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Ohlin on the Great Depression: The popular message in the daily press

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OHLIN ON THE GREAT DEPRESSION

The popular message in the daily press

Benny Carlsson and Lars Jonung*

February 2001

Abstract: This paper traces the development of Bertil Ohlin's views on issues such as the causes of the depression of the 1930's, policies against the depression, the use of fiscal and monetary policies, and tariffs and public works to stabilize the business cycle. We examine about 80 of his articles on the depression of the 1930's, published in *Stockholms-Tidningen*, a Stockholm daily, between 1926 and 1935. This is a small sample of Ohlin's total output of more than 2 300 contributions to the daily press – a number that makes him the most prolific economic journalist of all Swedish professors of economics in the 20th century

Our basic result is that Ohlin was an eager but cautious commentator on current affairs. Initially, he was quite optimistic, underestimating the depth of the depression. Later, as the depression worsened, he proposed bolder measures such as increased public works and public investments as well as an expansionary monetary policy to fight unemployment. By 1932, Ohlin had adopted a multiplier approach. He was strongly opposed to cuts in nominal wages and public expenditures during the depression. Summarizing his views on the depression in 1934, Ohlin concluded that it was not the result of any inherent weakness of capitalism.

Turning to the perennial debate on the originality of the Stockholm School: Do Ohlin's daily articles show him as a pioneer or as an orthodox in macroeconomic thinking in the 1930's? We conclude that support for either interpretation can be heralded. However, Ohlin appears more radical in his academic writings than in his newspaper articles – a view supported by Ohlin himself in his memoirs.

Key words: Bertil Ohlin, the great depression, the Stockholm School, fiscal and monetary policy, keynesian macroeconomics.

JEL Classification: B20; B31; E24; E60; N14

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Introduction*

In Sweden, the economics profession has by tradition held a strong position in public debate. The first generation of “modern” economists created the basis for this position – a generation including Knut Wicksell, Gustav Cassel and Eli Heckscher. They combined their scientific work with considerable journalistic activities and wrote prolifically in the daily press.¹ Cassel was the most active journalist and professor of them all with an output of more than 1 500 articles in *Svenska Dagbladet*, a Stockholm daily.²

Bertil Ohlin chose to follow this journalistic model. At an early stage, he began his career as a writer of articles, editorials and comments in the daily press. He was probably the most prominent journalist of them all; if not as regards style at least in numbers, with more than 2 300 articles in daily papers, half of which appeared in the 1920’s and the 1930’s, before he made the transition from science to politics.

An (almost) complete list of a Ohlin’s contributions to the daily press has recently been compiled.³ However, they have not yet been subject to any systematic investigation. Here we take a first step by examining a selection – about 80 articles - written by Ohlin on issues related to the depression of the 1930’s and published in the period 1926-1935. We are of the opinion that these articles make it possible to trace closely the development of his macroeconomic thinking, almost on a “week-by-week” basis. We expect it to be fairly easy to map his views, since newspaper articles on economic matters, aimed at the general public, ought to be characterized by simplicity and clarity.

* Christina Lönnblad has skillfully translated the original Swedish version into English. David Laidler, Otto Steiger and Eskil Wadensjö have improved our analysis. We have received generous support from the Tore Browaldh Foundation for compiling the newspaper articles by Bertil Ohlin.

¹ The output in the daily press by leading Swedish economists appears in table 1. See also Carlson and Jonung (1996).

² Cassel’s articles are registered in Carlson and Jonung (1989).

³ See the register of Ohlin’s articles compiled by Carlson, Orrje and Wadensjö (2000).

We concentrate on the depression in the early 1930's, since it exercised a deep and lasting impact on the thinking of Swedish economists, especially on Ohlin's generation.⁴ The depression accompanied by high unemployment and political unrest served as a powerful incentive and challenge to bring forth new theories and policy proposals. According to prevailing views - fostered by Ohlin himself as well - Ohlin was a pioneer within the "new economics" that emerged in the 1930s in Sweden, eventually termed the Stockholm School of Economics. The aim of our study is to add to the understanding of this process.

Research on Ohlin's work within the Stockholm School focuses on two contributions: first, Ohlin's article in *Ekonomisk Tidskrift* in 1933 "Till frågan om penningteoriens uppläggning"⁵ ("On the formulation of monetary theory"), and second, his report in 1934 to the Committee on unemployment *Penningpolitik, offentliga arbeten, subventioner och tullar som medel mot arbetslöshet* (*Monetary policy, public works, subsidies and tariffs as remedies for unemployment*). Ohlin's development in a longer perspective – from the mid 1920's to these works from 1933-34 – is analyzed by Karl-Gustav Landgren (1960) and Otto Steiger (1971, 1978).⁶ They have both, and notably Steiger, taken an interest in Ohlin's articles in the daily press.⁷ Furthermore, in his memoirs Ohlin tried to buttress his position as a pioneer in the new economics by referring to his articles in the daily press.⁸

Our aim is to widen the basis for evaluating Ohlin's development by studying his writings in *Stockholms-Tidningen* (*ST*). Ohlin gradually began to contribute to this paper in 1925, published more regularly in 1926, and in the next few years the rate was 10 - 20 articles per year. In the fall of 1931, his connection to the paper became more permanent. He accepted the task of regularly contributing editorials and articles

⁴ The older generation of Cassel and Heckscher was more skeptical towards the new ideas of the young economists. See Carlson (1993).

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

⁶ See also Wadensjö (1991) and Wadensjö, this volume, on Ohlin's work with the Committee on unemployment.

⁷ Landgren (1960, pp. 159-60, 199-202) takes an interest in some articles in *Stockholms-Tidningen* 1933. Steiger (1971, pp. 186-99) and (1976, pp. 349-52) follows Ohlin's development in the years 1927-35 by using, among other works, a dozen articles in *Stockholms-Tidningen* as well.

⁸ Ohlin (1972, s 207) mentions that he studied unemployment and its remedies in about eighty articles in *ST* and the Danish newspaper *Politiken*. In his memoirs, he deals with the Stockholm School and unemployment policy in three chapters (XIII, XV, XVI) and refers to about ten articles in *ST*.

to the business section. During the rest of the 1930's, he published approximately 70 articles a year. Until 1960, he published about 1 200 articles in *Stockholms-Tidningen*.

We concentrate on Ohlin's writings on the depression and the crisis policy in the 1930's. The study covers a ten-year period (from 1926 to early 1935)⁹ and thus the discussion of the great depression from its premonitory signs to its aftermath. We follow Ohlin's analyses of unemployment in the late 1920's, of the crisis on the US stock exchange in 1929, of the financial crisis in 1931 as well as his attempts to understand the causes and consequences of the depression of the 1930's, and his policy proposals during the dramatic period of 1932-33 as well as his retrospective analyses during the recovery of 1934-35.

We present the material in a simple chronicle based on a broad question: which were Ohlin's views of the crisis, its causes and the possibilities to fight the depression? More specifically, we are on the lookout for the controversial issues dominating the Swedish debate on crisis policy: which are the causes of unemployment: Insufficient demand? "Unutilized" savings, that is, savings that do not lead to investment (i.e. hoarding)? Too high wages? Which policy measures should be taken against unemployment: Wage cuts? Expansionary monetary policy? Expansionary fiscal policy, and then mainly public works financed by borrowing? How should wages be set for public works? Will such work crowd out activities in private industry (crowding out-effects) or, on the contrary, increase overall economic activity (through multiplier effects)? To conclude, we expect Ohlin's articles to illustrate the evolution of his views and to help us to identify important turning points in his thinking.

1926-28: Orthodox views

In the fall of 1926, Ohlin explained in *ST* that scarcity of capital was an important reason for the prevailing unemployment.¹⁰

⁹ To our present knowledge, Ohlin wrote at least 332 articles in *ST* during the period 1926-34. Out of these (on basis of the headlines) we chose 140 articles for scrutiny and, finally, we refer to about 80 articles here.

¹⁰ "Sparandet och Sveriges ekonomiska utveckling" ("Savings and the economic development in Sweden"), Oct. 31, 1926.

"The demand for labor actually emanates from capital If its supply could be increased by savings and then create larger capital investments in the industry, the situation on the labor-market would improve."

He clearly dissociated himself from an explanation based on the role of savings and demand:

"One often meets the view that by saving people decrease the demand for goods and thus create unemployment ... This is a mistake. The savings are put into savings associations and banks, for example, which then lend these to people wishing to invest in capital for production purposes; say, to purchase machinery. If the money had not been saved, it would have been used for purchasing additional shoes, clothes or luxury goods, for example. The decision to save does thus only mean that the demand is *shifted* from consumption goods to what might be called production goods. Savings mean, from an economic perspective, that demand changes directions - from certain kinds of goods to others - not that there is a decrease in its total size. Savings do thus not reduce the number of job openings. On the contrary, by contributing to an increase in the capital of the country, one will increase them in the long run."

Here Ohlin took almost the same position as Cassel: unemployment is not due to the fact that savings reduce demand but rather that limited savings have a negative effect on capital formation.

