The ‘Wigforss Connection’: the Stockholm School vs. Keynes debate revisited

Martin Kragh

Historians have taken a keen interest in the development of Swedish policy and macroeconomic thought during the Great Depression. One of the most debated topics is the extent to which Swedish economists in the 1930s anticipated Keynes’ *General Theory* (1936). A large body of research has been dedicated to assess the theoretical contributions made during these years by a group of young and talented economists, known as the Stockholm School.2 Some of the most well-known scholars usually associated with this school were Erik Lindahl, Bertil Ohlin and Gunnar Myrdal (there were also younger members, such as Dag Hammarskjöld, Karin Kock and Erik Lundberg). The argument has been – implicit or explicit – that these economists formulated a body of economic thought which in important ways broke with established doctrines, and also came to

Address for correspondence
Stockholm School of Economics1, Stockholm, Sweden; tel.: +46-(0)8-7369349; Fax.: +46(8)-313207; e-mail: martin.kragh@hhs.se

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2 It has been discussed to what extent a specific ‘Stockholm School’ can be said to have ever existed. One of the participants, Erik Lundberg (1987: 280), derided the idea of a specific school as ‘myth’ and ‘bizarre fabrication’, though a useful fabrication. So, for reasons of simplicity, the idea of a Stockholm School – without quotation marks – is something this article cannot do without.

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inform the counter-cyclical policies implemented in Sweden during the 1930s and 1940s.

Even though competing interpretations exist, Don Patinkin’s (1978a; 1978b; 1982) conclusion that the Stockholm School in fact did not anticipate the core contribution of the General Theory has remained unchallenged – a conclusion which will serve as our point of departure. However, the argument made in this article is that while Patinkin’s conclusion holds in the strict sense – no member of the Stockholm School anticipated the General Theory –, another unexpected Swedish figure, Ernst Wigforss, can be said to have articulated some of the most salient features of Keynes’ master piece. Wigforss was Minister of Finance in the government formed by the Social Democratic Party (hereafter SAP) in 1932, and became one of the most influential policy makers during the Swedish inter-war period. He was also a skilled economic theorist, and I will argue that through his ability to assimilate and synthesise new contributions to the business cycle literature in the 1920s Wigforss was by far was the closest to formulate ideas that did anticipate important features of the General Theory and the ‘Keynesian revolution’. This article claims to revise two popularly held notions. Firstly, contrary to the generally held view I will argue that the Stockholm School played a secondary role in shaping Sweden’s counter-cyclical policies during the depression. Wigforss possessed all the theoretical tools he needed before the academic economists had made their views on the crisis publicly known. Secondly, I will argue that Wigforss was the one closest to anticipate the General Theory, and that he had his theoretical system for a counter-cyclical policy worked out in 1931 already. He provides the missing link in one of the most debated topics in the history of macroeconomic thought, illustrating how a new economic discourse and policy agenda emerged within the national context of Sweden in the 1930s. In an allusion to Axel Leijonhufvud’s (1981) seminal contribution, I have named this link the ‘Wigforss Connection’, meaning to imply that Wigforss was responsible not only for implementing a fiscal policy favouring counter-cyclical measures, but also for providing the theoretical underpinnings for such a policy independently of Swedish academic economists. Exploring how Wigforss reached these ideas will be the main topic of this article.

Drawing on published and unpublished material from the archives (letters, notes, speeches, unpublished articles), this article sets out to trace the evolution of Wigforss’ economic thought from the early 1900s until the 1930s in order to answer the following questions: How did Wigforss approach the issue of crisis and economic depression? To what extent did his views change over time? What were his major sources of influence and
how did his approach compare to that of the Stockholm School and Keynes?\footnote{Archival material has been drawn from the following four archival institutions: Labour Movement Archives and Library (hereafter AOB); Lund University Special Collections (hereafter LU); the National Library Manuscripts Collections (hereafter KB); and the Foundation for Economic History Research within Banking and Enterprise (hereafter SEB).}

1. The debate

In 1937, Swedish economist and liberal politician Bertil Ohlin published two articles in the *Economic Journal* (by invitation of its editor, Keynes) proclaiming the existence and relevance of a specific school in economics – the Stockholm School (Ohlin 1937a; 1937b). In consideration of the already large international interest in Swedish policy which existed at the time (Ratzlaff 1934; Fisher 1935; Thomas 1936), these articles were bound to spark some interest. According to Ohlin, Swedish economists had early on analysed business cycle fluctuations using a dynamic method, an approach which in important ways had not only anticipated, but was also superior to the one expounded in, the *General Theory*. This view has later been much debated, and rightfully criticised, without however underestimating other contributions made by Swedish economists during the 1930s. The discussion has also suffered from an uncertainty as to what the central contribution by Keynes in 1936 was understood to be (or rather the discussion has lacked a clear definition of what this contribution was understood to be).

The debate was revitalised in a controversial PhD thesis by K.G. Landgren (1960) which downplayed the theoretical contributions by the Stockholm School (with the exception of Ohlin).\footnote{Tord Palander (1941) was an earlier critic of the Stockholm School, but he did not focus explicitly on the school’s relation to the *General Theory*, as Ohlin had done in his 1937 articles for *Economic Journal*.} In his revisionist description of events, two important arguments were made. Firstly, if anyone could make legitimate claims to originality, it was the ‘amateur economist’ Wigforss. Secondly, he argued that the major theoretical impulse for Wigforss had been the discussion among British liberals (Keynes included) in the 1920s about the usefulness of public works during recessions. Landgren’s somewhat unwelcome conclusion was that Ohlin’s claims to originality had been overblown, and that one of the leading Social Democratic theorists in the inter-war period had received his main input from a liberal...
Landgren was in turn heavily criticised on both counts, not only by Wigforss (1960) himself (more on this later), but also by other economists (Fernholm 1960; Lundberg 1960) – testimony perhaps to the sensitivity surrounding the issue. Landgren’s case was also weakened by the fact that his thesis provided little textual evidence to effectively substantiate his case.

As can be gauged from the title, Otto Steiger’s (1971) Anti-Kritik attempted to rehabilitate Ohlin’s 1937 claim to originality, and was by and large a critique of Landgren. According to Steiger, most of the concepts and insights in the General Theory had been anticipated already by Swedish economists, Ohlin primarily. The reason for this was the Swedish economists’ reliance on the ‘macro-economic magnitudes’ in the Swedish neo-classicist Knut Wicksell, which had apparently contained and anticipated much of the Keynesian apparatus. Wigforss had provided intelligent and even original analysis, but his role as theorist was secondary to Ohlin and Myrdal – a point Steiger (1971: 142–153) clearly stressed (see Uhr 1973). Further contributions to the journal History of Political Economy (Steiger 1976; Uhr 1977; Brems 1978; Steiger 1978; Yohe 1978) have since consolidated the view that the major rationale behind Swedish policy making in the 1930s came from Lindahl, Myrdal and Ohlin, who, we are told, played ‘a prominent role in shaping the country’s recovery policies’ (Uhr 1977: 89). Wigforss is essentially marginalised; he is often labelled an ‘amateur economist’, if mentioned at all.

