1999c, p. 123). Clearly if the domestic return is not high enough, capital will emigrate, and Wicksell argues that it may be better that emigrating workers are supported by emigrating capital than that they emigrate alone, but sooner or later conditions in the recipient countries will resemble those in the countries that labor and capital left. The return to capital will then fall and it will be difficult to obtain a savings rate that could help to sustain the investment that is necessary to sustain a growing population. The stationary state will draw nearer.

Technological pessimism

One of the most frequently used arguments when it comes to refuting theories of stagnation and the stationary state is that technological progress will tend to break up the stagnant equilibrium and raise incomes. Wicksell, however, was a technological pessimist. He argued that technological progress matters little, for all it does is to shift the diminishing marginal productivity curve upwards, but that diminishing returns would continue to take their toll, only now from a higher level (Wicksell, 1903, p. 173). There are few inventions and even fewer that increase prosperity enough to allow population growth to take place without harmful effects. Most of the time they will simply lead to an increase of the size of the population, since they make it

easier to find work. Sooner or later some point is therefore reached where all that the invention can do is to sustain a given population. It cannot serve to underpin any increase (Wicksell, 1999a, p. 97).

In his *Lectures on Political Economy* Wicksell (1934, p. 121) points to how technological progress in agriculture will in general be beneficial, but insufficient, for the workers when the population is simultaneously growing:

[W]ages sometimes remain unchanged, or even rise, despite a considerable increase in population. But the real cause here is that the conditions of production have been materially changed, in consequence of technical or scientific progress, and not least under the influence of capital accumulation . . . Similarly, entirely new sources of supply may have been discovered. If, under such circumstances, population remained unchanged, the marginal productivity of labour, and consequently wages, would normally rise very considerably. If population increases, however, both will sink to their original level. In other words, technical progress, so far as the labourers are concerned, only protects them against the absolute fall in wages which would otherwise be inevitable.

Wicksell regarded technological progress as ambiguous from the wage, and hence poverty, point of view. The introduction of machines will not necessarily lead to higher wages (Wicksell, 1958, p. 102):

[A]n increase in the total product arising from technical innovations in production need not imply an increase in the marginal productivities of all production factors – and certainly not a uniform increase; it may even happen that the marginal productivity decreases for one factor, while increasing all the more for another. Either the marginal productivity of labour may increase at the expense of that of land, and therefore wages at the expense of rent, or conversely rent may increase at the expense of wages.

As examples of the former sequence, he cites inventions that increase natural resources that make it possible to use previously neglected power sources or cultivate hitherto unproductive land. This, Wicksell states, makes it possible that rents will fall in agriculture and leave the workers with the entire benefit of the increase in production. The opposite case may occur when an invention renders workers redundant without bringing new natural resources into production (Wicksell, 1958, pp. 102–103).

In a celebrated passage in his *Lectures* Wicksell (1934, p. 164) points to the possibility that labor-saving technological progress may lead to a reduction of wages. For Wicksell, capital was nothing but the ‘original production factors’, labor and land, saved and embedded in it for a certain time interval,

and the rate of interest was ‘*the difference between the marginal productivity of saved-up labour and land and of current labour and land*’ (Wicksell, 1934, p. 154). Following Eugen von Böhm-Bawerk he made a distinction between the ‘height’ and ‘width’ of capital. The former concept refers to the length of time for which the various capital goods are invested and an expansion in height is an increase in the proportion of capital goods invested for longer periods at the expense of those invested for shorter periods, that is, capital deepening. Width, in turn, refers to the proportion of primary factors annually invested in the replacement of capital goods of various maturity dates, and an expansion in width refers to the proportionate increase in all capital goods of different maturity dates, that is, capital widening (Blaug, 1968, pp. 555–556).

Wicksell points out that capital accumulation will generally lead to a wage increase, whereas technological progress may not (Wicksell (1934, p. 164):

[T]he position is different where... some *technical invention* renders long-term investment, even without a simultaneous growth of capital, more profitable (absolutely) than previously. The consequence must necessarily be – so long as no further capital is saved – a diminution in the ‘horizontal-dimension’ and an increase in the ‘vertical-dimension’, so that the quantity of capital used in the course of a year will be reduced; an increased quantity of current labour and land will consequently become available for each year’s direct production; and, although this need not necessarily cause their marginal productivity and share in the product to be reduced – since the total product has simultaneously been increased by the technical discovery, yet a reduction may clearly result. The capitalist saver is thus, fundamentally, the friend of labour, though the technical inventor is not infrequently its enemy. The great inventions by which industry has from time to time been revolutionized, at first reduced a number of workers to beggary, as experience shows, whilst causing the profits of the capitalists to soar. [...] But it is really not capital which should bear the blame; in proportion as accumulation continues, these evils must disappear, interest on capital will fall and wages will rise – unless the labourers on their part simultaneously counteract this result by a large *increase in their numbers*.

Knut Wicksell’s pessimistic views of technological progress and his insistence on the severity of diminishing returns led him to an inevitable conclusion: Sweden as well as the rest of Europe was overpopulated. Next we will examine his views in this respect somewhat closer. We will also deal with Wicksell’s pessimism with respect to the possibility of using specialization and international trade to overcome the negative effects of population growth.

Overpopulation

The overpopulation concept Wicksell used was that of *relative* overpopulation. Relative overpopulation is present as soon as the population actually has increased faster than the available means of nutrition. Wicksell argues that at least a partial relative overpopulation – among the age groups that accounted for most of the emigration – had characterized Sweden in the 1870s (Wicksell, 1882, p. 99). He had good reasons for this. Between 1858 and 1867 the number of births had increased considerably in Sweden, and the children born during that period had begun to enter the labor market toward the end of the 1870s – a period characterized by a severe recession. The average number of births per family was presumably around four. At the same time the mortality figure had declined, so the number of surviving children per family had increased (Kock, 1944, pp. 76–77). From 1850 to 1900 the total population increased from less than 3.5 million to over 5.1 (Hofsten and Lundström, 1976, p. 13).

Karin Kock (1944, p. 81) summarizes the social situation that prevailed around the time when Wicksell began to take an interest in the population issue:

[A] strong natural rate of population growth that was notable especially for the young who were entering the labor market, an out-migration of young people from agriculture to cities and industrial districts as well as abroad, increasing numbers of surviving children per family and a strongly increasing extramarital fertility, low standard of living and dismal housing conditions among workers both in agriculture and industry, late marriages among the educated classes and a severe recession during the late 1870s which reinforced the unsatisfactory state of things.

Wicksell notes that general happiness and satisfaction was not a characteristic of Sweden, because important groups in society were ‘on the brink of economic disaster’ (Wicksell, 1887a, p. 6), on their way to leave the country. Mortality had declined in virtually all age groups, notably among infants, but regrettably this decline had not been accompanied by any corresponding decline in fertility: The inevitable result was that the growth of the population had accelerated to rates never experienced hitherto. As a result farmers’ children were forced to leave the countryside and attempt to eke out a living in urban areas, where most likely they would find their capital insufficient, go bankrupt and be proletarianized. Wicksell was utterly pessimistic with respect to the future (Wicksell, 1887a, p. 22):

The state of our country . . . will then appear almost like that of unfortunate Ireland, whose cereals, pork and linen cloths every year are exported

as tribute to some landowners residing outside the country and their entourage, while large parts of the population are said to live in a state of almost perennial famine.

Wicksell contended that fertility had to be reduced with at least one-third in order to arrive at the equilibrium between birth and death rates (Wicksell, 1887a, p. 25).

Overpopulation and war

Intimately connected with the growth of the population was the risk of war. In his 1880 lectures Wicksell had emphasized two checks of population growth: war and emigration, and he took the war issue seriously (Wicksell, 1979, p. 149). It was necessary to ensure everywhere that the economies of neighboring countries would flourish. Wicksell explicitly points to Germany, arguing that in spite of all its economic progress that country has not managed to feed its population. 'What will be the end? Some war?' (Wicksell, 1891, p. 297). Prophetic words, indeed.

In 1914 the war was a fact. In an economic analysis of it Wicksell states that it is the strife over territory that 'in all periods has constituted the foremost if not the only reason for war', and behind the desire for expansion was always the growth of the population (Wicksell, 1978, p. 246). Religious wars, wars of independence and civil wars alike were ultimately driven by the lack of space to feed the population. Wars and population growth tended to form a vicious circle (Wicksell, 1978, p. 247):

Throughout history increases in population and wars condition each other in an eternal *circulus vitiosus*. For if on the one hand overcrowding creates the necessity and longing for a war, a numerous population on the other hand is a prerequisite for victory. Therefore steps to check the increase of population in a peaceful way by decreasing birth-rates will always encounter resistance among the ruling and military classes; and at the end of the war, be it won or lost, nothing is generally considered more important than to encourage a strong increase in the population in order to 'fill the cadres' again.

Wicksell argued that if the world population would continue to grow on the same scale as during the nineteenth century, 'all hopes for a world peace would be in vain' (Wicksell, 1978, pp. 247–248). However, if war and population growth form a vicious circle, there is of course no reason why peace and population control should not constitute a virtuous one.

In one of the last manuscripts that Wicksell prepared before his death (Wicksell, 1926a), he came back to the connection between overpopulation and war, bringing up a second kind of two-way relationship between them.

He began by noting that among all the remedies for overpopulation war has at all times been the without competition most popular one and in addition 'in olden days' the most efficient one (Wicksell, 1926a, p. 262). The two-way relationship, however, had been broken in his own time (Wicksell, 1926a, p. 264):

[W]hile one side of the causal relationship: war as a remedy for overpopulation in our time has all but disappeared, or even been converted into its opposite, unfortunately the other side still exists: overpopulation as a cause of war. In the days of mercenary armies this circumstance was obvious. A sergeant who is recruiting, says Malthus, prays to heaven for crop failure and unemployment, i.e. for an abundance of people [...]

In our days universal military service prevails, the cadres are always full, the war machine, so to speak, always has the steam up.

Specialization and trade: A non-solution

Wicksell argued that the existence of an industrial sector was a sign of progress in a country beyond the satisfaction of the mere basic needs, and the as yet unfinished colonization of overseas territories had led to a division of labor which allowed Europe to subsist on grain and other foodstuffs from overseas and from eastern Europe (Wicksell, 1999d, p. 148):

[T]he industry of the western European countries has grown far beyond the proportions to which it would have been confined if it had still constituted merely a superstructure on domestic agriculture; it largely leads an independent life, based on the *world-wide* exchange of industrial items for agricultural products.

This development, however, had its own inherent dangers. Wicksell argued that the extensive trade of industrial goods for food was likely to be nothing but a temporary episode in the economic history. In the first place, the colonial countries would themselves be running into diminishing returns to labor in agriculture and hence put more of their labor force into industry, and they would become the main consumers of their agricultural produce (Wicksell, 1891, p. 180, 1999d, pp. 148–149).

The process was sped up by the introduction of tariffs on manufactures, which in turn made it more difficult for the western European countries to dispose of their industrial surplus and hence also to cover their food needs via imports. The direct cause of protectionism was the growth of the population. Wicksell (1896, p. 64) points out that 'The urge to protect domestic industries will make itself felt as soon as the country has a population large enough to lead to the emergence of rent on a significant scale, with the wage

level still appreciably larger than in the old countries.' The introduction of the tariff would serve to increase wages at the expense of rent.

The second danger that Wicksell saw with specialization and trade was that the stocks of mineral raw materials and fossil fuels would be exhausted in the sense that the cost of employing them would increase rapidly, faster than what might be compensated for by material-saving technological progress (Wicksell, 1999d, p. 149). In the specific case of Sweden the picture did not look too good. An examination of the available statistics led Wicksell to conclude that it was only in the case of wood and pulp products that Sweden had a real export surplus, but maintaining that surplus on the same scale as hitherto would require cutting at a rate exceeding by far that of the growth of the Swedish forests. This in turn called for processing, but for processed wood products the situation was complicated by tariffs abroad. Wicksell did not see any possibilities of finding any substitutes for wood and pulp exports in the short run and was afraid that iron production would experience a contraction as well (Wicksell, 1999d, p. 154).

A third obstacle to continued international trade was found on the demand side in the New World. In his booklet on population Wicksell (1979, p. 148) quoted figures on the discrepancy between population growth and food production in Europe which indicated that at the end of the twentieth century the demand for food imports in Western Europe would amount to three times the figure for 1890. He, however, doubted that this figure would suffice, since in the extreme case where agricultural production in Western Europe would remain stationary, while the population would treble its size, the correct figure would be eight to ten times as high as the 1890 one. To satisfy this demand via imports would be impossible since at the same time the population of the food exporting countries would increase, consume the formerly available food surplus, and in addition cease to demand Western European manufactures.

In 1926 Wicksell noted that the golden age of north-south factor proportions based trade, with agricultural goods being exchanged for manufactures, had come to an end. He considered it to be the exceptional episode of the nineteenth century (Wicksell, 1926a, p. 265). In fact, he had been waiting for the end of it. The international exchange of manufactured products for food staples constituted a disturbing ingredient in his view of long-run economic development, a view that rested heavily on diminishing returns to a too rapidly growing population (cf. Uhr, 1962, pp. 328–329).

Wicksell (1925, p. 10) pointed to the 'artificial economic life' of western Europe, with its concentration on manufactures and its imports of food and raw materials from overseas and from Russia. The regions that supplied food to Europe saw their populations grow, and in the end they would reach population densities that would not allow them to produce any exportable surplus anymore. Diminishing returns in agriculture would take their toll. Europe itself would have to produce the primary products it

needed and that would not be possible unless the density of its population was reduced.

Emigration: A solution of the past

At least 100,000 Swedes left their mother country during 1880 and 1881, the vast majority for the United States, a figure which Wicksell considered large for a country of four and a half million inhabitants (Wicksell, 1882). In Sweden, large-scale emigration had begun in the 1860s (Hofsten and Lundström, 1976, p. 68), with a peak in 1868–1869, when 66,000 people departed, after fatal harvests. A second wave began in 1879 and continued up to 1893. During this period more than 565,000 people – the equivalent of 37 percent of all the emigrants between 1851 and 1930 – left Sweden. The peak years were 1882 (50,000), 1887 (51,000) and 1888 (another 50,000), about 11 per thousand of the total population each year.

Views were split on whether emigration was good or bad for Sweden, and Wicksell set out to find the actual effects. Whether the emigrant succeeds or not, he writes, has no impact on the Swedish economy, unless we take income remittances into account, but such remittances he considers in general to be ‘of a temporary and passing nature’ (Wicksell, 1882, p. 13). The main effects have to be sought elsewhere, and Wicksell argues that emigration leads to a ‘double’ loss. In the first place, capital is required both for the voyage and for the first few months in the foreign country. Still, Wicksell considers this effect to be less important. Emigrants, he argues, usually finance their trip by sales of their assets, but in the Swedish case most of them were ‘workers and servants’ (Wicksell, 1882, p. 15), that is, poor people with little to sell. Frequently they were financed by relatives already in the new country or by loans which they later had to repay. Thus, Wicksell concludes, in quantitative terms, there is not too much to argue about.

Far more important quantitatively speaking is the loss of *human* capital – of labor – and this will in turn have consequences in the labor market (Wicksell, 1882, p. 19):

The most certain and most immediate consequence of emigration is that it reduces the competition among the workers and hence increases wages or, if the latter are already on the decrease, counteracts their further reduction. Moreover, even though the workers who remain behind thus get an occasion to increase their consumption, the reduction of the number of consumers should still make the price of all such commodities that are not completely dependent on the position of prices in the foreign market cheaper.

This, from the distributional point of view, would be positive (Wicksell, 1882, p. 19). Wicksell was, however, not prepared to endorse the idea that

labor migration is an unmitigated blessing. There was still another 'debit' item: the cost of education which accrues to the home country and which does not correspond to any contribution to GDP by the emigrants. This was the most important aspect for Wicksell (1882, p. 23):

If... it turns out that the country has not been able to educate this labor which it does not need without high, perhaps enormous, costs, it appears to be hence that the economic point of gravity of the question moves, and it matters little or nothing that the emigration at the time when it is produced by the circumstances may constitute a true relief for the country.

To this decidedly long-run view, which assumes that at some point the migrants can be employed at home, Wicksell adds an explicit human capital perspective (Wicksell, 1882, p. 24):

The education and care that is thus bestowed upon the adolescent generation should be regarded as an advance in terms of capital that it must, in its turn, repay some time, mainly by caring for a subsequent generation. For each individual that leaves the realm (or is carried off by death) before he has had the time to repay his share in this debt a loss is obviously inflicted on the country through the capital invested in him but not repaid.

Should it, on the other hand, turn out to be impossible to employ the emigrants at home their emigration should be regarded simply as a way of writing off a loss that has already been incurred by their home country. Then the emigrants from the economic point of view constitute a worthless asset whose nominal book value can never be realized.

The obvious cause

Wicksell was not in the slightest doubt as to what causes emigration (Wicksell, 1882, p. 47). He rejected that it should be the conditions in the United States that served as a magnet, since the emigration from Sweden received a hitherto unknown boost after the years of severe Swedish harvest failure at the end of the 1860s. Before 1868, emigration from Sweden had been insignificant, caused mainly by such factors as religious oppression and limitations on the freedom of speech, on average less than 0.5 per thousand of the population. The fatal year 1868, when the harvest failed, however, sent a shock wave through the country, and the following year the figure had soared to nine per thousand. This emigration boom was to last for six years, before it began to taper off during the relatively good years 1872–1873, only to pick up again after the turn for worse in

1878, and a new maximum was reached 1880–1882: ten per thousand, in the main young people who had difficulties getting a job (Kock, 1944, pp. 80–81).

It was thus quite obvious that there was a connection between the economic situation in Sweden and the rate of emigration. The cause of emigration, Wicksell (1882, p. 53) argued, must be sought in the excessive growth of the population (Wicksell, 1882, p. 55).

It was clear for him that this was a potentially Malthusian situation, since he could not conceive of any possibility that the growth of agriculture and industry would have been fast enough to accommodate five new families instead of four. He did not deny that both agriculture and manufacturing had taken great strides forward, but not enough to accommodate those who emigrated and their would-be families. The land could not be subdivided indefinitely, so the agricultural sector would have to shed labor and these workers would be ‘compressed’ within the narrower limits of industry and commerce – sectors which both were far smaller than agriculture: a veritable inundation. Thus, there was a single possible conclusion (Wicksell, 1882, p. 61):

If we want to reduce the inconveniences of population growth there is no better means for this than to reduce the growth of the population itself; if in the future we want to forestall emigration or at least reduce it to less frightening proportions we must stop breeding emigrants.

However, in the near future the emigration escape valve would be closed or at least more difficult to use than in the past (Wicksell, 1887a, p. 26). The agricultural frontier extending from north to south in the United States was more or less closed, having reached the Rocky Mountains, leaving ‘only pockets and backlands’ (Wicksell, 1887a, p. 27) to be filled. If in addition, as it seemed, emigration to Canada, Brazil, Australia and Africa, was unsuccessful, the livelihood of the population would have to be sought in Sweden itself.

Wicksell’s first views on emigration were formed in the 1880s. He, however, came back to the emigration issue in more favorable terms in 1909 (Wicksell, 1999d), when he was called upon by the Emigration Inquiry to make a statement. Not least was he skeptical to the movement hostile against emigration that had served as a trigger of the Emigration Inquiry. Only if the causes were of a temporary nature would such hostility be warranted. Were they of a more permanent nature it would be a mistake to prevent emigration from taking place.

Wicksell proceeded to examine the home ownership movement in Sweden. The idea was to provide couples who wanted to purchase their own home with loans. Wicksell criticized the idea because of the small sums involved, especially in the case of farms, arguing that they would only serve

to produce a new proletariat. To create new farms would make no sense, since in Sweden, 'a country of old cultivation' (Wicksell, 1999d, p. 141), the land most suitable for farming in the long run had already been put under the plow (Wicksell, 1999d, pp. 141–142).

Always a pessimist in this matter, Wicksell argued that it was far from certain that technological progress would solve the productivity problems of agriculture, since some innovations would simply not be profitable. Again he made the distinction between extensive and intensive agriculture and pointed to the land as the limiting factor in terms of production per worker, arguing that farm size was often far too small in Sweden. The only possible conclusion was that no obstacles should be put in the way of migration (Wicksell, 1999d, p. 146). Wicksell hastened to stress that the *real* emigration issue is connected with the growth of the population. To argue that the size of the population should be expanded was simply foolish (Wicksell, 1999d, p. 155).

The issue was not the maximum possible population but its optimum size, 'the number that in the given conditions is best suited to the available natural resources and is therefore most compatible with the achievement of material well-being, which is after all the necessary basis for all other culture' (Wicksell, 1999d, p. 157). Wicksell concluded that in the case of Sweden the optimum figure was far below the actual one. Here emigration could be of help. In fact, it might be impossible to reduce the population to the extent needed without resorting to 'considerably augmented' emigration (Wicksell, 1999d, p. 160). Of course, finding a place to go to could be difficult, and Wicksell came up with the not too realistic proposal that Siberia could provide an outlet (Wicksell, 1999d, p. 161).

Still, Wicksell argued, emigration can never be anything more than a palliative, since as time goes by the empty and half-empty lands will be filled with people, and then the only solution that remains is to reduce the number of births. There is no such thing as a 'normal' rate of population growth. Every increase is more or less anomalous. Therefore Wicksell recommended that the population question 'should be regarded and dealt with as the great national concern it actually is' (Wicksell, 1999d, p. 163).

Wicksell had sharpened his tone. Instead of recommending a moderate increase of the population, as in 1880, 30 years later he advocated zero growth, at a lower absolute level: the optimum level.

The optimum population

Knut Wicksell, (1901, 1979, 1926b) conceived of two different main population questions. The first one is formulated as follows (Wicksell, 1979, p. 146): 'which is, under given conditions, the optimal density of population in a country? Is the actual population under these conditions too large, about right, or too small, and which criteria could be used?' The optimum is 'the point where an increase of population would no longer in itself lead to

any average increase in welfare but to the opposite' (Wicksell, 1979, p. 146). When the population grows two opposing forces are at work. The first one is diminishing returns, which tend to lower per capita income, and the second is 'the united human efforts, the division of labor, the cooperation, the organization of industry, etc. . . . At the point where these tendencies cancel each other out is indeed the true optimum population' (Overbeek, 1973, p. 510). Wicksell was completely convinced that the optimum had been exceeded everywhere in Europe (Wicksell, 1979, p. 146).

The second population question is: 'in what way should the equilibrium between births and deaths, if it is necessary or desirable, be achieved and maintained?' (Wicksell, 1979, p. 147). This, Wicksell argues (1979, p. 147), is not just an economic question but 'it touches on a great number of other social concerns' as well. 'Whether a population is dense or sparse, numerous or scanty, it must in the fullness of time become stationary, and even when growth is possible or desirable it will, at least in countries of old culture, necessarily fall short of the physiologically possible rate of growth' (Wicksell, 1979, pp. 147–148).

The optimum population was a static concept. As time went by, Wicksell, who at the beginning of the 1880s had recommended a slow increase of the Swedish population, became more and more convinced that the population had to be stationary instead (Wicksell, 1924/1925, p. 260):

Who has not heard about 'the normal growth of populations' and the necessity to maintain this, and yet this expression is an obvious self-contradiction, since *every* population growth percentage that does not practically coincide with standstill is an unconditionally *abnormal* phenomenon in the sense that it can only take place during shorter time periods, whereas the *normal* [situation] must be either a stationary population or else – as was mainly the case in olden days – a fluctuation between growth and decrease around an approximately unchanged equilibrium.

According to Wicksell, there are two main reasons why parents limit their offspring: the desire to provide an education and the desire not to divide the inheritance on too many hands. The former simply indicates an imperfection in the way society handles education. The second reason, in turn, builds on the assumption that it is ownership of land and capital that constitutes the main difference between opulent and poor. The situation, however, Wicksell argues, would be completely different in a society with a stationary population, for the land rents and the return on capital would be drastically reduced whereas wages would be much higher (Wicksell, 1999b, pp. 128–129):

In a word: the national product per capita would be greatly increased by all these factors working in combination, but at the same time, *labour* would now become the main factor in the creation of value, and the

‘product of labour’ would accrue to those who worked. On this assumption, parents’ worries about their children’s future would naturally be greatly alleviated, particularly if the public authorities... were to assume greater responsibility than at present for the instruction and training of the young for their future vocations: no one who was in a position to provide society with bright, healthy children would be deterred from doing so by private economic motives. In a word, we would acquire a new condition of social equality at a far higher level of prosperity than at present, but without any tendency to put that prosperity at risk again by either too high or too low a birth rate.

The light at the end of the tunnel

Toward the end of his life Wicksell thought that he could see some progress in the struggle for a smaller population. One of his last pamphlets, and one of his last publications altogether, on the procreation issue (Wicksell, 1925), deals with the purpose of Neo-Malthusianism: ‘the system of regulated fertility’ (Wicksell, 1925, p. 3). Wicksell lists three different purposes. The first is to make each individual couple of parents able to further their well-being and that of their children better. The second is to put the size of the population into a better relation with the economic resources of the country than when procreation is unhampered, since this would both increase per capita income and reduce the income gap between rich and poor. Finally, adhering to the Neo-Malthusian canon would increase the moral standard of the entire population (Wicksell, 1925, p. 4):

It seeks – for the first time in world history with a possibility of success – to fight prostitution and all other sexual perversions and calamities by providing an opportunity for a sound, natural, and hence happy and virtuous, life, also sexually, for each sexually mature individual.

Wicksell notes with satisfaction that considerable progress had been made with respect to the limitation of the size of the individual family: ‘The unnaturally large number of children and the even larger number of births that were formerly very common also among the educated and better-off classes, in our time remain a rare thing also among the working class’ (Wicksell, 1925, p. 4). He is happy to see that it was seldom that more than two or three children were found, however, mainly in the capital, while ‘in the rest of the country it may not be so well, above all not in upper Norrland, where the population still seems to be living the very primitive life of nature’ (Wicksell, 1925, p. 5). Still, he is able to conclude that considerable progress had been made.

The size of the overall population, on the other hand, still left a lot to be desired. It was not enough that each individual family managed to bring

the number of births down, because *pari passu* with the declining birth rate had gone a reduction of the death rate, and Sweden may very well have had a tremendous overpopulation were it not for emigration above all to the United States. That safety valve was virtually closed in 1925. Still, Wicksell was optimistic, since the reduction of the birth rate had been so substantial during the preceding decades 'that a real regulation of the population appears to be in sight, even independently of the possibility of continued emigration' (Wicksell, 1925, p. 6).

Wicksell pointed to Germany as an example for Sweden. In Germany, the birth rate that had been 'even phenomenally high' (Wicksell, 1925, p. 6) after the Franco-Prussian War had dropped rapidly. Wicksell predicted that this would continue until Germany would reach a new and better economic equilibrium at a lower population size and he went on to project the same development also on the rest of western Europe.

The one and only remedy

When it came to the methods for reducing the size of the population, Wicksell was opposed to postponing the age when marriage is contracted. This age was already too high in Sweden, he argued, and the Swedes entered fewer marital unions than other Europeans. Postponing them further yet would simply breed drunkenness and prostitution. The alternative was celibacy, but in the struggle between celibacy and prostitution the former in general pulled the short straw.

Wicksell refutes the idea that the sexual instinct was mainly dysfunctional in contemporary society with its prevailing values. It could not be argued that while it may have served primitive man in his perennial fights against enemies by ensuring the survival of mankind, in Wicksell's own time it was simply one of the worst scourges that it was impossible to get rid of in spite of all prayers and efforts expended. Instead it was one of 'the richest sources of a harmonious and happy existence. All that we can do is to regulate this instinct so that it does not become an obstacle to the welfare of mankind; this then becomes the aim of rational morality' (Wicksell, 1882, p. 73). The only remedy was the Neo-Malthusian one (Wicksell, 1979, p. 150). Without it, early marriages were not feasible when they, 'as is too often the case', were 'synonymous with the procreation of an unlimited, uncontrolled number of new individuals' (Wicksell, 1887b, p. 49).

Wicksell was deeply concerned with the effects of too rapid population growth on the morality of the nation. He was worried about the decreasing frequency of marriages, especially among young people. The absence of an orderly family life would simply lead to an increase in the incidence of prostitution and in the number of children born out of wedlock. In a way prostitution contributed to a reduction of the population growth. '*Prostitution is sterile*', wrote Wicksell (1887a, p. 32) in 1887, both because the

women practicing it in the end become less prone to bear children but also because their male customers will not produce as numerous an offspring as they would have if they had married instead.

The only way of getting rid of prostitution was by allowing contraceptive devices to be used within the family. 'Prostitution is *sterile*. This is its only but terribly strong *raison d'être*. If you do not dare to fight it with its own weapons, that is, facultative sterility within the matrimony, it is invincible' (Wicksell, 1921, p. 248). The best way to combat prostitution was by making sexual relations within the marriage possible without risk for unwanted pregnancies. 'Our ideal should... be: wife, mother and lover in the person of the same woman, and this can be realized, but only through voluntary sterility to the full extent required' (Wicksell, 1925, p. 17).

Later in his life Wicksell would go one step further in his view of how to limit population growth and argue that women should have the right to abortion under reasonable circumstances. Until means had been developed that were completely effective when it came to prevent conception *all* punishments for both the physician and the woman in case of abortion had better be abolished (Wicksell, 1921, p. 248).

That, Wicksell suggested, also raised the question of whether abortion should be *permitted*. 'This is certainly a most delicate question, and personally it is only at an advanced age that I have been able to overcome the apprehension that already the nature of the issue and even more an inherited tradition raise against it' (Wicksell, 1925, p. 17). He recommended the formulation of an explicit set of criteria that could be used to determine when abortion should be allowed and not. The simplest rule would be to allow it to take place freely, for example, before the third month of pregnancy when the movement of the fetus begins. The main route to a regulation of fertility, he concluded, should be through the use of contraceptives and the role of abortion should be that of 'an available *last resort*, a safe *guarantee* for the many that absolutely need [it]' (Wicksell, 1925, p. 24).

The Wicksellian system

In order to get a complete picture of Wicksell's views on poverty and population we must pull a number of threads together.¹ In fact, his discussion of the effects of population growth is carried out within an implicit framework that closely resembles the modern specific factors general equilibrium approach to international trade and factor movements, as this had been developed in the 1970s (Jones, 1971; Samuelson, 1971a, 1971b).

Wicksell keeps coming back to the interplay between events in Europe and overseas, two regions that we may label 'The Old World' and 'The New World', as it were. The production structure that Wicksell worked with is almost completely symmetric. We will therefore provide an account of the

structure of the Old World and later, when appropriate, simply note where that of the New World differs from it.

The Old World produces agricultural goods with the aid of labor, land and capital, while manufacturing uses labor, a natural resource, for example, forests or mineral ores, and capital. Labor is mobile between the two sectors, and there is full employment of the labor force. The extension of the land area is given and all land suitable for agricultural production is under the plow. Land is thus a fixed production factor. So is the natural resource. As we found in the discussion of diminishing returns, Wicksell kept insisting on the exhaustibility of natural resources everywhere. He did not deal with mobility of capital anywhere in his writings on population and poverty. In fact, the importance of capital in agriculture is played down almost everywhere except in his discussion of technological progress. This makes it natural to treat the two capital stocks as sector-specific. It is thus obvious that Wicksell's production framework essentially corresponds to the specific factors model of Ronald Jones (1971), with a single mobile factor: labor.

With profit-maximizing producers in both sectors all production factors are rewarded with the value of their respective marginal products. (We may choose to use manufactures as our numéraire, that is, everything is measured in units of manufactures.) With sector-specific factors there will be no factor price equalization between countries. Assume that the total labor force of the Old World is given. Dividing this between the two sectors so as to equalize the value of the marginal productivity (VMPL) in agriculture and manufacturing yields the Old World wage, given the capital stocks, the land and the natural resources. Assume next that the New World has exactly the same the same technology and endowments of the fixed factors as the Old World, that is, VMPL schedules that are identical to those of the Old World but a labor force which is smaller. This will then give rise to a higher wage rate. Thus, as long as migration is not free, neither the wages nor the returns to the specific factors will be equalized. We hence need to operate with one wage rate for the Old World and one for the New.

The outputs of the two commodities can also be stated as functions of their relative price (the price of agricultural goods) and a shift parameter that symbolizes exogenous influences on production, like changes in technology.

Wicksell discusses changes in demand and relative commodity prices, that is, he works with the assumption of two 'large' economic regions whose actions together determine international prices. This means that the demand side has to be specified as well. The income of the Old World is equal to the total value of agricultural and manufacturing output. This entire income is spent on consumption of the two goods, and the demand for agricultural (manufactured) goods in the Old World is a function of relative commodity prices, income and preferences (symbolized by a shift parameter).

This finishes our description of the Old World. The economic structure of the New World is completely analogous, but has separate shift parameters (cf., however, below for the case when an agrarian frontier exists).

What remains to be done is to close the system: Wicksell assumes that the Old World trades freely with the New World (while factor movements are regulated). Thus we may use for example the equilibrium condition for the market for agricultural goods, with the Old World as a net importer and the New World as a net exporter, as is clear from the section on trade. No corresponding equilibrium condition is needed for the market for manufactures, since according to Walras' Law, if all markets except one are in equilibrium the last one must be so too.

Population growth and technological progress in the old world

The trigger that puts the Wicksellian system in motion is the human sex drive which results in the growth of the population and the labor force in the Old World. When the population and the labor force grow, at constant commodity prices, both agriculture and manufacturing increase their employment of labor, but only at a falling wage rate in terms of manufactures, and hence increase their output as well. This simultaneously increases the returns to the fixed factors, for example, the land rent. That is what Wicksell meant when he stated that the rich in society – the owners of fixed assets – had an interest in maintaining a high rate of population growth, while at the same time this served to depress the living standard of the workers, that is, to increase their poverty. This, in turn, was what led to drunkenness and other social evils.

As we have found, Wicksell did not believe that technological progress could serve to overcome the effects of diminishing returns. Let us see what the effects of technological progress may be with given commodity prices. Provided that the marginal productivity of labor in both sectors is increased by technological progress the wage rate must rise. Whether labor moves into or out of agriculture (manufacturing) depends on which of the two productivity-increasing effects that is the stronger one. We can now also compare the effects of diminishing returns on the wage rate with those of (normal) technological progress. What Wicksell argues is simply that the size of the labor force growth and the strength of the diminishing returns are strong enough to outweigh the productivity-raising influences of technological progress, so that the net result is a reduction of the wage rate.

Assuming that the above sequence is generalized to the entire Old World, it is bound to have an impact on relative commodity prices (the price of agricultural goods in terms of manufactures) as well. The price change is determined by the interplay of three different forces. The first is the change in the demand for agricultural goods in the Old World that results from a

change in preferences at given incomes and commodity prices when the population grows. Wicksell envisaged an increased demand for food (agricultural goods) when the population grew. This he made explicit in the case of the New World, where it 'also' took place, and it is clear that he had the same mechanism in mind for the Old World. Hence, this tends to increase the relative price of agricultural goods.

The second force is the increased demand for agricultural goods that emanates from the increase of the total income of the Old World when the labor force grows and more of both commodities is produced at given prices and keeping preferences constant. Assuming that agricultural goods are not inferior this as well should exert a positive influence on their relative price.

The third force is the increase in the production of agricultural goods that takes place when the labor force grows as a result of population growth. Whether the relative price of agricultural goods rises or falls then depends exclusively on whether the demand for agricultural goods increases faster than the supply of it when the population grows in the Old World. Wicksell assumed that the demand effect was the strongest one. Thus, population growth at home tends to turn the terms-of-trade against the Old World.

Problems of foreign trade

Wicksell did not believe that a specialization according to comparative advantage would contribute to solving the population problem in the Old World. On the contrary, he argued, there were least three problems connected with international trade that would preclude it from working as an engine (Robertson, 1938), or even as a 'handmaiden' (Kravis, 1970) of growth, to use two latter-day terms. The first was the tendency for manufacturing output to stagnate in the Old World when natural resources were depleted. The second was the tariff policy of the New World (read: the United States). The third was population growth and demand changes in the New World.

When the natural resource shrinks the marginal productivity of labor is reduced in manufacturing, and this sector hence starts to shed workers, who can only be reabsorbed in the economy – some of them in agriculture – at a lower wage rate. This also means that manufacturing output must contract while agricultural output expands. At the same time Old World income must fall at given commodity prices, since the total factor endowment of the Old World has shrunk.

Provided that none of the two goods is inferior, the demand for both manufactures and agricultural goods must shrink as income shrinks, that is, the relative price of agricultural goods, whose production has increased, must fall in relation to that of manufactures. As Wicksell predicted, the depletion of natural resources tends to reduce the demand for imports in the Old World, since this region can now afford to buy less. This in turn

interacts with the changes on the supply side to reduce the relative price of agricultural goods in the world market.

The second problem for the Old World when it comes to using international trade to mitigate the consequences of population growth according to Wicksell was the tendency for the New World countries (notably the United States) to use tariffs to protect their manufacturing sectors. Tariffs drive a wedge between relative commodity prices in the domestic market in the New World and world market prices (still adhered to in the Old World).

The introduction of the tariff on manufactured goods raises the relative price of these goods in the New World, that is, it lowers the price of agricultural goods in terms of manufactures. When the tariff on manufactures is introduced in the New World, if we keep the New World relative price of agricultural goods constant, the relative price of these goods must increase in the world market. Old World producers then react by increasing their production and Old World consumers reduce their demand (while New World consumers and producers, who are facing the New World, not the world market, price do not react at all. An excess supply is created which serves to lower the relative price of agricultural goods in the New World.

The tariff on manufactures in the New World will also lower its relative price in the world market, that is, increase the relative price of agricultural goods. When the tariff is introduced, if we keep the world market price constant, the relative domestic price of agricultural goods in the New World must fall. New World consumers increase their demand and producers reduce their supply. An excess demand is created in the world market and the international relative price of agricultural good rises.

This is a standard result: When a tariff is introduced, this serves to increase the domestic price of the good subject to the tariff, while it will lower its price in the world market. The tariff pulls resources out of agriculture into manufacturing in the New World, and hence reduces the worldwide supply of agricultural goods.

The third of Wicksell's obstacles to international trade is the rising demand for agricultural goods that accompanies the growth of the population in the New World. With commodity prices and incomes held constant, this works exactly as the corresponding change in the Old World. It serves to increase the relative price of agricultural goods in the world market, that is, it tends to turn the terms of trade against the Old World. It should, however, be noted that it does not work in isolation but is a result of the growth of the population in the New World, which means that its effects, and the effects of rising New World income, must be weighed against the effects of increased New World production of agricultural goods when the labor force of the New World grows. Let us next turn to the investigation of these effects, but then we must also introduce emigration from the Old to the New World.

Migration from the Old to the New World

The fall in the wage rate in the Old World when the population there grows is what for Wicksell triggers emigration. The effect of this is to increase the population in the New World instead of in the Old. Hence, it is part of the sequence we have just discussed. In the New World it increases the demand for agricultural goods at given commodity prices and incomes, it increases the production of agricultural goods and it increases income and hence the demand for agricultural goods at constant commodity prices.

In his discussion of agricultural production in the New World Wicksell kept coming back to the issue of the land frontier. This, he argued, was rapidly being closed, at least in the United States, while it might still be in existence elsewhere in the New World. Our general equilibrium model can be used to examine both situations. Let us begin with the situation where emigrants who arrive in the New World can put virgin land under the plow.

For the sake of simplicity, let us assume that the entire addition to the Old World population can emigrate to the New World. (This allows us to disregard production effects in the Old World.) When they arrive at their new destination they can either work in the manufacturing sector or in agriculture, on the existing agricultural land. They may also, however, extend the land frontier. We may draw on the Findlay (1996) model, of the territorial expansion of empires, where it is the use of labor (a land-clearing 'brigade') that serves to increase the land.

The introduction of an endogenous land frontier in the New World means that labor there now has to be divided between three different uses: direct production of manufactures, direct production of agricultural goods and extension of the land frontier. We will furthermore assume that on the frontier land can be obtained only at a rising cost in terms of labor, that is, that land clearing is subject to diminishing returns.

What happens when the emigrants arrive in the New World is that they go into all three employments: directly into agriculture, into manufacturing and indirectly into agriculture, by developing the marginal land so that the latter may be put under the plow. They can be absorbed, however, only at the cost of a falling wage rate.

It is also interesting to investigate what will happen to the land rent on the frontier. Adding labor to a given land area tends to increase the land rent while using labor to develop the frontier with given 'direct' labor use in agriculture serves to depress it. If the diminishing returns to land clearing are strong, the land rent will increase in spite of the existence of an agricultural frontier.

According to Wicksell, the frontier was virtually closed in the United States. Once the frontier is closed we are back in our original general equilibrium system. The structures of the two regions are similar, with the

main difference that the New World has a higher endowment of land, which should mean that the existing wage rate is higher there than in the Old World, as pointed out by Wicksell. Emigration should thus be beneficial for those who undertake it. Also, as far as the development of relative commodity prices is concerned, our previous analysis of population growth may be used, substituting the New World for the Old. Presumably, however, the tendency for population growth to increase the relative price of agricultural goods is weaker when the population grows in the New World instead of in the Old, since the additional agricultural output generated should be higher and the shift in consumer preferences weaker. But Wicksell argued that this was only a temporary blessing, since as the population kept growing the structure of the New World economy would gradually approximate that of the Old World.

The next parameter shift to be discussed is mentioned more *en passant* by Wicksell: capital movements. What we have to compare is the effects of a growth of capital stocks in the Old World with the growth of those of the New World, assuming that capitalists are free to decide where they want accumulation to take place. We then want to focus on the development of the two wage rates. Let us start in the Old World, with an increase of the two capital stocks at constant commodity prices and with a given labor force.

Regardless of which of the two capital stocks (probably both) that grows the wage rate will increase. Whether labor will move from manufacturing to agriculture or vice versa depends on the differences in capital accumulation on the one hand and on the impact of additional capital on the marginal productivities of labor on the other.

Wicksell implicitly compared the results of capital accumulation in the Old World with analogous changes in the New World, arguing that from the point of view of the prospective emigrants capital formation overseas would be preferable, that is, that the marginal productivity of labor in both sectors would receive a larger boost from capital formation in the latter than in the former.

The only parameter change in the Wicksellian system that we have not investigated so far is war. As we know, Wicksell was constantly worried that overpopulation would result in territorial aggression. How can this be handled in the model? If we stick to the sequence that Wicksell obviously had in mind, war is triggered by population growth, and the short-run effect of war is a reduction of the population of the nations involved in the war, both as a result of the belligerent activities per se and as a result of starvation, etc. that follows in the footsteps of war. This, then, would reverse all sequences that we have already dealt with that are triggered by population growth. However, according to Wicksell, war 'solves' the population problem only in the short run, because at some point after the termination of the war activities there will again be a drive to increase the population, possibly

triggered by the rulers, politicians and militaries of the countries that have suffered, and then we are of course back where we began our analysis.

The result of putting all the bits and pieces of Wicksell's scattered analysis of population growth together is astonishing. Far from confirming the conventional wisdom that what he wrote on the population question was mechanical and simplistic, it turns out that the exercise results in a coherent general equilibrium framework which very much resembles the specific factors model of international trade developed by Ronald Jones (and Paul Samuelson) in 1971. Within this setting Wicksell handled factor growth (population, natural resources, capital), technological progress, tariffs and factor movements. In this, he stands out as a precursor of the modern theory of international trade. It is here then, rather than in the use of the optimum population concept, that Wicksell's original contribution to the analysis of population growth lies.

Concluding remarks: The failure of the critics

The critics failed to see the originality of Wicksell's approach. Even disregarding the arguments presented so far, this is understandable. In 1891, when they first appeared in an elaborate version (Wicksell, 1891), the modern theory of international trade and factor movements had not yet been worked out. Eli Heckscher had not yet written his path-breaking article. This would not appear until 1919 (Heckscher, 1991), Bertil Ohlin's dissertation (Ohlin, 1991) was defended in 1924, his big treatise on international trade came out only in 1933 (Ohlin, 1933), Paul Samuelson's (1939, 1948, 1949, 1953, also Stolper and Samuelson, 1941) contributions came only around World War II, and the specific factors model was not formalized until 1971. It is thus no wonder that Wicksell failed to spell out his model explicitly. Such was the state of the arts when he wrote, and he should of course not be blamed for that.

Wicksell's complete views on population and poverty have to be put together from a large number of sources. When this is done, however, the result is an approach that would not be completely developed until some 80 years after the appearance of Wicksell's long essay in French on population (Jones, 1971; Samuelson, 1971a, 1971b), although Gottfried Haberler (1936) had begun to explore it in the 1930s, a contribution which, however, went largely unnoticed (Maneschi, 1998, pp. 162–167). It was the analysis of how the interaction between population growth and diminishing returns drove people out of Europe during the late nineteenth century that Wicksell was concerned with, and in the process he inadvertently became a precursor of modern trade and factor movement theory. No neoclassical economist working within the factor proportions framework today would have treated the problem of population growth very differently. In the end Wicksell's originality extended into his analysis of poverty and population as well.

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Note

1. The explicit model can be found in Lundahl (2009) (Chapter 4 of this book).

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4

Knut Wicksell on Population and Poverty: A General Equilibrium Approach

Knut Wicksell's writings on poverty and population are not considered to belong to his most original pieces (Uhr, 1951, pp. 832–834, 1962, pp. 3, 59–60, 328–329, 1991a; Gårdlund, 1996; Gustafsson, 1961, pp. 203, 226; Fong, 1976, p. 314; Henriksson, 1991, p. 40; Pålsson Syll, 2002, p. 241). If we caricature a little, the way Wicksell's views on population and to poverty are usually conceived of is the following. The sex drive of mankind leads it to reproduce in geometric progression, as hypothesized by Malthus. Food production, on the other hand, only increases in arithmetic progression, also à la Malthus. This is an impossible situation, which can go on for a limited time only. People get poorer and then attempt to emigrate if they can. For those who fail, the vices of drunkenness and prostitution lurk around the corner. The only escape goes through the systematic use of contraceptives within the marriage. The optimum population is the one that maximizes the economic well-being of the population. 'The optimum population theory is the core of Wicksell's population theory', summarizes Monica Fong (1976, p. 315), and this is usually the only credit he receives when his writings on population are mentioned (Robbins, 1927, note, p. 118; Gottlieb, 1945, pp. 291–292; Spengler, 1983; Pitchford, 1974, p. 87; Hutchinson, 1967, p. 391; Fong, 1976, p. 314; Lindahl, 1958, p. 35; Schumpeter, 1954, p. 582; Sommarin, 1926–1927, p. 29).

This treatment is not fair to Wicksell. In his foreword to *Value, Capital and Rent* G.L.S. Shackle (1954, p. 7) makes the following characteristic of Wicksell's scientific contribution: 'Wicksell's work was like a mountain from whose flanks divergent streams run down and bring fertility to widely separate fields, only to merge again later into a single broad river.' This statement describes his views on poverty and population very well. However, also in this context there is a great deal more originality in Wicksell than what is commonly realized. He developed his ideas in a large number of published and unpublished writings all the way from 1880 until his death in 1926, and once you put the writings next to each other they form a coherent

general equilibrium system of the interplay between population growth and poverty, trade and factor movements. As early as 1891 (Wicksell, 1891), he had sketched the first outline of what would 80 years later be formalized as the specific factors model of international trade by Ronald Jones (1971) and Paul Samuelson (1971a, 1971b). It is mainly here, and less in his insistence on Malthusian characteristics or in his discussion of the optimum population, that Knut Wicksell's original contribution to the analysis of poverty and population lies. The present chapter will be devoted to an examination of his theory.¹ We will then begin with its core element: diminishing returns.

Diminishing returns and technological pessimism

Population growth tends to depress both per capita income and wages, because diminishing returns prevail in the economy. A strong population increase increases the demand for food and production is displaced to ever more marginal lands. In the process wages will fall (Wicksell, 1892, p. 309). Agricultural output can always be increased by capital accumulation and labor force growth, but not to the corresponding extent (Wicksell, 1914, p. 4), and mere population growth simply depresses the wage rate and increases land rents and the return to capital.

Agriculture is not the only branch subject to diminishing returns. Industrial production is based on natural resources which will be exhausted in the longer run (Wicksell, 1902, pp. 548–549), and it is intimately connected with agriculture on the input side (Wicksell, 1914, p. 7). Hence, whenever diminishing returns are present in agriculture they are also present in manufacturing. Infrastructure displays diminishing returns as well. The satisfaction of an increasing demand for foodstuffs, in the 'countries of old culture', Wicksell argues, is not possible without infrastructural development (Wicksell, 1999c, p. 121), but the latter is subject to diminishing returns, which in turn tends to create unemployment and reduce demand in the economy.

It is often argued that over time technological progress will counteract and overtake diminishing returns and hence raise incomes. Wicksell, however, contended that all that this would lead to would be a temporary upward shift in the marginal productivity curve, and that diminishing returns would thereafter take over once more, albeit from a higher level (Wicksell, 1903, p. 173). The few inventions that occur mainly tend to increase the population since they make it easier to get a job. Therefore, in the end the only thing that inventions can do is to sustain a given population, but not its increase over a longer period of time (Wicksell, 1999a, p. 97).

Mechanization does not necessarily increase wages (Wicksell, 1958, p. 102). Discoveries that introduce new power sources or make it possible to cultivate new fields benefit the workers, but inventions may also save on

labor without, for example, bringing new natural resources into production (Wicksell, 1958, pp. 102–103, 1934, p. 164). As is well known, in one of the most celebrated passages of his *Lectures*, Wicksell stresses that capital accumulation will generally lead to a wage increase, whereas technological progress may not (Wicksell, 1934, p. 164).

Overpopulation

Knut Wicksell's technological pessimism and his insistence on the severity of diminishing returns led him to the conclusion that Europe was overpopulated. Relative overpopulation is present when the population has increased faster than the available means of nutrition, and Wicksell argued that this was the case both in his native Sweden in the 1870s and in the rest of Europe (Wicksell, 1882, p. 99). He had good reasons for this. When Wicksell began his investigation of the population problem Sweden was characterized by a high natural population growth, increasing numbers of surviving children in the families, low living standards and terrible housing conditions among the working classes, rural–urban migration and emigration especially to the United States. A strong recession toward the end of the 1870s exacerbated these trends (Kock, 1944, p. 81). The decline in mortality that had taken place had accelerated the rate of population growth to an all-time high, and Wicksell concluded that fertility had to be reduced with at least one-third in order to restore the balance between death and birth rates (Wicksell, 1887a, p. 25).

As Wicksell saw it, population growth also led to war (Wicksell, 1891, p. 297, 1979, p. 149). Unless the economy flourished, not only at home, but in neighboring countries as well, feeding growing populations might be impossible, and the result might be war (Wicksell, 1891, p. 297). In an economic analysis of World War I he (Wicksell, 1978, p. 246) states that all wars were ultimately driven by the lack of space to feed the population. Wars and population growth tended to form a vicious circle. Overcrowding easily leads to war, and a large population is a prerequisite for victory. Therefore, the military and the ruling classes will be against decreasing birth rates (Wicksell, 1978, p. 247). On the other hand, if war and population growth interact in a vicious circle there is of course no reason why peace and population control should not do the same in a virtuous one.

Trade and emigration

Wicksell argued that the European colonization of overseas territories had led to a division of labor which allowed western Europe to trade its manufactures for foodstuffs from overseas and from eastern Europe (Wicksell, 1999d, p. 148). The extensive trade of industrial goods for food he, however,

considered dangerous. In the first place, the overseas food producers would also run into diminishing returns to labor in agriculture and therefore be forced to move labor into manufacturing. In the end, they would consume most of their agricultural produce themselves and leave little for exports (Wicksell, 1891, p. 180, 1999d, pp. 148–149).

This sequence of events would be reinforced by the introduction of tariffs on manufactures in overseas countries that would restrict the entry for western European industrial producers and make it difficult for Europe to use imports to satisfy its demand for food. The direct cause of protectionism was the growth of the population. Wicksell (1999b, p. 64) stressed that tariffs would be introduced as soon as the population had grown large enough to for rent to appear on a major scale in agriculture. The tariff would then increase wages at the expense of rent.

Wicksell also pointed to a second problem with specialization and trade: that minerals and fossil fuels would be available only at a cost that would be rising faster than what material-saving technological progress would be able to compensate for (Wicksell, 1999d, p. 149). The third obstacle to continued international trade that Wicksell saw was that the population of the food exporting countries would increase and consume its former food surplus while ceasing to demand Western European manufactures (Wicksell, 1979, p. 148).

Wicksell considered the golden age of factor proportions based trade to be an exceptional episode in economic history (Wicksell, 1926, p. 265). The exchange of manufactures for food staples was not sustainable in the long run. Diminishing returns to a rapidly growing population would ensure that (cf. Uhr, 1962, pp. 328–329). In the end Europe would have to produce its own primary products but that would be impossible unless the population could be reduced.

One way of obtaining a reduction of the population was emigration. At least 100,000 Swedes left their mother country during 1880 and 1881, the vast majority for the United States, a figure which Wicksell considered large for a country of four and a half million inhabitants (Wicksell, 1882). Emigration, he argued, reduces the competition among the workers for the available jobs and hence increases wages, and the reduction of the number of consumers will serve as a brake on prices. This, from the distributional point of view, would be positive (Wicksell, 1882, p. 19). Wicksell was, however, not prepared to endorse the idea that labor migration is an unmitigated blessing. The reason was the cost of education incurred by the home country and the failure to match this with a contribution to GDP by the emigrants (Wicksell, 1882, pp. 23–24). This, however, assumes that the prospective emigrants can be employed at home. Should this not be the case, their departure is simply a way of writing off the loss that has already been incurred by their home country.

Toward the optimum population

Wicksell (1882, p. 47) emphasized that there was a close connection between the economic situation in Sweden and the rate of emigration. The cause of emigration, he argued, must be sought in the excessive growth of the Swedish population (Wicksell, 1882, p. 55). Wicksell saw a potentially Malthusian situation building up, where neither the growth of agriculture nor the growth of manufacturing industry could serve to accommodate five new families instead of four. The land could not be subdivided indefinitely, so the agricultural sector would have to shed labor to industry and commerce with lower wages and living standards as the main consequence (Wicksell, 1882, p. 61). Thus, Wicksell was forced to conclude that no obstacles should be put in the way of migration (Wicksell, 1999d, p. 146). He hastened to stress that the *real* emigration issue is connected with population growth. To argue that the size of the population should be expanded was simply foolish (Wicksell, 1999d, p. 155).

The issue was the optimum size of population, 'the number that in the given conditions is best suited to the available natural resources and is therefore most compatible with the achievement of material well-being, which is after all the necessary basis for all other culture' (Wicksell, 1999d, p. 157). In Sweden the optimum figure was far below the actual one according to Wicksell, and he was convinced that this was the situation in the rest of Europe as well (Wicksell, 1979, p. 146).

It might be impossible to reduce the population to the extent needed without increasing the rate of emigration substantially (Wicksell, 1999d, p. 160). In the near future, however, as Wicksell saw it, emigration would become much more difficult than in the past (Wicksell, 1887a, p. 26). Not least, the agricultural frontier in the United States was almost closed (Wicksell, 1887a, p. 27). Finding a place for the surplus population would become increasingly hard, and Wicksell came up with the not too realistic proposal that Siberia could provide an outlet (Wicksell, 1999d, p. 161).

When the population grows diminishing returns tend to lower per capita income, but against this we have to put economies of scale, increased division of labor, improved organization forms and so on. Where these two tendencies match each other is where the optimum population is found (Overbeek, 1973, p. 510).

As time went by, Wicksell, who at the beginning of the 1880s had recommended a slow increase of the Swedish population, became more and more convinced that the population had to be stationary instead (Wicksell, 1924/1925, p. 260). When it came to the methods for reducing the size of the population, Wicksell was opposed to postponing the age when marriage is contracted, since that would put an unnatural brake on the sex lives of young people. The only remedy was the neo-Malthusian one (Wicksell, 1979, p. 150). Early marriages were not feasible without anti-contraceptive

devices (Wicksell, 1887b, p. 49). Later in his life, Wicksell went on to argue that abortion would be permissible as well, under reasonable circumstances (Wicksell, 1925).

A formalization of the Wicksellian system

Wicksell's discussion of the effects of population growth is carried out within an implicit framework that closely resembles the modern general equilibrium approach to international trade and factor movements, as this was developed in the 1970s. Time after time he comes back to the interplay between events in Europe and overseas. In the present context we will label these two regions 'The Old World' and 'The New World', respectively. The production structure that Wicksell worked with is almost completely symmetric. Both regions produce agricultural goods on the one hand and manufactures on the other. (Below we will come back to the main difference: the temporary existence of an agricultural frontier in the New World.) Let us begin by portraying the Old World.

The production functions of the Old World are:

$$A_O = A_O(L_{OA}, \bar{T}_O, \bar{K}_{OA}) \quad (1)$$

$$M_O = M_O(L_{OM}, \bar{R}_O, \bar{K}_{OM}) \quad (2)$$

linearly homogeneous, with diminishing returns to all production factors, but with positive cross-derivatives. Production of agricultural goods (A_O) takes place with the aid of labor (L_{OA}), land (T_O) and capital (K_{OA}), while manufacturing (M_O) uses labor (L_{OM}), a natural resource (R_O), and capital (K_{OM}). Labor is mobile between the two sectors, and there is full employment of the labor force (L_O):

$$L_{OA} + L_{OM} = L_O \quad (3)$$

Land is a fixed production factor. So is the natural resource. Wicksell kept insisting on the exhaustibility of natural resources everywhere. He did not deal with mobility of capital anywhere in his writings on population and poverty. In fact, the importance of capital in agriculture is played down almost everywhere except in his discussion of technological progress. This makes it natural to treat the two capital stocks as sector-specific. It is thus obvious that Wicksell's production framework essentially corresponds to the specific factors model of Ronald Jones (1971) (cf. also Samuelson, 1971a, 1971b), with a single mobile factor: labor.

With profit-maximizing producers in both sectors the production factors are rewarded with the value of their respective marginal products. If we choose to use manufactures as our *numéraire*, that is, set $P_M = 1$ and $P = P_A/P_M$, we must have that

$$w_O = PA_O^L \tag{4}$$

$$w_O = M_O^L \tag{5}$$

for the wage rate.

With sector-specific factors there will be no factor price equalization between countries. The easiest way to see this is by borrowing a diagram from the original Jones (1971) article.

In Figure 4.1 we have put the two Old World curves for the value of the marginal productivity of labor (VMPL) in agriculture and manufacturing back to back. Labor use in agriculture is measured leftwards from O and labor use in manufacturing rightwards from the same point. Assume that the total labor force available is AB. Dividing this between the two sectors so as to equalize the VMPL, yields an Old World wage rate equal to OE. The figure has been drawn on the assumption of given capital stocks, land and natural resources. Assume next that the New World has exactly the same the same technology and endowments of the fixed factors as the Old World, so that the same VMPL curves apply, but a labor force which is only equal to A'B'. This will then give rise to a higher wage rate: OF. Thus, as long as migration is not free, neither the wages nor the returns to the specific factors will be equalized. We hence need to operate with one wage rate (w_O) for the Old World and one (w_N) for the New World.

Turning to the returns to the specific factors we have

$$r_{OA} = PA_O^T \tag{6}$$

for the land rent,

$$r_{OM} = M_O^R \tag{7}$$

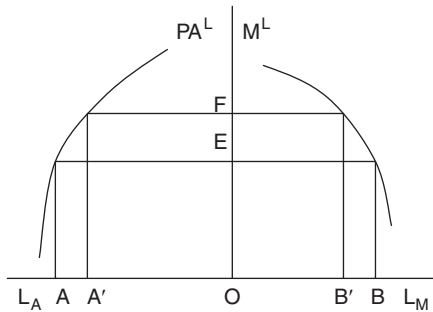


Figure 4.1 Wage determination in the specific factors model

for the natural resource rent, and

$$i_{OA} = PA_O^K \quad (8)$$

$$i_{OM} = M_O^K \quad (9)$$

for the returns to the two capital stocks.

The outputs of the two commodities can also be stated as functions of their relative price (P) and a shift parameter (α), to symbolize exogenous influences on production, like changes in factor endowments and technology:

$$A_O = A_O(P, \alpha) \quad (10)$$

$$M_O = M_O(P, \alpha) \quad (11)$$

Wicksell discusses changes in demand and relative commodity prices, that is, he works with the assumption of two 'large' economic regions whose actions together determine international prices. This means that we have to specify the demand side as well. The total income of the Old World (Y_O) is given by

$$Y_O = PA_O + M_O \quad (12)$$

This entire income is spent on consumption of the two goods (D_{OA} and D_{OM}):

$$Y_O = PD_{OA} + D_{OM} \quad (13)$$

The demand for agricultural goods in the Old World is a function of relative commodity prices, income and preferences (symbolized by the shift parameter β):

$$D_{OA} = D_{OA}(P, Y_O, \beta) \quad (14)$$

This concludes our description of the Old World. The economic structure of the New World is completely analogous (cf., however, below for the case of the agrarian frontier) but for the separate shift parameters, γ (production) and δ (demand) (and hence the equations (not spelled out) are numbered analogously: (1')–(14')).

What remains to be done is to close the system. Wicksell assumes that the Old World trades freely with the New World (while factor movements are regulated). Thus we may use the equilibrium condition for the market for agricultural goods:

$$D_{OA} - A_O = A_N - D_{NA} \quad (15)$$

where the Old World is a net importer and the New World a net exporter. No corresponding equation is needed for the market for manufactures, since

according to Walras' Law, if all markets except one are in equilibrium the last one must be so too.

The system (3)–(14), (3')–(14') and (15) has 25 equations and 25 unknowns ($A_O, M_O, L_{OA}, L_{OM}, w_O, r_{OA}, r_{OM}, i_{OA}, i_{OM}, Y_O, D_{OA}, D_{OM}$, the corresponding New World variables and P). This system can be used for studying the parameter changes in Wicksell's system, and the production functions (1)–(2) and (1')–(2') can be used for solving for output changes at given commodity prices.

The effects of population growth in the Old World

The trigger that puts the Wicksellian system in motion is the human sex drive which results in the growth of the population and the labor force in the Old World. With given relative commodity prices this will serve to increase employment and production in both sectors, lower the wage rate and increase the returns to all the fixed factors. To see this, we employ equations (3)–(5) to solve for changes in employment and wages, (1)–(2) to solve for output changes and finally (6)–(9) to find the changes in the rewards of the specific factors.

Differentiating (3)–(5) and solving for the changes in labor use yields:

$$dL_{OA} = -(1/\Delta)M_O^{LL}dL_O > 0 \quad (16)$$

$$dL_{OM} = -(1/\Delta)PA_O^{LL}dL_O > 0 \quad (17)$$

where

$$\Delta = -(M_O^{LL} + PA_O^{LL}) > 0 \quad (18)$$

and $dw_O < 0$, from (4) or (5). Consequently, the production of both commodities increases in the Old World.

These changes portray the basic Malthusian mechanism. When the population and the labor force grow, at constant commodity prices, both agriculture and manufacturing increase their employment of labor, but only at a falling wage rate in terms of manufactures, and hence increase their output as well. It is easily demonstrated that this simultaneously increases the returns to the fixed factors, for example, the land rent. Differentiating (6) gives:

$$dr_{OA} = PA_O^{TL}dL_{OA} > 0 \quad (19)$$

This is what Wicksell meant when he stated that the rich in society – the owners of fixed assets – had an interest in maintaining a high rate of population growth, while at the same time this served to depress the living standard of the workers, that is, to increase their poverty. That, in turn, was what led to drunkenness and other social evils.

