Ohlin on the Great Depression

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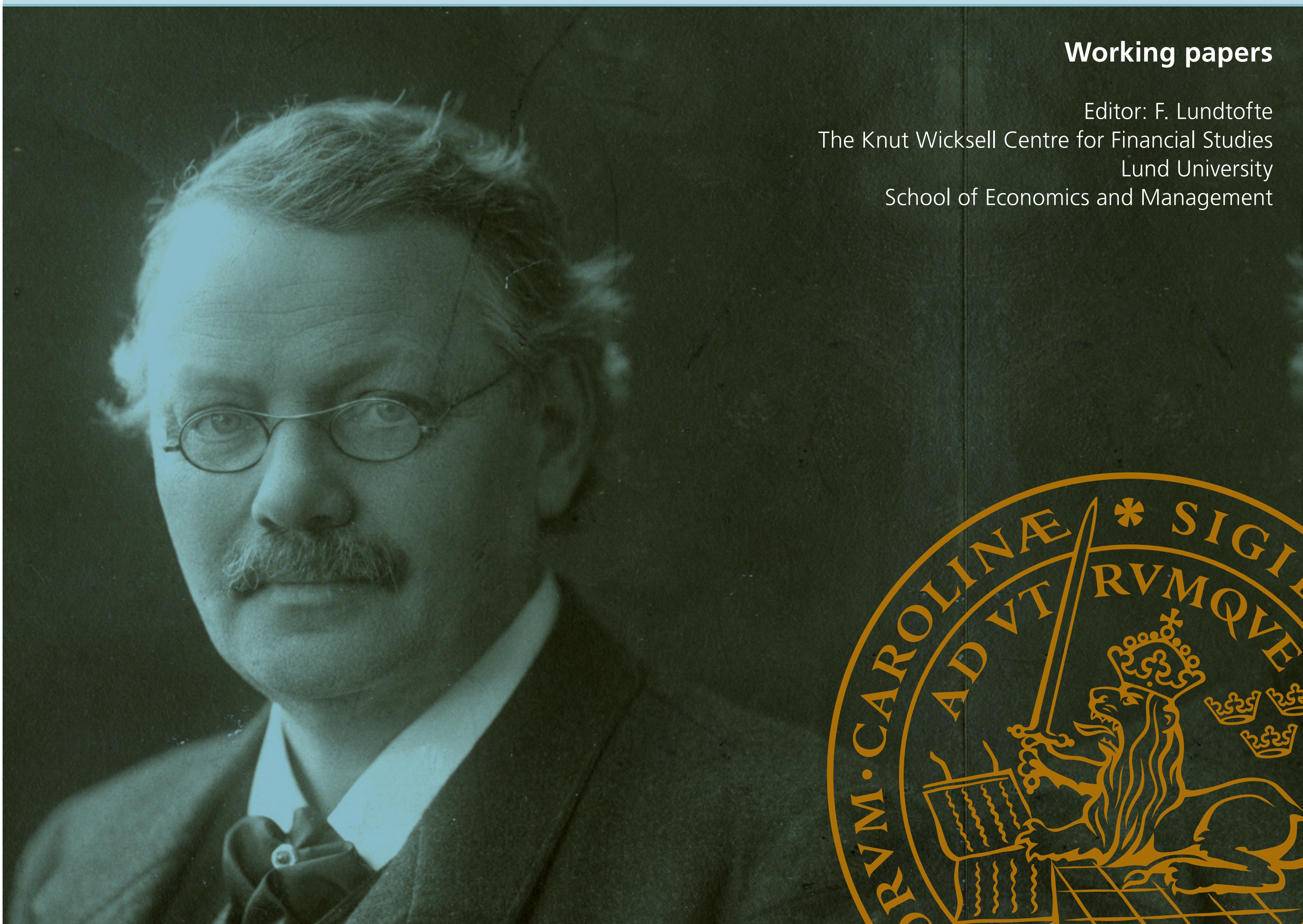

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Ohlin on the Great Depression
Ten newspaper articles 1929-1935

selected by

Benny Carlson and Lars Jonung

Abstract:

Bertil Ohlin was a most active commentator on current economic events in the inter-war period, combining his academic work with a journalistic output of an impressive scale. He published more than a thousand newspaper articles in the 1920s and 1930s, more than any other professor in economics in Sweden.

Here we have collected ten articles by Ohlin, translated from Swedish and originally published in *Stockholms-Tidningen,* to trace the evolution of his thinking during the Great Depression of the 1930s. These articles, spanning roughly half a decade, bring out his response to the stock market crisis in New York in 1929, his views on monetary policy in 1931, on fiscal policy and public works in 1932, his reaction to Keynes' ideas in 1932 and 1933 and to Roosevelt's New Deal in 1933, and, finally, his stand against state socialism in 1935.

At the beginning of the depression, Ohlin was quite optimistic in his outlook. But as the downturn in the world economy deepened, his optimism waned. He dealt with proposals for bringing the Swedish economy out of the depression, and reported positively on the policy views of Keynes. At an early stage, he recommended expansionary fiscal and monetary policies including public works. This approach permeated the contributions of the young generation of Swedish economists arising in the 1930s, eventually forming the Stockholm School of Economics. He was critical of passive Manchester liberalism, "folded-arms evangelism", as well of socialism while promoting his own brand of "active social liberalism".

Key words: Bertil Ohlin, Sweden, Great Depression, Keynes, Stockholm School of Economics, countercyclical polices, public works, liberalism.

JEL classification: B22, B31, E12, N12 and N14.

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Contents

Introduction[*]

In Sweden, the economics profession holds a strong position in public debate. The first generation of "modern" economists laid the foundation for this tradition – a generation including Knut Wicksell, Gustav Cassel and Eli Heckscher. They combined their scientific work with considerable journalistic activities and wrote prolifically in the daily press.[1] Bertil Ohlin (1899-1979) followed this journalistic path. At an early stage, he began his career as a writer of articles, editorials and comments in the daily press. He was probably the most prominent journalist of them all; if not as regards style at least in numbers, with more than 2,300 articles in daily papers, half of which appeared in the 1920's and the 1930's, before he made the transition from science to politics.[2]

Ohlin's articles in the daily press have not yet been subject to any systematic investigation. We have, however, taken a first step by examining a selection – about 80 articles – written by Ohlin on issues related to the depression of the 1930s and published in the period 1926-1935. Our analysis, published in a volume to celebrate the centennial of Ohlin's birth, is focused on the depression in the early 1930's, since it exercised a deep and lasting impact on the thinking of Swedish economists, especially on Ohlin's generation.[3] The depression, accompanied by high unemployment and political unrest, created a new challenge and served as a powerful incentive to bring forth new theories and policy proposals. According to prevailing views – fostered by Ohlin himself as well – Ohlin was a pioneer within the "new economics" that emerged in the 1930s in Sweden, eventually termed the Stockholm School of Economics by Ohlin himself.[4]

Research on Ohlin's work within the Stockholm School focuses on two contributions: first, Ohlin's article in *Ekonomisk Tidskrift* in 1933 *Till frågan om pen-*

[*] We have received generous support from the Tore Browaldh Foundation for compiling the newspaper articles by Ohlin and for translating this sample of articles. The late Geoffrey French skillfully translated the articles from Swedish into English.

[1] See the survey by Carlson and Jonung (2006) on the journalistic tradition of Swedish professors in economics.

[2] An (almost) complete list of Ohlin's contributions to the daily press has been compiled by Carlson, Orrje and Wadensjö (2000).

[3] Chapter 13 in Findlay, Jonung and Lundahl (2002).

[4] The rise and fall of the Stockholm School of Economics is summarized in several contributions in Jonung (1991).

ningteoriens uppläggning[5] ("On the formulation of monetary theory"), and second, his report in 1934 to the Committee on unemployment *Penningpolitik, offentliga arbeten, subventioner och tullar som medel mot arbetslöshet* (*Monetary policy, public works, subsidies and tariffs as remedies for unemployment*). Ohlin's development in a longer perspective – from the mid 1920's to these works from 1933-34 – is analysed by Karl-Gustav Landgren (1960) and Otto Steiger (1971, 1978). They have both, and notably Steiger, taken an interest in Ohlin's articles in the daily press.[6] Furthermore, in his memoirs Ohlin tried to buttress his position as a pioneer of the "new economics" by referring to his articles in the daily press.[7]

Our aim in the "Centennial book" was to widen the basis for evaluating Ohlin's development by studying his writings in *Stockholms-Tidningen* (*ST*). Ohlin began to contribute to this paper in 1925, published more regularly in 1926, and in the next few years the rate was 10 - 20 articles per year. In the fall of 1931, his connection to the paper became more permanent. He accepted the task of regularly contributing editorials and articles to the business section. During the rest of the 1930's, he published approximately 70 articles a year. By 1960, he had published about 1,200 articles in *Stockholms-Tidningen*.

We focus on Ohlin's writings on the depression and crisis policy in the 1930's. The study covers a ten-year period (from 1926 to early 1935) and thus the discussion of the Great Depression from its premonitory signs to its aftermath. We follow Ohlin's analyses of the crisis on the US stock exchange in 1929 and of the financial crisis in 1931 as well as his attempts to understand the causes and consequences of the depression and unemployment of the 1930s, and his policy proposals during the dramatic period of 1932-33 as well as his retrospective analyses during the recovery of 1934-35.

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5 See, for example, the special issue of *History of Political Economy* in 1978 where the translation of Ohlin's article from 1933 is published – see Ohlin (1978) – and discussed by Otto Steiger, Hans Brems and Don Patinkin. The articles in *History of Political Economy* are also reprinted in Blaug (1992). Ohlin responded to this discussion concerning his views on monetary and fiscal theory posthumously in Ohlin (1981).

6 Landgren (1960, pp. 159-60, 199-202) takes an interest in some articles in *Stockholms-Tidningen* 1933. Steiger (1971, pp. 186-99) and (1976, pp. 349-52) follows Ohlin's development in the years 1927-35 by using, among other works, a dozen articles in *Stockholms-Tidningen.*

7 Ohlin (1972, p. 207) mentions that he studied unemployment and its remedies in about eighty articles in *ST* and the Danish newspaper *Politiken.* In his memoirs, he dealt with the Stockholm School and

Our findings in the "Centennial book" from 2002 can be summarised as follows:

In the years of high unemployment and before the beginning of the crisis, that is during 1926-28, Ohlin did take – at least in the columns of *Stockholms-Tidningen* – an "orthodox" view: Unemployment was not due to limited purchasing power. Unemployment was partly due to high wages (and thus high costs) and limited mobility of labour. It was not due to excessive savings, but, on the contrary, to insufficient savings and capital formation. In 1928, Ohlin stated that an expansionary monetary policy might increase the monetary purchasing power and make the wheels turn more quickly. Such a policy would be dangerous in a situation with "semi-permanent" unemployment, however. He was opposed to wage cuts since these would result in strikes – it would be better if industry could grow into its too large "wage suit" by increased productivity.

In the spring of 1929, the British liberals entered the elections on a program proposing public works financed by borrowing in order to reduce unemployment. Ohlin was positive. He agreed that public works in combination with an expansionary monetary (credit) policy would not necessarily result in crowding out effects, but he warned against possible inflationary effects.

Ohlin was an optimist who, on several occasions, questioned the signs of an approaching economic crisis. A couple of weeks after the stock market crash in New York he could see "no reason to expect a general crisis in the United States" and "more cause for optimism than pessimism in Europe". At the beginning of 1930, several months after the crash on Wall Street, he still believed in good times. In the fall of 1930 he saw "a certain depression" coming and thought that an increase in public sector activities might reduce unemployment, even if they were to create certain crowding out effects. At the end of 1931, he began to advocate an expansionary monetary policy aiming at increasing wholesale prices.

