

## The Political Economy Club and the Stockholm School, 1917–1951<sup>1</sup>

ROLF G. H. HENRIKSSON

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On October 1, 1936, the Stockholm economists hosted a very distinguished guest, John Maynard Keynes. Homeward bound from a visit to the Soviet Union, Keynes appeared at the Political Economy Club. The minutes, as recorded by Ingvar Svennilson, report:

1. At the invitation of the club, Mr. J. M. Keynes lectured at the Institute of Social Science on the subject “My grounds for departure from orthodox economic traditions.” The lecture was arranged with support from J. H. Palme’s fund for economic education and economic research. Some 100 persons attended the lecture.
2. Following the lecture, the club arranged a dinner at the student union building. In addition to Mr. and Mrs. Keynes, the dinner was attended by: the chairman Professor Ohlin, Miss Kock, Messrs. Björk, Böök, Cederwall, Dahlgren, Hammarskjöld, Helger, Johansson, Lagercrantz (guest), Lundberg, Myrdal, Rothlieb, Rooth, Suoviranta (Finland, guest) and Wigforss, as well as the undersigned. After dinner there was a discussion that continued until midnight.

The general content of Keynes’s lecture is known.<sup>2</sup> In accounting for the reasons he departed from the classical tradition, Keynes evidently expounded on the theory of the rate of interest developed in his *General Theory* (Keynes, 1936). The audience’s reception was perhaps not the one Keynes expected. In his memoirs Bertil Ohlin relates with amicable irony that Keynes, in his efforts to clarify what was new and central in his book, surprised the listeners by stressing features that few readers would have considered particularly innovative (Ohlin, 1975, p. 110). In greeting Keynes’s presentation, Ohlin is also reported to have told Keynes with facetious malice that the Stockholm School economists had read his *General Theory* “with the joy of recognition.”<sup>3</sup> Gunnar Myrdal reports how “one after another” of the younger Swedish economists “stood up and accused Keynes of being too classical.” At first Keynes was amused, but as the call went down the row he betrayed an increasing

degree of irritation. Erik Lundberg, Ingvar Svennilson, and others “were stealing his show.”<sup>24</sup> The terse statement of the minutes leaves room for imaginative hypotheses about the course of the discussion, but the fact that the debate lasted until midnight indicates that the disagreements on what had been accomplished in the *General Theory* remained unresolved.

Keynes’s visit may be considered the high point in the history of the Political Economy Club. However, as the following inquiry into the annals of the Club indicates, there were many other interesting events. Although the minutes preserved for the period 1917–51 do not present the content of the lectures or the discussions, a certain amount of reconstruction of what occurred has nevertheless been possible by use of additional source materials. In this way, a picture has been obtained of the main features of the Club’s history, yielding an opportunity also to elucidate the life cycle of the Stockholm School and describe the interactions of the leading members. The Club was a major component in the institutional base of the Stockholm School and performed an important “hub-of-the-wheel” function in the emergence and evolution of both its research program and its policy stance. Even the eventual eclipse of the School can to some extent be explained by the changing role of the Club beginning in the late 1930s.

## 1 Foundation of the Club

*The Club’s beginnings:* In 1916 Knut Wicksell retired from his chair at Lund. His wife Anna Bugge Wicksell, who often arranged the practical details of her husband’s social relationships, contacted Eli F. Heckscher at the Business College (usually referred to today as the Stockholm School of Economics) in Stockholm. She asked him whether something could be arranged when Knut returned to Stockholm in order that he could continue to devote his energies to economic research. Her request was well received, and Heckscher took the initiative for creating an economic club that would provide Wicksell with a forum for his ideas and at the same time would stimulate economic research and debate in Stockholm. At that time, there was a relatively large number of economists in the Swedish capital, but there was no professional forum for the exchange of ideas. The meetings of the venerable Swedish Economic Society, started in 1877, were primarily devoted to discussion of economic policy questions where politicians were still predominant. Nor was there any formal graduate training in political economy. The curriculum of the Business College, where Heckscher had held a chair in

economics since 1909, was admittedly well developed and included not only lectures but also seminars and colloquiums in economics. However, they were naturally constrained to suit the needs of business students. Gustav Cassel's teaching at the University of Stockholm comprised mainly lectures, with little organized seminar activity. The instruction given at the Institute of Social Science that he established in 1903 primarily filled the needs of law students (Henriksson, 1989).

The minutes from the first Club meeting in January 1917 report that the declared purpose of the club was "to bring together those who devoted themselves to scientific work in the area of political economy for a private exchange of ideas about scientific problems." An invitation to attend the first meeting was sent to some twenty persons, of whom slightly more than half attended. In addition to Wicksell and Heckscher, David Davidson and Cassel were also present. Wicksell was elected chairman, and the secretarial duties fell upon Fabian von Kock. It was also decided that unanimous approval would be required for the election of new members and that meetings would be held on the third Friday of every month. Heckscher then delivered a lecture on the import of securities into Sweden during the war. It was followed by a discussion in which all the professors present participated. As will be seen, it was unique to have them all gathered and on speaking terms with one another.

*The Club's proceedings:* The forms for the Club's proceedings adopted at the first meeting were maintained for quite some time. During the first five-year period, the Club met in quite frugal settings on the premises of the Business College. Thereafter it became increasingly common to hold the meetings at the home of one of the members. Wicksell was never host, but Heckscher and Sven Brisman, who in 1917 was appointed to the second chair in economics at the Business College, often served the Club in that way. This meeting tradition continued even after the death of Wicksell in 1926 and into the 1930s. After Heckscher left Club activities in 1932 and a younger circle under Ohlin's leadership assumed responsibility, the Club often met in Ohlin's home but also occasionally at the home of Gunnar Myrdal and other club members.

The development of the Club is summarized graphically in Figure 1.1. The club officials are presented at the top of the figure. There were six chairmen and five secretaries during the period 1917–51. Wicksell was chairman for the first five years, followed by Heckscher for a little more than three years, whereupon Brisman held the post until Ohlin assumed the chair in 1932. Despite his short period of formal chairmanship,

Chairman	Knut Wicksell	Eli Heckscher	Sven Brismar	Beril Ohlin	Ingvar Svennilson	Erik Lundberg
	Fabian von Koch		Alf Johansson			
Secretary				Gustav Cederwall		Sven Igglund

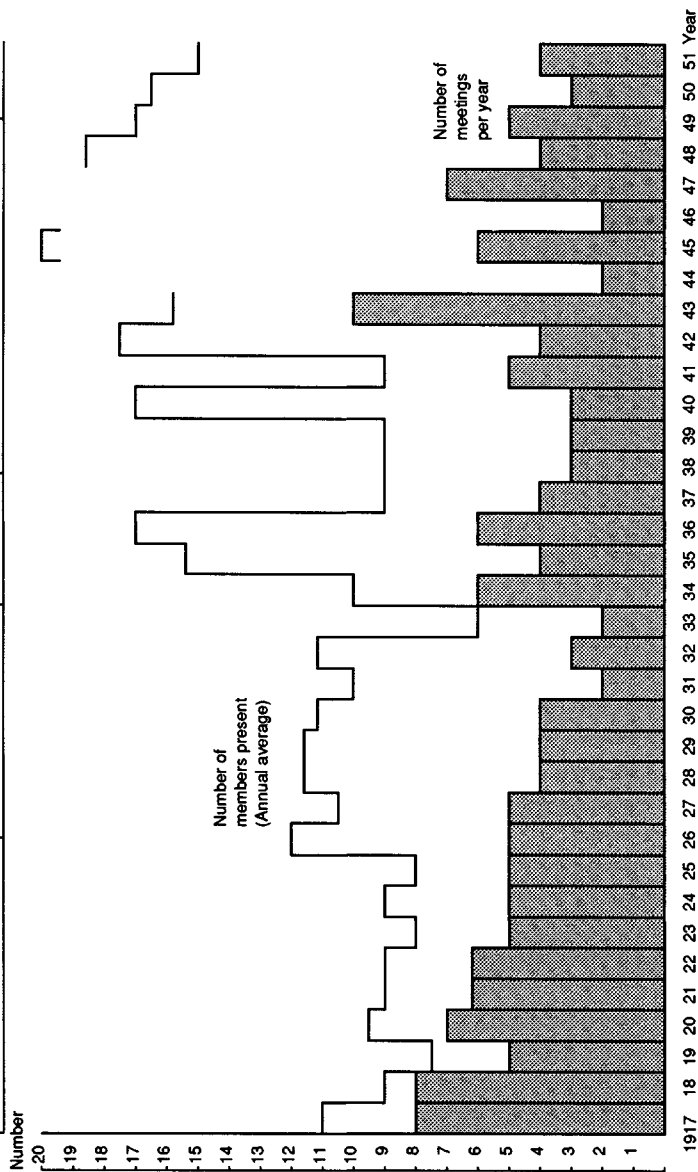


Figure 1. The Political Economy Club, 1917-51.