Technological progress

As we have found, Wicksell did not believe that technological progress could serve to overcome the effects of diminishing returns. Let us see what the effects of technological progress may be with given commodity prices. This makes it possible to compare directly with the effects of population growth. Differentiating equations (3)–(5) with a constant population and labor force and solving for the changes in labor use and wages gives:

$$dL_{OA} = (1/\Delta)(PA_O^{La} - M_O^{La})d\alpha \quad (20)$$

$$dL_{OM} = (1/\Delta)(M_O^{La} - PA_O^{La})d\alpha = -dL_{OA} \quad (21)$$

$$dw_O = -(1/\Delta)P(A_O^{LL}M_O^{La} + M_O^{LL}A_O^{La})d\alpha > 0 \quad (22)$$

where $d\alpha$ symbolizes technological progress, A_O^{La} and M_O^{La} measure the impact of technological progress on the marginal productivity of labor in agriculture and manufacturing, respectively, and where Δ is our (18).

We find that provided that both marginal productivities are increased by technological progress the wage rate must rise. Whether labor moves in or out of agriculture (manufacturing) in the 'normal' case where both marginal products are increased by technological progress depends on which of the two productivity-increasing effects is the stronger one.

We can now also compare the effects of diminishing returns on the wage rate with those of technological progress. This is done in (23) where both the growth of the labor force and technological progress have been incorporated:

$$dw_O = -(1/\Delta)P[A_O^{LL}M_O^{LL}dL_O + (A_O^{LL}M_O^{La} + M_O^{LL}A_O^{La})d\alpha] \quad (23)$$

What Wicksell argues is that the first term within the square brackets is larger than the second. The size of the labor force growth, dL_O , and the strength of the diminishing returns A_O^{LL} and M_O^{LL} are strong enough to outweigh the productivity-raising influences of technological progress M_O^{La} and A_O^{La} .

Assuming that the above sequence is generalized to the entire Old World, it is bound to have an impact on relative commodity prices as well. In order to find the direction of the price change, however, we must make use of the larger general equilibrium system above. We then need the supply functions for the two goods in the Old and the New World, (10)–(11) and (10')–(11'), the two regional income expressions (12) and (12'), the two demand functions for agricultural goods, (14') and (14''), and, finally, the equilibrium condition for the market for agricultural goods: (15). This system of nine equations can be solved for changes in the nine unknowns A_O , M_O , A_N , M_N , Y_O , Y_N , D_{OA} , D_{NA} and P . Differentiating the system, assuming that no technological change takes place, so that $d\alpha$ symbolizes labor force growth only,

and that there is no exogenous change in the New World, and solving for dP yields:

$$dP = - (1/\Delta^*) [D_{OA}^\beta d\beta - D_{OA}^Y P(A_O^\alpha M_O^{LL} + M_O^\alpha A_O^{LL})(1/\Delta)dL_O + PA_O^\alpha M_O^{LL}(1/\Delta)dL_O] \quad (24)$$

where

$$\Delta^* = D_{OA}^P + D_{OA}^Y A_O + D_{OA}^Y (PA_O^P + M_O^P) + D_{NA}^P + D_{NA}^Y A_N + D_{NA}^Y (PA_N^P + M_N^P) - A_O^P - A_N^P < 0 \quad (25)$$

where we have used (16) and (17), and $\Delta > 0$ is our (18).

The denominator (25) must be negative. This is nothing but the partial derivative of the excess demand for agricultural goods with respect to their price, and if our model is to be stable in the sense of Walras, this must be negative. The numerator in turn contains three terms. The first is the change in the demand for agricultural goods in the Old World that results for a change in preferences at given incomes and commodity prices when the population grows. Wicksell envisaged an increased demand for food (agricultural goods) when the population grew. This he made explicit in the case of the New World, where it 'also' took place, and it is clear that he had the same mechanism in mind for the Old World. Hence, this term is positive.

The second term is the increased demand for agricultural goods that emanates from the increase of the total income of the Old World when the labor force grows and more of both commodities is produced at given prices. Assuming that agricultural goods are not inferior this term should be positive as well. The third term is the increase in the production of agricultural goods that takes place when the labor force grows as a result of population growth. Whether the relative price of agricultural goods rises or falls then depends exclusively on whether the demand for agricultural goods increases faster than the supply of it when the population grows in the Old World. Wicksell assumed that the demand effect was the strongest one. Thus, population growth at home tends to turn the terms-of-trade against the Old World.

Problems of foreign trade

Wicksell did not believe that a specialization according to comparative advantage would contribute to solving the population problem in the Old World. On the contrary, he argued, there were least three problems connected with international trade that would preclude it from working as an engine (Robertson, 1938), or even as a 'handmaiden' (Kravis, 1970)

of growth, to use two latter-day terms. The first was the tendency for manufacturing output to stagnate in the Old World when natural resources were depleted. The second was the tariff policy of the New World (read: the United States). The third was population growth and demand changes in the New World. Let us see how this works in terms of our model.

The depletion of natural resources can be expressed as a reduction of R_O , that is, $dR_O < 0$. Differentiating (3)–(5) once more, but this time with a given labor force and given commodity prices, and solving for the resulting changes in labor use and wages yields:

$$dL_{OA} = -dL_{OM} = -(1/\Delta)M_O^{LR}dR_O > 0 \quad (26)$$

$$dw_O = -(1/\Delta)PA_O^{LL}M_O^{LR}dR_O < 0 \quad (27)$$

where $dR_O < 0$ and Δ still is (18).

When the natural resource shrinks, the marginal productivity of labor is reduced in manufacturing, and this sector hence starts to shed workers, who can only be reabsorbed in the economy – some of them in agriculture – at a lower wage rate. This also means that manufacturing output must contract while agricultural output expands:

$$dM_O = M_O^R dR_O + M_O^L dL_{OM} < 0 \quad (28)$$

$$dA_O = A_O^L dL_{OA} = -A_O^L dL_{OM} > 0 \quad (29)$$

At the same time, with given commodity prices, Y_O must fall, since the total factor endowment of the Old World has shrunk:

$$dY_O = -PA_O^L dL_{OM} + M_O^R dR_O + M_O^L dL_{OM} \quad (30)$$

but since the values of the marginal products of labor must be equal, this reduces to

$$dY_O = M_O^R dR_O < 0 \quad (31)$$

Provided that none of the two goods is inferior, the demand for both manufactures and agricultural goods must shrink as income shrinks, that is, the relative price of agricultural goods, whose production has increased, must fall in relation to that of manufactures. As Wicksell predicted, the depletion of natural resources tends to reduce the demand for imports in the Old World, since this region can now afford to buy less. This in turn interacts with the changes on the supply side to reduce the relative price of agricultural goods in the world market

The second problem for the Old World when it comes to using international trade to mitigate the consequences of population growth according to Wicksell was the tendency for the New World countries (notably the United

States) to use tariffs to protect their manufacturing sectors. Tariffs drive a wedge between relative commodity prices in the domestic market in the New World and world market prices (still adhered to in the Old World). We may denote the former by P_N , while retaining P for the relative world market price of agricultural goods. This means that we have to add an equation to our general equilibrium system:

$$P_N = P_A/P_M(1+t) = P/(1+t) \quad (32)$$

where t is the tariff on manufactures in the New World. Let us next find out what the introduction of the tariff will do to P_N and P , respectively.

Let us begin with the former. We then need equations (10)–(12), (14), (10')–(12'), (14') – the latter modified so as to incorporate P_N instead of P – plus (15) and (32). Differentiating this system, assuming that initially $P_N = P$, and $t = 0$, and solving for dP_N yields:

$$dP_N = (1/\Delta^*)P[A_O^P - D_{OA}^P - D_{OA}^Y A_O - D_{OA}^Y (P A_O^P + M_O^P)]dt < 0 \quad (33)$$

where $\Delta^* < 0$, is (25) above. The introduction of the tariff on manufactured goods raises the relative price of these goods in the New World, that is, it lowers the price of agricultural goods in terms of manufactures. Expression (33) shows that when the tariff on manufactures is introduced in the New World, if we keep P_N constant, the relative price of agricultural goods must increase in the world market (cf. (32)). Old World producers then react by increasing their production and Old World consumers reduce their demand (while New World consumers and producers, who are facing P_N , not P , do not react at all). An excess supply is created which serves to lower the price of agricultural goods in the New World.

To find out what happens to the world market price, P , we again use (32) together with the other equations employed in the derivation of (33). This yields:

$$dP = (1/\Delta^*)P[D_{NA}^P + D_{NA}^Y A_N + D_{NA}^Y (P A_N^P + M_N^P) - A_N^P]dt > 0 \quad (34)$$

in analogy with (33). This expression must be positive, since the denominator is negative and the numerator is the partial derivative of the excess demand for agricultural goods with respect to its price, which for stability reasons must be negative. Thus, a tariff on manufactured goods in the New World will lower its relative price in the world market, that is, increase the relative price of agricultural goods.

When the tariff is introduced, if we keep P constant, the relative domestic price of agricultural goods in the New World falls (cf. (32)). New World consumers increase their demand and producers reduce their supply. An excess

demand is created in the world market and the international price of agricultural good rises.

Together (33) and (34) express a standard result: When a tariff is introduced, this serves to increase the domestic price of the good subject to the tariff, while it will lower its price in the world market. The tariff pulls resources out of agriculture into manufacturing in the New World, and hence reduces the world-wide supply of agricultural goods.

The third of Wicksell's obstacles to international trade is the rising demand for agricultural goods that accompanies the growth of the population in the New World. This is obtained by differentiating (14') with commodity prices and incomes held constant:

$$dD_{NA} = D_{NA}^{\delta} d\delta \tag{35}$$

This works exactly as $D_{OA}^{\beta} d\beta$ in (24). It serves to increase the relative price of agricultural goods in the world market, that is, it tends to turn the terms-of trade against the Old World. It should, however, be noted that it does not work in isolation but is a result of the growth of the population in the New World, which means that its effects, and the effects of rising New World income, must be weighed against the effects of increased New World production of agricultural goods when the labor force of the New World grows. Let us next turn to the investigation of these effects, but then we must also introduce emigration from the Old to the New World.

Migration from the Old to the New World

The fall in the wage rate in the Old World when the population there grows is what for Wicksell triggers emigration. The effect of this is to increase the population in the New World instead of in the Old. Hence, it is part of the sequence we have just discussed. In the New World it increases the demand for agricultural goods at given commodity prices and incomes, it increases the production of agricultural goods and it increases income and hence the demand for agricultural goods at constant commodity prices.

In his discussion of agricultural production in the New World Wicksell kept coming back to the issue of the land frontier. This, he argued, was rapidly being closed, at least in the United States, while it might still be in existence elsewhere in the New World. Our general equilibrium model can be used to examine both situations. Let us begin with the situation where emigrants who arrive in the New World can put virgin land under the plow.

For the sake of simplicity, let us assume that the entire addition to the Old World population can emigrate to the New World. (This allows us to

disregard production effects in the Old World.) When the emigrants arrive at their new destination they can either work in the manufacturing sector or in agriculture, on the existing agricultural land. They may also, however, extend the land frontier. In the present context we will draw on the Findlay (1996) model, of the territorial expansion of empires, where it is the use of labor (an army) that extends the territory. Here we may think of a land-clearing 'brigade' (L_{NT}) instead, since this is clearly how Wicksell conceived of the situation.

The introduction of an endogenous land frontier changes the production function for agricultural goods in the New World to

$$A_N = A_N[L_{NA}, T_N(L_{NT}), K_{NA}] \quad (1'')$$

Labor now has to be divided between three different uses:

$$L_{NA} + L_{NM} + L_{NT} = L_N \quad (3'')$$

and to the two wage equations (4') and (5') we have to add a third one:

$$w_N = PA_N^T T^L \quad (36)$$

The 'land-clearing brigade' extends the frontier of cultivation, and its marginal product is valued at a shadow price equal to the value of the marginal product of land in agriculture. We will furthermore assume that on the frontier land can be obtained only at an increasing cost in terms of labor, that is, that the clearing of land is subject to diminishing returns ($T^L > 0$, $T^{LL} < 0$).

Differentiating (3''), (4'), (5') and (36), and solving for the changes in labor use and wages as new emigrants arrive yields:

$$dL_{NA} = (1/\Delta^{**}) PM_N^{LL} [A_N^{TT} (T^L)^2 + A_N^T T^{LL} - A_N^{TL} T^L] dL_N > 0 \quad (37)$$

$$dL_{NM} = (1/\Delta^{**}) P^2 \{ (T^L)^2 [A_N^{TT} A_N^{LL} - (A_N^{TL})^2] + A_N^T T^{LL} A_N^{LL} \} dL_N > 0 \quad (38)$$

$$dL_{NT} = (1/\Delta^{**}) PM_N^{LL} (A_N^{LL} - A_N^{TL} T^L) dL_N > 0 \quad (39)$$

$$dw_N = (1/\Delta^{**}) P^2 M_N^{LL} \{ (T^L)^2 [A_N^{TT} A_N^{LL} - (A_N^{TL})^2] + A_N^{LL} A_N^T T^{LL} \} dL_N < 0 \quad (40)$$

where

$$\Delta^{**} = PM_N^{LL} [A_N^{TT} (T^L)^2 + A_N^T T^{LL} + A_N^{LL} - 2A_N^{TL} T^L] + P^2 \{ A_N^{LL} A_N^T T^{LL} + (T^L)^2 [A_N^{TT} A_N^{LL} - (A_N^{TL})^2] \} \quad (41)$$

and where we have used the fact that when production functions are linearly homogeneous $A_N^{TL} = A_N^{LT}$.

The denominator Δ^{**} is positive. The first term is positive, so is the first part of the second, and we can prove that the last part is positive as well. For this we use Euler's theorem. With linearly homogeneous production functions we have that

$$A_N^{TT}T_N + A_N^{LT}L_{NA} + A_N^{KT}K_{NA} \equiv 0 \quad (42)$$

$$A_N^{TL}T_N + A_N^{LL}L_{NA} + A_N^{KL}K_{NA} \equiv 0 \quad (43)$$

(42) and (43) may be solved for A_N^{TT} and A_N^{LL} , respectively:

$$A_N^{TT} = -A_N^{LT}(L_{NA}/T_N) - A_N^{KL}(K_{NA}/T_N) \quad (44)$$

$$A_N^{LL} = -A_N^{TL}(T_N/L_{NA}) - A_N^{KL}(K_{NA}/L_{NA}) \quad (45)$$

These expressions can now be substituted into the last term of (41) and the expression within the second squared brackets may be developed to yield

$$\begin{aligned} A_N^{TT}A_N^{LL} - (A_N^{TL})^2 &= A_N^{TL}A_N^{KL}(K_{NA}/T_N) + A_N^{KT}A_N^{TL}(K_{NA}/L_{NA}) \\ &\quad + A_N^{KT}A_N^{KL}(K_{NA}/T_N)(K_{NA}/L_{NA}) > 0 \end{aligned} \quad (46)$$

Thus, the entire expression (41) is positive.

What happens when the emigrants arrive in the New World is that they go into all three employments: directly into agriculture, into manufacturing and indirectly into agriculture, by developing the marginal land so that the latter may be put under the plow. They can be absorbed, however, only at the cost of a falling wage rate.

It is also interesting to investigate what will happen to the land rent on the frontier. The land rent is given by (6'). Differentiating this, and keeping in mind that

$$T_N = T_N(L_{NT}) \quad (47)$$

yields

$$dr_{NA} = P(A_N^{TL}dL_{NA} + A_N^{TT}T^L dL_{NT}) \quad (48)$$

Inserting the expressions for the change in labor use (37) and (39) gives us

$$dr_{NA} = (1/\Delta^{**})P^2M_N^{LL}\{T^L[A_N^{TT}A_N^{LL} - (A_N^{TL})^2] + A_N^{TL}A_N^T T^{LL}\}dL_N \quad (49)$$

The land rent may fall in the New World when immigrants arrive and cultivation is extended, unless diminishing returns to extension are strong.

According to Wicksell, the frontier is virtually closed, so the latter is precisely what we should expect, and once the frontier is closed we are back in our original general equilibrium system. The analogy with (20)–(22) is perfect, with the one difference that the New World has a higher endowment of land, which should mean that the existing wage rate is higher there than in the Old World, as pointed out by Wicksell and illustrated in Figure 4.1. Emigration should thus be beneficial for those who undertake it. Also, as far as the development of relative commodity prices is concerned, (24) may be used, substituting N (the New World) for O (the Old World). Presumably, however, the tendency for population growth to increase the relative price of agricultural goods is weaker when the population grows in the New World instead of in the Old, since the additional agricultural output generated should be higher and the shift in consumer preferences weaker. But Wicksell argued that this was only a temporary blessing, since as the population kept growing the structure of the New World economy would gradually approximate that of the Old World.

The next parameter shift to be discussed is one mentioned more *en passant* by Wicksell: capital movements. What we have to compare is the effects of a growth of capital stocks in the Old World with the growth of those of the New World, assuming that capitalists are free to decide where they want accumulation to take place. We then want to focus on the development of the two wage rates. Let us start in the Old World. Again we differentiate (3)–(5) at constant commodity prices and with a given labor force. The exogenous change is the increase in K_{OA} and K_{OM} .

Differentiating the system and solving for the change in the wage rate yields:

$$dw_o = -(1/\Delta)P(A_o^{LK}M_o^{LL}dK_{OA} + M_o^{LK}A_o^{LL}dK_{OM}) > 0 \quad (50)$$

Regardless of which of the two capital stocks (probably both) that grows, the wage rate will increase. Whether labor will move from manufacturing to agriculture or vice versa depends on the differences in capital accumulation on the one hand and on the impact of additional capital on the marginal productivities of labor on the other:

$$dL_{OA} = -dL_{OM} = (1/\Delta)(PA_o^{LK}dK_{OA} - M_o^{LK}dK_{OM}) \quad (51)$$

Wicksell implicitly compared (50) and (51) with the analogous expressions for capital accumulation in the New World, arguing that from the point of view of the prospective emigrants capital formation overseas would be preferable, that is, for $dK_{NA} = dK_{OA}$ and $dK_{NM} = dK_{OM}$, $A_N^{LK} > A_o^{LK}$ and $M_N^{LK} > M_o^{LK}$.

The only parameter change in the Wicksellian system that we have not investigated so far is war. As we know, Wicksell was constantly worried that

overpopulation would result territorial aggression. How can this be handled in the model? If we stick to the sequence that Wicksell obviously had in mind, war is triggered by population growth, and the short-run effect of war is a reduction of the population of the nations involved in the war, both as a result of the belligerent activities per se and as a result of starvation, etc. that follows in the footsteps of war. This, then, would reverse all sequences that we have already dealt with that are triggered by population growth. However, according to Wicksell, war 'solves' the population problem only in the short run, because at some point after the termination of the war activities there will again be a drive to increase the population, possibly triggered by the rulers, politicians and militaries of the countries that have suffered, and then we are of course back where we began our analysis in this chapter.

Conclusions

The present chapter has been devoted to the exercise of putting all the bits and pieces of Wicksell's scattered analysis of population growth together. The result is astonishing. Far from confirming the conventional wisdom that what he wrote on the population question was mechanical and simplistic, it turns out that the exercise results in a coherent general equilibrium framework which very much resembles the specific factors model of international trade foreshadowed by Gottfried Haberler (1936) and formalized by Ronald Jones (1971) and Paul Samuelson (1971a, 1971b). Within this setting Wicksell handled factor growth (population, natural resources, capital), technological progress, tariffs and factor movements. In this, he stands out as a precursor of the modern theory of international trade. It is here then, rather than in the use of the optimum population concept, that Wicksell's original contribution to the analysis of population growth lies.

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Note

1. For a more detailed exposition of the individual elements of Wicksell's theory, see Lundahl (2005a, 2005b). The latter is reprinted in Chapter 3.

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5

Foreign Trade and Exchange Rates: The Theoretical Contribution of Eli Heckscher to International Economics

Who Eli Heckscher is depends on the beholder. He is a scientific Janus face (Henriksson and Lundahl, 2003). Quantitatively speaking, he is an economic historian, with seminal international contributions about the Continental System (Heckscher, 1922a) and mercantilism (Heckscher, 1935a) to his credit. His latter-day Swedish colleagues are still wrestling with his four-volume work on the economic history of Sweden from Gustav Vasa to the nineteenth century (Heckscher, 1935b, 1936, 1949a, 1949b) and his *Svenskt arbete och liv* (Heckscher, 1941), translated as *An Economic History of Sweden* (Heckscher, 1954), was compulsory reading on the course lists in economic history for many years. At the same time, Heckscher was an economist. His name is inexorably connected with one of the fundamental theorems in the theory of international trade, the so-called Heckscher-Ohlin theorem. A country exports goods that require relatively much of production factors in abundant supply in the country and imports goods which require relatively much of factors which are scarce in the country. Heckscher wrote yet another article in international economics, about what determines the exchange rates between different currencies, an article which received far less attention than his contribution to the theory of international trade, until it was 'rediscovered' in the 1980s and 1990s.

The present chapter deals with Eli Heckscher's two theoretical contributions in international economics, with what he actually wrote in his celebrated article about foreign trade in 1919 (Heckscher, 1919a) – what his actual contribution was – with the ideas advanced by him in his obscure contribution to the theory of exchange rate determination (Heckscher, 1916) and with how he applied these ideas in his empirical analysis of exchange rate policy.

Foreign trade: Heckscher's sources of inspiration

In the textbooks the Heckscher-Ohlin theorem is usually discussed within the framework of a model with two commodities and two production factors, but neither Heckscher nor Ohlin used this format. It was Abba Lerner, in a seminar paper at the London School of Economics in 1933, which was not published until 19 years later (Lerner, 1952), and Paul Samuelson (Stolper and Samuelson, 1941; Samuelson, 1948, 1949) who independently derived the results contained in today's textbooks. Heckscher did something else, but what did he actually do?

Eli Heckscher's contribution to the theory of international trade is found in an article from 1919, 'Utrikeshandelns verkan på inkomstfördelningen. Några teoretiska grundlinjer' (Heckscher, 1919a), translated as 'The Effect of Foreign Trade on the Distribution of Income' (Heckscher, 1949c, 1991). The background to the essay was the following. Heckscher first became acquainted with the topic through the discussion of tariffs that took place in Sweden during and after World War I, not least the tariffs on sugar. He had presented his own views of the sugar tariffs in an article in *Ekonomisk Tidskrift* in 1913 (Heckscher, 1913). Heckscher was a free trader and he saw no point in attempting to use unemployed workers from other branches in the sugar business, as had been suggested by the tariff advocates. It was much better that they played football, because that was at least strengthening, and the use of tariffs would not make any contribution to GDP. Employment had to be created with the aid of exports.

Heckscher's article was reprinted in *Svenska produktionsproblem* (Swedish Production Problems) (Heckscher, 1918b). This book received a very critical review by Knut Wicksell (1919). Wicksell thought that Heckscher's book suffered from 'two serious defects. One is that the highly important contemporary *social distribution problem* has been almost completely pushed into the shadow. [...] The second, related, and in my view even more serious defect, is that all considerations of the important *population problem* are conspicuous by their absence' (Wicksell, 1919, p. 16). Wicksell took issue with Heckscher's enthusiasm for free trade and expressed consideration that free trade could lead to a reduction of the wage level and to the emigration of the majority of the population. An increase of the price of timber and iron ore could lead to exports of these products without any previous processing and perhaps also to tree planting in the agricultural fields as well as to deindustrialization.¹ Population growth and emigration was a topic of great concern for Wicksell at the time (Lundahl, 2005). The previous years had seen falling agricultural prices and heavy emigration to the United States.

Heckscher had had yet another reason to discuss the tariff issue. In 1917, Fritz Brock had published a somewhat clumsy book on the subject (Brock, 1917). Heckscher (1918a) had reviewed the book. He had read it as a member of the expert committee for a chair in economics for which Brock had

applied. Brock in different ways tried to defend tariffs and Heckscher was critical of his reasoning, for several reasons. Two of these are of special interest since they deal with income distribution issues and hence point forward to the 1919 essay by Heckscher.

The first criticism deals with the consequences of a uniform tariff on all commodities, what Brock calls 'solidary' tariff protection. Heckscher in turn calls a solidary system an 'economic impossibility' and stresses that some branches will have to pay the costs of protection, namely the branches that cannot take advantage of the price increases caused by the tariffs, above all the export branches, but also branches linked to the latter, such as shipping. Brock's second argument deals directly with the effect of tariff protection on the distribution of income, 'but as you could predict, no important results are obtained on this point' (Heckscher, 1918a, p. 324). Brock states that an abolition of the tariffs on agricultural products will lead to a transfer of workers from agriculture to industry and that this in turn will increase the cost of housing in the cities so that the benefit that the industrial workers get from cheaper food will be reduced to a corresponding extent. Heckscher concedes that this may perhaps be theoretically possible but that a planned, not too fast, transfer would provide room for policies that counteract the rise of land rents.

Both Wicksell's and Brock's objections to free trade bothered Heckscher. Above all he pondered Wicksell's problem so much that he sat down and wrote his classic 1919 piece, the foundation of the modern theory of international trade. As Ronald Findlay (1995, p. 1) has pointed out, not very much had taken place in the theory trade since Ricardo had demonstrated how countries may specialize according to the advantages given by their comparative costs and John Stuart Mill had shown how the international terms of trade were determined by the demand of different countries for each other's products.² Heckscher's contribution would provide the cornerstone for the subsequent 50 years' developments in the theory of international trade. It is no easy reading, either in Swedish or in English (Heckscher, 1991, parts in Heckscher, 1949c).³ Paul Samuelson (1982, note, p. 38) calls his article 'a work of genius', but Heckscher's style is long-winded, with a few brilliant exceptions. He does not write as a modern economist, he uses tricky numerical examples and all the time the reader is forced to ask which his current assumptions are.

'The Heckscher Theorem'

Heckscher first assumes that the factor supply in each country is given and that the production functions are the same for all counties. He has three production factors – labor, capital and land – and two goods.⁴ Heckscher is interested in the functional distribution of income, 'the distribution of income among land, capital, and labor' (Heckscher, 1991, p. 46), but this

question in turn leads to the question of '*the reasons for differences in comparative costs among nations*' (Heckscher, 1991, p. 47) and he is surprised that this cornerstone in Ricardo's theory has received so little attention in the literature. Heckscher makes the thought experiment that countries have both the same relative scarcity (price) of factors and the same production technology. From this follows that the countries must have the same comparative costs for all goods, and then no trade can arise. It is, however, not enough with differences in relative factor scarcity, but for trade to take place the different factors must enter different goods in different proportions. Otherwise the price of one good in comparison to the other will be the same in both countries and trade becomes meaningless.

The existence of trade with Heckscher hence rests on two pillars. 'The prerequisites for initiating international trade may ... be summarized as *different relative prices of the factors of production in the exchanging countries*, as well as *different proportions between the factors of production in different commodities*', he writes (Heckscher, 1991, p. 48). This is Heckscher's formulation of the 'Heckscher-Ohlin theorem', and here, factor intensity is not defined in terms of relative factor endowments but in terms of relative prices.

This is not trivial, because, as Ronald Jones demonstrated, in a classic article (Jones, 1956), it is not generally true in the case with two goods and two factors (e.g. capital and labor) when factor endowments are formulated in physical terms that the countries will export precisely the goods which use the abundant factors intensively. If domestic demand under autarky is biased toward these goods the capital-intensive good may become relatively more expensive in the capital-abundant country and, in the same way, the labor-intensive good more expensive in the labor-abundant country. The former country will then export the labor-intensive good when trade is allowed and the labor-abundant country will export the capital-intensive good. If, on the other hand, Heckscher's formulation is used (in the two-by-two-by-two case), the Heckscher-Ohlin theorem holds, because then the good using the relatively abundant factor intensively will always be the good which is relatively cheap under autarky, and the country will export precisely that good when trade is permitted.

Factor price equalization

Next, Heckscher poses the question whether the existence of trade will have an influence on relative factor prices. When a country begins to export, the scarcity of the factors employed in the export sector will increase. At the same time, through imports, production factors will be released from the sector that produces the good which is now beginning to be imported. Only in the special case when factors are released in the same proportion as that demanded by the export sector will factor prices remain unchanged. In the normal case you must expect that they change and hence that the

distribution of income is affected as well. Heckscher also discusses the case when the import good is not the same good as the one whose production decreases as a consequence of imports, as when cotton is being used instead of wool. 'This leads to a completely new set of possible results' (Heckscher, 1991, p. 51). Heckscher mentions the possibility that the country may begin to export its wool instead. Altogether, he concludes that 'changes in the distribution of income must be considered to be the *normal* consequence of expanding or contracting international trade' (Heckscher, 1991, p. 53).

Then, the remaining problem is 'the direction and limits of this redistribution' (Heckscher, 1991, p. 53). It is at this point of the analysis that Heckscher comes to what with time would become known as the 'factor price equalization theorem'. He begins by noting that since international trade consists of an exchange of goods, international trade 'must under most circumstances have opposite effects upon each of the two participants' (Heckscher, 1991, p. 53), that is, the relative factor prices tend to become more, not less, equal in countries trading with each other, and he formulates his problem (Heckscher, 1991, p. 53):

The primary questions are under what conditions and to what extent *foreign trade evens out the scarcity and the prices of the factors of production among countries*. Obviously this is a question concerning the tendency trade has to create similar conditions in different countries.

Heckscher analyzes the case when the production factors are completely immobile between countries and the technology, as before, is the same in all countries. His point of departure is the foundation of trade – differences in relative factor scarcity between countries – and he poses the question whether the latter is not only a necessary but also a sufficient condition for trade to take place. His answer is affirmative. The differences in relative factor prices make it profitable to exchange a good which requires relatively less of a scarce production factor for a good that requires more. His formulation of the factor price equalization theorem runs as follows (Heckscher, 1991, p. 54):

trade must continue to expand until an *equalization of the relative scarcity of the factors of production among countries* has occurred. As long as the scarcity is not the same between one country and another, trade will continue to expand. Trade already entered upon, it being a condition of the equalization, will continue after relative scarcities are finally equalized, but no further expansion will occur. Thus it can be seen that a difference in comparative costs between countries will *create* trade but such a difference is not necessary for the *continuance* of established trade. On the contrary, the differences in comparative costs inevitably disappear as trade expands. Differences in the relative prices of factors of production

are thus eliminated even in the absence of movements of these factors, provided that the techniques are the same in the trading countries.

Heckscher illustrates his ideas through a 'rather opaque' (Jones, 2006, p. 96) numerical example,⁵ which builds on very strong assumptions. As Ronald Jones (2006) has pointed out, he works with fixed production coefficients. Each good requires a given land, capital and labor input per unit of output. Jones demonstrates that this implies that there is only a limited number of factor endowments that will lead to full employment and positive factor prices. He also shows that, with Heckscher's assumptions, it is possible that two economies with the same technologies and the same relative commodity prices will still display different relative factor prices. Heckscher was not aware that factor price equalization cannot be expected generally when the number of production factors exceeds the number of goods. This would be shown by a later generation of economists (see e.g. Chipman, 1966; Kemp, 1969, chapter 3).

Heckscher, however, was aware of the fact that the factor price equalization may not be complete. In the case with two goods both countries have to produce both commodities, but if factor endowments differ too much between the countries it may happen that one of the countries will be completely specialized on the production of the good that uses its relatively abundant factor intensively, and then factor price equalization does not run its full course. Heckscher's demonstration builds on a practical example. The United States had plenty of land but few people when the European emigration there began. When the exchange between the United States and Europe began, the United States exported wheat and imported labor-intensive products. 'The scarcity of labor in the United States was [however] *so great* that there were not sufficient workers to cultivate all the land that could have been used advantageously for export of wheat to Europe', writes Heckscher. 'As a result rents were low and wages were high in the United States, compared with the rest of the world, and trade alone could *not* level out these discrepancies.'⁶ In Heckscher's example, the United States produced a single good and the factor proportions employed differed from those used to produce the same good in Europe. Then 'it is not only possible, but necessary, that *the relative and absolute prices of the factors of production must differ in the two trading countries*' (Heckscher, 1991, p. 58). For equalization to take place it is necessary to have migration of labor from Europe to the United States.

Factor mobility

In the last part of his pathbreaking work Heckscher relaxes the assumption of a given factor supply (except for land). He begins by stating that trade will now lead to increased differences in factor endowments. When trade is opened, the return to capital will increase in the capital-abundant

country, the one which exports capital-intensive products, while the opposite will happen in the country where capital is scarce. With a characteristic formulation Heckscher writes (1991, p. 60):

A particularly frugal population, such as the French, will find the consequences of its high rate of savings mitigated by international trade. Through a rise in the interest rate, an actual increase in saving may in fact be induced. Conversely, a less frugal population, such as the Swedish, is tempted to spend even more than before because foreign trade reduces interest rates in Sweden.

Thereafter Heckscher discusses the case with full factor mobility for *all* production factors. This will on the one hand lead to complete factor price equalization and on the other hand ensure 'that production will be distributed in accordance with the preferences of individuals to live in various parts of the world. Under such conditions all international trade would cease since the factors of production would always move to the places where they were needed' (Heckscher, 1991, p. 61). This conclusion makes Heckscher pose the question of what you can do if for some reason you want to keep more of a completely mobile factor inside a certain country. This can be achieved, for example, by increasing the price of the goods produced by the factor through tariff protection, which will in turn lead to immigration of this factor. (The value of the marginal product of the factor will increase.) The physical marginal product of the factor will, however, be reduced below the international level since the factor fetches the same price in all countries. The difference must be paid by the other production factors which will in turn emigrate since they are completely mobile.

Natural resources are, however, not mobile, which means that the mobile factors will be located close to the immobile ones until factor prices are equalized. If, given these assumptions, you resort to tariffs, the immobile factor will have to pay the cost: '*both capital and labor, if completely mobile, might be increased within a country, without lowering their prices, by means of protection at the expense of land rent*' This is probably the strongest possible argument for permanent protection' (Heckscher, 1991, p. 62).

The polemic with Wicksell

Thereafter Heckscher attacks the criticism advanced by Wicksell against his *Svenska produktionsproblem*. Increased raw material prices do not have to lead to deindustrialization and emigration. When the price of raw materials increases abroad, land rents increase and wages fall. Sweden then has a lower land rent and a higher wage rate and will hence export raw materials and import industrial goods, but only to the point where factor prices are equalized. At that point there are no incentives to emigrate since wages are

the same everywhere. You may just as well argue that the result will instead be *immigration* since Sweden will have a higher wage level initially.

It was in order to arrive at these conclusions that Heckscher had written his article (Heckscher, 1991, p. 66):

If this reply to Professor Wicksell's statement holds up, there is no one I can thank more than him because it is through the criticism he has been willing to direct at my endeavors that I have been able, at least in part, to think through these hitherto neglected aspects of international trade.

Finally, Heckscher deals with the wider question whether free trade is desirable from the income distribution point of view. He concludes that it is not possible to make any general statements about how trade affects the equality of incomes but he also rejects the use of tariffs since they are 'unreasonable means' (Heckscher, 1991, p. 68).⁷ If you want to change the distribution of income created by free trade it is better to use taxation, not least land taxes in the case of mobile labor. Hereby you avoid the distortions of production which are always caused by tariffs. Heckscher is completely aware of the fact that the argument about the gains from free trade rests on the, usually implicit, premise that the winners compensate the losers (Heckscher, 1991, p. 68):

free trade, when combined with a deliberate redistribution of income, is the best commercial policy because it creates the *possibility* of maximum satisfaction of human wants, however this term may be defined, a possibility that does not exist under any other commercial system.

Heckscher's article and his reply to Knut Wicksell had an aftermath. In an article in *Ekonomisk Tidskrift* (Wicksell, 1920a) Wicksell took issue with Heckscher's analysis. He reluctantly conceded that the reasoning, 'as far as it went', was correct (Wicksell, 1920a, p. 124), but argued that it could only be applied to branches that were dependent on local raw materials. Miners and lumberjacks would not emigrate, but farmers and industrial workers would. From the global point of view it did not matter where the production factors were located, but from the point of view of Sweden things could be different, and 'more than of purely academic interest' (Wicksell, 1920a, p. 125). Heckscher wrote a long rejoinder (Heckscher, 1920) where he stuck to his theoretical perspective instead of converting the problem into an empirical one, like Wicksell. As Lars Herlitz (2002, p. 493) has pointed out, Heckscher was firmly determined to make Wicksell come up with a theoretical answer as well. He failed. Wicksell's second reply (Wicksell, 1920b) consisted of no more than half a page, and he concluded that the theoretical differences between himself and Heckscher were 'now... so small that I do not even

consider it worthwhile to point them out or discuss them' (Wicksell, 1920b, p. 229): For once Wicksell the theorist was not in the mood for theorizing.

Heckscher's criticism of the purchasing power parity theory

Eli Heckscher's theoretical contributions are not numerous, some four or five short pieces (Henriksson and Lundahl, 2003) and in addition scattered reflections in empirical and historical works. This is not the place to go into these works in any detail, with a single exception: a short article by Heckscher from 1916 (Heckscher, 1916) which he would come back to ten years later (Heckscher, 1926) in his extensive analysis of the Swedish monetary system and policy. The same year (1916) Gustav Cassel, in an article in the *Economic Journal* (Cassel, 1916), had presented his purchasing power parity theory: that the exchange rate between two currencies is determined by the relative price levels of the two countries. The value of the currency of a country stands in direct proportion to the purchasing power of the currency in the same country, that is, in inverse proportion to the price level in the country. The value of the other country's currency is determined in the same way. Hence, the exchange rate is given by the relation between the two price levels (Haberler, 1961, p. 48):

Suppose that compared with a base year when the exchange rate was in equilibrium prices have doubled in country A and trebled in country B; then according to P.P.P. reasoning the equilibrium exchange rate (units of currency A exchanged pro unit of currency B) will have changed in the proportion 2:3. [...] The equilibrium exchange rate is that rate which keeps the balance of payments in equilibrium.

Heckscher criticizes Cassel's reasoning. It was incomplete. A bill of exchange of a certain nominal value represents different values in the home country and the foreign country. With a gold standard, gold of a value that corresponds to the value of the bill must be transported to the home country if you intend to cash the bill there, and then a transport cost arises. The value in the home country then becomes equal to the nominal value minus the transport cost. This is what is usually called the lower gold point.

In the same way you arrive at an upper gold point (a bill in the currency of the home country which is cashed in the foreign country). Under the gold standard, the exchange rate was basically determined by the gold content of the coins of the two countries. (The central banks were obliged to redeem bills with gold on demand.) If the coins of country A contain twice as much gold as those of country B, the par value of the currency of country A equals two units of the currency of country B. If the demand for the currency of country A increases, its value will increase above the par level, but it can never rise above the upper gold point (above the difference given by the

transport cost of gold from B to A) since in B you can buy gold coins at a given price, transport the coins to A and exchange them there for the currency of country A. In the same way, the value of the currency of country A can never fall below the rate given by the lower gold point (given by the transport cost of gold from A to B).

If instead you have a paper currency standard you get a claim on goods, that is, on general purchasing power, abroad, and the goods must also be transported to your home country if you want to consume them there. In the same way as with the gold standard you get a lower (and an upper) commodity point. According to Heckscher's reasoning the exchange rate is determined inside a margin which is ultimately determined by the distance of the commodity points to the price parity point – the relation between the price levels of the two countries. (He analyzes a few different factors that determine the exact exchange rate.) Heckscher argues that Cassel in his analysis only speaks of price parity and fails to take the commodity points into consideration.

The applications

When World War I began, Sweden left the gold standard, but in 1920 the country decided to go back to the old system, to the pre-war parity. Heckscher wholeheartedly supported the return to the gold standard, because 'it offers an almost complete guarantee of a fixed relation between different currencies' (Heckscher, 1922b, p. 37). 'The idea that the gold standard should be a dangerous experiment and the paper standard a safe haven has to be regarded more or less as a parody of reality', he wrote in a small brochure about the currency question (Heckscher, 1922b, p. 50). He linked his argumentation to his reasoning in 1916. Commodities were much trickier to transport than gold and it would be much more difficult to get back to the equilibrium exchange rate should new disturbances occur. Heckscher (1922b, p. 40) used Sweden and Germany as examples (exactly as he had done in 1916). What a Swede got for a German paper mark was

what the commodities were worth for him when he had brought them to Stockholm. But in this context transport costs, export prohibitions and export duties in Germany, tariffs in Sweden and a lot of other factors have an influence. It therefore becomes impossible to arrive once and for all or through some simple formula to a normal situation for the exchange rates among countries with paper currencies, something which is easily done for gold standard countries.

But to this you also have to add that *deviations* from this equilibrium that is so difficult to determine will not be wiped out in the instantaneous and inexorable way as when you have a gold standard. The only way then

is – not to send gold, since this does not have any special position – but to send commodities or securities or make journeys; and all this requires preparations and is affected by the different prospects of the economy.

Heckscher came back to his idea in a work about the monetary system of Finland in 1923 (Heckscher, 1923, p. 32):

The relation between the domestic value of the currency and its value abroad is one of . . . the most difficult parts of the theories of exchange rate determination and foreign trade. The view that the exchange rate must coincide with the relation between the price levels of the respective countries (the so-called purchasing power parity) implies a very large and usually dangerous simplification of the problem. In contrast to this view it must be regarded an exception that the two phenomena coincide even in full economic equilibrium. But even so, during shorter periods large deviations from the equilibrium position may occur. This is the case especially with a paper standard, since the adjustment then becomes much more difficult than with a gold standard, and even more so in the case of large fluctuations in price levels and exchange rates since the adjustment then takes more time.

Three years later, Heckscher published a large survey of the Swedish monetary system and policy 1914–1925 (Heckscher, 1926). It formed part of a general study of the economic and social history of World War I under the auspices of the Carnegie Foundation. It encompassed both the United States and a number of European countries. Here as well, Heckscher came back to the basic argument in his criticism of the purchasing power parity theory (Heckscher, 1930, p. 151):

The conception that the exchanges represent relative price levels, or, what is the same thing, that the monetary unit of a country has the same purchasing power both within the country and outside it, is correct only upon the never existing assumption that all goods and services can be transferred from one country to another without cost.

The Swedish monetary policy during the 1920s was strongly deflationary. It was simply locked to the gold standard, and when the krona had got back to the prewar parity, Sweden, as the first country in Europe, formally reintroduced the gold standard. When Heckscher wrote his survey of monetary policy in 1926, he was satisfied: 'Personally I fought without interruption for the return to the gold standard ever since . . . 1920, and as far as I understand, I have been proven right by the sequence of events' (Heckscher, 1926, p. 144). When the depression set in, it was, however, no longer possible to tie monetary policy only to the currency. Employment stood out as more

important and in September 1931 Sweden abolished the gold standard, this time for good.

Heckscher was, however, convinced that it would make a comeback. At the end of November the same year he had finished a publication about the Swedish monetary policy where he once more pointed out the advantages of the gold standard, returning once more to his fluctuation argument (Heckscher, 1931, pp. 50, 39, 36–37):

The merry optimism [with respect to the ability to manage a free currency according to predetermined goals] that prevailed in certain circles after our transition to a paper standard has thereafter frequently turned into an almost equally exaggerated pessimism after finding out that the exchange rates of foreign currencies have tended to fluctuate widely and that these fluctuations, as many times before, have exerted an influence on capital movements, imports, exports and the forms of payment for these [...] For all reasons a regulation of the foreign exchange rates frequently is a much more difficult task with a paper standard than with a gold standard [...] In the overwhelming number of cases the paper standard does not create fixed exchange rates, either between the paper standard countries or between these and the gold standard countries.

Possibly Heckscher could conceive that the return could take place through an international reserve currency, the English pound, 'but a restored gold standard must definitely be considered the most probable end point' (Heckscher, 1931, p. 133).

Heckscher's 1926 analysis of the Swedish monetary system was translated into English in 1930 (Heckscher, 1930). He was obviously quite satisfied with his work and complained to Keynes that it had not had the reception that he had hoped for. Keynes replied dryly that to publish theoretical ideas in the volumes of the Carnegie Foundation was 'to invite neglect' (Henriksson, 1991, p. 151). It would take six more decades before Heckscher's ideas were noticed internationally, but in 1988 *The New Encyclopedia Britannica* (1988, p. 795) called the article a significant contribution, and in a survey of the purchasing power parity debate, Alan and Mark Taylor (2004, p. 147) pay tribute to Heckscher's analysis:

Indeed, some 90 years ago, Heckscher (1916) suggested that adjustment [of the exchange rate towards the rate given by purchasing power parity] may be nonlinear because of transactions costs in international arbitrage. For example, if two goods differ in price (expressed in a common currency) in different countries because PPP does not hold, it won't be worth arbitraging and therefore correcting the price difference unless the anticipated profit exceeds the cost of shipping goods between the two locations. This insight began to be expressed more formally in the

theoretical literature starting in the late 1980s (for example, Benninga and Protopapadakis, 1988; Williams and Wright, 1991; Dumas, 1992). The qualitative effect of such frictions is similar in all of the proposed models: the lack of arbitrage arising from transactions costs such as shipping costs creates a 'band of inaction' within which price dynamics in the two locations are essentially disconnected. Such transactions costs might take the form of the stylized 'iceberg' shipping costs ('iceberg' because some of the goods effectively disappear when they are shipped and the transaction cost may also be proportional to the distance shipped), fixed costs of trading operations or of shipments or time lags for the delivery of goods from one location to another.

Alan Taylor had himself, together with Maurice Obstfeld, in 1997, used Heckscher's idea in an article about convergence of price levels where the point of departure was that the purchasing power parity theory gives completely misleading short-run predictions (Obstfeld and Taylor, 1997). They showed that price differences, with the exception of transport costs, outside Heckscher's commodity points, tend to be eliminated much faster than what tests of the purchasing power parity theory lead us to believe, but also that transport costs connected with international trade gives rise to intervals within which the relation between the price levels may fluctuate without any tendencies toward convergence, in accordance with the ideas that Heckscher had sketched in 1916.

Conclusions

Eli Heckscher wrote both his theoretical contributions in international economics as a reaction against views advanced by leading economists in the generation before his own: Knut Wicksell and Gustav Cassel. He thought that he saw flaws in their reasoning and felt obliged to straighten out the real causal relationships. The results of his toil was one classic article, the one on foreign trade from 1919, and an article about exchange rates that fell into immediate oblivion and was not rediscovered until 70 years later.

We have given an account of Heckscher's exchange rate analysis, his applications of the reasoning and some 'modern' results which build on his article. Presumably more people will be inspired by it in the future. The foreign trade article had a completely different history. With time, what happened to Heckscher was the same as what happened to Keynes. Today's economists know the Heckscher-Ohlin theorem, exactly like they know Keynesianism. Exactly like people read Keynes only in the textbook version, nobody reads Heckscher's original article anymore, an article which is mainly about factor price equalization and a great deal less about the causes of foreign trade, which defines factor scarcity in price terms and not

in physical terms, which mainly (but not exclusively) employs an analytic framework that uses three production factors and two goods, and which, in some parts, relaxes one of the assumptions that are usually considered to characterize the Heckscher-Ohlin approach: the one about factor immobility across national boundaries.

Heckscher's approach had its defects, which is often the case with pioneering contributions. Factor price equalization does not necessarily follow from his premises. But his intuition was good and he pointed to two fundamental phenomena: trade is caused by differences in factor scarcities and trade tends to equalize factor prices between different countries also in the absence of factor mobility. The exact conditions for this to be true would be put down by latter-day economists, but – *nota bene* – economists who stood on Heckscher's shoulders.

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Notes

1. What Wicksell dealt with was nothing but with what in the modern economics terminology is known as 'Dutch Disease', as observed by Ronald Findlay (1995, p. 3), that is, that an increase of the relative price of primary exports may wipe out other export branches (see e.g. Corden and Neary, 1982).
2. Both these contributions are reprinted, for example, in Allen (1965).
3. Ronald Jones (2006, p. 103) shares my view: 'I was first introduced to the English translation of Heckscher's article when Heckscher was still alive. It was tough reading then, and it remains so for me to this day.'
4. Heckscher (1991, p. 6), however, underlines that the number of factors of production is 'practically unlimited'. The reason for this is that both land and labor exist in very many varieties while 'with respect to free capital or savings... the question of quality differences does not arise'.
5. 'Heckscher usually worked with what might be called a homemade casuistry built up by numbers' (Herlitz, 2002, p. 488).
6. Here, Heckscher works with only two production factors: land and capital. Jones (2006, pp. 99–100) appears not to have observed this but still discusses the case of three factors, two goods and fixed techniques.
7. Heckscher was a convinced free trader all his life and he defended free trade in the public debate. We have already met his argumentation against the sugar tariff. For Heckscher the consumer interest was paramount, not producer protection (Heckscher, 1919b). In the shadow of World War I he wrote about trade policy and blockades (Heckscher, 1915). He stressed the central problem: the ability of Sweden to produce food when the blockade was a fact, not self-sufficiency under peacetime conditions. Storage of strategic goods and flexibility of production to make it possible to switch when the need arose was what Heckscher advocated. In this there was no room for tariffs. If you wanted to stimulate the production of a certain commodity for emergency reasons subsidies were to be preferred. Heckscher's reasoning on this point foreshadowed the modern discussion of distortions and politically motivated interventions in the economy. He was completely aware of

the basic principle: use interventions that bring you directly to what you want to achieve. This will produce the optimum distortion (Bhagwati, 1971). If you want to increase production you use subsidies. They only affect production and you avoid the distortions on the consumption side that are associated with tariffs (Heckscher, 1919b, 1924a, 1924b).

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6

The Janus Face of Eli Heckscher: Theory, History and Method

Throughout all his life as a scientist Eli Heckscher struggled with the problem of how to bring economic theory and economic history together in such a fashion that the one could profit by making use of the other, but without merging the two. Knowing this,¹ it comes as a bit of a surprise to learn that he hardly made any use in his historical writings of his own greatest contribution to economic theory: the classic 1919 article on international trade where he presents the core of what would with time become known as the Heckscher-Ohlin theorem and the factor price equalization theorem (Heckscher, 1919a). On the contrary (Findlay and Lundahl, 2002, pp. 497–498), in *Mercantilism*, the main historical work of his after 1919 to deal with foreign trade, the factor proportions approach to international trade is only mentioned in a footnote (Heckscher, 1955, p. 124), and in his discussion of protection he points out that when wages are low, this will result in exports of labor-intensive goods (Heckscher, 1955, p. 153). Nor does he use the factor proportions approach in his history of industrialization (Heckscher, 1931a) or in his monumental volumes on the economic history of Sweden (Heckscher, 1935b, 1936, 1941, 1949a, 1949b). One would think that making use of your own theoretical findings would be natural, but it was not until the publication of the article ‘A Plea for Trade Theory in Economic History’, by Ronald Findlay (1998), that an explicit research program was launched that was based on the application of Heckscher’s factor proportions approach to economic history.

The fact that Heckscher did not use his own invention points to one of his salient characteristics as a scientist: his Janus face. The present essay deals precisely with this. We will begin by a presentation of his writings on the relationship between economics and economic history. Thereafter we will turn to how the Janus face showed up in his own practice of the two disciplines, to his applications of theory and the lack of some aspects of it, notably trade theory, in his historical writings, and his use of it in his discussion of contemporary issues.

A presentation of Heckscher's views on economic method is warranted not least because with three exceptions – his famous 1928 Oslo address (Heckscher, 1929), a shorter version of a Swedish article (Heckscher, 1930b) in the 1933 Festschrift to Gustav Cassel (Heckscher, 1933) and the 1939 *Quarterly Journal of Economics* article 'Quantitative Measurement in Economic History' (Heckscher, 1939) – his methodological writings are in Swedish, a fact that has served to hide them from the international community of economics and economic historians.²

The call for interaction

In 1904, Eli Heckscher published his first text on economic method (Heckscher, 1904). In this article he establishes the task of economic history: to deal with the development of three elements of economic life: the state of the economy, economic policy and economic doctrines. When carrying out his task, the economic historian could make profitable use of economics, but without going too far into the 'specific... deductions' characteristic of economics proper (Heckscher, 1904, p. 187). But Heckscher also takes exception to what he thought of as an 'extreme' historic approach which easily loses itself in details, attempting to follow all kinds of tracks or paths. The main task of economic history for Heckscher was 'to provide an account of the entire context of economic life', of the existence and interaction of all the relevant factors (Heckscher, 1904, p. 197) and such an analysis clearly involved the use of the principles derived by economics.

Heckscher thus had arrived at a view of how economic and economic history ought to be related. They were separate fields but they were complementary, and the influence should run in both directions. Heckscher held out William Ashley's (1900, p. v) statement that it was 'an imperative duty' for the economic historian 'to be an economist without ceasing to be an historian... to carry the historical spirit into the work of the economist, and the economic interest into the work of the historian', that is, economics could make use of some history when analyzing contemporary issues, and the historian had better be equipped with some knowledge of economics (Heckscher, 1904, pp. 184–185):

Today's economic life cannot possibly be understood by the most subtle analysis of its various factors and their interaction, without simultaneous knowledge of the origin of this life and these factors, about what created them and thus also about what preceded them [...] The historical approach – even disregarding the study of economic history – has a grandiose task to fulfil...

Heckscher would come back to the theme of his 1904 article repeated times during the rest of his life. The next occasion was in 1920 (Heckscher, 1920a).

He pointed out that economics has to be in close touch with 'knowledge about the development of society in its entirety' (Heckscher, 1920a, p. 1), but his message was in the main directed to the historians. What he wanted was a healthy balance between the historians' demonstrated ability to synthesize the complex patterns of reality and the capacity of economists to employ deductive reasoning based on a few simple assumptions. The historians needed to come to grips with 'the economic side of the development of society' in their syntheses, to 'rightly understand *the relation between cause and effect* in the economic field' (Heckscher, 1920a, p. 4), and in order to do this, they had to think like economists in the sense of seeing the economic problem: that of using scarce resources in an optimal way to satisfy human needs, a task that cannot be carried out successfully without knowledge of the principles of economics.

Two years later, Heckscher had revised and extended his reasoning. By then he had identified what he thought was the most important part of economics (excepting the scarcity principle which defines the scope of economic theory). It was price theory. He uses the Black Death as an example to substantiate his point (Heckscher, 1922a, pp. 18–19; cf. Heckscher, 1920a, pp. 15–16):

A typical case of this is offered by the Black Death, for example in England; it led to a strong reduction of the supply of agricultural workers, but an attempt was made to defeat through wage taxes its tendency to [produce] rising wages. Many researchers argue that this met with at least partial success, and the possibility hereof cannot be refuted a priori on theoretical grounds. However, the question that it was incumbent on the researchers to put to the material is: how were then the landowners precluded from competing for the labor that was admittedly less than what they thought they needed, how was this insufficient labor allocated between its altogether too many tasks? It is difficult to envisage anything more general than this problem. It is possible that it would then turn out that other means than wage increases had been employed, and the purely elementary economic theory has then been useful in focusing the investigations on the question of what these means consisted in.

The example provides a good illustration of the problem of price formation in a concrete historical instance: '*how was equilibrium established between supply and demand, how was demand restricted so as not to exceed the reduced supply, if the price was not allowed to fulfil this function?*' (Heckscher, 1920a, p. 15).

In the institutional setting of the market economy, price theory can be used to explain both factor prices and income distribution. It, however, has to be complemented with the quantity theory if we are to arrive at an understanding of 'the laws of how all prices are measured: money' (Heckscher, 1922a, p. 21). For Heckscher, this was far from trivial (Heckscher, 1922a, p. 22):

It is in the nature of things that the need for insights into theoretical contexts is greatest when you enter the monetary area which in a sense is the most sacred of economic theory and where on the other hand long-standing popular misunderstandings have perhaps been most common.

Economic theory can help the historian in one more way. It can identify the facts and phenomena that ought to be studied. Heckscher spelled this out very clearly in a 1930 article (Heckscher, 1930b, p. 4):

Only when...[a pure theory, a consequent deduction from simple premises] has been created may the economic science fulfil a task when it comes to understanding the context of both a certain state and a certain development, and in turn be fertilized by historical insight. Because only when the theory of the economic relations themselves has become clear a heuristic principle has been found, an insight about what questions to ask, also in the field of economic history.

By resorting to guidance from economic theory the historian can pose his questions in a systematic way.

Heckscher concludes his 1922 paper on methodology by highlighting one of the great virtues of economics, namely its insistence on logical consistency, 'how a certain assumed context is *economically possible*' (Heckscher, 1922a, p. 23). For a historical explanation to be valid it must either be inside the limits drawn up by economic theory or produce a set of circumstances that explain – consistently – why the principles of economics are violated in the concrete instance under investigation. Unless he proceeds in this way, the historian 'does not stand much chance of distinguishing the relations between cause and effect in the economic life of older times, but there is great danger that he will misunderstand these relations' (Heckscher, 1922a, p. 36). This is definitely true already when it comes to the analysis of a particular state, and once the focus shifts 'from the description of states to accounts of *development* itself, the need for economic insights obviously increases substantially' (Heckscher, 1922a, p. 38).

Heckscher's statement must not be taken to imply that he thought that economic theory could be used to *explain* the development of an economy. Six years later, at the 1928 International Historical Congress in Oslo, he launched 'A Plea for Theory in Economic History' (Heckscher, 1929) in front of the leading historians of the time. He then came back to his professed credo that it was not possible to write first-class economic history without using first-rate economic theory, notably when it came to guiding the choice of the elements to be included in the explanatory exercise (Heckscher, 1929, p. 529), but he also reiterated the distinction between economic history and economics proper that he made in 1904 and which would come back from time to time in his later writings (e.g. Heckscher, 1920, p. 20, 1951, p. 54). History is 'the study of the courses of economic developments, the study of

the reasons for changes in the body politic, on the economic side as on all others' (Heckscher, 1929, p. 525), and economics, deals with 'the explanation of economic phenomena "in being", *i.e.*, as considered in existence at a particular time' (Heckscher, 1929, p. 526). The topic of economic history is dynamic processes, and economics can basically be used first and foremost to shed light on the static picture. However (Heckscher, 1929, pp. 525–526):

Even there [in the study of the causes of economic developments] a very great deal is to be learnt from economic theory... but that the study of economic development is something distinct from the study of an actual economic situation is none the less true, and it must be added that treatment of social evolution as subject to historical laws has so far proved of small value. In this respect the non-theoretical treatment of history has lost no ground; and this must by no means be lost sight of.

Still, economics possesses a high degree of flexibility. Its explanatory power can be applied not only to recent periods of economic history but also to more remote epochs. Possibly, more than economics has to be resorted to, but 'for most periods' (Heckscher, 1929, p. 528) it is not necessary. The core of the economic problem is scarcity, and that core is the same throughout history. Economics can be used to weed out less plausible explanations, 'for theory is in a great number of cases able to create a strong presumption for or against the existence of alleged facts' (Heckscher, 1929, p. 529). A handful of years later, he even went as far as to advocate an even closer and more complementary relationship between theory and history than at any other point hitherto (Heckscher, 1933, p. 705):

In the last few years there has arisen a new interest in the right treatment of economic history and in the relations between economic history and economic theory. More and more it has become clear that the historical and the theoretical treatment of economic phenomena are not mutually exclusive methods, but that, on the contrary, theory is needed for the understanding of economic development, and history for applying theory to the right sort of premises.

An intellectual Janus face

Who Eli Heckscher 'is' depends on who you talk to. Economists like to think of him as the originator of the celebrated Heckscher-Ohlin theorem, found in each and every book on trade theory, the theorem stating that countries tend to export goods that use abundant production factors intensively and import goods whose production relies more on scarce factors. In 1977, Bertil Ohlin received the prize in economics in memory of Alfred Nobel for his share of this contribution, and there is no doubt whatsoever that Heckscher

would have shared it with him (and James Meade), since his contribution (Heckscher, 1919a) was 'a work of genius' (Samuelson, 1981, p. 360). It was presented in a 1919 special *Festschrift* issue of *Ekonomisk Tidskrift* in honor of Heckscher's Uppsala teacher David Davidson. In his article, Heckscher focuses on the reasons for differences in comparative costs between countries and suggests on the one hand that factor prices differ as a result of difference in factor endowments and on the other hand that when countries have the same production functions factor prices will be equalized across nations even if factors are completely immobile across national frontiers.

Eli Heckscher was not a prolific theoretical writer. On the contrary, his 1919 piece on foreign trade and income distribution constitutes a rare exception on his publication list, and, what is more, Heckscher himself appears not to have had a very high regard for it. It was not translated into English until 1949, and then only part of it, as one of the chapters in the *Readings in the Theory of International Trade*, published by the American Economic Association (Ellis and Metzler, 1949, complete translation in Heckscher, 1991). When Heckscher got the news he was somewhat astonished: 'Potztausend, haben wir alles das getan?' (Boy, have we done all that?), was his comment (Henriksson, 1990, p. 165).³

Perhaps Heckscher's reaction was natural, after 30 years, but the fact remained that his ideas had been given a prominent place in the trade literature, above all by the writings of his student, Bertil Ohlin (notably Ohlin, 1933), and the very year before the publication of the translation the Heckscher-Ohlin theorem had received the two-by-two-by-two form in which it has been handed down to later generations of economists (Samuelson, 1948).

As it were, Eli Heckscher's theoretical reputation has rested very heavily on his trade essay. Heckscher himself, however, appears to have been more fond of another theoretical piece of his (Montgomery, 1953, p. 159), a paper on 'intermittently free goods' (Heckscher, 1924a, 1928). He considered that it could shed some light on the characteristics of unemployment: not just unemployment of workers but also of other production factors. In fact, this article, which discusses fixed costs and excess capacity in production, stands out as a forerunner to the contributions of Edward Chamberlin (1933) and Joan Robinson (1933) to the theory of monopolistic competition (Uhr, 1987; Maneschi, 2004), so Heckscher could be proud of it with some justification.⁴

If Heckscher's theoretical output is quantitatively small, the number of his works in applied economics is indeed very large. These studies were written in Swedish virtually without exception,⁵ which unfortunately means that they are little known internationally. They deal with both contemporary and historical issues. From 1909, Heckscher held a chair in 'economics with statistics' at the Stockholm School of Economics. Being a very devoted teacher, he consistently strove to present economic theory to his students in such settings as they were likely to have to deal with once they had

left the school for a career mainly in the private business sector. He always emphasized the virtues of using good economic theory to dissect economic problems fetched from the real world (Henriksson, 1990, p. 169).

Heckscher's insistence on the importance of real-world problems played an important role for the shaping of the 1919 trade essay. Heckscher had served on the selection committee for a chair in economics which, among others, Fritz Brock⁶ had applied for. One of the works by Brock was a book (Brock, 1917) which contained an analysis of the effects of tariffs on the income distribution. Heckscher reviewed it, mainly in negative terms, for *Ekonomisk Tidskrift* (Heckscher, 1918b). His criticism of Brock led to a criticism of Heckscher by Knut Wicksell. In a book published the same year, *Svenska produktionsproblem*, Heckscher (1918a), had collected a series of pieces on contemporary issues. This book was reviewed by Wicksell (1919), who argued that Heckscher's treatment of the income distribution and population issues left a few things to desire, and Heckscher himself stated that it was precisely this criticism that made him undertake the investigation that led to the famous 1919 article. What upset Wicksell were the passages in Heckscher's analysis which dealt with the issues taken up by Brock, and Wicksell argued mainly in terms of possible effects of tariffs on the Swedish economy. Thus, as it seems, it was a contemporary matter which made Heckscher go into his famous analysis of international trade.⁷

The picture of Eli Heckscher, however, must be completed with his historical side, the most important of his two faces, for he was a Janus face, intellectually speaking, and an asymmetric one at that, with the bulk of his works in economic history. It did not take more than a few years after Heckscher's appointment as a professor at the Stockholm School of Economics until he had become convinced that his 'real' task in life was to write the economic history of Sweden (Brulin, 1953, p. 416), but World War I broke out in 1914 and Heckscher, with his pronounced sense of duty, felt that he had to participate in the analysis of the economic problems caused by the war, well into the 1920s.

