

Carlson, Benny; Jonung, Lars

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**"Too Bad to Be True". Swedish Economists on Keynes's
'The Economic Consequences of the Peace, 1919-1929'**

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Department of Economics
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"Too Bad to Be True".
Swedish Economists on Keynes's *The
Economic Consequences of the
Peace, 1919-1929*

Benny Carlson
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“Too bad to be true”.
**Swedish economists on Keynes’s *The Economic Consequences of the Peace*,
1919-1929**

November 18, 2019

Benny Carlson, Department of Economic History, Lund University
Lars Jonung, Knut Wicksell Centre for Financial Studies and Department of Economics, Lund
University

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Abstract: This paper examines the response of five prominent Swedish economists, David Davidson, Gustav Cassel, Eli Heckscher, Knut Wicksell and Bertil Ohlin, to John Maynard Keynes’s *The Economic Consequences of the Peace* and to the German reparations in the 1920s. When Keynes’s book appeared, Davidson and Cassel strongly endorsed it. Heckscher also agreed with Keynes – “a bright spot in a time of darkness” – in a long review entitled “Too bad to be true”. Inspired by his Malthusian view, Wicksell found the reparations impossible to meet unless German population growth was arrested. Germany should settle for a stationary population in exchange for reduced reparations. The contacts between the Swedes and Keynes became close after Keynes’s book, in particular between Cassel and Keynes, competing for being the best-known economist in the world in the 1920s. The exchange of views took a new turn when Bertil Ohlin responded to an article by Keynes in *The Economic Journal* in 1929 on the transfer problem. In his comment, Ohlin summarized two previously overlooked articles from 1928 where he analyzed the transfer of the German reparations by using his theory of international trade. The famous Keynes-Ohlin discussion laid the foundation for the analysis of the transfer problem, bringing Ohlin international recognition. He emerged as the champion in this debate, which marked the end of academic interest in the German reparations in the interwar period. We also trace how Davidson, Cassel and Heckscher changed their appreciation of Keynes in the 1930s with the publication of the *General Theory* while Ohlin viewed the message of Keynes in the 1930s as consistent with the policy views of the Stockholm school of economics. We rely on newspaper and journal articles published by the Swedish economists, on half a dozen unpublished manuscripts by Wicksell as well as on the correspondence between Keynes and the Swedish economists.

Key words: John Maynard Keynes, David Davidson, Gustav Cassel, Eli Heckscher, Knut Wicksell, Bertil Ohlin, Treaty of Versailles, reparations, the transfer problem, United Kingdom, Germany, Sweden, Malthusianism, World War I.

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“Too bad to be true”

David Davidson, Gustav Cassel, Eli Heckscher, Knut Wicksell and Bertil Ohlin on John Maynard Keynes’s *The Economic Consequences of the Peace* and the German Reparations, 1919-1929

1. Introduction¹

The publication in December 1919 of John Maynard Keynes’s book on *The Economic Consequences of the Peace* met an immediate response in Sweden. The volume was rapidly translated into Swedish and appeared in print in the spring of 1920.² It became a source of comments and discussion from then on. As a consequence, Keynes was invited and accepted to serve as a regular contributor to *Dagens Nyheter*, a leading Stockholm daily, publishing several columns in Swedish in the period 1920-23.

Swedish economists had been diligently writing in the daily press about the economics of the war since the outbreak of war in August 1914. Now their interest turned to the post-war issues, inspired by the Treaty of Versailles and Keynes’s book.

In this paper, we concentrate on the response of five prominent Swedish professors in economics, highly active in this public debate: David Davidson (1854-1942), Knut Wicksell (1851-1926), Gustav Cassel (1866-1945), Eli Heckscher (1879-1952), and Bertil Ohlin (1899-1979). Davidson, Wicksell and Cassel are regarded as the founders of modern economics in Sweden. Heckscher was a student of Davidson and Ohlin was a student of Cassel, Wicksell and – in particular – Heckscher. We select these five for two reasons.

First of all, they all made outstanding scientific contributions. Davidson was an important transitional link between classical and neoclassical economics. Cassel’s work on monetary economics and Heckscher’s research in economic history and his impact on the Heckscher-Ohlin theory have stood the test of time. Knut Wicksell’s monetary theory and his proposal that central banks should target the price level, as developed in *Geldzins und Güterpreise* of 1899,³ using their short-term interest rate as the prime policy instrument, is presently the theoretical base for the inflation targeting regimes adopted by leading central banks across the world. Bertil Ohlin, Nobel laureate in 1977, laid the foundation of the prevailing theory of international trade in the early 1920s. In the 1930s, he presented the Stockholm school of economics

¹ We appreciate support from the Library of Lund University, the National Library of Sweden, the archive of the Riksbank and of King’s College, Cambridge, concerning articles by Cassel and letters and reports by Wicksell and Keynes. We have benefitted from comments by Klas Fregert, Mats Lundahl, Bo Sandelin, Claes-Henric Siven, Anders Waldenström and Lars Werin.

² John Maynard Keynes, *The Economic Consequences of the Peace*. London: Macmillan, 1919, translated by Evert Berggren as *Fredens ekonomiska följder*. Stockholm: Bonniers, 1920. Berggren was a journalist, working at a news agency (*Svenska Telegrambyrå*) up to December 1919 and at *Stockholms-Tidningen* from January 1920.

³ Knut Wicksell, *Geldzins und Güterpreise: Eine Studie über die den Tauschwert des Geldes bestimmenden Ursachen*. Jena: G. Fischer, 1898.

(*Stockholmskolan*) as an alternative to Keynes's *General Theory*.⁴ He obtained international recognition by his exchange with Keynes on the German reparations in 1929.

Second of all, in addition to their scientific work, Cassel, Heckscher, Wicksell and Ohlin were strongly engaged in publishing newspaper articles, commenting on current affairs as well as taking part in official investigations. Cassel contributed various testimonies to and participated in international conferences concerning the German reparations, giving him the opportunity to meet Keynes. Cassel became well known internationally. In the 1920s, he and Keynes competed for the position as the world's most known economist.⁵ Wicksell wrote half a dozen unpublished manuscripts on the German reparations and corresponded briefly with Keynes on the German question, trying to convince Keynes about his views. Ohlin prepared a report for the League of Nations on the international economic developments just prior to the Great Depression.

We see an additional reason to focus on the Swedish response to Keynes's book. Sweden was a neutral country during World War I. The views of the Swedish economists are thus not biased by taking part in the war. Still, the five economists had their leanings. Davidson was an admirer of British classical economists, particularly of David Ricardo. Nonetheless, "his sympathies lay with Germany".⁶ Cassel wrote favorably on Germany during the war. He had many followers in Germany. His *Theoretische Sozialökonomie* was first printed in Germany in 1918.⁷ It appeared in English translation many years later. Heckscher was moving from a conservative to a liberal position in the 1910s. His previous conservatism had state socialist traits but drew inspiration from British rather than German sources.

Wicksell detested the war, initially taking no side by staying neutral and holding a pacifist stance. In a letter to his close friend Hjalmar Öhrvall in the autumn of 1916, he wrote "that the most important thing is to end the war as quickly as possible on any conditions at all – and then to rely on peaceful developments".⁸ However, as many conservatives in Sweden, including the King, hoped for German victory, it became increasingly difficult for Wicksell to maintain his neutrality; in protest he became supportive of the Entente. As a high school student when the war started, Ohlin held a positive attitude towards the Entente, probably influenced by his mother's dislike of the pro-German views held the upper classes in Southern Sweden.⁹

Our report is organized in the following way. First, we give a short description of the engagement of Swedish professors in economics in public debate – a unique feature in those

⁴ John Maynard Keynes, *The General Theory of Employment, Interest and Money*. London: Macmillan, 1936.

⁵ Benny Carlsson, "Who Was Most World-Famous – Cassel or Keynes? The Economist as Yardstick", *Journal of the History of Economic Thought*, 31:4, 2009.

⁶ Eli Heckscher, "David Davidson 1854-1942", in Joseph Schumpeter, *Stora nationalekonomer*. Stockholm: Natur och Kultur, 1953, p. 325.

⁷ Gustav Cassel, *Theoretische Sozialökonomie*. Leipzig: C. F. Winter, 1918.

⁸ Torsten Gårdlund, *The Life of Knut Wicksell*. Stockholm: Almqvist & Wiksell, 1958, p. 315.

⁹ Bertil Ohlin, *Bertil Ohlins memoarer: Ung man blir politiker*. Stockholm: Bonniers, 1972, pp. 23-24. During the interwar years Ohlin had a solid appreciation of the Anglo-Saxon world; it became still stronger during and after World War II.

days. Next, we deal with the views of the five economists. We take them in chronological order as they entered the public debate on the Versailles Treaty and the reparations issue. Thus, we start with Davidson, who was the first economist to review Keynes's book. Cassel criticized the French demands on Germany already in 1918. In addition, he wrote the most of the five on the Versailles Treaty. Heckscher came onto the stage in the spring of 1920 with a review of the Swedish translation of *The Economic Consequences of the Peace*. Wicksell made his first and only public response to Keynes in August 1921 although he prepared several manuscripts in 1921-24 on the German reparations that were never published. Ohlin is the latecomer, belonging to a younger generation of economists in Sweden that made its breakthrough in the interwar period. He was working on his *licentiate* thesis in the early 1920s as a student of Heckscher and Cassel. He responded to Keynes in 1929 in an exchange in *The Economic Journal* which marks the end of the interwar academic debate on the German reparations.¹⁰

We also comment on Davidson's, Cassel's, Heckscher's and Ohlin's overall assessments of Keynes. In short, Davidson, Cassel and Heckscher viewed him as a great polemic debater as revealed by *The Economic Consequences*, but were very critical of his theoretical work in *General Theory*. Ohlin, drifting apart from Cassel and Heckscher in the late 1920s and the early 1930s, praised Keynes's *General Theory* although he found it lagging behind the approach developed in the early 1930s by a group of younger Swedish economists prior to *General Theory*. We conclude with a summary.

2. Swedish economists in public debate

To understand the Swedish response to Keynes, a short review of the strong involvement of Swedish university professors in public debate is useful. There is a long tradition in Sweden of economists taking part in public debate, primarily by publishing in the daily press, but also serving as public lecturers, members of parliamentary committees and members of parliament.¹¹ This tradition was started by Knut Wicksell, who actually made a living as freelance writer before turning to serious studies in economics.

Thanks to his determined life-time partner, Anna Bugge, he was pushed to do scientific work to get a position at a university. Having completed books on capital, price, tax and monetary theory, he managed to secure a professorship at Lund University in 1901. Shortly after the publication of his *Lectures*, he stopped working on books, and instead turned to shorter articles, pamphlets and newspaper articles.¹²

¹⁰ The writings of the Swedish economists were a response to the international economic and political developments in the 1920s. For an overview of this context, see for example Barry Eichengreen, *Golden Fetters*, New York: Oxford University Press, 1992, in particular chapter 5, and Leonard Gomes, *German Reparations, 1919-1932: A Historical Survey*. Basingstoke: Palgrave Macmillan, 2010.

¹¹ Benny Carlson and Lars Jonung, "Knut Wicksell, Gustav Cassel, Eli Heckscher, Bertil Ohlin and Gunnar Myrdal on the Role of the Economist in Public Debate", *Econ Journal Watch*, 3:3, 2006, and Lars Jonung, "Economics the Swedish Way 1889-1989", in Lars Engwall (ed.), *Economics in Sweden. An Evaluation of Swedish Research in Economics*. London: Routledge, 1992.

¹² The life and works of Knut Wicksell is brilliantly depicted in Gårdlund, *The Life of Knut Wicksell*.

Altogether Wicksell published about 440 newspaper articles.¹³ He also left about 100 unpublished manuscripts, most of them likely intended for publication. At the centenary celebration of the appointment of Wicksell as professor in Lund in 1901, these manuscripts were edited and published.¹⁴ He wrote in all newspapers he could get into, regardless of their political color, although mostly with a leftist-liberal leaning. Gustav Cassel, a very active economic commentator, had *Svenska Dagbladet*, a leading conservative daily, as his prime outlet where he published about 1,500 op-ed pieces.¹⁵ Eli Heckscher, after turning liberal,¹⁶ published about 300 articles in *Dagens Nyheter*, a liberal newspaper,¹⁷ the very same newspaper that invited Keynes as contributor in 1920. Davidson had a different profile. He did not publish much in daily newspapers – as a matter of fact, it was said that “he cannot tolerate a more journalistic posture within the economics debate”¹⁸ – but wrote mainly for an academic audience in *Ekonomisk Tidskrift*, a journal he himself launched and edited for 40 years (1899-1938). In all, he published about 250 articles and reviews in this journal.

Why did the Swedish economists, except for Davidson, choose to turn to the public by writing newspaper articles? Upon retirement, Wicksell discussed with his close friend Hjalmar Öhrvall about what to do as a pensioner. Here he stated “As for myself, I have always looked upon the education of the Swedish people as my chief obligation, and I can certainly go on with that as long as I have the strength.”¹⁹ He took this task very seriously.

Cassel and Heckscher were no different. “To speak clearly and simply to the public was in their eyes an imperative duty of the academic economist, and some of them indeed seem to have felt themselves to stand in an intuitive relationship with the ‘masses’.”²⁰ Their ambition to educate politicians and the general public is proven by their extensive extramural activities as lecturers and editorial writers. They made economics understandable for a wider public. Cassel was particularly proficient in this regard, having started out as a combination of mathematician and poet.

