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CHAPTER SIX

THE 1992-93 SWEDISH CRISIS DEBATE: HOW ECONOMIC CONSENSUS OVERTURNS TRADITION

KEITH JAKEE

Introduction

In a more extensive study, presented at the RATIO Conference on Knowledge and Policy Change in August of 2011, I examined the role economists played in the Swedish public debate over its financial and economic crisis of 1992 and 1993 (Jakee 2011). I argued that this Swedish experience is highly relevant for the financial crises faced by the United States and Europe, post-2007. The very survival of Sweden's famed welfare state was fiercely debated during the 1992–93 crisis, just as the redistributive policies of Western Europe and the United States are being debated in the wake of their own crises.

Ultimately, Sweden's welfare state survived, but was fundamentally reformed nearly twenty years ago. As a result, the Swedish economic conditions of the early 1990s and the subsequent policy adjustments hold insights for current policymakers facing a very similar set of problems and economic constraints. For example, many of the same underlying conditions that gave rise to the austerity measures adopted in Greece, Ireland, and Italy between 2010 and 2012, have much in common with the 1990's Swedish experience. The same is true of the monumental reforms contemplated (and largely ignored) with regard to Social Security or Medicare in the United States.¹

¹ See, for example, the budget plan, referred to as the Ryan Plan, submitted to the U.S. House of Representatives for fiscal year 2013 by US House republicans and spearheaded by House Budget Committee Chairman, Paul Ryan (House Republicans 2012).

More to the point of this chapter, however, contemporary policy analysts can gain insights into the process whereby expert, theoretical views of the economy clash with the world views of both laymen and other non-economist experts. In particular, how do non-economists understand the policies that shape their lives and how do economic experts try to *persuade* non-experts when it comes to the latter's understanding of policy and "the economy?" While the *RATIO* paper dealt with these broad questions, this chapter focuses on the clash between different generations of economists (with different theoretical outlooks) and between economists and other social scientists. Indeed, as the title suggests, the question of how the views of one generation of economists give way to the next generation is of fundamental concern here.

In terms of the *form* of the economic debate, the Swedish media seem to give policy issues, particularly economic ones, great emphasis. This fact is evidenced by the large number of both regular and special features in the newspapers, TV talk shows and news programs. Such programs regularly featured Sweden's top bank, industrial and labor economists. The Swedish debate was, moreover, populated by a number of highly distinguished academicians. That well-known Swedish academicians played a key role in these debates and that they participated at all levels of policymaking is not peculiar to the 1990s' debate either. As Jonung states, "A striking feature of the Swedish economics profession, in contrast to most other countries, is the heavy involvement of its professors in public life ... a tradition going back to the founders of economics in Sweden" (1992, 39). Academic and professional economists have taken to the public forum dating back to the nineteenth century. David Davidson, Karl-Gustav Hammarskjöld, Per-Erik Bergfalk and Knut Wicksell are among the earliest to do so (Magnusson 1993, 89). This tradition also took firm root among the first generation of Swedish economists early in the twentieth century, which included Gustav Cassel, Eli Heckscher, Gösta Bagge and Sven Brisman, as well as the generation that followed, including Gunnar Myrdal, Bertil Ohlin, Erik Lindahl and Erik Lundberg.

As a result of such active public involvement, the economics profession has probably been more visible in Sweden than elsewhere, if not more influential (see, for example, Carlson and Jonung 2006). Going back as far as the 1930s, a foreign visitor to Sweden took note of "the influence that the professional economists seemed to have on politicians both of right and left, on banking and business people as well as on the lay public. [Economists in Sweden] ... seem, moreover as a class, to have a better public reputation than elsewhere" (Brinley Thomas, quoted in Magnusson 1993, 83). This visibility provides insights for students of

public policy because it illuminates the process whereby academicians enter the world of *public* persuasion. As such, Sweden may be just the kind of ideal case about which many non-Swedish economists fantasize. Krugman (1994) argues, for example, that the United States would enjoy improved economic policies if *academic* economists could crowd out the special interest “policy entrepreneurs” by playing a larger role in public persuasion.