Eli Heckscher got the first chair in Sweden in economic history in 1929. During the two preceding decades, he had devoted considerable time to economics. He had to teach both the theoretical and empirical parts of the subject at the Stockholm School of Economics and the influence of economics was patent also in his historical works of the time. 'One could even say that the historical moment in the investigation to some extent is pushed into the background and that the economic interpretation becomes the main thing', writes Arthur Montgomery (1953, p. 160) in his summary portrait of Heckscher.

Even though the 1910s and 1920s may have been the era of 'Eli Heckscher the economist', he published his book on the Continental System both in Swedish (Heckscher, 1918c) and English (Heckscher, 1922b). It was, however, not until after his appointment to the research chair in economic history in

1929, that economic history began to take over as his main research activity (Henriksson, 1991a, p. 148). 'Actually, it seems as if there are few parallels in the field of historical research to the enormous productivity that Heckscher developed during the six or seven years that followed immediately after his transfer to the research chair in economic history', writes Montgomery, (1953, p. 167).

This is a truth with some modifications, however, since a lot of what would be finished during the 1930s had been begun in the 1920s, or even earlier in some cases. *Mercantilism* (Heckscher, 1935) was published in Swedish in 1931 (Heckscher, 1931b). This work had taken a long time to conceive. The beginning of it went all the way back to his *licentiat* thesis, from 1903 (Heckscher, 1908),⁸ a work which is also connected with his subsequent four-volume *tour de force* on the economic history of Sweden (Heckscher, 1935a, 1936a, 1949a, 1949b). The work on the latter proceeded in parallel with that on *Mercantilism*. Heckscher had signed a contract with the most important publisher in Sweden, Bonniers, already before 1920 and in 1922 he had lectured on it at Stockholm College (Henriksson, 1991a, p. 154). Most of the effort devoted to the first two volumes, however, took place in the 1930s, and once these volumes had been published he continued with the next two. Altogether, as witnessed by his bibliography (*Eli Heckschers bibliografi*, 1950), his 1930s output was amazingly large.

Mercantilism was not the only book published by Heckscher in 1931. His work on industrialism (Heckscher, 1931a) left the press the same year. This volume also had old roots, going all the way back to 1906–1907 when Heckscher lectured at the Institute for Social Sciences at Stockholm College. It was a natural companion to the larger work on Swedish economic history.

For Swedish economic historians, the name of Eli Heckscher is related more to his writings on Swedish economic history than to *Mercantilism*. He published not only his magnificent four-volume *magnum opus* but also a shorter history from the Middle Ages to 'the present' (Heckscher, 1941), a work which is still has a steady readership. The book was translated into English in 1954 (Heckscher, 1954), while the multi-volume work still awaits translation. In the latter, Heckscher did not make it past 1815. The planned sequel on the nineteenth century came to nothing. When he had finished the eighteenth century, Heckscher was physically exhausted. He had had to write two volumes instead of one, as he had planned, because of the wealth of statistical data from that century, and had he gone into the nineteenth century he would have had to cope with even larger data masses.

Theory and practice

There remains no doubt whatsoever that Eli Heckscher was a scientific Janus face. Economists see one face, notably the parts connected with international trade theory, and Swedish economists also know that he was a

prolific writer on contemporary issues. Internationally, economic historians see him as the author of standard works on the Continental System and mercantilism, and Swedes are in addition impressed with his monumental work on their country's economic history.

To what extent did Eli Heckscher manage to reconcile his two faces? He finished his famous Oslo address by dictum that 'no Economic History worthy of the name is possible without... [economic theory]' (Heckscher, 1929, p. 534) and he continued to preach this gospel during the rest of his life (Heckscher, 1936b, 1937, 1941, 1944, 1947, 1951), but how did he put his principles to use?

One of the keys to Heckscher's scientific production is his doctoral dissertation (Heckscher, 1907). The thesis had been commissioned by the Royal Swedish Railroad Authority for its fiftieth anniversary and it dealt with the role of the railroad in Swedish economic development. Although Heckscher sketches the evolution of the railroad system up to his own times, his analysis in fact deals more with contemporary problems than with history. His historical perspective allows him to place the roots of the present in the past. As was very often the case with Heckscher, his approach was 'presentistic'. The past was used to shed light on present-day issues.

Heckscher's dissertation also makes him an early precursor of the New Economic History movement, in at least two ways. The first is as a precursor of the early 'Purdue' phase of it (cf. *Purdue Faculty Papers*, 1967), the phase of 'measurement without theory', modeled on the work of Simon Kuznets.⁹ Econometrics had not yet seen the light of day when Heckscher wrote his dissertation so he offers mainly comparisons and interpretations of the series as they stand. Much more interesting, however, is the fact that Heckscher uses an explicit counterfactual for comparison purposes in his dissertation: 'the entire investigation rests on the assumption that the railroad parishes would have developed in parallel with the rest of the countryside – displayed "relative stagnation" – had the railroad not existed' (Heckscher, 1907, p. 20).¹⁰

It must of course be recognized that Heckscher's dissertation does not meet modern cliometric standards. He does not work with a general equilibrium model that allows him to discuss both direct and indirect impacts of the railroad, but limits himself to a 'Marshallian' partial analysis of the direct effects. Heckscher, however, seems to have been aware of the limitations, if we are to judge from his discussion of the application of economics to history in the thesis (Heckscher, 1907, pp. 1–2):

The question about the influence of a single factor in a society, you could say, is even unreasonable, since the real relation between most social phenomena is not one of cause and effect, but one of interaction, *mutual* dependence. It then becomes more or less arbitrary how much of the entire development you want to attribute to each separate factor in it [...]

Obviously this situation implies a determined limitation on the task of economic history and inductive economics and hence also a proof of the indispensability of deduction. What economic history must portray in the first place is an economic development and an economic situation as a whole, the interaction of the different factors towards a common result.

Heckscher made an honest effort to apply the principles that he advocated in 1904 to the railroad problem, and he got a favorable review from Wicksell (1907), who was also sympathetic to a rapprochement between economics and economic history (Wicksell, 1904, 1958), notably the introduction of some history in economic theory, the symmetry reversal of Heckscher's plea (Henriksson, 1991b).

Heckscher applied his methodological precepts to Swedish history in his study of the Swedish Navigation Act (Heckscher, 1908, 1922a).¹¹ The act, which stipulated that foreign ships could only carry goods produced in their own countries to Sweden, was passed in 1723. It was derived from the British navigation acts and its purpose was to provide support to Swedish shipbuilding and shipping. It had an impact for about a century and was then gradually forgotten. Heckscher does not use any trade theory in his analysis, not even in 1922, and his counterfactual – what would have happened if the act had not been passed – is very implicit. Still, he stands out as a 'modern' economic historian – through his insistence on 'political economy' factors, of the potential winners and losers, when analyzing who was for and against the legislation. Here we find a precursor of public choice theory and new political economy.¹²

A review (Heckscher, 1921c) of Arthur Montgomery's doctoral dissertation (Montgomery, 1921), reprinted in the same book of essays as the revised version of the long paper on the Navigation Act (Heckscher, 1922a), sheds additional light on the method used by Heckscher when analyzing the act. He makes a distinction between two approaches to trade policy. Economists tend to focus on different trade interventions and compare them with free trade to pass verdict on their relative desirability in different settings. This is the *normative* approach to trade policy formulation, but it cannot be used when it comes to the problem of 'what forces determine trade policy as it actually turns out in the hands of the ordinary politicians; and that question is at least as important as the former' (Heckscher, 1922a, p. 257). This is the *political economy* approach to trade policy and, although he used both, it is obvious that Heckscher's view was that the latter approach was the more fruitful one (Heckscher, 1922a, p. 257):

Since it is hard to imagine that anybody with even a minimal knowledge about the way of the world would think that what is decisive in this case is either deep insight into economic matters or even unselfish endeavors to benefit the country as a whole. Through this contradiction the purely theoretical study undeniably becomes illusory to some extent, although

not in the way generally envisaged or by overlooking some of the economic moments – but definitely by not taking into account the political factors that will determine actual trade policy.

This *vade mecum* was to serve Heckscher as a guide during his work on for example mercantilism, and also in his discussions of problems related to contemporary trade policy.

Heckscher's ideas about the desirability of connecting theory and history also color his work on mercantilism and related themes – to a much larger extent than is the case in his work on Swedish economic history. His book on the Continental System (Heckscher, 1922b) is concerned both with international trade and with the application of an economic doctrine and the effects of this. Here as well, Heckscher chose to work with a more or less explicitly stated counterfactual, but not the counterfactual that a latter-day trade theorist would have picked, free trade. Instead, Heckscher uses the *theoretical* effects of an efficient *blockade* of 'the English on their island' (Heckscher, 1922b, p. 78) as his yardstick when judging the results of the *actual* policy practiced by the French.

Heckscher extended his analysis of the Continental System also to the realm of economic ideas. The blockade idea was the child of mercantilist thought, notably of the insistence of mercantilism on achieving a surplus on the balance of trade. If this could be prevented, by cutting the English off from exporting to the European continent, so went the reasoning, the British economy would come under strain and in the end it would break down. In practice, however, it turned out that Napoleon was struggling with a twofold problem: the lack of an efficient administrative apparatus and a flawed doctrine. The main effect of the Continental Blockade was political: a consolidation of the resistance against his empire.

Heckscher's analysis of the blockade has yet another interesting methodological feature. The point has already been made that Heckscher was a 'presentist' in his historical writings, and in *The Continental System*, at the end of the book, he goes as far as to juxtaposing an event of the past to a current event with similar characteristics. The contemporary event of course was World War I, which had also resulted in trade disruptions of various kinds. The juxtaposition was a logical outcome of Heckscher's activities at the time. He had been on the Swedish War Planning Commission and he had published a book on the war economy (Heckscher, 1915) in 1915. He would resort to similar comparisons also subsequently, like when in 1921 he published an essay on the *assignats*, the bank notes in circulation during the French Revolution (Heckscher, 1921b). In this case, the background was the inflation related to the Great War.

At this point, a question is lurking around the corner. Was Heckscher's work on mercantilism (Heckscher, 1935a) somehow connected with his 1919 theoretical effort? Two or three possible sources of inspiration for the latter

have already been noted: Wicksell's criticism, Brock's book on tariffs and Ohlin's seminar paper. It is, however, also important to note that by the time Heckscher wrote his trade article he was already involved in the investigation of mercantilism. For Heckscher, the free trader, there was clearly something wrong with the mercantilist doctrine on trade policy. Could it possibly be the case that there was one more reason why he became involved in an investigation of the causes and effects of international trade: the need for an understanding of these effects in order to pass judgment on mercantilism? This is admittedly a conjecture, but the thought that the writings of Wicksell and Brock, and possibly also Ohlin, may have served only to focus Heckscher's attention on something that he already realized that he had to cope with is certainly appealing.¹³

Back in 1904, Heckscher (1904) had pointed to three interrelated fields of study for economic history: states of the economy, policies and economic doctrines.¹⁴ His work on mercantilism concentrates mainly on the flaws of the policies applied, and for this he needed a theoretical foundation from which he could attack them. This also made it possible to connect mercantilism with its successor: liberalism (Heckscher, 1955, pp. 323–324):

Mercantilism had... at any rate two aspects, the one pointing to liberalism and the other to its precise opposite. The question then arises which of the two was the more important; and there can certainly be no doubt that the *latter* was. Of the liberal aspect of mercantilism in its heyday, there were only a few factors actually operative, the interest in the new entrepreneur, the emancipation from ethics and religion, and the tendency to make private interests serviceable to the community. All these, however, faded into the background behind the conception that it was necessary to regulate economic activity according to certain doctrines of economic policy, a concept precisely most specific in mercantilism, and therefore at the antipode to *laissez-faire*. All talk of 'liberty' was, in the main, music of the future. The reality consisted in enforced subjection to an economic system taken over from previous centuries and, over and above that, in mercantilism... as a system of power, as a system of protection, and as a monetary system. However much the mercantilists themselves felt emancipated from tradition, in practice they were, generally speaking, caught in its net. In the general conception of society, as also in the striving after unity, liberalism was the executor of mercantilism. In the economic and humanitarian spheres it became the conqueror – that is, of course, only for the duration of its own spell of power.

The fundamental difference was that mercantilism dealt with a narrowly defined national prosperity, equaling the nation to the state, whereas liberalism focused on the individuals, the citizens of the nation. It was their

welfare, income and consumption that had to be brought to the forefront. The mercantilists concentrated on how to obtain a surplus that could be taxed away by the state and used by the latter, in bright contrast to the liberal ideas of *laissez-faire* and freedom for the individuals who were the creators of prosperity.

During the 1910s and 1920s, Eli Heckscher featured both sides of his Janus face prominently. He wrote more economics, comparatively speaking, than during any other phase of his life, and the economist in him also showed up in his historical works, both directly and indirectly, through his interest in economic policies and how these rested on economic doctrines. During the 1930s, however, Heckscher the economist was largely pushed into the background, as he turned to his large work on Swedish economic history. He then became a much more 'traditional' economic historian, relying on the inductive use of statistical time series rather than on economic theory (Heckscher, 1935b, 1936a, 1949a, 1949b). Together with the institutional, demographic and technological developments of the periods under study, these series gave him the material that he needed for his historical narrative and – an admittedly traditional – interpretation. Still, he could not suppress his economist soul altogether. In his synoptic pieces, like the shorter one-volume version of the economic history of Sweden (Heckscher, 1954), economics is much more present than in the four-volume work, in his interpretations of the different historical situations. (Arguably, this is more rewarding reading than the four massive tomes.)

Even though the statistical series dominated Heckscher's work on Swedish economic history, he never left his methodological principles. On the contrary, he apparently felt a need to reiterate his stance late in life and emphasize the advantages of using theory (Heckscher, 1947, 1951). One may be forgiven for speculating about what would have happened, had Heckscher been able to finish his Herculean historical project. He had planned to continue with the nineteenth century (Montgomery, 1953, p. 182) but lacked the physical stamina required to write another volume. The simple fact was that the work on the eighteenth century almost killed him (Henriksson, 1991a, pp. 162–163). At any rate, the reliance on statistical series would presumably not have worked for the nineteenth century, with its wealth of data compared to earlier periods. Then the obvious question is whether he would have been forced back to increased reliance on deduction and theory. Was it this that made him write the last methodological papers? Unfortunately we will never know the answer.

The application of trade theory

Eli Heckscher relied more on economic theory in his early historical works than later in his life, and as was pointed out in the introduction, remarkably few traces of the fact that he was the founder of modern trade theory can

be found anywhere in his historical writings. Heckscher could have made Ronald Findlay's plea for the use of the factor proportions approach to economic history, but he never made it. When he had to deal with trade-related issues in his historical works, his theoretical foundations tend to be implicit rather than outspoken and they are in addition more related to public choice and new political economy than to trade theory. This, however, does not mean that Heckscher made no use of trade theory, but he did so in a different context: his essays on contemporary issues, and here as well both public choice and new political economy occupied a prominent place.

The most important question that Heckscher dealt with in these essays was tariffs and their application in Sweden.¹⁵ Benny Carlson (1988, p. 244) summarizes his attitude:

Heckscher was a dedicated free trader from the outset. The free exchange of goods – both within and between countries – would give the best national income. 'The dilemma of protectionism' was that either an industry was profitable and hence did not need tariff protection, or it did not pay and hence did not deserve it. Tariffs also risked creating a moral climate for continued state interference in economic life. Not even in self defense was it motivated to use tariffs – to retaliate foreign tariffs with one's own tariffs was to 'add stone to the burden' of the domestic export industry. Certain exceptions to the free trade could be accepted – to protect infant industries, for contingency reasons (agricultural tariffs), in transitional crisis situations – but to make the opposite principle, protectionism, the basis of trade policy was utter madness.

The quotation is eloquently to the point, both on Heckscher's views and on the issues involved. The issue at stake was not only protection in general but also the possible repetition of disruption of foreign trade flows, as experienced during World War I.

During the second half of the nineteenth century, a number of large extensive grain producers – the United States, Canada, Russia and Argentina – had become strong competitors in international markets. When faced with this fact, Sweden, in the late 1880s, chose to follow the examples of Germany and France and protect its agricultural producers with import tariffs. Everybody did not agree, however, that this was a sound economic policy, and in 1913 it came to struggle over the sugar tariff. The Swedish government got second thoughts and prepared for a reduction. Heckscher (1913) supported the proposed move. He pointed out on the one hand that it would be impossible to protect the domestic beet sugar producers forever and on the other hand that if a tariff should be used it would have to be instrumental in bringing down domestic production cost to the world market level. The pro-tariff faction contended that a sugar tariff would be beneficial from the employment point of view because it would allow workers who would

otherwise be without jobs to continue working. Heckscher did not accept the reasoning. These workers, he argued, would not be likely to contribute to production. Instead he claimed (Heckscher, 1913, p. 10)¹⁶ that it would be of more use to the national economy if those superfluously employed in the sugar industry devoted the free time they have from for example, the building industry to playing football rather than working in the sugar industry; for in this way they themselves would have a more invigorating occupation, and the addition to the national income would be as small in the one case as in the other.

Heckscher's views on the sugar tariff made him stand out as a convinced free trader, and he would continue on the barricades of free trade for the rest of his life. The point is easily demonstrated through a few examples. A brochure which Heckscher wrote the same year as he made his contribution to trade theory serves to illustrate the point. Heckscher sided with the consumer. His interest was 'the only fundamental task of economic life' (Heckscher, 1919b, p. 3). It made absolutely no sense to refer to production without mentioning consumption, and it was free trade that minimized the cost of production of a given item. This had nothing to do with employment. 'To import in reality means to employ domestic workers in the industries whereby the import is paid' (Heckscher, 1919b, pp. 8–9). The argument about infant industries made in connection with the sugar tariff is repeated here. Heckscher refers to Mill's Test: 'Obviously *the tariff represents a cost for the country as long as it remains*, and it may prove its justification only by making itself unnecessary' (Heckscher 1919b, pp. 10–11). The modern reader notes that his observation bears directly on the discussion of the inward-looking industrialization policies used by developing countries following World War II.

In the same pamphlet Heckscher discusses the possible use of tariffs to prevent emergencies. He had dealt with contingency problem in his book on World War I (Heckscher, 1915, especially chapter 5) pointing out that the issue was not one of self-sufficiency in times of peace but one of how to produce as efficiently as possible once the calamity had befallen the country. His solution of the problem rested on storage of strategic raw materials and foodstuffs, but also on flexibility in production. To the extent that production had to be kept up it was much better to rely on subsidies than on tariffs: 'Nearest to hand is to let the encouragement that a certain industry or a group of industries are considered to need assume *the form of direct support* [...] it would ... be a great advantage if a cultivation subsidy ... could be substituted for the tariff subsidy' (Heckscher, 1924c, pp. 68, 80). Heckscher clearly understood the fundamental principle of what several decades later would become the theory of policy interventions for non-economic objectives, that is, the theory of distortions (Bhagwati, 1971, p. 77):

When distortions have to be introduced into the economy, because the values of certain variables ... have to be constrained, the optimal (or least-cost) method

of doing this is to choose that policy intervention that creates the distortion affecting directly the constrained variable.

Heckscher demonstrated his understanding also a handful of years later, in his work for the Commission on Tariffs and Treaties (Heckscher, 1924b, pp. 47, 48):

[T]he need for goods under war or blockade conditions differs completely from the peacetime one [...] the next question is whether a... tariff system would be the best among the different possible means for making a country endure a blockade... a number of goods are of such a kind that no tariff protection can guarantee their availability during a blockade... if raw materials are not available domestically protection does not contribute to the purpose of making the country self-sufficient [...] To the extent that the raw materials necessary for the products that are indispensable during an emergency are not found inside the country the immediate necessary device is thus a stock of such goods, not the existence of factories for their production.

The task must in other words be to become self-sufficient during a war, not to be so already under peaceful conditions. The core of the problem is therefore adaptation, the ability to change the national economy according to the new demands with a minimum of preparation and in the shortest possible time. This implies that the more mobile and the less bound to previously fixed rules the economy of a country is, the more of a chance it stands to live up to the demands of the war situation, while an economy that has been protected against displacements and changes of all kinds most easily becomes helpless in such a situation.

In the 1919 pamphlet (Heckscher, 1919b, p. 11) he adds:

Under certain circumstances, however, not always, or even as a rule, it may then be necessary or desirable to keep production up, even though imports would actually create a richer consumption, namely in the case where you would otherwise be without the commodity, if and when the exchange with other countries is obstructed. The condition for tariff protection or similar measures in such cases seems to be twofold, *on the one hand* that the commodity in question is indispensable, *on the other hand* also that you cannot at relatively short notice begin production of it, if and when the blockade becomes a reality.

Altogether, Heckscher stands out as being very close to the optimal policy for solving the Swedish emergency problem of the post-World War II problem (cf. Hedlund and Lundahl, 1985, 1998).

Summing up, if we are to find the applications of trade theory and trade policy among Heckscher's writings we must go to those of his works which deal with contemporary problems, and less to his historical investigations. The former are very much in line with the body of international trade theory that would be brought to the forefront in the 1940s and 1950s, and his emergency discussion clearly foreshadows the theory of distortions and trade that emerged in the 1960s.

In a sense, this is precisely what one would expect, for, as Heckscher himself repeatedly pointed out, he envisaged different roles for economics and economic history. The former was seen as useful for disentangling the mechanisms of equilibrium process and the establishment of equilibria. Here, both price theory in general and trade theory had a clear role. Economic history, on the other hand, was seen as the study of the development of economies over time, and here Heckscher felt that economic doctrine, its influence on economic policy and the results of the latter played a more important role. Economic theory simply had to be relegated to a secondary position. Again, Eli Heckscher showed his Janus face as a social scientist.

Conclusions

Eli Heckscher did not make much use of trade theory in his historical writings, but as this chapter has demonstrated, he was definitely a theoretically very well-informed historian, and his early contributions in the field of economic history provide an eloquent demonstration of the power of economic theory as a tool in historical reconstruction. Heckscher no doubt stands out as an early 'cliotheorist' through his employment of economic theory when interpreting the past. He dealt with questions that would have appealed to latter-day representatives of the public choice and new political economy schools of economists. Heckscher realized that what motivates politicians is far from always the concern for the common good, and welfare-theoretical insights are rare among them. He understood that the interaction and rivalry between those who stand to gain and those who stand to lose warrant a thorough investigation, because economic policies are frequently the outcome of selfish interests and group pressure. Therefore they tend to be flawed in various ways. His insights made it possible avoid the often sterile discussion of planning and government intervention that would characterize much of the early post-World War II period and it made him a precursor of the critical approach that would crystallize in the public choice and new political economy approaches from the 1960s onwards.

Eli Heckscher has done us a great favor by pointing out the usefulness of theory for history, for pointing toward a historical economics when he argued that no economic history worthy of the name is possible without resorting to an underlying theoretical framework. This approach triumphed in the United States, but, alas, not in his home country, Sweden (cf. Hettne,

1980). Heckscher was versatile both as an economist and as an historian. He made many contributions in both fields, but it is not difficult at all to argue that as an economic historian his most lasting contribution is that of the methodologist.

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Notes

1. This chapter draws heavily on Henriksson and Lundahl (2003), which was originally presented at the conference 'Trade, Development and Economic History: A Conference in Honor of Ronald Findlay', Columbia University, New York, 20–21 April 2001. I am grateful to Rolf Henriksson for his collaboration in that effort and I deplore that he could not participate in this chapter. Needless to say, the responsibility for all remaining errors and inaccuracies is mine alone.
2. Most aspects of Heckscher's scientific interest are covered in Findlay et al. (2006), a volume that commemorates the fiftieth anniversary of his death.
3. The phrase was not original. Heckscher had borrowed it from King Fredrik I (1720–1751), one of the laziest of all Swedish kings.
4. To do justice to Heckscher the theoretical economist, it should be mentioned that as a matter of fact he wrote a few other insightful pieces as well. In an article from 1916 (Heckscher, 1916) he criticizes Gustav Cassel's (1916) purchasing power parity approach to the determination of exchange rates. Unfortunately, the article was written in Swedish, so it escaped the attention of the international research community for several decades, before being resurrected in the 1980s and 1990s (*The New Encyclopedia Britannica*, 1988, p. 795; Obstfeld and Taylor, 1997; cf. also Lundahl, 2008, Chapter 5 in the present book, for a brief discussion). In the *Festschrift* to Knut Wicksell, he analyzed the Wicksellian cumulative process in the context of a too low interest rate (Heckscher, 1921a). (Later, he took exception to it; cf. Henriksson, 1990, p. 173.) As early as 1913 (Heckscher, 1913) he presented an analysis which reminds the modern reader of Salter's (1960) discussion of vintages in capital formation and technological change. The piece was later incorporated into Heckscher's (1918a) book about production problems, which in addition contains discussions of the meaning of overcapitalization and of cooperative firms.
5. Cf., however, Heckscher (1930a), a long essay about currency issues and monetary problems in Sweden between 1914 and 1925, a translation of Heckscher (1926). In this, Heckscher continues his criticism of Cassel's (1916, 1917, 1920, 1922) purchasing power theory which the latter had used to explain the depreciation of European currencies after the end of World War I. Heckscher was quite satisfied with his piece, but failed to get much international acclamation for it. The book had been published by the Carnegie Endowment for Peace, which according to Keynes was simply 'to invite neglect' (cited by Montgomery, 1953, p. 162).
6. A short biography of Brock is found in Wadensjö (1994).
7. Possibly (Henriksson, 2002), although this is more difficult to establish, Heckscher had one more immediate source of inspiration: a student paper by Bertil Ohlin on Sweden's grain tariffs, presented in Heckscher's seminar (Ohlin, 1918). On the

other hand, Heckscher had worked on empirical trade issues before 1919, for example, analyzing the Swedish tariff on sugar (Heckscher, 1913).

8. The major in Heckscher's *licentiat* degree was history. His degree also contained political science and economics.
9. This is even more evident in his later four-volume work on the economic history of Sweden.
10. Here one is reminded of the later work by Fogel (1964), but that is of course purely coincidental.
11. Cf. Montgomery (1953, 154): 'What shape Heckscher a few years ... [after his publication of the 1904 article] envisaged that the cooperation between economic theory and historical science should take on is to be seen in the investigation published in 1908 about "The Navigation Act and Its Preconditions"'.
12. This is the case also in Heckscher (1920b), a discussion of *entrepôt* trade for example, in Renaissance Italy.
13. Note, however, also that Heckscher served on the Commission on Tariffs and Treaties set up by the Swedish Ministry of Trade. For this commission he wrote a survey of theoretical aspects of protection (Heckscher, 1924b).
14. As one of the referees has pointed out, in the context of *Mercantilism*, his statement suggests an alternative way of classifying Heckscher's scientific contributions: as a three-legged stool, where the legs consist of theory, history and economic doctrines. This, however, would call for an examination of Heckscher's contributions to the analysis of economic doctrines, not only in *Mercantilism*, but in his entire work, and this is too large a task to be attempted within the context of the present chapter, where emphasis is on Heckscher's methodological position, notably the connection between two of the legs: those of theory and history.
15. He also became involved in a discussion with Wicksell which centered on his 1919 paper (Wicksell, 1920a, 1929b; Heckscher, 1920c). Herlitz (2002) provides a summary and analysis of the exchange.
16. The translation is that of Carlson (1994, 165).

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7

The Beginning of Economic History

Economists emphasize generalizations, while historians tend to prefer to deal with specific events. In between, there is economic history. Ylva Hasselberg's book *Industrisamhällets förkunnare. Eli Heckscher, Arthur Montgomery, Bertil Boëthius och svensk ekonomisk historia 1920–1950* (The Chroniclers of Industrial Society. Eli Heckscher, Arthur Montgomery, Bertil Boëthius and Swedish Economic History 1920–1950) (Hedemora/Möklinta: Gidlunds Förlag, 2007) is an account of Eli Heckscher's project of establishing the latter – a field which did not yet have any definition, or *doxa*, to use her own term – as a separate academic discipline. She highlights the tension both between economics and economic history and between general and economic history. The book is a pioneering work, the first of two volumes. The 'second generation' of Swedish economic historians, Artur Attman, Karl-Gustaf Hildebrand, Ernst Söderlund, Oscar Bjurling and Torsten Gårdlund, will all be dealt with in Part II. The present volume concentrates on the period 1920–1950, and only on the Heckscher project, but that is more than enough. The book is very rich as is.

Hasselberg's story is the story of three politically rather different men but also a story of mentorship and friendship and of a project conceived by one of them which involved the other two. Eli Heckscher is the protagonist in *Industrisamhällets förkunnare*. Arthur Montgomery and Bertil Boëthius are minor figures in comparison. Hasselberg paints a very vivid portrait of Eli and his creation. She offers good portraits of Montgomery and Boëthius as well, but portraits that must be seen mainly against the background of their relations with Heckscher. The book is Heckscher-centered, perhaps too much so. The reader gets a good idea of what Heckscher thought of his fellow economists and historians, but not of what the economists and the historians thought about Heckscher. In this sense, his position in the academic field remains a bit undetermined.

Heckscher's project evolved in steps. Hasselberg claims that his real decision to make economic history a separate field was taken somewhere between the formation of the government Committee on Unemployment

in 1927 and the advent of the Social Democrat government in 1932. As early as 1914 he was convinced that writing the economic history of Sweden was the scientific task of his life (Brulin, 1953, p. 416). In order to do so, he had to establish the discipline. Until 1929, he sought to do it mainly by writing in the field himself, producing such standard works as *The Continental System* and *Mercantilism* (Heckscher, 1922, 1935). In 1929, the Economic History Institute, funded jointly by the Stockholm School of Economics and Stockholm College, was founded and Arthur Montgomery and Bertil Boëthius were associated with it. It, however, proved almost impossible to recruit students to the new discipline at the SSE, and when the issue arose of making economic history a discipline at Stockholm College which could enter into a degree containing in addition either history or economics, the universities in both Lund and Uppsala reacted against the combination of simply economics and economic history. History had to be included as well.

The historians were not prepared to leave economic history in the hands of economists. When the first effort was made to create a chair in economic history in Lund in 1938, they made sure that the field was defined as economic *and* social history. (In the end the chair came to nothing.) The leading economists were not interested. It was not possible to recruit them to a career in a discipline that did not yet exist, and Heckscher did not even try. He turned to Montgomery and Boëthius, both somewhat marginalized figures in their fields. This he did mainly during the 1930s, a period (notably 1936–1938) which Hasselberg argues was more decisive for establishing the new discipline than the preceptorships (associate professorships) that finally anchored economic history institutionally in 1947, the ‘turning point’ according to the conventional wisdom. It was during the latter half of the 1930s that the discipline was defined. ‘What would “count” as economic history, and who would “count” as economic historians was decided during those years, in a bargaining between actors in different fields’ (p. 135).

Heckscher became the mentor of the economist Arthur Montgomery around 1920, and he saw to it that Montgomery got a position as Professor of Economics in Turku (Åbo) in Finland. Montgomery was not a first-rate economist and could not get a chair in Sweden, so he had to remain in Finland until 1939, when Heckscher finally succeeded to bring him back to a chair at the SSE. Montgomery could then begin his work on the Swedish industrialization process and on Swedish social policy. Hasselberg provides a detailed account of his writings.

Bertil Boëthius did not deal with industrialization. He was a conservative historian who focused on the Swedish peasants and miners. After losing a chair in history in Uppsala to Erland Hjärke in 1930 (where he was backed by Heckscher), he instead made a career as a civil servant, a career that would be crowned with the position as Keeper of the Swedish Public Archives in 1944.

Basically, Hasselberg's book is a narrative of the events that led to the establishment of the discipline of economic history in Sweden. This narrative constitutes the strength of the book. The story of Eli, Arthur and Bertil is well told and it is easy to understand why and how the latter two became associated with Heckscher's project. Hasselberg emphasizes the role of friendship in what they developed together. They formed a clear network in the sense that their exchange built on long-term reciprocity characterized by loyalty and protection. The story of the three 'insiders' flows nicely throughout.

This is not the case once we move to the story of Heckscher's relations with the 'outsiders'. One of the main themes in the book is how Heckscher positioned himself in relation to his colleagues in economics and history. This, Hasselberg argues, is central for how he chose to draw the boundaries between these two subjects and economic history. At this point, however, her story becomes muddled. She insists that the economics field was divided into two 'poles'. 'I am of the opinion that the Swedish economic field cannot be understood without insights into the fundamental tension that existed between the scientific pole of the field, and the politically oriented, "worldly" one, if you like', she writes (p. 51). According to Hasselberg, in the 'older' generation this was manifested in a tension between the introvert David Davidson and the exceedingly extrovert public figure of Gustav Cassel. Hasselberg also places Knut Wicksell at the scientific pole together with Davidson and Heckscher himself. It is easy to understand why. She does it mainly in relation to Cassel, and the trio's opposition to Cassel was well known. In the younger generation, Hasselberg deals mainly with Gunnar Myrdal and Bertil Ohlin, and she places both of them at the worldly, opportunistic pole, exactly as Heckscher himself did.

Hasselberg interprets Heckscher's view as a more or less explicit positioning by someone who wanted to stand out as a pure scientist. Unfortunately, this does not sit well with another of her theses: that Heckscher chose to position himself at the political end when he was Professor of Economics and Statistics at the Stockholm School of Economics from 1909 to 1929, but that the latter year he moved toward the other pole, not as an economist, but as an economic historian.

It makes little sense to divide the economics profession into two camps. The approach is not helpful, because it forces Hasselberg to choose in situations where no choice is necessary, and at times it even seems as if those colleagues that Heckscher for some reason did not like more or less automatically have been placed at the 'worldly' pole. Regardless of their political bent, Ohlin, Myrdal and Cassel were simultaneously first-rate researchers, and both Wicksell and Heckscher himself were deeply involved in the political debate during their entire professional life. All of them represented both 'poles' in their work. Heckscher clashed with his colleagues *in different ways and for different reasons*. The question is what caused these clashes. As pointed

out by Li Bennich-Björkman (1985, pp. 29–31), he had problems cooperating with other people. This was an integral part of his personality.

The bipolar approach fails to explain why Heckscher chose to draw the boundary between economics and economic history the way he did, and Heckscher's conflictive disposition is not of much help either. It can only explain why the economists did not back Heckscher in his struggle to break economic history away from general history. He had destroyed his economics network.

Hasselberg has a second explanation of the boundary that works much better. According to this, it was the emergence of the Stockholm school of economists that pushed Heckscher away from economics and into economic history. He felt increasingly marginalized in relation to the new theoretical ideas advanced by the younger generation, notably their insistence on the desirability of an active role for the state. The powers that be chose to lean on the new generation, and Heckscher was gradually left out. Therefore, he chose economic history instead, a discipline which did not interest either Myrdal or Ohlin, and he chose to define economic history very much as what he felt economics was not: an empirical science, as opposed to theory-based economics with its insistence on principles. Heckscher also considered economic history to be an alternative to economic theory as a base for policy recommendations. His great works both on mercantilism and on the economic history of Sweden are clearly synthetic, and he always wrote on history because he wanted to apply the conclusions from his research to contemporary issues. As an historian, Heckscher was a presentist.

Both Heckscher and Montgomery viewed the nineteenth century as a kind of golden age in Swedish economic history. The advent of the industrial society brought wealth to the country and pulled the working class up until finally in 1938 the historical Swedish labor market compromise was signed in Saltsjöbaden. It was a story of industrial peace. This had clear political connotations, stressed by Hasselberg. It is when she reaches this point in Montgomery's work that she actually substantiates the thesis that economic history could be thought of as an alternative to the new economic theory proposed by the Stockholm school as a base for economic policy. Strangely enough, she does not deal much with Heckscher's own writings on economic history.

Boëthius is not used either, for more obvious reasons. He wrote about man and his relation to nature and to the forest, the cyclical secular rhythm of rural life, where the generations succeeded each other, about things decidedly past. Boëthius was a conservative and he stressed the role of personalities in history. He thought that history deserved to be studied for its own sake, without attempting to apply it to the present, although at the same time he thought that the values manifested in the past could serve as lessons for later generations.

Hasselberg also characterizes Heckscher's position among the Swedish historians. He was active during the period when the struggle between Weibull school, with its insistence on a critical approach to historical sources, and the old-fashioned, nationalistic school of historians with a tendency to glorify things Swedish, took place. Heckscher was fully aware of the importance of skepticism but for him the Weibull approach was far too myopic. It did not permit any historical synthesis. Heckscher came from a different tradition. He was the student of Harald Hjärne in Uppsala, who not only favored synthetic work but who also thought that history could contribute something to the analysis of contemporary problems. Heckscher shared his views. He saw that the narrow Weibullian approach precluded the application of history to practical political issues. General history was becoming too 'technical', too concentrated on minor issues and too political, and the emerging Weibull school was unwilling to state personal viewpoints and synthesize. These considerations established the boundary between general and economic history.

Nevertheless, Hasselberg argues that Heckscher had good relations with the representatives of the Weibull school, that he actively sought their friendship and that he used the Lund historians as allies in his struggle to establish economic history as an academic field. Indeed, they were interested in academic positions in economic history, but as part of general history, while Heckscher wanted the new field to be autonomous, and in the end they let him down when they added social history to economic history in the specification of the 1938 chair.

For some reason, Hasselberg plays down Heckscher's incessant plea for the use of (neoclassical) economic theory in economic history throughout most of the book. It is only at the end of her story that she points out that this was actually the tool that Heckscher used to draw the borderline between economic and general history. A systematic examination of Heckscher's many writings on the relationship between history, economics and economic history would have allowed her to make this point in a continuous and efficient way throughout, and it would presumably also have helped to explain better why the historians in both Uppsala and Lund were against the combination of just economics and economic history.

Heckscher was not a Weibullian. Still, he backed Erik Lönnroth in the competition for a chair in history in Uppsala in 1942 – the decisive event in the struggle between the two history schools. His position rendered him a great deal of animosity from the conservative group around Hjärne. Heckscher, however, saw Lönnroth as the best candidate. His moral principles simply overcame his possible initial prejudices. Hasselberg herself argues that this was the case. 'Eli Heckscher stuck to the primacy of the scientific judgment, even when it made him disloyal to his friends [...] If... Erik Lönnroth actually... [was a] good... [scientist], he did not let his friends and their views influence this judgment' (p. 328). However, she interprets his decision as

partly motivated by the desire to get allies in his struggle to establish economic history as a separate discipline, since, mentally, Heckscher never left the Hjärne circle.

If Heckscher actually wanted to recruit Lönnroth for his cause, he did not get very much in the end. When the preceptorships materialized in 1946, Lönnroth was the secretary of one of the two committees that prepared them. This committee recommended that economic history should remain within the history field, whereas the second committee, dominated by economists, wanted to take the new discipline out of the history fold. It came to a newspaper polemic between Heckscher and Lönnroth in early 1947. In the end, Heckscher managed to persuade the minister responsible for education to change the label of the new positions from 'history' to 'economic history', and when it came to the evaluation of the actual candidates for them, the two clashed once more in 1948–1949 (Hettne, 1980, pp. 41–48). Altogether, it is difficult to escape the conclusion that Heckscher's position in the history field was ambiguous, as a result of his own actions. He could not be placed unequivocally in either camp, and this did not facilitate his mission.

One very important question is left unanswered by Hasselberg: What was it that made it possible for Eli Heckscher to establish economic history as a separate discipline? The only answer she provides is on the level of personal chemistry between Heckscher, Montgomery and Boëthius. This is fine as far as it goes, but it is not sufficient. We learn nothing about how Heckscher managed to overcome the inertia of his fellow economists and the resistance of his fellow historians. The theoretical approach used by Hasselberg is a mixture of social network theory and Pierre Bourdieu's (1988) field theory. The network approach proves unhelpful, however. Even with one network largely gone and an unclear position in the other, Heckscher succeeded in the end. Could it then be that the field approach is not taken far enough? According to Bourdieu, the main weapon in the struggle for positions in the academic field is the capital accumulated by the contending actors in the field. He also makes a distinction between symbolic and social capital. The former is roughly equivalent to reputation, respect and authority, as perceived by the surrounding society, and it plays an important role when it comes to establishing hegemony in a given field. Social capital is important as well. Without proper contacts you don't get anywhere, but in the academic field, its use is considered illegitimate. Unless you accumulate a critical minimum amount of symbolic capital you will not qualify for a given position in the field. The obvious question is: Had Heckscher accumulated so much symbolic capital that he could overcome his lack of social capital? Unfortunately, Hasselberg does not answer it.

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8

Eli Heckscher and the Colleagues: The Role of Personality for Economic History

Theory and history

During his entire scientific life, Eli Heckscher professed a keen interest in the relation between economics and economic history. He wrote his first essay on methodological problems in 1904 (Heckscher, 1904) and his last work on the subject was published in 1951 (Heckscher, 1951). As Carl-Axel Olsson (1992, p. 33) has pointed out, his thoughts are 'a battle which he fights out principally with himself'. Heckscher felt that he had to clarify to himself where one subject began and the other ended and to what extent they could be joined. The problem was not easy, for in the end it dealt with finding a *modus vivendi* between the historically unique and the theoretically general.

Heckscher's debate with himself culminated with the address he delivered at the International Historical Congress in Oslo in 1928 and which the following year was printed in a supplement to the *Economic Journal* (Heckscher, 1929a). There he concludes that it is not possible to write full-fledged economic history without resorting to theory. The latter can be employed as an aid in the choice of research questions and it may also serve to weed out interpretations of the historical processes that run counter to economic logic. However, theoretical reasoning cannot explain the transition between different historical epochs. To explain economic development over time is the task of the science of economic history.

Heckscher was perhaps never as close to a call for a synthesis between economics and economic history as he was in 1928 and the next few years (cf. also Heckscher, 1933). One could easily be led to believe that he would have worked on such a synthesis also in terms of academic institutions. It did, however, not work, so instead he had to try to liberate economic history not only from general, mainly political, history but also from economics, and in 1929 he took the first big step in this liberation process. The process continued until 1948, when three preceptor positions (associate professorships) in economic history were created at the universities of Lund (Oscar Bjurling),

Uppsala (Karl-Gustaf Hildebrand) and Gothenburg (Artur Attman). At the same time, the personal chair in economic history that Eli Heckscher himself had had in Stockholm from 1929 was turned into a permanent chair, held first by Ernst Söderlund.

The road had been a long one. Heckscher got his personal chair in 1929. The same year he founded the Economic History Institute at the Stockholm School of Economics and Stockholm College. During the 1930s, the main task was to recruit students to the new subject, something which was close to impossible at the Stockholm School of Economics. When it came to establishing economic history as a separate subject of examination at Stockholm College, Heckscher's idea was that it should be combined, separately, both with economics and with history. The universities in both Uppsala and Lund, however, opposed the idea. History had to be included. The historians were not prepared to leave the subject to the economists. When the first efforts were made to create chairs in the new discipline, the latter was referred to as economic and social history.

The economists were not interested. Either they went for chairs in economics or they chose to work with economic policy questions within the public sector investigation committee framework. It proved impossible to make them interested in a discipline that did not exist and Heckscher did not even try. He turned in another direction. The first people that were enrolled in his project were the historian Bertil Boëthius and the economist Arthur Montgomery, both of them persons for whom there was no real place within their mother disciplines. Boëthius lost the struggle for a chair in Uppsala to Erland Hjärke in 1930 and thereafter turned to a civil servant career which in 1944 would be crowned with the position as Keeper of the National Archives of Sweden. Montgomery was in 'exile' in Turku (Åbo) in Finland, without any possibility of getting a Swedish chair, for almost two decades, before Heckscher succeeded in bringing him to the Stockholm School of Economics in 1939.

In her book *Industrisamhällets förkunnare. Eli Heckscher, Arthur Montgomery, Bertil Boëthius och svensk ekonomisk historia 1920–1950*,¹ Ylva Hasselberg (2007) tells the story of how Eli Heckscher almost singlehandedly created the new academic discipline of economic history in Sweden. I have reviewed the book elsewhere (Lundahl, 2009; Chapter 7 of this book), but there is at least one theme that cannot be given fair treatment within the narrow scope of a book review: Heckscher's position vis-à-vis his fellow economists and the influence of this on the creation of the new discipline.

Hasselberg and the economic field

Hasselberg employs an explicit theoretical framework in her discussion of Heckscher and his colleagues. Her approach mixes social network theory (Hasselberg, 1998; Gunneriusson, 2002b) with Pierre Bourdieu's (1996) field

theory. In his book on the *Homo academicus gallicus*, Bourdieu analyzes the struggle for positions in the French academic field. The main weapon in this fight is the capital accumulated by the competing actors. Bourdieu makes a distinction between symbolic and social capital. The former is approximately equal to reputation, respect and authority, as perceived by the surrounding society and it is important when it comes to obtaining hegemony in a given field. Without accumulating a minimum, critical, mass of symbolic capital you are not eligible for a given position in the field. Social capital is important too. Without the right contacts you don't get anywhere, but social capital alone is not enough. Both kinds of capital are required. In the academic field, the exclusive use of social capital is considered illegitimate. To improve your position there you must accumulate more symbolic capital. Nevertheless, the use of social capital is frequent, but it is employed in secret. This is where the social networks come into the picture.

An approach that builds on the combination of social networks and field theory has been employed before in Sweden, by the historian Håkan Gunneriusson (2002a), in his analysis of the struggle between conservative nationalistically minded historians and the source critical deconstructionist Weibull school. Gunneriusson studies two factions that fought each other for hegemony in the history field. The factions are relatively well defined, there are natural actors with clearly delimited social networks, and the bones of contention are easily identified: history chairs. Hence the approach works well in his hands.

Hasselberg has a much more difficult case to analyze. The field of economic history did not exist, but Heckscher had to create it, and the field within which he had to act consisted of both economics and history. Economists and historians come from scientific traditions which differ widely. The former aim at generalization while the latter tend to emphasize what is historically specific. There is, however, an old joke which claims that they at least agree on one thing: there is no need for economic history. It was precisely this attitude that Eli Heckscher had to defeat. He had to draw two boundaries around the new field of economic history: break it out of general history and draw a demarcation line against the traditional economists.

In the following I will hardly deal at all with the former delimitation, the boundary against general history, but only discuss the relation of economic history to economics, for Hasselberg presents a thesis which needs close examination: that the Swedish economists during Heckscher's times could be divided into two groups or 'poles', those busy with scientific research and those busy with more 'worldly' or 'mundane' pursuits, notably politics, and who had compromised their scientific ideals. She claims that without knowledge of this fact it is impossible to understand Heckscher's position vis-à-vis his colleagues or the distinction that he chose to make between economic history and economics. 'My viewpoint is that the Swedish economics field cannot be understood without insight into the fundamental tension that

existed between the scientific pole of the field and its politically oriented, “mundane”, if you want, pole’, writes Hasselberg (2007, p. 51). ‘Perhaps the most important ordering principle in the [economics] field was the distinction between science and politics’ (Hasselberg, 2007, p. 95). Heckscher himself belonged to the former group and he took strong exception to the latter.

I do not share Hasselberg’s view. Her book provides an account of an important process in the history of Swedish social science, but one of the elements that constitute her story does not agree with the actual facts. Hasselberg has uncritically accepted Heckscher’s own world view. It is simply impossible to divide the economists into two groups, and hence the division cannot be used for explanatory purposes either. Heckscher’s relations to his colleagues are important but they did not look the way Hasselberg thinks they did. In the following we will scrutinize these relations and see which role they played for the rise of economic history as a separate academic discipline in Sweden, above all the separation of this subject and economics, a development that differs drastically from the situation for example in the United States.

During the period when Heckscher’s project took shape, what would in time become known as the ‘Stockholm school’ (Ohlin, 1937a) crystallized, the group of younger economists that included among others Erik Lindahl, Gunnar Myrdal, Bertil Ohlin and Alf Johansson. This group was perceived by Heckscher as very mundane and politicking. He chose to distance himself from the new school, and according to Hasselberg, he did this by turning to economic history. Another factor that contributed to the transition was that Heckscher felt like a stranger toward the approach to economic policy that was launched by the new generation. He was a neoclassic, he believed in the self-healing ability of the market and he opposed government interventionism. The new currents, on the other hand were skeptical toward the market mechanism and gave the most important role in the stabilization process to the state. As a result, Heckscher was rapidly marginalized. He could not influence the direction taken by the process creating the new ideas with respect to macroeconomics and stabilization policy in Sweden. Therefore he left the field and defined economic history as what economics had ceased to be: an empirical science: ‘economic history was about *economic reality*. The discipline was seen as and portrayed as empirical mainly as a consequence of the theorization of economics and the impact of the Stockholm school’ (Hasselberg, 2007, p. 350).

That Heckscher distanced himself from the Stockholm School, that he had ever-increasing problems linking his neoclassical analysis to the reality of the Depression and that he became less and less inclined to follow the development of theory is incontrovertible (Henriksson, 1990, p. 174, 1991b, pp. 156–157; Carlson, 1993). Hasselberg is correct on this point. Nor does there remain any doubt about the fact that it was the younger generation

that had the ear of the politicians when it came to shaping the Swedish crisis policy in the 1930s (see e.g. Landgren, 1960), or that Heckscher was politically alien to the new economic message. As a consequence, economics offered no academic attraction for him anymore. The definition of the economic theory of stabilization policy had been taken over by the Stockholm school in Sweden and internationally by Keynesianism. Heckscher turned his back on the new currents. Quantitatively speaking he had not done much on the theoretical level, a handful of contributions altogether, a couple of which were, however, original and one which was genial, the one on foreign trade (Henriksson and Lundahl, 2003), but he had been a very prolific writer on empirical questions. Now, he had to change his strategy (Hasselberg, 2007, p. 321):

When the struggle over the economics field had been lost for Heckscher, because he no longer was in a position that allowed him to have any essential influence on the doxa [the definition of the subject], and because the new generation usurped the most important positions in the field, he chose an alternative strategy. Controlling the positions in a field is a way of influencing the doxa. Another strategy consists in influencing the doxa directly through scientific argumentation. Heckscher had practiced the latter for a long time, with a varying degree of success. He now chose a third strategy: trying to create new positions in the scientific field, positions that were to constitute the foundations of a new scientific discipline: economic history.

Wouldn't it have been possible to do this within the field of economics? As we have already seen, one of Heckscher's ambitions – not least at the time identified by Hasselberg as critical for his project, around 1929 – was to bring economic history closer to economics, and as Björn Hettne (1980, p. 37) has pointed out, 'in 1929, Heckscher did not seem interested in turning economic history into a separate academic discipline'. He thought it made more sense 'to make a *specialization on economic history* possible both in economics and in history' (Heckscher, 1929b, p. 6). Nevertheless, the answer to the question is a clear no. Heckscher never attempted, and there was a good reason why he didn't: his bad relations with his fellow economists.

Heckscher and his colleagues: The older generation

So what did Heckscher's relations to his colleagues look like? Hasselberg analyzes the Swedish economists and Heckscher's position in relation to them 'generation by generation'. The older generation consisted of David Davidson, Gustav Cassel and Knut Wicksell, but Hasselberg writes: 'In the older generation it was actually only David Davidson who at the beginning of the 1920s still was a factor to be reckoned with in the field of economics'

(Hasselberg, 2007, p. 47), somewhat contradictorily, since a mere five pages later you read: 'The most brilliant Swedish economist at the beginning of the 1920s undeniably was Gustav Cassel. Cassel had an international reputation that no other Swedish economist came close to' (Hasselberg, 2007, pp. 51–52).² This sounds a bit confused as well, because it all depends on what you mean. Cassel's main competitor was of course Knut Wicksell. Both were internationally well-known but for somewhat different reasons.

In the eyes of the general public, Cassel was respected, while Wicksell's reputation was not so good. 'Over the years, he became known as the special scandal maker of the Left', writes his biographer, Torsten Gårdlund (1956, p. 366). Wicksell openly advocated the use of contraceptives for birth control purposes which made him a suspect figure in his contemporary Sweden. In addition he had presented some strange ideas: for example that Swedes should emigrate to Siberia, that military cooperation with Russia was desirable and that Sweden possibly ought to form part of the Russian empire, all of which did nothing to improve his standing. Finally, he had spent two months in the prison of Ystad for heresy. The resistance to the appointment of Wicksell to a chair in Lund in 1901 had been strong. The ideas that he held were seen as outright dangerous. Cassel did none of this, and Wicksell did not tour the world like Cassel, who tooted his own horn whenever and wherever he had a chance.

The relative positions of Cassel and Wicksell among their fellow economists is a totally different issue. Cassel was undoubtedly well known, but as an original thinker Wicksell was superior. As early as 1893 Léon Walras, wrote to him, upon receiving a copy of *Über Wert, Kapital und Rente*, that he had 'taken his place in the foremost rank of the new generation of mathematical economists, among whom we can already reckon Irving Fisher in New Haven and Marquis Vilfredo Pareto, my successor at the University of Lausanne', and Eugen von Böhm-Bawerk also expressed that in Wicksell he had found 'a true theorist who takes a profound and serious view of the function of our science' (quoted by Gårdlund, 1996, p. 154).

Heckscher looked up to Wicksell and hated Cassel. To put it more exactly, Wicksell was the only economist with whom Heckscher was on good terms, but not even their relation was problem-free. Hasselberg deals with it almost *en passant*. This is unfortunate, because Wicksell's impressive figure was something that all Swedish economists had to relate to. There was simply no way to get around him. He constitutes the watershed between classical and neoclassical economics in Sweden, and everybody respected him.

From Hasselberg we learn that Heckscher appreciated the greatness of Wicksell as an economist and that he thought that Cassel had defamed Wicksell during the scandalous fight over the chair in economics that Wicksell got in 1901. Heckscher was also involved in the preparation of the tribute that Wicksell received on his 70th birthday in 1921. That's all. But there is more to be said. Gårdlund (1996, p. 321) writes

that among the senior Swedish economists of that time, 'Heckscher was foremost in showing him unreserved appreciation and seeking his advice'. Heckscher contributed money to the subscription that made it possible for Wicksell (who had bad finances) to build a small house in Mörby after his retirement in 1916 (Gårdlund, 1956, p. 337). More important yet was that in 1917 he created the Political Economy Club (Nationalekonomiska klubben) as a forum for Wicksell in Stockholm. Wicksell became its first chairman, a position which he kept until 1923. Often the meetings were held at Eli Heckscher's home. It was at the Political Economy Club that the oral tradition of many of Wicksell's theoretical ideas, above all in the monetary area, to younger economists like Lindahl, Myrdal and Ohlin took place, ideas which they would develop further in the 1930s (Henriksson, 1991a).

Heckscher thus did quite a lot for Wicksell, but the relationship between the two was still not completely rosy. They had at least two clashes. The first one took place in 1919. The year before, Heckscher had published his little book *Svenska produktionsproblem* (Swedish Production Problems) (Heckscher, 1918b). Wicksell (1919) reviewed it and complemented Heckscher for his deep theoretical insights and the way he combined these with practical business knowledge. But the main drift of the review was critical. Wicksell pointed out that Heckscher almost completely ignored 'the social distribution problem that dominates our times almost completely' (Wicksell, 1919, p. 6), and, even worse, he devoted no space at all to the population problem – Wicksell's pet child. What would turn out to be the most important part of the criticism, however, dealt with Heckscher's enthusiasm for free trade. Free trade could lead to falling wages and emigration, and higher prices on raw materials could lead to increased exports of the latter and hence to deindustrialization by pulling production factors from industry into the production of raw materials (what today is known as Dutch Disease).

The result of the criticism, according to Heckscher himself, was that in 1919 he wrote his famous article on foreign trade (Heckscher, 1919). In this, he replied to Wicksell. The increase of the international price of raw materials would lead to exports, but only up to the point where factor prices would be equalized. After this point, there would be no incentives for emigration. The higher price of raw materials abroad would in addition increase the land price and reduce wages. The Swedish wage level would initially lie above the foreign level, and immigration, not emigration, would result. Wicksell (1920a) replied that the argument only applied to commodities which built on local raw materials, but that farmers and industrial workers would indeed emigrate. He regarded the question as an empirical, Swedish, problem, not as a theoretical one. In his answer, Heckscher (1920) stuck to his theoretical approach and tried to elicit a theoretical reply from Wicksell, but the latter preferred not to pick up the glove (Wicksell, 1920b), and the exchange petered out.

Wicksell's position in the population question also led to a second controversy with Heckscher, more serious, since it took place in public. During a discussion at the Political Economy Club in 1923, Heckscher criticized Wicksell for writing in the radical magazine *Brand* and he also made Malthus' original 'remedy' his own: late marriage. Wicksell sat down and wrote 'a sorrowful letter' (Gårdlund, 1996, p. 318) which was, however, never sent.

I have dealt rather extensively with Heckscher's relation to Wicksell not only because Hasselberg touches upon it only cursorily but also because it sheds light on Heckscher's relations to his colleagues. Even though Heckscher admired Wicksell, he could not refrain from attacking him for his stance on population. The relation with Wicksell was, however, the best relation that Heckscher had with any fellow economist. With the others it was worse.

The second economist in the older generation was David Davidson. Heckscher had a comparatively good relation to him for quite a while, but in the end things turned sour anyway. The prospects for a good relationship were excellent. Davidson was Heckscher's teacher in economics in Uppsala (in history it was Harald Hjärne) and 'Heckscher's attachment to Davidson [became so strong] that he may be considered Davidson's foremost student' (Henriksson, 1990, p. 167). Secondly, Davidson was Jewish, exactly like Heckscher, and thirdly, Heckscher regarded him as something like a prototype of the true scientist: a person who stayed at his desk and did not take part in the public debate too often. Nevertheless, Heckscher got involved in a drawn-out conflict with Davidson, over *Ekonomisk Tidskrift*, which was Davidson's personal property and which not only Heckscher but also other economists considered that he mismanaged, but which he refused to let go of. It proved impossible to buy Davidson out until 1938 when he was 84 years old.

The third name in the older generation was Gustav Cassel, Heckscher regarded him as Wicksell's and Davidson's competitor, as an epigone and a networker who systematically overestimated himself. Heckscher was attached to Cassel's Institute for Social Sciences (Socialvetenskapliga Institutet) at Stockholm College between 1904 and 1909, as an *amanuens* (assistant), librarian and *docent* (untenured associate professor), and when he became Professor at the Stockholm School of Economics in 1909 it was partly because Cassel had recommended him. At that time, the relation between Heckscher and Cassel was, however, already bad (Henriksson, 1990, pp. 168–169):

Pure personal chemistry factors seem to have been decisive, and Heckscher's arrogance may have been as destructive as Cassel's egocentric high-mindedness. Heckscher reacted very negatively when he found out that the docent scholarship he had expected after his thesis defense would

possibly be shared by him and Nils Wohlin, who had then appeared as Cassel's favorite student. After the fuss that Heckscher then made, their wives, who were close friends never managed to make their husbands stand each other, no matter how hard they tried.

Henceforth, Heckscher kept Cassel at arm's length, since he thought that Cassel was pretentious and insulting. He saw him as a 'thorn in the flesh. There isn't a single one of his dogmas that is not being presented with the air of the incontrovertible truth of science, and concern for others is never an issue for him', wrote Heckscher in a letter to Arthur Montgomery in 1933 (quoted by Hasselberg, 2007, p. 55). Cassel had the irritating habit of not citing his precursors when he wrote something, in order to appear as clearly more original than what he actually was.

Cassel displayed many human defects. He suffered from 'a morbid exaggeration of his own ego', as *Le Monde* once wrote about de Gaulle, manifested above all in his 900-page autobiography in two volumes with the revealing title *I förnuftets tjänst* (In the Service of Reason) (Cassel, 1940, 1941), where he excels in self-esteem and self-praise. 'Cassel had Napoleonic pretensions', writes Paul Samuelson (1993, p. 520). As a scientist he was inferior to Wicksell, being much more of a popularizer than an original researcher (Carlson, 1990; Magnusson, 1991). 'I make no secret of the fact that there are precious few people who appear as fundamentally reluctant to me as he; it is hardly possible to find a single appealing or even redeeming attribute in him', summarized Heckscher in a letter to Gösta Bagge in 1919 (quoted by Hasselberg, 2007, p. 62). The relation between Heckscher and Cassel could not have been worse.³

The contemporary generation

If we move on to Heckscher's own generation we may observe that his relation to Gösta Bagge was basically good on the personal level. Heckscher and Bagge had both formed part of the circle around the Uppsala historian Harald Hjärne. Heckscher's main problem with Bagge was that he regarded him as theoretically weak, which he did not hesitate to tell him (Hasselberg, 2007, p. 57). Bagge was politically conservative, the party leader of the Right 1935–1944, a man with a sense for practical, not theoretical, things, while the once equally conservative Heckscher was gradually converted to liberalism between 1909 and 1915–1916 (Carlson, 2006). Bagge also appreciated his academic teacher, Cassel, who Heckscher thought was detestable.

Around 1917, the relation between Heckscher and Bagge had turned sour, but it survived, and Heckscher supported Bagge when the latter created the School of Social Work and Public Administration Institute, commonly referred to as the Social Institute (Socialinstitutet) at Stockholm College in 1920. During the 1920s and 1930s, however, the emotional distance between

the two increased again: Heckscher regarded himself increasingly as a scientist and a political liberal, in contrast to Bagge, that he regarded as a failed scientist and a conservative politician.

Most of Heckscher's other contemporaries, Emil Sommarin, Sven Brisman, Gustaf Steffen and Fritz Brock, were outside the mainstream, while Heckscher was in the middle of it – in his own generation. Hasselberg makes the interesting observation that both Sommarin and Brisman wrote historical works, but they were never drawn into Heckscher's project. Possibly, in the case of Sommarin, it was because he was a social democrat (Hasselberg, 2007, p. 46). It was, however, also obvious that Heckscher regarded Sommarin as scientifically weak. He had served as an expert when the chair left by Wicksell was to be manned in Lund in 1917 (Wadensjö, 1994, pp. 180–181). In a letter from 1936 he wrote to Montgomery: 'To excuse myself for having put... [Sommarin] as the prime candidate for the chair I can only state that his only competitor was Brock. Nevertheless I think that I should have done the opposite or even declared both applicants unqualified' (quoted by Bennich-Björkman, 1985, p. 28).

Gustav Steffen as well as a social democrat⁴ and scientifically he was as much of a sociologist as he was an economist. As an economist he was clearly outside the main neoclassical current where Heckscher was. His roots were to be found in the German historical school (Lönnroth, 1990). At any rate, Heckscher had very little contact with him, and he did not have a great deal of scientific respect for him either (Hasselberg, 2007, p. 46).

With Fritz Brock, Heckscher had a long controversy from 1916 about progressive taxation. He had also read a fairly uneven book about tariffs (Brock, 1917) by him in connection with the appointment of a professor in Lund the following year, where Brock attempted to defend tariff protection. Heckscher the free trader did not like what he read. In a review of the book he contended that one of the four essays that it contained was not worth printing. It discussed 'an economic impossibility' (Heckscher, 1918a, p. 323). On the whole he found that the book had not been given the proper finish and stated that some of it suffered from 'an unfortunate choice of premises and an occasional disturbing mistake' (Heckscher, 1918a, p. 327).