The popular writings of Wicksell, Cassel and Heckscher inspired the next generation of economists to continue the tradition of publishing in newspapers. Here Bertil Ohlin stands out as an exceptionally prolific producer of op-ed pieces, about 2,000 of them, many written when

¹³ Erik J. Knudtzon, *Knut Wicksells tryckta skrifter 1868-1950*. Lund: Liber/Gleerup, 1976.

¹⁴ Lars Jonung, Torun Hedlund-Nyström and Christina Jonung, *Att uppfostra det svenska folket: Knut Wicksells opublicerade manuskript*. Stockholm: SNS Förlag, 2001.

¹⁵ Benny Carlson and Lars Jonung, “Gustav Cassels artiklar i Svenska Dagbladet 1903-1944”. Lund: *Meddelande från Ekonomisk-historiska institutionen*, nr 62, 1989.

¹⁶ Benny Carlson, “When Heckscher Changed Direction: from Social Conservatism to Economic Liberalism”, in Ronald Findlay, Rolf G. H. Henriksson, Håkan Lindgren and Mats Lundahl (eds.), *Eli Heckscher, International Trade, and Economic History*. Cambridge, Mass. & London: MIT Press, 2006.

¹⁷ *Eli F. Heckschers bibliografi 1897-1949*. Stockholm: Ekonomisk-historiska institutet, 1950.

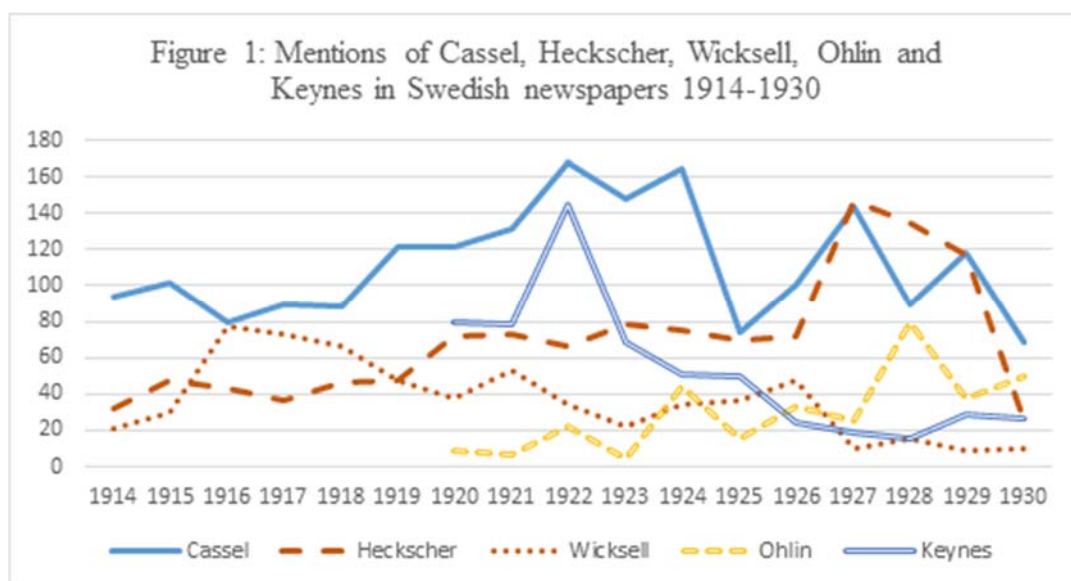
¹⁸ Per Jacobsson, “David Davidson”, *Ekonomisk Tidskrift*, 41:1, 1939, p. 9.

¹⁹ Gårdlund, *The Life of Knut Wicksell*, p. 305. This quote inspired the title *Att uppfostra det svenska folket* (To Educate the Swedish people) for the volume containing the unpublished manuscripts of Knut Wicksell. See Jonung, Hedlund-Nyström and Jonung, *Att uppfostra det svenska folket*.

²⁰ Carlson and Jonung, “Knut Wicksell, Gustav Cassel, Eli Heckscher, Bertil Ohlin and Gunnar Myrdal on the Role of the Economist in Public Debate”, p. 540.

he was heading the Liberal Party (*Folkpartiet*). He started already at the age of 20.²¹ He wrote in Danish newspapers as well when he was professor in Copenhagen 1925-29 before returning to Stockholm to accept the professorship vacated by Heckscher at the Stockholm School of Economics (*Handelshögskolan*). Like Wicksell, Ohlin felt an urge to write in the press to inform the public about economic issues. In his view, economists should influence public opinion: “The most important task of the economists should be to teach the public how to think in economic terms.”²²

The media exposure of the Swedish economists as well as of Keynes in the period 1914-1930 is summarized in Figure 1. It is based on the number of times their names appeared in Swedish newspapers as displayed in the National Library of Sweden digitized newspaper database. The figure shows that Cassel, Heckscher, Wicksell and Ohlin as well as Keynes were public figures – not only through their own newspaper articles. (Davidson is not included since he had rather few mentions, between 5 and 20 a year.) Keynes made a rapid impact in Figure 1 peaking in 1922 due to the response to the publication of *The Economic Consequences of the Peace* and *A Revisions of the Treaty*.²³ The young Ohlin entered the public sphere in 1920 and met with rising observance during the 1920s, surpassing all but Cassel by 1930.



Note: Regarding the Swedish economists, we have searched for first and last names, i.e. Gustav (or Gustaf) Cassel, Eli (or Eli F.) Heckscher and Knut Wicksell, to avoid counting other individuals with corresponding last names. This has probably resulted in an underestimation of mentions, since sometimes well-known people are mentioned just by their last names. Regarding Keynes, we have searched for his last name only.

²¹ Ohlin's articles in Scandinavian newspapers and journals are listed in Benny Carlson, Helena Orrje and Eskil Wadensjö, *Ohlins artiklar: Register över Bertil Ohlins artiklar i skandinaviska tidningar och tidskrifter 1919-1979*. Stockholm: Institutet för social forskning, 2000.

²² Sven-Erik Larsson, *Bertil Ohlin. Ekonom och politiker*. Atlantis, 1998, p. 40.

²³ John Maynard Keynes, *A Revision of the Treaty: Being a Sequel to The Economic Consequences of the Peace*. London: Macmillan, 1922. Translated into Swedish by Evert Berggren as *En revision av freden*. Stockholm: Bonnier, 1922.

3. David Davidson on the German reparations and Keynes

3.1 Davidson salutes Keynes

Davidson wrote several articles on the economies of the belligerent nations during the war, mostly about war-related monetary and expenditure problems. In the first 1920 issue of *Ekonomisk Tidskrift*, he reviewed the original English edition of Keynes's book, introducing Keynes as "an eminent scholar, who gives a much needed orientation into the maze of the peace treaty".²⁴ Most writings dealing with the war lacked in neutrality, but this book had strong guarantees for objectivity, namely

that it is written by an Englishman, known as a conscientious scholar within this field, who as an official representative for his country has participated in the peace conference in a distinguished role, but has been convinced, that the peace conditions, which were to be put forward, would amount to such a gross and for all Europe fatal breach of promise against Germany, the enemy of his motherland, that he for pangs of conscience had to leave his position before the closure of the peace conference.²⁵

Keynes's book, in short, gave an impression of "unquestionable honesty".²⁶ If Keynes was right in his perception that Germany could not pay the reparations, it would for all of its economic life be dependent upon the discretion of the Entente.

Davidson was particularly impressed by the third chapter in Keynes's book, which could have been headed "how Clemenceau and Lloyd George fooled Wilson". He ended his review by saying that "nobody, having to take part of the issue of his country's entry into the League [of Nations], should decide about his vote without having read Keynes's book".²⁷

In the first 1921 issue of *Ekonomisk Tidskrift*, Davidson, referring to Keynes's book, pointed to the contradictions in French policy: on the one hand the ambition to squeeze as much out of Germany as possible in order to save France from financial bankruptcy, on the other hand an ambition to hurt Germany as much as possible without regard to the consequences upon Germany's ability to pay reparations.²⁸

Davidson returned to the German reparations in a couple of articles in the latter part of the 1920s. He also commented upon Keynes's article on the transfer problem in 1929. His ambition

²⁴ David Davidson, "Keynes, J.M., The economic consequences of the peace", *Ekonomisk Tidskrift*, 22:1, 1920, p. 15. There was no exchange of letters between Davidson and Keynes, at least there are no letters from Davidson at the King's College archive.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid., p. 21.

²⁸ David Davidson, "Ententens skadeståndsanspråk mot Tyskland", *Ekonomisk Tidskrift*, 23:1, 1921.

was, however, not to treat this “very tricky international economic problem”, but to show that Keynes’s critique of the Dawes plan missed the target.²⁹

3.2 Davidson’s later verdict on Keynes

Davidson’s admiration for Keynes waned in the 1930s. In 1936-37, he devoted no less than four articles in *Ekonomisk Tidskrift* to Keynes’s *General Theory*.³⁰ He spent much energy defending his “lifetime hero” Ricardo against Keynes while declaring that his ambition was not to criticize Keynes’s theory per se; it was rather to question its practical usefulness.

His main objection was that Keynes proposed “not only a new perception and solution of the unemployment problem, but also a transformation of the whole problem of [wealth and income] distribution, both running in a strong socialist direction”.³¹

An experiment of this kind has only been conducted in one country, namely Russia, but how this experiment has turned out nobody outside Russia can say with any degree of certainty. The prevailing opinion outside Russia seems to be that the experiment has turned out in a way which ought to be very forbidding.³²

The two problems ought to be solved separately, which was the approach taken in Sweden according to Davidson.

4. Gustav Cassel on the German reparations and Keynes

In early 1916, the German Minister to Stockholm invited Cassel to visit Germany and study its economic power of resistance. He accepted the invitation, under a set of conditions supposed to secure his stance as “completely neutral”.³³ He spent the month of March in Germany and Belgium and had a book ready in late April. The Swedish edition was promptly translated into English – *Germany’s Economic Power of Resistance* – and into German.³⁴

Cassel’s main conclusion was that the Entente had underestimated Germany’s economic strength. In his memoirs, he wrote that the book was widely circulated and “eagerly read in German trenches” but that it was difficult to get it circulated in Britain.³⁵ Arthur Montgomery believed that Cassel had hoped his analysis would serve the cause of a peace of compromise,

²⁹ David Davidson, “Problemet om det tyska skadeståndets transferering”, *Ekonomisk Tidskrift*, 31:2, 1929. Per Jacobsson recalls that when he took his licentiate degree for Davidson in 1919, he had to account for the transfer problem. See Jacobsson, “David Davidson”, p. 10.

³⁰ David Davidson, “Nationalekonomien i stöpsleven”, *Ekonomisk Tidskrift*, 38:3, 38:4 and 38:5-6, 1936, and 39:1, 1937.

³¹ Davidson, “Nationalekonomien i stöpsleven”, 38:4, 1936, p. 88.

³² Davidson, “Nationalekonomien i stöpsleven”, 38:5-6, p. 103.

³³ Gustav Cassel, *I förnuftets tjänst: En ekonomisk självbiografi*. Stockholm: Bokförlaget Natur och kultur, 1940, p. 181.

³⁴ Gustav Cassel, *Tysklands ekonomiska motståndskraft*. Stockholm: Norstedt 1916, *Germany’s Economic Powers of Resistance*. Stockholm: Norstedt, 1916, and *Deutschlands wirtschaftliche Widerstandskraft*. Berlin: Ullstein, 1916.

³⁵ Gustav Cassel, *I förnuftets tjänst*, p. 186.

without winners and losers. “But in some circles the book produced an erroneous impression that Cassel was prepared to espouse the German case.”³⁶

4.1 Cassel fights alongside Keynes

Cassel devoted two chapters of his memoirs to his struggle against the war reparations policy. He started out as follows in the first of these chapters:

From the very beginning, I fought the unreasonable reparations policy, which assumed it would be possible to extort fantastic sums from Germany without considering how the payments in reality should be executed. I criticized this policy in numerable articles in *Svenska Dagbladet*. The contents of these articles reached far beyond Sweden’s borders and consequently I got involved in the huge international battle against reparations demands which could not be fulfilled and which continued for more than a decade. Rarely has such a formidable battle been fought between economic expertise and political arrogance. Both practical and theoretical economists were – to the degree they could preserve any impartiality – united in their condemnation of the reparations policy.³⁷

Cassel highlighted the contradictions in the Entente demands on Germany in an article already in December 1918: on the one hand demands for huge reparations which meant that Germany must achieve immense export surpluses and “totally flood the poor Western powers with its goods”, on the other hand an ambition to “as much as possible cut off Germany from trade relations with the rest of the world”.³⁸

In the autumn of 1919, Cassel characterized the occupation of German territory as “a heritage from the same militaristic hubris as the Western powers had set out to eradicate”.³⁹ In February 1920, he came back to the contradictions in the Treaty of Versailles: the whole peace effort suffered, “as Keynes in his book on the economic consequences of the peace has clearly demonstrated”, from the contradiction “that one on the one hand wished to crush Germany, not only politically but also economically, but at the same time figured Germany would be able to pay”.⁴⁰ A few weeks later he laid down the political preconditions necessary for the reconstruction of the European economy: Germany must be able to control its borders, the war amount of reparations must be fixed and the payment thereof be postponed.⁴¹

During the summer of 1920, Cassel repeated that the amount of reparations must be fixed before a planned international economic conference could be held in Brussels.⁴² In the early autumn he issued a warning:

³⁶ Arthur Montgomery, “Gustav Cassel 1866-1945”, *The Economic Journal*, 57:228, 1947, p. 541.