In a couple of articles from the beginning of 1927, Ohlin discussed Swedish unemployment policy. He emphasized the importance of wages in relief work being lower than the wages of unskilled labor on the open market and cash allowances being lower than the wages for relief work, in order to maintain the mobility of labor.¹¹

"In that way, it was clearly better for the unemployed to obtain relief work than to only draw cash allowances. But nobody would be subject to the temptation to stay in relief work longer than necessary, when an opportunity to obtain work in the private industry turned up. The creation of a permanent 'kronoarbetskår' (i.e., a type of public works) was thus avoided."

Ohlin's view was entirely in line with "conventional wisdom" among leading economists such as Gustav Cassel, Eli Heckscher and Gösta Bagge. Concerning the causes for unemployment, Ohlin defended views that could be described as "mainstream" in the 1920s: the causes were to be found in the limited mobility of labor and the limited flexibility of wages.¹² "Unemployment is mainly a problem of

¹¹ "Svensk arbetslöshetspolitik" ("Swedish unemployment policy"), Jan. 26, 1927.

¹² "Olika principer för arbetslöshetspolitiken" ("Different principles for unemployment policy"), Jan. 27, 1927.

adjustment and everything that has a preservative effect and creates friction tends to make it permanent... ." Ohlin found it "very likely that industrial workers - particularly in certain professions - draw such high wages that it is impossible for them all to find employment". He declared that the main problem with the unemployment policy was that the Government might have to "intervene with public support, but it cannot be denied, that the larger is the extent to which this occurs, the more profitable it becomes for the working class to maintain a wage level exceeding the normal one". Unemployment was also due to "the general European crisis". "The fact that it is impossible to distinguish between these two kinds of unemployment is what, above all, makes a rational unemployment policy difficult." He consequently suggested the appointment of an unemployment commission in order to determine the causes of unemployment.¹³

For the Government to be able to increase the number of job openings, several conditions must be fulfilled: Taxes financing public relief work must reduce the tax payers' consumption and not their savings, thus an increase in public capital formation must not cause reduced private capital formation. Public works must quickly create products ready for consumption. The products must be sold "without creating disturbances and difficulties in other areas".

"The conclusion is that by increasing capital formation - to the extent that taxes enforce reductions in consumption - and by putting capital into production in the short run, the Government is able to reduce unemployment."

Ohlin dealt with increased public savings during recessions ("in bad times") in an article in the fall of 1927.¹⁴ He turned against the procedure of cutting public spending "with a ruler". One must distinguish between public expenditures for consumption and public expenditures for production and cut the former but not the latter. In the former category, he included expenditures on items such as defense and culture, in the latter, research and education. He did admit, however, that such a division could not be made "objectively" but only on basis of value judgements.

In the summer of 1928, Ohlin discussed the view that low wages and limited purchasing power were causes of unemployment:¹⁵

¹³ "Bör arbetslöshetens orsaker undersökas?" ("Should the causes of unemployment be investigated?"), Feb. 7, 1927.

¹⁴ "Missriktad sparsamhet" ("Misdirected thrift"), Nov. 18, 1927.

¹⁵ "Låga löner orsak till arbetslöshet" ("Low wages causing unemployment"), June 29, 1928.

"The purchasing power of the working class is said to be too low. If it is only increased by higher wages, the demand for products will increase, the industry can sell more and the unemployed become employed ... Nothing would have been more convenient than if this theory would have been correct. Imagine to be able at once to increase the standard of living for the employed and create work for those without employment! An ideal method, for sure. Unfortunately, reality seldom or never offers such easy and convenient solutions to difficult problems. ... If a country pays higher wages than before without increasing its production, this does mean an increase in the workers' purchasing power, but also that the *profits* of the owners of the firms *decrease* to the same extent. There will be no increase in the total purchasing power."

Such an increase could either take place through an increase in production or by the central bank increasing the nominal purchasing power in the country by granting more credit.

"If industry were in a recession and the increased purchasing power and demand were to act as powerful stimuli, the wheels would begin to turn somewhat more quickly, and there would thus be an increase in the production of goods. The increase in purchasing power then corresponds to the increase in the supply of goods, and everything turns out well. But if there is no sharp increase in the latter, the result can only be *inflation*."

In a period of stagnation, one might consider a cautious increase in the granting of credit, but not under normal circumstances.

"Thus, it would be very dangerous to start trying to fight the semi-permanent unemployment in the European industrial countries in the post-war period with an inflationary credit policy."

According to Ohlin, "not a single well-known economist had proclaimed himself to be in favor of the purchasing power theory".¹⁶ He thought that the "equilibrium wage" for industrial workers in Sweden was well above the actual level of the pre-war period but did not find a downward adjustment of wages to be necessary:

"Such a downward adjustment by 5-10 percent and a corresponding increase within a few years would create considerable social conflicts and losses. Thus, it is far better to maintain industrial peace and, due to increasing efficiency, industry will gradually

¹⁶ "Löner, arbetstid och arbetslöshet" ("Wages, working hours and unemployment"), Sep. 21, 1928.

‘adjust to’ the high wages. To the extent that this is actually the case, unemployment will decrease...”

In December 1928, Ohlin discussed Johan Åkerman’s analysis of the economic situation under the headline ”Business cycle prophecies”.¹⁷ Åkerman, who characterized the economic situation in the US as very unstable, pointed at violent speculation on the US stock market and warned against a serious crisis. Ohlin waved these fears aside:

”First of all, as concerns the prospects in the US, there seems to me to be little or no reason to expect a depressive development in the year of 1929. ... It is certainly true that a minor drawback within production and trade can follow from a collapse of the stock exchange; as far as I am concerned, however, I do not think that the effects will be very profound.”

1929-30: No fear of depression

In the spring of 1929, Ohlin commented on the election program against unemployment of Lloyd George and the English liberals, the aim of which was to set up a larger number of public works financed by borrowing.¹⁸ According to Ohlin, the conservative criticism against the program, that it would draw capital from the private industry and reduce employment in that area, meant shooting over the mark. The same kind of criticism could, for example, be directed against a private car producer expanding his production.

”If one admits that that new private incentives reduce unemployment, it is difficult to understand why public ones would not. ... It should be observed that starting production does not only increase the number of goods to be sold, but also the purchasing power available for buying them; national income, that is the total purchasing power, is only the production volume seen from another point of view.”

There were two problems, however. First, one had to produce the goods that people wanted to buy with their growing purchasing power - one solution to this problem was to begin national road constructions. ”These cannot create an

¹⁷ ”Konjunkturprofetior” (”Business cycle prophecies”), Dec. 14, 1928. See also ”Konjunkturprofetior än en gång” (”Business cycle prophecies once more”), Dec. 31, 1928.

¹⁸ ”Lloyd George och arbetslösheten” (”Lloyd George and unemployment”), Apr. 18, 1929.

overproduction of goods that cannot be sold.” Second, production could not be increased until purchasing power had grown - the simplest way of solving this problem was to increase the credit volume, for example by lowering the rate of interest or by an increased government demand for credit. An increase in the volume of credits might, however, result in higher prices, and thus in higher imports and lower exports.

”In a country such as Britain, this was remedied by reducing capital exports abroad. ... It now becomes clear that the other method for increasing the volume of credits, that is, a reduction of the discount rate, cannot be realized. If the discount rate were lowered in London, capital exports would increase, instead of decrease.”

A month later, Ohlin commented on the brochure *Can Lloyd George Do It?* by J M Keynes and H D Henderson.¹⁹ Once more, he brushed aside the crowding-out-argument of the British government. He explained that Keynes and Henderson did not consider public works to be efficient measures against unemployment at all times. In the current economic situation in Britain, they might work, however. Ohlin’s conclusion was fairly cautious:

”Only experience can show whether this /liberal plan/ is valid. Thus, it would be extremely interesting if the elections brought Lloyd George into power and this major experiment on unemployment policy was carried out.”

At the end of September 1929, Ohlin still had no feeling for the coming crisis. ”There are some signs that a business cycle turning point, although possibly a very minor one, will affect America next year.”²⁰ Two months later, after the great collapse of the stock exchange, he was still an optimist.²¹ The stock exchange crisis might be connected to a general business cycle downturn. ”There is, however, no reason to expect a general economic crisis in the United States”, at least not within the next six months. Accordingly, Ohlin did not believe in a European crisis either - ”on the whole, there seems to be more cause for optimism than pessimism in Europe”. At the beginning of 1930, Ohlin was more than sure:

¹⁹ ”Valet och arbetslösheten i England” (“Election and unemployment in Britain”), May 26, 1929.

²⁰ ”Ränteparadoxen” (“The interest paradox”), Sep. 30, 1929.

²¹ ”Börs krisen och konjunkturerna” (“The stock exchange crisis and business cycles”), Nov. 25, 1929.

"There is no sign that it /the stock exchange crisis/ will have an important impact on the global economic situation for more than a few months.... One is fully entitled to expect economic development in the next few years to be worthy of the name of economic progress."²²

In the fall of 1930, depression was on its way, even in Sweden, however:²³

"Our industry must expect a difficult winter, even if there is reason to expect the beginnings of a change for the better already in the spring. Even in this favorable case, a considerable part of 1931 will be characterized by a certain depression."