At the beginning of 1932, Ohlin wanted to advance the debate on public works "a step further". This step was about advocating a shift of permanent public works from good to bad times as well as suggesting that government borrowing would be less expensive during a recession. Ohlin now began to talk about unutilized savings which were used to cover the losses of the firms. He continued to advocate an expan-

unemployment policy in three chapters (XIII, XV, XVI) and referred to about ten articles in *Stockholms-Tidningen.*

sionary credit policy but doubted that the reductions of the discount rate would have any considerable effects.

In the autumn of 1932, he discussed a contribution by Keynes and other British economists. To believe thrift to be the way out of the crisis was "the height of stupidity", and Ohlin agreed with Keynes that state intervention to promote new investment might be needed to "give the first kick". Ohlin continued to advocate redistributive works and defended these with arguments based on a multiplier approach.

In his comment to Keynes' articles in the *Times* in 1933, Ohlin agreed with the request for an international agreement on investments in public works. He also referred to Keynes' line of argument based on the multiplier approach. He rejected all demands for wage cuts by arguing that they would reduce income. At the same time, he rejected the theory of insufficient consumption since increases in wages in order to increase demand would, at the same time, also increase production costs. In summary, Ohlin did not want to fight the depression through wage policy but through public work programs and an expansionary monetary policy.

Ohlin maintained his optimism for a long time. He often saw glimpses of light in the darkness of the depression. But in the summer of 1933, his belief in the future was eroding. He feared that the prevailing system would crack and he began to talk about the need for "organization", government intervention and economic planning. At the end of 1933, his optimism returned due to a "trend of reinvestment". At the beginning of 1934, he showed some hesitancy towards continued investments in public works and a year later, he demanded a budget showing a surplus in order to pay back the borrowing from the period of crisis. During the period 1932-35, he was consistent in his views on public works: they should be reallocated from booms to recessions in order to reduce the unemployment caused by the business cycle, but they could not be used against structural unemployment.

When, in 1934, Ohlin looked back at the depression, he drew at least three decisive conclusions: i) the crisis was not due to capitalism – but it had demosntrated the need for a new economic policy, "a framework policy" (*ramhushållning*), ii) the purchasing power created by government was one of several factors behind the recovery and iii) the crisis policy pursued had been the only one possible and the theoretical views of the economists had not played any major part in the process.

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Opinions diverge among researchers of Ohlin's development as a "new" economist from the mid 1920's to the mid 1930's. Landgren (1960) considered Ohlin to be fairly sceptical towards new economics until 1933 when "the real breakthrough" in his views on public works occurred under the influence of Keynes. Steiger (1971), on the contrary, regarded Ohlin as an intrepid pioneer within the "new economics”. The picture that Ohlin has given of himself in his memoirs goes in the latter direction.

Our reading of Ohlin's articles in *Stockholms-Tidningen* makes it difficult to determine whether we should talk about an ongoing pioneering achievement or a cautious progress towards a fairly late breakthrough.

On the one hand, there is undeniably a gradual progress in Ohlin's writings between 1928 and 1933: the view that increased monetary purchasing power can increase production in 1928, that public works can increase purchasing power and the questioning of the crowding out-argument in 1929, that there are most likely unutilized savings in periods of depression at the beginning of 1932, an “acceptance without compromise" of public works and for the first time (according to our findings) a line of argument based on the multiplier approach in the fall of 1932.

On the other hand, Ohlin does in no way appear to be an assaulting radical prior to 1933. He is fairly optimistic in his belief in a swiftly passing crisis, fairly orthodox in his crisis explanation, fairly careful in his recommendations on government intervention – he advocates redistribution of public works as a measure against unemployment caused by a cyclical downturn, but takes a firm stand against more expansionist programs against structural unemployment.

It seems to be a matter of taste whether to talk about continuity or a breakthrough in Ohlin's development in the pages of *Stockholms-Tidningen*. If talking about a break in his development, this should be dated to the Keynes-inspired article in the spring of 1933 or to the short-lived fear of a crack in the social order in the summer of 1933.

The impression of caution and restraint in Ohlin's popular articles in *ST* is confirmed by Ohlin himself. In his memoirs, he explains, after an account of his "advanced" views in 1931: "As a political editorial writer in *Stockholms-Tidningen* the following winter I naturally expressed myself with more caution ... . " As concerns his comments on the first budget of the new Social-Democratic government in 1933, he writes that he "was favourable towards the expansionary trait, although expressed in the somewhat restrictive way that I used in my editorials".[8] If Ohlin, as the writer of memoirs, is to be believed, Ohlin, the editorial writer and the economic journalist, was more conservative than Ohlin the scientist!

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In this report we have collected a sample of ten articles from *Stockholms-Tidningen.* These articles, translated into English, illuminate Ohlin's reaction to the stock market crisis in New York in 1929, his views on monetary policy in 1931, on fiscal policy and public works in 1932, his reactions to Keynes' ideas in 1932 and 1933 and to Roosevelt's New Deal in 1933, and, finally, his stand against state socialism in 1935. We believe they give a good account of Ohlin's thinking on economic issues during a most formative period of his academic life.

[8] Ohlin (1972, p. 213).

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1. The stock market crisis and the economic trend (25 November 1929)

A couple of weeks have passed since the great stock market crisis in New York. There is now a little distance between ourselves and the events, giving us time to muster our ideas and impressions from the flood of news reports and commentaries, frequently conflicting, with which the press was then overflowing. It may therefore be opportune to look a little more closely into the effects which these events may come to have on economic developments in Europe.

Of course these effects are highly dependent on economic events in the United States of America. The first question to be asked, therefore, is whether the stock market collapse can be expected to bring a substantial cutback in production and a worsening of economic conditions in its train. On the merits of the case there is scarcely any reason why a stock market crisis should have this effect. Perhaps I may be permitted to refer to an article in *Index* of July 1928, in which I attempted to show that a stock market crisis is a danger to the economy as a whole only if its occurrence coincides with a reversal of the economic trend stemming from other causes.[9] In the latter case, however, a stock market crisis can intensify the depression, possibly helping to give it the form of a general economic crisis.

For some time there have been good grounds for supposing that the buoyant economic conditions in America would be replaced towards the end of 1929 by some degree of economic downturn. The Harvard Institute has been predicting this for quite a long time, and during the autumn there have been numerous signs reinforcing this impression. To some extent the stock market crisis may actually be nothing more than a discounting in advance of the expected deterioration of industry's profitability.

In other words, the current stock exchange crisis has arrived in close conjunction with an overall reversal of the business cycle and may be expected to contribute to some measure of deterioration in the economic situation of the United States. Many small speculators have suffered losses and will have to limit their purchases of cars, gramophones, radios etc; they may also have difficulty in fulfilling their hire purchase commitments on articles already bought. The industries concerned will have to curtail their production, which in turn will have an impact on other industries. In this way the

[9] *Index* was a journal published by Handelsbanken, a leading commercial bank. Ohlin contributed regularly to *Index* 1927-37.

repercussions will spread in ever-widening circles. A stock market crisis also has a restraining effect on production for purely psychological reasons.

Nevertheless there is no reason to expect a general economic crisis in the United States. In modern times such crises have generally resulted primarily from inelasticities in the monetary and banking system. The Federal Reserve system at present enjoys such a strong position and such great elasticity that all fears in that direction are unnecessary. Additionally there is the fact that President Hoover seemingly intends to allow state and county authorities to speed up their production and construction works. This will give practical effect for the first time to a much-discussed plan, initiated by Hoover several years ago and elaborated in detail to suit American conditions, for counteracting periods of economic depression by concentrating large-scale public works into them.

Thus my conclusion is that a reduced rate of production, but not an economic crisis, may be expected in America during the next half-year.

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What repercussions can events along these lines be expected to have in Europe? In many quarters it seems to be considered certain that a deterioration is inevitable here too. I consider this to be incorrect, and it is my reasons for this that I particularly want to stress in this article.

It is suggested that marketing difficulties at home are forcing American industry to place heavier emphasis on exports and that this will therefore confront European industry with more intense competition. For certain branches of industry this is probably correct, but for the economy in general it is of little significance. Not even in the automobile industry, which, if any, ought to be dominated by American competition, is it likely that a reduction of 9 % or 10 % in the price of American cars would entail any appreciable diminution of English or French automobile manufacturers' sales. Indeed it is very doubtful whether the Americans are going in for price reductions. Instead they are increasing their sales propaganda, which is unlikely, however, to make any major inroad into the European industry's sales. It is not all that easy to increase sales quickly even with the help of American advertising.

Greater weight probably ought to be attached to the argument that economic ties between countries are now so lively that a worsening of conditions in America easily triggers tendencies in the same direction in Europe. In my opinion, however, the importance of this is exaggerated as a rule. For many reasons, one being high tariff barriers, industry in the United States has somewhat limited links with industry in Europe. An economic trend in the opposite direction is therefore quite conceivable. It is not necessary to go far back in time to find examples of this. The first three quarters of the present year brought a downturn in economic conditions in Germany and England compared with 1928, while in the United States a colossal boom was going on. Why then should it be impossible for the opposite to take place in 1930?

At this point I cannot resist alluding to a debate I had with Dr J Åkerman in the columns of this newspaper last autumn. In *Industriförbundet*'s (the Federation of Swedish Industries') economic survey, Dr Åkerman had forecast a weakening of economic conditions in Sweden during the first half of 1929, basing this to a large extent on the cyclical downturn which seemed to be happening in England and Germany. I contended that on the contrary, a number of factors peculiar to Sweden would tend to stimulate an economic improvement in Sweden regardless of events in other countries. As we know, this has turned out to be the case inasmuch as our economic position during 1929 has been more favourable than in any other year since the war.

Although a worsening of the situation in the United States would have certain unfavourable repercussions in Europe, these would probably not be crucial for events here. For my own part I am inclined to ascribe greater importance to two factors of a favourable nature.

The first is the prospect of lower interest rates in Europe. New York has lowered its official discount rate from 6 % to 4½ %, which has already brought interest rate reductions in Europe and may be expected to bring more. Over the past two years one interest rate rise after the other has been imposed here directly or indirectly because of rises in New York. This has generally been regarded as very detrimental to the economic trend in Europe. Now, when a trend in the opposite direction is setting in, surely it must have a highly stimulating effect on European industry?

That England's economy is influenced particularly favourably by low interest rates is probably beyond all doubt. For the Nordic countries, which sell so much to England, an improvement in that country's economic situation is probably of greater importance than a decline in America.

Another favourable factor is that American capital exports may be expected to get under way when accelerated economic activity is no longer soaking up all newlyformed capital within the country's borders. These capital exports are very important to Germany and also, oddly enough, to a capital-exporting country such as England. Many countries which borrow from America, especially the transoceanic ones, may be expected to increase their demand for English manufactured goods using some of the money borrowed from America.

Moreover, the starting up of capital exports tends to raise the price level in Europe compared with that in America. Since there is no reason to suppose that the policy of price stabilisation successfully introduced in the United States would be interrupted and an appreciable fall in prices occur there, the contingency most to be expected in Europe is a minor price rise. This of course would have a stimulating effect on the economy.

Much could be added with regard to other factors. The situation is anything but clear. But on the whole there seems to be more cause for optimism than pessimism in Europe, especially in Germany and England. This is not to say, of course, that a decline cannot happen in Sweden. But in that case it would probably be an insignificant one.

2. Professor Heckscher's monetary program (10 December 1931)

Professor Heckscher's program: Keep the wholesale price level of goods produced in Sweden at the point it had reached in September.

Professor Ohlin's criticism: This presupposes tight credit limits along with restraints on important price elements and substantial wage cuts, a line of policy which must be regarded as semi-deflationary. But if a fully or semi-deflationary policy is pursued, then crisis will be superimposed on crisis, and the surest result of monetary policy will then be a rise in unemployment.

Professor Heckscher has again made a vitally important contribution to the public debate on vital economic issues of the day. His brief paper on "Sweden's monetary policy, orientation and proposals" has breathed new life into the monetary policy debate while putting it on a clearer and more solid footing than before.