³⁷ Gustav Cassel, *I förnuftets tjänst*, p. 266.

³⁸ Gustav Cassel, “Krigsskadeersättning och slaveri”, *Svenska Dagbladet*, 20 December 1918.

³⁹ Gustav Cassel, “Ekonomi och militarism”, *Svenska Dagbladet*, 20 October 1919.

⁴⁰ Gustav Cassel, “Krigsskadestånd och världsekonomi”, *Svenska Dagbladet*, 14 February 1920. In his memoirs, Cassel denoted Keynes’s book as “splendid”. See Cassel, *I förnuftets tjänst*, p. 268.

⁴¹ Gustav Cassel, “Europas ekonomiska återuppbyggande”, *Svenska Dagbladet*, 12 March 1920.

⁴² Gustav Cassel, “Krigsskadeersättningen”, *Svenska Dagbladet*, 13 and 14 August 1920.

But what will result [...] if Germany's insolvency becomes definite and if the whole German national economy tumbles down? [...] The rest of Europe would never be able to immure itself from such a terrible collapse; it does not matter if one counts oneself as friend or foe, the economic and social destiny of Europe is mutual. [...]. [---] If Europe is to avoid an increasingly threatening disaster, its politicians must no doubt carry out a thorough revision of all concepts regarding the economic conditions needed for the restoration of peace.⁴³

In the years to come, Cassel continued his relentless campaign against the war reparations policies and Keynes's and his paths crossed several times. As a matter of fact, they had met and exchanged letters even before the war.⁴⁴ In 1916, Cassel had sent his book on Germany's economic power of resistance to Keynes. In the spring of 1919, Cassel wrote to Keynes, proposing an international conference on monetary affairs. Keynes promised to bring the proposal to the Royal Economic Society and gave a glimpse of what was going on at the Paris peace conference: "My experience in Paris has not led me to anticipate good prospects at present for a sound or wise scheme. I have a deeply pessimistic view of the prospects of Europe and I am much ashamed of the part played by my country in the settlement of the Peace."⁴⁵

When Cassel visited London in the summer of 1921, he met with Keynes at lunches and dinners on several occasions and their correspondence continued. In the autumn, Cassel sent his second Financial Memorandum for the League of Nations to Keynes, who offered to publish it in *The Economic Journal*. Cassel, however, told Keynes that he had been offered to publish it in *The Manchester Guardian*, whereupon Keynes responded that he would be engaged in a Manchester Guardian project, for which he hoped to secure Cassel's collaboration.⁴⁶

In early 1922, Keynes asked Cassel to contribute an article on the Scandinavian exchange rates.⁴⁷ Cassel agreed and Keynes sent him his "new book", which was certainly *A Revision of The Treaty* judging by Cassel's response: "I have read it with the utmost interest and with great admiration both for the lucidity of exposition and for the moral strength which is at the bottom of it."⁴⁸ Next, the correspondence revolved around the Genoa conference (where the two met) and Keynes persuaded Cassel to write a summary and evaluation of the event.⁴⁹

⁴³ Gustav Cassel, "Tysklands ekonomiska läge", *Svenska Dagbladet*, 8 September 1920.

⁴⁴ Keynes and Cassel exchanged letters between 1912 and 1932. There are about 40 letters from Keynes to Cassel, significantly fewer copies of letters from Cassel to Keynes. Cassel's letters are available at the National Library of Sweden (EP C1a).

⁴⁵ Keynes to Cassel 25 June 1919.

⁴⁶ Keynes to Cassel 10 October, Cassel to Keynes 18 October and Keynes to Cassel 26 October 1921. Cassel's first memorandum to the League of Nations, written for the Brussel conference in the autumn of 1920, made a somewhat mixed impression upon Keynes, who on 16 October 1920 wrote in a letter to Sir William Goode: "In my judgement Cassel's theory is sound and his diagnosis reasonably correct. When it comes to practical remedies, however, I doubt the feasibility of some of his ideas however desirable they may be in theory." See Elizabeth Johnson (ed.), *The Collected Writings of John Maynard Keynes*, vol. XVII, *Activities 1920-1922. Treaty Revision and Reconstruction*. Cambridge: Cambridge University Press, 1977, p. 197.

⁴⁷ Keynes to Cassel 6 January 1922. Cassel delivered this article: Gustav Cassel, "The Scandinavian Exchanges", *Manchester Guardian Commercial*, 20 April 1922.

⁴⁸ Cassel to Keynes 13 January, Keynes to Cassel 23 January and Cassel to Keynes 9 February 1922.

⁴⁹ Keynes to Cassel 16 February, 28 March, 24 April, 18 May and 7 June 1922.

In June 1922, this summary appeared in Keynes's series of *Manchester Guardian Commercial* supplements on "Reconstruction in Europe". Cassel wrote of "a world of illusions" and continued:

Once it is perceived with perfect clearness that payment means the transfer year after year of real income from one people to another, and that this income is nothing else than a mass of goods and services produced by the debtor people but not consumed by it, everybody will begin to see that the payment of such sums as are here involved in the present indebtedness is impossible, both for the reason that the debtor countries cannot pay and for the reason that the countries claiming payment are not willing to receive it.⁵⁰

If the debtor country was to pay these sums, its consumption would be reduced below the minimum subsistence level. That countries claiming payment were not willing to receive it might seem strange. "But the transfer of goods and services to such an extent [...] would undoubtedly cause a considerable dislocation of the economic life of the countries receiving them".⁵¹

In July 1922, Keynes invited Cassel, along with several other renowned economists, among them Frank Taussig, Allyn Young, Edwin Cannan and Charles Gide, to contribute an article on "Reconstruction in Europe" to *The Manchester Guardian* supplements.⁵² This invitation resulted in a supplement – "Symposium by Six Professors" – of 28 September. The six were, in addition to Cassel, Andreas Andréadès, G. W. J. Bruins, Edwin Cannan, Luigi Einaudi and Charles Gide. Cassel denoted the policy against Germany "as an extremely costly experiment, not only for Germany but also for the Allies themselves and for the whole economy of the world". The Allied powers had been "almost hypnotised" by pre-war estimates of Germany's accumulated wealth, but the wealth of a country could only to a very limited extent be transferred to other countries. Germany's capacity to pay was a function of its economic future and the treatment of Germany did not bode well. "Certainly, if the treatment of Germany hitherto is to be continued, it is safe to estimate the sum which can be paid in indemnity as nil."⁵³

In October, Cassel praised this "Reconstruction Issue" as "the most significant work for the enlightenment of public opinion" which would do "more for a solution of this problem than any of the big international conferences". However, he added: "Perhaps I am a grade more pessimistic than you. [...] there is not the slightest possibility that the politicians will come to economic sense before it is too late."⁵⁴

⁵⁰ Gustav Cassel, "The Economic and Financial Decisions of the Genoa Conference", *The Manchester Guardian Commercial*, 15 June 1922, p. 139.

⁵¹ Ibid.

⁵² Keynes to Cassel 26 July 1922.

⁵³ "How Much Can the Allies Induce Germany to Pay with Advantage to Themselves? A Symposium by Six Professors", *Manchester Guardian Commercial*, 28 September 1922, p. 511.

⁵⁴ Cassel to Keynes 8 October 1922. There is a quote from this letter in Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, XVII, p. 447.

Shortly thereafter, Cassel, Keynes, the Dutch central bank governor Gerard Vissering, the British banker Robert Brand, the American economist Jeremiah Jenks and a couple of other experts were invited to Berlin by the German government to discuss measures to arrest the decline of the German currency. In his memoirs, Cassel recalled “the most pleasant cooperation with Brand and Keynes, although I sometimes even against these two had to resist too far-reaching demands upon Germany”.⁵⁵

After one week, on November 7, the experts presented a report, demanding immediate stabilization of the German Mark, which presumed a final settlement of the reparations issue and a two year moratorium on payments.⁵⁶ However, their advice was not adhered to. Cassel referred to a diary note by the British Ambassador to Berlin Lord d’Abernon: “The result of the [...] admirable Report was disappointing. It received not the smallest attention, either from the Allies or from Germany.”⁵⁷ Germany was sucked down in the maelstrom of hyperinflation.

In early 1923, Cassel sent an article on “Economic Fallacies of the Versailles Policy” to Keynes, hoping to get it published in *The Manchester Guardian* series. When he got no immediate answer, he wrote again, adding some arguments: “If France is going to take Germany’s last coal resources, it seems clear to me that the rest of Germany must become so poor that its present population can no longer find subsistence.” Keynes responded by saying that Cassel’s article was brilliant but that he was no longer responsible for *The Manchester Guardian* reconstruction series.⁵⁸

4.2 Cassel’s later verdict on Keynes

When the Manchester Guardian collaboration came to an end, the intense correspondence between Cassel and Keynes receded. Nonetheless, in 1924, on Cassel’s initiative, Keynes was elected as a member of the foreigners’ section of the economic class of the Royal Swedish Academy of Sciences.⁵⁹ After this peak in the relation between the two famous economists, there was no exchange of letters for five years until Cassel submitted an article for publication in *The Economic Journal*. Now, Keynes was less enthusiastic and responded that he had “a feeling that there was something wrong in the argument”: “In its present form it leaves me quite unconvinced, and seems to pursue a universality of application for the purchasing power parity theory which I have not understood you to claim in your previous writings.”⁶⁰

⁵⁵ Cassel, *I förnuftets tjänst*, p. 401. The German Chancellor Joseph Wirth had “watered” Keynes and Cassel with these other experts since he had been told that “Cassel and Keynes were both men of extreme theoretical views, and quite indifferent to what anybody else thought of their subject”. See Elizabeth Johnson (ed.), *The Collected Writings of John Maynard Keynes*, vol. XVIII, *Activities 1922-1932. The End of Reparations*. Cambridge: Cambridge University Press, 1978, p. 61.

⁵⁶ These were the demands in the majority report, signed by Keynes, Brand, Cassel and Jenks. There was also a minority report, signed by Vissering and others, “which made everything depend on a large loan”. See Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, vol. XVIII, p. 63.

⁵⁷ *Ibid.*, p. 404.

⁵⁸ Cassel to Keynes 13 and 29 January, Keynes to Cassel 1 February 1923.

⁵⁹ Cassel told Keynes about this in a letter 9 October 1924. Keynes wrote 21 October that he was very honored to “fill the place held by my master, Alfred Marshall”.

⁶⁰ Keynes to Cassel 14 and 27 February 1929.

As Keynes turned into an advocate of government intervention and full employment policies, whereas Cassel was a leading critic of government intervention and economic planning, the relation between the two economists cooled down.⁶¹ When Keynes's *General Theory* appeared, Cassel's main objection was that it was not a general theory, but based on the artificial conditions prevailing in the British economy during the depression, and failed to reflect crucial features of a normal economy.

One such feature is undoubtedly progress, and even the most elementary picture of society must explain in broad outline how progress comes about. This aspect of the economy disappears in a most disquieting manner in the picture of society which we are now offered. What we are shown is instead a picture of a society falling into hopeless stagnation. However, since this stagnation seems to be mainly the result of temporary government measures, it is impossible to see in it a necessity conditioned by given economic factors.⁶²

5. Heckscher on the German reparations and Keynes

Heckscher took an early interest in the economics of the war. In the summer of 1915, he departed on a five week study tour to the Netherlands, England, France and Germany financed by a grant from the Stockholm School of Economics. The outcome was the publication of a book in November, *Världskrigets ekonomi* (The economics of the world war).⁶³

Stating that he was not taking a stand for or against any of the belligerents, Heckscher wanted to analyze the general patterns created by the war – not the specific pattern in a single country at war.⁶⁴ According to one of Heckscher's colleagues "his sympathies were no doubt emotionally pro-British" and it was difficult for him to see this nation in war with "the by him respected if not beloved Germany".⁶⁵ He continued to write about the war in several newspaper articles.

5.1 Heckscher salutes Keynes's book

When Keynes book was published in Swedish in early 1920, it was promptly reviewed by Eli Heckscher in *Svensk Tidskrift* (a journal he had himself previously edited) with a quote from the book as headline: "Too bad to be true".

⁶¹ Benny Carlson, *The State as a Monster: Gustav Cassel and Eli Heckscher on the Role and Growth of the State*. Lanham, New York & London: University Press of America, 1994, p. 235.

⁶² Gustav Cassel, "En förvänd samhällsbild", *Sunt Förnuft*, May 1937, p. 137.

⁶³ Eli Heckscher, *Världskrigets ekonomi: En studie af nutidens näringslif under världskrigets inverkan*. Stockholm: Norstedt, 1915.

⁶⁴ Heckscher's book is analyzed in Klas Fregert, "The costs and finances of World War I according to Eli F. Heckscher", *Oeconomia*, 6:4, 2016.

⁶⁵ Herman Brulin, "Eli Heckscher och Svensk Tidskrift", *Svensk Tidskrift*, 40, 1953, p. 415.

