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Eli Heckscher's Ideological Migration Toward Market Liberalism

Benny Carlson[1]

LINK TO ABSTRACT

Sweden is a country that is often misunderstood by outsiders, and even by Swedes themselves. From the latter part of the nineteenth century, Sweden's economic policies were quite liberal, and for 100 years, say from 1870 to 1970, the economy grew rapidly (see Schön 2011; Bergh 2014). During this period Sweden enjoyed relatively high-quality public debate—a tradition in which Sweden still remains quite exceptional. Leading economists took active part and influenced opinion; they were genuine leaders in public discourse. Five titans stand out: Knut Wicksell, Gustav Cassel, Eli Heckscher, Bertil Ohlin, and Gunnar Myrdal.[2] The first three were highly liberal. Ohlin began as liberal, like his mentor Heckscher, but moved to a position of social liberalism, or moderate welfare-statism, and became a leading politician (Berggren 2013). Myrdal represents Sweden's turn toward social democracy (Carlson 2013).

Here I tell of Eli Heckscher (1879–1952), and in particular of his ideological development. For most of his life Heckscher was the most firmly principled economic liberal Sweden had. He fought against state-socialist tendencies, Keynesian crisis policy, and economic planning, and had only one real rival, Gustav Cassel,

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1. Lund University School of Economics and Management, 221 00 Lund, Sweden. I thank MIT Press for their permission to incorporate in this article some material that was previously published in a chapter of *Eli Heckscher, International Trade, and Economic History*, edited by Ronald Findlay, Rolf G. H. Henriksson, Håkan Lindgren, and Mats Lundahl (Carlson 2006). The article also builds in part on some of my earlier writings on Heckscher (see Carlson 1992; 1994; 2005).

2. For a treatment of these five economists and their role in public debate, see Carlson and Jonung 2006.

for the title of the most vigorous economic liberal Swede of the twentieth century. But at age 25 Heckscher's views were not liberal: "during my student years I had been almost as far from economic liberalism as anyone at that time" (Heckscher 1944, 94). He did not come to his liberal views until his early 30s. From that time his liberalism only grew firmer.

Heckscher's status as a titan can be understood by way of his enormous accomplishments in four areas. First, he achieved worldwide fame as an economic theorist through the Heckscher-Ohlin theorem.[3] Second, he was a leading figure in the history of economic thought, his magnum opus there being the two-volume work *Mercantilism* (1931; English ed. 1935).[4] Third, he was Sweden's leading figure in economic history,[5] writing a monumental economic history of Sweden (2 vols., 1935–1936; English ed. 1954); he has been seen as a forerunner to cliometrics, the new economic history of the 1960s (Hettne 1980). Fourth, he was hugely active in public debate. He was the most active debater ever in the debate forum of the Swedish Economic Association (*Nationalekonomiska föreningen*) and wrote about 300 articles in a leading Swedish daily, *Dagens Nyheter*.[6] He thus influenced many economists and politicians as well as the general public.

One might venture to say that there is, yet, a fifth dimension of Heckscher's accomplishment, namely, his formulation and development of argumentation for a coherent liberal political economy. All of Heckscher's accomplishments are little appreciated outside of Sweden, but this fifth dimension is especially underappreciated, as few of his policy-oriented writings have been translated. I draw on many such writings in this article.[7]

Before proceeding, it might be useful to remind readers that in the nineteenth century, especially in long-settled lands of Europe, liberal views and liberal policies were highly dynamic, disruptive forces. Liberal attitudes brought change and upset to traditional ways of life. Liberalism militates against governmental custody of sacred values, envisioning instead the individual pursuit of happiness and pluralism with regard to sacred values. Conservatives were resistant to such changes. They sought to slow things down, to preserve *gemeinschaft*, political community, especially through the governmentalization of social affairs. Odd as it might sound to North American readers, the conservatives of the time had tendencies toward state socialism, not from Marxism of course, but from conservative statist sensibility. At

3. On Heckscher's theoretical contributions, see, e.g., Lundahl 2015, ch. 5.
4. On Heckscher and mercantilism, see Magnusson 2006.
5. On Heckscher as economic historian, see Henriksson 1991; 2006; 2014.
6. *Eli F. Heckschers bibliografi 1897–1949* (Stockholm: Ekonomisk-historiska institutet, 1950). contains 1,148 items.
7. Quotations from Swedish-language sources have been translated by me or the late Geoffrey French.

this time in Sweden, such conservatives were sometimes referred to as the political 'right.' As Sheri Berman puts it:

> [T]he fin-de-siècle witnessed a surge in communitarian thought and nationalist movements that argued that only a revival of national communities could provide the sense of solidarity, belonging, and collective purpose that Europe's divided and disoriented societies so desperately needed. (Berman 2006, 13)

Meanwhile, the political 'left' could mean either the liberals or the social democrats, two groups that mixed and, at that time, often were allied against the conservatives.[8]

Heckscher's political conversion

Let us begin by skimming through some depictions of the younger Heckscher and his political stance and sources of inspiration, drawn from sundry Heckscher authorities.

Heckscher, raised in a wealthy Jewish family, was enrolled at Uppsala University in 1897 and soon became a leading figure in a moderate wing of conservatives gathered around the historian Harald Hjärne, who argued for a view where the state was seen as an organic entity that had a value of its own, to some extent separated from the people or individual citizen. As a young conservative, Heckscher adopted an almost state-socialist stance. The social democrat Erik Palmstierna tells of a "junta" of "intelligent young men who gathered themselves around Eli Heckscher […] these men of the historical school whose masters were Adolf Wagner and [William] Ashley" (1951, 34).