It would probably be superfluous to detail the paper's contents here, partly because they have been so much discussed in the press during the last few days and partly because citizens interested in economics surely will not fail to read it for themselves. I shall content myself with saying that the paper in question contains both an analysis of the character of the present situation and a study of the various lines of monetary policy open to us.

Because political economists are so often accused of disunity, I cannot deny myself the pleasure of pointing out that the debates in the political economy club have shown practically all Stockholm's political economists to hold essentially the same opinion about the character of the present situation. I can entirely subscribe to Heckscher's account, in broad terms at any rate, even though I would probably have put it differently, in particular paying more attention to the labour market situation. In other words unanimity prevails with regard to the only feature on which scholars can be expected to agree, viz what actually *is*. How economic policy is to be appropriately ordered, i.e. what we ought to be trying to accomplish, is a more or less subjective matter on which political economists cannot be expected to agree between themselves any more than other citizens do.

Nevertheless in the current situation a large measure of agreement does exist between Professor Heckscher and myself and also, to the best of my knowledge, between us and a large number of other Stockholm economists, even as regards what ought to be done about the current situation. Firstly, we are in agreement that Sweden should not attempt to return to the gold standard at the old parity as early as possible but ought to retain its free currency for the present, regulating it by reference to the needs of the economy and keeping a special watch on changes in the price system. Foreign exchange rates, which form a part of this price system, are not of primary significance, but an eye should be kept on their level along with a large mass of other price relations. As long as credit policy is handled with fixity of purpose it will dominate developments in the price system and thus, in the long run, exchange rates as well.

I also note with satisfaction that Heckscher now concurs in the view which Professor Myrdal and I have urged previously, viz that credit policy ought to be supplemented as far as possible by direct measures to regulate exchange rates, which could reduce exchange rate fluctuations, for example by employing speculation for this purpose. Professor Heckscher himself writes on this point (p. 70): "Thus the natural compromise seems to be to allow the price system to determine the alignment of monetary policy over fairly long periods but to divide these periods, as it were, into sub-sections of a month or two for example, during which one endeavours to hold exchange rates stable, afterwards raising and lowering them by a definite and clearly declared step in one or the other direction and to whatever extent the stability of the price level seems to require."

It is not until I pass on to the more detailed formulation of Heckscher's monetary policy program that I find myself compelled to proceed on lines somewhat different from his. Of the various lines of monetary policy available, Heckscher discusses in detail firstly a link with the pound sterling, a proposal I shall not go into here, and secondly the following three main themes:

1. Gold parity.

2. Constant wholesale prices.

3. A return to the price system of 1929.

The first of these, as Heckscher shows very clearly, is a quite catastrophic policy and would strike a very hard blow at Swedish farmers especially. The third alternative, viz to return, as far as possible, to the price system of 1929 and in other words allow wholesale prices to rise from 100 in September of the current year to about 140, the level of 1929, is an expansive economic policy entailing some risk of the emergence of real inflationary tendencies. Heckscher therefore inclines towards the second policy, but considers that prices of imported goods ought to be allowed to rise without attempting to impose any compensating reduction of the prices of goods produced in Sweden. His program therefore is one of maintaining the average level of wholesale prices for goods produced in Sweden, whether destined for export or for the home market, at the level they occupied in September.

Of course this is a less deflationary policy than a return to the old gold parity would be. But there can be no doubt that even Heckscher's program presupposes very stringent credit limitation along with downward pressure on important price elements, so that it can be characterised as "semi-deflationary". If Sweden's export prices, as one may hope, should continue the price rise already begun in many cases – why should we sell all our goods at a price reduced by 30 per cent in gold currency? – Professor Heckscher wants to offset this by means of reduced prices of home-market goods enforced by credit policy instruments. When it is considered that these include quite large quantities of foreign raw materials whose prices have probably risen by 25-30 per cent already in terms of Swedish *kronor*, it will be understood what this would mean for the profitability of home market industries. At all events, it is certain that it would be impossible to bring about these price changes without very severe credit restrictions.

For my part, I am convinced that unless prices fall heavily in other countries, the Heckscher program cannot be implemented without a credit policy so rigorous that Sweden's economic depression will be greatly aggravated and purchasing power and imports curtailed, thus raising the *krona* exchange rate from its present 68 per cent of par to somewhere around 85 per cent. In other words a heavy fall in foreign exchange rates is part of this scenario, which must go hand in hand with the maintenance of constant wholesale price levels for goods produced in Sweden. Only on this condition is there a prospect of limiting sufficiently the rise in export prices and prices of the foreign raw materials entering into home market goods.

In these circumstances, much of Sweden's business and industry would surely find it impossible to pay current wage rates or rates in the vicinity thereof. This would probably apply to most of Sweden's export industries and a not insignificant proportion of its home market industries, which have experienced poor profitability in 1931 and would now find it deteriorating further through increased raw material prices.

Agriculture would be particularly hard hit because its costs of imported fodder would be substantially higher than the level last summer, while its export prices would most likely be lower than last summer's level having regard to the depreciation of the pound and other conditions in England.

Professor Heckscher's program assumes, in other words, that very substantial wage reductions will come about. Now the fact nevertheless remains that a large number of agreements are still in force and that opportunities for such reductions are therefore unavailable over large areas of the economy. The result would therefore be increased unemployment instead. It is "theoretically" conceivable, of course, that significant wage cuts can be implemented in industries where negotiations are currently going on, but there is obviously a very high risk that the trade unions would oppose them and choose conflict instead. In order to avoid this, employers would then be forced to accept only minor reductions in wages, again with increased unemployment as a result. Heckscher indicates that he considers current wages to be a cause of unemployment, but he does not discuss the point in greater detail, which I feel leaves a crucial gap in his argument. It is not really possible to discuss a specific monetary policy without reference to its effect on unemployment.

For my part, I cannot find other than a preponderance of argument in favour of a different line of monetary policy, viz. the one which I cited in my article on Tuesday. It also represents, if one will, a compromise between retaining constant wholesale prices and returning to the 1929 price system. So far as is possible by monetary policy means, it will create conditions for a stabilisation of production by correcting part of the distortion of the price system which the events of the past two years have brought in their train. A stabilisation of living costs at the level of 1930 and a raising of wholesale prices from 109 in September to 120-125 – not the 140 level of 1929 – will be the natural result of such a policy.

If this policy is pursued, the price system next year will lie at a somewhat higher level than it would do if Heckscher's program were implemented. Instead of a downward pressure on the relatively sluggish price elements, mainly wages, which his policy assumes if it is desired not to increase unemployment by very much, there would be a relative raising of the more volatile price elements, i.e. wholesale prices. Moreover, foreign exchange rates would adjust themselves to a somewhat higher level, equivalent for example to a 24 per cent depreciation of the *krona* and a dollar rate of five *kronor* instead of a smaller depreciation according to Heckscher's program.

Since the production-stabilising policy would improve the position of agriculture and some of our worst-situated industries and their workers, and since it would not deprive savers of their rightful share of the results of production but on the contrary would put hard-pressed savers who have invested their money in shares into a more favourable position than Heckscher's semi-deflationary policy would do, then in my opinion the former must be considered superior from both the production and the income distribution standpoint.

As an argument against allowing wholesale prices to rise to the 1929 level, i.e. 140, Professor Heckscher adduces the possibility that speculative tendencies might emerge which could not be controlled. This is conceivable of course, but the policy proposed by me is not affected by this criticism, since it only assumes a price rise for home market goods of somewhere around 5 per cent as compensation for higher prices of imported raw materials and semi-manufactures. A price rise of 10 per cent for Sweden's export goods, for example, certainly cannot entail any risks of excessive speculation either. As far as import prices are concerned, these have already risen much more without any appreciable speculation having occurred. To speak of inflationary risks, if government agencies aim for stabilisation of living costs at the 1930 level, which would allow the aforementioned rise in wholesale prices, would therefore be to see ghosts in broad daylight.

It seems to me that one thing at least ought to be conceded by those who may perchance deny that this line of policy signifies, more than Heckscher's, a "rough adaptation to the economy's need for balance and quiet": the program is far easier to implement than Heckscher's, which is conditional on a raising of the *krona*'s external value, i.e. a lowering of foreign exchange rates – probably to a dollar rate of less than 4.50 *kronor* which into the bargain must be effected, it would seem, without any direct measures for controlling imports. That being so, it is certainly easier, especially if recourse this had to some degree of import control as even professor Cassel now recommends, to hold the Swedish *krona*'s external value at a somewhat lower level so as to correspond to a dollar rate of about 5 *kronor*.

The choice made between the various monetary programs may have a crucial influence on economic conditions in Sweden next year. If a wholly or semi-deflationary policy is chosen, crisis will be heaped upon crisis and a rise in unemployment will then be the most certain result of monetary policy.

3. Business cycle policy. Public works in good times and bad (12 February 1932)

The question of the appropriateness of expanding central and local government works programs during periods of depression, which I have discussed in this newspaper in the context firstly of the City of Stockholm's loan budget for 1932 (ST 21 Dec 1931) and secondly of the central government's budget estimates (ST 16 Jan 1932) presented a month ago, has been a subject of lively public debate. Having regard to the importance of the issue, and because the debate has not led to any positive results, I shall now endeavour to take it a step further.

So as to avoid misunderstanding let me first of all underline that what is at issue is not the appropriateness of an expansion of public capital investment viewed as a whole. It is exclusively the *distribution* of public works between good and bad times that is in dispute. The view which I favour holds that after weighing their benefits and costs, those construction projects which are deemed appropriate should to a certain extent be concentrated into depression periods. This will counteract the tendency to passivity which characterises the private economy during such periods, and the growth of unemployment will be limited.

In other words the question of greater or less frugality with public funds is not at issue. In the first place it is construction works financed by borrowed capital that are involved. Secondly, if these works are carried out in bad times rather than in boom conditions, they will usually be cheaper and the loan interest usually lower. Thus, if this program is followed, the future taxes on interest and repayments are likely to be lower than would otherwise be the case.

Only a single serious objection to this has been raised in the public debate. The capital which central and local public bodies borrow for public works, it is said, would otherwise have been available to private business and industry; and private investment would have had at least as much stimulating effect on the economic situation and labour market as public capital investment.

This argument seems seductive. Nevertheless its weakness is not hard to demonstrate. Suppose that an optimistic assessment of the economic outlook for 1933 were to cause ASEA, SKF, and L. M. Ericsson to embark on immediate massive expansion today. Would this not alleviate the impact of the depression in 1932, on ironworks and brickworks for example? Common sense says that the answer must be in the affirmative. However, if the foregoing argument were correct the answer would be: No, these firms are only appropriating capital which otherwise would have been used by someone else. No increase of economic activity takes place.

The weak point seems to be this: how do we know that there is always a "somebody else" ready to invest the capital which is not made use of elsewhere? On the contrary, it can be asserted with a probability bordering on certainty that during most depression periods there are no private businessmen willing to invest the whole of the amount by which savings exceed ordinary public borrowing. Then where do these savings go? In fact they are simply utilised to cover the losses which many firms make when turnover and prices fall. Lossmaking firms cannot pay interest on their bank loans and the banks are therefore forced to increase their credits by an amount corresponding to the interest.

If initiative and a desire to invest capital in buildings, machinery and other real capital are lacking, then the orders placed with firms producing these items will diminish. In this way losses are incurred which swallow up the savings made in other directions. But if, during a depression period, new initiatives emerge and increased capital investments are made – whether by public bodies or by private businessmen – then the demand for timber, iron, stone, cement etc will grow and there will be more jobs for workers. Many firms' losses will be reduced, and the cost of supporting the unemployed will fall. The savings which otherwise would have gone to defray these losses and costs will become available on the loan market. In other words, by acting as borrowers and initiators to a greater extent than usual during periods of depression, central and local public bodies do not reduce the sums at the disposal of other borrowers at all, or not to the same extent.