This study is based on unpublished interviews performed during the spring and summer of 1993. I interviewed a number of economists and other social scientists in Sweden, focusing on, among other things, the role that economists were playing during the 1992–93 economic and financial crisis. The interviewees were chosen on the basis of a variety of characteristics, the principal objective being to assemble a list of participants who could discuss the crisis from a variety of expert-participant viewpoints, in historical context. As such, several interviewees were economists involved to a greater (e.g., Calmfors, Edin, Södersten) or lesser (e.g., Jonung) extent in the 1990s national public debate; two were political scientists (e.g., Gustavsson, Petersson) and two were sociologists (e.g., Korpi, Zetterberg). Several interviewees were not involved with the 1990s debate, but were major figures in earlier Swedish debates over the advancement of the welfare state (e.g., Elvander, Faxén, Meidner, Rehn). See Table 1 for a list of interviewees and summary biographies.

Table 1: The Interviewees

<i>Economists</i>	<i>Position at the time of the 1992-93 Crisis</i>
Lars Calmfors:	Professor, Institute for International Economic Studies, Stockholm University.
P.O. Edin:	Chief Economist, LO (Sweden's widely encompassing blue-collar labor union)
F.O. Faxén:	Former Director of Economic Research, SAF (Sweden's Employer Federation)
Lars Jonung:	Professor, Stockholm School of Economics and former Economic Adviser to the Prime Minister
Rudolf Meidner:	Former Research Director, LO; Swedish Institute of Labor Market Studies, Stockholm University
Gösta Rehn:	Former LO economist
Bo Södersten:	Professor, Lund University and former MP
<i>Political Scientists</i>	
Nils Elvander:	Professor emeritus, Uppsala University
Sverker Gustavsson:	Docent (Assoc. Professor), Uppsala University
Douglas Hibbs:	Professor, Gothenberg University
Olof Petersson:	Docent (Assoc. Professor), Uppsala University
<hr/>	
<i>Sociologists</i>	
Walter Korpi:	Professor, Stockholm University
Hans Zetterberg:	Former Professor and Chair, Ohio State University, Opinion analyst and Publicist
<hr/>	
<i>Policymaker</i>	
Kjell-Olof Feldt:	Former Minister of Finance (and Chairman of the World Bank and Chairman of the International Monetary Fund)

The larger study argues that four themes emerge from a careful examination of hundreds of pages of interview transcripts:

- i) Two opposing interpretations of the crisis can be discerned: one that centered on causes of the crisis that were endogenous or “internal” to Swedish policy; another that centered on causes that were “external” to Sweden or outside of its control.
- ii) A strong degree of consensus emerged among the academic economists (and several of the non-economists) involved in the public debate that largely aligned with the “internal” causes narrative.
- iii) Claims concerning the reliability and veracity of economic arguments were exaggerated on both sides (and by participants in previous debates).
- iv) The “scientific” mantle of economists frequently operated like a “trump card” in policy debates.

The current chapter focuses on one aspect raised in the larger study: the strong degree of consensus over Swedish economic analysis that dominated the public forums in Sweden. I discuss the implications of this phenomenon, some potential reasons for its existence, and draw some parallels and contrasts with previous policy debates in Sweden. Besides simply understanding the Swedish case better, this study attempts to add to the literature on policy formation and change. It also attempts to add to a separate literature on the “rhetoric of economics,” which has, for the most part, focused on how economists persuade one another, in other words, how they argue among themselves, how they decide what constitutes a valid argument, and what metaphors or stories they use (see, for example, McCloskey, 1983, or Klammer 1983).²

Coats (1984) pointed out some time ago that a lacuna existed in the analysis of the actual processes by which economists persuade non-economists—unlike, for example, scholarship in the history of science; this lacuna has largely remained unaddressed. Thus, we know little about