Arthur Montgomery emphasizes how strongly Heckscher was marked by his teacher of history, Harald Hjärne, compared with his teachers (and eventually colleagues) in economics, David Davidson, Knut Wicksell, and Gustav Cassel. In Montgomery's account, Heckscher's appointment as professor of economics at the Stockholm School of Economics in 1909 had "very profound consequences for Heckscher's scholarly work during the next two decades. His interests were now led to a higher degree than formerly into the paths of economics" (1953, 154–155). But otherwise Montgomery does not speak of any radical change of direction in Heckscher's ideas.

8. For a valuable and candid discussion of ideological developments at the time, with much attention to Sweden, see Berman (2006), who openly expresses her favor for "the primacy of politics," as pursued by social democratic politics.

One of the young Heckscher's partisans, Herman Brulin, with the help of some letters from Heckscher[9] to his friend and colleague Gösta Bagge, tells of a "crisis of economic and political belief" which Heckscher underwent during World War I. Heckscher explained in a letter of 1915 that he had

> an abnormal need for unity of outlook and therefore [I] continually endeavour to find an explanation of every separate point so that it comes into line with my total conceptual scheme. So in the end I arrive at a position which is clearly absurd; and then I start to pick the entire thing apart again in order to bring out another unbroken line, which goes the same way, and so on ad infinitum. Consequently I go from the one extreme to the other in the course of ten to fifteen years…. (Heckscher, quoted in Brulin 1953, 417)

In another letter of 1916 Heckscher spoke of "the road I am travelling at present, away from old gods and ideals and towards some goal of which I have no inkling myself" (Brulin 1953, 417). In Brulin's opinion, one reason for Heckscher's conversion is to be found in his "Anglomania," which would relate to his fear of a German victory in World War One.

Ernst Söderlund too had the idea that Heckscher's reorientation in a liberal direction resulted from the experiences of WWI: "It was mainly during this period, as far as can be judged, that Heckscher was working his way towards the thoroughly reasoned, almost Marshallian liberal approach to economic questions which was to mark so deeply both his scholarly work and his participation in public debate" (1953, 63).

Bertil Ohlin summed up his mentor's political evolution in the following words: "He long considered himself a conservative in the spirit of Harald Hjärne. Little by little, however, his liberal approach to economic policy caused him to adopt a more independent outlook" (1971, 280). Ohlin takes it for granted that Heckscher's appointment as professor of economics in 1909 caused him to turn his interest increasingly towards economic theory.

Björn Hettne argued that it was natural for Heckscher, after being appointed professor of economics, "to become oriented more strongly towards neoclassical theory in the period that followed" (1980, 56–57). Rolf Henriksson considers that Heckscher's change of stance happened during WWI: "The war had turned Heckscher's political views from moderately conservative to strongly liberal" (1991, 151). Kurt Wickman (2000), finally, explains Heckscher's switch to liberalism in terms partly of his study of Marshall and partly of the experiences of WWI.

In the literature on Heckscher there is consequently an opinion (represented by Montgomery, Ohlin, Hettne, and Wickman) that he, after his appointment as

9. Heckscher's letters are to be found at the Royal Library in Stockholm.

professor of economics in 1909, aligned himself more in the direction of modern neoclassical economics, which could explain his drift from conservatism towards liberalism. There is also an opinion (represented by Brulin, Söderlund, Henriksson, and Wickman) that he underwent an economic-political conversion during WWI with its multitudinous examples of state intervention, and perhaps under the threat of a German victory, as Germany represented state socialism at this time.

Heckscher's own explanation of his drift towards an economic liberal standpoint emphasizes the negative experiences of state economic intervention during WWI. When asked during a newspaper interview why he had changed from conservative to liberal he replied:

> Yes, that is mostly a result of my changed economic stance. I was of a conservative way of thinking formerly, which chimed in with Hjärne's constitutional ideal. Then the Hammarskjöld government's national economic planning policy came along, which signified state intervention in every field. I really felt respect for the government's good intentions, but I got more and more of a depressing feeling that it had taken a wrong turn. (Heckscher, quoted in Ingelson 1933)

In a summing-up of "Experiences of economics and economic policy over forty years," Heckscher repeats the message that his skepticism about the state's ability to beneficially influence the economy emanated from WWI: "It cannot be denied that my skepticism on this point had its root primarily in experiences of the working of government during the First World War" (1944, 94). What Heckscher chiefly learned was that state interventions were marked by planlessness and deference to diverse special interests.

We shall now follow the economic and political standpoints of the young Heckscher chronologically between 1906 and 1918.[10]

Early in 1906 Heckscher along with Herman Brulin went on to the offensive against "old liberalism." They spoke of "the general, well-deserved and international bankruptcy which has fallen upon the old historical liberalism." It was important, they held, to incorporate the workers into the nation, and there were possibilities here for a vigorous right. Given a strong state power and sufficient energy it ought to be possible to hammer the masses out to the right as easily as to the left. "Socialism and true conservatism [can] meet here with an abundance of the prerequisites for cooperating with and understanding each other" (Heckscher and Brulin 1906).

10. Heckscher's first decade as a publicist did not leave much to interest anyone concerned to know his standpoints on economic policy.