As time went by, the tone between Heckscher and Brock became more and more bitter (Wadensjö, 1994, p. 186). This was, however, not only Heckscher's fault. It was Brock who had begun the fight over progressive taxation, he had managed to pick a fight with Wicksell as well and he was overly critical against the younger generation of economists. Eskil Wadensjö (1994, p. 187), who has painted Brock's portrait, summarizes: 'Brock was a master when it came to polemics but not when it came to building friendly relations with his colleagues.' The longest conflict of all was with Heckscher. When the latter, in 1925, responded to a criticism where Brock had ridiculed his views of tariffs, he accused Brock of 'having taken the opportunity to turn against my person' (Heckscher, 1925). His appreciation

of Brock was very low. In a 1936 letter to Montgomery he called Brock 'a miracle of idleness' (quoted by Hasselberg, 2007, p. 163). There is an apocryphal story of how Brock, when he learned that he would get a chair in Uppsala in 1921, 'laid down his pen, never to pick it up again' (Jonung, 1992, note, p. 241).

Eli Heckscher also had bad relations with his colleague at the Stockholm School of Economics, Sven Brisman. He did not think that Brisman organized his teaching right and he often complained about him. Heckscher had a clearly 'fault-finding' attitude toward his colleagues, especially among the economists and above all toward Brisman. 'He who in particular had to suffer the Heckscherian views with respect to his teaching was precisely...Brisman', writes Rolf Henriksson (1990, p. 171). Brisman in turn took exception from Heckscher's habit of discouraging students that he considered ungifted from further studies of economics. Students who think that modern economics professors may seem demanding and hard to approach are lucky not having had to stand in the pillory in front of Heckscher (Henriksson, 1979, p. 512):

During the seminars...he displayed not only his positive features, but also his negative. He could easily become sarcastic, a feature that became ever more pronounced during his examinations. He was as feared as an examiner as he was admired as a lecturer. He did not hesitate to save students that he considered ungifted from wasting valuable time on studies they were not fit for and told them willingly what he thought of their future possibilities: 'Mr. so and so may possibly become a good bishop, prime minister or something like that, but he would never become a good economist.' Certainly many students could not take this relentless frankness, and on at least one occasion such an intervention appears to have made a student leave the school. Heckscher's colleague Sven Brisman reacted very strongly against this kind of care and responsibility and asked him to refrain from such *consilia abeundi* (advice to retire).

When the president of the Stockholm School of Economics, Carl Hallendorff, suddenly passed away in 1929, it came to an open confrontation between Heckscher and Brisman, and their already bad relations turned even worse. Heckscher had expected to succeed Hallendorff, but his colleagues, led by Brisman, were completely negative. In his summary characteristic of Heckscher, Arthur Montgomery (1953, pp. 163–164) writes:

[H]e was not a...good everyday life psychologist and apparently had no idea about the sentiments that prevailed at the Stockholm School of Economics. He had been very active, experienced and useful, but certainly also a rather awkward member of the faculty, sharp in his criticisms and not prone to compromise. Nor could he be acquitted of a propensity to

interfere in the work of others which frequently was irritating. His entire disposition made him less suitable for the delicate position of president.

Heckscher was simply regarded as completely impossible as president by his colleagues. Obviously he had not understood that before (Montgomery, 1953, p. 164):

When Heckscher understood that there was no support for the idea that he should become president, it came... as a personal blow for him. It affected him a great deal deeper than what was generally understood by the people around him, and he seriously considered to put an end to his relation with the Stockholm School of Economics.

Naturally, Brisman had to take the blame for the incident. As compensation for the lost presidency Heckscher got a personal research chair in economic history and left his former position. He made sure that Bertil Ohlin succeeded him and that Brisman was maneuvered away from some of his teaching (Bennich-Björkman, 1985, p. 29).

The younger generation: The Stockholm school

Eli Heckscher was very much a mentor for younger researchers but it was far from always that he managed to stay on good terms with them for longer periods. His best relation was with Erik Lindahl. Actually, Lindahl belonged to the same circle, 'the Stockholm school' of economists, as Myrdal and Ohlin, he shared their views of the desirability of state intervention to ensure employment and stabilization and he was used by the social democrat establishment as an expert in the 1930s and 1940s, but in contrast to the other two, he never attempted any personal political career. In addition, Lindahl was under the auspices of Wicksell and Heckscher conceived of him as more of a traditional researcher (Hasselberg, 2007, pp. 76–77). Still, he too became the victim of Heckscher's moralism, when the latter thought that Lindahl had abused a scholarship (Jonung, 1992, p. 38).

With Alf Johansson, things went relatively well. Johansson had lived with the Heckscher family during part of his studies, and Ebba Heckscher regarded him almost like a foster-son (Hasselberg, 2007, p. 66). In addition, he would in time leave academia for a career as a civil servant.

Heckscher's relation with Gunnar Myrdal was excellent during the 1920s and the beginning of the 1930s. He appreciated Myrdal's intellectual stringency and encouraged him in his research. He fought with Gösta Bage in order to give Myrdal the highest mark on his doctoral dissertation and he pushed to get Myrdal into the Royal Academy of Sciences. Heckscher regarded Myrdal as a good scientist in spite of the latter's views of stabilization policy, the Keynes-like perspective which the Stockholm school

economists had begun to develop on their own. 'It was the great respect for science that united Myrdal and Heckscher', writes Hasselberg (2007, p. 80).

Still, it was just a matter of time before it would come to a confrontation between Heckscher and Myrdal. When Gunnar and Alva Myrdal published *Kris i befolkningsfrågan* (Crisis in the Population Question) in 1934 (Myrdal and Myrdal, 1935), a work which perhaps more than any other served as a program declaration for the social democratic welfare state that began to take shape around this time, not only Eli Heckscher but also Ebba Heckscher reacted violently against their presentation. Both saw the book as part of a socialist agenda. The Heckschers accused the Myrdals for not respecting the division between science and politics which Gunnar had dealt with extensively in *Vetenskap och politik i nationalekonomien* (Myrdal, 1930).⁵ They peddled their political message under the cloak of science.

The controversy over the Myrdal book destroyed the relation between Eli Heckscher and Gunnar Myrdal, a relation which hitherto had been 'profound and intimate' (Hasselberg, 2007, p. 92). Myrdal no longer regarded Heckscher as honest and Eli resented it. 'He would rather be called an idiot or a blockhead than called dishonest' (Hasselberg, 2007, p. 92). Going back proved impossible, even after Heckscher had ensured Myrdal's entry in the Academy of Sciences in 1945, for the same year Cassel had died and Myrdal had then, together with Ohlin, written an obituary where they praised Cassel. The collision between Myrdal's romantic view of his teacher and Heckscher's overly critical one was frontal (Hasselberg, 2007, pp. 92–94).

Heckscher's relation with Bertil Ohlin was even more complicated. Part of the reason was that Ohlin was both Heckscher's and Cassel's student. He began as a Heckscher student at the Stockholm School of Economics, but when the time came for his PhD he went to Cassel at Stockholm College. The explanation was simple. The Stockholm School did not have the right to award PhD degrees. Heckscher, however, was strongly engaged in Ohlin's thesis and also persuaded him to apply for the chair in Copenhagen which he got, the same year as he defended his thesis, in 1924. The intercourse between the two worked well during the entire 1920s and Heckscher saw to it that Ohlin became his successor as Professor of Economics when he himself got a chair in economic history in 1929.

Thereafter, things deteriorated quickly between Heckscher and Ohlin. Heckscher got the idea that Ohlin for a while had been paid a professor's salary both in Copenhagen and Stockholm (Jonung, 1992, p. 38) and he thought that Ohlin took his teaching duties at the Stockholm School of Economics too lightly, spending too much time on his political career. In 1933 he recommended that Ohlin should not be given the leave of absence he had requested. The following year, Ohlin became the chairman of the Liberal Party Youth League, but, from his own point of view, which he thought of as liberal, Heckscher could not bring himself to viewing him as a true liberal. In 1935, Ohlin received a letter where he learned that he was a political

opportunist. Heckscher thought that at heart he was a social democrat. Ohlin did not remain silent, but replied that Heckscher was a conservative. At that point he was tired of several years of Heckscher's moralizing criticism, large and small. Then Heckscher 'in his characteristic drastic way' decided that Ohlin was no longer to be regarded as a friend and called him 'a professor drenched in politics' (letter from Heckscher to Montgomery, quoted by Hasselberg, 2007, p. 75).

Heckscher continued his criticism of Ohlin during the remainder of the 1930s. He distanced himself more and more from the crisis policy ideas of the Stockholm school. He regarded Ohlin as a decided politician who had betrayed science. For Heckscher, Ohlin was the economist who 'had taken up Cassel's mantle' (Hasselberg, 2007, p. 80), somewhat surprising since it was Myrdal who was Cassel's favorite student and who succeeded him as Professor at Stockholm College. Cassel was also conspicuously absent in *Vetenskap och politik i nationalekonomien*, but Myrdal's relation to Heckscher was better than Ohlin's.

Heckscher had little contact with the rest of the economists of the Stockholm school generation. He appreciated Gunnar Westin Silverstolpe both as a scientist and a teacher, and, as a member of the expert appointment committee, he helped him to get a chair in Gothenburg. In Heckscher's view, Silverstolpe took the didactic task seriously which his colleagues Brisman and Ohlin did not. On the other hand, Heckscher could not stand the Åkerman brothers: Gustaf and Johan. It did not help that Gustaf, Steffen's successor in Gothenburg, was a Wicksell student. 'In my personal view, he was really not too sympathetic', wrote Heckscher to Montgomery in connection with the appointment to the chair after Steffen in Gothenburg in 1928, a chair that Gustaf Åkerman got (quoted by Hasselberg, 2007, p. 336). Johan Åkerman, in turn, tried to interest Heckscher in his dissertation on business cycle theory (Åkerman, 1928), but Heckscher was dismissive in spite of the fact that Åkerman had been his student at the Stockholm School of Economics. He declined later invitations as well and in a letter to Montgomery in 1931 remarked that 'Johan Åkerman is a thorn in the flesh to us all' (quoted by Hasselberg, 2007, p. 337). For Heckscher, in this respect, he was Cassel's equal. Otherwise he was peculiar, not least methodologically, with his distinction between causal analysis, which reconstructs and explains real economic sequences, and calculation models, pure model sequences, which are determined by assumptions with respect to the rationality of the actors (Pettersson, 1987, chapter 10; Dahmén, 1990). Exactly like Steffen, he distanced himself from the mainstream neoclassical methodology cherished by Heckscher. The latter was outright insolent to Åkerman. He called him "Sven Duva" – 'a bad head he had, but his heart was good'.⁶ Åkerman thought that, as a teacher, Heckscher 'had a flaw: he could not stand any other views than his own – you had to swear an oath on the words of the master' (Åkerman, 1997, p. 69).

Hasselberg's interpretation

Like Håkan Gunneriusson, Hasselberg divides the actors in the field – in her case that of economics – into two camps: those that she conceives of as ‘scientific’ and the ‘worldly’ ones. Among the former she puts Davidson and Wicksell in the older generation, without any hesitation, and possibly also Erik Lindahl in the younger generation, although at the same time she points out that he belonged to the circle which ‘both had access to the political sphere, the party apparatus, the central bank, and to scientific positions’ (Hasselberg, 2007, p. 327). Lindahl is, however, no main character in Hasselberg’s narrative. In the other camp you find Cassel, unconditionally – he epitomizes this pole – Bagge above all in the middle generation, and both Ohlin and Myrdal in the younger one.

According to Hasselberg (2007, p. 51), the tension between the two poles was inherited:

The tension materialized in the difference between the introvert, careful and meticulous Davidson and the famous and materially conscious Cassel, who was very aware of the audience. This tension thereafter extended to their respective disciples and was resurrected in a new shape within the scope of the relation between Eli and Gösta Bagge or between Eli and Bertil Ohlin. Both Bagge, Gunnar Myrdal and Bertil Ohlin were Cassel’s students.

‘My contention is that Heckschers condemnation [of Cassel] should be viewed precisely like that, as a tool used to further his own position [in the field]: the scientifically pure, objective position’, writes Hasselberg (2007, p. 54). ‘Profanity’ was an ‘enormous moral problem’ for him (Hasselberg, 2007, p. 355), and Heckscher was unable to make any distinction between the scientific achievements of Cassel, Ohlin and Myrdal and the judgment he made of their characters.⁷

This looks striking, but at the same time Hasselberg advances an almost opposite thesis about Heckscher himself. He became Professor of Economics and Statistics at the recently created Stockholm School of Economics in 1909. Three years later, the prospect of a new chair in economics at Uppsala was held out. The Uppsala people very much wanted to get Heckscher, who had defended his thesis there in 1907, back, and he consequently began to think of moving, above all because he thought that he would have greater opportunity to work in economic history in Uppsala. He, however, chose to remain in Stockholm. For Hasselberg, this was a conscious choice and she interprets it in terms of Bourdieu’s field theory (Hasselberg, 2007, p. 43):

The choice between the Stockholm School of Economics and Uppsala University stands out as a choice between having an impact on the world

and just pursuing scientific activities. Heckscher chose the former. It was not a choice of absolute freedom, but it did not amount to foreswearing independence for confinement either, but a choice of *profanity* in some sense. With the aid of the Bourdieu field theory it may be expressed in the following way: Heckscher chose a position which meant that his capital did not primarily derive from scientific activities [...]. In 1912 he chose... a position which rested heavily on social capital, even though this capital was not always an acceptable currency in the academic field. Instead he got the possibility of using this capital in ways that he thought were important: in economic policy, in negotiations with the business community, in the education of young economists.

Heckscher's 1912 choice did not allow him to do research in and write economic history. As a matter of fact, it may be conceived of as counterproductive in relation to such a goal. A professor of economics at the Stockholm School of Economics was not at liberty pursuing his scientific interest in this field.

Here, the moral element is conspicuously absent. Possibly you may contend, as Hasselberg (2007, p. 323) actually does, that 'Heckscher thought that, as an economist and a liberal, he had embodied the pure science, whose integrity was strong in its relation to politics, while the young economists, especially Gunnar Myrdal and Bertil Ohlin, had "politicized" the economic science.' But then you cannot simultaneously argue that Heckscher in 1912 *consciously* chose the 'worldly' pole.

Nor can you argue that it was not until 1929, when Heckscher had managed to get a personal chair in economic history and at the same time had created the Institute for Economic History, that, according to Hasselberg's view, he could leave the worldly pole and move to the scientific one from where he extended his project to incorporate more researchers than himself within the framework of a new academic discipline which he had to create: economic history. If you do so, Heckscher in 1912, in the light of Hasselberg's thesis, stands out as an opportunist, pure and simple, who had thrown his principles overboard.

The problem with Hasselberg's view is bipolarity. This becomes a Procrustean bed, for the very simple reason that it never existed. The most striking example of this is Knut Wicksell. He is the greatest Swedish economist of all times and it is not difficult to argue that he is our greatest social scientist, all categories. Hasselberg places him unequivocally at the scientific pole. Wicksell was a world class economic theorist, an economist who influenced all his contemporaries (except possibly his arch enemy Cassel) and who stood out as an intellectual fatherly figure for the generation that would crystallize in the Stockholm school. He was, however, also exceedingly active in the public debate: he even saw 'the education of the Swedish

people' in social and economic questions 'as his chief obligation' (quoted by Gårdlund, 1996, p. 305). Wicksell wrote popular pamphlets and newspaper articles all his life. He was a convinced social reformer who hoisted the battle flag as soon as he saw an anomaly that called for attention (see Gårdlund, 1996; Lundahl, 2005, for examples). Wicksell was definitely no ivory tower researcher. Wherever he went to propagate his ideas about how society ought to be improved, he made scandal and fuss. Wicksell must be placed at both poles simultaneously – an impossibility if you want to use an either-or perspective.

By the same token it becomes absurd when Hasselberg places Ohlin and Myrdal only at the 'worldly' pole. During the time period covered by her investigation Ohlin wrote the article about the transfer problem which made him internationally famous (Ohlin, 1929), a book about the world economic depression for the League of Nations (Ohlin, 1931), his great book on international trade, *Interregional and International Trade* (Ohlin, 1933), the report for the Committee on Unemployment where he presents an employment theory which resembles the one which was simultaneously being developed by Keynes (Ohlin, 1934), the two articles where he presents the view of the Stockholm school on savings and investment for an international audience (Ohlin, 1937a), a book about the state and the world economy (Ohlin, 1937b) and one about capital markets and interest rate policy (Ohlin, 1941). The year that constitutes the end point for Hasselberg's investigation, 1948, he gave the Julius Beer Foundation Lectures at Columbia and the Chichele Lectures in Oxford – which the following year together became a book about stable employment (Ohlin, 1949). Most of this he did at the same time as he was engaged in his political career. Together with James Meade, Bertil Ohlin was awarded the Prize in Memory of Alfred Nobel in economics in 1977. It is simply not possible to contend that he was just 'worldly' or 'political'.

The same is true with respect to Gunnar Myrdal. He was in the first chamber of the Swedish Parliament 1936–1938 and 1944–1947 and he was Minister of Foreign Trade 1945–1947. At the same time as he made his political career he kept pouring out, almost literally, books (and articles) in a never-ending stream, ranging from *Vetenskap och politik*, via the Swedish and German editions of *Om penningteoretisk jämvikt* (Myrdal, 1931a, 1933a), which in the end became *Monetary Equilibrium* (Myrdal, 1939), *Sveriges väg genom penningkrisen* (The Swedish Course through the Monetary Crisis) (Myrdal, 1931b), the book for the Institute for Social Sciences about the cost of living in Sweden (Myrdal, 1933b), his contribution to the Committee on Unemployment, *Finanspolitikens ekonomiska verkningar* (The Economic Effects of Fiscal Policy) (Myrdal, 1934), his criticism of Swedish agricultural policy (Myrdal, 1938) and his Godkin Lectures on the population problem (Myrdal, 1940), to his masterpiece *An American Dilemma* (Myrdal, 1944a) (and his inaccurate *Varning för fredsoptimism* (Beware of Peace Optimism) (Myrdal, 1944b)). 'With An American Dilemma, which

in the United States had sold more than 100,000 copies, M. immediately was recognized as one of the great contemporary social scientists', writes Bo Gustafsson (1989, p. 154) in his article about Myrdal in *Svenskt biografiskt lexikon*. In 1974 Gunnar Myrdal shared the Nobel Prize in economics with Friedrich Hayek.

Not even Cassel, who was so detestable both to Wicksell and to Heckscher, can be placed unequivocally at the 'worldly' pole. In spite of all his personal shortcomings and in spite of his constantly demonstrated craving for public recognition and the favor of the mass audience, it cannot be denied that Cassel was a hard-working researcher who left personal contributions. 'Whether he is quite of Wicksell's stature, he was in absolute terms a creative scientist', writes Paul Samuelson (1993, p. 521). That he does not, for example, acknowledge his intellectual debt of gratitude, above all to Walras, in *The Theory of Social Economy* (Cassel, 1923) is one thing. This was totally alien to his nature. Nevertheless he had on his own arrived at the principle of marginal cost pricing of collective goods, and he anticipated the life cycle hypothesis of Franco Modigliani (Cassel, 1903; Modigliani and Brumberg, 1954) and, already in 1918, Harold Hotelling's (1931) analysis of the optimal use of non-renewable natural resources (Cassel, 1934, pp. 288–294). The same year he had worked out what would later become known as the Harrod-Domar theorem in economic growth (Cassel, 1934, pp. 86–88; Harrod, 1939; Domar 1946), and the concept of purchasing power parity (Cassel, 1916) will always be connected with his name (Brems, 1989; Samuelson, 1993).

Even worse, Heckscher himself provides as good an illustration as Wicksell of the impossibility of dividing the Swedish economists into two groups. In the introduction to his long portrait of Eli Heckscher as a scientist, Arthur Montgomery (1953, p. 149) writes:

When you study Eli Heckscher's enormous and in several instances path-breaking output you get the impression of a scientific program carried out with great consistency and determination. The road from his first works in economic history, especially 'Produktplakatet'⁸ from 1908, to his main works, 'Mercantilism' and 'Sveriges ekonomiska historia från Gustav Vasa', appears to be pretty well laid out. But in reality it was an evolution fighting strong special interests which for a long time put strong demands on his time. In a characterization of Eli Heckscher's personality, Ernst Wigforss, has rightly stressed that in the depth of his heart he was passionately engaged in the political struggle.

It cannot be said clearer. Heckscher 'took considerable pride in his ability to deliver public addresses and "messages to the nation"' (Henriksson, 1991b, p. 159). He, however, worked on a level that differed somewhat from that of Bagge, Ohlin and Myrdal, who were all engaged in party politics. 'The task of the politician, to lead and negotiate, did not suit him well', writes

Rolf Henriksson (1979, p. 516), with a slight understatement. He summarizes (Henriksson, 1990, p. 178):

An important part of Eli Heckscher's work in economics was the role that he played for economic policy in the country. He, however, never exerted his influence on it from a position which involved formal political responsibility. Instead his influence was exerted mainly through the direct personal contact he had with people like teachers, scientists, researchers and counselors. Many people both on the right and the left in Swedish politics had their views of society turned liberal through his personal influence. The pragmatic and non-doctrinaire position with respect to social issues of the Swedish social democracy during the 1930s can probably be traced back to the influence exerted by Heckscher on Wigforss, Sandler and Sköld in the 1920s.⁹

Exactly like the other economists of this time (including Davidson and Wicksell), Heckscher participated in a number of government investigations and commissions (Henriksson, 1990, pp. 178–179; Hasselberg, 2007, Appendix 2), and he had a very high profile in the public debate (Henriksson, 1990, p. 179):

He contributed prolifically with articles to a number of periodicals, above all *Svensk Tidskrift*, where together with Gösta Bagge he was the main editor during the First World War.¹⁰ As a writer in the daily press – from the 1920s mainly in *Dagens Nyheter* – and as a lecturer above all on the radio he reached out to a wide circle of people. Through these channels he became a well-known person known for his unpopular radical views and his great civil courage, often admired but also publically humiliated. During the 1930s crisis he was labeled the number one enemy of agriculture because of his resistance to agricultural protection. On several occasions he attracted not only the antipathy of large groups but also the hostility of individual people.

Heckscher was as 'worldly' as ever Cassel, Ohlin or Myrdal, even though he did not see it that way himself, and you cannot contend that he became less 'worldly' when he became an 'economic historian' in 1929 either. The truth is rather that Heckscher dealt with both 'scientific' and 'worldly' things all his life. It is well known that he was 'Eli Heckscher the economist' above all during the 1910s and 1920s. It was then that wrote his few contributions to economic theory and it was then that he was one of the most frequent discussants of economic policy among the economists (Henriksson and Lundahl, 2003). At the same time he, however, wrote economic history. *Kontinentalsystemet* (The Continental System) (Heckscher, 1918c) was

published in 1918,¹¹ the essay collection *Ekonomi och historia* (Economy and History) (Heckscher, 1922b) in 1922 and both his great two-volume work on mercantilism¹² and the book about industrialism in 1931 (Heckscher 1931a, 1931b). Much of the research upon which both these works and the two first volumes of *Sveriges ekonomiska historia från Gustav Vasa* (The Economic History of Sweden since Gustav Vasa) (Heckscher, 1935b, 1936) are based was carried out in the 1920s (Henriksson and Lundahl, 2003, pp. 22–23).

The reverse is also true. Heckscher did not fall silent in the economic policy debate after 1929. It may be the case that his research was strongly concentrated to historical questions. 'It appears as if Heckscher in the end, for lack of an audience among the younger generation lost some of his taste for theoretical work', summarizes Rolf Henriksson (1990, p. 174), but Heckscher remained an eager contributor to the daily press all his life, and the subjects he dealt with were mainly contemporary, not historical. His extensive bibliography is eloquent on this point (*Eli F. Heckschers bibliografi*, 1950).

'For a very long time (1918–1952), Heckscher has been the leading and most avid debater during the meetings of the Political Economy Club', writes Erik Lundberg (1977, p. 181) in a retrospective view of the debate of the economists on economic policy. If you can trace an increasing reluctance to public exposure during the 1930s, this had a very natural explanation (Montgomery, 1953, pp. 164–165):

[T]he liberation from the political investigation work, which during the preceding decades had taken so much of his time, turned out to much more complete than Heckscher had imagined from the beginning. External circumstances contributed to this as well. The victory of nazism in Germany and the international problems that this caused for different reasons had a very deep impact on Heckscher and made him less and less prone to take part in the political debate.

He mentioned this seclusion himself, on a latter occasion, in a statement from 1944. As a Jew he had personal experience of the fact that when he voiced views that were unpopular among one group or another it sometimes provoked an anti-Semitic reaction.

This, however, did not mean that Heckscher refrained from making comments on contemporary economic problems. His writings in *Dagens Nyheter* continued, exactly like his talks in public and on the radio. Not least the ideas about a planned economy which emanated for example, from Myrdal and Alf Johansson had a sworn enemy in Heckscher and he fought them stubbornly, 'almost until the very end of his life' (Henriksson, 1990, s 180).

Bipolarity or cooperation problems?

It is obvious that it is difficult to place the important actors in Eli Heckscher's world of economists only in the 'scientific' or the 'worldly' camp. They all had one foot in each. The polarization approach is of no help, because it forces Hasselberg to make choices in situations where such choices are not necessary, and at least on a superficial level it leaves the impression that the colleagues that Heckscher disliked automatically end up in the 'worldly' camp. Hasselberg herself (2007, p. 22) writes: 'The field analysis of the economics field suffers from the fact that it is made from the point of view of Eli Heckscher and that I did not have any opportunity to make a complete analysis of the field and the relations in the field from other available sources.' This is unfortunately true. Heckscher viewed the world as polarized. He had a beam in his own eye. The problem is that Hasselberg uncritically accepts Heckscher's view of life, but polarization cannot be used for explanation purposes, since the world did not look like that. You cannot describe Heckscher's 'transfer' to economic history in 1929 as a movement from one pole to the other, for the simple reason that the two poles never existed.

There is no need whatsoever for polarization.¹³ The truth is far simpler than so. In her analysis of the attitude of the economists to the discipline of economic history, Li Bennich-Björkman (1985, p. 29) explicitly poses the question whether Eli Heckscher had cooperation problems and her tentative answer is yes. There is no question about this. Even Hasselberg recognizes it: 'Heckscher's relation to the Swedish economics field after 1920 was not completely harmonic. In the more open-hearted letters to ... [his] friends, above all Gösta Bagge and Arthur Montgomery, there is hardly a single Swedish economist who does not get his share', she writes (Hasselberg, 2007, p. 46). Unfortunately, however, she does not draw the right conclusions from her observation. Heckscher burned all his ships, but in contrast to Cortés, hardly in a conscious way. He cut off all his relations with the important actors in economics, destroyed his network among them. As we have already demonstrated, he got into conflicts with virtually all of them, including Wicksell whom he admired so much, for reasons that differed from case to case, and it is difficult to contend that all conflicts were due to the fact that Heckscher had a 'scientific' attitude and the others a 'worldly' one. He was conflict prone, 'such a sanguine and sarcastic despot'.¹⁴ In the second volume of his memoirs, Ernst Wigforss (1951, p. 156) describes how he conceived of Heckscher as possessing 'superior clarity and sharpness', but also 'awareness of his own intellectual equipment' and 'a whiff of hubris'. All this was part of his personality – and in the end he became completely isolated among the economists. 'No man is an island – not even Eli Heckscher', writes Hasselberg (2007, p. 328), but in this respect he almost was and he had seen to it himself that things turned out that way.

If you want to explain his decision to separate economic history from economics as an academic discipline, his cooperation problems must be brought into the picture. Bennich-Björkman (1985, p. 31) is crystal clear on this point:

Those of Heckscher's personal characteristics which have been paid attention to in the present context may have made would-be allies hesitate or step back from Heckscher and may also have provided those directly involved in conflicts and exchanges of opinions a – not unimportant – reason to oppose or at least not back Heckscher. As a result he lacked the personal contact net which would have made more informal talks, discussions or intimations possible. As things stood, there were hardly any channels for this. It is also probable that the... political-theoretical conflict became more serious and more definitive because the personal relations had already before become strained. You may say that some kind of interaction took place between the public and private antagonisms.

There is no doubt that Heckscher was exceptional. In his summary of bad relations between economists during the interwar period Lars Jonung (1992, p. 38) concludes that 'most disputes involved Heckscher'.

The movement away from economics into economic history constituted an important part of the conflict too. Hasselberg interprets Heckscher's decision to separate economic history from economics as a way of creating his own new platform in the economic-political fight. He disliked the 'worldly' economists intensely, but he could not take up the theoretical struggle with them. Hence he attempted to redraw the playing field. 'Historical parallels were... Heckscher's favourite theme in his historical writings', summarizes Henriksson (1991b, p. 149). Here, his presentism as a historian was clearly expressed. 'Heckscher's measuring rod was a genetic view, ultimately aimed at the results of the development in the present', writes Bertil Boëthius (1953, p. 49). The use of a historically based argumentation strengthened Heckscher's position. It was not as easy to attack him in the historical field as in the economic-theoretic one.

Here as well, however, Heckscher was at least as 'worldly' as his adversaries. In spite of all declarations to the contrary, he could not stay away from politics. That he used economic history instead of economic theory did not matter at all. Heckscher and the Stockholm school shared the same ambition. The idea was to make their view matter among the political decision makers.

It does not seem as if the economists minded that Heckscher distanced himself from their field. He was perceived as a difficult person and it would be nice to have him in his own fold or among the historians. When in 1939 he pleaded for introducing previous studies in economics as an alternative to

previous studies in history in order to qualify for further studies in economic history, the historians immediately turned against him – and the economists did not support him (Bennich-Björkman, 1985, p. 8):

It is remarkable . . . that in the main the economists shared the opinion of the historians or at least let the latter call the tune. Given that Heckscher built much of his argumentation on the fact that in the existing system students in economic history were practically excluded from pursuing studies in economic history – due to the history requirement – the silence of the economists is conspicuous.

In Uppsala, Erik Lindahl lent half-hearted support to the idea and in Lund, Johan Åkerman chose not to have any opinion. (Both were members of university committees looking into the question.) Generally speaking, Bertil Ohlin in the main had no interest in economic history and Gunnar Myrdal was of the opinion that historical studies had little to contribute to the analysis of contemporary economic problems. He viewed economic history as part of the history discipline, not of economics. (In 1936, he, however, supported Heckscher's line that economic history could be studied in combination with economics, without any need for history.) Johan Åkerman, who was more interested in history than Myrdal, with a warm hand left the entire pre-industrial period to the historians, and Erik Lindahl seems to have shared his view. Both Heckscher himself and Montgomery conceived of the economists as uninterested and in the worst case condescending. When, at Heckscher's suggestion, a motion about a chair in economic history was put forward in the first chamber in Parliament in 1938 (to make room for Montgomery), Myrdal and Ohlin, who were both members of the chamber instead presented a motion of their own in favor of a stronger position for economics.¹⁵ Heckscher had put himself into a difficult position (Hettne, 1980, s 44):

Heckscher was . . . strongly engaged . . . and had of course a lot of prestige to fall back on. On the other hand, he fought relatively alone. The representatives of the history discipline unanimously opposed an independent position for economic history and Heckscher obviously no longer had the position that he used to have among the leading economists. The Keynesian revolution had passed him by and even though in his polemics he hinted that the economists shared his view, nobody spoke for either connecting economic history with economics or separating it from both history and economics.

It was not until the preceptorship question came up in 1946 that the economists more actively began to support Heckscher in his struggle for liberation from the historians (Bennich-Björkman, 1985, pp. 9–17), and in the

end it was Heckscher himself who managed to make the Minister of Education (ecklesiastikministern) change the label of the new positions from 'history' to 'economic history' (Hettne, 1980, s 45).

Heckscher's mission in life

Heckscher's opposition to the new generation and his conflict prone personality gradually drove him away from economics in the 1920s and 1930s. He left the economics field, but the picture is of course not complete if we fail to stress the positive attraction of history on Heckscher. His mission in life was to write the economic history of Sweden, and since he had bad relations with the economists he chose to realize this mission by creating a separate field.

You may question how much sense it makes to draw a borderline between Heckscher's fields of interest precisely in 1929. In one way he was always a scientific Janus face (Henriksson and Lundahl, 2003). You have to keep in mind that Heckscher began his academic career with the history discipline. 'Heckscher was an historian before he became an economist' (Hasselberg, 2007, p. 100). 'Already in his youth he had become interested in economic history', writes Hasselberg (2007, p. 40) herself. His *licentiat* thesis in history, from 1903, dealt with the Swedish Navigation Act (Heckscher, 1908). His first reflections on the method of economic history were published in 1904 (Heckscher, 1904). There he deals with the desirability that also economics should incorporate a historical approach. 'At this time Heckscher was more of an historian than an economist', states Björn Hettne (1980, p. 36). In 1907 he defended his PhD thesis in history, not in economics (Heckscher, 1907). It was not until Heckscher became Professor of Economics and Statistics at the Stockholm School of Economics in 1909 that economics would get a more prominent place in his sphere of interests, but as we have already seen, this did not push economic history into the background during the following decades.

Already in 1904 Heckscher had drawn the demarcation line between economic history and economics (cf. Henriksson, 1990, pp. 176–177), a demarcation line that he would stick to and define further in his later writings on methodology (Henriksson and Lundahl, 2003). Henriksson (1990, p. 176) does not hesitate to call this line 'what he, ever since his time in Uppsala, had seen as the methodological pet project of his scientific endeavor'. In his first methodological program declaration he defines the task of economic history as 'the investigation of the development of economic life' (Heckscher, 1904, p. 185), the history of the state of the economy, the policy and the ideology (the economic doctrines). Heckscher's point of departure is that 'contemporary economic life... [may] not possibly be captured through the most subtle analysis of its different factors and their interaction, without [possessing] at the same time the knowledge of the

creation of this life and these factors and hence also of what preceded them' (Heckscher, 1904, pp. 184–185). Implicit in this view is the idea that economics can only analyze relationships and causal chains *within* a given historical period. It has nothing to say about the transition between the periods. Heckscher is of the opinion 'that specific economic deductions are usually not warranted in a historical narration' (Heckscher, 1904, p. 187). Theory can only contribute to the definition of the questions that the science of economic history is to analyze.

The implications are clear. 'Heckscher's position in fact implied a refutation of the possibility of developing at all a theory of economic development' (Henriksson, 1990, p. 178). From this also follows that economic history must be an empirical science.

Already some time after Eli Heckscher had been appointed Professor at the Stockholm School of Economics, in 1909, he became convinced that his real mission in life – simultaneously a lifetime task that required preparation and which could not be begun immediately – was to write the economic history of Sweden, and around the time of World War I he started to announce this in his letters. In September 1914 he wrote to Gösta Bagge (quoted by Brulin, 1953, p. 416):

As I may have told you some time, I hope to be able to begin *what I have regarded as my task, namely the economic history of Sweden*, at the age of 40; but what has to be finished before will require a good five years.

In fact, it was not until he was around 40 years of age that Heckscher began to give his lifetime task more concrete shape (Henriksson, 1991b, pp. 148–151). During a leave of absence in 1918–1919 he drew up the overall guidelines and already in 1920 he began to negotiate a publishing contract with Bonniers (Henriksson, 1991b, p. 154). The following years he systematically finished the works that stood in the way of his lifetime mission. In 1928 he had negotiated an arrangement with the Stockholm School of Economics which would allow him to dedicate half his time to research in economic history, and in 1929 came the incident, the unexpected death of the president, Hallendorff, which he could use to create the institutional base that he needed for his mission in life. '[I]t may serve as a reminder of the role that accidental circumstances sometimes play for institutional change that the chair was created mainly because Heckscher had not been appointed to the position of president at the school', states Hettne (1980, p. 37) laconically.

It took a long time before the discipline of economic history was created. Heckscher did not manage to have it established either within economics or within general history. Therefore he had to break away. It was not until 1948 that he managed to create a firm institutional framework on the national level. It is difficult to get away from the thought that Eli Heckscher was his own worst enemy in the struggle for the new discipline and that he would have reached his goal long before, had he been less arrogant and more

diplomatic toward his colleagues in economics. The war that he waged was a two-front war. If he had had his fellow economists as allies his task would presumably have been a lot easier. All those who have their workplace in an academic institution sooner or later will get in conflict with colleagues, but seldom so often as Heckscher. Eli Heckscher was an academic 'bully'.

Published in Mats Lundahl, *Fem svenska ekonomer. Knut Wicksell, Eli Heckscher, Bertil Ohlin, Torsten Gårdlund, Staffan Burenstam Linder. Vad skev de egentligen?* Stockholm: Timbro, 2009 (Swedish version).

Notes

1. The Chroniclers of Industrial Society. Eli Heckscher, Arthur Montgomery, Bertil Boëthius and Swedish Economic History 1920–1950.
2. Hasselberg (2007, p. 47) also writes: 'At the turn of the century Davidson was the *only* Swedish professor of economics.' This was true in a formal sense, but still a truth with some modification. In Lund Gustaf Hamilton was Professor of Administrative Law and Economics up to 1899, when the subject was split into a chair in special private law, which Hamilton kept, and a chair in economics which Knut Wicksell got in 1901. In 1903 Gustaf Steffen became Professor of Economics and Sociology in Gothenburg and the following year Gustav Cassel got a chair at Stockholm College.
3. Cassel fully reciprocated Heckscher's feelings. In his memoirs he calls Heckscher a dogmatic free trader who 'lacked the training in quantitative thinking needed for a deeper penetration of the [tariff] problem' and that hence 'his reflections hardly [had] much value (Cassel, 1941, p. 101), and when he comments on Bertil Ohlin's doctoral dissertation (Ohlin, 1924), he immediately criticizes Heckscher: 'In the completion of it, Ohlin was...impeded a great deal by distorted visions which Heckscher had conveyed to him' (Cassel, 1941, p. 376) – indeed a somewhat sour-tempered statement!
4. He was, however, excluded from the party between 1915 and 1920, for being too pro-German and too prone to voice race theories.
5. In English as Myrdal (1953).
6. The soldier Sven Duva is a well-known and much loved character in Johan Ludvig Runeberg's (1804–1877) poetic cycle *Fänrik Ståls sägner* (The Tales of Second Lieutenant Stål) which deals with the war between Sweden and Russia 1808–1809.
7. Hasselberg's terminology is not entirely successful. As Benny Carlsson has pointed out to me, 'profane' may mean both political and extrovert. Hasselberg makes no clear distinction between these two meanings of the word. An extrovert economist presumably attaches a lot of importance to the popularization of his scientific findings. Popular science is an acceptable pursuit. A scientifically founded political conviction may not be categorically dismissed as reprehensible. On the contrary: it is natural that the researcher sees it as his duty to argue for it. The real conflict between science and politics does not arise until the researcher feels that he must argue in favor of a policy which opposes what he has concluded on scientific grounds. It is only then that he becomes a 'pure' politician. What role economists do and should play in the public debate is dealt with by a number of authors in Jonung (1996). (Cf. also Chapter 17 in this present book.) Especially interesting is the chapter by Carlsson and Jonung (1996), since it covers precisely the time period investigated by Hasselberg. Heckscher clearly held the

- view that the economist as a scientist was not allowed to make any normative statements unless he had clarified his value premises (Carlson and Jonung, 1996, p. 97). He, however, did not manage to realize this ideal himself.
8. The Swedish Navigation Act, passed by Parliament in 1723 and in force from 1724.
 9. Ernst Wigforss was Minister of Finance 1925–1926, 1932–1936 and 1936–1949. Rickard Sandler was Prime Minister 1925–1926 and Foreign Minister 1932–1936 and 1936–1949. Per-Edvin Sköld served in various capacities: Minister of Agriculture 1932–1936 and 1945–1948, Minister of Foreign Trade 1936–1938, Minister of Defense 1938–1945, Minister without Portfolio (responsible for economic coordination) 1948–1949 and Minister of Finance 1949–1955.
 10. See Brulin (1953).
 11. In English: Heckscher (1922a).
 12. In English: Heckscher (1935a).
 13. As Anders Cullhed has pointed out to me, it is rather a matter of personality among scientists to what extent they want to participate in the broader public debate. Such a disposition as rule shows up relatively early in the career and most of the time it has nothing to do with the game with respect to positions in the academic field analyzed by Bourdieu and Hasselberg. Cf., however, Chapter 17.
 14. E-mail from Rolf Henriksson, 7 January 2009.
 15. Hasselberg (2007, pp. 62–63) argues that one factor which contributed to making the economists uninterested in economic history was that there were many chairs in economics. The main indication of this was that even a mediocre person like Fritz Brock could get a chair. In 1921. But is this correct? Lars Jonung (1992, p. 38) contends that, on the contrary, a reason which was often behind the bad relations between Swedish economists at this time was ‘the limited number of chairs’. During the 1920s, four professors were appointed in economics (including Brock). One chair was a windfall gain caused by Heckscher’s premature resignation in 1929. During the 1930s four more were appointed (or five, if you include Tord Palander in 1941, a chair which had become vacant in 1939). Nine people defended PhD theses in the 1910s, eight in the 1920s and another five up to 1935, (Jonung, 1992, p. 21; Wadensjö, 1992, pp. 201–204).

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9

The Economist Bertil Ohlin: Do His Ideas Still Stand Up?

Most Swedes think of Bertil Ohlin as the leader of the Swedish Liberal Party. Abroad, he is mainly known as the world-class economist who in 1977 together with James Meade received the prize in memory of Alfred Nobel created by the Swedish central bank. Which were then the scientific contributions made by Bertil Ohlin and how do they stand up today?

International trade

At the beginning of the 1920s, Bertil Ohlin sent an article to the *Economic Journal* where he summarized his ideas about the causes of international trade. The article was refused. On a slip of paper which by mistake was sent together with the letter of refusal, John Maynard Keynes wrote: 'This amounts to nothing and should be refused.' He had refused what would become the dominant tradition within the theory of international trade during the following half century.

Ohlin put forward his ideas on international trade in a 'cascade trilogy': his licentiat thesis *Det interregionala bytets teori* (The Theory of Interregional Exchange) (1922), his doctoral dissertation *Handelns teori* (The Theory of Trade) (1924) and *Interregional and International Trade* (1933). Exactly like Eli Heckscher before him, in his first work he dealt with the question of why comparative costs differ so that commodities are exchanged between different regions between which the factors of production cannot move. His answer was that it is due to 'the difference in the relative scarcity of factors of production... A sparsely populated region, with much fertile land and a favorable climate, will export agricultural products and import industrial products from a region with a relatively rich supply of capital and technical skills.' Ohlin calls the exchange of goods 'an exchange of factors of production' (Ohlin, 2002, p. 150), and this in turn leads to '*a uniform price structure of the factors of production*' (Ohlin, 2002, p. 151). The exchange of goods expands to this point but no further. Like Heckscher, Ohlin had given his version of the 'Heckscher-Ohlin theorem' and the factor

price equalization theorem, in a setting with many commodities and many factors.

In his later two, more well-known, works, Ohlin would develop his basic thoughts in a general equilibrium setting. He broke with the classical approach where the return to capital was fundamentally exogenous and endogenized it in the same way as the wage rate, and, in contrast to his teacher and source of inspiration, Gustav Cassel, he allowed for substitution between different factors of production.

Ohlin never limited himself to the restrictive assumptions normally associated with the Heckscher-Ohlin approach. He often worked with many goods and many factors. He discussed factor mobility, transportation costs, economies of scale and externalities which arise due to the joint location of companies already in his *licentiat* thesis – factors which would be brought to the forefront in ‘the new theory of international trade’ in the late 1970s and early 1980s. He regarded economies of scale, an element which disappeared in Paul Samuelson’s subsequent transformation and formalization of the Heckscher-Ohlin approach, as a determinant of international trade whose importance was more or less as great as that of differences in factor endowments when he wrote his *licentiat* thesis, but in his large book he played down their practical importance.

Ohlin’s doctoral dissertation was published in 1924, in Swedish. It was unfortunate that he chose to write in his mother tongue, for this would delay the introduction of both the factor proportions approach and the general equilibrium-based analysis of international trade to the international public until *Interregional and International Trade* was published nine years later.

The transfer problem

Bertil Ohlin made one more important contribution to international economics, in an exchange of viewpoints with Keynes in the *Economic Journal*, in 1929, about the German war reparation payment which had been determined in the Treaty of Versailles. He demonstrated that Keynes was wrong (Keynes, 1929; Ohlin, 1929). The latter had contended that the transfer of the reparation payment would decrease German imports and increase exports, which in turn would lead to a worsening of the country’s terms-of-trade, a secondary burden which in the worst case would make it impossible to meet the reparation payment obligation.

In ‘Transfer Difficulties, Real and Imagined’, Ohlin pointed out that the argument failed to take into account what happens in the country that receives the transfer. The entire transfer will not be spent on imports, but some will be used for purchases of domestic goods, which in turn will pull factors away from the production of exports and import-competing goods. Exports will fall and imports will increase in the second round. In the country paying the transfer you get the opposite sequence. Both these effects will

strengthen the balance of trade of the paying country and weaken that of the receiving country, and hence reduce the risk of a deterioration of the paying country's terms-of-trade. The relevant price changes were rather the increase of the price of domestic goods in relation to goods that enter international trade in the receiving country and the increase in the relative price of traded goods in the paying country, both of which facilitate the transfer. In addition, stated Ohlin, in the case of Germany, the country had borrowed more than what it intended to pay, so in practice, the direction of the transfer was reversed.

It was the exchange with Keynes which made Bertil Ohlin famous. The fundamental ideas he had, however, worked out already before, in *Handelns teori*. Ohlin never accepted the thought that international trade would equalize the factor prices between countries. He only spoke of a *tendency*. This made him investigate the obvious substitute for commodity trade, movements of factors, especially capital, which he regarded as far less immobile than labor, and this in turn led him to the transfer problem. Ohlin stressed the expenditure changes in the two countries between which the transfer takes place. He was well prepared to take on Keynes when the opportunity came.

Ohlin's macroeconomic theory

Bertil Ohlin was, however, not just a trade theorist. He was also an important macro economist. As such he belonged to the so-called Stockholm school of economists, which also included for example, Gunnar Myrdal, Erik Lindahl, Alf Johansson, Karin Kock, Erik Lundberg, Ingvar Svennilson and Dag Hammarskjöld. The notion of the Stockholm school was coined by Ohlin himself in two articles in the *Economic Journal* in 1937: 'Some Notes on the Stockholm School of Savings and Investment' (Ohlin, 1937). In these articles he advanced the (far from unified) analysis of the Swedish economists as an alternative to the theories put forward by Keynes. In the first volume of his autobiography, *Ung man blir politiker* (Young Man Becomes Politician), Ohlin contended that 'a group of Stockholm economists would present important parts of such a theory [as Keynes would present first in the pamphlet *The Means to Prosperity*, 1933 (Keynes, 1933) and thereafter in his great *General Theory* 1936 (Keynes, 1936)] a few years earlier than Keynes' (Ohlin, 1972, p. 162). This took place within the framework of the Committee on Unemployment, whose work began in 1927 and ended in 1935.

For the Committee on Unemployment, Ohlin wrote an appendix that was published in 1934, called *Penningpolitik, offentliga arbeten, subventioner och tullar som medel mot arbetslöshet* (Monetary Policy, Public Works, Subsidies and Tariffs as Remedies for Unemployment) (Ohlin, 1934). There he demonstrated that he was the first Swedish economist to refute the view that

equilibrium was the normal state of the economy and that wage cuts were needed to solve the unemployment problem. Ohlin put total supply against total demand in the economy, according to what he stated himself, following Knut Wicksell, not Keynes. Ohlin's thoughts had crystallized already before 1933. His concepts resembled the ones used by Keynes: national income, savings, consumption, investment, money supply, interest, credit and price level. In his analysis, Ohlin presents thoughts which remind of the Keynesian liquidity trap: monetary policy does not work at low interest rate levels. Lower interest rates lead to hoarding of money that is not spent in the pockets of the consumers. Public works – fiscal policy – on the other hand have an important role to play even when financed by borrowing.

Ohlin recommended public works as a means for combating cyclical unemployment as early as 1930; a year later he argued that the budget ought to be underbalanced during slumps and he calculated multiplier effects of public works in the memorandum that was behind his 1934 publication, but these calculations were deleted after strong criticism by Dag Hammarskjöld, and in the finished work Ohlin limits himself to hinting that income increases during one period will lead to further income rises during subsequent periods, but he does not compute the sum of the series. He furthermore connects multiplier and accelerator mechanisms in his analysis of the causes of the business cycle.

It is not easy to give a short summary of Bertil Ohlin's macroeconomic thought, but Bo Gustafsson (1991, p. 127) offered the following characteristic in the book *The Stockholm School of Economics Revisited*:

A stable price level was no longer regarded as the overriding goal for economic policy. National income and employment are treated as variables and functions of the demand for consumption and investment goods, and full employment is the really relevant target for economic policy. Increased saving is a function of increased income that is affected by increasing investment, which also leads to increasing consumption. In the event of unemployment, wage cuts could not increase saving and income but would lower both national income and saving and investment. The multiplier is there and so is the accelerator. The interest rate is not the equilibrium price of saving and investment but reflects the demand and supply of loanable funds. In a truly dynamic paragraph, Ohlin even suggests that wage increases probably increase the profitability of capital in industries through the economies of scale effected at higher levels of output.

Generally speaking, there was a strong dynamic slant to Ohlin's macroeconomic theory. Hans Brems (1987, p. 699) summarizes:

Two years ahead of Keynes, Ohlin used three Keynesian tools, i.e. the propensity to consume, liquidity preference and the multiplier, and one

non-Keynesian tool, i.e. the accelerator. The four tools would interact as follows in Ohlin's feedback mechanism. Let consumption demand be stimulated. As a result physical output would rise, generating new income. The propensity to consume would link physical consumption to the *level* of physical output and thus establish a consumption feedback. The accelerator would link physical investment to the *growth* of physical output and thus establish an investment feedback... Ohlin's two feedbacks unfolded in a cumulative process along a time axis as a succession of disequilibria: expectations and plans were forever being revised in the light of new experience. By contrast, Keynes used only the consumption feedback and telescoped it into an instant static equilibrium along an output axis.

An extensive debate exists as to whether Ohlin's analysis was original or it was influenced by Keynes 1933 pamphlet. Viewpoints differ, and maybe it will never be possible to reach any definitive conclusions. (In recent years, however, the debate has swung in favor of Ohlin.) He was interested in sequence analysis, not in equilibrium theory, like Keynes, his analysis aimed above all at practical economic policy, not at theory development, and the rich empirical detail tends to hide the underlying structures. Ohlin was the only one among the Stockholm economists who could be compared with Keynes as a macrotheoretical innovator but, once more, he wrote in Swedish, exactly like in his dissertation. Neither the contemporary nor the latter-day Anglo-Saxon economists could read him. In retrospect, publishing in Swedish was a fundamental mistake. Ohlin could repair this as far as trade theory was concerned, but his macroeconomic theory failed to reach out, and what did not exist in English did not exist at all for Englishmen and Americans.

In his comment, Bo Gustafsson posed the question why Bertil Ohlin's promising macroeconomic approach was never followed up in the later writings of the Stockholm school. You cannot really get away from the fact that Ohlin's theory was never presented in a logically unobjectionable, complete form, even in Swedish. All the important components were not present, and his theory was not as elaborate and elegant as that of Keynes. Above all, he did not put it into mathematical, summary and testable form. Ohlin's theory contained variables intended to capture expectations, which are of course very difficult to measure – plans and uncertainty – while Keynes' theory was based on the entities contained in the national accounts. Ohlin worked with a period analysis which quickly got difficult to follow, the analysis was to a large extent casuistic instead of being formalized in simple mathematical relations. The mathematics that Ohlin and the other Stockholm school economists would have needed was too complicated.

Bertil Ohlin would soon leave his academic work as an economist to become a politician. In 1934 he became the chairman of the Liberal Party Youth League, and in 1944 he became party leader. It was Keynes who was

successful and it was Keynes that even the Swedish economists would follow thereafter (Landgren, 1960; Steiger, 1971). Ernst Wigforss, who became Minister of Finance in 1932, had been in contact with the English debate early on (earlier than the Swedish economists) and he became a convinced Keynesian. The publication of *The General Theory* in 1936 was the starting point of the victorious progress of the Keynesian ideas across the world, for several decades, until they began to be questioned above all by the monetarists, led by Milton Friedman, from the 1960s. The Stockholm school was completely overshadowed by Keynesianism. It got no successors.

Conclusions

What have survived best among Bertil Ohlin's economic theories are those that deal with international trade. The Heckscher-Ohlin theorem today is a staple product, on the same level as David Ricardo's ideas about comparative advantage. All students of economics learn it, though not in the form given first by Heckscher and thereafter by Ohlin. The approach of Heckscher and Ohlin, however, gave a decisive impulse to later research. It was seminal. There is also a lot to be learned from Ohlin's analysis of the transfer problem. He inexorably pointed out the weaknesses in Keynes' analysis, and his own contribution is eminently readable even today.

When it comes to Ohlin's macroeconomic theory, it is much more difficult to reach a clear-cut conclusion. The historians of economic doctrines do not agree upon where the impulses came from. Ohlin of course read Keynes, but he had undoubtedly had ideas on his own that resembled those of Keynes, at times before Keynes himself did. It was, however, Keynes who would become the undisputed ruler of the field of macroeconomic theory for several decades. Nevertheless, Ohlin was a pioneer there as well, but his ideas have not endured in the same way as his contributions to international economics. This was, however, the case also of Keynes' analysis. When Edmund Phelps gave the 1988 Arne Ryde Lectures in Lund, he could identify no less than six macroeconomic schools after the Keynesian one (Phelps, 1990). Seen in this perspective, Ohlin's macroeconomic thought stands and falls with that of Keynes. Their similarities were greater than their differences.

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10

Torsten Gårdlund: Littérateur and Economist

On 23 February 2011 Torsten Gårdlund would have turned 100. He was Professor of Economics at the Stockholm School of Economics between 1947 and 1963 and Professor of International Economics at Lund University between 1965 and 1976. His works cover a wide field: Swedish economic history, business history, development economics and, not least, biography and essays. He regularly wrote feature articles for *Svenska Dagbladet* for more than 45 years, beginning in 1949.

Torsten Gårdlund had studied at the Stockholm School of Economics before he began with economics at Stockholm College where he defended his PhD thesis in 1942. His scientific production had an early start. Already at the age of 25 he published a book on the American trade union movement and three years later he published his *licentiat* thesis about the course of France, notably of the Popular Front. Altogether, he published 20 books during his lifetime.

For good reasons you may call Torsten Gårdlund the only 'literary' economist in Sweden. His verbal talent was way above average. To listen to his lectures was a pleasure for the audience. Often they were delivered impromptu. Torsten seldom fell back on written notes. He was a man of the moment, of improvisation and inspiration, an elegant phrase artist who seldom had to search for his words. They kept flowing from his fresh spring.

Torsten's pleasant voice contributed to captivating his audience. For those of us who have listened to him it is virtually impossible to read his texts without simultaneously having a listening experience. The texts are always elaborate. Like Ernest Hemingway (one of his favorite authors), Torsten wrote in the morning – after an early horse ride which was partly dedicated to finding the formulations that would appear a few days later in the feature articles.

The short format has its given limitations. Every word counts, every word takes up space, every word has a function. Torsten knew that there was no space to be wasted. He was a conscious stylist who worked hard with his

text. From Herbert Tingsten he had learned the art of the unnoticeable: to bring the reader through a text without insisting, with the exception of the instances when he wanted it to shine. Torsten's language never became an end in itself. However elegant, its purpose was always to convey his message.

Toresten Gårdlund collected his essays in four volumes between 1945 and 1963: *En förändrad värld* (A Changed World) (1945), *Problem under överkonjunktur* (Boom Problems) (1948), *Det goda livet* (The Good Life) (1952) and *Ekonomi och samhälle* (Economy and Society) (1960, extended edition 1963). To these you may add the posthumously published *Vid kapitalismens sjukbädd* (At the Sickbed of Capitalism) (2010). The essays have aged with grace. The main reason is that Torsten mainly wrote on topics that did not deal just with current events. The history of ideas interested him more: Alfred Marshall, Keynes, Bertrand Russell, the Webbs, Frank Knight and Tony Crosland. One of his very best essays is the title essay in *Det goda livet*, about the utopian socialists. It developed the argument that life could become really enjoyable if you could just find the right way to organize society, a thought that comes back several times in his works and which he entertained until the end of his life.

Torsten also had a weakness for strange people, for odd characters whose fates differed from the 'ordinary' in a conspicuous way. It was not just politicians, economists, bankers and industrialists who attracted him. (Ex post, some of these stand out as simple bores.) Adventurers and imposters had their given place in his world, especially if they possessed redeeming features.

Torsten Gårdlund's doctoral dissertation, *Industrialismens samhälle* (Industrial Society), is an economic-historic study. (He was strongly influenced by Eli Heckscher during his studies.) The book offers a large panorama of the Swedish industrial society that was gradually established during the latter half of the nineteenth century. Torsten was criticized by his opponent, Karin Kock, for avoiding putting questions to his enormous material and for failing to establish causal relations. The criticism was well founded, but what strikes a latter-day reader is rather the grandiose perspective and the completeness of the description of the era in Swedish history which stands out as more important than any other for the continuous increase in the standard of living which characterizes the entire period up to our own times. Gårdlund is fascinated by the mechanization and the technical development, by the entrepreneurs and the organizational change. At the same time he paints a picture of the workers, full of empathy: the conditions in the labor market, and of a living standard that contrasted sharply with that of the managers.

Industrialismens samhälle, which was followed by a work about company finance during the industrial breakthrough, may also be seen as the entry into a genre which Torsten would cultivate frequently during

several decades: business history. He wrote about Bolinders, Atlas Copco, Mo & Domsjö (two books) and Separator. Everything was not brilliant. One of the drawbacks of the genre is that it is written (and financed) on demand, and at times the limitations imposed by the companies on Torsten were so unimaginative that it was impossible to do justice to the material. He needed to go way beyond the profit and loss statements and balance sheets. Exactly as with the dissertation his narrative was most imaginative when the perspective was widened to include portraits of the people who were behind the successes and failures and with accounts of the times and environments in which they worked.

During his last years at the Stockholm School of Economics, Torsten was granted leave of absence in order to work as an adviser in Morocco and (mainly) Tunisia, for the UN and the Ford Foundation. For various reasons the burden of work was not unduly hard. He had the time to write a book about development economics: *Att arbeta i u-land* (Working in Developing Countries). When it came out, in 1965, Torsten had about five years of field experience. That gave strength to the book. When he discussed planning and assistance questions he could contrast his own experience with the general principles and theories of the current textbooks. The contrasts loomed large. Nor did Torsten hesitate to tackle controversial aspects like the result of colonialism and attitudes that worked as obstacles to development. The book was no rosy portrait.

Att arbeta i u-land was considered controversial in the debate climate of the late 1960s of the left-wing student revolt. This was also the case, to an even larger extent, with Torsten's other two development books: *Lamco i Liberia* (Lamco in Liberia) and *Främmande investeringar i u-land* (Foreign Investment in Developing Countries). In these he picks up the thread from his studies of Swedish industrialization and companies. Private investment and private business are held out as positive driving forces in the development process. The reaction was instantaneous. The former social democratic editor of the ideological journal *Tiden*, Torsten Gårdlund, became one of the special objects of hatred of the New (1968) Left. His views radically opposed the neo-Marxist ones. Almost 50 years later neo-Marxism is stone dead while Torsten's reflections still remain eminently readable.

Torsten Gårdlund's masterpieces are found in the biographic genre, in the great books about Knut Wicksell, Marcus Wallenberg, Sr., Holger Crafoord and the three 'geniuses of failure', Ernest Thiel, Gustaf de Laval and William Olsson. The best biography of them all is *Knut Wicksell. Rebell i det nya riket* (translated as *The Life of Knut Wicksell*), Gårdlund's first full-scale biography, published in 1956. The economist Wicksell provided everything that a biographer may wish for. He had an eventful, even messy, life; he got involved in all the 'hot' contemporary questions in a way that both caused indignation and led to prosecution and a jail sentence for

heresy, and he was a great, internationally well-known, scientist, our greatest social scientist ever. In addition, Wicksell lived in a transition period when the old Oscarian values were being questioned by emerging radical sentiments, not least by Wicksell himself. Gårdlund's portrait of this 'special scandal maker of the Left' and his times is a brilliant book which counts among the very best that you can find in the Swedish biographic literature.

Marcus Wallenberg 1864–1943. Hans liv och gärning (Marcus Wallenberg 1864–1943. His Life and Work) is a brick of a book, almost in the same category as the Wicksell book. Gårdlund works on two levels, which are imperceptibly intertwined, in his account of the 'district judge'. He narrates Wallenberg's magnificent lifetime achievement, that of the banker, the industrialist and the international negotiator. But he also paints the portrait of the person Marcus Wallenberg, a portrait which is anything but rosy of a man who was a bit dry and whose relations with other family members often were cold, at times completely ruthless.

Selfmade, the book about Holger Crafoord, is characterized above all by the sympathy that Gårdlund felt toward the person he portrayed, a man who came from nowhere, made it into the Stockholm School of Economics and made a career in Åkerlund & Rausing and Tetra Pak before he founded Gambro, an upright man who had no need for external praise, who loved his life as a manager and who toward the end of his life became a generous philanthropist.

Torsten Gårdlund's last biographical work, *Misslyckandets genier* (The Geniuses of Failure), consists of three 'half-scale' portraits of three comets who in different ways illuminated the Swedish financial sky before they burned out and fell into bankruptcy. He got the title of his original book from Ernest Thiel's characterization of himself. Gårdlund paints the portraits of three entrepreneurs who were all visionary in their own way, but also had in common that they lacked contact with the economic reality within which they were working.

Torsten Gårdlund was no narrow 'technical' economist. He was criticized because he was no theorist. Torsten never made a single model. On the contrary, he argued that those who made models had to be able to explain what they could be used for. Torsten's view of economics was basically humanistic. It was no coincidence that he was drawn to economic history, essays and biography. In all three cases he could bring in the role of the people, the individuals, in economic events. For him there were no abstract firms without entrepreneurs and the problem of economic development could be analyzed only against the background of the attitudes and institutions that the people in societies alien to development had built.

The scientific contribution of Torsten Gårdlund was humanistic in yet another way. Above all his biographical works flow almost like novels. This

was an explicit and reflected ideal that he had, and you may with good reason ask the question whether he did not regard both essays and biography essentially as literature, close to fiction. At least this is what he turned them into himself.

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11

Torsten Gårdlund: A Portrait

(with Bo Södersten)

Torsten Gårdlund was born in Stockholm on 23 February 1911 and he passed away in Lund in February 2003, two days before he would have celebrated his 92nd birthday.¹ He lived an eventful life and left behind a large output. His main contributions were made as an economic historian and biographer. In economic history he published standard works like *Industrialismens samhälle* (Industrial Society) (1942) and *Svensk industrifinansiering under genombrottsskedet* (Swedish Industrial Finance during the Breakthrough Phase) (1947). He also published several works on individual Swedish industrial companies. Gårdlund's second great contribution was as a biographer, with standard works about leading Swedes, like Knut Wicksell, Marcus Wallenberg, Sr, Holger Crafoord and the 'geniuses of failure' (Ernest Thiel, Gustaf de Laval and William Olsson). Torsten Gårdlund also worked as an adviser in developing countries (in Tunisia and Morocco in the 1950s and 1960s) and he wrote three books on development problems. He was Professor of Economics at the Stockholm School of Economics 1947–1963 and Professor of International Economics in Lund 1965–1976.