The question now was what kind of action the Government and the municipal authorities should take to check unemployment. Ohlin argued:

"It is most likely that a more extensive public economic activity during the first stages of a recession can have a beneficial effect on production and on the labor market, even if unemployment will not be reduced to the same extent - the private sector will probably be somewhat reduced - as the increase in the number of workers in public works."

At this point in time, Ohlin did not foster any ideas of multiplier effects from public expenditures but rather ideas of limited crowding out effects.

Fall of 1931: Stabilization of consumer prices

Sweden was forced to abandon the gold standard in September 1931, a week after Great Britain had taken the same step. Upon leaving gold the Government announced that the domestic purchasing power of the *krona* should be preserved "using all means available". By this step, Sweden became the first country to officially adopt price stabilization as the goal of its monetary policy. Following the introduction of the paper standard, a lively debate among Swedish economists on monetary issues arose. One issue concerned the choice of price index to be stabilized: the consumer price index or the wholesale price index? Another issue dealt with the proper level at which the price index should be held constant. One school maintained that the price level should first be raised through expansionary policies to the level preceeding the

²² "Ekonomiska framtidsperspektiv" ("Future economic perspectives"), Oct. 28, 1930.

deflation of the depression, another argued that prices should be kept at the prevailing level without any prior reflationary steps.²⁴

Ohlin took part in this exchange of views starting in the fourth quarter of 1931. In 1931, he published no articles in *ST* until the month of October, due to an eye disorder. In December 1931, Ohlin presented his guidelines for Swedish monetary policy in the coming year of 1932 in a prominent article.²⁵ He stated that the *Riksbank* should prevent the cost of living index from rising above the level of 1930 as well as prevent an increase in wholesale prices and foreign exchange rates that might threaten to increase the cost of living above that level. However, an upward adjustment of wholesale prices was recommended so that production could be maintained without wage cuts.

At the same point in time, Ohlin commented upon the monetary program Eli Heckscher had proposed in his book *Sveriges penningpolitik (Monetary Policy in Sweden)*.²⁶ Ohlin thought that “basically all economists in Stockholm have more or less the same view of the present situation”, and “at present, there is also quite considerable agreement between Professor Heckscher and myself and a large number of other economists in Stockholm, as to what actions should be taken in the present situation”. There was, however, far from complete unanimity. Heckscher wanted to keep the average wholesale price level constant, which, according to Ohlin, would require “very considerable wage cuts”, and increase unemployment. Ohlin characterized Heckscher’s program as “semi-deflationary” and maintained that it would require a tight policy by the *Riksbank*, which would aggravate the recession. Ohlin recommended instead a minor increase in wholesale prices:

”If this course of action is taken, the price level will be somewhat higher next year than if Heckscher’s program is carried out. Instead of reducing the relatively immobile price factors, first of all wages, which his course of action requires if a considerable increase in unemployment is to be avoided, there would be a relative increase in the more mobile price factors, that is in wholesale prices.”

²³ ”Positiv arbetslöshetspolitik” (“Positive unemployment policy”), Oct. 28, 1930.

²⁴ The 1931 program of price stabilization and the views of the economics profession are studied by Jonung (1979) and Berg and Jonung (1999).

²⁵ ”Riktlinjerna för vår penningpolitik” (“Guidelines for our monetary policy”), Dec. 8 1931.

²⁶ ”Professor Heckschers penningprogram” (“Professor Heckscher’s monetary program”), Dec. 10 1931.

The article demonstrates that no major difference existed between the old and young economists at this early stage of the depression. The gulf was to widen in the years to come.

In a subsequent review of Gunnar Myrdal's book *Sveriges väg genom penningkrisen* (*Sweden's Way Through the Monetary Crisis*) – published roughly at the same time as Heckscher's volume – Ohlin stressed that Myrdal, as Ohlin himself, recommended an increase in wholesale prices as long as this did not cause any considerable rise in the cost of living.²⁷ Less than a week into the year of 1932, Ohlin once more considered the main alternatives for monetary policy: stable wholesale prices or a stable cost of living, and gave the latter precedence.²⁸ To those fearing that rising wholesale prices would result in inflation, he explained that

”the goal of monetary policy is to avoid inflation as well as deflation ... the aim should be to create the kind of stability within the monetary system that will create the highest possible stability within economic life.”

In his review of the Government budget proposal in January 1932, a pleased Ohlin noted that the Government:

“supported the view that the purchasing power of the *krona* in the hands of the consumers, that is the cost of living and not the price level in wholesale trade, should be stabilized ... This monetary program is, in my opinion, a very satisfactory one.”²⁹

The proposal in the budget for public works as a measure against unemployment at the total sum of 125 million kronor was also praised.³⁰ Ohlin found it to be:

”subject to doubt, to what extent an increase in taxes for financing public works creates an increase in the number of job openings. ... The situation is different for the kinds of Government work that are financed by borrowing. In times of depression, the private industry reduces its capital investments and the Government is, within certain limits, very likely to be able to increase its investments without creating any further reductions in private investments. In that way, unemployment can be reduced in an efficient way.”

²⁷ ”Dagens ekonomiska problem” (”Today's economic problem”), Dec. 22, 1931

²⁸ ”Dagens stora fråga” (”The major question of the day”), Jan. 5, 1932.

²⁹ ”Regeringens penningprogram” (”The Government's monetary program”), Jan. 14, 1932.

³⁰ ”Arbetslöshet och statsarbeten” (”Unemployment and public works.”), Jan. 16, 1932.

Ohlin did, however, complain that the liberal Minister of Finance, Felix Hamrin, had reduced the subsidies to public utilities – which gave the impression of "a certain dualism in the views of the Minister of Finance."

Spring of 1932: Job redistribution and a budget fund

In February 1932, Ohlin wanted to go "one step further" in the debate on public works.³¹ He explained that it is

"not a question of the general appropriateness of an expansion of public capital investment. The issue is only the distribution of public works between good and bad times. In my opinion, this means that public constructions and public works found suitable after balancing their costs and benefits should, to a certain extent, be concentrated to periods of depression."

The issue was in no way the squandering of public capital. On the contrary, the constructions would normally be cheaper and the interest on the loans lower if carried out in bad times. "Future taxes for interests and repayments by installments, will thus rather be lower, if this program is followed, than would otherwise be the case."

The only serious objection to such a policy Ohlin thought he had encountered was the opinion that the capital borrowed by the Government and the municipal authorities would otherwise have been available to the private industry. There was one weak point in this reasoning, however: "how can we know that there is always 'someone else' who is willing to invest the capital that is not being used elsewhere?" In practice, there was "a next to certainty" that in periods of depression, there were savings that were not invested. "What does then happen to these savings? They are simply used to cover the losses made by many firms, when turnover and prices fall." Here, Ohlin described a negative or positive process of a cumulative character, destroying or creating savings:

"If there is no initiative and incentives to invest capital in buildings, machinery and other kinds of fixed capital, the number of orders given to firms producing such

³¹ "Konjunkturpolitik. Offentliga arbeten i goda och dåliga tider" ("Stabilization policy. Public works in good and bad times"), Feb. 2, 1932.

capital will decrease. Accordingly, there are losses, devouring savings made in other areas. If, on the contrary, there are new initiatives and an increase in capital investments in a period of depression – by public institutions or private manufacturers – there will be an increase in the demand for wood, iron, stone and cement etc., and workers become employed. Deficits decrease in many firms and costs for subsidies to the unemployed are reduced. Savings, that would otherwise have been used to cover these losses and costs, become available on the market for loans.”

Ohlin’s proposal of countercyclical redistribution of public works was not a radical one. Similar measures had been advocated by Gustav Cassel (1902) and other economists since then.

Concerning the policy of the *Riksbank*, Ohlin considered it to be too restrictive:³²

”The result is a deflationary pressure on the economy. I consider a neutral monetary policy to be a policy not trying to compensate for increases in wholesale and retail prices incurred by increasing exchange rates by pushing down the prices of goods and services on the home market.”

The *Riksbank* had claimed to pursue such a policy but, in practice, it had put a check on the increase in the price level. According to Ohlin, the level of the discount rate of the *Riksbank* - within certain limits – did not have any major effect on the volume of credits in bad times and a substantial decrease of the discount rate would thus not necessarily create a considerable credit expansion. It could, however, bring about a decrease in the interest level and thus a relief for borrowers-producers. Ohlin suggested that if there turned out ”to be serious inflationary tendencies, one could always return to a more restrictive monetary policy”.³³

The Kreuger crash in the Spring of 1932 would, according to Ohlin’s judgment in March 1932, not have any major consequences for the Swedish economy. He recommended ”business as usual”.³⁴ A month later, in April 1932, his views turned more pessimistic, however: Sweden had ”once more been caught in the downturn of the global business cycle and there were no signs of a change in the next few months”.³⁵ ”To restrict the volume of public works, for example, at this point in

³² ”Riksbanken bör lätta på kreditrestriktionerna” (”The *Riksbank* should ease the credit restrictions”), Feb. 27, 1932.

