A Giant of the Stockholm School

Erik Lundberg 1907-1987

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Erik Lundberg, *Studies in Economic Instability and Change*, edited with a postscript by R.G.H. Henrikson (Stockholm: SNS Forlag, 1994). Pp. 584. ISBN 91-7150-310-2

As Baumol explains in the Lundberg obituary he wrote for the *Scandinavian Journal of Economics* (reprinted here in slightly revised form), Lundberg was a major, second generation figure of the Stockholm School together with his teachers Erik Lindahl and Gunnar Myrdal, a school which for a considerable period during the 1930s, was led by that economist later turned politician, Bertil Ohlin. Business cycle theory was a major aspect of Lundberg's massive contributions to economics (which incidentally brought his work to my reading list as a student of third year macro-economics at the University of Sydney in the 1950s) but his major contribution according to Baumol links him to sequence (or period) analysis and hence to the tradition of D.H. Robertson's work more than that of Keynes. Baumol's short appreciation of Lundberg, man and economist, is supplemented by the editor's valuable postscript. This includes an informative overview of Lundberg's career (pp. 510-14) as well as a guide to the editorial work required for this edition (pp. 515-28) and a bibliography of Lundberg's work available in English. These assessments are usefully supplemented by Assar Lindbeck's entry on Lundberg in the *New Palgrave* (1987: III p. 252) and by Björn Hansson's lengthy chapter on 'The Stockholm School and the development of dynamic method' in Bo Sandelin's edited *History of Swedish Economic Thought* (Sandelin 1991: 168-213). Equally useful in this context is Lundberg's own account of his association with the Stockholm School, which constitutes the concluding essay to this volume (pp. 491-99). Lundberg's summary of beliefs as a 'Keynesian' within the Swedish tradition, not only presents what can be seen as the essentials of Keynes's revolution, but also is of relevance to what Lundberg describes as the somewhat sterile debate on the priorities in the formation of theories and the drawing of policy conclusions during the developments in economic theory from the 1920s into the 1930s. They can therefore be usefully quoted in full:

> (a) The view that total effective demand is decisive for total production and employment.
> (b) Total demand may be either too low or too high (excess demand). It is an error to believe - as many people seem to do - that the Keynesian approach always relates to an economy in depression and calls for an expansive economic policy. Personally, I have devoted at least as much attention to measuring and analysing the "inflation gap" where the supply side has been the constraint on production and employment.

> (c) A freely functioning market economy does not, by its very nature, lead to overall economic balance and full employment of productive resources. The idea of instabilities in a market economy was, and is, fundamental to a Keynesian view. As early as the 1920s, I was obliged to make an in-depth study of so called "hog cycles" - i.e. the repeated swings above and below an equilibrium price with corresponding fluctuations in production between full and low capacity utilization. Empirical and theoretical business-cycle research, which was rapidly growing, gave clear indications of the instability of market economies. Keynes's well-known opinions on, and experience of, the pronounced instability of financial markets was, in particular, a central point of departure for radical proposals to stabilize private investments and "long term expectations".
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> The Keynesian view of the stabilization problems of the market economy was summarized by Modigliani in a terse statement from the mid-1960s. "The capitalist system *needs* to be stabilized, *can* be stabilized and *should* be stabilized." (p. 492).

The Stockholm school situated these matters more firmly within the analysis of the business cycle, explored more fully the political pitfalls in policy and, most importantly, discussed them in the *ex-ante, ex-post* framework of sequence analysis which provided the logical vehicle through which to show the importance of uncertainty and expectations (p. 493). The last aspect has also been strongly argued by Shackle (1967) in his very valuable account of the developments in this and other areas of economics during the years of high theory from 1926 to 1939.

Lundberg's work reprinted in this volume is subdivided into five major parts: contributions to business cycle theory, short and long term aspects of the stabilisation problem, reviews, biographical notes and assessments, and polemics and retrospections. More than half is devoted to these first two topics. However, the fact that this review is for a journal in the history of economics makes it worthwhile to concentrate on the three concluding parts, which in fact I shall do, partly working backwards. The lengthy quotation from Lundberg about Keynes's innovations is important to appreciate the first two essays of Part V: Lundberg's defence against Landgren's reappraisal of the Stockholm School with respect to its treatment of Keynes and its associations with, and inspiration from, the work of Wicksell (pp. 478-9). The second essay of part V further explores Lundberg's association with Keynesian economics, in which Lundberg reiterates his belief in the inherent instability of the capitalist market economy as a justification for his work on business cycles (pp. 488-9) while at the same time drawing up a catalogue of some of the errors made by the school in the application of Keynesian ideas in policy measures. Some of the biographical essays on members of the Swedish school in Part IV supplement this discussion of the relationship between the Keynesian revolution and Stockholm economics, as do indeed, but less explicitly, some of the book reviews included in this collection.

