

From the gold standard to price level targeting: Swedish monetary policy in the daily press during the 1930s

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In September 1931, Sweden was forced to abandon the gold standard and the main objective of Sveriges Riksbank became to stabilize the domestic price level instead of upholding a fixed exchange rate. It was the first (and only) time a country had adopted such a policy of price level targeting. This article reviews the reports and the arguments presented in six leading daily newspapers in connection with and following Sweden's transition from the gold exchange standard to the paper standard. This provides an understanding of how the experiment developed and took shape, the positions held by different actors and how these positions changed, and what information the general public – in this sensitive childhood of democracy – had access to.

INTRODUCTION

In September 1931, Sweden was forced to abandon the gold standard and became a world pioneer by establishing a monetary regime aimed at stabilizing the domestic price level instead of upholding a fixed exchange rate. Sweden is thereby regarded as having anticipated much of the inflation targeting policy pursued by a number of countries – among them Sweden – from the 1990s and onwards.

The credit for Sweden's pioneering role is usually ascribed to Swedish economists working in the spirit of Knut Wicksell.¹ In the interwar era, these economists were exceptionally focused on policy analysis and they exerted great influence upon politicians, authorities and the general public. A prerequisite for the functioning of the unique price stabilization project seems to have been that it could unfold in connection with a lively public debate. In any case, this was how economists, politicians and other pundits acted.

The story of the origin and development of the Swedish monetary programme of the 1930s has been extensively told with the help of literature, official records and documents

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1 Knut Wicksell's norm of price stabilization, framed within *Geldzins und Güterpreise* 1898, stated that the central bank should keep the price level constant through the use of its discount rate.

from the Riksbank (Berg & Jonung 1999 and Jonung 1979a, 1979b, 1993).² The purpose of this article is to *complement* (but not recapitulate) the existing picture through an investigation into the treatment of the new policy in Swedish newspapers. The purpose is more precisely to conduct a review of the reports and the arguments presented in news articles, debate articles and editorials in six leading daily newspapers in connection with and following Sweden's transition from the gold exchange standard to the paper standard. The six papers are (in order of size of circulation) *Stockholms-Tidningen (ST)*, *Dagens Nyheter (DN)*, *Svenska Dagbladet (SvD)*, *Nya Dagligt Allehanda (NDA)*, *Social-Demokraten (SocD)* and *Göteborgs Handels- och Sjöfartstidning (GHT)*. *ST*, *DN* and *GHT* can be labelled liberal (in the European sense of the word), *SvD* and *NDA* conservative and *SocD*, of course, social democratic. Through these newspapers one can gain an understanding of how monetary matters were treated in news reports and editorials as well as of the positions of politicians and economists. Leading Swedish economists wrote regularly in these newspapers, Gustav Cassel in *SvD*, Eli Heckscher in *DN* and Bertil Ohlin in *ST*, but a few others also aired their views from time to time, above all Sven Brisman in *GHT* and Gunnar Myrdal (through interviews) in *SocD*.

Table 1. Important actors and their positions 1931-1937

Sven Brisman	Economist, professor at the Stockholm School of Economics
Gustav Cassel	Economist, professor at Stockholm University, emeritus from 1933
Carl Gustaf Ekman	Liberal politician, prime minister 1930-1932
Arthur Engberg	Social democratic politician, minister of education from 1932
Felix Hamrin	Liberal politician, minister of finance 1930-1932, prime minister in the autumn of 1932
Eli Heckscher	Economist, professor at the Stockholm School of Economics
Erik Lindahl	Economist, professor at the Gothenburg School of Business, Economics and Law from 1932
Gunnar Myrdal	Economist, professor at Stockholm University from 1933, social democratic member of the Riksdag from 1934
Bertil Ohlin	Economist, professor at the Stockholm School of Economics
Ivar Rooth	Governor of Sveriges Riksbank
Al Vanner	Social democratic politician, editor of <i>Tiden</i>
Ernst Wigforss	Social democratic politician, minister of finance from 1932
Gustaf Åkerman	Economist, professor at University of Gothenburg
Johan Åkerman	Economist, associate professor at Lund University from 1932
Anders Örne	Director-general of the Postal service, Social democratic member of the Riksdag until 1934

Note. When no years are given, the position is valid for the whole period 1931-1937. Years mentioned consequently only indicate that a position has begun or ended within this period.

A systematic review of these papers has been conducted from 20 September 1931, when Britain abandoned the gold standard, up to turn of the year 1931/32. Thereafter certain occasions in 1932, 1933 and 1937, when important decisions were taken and lively discussions on monetary policy unfolded, have been scrutinized. Furthermore, contributions

2 Other recent books touching upon these events with the Riksbank, politicians and international developments, respectively, in focus are Wetterberg (2009), Johnson (2010), Ohlsson (2010) and Ahlström & Carlson (2006).

from three leading economists, Cassel, Heckscher and Ohlin, have been investigated up to 1937.³

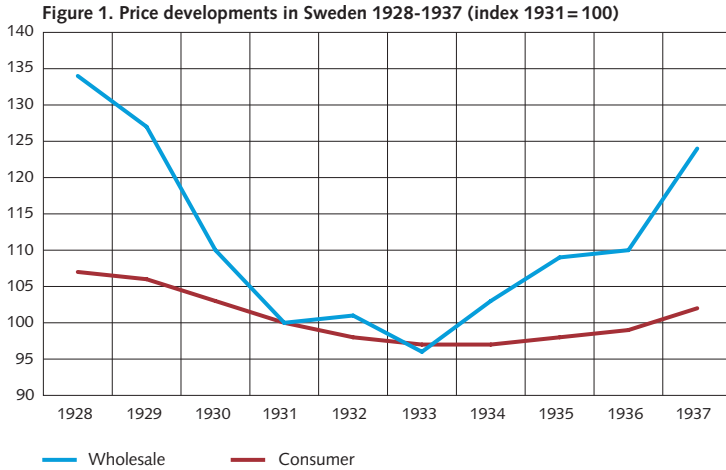
This article is a summary of a considerably more extensive Swedish version based on some 400 articles. It is not possible to account for all of those articles in a condensed English-language version. Hence, references are only given to articles with an explicit author. Anyone interested in a complete list of references will have to consult the Swedish version, which will be published by the Knut Wicksell Centre for Financial Studies at Lund School of Economics and Management.