³³ ”Ränteläget” (”The level of the rate of interest rate”), Mar. 1, 1932.

³⁴ ”Sverige och Kreugerkoncernens kris” (”Sweden and the crisis of the Kreuger enterprises”), Mar. 17, 1932. See also ”Tragedien” (”The tragedy”), Apr. 6, 1932.

³⁵ ”Kris och konjunktur” (”Crisis and business cycles”), Apr. 10, 1932.

time, would be a misunderstanding of the well-founded demands for thrift and would deepen the crisis.” On the one hand, strict demands should be made on the workers’ productivity.

”On the other hand, activities that are *really required* and *productive* should not be postponed. ... The *Riksbank* cannot pursue a solely negative policy, since foreign business cycles as well as a domestic crisis and depression psychosis work together to get the deflationary process going, which conflicts with our official monetary program.”

The great danger was exactly that the crisis psychosis would prevent the official stabilization program for monetary policy from being implemented.³⁶

”So far, the *Riksbank* has kept somewhat to the deflationary side of this program. Now, purposeful measures are required, particularly against the tendencies towards a panic concerning liquidity, if we are to avoid being pressed further into a deflationary process, thereby worsening the crisis.”³⁷

If Sweden did not follow the deflationary development in the rest of the world, it would sooner or later be faced with the choice of tightening credit policy and strengthening the recession or limiting imports “in other ways”.³⁸ Tariffs might thus become necessary, but one had to make sure that they did not remain after the crisis. ”Protectionist attempts at fishing in shallow waters should be clearly rejected.”

In June 1932, Ohlin returned to the question of the countercyclical Government budget.³⁹ He found it

”strange that it is generally considered evident that the budget is to be designed in the same way in bad times as in good ones. The requirement of a formal balance of tax revenues and public expenditures does, in practice, lead to taxes being raised considerably in bad times, when they are experienced as heaviest, while they are lowered in good times, when business firms and private citizens could more easily carry heavier taxes.”

³⁶ ”Den stora faran” (”The great danger”), Apr. 24, 1932. See also ”Ansvar och framtiden” (”The responsibility and the future”), May 3, ”Klara linjer” (”Clear guidelines”), May 4, and ”Direktivens innebörd” (”The meaning of the guidelines”), May 8, 1932.

³⁷ The expression “liquidity panic” which means that everyone wants to keep their assets in cash, had, according to Ohlin, been coined by Sven Brisman in connection with the banking crisis in the US. See Ohlin, ”Likviditetskrisen i Förenta staterna”, (”The liquidity crisis in the US”), Apr. 2, 1932. This term closely resembles Keynes use of “liquidity preference”.

³⁸ ”Krisen och tullpolitiken” (”The crisis and the tariff policy”), Apr. 22, 1932.

³⁹ ”Hr Hamrins bekymmer” (”Mr Hamrin’s worries”), June 21, 1932.

One should not hesitate “to use a budget regulation fund in the present crisis, which is the most severe experienced by the world in modern times.” Such a fund would even create sounder public finances:

”In bad times, there are many restrictive forces, above all the decrease in income, that prevent waste. It is in good times that decisions are made about unnecessary expenditure. The constraint to create a considerable budgetary regulation fund at such periods would reduce the sense of having plenty of money in the public treasury and thus counteract this tendency to squander.”

A month later, Ohlin argued

“If Government finances are to remain sound, one cannot, in bad times, rely on funded assets to a larger extent than what corresponds to the growth of public wealth in good times ... In a situation of crisis, the *current* public expenditure must be cut in order to prevent higher taxes and to maintain the credit standing of the Government and thus make it possible to finance public works with borrowed money at a reasonable interest.”⁴⁰

At this stage of the depression, Ohlin had not developed any preferences for economic planning. This is evident from an editorial featuring Arthur Salter's book *Recovery*.⁴¹ Here Ohlin argued that capitalism can not be blamed for the crisis: “The attempt to present the world crisis as the bankruptcy of private capitalism, when it is in fact due to war and nationalism must ... be considered off the mark.”

Fall of 1932: The multiplier approach

Early in the fall of 1932, Ohlin seemed to be seeing a ray of light in the darkness:

”While we have, so far in 1932, had every reason to expect a continuous business cycle downturn, it does not seem unlikely that there will be a business cycle turning point after another period of low interests.”⁴²

In the same month, Ohlin discussed a book by Salter, Keynes et al which was published in Swedish as *Den ekonomiska världskrisen och utvägen ur den*. (*The*

⁴⁰ ”Ett minimikrav” (“A minimum requirement”), July 5, 1932.

⁴¹ ”Kris och planhushållning” (“Crisis and economic planning”), July 2, 1932.

⁴² ”Kommer prisstegringen?” (“Will there be an increase in prices?”), Aug. 4, 1932.

World's Economic Crisis and the Way of Escape) in a prominent article on “Hur krisen botas” (“How the Crisis is to be Remedied”).⁴³ Ohlin mainly dwelled on Keynes’ contribution, which he described as a “brilliant description” of the financial crisis in 1931.

”Keynes complains, and rightly so, about the extent to which the thesis that in all circumstances, only savings are of importance has been preached. ... Slogans such as the crisis is solved by ‘work and thrift’ is the height of foolishness.”

Ohlin continued by giving the following account of Keynes’ ideas:

”... no one has the right to assume that an increase in prices and thus, a business cycle upturn, will start by itself. Interest rates will decrease, but this is no guarantee that businessmen will be tempted to make considerable new investments in buildings and machinery etc. And without such an increase in production in the capital goods industry, there will be no business cycle upturn. Thus, it is very likely that the first push (“*stöt*”) must be given, (or be strengthened) by ‘direct Government intervention in order to promote and support new investments’.”

In the present situation, the issue was whether lower interest rates would start up investments.⁴⁴

”The determining factor for business cycle conditions is that there has not yet been any sign of an increase in the production of capital goods. ... The major question is if this reduction in the rate of interest and the psychological change which has just taken place, can increase real investment.”

Early in October 1932, Ohlin commented upon the ambitions of the new social democratic Government, formed after the election of September 1932, to launch public works on a larger scale.⁴⁵

”This part of the Government statement should be greeted with satisfaction. It shows that leading members of Government understand the necessity of public works as part of an active business cycle policy.”

Ohlin objected to critics who claimed such work to be a waste of public funds:

⁴³ ”Hur krisen botas” (“How the crisis is to be remedied”), Aug. 7, 1932.

⁴⁴ ”Världskonjunkturerna vid vändpunkten?” (“The turning point of the global business cycles”), Sep. 6, 1932.

⁴⁵ ”Ökade offentliga arbeten” (“An increase in public works”), Oct. 2, 1932.

”It is evident that this is a case of pure confusion of terms. The largest possible thrift would otherwise mean that all public works were canceled. And since the private industry should then most likely also save, the production of fixed capital should be canceled in this area as well.”

The whole issue was the “appropriateness of a certain concentration of public works to periods of depression.” Here Ohlin was proposing redistributive works and not “expansionist works”.

If public utilities and other public authorities drew up a directory of capital investments that should normally be made within a three or four year period and then advanced the start up of a project of for example 50 million kronor to 1933 that would otherwise have started up two years later, the additional cost will be limited to two years of interest on 50 million kronor, that is, three million kronor. At the same time, one would find use for the constructions earlier than would otherwise have been the case and they could probably be made at a lower cost.

The additional cost of advancing work would thus, in Ohlin’s example, be three million kronor:

“For this relatively trivial sum, there is thus the possibility of producing fixed capital for 50 million kronor, which means that job opportunities are created at a value most likely exceeding this sum. The direct wages might only amount to half or a third of this sum, but in return, firms favored by orders can increase their different kinds of purchases, that is, they are ‘encouraged to increased activity’. Furthermore, the previously unemployed now have a demand for consumption goods and thus increase the number of job opportunities within industry and trade. The public cost for these unemployed disappears, and there is thus a saving for the taxpayers which certainly exceeds the above 3 million kronor.”

As far as we have seen, this is the first time that Ohlin presented a line of argument based on a multiplier approach in the columns of *ST*. Ohlin did also take the opportunity once more to reject the argument that the Government would then attract capital that would otherwise have been invested in the private industry.

”This is not the case in reality. In a severe depression such as the present one, private firms only want to make insignificant investments. Thus, firms, the sales of which require such investments in machinery etc., get to sell very little and their losses devour a considerable part of the general public’s current savings, and these are thus not converted into fixed capital.”

From this reasoning, Ohlin drew the following conclusion:

”Basically, it is evident that a sound financial situation requires that the productive forces are used to the largest possible extent. Thus, the Government should increase public works in bad times. Savings on unemployment expenses, to which can be added increased tax returns due to production being maintained will, by far, exceed the temporary increase in interest payments. Thus, concern for Government finances should create an increase in public works in 1933. Finally, it is not a question of Government finances but of those of the country. Then, the reasons for such an increase become even more overwhelming.”