The idea that the Stockholm School should have anticipated the General Theory was rebuked by Patinkin (1978a; 1978b; 1982), and as it stands, his verdict has remained unchallenged. His conclusions were supported by Bent Hansen (1981: 275), who argued that ‘the complete edifice of the General Theory was beyond its [the Stockholm School’s] reach’. Patinkin’s case may be summarised as follows: The purpose of the General Theory was not to provide an advocacy for public-works expenditure per se. This had been done much earlier, by other economists and also by Keynes himself. Rather, the purpose of the book was ‘to provide a theoretical underpinning for such a policy.’ And the book’s distinctive analytical contribution was the theory of effective demand; i.e. a theory which ‘equilibrates aggregate demand with supply by means of automatic changes in output.’ Patinkin’s conclusion was that by 1933 – the year Keynes arguably had all his pieces worked out – no such theory can be found in the writings of the Stockholm

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5 For a summary of Landgren’s thesis in English, see Winch (1966).
6 Landgren was further censured by Erik Lindahl’s widow, Gertrud Lindahl (1960). In fact, a complete issue of Ekonomisk Tidskrift was dedicated to a critical discussion of Landgren’s thesis, an odd occurrence by any standard.
School. They had focused primarily on changes in prices, not variations in output. Ohlin’s (1978a) reply did not refute this conclusion, but reiterated that he still found their methodological approach to have been superior, still reaching policy conclusions similar to Keynes’.

This lack of clarity and agreement in the historiography can likely be explained on methodological grounds. Defining the central contribution in the *General Theory* is not necessarily straightforward, so the choice of criteria is crucial. Steiger, for example, was criticised for not setting clear criteria in his evaluation of the contributions made by Swedish economists vis-à-vis Keynes, and for reading too much into the theoretical constructs of Wicksell (Gustafsson 1973). Apart from Patinkin’s stricter criterion, one more inclusive – though potentially too generous – criterion could be Keynes’ ‘three psychological factors’ (i.e. the marginal efficiency of capital, the marginal propensity to consume and the liquidity preference theory of interest). Whilst I am in agreement with Patinkin that neither the Stockholm School economists nor Wigforss did anticipate the *General Theory* in accordance with the stricter criteria, I will argue that Wigforss but not the Swedish academic economists pass the second criteria.

Needless to say, however, this conclusion does not preclude that Swedish economists made other important contributions. But these issues have been more fully elaborated elsewhere (Seligman 1962; Hansson 1982; Jonung 1991), and are not the concern of this article. My disagreement, to repeat, regards the omission of Wigforss from the historical record.

2. Background

The question remains why Wigforss qua economist has been unduly neglected. Most assessments seem to have embraced – explicitly or implicitly – the authoritative account in Myrdal (1958: 257). On the one hand, Myrdal admitted that Wigforss ‘read the economics literature more copiously’ than any of the academic economists and thus ‘should rightly be

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7 In this connection it may be worth pointing out that Keynes, following Ohlin’s two articles in the *Economic Journal* in 1937, had queried Ohlin to substantiate his claim that in Wicksell one finds a clear exposition of the theory that investment and saving might not be equal. Keynes doubted that Wicksell, a known exponent of neo-classical thought and Say’s law, would have investigated such possibilities in much detail. As Ohlin did not reply, Keynes asked also Myrdal for textual support and references – without, however, receiving anything useful. In conclusion, Keynes asked Myrdal if Ohlin ‘is not reading into Wicksell a much later order of ideas?’ See Keynes letter to Myrdal, 8 September 1939. AOB 405/3/2/1/1.
counted into’ the Stockholm School. Yet, on the other hand, Myrdal further added the disclaimer that the Minister of Finance ‘never gave himself time to venture into original economic analysis’ [my italics]. Myrdal’s version gave credence to a powerful story: professional economists provided theory, whereas politicians implemented policy. So, there is no point in bothering with Wigforss’ theoretical views; at best they will only mirror the ideas of the ‘professionals’. This position is also found in Lundberg (1953: 260), and has with only minor exceptions since been often repeated.8

This is not the place to speculate about the motives behind Myrdal’s or Lundberg’s downplaying of Wigforss’ importance.9 A larger shadow falls on historians (including historians of economic thought), who with the benefit of hindsight nevertheless have reproduced this simple story-line. The fallacy might lie in the way historians in general tend to demarcate between ‘economists’ and ‘policy makers’, even though this is a line which in practice has often been blurred. For example Peter Hall (1989), in his study of ‘Keynesianism across nations’, made a distinction between two different approaches to understand how Keynesian ideas influenced policy: On the one hand an ‘economist-centred approach’, privileging the importance of academic economists in the shaping of new policy. On the other hand, a ‘state-centred approach’, emphasising the importance of a susceptible political and administrative climate for the implementation of new ideas.

The problem here is that even though both approaches have merit, they implicitly assume to one extent or the other that only ‘professionals’ are in the position to provide new economic thought. In both of Hall’s approaches, the difference is actually one of degree only, and the possibility that economic thought can emerge from outside of academic

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8 The most recent account is Sejersted (2011: 167): ‘There has been discussion as to whether Wigforss’ new crisis policy was based on a new economic theory. Wigforss was hardly a groundbreaking economist, but he benefited from the help of a series of progressive young economists who constituted what has been called the Stockholm School, names such as Gunnar Myrdal, Erik Lindahl, and Bertil Ohlin. These men made an indubitable contribution to the development of an expansionist countercyclical theory paralleling that of John Maynard Keynes, whose internationally known name has been linked to this development’ [my italics].

9 At least Myrdal is known to have downplayed the contributions by other academics. Keynes’ Treatise and General Theory were described by him as ‘brilliant and important’ but hardly groundbreaking from a Swedish perspective. Pigou was described as a late bloomer whom it took twenty years to comprehend Keynes. Cassel was dismissed as a scholar with ‘no talent for critical analyses’ and as a person with ‘modest ability to comprehend any thoughts except his own’. See Myrdal (1958: 250).
discourse is a priori excluded. The historiography on Swedish economic thought during the Great Depression, as we have seen, reflects this approach. In order to reconceptualise our understanding of this historical case and the role of Wigforss therein, I will consider three inter-related factors: economic thought, economic policy and political philosophy. The relation between these three factors is not a simple one, but an attempt to disentangle the main threads will be made below. The reason for this is straightforward: macroeconomic policy is always based on macroeconomic theory, so the development of the latter becomes important in order to understand the former. Lastly, political philosophy can provide a link between the two. I will attempt to show how all three factors were important in the evolution of Wigforss’ economic theorising.