Torsten Gårdlund was the son of Waldemar (1879–1959) and Gertrud (née Olsson) Gårdlund. The family originally came from Timrå in Norrland and progenitor was called Erik Isaksson (1782–1832). His son, the sea captain Isak, had taken the name Gårdlund. Torsten's father, Waldemar, was a stepson in the Gårdlund family, but had taken his stepfather's last name (*Svenskt biografiskt lexikon*, 1969, p. 649). Torsten grew up in Stockholm. Waldemar was a doctor of medicine, the head of the gynecological policlinic at the Serafimer Hospital 1912–1918 and assistant physician at the maternity hospital Pro Patria 1912–1920. From 1929 he had a private gynecological and obstetric clinic in Stockholm. The father also had intellectual and social interests and founded *Socialmedicinsk Tidskrift* (Törngren, 1946). The Gårdlund family was solid bourgeois class but hardly wealthy (partly because the father had bought a landed estate in Roslagen during the period of high prices during World War I).

As a child, Torsten Gårdlund went to a private school: Carlssons skola, from the age of six. His recollections from there were not mainly on the pedagogical plane (Gårdlund, 1971, p. 144):

A merciful nature has endowed me with a bad memory, but a few things I still remember from Carlssons. Unfortunately, they are not glimpses of objective circumstances but only of things that are connected with me.

I started in the lower preparatory class in the fall of 1917. A year before, we had moved to Stureplan 6 and I dragged my feet up and down Sturegatan during all my preparatory school years. It could not be better, since the road to school went along the Humlegården park which was easily accessible both from home and from school.

My father was one of the physicians who believed in physical activity and fresh air. We children could be outdoors as much as we wanted, and during the Carlsson school years it was the Humlegården that delivered the fresh air. An experience from my leisure time which has stayed with me over the years is that through playful practice you could obtain physical abilities, the exercise of which produced chills of satisfaction. In those days I could hit a marble from a distance of two to three meters, not with a big nickel marble, a 'nickel hitter', but with an ordinary, perhaps somewhat heavier, stone marble. I could do that, not one but perhaps eight out of ten times. It filled me with happiness and self-confidence.

Things, however, went well for little Torsten also in class and in 1921 he ended up 'in a high position after the junior high school entrance examinations. This success provided the perhaps most important push ahead in life for me' (Gårdlund, 1971, p. 144).

Torsten Gårdlund was a Francophile, possibly as a result of his father's sending him to a French boarding school at the age of ten. Gårdlund was always discrete, but toward the end of his life he – somewhat confidentially – revealed that during his first month in France he cried himself to sleep every night. He passed his matriculation exam in Stockholm, at the Norra Elementar, in May 1930. In the fall of the same year he registered at the Stockholm School of Economics where he finished his studies in 1932. Torsten Gårdlund had then studied economics for Bertil Ohlin and Sven Brisman, with excellent grades. In 1934 he became Bachelor of Arts at Stockholm College, where he had continued his economics studies for Alf Johansson and Gunnar Myrdal. The person who, however, influenced him most during his studies was Eli Heckscher, who within the economics subject taught (mainly Swedish) economic history at the Stockholm School of Economics and who headed the economic-historic institute that he had himself created (both at the Stockholm School of Economics and at Stockholm College). In the preface to his doctoral dissertation Gårdlund (1942, p. 8) writes:

To Professor Heckscher, in addition to the generosity with time and interest that he has shown me during my work, I want to acknowledge a debt from an earlier date. His books opened my mind to the social sciences – I read some of them already during my school days – and I took my first academic test as his disciple.

After his graduation Gårdlund had a choice between a mercantile career (ship-broking) and an academic one. He preferred the latter and was quickly drawn into the intellectual and political life of his contemporary Stockholm, a life which during the 1930s and 1940s was lively and expansive. It was then that ‘the Swedish model’ became known internationally and the ‘Stockholm School’ of economists began to be noted in international circles.

The first books: The labor movement and industrialization

All his life, Torsten Gårdlund was a prolific and productive writer. His first book *Arbetsliv och arbetsstrider i USA* (Working Life and Labor Struggle in the US) (Gårdlund, 1936) was published after two visits to the United States, the summer of 1930 and 1934–1935 (when he was at the University of Chicago). The book is completely forgotten today. It’s a pity because the debut of the 25-year-old is definitely worth a mass. Gårdlund begins by a lively account of the turbulent history of the American labor movement until the beginning of the 1930s and contrasts its one-sided emphasis of economic issues with the more politically minded European movements. The bulk of the book, however, is devoted to Roosevelt’s New Deal and how this influenced the relations between employers and employees. Gårdlund pays special attention to the famous, nebulously formulated, Section 7A, about the rights of organization of labor, in the National Industrial Recovery Act, the interpretation of which would lead to (physically) violent struggle in the labor market, not least during the summer of 1934, labeled ‘The Industrial Civil War’ by Gårdlund. His conclusions of his investigation did not leave much room for optimism with respect to the future (Gårdlund, 1936, pp. 192–193):

The events of recent years mainly convey a picture of social absurdities and failures for the working class. The promising results have been too few. The lack of freedom and the material need of the working class and the defects of the social welfare institutions have been revealed in a drastic way to the opinion and the legislators. For the American people there is no longer any way back to the self-confidence of the 1920s and the belief in problem-free economic expansion. The working class has, however, been united during the hard times and has learned from the setbacks. It has been radicalized and has begun to see the unreasonable features in the American society. The broad layers of proletarian workers without illusions are now pushing. The million-headed army of

unemployed constitutes a hotbed of dissatisfaction. [...] Sooner or later, the inner tension [in the US] ... must be relaxed. It is not improbable that this showdown will follow the same dramatic course as that which has hitherto characterized America's domestic struggles.

In 1937 Gårdlund again traveled to the United States, where he met Albert Pearson, a Swedish American who had been the editor of *Ny Tid*, the mouth-piece of the Scandinavian Socialist Federation of Workers Party. At the time, the latter was engaged in the history of the American labor movement. Together, Gårdlund and Pearson worked out a plan for writing the history of the Scandinavian American labor movement. When Gårdlund returned home he wrote a few articles in *Social-Demokraten* about his intentions. Nothing, however, came out of them. Pearson's letters to him in Sweden remained unanswered and soon he would be busy with other things (Jönson, n.d.).

In the 1932 elections the Swedish social democracy had made its breakthrough, and the social experiment that was thereafter initiated in Sweden attracted more and more attention internationally. Gårdlund became part of this new Sweden. One of his first missions (1936) was to work for the commission on population that was created in 1935 and which worked until 1938 under the chairmanship of Nils Wohlin, Professor of Statistics and Member of Parliament, first for the Agrarian Party, then for the Right and then once more for the Agrarians. The *primus motor* of the commission on population was Gunnar Myrdal. He was rumored to be hot-tempered and egocentric but Gårdlund defended him: 'He was not in any way a full-time egocentric. He behaved fairly normally against other people. In addition, he monitored the appointment of experts, that is, he made sure that he could count on support' (Hederberg, 2004, p. 82). The population commission built the foundation of what in time would become the modern Swedish family policy. Until he died, Gårdlund remained a warm admirer of Gunnar Myrdal, even though he would not always share his political views and despite the fact that there ought to have been extremely good reasons for personal animosity, since Myrdal had an affair with one of his wives (Hederberg, 2004, pp. 137–138).

Between 1937 and 1939 Gårdlund was also an assistant in the economics department of Stockholm College. His second book *Frankrikes väg. Ekonomi och socialpolitik 1918–1938* (The Course of France. Economy and Social Policy 1918–1938) (Gårdlund, 1939) was published in 1939. The book is a thorough and knowledgeable survey of the French economy and policy during the interwar period, especially the policy of the Popular Front under the leadership of Léon Blum from the spring of 1936 to the fall of 1938 – 'the Blum experiment' (Gårdlund, 1939, p. 113). The emphasis is on the labor market and the social policy reforms – two months' legislated vacations, a 40-hour working week and so on – but Gårdlund also describes the stabilization policy and the interesting, albeit somewhat chaotic, exchange rate policy that

was implemented during this period. His second book, like his first one, shows how well oriented Gårdlund was with respect to the contemporary international issues and how he analyzed them from what may be characterized as an informed and knowledgeable left-wing perspective. *Frankrikes väg* simultaneously served to earn him the *licentiat* degree at Stockholm College.

The same year (1939), Gårdlund had become the editor of the ideological journal of the Swedish social democrats: *Tiden*. He would hold this position until 1944. (He was succeeded as editor by Gunnar Myrdal.) 'During his time, this journal has been a voice for the faction within the contemporary social democracy which rejects the connection with Marx and which denies that state socialism constitutes the only road to the abolition of poverty', writes Ingemar Wizelius (1946, p. 206). 'I...converted it to a general reform-oriented cultural journal', writes Gårdlund himself (Gårdlund, 2002, p. 45). His close friend Herbert Tingsten, who fairly regularly contributed to *Tiden* since Gårdlund had become its editor, emphasizes his independence (Tingsten, 1962, p. 295):

The *Tiden* circle...contained many [people] – Ingemar Hedenius, Ingemar Wizelius, Thorsten Jonsson, Ulf Brandell – who would later become well-known names in *Dagens Nyheter*... *Tiden* had a clearer anti-nazi editorial policy during the war than most party organs, and it was a natural thing that in the journal I and others criticized both the policy of the government and different strands of thought, especially Marxism, within the social democracy. This attitude of the journal in the end was due to Gårdlund.

Gårdlund's editorship of *Tiden* is a contribution to the intellectual history of Sweden which today has been forgotten. He forcefully invigorated the journal. In his editorship, Gårdlund displayed not only initiative and good judgment, but also his wide areas of contact with the contemporary scientific, cultural and political world. His contribution bears the mark of the pioneer but it was never fulfilled by the subsequent editors. Everybody did not have the same positive appreciation of his editorial contribution either. Prime Minister Tage Erlander writes in his diary (8 February 1951) about the appointment of a new editor for *Tiden* (the actual candidate was Ernst Michanek): 'But it is not so sure that everything will be fine with people who have so little connection with the party. I reminded of the Gårdlund case and my problems in the editorial committee' (Erlander, 2001, p. 228). Obviously Erlander was of the opinion that the party would be served only by orthodox party-liners also when it came to making more intellectual appreciations of politics and society. Gårdlund's editorship, however, constituted a golden age for *Tiden* and he felt deeply personally hurt by Erlander's comment.

Torsten Gårdlund worked as an expert for the commission on population 1940–1941. At the same time he worked on his doctoral dissertation, within

the framework of a project called 'The History of the Swedish Working Class'. Gårdlund had the luck – or perhaps the blessing – of contributing to this project where Herbert Tingsten (at the time still Professor of Political Science) was the chief editor and wrote his own seminal work on the ideological development of the Swedish social democracy (Tingsten, 1941). A committee which consisted of Professors Eli Heckscher and Arthur Montgomery scrutinized Gårdlund's manuscript.

Gårdlund worked very fast. In a mere three years, with the aid of hitherto untapped source material, he managed to finish a path-breaking work about Sweden's economic development from the beginning of the 1850s until the outbreak of World War I in 1914. (On the way to the finished work he published a couple of articles in *Ekonomisk Tidskrift* on techniques and technicians in the early Swedish engineering industry and of the early wood processing industry in Sweden (Gårdlund, 1940, 1941).)

The main characteristic of Gårdlund's doctoral dissertation is perhaps his ability to produce a comprehensive overview, the lightness of his presentation and his broad perspective. He begins by the international background, at the time of the great London exhibition in 1851. This he does with an unerring eye for the kind of international breakthrough period this was – a period that would change the world in a way that has never taken place either before or after. This is followed by a presentation of the 'preparation' for industrialization up to 1870: the iron industry, hitherto dominated by bar iron not suitable for mass production, the wood industry, the beginning of what would become a Swedish world industry: the safety match, the production of textiles and paper, and aquavit, with a production value in 1861–1965 which surpassed the value of the wood exports during the same period. 'The market for the distilled product was secured by the strong thirst of the people' (Gårdlund, 1942, p. 50). The picture was not overly bright around 1870: few and slow machines which were complemented by human power, deficient theoretical education and technicians who had learnt their skills on the workshop floor, bad communications and a domestic market that was mainly urban due to the poverty in the countryside. Before 1870 industrial products played 'a small role for the support of the Swedish people' (Gårdlund, 1942, p. 60), but the foundations had been laid for an institutional change and a renewal of credit markets, communications and technical knowledge which would bear rich fruit during the coming decades.

These decades would be characterized not least by technological progress. 'Mechanization – that's the keyword of the epoch', writes Gårdlund (1942, p. 161). To this could be added 'rational calculation, planned organization', the processing and the standardization which made mass production possible. Whereas earlier exports consisted of raw materials, later processed products were exported. An account is given of the industries that led into modern Sweden: sawmills and wood, the rise of iron production through new methods, the 'explosive' takeoff of the engineering industry

and the creation of our 'genius industries', like the separator, the low current technique and the telephone, the primus stove and the ball-bearing.

The domestic market as well underwent an important transformation: industrial products took over more and more from handicrafts and production at home. At the same time the organization of firms went through important changes. Joint stock companies began to impose themselves. Financial securities began to be traded, for better or for worse, in a capital market which had not yet arrived at an efficient organization. Modern commercial banks that were to have strong importance as providers of funds for the industrial sector were founded.

The increased technological level required more and more technically educated people in the companies. Those master mechanics who had learnt their trade on the shop floor were increasingly replaced by schooled engineers. The technical education was extended and deepened and technical impulses were fetched from countries like England and the United States. At the same time the population grew rapidly. Many were forced to emigrate and others moved from the countryside to the cities.

Gårdlund also deals with the Swedish industrialization process from the point of view of the employees: the restructuring of the labor market, the professional and geographic reallocation, the rise of industrial cities and municipalities, the length and successive shortening of working hours, child labor during long working days and sometimes also night work. He scrutinizes the legislation against abuses – 'There remains no doubt that legislation, in spite of imperfect implementation, led to a relative reduction of the work of minors in industry' (Gårdlund, 1942, p. 328) – female work in industry, improvements of bad hygienic conditions, reduction of the frequently important risks to which the workers were exposed. Gårdlund examines the development of wages, the transition from time wages to piece rates, overtime and real wage increases, and he looks at living conditions both in the industrial municipalities in the countryside and in the working class areas in the cities, diseases, difficult hygienic conditions, crowded housing, but also the improvements that took place. During the industrialization process the labor movement also took shape, especially in the 1890s, under heavy resistance from the employers, and Gårdlund sketches the changes in the labor market which this led to: collective bargaining, employer associations, nation-wide agreements, minimum wages, increased cash payment and phasing out of payment in kind, shortened working hours and overtime payment.

Industrialismens samhälle is a complicated and multi-faceted, almost kaleidoscopic, book. Torsten Gårdlund wanted to provide a complete coverage when he wrote his dissertation. He wanted to portray all sides of the Swedish industrialization process in a way that nobody had done before him. He succeeded, he narrated the change and the progress, and he did not hesitate in the face of contradictions and drawbacks. They were held out in a way

which still, in the infested bonus climate of the 2010s, has a lot of relevance (Gårdlund, 1942, p. 446):

While the thought that industrialism has pitched millionaires against starving masses is unreasonable, it remains a fact that industrialists have gained millions from their trade. [...] The worker press of the breakthrough period regularly expressed indignation with respect to the very inequality of the distribution of incomes. Against the sixty thousand kronor per year of the factory owner was put the three or four kronor per week of the tobacco stripper. The mechanic who was denied a wage increase from twenty to twenty-one öre per hour was upset because the company manager had a yearly salary of twenty thousand kronor plus bonus and free horse and carriage. The extravagance that was developed at the sawmill mansions and in the gilded restaurants in the Norrland cities was viewed with bitterness from the worker barracks of the factories and docks.

As the industrial breakthrough period came to an end, the living conditions of the people had improved to an extent which could not be compared to that of any other period. But the driving force of discontent was still at work in society. Among the workers whose incomes had improved so strongly ideas that had accompanied material progress were at work; they still spoke of human dignity and equality.

Torsten Gårdlund defended his dissertation at Stockholm College in the fall of 1942. The faculty opponent was Karin Kock, at the time Associate Professor (*Docent*) there. She summarized her viewpoints in a long review in *Ekonomisk Tidskrift* the same year (Kock, 1942). The review was fairly critical. Above all she contended that Gårdlund had not disentangled and explained causal relationships enough. The following year Gårdlund defended himself in the same journal, in a long article, 'Ekonometrisk and ekonomisk historia' (Econometric and Economic History) (Gårdlund, 1943). The tone of the article was irreverent and Gårdlund stated that he had indeed used precisely the analytical, explanatory perspective that Karin Kock had called for in his dissertation. He emerged relatively unscratched from this polemic, although he did not employ what we would think of as an 'econometric' method today. But to demand that – before the present-day econometric techniques had been developed – would amount to an anachronism. In her rejoinder an offended Karin Kock (1943) felt that Gårdlunds presentation of her criticism was 'wrong' and she abstained from further polemic with him.

Gårdlund manages to retain a comprehensive perspective all the time. The presentation is both broad and deep. He is doubtlessly one of those who preserved the heritage of Eli Hecksher and other prominent Swedish economic historians well. Gårdlund was awarded the title of *Docent* (associate

professor) for his dissertation. Its importance is also demonstrated by the fact that more than 30 years later a group of respectable general historians let themselves be inspired by it. They extended the perspective also to such issues as the importance of engineering and technical education and demonstrated how the advances of the natural sciences were applied more and more systematically as a number of institutes for applied research were set up (Torstendahl, 1975; Runeby, 1976; Eriksson, 1978). Through their work, the picture that Gårdlund had begun to paint in his dissertation about the industrial breakthrough in Sweden was further sharpened.

Gårdlund followed up his dissertation with another very thorough work, *Svensk industrifinansiering under genombrottskedet 1830–1913* (Swedish Industrial Finance during the Breakthrough Phase 1830–1913) (Gårdlund, 1947) which provided a detailed account of how Swedish industry was financed 1830–1913. A number of young collaborators, some of whom would later be well known, were drawn into this task. The plan of the work is very ambitious and the financial statements for around 50 of Sweden's leading industrial companies are analyzed in detail.

Later international comparative research has revealed that a large share of the Swedish investment was financed by capital imports. The capital inflow that took place between 1870 and 1910 made the Swedish capital stock 50 percent larger than what would have been the case without this inflow (O'Rourke and Williamson, 1995, p. 181). Gårdlund, however, shows that the inflow was mainly channeled to investments in railroads and urban investments. The strong industrial expansion was funded mainly domestically. Hence, Swedish industry was managed mainly by Swedes already in the early phase, a fact which is stressed in Gårdlund's book.

Professor at the Stockholm School of Economics

In 1945 Torsten Gårdlund got the opportunity to apply for a chair in economics: the A.O. Wallenberg chair at the Stockholm School of Economics. In December the same year, this chair, in economics and banking, had been advertised, after Sven Brisman, who had gone into retirement. Another three applicants presented their credentials: Tord Palander (already a professor in Uppsala), Karin Kock (also professor) and Anders Östlund (who defended his thesis and became *Docent* in Stockholm during the course of the work of the expert committee). Palander and Kock, however, withdrew their applications. The expert committee consisted of Professors Erik Lundberg (at the time the head of the National Institute of Economic Research (Konjunkturinstitutet), Arthur Montgomery from the Stockholm School of Economics and Ivar Wederwand from the Norwegian School of Economics in Bergen.

Gårdlund gave a trial lecture on 'Keynes' and Alvin Hansen's Views of the Future' in June 1946. At the end of November all committee members

had finished their scrutiny. With respect to Gårdlund's dissertation, Erik Lundberg, exactly like Kock, emphasized his reluctance to go into causal analysis and employ economic theory, but he praised him for his critical ability and presentation ability. His Bolinder book (Gårdlund, 1945b, see below) received more unqualified praise, not least because it dealt with causal relationships to a larger extent. Finally, the yet unfinished manuscript of *Svensk industrifinansiering* which Gårdlund had sent in was commended as 'Gårdlund's best and most path-breaking scientific contribution', with a clearly formulated problem and collection and analysis of a large, hitherto untapped material based on company accounts. Altogether, Lundberg thought that Gårdlund had made important economic-historic contributions, demonstrated good critical ability, good judgment and a clear and easily readable presentation, but that the presentation was mainly descriptive and that he was unwilling to put his results into a wider context.

In his verdict of the dissertation, Wedervang shared the critical remarks made by Lundberg about causal analysis and description, but he calls it a merit that Gårdlund had devoted space to industrial technological development and stresses his critical judgment and his ability to produce a presentation which is both literary and popular without losing the scholarly perspective. For the Bolinder book he has only praise. It was written precisely as you would like to see the history of a company presented. The industrial finance manuscript, finally, was seen by Wedervang as a work that enriched the Swedish economic-historic literature. He characterized Gårdlund as an economic-historic researcher with 'important qualities', who was 'sober in his conclusions' and who did not get carried away. He had, however, not been able to form any opinion about Gårdlund's theoretical capacity.

The third committee member, from the Stockholm School of Economics itself, Arthur Montgomery, praised Gårdlund's concrete presentation of industrial technological change as well as the parts of the dissertation that dealt with industrial finance, but concurred in the criticism of the two other committee members with respect to the lack of causal analysis. Nevertheless he concluded that *Industrialismens samhälle* was 'a scientific contribution of great merit'. He found that the Bolinder book 'without doubt' ranked 'among the very best business history books that have been published in our country', and he called the industry finance manuscript 'an unusually valuable contribution to the history of the Swedish industry and credit market during the century before 1914'. Montgomery was more than satisfied: 'Gårdlund is one of our foremost experts on the economic history of our country during the last 100 years. With respect to "business history", he may even be labeled number one among living Swedish economists.'

Gårdlund was declared qualified without any hesitation by Montgomery and Wedervang and a bit more parsimoniously by Lundberg. Östlind was put first (by a very narrow margin) by Wedervang, who considered that his production coincided better with the definition of the chair, but clearly after

Gårdlund by Montgomery, and he was declared not qualified by Lundberg, so Gårdlund became Professor of Economics at the Stockholm School of Economics from January 1947, with a bit of luck, since Palander, whom not even the notoriously non-understanding Lundberg would have been able to do anything about, had withdrawn (however so late that he was scrutinized both by Lundberg and Montgomery). There he would teach mainly price theory, distribution theory and the history of economic doctrines (Gårdlund, 2002, p. 45).

Things were not always problem-free. Anders Wall and Henrik Amneus have both told the story of their age group of students tried to make their teacher lose his head. Gårdlund always drank water when he lectured. One day the students substituted aquavit for the water, and the unsuspecting Gårdlund took a big gulp – with a completely straight face.

The business monographs

When Torsten Gårdlund presented his application for the chair at the Stockholm School of Economics he had made his debut in a new genre: the business monograph. In 1945 he had published his first book in the area: *Bolinders – en svensk verkstad* (Bolinders – a Swedish Engineering Firm) (Gårdlund, 1945a): He would cultivate the genre more or less regularly during the rest of his life. Altogether he would write five such monographs – all of them commissioned. The Bolinder book has a trait that would characterize most of Gårdlund's company histories and biographical studies. He mixes the histories of people and companies in a sometimes charming way. The reader can follow the founders of the firm, Jean and Carl Bolinder, their adolescence and studies and the trip to England 1842–1843 which decided their lives by giving them the impulse to start their own manufacturing company, the foundation of the company and the financing of it, production, sales and the reorganization from family firm to joint stock company in 1873. Jean's social climbing – 'he allowed himself... to be elevated in society by his economic success' – is contrasted to the modesty of his brother. 'Carl did not go for extrinsic distinctions' (Gårdlund, 1945a, p. 115), while 'Jean Bolinder seemed to have had a pronounced desire to become part of the world of rank and fashion' (Gårdlund, 1945a, p. 119).

After the turn of the century operations were 'Americanized' in new premises, that is, they were mechanized and the products were standardized. The existing products, machines for the sawmill industry and cast iron products, were accompanied by fuel engines for boats for the export market. Before this, in 1890, the company had experienced 'the only isolated labor conflict in the history of this company' (Gårdlund, 1945a, p. 143), when two worker representatives who had delivered a petition for higher wages and better overtime pay had been dismissed on the spot. During the last decades of the nineteenth century the sales value quadrupled. 'There cannot have been many industrial companies in Sweden at the time which had

more success than Bolinders' (Gårdlund, 1945a, p. 224). The war made for an increase in the number of orders and through a careful policy the company managed the transition to peacetime conditions better than many others. In 1932 Bolinders was merged with the Munktells engineering company. This is also where Gårdlund's account ends.

In 1951 the second of Gårdlund's company monographs was published: *Mo och Domsjö intill 1940* (Mo and Domsjö until 1940) (Gårdlund, 1951). It is not a successful book, because it displays the weakness of the isolated genre. 'According to the guidelines that were originally drawn up for this monograph, it was to be limited mainly to the development from the business point of view', he writes himself in a postscript (Gårdlund, 1951, p. 205). The limitations become too visible: the company, the techniques, the forest plantations, the acquisitions, the sales and the accounts. The people, the Kempe family, are hardly sketched at all – they are not given any life – and the contemporary history consists of figures. The book is simply – pardon the expression – wooden.

It would be another 22 years before Torsten Gårdlund published his third 'pure' company monograph. In 1967 his book about Lamco in Liberia came out (Gårdlund, 1967), but this work is as much a study in development economics as a book about a company (see below) and it was not until he wrote the long main chapter 'Atlas ekonomi under hundra år' (The Economy of Atlas During One Hundred Years) (Gårdlund, 1973) in the jubilee publication *Atlas Copco 1873–1973* that he continued on the path that he had laid out in 1945 and 1951. The Atlas Copco book has aged much more favorably than the Mo and Domsjö book from 1951. The reason is simple. In the Atlas book Gårdlund is given more space for other things than business analysis and he also manages to use the Atlas account to shed light on some more general industrial problems during the different epochs that he deals with.

The reader is invited to follow the company, epoch by epoch: the first years up to 1890 with their financial problems and reconstruction problems in what was already the largest engineering company in Sweden, the expansion and the addition of engine production during the years after the reconstruction in 1890, the merger with Diesels Motorer in 1917 with its dangerous write-up of the capital that had to be made to payoff, World War I, the new reconstruction in the 1920s, the tensions between the engine and compressed-air divisions of the company, the crisis years of the 1930s when the thought of closure seemed realistic, the ensuing recovery, the profitable years and the consolidation of the company during World War II, the expansion of the compressed-air division and the discontinuation of diesel engine production in 1948, the acquisitions of subsidiaries in the 1950s, the change of name from Atlas Diesel to Atlas Copco in 1955 and the development of Atlas to a large international company from the same time.

Exactly like in the Bolinder book, in the Atlas account Gårdlund mixes the important events in the history of the company with portraits of the actors,

and it is this mixture which infuses life into the work. Behind financial statements, sales figures and stock dividends there are people of flesh and blood. Gårdlund had devoted a few years at the beginning of the 1950s to writing biographies – his masterpiece about Knut Wicksell – and his interest in the person of the entrepreneur permeates the book. With short, sometimes very short, brush strokes he paints the protagonists in Atlas: the first managing director, Eduard Fränckel, his successor, Oscar Lamm, the idiosyncratic genius of technical invention, Jonas Hesselman, the subsequent managing directors, Gunnar Jacobsson, Walter Wehtje and Kurt-Allan Belfrage. Through the entire account runs the commitment of the Wallenberg family to the company, from A.O. to Marcus, Jr.

Torsten Gårdlund's best company monograph is the book about the build-up period of Separator from its foundation in 1878 to World War I (Gårdlund, 1983). The book lives from the first page to the last and the reason, as always with Gårdlund, is that the accounts of people and company have been woven into an organic whole. *Ett världsföretag växer fram* (A World Company Develops) is the history of the separator and the different company creations that this gave rise to, but to an equal extent the history of the people who propelled the process. On the one hand we find the careless: the technical genius Gustaf de Laval, busy with hundreds of different projects at the same time and the possessor of catastrophic economic judgment which, in combination with his extravagant life style, always kept him on the brink of bankruptcy, the banker Ernest Thiel, another of the 'geniuses of failure' that Gårdlund would deal with in his last book, and finally a number of disorderly, more or less habitual drunkard managers of different stamps whose main contribution to the proceedings was that from time to time they forced rescue actions. These maniacs were balanced by able managers and economists: Oscar Lamm, with his strong foreign contact network which emanated from his family circle, and later John Bernström, men with their feet on the ground who both saw in which direction it was realistic to expand and which passing fancies had better be left out.

As always, when interests are pulling in different directions, the early activities were characterized by irregularity – both with respect to the introduction of products and the composition of the board and the top management. Gårdlund gives a masterly account of the escapades of de Laval and the cleaning, consolidation and reconstruction measures which inevitably had to be undertaken. The products had to be stabilized and service had to be provided. De Laval easily got carried away and Lamm had to resist. Competing companies zealously protected their patents or attempted to encroach on those of Separator. The foreign markets had to be penetrated with the aid of more or less functional agents and sales companies, not the least the American one, the one which during many years would make the most important contributions to Separator's profits. Sales grew during the 1880s and 1890s in parallel with the modernization of agriculture. The economic

situation became 'extremely favorable' (Gårdlund, 1983, p. 191). De Laval was phased out. After the turn of the century, competition stiffened. In 1903 a crucial patent expired. Attempts to diversify activities failed, but the factory organization was modernized and the American subsidiary maintained its profit level in spite of strong competition. Half a dozen foreign subsidiaries were set up around the turn of the century and the separators were spread across the globe. When World War I broke out Separator had undergone a 'development which was unique in the contemporary Swedish industry'. Since 1883, the value of the company shares had increased 21 times. The credit for this was of course due mainly to de Laval's original invention, but if he had remained in charge the consequence would have been economic collapse. It was above all Lamm and Bernström, with their 'total devotion', who were the architects of success. 'They led the company during an industrial breakthrough period with imperfect economic institutions, undeveloped domestic and foreign trade paths and insufficient personnel resources both in terms of technicians and employees' (Gårdlund, 1983, p. 309).

Torsten Gårdlund's last company monograph was published in the mid-1980s: *MoDo 1940–1985* (Gårdlund et al., 1986), a sequel to the earlier book from 1951. The second part of the history of MoDo is not successful either, and the reason is the same as with the first part. The limitations that have been imposed on the narration are too strong. In his preface, Gårdlund (1986, p. 5) writes:

The purpose would ... be an account which for a number of roughly comparable years corresponds to the requirement of the Companies Act of a yearly account both of the economic result of the activities and the events of special importance for the company which had taken place during the year [...] For natural reasons, the present account does not contain any extensive valuation of the contribution of individual persons to the postwar development of the company.

This works only partially. During the elaboration of the book Gårdlund had at his disposal an entire staff of collaborators who wrote background sketches to the final text. This necessarily means that the final text becomes uneven. Above all it is burdened in too many places by technical descriptions which for the average reader are simply tedious and sleepy. The *grandes lignes* tend to be lost among all these details. And the people are missing. Neither in the first nor in the second MoDo volume do we find any Kempe epos. Both of them bear too much the imprint of the compulsory jubilee publication.

Altogether, Torsten Gårdlund's business monographs offer mixed reading. They do not always flow as smoothly as you desire, but they doubtlessly contain more wine than water. The limitations that by the reader are perceived

as obstacles have often been imposed by ignorant and tradition-bound principals. Gårdlund is at his best when he is allowed to write according to his own discretion, shuffle and deal: the company, the people, the technical inventions, the wider context and the spirit of the time. Then he lifts the genre high above the average level.

The essay books

During no less than 47 years, from 1949 to 1996, Torsten Gårdlund contributed more or less regularly to *Svenska Dagbladet*, above all with feature articles. The management of the newspaper probably had hoped that he would take up the heritage after Gustav Cassel, but with time he became more interested in cultural journalism than in ephemeral economic journalism, with business cycle forecasts, guesses about the development of interest rates, exchange rates and the like. Gårdlund was never interested in that part of economics and it never became his *forte*.

Gårdlund had the habit of publish his collected essays and newspaper articles in book form. Altogether, he published four books of essays during his lifetime: *En förändrad värld* (A Changed World) (Gårdlund, 1952), *Problem under överkonjunktur* (Boom Problems) (Gårdlund, 1948), *Det goda livet och andra essäer* (The Good Life and Other Essays) (Gårdlund, 1952) and *Ekonomi och samhälle* (Economy and Society) (Gårdlund, 1963).² These books mainly contain articles that had already been published (most of the time in *Tiden* or *Svenska Dagbladet*). Most of the time they are reviews of books and ideas or biographical sketches.

Gårdlund's best book of essays is *Det goda livet*, a book with a more or less unified theme: 'All the authors dealt with have reached the standpoint that it would be nice to live if man could arrive at the right organization of society', a viewpoint which, as Gårdlund hints, has led to much progress, but which 'after a couple of world wars and assorted other devilry' (Gårdlund, 1952, p. 7), has been accompanied by anxiety and doubts about the future. The title essay in the book deals with the utopians – like Charles Fournier, Robert Owen, William Goodwin, Gabriel Bonnot de Mably, Henri de Saint-Simon – the belief in reason and the idea of progress, and their visions of agricultural communes, abolition of ownership, a simple life style, varied work, their critique of matrimony and their belief in 'an abundance without limits', though the reorganization of society (Gårdlund, 1952, p. 49). Utopianism was part of a tradition of idea which could be traced back to natural law and classic moral philosophy and which was further developed during the age of enlightenment and by the romantics. But for Gårdlund it is the intensification of the ideas 'to the absurd' which makes the utopians interesting. 'Especially Fournier displays a happy and captivating insanity', he writes (Gårdlund, 1952, p. 49).

The ideas of the utopians were not just anchored in the spirit of the times (Gårdlund, 1952, p. 55):

Their ideas were conditioned also by their personal experiences, which became even more pronounced through the opinion pressure that they were subjected to. They all showed great sensitivity in their contacts with other people and a desire to escape into a dream, they all had a tendency to indulge in fancies and a solitary mania for order. And they equipped their Elysium with pleasures that they themselves had had to forsake.

The book also deals with a second tradition of ideas, 'liberalism as a tenet of happiness': the liberalism of the eighteenth century with Adam Smith's plea for private ownership, competition and free consumer choice, a freedom that would create peace on earth, the contribution of utilitarianism to social reform everywhere but in the economic sphere where *laissez-faire* was preferred, and the liberalism open to reforms also in the economic sphere that was professed by John Stuart Mill and his disciples from the 1860s. Gårdlund is strongly critical of the idea that the economic liberal had had any political importance, with the exception of the defense of *laissez-faire*, 'an influence as big as it was bad' (Gårdlund, 1952, p. 53). The reforms of society during the eighteenth and nineteenth centuries would have been carried out even without them. Adam Smith simply articulated ideas that were already accepted by the contemporary businessmen. Worst of all was that economic liberalism 'has bequeathed on us the unreasonable disposition to judge cultures and societies according to their industrial efficiency, to describe the part of the existence which according to all wisdom ought to be considered less essential as the core in the construction of ideals' (Gårdlund, 1952, p. 69).

Against this heritage Gårdlund puts the views expressed by later thinkers like Bertrand Russell and Keynes, subjects of an essay each in *Det goda livet*, 'both of them among those of the spiritual leaders of the twentieth century that have attempted to make us realize the poverty and limitation of the economic view of life' (Gårdlund, 1952, p. 69). Russell believed in a psychological utility principle (Gårdlund, 1952, p. 102):

The good life is based on 'instinctive happiness': it is a life of health, of spontaneous and tender intercourse, in artistic and intellectual creation. Russell is original as a moral philosopher since he appears to mean more or less the same as we ordinary people with human happiness. For the good life to materialize, in accordance with a now common psychological idea, he envisages that the negative in life must step back and impulses be given more room. At the same time the conscious endeavors must be directed, through institutional reforms, towards goals conducive to a better life.

Keynes also was against the emphasis of utilitarianism of the economic ideal and its limitation of reform activities to areas outside the economy. This had delayed necessary reforms in the economic sphere and made them more costly when they were eventually carried out. Equally important for Keynes was, however, that the emphasis on the economy brought people away from the kind of intellectual and artistic experience which was so highly cherished by the Bloomsbury group to which he himself belonged.

The essays about the utopians the liberals, Russell and Keynes are interesting since they give the reader an idea about Gårdlund's own view of society at the beginning of the 1950s. There is no doubt whatsoever: he is himself part of the tradition that he writes about. This shows even clearer in a speech which he gave for the Centre for Business and Policy Studies (Studieförbundet Näringsliv och Samhälle) around the same time (Gårdlund, 1954). In the essay based on this talk, 'Industrialismen som livstro' (Industrialism as a Creed) under the heading 'As Far as Values Are Concerned, the Romantic Tradition Has a Lot to Offer', he writes, with an echo from Voltaire (Gårdlund, 1954, pp. 120–121):

[D]uring the century of industrialism two central creeds existed which are now losing their grips on us. One of these creeds had to do with material progress. The very industrial build-up and the possibility [it brought] of an ever increasing production was taken to mean progress in a more general sense. The other creed was that you could structure the good life so to speak *en gros*, that you only had to create an effective system of production and distribution and then could turn the people loose inside. Because they understood their interests so well they would be able to realize a good and rich life there. I... do not believe anything like that anymore. You have to cultivate your garden. All the time, through direct and concrete actions, you have to create the kind of factories, the kind of housing areas and the kind of social arrangements that satisfy the principles that have been held to be correct by wise men...

[The seekers] of the last two centuries [are] all inspired by the values cherished by the utopians and which we as well, when we begin to reflect, consider to be the foundation of a decent existence. These values had not received enough room in the industrial society that was constructed during the nineteenth century and the first half of the twentieth. As the problems of poverty and hardship are beginning to be solved we are, however, in a better position to devote our attention not so much to further increases of the production of commodities but to the conditions under which we work and to the way we live together. It is precisely by the industrial progress that the utopian dream of the proper construction of society has got a chance to be realized.

The chapters in *Det goda livet* which revolve round these thoughts are the most vivacious and brilliant ones. Gårdlund's empathy for the people that he writes about permeate and lift his narrative. Nowhere is this clearer than in the masterly essay about Sidney and Beatrice Webb – arguably his best essay, not least stylistically – their partnership, their political and social contributions and their authorship. Gårdlund's sympathies are completely on Beatrice's side. Sidney, the practical politician, was 'hardly a romantic person... His origin was petty bourgeois, his interests limited to social research and politics, he lacked all temperament' (Gårdlund, 1952, p. 79). 'This representative of some kind of active and consummate boredom was chosen as a husband by Beatrice – a beautiful, sensitive, intense versatile and gifted woman. And their marriage has generally been considered as a successful experiment in the art of living, worthy of imitation.' Gårdlund in no way shares this opinion. Such a marriage was not worthy of imitation. 'Whoever established marriage: its most essential purpose cannot be regarded to be the publication of as many books as possible' (Gårdlund, 1952, p. 80).

The social contributions of the Webbs belonged to the past. They were reforms among many others that had been overshadowed by yet other, later, reforms. 'Over the years this contribution of theirs will be mirrored in ever shorter sentences in ever more specialized books.' Their lasting achievement was due exclusively to Beatrice: 'one of the two has done something that will live through the centuries and increase in value. In her autobiography Beatrice with literary force has portrayed a remarkable era and the journey of an unusual human being through it' (Gårdlund, 1952, p. 78).³

From 1930 the Webbs were converted to an almost religious worship of Soviet communism. Gårdlund has no sympathies whatsoever for this. He writes that 'there was a morbid touch to the entire conversion story' (Gårdlund, 1952, p. 86), that Beatrice hardly spoke of anything else and he quotes the words of Leonard Woolf about 'the open-minded dogmatism' that ruled in the home of the couple. Still he cannot persuade himself to become indignant at their communist pipe dreams. In the end, their lifetime achievement (especially that of Beatrice) was of the caliber that he could excuse their fanaticism.

Det goda livet also contains a couple of more personal essays, a slightly amorous portrait of Cambridge, the center of learning, and the academic life and also a charming chapter, 'Ritt efter räv (Fox Ride)', where Gårdlund describes how he took part in one of the famous English fox hunts, how he fell off the horse and how he had to wait for the next round of riders, and he writes about the sociology and economics of hunting. Obviously fox hunting constituted a part of the good life for Torsten Gårdlund the horseman, a view that it was possible to express before the hunters themselves were made the object of chase by the public opinion.

The masterpieces: The biographies

Torsten Gårdlund's absolute masterpieces are found within the biographic genre. His first work in this genre is also the best of all his books: *Knut Wicksell. Rebell i det nya riket* (Gårdlund, 1956) (*The Life of Knut Wicksell*) (Gårdlund, 1958). The book, which was translated into English into what amounts to something like a strange rump version which for some inscrutable reason omits the final chapter where Gårdlund offers his summary characteristic of Wickell, the person and his work, was labeled 'excellent' by Paul Samuelson (1959, p. 82), who wrote a long, summarizing review of it in the *Review of Economics and Statistics* in 1959 which bears testimony of his enthusiasm during the reading. Mark Blaug (1994, p. 1205) called it 'admirable' and named the book 'my favorite biography of a great economist'. The book has become the standard account of Wicksell's life, if not perhaps of his economic theories. It has 'been highly praised as a biography, and deservedly so', writes Bo Sandelin (1999, p. 782) in his review in the *History of Political Economy* of the second English version from 1996 (Gårdlund, 1996). *The Life of Knut Wicksell* is simply a classic, a living classic, one of the best works ever in the economic-biographic genre.

In the Wicksell book, Gårdlund paints the portrait of a man who never compromised with his conviction. 'Wicksell had the integrity of a saint', wrote Gunnar Myrdal (1972, p. 271). At the same time he was not afraid of conflict. The combination of these two characteristics runs like a thread through Gårdlund's account. Most of Knut Wicksell's adult life was framed by scandals and *causes célèbres*, from his first performance at the temperance lodge Hoppets Här in Uppsala, where he openly advocated the use of contraceptives to limit population growth and received an admonition by the Lower University Council at Uppsala University, until his last years when, naturally, his physical, but not intellectual, power began to decline. It was his strong conviction in the population question which made him take up economics in the first place, after a *licentiat* degree with mathematics as his main subject, at the age of 34, in 1885. Thereafter he would mix his theoretical work in economics with extensive popular lecturing and publishing on social questions in a Sweden that was not exactly characterized by a readiness to absorb unorthodox ideas.

Knut Wicksell was a warrior, and he fought on many fronts simultaneously: 'extended franchise, social and economic equality within a more or less preserved market system, equality for women, increased freedom of opinion, the permission of birth control, increased consensus in the labor market, an economic policy with social aims' (Gårdlund, 1956, p. 373). 'He had gathered a generation around the demand for an open debate of social issues', summarizes Gårdlund (1956, p. 361), but he often had to pay for his unwillingness to compromise which all the time led to unrest in his life.

Wicksell refused to contract matrimony in the conventional way but instead drew up a contract with his Anna which detailed the respective rights and duties of the spouses. He refused to sign his application for the chair in economics and financial law, which in the end, in 1901, he got in Lund, with 'Humbly', and almost lost the chair in the act, since he was opposed by a number of old academic stogeys who loathed his radicalism. Wicksell's combination of civil courage and almost religious conviction in factual matters finally cost him two months in the prison of Ystad in 1909, for heresy, after the case had gone all the way up to the Supreme Court. In order to find out whether a prison sentence for a free-thinking agitator who had made an antireligious statement could possibly be reduced in a higher court by the fact that he would possibly himself not be prosecuted for a similar 'crime', he had contended that Joseph had told himself: 'Why the devil couldn't the Holy Ghost let me make my little Jesus myself?' (Gårdlund, 1958, p. 249). It didn't work.

Wicksell never tired. The population problem would accompany him all his life (Lundahl, 2005), and he saw it as his 'foremost duty to educate the Swedish people' (Gårdlund, 1956, p. 337). This duty he did without hesitation (Gårdlund, 1956, p. 366):

Over the years Wicksell became known as the special scandal-maker of the Left. The scandals he made were in fact not many, but they were big and they became the subject of an enormous publicity. Actually, his political actions were most of the time characterized by modesty. His articles, brochures and lectures were in the main exemplary in their calm and sensible argumentation. It was usually not he but his adversaries who acted savagely and without restraint.

Wicksell was driven by an extremely strong inner conviction. In his youth he had been profoundly religious. This religiosity had soon been converted into its antithesis, but the powers that drove him throughout his life – not least in the population question (Lundahl, 2005, pp. 87–90) – continued to have religious overtones. Gårdlund (1956, p. 372) speaks of his 'profane religiosity'.

Knut Wicksell. Rebell i det nya riket is one of the best biographies ever in the Swedish language. Gårdlund follows Wicksell both as a scientist and as a social debater. He does it in a completely brilliant way. He projects the picture of a man who lived in the middle of his time and who did everything he could to change it according to his own conviction, a man who never was led by others but who was a sheep on his own, far away from the herd (Erlander, 1972, p. 122). He also conjures up the picture of the society in which Wicksell lived and worked – locked-in, narrow-minded and intolerant – the object of Wicksell's reform zeal. With a masterly hand, Torsten Gårdlund sketches the tension between the two, and how this tension would gradually

recede toward the end of the life of an exceedingly productive rebel. The Wicksell book is unique in the Swedish economic literature. Almost 60 years later it has no equivalent. (Sven-Erik Larsson's (1998) book about Bertil Ohlin is a book about the politician and party leader, not about the economist.) Gårdlund had indeed but the bar way up high.

When Torsten Gårdlund in 1973 agreed to writing a biography of Marcus Wallenberg, Sr (1864–1943), often referred to as the 'district judge', he was very well prepared for his task. He had written his economic-historic works about this period and he was also an experienced biography author. He dedicated his last three years as Professor in Lund to this task. The book was ready in 1976, a magnificent volume of almost 600 pages (Gårdlund, 1976a).

The book proceeds on two levels. On the one hand, it provides an account of Marcus Wallenberg's activities as a manager and a public figure. On the other hand, Gårdlund insets a series of on-the-spot portraits of 'MW' the man and his family at different times in his life, as a kind of counterpoint. He relates how Enskilda Banken grew under the leadership of the district judge in a symbiosis with leading Swedish companies, such as ASEA, Atlas, Diesels Motorer, Hofors and Kopparfors, which would form part of the 'Wallenberg sphere', and how the bank became involved internationally in companies like Norsk Hydro and Orkla Grube.

Two of MW's specialties were to exert influence in companies by hiring and firing managers. Enskilda Banken also pioneered an analytical approach to the evaluation of firms and branches. In this it above all drew on the analytical activities which the French *Crédit Lyonnais* had begun. The international contact network of MW was extensive and it is well described and analyzed in Gårdlund's biography, together with his endeavor to mitigate the consequences of the English naval blockade during World War I and his role in the international effort to reorganize the world economy after the war catastrophe. The picture of the manager and international negotiator Marcus Wallenberg, Sr, and his contact network is both rich and complex, a portrait of a man who put heavy demands on others, who worked copiously and hardly spared himself and who was convinced of his family's special position and task in society.

The person MW is painted in careful passages, often with the understatement that Gårdlund liked to cultivate and which were one of his stylistic characteristics. This part of the portrait is a great deal less flattering. MW had had a rigid upbringing. His father, A.O. Wallenberg, first put him in a German boarding school and thereafter managed to get him into the Naval College, at the age of 12, a schooling which was 'strengthening and educating' (Gårdlund, 1976a, p. 34). This was followed by law studies in Uppsala – economics (for David Davidson) was his best subject – and service in a district court in Scania, before, at the age of 26, in 1890, he became a district judge and began his career in the bank. The same year he married Amalia Hagdahl, the daughter of the well-known cookbook author Emil, a

marriage that resulted in six children, but which hardly became happier over the years. Gårdlund describes his emotional life as 'barren. He thought of the attraction between the sexes as some kind of folly which he furthermore looked upon with great prudishness' (Gårdlund, 1976a, p. 434), and the relation to his wife did not improve after MW in 1918, in London, had got to know, 'a beautiful lady from the English High Society', whom he thereafter courted (Gårdlund, 1976a, p. 435).

The relations between MW and his relatives were often cold. Gårdlund (1976a, p. 413) calls the Wallenbergs 'a not quite common family'. The male members were valued mainly on the basis of their business ability, and when MW had become the managing director of Enskilda Banken in 1911, he successively removed his brothers Knut, Gustaf and Oscar,⁴ all of whom he thought of as not being up to standard, from the central positions in the bank. Knut, who had been both managing director of Enskilda Banken and Foreign Minister during World War I he characterized as having 'the disposition of a full-blooded gypsy; he was lazy and dishonest in all ways, but he was intelligent and he was masterly skilful when it came to duping people' (Gårdlund, 1976a, p. 582). He thought of Gustaf's grandson Raoul as 'too talkative' (Gårdlund, 1976a, p. 580). His sisters had to contract marriages of convenience with socially suitable men. The studies and business practice of his sons were planned in minute detail. Oscar Wallenberg considered the leading male members of the family to be 'as cold as fishes with respect to everything that had to do with feelings' (Gårdlund, 1976a, p. 579), and Gustaf wrote to MW: 'You have an aptitude for harsh statements about others. It is probably unconscious, but it appears to be a part of your exaggerated opinion of yourself' (Gårdlund, 1976a, p. 580), and Gårdlund also remarks that 'Marcus... was occupied with his own prestige to an unusual extent' (Gårdlund, 1976a, p. 582).

MW took part in the economic policy debate in Sweden. He could not accept the Keynesian currents that made their way into stabilization policy in the 1930s; he was a convinced deflationist. It was the business sector that should create employment and the state should be kept out as much as possible. MW was, however, no intellectual. His profession had not much to fetch in books or journals. What counted was practical experience. Art and literature did not interest him either. Hunting and playing cards were his hobbies. As a businessman he was a hard and ruthless competitor. 'He never paid more than what was necessary and seldom took less than what was possible', summarizes Gårdlund (1976a, p. 569), and greed was an integral part of his management philosophy. He could be both miserly – all suits were turned inside out to save money – and tight-fisted, also to close friends.

Torsten Gårdlund's portrait of Marcus Wallenberg – with all his virtues and shortcomings – is brilliant (although not as brilliant as the Wicksell portrait). The book consolidated his place as Sweden's leading economic biographer. Nobody could challenge him.

Gårdlund's third biography was never published. At some time during the 1970s Torsten Gårdlund was contacted by the founder of Tetra Pak, Ruben Rausing, who had an autobiographic manuscript that he wanted Gårdlund to prepare for publication. Gårdlund understood his task to be to critically scrutinize the sources and deepen the narrative. He dug out sources and contacted various key people in the company and its surroundings. A scrutinized and revised manuscript took shape. The revision, however, did not fall on good ground. Ruben did not like what he saw. It did not agree with the myth of himself as the ubiquitous propelling force and the man behind the inventions and constructions of the company.

Gårdlund had left a copy of the revised manuscript to Ruben Rausing. The only other complete copy he kept himself. He was, however, contacted by Ruben's sons, who, on some pretext, wanted to borrow it. He would never see it again. The Rausing family kept both copies and the lid was put on what was perceived as unfavorable writing of history. Gårdlund had, however, given a few chapters to the key persons that he had talked to, so when Peter Andersson and Tommy Larsson wrote their book about Rausing's Tetra Pak (Andersson and Larsson, 1998), after an extensive search, they managed to get hold of some of them. Torsten Gårdlund, on the other hand, would never again write about Tetra Pak, but when he revised Ruben Rausing's manuscript he had gathered so much material that he had enough for a book about Holger Crafoord (Tommy Larsson, telephone interview, 9 September 2004).

Torsten Gårdlund wrote two more biographies. The first of these, *Self-made* (Gårdlund, 1989), was published in 1989. It deals with Holger Crafoord (1908–1982), 'industrial innovator and far-sighted donor', according to the subtitle. It is an interesting and well-written biography that points to problems and successes when it came to establishing the research based company Gambro.

Crafoord had had plenty of experience of industrial production during his years with Åkerlund & Rausing and later Tetra Pak. With time he found it increasingly difficult to get along with Ruben Rausing and the two had to split company. Crafoord was not by any standard as successful as Rausing, but still a successful industrialist in his own right, as shown by his donations to the Lund University, for example, the Holger Crafoord economic center.

Torsten Gårdlund's last book is *Misslyckandets genier* (Geniuses of Failure) (Gårdlund, 1993). There, in shorter portraits, he characterizes Ernest Thiel, Gustaf de Laval and William Olsson, three people whose fates were to some extent intertwined. The idea for the book had sprung from his earlier company monographs and biographies, where all three of them had been present as protagonists or subordinate characters. In his postscript Gårdlund states his intentions (Gårdlund, 1993, p. 401):

The entrepreneurs that I have portrayed here were famous and admired in their day. They had worked themselves up from modest conditions to

great riches but they contracted devastating debts and fell into relative poverty. They lost their money, and others took over what they had built up. It is interesting to see what happens when people become very rich but also when they lose their incredibly large fortunes.

It was Ernest Thiel who characterized himself as a genius of failure, and Gårdlund brilliantly narrates his rise and fall, his organization of banking in Diskontobanken in the 1890s, his neck-breaking transactions which frequently touched the limits of the law and which attracted contemporary criticism, the exploitation of the iron ore fields of Norrland, his loans to de Laval's more or less fanciful projects, his divorce, a scandal at the time, and his new marriage to the emancipated Signe Maria, the later affairs of both of them, her suicide, his worship of Nietzsche (his only reading), his patron of the arts activities, which among others, the well-known author Hjalmar Söderberg would benefit from, his art collecting and his creation of Thielska galleriet, and thereafter his decline and ruin in the 1920s as a result of his commitment in the 'metallurgical mess', a project which aimed at the production of pig-iron from low-content Swedish and Norwegian ores. When Thiel died in 1947, 'the net economic result of his life was 3,420 kronor' (Gårdlund, 1993, p. 123).

The portrait of de Laval largely builds on the book about Alfa Laval, sometimes even literally, but the perspective has shifted from the company to the inventor. Gårdlund follows de Laval from his childhood and study years, which culminated with a doctoral dissertation in chemistry, and into his working life, technically a genius but naïve in economic matters, with a single outstanding exception – the separator, where, thanks God, he had the more down-to-earth and thoughtful Oscar Lamm as his business partner. Gårdlund provides a short version of the process which he paints in more detail in the Alfa Laval book. The money that de Laval made on the separator would soon be lost, not least on his less successful dairy technique inventions, the Laktokrit fat content meter and the emulsor that would make it possible to add cheap animal fat to skimmed milk, but also on a number of completely different projects in other fields. He got into conflict with Lamm, and the latter left Separator and later took over the leadership of the Atlas railroad factory. The countervailing power was gone (and it had only been at work in the Separator sphere). When Gusaf de Laval died in 1913, his widow had to file a petition for bankruptcy of the estate. 'The assets of the estate consisted in furniture and household utensils valued at 973 kronor and mortgaged with his father-in-law, Doctor Adolf Grundal, a diamond ring and a violin' (Gårdlund, 1993, p. 269).

William Olsson was born in London in 1862 and did not become a Swedish citizen until 1897. His father had emigrated to England and there he had set up his own lumber agency, Martin Olsson & Sons (there were eight sons). The company sold Swedish products in England on a commission

basis. William, who had been to school in Sweden, first worked in his father's company, but in 1896 he returned to Sweden where he would work as an intermediary in a number of company acquisitions, transactions that yielded handsome profits to him. In 1896, he founded the Lundsberg boarding school, based on the English model. The downfall of William Olsson was initiated by an attempt to exploit the hitherto underutilized forest resources of Norrbotten, through a number of company acquisitions. The attempt was weakly financed and William became dependent on a number of external financiers, above all Stockholms Enskilda Bank. The financial turns and twists were complicated, the losses of the bad years by far exceeded the profits of the few good years and he soon got into an untenable position. Before that, however, he had had the time to found the ironworks in Luleå; Luleå Järnverk, another loss-making entity. In 1907 his enterprises had a net debt of more than four million kronor. The economic rescue actions that were undertaken by Marcus Wallenberg in order to provide him with financial respite did not improve his economy and he never managed to find new projects that could help him out of his dire straits. Until his death in 1923 he had no taxable income. The Lundsberg school had to be converted to a foundation and restructured financially. The estate inventory showed a deficit of 493,000 kronor. The 'financial comet in the turn of the century Swedish iron and wood industry' (Gårdlund, 1993, p. 275) had burned out.

Misslyckandets genier is a remarkable book. It is original in its choice of topic: those who first made it way above the average and then failed miserably. The three 'geniuses' were united by their catastrophic lack of economic judgment. They did not have their feet on the ground but let themselves be seduced by their own airy, shady and crippled ideas without testing them critically against reality. Gårdlund offers three concentrated half-length portraits, shorter than the full-scale book format, but longer than the standard essay format. He mainly lets activities and transactions speak, but in addition, offers three psychologizing personal characteristics which shed additional light on why things turned out the way they did.

Torsten Gårdlund's last biographical portrait was his contribution to the centenary of the birth of Bertil Ohlin in 1999 (Gårdlund, 2002). In 'Bertil Ohlin as Friend and Colleague' he offers his recollections of Ohlin, whom he got to know in 1930, when Ohlin had just returned to Stockholm after his appointment to a chair in Copenhagen, a mere 25 years old. In 1947 Gårdlund became a professorial colleague of Ohlin's at the Stockholm School of Economics. Ohlin, however, at the time was the leader of the Liberal Party, so the two did not see too much of each other. Gårdlund's contribution to the characterization of Ohlin is that he puts his finger on the poor environment that was offered young people who wanted to study economics in Sweden during the first post-World War I years, where the professors usually had their background in completely different subjects. It was not until Ohlin

got the chance to go to Harvard in 1922 that he had the opportunity to take first-rate courses in economic analysis.

The development trilogy

In 1958–1959 Torsten Gårdlund worked as an economic expert for the United Nations in Morocco and in 1960–1961 he was the head of the development activities of the UN in Tunisia. He would go back there in 1963–1964, this time working with the Ford Foundation as economic adviser to the Ministry of Finance. The latter would cost him his chair at the Stockholm School of Economics. Gårdlund had applied for leave of absence from September 1963 to August 1965, and if this could not be granted, for resignation. The Faculty Council at the Stockholm School of Economics thought it was enough with the two years he had already spent in Tunisia and recommended the latter. At the end of August 1963, Gårdlund ceased to be a professor at the Stockholm School of Economics.

After Tunisia it was Lund instead and the new chair in international economics which had been created by the government in 1964 and which in addition covered international business and development economics. Torsten Gårdlund took up this chair in 1965 and he held it until his retirement in 1976. At his side, as Associate Professor, he had Bo Södersten, who handled the international economics classes while Gårdlund himself gave the course in development economics. He was seldom in his office but preferred to stay in the old savings bank in Genarp where he had his abode and he came to Lund mainly only when he had to teach. This led to some confusion. Someone had seen him arrive in riding clothes carrying a riding crop. Immediately the rumor was out that the old anti-Nazi Gårdlund was a fascist. The oral exams took place at home. The students were put on chairs along the wall in the living room. All of them duly got one question each. Thereafter everybody went to the Dalby inn where the examination was finished with *pyttipanna*,⁵ beer and schnapps.

During his time in Tunisia Gårdlund worked on a book about development issues. In 1965, *Att arbeta i u-land* (Working in Developing Countries) (Gårdlund, 1966) was published. *Att arbeta i u-land* remains a very readable book. Its strength consists in the way that Gårdlund combines economic theory, economic history and his own practical experience of development assistance. What it has in store for the reader is not a narrow account concentrated on technical issues but the panorama which is sketched is a broad one. The book not only deals with the economic aspects of underdevelopment, but social, cultural and institutional issues all have their place, and it is written by an author who does not only present *Lesefrüchte* but, even more so, his own field experience, acquired with open and watchful eyes.

Gårdlund begins by describing the 'non-developing society', and the central role of technological progress. 'The rich countries are those that have

managed to continuously create and absorb scientific findings and apply them practically within agriculture and industry. The poor countries are those that lack this ability', he writes (Gårdlund, 1966, p. 20), with an echo from Walt Rostow (1960). There is a watershed between fatalism and rationalism, between religions that emphasize the ability to overcome material values and creeds that don't. Institutions like the caste system, the extended family, the male-dominated society, the prohibition of interest and communal land tenure are obstacles to development.

Gårdlund does not hesitate to deal with inopportune questions. In the second chapter of the book he attempts to close the books on colonialism. The result is mixed. On the one hand, 'the colonial contributions as a rule have saved the now free peoples from several decades of economic efforts' (Gårdlund, 1966, p. 78). On the other hand he considers cooperation between free countries as a superior alternative. 'It is only when viewed as an alternative as the primitivism of the pre-colonial times, the degeneration and stagnation in the colonial areas, that, from an economic point of view, the colonial construction appears in an unequivocally positive light.' Colonialism was furthermore incompatible with 'the values of freedom and humanitarianism' (Gårdlund, 1966, p. 70).

For Gårdlund, the existence of natural resources is neither a necessary nor a sufficient condition for the economic development of a country. Climate is probably more important. If it gets too hot and comfortable it is easy to relax. Physical capital is an important development factor, but only if technology and human capital are simultaneously put into the picture. Rapid population growth makes things more difficult. Institutional change is essential: 'A large part of the economic history of the now developed countries must ... be written in terms of social and legal history' (Gårdlund, 1966, p. 101), and one of the most decisive factors is the Western education and the transformation of attitudes that usually comes with it.

The institutional framework also encompasses new, more regular, work habits and a new entrepreneurship stimulated by measures which makes it easier, not more difficult, for the entrepreneurs to work. Their demand for capital is high. Gårdlund considers that the domestic capital formation is insufficient and he discusses what can be done to increase it. He sees great difficulties for exports from developing countries. At the time when he wrote his book a common attitude was that the demand of developed countries for the products of developing countries was characterized by a low income elasticity of demand. Gårdlund does not share this pessimism, but he has not escaped the influence of the ideas of Gunnar Myrdal, Raúl Prebisch, Hans Singer and others.

One of the most interesting chapters of *Att arbeta i u-land* deals with development planning. The book was written at a time when everybody was convinced that planning was one of the most important ingredients in the recipe for success and a lot of effort was spent on planning models.

In Gårdlund's case, however, it is the practitioner who has the word. He runs through what development plans usually look like, the practical problems that tend to arise and what happens when the plan is implemented, an issue which was usually left out in the textbooks of the time about development planning.

The practitioner also dominates the chapter on technical assistance. Gårdlund had had the time to reflect on the role of the expert during his time in the field (Gårdlund, 1966, p. 174):

You have to find experts who possess such a character and peace of mind that they manage to preserve tact, patience and ability to perform in a perhaps never before experienced situation where the support of cooperative professional colleagues and normal technical support tools are lacking altogether, where results of their activities are seldom to be found during the foreseeable time, where the cultural environment is alien and often a bit run down, where the simple people are wearisomely sluggish and the educated inconceivably tricky.

Gårdlund provides an account of the difficulties that may be created by a hard-worked, frequently crisis-ridden field environment and he enumerates which factors, both on the donor and on the recipient sides, that tend to make for failure.