² The seminal authority in the rhetoric of economics that uses actual interviews is Klammer’s *Conversations with Economists* (1983). My study of Swedish economists differs from Klammer’s approach in that his work is confined to discussions among economists, and his rhetorical exploration is in the realm of macroeconomic theory. In contrast, the current work explores the differences among economists, as well as between economists and other social scientists, regarding approaches to economic policy. The current study might therefore be thought of as an investigation into how the theoretical discussions in Klammer make their way to policy discussions.

how economists shift between their roles as academicians, protectors of the “general interest,” and purveyors of special interests or, to borrow Goodwin’s terminology (1988), the distinction between *philosopher*, *priest* and *hired gun*. I attempt to shed some additional light on the process whereby one generation of economists publicly engage both non-economists and the legacy of previous generations of economists.

In the next section, I briefly outline some of the details of the 1990s’ Swedish economic crisis. Section three sketches the broad contours of the 1992–93 debate that surrounded the crisis. The fourth section focuses on the overwhelming dominance of one side of the public debate and traces a similar pattern in Sweden’s past. Section five discusses some potential reasons for the pattern of narrow public opinions among Sweden’s public-going economists.

The Crisis

Swedish society in 1992 and 1993 did not exhibit the model character for which it had become renowned over the previous half century. Although it had faced several other economic crises, including the oil crises of the 1970s, a productivity slowdown, and budget crisis in the early 1980s, none appears to have threatened its progressive social, political and economic agenda like the financial and economic crisis of the early 1990s. In 1993, unemployment, one of the sacrosanct pillars of the Swedish welfare state, sat above nine percent; the unofficial rate (including those on state training schemes) was above thirteen percent in 1993 (Lindbeck *et al.* 1993, 1). Compare these measures to an average of one to three percent in the 1980s. Manufacturing output declined by seventeen percent between 1991 and 1993, a larger decline than the one experienced in the Depression of the 1930s (Lindbeck *et al.* 1993, 2). This decline was nearly fifty percent larger than the approximately twelve percent manufacturing decline in the United States during the 2007–2009 financial crisis. GDP fell a total of six percent between 1991 and 1993 and standards of living fell: Sweden ranked fourteenth in OECD comparisons of GNP per capita in the early 1990s compared to third place in the early 1970s. The federal government budget position went from a surplus of almost six percent of GDP as late as 1989 (OECD 1990, 136) to an unsustainable fifteen percent deficit in 1993. In fact, Sweden’s public debt continued to increase throughout the 1990s until it reached nearly eighty five percent of GDP. It also suffered a currency crisis in which the krona fell by roughly thirty

percent.³ And although the fall in the currency was a boost to exporters, a number of important Swedish firms, including its largest banks, either failed, or were bailed out by the Swedish government. Early cost estimates of the state bailout of the banking sector were estimated to be more than five percent of GDP (Lybeck 1993).

In political terms, the once-hegemonic Social Democratic Party no longer ruled unchallenged and the so-called “corporatist” arrangement had, for all practical purposes, fallen into disarray in the years leading up to the crisis.⁴ And, there were social upheavals. Many of the generous social insurance programs for which Sweden had been famous were reduced, causing social unrest and a concern for the future that had been conspicuously absent in previous decades.⁵ Finally, Sweden began to face problems familiar to other nations regarding a growing and dissatisfied immigrant population.

The Crisis Debate

Not surprisingly, this state of affairs provoked controversy in Sweden as politicians, social scientists and various commentators, not to mention the average citizen, tried to sort out exactly what was happening to their once-envied system. Outside the country, even strong proponents of Sweden’s special brand of social democracy and corporatism noticed the severe hardships faced by the welfare state *par excellence* and wondered what had gone wrong. As one of the interviewees, Olof Petersson, remarked, Sweden had been *the* destination for welfare-statist social scientists for well over thirty years. By the early 1990s, the numbers had dwindled to a trickle.

³ After months of trying to stave off a currency devaluation, the central bank was forced to relent in November 1992, and the currency, which had been pegged, was allowed to float. The crisis arose because of the government and central bank’s determined commitment to keep the krona pegged at its old rate.