2.1. Early writings and background

It is not an easy task to capture adequately a person’s intellectual development over the course of decades. In the case of Wigforss, a large literature exists on this difficult question (Lindblom 1977; Tilton 1979; Helldén 1990; Hansson 1997; Karlsson 2001). However, some background and perspective on Wigforss’ early views can help us locate his political economy in a wider historical context, which requires a minor detour or digression. Wigforss was born in 1881 in Halmstad, a town on the Swedish west coast (†1977). He later described his family’s pecuniary status to have been difficult, and argued how this had been important when embracing socialist ideals in his late teens (his father had been a carpenter). Wigforss was nevertheless able to matriculate at the University of Lund at the age of 18, and he remained there until the completion of his PhD-thesis in linguistics in 1913 (Södra Hallands folkmål, or ‘The Dialects of Southern Halland’). It was during the university years his political orientation was shaped, and he eventually joined the labour party, SAP. One of his first political tracts was Materialistisk historieuppfattning och klasskamp (‘Materialist Conception of History and Class Struggle’), published in 1908 and later described by him as a failed attempt to evaluate the scientific and political usefulness of Marxist thought.

The major philosophical influences seem to have come, as could be expected, from British and German sources. Wigforss had joined a left-leaning student association, ‘Den Yngre Gubben’ (‘The Younger Oldster’), whose members adhered to Fabian ideals (as espoused by H.G. Wells, Sidney and Beatrice Webb, and Bernard Shaw among others). They rejected orthodox Marxist ideals and determinism, and emphasised the

10 Biographical details rely on Wigforss’ own memoirs, primarily Wigforss (1951).
importance of consumer cooperation, cultural improvement, and civilisation as means to improve the condition of the working class. Gustav Cassel’s *Socialpolitik* (1902), informed in part by German *Kathedersozialismus* and Fabian thought, also seems to have exerted some influence on the group. Suffrage had been extended to all men in 1918 (universal suffrage in 1921), and Wigforss became a Member of Parliament one year later. He was soon engaged in a government committee on ‘industrial democracy’, and other less noticeable engagements in parliament. His interest in economics was revivified, as evidenced by the unpublished manuscript *Icke allenast av bröd* (‘Not With Bread Alone’) from 1919. The text deals mainly with welfare theory and the role of income distribution, and is structured as a critique of contemporary neoclassical thought. His primary critique was reserved for Eli Heckscher, who allegedly had defended a widening income gap between different groups in normative terms (24). Wigforss rejected the assumption that remuneration was proportional to the marginal productivity of labour, implying that Heckscher’s argument failed. Economists who adhered to this belief, he retorted, ‘lived in a fictitious world, where economic “friction” is unheard of, where the mobility of all the means of production is complete and everyone set out from equal economic conditions’ (38). Wigforss suggested government intervention (socialisation, income redistribution and taxation) in order to increase society’s (utilitarian) welfare, and to further ‘industrial democracy’.

2.2. An epistemological shift

Published and unpublished material show how deeply Wigforss engaged with the economics literature throughout the 1920s (especially the business cycle and welfare economics literature). He also followed British journals such as *The Nation* (liberal) and *New Statesman* (Fabian). The early 1920s had been marked by monetary turmoil and increasing unemployment. A deflationary process began in 1920 (after a shorter period of high inflation) and continued unabatedly until 1934, and it was the persistently high unemployment which heralded the Government Committee on Unemployment (1927–1934) – a committee eventually engaging Wigforss and almost all of the Stockholm School economists. Wigforss was by now a frequent participant in the Swedish Economic Association (*Nationalekonomiska föreningen*), and had regular encounters with the leading members of the economics profession.

The perhaps most significant change was however intellectual, a change historians have framed as an important epistemological shift in Wigforss’ political philosophy (Heldén 1990; Karlsson 2001). In a letter dated 13 January 1924, he admitted to having read ‘a truly amusing book’: John
Dewey’s *Human Nature and Conduct* (1922). Wigforss would later in life describe Dewey’s work as having exerted a profound influence on his philosophical development. Human nature and society, according to Dewey, was amendable and plastic. And further, society could be gradually changed and improved through experiment and experience; socialist ideals could be regarded as merely ‘hypotheses’, not as irrefutable dogma; and ideas were seen to exist in a given context, shaped through history by culture, institutions and norms.

Wigforss now embraced a more empirical, experimental and pragmatic intellectual approach. His own ideals, he would later recall, were no longer absolute but rather ‘clues from attempts, where answers of durability and value could be derived solely from experience’ (Wigforss 1951: 287). This was an epistemology which emphasised the importance of impartiality, belief in science, efficiency, rationality, psychology and democracy. Economic policy should be flexible and subject to scrutiny, not least in the face of uncertainty.11 Wigforss’ political economy became the communicating vessel where his evolving philosophy and political re-orientation eventually merged. Drawing on Joseph Schumpeter’s (1954: 41) terminology, this epistemological shift can be understood as his ‘Vision’, i.e. the ‘pre-analytic cognitive act that supplies the raw material for the analytic effort.’ As one of the leading SAP tacticians, this change would also prove decisive for the future of the party (Karlsson 2001).

3. The ‘Wigforss Connection’

The extent to what Wigforss relied on British liberal thought when outlining his party’s new economic platform has been actively discussed in the secondary literature. However, earlier calls for socialisation and industrial democracy had gained the support of only a minor part of the constituency, and the coalition with the Communists during the 1928

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11 Karlsson (2001: 550–62) has established an important intellectual influence from Myrdal in this respect. Myrdal’s *The Political Element in the Development of Economic Theory* had been published in Swedish in 1930, and was favourably reviewed by Wigforss. The book was read by Wigforss to have vindicated his own view that neoclassical theory was politically biased. But Myrdal had also emphasised the importance of uncertainty, change and institutions, not least in his 1927 PhD thesis (Myrdal 1927). Gunnar and Alva Myrdal both joined SAP upon their return to Sweden in the early 1930s, and Gunnar became Wigforss most important allied economist. For an evaluation of Myrdal’s research programme, and how Myrdal himself would later depart from this, see Cherrier 2009.
election had proven futile. So, no one – including Wigforss himself – has denied that tactical gains could be made in the 1920s by accommodating foreign liberal ideas. In a motion on taxation submitted to Parliament in early 1928, for example, he made explicit references to British liberals such as Walter Layton (editor of *The Economist*), Henry Clay (advisor to the Bank of England) and – using Wigforss’ own words – ‘the even more famous Keynes’. (Wigforss 1927: 140). In the election of 1932, SAP received 41.7 % of the votes (compared to 37 % in 1928) and was able to form government with the support of the Agrarian Party. Wigforss would remain in the position as Minister of Finance until 1949, and heralded the party’s decades-long dominance.