BACKGROUND SKETCH

At the outbreak of World War I in 1914, the Riksbank suspended its obligation to exchange notes for gold. After the war, in 1924, Sweden was the first country in Europe to go back to gold. As the ambition was to resume the parity from 1914, a forceful deflationary policy was pursued. The consequences of this policy were unemployment and stagnation, which, according to Fregert and Jonung (2003, p 431), undermined confidence in the gold standard. Sweden, however, experienced seven good years (1924-30) and Eli Heckscher (1931, p 17) concluded in an analysis of Sweden's situation that "the monetary crisis has *not* given any reason to revise reasonably modest notions of the growth of Swedish wealth in the post-war era". Sweden had undeservedly been dragged into the world depression.

The Great Depression came into full bloom after the stock market crash in New York in the autumn of 1929. The economic progress of the preceding years had rested on a treacherous foundation, not least through the war reparation and debt demands which followed from the Treaty of Versailles. Gustav Cassel had repeatedly warned against the impending disaster when payments of unreasonable reparations and war debts caused an accumulation of gold in the United States and France and these countries "sterilized" gold instead of adhering to the principles of the gold standard, which led to a world-wide scarcity of gold and falling prices. The deflationary school, which argued that the falling prices must reach their bottom level before any improvement could occur, was according to Cassel (1941, p 137) the villain of the piece: "As nobody could tell [...] where the bottom was, the decline was bottomless."

3 Bibliographies or article registers are available for these three economists, namely Carlson & Jonung (1989), *Eli F. Heckschers bibliografi* (1950) and Carlson, Orrje & Wadensjö (2000).



Sweden was drawn into this maelstrom later than most other countries. Karin Kock (1931, p 143-46) noted “that, firstly, the depression did not reach Sweden until mid-1930, that is considerably later than in most other countries, and that, secondly, it has not shown the same strength here as in other places”. This, however, meant that the Swedish balance of trade deteriorated since imports were hardly reduced at the same time as exports fell when the depression hit Sweden’s export markets. For a while, the effect on the balance of payments was counteracted by an inflow of short-term capital, since “Sweden’s reputation as a safe haven was well consolidated”. Later research (Lundberg 1994; Schön 2000) has more or less confirmed Kock’s interpretation, even though the impact of the depression in Sweden has been dated somewhat later, in 1931.

In May 1931, international developments took a dramatic turn when the largest bank in Austria, the Creditanstalt, had to suspend its payments. Unrest spread through Central Europe and struck not least Germany, which was forced to raise its discount rate to 15 per cent and impose strict currency restrictions. During a few turbulent summer months, the currency reserve of the Swedish Riksbank was severely reduced and on July 31 the discount rate was raised from 3 to 4 per cent. However, an interest rate hike could not at this stage counteract an outflow of foreign capital.

On 20 September, the Bank of England decided to abandon the gold standard. Sweden now faced two options: to continue on the gold standard or to change to the paper currency standard. The first option would necessitate a restrictive monetary policy with a reduction of prices and wages in order to reduce imports and make exports more competitive. This would take time and cause increased depression and unemployment. Sweden sought a foreign loan to buy time, but failed (Heckscher 1931, p 23-24; Kock 1931, p 152-54). Consequently, only the second option remained. Sweden followed the same path as many other countries: “In all, 38 countries followed Great Britain. Of the major countries only the United States, France and Germany stayed on gold [...]” (Wetterberg 2009, p 282)

BRITAIN ABANDONS THE GOLD STANDARD

On Sunday 20 September 1931 Britain decided to abandon the gold standard; the Riksbank raised its discount rate from 4 to 5 per cent. This event seems to have taken Swedish news editors – especially at *SocD* – by surprise. The tone in most papers was grave but for Sweden’s part reassuring or calling for calm. On the following Tuesday, the governor of the Riksbank, Ivar Rooth, declared that the Bank intended to stick to gold.

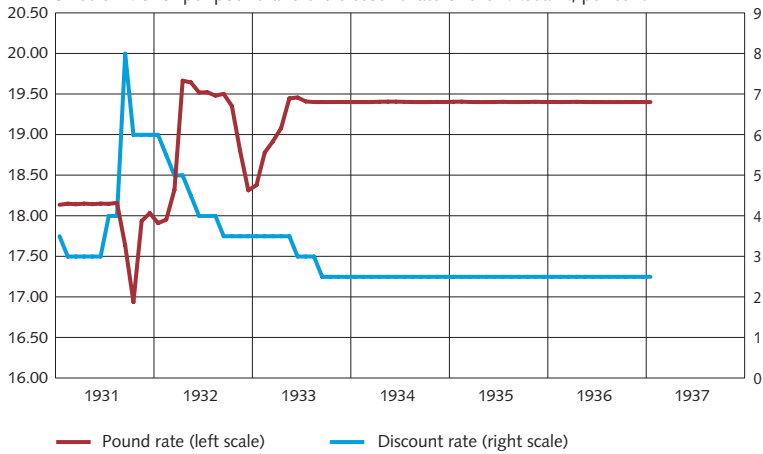
The views of leading Swedish economists differed. Cassel (1931a) saw the event as a worldwide economic disaster and stressed that Sweden must mobilize all resources to defend the connection between the krona and gold. Heckscher (1931a) put forward the idea that an international currency based on a stable monetary value could be more useful than the gold standard. According to Ohlin (1931a), the event was not completely unforeseen and would soon force the Scandinavian countries to make a choice. Brisman (1931a) referred to Keynes and did not find the event unfortunate at all; Britain had “entered upon a road which other countries might also use”. However, he envisioned a return to the gold standard once the currencies had been depreciated. In *SocD*, the interpretation of what had happened was sharply ideological and politician Arthur Engberg (1931a) wrote about the “bottomless anarchy” of capitalism which only socialism could cure.

SWEDEN DEFENDS THE GOLD STANDARD

Rumours saying that Sweden would abandon the gold standard abounded within and outside the country. However, Felix Hamrin, minister of finance in the liberal government, declared that the Swedish government had no reason to discuss such a step and that the management of the Riksbank intended to “energetically hold on to the gold standard”. In an editorial, *NDA* gave its support to the minister while an editorial in *GHT* found both alternatives – to hold on to or abandon gold – to be open. On Thursday 24 September, the Riksbank raised its discount rate (diskonto) from 5 to 6 per cent. Several newspapers – *ST*, *SvD*, *GHT* – questioned this action.

Cassel (1931b) was pleased by the determination to hold on to the gold standard but demanded a monetary policy “in organic connection with our entire economic and social policy”, which in plain language meant trimming the welfare policy which kept prices and wages on an altogether high level. Heckscher (1931b) also supported the defence of the gold standard and seemed convinced that it would succeed.