⁴ Corporatism refers to the coordination of the nation’s “overarching” interests—the tri-partite institutions of organized labor, organized employers and government. A key aspect of the system was the setting of wage policies and the management of other macroeconomic policies to, theoretically, maximize the objectives of the three groups (see, for example, Micheletti 1993).

⁵ For example, there were cutbacks in health care and privatization in health services encouraged (see *Financial Times*, March 18, 1994, for a brief description of the privatization measures). Even sacred programs like the famous *Daghems*, the publicly-run child daycare centers, were targeted for cutbacks and privatization.

The debate over policy and indeed the *future* of Sweden took a prominent place in print and TV media during the 1992–93 crisis. Ordinary citizens were deluged with news updates and commentary on the plight of the country. There were nearly daily news stories, op-ed pieces, special print series and even multiple televised prime-time educational programs throughout the crisis. Each of the interviewees was a nationally-recognized expert in his field and many were household names in Sweden. Although not all of the interviewees were actively involved in the public debate of 1992–1993, each had had some national public prominence either during that debate or in earlier Swedish public debates.

A key feature of the interview material is that the fourteen participants can be divided, relatively easily, into two intellectual camps. First, there were those who reasoned that the crisis was largely the result of a fall-off in aggregate demand that was, itself, a function of the general economic malaise in *other* European economies; as a result, these individuals expected the crisis to be short-lived. This is what I will call the “external causes” argument and it implies that Sweden and its renowned welfare state policies were *not* to blame for its troubles. The crisis, in other words, provided no compelling reason to change policy course.

The opposing “internal causes” view interpreted the crisis as a long-term result of structural imbalances within the heavily-regulated and heavily-taxed Swedish economy. As such, Swedish policy was responsible for the crisis. While it was relatively novel in Sweden at the time, the argument has, by now, become reasonably familiar: High levels of state intervention in the form of generous unemployment benefits and social insurance programs were said to create strong work disincentives and moral hazard problems. In addition, high marginal income tax rates and a ballooning government budget deficit were argued to threaten future economic growth prospects.

These two positions surely represent characterizations of polar extremes. While some of the interviewees might have argued over subtleties, as a general rule, it was not difficult to classify each participant as falling into one camp or the other.⁶ In fact, positioning each interviewee on the continuum from *external* causes to *internal* ones provides a key insight into the public debate process. Most importantly, those who held the view that internal causes were to blame argued for more immediate—and austere—economic and political reforms, while those holding the

⁶ The following interviewees argued that *internal* factors caused the crisis: Calmfors, Elvander, Feldt, Jonung, Petersson, Rehn, Södersten, Zetterberg; the following argued that *external* factors caused the crisis: Edin, Gustavsson, Korpi, Meidner.

external-causes thesis were more likely to argue for maintaining Sweden's *status quo*.

Of the several themes that emerged from the interviews, I want to focus on the overwhelming consensus of most of the contemporary economists (and several of the non-economists) around the market-oriented, internal-causes thesis, which implied that Sweden needed to profoundly alter its policy course. The notion that there was a fairly narrow range of economic viewpoints that dominated the public sphere, and that it was predominantly market-oriented (with public choice undercurrents), was supported by virtually all of the interviewees. In fact, most suggested the public debate was relatively “one-sided,” and usually over-simplistic, even when they found themselves on the dominant side. Furthermore, most agreed that the public debates had been equally narrow in previous debates when a much more progressive agenda had dominated.

This background sets up two key features of economists' involvement in grand Swedish policy debates. First, it is remarkable that a minority of relatively free-market intellectuals were dominating the public “ideas” sphere in a country that was probably most famous, even at that time, for its highly-developed welfare state, labor union influence and social democratic hegemony. There was considerable dissonance between the 1992–93 message of scaling back government and the many decades of intellectual support for the welfare state.