Heckscher started out by characterizing Keynes's book as a bright spot in a time of darkness. It offered what the peoples of Europe needed, "men who follow their reason, their knowledge and their sense, unaffected by even the strongest national prejudices and party alignments".⁶⁶

Keynes "is the spiritually free man, 'the independent gentleman', a species extinct in almost all other nations", Heckscher wrote and continued:

Such a man must be seen as more credible than most, he represents no party, no interests; he speaks to air his innermost opinion. To this are added all the gifts bestowed by his intellect and experience: exceptional insight into the motives of the actors as well as the material facts; theoretical education, powers of observation and psychological perception that are not common. And, finally, an ability to express his views with restraint and academic elegance in a way that gives them penetrating precision.⁶⁷

Heckscher was dismayed by the conditions set forth in the Treaty of Versailles. He wrote of "the slavishly literal bondage" which was used as an excuse for terms which "destroy the future of a whole nation", he compared it with "the Inquisition's instruments of torture" and concluded that every German "can be deprived of whatever property, if it only appeals to a commission in Paris composed by the nation's enemies".⁶⁸

Keynes had demonstrated the contradictions of the Treaty, that Germany must create a surplus in its production and trade to be able to pay draconian reparations at the same time as this was prevented through "methodic destruction". The French wished to milk the cow and at the same time cut its throat. Heckscher found Keynes's description of the treaty as "a Karthagian peace" very telling, particularly with regard to the ambition of the French prime minister Georges Clémenceau, and argued that previously much criticized European peace treaties like the Westfalian peace and the Congress of Vienna in comparison were "monuments of far-sighted state wisdom and generosity". Clémenceau could perhaps realize his Karthagian objective, the destruction of Germany, but then the new Rome (France) would be drawn into the downfall of the new Karthago (Germany).⁶⁹

Heckscher ended his review with an apocalyptic and prophetic vision:

It is, however, also possible that Germany retrieves itself and gets rid of the yoke, as it did after its humiliation under Napoleon; but the consequences for Europe will in this case hardly be less devastating. [...] When the Frankfurt treaty [after the Franco-German War 1871] could induce the Treaty of Versailles, one can hardly imagine what offsprings the latter will eventually conceive. It must be seen as very unlikely that the European civilization will survive also this coming twilight of the gods.⁷⁰

⁶⁶ Eli Heckscher, "För illa att vara sant", *Svensk Tidskrift*, 10:2, 1920, p. 138.

⁶⁷ *Ibid.*, s. 139.

⁶⁸ *Ibid.*, s. 141-142.

⁶⁹ *Ibid.*, s. 145-146.

⁷⁰ *Ibid.*, s 146.

It was all “too bad to be true”.⁷¹

Unlike Cassel, Heckscher did not correspond much with Keynes in the early 1920s. However, he apparently sent a collection of reviews of the Swedish edition of *The Economic Consequences* since Keynes in a letter wrote the following: “I am delighted that you should be able to write as you have done as to the success of my book in Sweden. Many thanks for the reviews which you have sent me.”⁷²

During 1921, Heckscher continued to discuss the requests by the Entente, aimed at “keeping a nation of 60 million in slavery forever”⁷³, or at least until 1963, and the German counterproposal which lacked economic insight. He concluded in a most pessimistic mode:

All that remains is – chaos. Nothing of practical value for the salvation of Europe has emerged out of the witch-dance created by the reparations demands. [...] The conclusion is the usual and sad one: there is no other future for Europe than the complete overhaul of the Treaty of Versailles. [...] But the future of modern culture can be lost before a decision of this kind is made.⁷⁴

In 1922, Keynes’s *A Revision of the Treaty* was reviewed in *Svensk Tidskrift*. The review was not signed and although it is not listed in his bibliography it is not improbable that Heckscher was the author. The reviewer noted that the book could not be fully compared to its predecessor even though the “etching sharpness and stylistic design” of the verdicts had not been weakened.

The new book [...] just as the old one originates from an irresistible need to tell the truth, to display, taunt and condemn the whole fabric of half-truths and full lies which have made possible the Versailles treaty and foremost the reparations policy. The most encouraging [...] is the belief by its author [...] that the truth is under way – in England.⁷⁵

Two years later, Heckscher introduced Keynes in a Swedish encyclopedia. Not surprisingly, he focused on *The Economic Consequences of the Peace*, characterized by “great stylistic talent, clear economic vision and unusual command of the statistical material” and furthermore by “a strong conviction of great importance for its success”. However, Heckscher found that Keynes contributions in “purely scientific matters [...] have not been equally important.”⁷⁶

⁷¹ Ibid.

⁷² Keynes to Heckscher, 6 July 1920. Keynes and Heckscher exchanged letters between 1909 and 1939. Heckscher’s letters are available at the National Library of Sweden (L 67).

⁷³ Eli Heckscher, “Ententekraven och Tysklands tvångsbetalning”, *Svensk Tidskrift*, 11:2, 1921, p. 92.

⁷⁴ Eli Heckscher, “Skadeståndspolitikens fortsättning”, *Svensk Tidskrift*, 11:3, 1921, p. 148.

⁷⁵ “Dagens frågor”, *Svensk Tidskrift*, 12, 1922, p. 145.

⁷⁶ Eli Heckscher, “Keynes, John Maynard”, *Nordisk Familjebok*, 1924. Heckscher’s essays on Keynes and other economists are summarized in Benny Carlson, “Eli Heckscher as a Portrait Maker”, *Essays in Economic & Business History*, 34, 2016.

5.2 Heckscher's later verdict on Keynes

In the late 1920s, Heckscher and Keynes were in touch a couple of times. In 1927, Heckscher wished for Keynes to give a lecture at the Swedish Economic Society (Keynes declined due to lack of time), in 1928 Keynes accepted Heckscher's article "A Plea for Theory in Economic History"⁷⁷ and in 1930 Heckscher expressed his gratitude for Keynes's kindness toward his "boy" (Gunnar Heckscher, who had visited Cambridge).⁷⁸ In the years 1932-1935, Heckscher wrote Keynes several times about the publication, distribution and review of his *Mercantilism*.⁷⁹ When Keynes had read the book, he wrote Heckscher and told him it was "a masterpiece", "a history of an enormously important phase in economic thought", which he intended to make use of in his upcoming book (that is *General Theory*):

I had long had it in mind to write a chapter in my new book upon the relation between Mercantilist theory and current ideas and I was hopeful that your book would supply me with the necessary background and material. My hopes have been more than fulfilled, and I shall, if I may, draw very freely on the mine of information you have made available.⁸⁰

Heckscher was, hardly surprising, encouraged by this praise and asked Keynes straight out: "Would it be impossible for you to review the book in *The Economic Journal* yourself?"⁸¹ As it turned out, this review was not to be written by Keynes but by T. H. Marshall of the London School of Economics.⁸²

After Keynes's visit in Stockholm and talk at the Political Economy Club in September 1936, Keynes and Heckscher exchanged letters of mutual satisfaction.⁸³ However, Heckscher and Keynes had by now drifted apart ideologically just as Cassel and Keynes had done. In the same year as Keynes's *General Theory* was published, a new encyclopedia entry on Keynes by Heckscher appeared. It was short and critical: "Having been a faithful follower of classical economics, K. has [...] increasingly challenged its basic theorems and even associated himself with mercantilist interpretations." Keynes had furthermore "deemed it necessary to introduce a to a large extent new terminology, which has often caused misunderstandings".⁸⁴ Heckscher was not happy with the way Keynes had used his *Mercantilism* in *General Theory*. As one of his colleagues, Arthur Montgomery, said, Keynes had read *Mercantilism* in the same way as "the devil reads the Bible".⁸⁵

⁷⁷ Eli Heckscher, "A Plea for Theory in Economic History", *The Economic Journal*, 39: Supplement 1, 1929.

⁷⁸ Heckscher to Keynes 6 November and Keynes to Heckscher 16 November 1927; Heckscher to Keynes 20 August and Keynes to Heckscher 29 August 1928; Heckscher to Keynes 26 March 1930.

⁷⁹ Eli Heckscher, *Mercantilism*, Vol. 1. London. George Allen & Unwin Ltd, 1934.

⁸⁰ Keynes to Heckscher 15 May 1935.

⁸¹ Heckscher to Keynes 21 May 1935.

⁸² T. H. Marshall, "Mercantilism", *The Economic Journal*, 45:180, 1935. On the reception of Heckscher's book, see Benny Carlson, "Merkantilismen och 30-talet eller Kom Heckschers storverk i rättan tid?", Lund: *Meddelande från Ekonomisk-historiska institutionen*, no. 30, 1983.

⁸³ Keynes to Heckscher 8 October and Heckscher to Keynes 13 October 1936.

⁸⁴ Eli Heckscher, "Keynes, J. M.", *Nordisk Familjebok*, 1936.

⁸⁵ *Tre tal hållna vid den middag som ett antal kolleger och lärjungar gav för Eli F. Heckscher och hans anhängare den 13 december 1944 på restaurangen Tre Kronor i Stockholm*. Stockholm, 1945, p. 9.

Ten years later, when Keynes passed away, Heckscher summarized his opinion of *General Theory*. He argued that Keynes's book was in "harmony with prevailing political and spiritual tendencies in almost all countries" but that "Keynes's perception of the universality of the prerequisites on which he builds is a fundamental mistake". Still, Heckscher had admiration for Keynes: "But his ability to put thoughts in motion, to shake people out of their habits of thought, has been extraordinary, and such a vivid, intense and brilliant writer must be of enduring importance for our whole contextual perception."⁸⁶

What did Heckscher mean by questioning the prerequisites of Keynes's theory? The explanation is given in an extensive 1946 article by Heckscher on "'General Theory' from the standpoint of economic history" and is in line with Cassel's view. Heckscher states that the impulse of Keynes's book came from the permanently high British unemployment between the wars "which he almost seems to have been obsessed by". "Never before, it seems, has a work making claims for universality in such a one-sided manner been built on one single point of view."⁸⁷

6. Knut Wicksell on the German reparations and Keynes

Knut Wicksell's writings on the German reparations have their roots in his strong Malthusian belief. To understand this source of inspiration for him, we must go back in time.

6.1 Wicksell's Malthusian approach

In the 1880s, Wicksell encountered the Malthusian writings of the English physician George Drysdale (1825-1904), making him an ardent neo-Malthusian. In a public speech in Uppsala in 1880, he argued for the permission and the legalized use of contraceptives as a method to combat the social ills of Swedish society. The speech caused an instant scandal, making Wicksell famous as well as infamous overnight.⁸⁸

The objections Wicksell met from established economists pushed him into the study of economics. In his academic work, he focused on other issues than the population question in order to get a university position. However, he never abandoned his Malthusian conviction. Instead, he tended to bring in Malthus whenever he discussed political and social issues. This was the case with the war as well. When peace had arrived, he presented a Malthusian interpretation of the war as seen from a lecture by him at a summer course in 1919 arranged by Uppsala University entitled "The War and the Population Problem".⁸⁹ Only the notes are available but the message is clear.

⁸⁶ Eli Heckscher, 1946, "Lord Keynes avliden", *Dagens Nyheter*, 23 April 1946.

⁸⁷ Eli Heckscher, "Något om Keynes' 'General Theory' ur ekonomisk-historisk synpunkt", *Ekonomisk Tidskrift*, 48:3, 1946, pp. 181-182.

⁸⁸ Knut Wicksell, *Några ord om samhällsolyckornas viktigaste orsak och botemedel med särskildt afseende på dryckenskapen*. Uppsala, 1880.

⁸⁹ See Knut Wicksell, "The world war: An economist's view", *Scandinavian Journal of Economics*, 80:2, 1978. Reprinted in Steinar Ström and Björn Thalberg (eds.), *The Theoretical Contributions of Knut Wicksell*. London:

Under the heading “Checking the Population Increase as an Indispensable Condition for World Peace”, Wicksell argues that “There can be no doubt that if a population increase were to occur in all the countries of the world on the same scale as during the past century, all hopes for a world peace would be in vain. The stomach is a stern ruler, against its demands all treaties are annulled.”⁹⁰ The way to bring about peaceful conditions is through measures to reduce the growth of population. “If population increases and war form a *circulus vitiosus*, then population control and peace ought to form a *circulus favorabilis*.”⁹¹

Wicksell notes that prior to the world war, birth rates had declined in most “civilized countries”, prominently in Germany. This decline may even have induced Germany to enter the war as a “cause for striking as soon as possible”. Now, Wicksell expected the German population to stay stationary as an immediate response to the war and “hence one should be able to depend upon the same love for peace within the German nation as within the French – even without a League of Nations and à fortiori with it”.⁹²

6.2 Wicksell on the German reparations

During the war, Wicksell focused on monetary issues, taking part in a most lively domestic debate about the policies of the Riksbank.⁹³ Just as Cassel and Heckscher, Wicksell toured the belligerents. After visiting Germany and Austria in the autumn of 1915 to meet economists and policy-makers, the Riksbank sent Wicksell in the spring of 1916 on a tour to England to report back to the Riksbank.⁹⁴ This tour gave Wicksell the opportunity to meet Keynes.⁹⁵

To Wicksell, the lunch with Keynes, “their keenest theorist”, was the high point of the tour as seen from the letter from Wicksell to his wife, Anna Bugge, about the encounter:

Then today I met Keynes and lunched with him at his club. We had a very interesting conversation. On some points he was not very well informed; for one thing he had no very clear idea of how to go about arranging a rational standard of value; [...] On the other hand he has a good mind and, as I said, I gained much from our conversation; only wished it could have been longer; [...] I walked with him to his barber’s.⁹⁶

Macmillan, 1980. (These are the notes for lectures at Uppsala university summer courses, 1919, translated and edited by Bengt Reuterskiöld and Michael D. Bordo.)