Heckscher shaped Club activities for its first eighteen years. This period in the Club's history is therefore termed *the Heckscher era*. The subsequent *Ohlin era* also lasted eighteen years. In the last phase of the Club records, Svernilson was chairman for a short period before the final chairmanship was passed on to Lundberg.

The curve describing attendance at club meetings and the bar diagram describing the number of meetings per year speak for themselves. For the following discussion, however, one should note the low frequency of meetings during the depression years 1931–33, which also represented a transition period between the Heckscher and Ohlin eras. The relatively high attendance toward the end of the 1920s and the rise during the first Ohlin years should also be noted. The first period was the important preparatory period for the Stockholm School, and the second period represented its heyday.

## 2 The Heckscher era, 1917–32

### *The Wicksell period, 1917–26*

If the general purpose of the Club was to bring together all those in the Stockholm area who devoted themselves to scientific work in economics, it was never completely fulfilled. The Club lost its character as a general meeting place for the leading economists in Stockholm as early as at the beginning of the Heckscher era. Thus Davidson, who lived in Uppsala, was able to participate in the meetings only sporadically. However, what most seriously limited the Club's function was the withdrawal of Cassel from its meetings. He was invited to speak at the Club's second meeting but had to decline because of illness. His attendance then fell rapidly, and finally in 1919 he attended only one meeting. On this last occasion, he presented a summary of the contents of his recently published work *Theoretische Sozialökonomie* (Cassel, 1918). It is well known that the relationship between Heckscher and Cassel was not the best. Moreover, Cassel was also very sensitive to criticisms from Davidson and Wicksell. It is possible that when presenting his book at the Club, Cassel received too many of the negative criticisms that Wicksell (1919) published in his famous review later that year. Following this meeting, Cassel did not reappear at the club for more than two decades.

Another prominent member of the club who failed to play the role one might have expected was Gösta Bagge. Through his early studies both in history and economics, Bagge had become a close collaborator of Heckscher's. He was admitted to the Club in its first year, 1917, after a dissertation on wage formation (Bagge, 1917), which immediately

gained him an appointment as *docent* (associate professor) at the University of Stockholm. In 1921 he was appointed to its second chair in economics, which was set up in that year. The reason his role in the Club became somewhat restricted appears to have been that he could not cope with the radical and somewhat anarchistic leaning of Wicksell. They were worlds apart ideologically. However, the infrequent presence of Bagge continued even after the demise of Wicksell and was no doubt due to his many other activities, some of which were an important part of the "institutional base" of the Stockholm School. In 1917 Bagge set up Sweden's first organized lower-level seminar (a so-called proseminar) in economics at the Institute of Social Science, and in 1922 he established its licentiat seminar, the country's first modern graduate-level seminar in the field (Henriksson 1979b, 1989). He was also the one who arranged the important financial support of the Rockefeller Foundation for the development of social science, particularly economic, research and teaching at the University of Stockholm from the mid-1920s through the interwar period (Andreen and Boalt, 1987; Craver, this volume). He also played an important role in the famous 1927 Unemployment Committee (Carlson 1982; Wadensjö, this volume). Many of these developments will be touched upon further below.

*The discussions in the Club:* Despite a rather strong presence of economic historians, the Club's debates during the Wicksell period were primarily devoted to theoretical questions or at least dealt with principal aspects of some contemporary economic policy problem. The period prior to Wicksell's death was an innovative period for economic policy measures, and there was a strong need for a theoretical treatment of these questions.

One of the most interesting participants was Gustaf Åkerman, who made important contributions to capital theory (Åkerman, 1923). He became a member of the Club in 1923 and lectured there several times in the 1920s. But he was not a permanent resident of the Stockholm area and was therefore only a marginal contributor to the continuous proceedings of the Club. His 1923 lecture dealt with the issue of inventories in price adjustments. In 1926 he lectured on the wage question, to which he returned in 1927 when he discussed the connection between high wages and unemployment. This was an early airing of the views he was to work out as a member of the aforementioned 1927 Unemployment Committee (Åkerman, 1931).

Erik Lindahl, elected a member in 1922, began to be a regular participant in the meetings only in 1924 when he was brought to the Univer-

sity of Stockholm by Bagge. In 1924 he published the first volume of his seminal two-volume treatise on monetary policy (Lindahl, 1924). In a 1925 lecture on the means of stabilizing the price level, he revealed that he had begun work on the second volume, which, however, did not appear until 1929 (Lindahl, 1930; Hansen, 1981).

Several lectures by Wicksell, Heckscher, and Davidson also dealt with monetary policy problems. Early in 1920 Heckscher discussed the effect of a too low rate of interest. He had in the preceding months started a campaign in the newspapers against the central bank and exhorted the public to present their holdings of bank notes for redemption in gold, which the law entitled them to do. This soon forced the central bank to raise its rate of interest to protect its gold reserve, making Heckscher a national public figure (Henriksson, 1979b).

A particularly important and intensely discussed monetary problem was the issue of the foreign exchange rate. Davidson discussed this question in a Nordic perspective in September 1920. Wicksell addressed himself to the currency issue in 1921 when Sweden had embarked on a policy of realignment with the gold standard at the prewar par, thereby inducing a violent deflation. Together Heckscher and Wicksell analyzed the German currency situation in 1922.

When the realignment had been reached, monetary discussions turned in a more theoretical direction as evinced by a lecture by Davidson in April 1924 on “The Price Level and the Value of Money.” Policy debates continued but were now turned toward trade and unemployment problems. Heckscher raised the tariff issue in 1924 when the result of his protracted work with the Tariff Commission was presented. He was a staunch free trader, and he may not have liked the lecture Ohlin gave the year after on the use of tariffs to counter unemployment. In this lecture, Ohlin may have announced the so-called Stolper-Samuelson theorem, which he stated in the Brentano Festschrift the same year. This lecture also foreshadowed Ohlin’s later contribution to the 1927 Unemployment Committee (Ohlin, 1925, 1927).

Ohlin was the foremost of the younger members of the Club. Already in 1919 his lecture on “Commodity Shortages and the Price Level” had attracted great interest. In a letter to Heckscher, who had not been present, Brisman reports that Ohlin astounded the audience. Brisman himself was quite active on the theoretical front. He was the Club member who in particular addressed himself to business cycle problems.

*Staging the Wicksellian oral tradition:* Any comment on the theoretical discussions held by the Club must, of course, cover the role of Wicksell

more closely. As noted above he was a frequent speaker, and more significantly he was present and participated in discussions at fifty-three of the fifty-six meetings of the Club that took place before he died (Gårdlund, 1956). Always doubting the validity and value of his own work, Wicksell repeatedly came back to various issues on which he had been working, particularly in his monetary theory. The members in the Club therefore had many opportunities to share in the various revisions and second thoughts Wicksell had about his own work. As noted earlier he also sometimes gave his views on the work of others. In this way, Wicksell may be said to have exerted an influence on the Stockholm economists through what we shall refer to as *the oral tradition of Wicksell*.

This oral tradition was probably most important in monetary theory. It is well known that in his later years Wicksell expressed quite severe criticism of his own earlier work in the quantity theory tradition. Whether Wicksell actually recanted the quantity theory has, however, been disputed by Lindahl, the closest Swedish follower of Wicksell in monetary theory (Lindahl, 1951).

#### *The post-Wicksell period, 1926–32*

After Wicksell's death in 1926, a considerable rejuvenation in Club membership occurred as a large number of younger economists were elected members. One of these was Karin Kock, who was to have the distinction of being the most prominent woman in the Stockholm group. She presented her licenciate degree thesis dealing with capital movements in 1925 and completed her doctor's degree in 1929 with a dissertation on the rate of interest (Kock, 1929). Her dissertation was the first work of a member of the younger Stockholm group to be published in English.

The renewal that took place in the Club is particularly associated with the entry of Myrdal in 1926. He became the dynamic element in a rebellion against the elders related below. Together with the earlier members Lindahl and Johansson, he formed a closely knit troika that in several ways was also effective outside the Club. All three were put in charge of various investigations in Bagge's Rockefeller project. They were also colleagues as teachers at the Institute of Social Science. These common dealings held them together for almost a five-year period before Myrdal left for his long sojourn abroad in 1929–31.

It should be noted that Ohlin was not a member of this group. Although he gave a number of lectures at the Club in the latter half of



the 1920s, his continuous participation in the Club's debates was hindered for five years following his appointment in 1924 as a professor at Copenhagen University, a position he had won in competition with Lindahl and Åkerman. But as we shall see, Ohlin was not totally out of the picture.