When Heckscher discussed measures to combat child and female labor, accidents at work, and long working hours, he believed that neither employers, nor trade unions, nor parents could solve these problems. The state was the only power that could push through the necessary protective measures:

> It is not a question of the interests of private individuals but of those of society. […] It is *society's* interest which shall dictate the rules. That is the meaning of the expression *social* legislation, which is neither charity nor sympathy for the workers; it is not class legislation but social legislation; it is the means for a better organization of society. (Heckscher 1906a, 10)

In another article Heckscher declared that the monopolistic nature of railways had created a strong argument for state railways (1906b). He refuted the view attributed to earlier political economists "concerning the universal validity and vitality of free competition, and of the unnaturalness of monopoly and the state's duty of passivity in the economic field."[11]

Heckscher then turned on the old conservatives, whom he accused of having failed to understand what opportunities were opening themselves to the right—instead, they had turned conservatism into a "moderate braking device." "They seem to have no perception that developments in the social sphere over the past century towards a strengthening of the state's position as the proper guardian of the national interest constitute a great victory for conservative ideas" (1907a, 178).

In an article in *Social-Demokraten*, Heckscher (1907b) describes himself as "a person who backs state intervention in principle without being a socialist." In the article, Heckscher challenged Stockholm socialists to a public debate on the theory of socialism. The gauntlet was picked up, and early in 1908 Heckscher tangled with leading social democrats and declared that it was a great mistake to believe that health and safety workplace rules, workers' social insurance, and state railways were socialist inventions. In all eras the state had intervened in every field, and liberalism was merely a parenthetical phenomenon in this scheme of things. "There is therefore not the least tendency for us to be slipping towards a socialist state just because events are shifting us back into the grooves in which they have moved for thousands of years with one brief intermission" (Heckscher 1908c, 22).

Heckscher also appeared at the Swedish Economic Association with an interventionist message. He noted that the task of the state had begun to be understood in a sense more wide-ranging than fifty years earlier, and he accepted this development:

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11. This article was a forerunner of Heckscher's doctoral thesis on railways the following year (Heckscher 1907c).

> For the modern state has, as every state must do in the long run, resumed its work of protecting and encouraging all aspects of the national life. The state is no longer merely the supplier of the protection of the law and the representative of the formal systematization of the relation between individuals, but it also intervenes as a positively active power, supporting tendencies which seem to merit being developed and assisted while counteracting others which cause harm within the pale of the law… (Heckscher 1908a, 3)

As an example of spheres which had been the object of intervention, he specified public education, economic policy, and social policy, and added that Germany's economic expansion was the result of state intervention.

Which enterprises ought to lie in the hands of government? Well, replied Heckscher: "It is chiefly—and ought to be—enterprises which firstly constitute more or less what one calls natural monopolies and secondly are indispensable to the health, welfare, and legal protection of all members of society" (1908b, 383–384). Heckscher here made fun of the "timid old liberal theorists" who painted pictures of the dangers of economic enterprises in the hands of central and local authorities (ibid., 382). However, one had to take into account the risk that workpeople of a democratic society would capture political power and in that way secure control over the enterprises in which they themselves were "subordinates." This risk was particularly serious precisely in natural monopolies and public utilities.

In 1909 there was in Sweden a general lockout and strike during the summer and autumn. Heckscher's reaction was very resolute. In his very own person he went out with the dustcarts to keep Stockholm clean. In the wake of the strike he complained of anarchy in the trade union movement, disobedience to the leaders, and lack of centralization. His discourse climaxed in a tirade against democracy:

> The chief casualty in all these phenomena is *democracy*—the word may be aptly translated as the *sovereignty of the mob!* If one wishes to appreciate properly the incredible silliness of pure democracy—the dominion of the stupid over the wise, the inexperienced over the experienced, the ignorant over the discerning—then one must go to the labor movement… (Heckscher 1909a, 8–9)

On the whole, however, Heckscher (1909b) seems to have viewed the result of the conflict as a useful lesson for the youthful and overweening labor movement.

Heckscher continued to criticize the extremist alternatives of liberalism and socialism—"the state's absolute abstention from any involvement in economic questions on the one hand, and the state's complete takeover of the nation's production on the other." State intervention was necessary and did not lead to

a socialist state; rather, economic activity "inevitably needs effective protection and supervision by state authorities" and "certain types of monopolistic activity are suitable for the state itself" (1910, 1). Socialist politicians of course wanted to expand the state's sphere of activity, but at the same time they wished to limit the discretion of state authorities. "The first prerequisite of every form of state socialism is probably a strong executive power, equipped with far-reaching authority and unencumbered by involvement in matters of detail," stated Heckscher (ibid., 2, 7) and continued with the following complaint: "We find everywhere the same individualistic spirit, hostile to vigorous government action."

Heckscher and Gösta Bagge soon started the journal *Svensk Tidskrift*, and served as the editors. Bagge and Heckscher declared that the journal aimed to defend "the Swedish state's internal and external strength and the effectiveness of state action, in support of the nation's common tasks, in nurturing the nation's international standing, and in furtherance of the state's interest against encroachment or unjustified claims by all private parties and classes" (1911, 2).

In early 1911, Heckscher delivered a lecture on trade and industry that is notable for its palpably quieter tone. "When one speaks of means for raising trade and industry, one's thoughts probably turn in the majority of instances to the *state*," he began, but at once asked whether or not "the state's influence, both positive and negative, over economic events is becoming overestimated" (1911a, 3). Taking labor legislation as an example, he expressed skepticism toward the idea that the state "should seek to create a condition of things desirable in itself," suggesting rather that the state should probably content itself with "giving the sanctity of law to a condition which has already become the normal" (ibid., 4). And the conclusion of Heckscher's lecture was no ringing affirmation of state activism: "Without wishing to deny the great importance of state action, therefore, I believe we should hold to the basic principle that *trade and industry should look primarily to themselves for help*" (ibid., 6).