This is not to say that the SAP’s more liberal and reformist platform was the sole cause of their successful political campaign. It is likely that voters also punished the incumbent government in the face of depression and rising unemployment. But the new economic policy made it possible for the labour party to overcome an earlier hurdle – how to form coalitions and create a consensus. This was the context where Wigforss’ re-conceptualised political economy emerged and made tactical sense.12

Nowhere did his ‘Vision’ assert itself more strongly than during the Great Depression. In a draft of a speech presented on 15 October 1931, while still in parliamentary opposition, Wigforss revealed his theoretical and political reorientation. Little would be accomplished, he argued, if appropriate measures were further postponed because of a perceived lack of knowledge about the ‘true causes’ of depression. Life, he continued, ‘forces us to take action, we are forced to act on highly uncertain knowledge. We are forced to act, simply because if we do not, we cannot live.’ The crisis did not originate from forces ‘external’ to people, and nor would such forces spontaneously pull society out of the crisis.13 It is at this juncture that the pivotal role of the state becomes apparent, without ruling out private enterprise, which for Wigforss was the ‘life nerve’ of the modern economy, and which needed to function in order for the capitalist system to thrive.14

12 It has been debated to what extent expansionist policies in Sweden in the 1930s were really significant, or whether other forces such as devaluation and exports were more decisive in the recovery process. The emphasis here is different, looking solely at the economic ideas as such. For an overview of the debate, see Jonung (1979). See Montgomery (1954), Berman (1998), Eyerman (1985), Rothstein (1992) and Magnusson (1993) for an overview of the political history, and Berg and Jonung (1999) for an overview of the monetary history.
13 AOB, 608/17/7, p. 9.
How to resuscitate expectations and therefore profit, was thus the fundamental challenge of depression. Social Democratic policy, in other words, ‘was about allowing private enterprise to flourish.’¹⁵

The archives provide ample illustration of the way Wigforss’ humanist philosophy was reflected in the party’s reformist agenda. Calls for socialisation had now been replaced with a policy emphasising, among other things, the role of private enterprise. This fundamental shift is important in order to comprehend how Wigforss’ ‘Vision’ informed his emerging macroeconomic thought.

3.1. Explaining the mechanisms of depression

Published and unpublished materials reveal how Wigforss’ view on the business cycle and crisis emerged already before the Great Depression. In a 1928 article for the journal of the Social Democrats, Wigforss (1928) made a memorable distinction between two agents: the ‘spendthrift’ and the ‘frugal saver’. Under normal conditions, he argued, market participants would balance the alternatives of consumption (which required no delay) and production (which required saving). However, history had shown how such magnitudes could be subject to disequilibrium, either as a result of overproduction or loss of business confidence. Under such conditions, the normal workings of the market – operating via deflation – would be a ‘doubtful blessing’. Deflation would lead to a reduction in the demand for goods and labour, reinforced in turn by a further downward economic spiral as savings would not translate into investment.

Under such dismal circumstances, Wigforss continued, it turns out that ‘that [a decision] to save in the meaning of not consuming, is not necessarily the same thing as to really “form capital”. If there is no “entrepreneurship” to claim the underutilised purchasing power of the savers... it seems as if this frugality from the point of view of society belongs to the doubtful virtues at this moment in time’. Money would instead be hoarded, remaining in the ‘coffers’ of investors and banks. Transvaluating values so that spending became a sign of strength and vice versa, Wigforss turned his opponents’ arguments on their head. The ‘honour of the

¹⁵ AOB, 608/17/2, p. 25. This view represented a clearly moderated tone politically. Wigforss even spoke of the depression as a ‘crisis’ also for socialism, in the sense that the capitalist system had theretofore proven to benefit also workers and the broader layers of society. This was, notably, the opposite of what he had argued a decade earlier.
spendthrift’, he concluded, ‘would now finally be resurrected’ (Ibid: 289–94). His following argument is worth quoting at length:

‘It is therefore an old wisdom that society, in a period of depression, attempts to cure what is lacking in the willingness or ability of the citizens to spend. The government and communes should be restrictive under good conditions, but should launch desirable projects in a depression without hesitation. When individual enterprise is hesitant to put available savings to use, the public needs to step forward and direct its use. The principle is so much easier to proclaim than to apply in practice. But as it seems as if we here have a means to smooth the fluctuations of business activity, the difficulties should not discourage.’

A few points can be made. Regarding actual economic policy, it should be remembered that the questions of fiscal policy and unemployment were among the major political issues at the time in parliament. Wigforss was a leading spokesperson in parliament for the SAP – once again in opposition since 1928. This was the setting for his writings. However, his argument exhibits a sophisticated theoretical underpinning that needs to be noted. A deflationary process in a period with unclaimed productive capacity, he argued, would likely feed on itself. Under such conditions the government would have to step forward, providing investment in remunerative projects, not only to reduce unemployment, but also to stimulate demand and smooth the business cycle. Archival evidence suggests that Wigforss had embraced the idea of counter-cyclical measures no sooner than 1926, though the idea of public works as such was obviously not a new idea by then.16

16 AOB, 608/14/3, pp. 9–10. Two handwritten notes from 1926. The thoughts contained herein, hastily written down and in parts almost illegible, provide no clear date. But they constitute an important clue to Wigforss’ evolving thought. Here he posited the depression as an issue of under-consumption, highlighting the fragility of society’s economic organisation. The crisis confirmed, he argued, the need for countercyclical measures: ‘Every day confirms the socialist critique against the capitalist system. It has succeeded in evoking enormous productive forces. [But] it cannot control them.’ So: ‘To organize the working classes in an attempt to find the paths to a better economic organization, allowing people to consume what they may produce, appears clearer than ever. But contrary to this endeavour stand attempts as under the current crisis to reduce the purchasing power among broad layers of society through reductions in wages or restrictions on the public sector’s economic activity. The individual capitalist may increase his profits or reduce his individual losses by closing his enterprise. [But] society can only become poorer if its citizens are prevented from performing productive work. It is a misfortune for the country, if government and communes aggravate the crisis because of a failed zeal of frugality. They should instead counter [the crisis] via an expansion of public works, as far as possible.’

Martin Kragh
'The Economic Crisis'

Wigforss had reason to return to the question of depression three years later, in his only full length economics treatise *Den ekonomiska krisen* (‘The Economic Crisis’), published in the autumn 1931 (Wigforss 1931a). This treatise has also attracted attention in previous research. Landgren (1960) praised it for its theoretical foresight, but did not elaborate much further. Öhman (1970) has emphasised its discussion on Say’s law and the possible workings of public works through a multiplier process. The treatise contained, however, much more of theoretical value, as was noted by Steiger (1971) and later only hinted en passant by Steiger (1991). As of yet, the treatise remains little known to most historians of economic thought.