⁹⁰ Ibid., p. 119.

⁹¹ Ibid., p. 123.

⁹² Ibid., p. 124. Wicksell was much in favor of the League of Nations. His wife Anna Bugge worked for the League, spending time in Geneva, as the first woman becoming a diplomat in the Swedish Foreign Service.

⁹³ This debate is covered by Anders Östlind, *Svensk samhällsekonomi 1914-1922*. Stockholm: Svenska Bankföreningen, 1945. During the war, Wicksell focused on monetary issues, putting his other arguments and views aside, see Gårdlund, *The Life of Knut Wicksell*, p. 301.

⁹⁴ Although being highly critical of the policy of the Riksbank, Wicksell had a positive relationship to Victor Moll, head of the Riksbank. Moll financed Wicksell’s UK trip in 1916 and Wicksell wrote a report from it to Moll.

⁹⁵ Wicksell’s influence on Keynes is summarized in Mauro Boianovsky, “Knut Wicksell”, in Robert W. Dimand and Harald Hagemann, (eds), *The Elgar Companion to John Maynard Keynes*. Cheltenham and Northampton: Edward Elgar, 2019.

⁹⁶ Gårdlund, *The Life of Knut Wicksell*, p. 295.

The German reparations and the peace treaty of Versailles eventually attracted Wicksell's attention. The Wicksell archive at the University Library of Lund contains no less than half a dozen manuscripts on this issue, often overlapping in contents. They give the impression of being different versions of the same manuscript. The common theme of these manuscripts is that the German reparations should be discussed from a Malthusian perspective.

In May 1921, Wicksell speaks out for the first time on German reparations judging from the first sentence of an unpublished manuscript, "*Det tyska skadeståndet*" (The German reparations).⁹⁷ "In contrast to most of my writing fellow-countrymen, I have not expressed my opinion about this subject as long as the issue has remained unsettled. As the provisions now are a fait accompli, I take the liberty to present some simple thoughts."⁹⁸ Wicksell adopts a humble tone; his thoughts are "hypothetical" when he tries to clarify how he looks upon the issues.

In Wicksell's opinion, there are two faulty arguments in the popular discussion in Sweden as well as in Germany concerning the German reparations. According to the first, Germany would be pressed down to a nation of proletarians or even of slaves where the whole population would be forced to "superhuman deprivations as well as superhuman efforts" to fulfill the demands of the victorious powers. The second view suggests that the victors of the war will not benefit from the reparations as their industries will suffer from harsh German competition as Germany tries to pay them reparations. Even neutral countries will be hit by this struggle.

Wicksell rejects both arguments by the use of an example of a French worker, killed in the war or being an invalid, who produced luxury goods for export to Germany before the war. Germany paid by exporting consumables to the French worker and his family. Due to the peace treaty, Germany is obliged to support the family of the French worker. After the war, the production by the French worker has stopped while the consumption in Germany of French luxury goods has ceased as well. Instead, wealthy Germans pay for the reparations through the export of consumables to France. The German worker receives his salary as before the war. He is not being enslaved, nor is world trade disrupted. Thus, Wicksell dismisses the first argument although the indemnity is the largest in world history.

Concerning the second argument, inspired by a recent article in *Dagens Nyheter* of April 29 by Georg Gothein, German Minister of Finance, Wicksell turns to the savings of wealthy Germans.⁹⁹ According to Gothein, these savings are not available for the reparations, instead, they must be used for "new housing, new household utensils and working tools" for the ever-growing German population. Wicksell notes that "if this is correct even for me the reparations would appear to be an insolvable problem".

⁹⁷ This manuscript gives the best summary of Wicksell's analysis of the German indemnity. It is edited and reprinted as manuscript 3.2 in Jonung, Hedlund-Nyström and Jonung, *Att uppfostra det svenska folket*.

⁹⁸ Most likely, Wicksell refers to the agreement in early May 1921 concerning the size of the reparations to be paid by Germany.

⁹⁹ Georg Gothein was German Minister of Finance for a short period in 1919. He resigned in protest to the Treaty of Versailles.

At this juncture, Wicksell reverts to his Malthusian view, suggesting that there is no reason for Germany to allow its population to increase. Rather, he regards it as already “too big and preferably to be reduced”. Germany should aim at a stationary population, implying that the savings of Germans previously destined for new housing could instead be sent abroad as payment for the reparations. In this case, “even if it seems paradoxical”, there would be no need to reduce German consumption of either consumables or luxury goods, unless in the very short run when Germany has to restore its production and care for its invalids and the families of war casualties.

Wicksell goes one step further in his praise of a stationary population: “It would liberate our continent from its principal danger of war.” This would allow for a general decline of government expenditures on armaments to such an extent that the Entente may accept a reduction of the volume of reparations to be paid by Germany. The Malthusian message is summarized in the following straightforward way: “All things considered, the regulation of the population in Western Europe is our foremost guarantee of peace without which all treaties are illusory.”

Would the “danger from the East” be more imminent if Western Europe reached a stationary population?¹⁰⁰ Wicksell is not worried as the Bolsheviks had proved themselves to be “extremely zealous Malthusians”, reducing the birthrate in Russia to less than a fourth of the level before the war.

6.3 The debate between Wicksell and Keynes

As mentioned earlier, following the publication of *The Economic Consequences*, Keynes was invited to serve as a columnist in the leading daily *Dagens Nyheter*. In the years 1920-23, he regularly published contributions translated into Swedish, one in 1920, ten in 1921, eight in 1922 and five in 1923.¹⁰¹

On August 18, 1921, Keynes announced in *Dagens Nyheter* a set of columns on the international economic outlook, the first one dealing with the new agreement on German reparations, “*Ekonomiska framtidsperspektiv*” (Economic forecasts) with the subtitle “*Den nya skadeståndsuppgörelsen*” (The new reparations settlements).¹⁰² These articles were part of a

¹⁰⁰ “The danger of the East”, a concept used in Swedish public debate, refers to the fear of Russia as the arch-enemy of Sweden. Earlier, Wicksell had challenged public opinion with his proposal that Sweden should be part of Russia in order to civilize Russia. See Gårdlund, *The Life of Knut Wicksell*, pp. 145-147.

¹⁰¹ See Leif Kihlberg, *Dagens Nyheter och demokratins genombrott II: Seglar sin egen sjö 1911-1921*. Stockholm: Albert Bonniers Förlag, 1960, p. 190, and Ivar Ljungquist, *Ur Dagens Nyheter Historia 3, 1922-1946*. Stockholm: Albert Bonniers boktryckeri, 1954, p. 364. See also Jarl Torbacke, *Dagens Nyheter och demokratins kris 1922-1936: Friheten är vår lösning*. Stockholm: Bonniers, 1972. The foreign policy editor of the newspaper, Johannes Wickman, was on the French side in the reparations debate.

¹⁰² Keynes had planned this series already in May 1921 according to Robert Skidelsky, *John Maynard Keynes: The Economist as Savior 1920-1937*. London: Macmillan, 1992, p. 27.

worldwide syndication.¹⁰³ The Swedish translation was actually published three days ahead of the English version, appearing on August 21 in the *Sunday Times*. The English version had the title “New reparations settlement: Can Germany pay?”¹⁰⁴

In this first contribution, Keynes focused on the agreement on reparations of May 11, 1921, welcomed by many as a definite and lasting settlement. However, in Keynes’s opinion, this was a faulty interpretation although it was an improvement compared to the Versailles Treaty as the size of the indemnity was reduced. Instead, he argued that the agreement was provisional; it would require a revision already in 1922, the following year, as Germany would fail to pay the required reparations.

Keynes proceeded to validate this conclusion by analyzing the implications of the agreed total annual debt burden for Germany of 500 million dollar plus an export fee of 26 percent of the value of German exports. Anticipating a likely volume of German exports of 1,500 million dollars, giving rise to 390 million dollars in export fees, Keynes claimed that it would be impossible for Germany to pay 890 million dollars between May 1921 and May 1922. It was “unavoidable” that some day between February and August 1922 Germany would not be able to pay.

Focusing on “the near future”, Keynes proved his point by analyzing the impact of the reparations agreement from three “perspectives”; first through the current account, next through the German federal budget and finally through the income of the German people.

With an export of 1,500 million dollars, Germany could not reduce its imports, around 1,300 million dollars in 1920, to such an extent that it would be able to pay 890 million dollars. This would require a doubling of its exports without any increase in its imports, including the effects of the export fee. Keynes seals his argument with a rhetorical question: “Would anyone believe that this is possible?”, implying that the answer is an obvious no.

Next, Keynes focuses on the budgetary implications of the reparations agreement. As the German government was obliged to pay the reparations by taxation, this would require that government revenues were doubled and government expenditures were cut by half. “Does anyone believe this to be feasible” is Keynes’s question.

Finally, Keynes compares the annual reparations to the German per capita income, finding that the reparations would represent an enormous burden of taxation; likely between half and two thirds of the income would be taken in taxes, reducing the German standard of living severely. “Would any government in the world ever with flogging and scorpions in such a case extract from its people close to half of its income?”

¹⁰³ The five articles are reprinted in chapter 12, *Europe’s Economic Outlook*, in Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, XVII. The articles were printed in Germany, France and the United States according to *ibid.*, p 242. No mentioning is made of the Swedish version in *Dagens Nyheter*.

¹⁰⁴ When summarizing Keynes’s article above, we rely primarily on our translation from Swedish to English to capture the message that caught Wicksell’s attention.

Keynes ends his column in the following way: “My primary conclusion is thus that the new reparations settlement grants a breathing space until 1922, but contains from then on no more possibility of permanence than its predecessors.”

The article by Keynes had an immediate and substantial international impact. The Paris correspondent of the *Sunday Times* wrote “Rarely – probably never in the history of international politics – has a single and opinionative article had such far-reaching effects”.¹⁰⁵ The article heralded a series of depressing events according to Robert Skidelsky: the German currency depreciated rapidly, German hyperinflation began and the German government asked for a moratorium on reparations before the close of 1921. In short, Keynes made a correct forecast.¹⁰⁶

Keynes’s *Dagens Nyheter* article of August 18 caught Wicksell’s attention. On August 27, he published a reply in *Dagens Nyheter*, the only case of a public exchange of views between the two economists.¹⁰⁷ Initially, Wicksell notes that Keynes’s column is very convincing, “but his calculations like those of former minister Gothein suffer from a fundamental mistake which makes the result illusory”. They assume that the enormous German reparations must represent an additional economic burden on Germany. If this view is correct, Wicksell would be “the first to agree that this requirement is an absurdity that should be abolished”. Most Germans lived in poor conditions before the war. Now, the war has made their standard of living even worse. It is impossible to add more burdens upon this “unhappy” people.

Next, Wicksell presents his Malthusian solution, the same as in his unpublished manuscript from May 1921, now supported by additional statistics. The German population grew by 900,000 annually during the years preceding the war. This high growth rate required enormous investment in housing and infrastructure like tramways and railways, financed by German savings. If this volume of savings could be used for reparations instead, after proper readjustment of the German economy, the consumption of Germans need not be restricted.

Wicksell returns to Keynes’s rhetorical question, framed as “Does anybody believe that it would be possible for Germany to double its present exports without any increase in its imports?”, answering with a yes – with some qualifications for the most immediate future. His yes hinges upon that all workers involved in housing and infrastructure would be moved to other industries. Such a transformation of the German economy would most likely allow a doubling of its exports with only a minor rise in imports. This step requires that the growth of German population is arrested.

Wicksell suggests that the German population might soon be stationary. German birthrates were falling before the war and the war had reduced the size of the German population. As a

¹⁰⁵ Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, XVII, p. 248.

¹⁰⁶ Skidelsky, *John Maynard Keynes: The Economist as Savior 1920-1937*, p. 90.

¹⁰⁷ Knut Wicksell, “Det tyska skadeståndet”, *Dagens Nyheter*, 27 August 1921.

stationary population is able to save more than a growing population and as its savings can be used for reparations to a larger extent when the need for investment in housing and infrastructure is smaller, Wicksell looks “much more optimistic on the solution to the problem of reparations than professor Keynes does” – assuming that Germany is given some respite, preferably through a “global credit operation”.

In addition, if German population turns stationary, Wicksell believes that Germany will immediately cease to be a danger for peace. In that case, the Entente may even cancel a greater or lesser share of the reparations. “Time will tell”, according to Wicksell.

Wicksell ends by two statements. First, he would be happy if Keynes would consider his arguments presented above in any of his future columns in *Dagens Nyheter*. Second, the reparations agreement suffers from a major weakness that nobody has identified so far. The payments are to be settled in US dollars, that is, in gold. As the future value of gold is unknown, and a sharp rise cannot be excluded, the burden of the reparations could be much heavier than initially intended. It is “almost inconceivable” that this “great danger for Germany” has not been averted. The same holds for all the debt of the Entente to United States and all incurred debt obligations unless initially settled in gold.¹⁰⁸

On August 28, 1921, Keynes published a new column in *Dagens Nyheter*, with the subtitle “*Skadeståndsuppgörelsen och världshandeln*” (New reparations settlement: the effect on world trade), in which he addressed the fear in England for a sharp rise in German exports, hurting British industry when Germany is trying to fulfill the requirement of the new agreement on reparations.¹⁰⁹ He dismissed this view thoroughly while discrediting the agreement. The end result: Germany “will not be able to pay what the allies require”.