*The younger economists' revolt:* The first reported confrontation between the younger economists on the one side and Heckscher, together with the other elders in the Political Economy Club, on the other, took place in 1928. It most likely had its origins in Keynes's (1926) pamphlet *The End of Laissez Faire*. This work induced Johansson to urge Myrdal to write a similar work. Both were under the influence of Max Weber and the Swedish moral philosopher Axel Hägerström and were critical of the scientific outlook of the elder Swedish economists, who drew no demarcation line between ideology and science. The younger economists reacted against the use of economic theory in legitimizing liberal economic policy standpoints.

Partly as a result of Johansson's exhortation, in 1930 Myrdal published his *Vetenskap och Politik i Nationalekonomin* (The Political Element in the Development of Economic Theory) (Myrdal, 1930). Myrdal accomplished the first stage of his work in a series of lectures on the history of economic thought in the spring of 1928. When he presented some material for this lecture series to the Club in early 1928, a clear conflict developed between Myrdal and Heckscher. In his 1930 review of Myrdal's book, Brisman (1930) relates:

One day about two years ago, a remarkable meeting was held at our political economy discussion club in Stockholm. Here we elder economists had gone for years, basking in our own splendidity, full of an unfeigned mutual admiration, convinced that we had finally found the only True and Correct economic viewpoint. And then came Gunnar Myrdal, who was a young docent at that time, about whom I knew little more than that he had defended a brilliant dissertation. Figuratively speaking, he turned all of us upside-down. His presentation was one long glowing sermon from the mount against everything we had considered most valuable in our economic education. And it was apparent that he had a group of enthusiastic followers among the even younger, who were indignant over the writings of Cassel, Heckscher and myself. All our old and beloved concepts, especially "maximum welfare," and "efficiency," not to mention "population optimum" and "the economic correct distribution of productive forces," "national income," "price level" and much more – all these were blown away like straw in the wind, until we didn't know if we stood on our heads or on our feet.

What had happened on this occasion can be symbolically described as the declaration of independence of the younger generation of Swedish economists from the older generation. To be sure, Lindahl and Myrdal had earlier been so outspoken in Bagge's graduate seminar that Bagge was eventually forced to ask them to refrain from attending. However, it was Heckscher who represented the great parricidal challenge. It should also be mentioned as quite notable that Bagge actually joined the "young Turks" on the above occasion. Bagge's position on many economic policy questions was such that he hardly deserved the sobriquet of "our Swedish Pigou."

It should further be noted that Ohlin, even though he was not physically present and was not a member of the troika, nevertheless indirectly supported the emancipation that was taking place. He had already achieved an early, purely intellectual independence from Heckscher in 1924 when he earned his doctorate on a dissertation in which he presented his contribution to the Heckscher-Ohlin theory (Ohlin, 1924). After his arrival in Copenhagen, Ohlin furthermore began to display a strong sympathy for Keynes's criticism of those liberal doctrines that Heckscher had so strongly defended (Ohlin, 1972). Yet, as late as 1929, Heckscher chose Ohlin as his self-evident successor when he left his chair in economics for a personal research chair in economic history. An open schism between them did not appear until Ohlin had succeeded Heckscher (Henriksson, 1979b).

It is interesting to note the position held by Johansson in the above-mentioned revolt. As the protégé of Heckscher, Johansson was "a child of sorrows." There were close personal ties between Johansson and Heckscher. Johansson was even living in with the Heckscher family and was treated as a son in the house. However, Heckscher would never disown a man because he was an intellectual opponent, rather the contrary. What disappointed Heckscher most was probably Johansson's rather slow progress in his dissertation work and his (at that time) somewhat bohemian lifestyle.

It appears that Dag Hammarskjöld also belonged to the opposition group in 1928. After his first economic studies under Fritz Brock at Uppsala, he studied with Keynes at Cambridge in the autumn of 1927 and returned with a licentiate thesis on utilitarianism. It was a subject that fitted well with Myrdal's emancipation lecture, which also dealt with utilitarianism.

It should be added that this declaration of independence of the younger economists did not include the Stockholm School's youngest generation. Tord Palander, Lundberg, and Svernilson were only at the "proseminar" stage in their studies at this point in time. They were not

elected to Club membership until after the emancipation year – Palander in 1930, Lundberg in 1931, and Svernilson in 1933.

*The emergence of “the dynamic approach”:* As was made clear above, the 1928 revolt was mainly ideological and not a matter of any developed theoretical position. Although the seminal ideas had been sown already, they had not yet generated any new methodological position. To the extent that the younger generation at this time was thinking along dynamic rather than static lines, there was no reason for the older generation to feel set aside. Discussions about problems of economic dynamics had already taken place in the Club in the early 1920s among the old members. Heckscher had himself lectured on the subject in 1922 when he first developed his ideas about the role of fixed capital. Issues of capital theory were as much the heart and blood of the old members as of the younger generation. Myrdal’s basic ideas about the role of expectations presented in his dissertation (1927) could not have been controversial to anyone who had participated in the war and postwar debates on price level changes where the Wicksellian model was frequently applied. Lindahl’s main thinking in macrotheory, which developed particularly from 1922–23 onwards, started from Wicksell and Davidson and did not strike anyone as particularly original. Discussions about the use of the rate of interest as a means for stabilizing the value of money were certainly not alien to the older members. Ohlin’s thinking along his later macrotheoretical lines had been new in its embryonic 1919 form, but these ideas had later been accepted by many older members, particularly by Brisman.

Yet although the above-mentioned meeting of the Club closed with the confirmation that everyone was basically in agreement on issues of theory, the rupture in the Club could not be healed. Myrdal had shown the other members of the younger generation that they were no longer bound by their elders’ thinking. They were free to cast out or retain whatever they pleased in the intellectual baggage they had inherited. The event in January 1928 thus was an important emancipation for the thinking of the younger members, and their various seminal ideas could from then on be more easily brought together in an endogenous process of cross-breeding. The years 1928–30 were a period that saw the birth of the *dynamic method* that was to be the new methodological position associated with the Stockholm School (Hansson, 1982).

All this was mainly the contribution of Lindahl, who had pushed ahead in monetary theory even before the demise of Wicksell. But he undoubtedly received an important stimulus from Myrdal’s (1927) microtheoretical dissertation. He served as its official discussant,

although he had also read the early drafts (Lindhal, 1929). Myrdal provided him with an important new point of departure. Although expectations had been explicitly dealt with in the many earlier applications of the Wicksellian model, Myrdal's particular approach brought the intertemporal dimension of market equilibration to the fore in a new way. This was decisive for the development of Lindahl's thinking during the following two years when he tried to bring the Wicksellian synthesis of the Austrian and Lausanne schools within the confines of the Marshallian short run. Presenting "the intertemporal tussle" along the later Arrow-Debreu line, he was apparently unaware of Hayek's (1928) contribution, however, and his ideas on the sequence approach appear also to be entirely his own. They must be seen as the logical outcome of introducing uncertainty into the intertemporal general equilibrium framework. Once the sequence idea is conceived, the various ensuing concepts such as the notions of temporary equilibrium and disequilibrium seem to follow naturally.

With the publication of Lindahl's (1930) *Penningpolitikens Medel* (The Means of Monetary Policy), the basic research program of the Stockholm School may be said to have been launched. Here the dynamic method, although not yet formally worked out as an endogenous sequence method, is applied to the central issues of macroeconomics within the frame of reference of the Wicksellian model. Here we also find the embryo of the Lindahl income concept. The seminal quality of this work by Lindahl, where among other things the word *macro* is used perhaps for the first time, does not mean, however, that Lindahl was alone among the Stockholm School members in developing the more substantive macro ideas associated with the school. On these Ohlin had also made important progress. He revealed a clear analytical grasp of the Keynesian income adjustment mechanism in the transfer debate with Keynes in the *Economic Journal* in 1929 (Ohlin, 1929). He had already in early 1928 sent off the manuscript of his Harvard treatise on international trade theory (Ohlin, 1933c), where one finds his well-developed insights into the role of income adjustments richly demonstrated not only in the context of balance of payment theory. There is furthermore little doubt that Ohlin arrived at these insights independent of Lindahl. As noted earlier, Ohlin had a legacy in monetary theory dating back to his early work in 1919–21. But he was not merely thinking along Wicksellian lines. His ideas also sprang from trying to deal with issues of structural change and variations in employment within the framework of trade theory where the Marshallian short run also claimed attention.