*The Economic Crisis* is Wigforss’ most elaborate treatise on the causes of economic depression. Its relative length (125 pages) makes it different from his pamphlets or speeches, usually written in a shorter and more accessible style. The treatise is theoretical throughout, with political implications noted intermittently. Its main content may be summarised as follows.

Wigforss notes, already in the introduction, that the economic crisis may fundamentally be regarded as a ‘crisis of confidence’. This meant primarily two things. Firstly, enterprise managers have lost their confidence in the future and reduce their output. Secondly, owners of capital have become hesitant to put their resources to productive use. ‘Economic life’, he continued, thus ‘becomes a picture of the world turned upside down, where not only the teachings of theoretical economics are turned on their head, but also common sense seems to be put on hold.’ So, to provide an alternative theoretical analysis of the crisis, and some potential solutions, becomes the explicit goal.

The first sections deal primarily with the global currency system, discussing the workings of the gold standard and the inability to simultaneously achieve internal and external price stability. Outflows of capital in a period of uncertainty about the currency’s (the krona) stability, he argued, had contributed to the collapse of the gold standard (14). The analysis then continues with a discussion on deflation. This is the first stage of the crisis, where prices and wages are declining (assuming no government intervention) (27). Wigforss assigned the deepening of the crisis to a decline in both aggregate and effective demand, where the recession eventually feeds on itself:

‘The price fall during the crisis removes or reduces the profits of enterprise, whose willingness to produce is therefore dissipated or reduced. But a reduction in production and entrepreneurship not only implies a reduced demand for all that
firms usually need. It also implies unemployment, reduced income for the workers, and thus a reduced demand for many consumption goods; and therefore a further decline in prices and willingness to keep production going.’

Later parts in the treatise further considered the negative and pro-cyclical effects of deflation. ‘It is inevitable’, he commented, ‘that the immediate effect has to be a reduction in the purchasing power of the majority, and therefore a reduced demand for finished consumption goods’ [Wigforss’ italics]. Falling wages and prices, instead of stimulating investment, would have the opposite effect. Individual entrepreneurs might benefit from lower wages, but in the face of declining purchasing power, deflation would disrupt the investment plans of firms. (Remember that Sweden experienced a continuous deflation from 1920 to 1934, see Figure 1).

Wigforss rejected the belief that producers under such conditions would put savings or bank credit to use. Even though interest rates were low, investment demand would remain continuously weak: ‘The simple fact that there is a great deal of capital, content with little or no interest, but which will not commit itself for the future, is simply an expression of distrust and lacking entrepreneurship.’ With ‘distrust’, Wigforss meant uncertainty about the future. With ‘lacking entrepreneurship’, he meant a general
bearishness on behalf of industry. Wigforss concluded, that ‘we here thus encounter unused money, purchasing power which has not been used in exchange for consumption goods and therefore saved, but which on the other hand has not been put to use in order to keep the production of capital goods going.’ (60).

Wigforss had also touched this topic in a speech delivered on 15 October 1931. There he posited the liquidity preference as first a reluctance to lend at any given interest rate, secondly as a preference for cash (bank notes), and lastly as a preference for gold, ‘hoping that gold shall at least prove to be something, which cannot lose its value.’ Hoarding, in other words, exists because money is also a store of value.

Wigforss explicitly denied the validity of Say’s law, at least as far as the short run was concerned (39). The fact that it might hold true in the long run was no consolation. ‘The issue is precisely this’, he commented, ‘how far it suffices. As usual with abstract reasoning, it suffices better “in the long run” than for the short period which is here of interest.’ Assuming the validity of Say’s law, little room was left for over-production or lacking purchasing power as explanations of the crisis. But these aspects were, on the contrary, important. Not only as explanations of the crisis as such, but also for the implications regarding income distribution. A deficit of purchasing power pointed, according to Wigforss, to the issue of uneven income distribution. Redistributing income from high-income earners to low-income earning groups, with a higher marginal propensity to consume, would thus add to aggregate demand.

The issue of over-production in Wigforss’ analysis was analysed from three different perspectives (40–42). The first source of over-production, he argued, could be found in the potential inter-temporal disequilibrium between production and consumption. Production was undertaken on ‘speculative’ expectation about future income, which however could be either lower or higher depending on the level of business cycle activity. The second perspective followed more Marxian lines of argument, where disequilibrium occurs as a result of over-production in either the sector of consumer goods or the sector of producer goods. The third source of over-production, lastly, was the possibility of income among either consumers or producers (or both) being saved and not consumed or invested.

The price mechanism, Wigforss continued, was not likely to adjust for declines in effective demand (43–44). A lower price would not benefit the individual producer, provided the burden of wages, rents and interest could not be expected to follow pari passu. Exemplifying with the case of the

17 AOB, 608/17/2, pp. 14–15. The document, though dated, does not detail where the speech was delivered.
single farmer, Wigforss argued that ‘he in this way is by no means relieved of his debt burden. The real burden of debt is on the contrary increased by the fall in the level of prices.’ Prices could therefore be expected to be rigid downwards, since producers due to ‘psychological factors’ would be hesitant to assume the role of first mover. Similarly, reductions in the level of wages were ruled out for practical reasons.

Wigforss concluded the only impulse sufficient to halt and reverse the recession was government stimuli, since monetary policy was likely to be ineffective once a crisis has actually struck. First he rejected the idea that income and expenditure had to conform at all times, at all levels. On the contrary, certain discretion on behalf of the government was preferred: ‘Government expenditure is part of the total expenditure of the citizens, and all our expenditure don’t have to vary in the same way as our income. It is on the contrary clear, that it should not’ [Wigforss’ italics]. In a period when people are unwilling to depart with liquidity, only the government could fill the void. Such stimuli through public works would in turn generate new income, which led to his second point – an original outlay would be multiplied throughout the economy (119):

‘The jobs generated through these public works, are naturally not restricted as to the number of work-hours or work-days in the public enterprises. Material and tools must to a large extent be provided by private enterprise, and newly employed workers may increase their consumption receiving an increased income. The stream of purchasing power grows and the repercussions are felt throughout the whole business community.’

The quotation shows that Wigforss had no difficulty grasping the functioning of the multiplier, at least sufficiently as to provide a verbal analysis in non-technical terms. Since his treatise does not provide any references it remains unclear what his potential influences could have been, but neither the contributions by Richard Kahn (1931) nor Jens Warming (1932) would have been available to him at the time. For now it suffices to say that The Economic Crisis was not only an elaborate treatise on the mechanisms of depression, but it also provided a theoretical rationale for expansive fiscal policies to stimulate employment and growth.

