

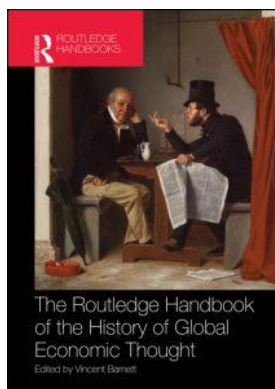
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Sweden

Lars Magnusson

Sweden is a thinly populated country in northern Europe, out-stretched with a concentration in its southern part up to its capital Stockholm, situated by the lake Mälaren. Its political and economic history has largely been influenced by its position between Western and Eastern Europe, and its long coastline along the Baltic Sea. When Sweden was formed as a state in the eleventh century, it served as an exchange post – also as a producer of iron – in the lively trade with silver, slaves and goods between Western Europe and Imperial Persia. During the late Medieval period the main Swedish harbour cities became entangled within the great Hanseatic League, and its predominantly trade with iron was in the seventeenth century dominated by Dutch Merchants.

In the eighteenth century, the trade hegemony of Amsterdam was replaced by England as a main importer of iron and steel – which was also a major factor behind the first wave of industrial breakthrough in the 1850s, stimulated by an upsurge of demand for Swedish sawmill as well as iron and steel products. Around the turn of the century (1900) industrialisation had become self generated, with the establishment of many new firms, especially in the mechanical engineering industry (Ericson, Alfa Laval, SKF, Atlas Copco). Also a growing domestic market helped to increase economic growth and income. However, still in the early 1920s agriculture was dominating in terms of employment. The 1930s saw the rise of the Swedish welfare state and growth rates peaked during the 1950s and 1960s, making Swedish per capita income one of the highest in the world. After a period of sluggish growth and structural problems following its major 1990s crisis, Sweden has emerged once again as one of the wealthiest countries in the world, with a high profile concerning welfare and high levels of employment.

Although being one of the oldest centralised states in Europe with a rather homogenous ethnical composition, its position between west and east, but also connecting to central Europe in the south, has been a strong influential factor concerning its intellectual development in general and perhaps economic thinking and writing in particular. For Sweden as well as elsewhere the word ‘influence’ must be used with caution. Certainly, Sweden was open to new ideas and modes of writing and thought originating from outside. However, such imports can not be regarded as immediate reflections but should rather be understood in terms of an active process of translation in which concepts and theories were transformed and changed according to the peculiar political, social and economic institutions formed through history. Hence influences

came from different corners, and what might look like bleak imports from abroad should rather be looked upon as adaptations making sense in a specific institutional and cultural context.

The eighteenth century

The first printed works which might be defined as ‘economics’ only arrived in the early eighteenth century. Moreover, the first chair in the economic sciences was established at the University of Uppsala in 1741. Then a chair was created in Åbo (Turku) in 1747 and Lund in 1750. However, already during the seventeenth century books and tracts were published which might be recognised as examples of the so-called *Hausvater-literatur* widely spread in Europe at the time. For example, in Per Brahes’ *Oeconomia eller Huuszholdsbook för ungt Adelsfolk* (1581) and Schering Rosenhanes’ *Oeconomia* (1662), it is demonstrated how a large estate in the countryside should be managed in order not only to make a profit, but also to keep up its owner’s social position and status: ‘economics’ at this time was defined in its Aristotelian meaning as an Art of Household Management.

The noblemen Brahes’ and Rosenhanes’ works were never printed but spread in hand-written copies in small circles of land-estate owners. The fate of not being printed was also allotted to a work of a different kind, certainly also influenced by Aristotle, a longish manual written by Johan Risingh (of which a fraction was published as *Itt Uthogh om Kiöphandelen eller Commerciere* in 1669). Instead of agriculture it dealt with foreign trade and commerce and how these should be regulated in order to gain the most income for the state. Risingh is mainly referred to as a cameralist, but his focus is less on taxation than on commerce and he seems close in his thinking to Johan Joakim Becher, the councillor of commerce in Vienna at the court of the Habsburgs. Risingh was a leading official in the Collegium of Commerce set up in 1651 to enhance Swedish foreign trade – not least in order to lift the dominance of the Dutch.