A few weeks later, Ohlin made it crystal clear that he was advocating redistributive work declaring ”that this does *not* mean an *increase* in the number of public works in the long run. It is only a question of a different *distribution* of these works between good and bad times.”⁴⁶

He repeated that an allocation of public works to bad times would mean borrowing at a lower rate of interest, lower prices on raw-material and lower wages. Wages in the building and construction sector were a tricky question. Wages in the building trade had, for a long time, been varying considerably between times of prosperity and times of recession.

”In the last few years, the public authorities have, naturally particularly in cities with a social democratic majority, shown a more pronounced tendency to support the attempts of the trade unions concerned to also keep the wage level of times of prosperity in a depression.”

This would be inappropriate, for several reasons. First of all, it would mean that these groups of workers were privileged compared to others. Second, one of the forces that might initiate a business cycle upturn would disappear.

”It is cost reductions of this kind for capital investments at the end of the depression, which usually induce private firms and private persons to start investing. It is thus clear that a concentration of public works to bad times must not be made in such a way that the wages of the labor groups concerned become fixed. ... The funds available for public works should, of course, be used to create the largest number of job opportunities possible. It would then be absurd to pay the top wages of times of prosperity for such work ... ”

In order not to be accused of proposing a general wage cut, Ohlin clarified: "On several occasions in the last two years, I have publicly taken a definite stand against major wage cuts in industry. The conditions within the areas of building and construction work are, however, very special."

In November 1932, Ohlin described the general atmosphere in the economy in most countries to be "calm" and even somewhat optimistic.⁴⁷ "The psychological change during the summer has thus turned out to be more than a temporary gust." At the same time, he once more discussed - referring to such economists as Keynes, Stamp, Layton and Salter - the role of savings.

"Savings have two sides, a *negative* side, consisting of a failure to buy goods for current consumption, and a *positive* side, where saved funds are used for buying some permanent commodity, either a factor of production or a durable article of consumption. The negative side without the positive one must minimize sales and increase unemployment."

In a "reply to the prophets adhering to the gospel of doing nothing", Ohlin repeated his conviction that public works must be concentrated to bad times.⁴⁸ He used three arguments: First, costs (interest, prices of material and wages) were lower in bad times. Second, the Government and the municipal authorities would have lower expenses for unemployment and poor relief and possibly higher tax revenues due to increased economic activity. Third, "a certain net charge" of public finances would be worthwhile, if this was a means of obtaining lower unemployment, an increase in production and higher national income. "Let Misters Manchester Liberals give this point some thought!"⁴⁹

At Christmas 1932, Ohlin initiated a discussion of Cassel's argument that an extension of credit (that is a more expansionary monetary policy) would make it possible to increase production and employment.⁵⁰

⁴⁶ "Löner och offentliga arbeten" ("Wages and public works"), Oct. 21, 1932.

⁴⁷ "Konjunkturreflekationer" ("Reflections on business cycles"), Nov. 15, 1932.

⁴⁸ "Finanspolitiken under krisen. Svar till händerna-i-kors-evangeliets profeter" ("Fiscal policy during the crisis. Reply to the prophets adhering to the gospel of doing nothing"), Nov. 20, 1932.

⁴⁹ This article resulted in a skirmish with Marcus Wallenberg who feared that Ohlin's reasoning might lead the general public astray by making them think that the crisis could be shortened by "handing out money in any way". See "Vägen ut ur krisen. Ett inlägg av häradshövding Marcus Wallenberg" ("The way out of the crisis. A contribution by Marcus Wallenberg, District Judge"), Nov. 21, 1932.

⁵⁰ "Riksbanken och arbetstillfällena" ("The *Riksbank* and the job opportunities"), Dec. 27, 1932.

"It is such an increase in the granting of credits and in the velocity of circulation of the means of payment that the supporters of public works wish to obtain, in order to counteract the tendencies to stagnation in the economy."

Thus, he thought that "there was total agreement on the, in practice, decisive point: job opportunities can increase through public initiatives without decreasing the number of jobs in the private sector, but this can only be achieved if the credit (monetary) policy of the country does not create any obstacles." Certainly, credit policy should mainly be used to create conditions as favorable as possible for increasing production in the private sector. Further reductions of the discount rate of the *Riksbank* could unfortunately hardly be of any consequence.

"What the *Riksbank* can do is, first of all, to assist in keeping down the interest on bonds and ensuring a considerable money supply. These are the classical means, normally used by Bank of England and other central banks in order to supply the commercial banks with liquid capital and thus increase their willingness to give credit. There is no reason why the *Riksbank* should not pursue the same policy."

If the *Riksbank* did not take such actions in 1933, there was a risk that Government borrowing would reduce capital available in the private sector and thus, the creation of job opportunities in the public sector would crowd out job opportunities in the private sector.

"It must thus be completely clear to the Government and parliament that if, by deciding on a certain increase in public works, they adopt an expansionary policy, they must not only say A but also B. In other words, they must see to it that the *Riksbank* pursues a credit policy which is in harmony with the rest of the economic policy".

Spring of 1933: The push must come from the Government

In the budget for 1933, Ernst Wigforss, the Minister of Finance, announced borrowings of approximately 160 million kronor for public works in order to reduce unemployment. Ohlin only stated that such a policy, in the present situation, can no doubt "within certain areas exert a favorable influence on the economic situation".⁵¹

⁵¹ "En krisbudget" ("A crisis budget"), Jan. 12, 1933.

Furthermore, he thought that the Swedish balance of payments would allow an expansion of public works and credits.⁵²

In the debate about wages for public works, which flared up in parliament, Ohlin sided with the former Minister of Health and Social Affairs Sam Larsson's proposal for a compromise.⁵³ Everyone seemed ready to accept an acceleration of the investments made by the public utilities, for example electrifying the state railways, without requiring that this should be done at a lower wage than that of the open labor market. The question was whether the remaining works were to be of the old kind (at lower wages) or the new kind (at "normal" market wages) or a mixture of these two kinds of employment. The non-socialists wanted the old kind only; the social democrats wanted the new kind only. Ohlin, himself, thus supported a compromise with a mixture of these two kinds of employment. He warned against the fact that a concentration to the new kind of works would only create unease in the economy.⁵⁴

At the beginning of 1933, Ohlin also showed his dissatisfaction with the *Riksbank* having failed to achieve a recovery of wholesale prices.⁵⁵ On the contrary, a deflationary tendency had asserted itself. "It is of the utmost importance that a stop is put to the present deflation." In the American case, a reflationary policy increasing the price level on goods was required.⁵⁶ Ohlin hoped that Roosevelt would enter on "the path of controlled reflation", that other countries would join the US so that an international increase in the price level could be achieved and create the necessary conditions for a business cycle upturn. This was something entirely different than allowing an increase in prices from an equilibrium.

"It is foolish to enter so much air into a sufficiently filled tire that it finally bursts, but that does not mean that one should refrain from inflating a soft car tire, so that it is in good working order."

In April 1933, Ohlin commented upon a series of articles on "The Means to Prosperity" published by Keynes in the *Times*.⁵⁷ As usual when writing about Keynes, Ohlin was enthusiastic. "That Keynes' authority is increasing is not surprising. His

⁵² "Budget och betalningsbalans" ("The budget and the balance of payments"), Jan. 18, 1933.

⁵³ "Sam Larssons kompromisslinje" ("Sam Larsson's line of compromise"), Jan. 20, 1933.

⁵⁴ "Konjunktur och förtroende" ("Business cycles and confidence"), Feb. 19, 1933.

⁵⁵ "Deflationen bör hejdas" ("Deflation should be stopped"), Feb. 3, 1933.

⁵⁶ "Prisstegring hjälper" ("An increase in prices would help"), Mar. 16, 1933.

⁵⁷ "Väg ur depressionen. Keynes får instämmande från *Times*" ("The way out of the depression. The *Times* agrees with Keynes"), Apr. 2, 1933.

forecasts have come true with an amazing accurateness.” For Keynes, ”as for all other sensible people”, the starting point of all crisis discussions was the fact that the world price level must increase if a catastrophe was to be avoided. Above all, the liquid assets in the world should be increased by the international bank in Basle issuing a couple of million dollars in gold certificates. This was a necessary but not a sufficient condition for a business cycle upturn. Lack of money was not the main problem but the limited interest in spending it. ”When the private sector ... is in such backwater as at present, it is not easy to see from which direction a strong private demand for articles of production is to come.” Keynes’ solution to this problem was an increase in public demand in the financially leading countries and Ohlin could but agree:

“Personally, I have, for a long time, defended the view that the most important achievement of the conference on the world economy /in London/ would be an international agreement on a simultaneous and considerable increase in job opportunities in the public sector. ... An increase in prices requires an increase in demand. Then, one must not trust a first, sufficient, push to come from consumers or private firms, it must be made through demand from the Government and the municipal authorities.”

According to Ohlin

”there was thus no other possibility than to see to it that, once favorable psychological conditions have been created, a sharp increase in public demand or the demand created by public initiatives is immediately established in the largest possible number of countries, so that one goes beyond the dead point”.