Figure 2. Pound rate and discount rate January 1931-January 1937
 Swedish kronor per pound and the discount rate of the Riksbank, per cent



SWEDEN ABANDONS THE GOLD STANDARD

On the evening of Sunday 27 September, the Swedish government and the Riksbank decided to abandon the gold standard at the same time as the Riksbank raised its discount rate to 8 per cent. Minister of finance Hamrin presented guidelines for monetary policy in the immediate future. The aim was to “defend the internal purchasing power of the Swedish krona by all means at hand” and strive towards a return to the gold standard when possible. Hamrin declared that the government would consider measures to improve the Swedish balance of trade and urged the Swedish people to buy Swedish products.

Cassel and Heckscher immediately raised their voices. Cassel (1931c), author of Hamrin’s statement, concluded that the blame for what had happened was not with Sweden but with the international gold standard “which has completely fallen apart”. The new task was to pursue a monetary policy aimed at a certain target, namely “that the internal purchasing power of the Swedish krona shall be maintained at its present level”.⁴ Previously, and under more difficult conditions in connection with the return to gold after the First World War, Sweden had demonstrated its ability to “regulate the purchasing power of its currency in a planned way”. The present task was far simpler. If such a programme was carried through decisively it would eventually be possible to stabilize the external value of the krona. If, in due time, the international gold standard was resurrected, Sweden should be prepared to return to it.

Heckscher (1931c) deplored the decision to abandon the gold standard. He also held the view that monetary policy must “completely be aimed at the domestic price level”.

⁴ Cassel had previously (1928, p 522) predicted what would happen if the value of gold in relation to other goods could not be stabilized: “[...] the unavoidable consequence must be that the gold standard will have to be abolished, and that the world’s economy will have to be based on paper standards regulated with the single purpose of keeping the general level of prices constant.” This statement has recently been noticed by Humphrey (2002, p 78).

Like Cassel he referred to experience gained during the First World War but drew another conclusion: it was very difficult to hold the price level steady. There were several price levels, it was perhaps not possible to create equilibrium in the economy with the help of a certain price index, the effects of discount rate policy were uncertain and free currencies were prey to international speculation. Heckscher foresaw a tough battle with “the friends of inflation”, all those particular interests who asked for “new injections of credit or money to overcome all kinds of difficulties”. In due course, one should strive for a return to the gold standard.

The immediate reaction of *SocD* was that it could be advantageous to be “master of the value of the monetary unit” and that the measure need not lead to inflation. *ST* called for calm and consideration. *NDA* was of the opinion that the minister of finance, with his statement, and the Riksbank, by raising the discount rate, had demonstrated that they did not intend to let inflation loose. Imported goods would certainly be more expensive and therefore it was important to buy Swedish goods. *GHT*, on the contrary, harshly criticised the new discount rate which was compared to a distress signal. The paper did not think much of Hamrin’s statement about preserving the domestic purchasing power of the krona but rather argued that the policy was contradictory: the gold standard was abandoned to stimulate business through inflation and at the same time the discount rate was raised to curb inflation. The next day *ST* was also doubtful about the benefits of a higher discount rate. “Everything floats” was the headline of the editorial in *DN* which questioned the possibility of preventing violent price fluctuations. Representatives of the export industry, however, were very satisfied with the decision to cut loose from gold.

Within the social democratic camp, Gunnar Myrdal, Ernst Wigforss and Arthur Engberg expressed their views. Myrdal could see no risk for inflation but rather for global deflation. The uncertainty about price development was due to the fact that the British pound had turned into a paper currency “without any declaration of a monetary programme whatsoever”. Sweden, however, had “done what Britain should have done” and the target of the constant price level constituted “the best possible monetary programme at the moment”. Wigforss did not want to exaggerate the risks associated with a free currency. The question was: what was meant by inflation? There was no problem if Sweden had a constant price level while prices in countries on the gold standard kept on falling. Engberg (1931b) found, just like the editorial writer of *GHT*, that the government’s statement was contradictory. He did not want to see any inflation since it would mean reduced real wages and pensions. A campaign to buy Swedish was unfolding. Engberg (1931c) emphasized that with a free currency imported goods would be more expensive and the imported volume would be reduced – to resort to import regulation under these conditions would be “spooky”.

Ohlin (1931b) hoped for a British initiative for an agreement to stabilize currencies that had abandoned gold – this could restore order in the monetary system. The CEO of the Swedish Employers’ Association, Hjalmar von Sydow, described the economic situation as “a muddle”. “There can be inflation or deflation, about this one knows nothing.” *SocD*

suspected that high finance was behind the opposition to the high discount rate. Myrdal explained that the high discount rate on the one hand demonstrated the determination of the Riksbank to preserve the value of the krona, and on the other hand could be interpreted as an indication that Sweden's situation was serious. By a stable price level he meant the cost of living – wholesale prices could very well be increased. In an article in *SocD* (Hult 1931), the idea of a “regulated paper currency” was traced back to David Ricardo. *NDA* argued for and *GHT* against the campaign to buy Swedish and the latter paper thought that some “moderately wise gentlemen” were playing with fire (the discount rate).

FIGHT OVER THE DISCOUNT RATE AND PRICE LEVEL

On one of the first days of October, Heckscher (1931d) dealt with the proposals for import regulation. Under the flexible exchange rate regime the exchange rate itself regulated imports and if speculators pushed the rate down under its equilibrium level the cause for import regulation was even more weakened. Several newspapers – *SvD*, *NDA*, *ST*, *GHT* – stepped up their criticism of the high discount rate, referring to protests from business, not least agricultural interests. Ohlin (1931c) declared that the general public must understand that the long-term deflation had come to an end. A slow increase in retail prices was unavoidable when stores filled their inventories with goods bought at higher prices. This meant, according to Ohlin, that the official bulletin in connection with the abandonment of the gold standard was obscure. It was impossible to prevent rising prices but no risk of a major increase in retail prices was at hand. In *SocD*, Engberg (1931d) fumed against *NDA* which had argued that social democrats on the board of the Riksbank had opposed a discount rate cut. He wanted to condemn this “clumsy attempt at political demagoguery in a matter as serious as this one”, forgetful of his earlier ravings about socialism as the only crisis solution.

SocD directed its attention towards the increasing interest in economics within the different organizations of the labour movement which had arisen in connection with the world crisis. The director-general of the Postal Service, Anders Örne, sharpened this question with his statement that most people do not understand economics better “than the cat understands a windmill”. *DN* interviewed ordinary people in the streets on the causes of the crisis and the results seemed to confirm Örne's misgivings.