The first printed economic treatise in Sweden was Anders Bachmansson’s (later Nordencrantz) *Arcana Oeconomiae* (1730). It followed on the same theme as Risingh: how to make Sweden richer through capture of foreign trade. In the 1720s Nordencrantz had been a Swedish *envoyé* posted in Lisbon where he had learned several foreign languages, but also read economic treatises and handbooks on commerce. He was well acknowledged by English writers such as Josuah Child and Charles Davenant, as well as with early French *economistes*. Besides propagating for more foreign trade on Swedish keel-boats, he also saw the benefits of a larger population through an improved *policy*, including the possibilities for foreigners (especially French Huguenots) to migrate to Sweden. The same messages can also be found in the textbook published in 1747 by the first professor in Uppsala (Anders Berch, *Inledning til Almänna Hushåldningen*). In its structure the book closely followed the example of Justus Christoph Dithmar, appointed professor (1727) in Frankfurt an der Oder, in dividing the text into three parts, the sciences of *Kameral*, *Policy* and *Oeconomia*. However, in contrast to his German college he treated the sources and methods of taxation rather hastily. Instead he proposed means to increase the population, reforms to improve agriculture, the establishment of manufactories and the most beneficial methods to regulate trade, both domestic and foreign.

It has been customary to portray Bachmansson, Nordencrantz and Berch’s works as ‘mercantilist’. Although especially Berch refers to something he called the ‘balance of trade’, it is not so easy to discern what he meant by using the concept. No doubt, he was not making the mistake which Adam Smith accused the ‘mercantile’ or ‘commercial’ system of making: confusing wealth with gold and silver. Rather he defines the ‘balance of trade’ in the same

manner as English writers at the end of the seventeenth and beginning of the eighteenth century, as a balance making it advantageous for a state to export value-added and import raw products. Such an emphasis on the need for more manufactories, greater employment of handicrafts and worked-up production is a general theme in much of the lively economic discussion in Sweden from around 1730 up to the end of the 'Age of Liberty' in 1772, with the *coup d'état* of Gustav III ending a long period of a high degree of freedom of the press. As with Berch, many of these texts were highly *dirigiste* in tone and particularly supported so-called manufacture policies that had been established in the 1730s, which included both subsidies to the sector as well a plethora of privileges.

In general, however, such policies led to financial speculation and inflation, which in the early 1760s ended with a big financial crash. Inflation soured into deflation and the economic writers turned away from *dirigisme*. This change was more apparent in public discussion than in the universities, where a mixture of commercial law, agricultural improvements and policies in order to increase the population still prevailed. But from outside, a number of writers appeared who were ready to condemn early regulations as violations against 'natural law'. In order to increase economic wealth and happiness, they argued, trade must be unregulated and more freedom of enterprise allowed. Only by pursuing its own interest and seeking the best opportunities can the whole prosper, argued for example the radical clergyman Anders Chydenius from the distant Ostrabothnia in Finland. While this perhaps does not make him – as has been proposed – a predecessor of Adam Smith, he was clearly inspired by the general discussion on natural rights which spread through Europe at the time. In a small pamphlet from 1765, *The National Gain*, he effectively argues for deregulation of (foreign) trade, with arguments based upon the notion of an invisible hand. This was not uncommon at the time and was not – of course – invented by Smith. But is perhaps remarkable for its time how Chydenius was able to use individual liberty as an argument for more economic freedom.

However, Chydenius' main inspiration did not stem directly from foreign sources but rather from someone he himself called his teacher, Anders Nordencrantz. Since we first encountered him in 1730, he had been nobled as Nordencrantz instead of Bachmannson, had made a career as an (eventually defaulted) iron mine owner, politician and a vitriolic writer condemning the old *dirigisme* in stark language. His intellectual influences came from reading British and French moral philosophers such as Mandeville, Hume and Helvetius. His main outlook was pessimistic: men were at heart 'knaves and rogues', he said. They were passionate, self-interested and likely to be corrupted when provided with power. Only republican rule, or even better a constitutional monarchy, could remedy the situation, thus assuring that 'individual vices' would turn into 'public benefits'. In his economics he – like Chydenius – was well-read on the arguments for a free grain trade, reforms in agriculture, more free trade, less privilege, etc. put forward by the French *economistes*, particularly Melon (whose works were translated several times during the Age of Liberty), but also Mirabeau and Turgot.