Ohlin could also refer to Keynes’ line of argument based on the multiplier approach: ”If two workers are employed, at least one worker thereby gains employment in the private sector, and unemployment benefits for three people are saved.” Subsidizing private investments might be even more favorable for the Government:

”From the point of view of public finances, subsidizing private capital investments in the near future would be pure profit. In comparison with public investments, the expenditure and the risks of the Government and the municipal authorities are limited, while at least unemployment benefits are saved and there is an increase in tax returns.”

Ohlin argued against the "orthodox" recommendation to reduce production costs during a crises so that they reach a reasonable proportion to prices by stating that this meant "closing one's eyes to the fact that the expenses of one person constitute the income of another and that it is thus impossible to reduce expenses without also lowering incomes, which will thus lead to a continued fall in prices".

Debating the characteristics of the crisis of the 1930's, Ohlin suggested:

"The strength of the present depression is, to a great extent, due to the fact that an agricultural crisis and a recession in the industry have occurred simultaneously, as in the 1870's but in contrast to 1900 and 1907. When this happens, the industrial crisis enhances the agricultural crisis and the latter intensifies the former."⁵⁸

In this controversy, Ohlin dissociated himself from any idea of general wage cuts, since these would decrease purchasing power and foster deflation.⁵⁹

When the Finance Minister appointed a committee of experts to consider Sweden's exchange rate policy in the spring of 1933, Ohlin seized the opportunity to give monetary policy advice.⁶⁰

"In my opinion, the *Riksbank*, at present, has very limited possibilities to affect the interest and credit conditions by a discount rate policy and by purchasing Government stock and securities so that an increase in prices is achieved, if the foreign exchange rates are fixed."

He wished it to be left unsaid whether a major increase in wholesale prices could be created without a considerable depreciation in the value of the *krona* for other countries. A minor increase in prices, in line with Cassel's suggestion, would be possible, however.

⁵⁸ "Jordbrukskris, världsdepression och anpassning. Svar till riksdagsman Carlström och dr Adrian Molin" ("Agricultural crisis, global depression and adaptation. Reply to Carlström, Member of Parliament, and Dr. Adrian Molin"), Apr. 9, 1933.

⁵⁹ "Jordbrukets och industrins prislägen. Ännu ett replikskifte mellan dr Molin och professor Ohlin" ("Price levels in agriculture and industry. Another exchange between Dr. Molin and Professor Ohlin"), Apr. 11, 1933 and "Jordbrukskrisen och krisen i industrien. Nytt replikskifte mellan riksdagsman Oscar Carlström och professor Bertil Ohlin" ("The agricultural crisis and the crisis in the industry. New exchange of views between Parliamentary Member Oscar Carlström and Professor Bertil Ohlin"), Apr. 19, 1933.

⁶⁰ "Ett penningpolitiskt råd" ("Some monetary policy advice"), Apr. 23, 1933.

"It should be remembered, however, that an increase in prices is not a goal in itself. The main purpose is to prevent the unnatural reduction in demand which incurs an increase in unemployment, that is, the core of deflation."

Summer of 1933: A completely new situation

In the summer of 1933, Ohlin devoted several articles to Roosevelt's New Deal. He noted that the public works financed by borrowing that were being planned in the US were more extensive, per capita, than their Swedish equivalents.⁶¹ And he explained that after what had happened in America "it can no longer be claimed that an active economic policy might create an increase in prices."⁶² The goal in the US was reflation and not inflation, however.⁶³ In this context, he criticized

"the unfounded 'theory of insufficient consumption' which considers crises to be due to the fact that consumers' purchasing power, in particular that of industrial workers, does not grow at the same rate as production and thus considers rises in wages to be the cure for depressions".

The theory had become popular among the American public, which might partly explain why Roosevelt mainly tried to increase the demand for consumption goods by increasing the wages of industrial workers and the prices of agricultural products.⁶⁴ According to Ohlin the most natural way would be to stimulate demand through public works and inflation, without increasing wages, that is, costs, as a first measure.

Early in the summer of 1933, Ohlin observed that there was an upturn in the global business cycle and that the reasons for this were not only to be found on the psychological level.⁶⁵ "It was more likely that during the depression, a demand for replacements had accumulated, which now pushes its way forward." Stocks had been

⁶¹ "Roosevelts ekonomiska politik" ("Roosevelt's economic policy"), June 2, 1933.

⁶² "Londonkonferensens uppgift" ("The task of the London conference"), June 11, 1933.

⁶³ "Amerikas experiment. Det är med prisstegring som med vin: verkan beror på kvantiteten" ("The American Experiment. Increases in prices are like wine: The effects depend on quantity"), July 20, 1933.

⁶⁴ "Roosevelts prövotid. Den psykologiska omsvängningen" ("Roosevelt's trial period. The sudden psychological change"), Aug. 20, 1933. See also "Roosevelts industripolitik" ("Roosevelt's industrial policy"), July 19, 1934: "It is a fact that a raise in wages have a double effect, in that it does not only increase the purchasing power of the workers but also the costs of production of the industry and the price of goods."

⁶⁵ "Konjunkturförbättringen" ("The business cycle upturn"), June 15, 1933. See also "Konjunkturläget" ("The business cycle conditions"), July 1, 1933.

reduced, repairs postponed, machinery and tools had been worn out and at a certain point, replacement acquisition must begin. Thus, there was an increase in demand and confidence returned.

At the same time, Ohlin continued to appeal for an agreement on a reflationary monetary policy among the largest number of countries possible.⁶⁶

”The only requirement is that all these countries individually adopt an expansionary economic policy by using methods determined by domestic conditions in each country, for example an active central bank policy, public works, subsidies for increasing building activities and other kinds of private production.”

It appeared from several articles at the end of the summer of 1933 that Ohlin considered the situation to be so desperate that he chose to recommend further Government intervention and ”economic planning”.

”Last year/1932/, it became increasingly clearer that if it /the depression/ were to continue for another year, the existing construction of society would be shaken to its foundations and most likely collapse. In increasingly wider circles, one began to question the rationality of the fundamental institution on which society had so far been constructed, for example individual ownership of factors of production, which resulted in half of these or more not being used at all.”⁶⁷ ”Is it then not obvious that the revolutionary development and the crisis have brought us into completely new situations and brought us up against new problems, economic, political and cultural ones, but above all, psychological ones?”⁶⁸

Fall of 1933: A trend towards reinvestment

In the fall of 1933, Ohlin once again discussed the view that there was no such thing as unutilized savings and that investments in one area must mean a decrease in investments in another.⁶⁹

⁶⁶ ”Roosevelts överraskning” (”Roosevelt’s surprise”), June 27, 1933.

⁶⁷ ”Ordnad revolution hellre än kommunistisk. Männen kring Amerikas nye president presenteras” (”An organized revolution rather than a communist one. A presentation of the men around America’s new president”), July 1933.

⁶⁸ ”Den revolutionära verkligheten” (”Revolutionary reality”), Aug. 5, 1933.

⁶⁹ ”Oanvända sparmedel” (”Unutilized savings”), Nov. 16, 1933.

"All kinds of expansion would thus be impossible. ... Of what did the unutilized savings then consist? ... It would probably be natural to thus denote the savings from current income, savings which do not create any demand for goods and services, that is, create no real capital formation. The issue is what actually happens to these savings, since they are apparently *not* accumulated in banks. Basically, the answer is simple. The income of one member of society is the expense of another. ... If part of the consumers' income is thus saved and part of these savings does not lead to demand and purchase, the income of the business enterprises that is due to sales will, in certain areas, be lower than their expenses, that is, there will be *losses*. These losses obviously 'devour' the savings not used for demand. They are thus the heart of the matter. The 'unutilized' savings disappear since the limited demand creates losses in the industry."

When viewing the year 1933 in retrospect, Ohlin found that Roosevelt's economic policy and the "trend of reinvestment" dominated the picture. There is no doubt that reinvestment "after nearly four years of depression has finally taken off seriously", nor that "the violent American expansion last spring contributed to increasing the tendencies towards a business cycle upturn in other countries".⁷⁰ On the eve of 1934, he drew parallels to the optimism at the beginning of 1931.⁷¹ But this time, the optimism was better founded, for several reasons: industrial production had increased, reinvestment had begun, optimism had grown. The interest level had fallen. Many non-viable firms had disappeared.

1934: Time to reduce public works

Before Ernst Wigforss' second budget was presented in early 1934, Ohlin began to express some uncertainty about continued expenditures on public works.⁷²

"Even to those who, on grounds of principle, take a standpoint close to that of the finance minister on these issues, the question arises, however, how long such a policy with considerable job opportunities financed by borrowing can continue. It is a typical crisis policy and builds on the assumption that an intense recession will be reduced after a few years and disappear. It is not, however, a suitable weapon against a more long-term crisis, determined by the global economic structure. Just as natural as it is to apply less strict principles for balancing Government finances in a temporary

⁷⁰ "Världskonjunkturen. Återblick på 1933" ("Global business cycles. Retrospect of 1933"), Dec. 1, 1933.

⁷¹ "Världskonjunkturen 1934. Försök till prognos" ("The global business cycle. An attempt at making a prognosis"), Jan. 3, 1934.