Having set things going, Myrdal appears to have been little involved in the continued development before 1930, although it should be rec-

ognized that his excursion into the history of ideas in his 1930 contribution contains many openings for subsequent conceptual developments. He was also quite close to Lindahl as the latter struggled with the definitional and statistical difficulties of measuring national income, which he had first presented in the 1927 Unemployment Committee but then continued as his major task under Bagge in the Rockefeller project (Lindahl, 1927). Since they were both specialists on taxation, they naturally had a common theoretical vantage point when dealing with the macroissues posed within the frame of reference of the Wicksellian model. However, Myrdal did not focus on these issues in the same way and to the same extent that Lindahl had done before 1930. When Lindahl completed his manuscript in the fall of 1929, Myrdal had already left for the United States. Assisting Lindahl at the time and reading his manuscripts were instead two younger members of the School, Lundberg and Palander. Their assistance to Lindahl even went so far as writing some of his footnotes. It has not been possible to find out whether the two younger members of the school wrote the footnote that was later pointed to as Lindahl's key anticipation of Keynes's *General Theory* (Henriksson, 1987a).

However, these Keynesian features were not the dominant macrotheoretical developments in the early thinking of the Stockholm School. By 1929 Lindahl had worked out a neo-Wicksellian analysis that was strikingly close to that offered by the pre-Keynesian Keynes in the *Treatise on Money* that appeared a year later (Keynes, 1930). Indeed, if the Stockholm School in any way anticipated Keynes, it was not only the *General Theory* (Keynes, 1936) that was anticipated but also the *Treatise*. This explains why the *General Theory* was so eagerly awaited and also why they became so disappointed with it.

In all these developments the Club no doubt played an important role. It is true that Ohlin was present only once during the two-year period. However, on that occasion in October 1928, he lectured on capital movements, and both Myrdal and Lindahl were present. It is not very likely that he did that without touching upon the income adjustment mechanism, dealing explicitly with situations of unused resources. Lindahl was present at every meeting during the two-year period as was Myrdal up until his departure for his study period abroad in the second half of 1929. But the cross-fertilization of ideas also occurred in their work on the Rockefeller project – at least at the level of logistical fraternization – and as teaching colleagues at the Institute of Social Science.

As previously mentioned, even the youngest generation represented by Lundberg took its first steps in 1930. Lundberg assisted Lindahl, but

of course the net gainer in this collaboration was Lundberg himself. In 1930 he published his licentiate thesis in the *Ekonomisk Tidskrift* wherein the embryo of his 1937 dissertation, the peak performance of the Stockholm School according to many, can be found (Lundberg, 1930, 1937).<sup>5</sup> However, in that embryo of his work one may also note the influence of ideas that were to be not only peripheral but even opposed to the Stockholm School. This influence emanated from, among others, Johan Åkerman, the younger brother of the aforementioned Gustaf Åkerman.

Åkerman, who was a graduate of the Business College in Stockholm like Ohlin and Johansson, had after a sojourn in the United States in the early 1920s introduced the Persons business forecasting method in Sweden (Henriksson, 1987b, 1987c). In 1928 he had presented a dissertation on the problems of the business cycle, a study read by Wicksell in an early version (Åkerman, 1928). He made his first appearance as a speaker in October 1929 when he lectured on the state of the international economy. He was at that time head of the private business cycle forecasting service set up by the Federation of Swedish Industries. Åkerman had quite successfully predicted the coming of the depression, which was quite an achievement since generally most business forecasts had failed, especially the Persons method used at Harvard.

However, all these developments could not have converged on a school without a catalyzing agent. The catalyst was the depression, which in the fall of 1931 set off a chain of events within the Club that brought developments to a head.

*The catalyzing phase:* The onset of the depression was brought to a climax in September 1931 when Sweden suspended the gold standard. The increasing unemployment and the currency crisis during the autumn of that year generated a new set of policy issues that intensely engaged all Swedish economists. The leading names were drawn into the policy-making process as internal advisors and consultants, and they also generally exerted a strong influence on public opinion through the media (Henriksson, 1979a; Jonung, 1979). But their response to the situation by no means formed a united front.

One of the main deviators was Johan Åkerman. His thinking on the policy issues emerging in the fall of 1931 was more akin to that of Hayek and classical economists, who advocated wage cuts to restore profitability as a cure to the unemployment problem. To neutralize the influence of Åkerman and other divergent views and to impress their own views on the policy makers in an efficient way, the leading members of the Club took an initiative that turned out to be decisive for the subsequent debate. At a Club meeting at the end of October 1931, one month after

the dramatic suspension of the gold standard, Karin Kock presented a lecture on the exchange crisis. The meeting was well attended by the younger members, except for “the deviate” Johan Åkerman, and the old generation was represented by Heckscher and Brisman. A proposal was made by Heckscher that the economists should issue a public statement presenting their unanimous viewpoint in order to facilitate the efforts of the country’s economic policy leadership to gain control over the crisis situation. Myrdal was assigned to produce a draft statement that would then be considered by the leading group of economists.

As the group gathered some weeks later to discuss Myrdal’s draft proposal, there was a surprisingly strong consensus on what we today would call the stabilization policy goals. The level of employment was to be protected as far as possible while maintaining the value of money. In the absence of Johan Åkerman, there was furthermore no strong disagreement on the choice of policy instruments. There was, in fact, a notable agreement between the older generation led by Heckscher and the younger generation led by Ohlin and Myrdal about the possibilities of influencing the employment situation through statements and measures that operated via the formation of expectations. Yet the attempt to produce a unified guide to action failed. What seemingly prevented Heckscher in particular from accepting Myrdal’s draft proposal was the practical design of the price stabilization goals. Heckscher wanted above all to stabilize the wholesale price level whereas Myrdal and the younger group wanted to stabilize the price level of consumption goods. The cause of the failure thus appears to have been that Heckscher’s proposal had a slightly deflationary bias and that of the younger group a slightly inflationary bias. However, the real rift was probably a deeper one. Myrdal’s draft proposal suggested too many regulatory and directly interventionist measures that were alien to the liberal vision of Heckscher, who sensed that by signing the draft he would endorse a policy that in practice would turn out to be a step toward central planning. Although the stabilization issue was the primary concern in the autumn of 1931, these crisis months witnessed the start of a protracted and fierce battle between Myrdal and Heckscher on the issue of the free market system versus central planning.

As a result of this failure, Heckscher wrote his own draft and published it within a month (Heckscher, 1931). Myrdal, who clearly felt outflanked by Heckscher’s hastily published book, was soon after able to get his own manuscript published together with Kock’s lecture (Myrdal, 1931). These publications attracted great attention. The fact that two books were published rather than one seems not to have detracted from the influence that the economists exerted over the making of policy. Rather, the contrary seems to have been the case. The public at large

and politicians in general did not perceive any great difference between the books. What aroused opinion in favor of both was their lucid exposition and analysis of the situation and its background and their rich agendas for action. Many of the subsequent policy measures that were to attract so much international attention were presented, albeit in an embryonic form.

However, the policy importance of the Club meetings in the fall of 1931 is not limited to the influence of these publications. The discussions in the Club also dealt with important policy issues that were never the subject of much open debate. One of these was a proposal for setting up an institute especially devoted to alerting the authorities to short-run developments in the state of the economy. It was discussed as part of a larger proposal to set up an economic advisory council patterned on a similar body set up in 1930 in Britain. The advisory council proposal was never followed up, although Hammarskjöld was undoubtedly influenced by the different views put forth by Heckscher, Myrdal, and Ohlin on the issue of the institute. As secretary of the 1927 Unemployment Committee (a position to which he was appointed in 1930 at the age of twenty-five), he made this his own pet project in the committee and pushed it all the way through to the creation in 1937 of the National Institute of Economic Research with Lundberg as director (Henriksson, 1987b).

From the point of view of the development of the Stockholm School, however, the main significance of the events in the Club in the fall of 1931 was that it brought the younger generation in touch with policy issues. Although many of them had long participated in public discussion, this was their real debut as unofficial advisors. In the early phase of the crisis, the proceedings tended to be dominated by the older generation of economists, including not only Cassel and even Davidson but also Heckscher as its most energetic and active representative. The meetings of the Club during the later phase of the crisis opened the door for the younger generation to the internal policy-making process. The most important role played by the crossing of swords in the club that autumn was the influence it exerted on the reinitiated work within the 1927 Unemployment Committee. During that autumn the committee decided to go ahead with a series of studies that some years later resulted in innovative reports by Johansson, Ohlin, Myrdal, and Hammarskjöld (Landgren, 1957, Uhr, 1977).

It should be noted, however, that the very youngest group of the later Stockholm School was not yet admitted to the tables of power and influence. They were still absorbed in their theoretical studies. Palander had devoted considerable attention to monetary theory but was at that time



on his way toward a contribution to location theory following up a research line of Ohlin's in regional economics. Svernilson, heavily engaged in Bagge's Rockefeller work on the project dealing with the history of wages and the labor market in Sweden, was turning his theoretical attention toward microtheoretical issues of the firm and the demand for labor leading up to his later dissertation. Lundberg had at that time completed his part of the same project in the Rockefeller studies and had left for a protracted study period as a Rockefeller fellow in the United States. This youngest generation therefore was never very involved, practically or theoretically, in the depression economics. Instead their interests were more directed toward the budding issues of microeconomics and in the case of Lundberg toward the general problems of the business cycle (Lundberg, 1987).