At least one Swedish economic writer at this period was clearly influenced by Quesnay and the Physiocratic School, the nobleman and politician Carl Fredrik Scheffer. However, in his own translation of some of the school's main texts, including Quesnay's *Maximes*, the majority of its most important exclusivities were left out. While agreeing that the *net produit* for a country could only be achieved in agriculture, he did not characterise the other sectors as sterile. Moreover according to his plan for new taxation, he made a plea for the old feudal estate owners and ignored the middle-farmers, the *fermiers*. Most likely this reflected the situation in the Swedish countryside during the middle of the eighteenth century, with the absence of 'capitalist' farmers.

The nineteenth century

After the *coup d'état* of Gustav III in 1772, there was a standstill in the public discussion on economic matters, mainly as an effect of wars, pestilences, famines, the assassination of Gustav III in 1792, the dethroning of his son Gustav IV from power in 1809 and eventually the loss of Finland the same year. Berch's increasingly dated textbook from 1747 continued to be read to Uppsala students, and was only replaced in 1829 by Professor Lars Georg Rabenius' *Lärobok i National-ekonomien*. His book was an eclectic mixture of teachings from classical political economy (particularly Say) and contemporary German cameralism. While naming the subject 'National Economy' from the German *Nationalökonomi* (still a term used in Sweden), he identified three different 'economic systems', the mercantile, agricultural and industrial system. The first two of them had been surpassed by history, he thought. The third one, the 'industrial' system, he connected with Adam Smith. According to Rabenius the base of this system was not individual liberty or the benefits of the invisible hand, but an insistence upon industry as the major generator of wealth. To support industry was thus a main task for the state and government.

This dominance of German *Nationalökonomi* mixed up with a little Say was not shaken until the middle of the nineteenth century. The main translator of Say's economics for a Swedish economic audience was the Professor of 'Economics and Botany' from 1812 to 1834, Carl Adolph Agardh in Lund. During the semester of 1821–2, he followed Say's lectures in Paris, and in his *Granskning af Statsekonomiens Grundläror* (1829) he says that he adheres to Smith's views – but only to a certain degree. His caution lay in that Smith gives a much too passive role in economic matters for the state. Practical men and politicians have already abandoned this 'utopianism'. Moreover, Smith put too much emphasis on the role of labour for economic wealth and neglected the role of natural resources. In Sweden during the nineteenth century both Ricardo and Malthus were looked upon with suspicion. Their gloomy predictions concerning a declining marginal rate of rent on land and population increase were regarded as not adaptable (like with the USA) to a country with a small population and ample natural resources.

Perhaps not surprisingly the impetus for change came from outside academia. The liberal reform era of dismantling the old *dirigiste* economy started in the 1840s and included an abolition of guilds and freedom of enterprise. In the public discussion many of the old truths were questioned, but there is no evidence that they were particularly based upon economic theories (although the finance minister J.A. Gripenstedt had read Cobden and some French 'harmony' economists). The first academic writer of a more principal *laissez-faire* stance was G.K. Hamilton, who held a chair in National Economy and Administrative Law in Uppsala. In his *Om Politiska Ekonomins Utveckling och Begrepp* (1858) he seems clearly inspired by Frédéric Bastiat.

Another important *importeur* of French *laissez-faire* economics was Wolter Arnberg, a reader in national economy in Uppsala with his small booklet, *Om Arbetets och Bytets Frihet* (1864). Moreover, with the establishment of *Nationalekonomiska föreningen* in 1877 – with its mixture of academic economists and businessmen – the ground was laid for a more liberal economic discourse. However, there was a twist to Arnberg and the others' liberalism. De-regulation should not be carried too far, they argued. The visible hand of the state should help to introduce good regulations in order to promote economic growth. They proposed pragmatic liberalism, and one of the most vocal followers of Bastiat in Sweden, the finance minister Gripenstedt, did not hesitate to create a state-owned railway system in Sweden, as well as to save private banks from defaulting with public means.