⁷² "Hr Wigforss' andra budget" ("Mr Wigforss' second budget"), Jan. 12, 1934.

recession, from the point of view of the stabilization policy, just as dangerous would it be to subject Government finances to a growing strain in the long run.”

These comments demonstrate that Ohlin, at the end of the crisis, advocated redistributive works and not a permanent increase in public expenditures on work programs.

In another comment, Ohlin reduced the importance of the actions of the social democratic government as well as the advice of the economists for the design of fiscal policy during the crisis.⁷³

”A defense of the current fiscal policy, aimed at maintaining the purchasing power through borrowing due to an acute crisis - which, in an extreme depression, is the natural policy if aiming at avoiding the fatal spiral of recession with reductions in costs, prices and income - is thus in no way similar to defending the present Government. The same policy would obviously have been carried out in 1933, even if it had not been the fiscal program of the present Government, but the program of the non-socialists that had been implemented. In fact, this policy has been brought on by sheer necessity, such as it has appeared to the common sense when unbiased by fiscal ‘orthodoxy’. The fundamental explanation, drawn up by a number of economists, has been of minor importance. In fact, no feasible alternative fiscal policy has been presented in the political discussion in Sweden.”

Ohlin now asked for restrictions on public works financed by borrowing in the coming fiscal year and emphasized that (from his countercyclical approach) ”*such a reduction in borrowing would not mean a change in fiscal policy but on the contrary, express its consistency*”.

In a review of Myrdal’s *Finanspolitikens ekonomiska verkningar* (*The Economic Consequences of Fiscal Policy*) - “a pioneering work in the international literature” - Ohlin made one objection only, namely that ”the importance of the balance of payments as a limiting factor for an economic “expansionary policy” is exaggerated ... ”.⁷⁴

When viewing the monetary policy of the *Riksbank* during the crisis in retrospect, Ohlin pointed out that in order to avoid a recession, the Bank had bought gold and currency for more than half a billion *kronor*.⁷⁵ Every assertion that the

⁷³ ”Bör finanspolitiken omläggas?” (“Should fiscal policy be changed?”), Apr. 26, 1934. See also ”Lånepolitik och löner” (“Borrowing and wages”), Apr. 28, 1934.

⁷⁴ ”Finanser och finanspolitik. Två aktuella böcker” (“Finances and fiscal policy. Two recent books”), May 7, 1934.

⁷⁵ ”Penningpolitisk rörelsefrihet” (“The freedom of monetary policy”), May 30, 1934.

monetary policy pursued by the *Riksbank* had no influence on the business cycle worth mentioning was thus absurd.

"Even if it has not succeeded in achieving the desired recovery in wholesale prices, it has been of great importance by preventing a general fall in prices and by creating a sense of security through the knowledge that a recession will not be accepted."

The business cycle upturn in 1934 was so strong that Ohlin seemed taken by surprise. "The economic recovery in Sweden in the last twelve months has been so swift, that not until the past few weeks has it become entirely clear that we are no longer in a state of depression", he observed at the beginning of the Summer of 1934.⁷⁶ Sweden was neither in a boom, nor in a depression but in an "average business cycle" and most indications showed that it would remain there in the next six months.

According to Ohlin, this recovery brought to the fore "the demand for a considerable reduction in job opportunities in the public sector at an earlier stage than would have been expected a year ago."⁷⁷ It did not, however, seem as if job opportunities were to be reduced at all. "The demand for an adjustment to the fluctuations of the business cycle - one of the main principles of rational fiscal policy - has thus not been fulfilled." Ohlin gave the following message to those maintaining that unemployment was still considerable: Fiscal policy concentrates on the future. "To require a boom to have been established even before the policy motivated by the depression has been wound up, is unreasonable." A more "normal" level of unemployment should not be fought by "violent government borrowing".

"If borrowing for non-profitable constructions were to continue, as long as there is still considerable unemployment, that is eight or nine years out of ten, Government finances would soon be ruined. The only sound principle is that the exceptional borrowing of periods of depression is repaid in good times, while in more normal business cycles, the budget is balanced in the usual way without such borrowing, despite the fact that there is certain unemployment."

Ohlin also explained that "a new economic policy" was required in the sense of "straightening out the fairly hasty economic-political measures that had come into

⁷⁶ "Svenska konjunkturutsikter för närmaste halvåret" ("Prospects for the Swedish business cycle in the next six months"), June 14, 1934.

⁷⁷ "Budgeten och framtiden" ("The budget and the future"), June 16, 1934.

existence fairly quickly during the crisis and adapt them to the requirements in a longer perspective.”⁷⁸ He stressed the difference between state socialism and economic planning and preferred talking about a “framework policy” (*ramhushållning*). The discussion about unutilized savings could also be put aside due to the business cycle upturn. “To create conditions for substantial savings will, obviously, be an important part of economic policy in the future.”⁷⁹

State socialism, no thanks!

How was “the riddle of business cycle fluctuations” then to be explained? According to Ohlin, the entire business cycle and not only a part of it - for example the depression phase - must be explained.⁸⁰ The fundamental view, which was accepted by all “economists of importance”, was that “the business cycle is first of all a variation in the production of capital goods”. Thus, “all simple theories of insufficient consumption could be rejected”. “In reality, it is demand for investment purposes - and not consumer demand - that first changes, and in such a way that a business cycle turning point is reached.” Ohlin argued that the goal of economic policy should be to raise production and employment: “It should be evident that the *goal* of an expansionary policy is to increase production and employment and that the increase in prices is only a *means* ...” In this context, Ohlin referred to Wilhelm Röpke’s book *Konjunktur och kriser* and made the following statement: “One must liberate oneself from ‘the price level complex’ and devote most of one’s attention to the volume of production, income and demand.”⁸¹

What role did economic policy play for this swift recovery? Like many other economists, Ohlin pointed at an increase in the demand for Swedish export goods, the depreciation of the Swedish *krona*, to the beginning of the “replacement acquisition” postponed during the crisis, and the fall of interest rates.⁸² As concerns public works, only a small part of the sum granted had been used before the spring of 1934. “These

⁷⁸ “En ny ekonomisk politik?” (“A new economic policy?”), June 25, 1934.

⁷⁹ “Sysselsättning, sparande och löner” (“Employment, savings and wages”), Aug. 8, 1934.

⁸⁰ “Konjunkturvåxlingarnas gåta” (“The riddle of business cycle fluctuations”), Aug. 17, 1934.

⁸¹ Ohlin rated Wilhelm Röpke’s book very highly: “In the entire international literature on business cycles, I know of none that within such a limited space ... gives such a good and trustworthy survey of our main knowledge of business cycles.”

⁸² “Krispolitik och konjunktur” (“Crisis policy and business cycles”), Aug. 1, 1934.

job opportunities in the public works on the open market can thus not have had any important impact on the recovery that had already taken place." Larger amounts had been used during Hamrin's last fiscal year as well as Wigforss' first one to finance "reserve work" and similar kinds of work.

"An objective observer could probably not deny that the purchasing power created by the Government since the fall of 1932 has had a great impact on the business cycle. The sums concerned are approximately equal to the increase in the demand for Swedish products from abroad. On the other hand, it is clear that since a number of other factors, besides these two, have been of importance for the upswing, the fiscal policy of the Government cannot have had any determining impact. It might rather be considered as fairly equal to three or four other favorable circumstances."

It was not in Ohlin's liking to make "uncontrolled capitalism" responsible for the crisis, as some social democrats did.⁸³ His conclusion from the great depression was that Government economic policy "apparently has a certain function".

"Whether a system of an entirely different kind would be better or worse, is an unknown fact. ... The practical and navigable way goes in a completely different direction and is not that far from the much decried crisis policy. It is a question of creating such a framework for economic activity - and adapting it to changes, for example in our relationship to the industry in other countries - that tendencies to the development of a crisis are counteracted and checked in time. Within the given framework, free initiative will then manifest itself without oppressive control. ... Typical examples of measures of such 'framework character' are tariff policy and monetary policy. Particularly the latter must, however, be enhanced by direct Government influence on the size of total reinvestment in the country. ... Measures of this kind are directly aimed at maintaining production, that is, by using the possibilities for production, without endowing the industry with a bureaucratic straight-jacket."

In his comment to the Government budget in January 1935, Ohlin was basically satisfied with the budget being balanced. Now, however, a surplus was required for beginning to repay the borrowing during the years of crisis.⁸⁴ The warnings against rising expenditures and the ruin of Government finances that had been issued in the years of the crisis had not come true.

⁸³ "Socialism och krispolitik" ("Socialism and crisis policy"), Aug. 26, 1934.

⁸⁴ "Den finansiella krispolitikens avslutning" ("The termination of fiscal crisis policy"), Jan. 12, 1935.

When the crisis policy was now being wound up and transformed "into more permanent long term measures", the dividing lines between three different views that tried to manifest themselves became clear according to Ohlin:⁸⁵

"First, there was the old liberal, passive attitude, which wants the Government to keep out of economic activity. ... View number two - active social liberalism - states that the role of the Government in the economy depends on the circumstances and cannot be the same at present as in the 19th century."