In fact, Boréus (1994) documents the “rightward” ideological shift in the public political-economic debate in Sweden between 1969 and 1989. She concludes that neoliberals had “broken through” in the public sphere by the early 1980s, and were “well established”—but not “hegemonic”—by the late 1980s (1994, 7). My analysis suggests that in the few years between 1989, when the Boréus' study ends, and 1992–1993, the period in which I focus, the neoliberal position became hegemonic in the public sphere. While expert dissent from traditional supporters of the welfare state persisted, these voices were in a small minority.

The second noteworthy feature of the debates is that a small number of policy experts arguing strongly against traditional experts and popular views of the state and its capabilities was hardly novel to Sweden in the 1990s. Very similar dynamics had arisen in the previous hundred years, around the turn of the twentieth century and again in the interwar period.

A Look Back: A History of Narrow Economic Views

To summarize, a relatively small group of academic economists clashed with the Swedish policy establishment and Swedish lay opinion

during the 1992–93 public debate. As such, this group’s views diverged strongly from the previous generation of Swedish economic thought. Indeed, both the policies and the dissemination of redistributive policies owed a significant debt to at least several decades of economists who spearheaded their development with both economic theory, participation on official government “commissions” (*utredningar*), and public persuasion. The progressive agenda began with a generation of economists, known as the “Stockholm School” of the 1930s, that developed theories and public arguments for price stabilization and the permanent elimination of unemployment through public works projects.⁷ They also developed proto-macro models independent of Keynes that involved, among other things, the idea of countercyclical government policies. In the 1930s and 1940s, Myrdal, along with his activist wife, Alva, provided the economic rationale for comprehensive family and housing policies (see Lundberg 1985), arguing that these policies would both improve the living conditions of Swedes *and* foster long-term economic prosperity.⁸

In the 1950s, Gösta Rehn and Rudolf Meidner, known for the “Rehn-Meidner” model, aimed to solve the problems of both full employment *and* inflation, simultaneously, by squeezing the profitability of firms. The idea was to put pressure on firms to deny uncompetitive wage increases and consequently cost-push inflation. Their model also encouraged subsidizing the mobility of labor from declining industries to expanding ones.⁹ Later, in the 1960s, Gösta Edgren, Karl-Olof Faxén and Clas-Erik Odhner, economists from opposites sides of the leading industrial relations institutes (i.e., labor- versus employer-sponsored), produced a collaborative effort known as the “EFO” industrial relations model (1973).¹⁰ This model was yet another example of the so-called collaborative corporatist

⁷ Carlson (1993, 190) details Lindahl’s and Myrdal’s public arguments for the elimination of unemployment. See Lundberg (1985, 7–10) for a summary of the Stockholm School’s ideas and a contrast of these with Keynes’ *General Theory*. See also Jonung (1992, especially 29) for a brief survey and classification of the twentieth century history of economic thought in Sweden.

⁸ See Hecló and Madsen (1987, 209–210) for a summary of how various theories were manifested in policy and the influence that Myrdal had implementing them. See also Carlson (1990) for an extensive treatment of the Myrdal’s influence on family policy in Sweden.

⁹ See Lundberg (1985, 17–19) and Sandelin (1991, 221–22).

¹⁰ Gösta Edgren worked for the Swedish Central Organization of Salaried Employees (“Tjänstemännens Centralorganisation” or “TCO”), Karl-Olof Faxén for the Swedish Employers’ Confederation (“Svenska Arbetsgivareföreningen” or “SAF”), and Clas-Erik Odhner for the Swedish Confederation of Trade Unions (“Landsorganisationen i Sverige” or “LO”).

approach that Sweden took to labor market problems.¹¹ And, Meidner needs mention again for his advocacy of the “wage-earner funds” in the 1970s, a policy designed to transfer the shares, and thus control, of Sweden’s industries to the labor unions by means of a government-sponsored pension fund.¹²

The policies espoused by these economists were pivotal in rationalizing the corporatist welfare state and they tended to be far more progressive than the mainstream work being done in the Keynesian-driven Anglo-American world. They are the economists who dominated the public debates from roughly the 1940s until the wake of market-oriented economists came to dominate sometime in the early 1990s.