The twentieth century

The breakthrough for neoclassical academic economics in Sweden is most often connected with three names: David Davidsson, Knut Wicksell and Gustav Cassel. When David Davidsson (1854–1942) in 1899 started *Ekonomisk Tidskrift*, this was the first step in the professionalisation of modern academic economics in Sweden. However, Davidsson was never a neo-classicist. In his early days he was clearly inspired by the German *Kathedersozialisten* and even in old age he did not altogether abandon his fondness of the Marx/Ricardo labour theory of value. His chair was placed partly in the Faculty of Law and partly in the Faculty of Philosophy, and the bulk of his teaching was in economic law and the history of economic thought.

Seen in perspective the most outstanding of the threesome was most probably Knut Wicksell (1851–1926). He started his career as a radical student in Uppsala and became known as neo-Malthusian propagating for birth control. He was also a republican and critical of the established state church, which he mocked especially for its teachings on the immaculate conception – in an essay which sent him to jail for two months in 1909. After becoming a doctor he was refused the *Docent* title in Uppsala (probably because of his radicalism). Instead he moved to Lund where he received a chair in *Nationalekonomi och finansrätt* in 1901. Later on he was used as an expert by different Swedish governments on taxation and he sat in many parliamentary committees. While never being a socialist, his social reform views made him an ally of the emerging Social Democratic party.

While studying abroad in the early 1890s, Wicksell came into contact with the Austrian school and especially the works of Carl Menger and Eugen von Böhm-Bawerk. Already in 1892 he had published an essay *Kapitalzins und Arbeitslohn* where he presented a rough sketch of what later became his marginal productivity theory of distribution. It was followed up by a number of original works – influenced by the Austrians, but also including a number of innovative ideas on the use of marginal analysis in different fields of economics – such as *Über Wert, Kapital und Rente* (1893, translated into English in 1954 as ‘Value, Capital and Rent’) and *Geldzins und Güterpreise* (1898, translated as ‘Interest and Prices’ in 1936). For his doctorate he dug deep into the theory and practice of fiscal policy, and in 1896 he received a doctorate *magna cum laude* for the first part of *Finanztheoretische Untersuchungen*. In Sweden his position as the leading economist of his time was established after the publication of the first part of his *Föreläsningar i Nationalekonomi* (1901, 1906), which for a long time became the standard academic textbook introducing the new neoclassical theories into the Swedish universities.

However, Wicksell was more than a compiler of new theories on marginal analysis. What has made him so attractive to later generations of neoclassicals, such as J.R. Hicks and others, was his mix of Austrian theories of production and capital with a Walrasian general equilibrium theory. His ability to synthesise especially showed in his paper *Om Inkomstfördelningen* (1901), in which he elegantly presented his version of the marginal cost theory later developed by Cobb and Douglas, which remained standard for many years to come. However, in Sweden he became most known for his analysis of what he called ‘natural rent’ (where no inflation occurred), where the rent of money equalised the interest on capital. His contribution here paved the way for what some decades later would become known as ‘the Stockholm school’ with its emphasis on disequilibrium and the impact of prices.

The third of this first wave of new professional economists, Gustav Cassel (1864–1944) has remained a controversial figure. Receiving a chair in Stockholm 1904 – after a passing flirt with the Historical School and social reform – he became an enigmatic Walrasian. However, what was problematic was that he was eager to emphasise that his version of general equilibrium theory was the original one, rather than Walras’s. Later generations have been less convinced,

or for that matter that his *magnum opus*, *Teoretisk Socialekonomi* (1914) was as innovative as Cassel thought it to be. Outside Sweden, after the First World War he became something like an international monetary expert travelling to different countries in order to give advice on how to adapt to the reintroduction of the Gold standard, as well as making vocal his ideas within the international conference on monetary stabilisation in Genoa in 1922.

The birthplace of the so-called Stockholm school of economics has been located to a meeting with the Stockholm-based *Nationalekonomiska klubben* in 1928, where a number of young Turks of the younger generation of economists – including Gunnar Myrdal (1898–1987), Erik Lindahl and Dag Hammarskjöld (who later became Secretary general of the United Nations) – aggressively attacked the older generation, particularly Cassel, Sven Brisman and Eli Heckscher (1879–1952). Heckscher was at heart an economic historian, but together with Bertil Ohlin (1899–1979) he had formulated the so-called Heckscher-Ohlin theorem of comparative advantage in 1919. Although Ohlin was not present at the meeting, he surely also belonged to this group.