Thus a more detailed analysis confirms what common sense tells us. In bad times, initiative is lacking, and the business and industrial world adopts a passive, waiting stance, particularly with regard to new capital investment, which leads to shrinking production and unemployment. Government economic policy can keep production going to a certain extent by increasing its initiatives in this field, i.e. by means of some degree of concentration of public construction works into depression periods. The opposite procedure is not the healthy form of economy asserted in some quarters. On the contrary, it is a waste of the nation's productive forces.

4. How to cure the crisis (7 August 1932)

Hopes that the world economic crisis would disappear of its own accord if only politicians could arrive at various international agreements seem to be fading more and more the longer the crisis persists. It is now not only economists who are conducting an "academic" debate about possible cures. Statesmen too seem to be realising the necessity of economic action to pull the world out of the present doldrums. The world economic conference in the autumn will have the task of grappling not with political payments nor yet with the tariff question either but primarily with possible measures for replacing deflation with a so called "reflation", i.e. a raising of the world price level to a point more or less in line with prevailing wages and long-term debt commitments.

It is therefore a matter of great topical interest to discover, from a small book[10] recently translated into Swedish, the views held by six of England's foremost economists on how to cure the crisis. One would need to search far and wide for a more lively and interesting piece of reading than this.

While Sir Joseph is changing his clothes

The book starts with Sir Arthur Salter's contribution, a masterly analysis of the global character of the economic crisis leading up to the following positive proposals, which are intended to be implemented in the order presented: 1) a political settlement of reparations and inter-allied debts; 2) action to raise world price levels to about the level of 1929; 3) dismantling of trade barriers; 4) start-up of international capital movements; 5) increased international economic cooperation generally. Sir Arthur is the statesman among the group of economists, and by applying psychological vision and exceptionally intimate knowledge of the situation behind the scenes he assesses what is possible of achievement and what is not.

[10] Salter, Keynes *et al*, *The World's Economic Crisis and the Way of Escape*. This book was published in Swedish by Bonniers in 1932. We have not been able to get hold of the English edition. We have, however, checked the original quotations from Keynes in *The Collected Writings of John Maynard Keynes*, Vol XXI (edited by Donald Moggridge) (London & Basingstoke: Macmillan/Cambridge University Press, 1982). We have unfortunately not been able to check the original wording of Ohlin's citation of sir Basil Blackett.

Sir Josiah Stamp, another veteran of the reparations problem and now head of the biggest English railway company, discusses England's particular position and difficulties. He has a good deal on his mind, but it is apparent that he has had little time to prepare, and his article scarcely does him justice. In the long run work methods such as Stamp's are unsustainable. His much-remarked series of articles in a leading English newspaper last year originated from a series of questions put to Stamp while he was changing for dinner!

The pursuit of liquidity around the world

Mr Keynes' contribution is quite different in quality, being a brilliant description of the special financial crisis which has set its impress on the world economic situation since the spring of last year. The central feature of this financial panic is the catastrophic fall in the price of assets of every kind, meaning not only goods but also housing, stocks and bonds. What is particularly startling is that bonds, whose prices do not usually fall during a depression at all and which in the United States kept themselves afloat until September 1931, declined in value from 47 to 38 thousand million dollars in four months after that date.

The international pursuit of liquidity which has been going on for the past year and which in all countries consisted of sudden restrictions on imports of goods, cessation of exports of capital, and the calling-in of earlier short-term loans from abroad, has clearly shown the disharmony between the interests of individual countries and those of the world as a whole. While such measures would have been capable of improving the situation of one country had it been allowed to introduce them in isolation, their application everywhere has strangled world trade and locked virtually all foreign capital in the deep freeze.

The height of stupidity

The same considerations apply to savings during a time of crisis such as the present. "An economy campaign, in my opinion, is a beggar-my neighbour enterprise, just as much as competitive tariffs or competitive wage reductions ... For one man's expenditure is another man's income. Thus whenever we refrain from expenditure, whilst we undoubtedly increase our own margin, we diminish that of someone else; and if the practise is universally followed, everyone will be worse off. An individual may be forced by his private circumstances to curtail his normal expenditure, and no one can blame him. But let no one suppose that he is performing a public duty in such a way."

Keynes rightly regrets that the thesis of saving come rain come shine has been preached so assiduously. Because of it the general public no longer dares to believe in its own judgment, which says that in bad times, when sales are falling, to reduce purchases more than necessary is only to make a bad situation worse. That the situation is otherwise during good or "normal" times is only of theoretical interest, because conditions at the moment are not "normal". Slogans to the effect that the crisis will be solved by "work and thrift" are the height of stupidity.

How to manage without exports?

Almost the most entertaining part of the entire book is Keynes' demonstration that the changeover to a paper currency in England and a good number of other countries will have an impact fairly quickly on the creditor status enjoyed by France and the United States. The past six months have proved him completely right. The French balance of trade, despite all tariff and other restrictions, is strongly negative. French short-term foreign balances – the foundation of France's financial ascendancy last year – are therefore melting away like butter in the sun, especially now that reparation payments have ended and the flow of gold to France continues. In the United States too, events are moving in the direction of a negative trade balance. Soon the actions of these countries will no longer be capable of exerting pressure on world prices expressed in gold. And price levels in the paper currency countries are already independent.

"The rest of the world owes them money. They will not take payment in goods; they will not take it in bonds; they have already received all the gold there is. The puzzle which they have set to the rest of the world admits logically of only one solution, namely that some way must be found of doing without their exports. The expedient of continually reducing world prices failed; for prices were dragged down equally everywhere. But the expedient of exchange depreciation relatively to gold will succeed."

Nostrums of the past

According to Keynes, therefore, the deflationary pressure which has aggravated the crisis may be expected to ease. But there is no reason to suppose that a price rise, and thus an improvement of the economy, will get under way of itself. It is true that interest rates are falling, but it is not certain that this will persuade businessmen to make large-scale investments in buildings, machinery and so forth. And without such increased production in the capital goods industries there will be no upturn of the business cycle. It is therefore very possible that it will be necessary to give the first kick, or to reinforce it, by means of "direct state intervention to promote and subsidise new investment". Once upon a time, one had to wait for a war before a depression would be interrupted. War meant that governments embarked on large-scale expenditure financed by borrowing, which put money into circulation and boosted purchasing power. Keynes hopes that we shall now be "ready to spend on the enterprises of peace what the financial maxims of the past would only allow us to spend on the devastations of war. At any rate, I predict with assured confidence that the only way out is for us to discover *some* object which is admitted even by the dead-heads to be a legitimate excuse for largely increasing the expenditure of someone on something!"

Learn from Italy and Russia?

Sir Basil Blackett, a leading figure at the British Treasury for many years, recommends a policy of economic planning in every field – in a word a "planned economy". Perhaps we ought not to imitate Italy and Russia but we could see whether we can learn from them. "If we are to go along with this we shall have to be prepared to 'think adventurously', bringing existing values and the practices based on them into the debate, distinguishing carefully between those which no longer bring any benefit and those which are really essential." When Sir Basil comes to the concrete formulation of his ideas, however, he becomes rather vague. A rational and stable currency is a necessary condition of all planning, he says, and on this everyone would probably agree. But apart from this the reader has to be content with hints: "Perhaps the way ahead is to be found in a considerable transfer of self-governing powers to organised industrial councils and new corporations for public business enterprises." (The translator believes that the English "public utilities" mean "public goods". Despite one or two such errors and various anglicisms, the translation is satisfactory inasmuch as the language is fluent and therefore easy to read.)

Crisis of affluence

Space does not permit discussion of the remaining two contributions by Henry Clay, the Bank of England's expert on industrial economics, a former Manchester professor and as such the most liberal of the six economists, and Sir William Beveridge, world-renowned as an unemployment expert and director of the London School of Economics. Sir William offers some words worth considering, for example on the absurdity of expecting all political economists to be in agreement. He does not attempt to gloss over the differences of opinion revealed by the six contributions, but he is able to show that complete unity exists at many points. For my part I find the crux of the analysis presented in this little book to be best expressed by Keynes: "In all our thoughts and feelings and projects for the betterment of things, we should have it at the back of our heads that this is not a crisis of poverty but a crisis of abundance. It is not the harshness and niggardliness of nature which is oppressing us, but our own incompetence and wrong-headedness which hinders us from making use of the bountifulness of inventive science. The voices which – in such a conjuncture – tell us that the path of escape is to be found in strict economy and in refraining, wherever possible, from utilising the world's potential production, are the voices of fools and madmen."

5. Increased public works (2 October 1932)

The setting in motion of productive public works on a considerable scale as announced in the government's statement will serve two purposes, closely related but still distinct in some ways. On the one hand such public works form an ingredient of the social assistance furnished for the unemployed while being intended on the other hand to counteract the production-restraining tendencies of the economic depression, for example by indirectly "stimulating free enterprise to greater vigour".

This part of the government statement should be hailed with satisfaction. It testifies that leading members of the government understand the need for public works as a component of an active business cycle policy. This understanding is lacking among many sectors of the press, however. At all events, the debate on this problem which was conducted in the heat of the election campaign left much to be desired in terms of trustworthiness. Broadly speaking, it simply repeated again and again the argument that increased public works would represent "waste" and "expenditure running into millions" at a time when the condition of the public finances was such as to require great frugality. It seems clear that a confusion of terms is at work here. Otherwise the greatest possible "frugality" would mean the cancellation of all public works. And since private business and industry also ought, presumably, to be making savings, then the production of real capital ought to be halted there too. But no sensible person could really dispute that the result would be a severe worsening of the crisis.

Instead of analysing what the confusion of terms consists of, let me set out some of the main points of the question at issue here: the appropriateness of some degree of concentration of public works into the depression periods. Suppose that this autumn the government's public enterprises and other agencies were to compile a list of the capital investments which, on the basis of ideas adopted accepted so far, they calculate ought to be put in hand over the next 3-4 years. In this respect the public enterprises proceed of course from the estimated productivity and profitability of the investments, while other agencies go by general ideas as to the need for new roads, bridges etc. Because of the depression the start-up of these public works was brought forward somewhat, so that during 1933 for example, 50 million *kronor*'s worth of works are going to be carried out which would otherwise have been done one or two years later. The extra cost involved is limited to one or two years' interest on 50 million *kronor*, i.e. about 3 million *kronor*. On the other hand there is probably always some benefit deriving from the fact that these works become available earlier and are also cheaper to carry out during a depression than at some later time. Let us ignore this, however, and assume that the cost is 3 million *kronor*.

In return for this relatively trivial sum, then, we have a chance to produce real capital to the value of 50 million *kronor*, which means that jobs are created to a value probably exceeding this sum. The directly paid wages will perhaps only amount to half or three quarters of it, but in return the firms favoured with orders get the opportunity of increasing their purchases of various kinds, i.e. of being "stimulated to greater vigour". In addition, persons who were previously without jobs are now able to demand consumer goods, thereby boosting employment in industry and trade. The costs of these formerly jobless people to the public purse disappear, and by this means the taxpayer makes a saving which will certainly be considerably in excess of the above-cited figure of 3 million *kronor*.

It may perhaps be objected to this argument that in this way the state would attract capital to itself which otherwise would be invested in the private economy. In reality this is not the case. During a depression as severe as the present one, private firms are reluctant to make investments other than insignificant ones. Therefore those firms whose sales require such investment in machinery and the like sell very little, and their losses swallow up a large proportion of the general public's current savings, which thus do not lead to the formation of real capital. By increasing its capital investment through the medium of public works during depression periods, therefore, the state does not reduce investment by trade and industry but prevents private savings from being unutilised and lost. On the other hand, the state can restrict public works during boom periods without doing any harm, since private firms then stand ready to make use of all available production capacity and all the savings at the nation's disposal.

In essentials, it is self-evident, of course, that sound economy consists in making as much use of productive forces as possible. This is why the state ought to increase its public works when times are bad. The saving in unemployment expenditure, to which can be added the increased incomes generated by the maintenance of production levels, will certainly do much more than offset the temporary increase in interest payments. Therefore regard for the state's own economy must point towards an expansion of public works in 1933.