What most observers—including many Swedes—do not realize, however, is that this dramatic pendular swing in Swedish economic advice did not begin in the 1980s and 1990s. Rather, the swing has precedent much earlier: before the Swedish progressives of the mid-twentieth century took charge of the economic agenda, a group of conservative, or so-called “bourgeois” economists dominated the public sphere in the late nineteenth and early twentieth centuries. Indeed, Sweden’s public-oriented economic professors took a predominantly market-oriented stance for a number of decades around the turn of the twentieth century. The support for *laissez-faire* policies in Sweden was fashioned under the dominance of economists such as Knut Wicksell, Gustav Cassel and Eli Heckscher. Their stance was so clearly defined that Heckscher noted (around mid-twentieth century) that the “most striking feature of the Swedish economic debate during the last quarter of the nineteenth century was its overwhelming *laissez-faire* character” (quoted in Magnusson 1993, 87). In fact, Gunnar Myrdal’s complaints about the public dominance of the bourgeois economists that preceded the rise of the Stockholm School

¹¹ The EFO model set out rules concerning the range for wage increases in the private sector based on growth and productivity. “It was understood that the distribution would be carried out, in part, according to the ‘solidaristic wage policy,’ which was pushed by low income unions in LO [“Landsorganisationen i Sverige,” Sweden’s national trade union umbrella organization], in order to improve the income levels and wage differentials of low wage workers” (Olsson 1990, 30). Furthermore, the model assumed that public sector wage increases would match private sector ones and that the government was responsible for the employment level.

¹² Swedish economists’ role in the progressive build-up of the welfare state summarized here would correspond to the following classifications developed by Jonung (1992, 29): “The Stockholm School (of the 1930s) and “Economics as a science applied to the welfare state” (circa 1950–1975).

instigated his project that would become *The Political Element in the Development of Economic Theory* (Myrdal 1990 [1930]).¹³

This brief examination of twentieth century economic thinking on Sweden's grand policy trajectory suggests that the narrow range of public debate was not novel to the 1990s. Indeed, the internal-causes proponents often remarked about the difficulty of getting any market-oriented views into the public forum prior to the 1990s. For example, Zetterberg remarked, "You must realize that this country has been virtually insulated from the capitalist debate and capitalist ideologies over several generations. There's not a single journalist in this country that defends capitalism" (1993). And Jonung opined, "... in the old days, the social democratic hegemony, or dominance, was just absolute. You had to be a member of the party in order to have [public] input. It was basically a one party country and [it] was not fostering any debate" (1993). Even one of the star progressive economists who had been among those in a dominant position in the 1950s, 1960s and 1970s, Rudolf Meidner, stated that he thought,

we were dominant in a way which was not only positive ... [T]he dominance of the labor movement ... gave [us] a position and an influence which I think was a little too much. We had no real hard debates with, for example, the economists of *SAF* [the employers' union]. ... We could practically ignore them. It is my feeling that we neglected their existence (Meidner 1993).

Why So Narrow?

While the Anglo-American world also saw an economic paradigm shift from market liberalism to Keynesianism in the middle decades of the twentieth century and back to liberalism in the final decades, the Swedish case appears more extreme and was carried out more publicly than elsewhere. What accounts for the strong degree of economic consensus in Sweden? As noted, most participants felt the range of opinion was narrow both in the 1990s and in previous debates. When asked what might

¹³ Carlson (1993), Jonung (1992), Lundberg (1985), Magnusson (1993) and Sandelin (1991) all trace this swing from market liberalism to Sweden's special progressive agenda. In particular, Carlson (1993) provides an excellent description of the shift from the earlier market-oriented economic views of the old school of Swedish economists to the "new economics" of the 1930s, and the extent to which that debate was carried out in the media.

account for that lack of diversity in views, there was near unanimous opinion that the size of the country constrained the range of debate.¹⁴