Now Heckscher (1931e) intervened with the message that a paper standard need not bring about price increase. When the krona declined in value import prices would increase, but if the monetary purchasing power (the stock of money) was kept constant the rise in import prices would bring down the volume of imports and this, combined with a minor decrease in the prices of domestically-produced goods, would mean that the general price level would stay put. *ST* asked in an editorial which purchasing power the minister of finance wanted to keep constant – the one in September 1931 or the one before the onset of the crisis in 1929. The paper thought a certain increase in prices would be reasonable and favourable to business. In *SocD*, Engberg (1931e), probably inspired by

an article by Rudolf Hilferding (1931) in the same newspaper, repeated the message that inflation means decreased real wages and increased profits. According to economist Gustaf Åkerman (1931a) in *GHT*, labourers in the domestic market had “profited” at the expense of consumers thanks to the deflation of preceding years.

SocD now struck a considerably less ideological note and supported Heckscher’s position that domestic prices could be stabilized even if foreign exchange rates rose. The interest rate policy had to navigate between the inflation of Scylla and the interest rate burden of Charybdis. The paper put much faith in the ability of the Riksbank to “smoothly adjust” the price movement with “the discount rate screw” and took delight in the fact that government could not intervene in the domain of the Bank.

DISCOUNT RATE CUT AND PRICE INDEX DISCUSSED⁵

On 7 October, the board of the Riksbank decided to cut the discount rate by one percentage point to 7 per cent, arguing that no tendency towards inflation had been observed, but adding that it was important to produce swift and complete price information for future needs.

Papers like *ST* and *NDA* sided with Ohlin and Brisman, who argued that a certain increase in prices was inevitable and beneficial, and against Heckscher, who wanted to see decreased prices on domestically-produced goods compensate for increased prices on imported goods.

Minister of finance Hamrin did not make things any clearer when he made a statement saying that conditions now were so chaotic that they “defied any attempt at judging the future”. Cassel (1931d), who concurred with the discount rate policy that had been pursued, agreed that the discussion on monetary policy of the last few days had been confused. He argued, however, that the statement of the minister of finance on September 27 had set the course: abandonment of the gold standard must not lead to inflation. The statement had been too general though since it had not made clear exactly “at which purchasing power one intends to keep the Swedish krona constant”. The preceding deflation had pushed wholesale prices down considerably more than the cost of living and the best thing to do would consequently be to reduce the gap between these two price levels by allowing wholesale prices to increase. Cassel could also reveal that work had begun on the construction of a new price index. During a discussion at a meeting of the Swedish Economic Society there were also demands for a decision on what price level Sweden was to keep constant, but Heckscher urged those gathered there “to have some patience with the Riksbank, which might need a couple of weeks to sort things out”.

⁵ On 9 October, the Riksbank distributed an inquiry regarding monetary policy to “three wise men”, Cassel, Heckscher and David Davidson. Their answers were for many years tucked away in the archive of the Riksbank until they were discovered by Lars Jonung in the 1970s. See Jonung (1979b). One should consequently be aware that Cassel’s and Heckscher’s writings during October (Davidson did not write in newspapers) were affected by the issues with which they had been confronted by the Riksbank.

GHT claimed that the board of the Riksbank had “lost its nerve” when it raised the discount rate but that it had now calmed down somewhat. The paper did not believe that the Riksbank could exert control over the price level. *NDA* warned that the interest rate was still extremely high and found that fears of an inflation of the kind that had been experienced during the World War were unfounded. The preceding years had after all been marked by “a deflation of enormous scope and strength” where wholesale prices had fallen much more than the cost of living. Wigforss concurred in this diagnosis and said that there was “plenty of room for an increase in wholesale prices”. There seems – as can be seen from earlier arguments from social democrats – to have been a dividing line between on the one hand Engberg, who was fighting inflation strenuously, and on the other hand Wigforss and Myrdal, who found deflation to be the most dangerous threat.

Cassel (1931e) diagnosed the condition of the world. It suffered from two monetary mental diseases, deflation mania and liquidity fever, of which the former had its root in the United States and the latter its major spread in countries on gold like the United States and France.

The labour movement continued its campaign for education in economics and Heckscher (1931f) raised the question of how economics was to be treated in the ordinary school education. He feared that the discipline might end up in the hands of “pedagogically less able – or dogmatically inclined, or inadequately trained – teachers” and recommended that economics be used as “a ferment, a leaven”, in the discipline of history.

ANOTHER DISCOUNT RATE CUT AND CRISIS DEBATE

On 17 October, the board of the Riksbank decided to cut its discount rate from 7 to 6 per cent. *SvD* commended the Bank for this but *NDA* reminded its readers that the rate was still exceptionally high.

Cassel (1931f) reminded his readers that in order to uphold a certain price level one had to be able to control wages. Currency policy therefore had to be decided in harmony with the Swedish Trade Union Confederation, whereby “this organization will appear as an authority alongside the central bank”. At a student meeting in Uppsala, Brisman found “the disproportion” between product prices and product costs “almost unbearable” and wanted to see prices increase. Myrdal’s message was that Sweden’s monetary policy could not be disentangled from “the international monetary movement”. Cassel (1931g) agreed in his own way by launching another attack on the “gold-hoarding mania” of the United States and France with its ensuing deflation.⁶ Engberg (1931f) attacked conservatives for wanting to reduce wages and certified that “a thorough sifting of credit in combination with a discount rate policy tied to careful index observations must produce rather good

6 In a speech in the autumn of 2010, Ben Bernanke, chairman of the Federal Reserve, compared the situation of the 1930s, when the United States and France, with persistent current account surpluses, sterilized the inflow of gold instead of allowing for price increases, and the situation today, when certain countries strive for persistent current account surpluses by maintaining undervalued currencies. See <http://www.federalreserve.gov/newsevents/speech/bernanke20101119a.htm>

possibilities for maintaining the internal purchasing power of the krona". Economist Johan Åkerman underlined that the Riksbank had to build a currency reserve to react to "temporary strains". *GHT* noted that the depreciation of the krona had reduced the import volume but that this was nothing to strive for, since only a normalization of exports would offer "permanent aid".

At the end of October, there was a discussion of the crisis at a meeting of the neo-liberal club and Wigforss explained that the departure from gold opened a way out for Sweden if only the general public could get used to the idea that monetary policy can be pursued without being on the gold standard. During this debate, Nils Stjernberg, professor of law, wanted to make the gold standard a question of principle: currency notes were "unconditionally binding promissory notes" issued by the state and in order to change their value a change of the constitution was needed. Brisman accused Stjernberg of making religion and not a practical tool out of the gold standard and *ST* likewise found that Stjernberg took "a rather unrealistic, formalistic stand". *DN*, on the other hand, sided with Stjernberg – one could not "blow away the judicial question as an irrelevant trifle".

Within the social democratic camp, views regarding the desirable development of prices were once again divided. Editorial writer Al Vanner (1931a) worried that the decreasing foreign value of the krona was the result of a "speculation launched for a certain purpose" which could end up in inflation. In that case the Riksbank had to use its discount rate. Wigforss, on the other hand, argued that after falling prices one had to think about rising prices. The decreasing external value of the krona was the subject of several explanatory attempts; *SvD* concluded that it followed the British pound downhill.