In an article published late in 1911, Heckscher took up again the question of "What our industry needs," and again the message was that traders must help themselves:

> A flourishing industry depends in the first instance on industrialists themselves. At the present time, both in Sweden and in other countries, we have got so much into the way of being supported by the state—by 'trade policy,' 'industrial policy,' 'export policy,' 'shipping policy'—that sometimes the greatest danger seems to me to be that this simple truth may be forgotten. (Heckscher 1911d)

Another article from 1911 shows Heckscher becoming doubtful about the state as entrepreneur. The advantages of government enterprise were, he thought,

the economies of scale and the scope for cheaper access to capital, but the disadvantages included rigidity, uniformity, lack of the pioneering spirit, and the risk of workers securing too much influence over the firm. Profit-and-loss, residual claimancy, is the crucial factor in the choice between state and private enterprise (1911b).

Heckscher's agitation against socialism was no longer introduced with any announcement of unity in the matter of the important role to be played by the state. When the social democratic movement emphasized more and more that the aim of socialism was to abolish poverty, Heckscher (1911c) posed two questions: Can socialism increase economic growth? Can socialism prevent pauperization of the people? By the latter question he meant that talk of society's guilt and the individual's innocence in the matter of individual poverty risked undermining the spirit of personal responsibility and creating a "poorhouse mentality."

It is my judgment that by the end of 1911, Heckscher's state-socialist stance of even a year prior was more or less gone. As the Liberal party took over the government, Heckscher wrote: "Now, however, a fairly long liberal regime is approaching under which business and industry pretty obviously will have to expect less benevolent interest on the part of the state than hitherto"; business and industry, therefore, must stand on their own feet and "keep themselves afloat even in the face of very strong government measures for the benefit of other interests" (1911d).

In a 1912 article on social reforms, Heckscher spoke of the abolition of poverty as the highest goal of all economic and social work. He underscored that poverty could only be abolished through economic growth, not redistribution. He could conceive of legislation dealing with maximum working hours and (with some hesitancy) minimum wages and social insurance. "Security for the great mass of people can only be created, at least up to the present, by the most enduring of all social structures, viz. the state itself, and for this reason social insurance is indispensable" (1912, 417). However, care must be taken not to undermine "the sense of personal responsibility, that each and every one of us 'is the architect of his own fortune,' that poverty…must never appear to the individual as not of his own making as long as he has had some opportunity of avoiding it" (ibid., 415–416). Therefore every responsible-minded person must strive to ensure that the forthcoming social reforms "do not lead to the pauperization of the people, to the creation of a poorhouse mentality in the whole of society" (ibid., 416).

In 1914 the World War came, and with it state interventions in various directions on which Heckscher commented from time to time. "Maximum prices," he opined, "are, as a rule, a remarkably foolish stunt" (1915a, 85). The less interference in the price-setting process the better. On the other hand he could

see nothing wrong with the state's appropriating unearned war profits, which otherwise risked "being squandered on champagne" (Heckscher 1915b, 248).

Towards the end of the war Heckscher described an ideal vision of "a really strong and respected state power, independence and authority to the organs of state, a state administrative machine protected from party-political infection" (1917, 444). But such strength and respectability were not necessarily tied to extended exercises of state power: "Whether one wants to call wartime developments 'war socialism' or not, what is clear even to the most purblind observer is the extent to which during the war the state has extended its functions to more, bigger and increasingly difficult fields of action" (Heckscher 1918a, 134).

In a lecture on state and private initiative after the war in 1918, Heckscher preached that the "invisible hand" was "the right engine for all true economic activity" (1918b, 5–6). He argued that "we ought to have the least possible state management when the war is over" (ibid., 33). On state monopoly, he averred "that those who saw state management at close quarters during the war generally incline to the view that it is a contraction rather than an expansion of state enterprise, even such as it was prior to the war, that we are in need of" (1918d, 520). Only by scrapping the wartime régime at once would it be possible to achieve self-limitation of the state.

By this time, Heckscher had already made use of a powerful metaphor for the menace of a state machine running riot: Frankenstein's monster. "Humanity in its adversity seeks to bring in more and more and more, to include ever larger areas within the compass of state organization, and in so doing loses all command of this mighty organization" (1918c, 292). Heckscher declared that "the wartime planning fiasco made a great many people wary of state intervention in matters great and small" (1919a). In an article on the unexpected progeny of war, Heckscher dissociated himself from "state absolutism" (1919b, 107). The state exists for its citizens, not the other way round. The state is a means to an end; to regard it as an end in itself was "idolatry" (ibid., 110).

The passages lately quoted are from dispersed articles, mostly in *Svensk Tidskrift*. Heckscher's magnificent entrance upon the scene as the prophet of economic liberalism in Sweden came in 1921 with *Gammal och ny ekonomisk liberalism* ("Economic Liberalism Old and New") (1921a; see also 1921b), a work which evoked the following exclamation from *Social-Demokraten* (1921): "That a prominent man, Professor Heckscher, has been converted leftwards is one of the most sensational events of the age."[12] Now Heckscher established his voice and visibility

12. A move from conservatism to liberalism is normally a move to the left. However, it is questionable if a move from social conservatism to market liberalism is really a move to the left.

as a market liberal, and for the rest of his life he was highly active as a public intellectual, as well as an eminent and prolific scholar.