While small size might suggest less heterogeneity of views and opinions, this rationale does not help us understand how a provocative minority of economists comes to dominate the public debates. To decipher this phenomenon, it is useful to briefly consider economic theories on the “production” of ideas. A key aspect of the “economics of science,” for example, posits the existence of *increasing returns to scale* in the process of developing and disseminating ideas (Stephan 1996). In other words, the production of ideas shares much in common with industries such as software development (where the fixed costs of a new development are enormous relative to the marginal costs of producing a single additional unit once the application exists). Scale economies do not necessarily imply that unorthodox ideas will be nonexistent, but rather they will need certain forms of social and material support like institutional funding, professional exposure, grants to support research in such areas, and the like, in order to take hold and spread more generally. Thus, the presence of scale economies in the production of ideas might well account for Sweden’s narrow “specialization” in the production of economic advice.¹⁵

Other peculiar Swedish factors, closely connected to the scale issue, also likely account for the narrow range of economic opinion. First, there is a long tradition in Sweden in which the few full professors of economics have played a substantial role in public policy and public debate. Magnusson (1993) describes, for example, the public rhetorical efforts of Swedish economists early in the twentieth century to popularize their “science,” efforts from which the subsequent generation of Swedish economists benefited enormously. Jonung (1992, 40-43) and Carlson and Jonung (2006) also emphasize the importance of the “extracurricular” activities of the academic economists of that time period. The two latter articles provide a count of newspaper articles written by Knut Wicksell (approximately 450), Gustav Cassel (1506), Eli Heckscher (approximately 300) and Bertil Ohlin (approximately 2000) along with a list of publications in the topical *Ekonomisk debatt*, a journal which provides a forum for policy debates and current economic issues of the day. Jonung (1992, 21-22) also lists the twentieth century professors of economics who became active politicians: of the eighty four Swedish professors of

¹⁴ Calmfors, Edin, Feldt, Gustavsson, Hibbs, Korpi, Meidner and Zetterberg all noted this feature.

¹⁵ On a related topic, Jakee and Kenneally (2010) develop a formal model of “paradigm change” within economics and empirically test it by examining the rise and fall of the central planning paradigm.

economics last century, seven were active in politics at the national level and this does not include those who did not attain the rarefied rank of professor. Incidentally, this list includes some internationally-renowned economists, such as Gunnar Heckscher and Nobel laureates Bertil Ohlin and Gunnar Myrdal.

Another factor, connected to the scale issue, centers on the fact that, historically, Sweden's academic structure has been extremely hierarchical, typically with only a single full professor in a department. Because of the limited number of economics departments, there is a significant concentration of academic influence and power in those few departments; and the Universities of Stockholm, Uppsala, Lund, and Göteborg have played the most dominant role. Given Sweden's academic structure, only a small number of leading experts need to change their minds to profoundly transform the dominant economic thinking. It is not surprising, then, that changes in economic ideas are likely to occur more rapidly in smaller countries like Sweden, particularly when very few players dominate the disciplinary field at any given time.

Closely linked to the concentration of professors, the funding mechanisms for research have been narrowly focused and controlled by a relatively small number of funding agencies. When the objectives of those agencies evolved, over time, from a welfare-statist to a more market-oriented one, so too did much of the research. This feature is also likely to be a function of the small size of Sweden, a view that was supported by an external assessment of Swedish academic economics conducted by two internationally-renowned economists, Avinash Dixit and Nobel-laureate Robert Solow, along with Finnish economist, Seppo Honkapohja (1992).¹⁶ As part of the same assessment, Stenkula and Engwall (1992) also conclude that "well over half of the overall [research] resources [going to economics] were allocated to the nation's capital" (66).