### 3 The Ohlin era, 1932–47

#### *The transition period, 1932–3*

The year 1932 was an important transition point in the history of the Club. Ohlin succeeded Brisman, who had held the chairmanship since 1926, and Heckscher's collaboration in the activities of the Club ended. This changing of the guard may to some extent have been the result of the cleavage that had developed between the older and the younger members of the club in the preceding years, but it was mainly a natural event. Ohlin had returned to Stockholm from Copenhagen and succeeded Heckscher in the economics chair at the Business College. Heckscher's retreat from the Club had furthermore less to do with the growing tension between Ohlin and himself mentioned earlier than with Heckscher's increasing commitment to the field of economic history (Henriksson, 1979b).

During the transition period 1931–3, the activities of the Club remained at a fairly low level, although this had little to do with the transition per se. The depression turned the interests of the economists toward current problems. Several meetings were therefore devoted mainly to discussions of the economic policy issues of the day. Brisman himself lectured in early 1931 on the international price decline, and the previously discussed meetings in the fall of 1931 also testify to the fact that the interests of the economists that year were strongly diverted from theory. Furthermore the major shift in the social function of the Club that occurred during the Ohlin era away from the seminar style toward a more social gathering with invited guest speakers is already noticeable in this transition period.

However, the major reason for the low level of activity in the Club during the transition years appears to have been that the depression generated so many government activities and inquiries calling for the assistance of the economists that they had little time left for Club meetings. This absorption of the economists by the government became particularly pronounced in the fall of 1931 when the 1927 Unemployment Committee started its second round of investigations. This work occupied much of the time of Hammarskjöld, Johansson, Myrdal, and Ohlin for the next two years, 1932 and 1933. Lindahl, eventually overburdened by assignments to such an extent that in 1933 Bagge was forced to dismiss him from his responsibilities in the Rockefeller project, was in 1931 put to work by the Central Bank on the construction of a price index while at the same time after many years of frustrated attempts he finally obtained a chair in economics and moved residence to Gothenburg.

Only one of the known meetings of the Club in 1932 was devoted to a theoretical topic. Furthermore, the speaker on that occasion was not a professional economist, but Ernst Wigforss, who was to become the minister of finance in the Social Democratic government that took office after the election in the autumn of that year. As the public finance expert of the Social Democrats, during the 1920s he had followed the debates of the economists not only in Sweden but also abroad, particularly the discussion in England. He had also kept up with the theoretical developments in the field. As a leading member of the 1927 Unemployment Committee, he wrote several interesting reports of which one stands out as perhaps the earliest discovery of what is today referred to as the Phillips curve (Wigforss, 1929).<sup>6</sup> The economists' respect and esteem for Wigforss as a theoretician was formally acknowledged at the aforementioned meeting by his admission to Club membership. This was the first exception to the rule that only professional economists were admitted to membership. A second exception was made some years later when the governor of the Central Bank, Ivar Rooth, was also admitted.

In his lecture on "Depression and Thrift," Wigforss displayed his already well-developed (what we would today call Keynesian) insights to a large audience. Among those present at the meeting were all the contributors to the second round of the Unemployment Committee except Ohlin. They undoubtedly welcomed the opportunity to exchange views on issues central to their assignments at an early stage. The committee work was mainly carried out as commissioned reports, and there were long periods of little current discussion within the committee. As secretary, Hammarskjöld acted as a clearing agent, but he could of

course not act as a substitute for direct contacts between committee members. As the reports were submitted to Hammarskjöld, he sent them out for review by outside experts. However, Ohlin's manuscript was also reviewed internally by, among others, Bagge, who still held a central position in the committee. As a result Hammarskjöld, adding criticism of his own, had to ask Ohlin to rework the report, which delayed publication of Ohlin (1934). This is probably the origin of the somewhat aloof relationship between Ohlin and Hammarskjöld noticeable throughout their later careers.

The fact that the various reports were not typical committee compromise products naturally adds to their value as evidence of where the author stood and his accomplishments as a scientist. However, seen from the committee's point of view, the reports no doubt could have profited from some rounds of internal discussions and hearings. It fell on Hammarskjöld as the secretary of the committee to carry out the task of synthesizing the various contributions into a final report. However, he did not do that entirely alone. The chairman Gunnar Huss and other older members, especially Bagge, undoubtedly played some role in shaping the final compromise report. Bagge had worked out a plan for a final report as early as 1930. As the first among the Stockholm economists to make his entry into active politics as a member of parliament in 1932, he was naturally anxious to keep an eye on how the committee work was summed up. Furthermore, the first draft of the final report was subjected to a thorough discussion during a concentrated work period with the various members and staff assembled. A similar discussion took place upon the completion of the second draft before the publication of the final report. Although Hammarskjöld wrote most of the text, many of his own ideas were suppressed, especially in the second draft and in the final report. One should therefore be careful before attributing all the views and achievements in the final report to Hammarskjöld or to him alone.

The intense work on their assignments in the Unemployment Committee, especially during the second half of 1932 but also continuing into 1933, undoubtedly goes a long way to explain why there were so few meetings in the Club. However, substitute forms of communication proliferated. Ohlin in particular tried to engage the others in a more joint work effort by circulating memos and writing letters. And of course there was also the telephone. It is hard to conceive that this medium was not used by those who wanted to give Ohlin their views on his memos, for example, the one he wrote for the Unemployment Committee on the Austrian school (Ohlin, 1933a).

*The heyday of the Stockholm School*

With Ohlin as chairman and Svernilson as the new secretary (after Johansson), it was not long before the activities of the Club were revitalized. In March 1933 at the first meeting of the Club after the election of Ohlin as chairman, Ohlin himself lectured on a “prae [sic]-Wicksellian” monetary theory. This presentation was a sequel to the well-known paper Ohlin had circulated among Club members in the autumn of 1932 and then published in the *Ekonomisk Tidskrift* in 1933 (Ohlin, 1933b, 1981). Ohlin had in that paper worked out his own approach to monetary theory in response to what he referred to as the neo-Wicksellian thinking of Lindahl and Myrdal. The paper was also an offshoot from his work in the Unemployment Committee. In the spring of 1933, Ohlin completed the draft of his committee report that was to appear in a revised form in the following year as Ohlin (1934). Myrdal and Johansson, who were also completing their drafts at that time, were present at the Club meeting, and they undoubtedly had much to say on the theoretical issues raised by Ohlin. They were all informed about the evolving international debate on these issues. The controversy between Hayek and Keynes in particular, and in Sweden the sharpened criticism especially from Johan Åkerman, forced them to articulate their own thinking. In these endeavors, Ohlin was the one who was most active in trying to demonstrate how the thinking among the Stockholm economists could be considered an approach different from that of the Vienna School but close to that of the Cambridge School. He actually referred to “the Cambridge-Stockholm School” at that time. But the theoretical divergences between the members of the group made it difficult for them to see that what they had in common might be considered “a third school.”

Furthermore, they were divided by increasing rivalry and ideological dissension. Alf Johansson had followed Myrdal in moving toward a socialist position, preventing them both from rallying behind Ohlin. The election of Ohlin as chairman of the Club should not be interpreted as evidence that he was the leader of the Stockholm group. The other members somehow looked upon Ohlin as a newcomer to a discussion that they had been carrying on for years.

Ohlin's presentation in the spring of 1933 marks him, however, as the coming entrepreneur of the conception of a Swedish school. He was the one in the group who had been most exposed to the thinking abroad and had participated most actively in international debates. This enabled him at an early stage to view the Swedish discussions from the outside. He had already in 1925, in the Brentano paper mentioned earlier,

identified what he referred to as a particularly Swedish brand of economic science. Although Ohlin's position as a spokesman for the Stockholm group was never accepted by all the other members, they were, as we shall see below, soon to accept his view that they had an approach in common and to bow to the international profile that was being imposed on them.

One of the Club's most intensive years of theoretical debate was 1934. Lundberg had returned from his two-year study period in the United States, and in January he presented his impressions from that sojourn. Later in the spring, he presented his first models in his coming dissertation in a lecture entitled "Some Theoretical Questions Concerning the Relationship between Investment Time, Circulation Velocity and Purchasing Power." Club attendance was unusually large on that occasion, and the minutes relate that "the discussion was lively," which was usually the case when Lundberg was involved. Lindahl, Myrdal, Kock, and Hammarskjöld all participated in the discussion as well as Ohlin. Lundberg reports in his memoris that Ohlin was a severe critic at that time, and one may infer that this criticism had a major influence on Lundberg, who was then in a very formative phase of his dissertation work (Lundberg, 1987). Perhaps some of the notable strengths and weaknesses of the dissertation were a result of the influence of Ohlin.