In the final analysis, however, it is not a matter of the state's economy but of the nation's. That being so, the reasons for such expansion become even more overwhelming. Antagonism between Mr Wigforss' demand for increased public works as a weapon against depression and Mr Nothin's[11] warning against tax increases thus becomes unnecessary. Keeping economic activity going is the very factor that prevents expenditure on the unemployed from rising. Only the other day Professor Malte Jacobsson, chairman of Gothenburg city council, declared that in order to keep the current budget and local taxes in check, "recourse must be had to radical measures to set some large-scale public works in motion using borrowed money, by which means the appropriations for poor relief and unemployment committees could be reduced".

The real difficulty, of course, lies in identifying a sufficient number of justifiable works projects. Much would be gained if the public debate, instead of being dominated by misunderstandings about the meaning of the demand for frugality, were to focus on concrete proposals based on acknowledgement of the fundamental correctness of increased concentration of public works into depression periods. The government's initiatives on this important issue are awaited with keen anticipation.

[11] Torsten Nothin was minister without portfolio in the Per Albin Hansson government formed in September 1932. Ernst Wigforss was minister of finance in the same government.

6. Fiscal policy during the crisis. A reply to the prophets of folded-arms evangelism (20 November 1932)

The public debate of recent days concerning central and local government financial policy during the crisis shows clearly how complex this question is. It also shows a very palpable need for a debate about principles so as to establish the groundwork for practical approaches. Two issues must clearly be kept separate. Firstly there is the fundamental question: will there be any smoothing-out effect on the business cycle if public works are speeded up during depressions and slowed down after them? Secondly, there is the problem of appropriateness: what, in the present situation, are the chances of increasing public works and on what terms should the acceleration take place?

There are many who answer the first question in the negative. They believe that the correct official crisis policy consists of making cuts in all directions, i.e. not only in the tax budget but also in government capital investment. The best way of remedying the crisis is for everybody to sit with his arms folded! Others are convinced that it makes sense to concentrate public works into periods of slump to a certain extent. On several occasions over the past twelve months I have tried to explain in this newspaper why I share the latter view. Common sense tells us that it must be right to utilise the nation's productive forces and therefore arrange as far as practicable for government capital expenditure to take place during periods when private activity is scanty. The central and local state authorities must endeavour to make some use of labour and machinery which otherwise would stand idle. In return they can limit their demands in this direction during boom periods, thus widening the production opportunities available to the private economy. Studies carried out during the present year – by the Malm committee for example – seem to indicate, as also does *Telegrafstyrelsen*'s (the Swedish Board of Telecommunications) official notice published some days ago – that there are a considerable number of works in reserve whose implementation could be brought forward to next year instead of some years later.[12]

[12] Gösta Malm was chairman of the 1931 government committee on roads and bridges (*1931 års väg- och brosakkunniga*). It delivered its reports in 1934 as *SOU 1934:27* and *SOU 1934:28*.

The importance of a debate about principles

Obviously one's standpoint on the question of an expansion of public works cannot be decided without both taking account of the general countercyclical smoothing influence such a policy would have on economic conditions and also enquiring what form these works would take in the current situation and on what terms they would be carried out. Attempts to reject analysis of principles by means of pronouncements to the effect that everything is "easier in theory than in practice", thus evading the need to adopt any stance regarding the issue of principle, can only evoke a pitying smile.

From the press debate of the last month, it appears that almost without exception, those who do not try to wriggle away from the main point of the problem admit the possibility that increased public works might be able to alleviate the current depression to some extent. That this is now so clearly acknowledged is undoubtedly a gain, and a great step forward compared with the state of the debate a year ago. The crowds surrounding the prophets of folded-arms evangelism are thinning out. No longer is there talk, as was once quite generally the case, of saving as synonymous with a general reduction of activity. Economies in the tax budget are one thing, but the volume of public capital investment is another. It may be sound housekeeping to cut back the tax budget while at the same time expanding capital investment, i.e. public works, provided of course that such works are organised in a practical and economic fashion.

In other words, the question is what we require of such public works and what the chances are of satisfying them in the present situation. However, in order to determine this properly it should be borne in mind that what we are dealing with is not just the finances of central and local government, or what might be called the government's private economy, but also the national economy itself. Citizens are of interest not only as taxpayers but as economic subjects, and any improvement or deterioration of their situation can never be a matter of indifference to the government's policy. For the national economy it is naturally of prime importance that use should be made of the country's productive forces, provided it is done in a sensible manner. It is better for them to be used in a fairly serviceable if perhaps not ideal way than be left unexploited altogether!

For the "government's private economy", of course, the question which poses itself about public works is how to get them carried out as cheaply as possible. Three considerations suggest themselves with reference to this: 1) It is often cheaper to carry out such work during bad times, because interest rates and wages, as well as prices of *matériel,* are usually lower then than during good times. This may very likely more than offset the extra interest costs which are incurred if certain works are carried out one or more years earlier than strictly necessary. 2) Even if some increase should occur in the costs of the works as a result of bringing them forward, there may still be some private economic profit for central and local government agencies provided the extra spending is counterbalanced by reduced unemployment and poor relief expenditures or by increased taxes resulting from the country's productivity being prevented from falling as much as it would have done otherwise. 3) However, should some net burden arise for the public finances, this may of course be worth bearing if it is accompanied by reduced unemployment, increased productive activity and therefore increased national income. For example, if an increase of the country's production by 50 million *kronor* were to be achieved by bringing forward certain public works entailing a cost to the exchequer of 5 million *kronor* per year for two years, it would be preposterous to declare *a priori* that the state should think only of its own finances, not of the nation's prosperity. It is to be hoped that the Manchester liberals will ponder this point!

Costs not shifted on to the future

Anyone reflecting on this will have no difficulty in realising how misleading is the idea that increased public works financed by loans during a depression mean "shifting the costs on to the future". From the standpoint of the national economy, the costs of public works are always borne by the nation at the precise time the works are executed. For the costs consist in the fact that use is made of a certain quantity of productive forces. To live at the expense of the future is impossible! There is just one thing the present can manage to do all too easily, and that is to live at the expense of the past by using up the capital equipment it has received by inheritance. To whatever extent this occurs, of course, the economy of the future is put into a worse position than that of the present. However, nothing of this kind at all happens when public works are expanded. On the contrary, the capital equipment available in future years is increased by this means and the future position is thereby improved.

The fact that public works attract interest charges is quite a different matter. If the timing of a loan is brought forward a year or so, then the budgets of central and local government will bear an increased interest burden during this period. However, this is offset, more or less, by the above-cited direct and indirect benefits to the public finances. Above all, however, any possible shortening of the period of net burden has to be weighed against the general benefits to the nation's economy.

The true meaning of insistence on economy

The mention of economy and concern for the future has an import with regard to public works during a period of depressed economic conditions no different from that to which I have called attention numerous times in this newspaper: they should meet reasonable requirements in terms of usefulness and economy of execution. Let us enquire a little more closely what this means.

In the first place, public works ought to satisfy reasonable requirements in terms of usefulness judged from ordinary points of view. That opinions diverge as to what is justified in every specific instance is obvious. Nevertheless everyone ought to be able to agree on the expediency of settling on a plan for those works which might be regarded as requisite from various points of view over the next five years for example**.** With its help the expediency of bringing the works forward to the budget year 1933-34 can then be discussed case by case. One would need to be considerably in dread of the word "plan" to be opposed to this. Indeed, *Statens organisationsnämnd* (the National Organisation Office), headed by Nothin, a cabinet minister, who enjoys a popularity among the supporters of retrenchment theories which can scarcely be pleasing to him, has even drawn up a ten-year plan for the state's future building works.

Secondly, it ought to be possible for the public works to be completed or drastically cut back after two or three years. For if boom conditions should then be prevalent, no obstacles ought to stand in the way of restricting public investment. If we are anxious to create in advance the greatest possible guarantees that such restriction really does come into effect, then certain precautionary measures can be taken. For example, the *Riksdag* could incorporate into a resolution concerning public works during the next budget year a rule to the effect that their volume should be cut immediately the unemployment figure has fallen to a certain level and the volume of industrial production has risen by a certain percentage. For my part, however, I believe that the risk of public works continuing to an undiminished extent during a boom period is quite small. Those whose opinion differs fall into such errors as an unjustified analogy from the field of tariff policy, where experience does show that it is difficult to get rid of a customs duty once it has been introduced. The budget is not affected by this, however, and so it runs on automatically without new initiatives continually needing to be taken and new fiscal decisions made as is the case when public works are involved. Contrary to my opinion, the periodical *Sunt Förnuft* (Common Sense) asserts that the evidence of experience is that no curtailment of public works takes place during a boom. This ignores the fact that the policy advocated by me and many others has never yet been systematically tested as far as I know. Thus the reference to experience simply lacks substance. The severe cutting-back of public works hitherto practised during depressions is precisely what has more or less enforced costly expansion during the booms. Thus *Sunt Förnuft* is presenting a "theory" that is entirely unsupported!

Thirdly, it is obvious that the scale of the works must be kept within reasonable bounds so as not to impair public credit. The latter stands at a very high level in this country at present, as is evidenced by the continued rise in bond prices. As far as the Swedish state is concerned I could conceive for my part of something on the lines of an increase of capital investment of about fifty million *kronor* during the next budget year, perhaps somewhat more. Borrowing on this scale would certainly not damage the state's credit provided it was united with a serious policy of economy when drawing up the tax budget. The sum suggested is quite modest by comparison with the works already in progress in the United States, France and Germany, even when the different sizes of the respective countries are taken into account.

Monopolistic prices and wages

In the fourth place, public works ought not to be carried out at boom prices and wages. One reason for this is that the higher the cost level is, the lower the volume of activity will be for a given capital sum. Nevertheless it would be mistaken to think only of the wage level while ignoring the prices demanded by brick and cement works, power stations and other undertakings with a monopoly position for their products. Opinions are of course divided as to how far demands are justified with regard to these prices and wages. For my part, I should consider it as unreasonable for public works launched as part of a rational business cycle policy to be remunerated merely at the poor relief level of 3.50 to 4 *kronor* per day as at 20 or 21 *kronor* per day, the present level of wages received by workers employed by the Stockholm city authorities. However, it seems to me that no criticism could be raised from the above standpoint against works which could be carried out at about half the average wage of industrial workers, 8 or 9 *kronor* per day, a little more or a little less according to circumstances.

Studies made so far confirm that there is quite considerable scope at present for public works of various kinds. Some of these signify direct or indirect increases of industrial production, e.g. through electrification, while others involve the construction of buildings and plant in rural areas and the smaller towns. In the major towns, at least in Stockholm, the situation is less favourable, especially because building and constructional workers and the local government workers' trade unions would probably be unwilling to accept the adjustment of piece rates which would bring costs down to a reasonable level. Just the same we should be careful not to believe that all the trade unions in the country would oppose a degree of adjustment of piece rates if this could bring about a substantial increase of job opportunities. Experience shows that their policy in this respect is much more realistic than is often asserted.

As regards the topic of economy in public works, it ought not to be overlooked that public buildings etc in Sweden have long been distinguished by their totally unnecessary opulence. Anyone who considers some change to be called for in this respect must recommend that proposals for new buildings should be drawn up during a depression when it is easier to gain a hearing for the need to economise than during prosperous times.

Finally, I would make the point that the supplementing of public works with government assistance to private production is attractive from many points of view provided it can be given suitable forms. The wages problem will then solve itself of course. A natural form for such assistance, in my opinion, is to be found in government export credit guarantees, which offer the additional advantage of helping hard-pressed export industries and gradually strengthening the country's balance of payments. Should there be other cases where loan guarantees, loans at reduced interest or other kinds of subsidy appear conceivable, these ought not to be rejected *a priori*, although most forms of subvention do provoke serious misgivings. That the matter merits consideration is evidenced by the recent declaration by an important power company that it was willing to embark on increased capital investment on the condition of a degree of subsidy from the state.