The threads are pulled together in a concluding chapter. There, Gårdlund stands out as a pessimist when he writes: 'It seems... incredible that any greater number of developing countries would yet enter a phase of rapid economic development' (Gårdlund, 1966, p. 206). He used to tell his development economics students that they probably had to live with the development problem all their life. (On the other hand, there would be plenty of work opportunities for them, even though they might have to start their career in Congo Kinshasa – 'a fate worse than death, but you have to begin somewhere'.) In his final chapter, Gårdlund stresses the domestic political factors behind underdevelopment, the causes that he saw as 'largely unreachable for international assistance' (Gårdlund, 1966, p. 210). Here he anticipates the debate of 'good governance' that would be conducted by the next generation of development economists and assistance practitioners. At the very end he summarizes his views of assistance. What is important is to channel this into activities that *prepare* for development, like education and family planning. He did not see the underdeveloped world that he was looking into in the mid-1960s as having reached the stage where economic progress could begin.

Att arbeta i u-land was used as a textbook in the basic economics courses at the end of the 1960s. It defended its place on the reading lists. As a short introduction to development problems it stood up well, even in an international perspective. Nothing in Swedish could be compared to it.

Torsten Gårdlund's second development book was a company monograph, *Lamco i Liberia* (Lamco in Liberia) (Gårdlund, 1967), about the mining joint venture that had been developed between Swedish (Grängesberg, Atlas Copco and SENTAB) and American (Bethlehem Steel) companies and the Liberian government. The book differs from his earlier company histories by its broader perspective. Here there is no person history at all, and Gårdlund uses the rolling analysis of profit and loss statements and balance sheets found in his other company studies to a much lesser extent. This is partly explained by the fact that the period under analysis is much shorter. The first invitations to participate in iron ore extraction in Liberia were sent to Swedish companies in 1953, and the last year dealt with in the book is 1966. In addition, for Swedish readers, Liberia was an almost completely unknown country, an underdeveloped country with special problems. 'The literature about Liberia which was available after the Second World War revealed... a partly eerie, partly undiscovered world. The country appeared as a natural target only for explorers' (Gårdlund, 1967, p. 16).

Both things required an approach which differed from that of the 'Swedish' business monographs. Gårdlund hence mixes the account of how Lamco was created and how the project progressed with an analysis of Liberia's development problems and the role of Lamco's investments in the development process. The extraction of iron ore in Liberia was a latter-day staples episode. A staple is a primary product in strong demand which has a sufficiently high value per unit of weight or volume to afford long, costly, often transoceanic transports. The golden age of staple products was 1870–1914, the classical period of Heckscher-Ohlin trade, when comparative advantage was based on relative factor endowments and raw materials were traded for industrial goods. The patterns that were developed were often based on foreign investments with transfers not only of capital but also of technology, entrepreneurship and skilled labor. These investments frequently created linkages to other sectors though investments in infrastructure. The pattern fits the case of Lamco in Liberia well. Much of the investment package came from abroad, and the investments that had to be made dealt not only with the direct extraction of ore. The lack of infrastructure meant that the company had to finance roads, bridges, a railroad, a port, a hospital, housing, schools, a court and so on. Lamco also had to push for the creation of a trade union. The funding problem was larger than in the case of an investment in a developed country, and there were many complicated twists before the problem was solved with a loan from the Export-Import Bank in Washington, DC.

Gårdlund deals with the problem of corruption in the administration and among the politicians in several instances in the Lamco book. It was difficult to create an entrepreneurial class in Liberia since 'the members of the Liberian elite already make a good living from the public administration and politics' (Gårdlund, 1967, p. 120), and through the entire history of

Liberia ran the thread of the contrasts between a tiny governing elite and the oppressed masses. Corruption at times could turn into a real farce. To his students, Gårdlund used to tell the story of how during a dinner he had attended with a member of government ministers the light had gone out. When it returned the table silver had disappeared and the pockets of the ministers bulged a great deal.

Gårdlund's overall appreciation of Lamco's activities in Liberia was positive. The company contributed to the creation of employment, wages were comparatively high and the workers had access to a number of facilities in health care, education and so on through the company. The transport and communication system had been improved substantially, and so had the financial position of the government. Lamco accounted for 12–15 percent of the total government revenue (Gårdlund, 1967, p. 134). Still, it was doubtful whether domestic entrepreneurship had been stimulated, and the state planning apparatus which Gårdlund considered necessary for further development still remained in the critical build-up phase. Nevertheless he saw joint ventures of the Lamco type as a clear alternative to 'the official development aid...with...has met with great difficulties in most parts of the world' (Gårdlund, 1967, p. 128).

The Lamco book was not popular in the contemporary debate climate in Sweden. The Left was growing strong in the universities, and Torsten Gårdlund was an obvious target for those who thought that foreign investments should be regarded as exploitation. Criticism was voiced against him in the student magazine at the University of Lund, *Lundagård*.

Gårdlund would not leave the criticism unanswered. In his next book, *Främmande investeringar i u-land* (Foreign Investment in Developing Countries) he brought out the principal fundamental aspects of international direct investment in developing countries. In his preface he writes (Gårdlund, 1968, pp. 5–6):

In our development debate there is considerable tension between different standpoints. At the same time as the poverty of two-thirds of the earth's population is considered a dangerous threat to our global order, the endeavors of the rich countries to contribute to the defeat of world poverty is subjected to extremely emotionally charged criticism. In the mood of self-accusation which for reasons that are easy to explain has prevailed in the Western debate during the postwar period, underdevelopment in the world has been deemed to be a consequence of our greed and neglect. In the same mood, our present assistance attempts are seen as incompetent and halfhearted or – even worse – as part of a new imperialism.

I do not share these views. [...] From these points of departure I have wanted to take issue with the extreme criticism against the establishment

of the Western companies in developing countries. [...] The statistical material indicates... that poor regimes rightfully see foreign investments as helpers in their development endeavor.

Främmande investeringar i u-länder is one of Gårdlund's best books. It is vigorously written and it still feels fresh, after almost 50 years. The approach is broad. In the first chapter, the history of international capital movements from the middle of the nineteenth century to World War II is sketched, first portfolio investments, in the early days, the resumption of lending during the interwar period and the problems of the 1930s, capital flows mainly between developed countries or from developed countries to 'regions of recent settlement' or 'settler colonies', and only to a very limited extent to areas outside this circle. Chapter 2 complements the picture with the post-war pattern, which in the case of developing countries was dominated by aid flows. The chapter also discusses the profitability of investments in these countries and the causes of direct investment.

One of the most interesting chapters of the book is the third one, which discusses entrepreneurship in developing countries – a topic which is frequently passed by in books on economic development. Entrepreneurship is difficult to model and discussions of cultural factors easily degenerate to preconceived views and stereotypes. Gårdlund, however, does not avoid the difficulties, naturally enough, since in his writings on Sweden he had stressed the role of the entrepreneur. On the contrary, he surveys the empirical literature and refutes the clichés about uneconomic behavior and poor minds. Instead he looks for the institutional factors which make it difficult for entrepreneurship to assert itself in developing countries or make it acquire characteristics which make it appear inferior to entrepreneurship in the industrialized countries.

Another central chapter is about the principal effects of direct investment: an increased wage sum and increased employment, access to consumer goods, government revenue, new techniques and organization, welfare measures and vocational education (as in the Lamco case). Against these advantages he puts the possibility that domestic companies are outcompeted, monopolistic behavior, worsened terms-of-trade, balance of payments problems as a result of profit, interest and amortization payments, the creation of enclaves with little contact between foreign companies and the rest of the economy, as well as possible political pressure on the host countries. In the final chapter Gårdlund takes issue with what he calls the verdict of Marxism of foreign direct investment, with empirical material from Latin America both during the nineteenth century and after World War II.

Främmande investeringar i u-länder is a well-argued book. Direct investment is put into a larger historical perspective of capital movements. The theoretical approaches that existed at the time when the book was written are used

and complemented with empirical material. Torsten Gårdlund was both an economic historian and an economist. It is this combination, and his use of it, that gives the book its character and strength.

Torsten Gårdlund's activities in developing countries and his interest in development issues would benefit his students. In February 1969 he had managed to make the Swedish International Development Authority (SIDA) finance a one-week study trip to Tunisia for some 30 students of development economics. The visit was successful in every way. The students were at it both day and night. 'Boys, you are like a chemical factory', said Gårdlund. To *Sydsvenska Dagbladet*, which interviewed him upon returning home he said: 'I think... that many of the students brought home plenty of experience and perhaps also a new view of the situation in developing countries. Among other things they were certainly able to note that foreign private business is not viewed negatively by the regimes of developing countries' (SDS, 1969).

Two of the daytime activities stood out. One high point was a visit to the fishing school in Kelibia, financed by the Swedes, one of the early scandal projects in Swedish development assistance. 'The fishing school was supposed to educate fishermen', writes Klas Markensten (Gårdlund's ex-assistant in Lund) in his book *Svensk u-landshjälp idag* (Swedish Development Aid Today) (Markensten, 1967, p. 58). The education took two years and it was hoped that sons of fishermen could be recruited locally. A Swedish super modern trawler had been purchased, since the Swedish experts did not trust Tunisian boats. After an extremely slow start, 11 students graduated in 1966. None of them would fish. Seven were hired by the school and four entered the Tunisian administration, in positions that quite probably had nothing whatsoever to do with fishing. Markensten (1967, p. 74) summarizes: The school has, however, unintentionally produced a fisherman, a student that was kicked out and who has acquired his own boat with the aid of which he now fishes in the more plentiful waters outside the capital, Tunis.' In February 1969, a malicious rumor also had it that the school had produced one more fisherman. He had somehow made it to the Swedish west coast where he was fishing with the Bohuslän fishermen.

The second high point was a visit to L'Université de Tunis. There a seminar about development questions had been arranged – in French: a language which hardly any of Gårdlund's students could make themselves understood in. And Gårdlund fell sound asleep, for that day he had had lunch with his old friend Ahmed Ben Salah, Bourgiba's super minister (finance and planning), who the following year would fall from power and be thrown into jail, accused of high treason by the president.⁶ The wine had been plentiful and it was hot in the seminar room. Gårdlund, however, woke up at the proper time, made a few eloquent remarks and saved the seminar for the Swedes.

The person

With his clear blue eyes, his straight posture, his somewhat nasal Stockholm voice, his elegance and his rare combination of precision, irony and warmth, Torsten Gårdlund was a gentleman who looked at life with a clear sight, who had a wealth of experience from different fields and who moved in a wide circle of people. He left an original and magnificent *œuvre*: pathbreaking works in economic history and a series of biographies that are among the very best written in the Swedish language.

Torsten Gårdlund was a very productive author. He managed to produce 20 books (plus another, posthumous one), and among these are a couple of masterpieces. Gårdlund always worked fast. 'I only have two gears', he used to say. He worked in high gear: never a day without a page. The second gear was neutral, but not quite, because Gårdlund had a hobby, a hobby which he would devote himself to almost on a full-time basis after his retirement. Torsten Gårdlund's great passion was horses, and he bred horses at the Lyngby stud outside Genarp in Scania.

When the stud was being constructed Gårdlund resorted to his students. The entire class had to go to the farm that he had bought and help with renovation, with painting the walls, the fences and the flagpole. Thereafter the party left for the Björnstorp estate, where Gårdlund kept his horses at the time, and the students could enjoy the skills of their professor in easy jumping A. Finally the time came to devour large quantities of pizza and red wine.

The inauguration of the stud was magnificent. One of the invited guests was Ruben Rausing, but he did not show up. Instead a horse transportation car drove up the yard. It was the person responsible for Ruben's horses at Simontorp. The car stopped and the doors were opened. Out came a stallion that Gårdlund had been given by Ruben Rausing. He became so embarrassed by the splendid gift that he could hardly say thanks. He would become even more embarrassed when somewhat later he found out that the stallion was sterile. At last, however, he said so to the man who had delivered the gift. 'But we knew it all the time', was the reply. 'That's how he [Ruben] was', was Gårdlund's laconic comment.

The horse-breeding activities at Lyngby were successful. If you search for Torsten Gårdlund's name on the internet you will, among other things, find the following, about the Anglo Arab thoroughbred Phaëton (Stall Born to Be, n.d.):

Born in 1979 with Guy de Breuil, France. Imp. In 1981 by Torsten Gårdlund, Lyngby stud, Generp. Sold in 1983 to Flyinge . . . Elegant and harmonious with very good working type . . . somewhat slender. Very good walking pace, rather good trot . . . Several progenies with good results in

quality examinations, prize contests and national exhibitions... Of the 8 offsprings that have taken part in quality examinations 88–90, 7 have been placed in Class I.

Many people were influenced by Torsten Gårdlund's knowledge, his unique ability to make friends and his intellectual capacity. He was magnificent in seminars and debates. His phrasing was so skillful that what he said could go virtually directly to print. Torsten Gårdlund could sometimes project a certain distance and coolness. His students could perceive him as somewhat stiff and old-fashioned. They had to stand up when he entered the classroom, and he allowed them to treat him on a first-name basis only when they had passed the first-year course. This was in the radical year of grace 1968. At the same time he possessed an overview and a subtle analytical ability coupled with experience and knowledge which made a deep impression.

The stiffness was mostly superficial, because Torsten Gårdlund had a sense of humor. In his memoirs Herbert Tingsten (1962, p. 58) writes: 'Torsten is possibly the foremost humorist that I have met, which does not exclude that he takes things seriously...' He could also be sarcastic. Tingsten (1962, p. 350) writes about his 'ability to be elegantly and sovereignly insolent' during the first meeting in 1942 of the committee that had been set up to give the program of the Social Democratic Party an overhaul. The object of his insolence was the old Marxist fundamental principles in the program. The students who around 1968 attempted to challenge him to debate direct investment or some other object of hatred among the Left had to count on subtly sarcastic replies to the worst stupidities. Gårdlund was very gregarious and indulged in plenty of social life, which sometimes had strange consequences. During World War II, Tingsten, Gårdlund and some more people funded 'a club that was to be extremely radical and intellectual. A single meeting was held... We proposed toasts all the time but hardly a sensible word was said. The movement was dissolved immediately' (Tingsten, 1962, p. 61).

Finally, Gårdlund had a very strong integrity. During his work on the book about 'the district judge' he received a call from Marcus Wallenberg, Jr ('Dodde'), who wanted to meet him in order to have the statements about his father's possible infidelity in England in 1918 changed. Gårdlund refused to go to Stockholm, so the powerful one had to take the trouble to go south. They met at Sturup airport. Gårdlund refused to make any changes, with reference to his contract, which gave him complete freedom – and that's how it ended.

Torsten Gårdlund left us in 2003. Fortunately, before that, borrowing the phrase of Horace, he had managed to erect a monument to himself that is more lasting than bronze, through the biographies that he had written. In these, his combination of scientific and political overview, together with his biographic acumen and his brilliant style were brought to complete

fruition. We – and many future generations – may return to them for stimulation and knowledge about a world which will soon be completely of the past. Torsten Gårdlund was its brilliant chronicler.

Published in Mats Lundahl, *Fem svenska ekonomer. Knut Wicksell, Eli Heckscher, Bertil Ohlin, Torsten Gårdlund, Staffan Burenstam Linder. Vad skrev de egentligen?* Stockholm: Timbro, 2009 (Swedish version).

Notes

1. The authors are grateful to Susanne Hansson, Lars Jonung, Tommy Larsson, Svante Nordin, Lilian Öberg, Hans Tson Söderström and Britt-Marie Trolin for biographical assistance.
2. A fifth collection of essays, selected by the present authors, *Vid kapitalismens sjukbädd och andra essäer* (At the Sickbed of Capitalism and Other Essays) was published posthumously in 2010 (Gårdlund, 2010).
3. The books referred to are Webb (1926, 1948).
4. A by-product of the big Wallenberg book is found in Gårdlund (1976b). During the course of his work with the book he had found out that Marcus' brother Oscar – 'a timid person who had trouble getting things out of his hands' (Gårdlund, 1976b, p. 7) – was a precursor with respect to the principles of accounting in times with a changing value of money.
5. A dish with hashed fried diced meat, onions and potatoes.
6. Three years later he managed to escape, dressed as a woman, and thereafter made it to Europe.

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12

Against the Current: Sven Rydenfelt (1911–2005)

(with *Sven-Arne Nilsson*)

Sven Rydenfelt was one of our first economics teachers. It was in the spring of 1967. Sven taught the basic macro course for business students in Lund. He was a devoted pedagogue and his refresher questions made it close to impossible not to pass the course. It was no coincidence. Sven had been an elementary school teacher 1938–1945. It never left him. He took his teaching duties seriously, all his life.

One afternoon, during one of his last years before going into retirement, in the 1970s, a few of us were sitting in the tiny teachers' room in the Old Laundry in Lund. (The building had been part of the hospital before the university took over.) Sven looked at his watch and rose. 'Now, the time has come for me to go out there again and spread the light.' 'It will probably be nothing but parking light', said one of his colleagues, from the business department. But that was wrong. Sven really did spread the light – *his own* light, for he was the old man who was swimming against the current most of his life, looked down upon by his colleagues, but loved by his students.

On 23 January 2011, Sven Rydenfelt would have turned 100. He got to 94, active all the way. Sven was born on a small farm outside Hjärnarp, in northern Scania. The road from his green Hallandsås to the title of Professor in 1991 was both long and bumpy. In addition, it was an uphill one – in two senses. Physically, he must have been a superman. He got tuberculosis and had to lie in a plaster cradle in a sanatorium for three years at the end of the 1920s, underwent a difficult kidney operation shortly thereafter and a multi-hour stomach cancer operation in 1986. 'I simply have to eat a bit more frequently', was his only comment when he got out of the hospital, 15 kilos lighter. The material that little, slender Sven was made of was tough.

The second uphill battle in Sven's life was due to the fact that he was awkward. He was a man of principles and he also had the slightly eccentric habit of sticking to them. Sven was a fighter. He *sought* battle – and he loved it. Wherever he saw wrongs he jumped them, without reflecting over the consequences it might have for him personally. He had to pay for that his

entire life. The colleagues thought that he was a bit of an oddball. Like Knut Wicksell, Sven was a sheep on his own, far from the herd.

In the economics department in Lund, welfare economics and footnote culture ruled since Guy Arvidsson had taken over after Johan Åkerman as Professor, in 1961. It was Åkerman (Professor in Lund 1943–1961) who had brought up Sven. Åkerman was more of a broad-minded social scientist than an economist (Carlson and Höglund, 1997). He was an eccentric in opposition to neoclassical equilibrium economics, Keynesianism and the Stockholm school of economists. Åkerman was inspired by Thorstein Veblen, Max Weber and Joseph Schumpeter. He made a sharp distinction between calculation models (for economic policy) and causal analysis, and he emphasized institutions and dynamic sequences.

Arvidsson carefully removed all traces of Johan Åkerman. The mainstream that he moved within himself was not terribly wide. Sven's themes were not quite inside it. He plowed himself, in his own field. Sven had begun his studies for Åkerman in the 1940s. It was hardly a coincidence that the doctoral dissertation of Åkerman's disciple (Rydenfelt, 1954) was called *Kommunismen i Sverige* (Communism in Sweden), mainly a sociological work. Like Åkerman, Sven paid no attention to genres, only to what he considered to be important questions. The book was accompanied by a monumental foldout map with different red nuances, the redder the more communist voters. Sven noted with pleasure that the Scanian farm country from which he came was virtually immune to communism. It was deaf to the siren songs from a party whose success and failure appeared not to have anything to do with economic factors but to a much larger extent with how the world happened to perceive what was going on in the Soviet Union, in whose lap the Swedish communists had chosen to sit like obedient children.

Maybe righteous thinking is great. In an era where economics became ever more narrow and 'technical', Sven Rydenfelt had to make a living as a senior lecturer, from 1961. No top position was in sight for the heterodox liberal. Independent thinking, however, is greater. With the aid of his giant archive of newspaper clippings Sven pursued a number of themes throughout his life. They were seldom opportune. Of course, he had not invented all of them himself but he had the ability to quickly get a hold on questions that would not become hot until a few years later, and at times he was original. The best example is perhaps health economics, which became fashionable in the 1970s. Sven defended his *licentiat* thesis in economics, *Sjukdomarnas samhällsekonomiska aspekt* (Economic Aspects of Diseases) (Rydenfelt, 1991), on this theme already in 1948, the first study of its kind in the world.

Sven's two favorite topics were the drawbacks of the regulated economy (he opposed welfare economics) and the importance of entrepreneurship for economic development. In Sweden he was the number one public enemy of regulations. He always pronounced the word *bureaucracy* as *bureau crazy*. He undressed the Swedish regulated economy in a never-ending stream of

articles and books (e.g. Rydenfelt, 1950, 1952, 1956, 1973), about regulated housing, a system which both had created a housing shortage and a 'rental nobility' that did not have to pay market rates for large apartments in Östermalm, the fanciest part of Stockholm – a fundamentally unfair system. The theme came to the forefront at the beginning of the 1960s (Bentzel, Lindbeck and Ståhl, 1963). Sven had begun to deal with it one and a half decades before. In the article 'Bristens och överflödets hemlighet' (The Secret of Scarcity and Plenty), in December 1947, he attacked the regulations which 'by themselves create the scarcity that is used to motivate them' (Rydenfelt, 1947).

Sweden was not the worst regulated economy. In Russia there was barbed wire, informed Sven. This was not good for food production. He dealt extensively with the topic in his book *Bönder, mat, socialism* (Rydenfelt, 1983), translated into English as *A Pattern for Failure: Socialist Economies in Crisis* (Rydenfelt, 1985) with examples from 12 socialist countries of how regulations in combination with force and oppression hampered productivity and were unfair to the poor.

The absolute opposite of regulation was free enterprise. Sven praised the market economy, especially its central actor, the entrepreneur. He wrote about the dynamic business sector in Sweden (Rydenfelt, 1965); of how it changed (Rydenfelt, 1968); of Japanese enterprises (Rydenfelt, 1978); and about the dangers of allowing the productive forces to be bled by taxes (Rydenfelt, 1997). He was even awarded a medal by a business organization for his contributions. Sven was the hero of the small entrepreneurs and the entrepreneurs were his heroes. 'My admiration of the entrepreneurs, the innovating and producing entrepreneurs, has been a basic theme in most of my writings', he confessed in *Sagan om Tetra Pak* (The Tetra Pak Saga) (Rydenfelt, 1995, s 13). Maybe his admiration went too far at times.

Sven could, of course, not stay away from the cultural debate either. His cultural views were not of the radical kind. He was on the side of popular taste. He always referred to Eduardo Chillida's sculpture, *Space Spheres of Peace*, on the main square in Lund as 'the boulder'. He defended the art views of the citizens and the tax payers – against artists and art critics who knew better. When Sven attacked tax-financed 'upper class culture' and 'luxurious highbrow culture' you picked up *Sydsvenskan*, the local newspaper, in the mailbox, with great expectations every morning. Possibly it was Sven's contributions to art criticism which made Tryggve Emond, philosophy teacher at Katedralskolan, use his articles in his argumentation analysis classes – as examples of how you were *not* supposed to write.

Sven was also a convinced free trader. When the time came for Sweden to join the European Community, he opposed this. A customs union does not only lead to increased trade between the member countries; toward the outside it is protectionist. This was incompatible with truly free trade, and in addition the EC had plenty of regulations. Sven was liberal to the bone.

He emphasized freedom; he defended the rights of the individual. He called the trade union movement 'the guild system of our time'.

It was not a coincidence that Friedrich Hayek and Milton Friedman were to be found among Sven's personal friends. From 1969 he was a prominent member of the libertarian Mont Pelerin Society. There, he finally found the sympathizers that he missed in contemporary (1968) Sweden. He had participated in the meetings of the society for the first time in 1956, and the stimuli he got there strengthened his belief in the values that he had held since his youth but which had often made him misunderstood and detested at home. It would be a while before the spirit of the time caught up with Sven, before Sweden began to make it out of what he thought of as an ideological straitjacket. By then, he was a regular columnist in the *Wall Street Journal*.

The clearest manifestation of Sven's passion for freedom was when in 1966, together with the journalist Janerik Larsson, he published *Säkerhetspolisens hemliga register* (The Secret Files of the Security Police) (Rydenfelt and Larsson, 1966), the book that showed that Säpo (the security police) was busy with illegal registration of political views. Among Sven's students a stubborn rumor began to circulate, that Sven was actually a communist and that he was the brain behind the economic policies of Communist Party leader C.H. Hermansson. It must have been spread by Säpo. They probably believed it.

* * *

For his contemporaries, Sven Rydenfelt was an odd bird. He was perceived to be on some kind of extreme in the debate. Mobilizing the most profound of all wisdoms, that of hindsight, you can only conclude that it was not so. He could have lost the uphill battle, but the old elementary school teacher simply rolled up his sleeves, went at them again and continued his argumentation. His conviction was strong. Sven was in the service of public education. Civil courage is a scarce commodity. Sven Rydenfelt had plenty of it. He received a belated recognition for his contribution when in 1991 he received the title of Professor.

Sven Rydenfelt fell in Lund on 12 February 2005. Nils-Eric Sandberg (2009) carved the stone.

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13

Sven Rydenfelt: The Awkward Polemic

(with Sven-Arne Nilsson)

Sven Rydenfelt was not a brilliant economic theorist and his purely academic output was small. His importance lay elsewhere. Rydenfelt was a formidable polemic with a pen dipped in venom. He continued and developed a tradition among economists that emanated from Knut Wicksell – that of never leaving wrongdoings in peace. Whenever he perceived a social evil he was ready to attack it. Rydenfelt wrote about everything from rent control and communism to the design of tombstones and the methods of the security police. He was a slugger who occasionally went off limits and who managed to attract a horde of enemies who thought that his views were ludicrous. Rydenfelt possessed an excess of civil courage which he frequently had to tap into when things got rough and nasty epithets were thrown at him from all quarters.

Sven Rydenfelt was born in 1911 in what he used to call the Scanian Highlands, in Tullstorp, on the southern slope of Hallandsåsen, the ridge which divides the southernmost Swedish province of Scania from that of Halland and whose wuthering heights reach an impressive maximum of 226 meters above the sea level.¹ He grew up on a small farm and he would retain his rural roots throughout his life.

Rydenfelt's parents understood that their son was gifted and wanted him to become a school teacher, so Sven was sent to Lund to be put through high school. Fate was unkind to him, however, for the first of several times. When he was 17, he contracted tuberculosis in his back and lungs and from 1928 he had to spend three years in a plaster cradle in a sanatorium and another year learning to walk again before he could continue his studies and finish high school, in 1934, in Halmstad. He applied to the teacher training college in Växjö but was not accepted. Instead he went to the university in Lund, where, among other things, he took his first courses in economics. But then fate struck again against Sven's kidneys, once more in the shape of tuberculosis. He had to submit to a tricky operation in 1936 which caused another delay in his studies. In the end, however, he managed to get into the teacher training college in Linköping and in 1938 he could take up teaching.

Rydenfelt continued to be a school teacher until 1945. In the meantime, however, he had got a bachelor's degree at the university as well, in 1942. The following summer he wrote an article in a magazine about the cost of illness to society (Rydenfelt, 1943). The article was read by a professor of physiology in Lund and in 1944 Rydenfelt was drawn into a government commission on medical research, extending his cost analysis. He left his teaching position and became a teaching assistant at the university instead. This also made it possible for him to earn the degree of *filosofie licenciat*, an intermediate degree between bachelor and doctor, in 1948. In 1950 he began to work on what would eventually become his PhD thesis, on communism in Sweden, in 1954. The latter year he left Lund for Stockholm, to work for the Swedish Taxpayers Association. He remained in Stockholm for three years before moving back to Lund and a teaching position at the department of economics at the university. In 1961 Rydenfelt got tenure as Senior Lecturer, a position which he kept until his retirement in 1976. In 1991, the Swedish government conferred the title of Professor on him.

Sven Rydenfelt died in 2005.

A Swedish neoliberal

By far, most of what Sven Rydenfelt wrote consisted of polemical books and articles. The easiest way of characterizing his production is as a coin, since it had two sides. One side displayed his criticism of government regulations that destroyed markets and the other featured his praise of free markets and entrepreneurship. Rydenfelt's writings were usually based on economic theory, but a kind of theory that did not begin to gather acceptance until the 1970s and 1980s.

The first economist who influenced Sven Rydenfelt and took him under his wings was Johan Åkerman (Carlson and Höglund, 1997; Dahmén, 2014). Åkerman was no mainstream economist but stood out as a lone ranger among the Swedish economists during the interwar period. He was influenced by Austrian capital theory, he dealt with mistaken decisions and he was skeptical of equilibrium theory, which in turn led him to devote considerable effort to methodological questions. Åkerman had also received impulses from the institutional works of Thorstein Veblen and Joseph Schumpeter. He was critical both of Keynes and the Stockholm school of his contemporary Swedish economists. Åkerman did not limit his analysis to economic factors but called for a socio-economic synthesis.

Åkerman had begun to teach economics in Lund in 1932 and Sven Rydenfelt became one of his students. It was Åkerman who supervised Rydenfelt's *licenciat* thesis and doctoral dissertation. During the course of his economics studies, from 1934 to 1954, Rydenfelt had to penetrate Åkerman's

idiosyncratic writings in addition to the mainstream economic literature. He was thus no newcomer to unorthodox ideas. Åkerman had prepared him and, if anything, he sought them out. Such ideas gradually became available, notably during the 1940s and 1950s – ideas that with time would be labeled ‘neoliberal’.

Sven Rydenfelt was a liberal all his life. He had been the president of the liberal student union in Lund in the 1940s and he gradually developed his economic views hand in hand with the neoliberal school. This school had its roots in the ‘Austrian’ tradition that stressed the role of the entrepreneur in economic development which had originated with Joseph Schumpeter, Ludwig von Mises and Friedrich Hayek and which was continued on the other side of the Atlantic by the Chicago school – for example, Milton Friedman and George Stigler – and the Virginia-based public choice theorists, notably James Buchanan and Gordon Tullock.²

The neoliberal ideas had originated during the interwar years among Austrian and German economists, like Hayek and von Mises in Europe, who wanted to ensure that the economy was organized on market principles and in such a way as to grant maximum freedom to the individual. When some of them emigrated to the United States during the Nazi era they brought their ideas across the Atlantic where they took root mainly in Chicago. In 1947, Friedrich Hayek founded the Mont Pelerin Society together with economists from both sides of the ocean. This would serve as the hub of the movement during the following decades.

In the 1950s Milton Friedman developed monetarism in an attempt to provide an alternative to Keynesian demand management and government intervention and George Stigler began his work on the economics of regulation. Their ideas were readily absorbed by the neoliberal movement and merged with emphasis of entrepreneurship as a powerful force for economic progress.

Rydenfelt got to read such books as Hayek’s *The Road to Serfdom* (Hayek, 1944), where the relative efficiency of market economies and centrally planned economies was discussed. Quite probably, Hayek, through his aversion to totalitarian systems, provided some of the ammunition for Rydenfelt’s struggle against communism. Rydenfelt also absorbed the works of Joseph Schumpeter (1912, 1942), which emphasized the central role of the entrepreneur, and the force of creative destruction. A third influence came from the works of Ludwig von Mises, like *Bureaucracy* (von Mises, 1944) and the monumental *Human Action* (von Mises, 1949) which praised the wonderful characteristics of the market economy and which appealed to the liberal Rydenfelt. (Some of von Mises’ books were even available in Swedish translations.) From von Mises he got his insistence on the superiority of profit-driven management, accountable to consumers or users who can simply opt not to come back, to bureaucratic management, where the producers call the shots and consumers can do little to influence either

quantity or quality. The market was a democratic institution both for von Mises and Rydenfelt. Together, the influences of Hayek, Schumpeter and von Mises would permeate virtually everything that Rydenfelt wrote from the late 1940s onwards.

Rydenfelt got many of his neoliberal ideas through *Farmand*, a Norwegian journal run by the economist Trygve Hoff since the mid-1930s. In his unpublished memoirs he states that it was through *Farmand* that he obtained his first insights about the difference between how a market economy and a planned economy worked, and that it was these insights that made him a convinced supporter of the former, one of the few Swedish economists that held this view in the mid-1940s. It was in *Farmand* that Milton Friedman published his 'Neo-Liberalism and Its Prospects' in 1951 (Friedman, 1951), one of the first instances where the term was used explicitly by an American writer, 'a useful marker of the moment when neoliberalism became a self-conscious political and economic concept in the United States' (Jones, 2012).

It was also through *Farmand* that Rydenfelt got to know about the activities of the Mont Pelerin Society. (Hoff had been one of its founding members.) In 1956 he made his first personal appearance at a Mont Pelerin meeting in a debate on 'Capitalism, Socialism and the Welfare State'. During this meeting Rydenfelt got to know Ludwig von Mises and the Friedman couple, Milton and Rose, personally. He would become one of the contributors to the *Festschrift* on the occasion of von Mises' 90th birthday (Rydenfelt, 1971) and he befriended the Friedmans and was influenced by their thinking.

Sven Rydenfelt absorbed and made use of at least three of Milton Friedman's main ideas. The first was that economic and political freedom could not be separated. Without economic freedom there would be no freedom at all (Friedman, 1962). Government intervention should hence be kept to a minimum. One of the worst threats to the operation of free markets came from the trade unions (while Friedman and his fellow Chicagoans were considerably more lenient toward monopolistic corporations). Rydenfelt agreed. He would spend considerable energy on chasing the Swedish trade union movement, at the cost of a possible neglect of producer power concentration.

Under the sway of Friedman Rydenfelt also became a monetarist, convinced that it was not possible to stimulate the economy by the use of monetary and fiscal policy à la Keynes, let alone to apply fine tuning measures. Friedman had contended that the Great Depression was caused by an excessive contraction of the monetary supply and was further exacerbated by a host of unnecessary regulations (Friedman and Schwartz, 1963). By the same token, the most important problem of an expanding economy was to keep the rate of inflation down. The control of the money supply was the central parameter of economic policy. Rydenfelt noted all this.

The third main influence of Friedman on Rydenfelt was the idea about the superiority of flexible exchange rates to fixed ones (Friedman, 1953), above all since they serve to insulate a country from unfavorable influences of changes in foreign price levels through an automatic adjustment of the exchange rate and hence minimize the need for painful internal adjustment through changes in prices and incomes.

Another powerful imprint on Rydenfelt's thinking was made by George Stigler's ideas about the futility of regulations (Stigler, 1975). Regulations are almost always undertaken in the interest of the producers, not the consumers, because the former are able to exert pressure on the regulators and 'capture' them. Rydenfelt also willingly absorbed the basic message of public choice theory: that governments and bureaucracies are far from always motivated by altruistic considerations but instead base their actions on self-interest and should hence be analyzed as profit or utility maximizing economic actors (Buchanan and Tullock, 1962; Buchanan and Tollison, 1972, 1984).

Scientific writings: Health care and communism

Strictly speaking, Sven Rydenfelt's purely scientific or academic writings were limited to his two theses, the one for the *licentiat* degree and his PhD dissertation. The rest of his books and articles either aimed at a broad audience, with the purpose of stirring the debate, or were semi-popular accounts of Swedish industry and companies.

Rydenfelt's *licentiat* thesis, *Sjukdomarnas samhällsekonomiska aspekt* (Economic Aspects of Diseases) which he defended at the end of 1948, was a pioneering work, not only in Sweden, but internationally as well. It clearly sprang from his personal experience of hospital care. The topic was the cost of health care in Sweden, and he had not been able to find any precedent in the international literature. *Licentiat* theses were typewritten papers and were rarely published. It was not until 1991 that Rydenfelt's opus was dug out and given due attention (Rydenfelt, 1991).

While the health care system in most countries was a mixture of public and private efforts, in Sweden virtually the entire sector was public, which made it comparatively easy to find data. The main argument of Rydenfelt's work was that when you look at health care costs you cannot limit the attention only to the direct costs. The latter have to be taken into account but the most important cost by far was the one imposed on the economy by the loss of production caused by illness and death, and Rydenfelt proceeded to calculate the number of work days lost in Sweden and the probable impact that this had on the national income. His result was that the loss amounted to 6 percent of GDP in 1945. Rydenfelt was given a well-deserved *magna cum laude* grade on his thesis, by his examiner, Johan Åkerman.

Sven Rydenfelt's PhD thesis in economics actually did not deal with economics at all. The topic, communism in Sweden, was closer to political science or sociology. The Swedish Communist Party had strengthened its position in the 1944 and 1948 parliamentary elections and Rydenfelt had been assigned to write a few articles on this by the business community. The work gradually grew into a book and in the end it was decided that it might serve to earn a PhD degree as well – in economics – a subject which at the time was defined in terms that were broad enough to include political science and sociology as well.

Rydenfelt's dissertation, *Kommunismen i Sverige* (Communism in Sweden) (Rydenfelt, 1954), contains a large foldout map with different shades of red, according to the share of communist votes in the total in each region. More than half of the reddest municipalities were 'forest' municipalities. Rydenfelt failed to detect any systematic contemporary pattern able to explain the differences but concluded that it appeared to be historical factors, sometimes going way back in time, which determined which municipalities were 'white' and which were 'red'.

Still, Rydenfelt wanted to explain the number of communist votes as the outcome of a rational process. Many factors were at work. Communism appealed to the young but not to women. Farmers and agricultural workers were virtually immune to it but it attracted industrial workers and forestry workers. Surprisingly enough, Rydenfelt did not find any relationship between income level and communist voting. Among the workers it was rather those with higher than those with lower incomes who voted for the communists. Nor did unemployment seem to affect the voting pattern. The lowest rate of unemployment in the 1940s coincided with the highest share of communist votes. The standing of the Soviet Union in the eyes of the international community affected the number of votes obtained. Communism was weak in regions where religion was strong but not necessarily strong in the more secularized parts of the country. It was strong in some areas where radical religious movements had been successful in earlier periods. The communist press did not seem to have been able to influence the voting to any significant extent. Social isolation, alienation and rootlessness, finally, tended to produce political radicalization.

Rydenfelt's main conclusion was that the influence of economic factors and of communist agitation seemed to have been exaggerated in the debate. Agitation would not work unless the ground had been prepared in other ways for a positive reception of the message. The role of religion, on the other hand, had not been given due weight. Most important of all, however, was social isolation which tended to breed hostile reactions against society and a hope for drastic change.

Rydenfelt received a great deal of criticism both in connection with his thesis defense and in the subsequent reviews of his book (Filosofiska fakultetens protokoll 1954; Elmér, 1955; Quensel, 1955; Davison, 1954–1955;

Heberle, 1958). He had decided *ex ante* which variables to include as possible determinants, limited his comparisons to municipalities *within* a given county and failed to make cross-county comparisons, not made interviews with party bosses and voters, not analyzed the development over time, overlooked the role of the trade union movement and the 'direct' political agitation at the workplace, dealt too much with 'forest communism' and too little with the urban movement and in general paid too little attention both to political and economic factors. Voting for the Communists was clearly a class issue and class status was in turn determined by economic status.

In the 1950s, the grade you received on your doctoral dissertation by and large decided your future academic fate. The 'cutoff point' was *cum laude* plus an explicit acknowledgement that you qualified as *Docent* (roughly the associate professor level but not linked to a position). Rydenfelt only received the grade of *non sine laude* on his dissertation. In practice this meant that he was out of the race for future chairs and, after a few years outside the academic world, had to make a living as a lecturer and, from 1961, senior lecturer, a pure teaching position with a teaching load of 396 hours per year.

Basically, the two theses marked both the beginning and the end of Sven Rydenfelt's academic contributions. Most of his other writings may be qualified as polemical; usually either sternly critical or panegyric. Rydenfelt's bedrock liberalism made him an outspoken critic of what he perceived of as unnecessary and meddlesome regulations – regulations that only served to destroy well-working markets and make the citizens worse off. His panegyric side in turn came to the front when he wrote about the marvelous characteristics and abilities of the free market mechanism and of his heroes – the creative entrepreneurs: the prime movers of progress and development. These two sides are the sides of the same coin. Whenever Rydenfelt wrote about the evils of regulations, he made sure that he provided a market-based alternative that would solve the problem at hand without creating harmful side-effects, and when he wrote about markets and entrepreneurs the topic was frequently related to the need to get rid of some regulation that made their operations difficult.

Economic regulation: Housing

Rydenfelt made his first attack on economic regulations in a newspaper article published in December 1947 (Rydenfelt, 1947) which deals with the secret of scarcity and abundance.³ There he points out that regulations imposed in order to cope with scarcity of goods deemed to be strategic or necessary by society tend to produce or enhance precisely the very scarcity which they were supposed to remove. By setting a price below the equilibrium price that would be produced by the interaction of demand and supply in a free market an excess demand is created that will sooner or later result in rationing, queues and black markets. This was the case with housing,

electricity and foreign exchange in Sweden at the time when Rydenfelt wrote his article.

The main target of Rydenfelt's war against regulations was the rent control that had been imposed in Sweden in 1942. He would come back to this topic in a number of books and pamphlets and innumerable articles as long as he continued to write (e.g. Rydenfelt, 1950, 1952a, 1952b, 1955a, 1956, 1971, 1972, 1973a). Rents had been frozen at the 1942 level and this had created a permanent excess demand. The official government policy was that the housing scarcity should be 'built away', but Rydenfelt pointed out that this would not be possible as long as rents remained artificially low and the general price level increased. In fact, at the beginning of the 1950s Sweden appeared to be the only country in the world with both more apartments than in 1939 and a lack of housing. Increased construction had in turn exhausted the supply of construction workers and building materials. The 'remedy' introduced to cope with this was a regulation of the construction business as well, where building permits were awarded mainly to the major cities. This made it virtually impossible to get permission to build anything in the countryside.

Rent control had undesirable effects also from the point of view of social justice. With an excess demand, landlords could afford to be picky and choose well-off singles or couples without children while poorer people and families with children would end up at the end of the line. The population would be split into a dwelling upper class, a 'rent nobility', and a group of pariahs. Buildings where rents were controlled would be left to decay since their owners would not be able to charge enough to cover the maintenance costs. Rydenfelt offered his Swedish audience the case of France where rents covered no more than some 10 to 20 percent of the actual cost. The monthly rents were on average comparable with the cost of buying two newspapers per day and it was completely impossible to get an apartment without making an illegal payment to the people moving out.

The solution recommended by Rydenfelt was simple: let the market forces decide the rent level. There was nothing social about the 'social housing policy' as practiced in Sweden. Rent control amounted to nothing but a general subsidy not dependent on the income level and Rydenfelt argued that it was much better to rely on the market for establishing the equilibrium price and support low-income families directly. Both his diagnosis and his remedy sprang directly from his neoliberal credo.

Rydenfelt's writings about the housing market of course put the teeth of those who defended the system on edge. He was seen as a backward reactionary who understood nothing – the number one enemy of the social housing policy – and he stood virtually alone in his struggle until the early 1960s when three of the most well-known Swedish economists, Ragnar Bentzel, Assar Lindbeck and Ingemar Ståhl (1963), published a book which dealt with the same theme. This suddenly brought an aura of respectability

to Rydenfelt's views – although his contribution was not recognized in the book (possibly because he was a controversial figure). This was only the first in a series of works that began to turn the tide with respect to the public opinion about housing.

Other regulations

Rydenfelt struck at regulations wherever he saw them. In 1955 he published a book whose theme was how the influence of government in general over the economy can be limited: *Staten och makten. En studie i svensk regleringsekonomi* (State and Power: A Study of the Swedish Regulation Economy) (Rydenfelt, 1955a). The general message was that in societies that built on regulation and planning, be they dictatorial or democratic, the fundamental assumption was that consumers were a stupid bunch who did not understand their own good. Thus they could not be allowed to decide themselves in the market what they wanted to consume (and hence what would be produced and how resources would be allocated in the economy). Rydenfelt did not want any social guardians – least of all the bureaucracy that inevitably came with the regulatory society. He had absorbed von Mises' message. Since 1940, the Swedish government had regulated prices, rents, construction, foreign trade, and the currency, capital and credit markets. The regulation society had its own dynamics. Above all it tended to produce crises from time to time, crises that were 'cured' with more regulations. As Rydenfelt saw it, Sweden was on its way toward a coercive society of the Soviet type.

All this, Sven Rydenfelt wanted to do away with. Regulations only had absurd consequences like when in France the price of wheat had been kept lower than the import price of maize. The French farmers then found it advantageous to feed wheat to their pigs instead of maize. Wheat disappeared from the market and the humans had to eat maize bread instead of wheat bread. If the prize was set too high on the other hand so you had to sell the excess quantity in the world market you would end up in the equally absurd situation that you would sell cheaper abroad than at home.

Credit regulations as practiced in Sweden – an interest rate level below the equilibrium rate – restricted the supply of credit. The state had to step in and increase the credit volume by buying bonds in the open market, increasing liquidity, lowering the interest rate and increasing the rate of inflation. But prices, stated Rydenfelt, had to be decided in the market, not by bureaucratic regulations.

Nor should you regulate production to death. 'If a baker who without the aid of hired workers runs a bakery at home wants to start working before 6 in the morning he breaks the law and must be prosecuted' (Rydenfelt, 1995, p. 99). Rydenfelt also attacked the critics of advertising. Consumers were not stupid. People would not buy what they did not want. The main function

of advertising was to increase competition by signaling the presence of products in the market (Rydenfelt, 1958).

Of course Rydenfelt was a free trader. As a 'true liberal' he opposed the Swedish entry into the European Union in 1995. He had two reasons for this. The first was his aversion to bureaucracy. The construction of the EU built on direction from the center and this could not be carried out in practice without a huge bureaucracy, and as Rydenfelt saw it, this bureaucracy would be permeated by socialist values. He had nothing against the dismantling of obstacles against free movement of goods and factors but he wanted this to take place through deregulation, not through more bureaucratic controls.

The EU was no free trade, free competition area for Rydenfelt. He saw it as a giant cartel – the worst that the world had ever experienced. Tens of thousands of paragraphs served to eliminate competition and further cooperation in Europe (Rydenfelt, 1997, pp. 184–185). This was as true in the case of foreign trade as elsewhere in the union. Tariffs simply served to exploit the consumers and a customs union had a protectionist side as well: the common external tariff which made it impossible for poor producers in developing countries to compete for example in the textiles and food markets.

Altogether, when looking at the EU, Rydenfelt got the vision of a horror scenario with hordes of bureaucrats administering a straitjacket of regulations in a Greater Europe, an impossible task, and he pointed out that it would not be possible for a union that contained a mere 7 percent of the world population to insulate itself from the main currents of globalization. The EU was a giant on clay feet which would continue to be kept alive for prestige reasons but which would become weaker and weaker over time – in the end only a shadow of the original vision.

Rydenfelt was also against a common EU currency. That was not needed in a system with flexible exchange rates. Even in an integrated Europe it would be hard to avoid that the rate of inflation would tend to differ among countries and then the automatic exchange rates would see to it that exporters in high inflation countries would not be hurt. Domestic inflation would lead to increased imports and increased demand for foreign exchange. The domestic currency would depreciate and compensate the exporters. With a common currency, production and employment would suffer. Milton Friedman spoke through Sven Rydenfelt.

Rydenfelt advocated flexible exchange rates in other instances as well. When the United States in 1973 decided not to redeem bank notes with gold anymore he celebrated 'at the ruins of Bretton Woods' (Rydenfelt, 1973b), and when the Swedish central bank in 1992 imposed absurdly high interest rates in order to defend the krona he called the monetary policy a fight against windmills. It would take only a couple of months and the famous 500 percent interest rate before the bank had to give in – another occasion for triumph (Rydenfelt, 1997, pp. 151–154). Every time a regulation

was abolished, Rydenfelt was there to pour salt into the wound and defend the measure against the critics.

One of Rydenfelt's most hilarious attacks on the Swedish regulation society took place when in a 1989 article called 'Sagolandets kyrkogårdar (Fairyländ Churchyards)' he ridiculed the prevailing 'cemetery dictatorship' (Rydenfelt, 1997, p. 3). Elected political representatives were the masters of the cemeteries, petty potentates who arbitrarily harassed the citizens (Rydenfelt, 1997, p. 104):

A thing that has been very much cherished by the representatives is equality and they have hence decided, on the centimeter level, how wide and thick the tombstones are to be. If they are to stand up or lie down. If a socle is allowed or not. If the site of the tomb may be delimited with a stone lining or not. The treatment of the surface is to be uniform, and here the representatives as a rule have decided that the stones may be finely ground but not polished. The demarcation line is often so thin that even the representatives themselves have had problems to decide during their inspections whether a stone has been this or that way. Nevertheless it has been decided that polished stones are incompatible with good tomb culture.

There was only one criterion by which the top-down approach to tomb culture could be deemed to be altogether successful – that of equality (Rydenfelt, 1997, p. 106):

In spite of all the zeal and all the declarations about equality our politicians have not succeeded in reducing class differences to any noticeable extent in the society of the living. According to the law of least resistance they have then instead concentrated their equality endeavors on the realm of the dead and there created churchyards with uniform tombstones in lines straight as arrows, cemeteries which in their boring unanimity most of all remind you of war cemeteries.

The ultimate regulation.

Regulations and entrepreneurship

The most serious consequence of regulations was that they strangled entrepreneurship. In an analysis of what he calls the 'sick' 1970s, Rydenfelt (1976) links the increased unemployment during the first half of the decade to the worsening of the environment in which firms had to work. 'Miracle periods' (e.g. Germany and Japan after World War II) in an economy, he states, are always characterized by deregulation and economic freedom. This makes for investment and economic expansion. What Rydenfelt calls an 'op

(optimistic) society' comes into play, where the economy grows so fast that there is always an excess demand for labor. The opposite of the op society is the 'dep (depressed) society', epitomized by the socialist economies, with notoriously low productivity and a price policy that exploits the producers.

Rydenfelt put Sweden in the 1970s among the dep societies. Official unemployment statistics lied because they did not include people who had been put into artificial jobs or retraining by the Swedish Labor Market Board. Far too much of the total employment came from the public sector and the share of the latter was increasing. It was not sound that an artificially created demand emanating from the public sector should have to act as a substitute for the natural demand that would come from an expansive private sector.

The stagflation of the 1970s, as Rydenfelt saw it, was fundamentally an entrepreneurship crisis. Entrepreneurs can be innovators, but only when the business environment is favorable. Freedom of enterprise in an economy characterized by law and order, a functioning credit system and other infrastructure will lead to the creation of vital firms with strong growth potential, but in Sweden in the 1970s, Rydenfelt saw a government behavior which was hostile to business. It did not matter that the Social Democrats had had to step down after 44 years in power. Government policy had not changed. The business community had to contend with an ever increasing stream of economic regulations from a united parliament. This made it impossible to achieve full employment. Government price control was a poison for the entrepreneurs. The most important dimension of employment was the 'fourth' one – the human part, the feelings of the entrepreneurs, and that was badly hurt.

The dark side of the welfare state

Related to Rydenfelt's criticism of regulations is his criticism of the welfare state. In a 1955 pamphlet, *Socialpolitik och samhällsekonomi* (Social Policy and Economics), he called Swedish social policy a "holy cow" which is worshipped by "the true believers in the profane temple of the spirit of the times" with a passion that sometimes gets rather close to religious intolerance and fanaticism' (Rydenfelt, 1955b, p. 3). Rydenfelt considered that the official welfare creed had so many fundamental defects that a reconsideration of the basic principles of the system was necessary. These principles were adhered to not only by the Social Democrats but by the Liberal, Agrarian and Conservative parties as well who were overbidding the government in their struggle for more votes. Swedish social policy had turned into orthodoxy. As a result a number of costly reforms had been passed. There was little to distinguish the Swedish welfare system from that of Otto von Bismarck, Adolf Hitler or Juan Perón (Rydenfelt, 1958, p. 54).

In the pamphlet, Rydenfelt made a radical attack on general state pensions and child allowance. He had no sympathy for a social policy that was not

based on a determination of needs. That simply amounted to political gifts to the electorate. (A mere 25 percent were in the 'needy' category.) The general pensions acted as an obstacle to spending on such important matters as for example health care and education. The same was true with respect to housing subsidies. Most went to people who did not need them.

Rydenfelt was not against social policy as such, but the system of political gifts had to be abolished before you could expand the part of the policy that hit the right targets. He did not want to go as far as to abolish the general state pensions, but argued that it was better to substitute a tax deduction for general child allowance and to abolish general subsidies on housing and food. It was wrong to introduce general measures as long as there were suffering minorities.

One of the groups that Rydenfelt felt most compassion for was people with severe handicaps, 'the poorest of all the poor in our country' (Rydenfelt, 1997, p. 119), around 100,000 at the beginning of the 1990s, 7,000 of whom needed assistance with everything. He questioned the wisdom of cutting the assistance for the severely handicapped with 215 million kronor when at the same time hundreds of millions were spent on general welfare measures to perfectly healthy persons.

Not only did the welfare state spend too much on the wrong items. In his own characteristically off-beat way, Rydenfelt also argued that life was boring in Sweden. The welfare measures aimed at nothing but the satisfaction of material needs. There was something lacking: excitement. 'All paradises are dull', Rydenfelt stated, for those who have to live in them. 'Nobody would stand a week of harp music and singing angels, with nectar and ambrosia, with streets made of gold, with eternal sun and summer' (Rydenfelt, 1958, pp. 71–72). This boredom created a yearning for drama. It even made people read comic magazines, raw, gory creations according to the critics, creations that Rydenfelt of course defended, exactly as he defended boxing. He also bemoaned the moral and religious obstacles to a natural love life between men and women that made people go for inferior substitutes like pornography. In the worst case the drabness of the welfare state would make the citizens willing followers of political adventurers and demagogues who would not hesitate when it came to offering excitement.

Rydenfelt clearly overstated his views, and more of the same was to come. His most vehement assault on the Swedish welfare society was presented in a book published in 1983, *Välfärdsstatens förfall: en studie i svart och rött* (The Decline of the Welfare State: A Study in Black and Scarlet) (Rydenfelt, 1983b). When you read it you learn that in the early 1980s Sweden was on its way into a barbed wire-*cum*-concentration camps society that resembled that of the Soviet Union. Collectivized welfare led directly to socialism. Sweden had by then got to the point where taxes had reached an exorbitant level and regulations had proliferated so much that you could no longer speak of free enterprise. Production was on its way down, unemployment on its

way up and as long as the economic policy did not change the crisis would deepen.

The welfare state was nothing but the exploitation of the few by the many. The state was using coercion and from there it was but a short step to violence. Rydenfelt could see nothing but vested interests in the recommendations of the defenders of the welfare state. In spite of preaching the gospel of equality they had seen to it that their own incomes, pensions and perks were substantial.

The welfare state rested on high taxes. In a Mont Pelerin Society presentation in 1980 Rydenfelt (1980a) stated that Sweden had been the leading nation in the world in many economic fields up to 1970 but that after the fatal 1970s it was only when it came to taxation that the country remained in first place. The high burden of taxation had in turn seen to it that nowhere in the world were incentives for tax planning and outright tax evasion as high as in Sweden. The likelihood that a small entrepreneur would be caught was negligible since, according to Rydenfelt's calculations, the tax authorities could spend less than one minute on each regular income tax declaration. Of course, tax evasion was a crime, but Rydenfelt also saw it as a budding resistance movement, as an act of civil disobedience by a minority that had been punished by a majority.

Abominable monopolies

Exactly like the Chicago school, Sven Rydenfelt hated all kinds of monopolies and spent considerable energy criticizing three in particular: the Swedish radio and television monopoly, the state-run school system and the trade union movement. He had observed how in Britain the BBC had had to give up its monopoly and how subsequently the independent television stations (ITV) had overtaken the state-run company. Rydenfelt used the British experience to chastise the Swedish monopoly (Rydenfelt, 1966a). He did not swallow the argument that the monopoly had been democratically decided by the parliament. The *outcome* was not democratic. Nor did he worry about the possibility that the owners of private radio and TV stations would influence the contents of the programs unduly. Competition between stations would take care of the problem. And the program content would not be watered down unduly either. Possibly the share of cultural programs would be reduced in each station, but the fact that there would be more stations would increase the quantity in absolute terms. Rydenfelt contrasted the radio and TV monopoly with the competitive newspaper market. Why did the politicians defend monopoly in one case and competition in the other?

A second monopoly that bothered Sven Rydenfelt for many years was the Swedish school system (Rydenfelt, 1958, 1990a). He summarized his views in a book called *Skola med sång och glädje* (Schools with Joy and Singing) (Rydenfelt, 1990a). In Sweden everything was centralized. Around 1990

no less than 99.5 percent of all the students through ninth grade went to state schools, most of which were completely oversized, with several hundred pupils. *'No country west of the iron curtain has a government school monopoly comparable to the Swedish one'*, Rydenfelt thundered (Rydenfelt, 1990a, p. 148). The children were not happy in their schools and many rebelled either by playing hooky or by sabotaging the lessons in the classroom. What was taught was jammed down the throats of the students, like bitter medicine, instead of being happily and actively imbibed by the children.

Rydenfelt posed the question of what a good school should look like. In his answer he took the Schumpeterian theory of entrepreneurship as his point of departure. This entrepreneurship was not of the top-down variety, but the good entrepreneur was more like a leader who coached his team in such a way as to take it from victory to victory, bringing out the creative potential of the team members. Rydenfelt saw no reason why similar reasoning could not be applied to teachers. The main problem was rather how to discover the coach types, those whose personality contained the 'c' (coach) factor. They had to be leaders with a natural authority, able to steer the classroom work so that the children acquired the necessary knowledge. But they also had to be democratic leaders who respected the children's different personalities and listened to them.

Pedagogical skill is not something that is obtained mainly through studies and formal merits, argued Rydenfelt. It was much more of a personality trait and in order to uncover it he wanted future teacher students to have worked practically as teachers at least one year before they were allowed to enter the teacher training college. This would make for an automatic purge of the unsuitable individuals. They would discover that they ought to do something else.

Rydenfelt thought that one of the biggest problems of the state-run school system was the lack of parental influence. As always when the producers got too much power, the consumers had to be content with an inferior product. In a system with private schools, on the other hand, it would not be possible to keep the parents out. They could always move the children to a different school if things did not work properly. The good schools would always be able to recruit good teachers and pay good salaries and bad teachers would leave system as a result of the grass-roots democracy exercised by the parents. Both things would be good for efficiency.

The actual Swedish school system was no teachers' paradise either. In one sense they had the upper hand, over the parents, since the centralization gave the latter little choice, but unsuitable teachers frequently reported sick, a tendency that increased as they grew older. Rydenfelt described their situation as psychic torture.

Rydenfelt's remedy had a romantic slant to it. When he went to school himself as a boy, schools were small and housed children from four different

age groups in the same classroom. He did not quite want to go back to that but advocated that for example nine and ten year-old children should be taught together and that the pupils should have a single teacher handling all the subjects through ninth grade. Schoolhouses should be small. Preferably they should not require more space than an ordinary villa, where the children could play in the garden instead of in a giant concrete schoolyard and where they helped with the cooking and cleaning as well.

In Sweden it was close to impossible for private schools to compete with government schools, since they did not receive the subsidies that went to the latter, a system that was furthermore unfair to the parents who had put their children in private schools anyway and who in addition to paying tuition fees there had to contribute to financing the state-run schools by paying taxes. Rydenfelt argued that with a subsidy that amounted to say 85 percent of what went to government schools, private schools would be able to compete efficiently.

Rydenfelt's plea for decentralization of the school system and introduction of subsidies to private schools would soon be paid heed to. In 1991 the municipalities took over the responsibility for the previously state-run schools and in 1992 the center-right government coalition introduced private school subsidies.

One of the worst monopolies of all in the Swedish economy, according to Sven Rydenfelt, was the trade union movement. In 1997 no less than 85 percent of all Swedish workers were unionized, to be compared with a mere 10–30 percent in European countries where the unions did not have political clout. Rydenfelt thought that unionization served no real purpose. The unions could not do much to influence the wage level. Wage changes were determined by changes in market conditions, inflation and the overall structure of society, but, of course, the unions boasted of what they had been able to achieve. 'Somebody has compared this to the rainmakers in Africa. During months of drought they work with rites and spells to call forth rain. And sooner or later the rain comes, and the rainmakers credit themselves' (Rydenfelt, 1988, p. 115).

What the unions *could* affect was unemployment. 'You kill the hen that is to lay the golden eggs', Rydenfelt argued in 1996 (Rydenfelt, 1997, p. 64). After the resignation of Tage Erlander as Prime Minister and Arne Geijer as head of the Swedish Trade Union Confederation in 1969 and 1973, respectively, the hitherto good relations between the Social Democrats and the business community began to turn sour. They reached a nadir when Prime Minister Olof Palme defended the wage-earners funds, a scheme designed to ensure employee ownership of companies, 'the most serious threat, by far, that Swedish entrepreneurship has been subjected to' (Rydenfelt, 1997, p. 65). In addition, the trade unions managed to push through the so-called Åman laws in 1974, which made it difficult for employers to hire and fire, which according to Rydenfelt made big companies leave Sweden and industrial jobs disappear.

In 2000, Rydenfelt (2000) attacked the 'de facto' union monopoly of unemployment insurance acquired through its political connections. The only workers who received a decent compensation were the union members while the outsiders, mainly the young, received nothing. Rydenfelt compared the unions to the medieval guilds. He was not ignorant about why and how the trade union movement had emerged in Sweden. It was because of the sins of the private entrepreneurs or their ancestors. Power easily led to abuse and that provided the soil in which the unions could take root and grow (Rydenfelt, 1988, p. 91). With time, however, the playing field had changed and hand in hand with the growth of the power of the unions these had turned into oppressors who were destroying the business climate in Sweden and who were not intent on giving up any of the privileges which they had obtained through their political connections in the 1970s and 1980s.

Rydenfelt was optimistic, however: 'Everything indicates that the movement has its future behind it' (Rydenfelt, 1997, p. 73). He was to be proven to be at least partly right, for over time the degree of unionization decreased in Sweden. In 2012 it had declined to 68 percent for blue-collar workers and 73 percent for white-collar workers. Among the young (16–24 years) a mere 36 and 38 percent, respectively (56 and 60 percent in the 25–29 age group), were union members and in Stockholm the figures for all age groups was 52 and 61 percent (Larsson, 2012).

Socialist agriculture

One of the most thoroughly regulated and destroyed sectors in the world economy was agriculture in the socialist countries. Rydenfelt wrote about peasants under dictatorship in 1955 (Rydenfelt, 1958), about how both Lenin and Stalin had been involved in a deadly struggle against the Russian peasants and of how the effort failed since the peasants responded by reducing their production, which forced Khrushchev to back down in 1954. The peasants had the ultimate weapon. They could do very well without the regime but the regime could not do without them.

In *Patterns for Failure: Socialist Economies in Crisis* (Rydenfelt, 1985, Swedish edition, Rydenfelt, 1983a) Rydenfelt looks at the common denominators of agriculture in 12 socialist states: the Soviet Union, Poland, Romania, Czechoslovakia, Yugoslavia, Hungary, China, India, Vietnam, Sri Lanka, Tanzania and Cuba. In all cases except Hungary, the result was a catastrophe. Harvests kept failing. More often than not, this was blamed on the weather, but, asks Rydenfelt, how come the weather seems to be systematically worse in socialist countries than in capitalist ones? The problem lay elsewhere: in the incentive structure of the economy. He predicted that the weather would continue to be worse in the socialist world than in capitalist countries.