In November, Lindahl presented his famous "A Note on the Dynamic Pricing Problem" (Steiger, 1971). He had previously circulated this paper among a wide circle of economists in Sweden and abroad. It attracted great attention at the London School of Economics, but the Cambridge reaction was more subdued. Keynes replied later that year that "your way of dealing with time leads to undue complications and will be very difficult either to apply or to generalize about" (Moggridge, 1979). Thus, Lindahl and the other Club members were informed early about Keynes's new attitude toward sequence analysis, and this undoubtedly raised even further their expectations of the book they so eagerly awaited. The reaction of Lindahl's Swedish colleagues was much more favorable. Ohlin even produced an appreciative counternote and showed how his approach related to Lindahl's.

Wigforss attended this meeting, revealing his continued great interest in economic theory. His presence shows that despite the strong orientation toward theory in this period, there was still much attention to policy issues. In this vein, the Club listened to Hammarskjöld in 1935 lecturing on the state of the currency problem and in early 1936 heard Lundberg report on his experience as consultant to the Economic Planning Commission on Iceland during the second half of 1935 (Lundberg, 1987). But some members such as Johansson and Lindahl were again

so absorbed in government inquiries that they had little time left for the Club.

*Foreign guest appearances:* In 1934 the Club began to pursue in earnest its role as host for foreign guest lecturers, which then increasingly became its primary function in the research community of economists in Stockholm. During the Heckscher era, foreign visitors were rather uncommon at the Club meetings, and except for the Norwegian Ragnar Frisch, who actually lectured in the Club in 1928, they were mainly listeners to the discussions. The record mentions only one non-Scandinavian, Gerhard Mackenroth from Germany, who attended the Frisch lecture.

There were three types of foreign guests. The first type was a small but notable group that made its way to Stockholm attracted by the growing international stature of Swedish economics. They wanted to learn at the source what the Swedish economists had achieved. Early in 1934, Brinley Thomas addressed the Club on the subject of "Some Remarks on the Swedish Crisis Literature." Dispatched from the London School of Economics, he came to spend about six months in Sweden and in that brief time learned the language so well that he was able to summarize the Swedish research situation and its background in an excellent book (Thomas, 1936); which appeared in early 1936. Even before then Thomas had presented the Swedish ideas to the English-speaking world through a lecture series at the London School of Economics in the fall of 1934.<sup>7</sup> These lectures coincided with John Hicks's *Economica* review of Myrdal's 1933 contribution to monetary theory that aided in seducing George Schackle into a lifelong devotion to the Myrdal approach. They also made the London School a springboard for the dissemination of the Swedish ideas across the Atlantic through various American students in residence at the London School at that time (Hart, 1951).

In early 1936, the Club was visited by a Dutch economist, Johan Koopmans, who lectured on "Various Notions of Monetary Equilibrium," a theme clearly related to Myrdal's neo-Wicksellian contribution just mentioned. Koopmans had contributed a paper on the neutrality of money in the volume edited by Hayek (1933), in which Myrdal's important contribution to monetary equilibrium theory appeared in German. This was where the German translator, the aforementioned Mackenroth, introduced the passwords of the Stockholm School, *ex ante* and *ex post*, as convenient substitutes for some of Myrdal's verbal equilibristics in the Swedish text (Myrdal, 1933). Generally, rigor and comprehension are lost in translation, but in the case of the Swedish authors, sometimes the opposite occurred.

The relatively unknown Polish economist Michal Kalecki attended Koopman's lecture. He had contacted Myrdal and traveled to Sweden on a Rockefeller grant. Kalecki never made a presentation at the Club, but he was an active participant in the licentiate seminar at Stockholm University (from 1931 led mainly by Myrdal, who in 1933 took over the chair held by Cassel after Cassel benignly retired upon Myrdal's own request). However, Kalecki broke off his Swedish visit in early 1936 after reading Keynes's *General Theory* and moved the remainder of his grant-financed activities to England. His stay in Sweden was too brief to exert any influence on the Swedes, and according to Lundberg he was not a very sociable person anyhow. He quite obviously abandoned Stockholm for pastures that looked greener to him (Feiwel, 1975; Lundberg, 1987).

The second group consisted of refugees, mainly Jewish, who left the German sphere of Europe after Hitler's "Machtübernahme" in 1933. One of them was the mathematician Willy Feller, who eventually moved to the United States, where various universities could better take advantage of his talents. In Stockholm he collaborated with the Harald Cramér group of mathematical statisticians in their research in actuarial and probability theory, but he also associated with Lundberg and Svennilson, whom he inspired and helped in their theoretical work (Lundberg, 1987).

The third and most prominent group of visiting foreign economists were those who had been extended a special invitation. In 1935 the Club received a grant from the J. H. Palme Fund, where Heckscher acted as the principal administrator in the distribution of funds (Henriksson, 1979b). The Club was thereby given the opportunity to invite foreign guest lecturers. In April 1936 Frisch visited the Club. Among the leading non-Swedish economists he was the one best qualified to follow and understand the development of the new thinking in Sweden, not only through the entry offered by the Norwegian language but also because of his thorough familiarity with Wicksell's writings (Andvig, 1985 and this volume). Frisch's two-day lectures in the Club dealt with "The Swedish Approach to Monetary Theory and the Choice of Time Periods in Monetary Analysis." It may be recalled that Lundberg had treated this subject two years earlier.

It can be noted that in his lecture Frisch used the expression "the Swedish approach." This confirms that the notion of a Swedish school had become accepted in the neighboring countries. Even the Swedes themselves had swung around so that, as noted in the introduction, Keynes faced a rather united front in his meeting with the Swedes in the autumn of 1936. The Swedes would, however, use the term Swedish school only grudgingly in discussions with foreigners since the school

could by no means cover all Swedish economists. For this reason the term "the Stockholm School," allegedly first used by Johan Åkerman in his criticism of the new approach, was a convenient label when Ohlin (1937) delivered his grand presentation of the school in the *Economic Journal*.

### *Developments after the Keynes visit*

As noted in the introduction, the Palme grant financed Keynes's visit, and additional funds in 1937 made possible visits by, among others, Oskar Morgenstern and Jan Tinbergen. Both lectured on current issues in business cycle theory. At that time, Morgenstern was still director of the Austrian Institute for Business Cycle Research, which was later placed under the supervision of the Institute for Business Cycle Research in Berlin. Tinbergen was in charge of the corresponding Dutch institute. Bringing these leading representatives of business cycle research to Stockholm naturally engaged Lundberg, who in 1937 became the director of the Swedish business cycle research institute, the National Institute of Economic Research, a position he held for eighteen years. The meeting with Tinbergen was particularly important, since it established a contact with the Dutch institute that turned out to be of some importance for the development of the Swedish institute. Tinbergen's lecture to the Club was also notable because both Heckscher and Cassel attended the subsequent dinner.

The foreign guest lecturers in 1938 and 1939 received less attention from Club members. However, the appearance of Mr. and Mrs. Hicks attracted quite a large audience when they visited in May 1939. Ursula Hicks lectured for two days on public finance. Her husband gave a lecture on the first day on "Risk Factors and Interest Rates." On the second day he lectured on "The Logical Foundations of Welfare Economics," which appeared later that year as a well-known paper in the *Economic Journal* (Hicks, 1939).

Toward the end of the 1930s, there were so many visiting guest lecturers that there was little room for Swedish presentations. However, two younger members of the Stockholm School made their debut as speakers in the Club in this period. In November 1938 Palander spoke on "Conceptions of Competitive Behavior of Firms in Oligopolistic Situations," showing that the interests of the Stockholm economists were not limited to monetary and macrotheoretical problems but included microtheoretical questions as well. The second younger Swedish speaker was the then former secretary of the Club, Svernlund. He had followed up the microtheoretical work of Myrdal of 1927 in a dissertation On



Economic Planning (Svennilson, 1938). In his dissertation he demonstrated how the sequence approach could be applied in the theory of the firm. Palander, who served as the main discussant, criticized it with acerbity, which may have been one of the reasons this profoundly innovative work did not at that time receive the esteem it was later shown to be due.

The Club's increasingly predominant function as host for renowned foreign economists naturally contributed an important stimulus to economic thinking and research in Stockholm, although the "crowding-out effect" of the host function meant that the community of professional economists in Stockholm lost an important forum for internal dialogues. However, compensating institutional developments occurred. The setting up of the National Institute for Economic Research was of course an important event (Henriksson, 1987d). Another important development was the extended and differentiated seminar developments and activities in the Institute of Social Science at the University of Stockholm. These activities were often led by Johansson, Kock, and other members at the Institute. Myrdal and Bagge, the professors in charge, were often off on long leaves of absence to cater to their political duties or undertake other mostly government assignments (Henriksson, 1989).