Can the economic trend be predicted?

If I search for arguments not refuted by the above in the writings of recent weeks opposing public works during the depression, I can only really find one that remains: the observation that the future economic trend cannot be predicted with certainty. That being so, is it not unjustified to base our planning on the supposition that an improvement of the economic situation will take place during the next few years?

Let me respond with a counter-question: Shall we rely on the teaching derived from nearly a hundred years of experience that a depression is succeeded by better times, or shall we proceed from an entirely new and unverified theory that the depression will last for ever? A judgment about the future is by no means to be avoided, but in the former case experience delivers the verdict.

Always to reckon, when taking decisions about the future, that the economic situation for many years ahead is going to continue exactly as it is at the moment, is also a sort of plan, of course. But it is thoughtlessness erected into a system and therefore would be better called planlessness instead. It is to forgo, out of desperation, all possibility of a positive policy, i.e. to choose deliberately an intensification of the crisis which will have been quite unnecessary if past experience is repeated and better times come in a year or two. How many businessmen and politicians are there who do not in their inmost hearts calculate on an improvement coming? Then why choose the great national economic losses entailed in a policy of sitting with our arms folded? Let us not try to convince anyone that such choice is evidence of prudence, i.e. of preferring the certain to the uncertain. No, it is a renunciation of the economic benefits which in all likelihood would result from increased utilisation of the nation's productive potential!

Differing opinions are possible concerning specific proposals for public works. It may be pointed out that in many cases a monopolistic wage policy puts obstacles in the way of proposals which are otherwise appropriate. The possibilities that remain are not to be tossed aside merely because they are not as numerous or as far-reaching as they would have been had there been a different wage policy! Is it not the most practical course to make the best we can out of the *de facto* situation?

As regards the chances of a change from the previous policy along the lines recommended above, I cite the valuable report presented by such an experienced local politician and prominent economist as professor Bagge in *Svensk Tidskrift* in 1925. He stresses the desirability and feasibility of central and local authorities "drawing up a program of works covering a period of ten years, for example, and planning the distribution of these works over that period by reference to the economic trend". If this was done "perhaps it may be felt right among certain firms to work along similar lines", as is already happening in America. "The sense of responsibility in face of what is happening and a feeling that something nevertheless can and should be done to improve matters would be strengthened against that paralysing belief in a course of economic events decreed by Fate which is one of the most disastrous results of economic liberalism."

Of course, the business cycle policy defended here can be misused like anything else. But is this a sufficient reason for renouncing it? Cannot private business too show not insignificant variants now and then, some of which may well be fresh in the memory? Ought not those who preach the unqualified perfection of the private economy's functioning to tone down a fraction the melody they sing in this year of grace 1932? I confess to standing as uncomprehending before doctrinaire Manchester liberalism's negativity as before socialism's blind faith that public enterprise can manage all things better than private.

Underlying much of the vehement opposition to a temporary expansion of public works is the ill-humour of those who hoped to be able to take advantage of the depression in order to force through a permanent restriction of government activity. In my opinion these hopes of a considerable squeeze on this activity indicate very little sense of economic and political realities. Society is not what it was fifty years ago, so public policy can scarcely be so either.

Perhaps in a crisis situation such as this, there is more reason than usual to leave doctrinaire party attitudes at home and evaluate the practical possibilities without preconceived opinions. Only dread of such an impartial approach, which it is feared might be upsetting to certain political circles, can explain two Stockholm newspapers' efforts to focus attention on personalities rather than issues, demanding expert knowledge of everyone except themselves. In vain do these old-liberal survivors from a long-vanished era – one of them, inconsistently enough, wearing a protectionist hat – try to conceal their nervousness under a mask of cocksureness and their fear of objective reasoning behind intellectual smokescreens and the suspicions they throw on to those who advocate other standpoints [than their own], even citing their views in misleading ways. Since when has it been the custom of the Swedish press to discuss important national issues in this way?

7. The way out of the depression. The *Times* agrees with Keynes (2 April 1933)

Yet again Mr Keynes has made up a prescription for curing the ailing world economy. This is perhaps less remarkable than the fact that the conservative Times newspaper has devoted pride of place to his articles on four successive days, endorsing and underlining their broad recommendations. This is evidence that the great host of doubters is now rallying around those who advocate doing something about the crisis not only on the political but also on the economic plane. People got tired of sitting with folded arms while waiting for a miracle.

Predictions which came true

In fact there is nothing strange in the fact that the star of Keynes' authority is rising. His predictions have come true with astounding precision, especially as regards the course of events in the American banking system. A couple of years ago his intellect was considered over-brilliant, a little too artistic to be wholly reliable. The events of the past two years, which began with England's abandonment of the gold standard, have shown that the ability to think along lines different from those sanctioned by customary usage is quite a valuable quality.

For Keynes, as for all other sensible people, the starting point for all discussion of the crisis is that the world price level must be raised substantially if a catastrophe is to be avoided. The only question is how a rise in prices can be brought about. There is a class of incurable optimists, to which curiously enough many of the heads of Europe's central banks belong, who have managed to persuade themselves that if only a few broad international political issues can be settled, confidence will take care of itself and so will everything else. A couple of years ago all the talk was of war reparations; now it is international indebtedness that must be brought under control at all costs. For my part, however, I believe, along with Keynes, that a settlement of this question in isolation would only have the same result as the Lausanne agreement had with the reparations question: a brief spell of optimism without any lasting improvement of the economic climate.[13]

Gold certificates from the Basle bank

Perhaps, then, a debt settlement is a necessary but not really sufficient condition for economic recovery to occur. Another equally important condition is an end to the international liquidity crisis manifested mainly in the multitude of currency restrictions. It is common knowledge that these place even more obstacles in the way of international trade than do high customs tariffs. If the world is to escape from the cul-de-sac into which these currency restrictions have led it, says Keynes, radical means must be resorted to. Above all, the liquid assets available in the world must be increased, which can be done through the issue by the international bank in Basle of several thousand millions of dollars in gold certificates. These will be guaranteed in certain proportions by different states and will be accepted by them as gold. The creation of such substitutes for gold would merely be to apply on the international plane the same methods which every central bank has traditionally employed within its own country's borders by issuing notes far in excess of its corresponding gold reserves.

Stabilising paper currencies

When these gold certificates are distributed between the various countries' central banks, their international liquidity is obviously strengthened. The central banks will feel themselves to be in possession of abundant supplies of gold and will be more inclined to expand credit than would otherwise be the case. Moreover, they will not need watch so anxiously for the least change in their respective countries' balance of payments. There will be improved prospects of an agreement on the simultaneous easing of the currency restrictions hampering the exchange of goods. Should the imports of any country rise a little more than exports, this no longer need raise such strong apprehensions when the situation is very liquid as it would in the situation existing at present.

The issuing of gold certificates, Keynes considers, should be accompanied by stabilisation of the paper currencies in a certain ratio to gold, but with the possibility left open for subsequent adjustments of the stabilisation rate.

As with a settlement of international indebtedness, however, an international liquidity-creating gold policy of this sort is only to be regarded as a necessary but not

[13] The Lausanne Conference in June and July 1932 attempted to put an end to the German war reparation payments but the plan was rejected by the U.S. Congress in December of that year.

a sufficient condition for improving the economic climate. It can hardly be expected to bring positive forces to life. What the world now lacks is not primarily money but the will to buy. With the private economy – not only industry and agriculture but also building construction and the transport system – lying dead in the water as now, it is not easy to see where strongly increased private demand for production goods is to come from. There does remain the possibility that private demand for consumer goods will grow. But since incomes have suffered a sharp decline, it is hard to conceive that the general public, merely by reducing its saving, would be able to achieve a sufficiently strong increase in demand for consumption purposes.

Public demand must be increased

Keynes therefore holds to the conclusion which he has already expressed repeatedly in the past, viz. that he who does not want to take any unnecessary risks of continued falling prices must call for a temporary and simultaneous increase of *public* demand in the economically advanced countries. By this means we would probably get past the dead point, get production to grow and unemployment to subside. For my own part, I have long maintained that the most important contribution the world economic conference could make would be an international agreement on a simultaneous and substantial increase of public works over the next twelve to eighteen months, for example. If we set some degree of price rise as our goal, as all parties now actually appear to do although some do not dare to say so too loudly for tactical reasons, then we must also will the means of attaining it. A prerequisite of rising prices is a growth in demand. Since we cannot rely on consumers or private firms to administer an adequate kick-start, then the kick must be given by demand emanating from central and local government authorities.

It is conceivable of course that an international political settlement will create such intense optimism and belief in rising prices that all middlemen will rush to replenish their stocks, and that consumer demand will grow to a certain extent as well, thereby stimulating at second hand industry's demand for production goods. But it would be extremely risky to rely on events unfolding thus. The situation is now so grave that it would hardly be defensible to take the risk. If it is to be avoided, then, the only course open is to ensure that when psychologically favourable conditions have been created and positively at one stroke, a massive increase of public sector demand, or of demand stimulated by the public sector, happens in as many countries as possible so as to push past the dead point.

Support for private capital investment

The difficulties in the way of a massive increase in the volume of public works in a single country are obviously considerable. If the works are arranged in a way that shakes the confidence of businessmen, the effect may be the exact opposite of what was expected. However, Keynes shows with great clarity that if no such psychological ill-effects occur – and with an international agreement on simultaneous increases these are scarcely to be feared – then the repercussions of public works on the public finances would be far more benign than are generally reckoned on. If two workers get jobs, then this gives at least one worker a job in the private economy, and unemployment relief for three is saved. Moreover, turnover is maintained and the tax base thereby improved, while the forthcoming year's yield of central and local taxation will be bigger. If the central and local state authorities spend 100 million kronor on public works, they will get at least half of it back again via the tax budget as a result of reduced expenditure and increased revenue.

It might be a pure gain from the fiscal standpoint to subsidise private capital investment in the immediate future. Compared with public investment, this would limit central and local government expenditure and risk while still reducing unemployment relief and increasing taxable incomes.

At the crossroads

Keynes' view of the fiscal aspect of the problem can be expressed briefly as follows: There is no chance of balancing the forthcoming year's tax budget other than by expanding the current year's loan budget. Only by someone laying out money in order to buy something can the nation's – and therefore indirectly the state's – income be sustained. If, in a given situation, no one else is willing to do it, then the central and local authorities must step in. Unfortunately, it is not perceived as "respectable" for governments to increase their loan-financed expenditures save for one purpose – war! Would it not be a sounder fiscal policy to increase them for useful construction works?

The world is now at the crossroads, says Keynes. Either we must find effective means of raising world price levels without lengthy delay or else we must expect an ever-quickening collapse of the entire system of loan contracts and indebtedness. In the latter case, orthodox financial and political principles will be completely discredited and events will proceed along lines which we cannot foresee but may well fear.

There are still some financiers and politicians who believe they are defending orthodox financial principles when they argue that the crisis ought to be met by means of a "general lowering of production costs to bring them into reasonable proportion with prices". They close their eyes to the fact that the one man's expenditure is another man's income, and that it is therefore impossible to reduce expenditure without by the same token reducing incomes, with the result that prices continue to fall. Likewise they forget that if the world is to adapt itself permanently to current price levels, then a very large number of borrowers in all branches are going to become insolvent.

Those who entertain sympathy for such methods would do well to bear in mind the following words taken from the Times leading article: "A generation which is growing coffee to burn it by the million bags, and selling wheat cheaper than sawdust, is waiting to know what cutting of manufacturing costs will match or overtake the nose-dive in agricultural prices. It will also need to know why to contract rather than to expand demand should be held the safer, more logical or more orthodox counter to the pressure of glut."[14]

[14] This quotation, from *The Times* editorial page of March 16, 1933, has been checked by Lena Trenter at *Kungliga Biblioteket* in Stockholm, where the only copy of that newspaper available in Sweden is stored.