Let me briefly turn to these reviews first. Part III starts with an insightful review of Hansen's 1938 *Business Cycle Theory and Economic Policy*; then follows with Lundberg's critical examination of Beveridge's 1944 *Full Employment in a Free Society* and the associated Oxford Institute of Statistics study on *Full Employment*. The other reviews cover Klein's *Keynesian Revolution*, Duesenbery's *Business Cycles and Economic Growth*, Meade's *Neo-classical Economic Growth*, Arthur Lewis's *Growth and Fluctuations 1870-1913* and the volume edited by Arnold Heertje on *Schumpeter's Capitalism, Socialism and Democracy after 40 Years*. Apart from revealing Lundberg's likes for certain economists and their traits

(e.g. Lewis's blend of scepticism and courageous calculations while making suggestions on differences in growth experience; Schumpeter's inordinate ability to make sweeping generalisations and bold predictions), these essays are all fine examples of the art of the book review. The biographical notes and assessments of part IV, with one exception - Lundberg's essay on Kuznets's contribution to economics associated with the award of the Nobel Prize to the Russian born economist in 1971 - are all devoted to Swedish economists, namely Cassel, Lindahl, Myrdal (2 essays), Ohlin and Svennilsen. Biographical material is not exclusive to this section. Lundberg's report on his two year tenure of a Rockefeller Fellowship in the United States is also filled with small biographical sketches of the various American economists with whom he worked during this time. Particularly interesting are his remarks on Viner's limited originality (p. 50), Garver on the subject of general equilibrium (p. 53) as well as the longer portraits of Wesley Mitchell and Kuznets (pp. 54-55), the last supplementing the essay of Part IV. Garver's remark on general equilibrium fits in well with a number of the other essays in Part I, three of which are devoted to this topic. The first is a detailed discussion of notions of equilibrium, partial and general, supplemented by sketches of the equilibrium theories of J.B. Clark, Lindahl, Myrdal, and Moore. The second looks more fully at the notion of monetary equilibrium, and disruptions to such equilibria best handled by sequence analysis. The third evaluates dynamic equilibrium in the manner of the Harrod essay, and in Hicks's closely associated work on the trade cycle. There is a unity between these first, largely theoretical essays, and the reviews and biographical sections which makes the collection as a whole such a treat.

This also applies to the essays of Part II, devoted to short and long term aspects of the stabilisation problem. Assessing the state of the economy in a situation of relatively abundant statistical information is the first of these and an instance of the younger Lundberg, having been published in 1937. These are followed by critical essays on the role of prices, the connection between economic theory and economic policy, issues of wages policy, the dilemma of exchange rate policy, the profitability of investment (his Marshall lectures) and one on productivity and structural change. Three essays in this section are particularly interesting. The first is Lundberg's discussion of the rise and the fall of the Swedish model, an article published first in 1981. The conditions for the continuation of the model, Lundberg argues, were shattered first by the oil price shocks of the 1970s; then by excessive wage demand which did not yield the requisite productivity responses to maintain international competitiveness; and thirdly, wrong headed attempts by governments to disguise the crisis brought about by the collapse through 'a growing public sector, expansive labour market policy, far reaching subsidies and, above all, large and increasing foreign borrowing' (pp. 288-89). Lundberg predicts a long period of transition before a new Swedish model can re-emerge, perhaps once again as the result of severe economic crisis which brings about the requisite, and considerable, solidarity and harmony of interest among sections of the community which made the previous model work. The second is a detailed analysis of the high real interest rates in Sweden evident from the late 1970s. The third is an essay on problems of the world economy addressed to an outsider from another planet which ends on the note that

> The real danger of a set-back from the path of expansion comes mainly from weak governments being myopic, having too short perspectives, looking at the next elections. Even seemingly strong governments are often weak when dealing with difficult policy problems. Mistaken policies and too little international coordination will also in the future be a cause of growth interruptions. But they need not and should not be of the same order and size as those of the past period of deep recession and stagnation.

I actually just met the observer from the other planet - in my dream. He saw the manuscript of my lecture and was pleased with its content. He said that my speech was surprisingly good. However, he could not understand why I needed so many words, such a long time and so many reservations in my pleading for a simple and self-evident solution! (p. 316).

The essays in this volume are all well written and interesting, giving a particularly useful insight into the views of a leading member of the Stockholm school. Some of this is now only of historical interest. For this reason the book is of special value to the historian of twentieth century economics for whom the rise and fall of the Stockholm and Swedish schools is as interesting a question as the rise and fall of the Swedish model. Perhaps careful chronological analysis of the contents of this volume can provide an answer to this doctrinal question just as the volume itself provides a Swedish perspective to the demise of the model. Hence a useful addition to any library, given the interest of these topics to historians of contemporary economics.

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References

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