A third development concerned the *Ekonomisk Tidskrift*, Davidson's creation of 1898, which had been an ailing institution for Swedish economists at least since the death of Wicksell. It was rejuvenated in 1938 when Davidson was bought out from his editorship (Henriksson, 1979b). Under the new editors, Lundberg and Svennilson, the journal entered into a period of renewed expansion with a book review section as an important feature. The fact that no formal book reviews were presented in *Ekonomisk Tidskrift* during the heyday of the Stockholm School helps to explain certain weaknesses in the development of the School. This situation of course made the meetings of the Political Economy Club even more important.

*A Nordic tradition asserted:* A most significant development during the post-*General Theory* period, which compensated for the failure of the Club to serve as a meeting place for scientific discussions, was the growing institutionalization of the contacts between the professional economists in the various Nordic countries. Following an old tradition from the nineteenth century, Nordic economic meetings were held regularly, but they were dominated by current economic policy issues and did not allow the small number of professional economists to make themselves heard. Noting that the needs of economic science were not adequately

served by these meetings, which furthermore took place too seldom, Frisch took an important initiative during the Nordic Economic Meeting in Oslo in June 1935. At a luncheon to which he had invited the leading economists from each of the Nordic states, he presented a proposal that regular annual meetings between the professional Nordic economists should be arranged. The luncheon group agreed with Frisch and decided that a meeting should be arranged in August of every year at a place located equidistantly from the capitals of the different countries, except for Helsinki. Such a location was found at Marstrand in the vicinity of Gothenburg, where the first meeting occurred in August 1936. These meetings have been called the Marstrand meetings, although not all of them have been located there.

All these good developments were interrupted by the war, but most of them could be resumed when the war was over. There is good reason to talk about, if not a Nordic school in economics, at least a Nordic tradition in the field. This broader identity perhaps has more of a standing in the outside world than the national ones of the individual countries. Of course, the interwar ideas of the Stockholm School was disseminated to all Nordic countries, but the most important integrating factor was probably the broader heritage of Wicksell.

#### *The war period, 1940–47*

The final years of the 1930s marked the end of the role of the Political Economy Club as an important part of the institutional base of the Stockholm School, and the war years saw a decline in the School itself. The ideas of the Stockholm School were, however, to some extent preserved in Uppsala where Lindahl and later also Palander obtained chairs and where important contributions were made by Bent Hansen, Ragnar Bentzel, and Herman Wold. Paradoxically, the continued criticism by Johan Åkerman in Lund also kept the issues alive through a protracted rear guard discussion with Harald Dickson and others into the 1950s (Petersson, 1987, this volume; Hansson, this volume). Some theoretical work along the Stockholm School line continued even in Stockholm, especially at the National Institute of Economic Research, which (having been closed during the first war years) resumed work in 1943 (Henriksson, 1987d). Under the continued directorship of Lundberg it addressed itself particularly to the new macroissues arising with the inflationary gap problems during the war (Berg, 1987). But few of these new theoretical issues were taken up for discussion in the Club. In March 1942 Ohlin lectured on the Stockholm School position on the quantity theory (Ohlin, 1943). However, this was almost the only off-

shoot in the Club of the continued theoretical discussion in the Stockholm School tradition. Current developments totally dominated the meetings during the war.

#### 4 Epilogue

After the war the Political Economy Club resumed its main role as host to visiting foreign economists. In 1948 the membership listened to Lawrence Klein on economic research, and in 1949, to Joan Robinson on monopoly theory and to Alvin Hansen on business cycle theory and growth theory. In 1950 Tjalling Koopmans lectured on transportation and localization theory, and Tryggve Haavelmo spoke on the relationship between static and dynamic market theory. The fastest rising star in those days, Paul Samuelson, was also a guest, although this is not mentioned in the minutes.<sup>8</sup> The Swedish contribution in these lectures remained small, even in this new phase. The only Swedish lecturer, Ingvar Ohlsson, spoke in 1948 on the Swedish national budget.

An important meeting took place under the chairmanship of Lundberg in early 1951 with Heckscher as the guest of honor. Heckscher, who had started the Political Economy Club to provide Wickseil an opportunity for creative emeritus life was himself now emeritus and chairman of an Economic History Club that had been created to offer him the same retirement life. He had now been invited together with the Economic History Club and his successor Ernst Söderlund to participate in a discussion of Dahmén's trail-blazing dissertation, a work in the tradition of Johan Åkerman and Joseph Schumpeter (Dahmén, 1950). In the work of Dahmén, Heckscher saw the promise that economics and history could still meet in a fruitful way (Henriksson, 1979b). Even Lundberg was enthusiastic about Dahmén's attempt to bring economic theory and economic history closer together. While Heckscher made "a plea for theory in economic history," Lundberg's plea was for history in economic theory.<sup>9</sup>

The Club's last lecture noted in the minutes was given by Dennis Robertson on October 1, 1951. He spoke on the subject Keynes had touched on in his lecture fifteen years earlier on precisely that day, namely, the rate of interest. An old intellectual tie existed between the Stockholm economists and Robertson on this controversial issue since both disputed Keynes's theory of interest and also had the sequence approach in common. The division between Robertson and Keynes in the 1930s was equally as serious as that between Keynes and the Stockholm School; however, Keynes's controversy with the Swedes was probably a less personal one. The Swedes had paid tribute to Keynes before

the war by awarding him the foremost decoration the Swedish Academy of Science could offer before the days of Nobel Prize, its gold medal in economics. They also decided before the war, supported by Ohlin, to have the *General Theory* (Keynes, 1936) translated into Swedish. This work, led by Palander and carried out by Leif Björk, was not completed until the end of the war, however, and Keynes probably never saw the result (Keynes, 1945). But even so, the leading Swedish economists, although accepting Keynesian policy measures, which were after all also the measures advocated by the Stockholm School tradition, held onto a rather non-Keynesian line in theory. There was some original work done along the lines of the Stockholm School even in the 1950s (Hansen, 1951, 1955, Metelius, 1955, Faxén, 1957).<sup>10</sup> But eventually even the Swedes had to bear the Keynesian cross constructed by Samuelson (1947).

## 5 Summary

This chapter has been an attempt at assessing the importance of the Political Economy Club for the development of the Stockholm School. The results may be summed up with reference to a three-phase life-cycle view of the School.

First, the Club was important for the creation of the Stockholm School. The Club brought Wicksell into personal contact with Stockholm economists and created an important “oral” link in the transfer of the Wicksellian legacy to the next generation. The Club then played an equally significant role after Wicksell’s death, when it became the stage for the younger generation’s emancipation from the influence of their elders. The emancipation process began with the ideological confrontation in 1928, which released a process of theoretical advance. This was soon directed to macroeconomic theory, anticipating, but eventually also surpassing, Keynes through the catalytic debate beginning in the fall of 1931. Without the Club, this emancipation process would probably have been much more difficult and perhaps incomplete, and the development of the new theoretical ideas might have been delayed or even aborted.

Second, the club was a vital factor underlying the contributions of the Stockholm School during its heyday coinciding with the first phase of the Ohlin era in the Club’s history. Although the ideas of the Stockholm School were often developed in other contexts, such as in the Unemployment Committee or at the licentiate seminar at Stockholm University, much of the important dialogue and the mutual criticism occurred within the Club’s circle. It brought together economists who would not

otherwise have met so often because of personal animosity or for other reasons.

Third, having noted the Club's importance for the creation and flowering of the Stockholm School, it is natural to ask what role the club played in the School's subsequent development. To the extent that this later development can be considered a period of decline, one can readily point to the Club's increasing role as a host institution for foreign visitors. This may have enriched and stimulated the Swedish discussion in its earlier phase, when the Swedish economists, especially Ohlin but even Lindahl, were spurred by the scientific competition that arose between the Vienna School and the Cambridge School. But after the Keynesian year of 1936, it is possible that the visits of foreigners contributed to a stifling of the Swedish debate by denying it its most important forum.

In conclusion, it should be noted that the Club's importance cannot be assessed only from the perspective of the history of economic thought. In the broader perspective of economic history, the Club's role in the economic policy debate is probably equally interesting. Economists from politically divergent camps were often brought together in the Club. Even when consensus was not reached, they nonetheless sharpened and developed the arguments that they would present to a larger public. The Club thereby strengthened those features that from an international point of view appeared particularly unique and perhaps as worthy of attention as the theoretical contributions of the Swedish economists, namely, the great influence of Swedish economics on economic debate and economic policy within Sweden.