With the help of testimony from Heckscher authorities, and from Heckscher himself, we have traced Heckscher's conversion from a statist conservatism to economic or market liberalism. But some background events deserve further attention.

The general strike of 1909 caused many in Sweden to re-evaluate their political stance. Sven Ulric Palme has described the strike as "the strongly dominant experience which, more than any other, awakened the fear of socialism among middle-class Swedes" (1964, 260). Above all the strike may have destroyed hope in the conservative camp of class cooperation under conservative leadership.

Another crucial sequence of events was the reform of the franchise in 1909 and the subsequent change of government in 1911. Nils Elvander (1961) describes the following scenario: Following the dissolution of the Union with Norway in 1905, the Conservative party maintained a reformist course in a spirit of national solidarity until 1910, when it switched from social conservatism to economic liberalism. The main reason for the change of direction toward economic liberalism was that after the franchise reform, the Conservatives were faced with the prospect that the reform policy would be pursued by a government controlled by a radicalized liberalism with socialist support, fears which proved justified in 1911, when Karl Staaff formed a liberal government with parliamentary support of social democrats.[13]

We can now present four hypotheses concerning the causes and turning points of Heckscher's migration to liberalism:

1. Heckscher's appointment to a professorship in 1909 and the subsequent stronger orientation towards neoclassical (liberal) economic theory;
2. the general strike of 1909 which awakened fears of socialism and cast doubt on the social-conservative project;
3. the franchise reform of 1909 and the subsequent shift of power from right to left in 1911, which led to the conservatives losing control over reform policy and, as a further consequence, moving in an economic liberal (anti-statist) direction; and
4. "war socialism" during WWI, which had the effect of discrediting state activism in Heckscher's mind (as in many other people's minds).

13. Elvander's conception of the timing of and explanation for the switch towards economic liberalism in the conservative camp has been confirmed by historian Åke Sundell (1989).

It is difficult on the basis of Heckscher's writings to free oneself from the impression that his movement from social conservatism or state socialism to market liberalism or state skepticism began in a marked way from the start of 1911. His detailed studies of neoclassical economists at this time (hypothesis 1) may have had some influence, but the change of direction was so sudden as to provoke the suspicion that it may have been triggered by a more palpable change of ideological wind.

If the change of direction happened around the start of 1911 the general strike (hypothesis 2) is unlikely to have been of much significance. After all, one of his most state activist articles—the 1910 article on state socialism—was published *after* he had published reactions on the strike.

The readiest explanation is probably to be found instead in the fact that in 1911 power passed from the right under Arvid Lindman to the left (liberals supported by the social democrats) under Karl Staaff (hypothesis 3). Heckscher, from his conservative horizon, must have interpreted the power shift as a threat against the state, which he wanted to see elevated above special interests. Now the hour had struck, as he wrote in 1911, for "strong government measures for the benefit of other interests" than those of trade and industry. He thus regarded the conservative elite as representing the general interest while, for example, the labor movement represented a special interest.

Heckscher's dawning economic liberalism was then obviously fortified by the experiences of "war socialism," and towards the end of the war he elaborated his well-reasoned and uncompromising liberal world view.[14]

Heckscher himself testifies that the war experiences were of overriding importance. Are we not to believe his own words? It seems that the war made him place his full weight on the economic liberal leg rather than making him shift his center of gravity from one leg to the other. In fact it is not all that difficult to understand if Heckscher, when he in the 1930s and 1940s wanted to explain his switch from social conservatism to market liberalism, preferred to emphasize the negatively perceived experiences of WWI state intervention, rather than the 1911 power shift that had been precipitated by a democratic reform. In the 1930s and 1940s he did not hold on to the negative view of democracy that he had espoused in 1909—rather, he fought for democracy against dictatorship. So I am suggesting an interpretation that takes as its starting point two observed circumstances (hy-

14. Other former young conservatives who, like Heckscher, moved in a liberal direction after 1910, fell back into right-wing radicalism and state socialism during the war because they placed their hopes in a German victory. Heckscher was more inclined to favour the British side and therefore was not affected by any reversion.

potheses 1 and 4) and draws attention to one circumstance previously less noticed (hypothesis 3).

I have searched Heckscher's letters to his mother, Rosa Heckscher, during the period 1909 to 1922 to find some additional evidence. Heckscher had a very close relationship with his mother (who was only 17 years his senior), and wrote no fewer than 876 letters to her during the period 1894–1944 (Kungliga biblioteket L:67:85:1–3). Heckscher explained his conversion in two letters to her. He goes into the most detail in the second of these letters, dated 26 March 1919:[15]

> Well, Mother, you are right that my essay [Heckscher 1919b, on the unexpected progeny of war] … is a sort of defection, but unfortunately not very substantial in positive respects. I have really thought this ever since 1915–16 but refrained from writing it down out of consideration for the others who were thought to have a right of censorship over my scripts as long as I was editor [of *Svensk Tidskrift*]. … What caused the change is as usual lots of things. An inborn and inherited individualism probably plays a main part, it has emerged gradually during the silver-plating which Hjärne and his school gave it at one time and which was of tip-top material. Then studying economics has had a lot to do with it; it weaned me away from my former protectionism, and much against my original thinking it took a lot more with it. A closer insight into what in reality lies behind the cliché of 'the state' then also became a main factor, especially the Hammarskjöld government's inability, even during its golden era and despite better intentions than we are likely to see again, really to act in accordance with what the general good required. The war came as the last big mouthful, especially the experiences during the study-tour of 1915.[16]