Ohlin gave the introductory speech at an annual fair in Västerås. His guidelines for Swedish monetary policy were stabilized internal purchasing power (retail prices) of the krona at its level of 1930 in combination with increased wholesale prices up to what was consistent with a depreciation of 15 to 20 per cent of the foreign value of the krona. To be able to handle the situation the Riksbank ought to secure a major foreign loan and keep its discount rate as low as possible. Johan Åkerman, on the contrary, did not want to see any such depreciation of the krona. Volvo's managing director, Assar Gabrielsson, wanted Sweden back on gold as soon as possible.

NDA gathered that many people had misinterpreted the motivation for a high discount rate by the Riksbank, that it was meant to "preclude any increase in prices of an inflationary character"; they had thought it was meant to "preclude any increase in prices". A recovery of wholesale prices would be fair indeed. *DN* noted that Swedish exports had not increased in spite of a 20 per cent depreciation of the krona. Vanner (1931b) in *SocD* reckoned the krona would soon appreciate when a reduction in imports and an increase in exports soaked through. The aim of monetary policy should be to keep the internal value of the krona steady without eyeing exchange rates. With a steady course from the Riksbank and the confidence of the general public, the new and free currency ought to entail more benefits than disadvantages. Vanner compared the new index in making to a barometer

which would indicate changes in the economic climate, so that appropriate measures could be taken in time, at the same time as there was no reason to fear the turn of the scales.

In mid-November, the experts (economists Erik Lindahl and Dag Hammarskjöld) who had worked to construct this “barometer” for the Riksbank revealed the price material they had chosen. *DN* contrasted the mathematical precision of exchange rates with the huge and complex price material, which strengthened doubts about the possibility of measuring purchasing power in a tangible way. At the same time, the paper expressed its gratitude to the Riksbank for its “energetic grasp at the very transition to paper currency” and for its continued steady grasp of developments. Pending the anchoring of a “firm and binding monetary programme” in the Riksdag, one had to be pleased by the authority of the Riksbank.

At the same time the governor of Stockholm made a radio speech in which he launched a campaign to buy Swedish goods. *NDA* revealed that active planning regarding trade and monetary measures was underway at the Ministry of Finance and that “extraordinarily important decisions” were soon to come. According to *SvD*, the government was studying developments carefully but had sent word that no exceptional measures were in the making at the moment. An *NDA* editorial argued that the depreciation of the krona paradoxically stimulated rather than hampered imports: importers tried to get hold of as many goods as possible since they expected these goods to be more expensive in the future. The attitude of *NDA* in editorials as well as in its business section was that Sweden could not stand idly by while protectionist developments ruled the world.

When Myrdal (1931a) proposed the creation of an economic council consisting of energetic and influential men *DN* interpreted this as a search for “some kind of economic dictatorship” populated with “Mussolini material”.

POUND PEGGING AND CURRENCY RATIONING

On 18 November, the Riksbank made headline news by pegging the krona to the pound sterling at a rate of 18.15, at the same time introducing a certain currency rationing: the banks had to compile lists of their customers’ currency needs which were to be delivered to the Riksbank for review and decision.

The first press reactions were cautious. *SvD*, *DN* and *SocD* expressed sympathy for the measures. *ST* and *NDA* also showed some sympathy but pointed to the emergence of two pound rates, the one of the market and the one of the Riksbank.

For Ohlin (1931d) the most important thing at the moment was that the value of the krona could be “controlled within reasonable limits”. This could be accomplished only through import regulation or currency rationing and he preferred the former measure. *SocD* countered Ohlin’s contribution by saying that other countries would retaliate. Unfortunately, the command of private banks over foreign currencies made it impossible for the Riksbank to carry out “a planned, smooth and well balanced” currency rationing. *SvD* argued for higher customs duties.

Reports soon appeared saying that banks had delivered piles of invoices to the Riksbank, which was staggering under the load. Companies could perhaps not wait and were forced to buy currencies at the higher price of the free market. *GHT*, normally on the side of free trade, declared that both import regulation and currency regulation were madness but “when madness becomes epidemic” one had to adjust to it. The gap between the pound rate of the Riksbank and the market was increasing. *SvD* also questioned whether the Riksbank could sift through the piles of currency requisitions in a fair way and *SocD* talked of “an extreme work load”. *NDA* went even further and told its readers that the Riksbank was “embedded in piles of invoices floating in from all over the country” and that the pegging of the pound would soon be abandoned. The policy of the Riksbank was described as “a complete failure” and the governor of the Riksbank, Rooth, was accused of “lacking the most basic preconditions to master the currency-technical questions produced by the financial crisis”. The major mistake was that the Riksbank had not prepared for the action by building a reserve of pound notes. Now the choice was between strict currency control in line with a German model and completely free trade. *GHT* also emphasized the lack of a pound reserve and compared the pegging to the pound to “running around guided by a will-o'-the-wisp”. *DN*, however, warned its press colleagues about fuelling the mood of crisis and thereby aggravating the situation.

THE RIKSBANK SOUNDS THE RETREAT

On 21 November, after only a few days, the Riksbank abandoned its attempt to peg the krona to the pound. The retreat was carried out in a fairly orderly fashion. Henceforth, private banks would take care of credit rationing in order to block imports not deemed “absolutely necessary”.

ST and *SvD* immediately stated that the pegging to the pound had been doomed to fail beforehand – which the newspapers apparently had not themselves realized beforehand. *ST* and *DN* hoped that private banks would be able to handle the currency rationing in a better way. Engberg (1931g) directed his frustration against currency speculators, against the press which spread unrest and against conservatives who used scare tactics to get higher customs duties. *DN* concurred in criticisms of the unanimous “customs cry” by conservative newspapers and questioned whether the krona could be saved through “increased duties on luxury cars and bananas”. *NDA*, however, noted with malicious pleasure that the Riksbank’s initiative “had fallen to pieces”.

In *GHT*, Gustaf Åkerman (1931b) expounded his views on the currency defence. The Riksbank ought to issue a firm declaration that it intended to counteract the fall of the krona by all possible means and possibly underline its resolution with a substantial discount rate hike. Åkerman pointed to Germany as an example of a country which had “accomplished quite astonishing things for the stabilization of its currency”.

WHAT MUST BE DONE?