The Economic Crisis was the only treatise Wigforss wrote on economics (besides his ‘early’, and mostly unpublished, work discussed above), even though the evolution of his thought might be further traced in his editorial

18 Wigforss was likely aware of the short tract Can Lloyd George Do It? (1929), published by Keynes and Henderson in The Nation, where a less formalized version of the multiplier had been introduced. See section 4.2 for a further discussion on this potential source of influence.
and political writings. In a 1932 election pamphlet, Wigforss (1932) commented on the long term consequences of the crisis. A continued rise in unemployment, he argued, would lead to a reduction in income, in turn reinforcing calls for further reductions in government spending. Such a pro-cyclical policy would only be self-defeating: 'There are no people anywhere with their common sense intact, who in the long run would settle for an economic wisdom of this madhouse sort'. Here again he provides an even further elaboration on the breakdown of monetary policy during recessions:

‘If people under a period of crisis choose to withhold part of their income, if they hide money in coffers or in drawers, if large amounts of capital are held “easily available”, even at a loss of interest, because the owners are hesitant to allocate them in productive enterprises... then the result cannot be anything but a reduced demand for goods, declining prices and a furthering of the crisis.’

This acknowledgement of the idea that uncertainty about future events may induce holders of money capital to increase their premium to depart with liquidity, even at a loss of interest, is generally considered a key element in Keynes’ liquidity preference theory expounded for the first time in his Treatise on Money (Keynes 1930). As is well known, however, the General Theory went one step further, making the liquidity preference determine

19 It is unfortunate that The Economic Crisis does not contain any explicit references. The reason for this is understandable, Wigforss had written a tract on the crisis – albeit advanced – as part of a political programme, not in order to target the academic community per se. But it leaves us with the difficult task of sorting out what his potential sources of influence could have been, and how much of theoretical novelty value he could have added himself. His memoirs mention J.A. Hobson as an important influence in the early 1920s, but there are two important differences between him and Wigforss: (1) Hobson adhered to a theory of under-consumption, where the source of disequilibrium is found in an imbalance between present and future consumption. (2) Hobson explicitly rejected the existence of hoarding and multiplier effects (Backhouse 1995: ch. 5). Wigforss had earlier adhered to (1); though in the Economic Crisis he shifted towards an explanation emphasizing variations in output, due to shifts in prices and effective demand, and aspects such as deflation, uncertainty and hoarding (liquidity preference). He also recognized the importance of multiplier effects. There are however also some similarities, and they had at least two other ideas in common. Firstly, both of them made a distinction between individual interests on the one hand, and the interests of society on the other hand, regarding this as a potential source of conflict. Secondly, both of them argued that production could not be analyzed separately from distribution. Archival evidence also suggests that Wigforss had earlier adhered much more closely to an under-consumption theory of crisis.
also the interest rate. Or in Keynes’ (1936: 167) words, ‘the rate of interest at any time’, being ‘the reward for parting with liquidity.’ Here we need not be concerned with the critique mounted against this theory of interest (Viner 1936; Leijonhufvud 1981), but only note that Wigforss sensed that uncertainty may cause money – the most liquid of all assets absent gold – to be hoarded for ‘precautionary motives’ (with, at least in the short run, no other financial instruments to satisfy this demand). Such hoarding would in turn produce pro-cyclical impulses causing further economic stagnation.

3.2. The policy debate

As the Social Democrats formed government in the Autumn 1932, Wigforss subsequently felt obliged to defend his dissenting policy views. The debate among policy makers, economists and representatives of the business community provide a genuine picture of the theoretical and political dividing lines on macroeconomic policy in the 1930s. One of the lengthiest responses by Wigforss (1934) can be found in his pamphlet ‘Krispolitik’ (‘Crisis Policy’). Three important points made herein should be highlighted. Firstly, Wigforss identified the explicit policy goal of the Social Democrats to ‘sustain and increase the purchasing power of the citizens’ in order to stimulate aggregate demand. The recession had brought about an output gap, identified in the pamphlet as ‘a temporary abundance’ in productive, but underutilised, resources. The proper response was thus a policy to ‘make it possible to consume, what we already may produce.’ Further cuts in government spending, the policy favoured by his critics he argued, would on the contrary have only pro-cyclical effects.

Secondly, Wigforss reiterated a point he had made in an unpublished memorandum to the Government Committee on Unemployment in 1929 (Wadensjö 1991) – that debt obligations and interest payments would remain nominally constant in a deflationary process. Such a trajectory would make debt servicing of private enterprise and households more costly, furthering the downward economic spiral. But he also criticised the assumption of flexible wages, arguing that wages since the 1870s had only been marginally flexible downwards. That is, the price mechanism was unlikely to clear the market. Here he made effective use of the recently procured volumes on historical national income and wages in Sweden, published by Myrdal (1933a). In comparison with other countries still on the gold standard, he noted how their ‘vain attempts to accommodate costs of production and income to the continuously declining prices’ would cause ‘further suffering in the depression’. Under such circumstances, gold countries showed ‘few signs of recovery like the one brought about in countries with flexible currencies.’
Lastly, Wigforss scrutinised the argument that accumulating government debt would cause interest rate increases. Gustav Cassel had argued that government spending would have to conform to income, implying a reduction in outlays during recessions.\footnote{For an overview of Cassel’s and Heckscher’s thought on the role of government and the economy, see Carlson (1988).} The higher debt burden would cause higher interest rates, as doubts about future taxes and debt servicing would create uncertainty among firms. Cassel (1933: 348) further denied the existence of hoarding for precautionary motives:

‘Means of saving will never lay idle... It is a pretty common conception that people who save put their money at the bottom of their coffers and thus prevent producers and retailers from selling their goods and workers from getting employed. Such prejudice is however completely unfounded.’

Cassel concluded his criticism by arguing that an ‘expansion of public works must be ensued by an equivalent reduction of private enterprise’.

Similar concerns existed among groups in the business community, as evidenced by a telling correspondence in 1933 between Marcus Wallenberg – at the time a leading banker and senior family member of the ‘Wallenberg Dynasty’ – and Keynes. The two had met in Paris during the post-war peace negotiations, and both had come to agree the settlements for Germany had been counterproductive. What now stimulated Wallenberg to approach Keynes was the latter’s well-known 1933 articles in *The Times*, where the primary policy implications of the *General Theory* had been spelled out. According to the letters reproduced by Gärdlund (1977), Wallenberg remarked that Keynes’ ‘scheme’ could be compared ‘with the doctrines of the famous John Law, who preached that every increase of money would mean flourishing industry and thus benefit the unemployed’. He obviously did not fail to add, how Law had also ‘spelt the ruin’ of France. In a second letter, he described how ‘the great problem’ during the crisis was ‘the rigidity of wages’. Wallenberg did not agree that a reduction in wages meant a ‘reduction of purchasing power’. Quite the contrary, ‘the lowering of wages only means that a portion of our national income is transferred to another section of the community (i.e. shareholders).’