Heckscher's remarks concerning his studies of economics and the war bring nothing new to what previous Heckscher scholars have discerned. New are the remarks to the effect that he was a liberal by birth and force of habit but for a time became a conservative through his studies under Hjärne, and that he dates his conversion more exactly, at the years 1915–16.[17]

Heckscher's studies of economics began to exert their effect from 1909 onwards and the crucial experiences of wartime came from the years 1915–16. But Heckscher's writings evidence a marked change around the start of 1911. Thus there remains a suspicion that the change—or even anticipated change—of gov-

15. In the earlier letter (29 December 1918) Heckscher speaks similarly of an underlying individualism, which was restrained by the Hjärne school, in combination with an inclination to go the whole hog theoretically, and of theoretical economics and the war causing him to change his opinion.
16. Heckscher refers to the study-tour he made in Holland, England, France, and Germany in the summer of 1915 (see Heckscher 1915c).
17. As far as his reference to Hjärne is concerned, one should perhaps keep in mind that Hjärne hardly ever displayed such a radical economic and social state-activist attitude as did Heckscher.

ernment from right to left in 1911 played a part in his conversion. One reason for this change seems to be that he regarded the conservative regime as elevated above special interests, whereas the social-liberal regime supported by social democrats represented special interests. That Heckscher's conversion was so radical can be explained by his psychological constitution. When affected by doubt he had to search for an entirely new and consistent system of ideas: "I go from the one extreme to the other in the course of ten-fifteen years." Heckscher was a very principled man, which explains why he got into so many conflicts with colleagues, students and friends (see Hasselberg 2007; Lundahl 2015).

Heckscher's liberal insights in political economy

In his youth, Heckscher was particularly influenced by his teachers and colleagues David Davidson and Gustav Cassel (even though he could not stand Cassel) and somewhat later by his reading of Knut Wicksell and Alfred Marshall.

In *Gammal och ny ekonomisk liberalism*, Heckscher stated the basic theses of economic liberalism. Adam Smith's invisible hand was portrayed like this: "every individual understands what is best for him, every individual can do what is best for him by acting for himself; and by pursuing what is best for himself every individual in fact does what is best for society," and nothing makes "such capable or such happy people as the awareness that one is the smith of one's own fortune." If all these diligent smiths had the liberty of action, society would thrive, "even at the risk that a considerable number of extravagant, uncompromising, lazy, uneconomically inclined individuals and groups will fall into difficulties from which an all-regulating state could have been able to rescue them" (1921a, 5, 91, 95).

The goal of all economic activity, Heckscher (1918b) stressed, is consumption. Economics is about adjusting means to ends and the overall end is maximum human want satisfaction. Since means or resources are scarce, one must economize with them and achieve the greatest possible result with the least possible sacrifice. This economizing is the starting point of economic science.

The task of economizing rests on free pricing. Heckscher had many names for pricing: "this wonderful machinery," "the proper motor of all true economic activity," "the invisible hand," "a graduated deterrent against waste" (1918b, 5–6; 1926, 5; 1928, 8). Private enterprise, wrote Heckscher, is "the most faithful servant of pricing" (1928, 8).

Heckscher admitted that the sum of individual interests did not necessarily constitute any social optimum, "for society has an organic or corporate existence

which makes it impossible to break it down to its atoms" (1922, 30). Nevertheless, in peacetime at least, free economic life and profits for individuals basically worked also to the benefit for society. "This results precisely through free pricing, which encourages production of what is scarce…but restrains production of what exists in abundance and therefore ought to be reduced" (ibid.).

In *Gammal och ny ekonomisk liberalism*, Heckscher (1921a) outlined his view of the state. He basically argued for a night-watchman state. Its most important tasks were to provide justice, defense, and a stable money value, to establish a firm foundation for the free exchange of goods and services. An expansion into a welfare state would create opportunities for different interest groups to capture the state.

Heckscher was willing to allow state interventions in some cases, but most of these cases were surrounded with reservations:

- People may be misled on the market. However, the state cannot do much about this. The only effective measure is "for the buyer to acquire common sense—and this the state cannot supply" (Heckscher 1918b, 10; 1921a).
- People may make bad choices, e.g., if they consume too much alcohol or too little education (Heckscher 1918b; 1921a; 1928).
- People may be short-sighted, and the state could have to compel them to be more far-sighted (e.g. compulsory saving through social insurance). However, the state, in its democratic form, may have a shorter perspective than people in business life because it is represented by "kaleidoscopically changing carriers—politicians," who think mostly in terms of day-to-day politics and opinions (Heckscher 1918b; 1921a; 1928, 10).
- People may be poor and helpless. Heckscher's (1921a) main position is that people are poor because they have nothing to offer other people. Anyone who is intelligent and able does not need the state as guardian. If too much responsibility is laid on government there is a risk of implanting a poorhouse spirit. Heckscher nonetheless writes a prescription in the spirit of John Stuart Mill: free education to reduce the impact of a poor start in life, vocational training to raise the value of the workforce, and job-finding services to improve the efficiency of the labor market. Socialist ideas about eradicating poverty by abolishing wealth he dismissed as madness. Protective measures were also needed when an agreement between two parties affects a third party, especially when the third party is under age.