Tied to the forgoing characterization of a small number of hierarchical departments dominating economics in Sweden, the Dixit et al. (1992, 175-176) assessment highlights the deleterious effects of the lack of mobility between and among Sweden's various research institutes and academic departments. These constraints on the movement of personnel may also play a role in explaining why research resources were concentrated rather narrowly. Several of the interviewees, on both sides of the debate, indicated that support and funding had very much been a function of whose "camp" one was in. In fact, several participants referred spontaneously

¹⁶ They concluded that the *Institute for International Economic Studies* at Stockholm University is by far the dominant research organization (in terms either of economics departments or independent research institutes).

to the case of a well-known Swedish economist who could not get funding for his projects, simply because he was unpopular with the research establishment through much of his career. In one interviewee's account, even referees, who themselves did not have ultimate authority over funding, were reluctant to give favorable reports for fear of reprisals from those who did wield power.

At the broader level, Elvander also suggested the existence of influence from the corporate world:

Not that big business has been able to buy social science people. No, there is no corruption. But we have a system of fund raising where business has been giving money, Wallenberg Funds, for instance. This is one where you're indirectly influencing research, but it is done in a very careful and correct way. So there is not a question of *directly* demanding a special kind of research from business, but *indirectly* by funding the right people (Elvander 1993).

While Elvander's point is a valid one, it would be easy to draw a distorted inference from it, if unfamiliar with Swedish institutions: one of the most important set of "organizations" that dominated research funding in Sweden for decades was the extremely powerful group of labor unions.

Conclusion

Of the four themes that I identified in the more extensive interview study, this chapter focused on the narrowness of opinion among economists involved in the Swedish public debate of 1992–93. I noted that virtually all the interviewees agreed with this assessment, but most also pointed out that the range of economic analysis had been equally narrow in Sweden's past. I briefly outlined the historical context of Sweden's grand public policy debates beginning nearly one hundred years earlier: some of Sweden's most well-known economists of the twentieth century took part in public persuasion of one kind or another. I then attempted to account for the narrowness of public opinion by Sweden's economists and argued that some basic insights from the economics of science can shed some theoretical light on this phenomenon: if idea production and dissemination are subject to increasing returns to scale, then it is likely that a narrow range of views will dominate at any given time, particularly given the traditional concentration of professorships and resources in Sweden.

Most Swedes—and indeed most policy experts elsewhere—do not recognize the connection between the undercurrents of 1990's debate and previous ones. For one, the Swedish debate and Swedish policy

implementation have much to offer policymakers facing similar crises in the United States and Europe twenty years later. Indeed, Sweden's anticipation of these more far-reaching European and American crises is not unlike its presaging many of the debates over the building of redistributive policies in the first place. For another, it is remarkable how much the Swedish policy (and debate) terrain of the 1990s look like the one described by Myrdal in 1930 (1990). Like the 1920s and 1930s, a small group Swedish economists were deeply involved in trying to persuade both the public and policymakers in the early 1990s.

One of the most noteworthy results of comparing and contrasting the two debates is the reversal of the internal-external argument between the two time periods. In the 1930s, it was the *laissez-faire* economists who argued that Sweden's problems were external (Carlson, 1993, 138), while the champions for change argued that the causes for its economic distress were fundamentally *internal*. Hence, the analyses that implicated internal causes of the 1920s and 1930s economic crisis led to policy conclusions favoring activist economic and social reform, in other words, a move away from *laissez-faire* policies and toward the development of more substantial redistributive institutions. The market proponents of the 1920s and 1930s argued the reverse. They insisted that Sweden's difficulties, at that time, were caused by the outside world: profoundly altering Swedish *laissez-faire* policies would only weaken its future economic prospects.

As we have seen, it was the market-oriented reformers during the 1990's debate who argued the causes of economic crisis were internal and therefore pushed for fundamental policy change. The juxtaposition of the internal causes argument being used to justify radical interventionist and redistributive policies in the 1930s and also being used to justify a radical break with those same policies in the 1990s raises the question of whether those involved in public debate simply employ whatever set of causes suits their purposes—purely instrumentally—in order to justify their policy conclusions, or whether they come to their policy motivations neutrally or “scientifically,” as it were. I consider this issue at greater length in the wider interview analysis presented at the RATIO conference.

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