Both Cassel and Wallenberg thus shared the orthodox view that Say’s law functioned more or less perfectly – an assumption Wigforss had strongly criticised already in his unpublished tract from the early 1920s. On 16 March the same year, Wallenberg voiced similar concerns with Wigforss, arguing that a further ‘tampering with economic laws’ – i.e. to continue the
expansionist policies – would result in rapidly increasing interest rates and inflation.\textsuperscript{21}

Keynes duly replied Wallenberg in two letters. He argued that Sweden to a large extent was dependent on the international economic conditions, regardless of its internal policy. Until the global conditions had improved, not much could be done. But he nevertheless added that ‘the public works program planned by your Government would be likely to have an important influence in creating employment in the meantime, and is in my judgment advisable.’ But he rejected the government’s plan to increase taxation in order to pay off debt, and argued that interest on government debt at 4.5 % was ‘outrageously high’. A lower interest rate, in his opinion, was more urgent than public works.

I have included this correspondence to illustrate not only the similar perspectives between Cassel and Wallenberg, but also between Wigforss and Keynes, in their respective policy views. Wigforss’ (1934) view can be drawn from his following rebuke of Cassel. He replied that not only did the government outlays represent long term investments, large owners of capital also found the policy credible. This explained, according to Wigforss, why the opposite of Cassel’s concerns had occurred, as interest on newly issued government debt steadily declined in the 1930s (see Figure 2). Interest on government debt declined from about 4% in the early 1930s to close to 2% before the Second World War. ‘It purports to show’, Wigforss commented, ‘not only the ample supply of capital. It further purports to show how disparate groups in the country have kept their calm, and contrary to the political scare tactics have perceived the favourable results of the current crisis policy’ (7–8).

3.3. The Stockholm School and Wigforss

There is little textual evidence to suggest the Stockholm School economists anticipated the \textit{General Theory} as closely as Wigforss. For 1931, when Wigforss had already developed his theoretical system, the evidence is even weaker, if not nonexistent. Since Patinkin (1978a; 1978b; 1982), Myhrman (1991) and Hansson (1982: 237–50) have already provided a detailed

\textsuperscript{21} SEB Archive, letter from Marcus Wallenberg to Ernst Wigforss, 16 March 1933.

The full paragraph reads as follows: ‘The laws of economics are not approved of, lest they conform to our habits and pretentions. The result hereof will be that the deficient adaptation must be remedied by other means than the natural; it must be remedied by public sector intervention. But the ability of the public sector to remedy relies on the ability of tax payers to endure further impositions. It is very easy to see how this will end. It ends as in so many other countries with a disaster, disguised in the shape of inflation.’
review of the literature, I will point only to some illustrative cases. Ohlin’s report for the League of Nations on the world depression, also published in 1931, makes no references to active fiscal policy – although this could have been expected given the topic of his report. He noted the pro-cyclical tendencies of budget cuts, but nevertheless emphasised ‘the strong possibility, that as many times before, the unexpected will happen and new luring investment opportunities will prevail’ – i.e. the world economy was expected to self-equilibrate (Ohlin 1931: 361). Myrdal’s much debated Monetary Equilibrium (in Swedish 1931, in English 1939) was primarily a close reading of Wicksell’s monetary theory. Further, even though the main concern of this article was purely theoretical, Myrdal seems to be arguing that certain unemployment was a necessary prerequisite for price level stability to ensue (something noted also by Joan Robinson in her review of the English translation, see Robinson 1939).

The picture is somewhat altered by later writings. Noted contributions in this respect is Myrdal’s appendix to the Swedish Budget for 1933 (Myrdal 1933b) and Ohlin’s ‘On the Formulation of Monetary Theory’, published in the same year (Ohlin 1933).22 Myrdal’s memo, however, did not advocate an expansionary fiscal policy per se, but observed only how a

22 An English translation was published in 1978, see Ohlin (1978b).
further reduction in public sector expenditure could have pro-cyclical effects, and it makes no reference to the multiplier. He further argued the usefulness of direct wage reductions in private business. The memo’s major contribution was rather to provide a revised framework for the government’s budget balance technique (which had also been the purpose). Ohlin’s article did analyse changes in aggregate demand and income, but his focus was primarily on price changes – not variations in output (Jonung 1979; Patinkin 1982: 52–56). His attempt to calculate a multiplier was purged from the final draft (Wadensjö 1991). The Government Committee on Unemployment, whose findings were presented in 1935, provided as many arguments for as against, active fiscal policy. The then contemporary observer Erik Lindahl (1935), in a review of Myrdal’s contribution, found it to be strikingly ‘passive’. Ohlin and Myrdal leaned heavily towards the use of monetary policy as a stabilising tool, the effectiveness of which during depression – with the economy stuck at the lower bound – Wigforss had explicitly denied.

4. Concluding remarks

This article has attempted to revise our understanding of the theoretical origins for the ‘new economic policy’ in Sweden during the 1930s. The question of scientific priority is obviously an intricate enterprise to pursue.

23 It is an intriguing fact that Ohlin did not bring changes in effective demand into his analysis, since this factor had been his major objection to Keynes in 1929 regarding the ‘German Transfer Problem’ (Keynes 1929a, 1929b). For example, in an exchange with Heckscher the same year, Ohlin remarked how Keynes ‘seems to disregard the crucial aspect, namely the direct shift in demand and purchasing power regardless of price changes’. KB, L67:41. Letter from Ohlin to Heckscher, dated 19 March 1929.

24 Lindahl (1935) noted that in light of ‘these particularly dark prospects of the future; one is not inclined to outright accept such a passive policy as that proposed by the committee majority.’ He further noted how it was ‘remarkable, that the committee which originally had been set up in light of the permanent [my italics] unemployment, had not presented this investigation.’ Various policy alternatives should have been formally evaluated, regardless of their political connotations. What was lacking, according to Lindahl, was an analysis of how ‘total demand for labour, can increase through a change in the orientation or scope of the public sector.’

25 Myrdal’s following assertion, explained by Robinson (1979: 151) a result of ‘Myrdal’s patriotism’, was clearly overblown: ‘In January 1933 I provided the theoretical reasons for an expansionist policy in terms one could now label Keynesian’ (Myrdal 1973: 20).
Most ideas have been perceived and expressed, to one extent or the other, by earlier scholars reaching far back in time. To some extent, this point applies also to this article. However, the main purpose here has been different, attempting to highlight the subtle interaction between economic thought, economic policy and political philosophy. Drawing on archival material as well as published pamphlets, books and articles, it was illustrated how these three factors merged in the evolution of Wigforss’ political economy.