- Inequality of income is the consequence when people are rewarded for their efforts on the market, which is a necessary incentive. However, "the [market] system may take care of a rich man's dogs before it takes care of a poor man's children" and aggregate satisfaction increases when income is more evenly distributed. Heckscher's goal setting was not very precise: "an income distribution as equal as can be achieved without weakening the forces of wealth-creation" (Heckscher 1913, 34; 1921a, 53; 1927, 23).
- Free pricing is eliminated by private monopoly. However, private monopolies have arisen through the play of free forces and can vanish likewise—there are always potential competitors—while state monopolies are eternal (Heckscher 1918b; 1928).
- Some utilities, which are the object of collective demand, e.g. street lighting, should be under public control, since it would be unreasonable to limit demand by price when the cost to society is the same regardless of how many people have their wants satisfied (Heckscher 1926; 1928).

Much reasoning about the welfare state during the 20th century focused on market failures, where the failure was measured as the difference between a perfect theoretical market and a real market, and where there was a call for a perfect theoretical state to intervene. Public choice economists challenged this peculiar view, reasoning instead about when a real-world government (with its failures) should intervene on a real-world market (with its failures). Heckscher (1918b) anticipated this reasoning by recognizing that in principle there are many reasons for state intervention, but since no ideal state exists these reasons melt away. There are no ideal entrepreneurs either, but entrepreneurs are at least to some extent disciplined by the laws of the market whereas no comparable mechanism governs the state. One could of course object here that under democracy there is a mechanism exerting control over the state. Heckscher, however, did not trust this mechanism much as he argued that even the best government would not dare to do what is necessary for fear of public opinion.

Heckscher was, as we have seen, prepared to accept certain state interventions, especially to counteract income inequality and social ills. In other areas, he was not prepared to compromise, especially regarding economic planning and protectionism. In the 1920s he had a showdown with Cassel, his liberal brother-in-arms, who had a more pragmatic approach to the tariff question, and in the early 1930s Heckscher was portrayed as "agriculture's enemy no. 1" (Hirsch 1953, 219).

Heckscher and politics

In the 1920s, conservatives were moving in a liberal direction and the gap between them and Heckscher was thus not that large. However, the conservatives were prepared to make exceptions from economic liberalism for national and agricultural policy reasons. Was Heckscher a political conservative or a political liberal? The difficulty of affixing party labels is illustrated in the correspondence among Heckscher, his old friend and colleague Gösta Bagge, and his former student Bertil Ohlin. Bagge labeled Heckscher a liberal in some letters (20 March and 2 April 1929). Heckscher (21 June 1935) wrote to Ohlin that he himself was closest to the Liberal party and that Ohlin ought to confess himself a Social Democrat. Ohlin replied (3 August 1935) that in his opinion Heckscher belonged to the conservative camp, "to the right of the conservative leader" Bagge, while he himself was a liberal.[18]

In his older days Heckscher looked back at the ideas and regimes of the 19th century as the good old days. In 1948 he wrote a booklet titled *Ödeläggelsen av 1800-talets hushållning* ("The Destruction of the 19th Century Economy"). Certainly, older persons often look back on 'good old days,' but Heckscher's pessimism in the 1930s and 1940s was based on more than his own aging. It must be seen against the contemporary political and economic events triggered by WWI and the Great Depression: massive state interventions, protectionism, aggressive nationalism, communism, fascism, national socialism, and anti-Semitism. He feared that these developments were not only caused by war and crisis, but also by long-term structural developments in modern economies, especially the growth of natural monopolies like railroads, electricity, telecommunication systems, and the like, which were allowing governments to get a grip on society in a way that had not been possible previously.

Many economists have wrestled with the issue of handling the relationship between values, politics, and science,[19] and Heckscher was no exception. Henriksson concludes that science and politics were never entirely divorced in Heckscher's writings: "In his academic work he never abandoned the politico-ideological starting point and in his political outlook there was always a scholarly dimension" (2014, 222). Heckscher was very aware of this dilemma, not least after having

18. For a recent and well elaborated view of political labeling among Heckscher and his colleagues, see Lundahl 2015, ch. 8.
19. Concerning Swedish economists, see, e.g., Carlson and Jonung 2006; Lundahl 2015.

encountered Gunnar Myrdal's (1930; English ed. 1953) criticism of liberal economists' value-loaded statements, and wrote the following:

> For on the one hand he [the social scientist] is a citizen and therefore has the same duties as others to form a subjective, practical opinion on the things which in a democratic society depend on the decisions of all citizens…. But his practical standpoint must necessarily contain a purely subjective judgment which is not that of a scientist. On the other hand, however—in the first place even—he has the duty of a scientist, which is to describe objective reality to the best of his ability and regardless of his own sympathies and antipathies. He can, and if he is conscientious must, endeavor to clarify for the reader and listener where the boundary lies between the objectively valid and the subjectively judged; but to accomplish this even for oneself is a very difficult task…. (Heckscher 1936, 2)

Heckscher thought that an adherence to standard theory as then current, to conceptions of equilibrium and scarcity and to an atomistic approach, helped to enforce objectivity, but that developments in economic theory in the 1930s had opened up opportunities for "patching the theory together" to suit political viewpoints (1936, 4).

Nonetheless, Heckscher was accused both from right and left for concealing a political outlook under the scientific surface. Bagge accused Heckscher of assigning efforts in liberal direction to a special class: "it is always 'objective' or 'neutral' or 'economic'" (letter of 30 March 1929). Myrdal similarly accused Heckscher of conducting "liberal politics in objective disguise" (letter of 26 December 1934).