The long duration of the reparations was a particular problem. “Who believes that the allies under one or two generations would be ready to exert such coercion on the German government or the German people so that it will be forced to slave labor at a striking extent? Nobody believes this in all honesty, not anyone.” Keynes ends his column by stating that if the allies continue for a few years with a policy that they will have to abandon anyway they will “severely disturb the normal equilibrium in world trade and in this way make us all poorer”.

In an unpublished, not finalized manuscript, entitled “*Skadeståndet och världshandeln*”, Wicksell comments on Keynes’s column of August 28, agreeing with the basic arguments made by Keynes.¹¹⁰ He suggests that Keynes should have paid more attention to the distortions created by the export fee of 26 percent. True to his Malthusian predilection, Wicksell ends his

¹⁰⁸ In a footnote to his column, Wicksell points out that Keynes does not consider the claim that rising German exports will submit other countries to “dangerous competition”. For this reason, Wicksell does not discuss this argument, dismissing it is irrelevant as the reparations are intended to fill a shortage caused by the war in the provision of goods of the Entente. In his unpublished manuscript of May 1921, Wicksell rejected this argument in more detail.

¹⁰⁹ This article is reprinted in Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, XVII, pp. 249-257.

¹¹⁰ Knut Wicksell, “*Skadeståndet och världshandeln*”, September 1921, unpublished manuscript 3.3. reprinted in Jonung, Hedlund-Nyström and Jonung, *Att uppfostra det svenska folket*.

manuscript by claiming that the sharp growth in the German population prior to the war was the sole cause of the British complaints concerning German industrial competition. As long as nativity remained high in Germany and England, the general welfare of the two countries was kept at bay.

On October 15, 1921, Wicksell writes to Keynes with respect to his first column in *Dagens Nyheter*.¹¹¹ Wicksell's article in *Dagens Nyheter* of August 27 was apparently forwarded to Keynes who responded in a letter sent to Wicksell as well. Now, Wicksell notes that Keynes stresses that he was "dealing only with the *near future*". Wicksell continues:

If so, there is no quarrel between us, because I am also of the meaning that for the nearest difficult years it will be next to impossible for Germany to pay the damages if she not gets assistance from other quarters, either in the form of credit or by selling its real property to foreigners. But to my understanding You were speaking of Germany's capacity of pay in general; this at any rate is the case in Your well-known book: *The economic consequences of the peace*.

Wicksell suggests that Keynes is too kind to Germany, "a former enemy". It would be wrong if "England and France were ruined by the war and Germany thriving". Next, he comments on Keynes's estimates of Germany's capacity to pay in *The Economic Consequences*, suggesting that they are deficient. Finally, Wicksell presents his view that if the German population continues to grow "Germany has hardly any power to pay damages, but for my part I cannot see any reason *why* it should increase its numbers".

Keynes responded swiftly in a letter of October 26.¹¹² First, he stresses that his newspaper articles deal with the near future due to limitations of space and that his book dealt with "Germany's capacity to pay in general". Next, addressing Wicksell's main objection, Keynes is not convinced at all.

I entirely agree that when one is dealing with the wider subject it is necessary to pay attention to your argument. I agree an important part of Germany's pre-war savings were required to look after the growing population and that economy in this respect would increase the surplus available for other purposes to a certain extent. But I believe I could produce a hundred reasons [...] for thinking that in practice this factor cannot be quantitatively important. Let me remind you in particular that additional house room is mainly required, not for new-born babies, but for young couples growing up and marrying. There is therefore a very material time-lag between a decrease in the birth rate and a decrease in the number of couples growing up and marrying.

¹¹¹ This letter is summarized in Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, XVII, pp. 279-280. The editor claims that Wicksell wrote to Keynes about the series of articles appearing in *Dagens Nyheter*. However, Wicksell wrote only about the first of the series.

¹¹² This letter is published *in extenso* in Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, XVII, pp. 280-281.

Keynes does not believe that Wicksell's proposal would find acceptance: "Nor [...] do I think that it would be an argument which the world would care to approve that by largely abandoning the production of babies, who are admittedly a considerable expense to their parents, Germany could somewhat increase her surplus for reparation purposes [...]." Although he was a neo-Malthusian, admirer of Thomas Malthus, and proponent of birth control, Keynes was not ready to go along Malthusian lines as far as Wicksell when analyzing the reparations problem.¹¹³

Keynes's reply did not dampen Wicksell's enthusiasm for Malthusian policy solutions. In three unpublished manuscripts from 1922, 1923 and 1924, he repeated his message that the German reparations are primarily a population issue. If Germany obtains a stationary population, it would be able to pay the reparations in due time. With a growing population, this will be impossible.¹¹⁴

7. Bertil Ohlin on the German reparations and Keynes

At the age of 16, Bertil Ohlin entered Lund University to study economics in the autumn of 1915, the very last year of Wicksell's service as professor. In his memoirs, Ohlin notes that Wicksell's lectures, framed for law students and dealing with German agricultural issues, were "completely uninteresting" for Ohlin as well as for Wicksell.¹¹⁵ Upon retirement, Wicksell left for Stockholm where Eli Heckscher, professor in economics at the Stockholm School of Economics, had founded the Political Economy Club (*Nationalekonomiska klubben*) to give Wicksell a forum where he could meet and discuss with economists in the capital.

After graduating in Lund in 1917, Ohlin also moved to Stockholm to get a degree in business administration (*civilekonomexamen*), an exam that only the Stockholm School of Economics offered in those days. Ohlin quickly gained the confidence of Eli Heckscher who gave him generous support and advice throughout the 1920s. After two years, Ohlin moved to Gustav Cassel at *Stockholms högskola*, later Stockholm University, to work towards a doctorate. In 1922, Ohlin's licentiate thesis, the first step towards a doctorate, on international trade was accepted, merging central ideas from his two mentors, Heckscher and Cassel.

At the recommendation of Cassel, Ohlin submitted to *The Economic Journal* a summary of his 1922 thesis, containing in Ohlin's words the "core of my work" on the theory of international

¹¹³ On Keynes's neo-Malthusianism and unemployment, see Skidelsky, *John Maynard Keynes: The Economist as Saviour 1920-1937*, p. 632.

¹¹⁴ Knut Wicksell, "Tyska skadeståndet – en befolkningsfråga", 1922, "Tysklands betalningskraft", 1923 and "Dawesplanen", 1924; unpublished manuscript 3.4, 3.5 and 3.6 reprinted in Jonung, Hedlund-Nyström and Jonung, *Att uppfostra det svenska folket*. In 1926, Wicksell argued again that world peace could only be accomplished by a fall in population growth, see Knut Wicksell "Befolkningsfrågan och världsfreden", *ibid.* 4.10. The relationship between Wicksell and Keynes was probably strained after Keynes, as editor of *The Economic Journal*, politely rejected a manuscript by Wicksell on unemployment in Ricardo's model in January 1924. Keynes suggested to Wicksell that "time has gone by for a criticism of Ricardo on purely Ricardian lines". Instead, modern approaches should be adopted. Wicksell prepared a letter in response but it was apparently never posted to Keynes. Eventually, the manuscript was published in 1981, see Lars Jonung, "Ricardo on Machinery and the Present Unemployment: An Unpublished Manuscript by Knut Wicksell", *The Economic Journal*, 91:361, 1981.

¹¹⁵ Ohlin, *Ung man blir politiker*, p. 46.

trade. A few weeks later, he received his manuscript in return with a refusal letter from Edgeworth, co-editor with Keynes of *The Economic Journal*. Ohlin found a small note that was apparently intended for Edgeworth: “This amounts to nothing and should be refused. J. M. Keynes.” Ohlin remarks in his memoirs: “I keep this little note as a gem”, suggesting that Keynes was not familiar with the theory of international trade at this time.¹¹⁶ Most likely, this was the first contact between Ohlin and Keynes.¹¹⁷

Two years later, Ohlin defended his doctoral thesis on the theory of international trade, developing ideas from his licentiate.¹¹⁸ Shortly after, at the age of 25, he was appointed professor at Copenhagen University, accepted Danish citizenship and moved to Denmark. He began to publish on current affairs in both Danish and Swedish newspapers while preparing an extended version in English of his 1924 thesis written in Swedish.

7.1 Ohlin on the German reparations in *Index* in 1928

Ohlin started to contribute on a regular basis to *Index*, a journal founded in 1926 by the *Svenska Handelsbanken*, a leading commercial bank headquartered in Stockholm. *Index* had an international circulation available in English in addition to its Swedish version.¹¹⁹

In 1928, Ohlin addressed – as far as we have seen for the first time – the German reparations in two articles in *Index*. The analysis presented at this point of time is of central importance as it moved into the famous Keynes-Ohlin debate one year later. In addition, Ohlin gives a much longer and more detailed description of his views of the transfer problem here than in his exchange with Keynes in 1929 – all in all 44 pages in *Index* compared to seven in *The Economic Journal*, although these pages are a bit longer than in *Index*.

In March 1928, Ohlin published his first article of two as “The Reparations Problem. I. The economic development in Germany since the stabilization and the Dawes plan”.¹²⁰ His point of departure is that the transition period of the Dawes plan for the German economy to recover from the Ruhr occupation and hyperinflation will come to an end on the first of September 1928.¹²¹ From then on definitive arrangements of the reparations should be reached based on the experience of the transition period.

¹¹⁶ Bertil Ohlin, *Bertil Ohlins memoarer 1940-1951: Socialistisk skördetid kom bort*. Stockholm: Bonniers, 1975, 107-108.

¹¹⁷ Ohlin visited Cambridge UK in 1922 on his way back to Sweden from a long stay at Harvard. He hoped to see Keynes but failed to get in touch with him as Cambridge was in recess.

¹¹⁸ Bertil Ohlin, *Handelns teori*. Stockholm: AB Nordiska bokhandeln, 1924, translated into English as “The Theory of Trade” and published in Harry Flam and June Flanders (eds.), *Heckscher-Ohlin Trade Theory*. Cambridge and London: The MIT Press, 1991, pp. 75-214.

¹¹⁹ According to Ohlin’s memoirs, *Index* also appeared in a German version. No such version has been found by us, however.

¹²⁰ Bertil Ohlin, “The Reparations Problem. I. The economic development in Germany since the stabilization and the Dawes plan”, *Index*, no. 27, March 1928, pp. 2-13.

¹²¹ The Dawes plan went into effect in 1924 in order to solve temporarily the reparations issue. It allowed for an end of the occupation of the Ruhr area and an export of US capital to Germany. However, the size of the reparations was not decided upon in the Dawes plan. The final settlement of the reparations was postponed until the adoption of the Young plan in 1929.

After an account of the evolution of the German economy during the first years of the Dawes plan, Ohlin concludes that “there has not been time, as the Dawes committee imagined there would be, to gain any direct experience of the economic possibility of the transfer”. The main reason for this was the large volume of capital flow from the US to Germany, not expected by the signers of the Dawes plan. Instead, as the next step after reviewing the past performance of the German economy, Ohlin wants to focus on “matters of principle” stating that “with the aid of the theory of international capital movements it is possible to form an opinion as to the financial policy that is best calculated to promote the reparations payments”.¹²²

The second and subsequent article appeared the April issue of *Index*, entitled “The Reparations Problem. II. General views of international movements of capital”, is a lengthy survey and comparison between the “orthodox theory” of international capital movements and the theory promoted by Ohlin.¹²³

In Ohlin’s view, the orthodox theory advocates that a country that wants to export capital must create an export surplus of goods by lowering its export prices, for example, by a restrictive central bank policy reducing the general price level, reducing imports as well. Lower prices will reduce the price of exportables but it is not certain that the volume of exports will rise enough to obtain a sufficient export of capital.¹²⁴ According to the orthodox theory, international price movements are thus the key to the transfer of capital from one country to another.

Ohlin suggests that the orthodox theory has influenced those who hold the view that the German reparation payments are “impracticable” – not least the Dawes Committee. However, Ohlin states “that the orthodox view is not quite correct, because it fails to take into consideration one fact of great importance.”¹²⁵ This fact is that

When for some reason or other a country B exports capital to another country A, this means that *B places purchasing power at the disposal of A*. (Ohlin’s italics). The latter’s demand for goods must consequently be greater and B’s demand less than before. The decisive point for the machinery of capital movements is, on the contrary, that the demand has undergone a radical change.¹²⁶

Subsequently Ohlin, using for simplification a model of two countries and three goods, export, import and home-market goods, explains the role of demand changes, both in the short and long run. The analysis is based on his theory of international trade as seen from a footnote:

¹²² Ibid., p. 13.

¹²³ Bertil Ohlin, “The Reparations Problem. II. General views of international movements of capital”, *Index*, no. 28, April 1928, pp. 2-33.

¹²⁴ According to Ohlin, John Stuart Mill should be regarded as a major proponent of the orthodox theory. See Ohlin, *ibid.*, p. 3. In short, Ohlin meant that the orthodox theory was the classical theory of international trade based on classical value theory as seen from the English translation of Ohlin’s dissertation “The Theory of Trade”, pp. 200-206 in Harry Flam and June Flanders (eds.), *Heckscher-Ohlin Trade Theory*, Cambridge and London: The MIT Press, 1991.

¹²⁵ Ibid, p. 3.

¹²⁶ Ibid., p. 4.