4.1. The ‘Wigforss Connection’

This article rebukes two popularly held notions among historians of economic thought. Firstly, I argue that Wigforss did not rely on the Stockholm School for theoretical input when formulating his programme for an active fiscal policy. He possessed all the theoretical tools he needed before the academic economists had made their views on the crisis publicly known. Secondly, I argue that even though no one in Sweden fully anticipated the General Theory, as its core contribution was defined by Patinkin, Wigforss was by any measure much closer to doing so than the Stockholm School. The evidence may be summarised as follows.

Already in 1931 Wigforss suggested that a decline in effective demand would cause output to contract in tandem with a disruptive deflationary process. He further noted the significance of aspects such as profit expectations (i.e. the marginal efficiency of capital), liquidity preference and the marginal propensity to consume – noteworthy as Keynes’ three psychological factors (though Wigforss for obvious reasons did not use Keynes’ terminology). Similarly, he emphasised the short run over the long run, and recognised the role of uncertainty and the existence of multiplier effects. It is true that Myrdal (1927) had discussed the importance of uncertainty, and Lindahl did indeed thoroughly investigate inter-temporal problems of macroeconomics (Boianovsky and Trautwein 2006). But they differed from Wigforss in the sense that only the Minister of Finance firmly merged such insights within a business cycle framework. As regards Wigforss’ relation to Keynes in the General Theory, Wigforss focused more on price changes, income distribution and cumulative change, whereas Keynes relied on short-run static equilibrium analysis and changes in output rather than prices. So, even though neither Wigforss nor the Stockholm School fully anticipated the General Theory in accordance with

26 Boianovsky (1996) correctly suggests that we can expect to find – in bits and pieces – anticipations of the General Theory in different places.
Patinkin’s stricter criteria, Wigforss was evidently closer to doing so. However, drawing on the more generous criteria, searching for the notions of marginal propensity to consume, marginal efficiency of capital and the liquidity preference theory of interest in Wigforss’ writings, the similarities are more clearly elucidated. My contention is that Wigforss accomplished this feat through his ability to assimilate and synthesise new contributions to the business cycle literature in the 1920s, perhaps even drawing on his own policy experience from government affairs. In the context of the Swedish nineteen-thirties, it is therefore justified to consider a ‘Wigforss Connection’ when speaking about a ‘new’ economic policy as well as a ‘new’ economic discourse.

4.2. Some implications

This article has provided new evidence on Wigforss’ contributions to Swedish macroeconomic thought in the 1930s. In this respect I concur with Landgren (1960), who argued that it was Wigforss, not the ‘professional economists’, who should be credited for providing intellectual input to the labour party’s counter-cyclical policies. An intriguing conundrum with Landgren’s thesis is then why it was so heavily attacked, only to be later forgotten. One reason is probably purely academic – his thesis provided little textual evidence to effectively substantiate his case. It was therefore easy for his opponent (Fernholm 1960: 163) to remark that ‘the hypothesis that Wigforss should have anticipated the younger Swedish economists has proven difficult to support’, and continue with a discussion along other, more well-trodden lines (in fact, this is all that was said on Wigforss’ role).

More surprising was Wigforss (1960), who publicly rejected Landgren’s argument that the decisive source of inspiration had been the British liberals in the 1920s (though he did not completely deny it either). His counter-argument was, however, unconvincing, referring to older clauses in the Party Programme on full employment and the like. Wigforss seems to have underestimated his own theoretical contribution, and how he in the late 1920s had clearly expanded on earlier and mutual influences such as the Webbs’ minority Report (1909) which had advocated only public works as such. The preserved exchange of letters between the two also suggests that Wigforss must have changed his mind, because he himself had mentioned to Landgren in 1958 the following three ‘Keynesian’ texts to have been important: Britain’s Industrial Future (1928); Lloyd George’s We Can Conquer Unemployment (1929); and Can Lloyd George Do It? (1929) – texts which had all been either strongly influenced, or (co-)authored, by Keynes. Archival evidence imply that nowhere in their communication over the course of
two years – even after Wigforss had received the proofs to Landgren’s monograph in 1960 – did he retract from this claim. It is simply possible, that Wigforss decided the conclusions were too revisionist – once they were published – from an ideological point of view, though the reasons for him retracting will never be known for sure.

Three notes, of which the first two have already been discussed, can be made in conclusion. Firstly, Wigforss did not depend on the input from Swedish academic economists when outlining the theoretical rationale for his party’s reformist fiscal policy in the late 1920s. Secondly, he remains the only Swedish contributor to economic thought whose ideas came close to anticipate some of the most salient features of the General Theory.

The third note is more general, and regards our approach to the history of economic thought. Somewhere after Alfred Marshall – and the establishment of economics as a separate branch in the social sciences – historians have implicitly introduced a distinction between ‘professional’ and ‘amateur’ economists (privileging the former over the latter). The case presented here suggests a more cautious approach, taking into account not only the ideas as such, but also the intellectual, political and economic context outside of academia. If one truly wants to comprehend, to use a famous quip by Keynes (1936: 383), how ‘practical men’ can become ‘slaves of some defunct economist’, it is necessary to study the perceptions not only of the ‘economists’, but also the ‘practical men’. The exclusion of Wigforss from previous historiography is striking considering not only his formidable presence in policy making during the 1920s and 1930s, but also as a reader of, and contributor – as we have seen – to economic analysis.

27 LU, letters from Landgren to Wigforss on 21 April 1958, 8 June 1958, 6 July 1958, 21 July 1958, 4 February 1959, 5 May 1959. Already on 21 April 1958, Landgren wrote the following: ‘I am convinced that studies on the development on Swedish economic thought in the 1920s and 1930s will profit immensely from Your input. At the same time I do not wish to publish anything that I have received with Your help without letting You read it. It will, as far as I understand, shed new light on the intellectual development in the Social Democratic Party, if one can show that some of its most significant economic ideas can be traced to the English Liberal Party’ [underlining in original]. We have, unfortunately, not been able to locate the letters written by Wigforss to Landgren, but throughout all the six letters, referring also to oral interviews, Landgren pursues this line of argument unabatedly. If Wigforss at this time really disagreed with Landgren’s claims, one needs to explain why he for a period of two years failed to provide what he thought was a better version of events.
References


Abstract

Drawing on archival material and previously unexplored texts, this article attempts to revise our understanding of the emergence of a new macroeconomic discourse in the Swedish 1930s. Firstly, it is argued that the Stockholm School played a secondary role in shaping Sweden’s counter-cyclical policies during the depression. The Minister of Finance, Ernst Wigforss, possessed all the theoretical tools he needed before the academic economists had made their views on the crisis publicly known. Secondly, it will be argued that Wigforss was the one closest to anticipate the General Theory, and that he had his theoretical system for a counter-cyclical fiscal policy worked out in 1931 already. He provides an important link in one of the most debated topics in the history of macroeconomic thought. In an allusion to Axel Leijonhufvud, this link is named the ‘Wigforss Connection’.

Keywords

Stockholm School, Wigforss, Keynes, great depression, general theory