The main chapter in *Patterns for Failure* is devoted to the tragic and systematic terror against the peasants in the Soviet Union, where Stalin's

collectivization of agriculture led to mass death by starvation. The results of the Soviet policy had been fatal. The cattle stock was smaller in 1953 than in 1913. Ten years later large-scale food imports from the West had to be resorted to and new harvest failures led to new imports in the 1970s at the same time as official production figures were so high as to make imports unnecessary. Before the Russian revolution Russia had been the largest grain exporter in the world. At the beginning of the 1980s it was the number one importer. When Rydenfelt wrote his book, American and Swedish agriculture was ten times as productive as the Soviet one, where the price mechanism was completely distorted and where the only part that functioned was the small private plots.

Poland, Yugoslavia and Romania were close behind the Soviet Union. Poland and Yugoslavia had had to scrap collectivization and in Romania again the private plots accounted for a share of the output that by far exceeded their share of the total land area. Imports and/or foreign borrowing were required to cope with the food scarcity. It was only in Hungary where agricultural prices and wages were kept at a market-like level that the incentives to produce were strong enough to fill the stores with food and allow for some exports in addition.

The Chinese people's communes had turned out to be so inefficient that they had had to be split up and in the end it proved necessary to reinstate the peasants as contract growers. India as well had resorted to planning, price controls and forced deliveries to the state and hence had to import food regularly. Vietnam had had the same experience. Rice had been sold in government stores at a fraction of the market equilibrium price, but in the end the mistake had been realized and market principles had gradually been introduced. Sri Lanka had turned from exports of rice to imports before the tide turned there as well. In Tanzania the Ujamaa village collectivization effort failed completely. The collective farms had to be subdivided and cultivated on a family farm basis. Since price controls prevailed, selling in the 'parallel' market was a superior alternative. In Cuba all large farms were taken over by the state and run under military supervision. Food prices were controlled. When Fidel Castro in addition decided that Cuba would produce a record harvest of ten million tons it did not help that the urban dwellers were forced into the sugar fields. Diminishing returns to labor ensured that the effort failed. At the same time food remained scarce. The Soviet Union had to step in and bail Castro out.

Socialist agriculture failed almost everywhere and when it succeeded it was because it had the sense to operate on more or less capitalist principles. Collectivization was a complete dead end and in countries where farms had not been socialized and/or collectivized the main problem was price control. Usually, food prices were put so low that little was sown, planted and harvested. Everywhere, the system failed to feed the population. Again, imports had to be resorted to, money had to be borrowed until the creditworthiness

was exhausted, and much of what the population needed could be obtained only in black or semi-illegal markets. Rydenfelt called the relation between the state and the farmers in socialistic countries parasitic.

Problems of democracy: The security police and the election system

One book did more than all other writings to establish Sven Rydenfelt as a public figure in Sweden. When he worked on his doctoral dissertation he had learnt about the secret registration of communists, nazis and syndicalists during World War II and then of course wondered whether this practice had continued also after the war. To find out, he had written to the Swedish National Police Board in 1953, but had received an answer that no information could be provided. Eleven years later, when he had been asked to write an article about the position of the Communists in Sweden, he tried once more to find out whether certain political views were registered by the police. Again the answer was that no information could be provided. Rydenfelt then turned to the Parliamentary Ombudsman to have the legality of matter examined. The answer stated that it was legal to refuse to answer. Rydenfelt next wrote to the Minister of the Interior and once more got to know that the police could deny to answer. The letter to the Ombudsman had, however, led to a great deal of media publicity and Rydenfelt was approached by a number of people who had first-hand experience of registration and discrimination. 'In this way I got to learn about a reality that turned out to be a great deal more serious and frightening than what I had suspected before' (Rydenfelt and Larsson, 1966, p. 8).

Rydenfelt decided to write about it. He was possibly the most convinced anti-communist in Sweden, but when it came to defending the right of free opinion and speech he was prepared to go out of his way to back the communists (Sandberg, 2009, p. 156). Rydenfelt began with two articles in the largest Swedish daily, *Dagens Nyheter*, in May 1966 (Rydenfelt, 1966b, 1966c). Together with the journalist Janerik Larsson, who in April the same year had published six articles not only about the Swedish security police but also about its Danish and Norwegian equivalents, he decided to write a book about the secret archives of the Swedish security police (Rydenfelt and Larsson, 1966).

The two liberals Rydenfelt and Larsson disliked the official attitude toward the communists. The latter had been allowed register as a political party and had been welcomed into Parliament like any other party. At the same time they were registered as dangerous dissenters. This was completely contradictory. There was no method in the madness. The worst part was that you risked being registered without being a communist yourself. It was often enough that there was a communist in the family or that you had a communist friend. Rydenfelt and Larsson provided evidence of a number of concrete

instances where people had been dismissed or stopped from getting a job because they had been registered by the security police for crimes that they had not committed but which the police deemed that they might commit under certain, unspecified circumstances, without being told why. In the end, the difference was small between the witch hunt for communists carried out by Joseph McCarthy in the United States in the early 1950s and what the Swedish security police was busy doing in the mid-1960s.

The articles and the book by Rydenfelt and Larsson stirred up plenty of indignation and criticism. The Minister of Justice had to publicly admit that registration of certain political views in fact did take place, but claimed that the register was an innocent working register and that the principles upon which it was based could under no circumstances be made public. Rydenfelt of course took the opportunity to scold him (Rydenfelt, 1966d). Larsson's and Rydenfelt's muckraking turned out to be successful. The government had to back down. In 1969 a decree was published that prohibited the registration of people simply because of their political views.

Sven Rydenfelt never hesitated when it came to defending democracy, and he sometimes did it in unexpected ways. In 1980 he participated in a small book which questioned whether Sweden really was a democratic country (Rydenfelt et al., 1980). In the 1973 and 1979 elections the Christian Democrats, who at the time were not represented in Parliament, had obtained enough votes to give them 6 and 5 seats, respectively, with a strictly proportional voting system, but since in addition a minimum of 4 percent of all votes (the equivalent of 14 seats) was required for entry, the party remained outside. This, Rydenfelt thought, was undemocratic. He reminded his readers that the Social Democrats had entered with a single seat in 1896 and that small parties may grow up. To lock these parties out amounted to saying no to political renewal. The established parties were simply too close. In Rydenfelt's view they were all high-tax and subsidy parties distributing money to people who did not need it and charging so much in taxes that people to an increasing extent chose to evade them, which in turn led to increasingly drastic measures from the authorities – raids and vociferous demands for prison sentences (Rydenfelt et al., 1980, p. 90):

This view is getting closer and closer to the Soviet view of economic crime – 'theft from the state'. In that police state such crimes are punished very severely – not infrequently with death.

Where are we actually heading? The contours of a Swedish police state are becoming increasingly visible on the horizon.

Rydenfelt was of course exaggerating. It was part of his style of writing. The angrier people got, the more opportunities he would have to spread his views.

The dynamic economy

Turning to the 'positive' side of Sven Rydenfelt's writings one finds that virtually all of them deal with the virtues of free markets and entrepreneurship. He states his fundamental beliefs in a book from 1988, *På upptäcktsfärd i marknadsriket* (Exploring the Realm of the Market) (Rydenfelt, 1988). There he explains to the layman that the market is an ingenious system that works to produce prosperity and well-being through voluntary cooperation. He recapitulates how miracle periods in economic history have been characterized by the smooth operation of unregulated markets and identifies four cornerstones upon which the market rests: free competition, free prices, free profits and free ownership.

In a free market consumers are free to choose what they want to consume. They understand their own good and it makes no sense to have officially appointed *Besserwissers* define what is necessary and what is not. Virtually everything that is consumed is 'unnecessary' anyway, once you start thinking about it. The free market ensures that the wishes of the consumers are translated into an efficient production of goods and services in the sense that it minimizes the use of resources. In a market without interventions prices act as signals to consumers and producers about how much they are to buy and sell respectively, and demand and supply balance. Free profits are necessary incentives for production: without profits no risk-taking and no wages and salaries for the employees. Finally, the market system rests on free, private ownership of the means of production, the superiority of which is obvious once you look at what socialism can do for you.

Rydenfelt described the anatomy of his main field of study – the Swedish economy – in two books in the 1960s (Rydenfelt, 1965, 1968). Both may be characterized as introductory books directed to a broad audience. In both he stresses the dynamism and ability to change of Swedish industry. The first of the two, *Vårt dynamiska näringsliv* (Our Dynamic Economy) opens with a short presentation of two competing theories of what makes a country prosperous: the materialist explanation, based on the factor endowment, notably the natural resources, and what Rydenfelt calls a 'spiritual' approach, exemplified by Joseph Schumpeter, Max Weber and T.S. Ashton, which stresses the prevailing social and spiritual climate – the explanation that Rydenfelt himself favored.

The rest of the book consists of an overview of the Swedish economy. Rydenfelt begins with the structure of the population, the movement out of agriculture and into industry, the changing distribution of time between work and leisure and the consumption habits associated with leisure. The bulk of the book deals with the structure of production in Sweden. A short account of the historical importance of technical progress for productivity and the standard of living is followed by an examination of agriculture: the tremendous productivity increases in the past, the regulation of the food

market that had characterized Swedish agriculture since the 1930s, the likely future integration in the large European market and the increased 'industrialization' of the sector, accompanied by the continued reduction of the share of the active population in agriculture. A large number of industrial branches are examined in a historical perspective: food processing, wood, pulp and paper, the ore and metal industry, shipbuilding, invention-based industries, cars and bicycles, quarrying, cement and brick-making, leather, shoes and rubber, the chemical industry, building and construction, textiles and energy production. Finally, Rydenfelt sketches the main features of wholesale and retail trade, foreign trade, communications, traveling and tourism.

Vårt dynamiska näringsliv is not just a descriptive book, but throughout the text Rydenfelt offers explanations of the development of different branches and sectors, and in the last section he also attempts to explain how Sweden had managed to achieve full employment. Interestingly enough, there Rydenfelt praises Keynesian demand management and calls the idea of a balanced budget a dogma, a position that he would take strong exception to later on, but he also praises the harmonic relations between capital and labor and between the state and the business community that had prevailed since the late 1930s. Altogether, these factors had contributed to making Sweden score among the very top nations on all kinds of wealth indicators.

As indicated by its title, *Förändringens vindar över svensk industri* (The Winds of Change over Swedish Industry) (Rydenfelt, 1968), the second book by Rydenfelt about Swedish industry, focuses even more directly on the dynamics of change in the sector, in spite of a great deal of overlap with the former one (frequently *verbatim*). He begins by extending his discussion of the role of material factors in economic development and again concludes that their importance tends to be exaggerated. What matters is entrepreneurship as conditioned by the social and spiritual climate. This is linked to a discussion of how productivity increases have led to large increases in the standard of living.

Rydenfelt's account of the Swedish industry is divided into two parts. In the first he looks at the distribution of firms according to size, location and methods of finance before he goes on to deal with the place of human beings in industrial society, the role of inventors and innovators and finally industry and foreign trade. Rydenfelt brings out the pros and cons of large and small size, respectively and the potential complementarity of firms of different sizes. He enumerates the main determinants of industrial location and discusses how government action influences the latter and he looks at the financial structure of the Swedish industry. How much of the activity of the industrial sector is financed from within and how much by loans? His discussion of the place of man centers on the changes brought about by the rural-urban migration that accompanied industrialization and on the effects of accelerated industrial change. True to his Schumpeterian spirit, Rydenfelt

also stresses the central role of the creative entrepreneurs when it comes to pushing the economy ahead. Since modern Sweden had been a small and open economy, he dedicates a long chapter to the arguments for free trade and the role of trade for competition, the influence of wages and inflation on competitiveness and, finally the emergence of free trade zones and customs unions in Europe, before he rounds off with a short discussion of the importance of trade for Swedish industry. The second part of Rydenfelt's discussion of Swedish industry consists of a detailed branch-by-branch account, exactly as in the 1965 book.

Panegyrics: Åkermans and Tetra Pak

Sven Rydenfelt wrote two company monographs: one dealing with the engineering firm Åkermans, located in the Scanian small-town of Eslöv, and one about Tetra Pak. In his preface to the former book, *Från tornspiror till grävmaskiner* (From Steeples to Excavators) (Rydenfelt, 1990b) which had been commissioned by Åkermans for the centennial of the company in 1990, he confesses that he had hesitated before embarking on the centenary journey since he had read too many company monographs and his overall impression was that the overwhelming majority were dry as snuff, doomed to gather dust in bookshelves. However, his natural curiosity convinced him and he accepted the challenge, but he did it in a different way, modeling his narrative on 'the oral story-tellers of olden days who, face to face with their audience never forgot their duty to keep up the interest of their listeners by serving well-spiced dishes that whetted the appetite' (Rydenfelt, 1990b p. 10).

Rydenfelt begins his own story in the nineteenth century, with the arrival of the railroad, which in 1858 placed Eslöv on the map as an important junction, before moving on to his story proper. Åkermans was founded in 1890 by Lars Åkerman, an engineer intent on building an engineering and foundry company, before he suddenly died, seven years later. The company then entered a crisis period that lasted for almost two decades. It was on the verge of bankruptcy, but due to the joint efforts of two able leaders it survived and turned losses into profits. The golden age of the company did, however, not arrive until after World War II, when Åkermans began to produce the product that Swedes would remember it for: excavators. (The book contains a photo of Margaret Thatcher in an Åkerman excavator.) Before that the company had produced steam engines, distilling stills (for 50 years), machines for making peat litter and road-making machines, but once it took up excavators, this product dominated completely. In 1981 Åkermans began excavator production in the United States as well.

Åkermans was a pioneer when it came to letting the employees share the company profits. The salaried employees had shared this benefit from the very beginning and from 1945 the system was generalized so as to

incorporate the workers as well. The system was so successful that the Swedish Engineering Employers Association told the company to stop this practice – to no avail. The system worked well both for the company and its employees. The latter in 1971 set up a consortium for buying shares in the company and a few years later decided to set aside half of their bonuses for this purpose. Obviously the profit-sharing system contributed to the improvement of the relations between the company and its employees. Rydenfelt provides an account of the strike history at Åkermans. The last strike – a nation-wide metal-worker strike – took place in 1945.

Rydenfelt's second company monograph, *Sagan om Tetra Pak* (The Tetra Pak Saga) (Rydenfelt, 1995) was written five years later, on the occasion of the 100th birthday of the founder of Tetra Pak, Ruben Rausing. This book was written on Rydenfelt's own initiative, a result of his fascination for the company – the process of creation that led to the original product – and of Tetra Pak as an example of the role of entrepreneurship for economic progress. Rydenfelt could not envisage a story of capitalism without the capitalists.

The first part of *Sagan om Tetra Pak* begins with the story of how the original tetrahedron was created in 1944. Rydenfelt narrates how the young engineer Erik Wallenberg got the idea of folding both ends of a short paper cylinder at a right angle to each other. This produced the tetrahedron. He also repeats Ruben Rausing's claim that his wife Elisabeth got the idea of continuous filling when she was making sausages for Christmas, a story which was not true. The idea came from another Tetra Pak employee, Erik Torudd.⁴ After solving technical problems of filling and sealing, the new pack could be launched in 1952.

Rydenfelt's story is not strictly chronological. After backtracking to the earlier stages of Ruben Rausing's career and telling the story of the emergence of self-service stores and standardized producer brand packs, he provides a compact account of the difficulties of financing an expansive company which by conservative bankers and industrialists was perceived as risky and of how Stockholms Enskilda Bank and the Wallenberg family helped to save the company. Thereafter he discusses the development of new designs which made it possible to get away from the awkward tetrahedron format, the solution of a number of tricky technical problems in the subsequent product development, the marketing strategy of Tetra Pak and the dynamic team work of the top management group. He focuses especially on the crucial year 1965 when the Rausing family sold off other companies – including the former parent company, Åkerlund & Rausing – in order to be able to concentrate on the development of Tetra Pak.

The second part of the Tetra Pak story narrates how the company developed into a multinational firm with worldwide operations. Rydenfelt comes back to his often repeated philosophy of the sovereignty of the consumer in the market and the important role of profit as an incentive for entrepreneurship. In 1970 the company was active in 70 countries, but only

on a small scale in most of them. Rydenfelt follows the expansion in Russia and the Ukraine, Japan, China and the United States.

The third part of the book deals with how Tetra Pak left Sweden. Rydenfelt begins by summarizing his ideas of how the environment in which a company works determines its success or failure. He points out how economic 'miracle' periods have been characterized by a minimum of government regulation and contrasts them with the situation in Sweden in the 1970s and 1980s, where the trade union movement in collaboration with the Social Democrats had destroyed the entrepreneurial environment. After one more chapter on economic miracles and one on globalization, he finally gets to his topic: how the Swedish tax system forced Tetra Pak to leave Sweden in 1982, when the transition from the first to the second generation of owners was to take place. (Rydenfelt compares the system to the robber barons of the feudal period in Europe.) In addition the wage-earner funds were lurking around the corner.

The last section of the book provides a portrait of Ruben Rausing and his achievements outside Tetra Pak.

The two company monographs are not Rydenfelt's best books. They are unevenly, at times stiffly, written and they ramble back and forth both chronologically and between topics in a way that leaves a few things to be desired, platitudes pop up every once in a while and some parts have little connection with the story. Worst of all, they are uncritical. Entrepreneurs were heroes for Rydenfelt and here he simply worships them. It is probably no coincidence that when in 1998 another history of Tetra Pak was published (Andersson and Larsson, 1998), Rydenfelt's book did not appear among the references.

Positive examples: Japan and Singapore

Sven Rydenfelt did not think highly of the Swedish entrepreneurial climate. In order to find positive examples you had to turn elsewhere, to the high-growth economies of Eastern Asia. For Rydenfelt Japan was 'the land of economic miracles' and he described it in a book on Japan with the somewhat clumsy title *Japan: vad kan vi lära av arbetsglädjens och produktionsundrens land?* (Japan: What Can We Learn from the Land of Job Satisfaction and Production Miracles?) (Rydenfelt, 1978, p. 11). The Japanese recipe for success could be emulated by the West. Rydenfelt, who had visited the country in 1978 after two years of intensive library studies, did not accept the argument that Japan was a special case and that its success was based on unique cultural traits. The Japanese had learned from the West. Why could not the West learn from Japan?

Japan had experienced two miracle periods. The first began with the Meiji restoration in 1868 and lasted until the outbreak of the Russo-Japanese war in 1905. During that period the country was transformed from a feudal society to a modern industrial state. Land reform and the abolition of a

number of government regulations freed the productive forces and the old class society was dissolved. The state supported free entrepreneurship.

The second miracle period was 1955–1970, after the American occupation when political democracy was introduced and the production apparatus that had been destroyed by the war was rebuilt. Shipbuilding, steel, cement and car production all took off. During the 1960s real income was tripled in Japan. In 1970 the prosperity of Japan had climbed to a level that amounted to two-thirds of the West German one.

According to Rydenfelt, the Japanese miracle rested on four pillars: a working market economy, good relations between employers and employees, cooperation between the state and the business community and a favorable cultural environment. The size of the public sector in Japan was only one-half of that of most Western countries. Many sectors which in the latter were in state hands had been privatized in Japan, like the production of energy and steel. The educational sector had been opened to private competition. Private companies dominated radio and television as well as health care.

One of the central features of the Japanese miracle was job satisfaction. The Japanese had succeeded in creating a fellowship and a sentimental environment where the employees worked with enthusiasm. The ability of the companies to make use of job satisfaction as a factor of production was what explained their superior efficiency. Japanese managers dared to delegate tasks to the employees. They dedicated themselves to the creation and preservation of good relations between those who worked in the companies – in the best paternalistic spirit. The tasks were discussed in a mood of consensus with the people who were to carry them out and the competence and creativity of employees were taken advantage of.

Japan had no use for wage-earner funds. Nor did the country need any special laws to secure employment since most employees remained in the same company all their life. A mere 33 percent of them were organized, against 56 percent in 1949 and 85 percent in Sweden. Wages were set according to age and promotion was also age-related, in bright contrast to the Western system. At the same time the employers were fighting over the young, to be able to school them into their companies and have them try different tasks, with a view to keeping them for their entire working life. The employees shared the company profits through a bonus system and often received a special payment when they retired.

The Japanese state backed the business community through MITI, the Ministry of International Trade and Industry, which planned and implemented policy measures that served to pave the way for the expansion and development of industry, in intimate collaboration with the business sector itself. Finally, the Japanese religions, Buddhism, Shintoism and Konfucianism, in different ways contributed to bring people closer to each other and create respect for the elderly and the state.

Japan was not the only country that had something to offer to Sweden. Another progressive nation was Singapore, which Rydenfelt had visited as well (Rydenfelt, 1980). This country had flung its doors wide open to multinational companies. According to Rydenfelt multinationals were not too difficult to attract since 'power-horny' Social Democrat governments and other governments in the West saw red when they thought of them. Singapore had a good infrastructure, economic freedom and a stable and cooperative political regime under Lee Kuan Yew. The result was a fourfold increase of real wages between 1963 and 1980, a housing revolution and a high-class school system that built on competition and which allowed girls to get an education. The wage level was recommended by a national wage council where both parties in the labor market as well as the state were represented.

Rydenfelt noted that socialists and leftists all over the world hated the success of Singapore. Personally he did not think it strange that the unions collaborated with the government. That was the case in Sweden as well, and that communist union leaders were imprisoned was no worse than what the Cubans were doing. Rydenfelt did not see Lee's government as totalitarian. Such views amounted to mere ignorance and malice. The superiority of Lee's party was due to the confidence that the masses had for it. (Rydenfelt chose to ignore Lee's autocratic traits altogether.) The rise in the standard of living accrued to everybody and the competitiveness of Singapore was not due to low wages. There were plenty of low-wage countries in the world that were unable to compete. Sweden could learn a lot about the advantages of the market economy from Singapore instead of oppressing companies with a plethora of regulations.

Making it through the current

Sven Rydenfelt was a man who swam against the current most of his life, by his own choice. He was attracted by economic ideas that were not fashionable but which fit his liberal conviction. He dug into these ideas with a desire to find ammunition that he could use in the innumerable battles that he fought. Sven Rydenfelt was a man of principles – principles that lent a feature of stubbornness, or even intransigence, to his personality. He never compromised. That was not his business. He was involved in a crusade against institutions and phenomena that he deemed irrational and/or unjust. This attitude did not serve him personally. He had a knack for making enemies in the public debate. Most of the time he managed to balance delicately on the verge of the abyss, but not always, and a lot of people resented that. Rydenfelt liked to provoke, he was not afraid of big words and he had a tendency to see the world in black or white.

Possibly this amounted to a bit of a façade, because most of the time he chose to be engaged precisely in either-or battles. The great dichotomy in

his life was the one between the free market system and the planned and regulated economy. It was to the advocacy of the market economy that he devoted the overwhelming majority of his writings. As should be clear from the foregoing, with the exception of his two academic theses, everything revolved around this dichotomy.

Sven Rydenfelt was not the greatest academic economist in the world. He may have wanted to get a chair early on, but as one of his sons told us: 'He was more of a debater than of an economist', and when he saw the chance to get involved in a debate or starting one, he could never resist the temptation. He simply hit the typewriter. Rydenfelt did not have the patience that is required for grinding out the kind of academic products that are slow in the making. His was a different and faster kind of game. His style of writing was not always the best. Some of his polemical writings are finger-licking good, but often what he offers his readers is mundane and pedestrian, written in haste. The reader frequently gets a *déjà vu* impression in his books when large chunks that have appeared in other publications make their verbatim reappearance. But it really doesn't matter; his method works. He gets his message across to his readers literally by letting the drop hollow the stone by falling often. The trained pedagogue knew that repetition is the mother of all knowledge.

Still, the Swedes rarely grasped what Sven Rydenfelt was up to. His thinking was more or less constantly out of tune with his times. They did not catch up with him until he reached retirement age. By then neoliberal thinking had become *en vogue*, as practiced by the Thatcher and Reagan governments. Rydenfelt became a regular contributor to the *Wall Street Journal* and he was made Professor. After having been a spittoon for the political Left and true believers in regulations for many decades he suddenly found that time had proved him right in many ways. The rigidity of the Swedish welfare state was relaxed and more room was made for private initiatives. Regulations were gradually removed and the market economy gradually got the upper hand – worldwide. Communism collapsed like a house of cards.

Sven Rydenfelt was a fighter, if not by birth, then by his personal experience in life, notably the lost years of his youth when he had to struggle to get back to a normal life. This contributed to the formation of his character: to his toughness. But it must also have been largely responsible for his soft-spoken sweetness on the personal level. Sven Rydenfelt was grateful that he was alive and he tried to get as much as possible out of each single day. You could see it when you met him. And he was successful.

Notes

1. Rydenfelt's biography is available in Sandberg (2009).
2. A concentrated and highly readable account of the origin, development and political influence of neoliberal economics is found in Jones (2012).

3. The article was probably inspired by a pamphlet on rent control that Milton Friedman and George Stigler had written in 1946, called *Roofs or Ceilings* (Friedman and Stigler, 1946).
4. See Andersson and Larsson (1998, chapter 1), for the details.

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14

To Be an Independent Thinker: An Intellectual Portrait of Staffan Burenstam Linder

When the 'new' doctoral degree in economics, with its systematic course requirements, was introduced in Sweden at the beginning of the 1970s,¹ Professor Ingemar Ståhl, at the University of Lund, made the following comment: 'Do you really have to put everybody in the same box? Wouldn't it be better if they were allowed to think for themselves. Look at Burenstam Linder!' Staffan Burenstam Linder (SBL) (1931–2000) was an 'ideas man'. Most academics are satisfied if they have *one* good scientific idea in their lifetime. SBL had at least two, maybe more; it depends on how you count. Even fewer academics can count on being identified with their ideas by others, but all international economists know about the 'Linder² Thesis', an early forerunner to the 'new' trade theory of the past two decades. The second idea closely associated with SBL is that of the scarcity of time. He was not the only person with this idea but his application was clearly original.

Studies

Equipped with a degree in humanities from high school, SBL enrolled at the Stockholm School of Economics in the fall of 1951 and obtained his MBA, in January 1954, after studying economics, business administration and economic geography in equal proportions. Economics was his best subject; he was examined by Bertil Ohlin and he served as amanuensis in economics in 1952–1953. In the fall of 1952 he wrote an essay for the seminar run by Professor Arthur Montgomery. The subject was Russian-Swedish trade in the postwar period, in particular the credit agreement signed in 1946, and buried in 1952 (SBL, 1952). The essay is a simple presentation of the contents of the agreement, its application and the on-going debate in the contemporary Swedish daily press. Having obtained his degree, he worked for some time as assistant to Torsten Gårdlund, who was at that time working on his Wickcell biography (1956, English version, 1958). SBL studied at the London School of Economics in 1954–1955 and he worked at the research department at

Enskilda Banken. During this period he published a short survey article on the terms-of-trade and the balance of trade (SBL, 1955).

SBL wrote his *licentiat* thesis on economic unions for Bertil Ohlin in 1958 (SBL, 1958). The thesis is a merely a survey of the conditions that must be fulfilled for a union to work and its expected effects. SBL would return to the problem of economic integration between industrial countries on a few occasions during the following ten-year period. On the first occasion (SBL, 1962a) he discusses, somewhat sketchily, the effects on the Swedish economy of being included and excluded, respectively, from an EEC extended to include Great Britain, Denmark, Norway and Greece. The second article (SBL, 1967a) deals with the effects on the Scandinavian countries of different trade policy alternatives: an AFTA (Atlantic Free Trade Area) which, besides EFTA, the EEC and North America, would also include Japan, a merger of the EEC and EFTA as well as a free-trade area consisting of EFTA, the United States, Canada and Japan.

SBL also deals with customs unions in his contribution to the Festschrift to Charles Kindleberger published in 1971 (SBL, 1971a). He then takes as his point of departure the behavioral theory of the firm (e.g. Cyert and March, 1963) and its emphasis on technological progress and innovations as a result of search processes.³ The central issue is how trade can facilitate the search through demonstration effects, increased contacts, extension of markets and increased competition. The role of customs unions in this context is that they increase competition between countries with similar production structures, which may result in a more active adjustment process.⁴

The 'Linder Thesis'

SBL's writings on economic integration are not really profound works. They discuss the general principles of integration. The book that SBL defended as his PhD thesis in May 1961, *An Essay on Trade and Transformation*, is clearly original, however. It contains what has become known as the 'Linder Thesis' in the international literature. During the time that had passed since SBL obtained his *licentiat* degree, he had spent time in stimulating environments at MIT, Berkeley and Yale. In his doctoral dissertation, he attacks what was at the time the mainstream theory of foreign trade, the one based on the reallocation of production factors and differences in factor endowments: undeniably a bold move from a graduate student at the school where Bertil Ohlin was Professor. His basic idea is that *one* theory of foreign trade cannot possibly explain everything. He claims that the reallocation approach both overestimates and underestimates the gains to be made from foreign trade. SBL instead makes a distinction between underdeveloped countries (u-countries) and growth countries. The former are assumed to lack the ability to reallocate production factors from one sector to another, while reallocation takes place without friction in growth countries.

SBL's model for underdeveloped countries builds on the idea of a Malthusian low-income or population trap (Leibenstein, 1954; Nelson, 1956; Hagen, 1959). When per capita income grows, so do population and national income. At low per capita income levels income grows faster than population, but, sooner or later, a point is reached where population growth catches up with income growth and thereafter, population keeps ahead of income. This creates stable equilibrium growth paths that cannot be altered by marginal changes. The case studied by SBL is the stationary one, when equilibrium is at a subsistence level, and where neither population nor national income grows. At the outset (autarky), the stationary economy has only one sector producing for the domestic market. When foreign trade is opened, the economy is divided into an export sector and an import-competing sector. In the former, growth increases since the sector can sell its goods at a better price than previously. A new equilibrium growth path is established at a higher per capita income level. The import-competing sector is eliminated, however, since incomes fall below the subsistence level and no reallocation is possible. Thus, it cannot be claimed that the opening of trade leads to increased welfare – since some of the population dies.

In growth countries, the Malthusian connection between income and population growth has been broken. SBL simply assumes that population growth is equal to zero. An increase in national income will thus result in an equiproportional growth of the per capita income. When trade is opened in a growth country, resources are reallocated to the export sector, where they produce higher returns. The resource base increases and the rate of technological progress will probably be faster. As a consequence, there is an increase in national income and the growth rate of the economy increases.

In the third chapter of the book, SBL presents what was to become his main contribution to the theory of foreign trade: his thesis of what determines trade in manufactures. He claims that the Heckscher-Ohlin approach explains trade in raw materials, where the production factor 'land' plays an important part, but it cannot provide an explanation of why manufactures are traded against other manufactures. For a country to be able to export industrial goods there must be sufficient domestic demand for the goods in question (a 'representative demand'). SBL assumes the existing information about foreign markets to be bad at the outset. Each new product must go through a 'trial-and-error period' before its characteristics are stabilized. Therefore, producers depend on continuous information from purchasers and it is too expensive to obtain this information directly in the foreign markets. Only when goods have been sold in the domestic market for some time do exports become possible. The potential export products are thus determined by domestic demand. This demand also determines potential imports. The potential export goods thus become a subset of the set of potential import goods.

Between what countries will there be trade in industrial products? According to SBL, the answer to this question is that the more similar the demand structure of two countries, the more likely these countries are to trade with each other, and countries at the same per capita income level tend to have a similar demand structure.⁵ Thus, only countries within a relatively narrow income interval will exchange manufactures. This conclusion is the complete antithesis of the one derived from the factor proportions approach, where countries that are richly endowed with capital tend to have a high per capita income, while it is low in relatively labor-abundant countries.

Finally, there is the question of what products a given country will export. SBL does not provide any unambiguous answer, but he points to conditions that would be of great importance in the later literature on foreign trade: product differentiation, monopolistic competition and economies of scale. 'The almost unlimited scope for product differentiation – real or advertised – could, in combination with the seemingly unrestricted buyer idiosyncrasies, make possible flourishing trade in what is virtually the same commodity' (SBL, 1961, p. 102). The exact comparative advantages of a country are somewhat random, but, once trade has been established, there will be a stabilization of the pattern of specialization, thanks to the existence of economies of scale on the one hand, and habit forming advertising on the other.

Charles Kindleberger from MIT acted as first opponent at the defense of SBL's thesis. Bo Södersten was second opponent, and SBL's close friend Jacob Palmstierna played the role of the humorous third opponent, claiming that SBL had stolen his idea from Lewis Carroll's *Alice in Wonderland* and that the true title of the dissertation was *Aid and Transpiration* (Palmstierna, 2000). Kindleberger's summary was clearly positive. He emphasized that SBL was not a first-rate theorist like, for example, Harry Johnson or Robert Mundell, but that he was a competent critic of theory and, above all, that he had 'an asset which is all too rare among first-class theorists, of creative imagination and an interest in the vital problems, as well as that important spark of discontent with the received doctrine'. Kindleberger compared SBL to Albert Hirschman and emphasized his personal view, 'which will not obtain agreement in the rest of the profession', that 'ideas of this type are worth more to the subject than the most elegant proofs of trivial, uninteresting or merely curious theorems.'

At the grading meeting of the faculty of the Stockholm School Bertil Ohlin stated: 'Despite its deficiencies, the overall analysis shows considerable independence, constructive imagination and the ability to develop important problems' (*Protokoll*, 1961), and in his speech during the dinner following the defense he commended SBL for his boldness in questioning the Heckscher-Ohlin theory, quoting Ibsen's play *An Enemy of the People*, where the main character, Dr Stockmann asks how long a truth will live: 'Perhaps twenty years, perhaps longer, but . . . not forever.'⁶ Ohlin had a healthy distance to his own work. He could afford to be generous.

The discussion at the defense had been tough, however. Kindleberger, 'very elegant in his tail-coat' was meticulous in his criticism, both when it came to the *grandes lignes* and the details, 'now and then ironical and in the main, brilliant', but finished by emphatically pointing out how much he had learned from the thesis.⁷ SBL appeared a bit pale when the time had come to break for lunch. Palmstierna remembered the conversation during the break, when SBL said: 'Whatever you do, don't get yourself into this kind of a fix' (Palmstierna, 2000). After the break, the second opponent, Bo Södersten, took over, treating SBL harshly.⁸ He was followed by an opposition *ex auditorio* from the economic geographer Gunnar Alexandersson, who criticized SBL for unsystematic use of statistics,⁹ before Palmstierna rounded off the day on a lighter note. The dissertation was awarded the grade *cum laude* and SBL also obtained the degree of 'Docent' – but that decision was not unanimous, the vote was 8–4. Ragnar Bentzel (economics), Gunnar Westerlund (business administration), Gunnar Arpi and William William-Olsson (both economic geography) voted against.

The dissertation was very harshly reviewed in *Economica* by a Harry Johnson (1964) in his most sarcastic mood. The basic theme is that SBL produces 'perverse misinterpretations' of existing theory (Johnson, 1964, p. 90) and, in his attempt at creating a dynamic theory of foreign trade, presents (Johnson, 1964, p. 86)

some rather weak and defective alternative models rather than implementing his own suggestion that new ideas about economic growth should be applied in the theory of international trade. In consequence, what could have been an impressive step forward must be judged at least a partial failure, and not entirely a graceful one.

SBL's suggestion that product differentiation might constitute an important basis for foreign trade is rejected by Johnson (1964, p. 88) as an 'appeal to economic irrationality', and he dissuades teachers from putting the book into the hands of 'students insufficiently trained to be alert to the substitution of emotive debating points for reasoned argument and of irrelevance for logical analysis' (Johnson 1964, p. 90).

For a long time, SBL's idea appeared as a somewhat odd contribution to the theory of foreign trade, which was strongly dominated by the factor proportions approach. In his survey of the theory of foreign trade, published in 1964, Jagdish Bhagwati (1964, p. 29) pointed out that 'Linder's hypothesis, while brilliantly suggestive, awaits both rigorous analytical formulation and empirical verification'. Before the 'new' theory of foreign trade, which emphasizes imperfect competition and economies of scale, had made its appearance on the stage, there was nothing resembling a formalization of SBL's domestic market effect. This was finally accomplished by Paul Krugman (1980), in a model where economies of scale lead to a concentration of the production of differentiated products at one point. Due to the existence of

transport costs, this point tends to be close to the largest market for the products. In spite of this, it has turned out to be difficult to arrive at any empirical tests that clearly support SBL's hypothesis. When controlling for those factors that are correlated with the per capita income level, such as geographical proximity or membership in the same trading bloc, the results rather tend to refute the hypothesis (Deardorff, 1984, pp. 504–506; Leamer and Levinsohn, 1995, p. 1383), but it is obvious that the last word on this issue has not yet been said.¹⁰

Some 50 years later, Johnson mainly appears as a defender of mainstream trade theory. Other people had much greater understanding, for example, Södersten and Jagdish Bhagwati. The criticism by Södersten, the second opponent, is summarized in his review of the dissertation in *Ekonomisk Tidskrift*. The conclusions were balanced (Södersten, 1961, p. 291):

Staffan Burenstam-Linder's [*sic*] dissertation is not the work of a man treading already beaten paths, who tries to carry our science further by specifying and elaborating already more or less established results. Pespicious criticism purifies and unifies central theory. Attempts to make new constructions have a value in themselves; but he who tries to break new paths runs a great risk of getting lost.

To me, the author's reasoning about the importance of domestic demand for the exports of a country seems to be a permanent gain; time will prove the value of the dissertation on other points.

Bhagwati (1964, p. 29) is emphatic: 'despite...[the] limitations (which inevitably attend on pioneering analyses) Linder's work remains significant.'

The later development of international trade theory would vindicate Bhagwati's and Södersten's statements. The 'new' trade theory is more about trade in aircraft than about trade in wheat, as Krugman (1990, p. 1) puts it. The importance of comparative advantage based on factor endowments and perfect competition has been played down and increasing returns, transport costs, imperfect competition and demand patterns have taken their place. In his survey of the positive 'new' trade theory Krugman (1995, p. 1261) refers to the existence of a 'counter-culture' in the trade literature during the 1960s and 1970s. 'Perhaps the most important work in this countertradition was Steffan [*sic*] Burenstam Linder's 1961 *An Essay on Trade and Transformation*.' The fact that this book went largely unnoticed for almost two decades in spite of the fact that it has 'a compelling story' (Leamer and Levinsohn, 1995, p. 1383) was presumably due to its lack of a formal apparatus. However, as Krugman (1990, p. 3) notes, this was true not only for SBL's work but indeed of virtually all the forerunners to the 'new' trade theory:

[O]ne may wonder why it took so long for the new theory to emerge. The main answer is that while trade based on increasing returns is easy

to talk about in a general sense, it is difficult to model formally. Since economics as practiced in the English-speaking world is strongly oriented toward mathematical models, any economic argument that has not been expressed in that form tends to remain invisible. While many economists no doubt understood that increasing returns could explain international trade even in the absence of comparative advantage, before 1980 there were no clean and simple models making the point. As a result this idea was often simply left out of textbooks and trade courses, and even good trade theorists often seemed unaware of the possibility.

In the end, however, SBL's story received the attention it rightly deserves.

Trade policy for developing countries

During the academic year 1962–1963, SBL was Visiting Professor at Columbia University in New York, and he spent the three summer months of 1963 at the United Nations economic secretariat in Geneva. This would constitute the starting point of his next major work, the book *Trade and Trade Policies for Development* (SBL, 1967b). Again, SBL's tendency to move against the current, find his own path and overturn established truths is manifested. The embryo can be found in a detailed, otherwise entirely empirical, study of the importance of GATT for developing countries and the necessary reforms of the world trade system, produced in connection with UNCTAD I, 1964 (SBL, 1964a).¹¹ This was hardly a coincidence, since it was at the UNCTAD secretariat and in connection with various UNCTAD conferences that the approach that inspired SBL would become the basis of policy recommendations. In an article on economic integration in Latin America two years later (SBL, 1966), this reasoning is well developed, and the book was finished the same year. The starting point is the idea of a 'foreign exchange gap' as a check on economic growth that had been presented by Hollis Chenery, with Michael Bruno (1962), and with Alan Strout (1966), and by Ronald McKinnon (1964). SBL's contribution to this literature is that he uses this foreign exchange gap as the foundation for a plea for a non-traditional discussion of trade policy.

SBL starts with Richard Eckaus' (1955) observation that there are no possibilities of substitution between domestic and foreign production factors in developing countries. To increase production, both kinds of production factors must be used. If the supply of imported input factors is not sufficiently large, it may be impossible both to use the capacity that has already been installed and to develop the production apparatus and increase growth. Thus, according to SBL, there is a lowest level of imports which makes it possible to realize the growth potential of the economy: the level that makes it possible to use all the domestic production factors that can be mobilized.

Exports, in turn, are limited both by low income and price elasticities in the industrial countries and by the fact that the per capita incomes of the developing countries are so far below those of the industrial countries that it is very difficult to bring about exports of manufactures from the former to the latter. The maximum level of exports may be lower than the minimum level of imports, leading to a foreign exchange gap. The economy stagnates due to the lack of foreign inputs. In this situation, foreign trade policy becomes central. International trade does not result in a reallocation of existing production factors but has a 'leverage effect' via the input imports. Trade thus becomes a 'superengine of growth'.

When there is a foreign exchange gap, the conventional balance of payments theory cannot be applied. External balance cannot be achieved by reducing imports without resulting in reduced capacity utilization, which in turn creates an internal imbalance (unemployment), and exports cannot be increased by conventional measures. In a 1964 article, SBL and Benjamin Cohen (1964) provide some examples of unconventional methods: pressure on surplus countries to reduce or abolish their trade barriers; changes in consumer tastes abroad due to exhibitions, trade missions and tourist propaganda that increase the demand for exports from deficit countries; economic growth (where, according to SBL, the European experience from the 1950s and 1960s indicated that it was possible to obtain an equilibrium in the balance of payments without reducing domestic consumption and investments too much); and customs unions.

The idea of customs unions is central in *Trade and Trade Policies for Development*. As is well known, the two basic concepts in the theory of economic integration are trade creation (where integration will lead to a substitution of cheaper imports for expensive domestic production) and trade diversion (imports from more expensive producers than previously); whether integration is desirable depends on which is the dominant effect. SBL instead claims that in the case of developing countries, a distinction has to be made between trade between these countries and their trade with the industrial world. In the latter case, the important imports are those of inputs contributing to production and growth. At the same time, consumer goods are imported. In order to make currency available for input imports, SBL suggests that the imports of consumer goods from industrial countries should be regulated. Provided that this has the effect that the currency thus made available does not leak out again but that the corresponding incomes in domestic currency are saved or used for purchasing domestic substitutes for foreign consumer goods, the imports of inputs can increase, the foreign exchange gap will eventually be eliminated and the development process takes off.

This may be difficult, however, since import-competing industries in developing countries usually display low productivity and moreover, most likely require imported inputs themselves. In this situation, it may easily be the case that more currency is used for input imports than what can be

saved by a reduction in imports of consumer goods. Responses may then include prohibiting citizens from accumulating assets abroad, repatriating the assets already accumulated there, procuring more aid, borrowing abroad and encouraging foreign investment. Here, customs unions also enter the picture. Developing countries (preferably all developing countries) should create a common customs union. Such a union would facilitate the acquisition of suitable substitutes for consumer goods imported from the industrial countries and also give producers in developing countries a possibility to realize economies of scale. This requires international coordination of planning. SBL thus suggests that besides the customs union, there should be a multilateral payments union facilitating the clearing of transactions between developing countries in an 'international planning union'. He argues that it does not matter that this will lead to trade diversion. The central issue is to increase the resource base. In a growth perspective, the use of the term 'efficient trade diversion' may be justified.

In his written evaluation for the chair in economics at the Stockholm School of Economics in 1972, Göran Ohlin called *Trade and Trade Policy for Development* SBL's 'pièce de résistance'. However, it is the one out of his four main books that has aged least gracefully. The reason why it feels more dated than other writings by SBL is, above all, that empirical reality does not correspond with the two-gap model. The approach was created at a time when 'elasticity pessimism' prevailed in development economics. This constituted the basis of the doctrine of balanced growth: a broad investment effort directed toward the domestic market, and, as we have seen, the idea that exports are limited by demand has also played a central role in the two-gap model. 'The external environment is similar to what would be faced in an economic system that is undergoing a siege or a blockade' (Findlay, 1984, p. 218). In the 1960s and 1970s, however, there was an expansion in world trade. The demand side thus turned out to be less problematic than what the two-gap approach would lead one to believe, and, in the following years, it was demonstrated that it is possible to break through the 'export ceiling', not least by countries in East and Southeast Asia.¹² What becomes important is the ability to break the export bottlenecks that are caused by the domestic production structure, for example insufficient flexibility in the allocation of resources.

The Harried Leisure Class

A book that feels as fresh today as when it was first published is *The Harried Leisure Class* (SBL, 1970a). At times, it is brilliant. Associations flow, the language is witty and the reader smiles at the examples from daily life. Here, SBL shows how relatively simple economic theory can be applied to a problem of great importance to most modern people in industrial countries: the increasing scarcity of time – a problem that has gained in importance with

the emergence of the IT society in the 1990s (Hamilton, 2000). SBL got the idea for this work from an obscure article by Roy Harrod (1958), but his stay at Columbia University must have been at least as stimulating. Columbia had a Labor Workshop with Jacob Mincer and Gary Becker, among others, in which a group of people 'perhaps initially independently but then increasingly less so' were busy 'introducing the cost of time systematically into decisions about non-work activities' (Becker, 1965, p. 494). This seminar produced the two well-known standard works by Mincer (1963) and Becker (1965). SBL himself published a short essay on this subject in 1963 (SBL, 1962b)¹³ and six years later, his book in Swedish. In 1970 an English translation appeared (SBL, 1970a).

According to SBL, the scarcity of time has increased due to economic growth. The return to work time increases since productivity increases, which also makes it necessary to increase the returns to activities other than work. The problem with consumption, however, is that it takes time and the time required varies considerably between different goods. In order to increase the return to time not used for work, consumers tend to consume a larger number of goods per unit of time.

An abundance of commodities increases the scarcity of time. Time is abundant only in countries with low incomes. In those countries there is hidden unemployment and no exact methods for measuring time are required. The number of holidays is large. When incomes increase, so does the scarcity of time, and in rich countries this scarcity is apparent: 'The pocket calendar becomes our most important book. Its loss causes the owner himself to feel lost' (SBL, 1970a, p. 23).

It is not given that increases in productivity mean that people work less. The more goods we own, the more time we tend to use for their maintenance. The result is easily an increase in the amount of domestic work. Maintenance functions are difficult to mechanize, at least in the household, which is characterized by small-scale activities. Some of this maintenance can be bought from outside, but a considerable part is carried out by the household members themselves. This is due not least to taxes. Alternatively, maintenance is reduced and new goods are bought when the old ones are worn out. It seems that an increase in the income level entails an increase in the quantity of services but a decrease in their quality. SBL (1970a, p. 46) talks about the 'decline of service in the service economy'. Personal appearance suffers, the food standard deteriorates, we do not have the time to eat, children get less time, we have fewer children and we devote less time to the care of our elderly. Both children and old people are, to an increasing extent, being taken care of by public services, but these services easily deteriorate over time when their volume increases.

The quality of decisions decreases as well. All individuals must make decisions with respect to, for example, what to consume, but when incomes increase, the opportunity cost of collecting information also increases. Thus,

less time will be spent on each purchasing decision. Only irrational consumers obtain complete information on the goods they consider buying. We get a 'decline of decision-making in a decision-making economy' (SBL, 1970b, p. 74).

Consumers also tend to substitute goods for time, that is, the consumption of goods per unit of time increases. More than one type of good is consumed at the same time (eating in front of the TV, for example). Alternatively, goods are consumed one at a time, but during shorter periods, which decreases the degree of utilization of durables. Whether the net result is an increase in the total consumption time cannot be determined, however. An increased intensity of goods in consumption has different effects on different consumption activities. What is quite clear, however, is that some of these appear to be inferior when there is an increase in income. SBL here includes the pleasures of the table and, to a certain extent, also those of the bed. People don't stop making love because their incomes increase but 'less time is devoted to both preparation and savoring' (SBL, 1970a, p. 88). This may be contrasted to those activities that tend to get more time: activities where the quantity of goods can easily be increased per unit of time. Culture, on the other hand, probably receives less time. 'The cultivation of mind and spirit is simply quite an inferior activity' (SBL, 1970a, p. 95). Cultural activities that are less time consuming (looking at pictures) tend to replace more time consuming ones (reading novels). Books remain unread.

Beyond the increasing scarcity of time lurks the question of whether consumption can reach a maximum. Will the marginal utility of consumption fall to zero and, if so, will the interest in economic growth decrease? SBL claims that as far as the latter issue is concerned, the opposite applies. Since increases in income have a decreasing marginal utility due to the increasing scarcity of time, income growth must increase for the material standard to increase. In the worst case, the growth mania may be carried so far that it has a considerably negative effect on the environment. Humans will fall into a 'new' kind of economic slavery. We become prisoners of time. 'Perhaps being constantly chased by a scarcity of time will some day be recognized as an [at least as] undignified way of life [as the constant hunt to secure the basic necessities of life]' (SBL, 1970a, p. 145).

Into politics

In the elections to the second chamber in 1968, SBL became a Member of Parliament, for the Conservatives. Before that, he had been active in the Municipal Council in Djursholm, increasing taxes for three consecutive years. He made a swift career as a national politician. His maiden speech on 12 March 1969 (*Riksdagens Protokoll*, 1969, pp. 60–65) consisted of a violent criticism of the Social Democratic government for its action in the so-called Durox case. In December 1968, an agreement had been made that

the Gullhøgen company was to buy the state-owned concrete company Durox in Skövde at the price of 30 million kronor. The state would become a joint owner of Gullhøgen. About 100 blue-collar and 40 white-collar workers would be laid off (*Anno*, 1969, p. 56).

In his speech, SBL demonstrated that the state losses from the deal would amount to at least 64 million kronor instead of the reported 44 million and he criticized in detail the fact that Durox would be run by the state. The company had been part of Svenska Skifferoljeaktiebolagskoncernen (SSAB) for three years, and the loss had been calculated as the difference between SSAB's equity at the beginning of the three-year period and the corresponding figure at the end of the same period. SBL pointed out that these calculations were incorrect on four points. SSAB's interest income on claims that had arisen when another company (Kvarntorp) was liquidated had been swallowed by Durox (8 million). The value of Rockwool, another member of the same group of companies, had increased by 3 million during the period and the company had paid out another million in dividends. The purchase price agreed to by Gullhøgen would not be paid out immediately, but 24 million out of 32 were to be paid over a 20-year period. A subsidized interest rate was to be paid on the debt, and SBL estimated the present value of this interest subsidy to 3 million. Finally, the Durox auditors had pointed out that when the balance sheet was established, it had not been possible to determine the value of pledged securities and contingent liabilities, that is, hidden future losses. Lacking more precise information, SBL guessed that this would amount to about 5 million. The information about the entire deal had been deficient. SBL found no redeeming features, but regretted that he had been obliged to devote his maiden speech to 'the discussion of a hardly maidenly activity' that 'has come to punish those who are innocent, that is, those employed in the . . . socialist experiment and the tax payers' (*Riksdagens Protokoll*, 1969, pp. 65, 60).

The speech had a strong impact. Immediately after SBL, Bertil Ohlin began to speak and complimented the newcomer on 'one of the most important maiden speeches we have heard in this chamber for a fairly long time' (*Riksdagens Protokoll*, 1969, p. 65). SBL's contribution put the Minister of Industry, Krister Wickman, completely on the defensive. He excused himself by saying that he had not had the opportunity to follow the debate since he belonged to the first chamber, he avoided answering SBL's factual arguments and turned to a few general reflections on the Durox case. He referred the calculations to the auditors (*Riksdagens Protokoll*, 1969, pp. 69–75).

The following year, the Moderates (ex-Conservatives) suffered a devastating loss in the elections. The party only obtained 11.5 percent of the votes after a constant backslide since 1958, when the top figure of 20.4 percent had been reached (Bohman, 1983, p. 27). The situation in the party was tense. The 'light blue' party leader Yngve Holmberg did not get on well with the 'dark blue' vice president, Gösta Bohman. An extraordinary assembly was

called. Bohman was put against Holmberg as party leader candidate. SBL and Erik Krönmark had unanimously been proposed by the election committee as First and Second Vice President, respectively. Answering a direct question, SBL explained, somewhat obscurely, that he would be available with 'some hesitation' if Holmberg became party leader and Krönmark claimed that a package solution with Holmberg, SBL and himself would then be impossible. Yngve Holmberg lost the vote and was replaced by Bohman (Bohman, 1983, pp. 30–31, 49–51). SBL became First Vice President – a position that he kept until 1981.

SBL was a member of the Standing Committee on Finance in Parliament. He earned his political spurs by continuing the line of his maiden speech: that is, by criticizing the Social Democratic economic policy pursued by, above all, the Minister of Industry, Krister Wickman, in the 1970s. He turned against the spirit prevailing at the time and advocated deregulation and privatization instead of state-owned firms. In 1976, there was a change of government, but the new Prime Minister, Thorbjörn Fälldin, was very reluctant to have SBL as Minister of Industry, 'considering his many years of hard and efficient criticism of the industrial policy of the former government' (Bohman 1984, p. 159). The views of the Moderates on industrial policy differed from those of the Liberal Party and the Center Party. Fälldin (1998, pp. 140, 154) remembers the government negotiations:

Burenstam Linder had been a standard-bearer in industrial policy and when Gösta Bohman suggested that he be Minister of Industry, I said: 'You cannot mean that. Both you and the government as a whole would benefit from having someone else.' [...] He had pursued a very aggressive line of policy, which was not representative of the policy this government wanted to pursue.

SBL may have been fortunate. In this way, he did not have to deal with all the emergency problems that were soon to appear in the structural crisis of Swedish industry. This task fell to Nils Åsling. SBL instead became Minister of Trade in the first Fälldin government, which lasted until 1978. He let go of industrial policy. After the one-year parenthesis with a minority government led by Ola Ullsten, he returned to the same post in the second Fälldin government, until 1981.

State, power and welfare

SBL's activities as a politician naturally also put their mark on his publications. In 1965, he wrote the economic-political program for the Conservative Party (SBL et al., 1966), and in two works (SBL, 1970b, 1983a) he attacks what he considers to be a state power that has been carried too far and has become too centralized.¹⁴ In *Statsmakt eller maktstat?* (State Power or Power

State?), written at a time when the ideas from the radical year 1968 had had their full impact, he contrasts the social democratic power state and the freedom-oriented liberal-conservative view of life.

Around 1970, according to SBL, the Social Democrats were in the process of creating a power state that made a clear distinction between the ruling 'guard', the 'people' and a group labeled the 'operators'. The people are only represented by the guard and the will of the people can only be expressed through the guard. The operators (capitalists and closely related groups) are both good in the sense that the guard has someone to blame and also because they can handle certain qualified tasks. The Social Democrats had created a thoroughly political power state that was controlled from the top, where decisions on family and consumption had also been socialized to a considerable extent, while the burden of taxation had been increased and the road toward a socialization of the production mechanism via the public pension funds and 'an active industrial policy' had been trod.

This power state makes the state authority corrupt and must be limited to the areas where government interventions are necessary. The power state mixes two functions, that of the authority and the entrepreneur: 'The state does not work well as an authority when it is also an entrepreneur and it does not work well as an entrepreneur when it is a politically governed state authority' (SBL, 1970, pp. 70–71). A business sector owned and managed by the state is not subject to any strong control authority.¹⁵

SBL puts the free liberal society against the authoritarian social democratic one. In the former, a distribution of power exists. Industry is controlled in three ways: from the top by the state, from the side by competition and from inside by trade unions and employees. Ownership is spread across a broad range of citizens instead of being concentrated to the state. Natural family solidarity is used in the care of children and the elderly, instead of being strangled by the public sector. A positive humanitarianism constitutes its basis – a belief that the human being is capable of creating what is best for himself and those closest to him.

Thirteen years later, SBL returned to his ideas from 1970 in *Den hjärtlösa välfärdsstaten* (The Heartless Welfare State). The goal of his attack is the social policy pursued by the welfare *state* that stands in sharp contrast to a genuine welfare *society*. The former concentrates welfare investments in the state and the municipalities and checks initiatives from the citizens themselves. Individuals become passive. The distribution that is obtained is a 'random distribution', with no guarantee whatsoever that the measures reach those groups that are most needy. The welfare society, on the other hand, has many social safety nets, individual ones – based on people's own efforts – as well as public ones.

The problem with the welfare state is that it presupposes a high tax burden, even on what would later be called 'normal' levels of income. Thus, individuals become incapable of taking care of themselves. It becomes

necessary to transfer money back to the same tax payers in the same time period. People with low incomes are weighed down by the tax burden and people with high incomes receive subsidies. An 'acquired helplessness' spreads. People no longer think that they can influence their own situation in life. The social policy of the welfare state has failed. The more money is transferred to the state and the municipalities, the less contact there will be between generations and the less there will be of the care that a market or an administrative process can never supply. This is a tragedy, in particular for the poor.

SBL summarizes his reasoning in what he calls a 'Linder curve', where social welfare as a function of the share of GDP of public social expenditures forms an inverted U. Sooner or later, the increasing marginal cost of welfare will exceed the decreasing marginal utility, so that increasing public social expenses reduces welfare. He claims that, in practice, this has already been achieved. A strong reason for this was that the tax burden had strongly reduced individual possibilities of taking action, at the same time as individuals found less and less reason for their own initiatives.

The welfare society is, in turn, based on a larger amount of human empathy and this empathy is not hampered by the burden of taxation, standardization and other obstacles to individual initiatives. The welfare effort is decentralized and diversified and the growth that constitutes the foundation of social welfare is not obstructed.¹⁶

Professor

In 1973, SBL was appointed Associate Professor of International Economics at the Stockholm School of Economics. This was not entirely without problems. In the previous year he had lost the competition for a chair in economics to Karl Jungenfelt by a small margin, but the president at the Stockholm School, Per-Jonas Eliäson, thought that there were good reasons for promoting SBL as well. Göran Ohlin and Assar Lindbeck were called upon for expert opinion. Ohlin argued that SBL was no doubt qualified for the position, but that it was up to the faculty to determine whether he deserved to be nominated directly. Lindbeck also stated that SBL was qualified in his field of specialization, by a wide margin, but thought that the two special positions in international economics that already existed in Sweden were sufficient – Torsten Gårdlund's in Lund and his own. He also argued that direct nomination should be avoided in order to avoid any suspicion that the Stockholm School of Economics wanted to restrict the competition for positions. Lindbeck instead suggested that the school should create a position in general economics.

The newly appointed professor, Jungenfelt, in turn, wrote a letter where he also opposed both the appointment and the creation of a special position in international economics. He suggested that an associate professorship

should be created in economics and that this position should be advertised. The faculty, however, decided to make SBL Associate Professor (*Protokoll*, 1973), a position that he took up in 1974. In 1978 he was promoted to full Professor.¹⁷

The Pacific Century

At an early stage, SBL understood the importance that the Asian countries would have in the world economy during the last decades of the 20th century. After having resigned as First Party Vice President, he was a visiting researcher at the Hoover Institution at Stanford University in 1982–1983, where he wrote *The Pacific Century* (SBL, 1986) (see also SBL, 1985; Andersson and SBL, 1991). In this book, he proclaims that the century of the Pacific had begun. The economic center of the world was shifting from Europe and the American Atlantic coast to the Asian Pacific countries with their high growth in both production and exports.

SBL considered Asia to be both a promise and a threat. Pacific Asia challenged the traditional industrial countries, because of its technology but also because of its economic system: market economy, few distortions in the price system, an efficient allocation of resources, competition, export orientation, small public sectors and stable rules for economic policy. The Asian Pacific countries differed among themselves, but they all had these characteristics in common. The Asian system consisted not only of Japan and it was not really a new system either. The Pacific countries had imported capitalism from the West. The important ingredients of the system could thus be copied. Accordingly, they were to exert a demonstration effect on other countries in the developing world. Above all, their system was superior to the inward-looking plan-oriented economy found in many countries in the third world. In this sense, the Asian countries constituted a promise.

At the same time, the Asian countries could be considered a threat to production and employment in the Western countries that had distanced themselves from the capitalistic model they had once created and that could thus easily respond with trade barriers and protectionist measures. This is unfortunate, since foreign trade in one region can stimulate growth in other regions. The expansion in the Pacific region leads to an expansion of the export markets of countries outside the region. At the same time, expansion in the region increases competitive pressure and stimulates other countries to increase their efforts. This can be handled by open economies with an ability to adapt, but not by economies that have chosen to turn inwards and regulate away flexibility, mainly European countries. These weaknesses have been revealed by the challenges of the Asian countries and must be met by measures increasing the ability to change, but not through trade barriers. That would have a negative impact on all parties.

In particular, this applied to the European Community at the beginning of the 1990s. The potential for trade with and investment in the Asian countries was underutilized and the EC showed tendencies to follow in the footsteps of the United States when it came to erecting protectionist barriers. In a booklet from 1991, Thomas Andersson and SBL (1991) suggest a different European policy: more information about what is going on in Asia, more active contacts and a more intensive dialogue, a deeper integration in Europe, a more open European trade policy toward Asia, a macroeconomic policy strengthening the competitiveness of Europe, pressure on the Asian countries to remove trade barriers, company strategies for learning from the Asian countries, cooperation instead of confrontation on, for example, environmental issues and increased scope for Asian studies within higher European education.

President of the Stockholm School of Economics and EU parliamentarian

SBL left Parliament in 1986 to become President of the Stockholm School of Economics, which he started redesigning according to his own preferences. He was an entrepreneur. At times his obstinacy was formidable. If you entered his office on the wrong day, you might as well turn around without even trying to communicate. It was like talking to a brick wall. In the 'right' mood, he was kindness itself and then things usually worked out better. On his 60th birthday, he was saluted with 'I Did It My Way' by the students. Just like Frank Sinatra, he wanted to be in control. But he was also tremendously dynamic. Many things happened during his stint in the president's office – often too quickly. The ideas man would suggest some staggering impossibility and then leave it to someone else to carry it out.

He also carried out a great deal himself, however. The level of ambition at the school increased: 'World class'. The agreement between the Stockholm School of Economics and the government was renegotiated. Funding was strengthened by an executive education program and a business partner program was created. The master of science program in business and economics was extended and modernized. New centers, such as the Center for Health Economics, and departments were established. New teachers and researchers were recruited and the salary level was increased. The international student exchange program was extended and an increasing number of courses were given in English. The Stockholm School of Economics became a member of several international networks. The 'Pacific Century' idea was turned into an institute for Japanese studies at the Stockholm School of Economics in 1992, and in 1993 the school established a branch campus in Riga with students from all three Baltic countries.

During the same period (1991–1994), SBL was President of the Board of Governors of the Riksbank during with a period of great turmoil in the European exchange market when the krona was subject to strong attacks

from major foreign speculators in the fall of 1992. The marginal interest rate was increased to a notorious 500 percent in September to make speculation more expensive and finally, two months later, the Riksbank was obliged to relinquish its control of the exchange rate completely (Dennis, 1998).¹⁸ It was during SBL's presidency that the Riksbank adopted inflation targeting in January 1993: an inflation rate of 2 percent on average, with an interval of plus/minus 1 percentage point – an autonomous decision by the Riksbank which only later obtained parliamentary support (Heikensten and Vredin, 1998; Bergström, 2001). SBL also contributed to the protection of the independence of the Riksbank in 1994, when he supported an increase in the interest rate one month before the parliamentary elections – at a time that was extremely inconvenient for the non-socialist government.¹⁹

SBL left his position as President of the Stockholm School of Economics in 1996, after having been elected to the European Parliament for the Moderates. He became the head of their delegation. He was also elected Vice President of the European People's Party, the group of parties to which the Moderates belong. He retained his post until this was made impossible by his cancer in the spring of 2000.