The third view was state socialism, largely "a result of Karl Marx's speculations" and according to which Government should simply take care of the economy. Ohlin advocated the second view and his objection to the third was that:

"From the social democratic point of view, one generally tries too hard to create a long term state socialism, for example by considerable monopolization, as an extension of the stabilization policy and the crisis policy that have been successfully pursued in the last few years. These are, however, two different issues. Stabilization policy should not be used as a state socialistic policy of monopoly and control."

Summary

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

In the spring of 1929, the British liberals entered the elections on a program proposing public works financed by borrowing in order to reduce unemployment.

⁸⁵ "Fronten mot statssocialismen" ("The front against state socialism"), Jan. 20, 1935.

Ohlin was positive. He agreed that public works in combination with an expansionary credit policy would not necessarily result in crowding out effects, but he warned against possible inflationary effects.

Ohlin was an optimist who, on several occasions, questioned the signs of an approaching economic crisis. At the beginning of 1930, several months after the crash on Wall Street, he still believed in good times. In the fall of 1930 he saw "a certain depression" coming and thought that an increase in public sector activities might reduce unemployment, even if they were to create certain crowding out effects. At the end of 1931, he began to advocate an expansionary monetary policy aiming at an increase in wholesale prices.

At the beginning of 1932, Ohlin wanted to advance the debate on public works "one step further". This step was about advocating a shift of permanent public works from good to bad times as well as suggesting that Government borrowing would be less expensive during a recession. This measure was, however, no more remarkable than that it had already been proposed by Gustav Cassel (1902) and by many of the "old economists" since then, like Gösta Bagge. Ohlin now began to talk about unutilized savings which were used to cover the losses of the firms. He continued to advocate an expansionary credit policy but doubted that the reductions of the discount rate would have any considerable effects.

In the autumn of 1932, he discussed a contribution made by Keynes. To believe public thrift (that is reduced government expenditures) to be the way out of the crisis was "the height of foolishness". Ohlin continued to advocate redistributive works and defended these with arguments based on a multiplier approach. He did not, however, suggest wages in public works to be adjusted downwards to market conditions in building and construction work where market wages were high.

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

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

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

We have tried to focus on a few issues connected to the causes for and the measures against depression and unemployment. However, many arguments revolve around each other over time. Our hope to find a simple and clear message has, to some extent, evaporated while shifting through Ohlin's *ST*-articles. We summarize his views in table 2-6, which give an overview of the evolution of his thinking.

Concluding comments

Opinions diverge among researchers of Ohlin's development as a “new” economist from the mid 1920's to the mid 1930's. Landgren considered Ohlin to be fairly “skeptical and pursuing a wait-and-see policy” towards the new economics until 1933 when “the real breakthrough” in his views on public works occurred under the influence of Keynes.⁸⁶ Steiger, on the contrary, regarded Ohlin as an intrepid pioneer within the area of the “new” economics. The picture that Ohlin has given of himself in his memoirs rather goes in the latter direction.

Our chronicle of Ohlin's articles in *ST* makes it difficult to determine whether we should talk about an ongoing pioneering achievement or a cautious progress towards a fairly late breakthrough. On the one hand, there is undeniably a gradual progress in Ohlin's writings between 1928 and 1933: the view that increased monetary purchasing power can increase production in 1928, that public works can increase purchasing power and the questioning of the crowding out-argument in 1929, that there are most likely unutilized savings in periods of depression at the beginning of 1932, an "acceptance without compromise"⁸⁷ of public works and for the first time (according to our findings) a line of argument based on the multiplier approach in the fall of 1932.

On the other hand, Ohlin does in no way appear to be an assaulting radical prior to 1933. He is fairly optimistic in his belief in a swiftly passing crisis, fairly orthodox in his crisis explanation, fairly careful in his recommendations on Government intervention - he advocates redistribution of public works as a measure against unemployment caused by a cyclical downturn, but takes a firm stand against more expansionist programs against structural unemployment.⁸⁸ Why does Ohlin appear to be so "late" in proposing expansionary policies? Steiger (1971, 1978) suggests that Ohlin was a late-comer to the field of monetary economics. First, he had to absorb the work of Erik Lindahl and Gunnar Myrdal before developing his theory of expansion.

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

The general impression of caution and restraint in Ohlin's popular articles in *ST* is confirmed by Ohlin himself. In his memoirs, he explains, after an account of his "advanced" views in 1931: "As a political editorial writer in *Stockholms-Tidningen* the following winter I naturally expressed myself with more caution" As concerns

⁸⁶ Landgren (1960, pp. 158, 160).

⁸⁷ "Acceptance without compromise" is the wording used by Steiger (1971, p 189) to describe Ohlin's view on public works in the article "Ökade offentliga arbeten" ("An increase in public works"), Oct. 2, 1932.

⁸⁸ In his memoirs Ohlin (1972, pp. 209, 222-23) considers, on several occasions, the expansionary measures against structural unemployment proposed by Keynes and the British liberals at the end of the 1920's. He writes, for example, that these suggestions "were lost" in the unemployment policy of the 1930's, but says nothing about his own warnings against such measures. See also Ohlin (1981) for his views on the development of monetary and fiscal theories in the 1930s.

his comments on the first budget of the new Government in 1933, he writes that he "was favorable towards the expansionary trait, although expressed in the somewhat restrictive way that I used in my editorials".⁸⁹ If Ohlin, as the writer of memoirs, is to be believed, Ohlin, the editorial writer and the economic journalist, was more conservative than Ohlin the scientist!

⁸⁹ Ohlin (1972, pp. 213).

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Table 1. The number of articles in the daily press published by Knut Wicksell, Gustav Cassel, Eli Heckscher, Bertil Ohlin and Gunnar Myrdal

Authors	Number of articles
Knut Wicksell	450 (approx.)
Gustav Cassel	1 506 (in <i>Svenska Dagbladet</i>)
Eli Heckscher	300 (approx.)
Bertil Ohlin	2 300 (approx.)
Gunnar Myrdal	50 (approx.)

Sources: Jonung (1992) and Carlson, Orrje and Wadensjö (2000).

Table 2: Survey of the Evolution of Ohlin's Views on the Causes of the Depression in *Stockholms-Tidningen* 1926-34

Year	CAUSES OF THE DEPRESSION		
	Insufficient demand	Unutilized savings	High wages
1926	Savings do <i>not</i> decrease demand and employment; on the contrary, insufficient savings reduce investments and thereby employment.		
1927	Total purchasing power = total production.		High wages cause unemployment.
1928	Low wages, low purchasing power do <i>not</i> cause unemployment.		
1929			
1930			
1931			
1932		In periods of depression there are probably unutilized savings.	
		Savings in depression "height of foolishness".	High wages in the building sector prevent recovery.
		Savings not invested increase unemployment.	
1933	Theory of insufficient consumption not valid.	Unutilized savings incur losses "devouring" savings.	
1934	Demand for investments triggers off crises.	Discussion of unutilized savings can be put aside.	

Table 3: Survey of the Evolution of Ohlin's Views on Measures against the Depression in *Stockholms-Tidningen* 1926-34

Year	POLICY MEASURES		
	Wage reductions	Expansionary monetary policy	Expansionary fiscal policy
1926			
1927			Taxes reducing consumption can increase capital formation and employment
1928	Wages too high but wage cuts lead to strikes.	Increased granting of credits = increased monetary purchasing power can lead to increase in production; but, no measure against permanent unemployment.	
1929		Increased credit volume increases purchasing power = scope for production in public sector.	Increased production in public sector increases purchasing power.
1930			Increased public activities can increase production and employment.
1931	Wage cuts increase unemployment.	A certain increase in prices, stable cost of living.	

Year	POLICY MEASURES (CONTINUED)		
	Wage reductions	Expansionary monetary policy	Expansionary fiscal policy
1932		Neither inflation nor deflation; stability.	Public works financed by borrowing can reduce unemployment.
		Measures against deflation.	<p>Redistributive works and nothing else.</p> <p>Public works must be productive.</p> <p>Redistribution of public expenditure gives a sounder economy.</p> <p>Public works a necessity in an active stabilizing policy</p>
	No general decrease in wages, apart from in the building sector.	Public works can reduce unemployment if they go hand in hand with expansionary credit policy.	
1933	Wage reduction = reduced purchasing power.	Increase in prices to maintain demand.	The government must produce the first push.
1934			Time to reduce public works.
			Public works: one of several factors behind the recovery.

Table 4: Survey of the Evolution of Ohlin's Views on Public Works in *Stockholms-Tidningen* 1926-34

Year	PUBLIC WORKS		
	Wages	Crowding out-effects	Multiplier effects
1926			
1927	Important that wages in relief work are lower than on the market.	Public capital formation can reduce private capital formation.	
1928			
1929		Public initiatives do not crowd out other activities more than do private initiatives.	
1930		Certain crowding out-effects.	
1931			
1932		Crowding out does not necessarily occur in times of depression.	
		Public investments create new savings.	Wages in public sector have spreading effects.
		Expansionary credit policy necessary to prevent crowding out.	
1933	Certain kinds of works at market wages, others at lower wages.		Two jobs in the public sector create a third in the private one.
1934			