After the failure of the move to peg the krona to the pound, the discussion on what to do continued. Influential names – Cassel, Heckscher and Engberg – once again raised their voices. Cassel (1931h) described currency control as “the most haphazard and radical cutting off of the supply of goods so far invented” and pleaded for countries on the paper standard to come together and try to create stability in the inner purchasing power of each currency as well as in the exchange rates between currencies. According to Heckscher (1931g), all available means should be used to defend the stability of the domestic price level and avoid inflation as well as deflation. He once again argued that increased prices on imported goods could be neutralized if other prices were kept low. Engberg (1931h) concluded, from the fact that imports had not decreased in spite of the depreciated krona, that speculators had amassed goods, hoping for price increases due to import regulation, customs duties or further depreciation of the krona. He believed private banks had facilitated this speculation and demanded increased “public control and power over the banking and credit sector”. Engberg (1931i) was convinced that the Riksbank could assert the internal purchasing power of the krona “with a microscope over price movements, a steady hand and authority over foreign currencies within the country”. He also saw currency rationing as “a smoother and more effective way” towards balance between imports and exports than customs and import regulation. Such rationing should, to be effective, start out from “a general inventory with strict obligatory declaration”. *GHT* and *DN* also discussed the question of speculation but opposed governmental “guardianship” and protectionism.

In late November, “Guidelines for Swedish monetary policy” were discussed within the Economic Society. Assar Gabrielsson once again pleaded for a return to gold at the old parity, arguing that a paper currency ran the risk of being politicized. Myrdal regarded such a return as a definite road to bankruptcy for Swedish business. He did not want any import regulations, but if such measures were deemed necessary the best thing would be to create a foreign trade monopoly. Anders Örne and Jacob Wallenberg, the influential banker, both warned against such a monopoly and believed in a return to the old gold parity. Heckscher found the paper currency to have the same drawbacks – and several others – as the gold standard. He wanted a return to gold at a parity corresponding to the price level one wished to keep constant. Brisman’s opinion was that the Swedish krona should follow the British pound. *NDA* commented on the debate in an editorial which expressed pleasant surprise over the “comparative unity” among economists.

Ohlin had not participated in this debate but intervened with an editorial (1931e) and underlined that the statement of the government and the Riksbank, that the domestic purchasing power of the Swedish krona was to be defended at all costs, must be taken seriously. The Riksbank followed the development of prices carefully and had limited credits for imports from commercial banks. Pure currency rationing had to be avoided though, since this “was the most definite means of destroying confidence in a currency”. Engberg (1931j) made it clear that if one – like some debaters in the Economic Society – wanted

to bring the krona back on the gold standard at the old parity, this would mean a higher interest rate, reduced production, unemployment and reduced wages. Furthermore, in these less normal times one could not count on a higher interest rate to attract capital into the country since it signalled increased risk. Brisman (1931b) was not worried by the depreciation of the krona against the U.S. dollar; on the contrary and in view of the situation for Swedish industry, the depreciation was hardly strong enough. Johan Åkerman once again pleaded for import duties on consumption goods but was attacked by free-trade oriented *DN*.

Wigforss (1931a) took an ambiguous stand. On the one hand Sweden had amassed large holdings abroad, which could make it possible to uphold imports in spite of falling exports. If this did not work out “a completely unpredictable depreciation of the krona abroad” threatened and in view of this even the most ardent free trader had to consider measures to restore the balance.

HECKSCHER AND MYRDAL ADVANCE PROPOSALS

In early December, Heckscher published a book, *Sveriges penningpolitik, orientering och förslag* (Sweden’s monetary policy, orientation and proposals) (1931h), which for some time became the focus of the debate on monetary policy. Heckscher’s advice was to keep domestic prices constant and allow only the inevitable increase of prices on imported goods. The book was praised the same day it was published in an *NDA* editorial, which summarized Heckscher’s three alternative aims for monetary policy – going back to the price level of 1929, keeping the price level of domestically-produced goods constant and keeping a constant average price level taking increased prices of imported goods into consideration – and underlined that government had a distinct aim for monetary policy which was also embraced by the Riksbank.

In *SocD*, Örne agreed with Heckscher that domestic prices and not foreign exchange rates ought to be the guiding star when regulating a free currency, but said that he would not want to recommend increased political influence over the monetary system. *DN* made clear Heckscher’s preferred alternative: to hold on to the price level which prevailed when the gold standard was abandoned without having to lower the prices of domestic goods in order to compensate for increased prices on imported goods, that is a more expansionary strategy than the one advocated by Heckscher before. Heckscher was praised for his determined stance for free trade, for his “thorough, impartial and responsible scrutiny of the monetary problem” and for having written the first popular presentation of the problem.

Over the next few days, a number of Heckscher’s colleagues among economists – Cassel, Ohlin, Brisman and Emil Sommarin – appeared and gave their views of Swedish monetary policy. Cassel (1931i) presented his recommendations without mentioning Heckscher’s book. He thought a substantially undervalued krona would help to equalize the balance of trade but that government on top of that had to resort to some customs duties, which would, unlike a big foreign credit, reduce unnecessary consumption of “coffee, silk

stockings and lousy movies". Cassel emphasized the need to "hold on to the programme of internal value stability of the krona in a steadfast way" and warned against all thoughtless talk of inflation.

Ohlin (1931f) discussed Swedish monetary policy in two major newspaper articles. In the first one he concluded that the government statement, saying that the inner purchasing power of the krona should be held constant, was a formula which had to be given a concrete meaning. The major problem was that price formation at the time of the abandonment of gold was sharply distorted and scattered. Consequently, different prices had to be adjusted, so that those that had fallen the most could be raised while those that had fallen the least could be left unaltered. In his second article, Ohlin (1931g) clarified what distinguished his monetary programme from Heckscher's. He described the alternative Heckscher was leaning towards – constant wholesale prices – as "semi-deflationary" and advocated "a compromise between constant wholesale prices and a return to the price system of 1929". The compromise would be to stabilize the cost of living at the level of 1930 and allow for rising wholesale prices so that production could continue without any need for decreased wages. Ohlin believed that his programme would cause a depreciation of the krona by 25 per cent in relation to the old parity, compared to 15 per cent according to Heckscher's programme.

Brisman (1931c) reacted against Heckscher's view that price increases should be limited to imported goods. "It is, however, the big export industries, including agriculture, which suffer from the worst conditions and which need a price increase the most." Furthermore, he argued that the price level can only be regulated through exchange rates and not through the discount rate. Since the capacity to regulate exchange rates was insignificant, Brisman found that the whole debate on price levels gave "an impression of fictitiousness".

Emil Sommarin, an economist from Lund University with social democratic leanings, accused Heckscher for having launched four different monetary programmes since the end of World War I. He dismissed the latest programme as "scientifically untenable" and harmful to Swedish business. A moderate price increase was needed.