Partly inspired by the ‘new economics’ stemming from J.M. Keynes, but more fundamentally from their reading of Wicksell’s theories on the ‘natural rate of rent’, this group of young economists started out from the assumption that the older generation’s faith in the inevitability of general equilibrium in the long run was a false start. Especially in Myrdal’s dissertation, *Prisbildningsproblemet och Föränderligheten* (1927), its message was formulated: that the old micro-based and static theories had little to say about such phenomena as slumps, crises and mass unemployment. In his dissertation Myrdal especially discussed the role of expectations and the dynamics between *ex ante* and *ex post*. It was not self-evident that an economy, having fallen into problems, would automatically readjust itself and reach equilibrium. Taking off where Wicksell had ended with his discussion on cumulative disruption over time, Myrdal, Ohlin, Hammarskjöld and others developed an analysis of the business cycle which, in contrast to Keynes’ *General Theory*, was of a dynamic kind. Perhaps Erik Lundberg in his *Studies in the Theory of Economic Expansion* (1936) went furthest in this direction, and also highlighted the weakness of the whole group. Instead of contributing to a reconciliation between micro and macro theory – which seemed a necessary task for ‘Keynesian’ economists after 1945 – the work of the Stockholm school led into opposite and, for standard economic theory, dire directions.

Two themes appear once the Stockholm school is up for discussion. First its relation to Keynes, and here it seems clear that Wicksell instead was the school’s main source of inspiration. Secondly, the impact of both Keynes and the Stockholm school on the crisis policies developed in Sweden during the 1930s has been discussed vividly. Also in this case, Keynes’ influence on the Stockholm school was minimal. Already in 1932 Myrdal and Ohlin formulated the new fiscal policies which would be the hallmark of the new Social democratic government coming to power the same year. When Keynes’ *General Theory* appeared in 1936, such policies in order to stimulate demand were standard procedure. More important for Myrdal and Ohlin had been the general discussion during the 1920s on public works formulated by liberals and social democrats both in Britain and Sweden.

While the Stockholm school in the 1930s seemed to provide an alternative road to Keynes for macroeconomics, this would not become the case. Why? There are several reasons for this. First, of course, Keynes’ theories were easier to model with – and to combine with the old micro fundamentals – than Stockholm’s complex and dynamic case-study approach, which offered few if any equilibrium points. Secondly, many of the leading Stockholm economists went into politics or administration: Myrdal first went to the USA to write *An American Dilemma* (1944) concerning race problems, and then after the war became a minister in the social democratic government; Ohlin became the leader of the liberal *Folkpartiet*. Thirdly, this meant that they

did not raise a second generation of Stockholm economists in the universities. Rather, their influence waned and after 1945 Keynesianism was also adopted as an orthodoxy in Sweden.

As in most other Western countries, the dominance of Anglo-Saxon economics and the neoclassical synthesis became strongly felt after the Second World War. When economics at the universities grew in importance during the 1960s/70s, macro- and microeconomics *à la* Paul Samuelson were taught and explicated. When the Institute for International Economics was started at Stockholm University in 1967 this was where Sweden's leading economists gathered. Up to the 1970s economists such as Erik Lundberg and Assar Lindbäck were defending orthodox Keynesianism – but always seeking to combine macro with micro, and emphasising the role of the market instead of the visible hand of the state. However in the 1980s there was a breakthrough for new theories. The influence of Hayek, Friedman, and also the Public Choice School became remarkably strong. This reflected what was going on elsewhere, but was perhaps reinforced in Sweden by the establishment in 1968 of the Swedish Central Bank Nobel Memorial Prize, which most probably has led to a certain trendiness within the Swedish economic establishment. At the same time the neoclassical orthodoxy has prevailed very strongly among Swedish economists. In recent years the subject in Sweden has been divided up into a number of sub-fields: particularly strong have been labour market economics, general macroeconomics, taxation and game theory.

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