For a more detailed presentation of the problems connected with the theory of the international capital movements I am obliged to refer to my book “Interregional and International Trade”, Harvard University Press, Boston, which is due to appear in the near future.¹²⁷

Ohlin concludes that in the adjustment process the primary effects are due to demand changes and the secondary effects are driven by relative price movements. In contrast to Ohlin’s model, the orthodox view ignores the effects of demand and looks only at price effects.

In the next section, entitled “The reparations payments, their mechanism and possibilities”, Ohlin applies his “somewhat abstract” analysis to form “an opinion of the reparations problem and the Dawes plan”.

Here Ohlin has a fairly optimistic view on Germany’s capacity to pay reparations:

As far as the reparations problem is concerned, the annuities laid down in the Dawes Plan represents about 5-6 % of the German national income. This is a comparatively modest figure. Payments of this size would not by any means involve a revolutionary adjustment of the economic life of Germany.¹²⁸

Ohlin supports this conclusion by looking at the experience of capital imports and exports of countries like Argentina, Canada and the United States. He argues that “the mercantilistic tendencies of the economically untrained person” prevent an understanding of the role of changes in purchasing power and in demand. Finally, Ohlin recommends that an international conference “to discuss reparations and inter-allied debts should be put into effect as soon as possible”.¹²⁹

We find it remarkable that these two 1928 articles have not been given any attention in the international literature on the transfer problem; instead they have been completely overlooked as far as we can see. True, they are mentioned in a letter from Ohlin to Keynes in May 1929 – Ohlin even sent them to Keynes – but those who have assessed the debate between them like Paul Samuelson and Robert Mundell only rely on *The Economic Journal* articles by Ohlin to describe Ohlin’s arguments.¹³⁰ The 1928 articles bring out more strongly than *The Economic Journal* articles the impact of Ohlin’s ongoing work on the theory of international trade and international capital movements when analyzing the transfer problem and the Dawes plan.

¹²⁷ Ibid., p. 10. However, the book did not appear “in the near future”. It was published in 1933 as Bertil Ohlin, *Interregional and International Trade*. Cambridge: Harvard University Press. In his memoirs, Ohlin explains the delay i.a. by the many comments he got from Tord Palander, forcing him to make so many changes in the proofs of the book that he actually ended up paying Harvard University Press for the printing of it. See Ohlin, *Ung man blir politiker*, p. 157. Ohlin notes that it was “funny” that the least positive review of his magnum opus appeared in *The Economic Journal* where Keynes had asked an elderly economist and statistician – not a specialist in international economics – to prepare the assessment; *ibid.*, p. 158.

¹²⁸ Ohlin, “The Reparations Problem. II”, p. 21.

¹²⁹ Ibid., p. 33.

¹³⁰ Ohlin mentions the *Index* articles briefly in his memoirs.

7.2 Ohlin criticizes Keynes in 1929

In the autumn of 1928 an international committee, headed by Owen D. Young, an American industrialist, was organized to consider the final design of the system of reparations set up by the Dawes plan of 1924. The first meeting of the Young committee took place in February 1929. Inspired by this event, Keynes published in the March 1929 issue of *The Economic Journal* the lead article entitled “The German Transfer Problem”.¹³¹ This article inaugurated a debate between Keynes and Ohlin that holds a prominent position in the theory of international economics. It marked a new turn in the analysis of the German reparations, away from the approach dominating during the first ten years after the publication of *The Economic Consequences of the Peace*.

Following the division of the settlement of the reparations made by the Dawes committee into the budgetary problem – the taxing of the German people to obtain the indemnity – and the transfer problem – turning the German government proceeds into payment to the Allies, Keynes focused on the transfer problem. Most likely, German wages relative to wages in the rest of the world would have to be reduced in order for German exports to expand. But experience gave no guide concerning the proper size of the fall in German real and money wages. Nor did the Dawes plan advice a route to reduce German wages.

In short, Keynes identified a number of obstacles to the necessary adjustment process; including the assertion that world demand for German exports was inelastic. Basically, he continued his critique of the reparations of the Versailles Treaty, suggesting a pessimistic scenario in which the transfer of reparations would run into major obstacles.

Upon receiving *The Economic Journal*, Ohlin “sat down immediately at the typewriter to prepare a critical comment”.¹³² It took him 5-6 hours to finish the first version. The arguments came straight from the *Index* articles from the spring of 1928. The next day he made some editing. He then wrote to Keynes on April 9:¹³³

Your article in the last issue of *The Economic Journal* has excited me so much, that I have been unable to resist the temptation to write a brief paper setting forth, why I think your conclusions are partly unfounded. I know that *The Economic Journal* is always full up and that the editors have to refuse many contributions. Yet, in view of the special interest which attaches to the reparation problem at present it does not seem quite unthinkable that you may be able to find room for my little paper in the June issue. I should of course be very grateful if you did.

¹³¹ John Maynard Keynes, “The German Transfer Problem”, *The Economic Journal*, 39:153. See also chapter 6, Search for a final settlement – the Young plan, 1928-1930, in Johnson (ed.), *The Collected Writings of John Maynard Keynes*, XVIII.

¹³² Ohlin, *Ung man blir politiker*, p. 154.

¹³³ Reprinted in Elizabeth Johnson (ed.), *The Collected Writings of John Maynard Keynes*, vol. XI, *Economic Articles and Correspondence: Academic*. London: MacMillan, 1983, p. 460.

Ohlin's letter set off a lively interchange between him and Keynes, written in a most respectful tone, where they tried to clarify the issues.¹³⁴ On April 18, Keynes replied "I shall be happy to print in *The Economic Journal* a comment or criticism from your pen on my recent article"; but first he wanted to discuss the effects on the German balance of trade of the payment of German reparations. Ohlin replies and adjusts in his manuscript according to Keynes's questions and comments.

A central passage in their pre-publication discussion is Ohlin's stress on the role of demand:

That is indeed my main point: the conditions of demand are changed. [...] Will you not agree that demand in both countries is changed directly through the change in capital movements? And that this makes it easier to bring about the necessary adjustment? [...] In your two letters nothing is said about the indirect effects of this change in demand conditions, except your statement about real wages mentioned on the top of this page. ... To make my position clear I am sending you two numbers of *Index*, where I have dealt at some length with the reparation problem.¹³⁵

In the final section of this letter, Ohlin refers again to the *Index* articles: "several well known economists have informed me that on the whole they share my view. So I cannot believe that it is all wrong."¹³⁶

Ohlin's reply was published in the June issue of *The Economic Journal*. Inspired by his theory of international trade, Ohlin stressed aggregate demand and price effects of transfers which were not considered by Keynes. Ohlin stated specifically that Keynes's approach appears to build upon classical barter theory. In short, Ohlin looks more optimistically on the possibility for Germany to pay its indemnity than Keynes.¹³⁷

In a rejoinder to Ohlin in the same issue, Keynes is not at all convinced by Ohlin's analysis with the reservation that he is not sure he understands it correctly. Keynes reiterates his arguments suggesting that his focus is on "the particular case of German Reparation payments", not on "the theory of international trade".¹³⁸ Ohlin replies in the September issue, once more with a comment by Keynes. Again Keynes and Ohlin are not able to reconcile their differences. Keynes notes: "As before, I find it extremely difficult to be sure just what he (that is Ohlin)

¹³⁴ The correspondence between Ohlin and Keynes is reprinted in Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, XI, pp. 460-475.

¹³⁵ Ibid., p. 466. The editor of *The Collected Writings* added a footnote about the two articles: "Presumably 'The Reparations Problem', 1928 and 'The Future Financial Relations between the U.S. and Europe', 1929". Most likely, Ohlin sent the two *Index* articles with the same title "The Reparations Problem", published in March and April 1928. "The Future Financial Relations between the U.S. and Europe" published in the October 1928 of *Index* is of hardly of any interest in the debate between Ohlin and Keynes.

¹³⁶ Johnson, (ed.), *The Collected Writings of John Maynard Keynes*, XI, p. 467.

¹³⁷ Bertil Ohlin, "The Reparation Problem: A discussion", *The Economic Journal*, 39:154, 1929.

¹³⁸ John Maynard Keynes, "A rejoinder", *The Economic Journal*, 39:154, 1929, p. 179.

means.”¹³⁹ In short, Ohlin and Keynes were not in 1929 able to establish a common ground on the transfer problem.

The comments by the Swedish economists on Keynes and the German reparations ended with the exchange between Ohlin and Keynes in 1929. This was the high peak of their interaction. The whole issue of reparations lost in attention with the arrival of the Great Depression and the Nazi take-over in Germany. The Lausanne conference of 1932 settled the reparations issue in the sense that no more requests were made on Germany.¹⁴⁰ In 1933, Hitler took power and the march towards World War II began.

7.3 Who was right – Keynes or Ohlin?

The Keynes-Ohlin controversy about the transfer problem continues to attract the attention of the economics profession. Who was right? Judging from post World War II evaluations, Ohlin won the debate convincingly. This conclusion is supported by economists like Paul Samuelson and Robert Mundell.

Comparing the “unknown David from Sweden against the world famous Goliath”, Paul Samuelson in his evaluation of Ohlin’s scientific contributions sides with Ohlin. By bringing in income effects, Ohlin was able to disclose the weaknesses in Keynes’s analysis. “Goliath’s bluster and political resentment against the Treaty of Versailles were not able to upset the neutral rationality of the youthful David!”¹⁴¹

In the volume celebrating Ohlin at his centennial, Mundell praises Ohlin and criticizes Keynes: “The editor of the *Economic Journal* – Keynes himself – should have had it (that is his March 1929 article) properly refereed! [...] Keynes’s model completely ignored income and expenditure effects.”¹⁴² According to Mundell, “Keynes much later, in a half-hearted way, perhaps bolstered by the fact that the entire reparations episode had proved a fiasco, admitted his mistake. The field of the battle logic lay with Ohlin!”¹⁴³

¹³⁹ Cited from John Maynard Keynes, “Mr Keynes’ Views on the Transfer Problem, *The Economic Journal*, 39:155, 1929, p. 407.

¹⁴⁰ In the early 1930s, Cassel remained a staunch opponent of the German reparations as set out in the Young Plan of 1929. He viewed the claims for reparations “not only as economic impossible but also as a threat to the economy of the whole world”. See Gustav Cassel, *I förnuftets tjänst: En ekonomisk självbiografi*. Stockholm: Bokförlaget Natur och kultur, 1941, p. 316. In July 1932, he praised the Lausanne conference for ending the policy of German reparations, suggesting that the recovery of the world economy can start, first of all by abolishing the “extreme protectionism” and arresting the decline in commodity prices, *ibid.*, pp. 321-322.

¹⁴¹ Paul A. Samuelson, “Bertil Ohlin (1899-1979)”, *The Scandinavian Journal of Economics*, 83, 1981, pp. 365, 367.

¹⁴² Robert Mundell, “Keynes and Ohlin on the Transfer Problem”, in Ronald Findlay, Lars Jonung and Mats Lundahl, (eds.), *Bertil Ohlin. A Centennial Celebration (1899-1999)*. Cambridge: MIT Press, 2002, p. 245. As editor of *The Economic Journal*, Keynes was reluctant to use referees. He trusted his own judgement. See Donald E. Moggridge, *Maynard Keynes. An Economist’s Biography*. London and New York: Routledge, 1992, p. 209.

¹⁴³ *Ibid.*, p. 247. Mundell gives no reference to where Keynes admitted his mistake in the debate with Ohlin. However, in his memoirs, Ohlin notes that Keynes in a letter to him in January 1931 writes “I am sorry that my ignorance of the Swedish language has kept me ignorant about the work of Davidson and others. Concerning your argument that the payment of reparations creates a shift in the demand curve in the receiving country independent of any increase in the price level of that country, I think I do not have any other opinion”. (as translated from

Robert Skidelsky reaches a similar conclusion, stating that Keynes held a “pre-Keynesian” view of the transfer problem:

If we stick to the pure theory of the matter, Keynes was wrong and Ohlin was right. Keynes’s argument would be correct only if the transfer of capital left demand conditions in one or other or both countries unchanged.¹⁴⁴

In his discussion of the relationship between Keynes’s *General Theory* and the Stockholm School, Don Patinkin also stresses the pre-Keynesian analysis of Keynes in the Keynes-Ohlin debate on reparations:¹⁴⁵

there existed the paradoxical situation that it was Ohlin who was insisting on the necessity of taking into account the effect of an increase in “purchasing power” on demand – and that it was Keynes who was persistently denying the validity of the principle that was to become the major one of his *General Theory*.

Leonard Gomez, in a recent summary of the Keynes-Ohlin debate, concludes that Ohlin had a stronger case than Keynes.¹⁴⁶ In short, Keynes’s 1929 article was a continuation of his anti-reparations campaign started by *The Economic Consequences of the Peace*, a campaign not grounded on the unbiased use of data and theory.

7.4 Ohlin’s view of Keynes

Ohlin held Keynes in great esteem. In his memoirs, Ohlin looks back upon his contacts with Keynes, stating that “Keynes was the most versatile, talented and interesting scholar I have met”.¹⁴⁷ The two developed close contacts over the years.¹⁴⁸ One step was Ohlin’s recommendation to Keynes to arrange for the translation into English of Wicksell’s *Geldzins und Güterpreise*, at that time only available in German. Eventually, *Interest and Prices* appeared with a foreword by Ohlin thanks to the intervention of Keynes.¹⁴⁹

The debate on the transfer problem in 1929 fostered their relation. Ohlin appreciated that his academic contacts were bolstered by this discussion:

Ohlin’s text). Ohlin notes “But this is exactly what he [Keynes] had had during our earlier exchange of views.” See Ohlin, *Ung man blir politiker*, p. 156. Keynes’s letter suggests that he changed his view.