Heckscher (1931i) for his part directed criticisms against Wigforss' book *Den ekonomiska krisen* (The economic crisis), among other things against Wigforss' statement that a reduction of the foreign value of the krona by 25 per cent from a competitive perspective was equivalent to a reduction of production costs by 25 per cent.

NDA criticized the view of "theoreticians" that a higher discount rate meant lower product prices. Practitioners realized that a high discount rate meant that all businessmen tried to make up for their interest rate losses through higher prices. Also, interest rates varied considerably between different countries while product prices moved in the same direction everywhere. Furthermore, it was practically as well as theoretically impossible to influence a certain category of prices (wholesale) while leaving others (retail) unaffected.

Wigforss (1931b) referred in an editorial with a certain amount of delight to Sommarin's attack upon Heckscher. He was (just like *NDA*) sceptical about discussions among

economists on what price level to stabilize and concluded that the aim “easily understood by everyone” ought to be a constant cost of living.

Another economist, the eccentric professor from Uppsala Fritz Brock, now entered the scene. He lived up to any expectations of eccentricity with a statement that if the price level was not kept constant production costs must increase, “since a price level that hovers above production costs is just as impossible as our friend Mustafa’s Indian experience when he met a fakir and saw a girl hanging without a thread (by which to hang)”.

Just before Christmas, *GHT* explained that even if the paper standard had not produced a golden age one had to consider the “unforeseeable complications and misfortunes” which would have followed had the country stayed on gold. In an editorial, the paper also concluded that economists had had a heyday when the whole world had been transformed into a monetary laboratory. The editorial was not convinced of the wisdom of economists but found comfort in the fact that “the learned men are fortunately seldom in agreement”.

Around Christmas 1931, Myrdal published his monetary programme – in competition with Heckscher – in the book *Sveriges väg genom penningkrisen* (Sweden’s way through the monetary crisis) (1931b). He preferred increased prices to reduced costs of production and argued that there could be price increases on imported goods of around 15-18 per cent and on domestic goods of around 5-8 per cent and that the cost of living index could increase by 2-3 per cent. This programme was immediately denounced by *DN* as “monetary bolshevism”. The argument was that Myrdal did not want to restore a stable currency but wished to subordinate monetary policy under a general policy with social ambitions. Two economists of the status of Heckscher and Myrdal had arrived at contradictory conclusions: “Professor Heckscher seeks to show the way to free trade and individual responsibility, professor Myrdal to a bolshevist planned economy.” However, a debate article in *NDA* (Guinchard 1931) was well-disposed towards Myrdal while the “reactionary” preaching in the leading organ of Stockholm liberalism (*DN*) was rejected with reference to Keynes’s radical liberalism in Britain. *SocD* proposed the establishment of a state bank in order to amass savings which could serve as a cash reserve to be used in case of a return to the gold standard.

Ohlin (1931h) noted, as *GHT* had done a few days before, that the economic situation had not improved after Sweden abandoned the gold standard, but that the country had escaped “the threefold aggravation” of the depression which would have occurred had it stayed on gold.

WINTER OF 1932: BUDGET AND DEBATE IN THE RIKSDAG

While awaiting the government budget of 1932, Ohlin (1932a) discussed different monetary strategies. The strategies of pure deflation and inflation were not relevant. The remaining options were stable wholesale prices or stable costs of living and according to Ohlin the latter strategy would “create the kind of monetary stability which leads to the greatest possible stability in the business sector”.

When minister of finance Hamrin presented the government budget in January he concluded that costs of living had been constant during the autumn and that consequently “the purchasing power of the krona in the hand of consumers has been upheld”. The intention was to continue along the same road, which did not preclude adjustments of wholesale prices, and to stabilize the international value of the krona when the right conditions were at hand. *DN* as well as *NDA* complained that the government’s message was obscure. Ohlin (1932b), however, found the declaration, which meant that the Riksbank should provide as much internal and external monetary stability as possible, to be very satisfactory.

In the Riksdag debate on the estimates the conservative leader Arvid Lindman criticized the aim of stabilizing the internal purchasing power of the krona, arguing that the price level had been fixed at its lowest and most ruinous point. He proposed an increase of the retail price level to where it had been in 1928-29. Olsson i Kullenbergstorp, leader of the farmers’ party, attacked the high discount rate. From the right (Lindman) and the left (communist leader Karl Kilbom) the government was criticized for not having summoned an extraordinary Riksdag session during the autumn. Prime minister Carl Gustaf Ekman argued that an extraordinary session would not have had time to accomplish much and that protectionist measures would not have been warranted. Minister of finance Hamrin declared that the government had had nothing to do with the discount rate hike in connection with the abandonment of the gold standard. Leading social democrats like Arthur Engberg and Per Edvin Sköld defended the actions of the Riksbank. Editorial comments followed political party lines. *SvD* and *NDA* supported Lindman, *ST* and *DN* supported the government and *SocD* was pleased that the prime minister had turned against Lindman’s “inflationary and duty-fanatical preachings”.

A couple of weeks later, Cassel (1932a) criticized those who asked for lower interest rates. It was not possible to have artificially-low interest rates which did not correspond to the supply of and the demand for capital. Nonetheless, he questioned whether discount rate policy had not been too tight lately. The Riksbank could probably without risk cut its rate to 5 per cent. In a second editorial, Cassel (1932b) noted that other countries on the paper standard had not, unlike Sweden, stated a decided aim for their monetary policies. However, countries on the paper standard had a common interest in pushing down the value of gold since this would mean higher prices in gold countries and consequently increased activity in the world economy. Countries which had abandoned the gold standard had no use for gold reserves and could help to push down the value of gold by exporting gold. They should also focus on pursuing an independent monetary policy in the long run, preferably under the lead of Great Britain.

THE RIKSBANK STATES ITS AIM

In mid-February, the government presented a bill on continued exemption for the Riksbank from its obligation to exchange notes for gold. The bill was based upon a letter from the Riksbank in which it was stated that the preservation of the internal purchasing power of

the krona implied “that the costs of living will deviate only within narrow boundaries from their average in 1931”. The aim was, more precisely, to keep the average price for domestic goods – and not the price for all consumption goods – constant, as an attempt to force down the prices of domestic goods to compensate for rising prices for imported goods would sharpen the crisis. The board of the Riksbank also declared that the time was not yet ripe to fix a programme for the longer run. The Bank also cut the discount rate from 6 to 5.5 per cent on the same day as the Bank of England cut its rate from 6 to 5 per cent.

Editorial comments in *NDA* and *ST* were, in spite of these signals from the Riksbank, harsh. *NDA* wrote that the bank would rather sacrifice businesses than allow prices to reach the levels of 1930 or 1929, that its rate cut was insufficient and that its call to commercial banks to uphold their credit restrictions was unfortunate. *ST* made similar comments.