Heckscher's nightmare

When state intervention in most countries accelerated in the 1930s, due to the Great Depression and the growth of totalitarian movements and governments, Heckscher (1934b; 1939) identified some long-term changes that greatly upset the prospects for liberalism. Liberalism had rested on three important conditions: relatively small production and business units, geographical scope for expansion, and population growth. Those conditions had now been transformed into their opposites: vastly bigger production and business units, the closing of the frontier in the United States and the end of colonialism, and population stagnation. On top of this came increased organization among producers and workers.

These developments had reduced the dynamism of society, and certain factors in particular had put new powerful resources in the visible hand of the state.

Modern "distribution systems" ("*ledningssystem*")—electricity, telephones, telegraphs, posts, railroads, gas, water—in combination with economies of scale had made possible a massive concentration of power. "Humanity is woven into a network of pipes, rails, and cables which are controlled from central points" (Heckscher 1934b, 151). This development implied "a strengthening of the executive resources to a degree hitherto unknown in history," the creation of an uncontrollable "Frankenstein's monster" and offered "a by no means remote prospect that the individuals in a state will become its slaves" (1934a, 100, 102). As we have seen, in his younger days Heckscher had made fun of the "timid old liberal theorists" who pointed to the dangers of natural monopolies in the hands of governments. Now this danger had become his own nightmare.

Heckscher (1936) set his hopes on some counteracting tendencies. Technological progress had not exhausted its dynamic power. The automobile constituted a challenge to centrally directed transportation. Small electrical motors had created new scope for small production units.

During the 1940s, Heckscher further developed his thoughts on the increased power of the state resulting from large-scale production and distribution systems. There was a continuous struggle between technological dynamics and regulatory rigidity. Heckscher thought he could sense which way the wind was blowing: toward the chaining of "more and more people to an all-powerful, all-interfering, all-regulating state" (1948, 33). In this way the fates of both freedom and technology would be sealed:

> For my own part, I find myself convinced, unfortunately, that liberty of thought and the freedom of science are incompatible with a socialized society and an all-powerful state; and I fear greatly that such an order will sever the roots not only of humanity's intellectual freedom…but also of techno-industrial progress…. (Heckscher 1947, 8)

Heckscher (1950) characterized the increased interaction between state and organized interests as a major problem and argued that governments had become dependent on working-class favor above all others. On one occasion he made use of yet another monstrous metaphor when he exclaimed that the welfare state "is truly Leviathan" (1949, 97). It should consequently come as no surprise that Heckscher played a key role in the debates on economic planning during the 1930s as well as the 1940s. During the 1930s he fought alongside Cassel against Gunnar Myrdal, Bertil Ohlin, Ernst Wigforss, and other planning advocates. During the 1940s he fought alongside Herbert Tingsten against Wigforss, Myrdal, Karin Kock, and others. On both occasions, he focused on planning as a threat to freedom, arguing that in the pursuit of clear-cut economic planning the political compro-

mises of democracy must be replaced by dictatorship. He was thus in line with Friedrich Hayek's 1944 message in *The Road to Serfdom*.

In this article I have only scratched the surface of Heckscher's still-untranslated works on political economy and liberal argumentation. In those works there is significant development of themes that would later be associated with other famous economists, including the following: the sclerotic growth of interest groups in welfare states (Mancur Olson), external effects (Arthur Cecil Pigou), contestable markets (William Baumol), government failure and the statist double standard associated with the Nirvana fallacy (Ronald Coase, Harold Demsetz, James Buchanan, and Gordon Tullock), the intervention dynamic (Ludwig von Mises; see Ikeda 1997), and knowledge problems of intervention and economic planning as a threat to freedom (Hayek).

Heckscher and Hayek

What were the relations between Heckscher and the twenty-years-younger Hayek? A letter from Heckscher to Hayek (30 December 1946) shows that they were in touch regarding the formation of the Mont Pelerin Society. Hayek had visited Heckscher during the spring of 1946. Heckscher wrote to Hayek about the formation of "some sort of international Liberal Association."[20]

Heckscher became a member of the Mont Pelerin Society but withdrew in 1950. He gave the following motivation in response to Hayek: "It is true, as you say, that I am in general agreement with your views. But at the same time I have become more and more of an individualist, which in this case means an increasing unwillingness to take the responsibility for expressions of opinion not exactly my own." Heckscher added that he did not want to take part of political life any more but spend his remaining days on "scholarship pure and simple" (letter of 13 July 1950).[21] When he wrote this, two and a half years remained of his life.

Hayek, on his side, did not mention Heckscher or Cassel in an article (2012/1951) in which he presented the leading advocates of market liberalism in the interwar era, advocates like Edwin Cannan, Ludwig von Mises, Frank Knight, Walter Eucken, and Wilhelm Röpke.

20. This letter is mentioned in Leeson (2013). There are only two letters from Heckscher to Hayek and one from Hayek to Heckscher in Heckscher's collection of letters.
21. Heckscher replied to a letter from Hayek dated 9 July 1950.

Concluding remark

Heckscher had good reason to grow pessimistic during his final decades. He died in 1952, at the age of 73. If, from the heavens, he continued to look down upon Sweden, most likely his dolor would have continued during the decades following his death, reaching a nadir in the 1970s. But afterward, and down to the present, Sweden again showed an exceptional willingness to change direction and to make a place for the liberal point of view. Today the liberal outlook championed by Wicksell, Cassel, and Heckscher is very much alive in Sweden's exceptionally reasonable culture of politics, policymaking, and public discourse.

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