¹⁴⁴ Skidelsky, *John Maynard Keynes: The Economist as Saviour 1920-1937*, Appendix 2. The Transfer Problem.

¹⁴⁵ Don Patinkin, “On the relation between Keynesian economics and the “Stockholm School”, in Steinar Ström and Björn Thalberg (eds.), *The Theoretical Contributions of Knut Wicksell*, London: Macmillan, 1979, p. 9. Patinkin does not trace the roots of Keynes’s adoption of demand analysis in *General Theory*. The 1929 debate may be one source?

¹⁴⁶ Leonard Gomez, *German Reparations, 1919-1932: A Historical Survey*. Basingstoke: Palgrave Macmillan, 2010, Appendix A.1. The transfer problem: The Keynes-Ohlin debate.

¹⁴⁷ Ohlin, *Socialistisk skördetid kom bort*, p. 110.

¹⁴⁸ The interaction between Keynes and Ohlin is surveyed in Hans-Michael Trautwein, “Bertil Ohlin”, in Robert W. Dimand and Harald Hagemann, (eds), *The Elgar Companion to John Maynard Keynes*. Cheltenham and Northampton: Edward Elgar, 2019.

¹⁴⁹ Knut Wicksell, *Interest and Prices: A Study of the Causes Regulating the Value of Money*. London: Macmillan, 1936.

My debate with Keynes about the German reparations problem, and the theory for international movement of capital in 1929 was certainly largely responsible for this. It granted me, among other things, an extremely stimulating acquaintanceship with Keynes, with whom I exchanged opinions from time to time by letter, and now and again met in Cambridge and London during the years 1929-1937.¹⁵⁰

With rising unemployment at the end of the 1920s, Ohlin as well as Keynes turned to various proposals to foster employment. They reached roughly the same conclusions concerning public works and other policy measures. At a very early stage, Ohlin summarized Keynes's work in several newspaper articles in Danish and Swedish.

When visiting Cambridge to give a series of lectures, Keynes invited Ohlin to stay in his apartment.¹⁵¹ Another sign of appreciation between the two was Keynes's request to Ohlin to review his book *Essays in Persuasion* in *The Economic Journal*. Ohlin accepted and wrote favorably, although pointing out a "not insignificant theoretical mistake".¹⁵² According to Ohlin, Keynes never responded to this criticism.

In the autumn of 1936, Keynes and his wife visited Sweden, to give a lecture at the Political Economy Club. This lecture and meeting, considered by Rolf Henriksson to be "the high point in the history of the Political Economy Club",¹⁵³ was the first direct encounter between Keynes and the new and upcoming generation of Swedish economists where Keynes talked about his new theories and his departure from classical economics:

The audience's reception was perhaps not the one Keynes expected. [...] In greeting Keynes's presentation, Ohlin is also reported to have told Keynes with facetious malice that the Stockholm School economists had read his *General Theory* "with joy of recognition". Gunnar Myrdal reports how "one after another" of the younger economists "stood up and accused Keynes of being too classical". At first Keynes was amused, but as the call went down the row he betrayed an increasing degree of irritation."¹⁵⁴

In response to *General Theory* and at the invitation by Keynes, Ohlin prepared two long articles published by Keynes in *The Economic Journal* in 1937, comparing Keynes's approach to that of the Swedish economists, baptizing the Swedish School of macroeconomics as the Stockholm school of economics. Ohlin stated: "As in 1929, it became evident that entering into an academic debate with Keynes was an infallible way of attracting international attention."¹⁵⁵

¹⁵⁰ Ohlin, *Socialistisk skördetid kom bort*, p. 111.

¹⁵¹ However, Keynes's apartment lacked blinds which made Ohlin short of sleep, reducing his capacity to engage in discussion with Cambridge economists.

¹⁵² *Ibid.*, p. 107.

¹⁵³ Rolf Henriksson, "The Political Economy Club and the Stockholm School, 1917-1951", in Lars Jonung (ed.), *The Stockholm School of Economics Revisited*. Cambridge: Cambridge University Press, p. 42.

¹⁵⁴ *Ibid.*, pp. 41-42.

¹⁵⁵ Ohlin, *Socialistisk skördetid kom bort*, p. 109.

Ohlin believed that his two 1937 articles were read internationally as much as the 1929 articles on the transfer problem. He even prepared a third article but Keynes did not publish it.

8. Concluding discussion

Keynes's book on the *Economic Consequences of the Peace*, published in the Swedish language in early 1920, and the German reparations met with great interest in Sweden. Gustav Cassel, Eli Heckscher and Knut Wicksell, all deeply engaged in extramural activities in order "to educate the Swedish people", turned their attention to the Versailles Treaty and Keynes's views in a number of contributions. They were in contact with Keynes in the early 1920's on the German indemnity payments as well. David Davidson also turned his attention to Keynes's book, although addressing his colleagues rather than the general public.

Davidson was the first Swedish economist to publish a review of (the English edition) Keynes's book. He lauded Keynes's objectivity and honesty and accused the Entente of "a fatal breach of promise against Germany". In a following article, he pointed to the contradictory demands of the French government: the ambition to squeeze as much out of Germany and at the same time hurt Germany as much as possible. When Keynes's *General Theory* appeared, Davidson admiration waned. He argued that Keynes's ambition to solve the problems of unemployment and wealth and income distribution simultaneously would turn into a socialist experiment.

In 1916, Cassel visited Germany at the invitation of the German government and published a book favorable of Germany's economic power of resistance. In late 1918, he attacked the Entente demands on Germany for being contradictory: on the one hand demands for huge reparations which meant that Germany must achieve immense export surpluses, on the other hand an ambition to cut off Germany from trade with other countries. In early 1920, Cassel came back to these contradictions, which "Keynes in his book on the economic consequences of the peace has clearly demonstrated", and which could end in a European disaster.

In the years to come, Cassel continued his relentless campaign against the war reparations demands and his and Keynes's paths crossed several times. Among other things, he contributed articles to *The Manchester Guardian* supplements on reconstruction in Europe edited by Keynes. He wrote a memorandum with Keynes and other experts in which a settlement of the reparations issue was laid out as a prerequisite for the stabilization of the German Mark. However, gradually, particularly after Keynes's *General Theory* had appeared, Cassel's and Keynes's ways parted. Cassel designated Keynes's theory as being not at all general but a special theory of the sick British interwar economy.

Heckscher, who had been travelling across Europe during the war, wrote a review of Keynes's book under the headline "Too bad to be true" as soon as it had been published in Swedish. He portrayed Keynes as a "spiritually free man" and "independent gentleman", representing no particular interests and therefore "more credible than most", equipped with extraordinary theoretical, psychological and pedagogical abilities. Heckscher used powerful words to condemn the Treaty of Versailles: bondage, Inquisition, methodic destruction and Keynes's

parable of a Karthagian peace. His vision of the outcome of the treaty was even more apocalyptic than Cassel's: "It must be seen as very unlikely that the European civilization will survive [...] this coming twilight of the gods."

Heckscher was, in the early 1920s, an admirer of Keynes but their intellectual trails gradually went in different directions. He saw Keynes as turning into a modern mercantilist and his main objection to the *General Theory* was similar to Cassel's view. *General Theory* was not general but based on the experience of the permanently high interwar British unemployment.

Wicksell relapsed into the contentious Malthusianism of his youth when discussing the causes of war. In a 1919 lecture and in subsequent manuscripts on the war, he argued that the only way to preserve peace in Europe went through reduced population growth. At the same time, he speculated about declining birth rates having induced Germany to launch a preemptive military strike against its neighbors.

When analyzing the German reparations, Wicksell adopted a Malthusian perspective as well. He shared Keynes's view that Germany was not able to pay the indemnity required by the Entente. However, he promoted a solution to the reparations problem that he thought would make Germany able to pay without reducing the German standard of living. Germany should arrest its high population growth and move to a stationary population, in this way freeing resources from investment in housing and infrastructure for a growing population and transferring them into the required reparations.

A stationary German population would be the fundamental guarantee for peace in Europe. In return, Wicksell expected France and England to reduce or even cancel the German indemnity. In a letter to Wicksell, Keynes was not convinced: "this factor cannot be quantitatively important". In addition, the time lag involved by moving to a stationary population was large. Still, Wicksell continued to promote his Malthusian view in a set of manuscripts prior to his death in 1926.

Bertil Ohlin, Wicksell's, Cassel's and Heckscher's student, examined the reparations issue for the first time in 1928 in two previously overlooked articles in *Index*, a Swedish banking journal, applying the theory of international trade and capital movements that he presented in his doctoral thesis of 1924 and was developing for his forthcoming book in English. He held an optimistic view of Germany's ability to pay the indemnity of 5-6 percent of its national income according to the Dawes plan. He rejected Keynes's pessimism regarding the transfer problem although he did not mention Keynes by name in the two 1928 articles.

Ohlin was thus well prepared to write a comment when Keynes in 1929 – ten years after the publication of *The Economic Consequences of the Peace* – published an article on the German transfer problem. Using his path-breaking work on the theory of international trade, Ohlin was able to identify major weaknesses in Keynes's approach. According to Ohlin, Keynes did not pay sufficient attention to aggregate income effects of any reparations from Germany to the

Allies. This may appear surprising as Keynes during the Great Depression developed a macroeconomic theory giving aggregate income and aggregate demand a major role.

The Keynes-Ohlin debate turned into a classical controversy that still attracts attention. Ohlin emerged as having the strongest theoretical case, in short, with some exaggeration, as holding a Keynesian view while Keynes still remained true to a pre-Keynesian view – described by Ohlin as the orthodox approach. Ohlin was victorious – but only in theory. In reality, the Versailles Treaty was clearly a factor contributing to the so far worst political disaster in the history of mankind. Keynes had a sense of what might come, and so did Davidson, Cassel and Heckscher.¹⁵⁶

By the end of the 1920s, both Keynes and Ohlin moved into macroeconomics. Ohlin developed the Stockholm school of economics based on a neo-Wicksellian approach as an alternative to the *General Theory*. During the 1930s, a younger generation of Swedish economists, with Ohlin and Myrdal at the forefront, turned against their teachers, Cassel and Heckscher, regarding the proper measures to combat unemployment.¹⁵⁷

When Keynes began to move away from classical liberalism, Cassel and Heckscher distanced themselves from him. With the advent of *General Theory* in 1936, Cassel and Heckscher definitely turned against Keynes. The younger Swedish economists appreciated Keynes, but they, particularly Ohlin, were not content being his followers but claimed that they – due to the theoretical heritage from Wicksell – were on equal footing with him or even ahead of him.¹⁵⁸

Our survey of the contacts between Keynes and the Swedish economists brings out the important role played by *The Economic Journal* with Keynes as its editor. It was the most important scientific journal in economics in Europe in the interwar period. Wicksell, Cassel, Heckscher and Ohlin all published in *The Economic Journal*; Ohlin with two important contributions – his comment on the transfer problem in 1929 and his two articles on the Stockholm school of economics – while his first submitted manuscript dealing with his trade theory was rejected by Keynes in 1922.

A concluding speculation: Wicksell was not successful in the 1920's in the sense that his Malthusian views on the German reparations were – for good reasons – not taken seriously. However, he made a major impact on the generation of Swedish economists following Cassel and Heckscher. Here Bertil Ohlin, Gunnar Myrdal, Erik Lindahl, Erik Lundberg and others developed in the 1930s an alternative macroeconomic school prior to and simultaneously with

¹⁵⁶ The reparations as finally determined by the Young plan of 1929 contributed decisively to the rise of Adolf Hitler as described in Tobias Straumann, *1931: Debt, Crisis, and the Rise of Hitler*. Oxford: Oxford University Press, 2019.

¹⁵⁷ Karl-Gustav Landgren, *Den 'nya ekonomien' i Sverige: J.M. Keynes, E. Wigforss, B. Ohlin och utvecklingen 1927-1939*. Stockholm: Almqvist & Wiksell, 1960. See also various chapters in Lars Jonung, (ed.), *The Stockholm School of Economics Revisited*. Cambridge: Cambridge University Press, 1991.

¹⁵⁸ Bertil Ohlin, "Some Notes on the Stockholm Theory of Savings and Investment I", *The Economic Journal*, 47:185, 1937.

that of Keynes and his followers. However, the Stockholm school did not persist after World War II; instead the Keynesian macroeconomic theory became dominant for a long time.

Today, inflation targeting, based on Wicksell's cumulative process, represents the modern approach to central banking. Thus, neither Keynes nor the Stockholm school approach serves as guides for modern central banking. Instead, Wicksell stands out as the giant even putting Keynes in the shadow concerning present day framing of monetary policy.

Indeed, Wicksell's theory of the determination of the price level has made a remarkable ascent to prominence with the acceptance of inflation targeting starting in the 1990s, roughly one hundred years after the publication of *Geldzins und Güterpreise*. This fact invites the following highly speculative question: will Wicksell's neo-Malthusianism make a similar return? Will economists in the future adopt Wicksell's population theory to understand the conditions for a peaceful world with a balanced climate?

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