8. America's experiment. It is the same with price rises as with wine: the effect depends on the quantity (20 July 1933)

There is a remarkable similarity between what is happening in the United States at the present time and the inflation policy which so many other countries, especially those which are now most critical, were pursuing some years ago. However, closer inspection reveals the differences to exceed the similarities. It is not, as before, a situation where vain efforts are being made to halt the inflation caused by colossal deficits in government budgets; on the contrary, it is a deliberate attempt to raise the price level. It is not a race between prices and costs, with the lead enjoyed by the former resulting in massive profits for all producers, but an attempt to pull prices up into a reasonable relationship with sluggish costs, so as to bring a period of ruinous losses to an end and put debtors in a position to pay their interest charges. To believe that it was exclusively a matter of curing unemployment would be to misunderstand both the content of American policy and the reasons why the majority of other non-European countries want prices to rise. It is just as much a matter of making it possible for debt-ridden farmers and governments to pay off their debts and attain a reasonable living standard. This requires prices to be restored to the level prevailing before the crisis, when most of the indebtedness was incurred. In a word, the end in view is not inflation but reflation. Above all, the aim is a price rise of 50 per cent or thereabouts, not multiplication by a factor of six such as France experienced during the years 1914-1927, not to mention the German and Austrian levels of inflation.

Unfortunately, many people are reluctant to make distinctions. Inflation is inflation, and that is a bad thing; that is that! This critical attitude to the American experiment is represented chiefly by those countries which have themselves tasted violent inflation and therefore say "We know best." We may respond by remarking that it is the same with inflation as with wine. The effect depends, as chief of office Wærum emphasised at the economic conference's wine committee some days ago, on the quantity consumed. The fact that France and Germany neither could nor would keep within moderate limits does not prove that other countries will take any harm from a smaller quantity. To avoid misunderstanding, I will add that the wine committee did not have the duty of selecting or testing wines for the conference dinners but was concerned with increasing wine consumption more "platonically".

Increased production and higher prices

Whether other countries like it or not, Roosevelt and the American people have the clear intention of continuing with this reflationary policy which has already brought such amazing results. In truth these have exceeded all expectations. The iron and steel industry, which is a sensitive indicator of economic conditions and was working at 16 per cent of its capacity last winter, has been running at about 55-60 per cent in recent weeks. This rise has taken place despite the fact that activity is negligible in the building trade and the railways still have not started buying. Unless something unexpected happens, the railways will be placing large orders during the autumn: their profitability has improved colossally and their need for rolling stock and repairs is very great. The government will facilitate the financing of these purchases if necessary.

Another important index of economic conditions is the consumption of electric power for industrial purposes: this shows a substantial rise. Unemployment has gone down by a couple of million and short-term working has fallen at the same time. A telegram distributed to and debated by the world press, to the effect that wages paid out have risen by only 7 per cent but industrial production by 35 per cent is surely inaccurate. To judge by the data available, the former figure is too low and the latter too high.

Just as important as the decline in unemployment is the rise in farmers' purchasing power. Wheat prices have doubled and lie at around one dollar per bushel, which makes wheat cultivation particularly profitable. The price of maize has risen by 50 per cent and of cotton by 60 per cent.

The fact that share prices have doubled in round numbers and bond quotations risen strongly is also important, for the financial position of a whole array of banks and insurance companies has been restored thereby. In addition to this, the better-off classes will naturally become more willing to buy automobiles and other articles when they see their stocks and shares recovering some of the value they have lost over the last four years.

The power of faith

What are the measures which have achieved all this? The answer is quite simple in a way: promises and fear. Roosevelt has promised that prices will be raised to the level prevailing prior to the crisis and Congress has granted him powers to employ a whole armoury of radical weapons if necessary. But so far they have hardly been used at all. In other words, it is the belief that prices will start rising that has increased demand and thus pushed them upwards. The fact that the dollar has left the gold standard and – likewise for psychological reasons – fallen by 30 per cent has naturally facilitated the price rise. This depreciation has been one of several psychological prerequisites of the price rise, but it is not the dollar's fall which raised the prices. On the contrary, American demand for international goods has been so strong that their prices have risen much more than the dollar has fallen.

The radical means promised by Roosevelt consist mainly of large-scale public works, the printing of new currency notes to finance these, and production ceilings on agricultural commodities. The general confidence in America that the price level will not fall back again but continue to rise owes much to the assurance that an incipient price fall would be met immediately by bringing these instruments into use.

However, if events only depended on what has just been said, then they would be resting on much more uncertain ground than appears to be the case. In point of fact, the increased demand has been largely stimulated by a real need for goods which had previously been "artificially" held back because of fears of continued price falls. Quite incredible stories are heard about how retail stores in many parts of the United States reduced their stocks to practically nothing last winter, resulting in their being unable to provide their customers with reasonable service. Other middlemen too have been living from hand to mouth. Maintenance and repairs have been postponed and old uneconomic automobiles have remained in use.

Natural demand

What is needed in order to release a large volume of demand, therefore, is a psychological turnaround, i.e. an assurance that the price fall has ceased. That being so, Roosevelt's action has merely speeded up this increase of demand and the price rise following from it. It has been his good fortune to intervene just as a natural recovery was on the way.

The correctness of this interpretation seems to be substantiated by events in other countries. This year it has been possible to discern everywhere a recovery which can scarcely be exclusively the result of "infection" from America. Over the past week, I have been discussing this question with a large number of important financiers from London and New York as well as with all the better-known economists in London. I have found a unanimous opinion among them that the forces which commonly emerge towards the end of a depression and operate in favour of a recovery have been at work alongside the inflation policy.

Under such circumstances it is only natural that production of consumer goods will grow more rapidly than consumption for a time. The discrepancy between them is needed of course to bring middlemen's stocks up to more normal volumes. While this expansion of stocks is going on, however, the incomes of workers and others, and thus their demand, must rise sharply if a fall in production is to be avoided at the point in time when stock increases come to a halt.

Fears that the increase in incomes and consumer demand will not be large enough, and that a retrograde tendency will therefore emerge, are quite widespread in some parts of America. They have been reinforced by reason of the fact that retail trade turnover during June was a fraction below that of May. It is because of concern over factors like this that General Johnson, head of the Industrial Recovery Board, is endeavouring to get industry to introduce wage rises.[15]

Different types of demand

As far as I can see, however, the manufacture of consumer goods does not have as great an influence on the economic trend as does the production of capital goods. If we can get capital replacements and repairs by railways, motorists, house-owners and others properly into motion, then demand for consumer goods will continue to grow as well, even if a temporary setback should occur. In General Johnson's public statements there are too many traces of the untenable "under-consumption" theory, which holds that crises result from a failure of consumers' (especially industrial workers') purchasing power to grow as fast as production, and which therefore regards wage

[15] General Hugh Johnson was director of National Recovery Administration, established by Franklin Roosevelt in 1933 and declared unconstitutional by the U.S. Supreme Court in 1935.

rises as the remedy for depression. When all is said and done, industrial workers represent only a minor proportion of the demand for consumer goods, and the demand for capital goods comes from quite different sources.

At all events, it is important that – under the influence for example of the planned restrictions on production of cotton, wheat, tobacco etc – there has been a significant rise in price and increase in value of agricultural production and therefore of farmers' purchasing power. The general opinion among the American experts with whom I have spoken seems to be that the consequence of this will be an immediate increase in farmers' purchases of industrial goods.

There are those who believe that the first period, during which stocks are being replenished, is already more or less over. Should this be correct, then a severe economic setback is not improbable. In that case, the question will be how quickly Roosevelt can intervene again not merely with new declarations but also with public works and other measures. However, the majority of experts consider it likely that the first phase has not ended but will continue for some time yet, even if the dollar does not depreciate further but remains at about par with the pound sterling.

Should the rise in production and prices now continue at the same pace as hitherto, so that by next year the price level of 1928 will already have been reached, there is obviously some risk that the rise in prices cannot be halted but will get out of control. It is also possible that the president either will not or dare not accept the unpopularity which may be the consequence of stopping the price rise, which experience suggests will always be accompanied by some degree of crisis. People in London are not totally satisfied with Roosevelt's declaration that he will stabilise the price level when it reaches the pre-slump level but they would like more detailed information as to the means by which the price rise will be halted.

With regard to the more remote results of the vast reflation experiment, there is little to be gained from further speculation at present. One financier who is renowned for his sound judgment remarked on this matter: "I have no opinion, and there is no basis for any opinion about it." Those who feel absolutely sure that it will all end in some violent catastrophe should be judged with the same scepticism as those who believe that Roosevelt can create permanent prosperity.

This article has touched upon one aspect of Roosevelt's economic policy, the attempt to set production and consumption in motion again. I shall deal with the other aspect in a later article. It would be to misunderstand his intentions completely if one were to believe that he wants to leave pre-war capitalism a free hand after he has pulled it up from the abyss and barely got it adequately repaired. Far from it! The plan is to create a socio-capitalistic social order as different as anything can be from the pre-war capitalism of the Manchester liberals.

9. Revolution by arrangement, not by communism! The men around America's new president presented by professor Bertil Ohlin (30 July 1933)

There is no doubt that American society finds itself in a process of rapid transformation. One of the active and responsible persons involved has described it as "an arranged revolution which makes it possible to avoid a violent overthrow of the entire capitalist system". This way of regarding things appears to be very common in the United States. The choice was not between the old system and Roosevelt's new one but between the latter and a much more revolutionary one with a communist tinge.

Whither Roosevelt's novel approach will lead is obviously uncertain, although the direction is clear, in social and economic respects at least. It seems to be more dubious whether the most important political innovation – the president's dictatorial power – will turn out to be purely temporary or whether a permanent curtailment of the influence of Congress will ensue.

Many people are surprised that the old liberal system's defenders are putting up such feeble resistance to the new and far-reaching regulation and controls. No small part of the explanation seems to lie in the fact that the last century's sturdy temper in favour of unrestrained free competition has been yielding ground over the past couple of decades to an attitude more amicably inclined towards organisations. During the nineteenth century and right up to the war, the great trusts that came into being were regarded as criminals who exploited and fleeced consumers; they were therefore declared illegal and dissolved. Indeed the striving for free competition was taken so far as to try to *compel* firms by law to compete.

The mood has changed over the last two decades. During the war it was found very practical to have large industrial combines with which the government's agencies could negotiate concerning wartime requirements and the realignment of production which these occasioned. The importance of cooperation between different firms for efficient production has also won increasingly widespread recognition. The numerous trade associations, which at first were concerned mainly with statistics, credit information and the like, have grown in strength and increasingly resemble price and production cartels of the German type.

Crisis breeds criticism

Another important reason why the pre-war type of society has found so few defenders is of course the long depression. Last year it became more and more apparent that if this were to continue for a few more years, then the existing social framework would creak at the joints and then probably collapse. Broader and broader circles of people were beginning to question the rationale of the basic institutions on which society has hitherto been built, such as the individual's right to private ownership of the means of production, which resulted in half or more of them not being used at all. The absence of any strong socialist and communist movement in the United States did not by any means show that the system *in situ* possessed such stability as would enable it to survive a protracted depression. A mood favouring radical measures in practically any direction at all began to gain ground, not least among farmers.

Another very important factor is that because of the crisis, those who came closest to defending the existing liberal type of society, such as big businessmen and bankers, have lost their authority to a degree which has no counterpart in Europe. This applies particularly to those heads of banks who recommended and sold domestic and foreign bonds on which the general public incurred enormous losses, and who also reduced their banks to a very much weakened condition generally. Not even the best-disposed critics, who take full account of the importance of political events outside the United States, can really argue that the American banking system is well organised.

Some idea of how low bank directors, from being placed on a pedestal, have fallen in esteem, can be gathered from a story, tasteless in itself but very illuminating, which is said to have been very popular last spring in the southern states, where, as we know, it has always been regarded as scandalous for a white man to marry a black woman. The story runs thus: "Have you heard the latest scandal? A bank director has married a white woman."