### Notes

- 1 I am very grateful to Sven Igglund who permitted me to use the minutes of the club and to Bengt Metelius who first stimulated this inquiry and then offered comments on the draft, and as well to the one-time secretary of the club, Gustav Cederwall, who supplied me with much information and also offered important comments on the draft. I would like to thank Erik Dahmén who supplied me with further source material from the Club and Per G. Andreen for aiding my research on Gösta Bagge by supplying me with important archival material complementing my own excerpts from the deposits in the Swedish National Archives from the 1927 Unemployment Committee and the local Swedish Social Science Board for the Rockefeller Foundation. I have incurred debts to the late Pierre Guinchard and Gunnar Myrdal and especially to the late Erik Lundberg, who read an early draft. I want to express my gratitude to Leif Björk. Claes-Henric Siven has offered encouragement. Editorial assistance has been given by the editors of *Ekono-*

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- 2 Moggridge has published Keynes's lecture notes, which give the main points of the lecturer's introduction. He reports that the title of the lecture was "Further Reflections on Liquidity Preference." The lecture was later published in a revised version in A. D. Gayer (ed.) *The Lessons of Monetary Experience: Essays in Honour of Irving Fisher* (1937) under the title "The Theory of the Rate of Interest" (see Moggridge, 1973). I have also had available a newspaper report about Keynes's lecture written by Cederwall.
- 3 The quote is from an interview with Leif Björk in 1983.
- 4 Interview with Gunnar Myrdal, January 30, 1980.
- 5 This paper has been translated and will appear in Lundberg (1990).
- 6 This report is discussed by Wadensjö in Chapter 3.
- 7 Interview with Brinley Thomas at the History of Economics Society meeting in Charlottesville, Virginia, in 1983. See also Thomas (1987).
- 8 Letter from Paul Samuelson, June 9, 1988. Samuelson was even "sounded out" for a Swedish chair in economics.
- 9 Interview with Erik Lundberg published in Henriksson (1987d).
- 10 There are traces of this tradition even in Lindbeck (1963).

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## Comment

GUSTAV CEDERWALL

As one of the survivors from the Economics Department of Stockholm University from the 1930s, I would like to supplement the paper by Rolf Henriksson about the Political Economy Club with some remarks based on my recollections and experiences.

First let me introduce myself. I started my studies at Stockholm University in 1931, where my introduction to economics was handled by Alf Johansson. I passed my first examination in the subject for Gösta Bagge in 1934 and my advanced examination later in the 1930s for Johansson. I listened to Gustav Cassel's lectures in his last year and to the lectures given by Gunnar Myrdal, who spoke vividly about the problems that preoccupied him at that time, namely, business cycles and public finance. In the corridors and at advanced seminars, I met Erik Lindahl, Karin Kock, and Dag Hammarskjöld. As fellow students, I also met Erik Lundberg and Ingvar Svennilson, who were a few years ahead of me.

In 1936 I was appointed secretary of a committee that was investigat-

ing the problems of monopolies in Swedish industry with Bertil Ohlin as chairman. In due course this led to a number of other assignments that finally made me give up the academic for an administrative career. I have given a somewhat fuller account of the environment at Stockholm University in the 1930s and my own adventures in the forthcoming volume *The Stockholm School of Economics Remembered* (edited by Lars Jonung).

Leaving aside an extremely dull elementary introduction, I was brought up as an economist on two works: Wicksell's *Lectures* and Myrdal's *Vetenskap och Politik (The Political Element in the Development of Economic Theory)*. Henriksson has recorded the reaction of the older school of economists to the Myrdal revolution. Brought up in the new school, I became and have remained skeptical of the classics. I share to some extent what has been called Myrdal's contempt for the marginal utility theory, and my doubts have focused especially on all loose concepts of welfare. The study of Wicksell and Myrdal concentrated interest on dynamic developments. General equilibrium theory, showing what would happen in the long run, was pushed aside with the remark that in the long run we are dead – a slogan we got from Keynes. From Wicksell and Myrdal, we learned that deviation from equilibrium did not necessarily give rise to an adjustment back toward balance but could result in a cumulative movement. The economic system could exhibit a tendency to become subject to cyclical variations. Erik Lundberg, who spent his whole life as an economist in the study of economic instability, used to talk about the rocking-horse.

I was elected member of the Political Economy Club in the mid-1930s and I served as its secretary, as well as secretary of the venerable Economic Society, during the second half of the 1930s and most of the 1940s. The peak event in the history of the Political Economy Club was certainly a visit by Keynes in 1936 as described by Henriksson. (Of the eighteen persons who took part in the dinner for Keynes on that occasion, only three were still alive at the time of the conference: Erik Lundberg, Leif Björk, and myself. After the conference, Erik Lundberg died in September 1987.) I was asked by the news agency for the Swedish dailies to report on the public lecture given by Keynes on "My Grounds for Departure from Orthodox Economic Tradition." The summary I made must have been written in a great hurry in the short interval between the lecture and the dinner. Among my old papers, I have found a copy of my report.

I have a vivid recollection of the discussion at the dinner, which went on until midnight. I can confirm the description given by Myrdal, who has called Keynes's ideas "unnecessarily original" and for those brought

up in the Wicksellian tradition, not in any sense a revolutionary breakthrough. I can also confirm Ohlin's remark in his 1937 articles in the *Economic Journal*. Perhaps it should be stressed that the lively discussion in England of Keynes' *General Theory* had by this time not yet reached Stockholm. This included the basic reviews, among them Hick's famous *Keynes and the Classics*.

It was certainly a remarkable event when the great prophet came to Stockholm pretending that he had seen a new light only to be taken down by the Swedish youngsters – Myrdal and Ohlin were around thirty-five, Hammarskjöld thirty, Lundberg and Svennilson under thirty – who told him that he was rather old-fashioned, that the Swedish economists had gone much further, and that his, Keynes's, very method, the equilibrium method, was unsuitable for the treatment of dynamic problems. To listen to that debate was certainly an unforgettable experience for a young man. I was myself only twenty-three.

As secretary of the Club as well as of the Economic Society, it was my duty to act as a sort of guide to visiting economists. Henriksson has mentioned a number of names. I could add quite a few. From the 1930s I remember, next to Keynes, the visit in 1939 of Mr. and Mrs. Hicks. I also have a recollection of having seen Schumpeter and Haberler before the war. The Economic Society had T. E. Gregory and Lionel Robbins as guests in 1935 and 1936. After the war there was a stream of visitors. I have noted Hayek in 1946, Dick Stone in 1947, Geoffrey Crowther, editor of the *Economist*, in 1949, followed by Alvin Hansen, John Jewkes, and D. H. Robertson. Milton Friedman came in 1954 and R. F. Harrod in 1957. They did not all speak at the Political Economy Club, the subject of Henriksson's report. Some were invited to appear before the Economic Society. But they all came to Stockholm, which was, for a time, a kind of Mecca for economists.

In conclusion, I would wish to associate myself with Henriksson's final conclusion. The economists in Stockholm did not deal only with economic theory. They were all interested and deeply involved in actual economic policy. They were dealing with applied economics. Their theories were rather by-products of these other interests. This largely applies to the debates in the Political Economy Club. It also applies in my view to what has been called the Stockholm School.

All this must of course be seen against the background of the economic crisis in the 1930s. It was a period when there was a lively discussion – not only among economists – about changes in exchange rates, the causes of the depression and its development, and methods to improve the economic situation and to counteract unemployment.

Henriksson has dealt with the Political Economy Club and referred to

the divergent views held by economists in connection with monetary policy in the period after Sweden left the gold standard in 1931. Wadensjö provides some glimpses of work of the unemployment committee. There was certainly a highly intensive debate going on in other places. Ohlin wrote a great number of articles in Handelsbanken's *Index* and in the *Stockholmsstidningen* and other periodicals. The Economic Society had a great debate on public works and the underbalancing of the budget as a means of combatting unemployment in 1932, introduced by Lindahl. Wigforss, who was minister of finance at that time, presented the budget proposals to the Society and debated with conservative opponents. Especially his presentation of a new policy in 1933 marks a new epoch.

I would like to stress therefore that, apart from the theoretical works referred to by most of the authors of the papers presented at this conference, there is also important literature available on policy formation. It is to be found in a wide range of articles and speeches, as well as in official publications. Committee reports from the 1930s onwards include a good deal of the economic research carried out in Sweden, both empirical and to some extent theoretical. This should not be overlooked.

In this "grand debate," almost the entire new generation of economists stood up as standard-bearers for expansionism and planning. For myself and I think for my generation, the Stockholm school embodied this whole concept of expansionism. We had a sense of living at a time when economists saw a new light, a feeling wonderfully described by Lundberg. I think that this commonly held attitude by economists dealing with actual and administrative problems is at the center of what I would like to call the Stockholm School.