SBL's last book (1999) is a collection of newspaper articles on Sweden's efforts in the EU. From his vantage point in the European Parliament, he scourges those opposed to the EU without mercy – 'What is their business there?' – and what he considers to be their 'double play'. He criticizes on the one hand their negative view of the very idea of the EU, on the other hand their eagerness to support a number of regulations that tamper with issues where the principle of subsidiarity should apply: that things that are better handled at the national or local level should also be dealt with at that level instead of by the EU. For SBL, the EU was about peace and cooperation, about breaking down barriers, about shedding sweat and not blood.

* * *

As an economist, SBL had his strong and his weak points. Between 1969 and 1973, he was scrutinized by expert committees in connection with the filling of three professorial chairs (Stockholm University, Uppsala and the Stockholm School of Economics) and one associate professorship (the Stockholm School). The experts²⁰ were completely unanimous with respect to his creative imagination, critical vein, independence and boldness, but he was continuously bashed for imprecise references to the theories of others and for lack of analytical rigor in his own work. Those who appreciated him did this because they considered imagination and creativity to be more important than the ability to carry out a meticulous, formal analysis:

The economic science does not only need skillful analysts but also researchers with an imaginative and creative talent. The establishment of new, fruitful hypotheses is of completely fundamental importance for

the development of the science, and a person who has produced evidence of his skills in this area should, in my view, be considered qualified for a professorial chair, even if his analytical skills are not at the top

wrote Ragnar Bentzel in his expert report in 1969.

SBL was, of course, irritated by the negative comments. That was obvious. At the same time, I wonder whether he really cared. Those who accused SBL of being a bad theorist were largely jumping to conclusions. Economists have a remarkable ability to confuse the concepts of theory and model. There is no doubt that SBL was a person who thought theoretically. On the other hand, he was no model maker. It was ideas that fascinated him – the joy of making discoveries, the setting up of hypotheses and theories and the joy of writing. He had no time for trifles.²¹

SBL's writings are still well worth reading. They feel fresh after more than 50 years, even the political pamphlets which belong to a genre that inexorably is rendered obsolete as time goes by. There is much in his books that is incomplete, but this is also part of their charm. It is no coincidence that SBL's books have been translated into several languages. In their best moments, they exercise 'the attraction of enigmatic profoundness', to borrow an expression from Georg Henrik von Wright (1993, p. 25). Just as in the case of the works of, for example, Douglass North and Mancur Olson, they set the reader's imagination in motion and make him start thinking about implications and possible applications.

To a large extent, SBL appears as a man of contradictions: a radical conservative. He continuously questioned established truths. At the same time, he saw conservatism as a way of using past experience to create future progress. Those who knew the person SBL without having read his writings will be surprised if they read his works from the 1960s on foreign trade, where he not only advocates tariffs and aid to developing countries but also supranational coordination and planning. In his political work and his later writings, he paid warm tribute to the principles of free trade and the market economy. These contradictions are, however, partly illusory. The issues at hand should determine the policy, a point which is perhaps most eloquently stated in his brief newspaper articles on the EU. Regulations are neither generally good nor generally bad. The important thing is to know when to intervene and when it is better to refrain. Regulations sometimes make it easier for the market economy and free trade to work, but far from always, and least so when they turn into goals themselves or into mere demonstrations of power.

SBL's entire career can be seen as an application of the theory of time allocation. 'A fully packed schedule can lead to our jumping from one task to another and actually performing less than would otherwise be possible' (SBL, 1970a, p. 25). SBL himself dealt with his interests one at a time, without spreading himself across all kinds of different fields: first the dissertation, then the trade policy of the developing countries, then the allocation of time

and his political career. When he left Parliament, it was the Asian questions that appealed to him, and then the Baltic states and the EU. Before his death, he said to those closest to him that he had had a good life. You could see that he was satisfied. He had made good use of the time allotted to him.

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Notes

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2. Internationally, SBL was known as Linder, not Burenstam Linder.
3. SBL had a long-time interest in technological progress. In a 1957 article (SBL, 1957), he discusses the relation between technological progress and the need for capital.
4. SBL was convinced that Sweden should join the EEC of that time. See for example, his debate with Nils Lundgren (SBL and Lundgren, 1972).
5. SBL's source of inspiration was Frankel (1943), where this is mentioned more or less *en passant*.
6. Personal communication from Bjørn Thalberg, 7 May 2002.
7. Personal communication from Bjørn Thalberg, 25 October 2001.
8. 'Too harshly' (interview with Bo Södersten, 13 January 2001).
9. Interview with Lars Nabseth, 3 May 2002.
10. It may be appropriate to point out that the continuous attempts to find empirical proof of the Heckscher-Ohlin theory have not given any unambiguous support to the thesis that trade is conditional on differences in factor proportions. (See e.g. Helpman, 1999; Davis and Weinstein, 2002.)
11. SBL (1964b) briefly discusses the problems that were to be discussed at UNCTAD I.
12. The two-gap models do not consider changes in relative prices. Ronald Findlay (1971) has shown that when import goods can be used both for consumption and investment (as in SBL's case), an increase in the domestic saving-income ratio will lead to an increase in the growth rate even if import goods and domestic goods must be used in fixed proportions in production, provided that trade is possible. In the worst possible case, the terms-of-trade of the country deteriorate, but this cannot check expansion. In the best case, they will improve and reinforce the expansionary effect of increased saving.
13. Despite its date, the essay was not published until 1963.
14. SBL (1983b) summarizes SBL (1983a).
15. SBL himself advocated increased private savings and decentralized ownership (SBL, 1971b).
16. SBL's time as minister, naturally, left less room for writing. The exception is four strongly overlapping papers (SBL, 1978b, 1979, 1980a, 1980c), where he warns against protectionist tendencies in the world economy due to balance of

payments and unemployment problems in industrial countries with an obsolete industrial structure. His statements on trade policy in his capacity as Minister of Trade can be found in SBL (1977, 1978a, 1980b, 1981).

17. It seems that SBL was not formally appointed Professor until 1989. In the 1977/1978 catalogue of the Stockholm School of Economics he appears as Associate Professor and the next academic year as Professor. No formal decision, however, is to be found either in the minutes of the faculty or in the protocols of the board of the Stockholm School. An appointment would also have had to be sanctioned by the government, but the archives at the Government Offices contain no document confirming this. SBL had been on leave of absence from the fall of 1977. At that time, he was a Parliament and government member. The formal appointment was probably postponed, partly because the Stockholm School hardly expected him to return (interview with Per-Jonas Eliäson, 21 May 2001) and partly because the fuss upon his appointment as Associate Professor was still in fresh memory (interview with Rolf Linné, 23 May 2001). The issue 'was simply forgotten'. In the 1980s, the associate professorships disappeared. SBL then became full Professor, and in 1989, he was nominated as the first person to occupy the Tore Browaldh chair in international economics (*Professorskollegiets protokoll*, 1989; *Direktionens protokoll*, 1989a, 1989b).
18. At the beginning of 2004, SBL's notes on the discussions that preceded the decision to let the krona float were made public. They reveal sharp differences of opinion between the governor of the bank, Bengt Dennis, and SBL. For a summary, see Schück (2004a, 2004b, 2004c).
19. Interview with Krister Andersson, 24 May 2001.
20. Ragnar Bentzel, Leif Johansen and Bjørn Thalberg; Harald Dickson, Jørgen Gelting, Assar Lindbeck; Lindbeck, Göran Ohlin, Thalberg; Lindbeck, Ohlin. See also Johansen's (1962) review of SBL's dissertation.
21. Possibly, as Leif Johansen indicated in his report for the professorial chair at Stockholm University in 1969, SBL's short note on economic method (SBL, 1964c), where he discusses the relation between theories with a high explanatory value but also a high complexity and theories with a higher degree of simplicity, can be interpreted as evidence of this.

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15

Visions and Action

Staffan Burenstam Linder (SBL) passed away on 22 July 2000. The following year I published an article about him in the yearbook of the Economic Research Institute at the Stockholm School of Economics (Lundahl, 2001; cf. Lundahl 2005a, 2005b). After yet another year I received a phone call from Carl Uggla, an ex-manager at SE-Banken. He had worked politically with SBL and he wanted to write a book about his old friend. I gave him all my material.

Carl and I were in close contact during the years that followed and at the beginning of 2006 the book was ready: Carl Uggla, *Staffan Burenstam Linder. Den visionära handlingsmänniskan* (Staffan Burenstam Linder. The Visionary Man of Action. Stockholm: Ekerlids Förlag, 2006). The result is more than satisfactory. Uggla writes above all of SBL the politician, and where he deals with economics he falls back on my article. 'I am not an economist', he told me. It does not matter. The two works are complementary. And Uggla's book gives a very lively picture of SBL, not only as a politician but also as a human being, and above all a man of action.

Uggla begins with the name, Staffan's strange last name, which was no last name, actually no name at all. Staffan's maternal grandfather had no sons, but his daughter gave her oldest son Göran the name Burenstam as a middle name. Early on, Staffan added the same name, which led to a great deal of confusion. Uggla relates how the head of the administrative department in the Ministry of Trade, after consulting the Danderyd vicarage population register, refused to write anything but 'Minister of Foreign Trade, Linder', and in the end the family adopted Burenstam Linder as its family name.

SBL was not the easiest person in the world to deal with. If he was in the right mood he could be tremendously charming. If he was in the wrong mood he stood out as a super bully that you could not talk to under any circumstances. If you were aware of the importance of his current shape, this did not matter. You could always come back, but his lack of empathy often got in his way in his contacts with people who did not know this.

Uggla traces some of his problems to his relation with his father, the forest officer, and the stern Lutheran upbringing that emphasized thrift and diligence which he gave his sons. Staffan would be distanced from his father and have recourse to his mother.

Another SBL trait that was manifested early was his independence – an independence that would characterize not least his academic contributions. When he had finished his MBA he worked at Stockholms Enskilda Bank until the defense of his PhD thesis in 1961. A brilliant banking career was in sight, but SBL had the bad habit of presenting his views to Marcus Wallenberg without having been asked to, and in the end he thought it better to concentrate on an academic career instead.

Uggla describes his career with sympathy. It was not straight. Opponents, academic committee experts and colleagues had a great deal to say about what they perceived as lack of stringency and analytical sharpness, at the same time as they were blind with respect to his originality. (Staffan never forgot this.) He became *Docent* against the resistance of some members of the teachers' council at the Stockholm School of Economics, and before he got an associate professorship he had applied for a number of other positions, without success. Time proved the detractors to be largely wrong. With all his wrongs and defects, SBL would stand out as one of Sweden's most original economists, an originality manifested above all in his doctoral dissertation on international trade (SBL, 1961) and in *The Harried Leisure Class* (SBL, 1970a), the book about our crazy allocation of time.

Carl Uggla followed SBL's political career at close distance, as a collaborator in the bureau of investigation, financed by a political 'club' where leading business people had to pay after-tax money, which he set up after the American pattern when he had been elected to Parliament in 1968. He had entered politics as an outsider, and this, as well as his lack of empathy, put obstacles in his way. Uggla writes, tongue-in-cheek, of how he learned to manage meetings in the city squares where he could not fall back on prepared statements but had to improvise; of his sensational maiden speech in the parliament with its devastating criticism of the Social Democratic economic policy; and his relentless criticism of the Minister of Industry, Krister Wickman. Uggla establishes without any doubt the fact that it was SBL who though his 'stab in the back' forced the resignation of Yngve Holmberg as leader of the Moderate Party in 1979. He writes of SBL's struggle against the wage-earner funds, 'a one-way ticket to stagnation and coercion' (p. 130); the road to the position as Minister of Foreign Trade in the bourgeois government that assumed power in 1976; and his attempt to fly the colors of free trade, in the struggle against such obsolete institutions as the National Board of Economic Defence. To be a minister was not always easy. He had problems making his personal chemistry coincide with that of his party leader, Gösta Bohman.

Uggla deals in detail with a couple of 'affairs' that SBL got involved in during his time as Minister of Trade. The first involved the education of Libyans in the state-owned technology company Telub in Växjö. The project turned out to have a military component which in turn meant that SBL was censured by the Standing Committee on the Constitution in 1981. The second affair was the Bofors export of anti-aircraft robots (1979–1981) via Singapore to the 'forbidden' countries Dubai and Bahrain, after hoodwinking the Ministry of Foreign Trade, which ended with suspended prison sentences for three of the company's managers.

SBL was often out of pace with his times, mainly because he was ahead of them. Around 1968, attacking the welfare state was not very popular, but he did, in a small book from 1970 *Statsmakt eller maktstat* (State Power or Power State) (SBL, 1970b), where he questioned the wisdom of having the state undertake all welfare measures. He wanted a welfare society where the state was an important part, but not the only one; not a welfare state that monopolized the measures and encouraged the citizens to remain passive and thereafter, through high taxation, undermined the ability of the economy to support the state system. When the book was written, such thoughts were regarded as completely odd. When SBL returned to the theme in a second book *Den hjärtlösa välfärdsstaten* (The Heartless Welfare State) (SBL, 1983), almost a decade and a half later, the opinion had begun to swing.

Uggla devotes the last third of his book to the time after SBL's retirement from the parliament in 1986. This period was dominated by five tasks. The first was to put Asia firmly on the Swedish economic map. SBL had begun to be interested for the region, above all Japan, already at the end of the 1950s. He had traveled there in the 1960s and when, after having stepped down as vice party leader, he spent a year in Stanford, the result was the book *The Pacific Century* (SBL, 1986). When he had become President of the Stockholm School of Economics, he set up an Institute of Japanese Studies there, with money that had been obtained above all from Swedish and Japanese companies.

The second task for SBL was the Stockholm School of Economics. The school grew rapidly. The number of professors increased, exactly like the number of buildings and research institutes. The school had to be 'World class'. The extramural education became as important as the education of MBAs (civilekonomer). The dynamics was breathtaking for the personnel – often he took off along some tangent – and prospective donors feared to meet the president in the street. In 1991 the Stockholm School of Economics became the service company of the year in Sweden.

The third task was the Baltic countries. SBL was ashamed of the Swedish treatment of the Balts, both during and after World War II, and when communism fell apart he felt it was a natural duty to contribute to the improvement of the relations. This was the beginning of the Stockholm

School of Economics in Riga, a school which since the start in 1994 has delivered a number of qualified economists and decision makers to the business community in the Baltic countries.

SBL's fourth task was the chairmanship of the Board of Governors of the Riksbank (1991–1994). Those were turbulent times, with the Swedish krona under attack from currency speculators like George Soros (the very same Soros that SBL managed to persuade to donate a large sum to Riga), which in the end led to a floating exchange rate for the krona. Uggla provides a well-informed account of the tensions between SBL and the head of the Riksbank, Bengt Dennis, about the bad personal chemistry and about the difference of opinion in factual matters.

The last field that SBL would enter was European politics. He had an old interest in economic integration. He had written about it during his entire period as a professional economist, and in 1995 the Moderate Party drafted him to head it in the European Parliament. He conceived of the European Union as a peace project and he pushed for an increase of free trade and factor mobility, but he never understood why certain parties had people who were opposed to the EU in Brussels and Strasbourg and he hated all the unnecessary red tape-ridden mess that the EU bureaucrats concocted. If you asked him how he was doing with the Swedish snuff and sour herring he began to spit and mutter. Then he sighed. The extension of the EU to Eastern Europe was a project that was much closer to his heart. He was perhaps the strongest promoter of it.

Staffan Burenstam Linder was a complicated person. He could be a grumbler. Some people he could not stand at all. He simply became arrogant. He didn't even try. At the same time he could be overwhelmingly charming. He did not like the unexpected situations that forced him to improvise. He wanted to be in control. He even staged his own funeral. Carl Uggla has written a fascinating book about this contradictory conservative rebel. He knew Staffan well and he could read him. The result bears ample testimony to it.

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16

Jaime Behar (1938–2010)

Jaime Behar was born in Cuba. His parents were Sephardic Jews who had come to the West Indies in 1928. Later, the Behar family emigrated to Uruguay. There, Jaime studied at the Instituto de Profesores Artigas and worked as a junior high school and high school teacher of mathematics, physics and chemistry. At the same time, he was politically active, in the Movimiento 26 de Mayo, the political wing of the Tupamaros, and one of the parties in the Frente Amplio, an umbrella organization of left-wing parties, declared illegal after the June 1973 military coup. So was the woman that would become his life companion: Lilian Braslavsky. She disappeared after the coup and was held captive under harsh conditions in Uruguay, while Jaime escaped to Chile, where he was caught in the middle of the 11 September military coup. He had to seek refuge in the Cuban embassy, at the time administered by Sweden.

Jaime came to Sweden as a political refugee in March 1974, leaving almost immediately for France, but when Lilian came to Sweden in 1976, he returned there as well. In the new country, both of them had to start from scratch. Jaime had to take up studies once more, take loans, clean day care centers and learn two new languages: Swedish and English. Neither Spanish nor French worked in Stockholm. In 1979 he obtained Swedish citizenship, and the same year he got his bachelor's degree, majoring in economics.

He had done it quickly: 40 to 50 academic credits per semester (20 was the norm). Jaime had decided to follow his own path, the one conducive to entry into the Swedish academic community, and he managed not to get involved with any of the politicizing Latin American communities which were common in Sweden at the time.

After working for two years as a research assistant at the Institute of Latin American Studies at Stockholm University, Jaime defended his doctoral dissertation in 1989 at the Swedish Institute for Social Research (SOFI) at the same university. The title of his thesis was *Trade and Employment in Mexico* (Behar, 1988), a fresh and unconventional study. It discusses comparative advantage and employment in the Mexican economy. In a survey of Swedish

economic research on Latin America published in 1994, I summarized the book as follows (Lundahl, 1994, p. 35):

Behar conducts the analysis both on the national level and on the regional level of Nuevo León. The increasing role of industrial products in total exports is pointed out and it is demonstrated that variations in traditional manufacturing exports were largely a function of price fluctuations, while, in the case of non-traditional exports, instability derived from supply changes. Behar shows that manufacturing exports were positively related both to the level of effective protection and to changes in production capacity but negatively related to changes in the level of domestic demand, and offers the heterodox hypothesis (along lines originally developed by Staffan Burenstam Linder, 1961) that exports tend to be a residual after domestic demand has been satisfied, that the expansion of domestic demand determines the rate of technological progress which in turn affects supply, and that protection may be a way of keeping domestic demand up. Mexican exports were found to be relatively capital-intensive, and employment growth in them was slow, in contradiction to what standard theory would predict. Behar attributes this finding to the fact that industrial production creates knowledge and that by industrializing Mexico has been 'trading up' the ladder of comparative advantage towards products that are more advanced technologically and which require a comparatively lower labor input.

On the regional level, manufacturing exports played a subordinate role. While more than half the industrial production was sold outside Nuevo León, less than 5 percent made its way out of Mexico. Thus, the employment-generating capacity of manufacturing exports, measured by constructing an input-output model for the state of Nuevo León, tended to be low during the period studied by Behar.

While he worked on his thesis Jaime was a visiting researcher for a year (1983–1984) at ITESM (Instituto Tecnológico y de Estudios Superiores de Monterrey). At the same time Lilian had an anthropological slum research project. The latter required participant observation, so she and Jaime lived in a *barrio*. Jaime had to go from there to ITESM every morning in a decrepit old Volkswagen, not too well dressed, to say the least, in order to fit into the local context. His clothing was impossible in the city proper, so he had to stop along the road every morning, like Superman turning into Clark Kent, and put on gear somewhat better suited to his own research environment.

After successfully defending his thesis, Jaime was Assistant Professor at SOFI for four years, 1989–1993. The latter year, the Secretariat for Analysis of Swedish Development Assistance (SASDA) was set up with the task of analyzing the results and effectiveness of Swedish development aid. One of

the main activities of SASDA was four in-depth country studies of Swedish aid to countries where Sweden was a major donor. One of those countries was Nicaragua. Jaime Behar was selected to do the Nicaraguan country study together with me.

Jaime turned all the stones there were to turn. He was indefatigable both combing the Swedish archives and interviewing in Nicaragua. There was depth in every research note and every draft that he produced. The study, *Now's the Time: An Evaluation of Swedish Development Cooperation with Nicaragua* (Behar and Lundahl, 1994a), examines the effectiveness of development cooperation both on the macroeconomic level and on the concrete project level. The relationships between aid, savings, exports, imports, growth and balance of payments are analyzed and so is the micro impact through projects and import support. Finally, the book discusses the influence of Swedish aid on Nicaraguan economic policy and on the turbulent policy environment in which it had to be deployed.

The Nicaraguan study had to be presented in Managua. This was not the easiest pedagogical task in the world. The assistance had been given mainly during the period when the Sandinista government was doing its best to make a mess of the economy. *Comandantes* are seldom good economists, and this was amply demonstrated in Nicaragua, and the country was full of representatives of non-governmental organizations who supported the self-destructive policy. Both the NGO volunteers and the representatives of the Swedish International Development Authority (SIDA) had determined that the report was negative and lacked understanding of the revolutionary liberation effort and had hence entrenched themselves heavily. The World Bank, in turn, did not like the main recommendation: that the foreign debt of Nicaragua, at the time the highest in the world on a per capita basis, ought to be written off. The pedagogic task of convincing the readers of the report that the conclusions were well researched and balanced was little short of Herculean, but Jaime dug into his bag of time-honored pedagogical tricks and managed to persuade many (but not all) of the NGO representatives that there were other ways than the purely ideological ones to look at development cooperation.¹

Jaime was appointed *Docent* (untenured Associate Professor) of Economics in 1994 and Associate Professor of Latin American Studies at the Institute of Latin American Studies in 1996. Four years later he was promoted to the rank of full Professor. At that time, his research concentrated on economic integration in Latin America. This was a theme that had interested him for more than two decades. His first effort (Behar, 1980), published in *Comercio Exterior*, was a highly polemical article against what he perceived as three basic hypotheses of integration theory, namely that the actual 'dependent capitalism' of Latin America was the only vehicle of integration, that integration should be an objective necessity of the capitalist system and that economic integration would be capable of saving Latin America and other

parts of the world from crisis, inequality and stagnation. Against this, he held out an approach based on sector and class interests.

Jaime's first effort in the area of economic integration may not have been his most scientific piece ever, but it served the purpose of putting him on the track of a topic that would later become highly rewarding. A booklet in Swedish (Behar, 1990) served to focus him on a more realistic setting: Central American integration in the concrete situation that prevailed in the region at the end of the 1980s, viz. debt and export problems combined with the necessity of structural adjustment, the prospects for a reactivation of the dormant Central American Common Market as well as the promotion of non-traditional export products. He would soon move into his 'own' orbit: though a qualified analysis of integration in the southern cone of Latin America (Behar, 1991), between Argentina and Brazil, largely to the detriment of the former and to the advantage of the latter.

The end point of Jaime's studies of Latin American economic integration is his book on MERCOSUR, published both in Spanish (*Cooperación y competencia en un mercado común: estudios sobre la economía del MERCOSUR*) and English (*Cooperation and Competition in a Common Market. Studies on the Formation of MERCOSUR*) (Behar, 1998, 2000). The book, which is essentially a collection of essays, incorporates the Argentina-Brazil study, but it also extends the analysis to all the countries of the MERCOSUR. The effect of trade on plant size is dealt with as well as the effects of integration on certain industries in Brazil, Argentina and Uruguay, within the framework of 'new' trade theory: scale economies, differentiated products and imperfect competition.

At the Institute of Latin American Studies, Jaime taught the economic parts of the courses on Latin America and he served as the editor of *Iberoamericana*, the journal of the institute, for 13 years, 1996–2008. It was through his efforts that the journal finally became a professionally managed outlet for international research on Latin America and the Caribbean.

He was an appreciated and generous supervisor and he was successful when it came to attracting PhD candidates. Jaime always honored LAIS and fought for its interests, notably when the institute was transferred to the Faculty of Humanities in 2000.

Jaime Behar was an unpretentious and modest person without any ambitions of leadership or power, never pushy, always diligent and helpful, a man who always kept his word, hence appreciated. He was not very outgoing or social, but he had a strong empathy for other people and this made it easy for him to engage in their problems and he had a strong passion for justice and strong personal integrity. At the same time he had a wonderful sense of humor. It was difficult not to like him.

Jaime was well read – fiction and philosophy – and watching a football game infused him with new life. He was a music lover, not least of zarzuelas. *Me encantan*, as he would say. Most of his free time, however, he devoted to his beloved Lilian. They were a very close couple – in the

very best sense of the term – both on account of their common Jewish background and because of their political experience in Uruguay, something that made them fight wrongdoings, wherever they occurred, and promote equality.

The last years at LAIS, Jaime spent commuting between Montevideo and Stockholm, and in the end he and Lilian moved back home for good – to a Uruguay which had shed the last vestiges of the dictatorial yoke. Unfortunately the time allotted to him to enjoy his return was far too short. We had agreed to see each other in Montevideo in April 2010. It did not work out. An Icelandic volcano got in between. And in the end, the brain tumor. We never got to eat that last *bife*.

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Note

1. The World Bank was a much tougher nut. It continued to stress the necessity to put the Nicaraguan house in order while it simultaneously provided generous finance of the government budget deficit – a completely contradictory stance. The only ones who liked the report were the Nicaraguans who immediately arranged for the publication of a summary of the report (Behar and Lundahl, 1994b).

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17

A Tradition Lost? The Swedish Economists in the Public Debate

In 1996 the anthology *Ekonomerna i debatten – gör de någon nytta?* (The Economists in the Debate – Do They Make Any Contribution?), edited by Lars Jonung, was published. In his introduction, Jonung (1996, p. 9) observed that the Swedish economists played an important role in the public debate¹:

Economists are often in the mass media. On the public debate pages of the newspapers they provide recipes for economic policy. They analyze and comment crises and crashes in radio and television. They publish debate articles and books. A steady flow of analyses of the economic situation is forthcoming from economists in different organizations, banks and financial institutions. The participation of economists in government investigations and commissions is strong. They work as advisors and lobbyists. In short, the economists are very active participants in the public debate of our country.

The prominent position of the economists was not unproblematic. In his chapter in the Jonung anthology, Carl Johan Åberg (1996) pointed out that the forecast monopoly formerly held by the National Institute of Economic Research, the Ministry of Finance and a few economics professors had been broken by economists working for banks and interest group organizations and that had led to an increasingly confused debate and reduced the credibility of the economists as a group. Jonung (1996, p. 20) summarizes his argument:

Ignorant journalists make room for unserious economists, ‘oracles’, with substandard arguments and forecasts. A new cadre of economists, above all in the financial sector, display a more aggressive and pretentious behavior than hitherto. The economists are employed in the marketing in an arena with ever more intensive competition. Anarchy of viewpoints

is the order of the day. Any screwed-up idea can be spread in the market of oracles.

Anyway, it went without saying that the economists participated in the debate, and the two questions that motivated the anthology were, firstly, how the economists had been able to secure such a prominent position in the debate, and, secondly, why they had been co criticized and questioned.

The following five-year period strengthened the trend that Åberg thought he saw. When the Swedish people turned on their television sets they could count on a regular view of some economist speculating about the rate of interest, the exchange rate of the krona or the business cycle in general. 'Leading' economists and 'analysts' of different standards, weights and quality succeeded each other like pearls on a string. Some of them were academic economists. The majority came from elsewhere.

Today, the situation is radically different. In the first place, the economics profession as a whole is less prominent. The newspaper pages devoted to debate issues are now dominated by non-economists. Already during 2002–2006 the four most prolific professors of political science had 88 articles in the most visible newspaper page, *DN Debatt*, of *Dagens Nyheter*, against 40 for their four most active economist colleagues. The sixth political scientist had almost twice as many contributions as the number one economist (e-mail from Andreas Bergh to Lars Jonung, 21 September 2014). A *Retriever* search for 'political scientists' or 'political science' for 2013–2014 resulted in around 9,000 hits against some 3,400 for 'economist' or 'economics' (Sundell, 2014). The 2008 financial crisis and the ensuing recession silenced a number of voices. The economists failed to predict the crisis. They were caught off balance and at first the confusion with respect to what had happened and why was compact. The routine short-run forecasts that had characterized the media for quite a while were no longer interesting but the issue was how many years it would take before we would see a cyclical upturn and what had to be done to produce it. The analysts shut up, the bank economists had to deal with more immediate worries and the academic economists got a reason for contemplating how much could be achieved with their run-of-the mill models. Keynesian recipes were brought out of the closet. At the universities, economics students began calling for courses in economic history.

Actually, the crisis-induced silence of the non-academic economists did not come as a surprise. It is easier to comment the day-to-day economic situation and policy measures when changes are small, the area of excellence of this part of the profession. Now the ground was shaking.

The second change was more specific and it dealt with the academic economists. They were and are in a completely different situation. While the economists of banks and interest groups returned little by little as the ground began to stabilize, the academic economists, with a few exceptions, like Lars Calmfors, Lars Jonung, Assar Lindbeck, Magnus Henrekson, and in recent

years, Lars E.O. Svensson, by and large disappeared from the public debate. Some structural change has taken place, and this change does not have too much to do with the crisis. The trend that Carl Johan Åberg detected in 1996 has been reinforced. It is the relatively newly arrived groups that are the ones that in the eyes of the general public dominate the debate carried out by economists. That is why they are perceived as 'leading'.

What has happened?

The reaction of the retirement of the economists from the public debate has not been overly strong, above all not within the economics profession itself. The main worry has been the lack of analysis of the recession. Is economics really such an instrumental science as the profession likes to claim? In an article in *Axess*, Lars Calmfors (2009) discussed the criticism that had been directed against the economists because of their inability to foresee the developments that led to the financial crisis and to issue early warning signals about what was happening. He then posed the question 'whether there may be built-in "systemic" defects in economic research and education' (Calmfors, 2009, s 12), above all exaggerated narrowness, and he suggested that the economics curriculum should contain compulsory courses in economic history, the history of economic doctrines and possibly also psychology. Then we might learn that economic crises are a recurrent phenomenon, arrive at a more critical stance with respect to the dominant paradigm, get a proper perspective on theoretical developments and reflect more actively about the behavioral assumptions that we employ.

Calmfors' arguments were taken up by Jonas Vlachos in an editorial article in *Ekonomisk Debatt* (Vlachos, 2009). Vlachos was skeptical to Calmfors' call for changes in the economics curriculum. 'In my view it is an idle wish that this would be able to cope with the problems that we see; instead it runs the risk of producing an even more superficial understanding of different phenomena in society' (Vlachos, 2009, p. 4). It is no longer possible to have a complete overview of the field. Only large organizations have the ability to assemble all the specific competence that is needed in order to arrive at an understanding of the whole. Vlachos argued that the fundamental defect was found in the evaluation of academic merits, since this puts a premium on narrow special skills and looks down upon general competence and experience from other areas than the purely academic world. It then hardly helps that in order to be more visible the universities exhort their employees to "like" Facebook pages, take part in *science slam* and in a digital Christmas calendar on Youtube' (Nilsson, 2013, p. 3). The purpose of the present chapter is to take Calmfors' exhortation to use the history of economic doctrines *ad notam* in order to find out whether this makes it easier to understand what has happened and what has to be done to change this state of the art.

Things ain't what they used to be

In his article, Calmfors hints that atmosphere in a typical Swedish economics department has changed over the past three or four decades (Calmfors, 2009, s 13):

Then, there was time for informal discussions of the broad economic issues, for example of growth, employment, macroeconomic unbalances of different kinds, environmental destruction etc. Today most researchers are so busy trying to publish in their specialties in the best scientific journals that these broad discussions have died out in many academic departments.

Economists seldom have an opportunity to discuss their narrow specialties, whichever they may be, in outlets directed toward the general public. The economic discussion that takes place in the mass media naturally deals above all with the 'broad' issues. Present-day researchers, however appear less and less prone to move outside their own specialties and synthesize knowledge from different fields.

It wasn't always like that. 'Closeness to the center of power and good relations with the political decision makers have of course always exerted an attraction also on scientists', writes Håkan Lindgren (1996, p. 114) in his historical exposition of the place of economists in the public conversation. He continues (Lindgren, 1996, p. 114):

That the phenomenon would leave more of a mark on economists than on representatives of other disciplines mainly depended on the demand for their knowledge and suggestions of solutions of acute problems stemming mainly from the public administration and the political establishment, and later also from the business community and the community in general.

Lindgren stresses the demand side, but as always in the economic context, the quantity forthcoming in the market is determined by supply as well, in the present setting by the willingness of the economists to take part in the public exchange of views.

Modern economics in Sweden began after the neoclassical revolution, with Knut Wicksell, in the 1890s. 'All the great economists after the turn of the century shared the ambition of educating the masses', writes Johan Lönnroth (1993, p. 221) in *Schamanerna* (The Schamans). Wicksell was an overly assiduous participant in the contemporary debate, not only about economic issues, but as soon as a social issue appeared which he considered important, he took up his arms: 'population policy, free speech, the extension of suffrage, women's rights, antimonarchism, atheism,

disarmament, and the appeasement of Russia' (Gårdlund, 1978, p. 4). For Wicksell there was no contradiction between his scientific work and his participation in the debate. He was first and foremost a theoretical economist, but his theoretical work was founded on his interest in society and social issues. It was his commitment in the population question that made him study economics (Lundahl, 2005, chapter 2) and he considered that his most important duty in life was to 'educate the Swedish people' (Gårdlund, 1956, p. 337). Therefore he was incessantly busy, and not just with theoretical analysis (Gårdlund, 1978, p. 5):

With the exception of a few periods of inactivity and personal depression, Wicksell was at work at his desk for many hours every day. Most of the time he was actually *writing*: letters or newspaper articles, popular lectures or political speeches, and his masterpieces of economic analysis.

Wicksell published some 450 newspaper articles and around a hundred more manuscripts exist which for different reasons were never sent off to the newspapers (Jonung and Gunnarsson, 1992, p. 40).² He called himself a lone sheep that did not belong to the herd (Erlander, 1972, p. 122). Wicksell was never afraid of appearing and he never hesitated to make scandal if he thought that the circumstances called for it.

Wicksell's foremost competitor in the first generation of modern Swedish economists was Gustav Cassel. Their relation was anything but good, but on one point they agreed completely. To take part in the public debate was a duty (Carlson and Jonung, 2006, p. 522):

For... [Gustav Cassel], the question of whether the scholar ought to become involved in public debate was easily answered. The scholar represented the clear voice of reason in a world governed by superstition and dilettantism. The task of the scholar of economics was to look at the whole, to elucidate the inexorable economic laws from a standpoint high above the clash of interests and thereby help the public, politicians and businessmen to see beyond their own narrow interests and time-horizons. Out there in the economic and political jungle all kinds of delusions flourished, and it was the task of the scholar to clear up the miserable mess with the shining weapon of reason.

This duty had to be fulfilled at virtually any cost. 'He who fights for reason must offer himself in the fight and endure even if he would stand alone', wrote Cassel (1941, p. 456) in the concluding remarks of his memoirs. It was no coincidence that he gave them the title *I förnuftets tjänst* (In the Service of Reason) (Cassel, 1940, 1941). Cassel published 1,506 articles just in *Svenska Dagbladet* (Jonung and Gunnarsson, 1992, p. 40).

The third early modern great economist in Sweden was Eli Heckscher. He was both an economist and an economic historian. His scientific contributions extended across a wide field. It could not be avoided that the two disciplines competed even though Heckscher during his entire life as a researcher strove to bring them closer to each other (Henriksson and Lundahl, 2003; Lundahl, 2010). His peak period as an economist was above all the 1910s and 1920s. Thereafter, economic history gradually took over. Already in 1914, in a letter to Gösta Bagge, he had expressed that he saw it as his task in life to write the economic history of Sweden (Brulin, 1953, p. 416). This task he would, however, not accomplish until the 1930s and 1940s, among other things because ‘the catastrophe of World War I and what he deemed to be important domestic and international economic events in the 1920s created a conflict for him between his long-run research commitment and the short-run duty to take part in the discussion of acute economic policy problems’ (Henriksson and Lundahl, 2003, p. 21).

Heckscher tended to divide his fellow economists into two categories: those who devoted themselves wholeheartedly to science and the ‘worldly’ ones who sold out politically (Hasselberg, 2007; Lundahl, 2009). He could, however, not stay away himself from the economic and political debate, even during the time when he was working on the task of his life. He liked to present his messages to the Swedish nation. In his *Minnen* (Recollections) Ernst Wigforss (1951, p. 155) calls him a ‘pivot’ in the debate which he as well as the rest of the Social Democrats had to come to grips with. When, in 1944, Heckscher himself looked back on the four previous decades he did not think that the economists in his generation had been able to influence economic policy to any large extent. They had, however, had an influence on the public opinion (Heckscher, 1944). Heckscher wrote some 300 newspaper articles (Jonung and Gunnarsson, 1992, p. 40).

The most prominent names in the next generation of Swedish economists are Bertil Ohlin and Gunnar Myrdal. They as well were active in the political debate, both as economists and politicians. Ohlin shared his older colleagues’ views on the importance of making the insights and messages of the profession available to a wider circle of people. He considered that to ‘counteract economic superstition’ was the most important task of the economist (quoted by Carlson and Jonung, 2006, p. 532), and he translated this thought into practical action with plenty of verve. Bertil Ohlin published more than 2,300 articles in Nordic newspapers and magazines, or more than 2,200 once you correct for overlaps (Carlson et al., 2000, pp. 3, 8–9). This makes him the most prolific popular writer ever among Swedish economists. Ohlin saw no contradiction in principle between his scientific task and his role as a politician. The conflict that he perceived between the two was of a completely different kind. In his memoirs (Ohlin, 1972, p. 97) he writes: ‘A problem which I saw early on [was:]... Should

you above all strive to be useful, to make people favors through your acts? Or should you go for your own development?’ As Benny Carlson and Lars Jonung (2006, p. 533) laconically conclude: ‘He chose the former alternative.’

Gunnar Myrdal was not at all as prolific when it came to writing newspaper articles as Wicksell, Cassel, Heckscher or Ohlin. This fact, however, did not preclude him from being extraordinarily active in the public debate. Not least did he allow himself to be regularly interviewed (Carlson and Jonung, 2006, p. 102):

Gunnar Myrdal was an economist who held views on most subjects and delighted in sharing them with the world; in this respect he followed in the footsteps of his teacher Gustav Cassel. His views concerned fiscal and monetary issues, economic planning, commercial, social and housing policy, population, education and development questions, constitutional issues, etc. In fact, he considered it his duty as a scholar to have opinions about most things. ‘As an institutional social scientist, I believe in principle that everything can be explored, and also that everything which is important ought to be discussed and explored.’³

Myrdal was no fan of economists who limited themselves to model building. Especially in his old age he consequently favored an institutional and interdisciplinary approach. Theoretical reasoning had to be balanced by concrete thinking and good factual knowledge. He used to say that facts kick. At the same time he was aware of how easily hidden value judgments would creep into the reasoning. For him, there was no real objective economic theory and Myrdal hence wanted that the value premises employed by the economists should be made explicit (Myrdal, 1972, 1968b). In addition, economists had to communicate not only with the members of their own profession (Myrdal, 1973, s 140):

However busy he is with his investigations, [the researcher should] be prepared to take time to speak simply and clearly to the general public. This was regarded by older generations as a duty for all the learned, and a duty which not least the greatest and most originally creative in our research field adhered to. These days, in our profession, it has too often become an ambition of false scholarliness that we should only speak to each other and keep the public outside.

Most important was the communication with the politicians. ‘Economists have always been the cavalry of the social scientists and have enjoyed the status corresponding to this role. It is to us the politicians turn for advice; it is to us they listen’ (Myrdal, 1968a, p. 28).

Decline and fall?

The above leaves no room for doubt. Wicksell, Cassel, Heckscher, Ohlin and Myrdal were all economists in the center of the society where lived. 'Each had a distinct ideological orientation and was at the same time a committed theoretical economist, political ideologue, economic policy expert and debater' (Carlson and Jonung, 2006, p. 539). They and their contemporaries had nothing against putting their expertise at the disposal of society. In her book about the birth of economic history as a separate academic subject in Sweden, Ylva Hasselberg (2007, pp. 365–371) lists 116 contributions by Swedish economists to the Swedish Government Official Reports (SOU) between 1904 and 1945.

This social commitment would be preserved also by the succeeding generations. Erik Lundberg, Ingvar Svernilson, Bent Hansen, Guy Arvidsson, Sven Rydenfelt, Börje Kragh, Assar Lindbeck, Bo Södersten, Bengt-Christer Ysander, Marian Radetzki and Ingemar Ståhl were all economists who did not hesitate to take part in the public debate or in government commissions. They belong to the period that Carl Johan Åberg nostalgically looked back upon in 1996.

In 1973 the first issue of *Ekonomisk Debatt* (Economic Debate) appeared. *Ekonomisk Tidskrift* had become the *Swedish Journal of Economics* in 1965 and in 1976 it would become the *Scandinavian Journal of Economics*. Hereby, its character changed. It became more narrowly focused on research and articles with a debate character were squeezed out. The American system of publishing little by little took over even the Swedish scene. *Ekonomisk Debatt* would therefore fill an important void for the economists who wanted to communicate with a wider readership. The journal has worked well during the 41 years of its existence.

Ekonomisk Debatt is, however, a 'semi-academic' journal. Few of our leading academic economists write newspaper articles about economic policy issues these days. Assar Lindbeck had 119 until May 2013, according to his homepage,⁴ Lars Calmfors 161 until June 2014,⁵ Lars Jonung 113⁶ and Magnus Henrekson 81, both until July 2014.⁷ Between 2010 and 2012 69 articles were published by Swedish academic economists on *DN Debatt*, that is, a mere 23 per year. If you subtract the 25 contributions from the Research Institute of Industrial Economics (23) and Ratio (2), so that only the 'pure' university departments are left, the yearly average drops to 14.⁸

Of course, new fora have been added, for example, ekonomistas.se, but the short blog contributions made there don't have the same force as an article in one of the two biggest newspapers. An internal survey undertaken by *Dagens Nyheter* demonstrated that in 2010 half a million subscribers 'read or looked at' *DN Debatt*.⁹ The potential exposure is much larger when the readers get the newspapers directly under their eyes at the breakfast table instead of having to search the internet.

The tide has turned markedly in the Swedish economics profession, away from the public debate. At the beginning of the 1970s the 'new' PhD, modeled on the American pattern, was introduced, an education that was more coherent, more concentrated on courses than the old one which consisted mainly of individual studies and thesis writing. Over time the courses have been more and more devoted to methods and tools – mathematics, econometrics, game theory 1–4 – and to theory – microeconomics, macroeconomics, trade theory, growth theory – at the cost, for example, economic policy, labor market policy and social policy. The character of the theses has changed as well. At first the old Swedish monograph tradition was retained but at the beginning of the 1990s the paper-based compilation thesis had taken over almost completely. The PhD thesis – *'Three Essays in Economics'* – is nowadays seen as a mere step toward the eventual publication of the individual essays in international journals.

Unfortunately, it is often the form of publication that determines the choice of subject. Maybe you would think that a PhD student, when reaching the thesis stage, would begin by looking for a good problem, theoretical or empirical, which in both cases has some kind of relevance for the understanding of actually existing economies – here and now or there and then – and then starts looking for a suitable method to apply to the problem, and that, when the analysis is finished, begins to think of some suitable publication outlet for his or her research results. In practice, however, it is far from always that this sequence is adhered to. Instead, the supervisor encourages the student to look for an article in one of the leading journals, to read the article so closely that he or she knows it better than the very author of it and thereafter to attempt to change one or two of the assumptions made by the author and analyze more or less the same problem. If the student succeeds, the probability is high that the results will be published in the same journal as the original article. If you ask 'ordinary' people which of the two procedures is to be preferred, there is no doubt about the answer they will give: an answer based on common sense. In the prestige-ridden academic environment the answer is not as self-evident. Unfortunately the attempts to publish in the prestige journals fail from time to time. Year after year goes by and the new PhD does not publish anything. The level of ambition is set too high. Instead of publishing at the 'right' level and then go on to new problems and publications you get stuck in vain rewriting and polishing of something that lacks promise or is out of touch with the prevailing fads.

A related problem is that economists who have been trained to employ 'powerful' methods only deal with problems that they can apply these methods to. They have good tools and use them on problems that may not be terribly relevant, for example, for the formulation of economic policy, instead of concluding that economic policy is important but that the existing methods for devising is are not as razor sharp as you would like. At this

point, the question of whether you should only deal with problems for which you have suitable methods or choose relevant problems and then develop methods that render the problems tractable. The choice is not obvious. It is not meaningful to develop methods that cannot be applied to important problems. To construct musical instruments that can only be used for country music is meaningless when we want to listen to jazz. (It is even more meaningless to develop instruments that nobody plays.)

The procedure for academic appointments underwent a change as well. Instead of handing in their entire production, the applicants were told to provide some ten works. The written statements by the members of the expert committees grew shorter and shorter. In the 1970s and 1980s the scientific production of the applicants still underwent a relatively detailed scrutiny by the experts. Today the statements mainly consist in general phrases and references to the journals in which the works were published. The experts can play it safe, and it is not uncommon that especially what American referees write is based on what they already know or think that they know about the applicants without sitting down to read their publications.

You may have different views about the excellence of the system. What remains beyond doubt is that it has led to an almost monomaniac fixation on journal publications (Björklund, 2014). Books hardly count anymore, especially not in the rapidly growing flora of indices and rankings of publications and researchers that the economics profession devotes itself to with increasing narcissism. You may even read statements that contend that some applicant has published a book and that it was almost as good as having published an article. This fixation is unfortunate. Different problems have their own 'natural' formats. You cannot force everything into the Procrustes bed of the journal article. Above all, in the cases where a detailed account of institutions and history is needed or you have present large amounts of data, it becomes impossible to meet the space restrictions imposed by journal editors who only think small.

The article format also opposes more comprehensive approaches. It is probably no coincidence that there is no contemporary book that corresponds to Assar Lindbeck's *Svensk ekonomisk politik* (Swedish Economic Policy), the first edition of which was published in 1968 (Lindbeck, 1968) and the second edition in 1975 (Lindbeck, 1975) – 39 or 46 years ago, depending on how you count. When will there be a comparable modern publication? Will Assar write that one too, after having turned 85, while the younger generations continue to publish short model-centered articles in the professional journals? Have the economists lost their old ambitions? 'Fundamentally, ... economics should be regarded as a grandiose attempt to put down the social ought to', once wrote Gunnar Myrdal (1972, p. 90).

In a recent book, Myrdal's grandson Janken (Myrdal, 2009) takes up C.P. Snow's (1959) old thesis about the humanities and natural sciences as two

different cultures which have problems communicating with each other. He concludes that since Snow wrote his book in the 1950s there has been a successive approximation between natural sciences and humanities, but mainly on conditions dictated by the former. The Thomson Institute for Scientific Information (ISI) Web of Science, one of the most widely employed databases for the measurement of scientific quality, with more than 10,000 scientific journals (but no books), points to a systematic shift in the number of citations from 1986 to 2004, in favor of the natural scientists. The latter write short articles, work increasingly in large teams and publish more, while in the humanities – not just by tradition, but for reasons that in the end have to do with the characteristics of their study objects – the main form of publication is large monographs, often single-authored. Using the ISI measurement they appear as clearly less productive, and this may have fatal consequences (Myrdal, quoted by Eliasson, 2009, p. 5):

If this has enough impact, the humanities must abandon the entire world that was created during the nineteenth century, where you write large monographs in order to penetrate the complicated thought and acts of man, and go back to the eighteenth century when the scholars in the humanities wrote five to six pages. It would be a large step backwards.

The large investigations will not be carried out. They don't render any bibliometric points.

Without bibliometric points you don't get any research funds. This was understood by the economists long ago. The article format dominates completely. If you are to write books you should preferably not be in the situation where you have to accumulate merits (or income) – either to satisfy others or to satisfy yourself.

At the same time an extreme specialization is encouraged within the discipline. LPU – least publishable unit – is an important concept. How many marginal permutations can you make of the same article so that it looks as several instead of one? Happiness is to publish the same tiny fragment in many leading journals: three cuts in the butt instead of one. In the worst case the LPU culture produces pure 'Lego economists', who steep the same little plastic piece in the same mold all the time, without changing anything but the color, but never the form, because then the piece does not fit the great model. As long as the expert opinions asked for when academic positions are filled do not put any premium on breadth but only on what is perceived as publishing in leading journals it is safer to stake out claims for a certain territory and stubbornly remain within this. What is perceived as 'depth' (narrow specialization, where you keep drilling in the same hole all the time) is preferred to breadth. Theory (and by theory economists mean model building) is preferred to empirical investigations.

Why does it look the way it does?

What is it that has reduced the role of the economists in the public debate in recent years? An important factor is the perception of the discipline. Is economics no longer a social science? The older generations of modern economists did not hesitate when answering, but today the attitude is often different. Economics is seen by many as a field of application of mathematical and statistical techniques to more or less 'stylized' 'facts'. It is not in any way certain that an interest in society plays any role in the recruitment of research students. Is it better to have studied mathematics for five years in Novosibirsk, in some institute that is guaranteed to be free from any attempts whatsoever to understand the surrounding world? Is it better to be an engineer than an economist or having a BA in social sciences if you want to get a doctorate in economics? Is it possible to become Professor of Economics if your PhD is in mathematics and not in economics? Is it a disadvantage to be interested in other things than the application of mathematics and statistics? Can you avoid the contact with nearby disciplines completely?

A second problem is that in economics there is a clear pecking order. Four decades ago Axel Leijonhufvud (1973) published one of the wittiest and most unmerciful satires that have ever been written about economists: 'Life Among the Econ'. The article is written as an anthropological pastiche. The Econ are a tribe that lives way up north and which is governed by a priestly caste – the Math-Econ. This caste is admired by lower castes like the Micro, the Macro, the O'Metrs, the Intern and the Devlops, since it is told that its members from time to time, 'to harden themselves... periodically venture stark naked into the chill winds of abstraction' that prevail on the northern latitudes (Leijonhufvud, 1973, p. 334) and since they can express the same thing in many languages.¹⁰ The status of the male adult members among the Econ is determined by their ability to make 'modls'. These artefacts are produced mainly for ceremonial purposes and they have little or no practical use.

The consequence of the dominance of the priestly caste among the economists is that many academic economists do not want to be confused with colleagues who make more or less accurate statements in the media. They do not want to be regarded as irresponsible and if, on any occasion, they do speak, they are perceived as less relevant by the public since they tend to hedge their statements in all kinds of ways: 'It depends.' Conversely, they often do not know a great deal about the economic reality, at least not in the 'broad' sense. This is not favored by a profession which is concentrated on model building and which can live a life of its own. To 'prove' means to make an internally consistent model, free from logical contradictions that generates as many unequivocal 'results' as possible.

Possibly the heyday of the priestly caste has come to an end. Secularization has headed north. 'Compared with the early 1990s, the top journals are nowadays full of studies of problems of direct relevance for society which are analyzed in empirically and theoretically innovative ways', writes Jonas Vlachos (2009, p. 3). But the caste system is not dead. A new caste, Exp'rments, has imposed itself and the O'metrs have got new instr'mnts, but the Econ still do not want to be confused with the unserious colleagues who run around in the media. They do not know too much themselves about broad realities down south. As Vlachos states, they lack the broad perspective. This is not encouraged by a profession that lives its own life concentrated on models, micro experiments, far-fetched instrumental variables and microscopic specialization.

Taking part in the public debate also requires civil courage and civil courage today is a somewhat scarce commodity. You cannot be afraid of distancing yourself, to become a lone sheep. The educational zeal of Knut Wicksell was a thorn in the flesh of the conservative pillars of society in Oscanian Sweden. Sven Rydenfelt stood out as odd all his life and had to pay a price for it (Sandberg, 2009). Many people thought of Eli Heckscher as the leading enemy of agriculture when he opposed protection in the 1930s (Henriksson, 1990, p. 179), exactly like latter-day peasant oppressors like Olof Bolin, Per-Martin Meyerson and Ingemar Ståhl (1984).

It is also important in the debate to preserve the relations to other disciplines in the social sciences. Otherwise you are easily marginalized, but this is hardly something that is encouraged within the profession. Leijonhufvud (1973, p. 327) speaks of the extreme clannishness, 'not to say xenophobia', of the economists. It is only the Devlops (the lowest caste) that do not strictly respect the taboo that prohibits association with Polscis and Sociogs. Economists like to regard themselves as the only social science that makes models and hence as superior. Their natural science complex is formidable. Good economists are theorists. Bad theorists have to turn to applied economics. Bad applied economists become development economists. Bad development economists become economic historians. Bad economic historians become historians. Bad historians become theologians and bad theologians become clergymen. What else can you add? Good mathematicians remain mathematicians. Second-rate mathematicians become physicists and seventh-rate mathematicians become mathematical economists?

What can be done?

How can economics once more become an – extrovert – social science? The key issues are the academic reward system, the academic education and the relations to other disciplines, three problems that in the end are the same.

Which criteria should you employ when you fill academic positions? Today narrow journal publication dominates the scene completely. 'Both the tight linkage between status in the tribe and modl-making and the

trend toward making modls more for ceremonial than for practical purposes...has led many observers to express pessimism for the viability of the Econ culture', writes Leijonhufvud (1973, pp. 328–329). We get the economists that we deserve: irrelevant tool makers. In 1984 the chair in economics in Uppsala held by Ragnar Bentzel became vacant. According to the custom of the time Bentzel himself was one of the experts in the appointment committee. He devoted three full pages of his statement to defining what should be meant by 'scientific proficiency'. Scientific contributions should preferably be published in 'some world language'. The field of economics should be defined in broad terms, to include not only the core area but also 'border areas between economics and other disciplines', and it was 'imperative that the person who is to be responsible for research and teaching within this broad field has knowledge about and research experience from a relatively wide spectrum of its parts'. Bentzel also emphasized that economics is 'a down-to-earth discipline dealing with questions of great and direct relevance for the people in our societies'. Therefore he found it 'necessary' that a professor of economics should have knowledge not only about Sweden but also about economic circumstances in other parts of the world. 'Such knowledge constitutes... a component of scientific proficiency and hence an essential merit.' To this he added international contacts and, to some extent, 'semi-scientific', that is, popular works. Bentzel's view of economics as a social science was both well-reasoned and appealing.

Which are then the other disciplines that economists may have to deal with in the teaching and research? Albert Hirschman's (1981) *Essays in Trespassing* has the subtitle *Economics to Politics and Beyond*. For Bentzel the important border areas were law and economics, econometrics, theory of science and psychology. Calmfors (2009) stresses economic history, the history of economic doctrines, theory of science and psychology. As George Stigler (1984) has pointed out, economics in an imperial science which has made important inroads into the territories of nearby disciplines: law, history, sociology and political science. Our profession has never been afraid of trespassing into the domains of others – without invitation – with our tools, maximization or minimization, but in order to avoid *faux pas* you must of course know what these domains look like.

Perhaps the most important knowledge is that of economic history and economic doctrines. In spite of the undeniable progress made in recent years, the possibility of studying economics from an 'experimental' perspective is limited, not least on the macro level. The only real big 'laboratory' that exists is that of history. It is only through the study of a broad historical spectrum of institutionally different economic circumstances that you can arrive at reasonably general knowledge about how the economy functions across time and space. This was clear to Eli Heckscher already at the beginning of the twentieth century. From 1904 to his death in 1952 he pleaded both for an increased use of economic theory in the analysis of economic history and

for an increased use of a historical perspective in economics. Economists as a rule have no problem with the former part of his argument. A lot is to be gained by embracing the second part too. 'Contemporary economic life cannot possibly be understood through the most subtle analysis of its different factors and their interaction, without simultaneous knowledge about the rise of this life and these factors, about what created them and hence also about what preceded them ...' (Heckscher, 1904, pp. 184–185). Heckscher (1933, p. 705) wanted to use the historical material 'for applying theory to the right sort of premises'.

Economists are usually not too eager to study the history of the doctrines of their own discipline. Everything written before, say 2010 is easily regarded as passé by those who want to be at the 'research frontier'. This is a both silly and dangerous position. There is a story about a student who visited his old teacher Gustav Cassel many years later. The conversation drifted into what Cassel was teaching at the time and which the most important problems were. The professor explained and the student listened – not too impressed. 'But these are exactly the same questions as thirty years ago.' 'Yes', replied Cassel, 'but the answers are not the same as in your days'. Some questions are 'eternal'. They have long been dealt with by economists and it may make sense to learn about the details of the earlier discussion instead of reinventing the wheel time after time. 'In economics all doctrines are immortal. No new theories kill the old ones completely', wrote Gunnar Myrdal (1972, p. 48). Even though economists in earlier times may have delivered 'erroneous' answers, they perhaps dealt with important issues. Leijonhufvud (1973, p. 336) comments on the lack of continuity among economists:

Contrary to the normal case in primitive societies, the Econ priesthood does not maintain and teach the history of the tribe. In some Econ villages, one can still find the occasional elder who takes care of the modls made by some long-gone hero of the tribe and is eager to tell the legends associated with each. But few of the adults or grads, noting what they regard as the crude workmanship of these dusty old relics, care to listen to such rambling fairytales. Among the younger generations, it is now rare to find an individual with any conception of the history of the Econ. Having lost their past, the Econ are without confidence in the present and without purpose and direction for the future.

In this context it is also justified to put the question of to what extent economists should get involved in interdisciplinary research. Janken Myrdal (2009, p 11) holds it as self-evident that the humanities (which for him also include the social sciences) must avoid the summary views that often characterize the way of writing and publishing of the natural scientists:

It is about the science that portrays human beings in all their peculiar and paradoxical pursuits. Each reduction down to the simple will render them incomprehensible. Wars, crises, successes, works of art, technical creations and strong feelings will not find their explanation, not even indifference can be explained in anything but complex and detailed terms.

During the entire postwar period economics has assimilated a working mode that despises multidisciplinary and interdisciplinary work. It is contended that the strength of economics in relation to other social sciences is due to the fact that economists ask precise questions suited to modeling and which hence makes it possible to obtain precise answers. This has a lot to speak for it, but at the same time the approach runs the risk of being an approach which is precise only on the surface. Unfortunately the iceberg metaphor is applicable. In the worst case the economists can penetrate only the part of the iceberg that is visible above the surface with their tools while it is the part below that is dangerous and requires attention. If the latter is possible only by involving other disciplines in addition to economics, a 'pure' economic approach becomes biased. The problem of balancing model precision and crossbreeding must be tackled. It is often in the crossroads between different disciplines that new questions and methods arise.

In his obituary of Herbert Tingsten, Torsten Gårdlund (1973) wrote:

For Tingsten the rich evolution of Swedish economics in the thirties, with Gunnar Myrdal in a leading role at [Stockholm] College, posed a challenge. At the same time, his writings, which had become ever more historical and behavioral, stimulated many economists to a widening of their interests. His influence contributed to make the Swedish economists a comparatively well-read group of professionals.

Is it okay for a professor of economics to not be able to identify Keynes, the most well-known economist of the twentieth century in a photo? Is there anything besides a few mathematics books, a few boxes with economics articles and Stieg Larsson in the bookshelves of today's economists?

Related to the problem of interdisciplinary research is the question of interaction between different work places. I have already pointed out that old-time Swedish economists frequently served on public commissions and that within the scope of these they managed to produce high-caliber academic work while simultaneously making their voice heard in the debate. From time to time they worked at the Research Institute of Industrial Economics and other, empirically oriented, research institutes outside the academic network proper. There as well they managed to fruitfully combine academic stringency with empirical relevance. The works published there in the 1950s and 1960s about income distribution (Bentzel, 1952), consumption (Bentzel, 1957), housing policy (Bentzel et al., 1963) and agricultural

policy (Gulbrandsen and Lindbeck, 1966), to mention just a few examples, contributed in an instrumental way to give the economists a central role in the machinery of society. They went back and forth between academic and extramural activities.

As Janken Myrdal (2009, p. 12) points out, the government official investigation machinery in recent years has displayed disquieting signs of degeneration:

During its golden age, comprehensive studies that may go on for decades were made. The commissions became a forum for discussion between researchers and politicians. There, theories and practical solutions were tried. Today, the investigations have to be fast and should only verify the perceptions that the politicians already have. The argument is that the environment changes so rapidly that you cannot go on very long. The actual content of this argument is that investigations should not lead to unexpected or more fundamental changes. If the environment changes fast, the investigation must be adjusted to the environment, not vice versa.

Possibly this explains some of the reluctance of the academic economists to leave their ivory towers. Institutions like the Research Institute of Industrial Economics and the Centre for Business and Policy Studies (SNS) hereby acquire an increasingly important role as bridge-builders between the universities and society.

Coda

Knut Wicksell became untenured professor of Economics and Financial Law in the Faculty of Law at Lund University on 1 November 1901. It was not until 1904 that he would get tenure, after a vote in the Higher University Council which ended with 11–8 in favor of Wicksell. His opponents had referred to his ‘pernicious, unpatriotic activities as an enlightener of the people’ (Gårdlund, 1996, p. 219) as a strong reason why he should not be promoted. If you want to become Professor of Economics in Sweden 114 years later, should you rather refrain from the same ‘pernicious, unscientific activities’? Or do we simply undermine our own authority as economists by not participating in the public debate?

Leijonhufvud (1973, p. 337) presents a ‘bleak picture of cultural disintegration’ among the Econ:

It is true that virtually all Econographers agree that present modl-making has reached aesthetic heights not heretofore attained. But it is doubtful that this gives cause for much optimism. It is not unusual to find some particular art form flowering in the midst of decay of a culture. It may

be that such decay of society induces that kind of cultural ‘displacement activity’ among talented members who despair of coping with the decline of their civilization. The present burst of sophisticated mold-carving among the Econ should probably be regarded in this light.

We should add anthropology to the list of neighboring disciplines that economists should get acquainted with. ‘Can pluralism survive?’, asked Assar Lindbeck (1976). As far as economics is concerned, the answer is not given. If it does not, the voice of the economists will be silenced in the debate.

Notes

1. The chapter builds on my participation in a roundtable with Lars Calmfors, Stefan Fölster and the late Lena Westerlund, monitored by Dick Kling: *Syns de? Hörs de? Och spelar de någon roll? Om nationalekonomernas roll i samhällsdebatten* (Are They Seen? Are They Heard? And Do They Matter? The Role of the Economists in the Public Debate), at Timbro, 15 December 2009. Thanks for constructive comments to Andreas Bergh, Magnus Henrekson, Christina and Lars Jonung, Christina Rapp Lundahl and Therese Nilsson.
2. Most of the unpublished articles have been collected in Jonung et al. (2001).
3. Myrdal (1982), p. 138. Myrdal’s bibliografi is in Bohrn (1976).
4. <http://people.su.se/~alind/publchron.htm>. Accessed 18 July 2014.
5. http://people.su.se/~calmf/Newspaper%20articles_LC.htm. Accessed 18 July 2014.
6. E-mail from Lars Jonung to Mats Lundahl, 13 October 2014.
7. E-mail from Magnus Henrekson to Mats Lundahl, 20 July 2014.
8. http://www.ifn.se/om_ifn/aktuell/aktuell-2013/dn-debatt. Accessed 17 May 2013.
9. <http://www.dn.se/documents/debatt/OppenhetDNdebatt.pdf>. Accessed 7 July 2014.
10. This ‘glossolalia’, according to Leijonhufvud, refers only to mathematical languages: ‘the Indo-European languages, for example, do not count’ (Leijonhufvud, 1973, note, p. 334).

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