Even in circles which most emphatically reject the idea of making scapegoats of bankers, criticisms have been raised against attributing as much importance as formerly to the opinions of financiers. These men are predisposed by virtue of the work they do to a certain view of the problems of social change. In their view, profit and "profitability" play a role which looks disproportionately large from other standpoints, as for instance when assessing what will be the most important and beneficial investment of the nation's capital for the population at large. Furthermore, they calculate too much in technical financial terms and too little in psychological.

Ring in the new!

Inasmuch as financiers, and all those associated with them who have hitherto been regarded as "sound", have been discredited, the road has been opened to men of another type, termed "radicals" in America. During the Coolidge and Hoover regimes, these were not quite acceptable socially, since they adopted a critical stance towards "big business" and asserted social opinions in a manner unpleasing to high finance. Many of them have been dismissed or driven out from their seats of learning in other ways.

The event which, more than any other, made the public at large willing to listen to these people's views was the enquiry set up by Roosevelt, in his capacity as governor of New York, into the bribery system in local government administration, one of the consequences of which was Mayor Walker's departure from office. These judicial proceedings brought to light the fact that the bribery system was exceedingly widespread not only in the administration itself but also among the judiciary. It further showed that large and reputable business firms regularly resorted to bribery to safeguard their interests.

The man who laid all the groundwork for this process was Roosevelt's intimate friend Moley, professor of public law at Columbia University in New York, who is generally named as leader of the president's "brains trust".

This brains trust, which many believe to have enormous influence, is notable in that, *inter alia*, it simply does not exist as an organisation or group. There is not and has not been any committee or circle or "kitchen cabinet". On the other hand Roosevelt, ever since his time as governor, has been in the habit of regularly consulting certain individuals whose judgment he respects and with whose approach to social problems he sympathises. Each of them is consulted on the issues within his field of expertise. It says a good deal about Roosevelt's own personality that these persons, with only one or two exceptions, turn out to be "radicals". The majority of them were already his intimate advisers in New York and have followed him to Washington. One or two more have been added since the presidential election.

The lawyers: Moley and Berley

In the number one position, as already indicated, there is Moley, a charming grey-haired gentleman of about 50. He is said to combine idealism with sobriety and sound judgment, always keeping at least one foot on the ground. The investigation into the bribery scandal revealed an uncommon capacity for organisation and "encyclopaedic" talents. He marshals his facts like soldiers in an army and marches them out in proper order. As assistant secretary of state it is expected that he will play a large role, since he is a much more forceful personality than secretary of state Hull.

As regards the legislation required for regulating business life, the president looks chiefly to Berley, another doctor of laws at Columbia University. The latter is one of those jurists with sociological interests. When he is writing company law, he first studies how the large corporations actually work, which men sit on many company boards and therefore exercise the real control, and so forth. He studies the importance of this for the smaller shareholders and for private ownership of property in general. All his draft laws bear the impress of social and radical attitudes. It is social serviceability, not opportunities for individuals to make large profits, that he seeks to ensure.

Economic advisers

On economic questions, especially those concerning agriculture, the president consults a third Columbia professor, Tugwell, an economist at present serving as assistant secretary for agriculture. He is said to be, like most of the others, emotional by nature and strongly sympathetic towards economic planning.

Of quite a different type and almost a cuckoo in the nest is the financier Baruch, who, when asked his profession at a public enquiry after the war, replied "Stocks and shares speculator." During the war he was head of the War Industries Board, i.e. he mobilised industry for war purposes. His closest colleague at that time was General Johnson – now a 50 year-old typical intellectual officer, who worked after the war in Baruch's banking firm – and Mr Peek, who, as is well known, is currently administering the reorganisation of industry and agriculture.

In the eyes of many, Baruch is nothing more than a speculator who wants to give monopolies more freedom of action and has his heart set on the general aim of enlarging his enormous fortune by speculation. Others believe he has a "split personality" and is therefore capable of being a large-scale speculator while at the same time seriously endeavouring to assist in reforming society.

Another financial adviser – of course these are indispensable even if their general political influence is negligible – is the 40 year-old New York banker Warburg, son of the old German-born Paul Warburg. He is exceedingly intelligent and less a prisoner of orthodox ideas than most bankers.

Since Roosevelt became president, the foremost economic adviser to the state department, Dr Feis – the leading figure among the many experts at the London conference – is said to be playing an increasingly important role even though he was appointed by Hoover's secretary of state, Stimson. Feis is a man of 40-45 years, with grey curly hair, wonderfully keen brown eyes and an altogether exceptionally charming personality. He is idealistic, sensitive and notably radical. After studying at Harvard, he became professor of political economy at Cincinnati about ten years ago but resigned from his post to work as an independent writer. One of his works was a brilliant book on "Europe as the World's Banker", in which social and human problems are touched on as well as economic. It was this book which attracted attention to him. Alongside Moley, Berley and Tugwell he is a leading radical force among the president's advisers.

Of a more conservative and financially orthodox inclination is Douglas, director of the budget, whose main interest, for obvious reasons, is in balancing the budget. He therefore endeavours to prevent an excessively vigorous expansion of public works. Also expected to exert influence in a stabilising direction is Professor Sprague, a Harvard economist and until a month ago an adviser to the Bank of England.

Most recently, two more economists of the radical type have been summoned to Washington, viz Professor Warren of Cornell University and Professor Rogers of Yale. Both are very interested in Irving Fisher's plan for a "compensated dollar" whose gold content will vary so as to keep the price level constant. It is thought to be Warren who inspired and perhaps also wrote Roosevelt's remarkable and in formal respects ill-starred notes to the London conference at the beginning of June. Neither of these two economists, however, is regarded as intellectually the equal of Feis, Moley or Berley.

The boundary between the experts who are reckoned to be the "brains trust" because they enjoy Roosevelt's special confidence and those who are not so reckoned, of course, is fluid and moves about as time goes on. This does not prevent them, regarded as a group and especially if an exception is made of Baruch, from having a definite physiognomy: intellectual jurists and economists, who combine desire for social reform and belief in the need for planning and control with manifest scepticism *vis-à-vis* financial authorities of the old school.

10. The front against state socialism (20 January 1935)

During the budget and policy debate, it was argued in many quarters that as a result of the appointment of the Nothin committee and the finance minister's declarations in the budget, the question of socialisation had become a practical political issue after having previously been a purely academic topic.[16] One of the grounds for this opinion is that with these declarations of principle in the background the government's monopoly investigations cannot be regarded as unbiased enquiries into the most appropriate way of raising revenue for the state. These monopoly plans appear instead to be components of a larger plan, still only incompletely formed, to lead Sweden's economy step by step over into a type of organisation which can rightly be described as socialistic.

This implies a radical shift of the political battlefront in our country. As long as the antagonisms revolved around the active business cycle and crisis policy, the government enjoyed the support even of sections of opinion which reject socialisation but do not on that account deny to the state important tasks in the economic field, especially during times of crisis. Socialisation issues were not by any means of current concern. But to the extent that crisis policy is phased out or switched over into more permanent longer-term measures, antagonism rears its head again between Marxist state socialism and a body of opinion which is sceptical of direct management of the economy via government agencies.

One matter above all must be stressed at this point. At present there are not two but three different views with regard to economic organisation which play a vital role in the political debate. Firstly, there is the old liberal, passive approach which wants the state to stay right out of economic life. While no party in office can follow this line, since the demands of necessity are stronger than doctrines, this does not prevent these arguments coming up frequently in political debate and on more than one occasion substantially influencing the actual decisions taken.

Approach number two – active and social liberalism – argues that the state's role in economic life depends on circumstances and cannot be the same today as it was in

[16] Torsten Nothin was a politician (Social Democrat), minister without portfolio in Per Albin Hansson’s government from 1932 and governor (*överståthållare*) of Stockholm from 1933. He was chairman of a committee on national food supply and industrial peace (*folkförsörjning och arbetsfred*), also called “the mammoth investigation”, which began its work in January 1935 and produced a report published in December as *SOU1935:65*.

the 19th century. The same factors which have led to a more fixed organisation of the private economy over the last half-century have increased the need for state participation in certain areas of the nation's economic life. Above all, the state must establish the bounds of private economic activity, for example by means of customs policy, agricultural policy and not least measures of social policy. It must also intervene against all tendencies on the part of large and powerful private organisations to abuse their commanding position.

Nothing can be more mistaken and misleading than to confuse this social liberalism, which was not constructed by any theoretician but has sprung from practical needs, with the doctrine of state socialism which is largely the result of Karl Marx' speculations. This latter ideology prescribes that the state should simply take over the economy. Government agencies must even direct the day-to-day work of production and distribution, and private profit interests are to vanish. How far this is from the standpoint of social liberalism! Nevertheless, there are those in old-liberal circles who would tar social liberalism and socialism with the same worn-out brush as "economic planning".

Of course, it is an open question how many members of Sweden's Social Democratic party or of our present government really believe in the appropriateness of a socialist order of society in practice. But they undoubtedly have a serious desire to go quite a long way in that direction. They cannot avoid a tendency, when confronting current practical questions, always to prefer solutions of state socialist type. In a political majority position this would certainly show itself clearly not only with regard to coffee, beer and petrol but in many other fields as well – banking for example. It is precisely this political control and direction of the economy that state socialism strives to achieve.

It is between this outlook on the one hand and active social liberalism on the other that the most important political dividing-line, practically speaking, now seems likely to run in Sweden. Which does not, of course, prevent the boundary *vis-à-vis* old-fashioned liberal opinion (specially strongly represented in certain quarters of the conservative party) from being important enough.

The minister of finance has no difficulty in showing, in the preamble to the budget, certain weaknesses of that way of thinking which denies that the state can make any useful contribution to the economic life of the nation. But he oversimplifies the matter when he then omits to distinguish between the various sorts of government intervention. It is true that measures of agricultural policy have not diminished the confidence of farmers or their desire to produce. But the reason for this is that agricultural policy is typical "framework economics", i.e. economic planning on very general lines and differing widely from purposeful and prolonged state socialist experimentation of monopoly type, which would surely have quite a different effect, for example on the very factor of confidence.

Generally speaking social democrats are too much concerned with portraying a state socialism focusing on the long term and manifested *inter alia* in the form of extensive monopolisation as being a continuation of the business cycle and crisis policy which has been conducted with success in the last few years. But we are talking about two very different things here. Business cycle policy cannot be used as a pretext for a state socialist policy of monopoly and control. On this point both supporters and opponents of the former policy within the non-socialist parties are probably in complete agreement.

Ohlin on the Great Depression

BENNY CARLSON | LARS JONUNG

Bertil Ohlin was a most active commentator on current economic events in the interwar period, combining his academic work with a journalistic output of an impressive scale. He published more than a thousand newspaper articles in the 1920s and 1930s, more than any other professor in economics in Sweden. Here we have collected ten articles by Ohlin, translated from Swedish and originally published in Stockholms-Tidningen, to trace the evolution of his thinking during the Great Depression of the 1930s. These articles, spanning roughly half a decade, bring out his response to the stock market crisis in New York in 1929, his views on monetary policy in 1931, on fiscal policy and public works in 1932, his reaction to Keynes' ideas in 1932 and 1933 and to Roosevelt's New Deal in 1933, and, finally, his stand against state socialism in 1935.

At the beginning of the depression, Ohlin was quite optimistic in his outlook. But as the downturn in the world economy deepened, his optimism waned. He dealt with proposals for bringing the Swedish economy out of the depression, and reported positively on the policy views of Keynes. At an early stage, he recommended expansionary fiscal and monetary policies including public works. This approach permeated the contributions of the young generation of Swedish economists arising in the 1930s, eventually forming the Stockholm School of Economics. He was critical of passive Manchester liberalism, "folded-arms evangelism", as well of socialism while promoting his own brand of "active social liberalism".

Key words: Bertil Ohlin, Sweden, Great Depression, Keynes, Stockholm School of Economics, countercyclical polices, public works, liberalism.

JEL classification: B22, B31, E12, N12 and N14.

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