Another debate started when conservative MPs, as well as Anders Örne, submitted motions in the Riksdag proposing revisions to the constitution in order to change the status of the Riksbank. Wigforss (1932a) turned against the conservative motions. The basic questions involved were whether the board of the Riksbank should represent different interest groups directly or through political parties and how the government and the Riksbank should cooperate. Wigforss wished to hold on to representation through political parties and did not want to “fit the bank into administrative organs under the direct control of government”. The government anyway had a distinct role to play, since government authorities must decide on the general guidelines for monetary policy. Cassel (1932c) also discussed the position of the Riksbank. It ought to have an independent and authoritative position, on condition that its tasks were determined by government and parliament.

In late February, Ohlin (1932c) complained that credit policy was too tight. The Riksbank attempted, in spite of what had been declared, to compensate for increased prices on imported goods by pushing down prices on domestic goods. Like Cassel, Ohlin believed that the discount rate could be cut to 5 per cent – or less.

ECONOMISTS IN THE SPRING OF 1932

The next contribution by Ohlin (1932d) focused on the monetary policy the Riksbank wanted to pursue, according to a letter to the government, namely a policy which accepted a certain increase in its price index caused by increased prices on imported goods. This would involve a stabilization of the least depressed prices – retail prices on domestic goods – while wholesale prices would be adjusted upwards. Ohlin was pleased to note that this policy coincided with the guidelines he had proposed. However, so far the policy of the Riksbank had been more restrictive than what was implied by this programme.

Cassel (1932d) took on the task of comparing the internal purchasing power of paper and gold currencies and concluded that the Swedish krona had been “abnormally” undervalued. Paper countries had, according to Cassel, a strong position against gold countries which they should not yield but use to pursue a monetary policy to keep the general price level as constant as possible. Sweden had, Cassel (1932e) said in a second editorial, fully implemented the programme which was declared when the gold standard

was abandoned and had demonstrated that it was possible even under the most difficult circumstances to control the internal purchasing power of a currency. The expected minor increase in wholesale prices had, however, not occurred. A tendency towards deflation remained and paralyzed business life. Therefore, the Riksbank ought to cut its discount rate to 4.5 per cent and, furthermore, all unnecessary barriers to an increase in the issue of notes by the Riksbank should be removed. Sweden should also export as much gold as possible to improve its balance of payments. The prohibition against exporting gold was, Cassel (1932f) believed, motivated by a notion that the preservation of a gold reserve would facilitate a return to the gold standard. However, if one wanted to return to the old gold parity, the best method would be to export as much gold as possible to push down the value of gold.

Ohlin (1932e) once again investigated alternative monetary strategies: the restrictive one, which would result in “the whole credit system being frozen”, the passive one and stabilization with constant retail prices and somewhat increasing wholesale prices. Ohlin said that the Riksbank had so far “been somewhat on the deflationary side” and that now “purposeful action” was needed.

Heckscher (1932) was also worried by the prospect of more deflation and underlined the double message of the official monetary programme: to prevent deflation as well as inflation. He found it decidedly inappropriate to retain the high discount rate if prices tended to fall. Ohlin (1932f) once again stressed that no efforts should be spared “which can counteract the emergence of a deflationary mood, nervousness and a frozen credit system”.

THE REPORT OF THE BANKING COMMITTEE IN MAY 1932

In May 1932, a report by the parliamentary banking committee on Sweden’s monetary policy was published and was subjected to considerable interest in the daily press. A lot of attention was paid to the criticisms of the Riksbank credits to the Kreuger company. The committee’s viewpoints on past monetary policy were formulated by a majority of social democrats and liberals plus one conservative member and a minority of conservatives and members of the farmers’ party. The minority criticized the board of the Riksbank in three respects: they should have secured a foreign currency loan already in the spring of 1931, they should have raised the discount rate immediately when Britain abandoned the gold standard and they should not have pegged the krona to the pound in November. Regarding guidelines for the future, a unanimous committee urged that the Riksdag should recommend a certain increase of the price level, which, however, must not be of a pronounced inflationary kind. A recovery of the level of wholesale prices should be allowed provided it did not cause any noticeable increase in the cost of living. The task was to prevent deflation as well as inflation and the recovery of prices must not aim at a price level too far back in time.

The report was commented upon in editorials in all six newspapers. *NDA* saw it as “foreboding that the inflationary scare is losing its grip on government”. Ohlin (1932g)

in *ST* dismissed two of the criticisms of the minority but agreed on the third one, that the measure of pegging the krona to the pound in November had not served the reputation of the Riksbank. He found it satisfactory that the committee had stressed that price stability was not an end in itself but that monetary policy ought to see to the needs of business. That statement that the price recovery should not aim at “a price level too far back in time” was interpreted by Ohlin to mean that the level of 1930 and not 1929 was intended. *SvD* was delighted that the committee had “put emphasis upon much needed *anti-deflationary* measures” and hoped that the new programme, which allowed for increased prices on domestic goods as long as they did not affect the cost of living in a noticeable way, would be realized. In *DN*, the view was gloomy. The argument was that the committee gave “not just a little finger but runs the risk of losing the whole hand to inflationists”. According to *SocD*, “influential circles” had attempted to undermine the position of the board of the Riksbank. However, the non-socialist parties had not been able to unite against “a banking policy inspired by social democrats” and the monetary policy had “through efforts from all parties been pulled out of the line of fire”. The aversion against the governor of the Riksbank of which *SocD* spoke was clearly expressed in *GHT*, where it was argued that a change in the post was inevitable.

In a second round of editorial comments, Ohlin (1932h) emphasized the unity reached regarding the monetary programme and rejoiced to see that the Riksbank was to be given more precise instructions than before and above all “a distinct instruction to avoid not only inflation but also deflation”. Wigforss (1932b) also saw an expansion of the earlier programme and was pleased by the committee’s stand against both inflation and deflation. *NDA* thought the committee’s programme revealed something new, “the understanding that present prices for agriculture and industry are untenable has finally penetrated political circles”.

On the same day as the committee’s report was discussed in parliament, Cassel (1932g) stepped forward with an editorial in which he commended its content: “It could be questioned whether in the whole world at the moment there is a country with such a firm and wise monetary programme.” He was, however, critical towards the origin of the programme. It was the duty of government to put a proposal before parliament. Engberg (1932) focused on the contradiction involved when the critics of the Riksbank argued on the one hand that the bank should have secured a major foreign loan in the spring of 1931 and on the other that the policy after the abandonment of the gold standard had been too deflationary.

THE DEBATE ON THE REPORT IN THE RIKSDAG

The Riksdag debate on the report of the banking committee revolved firstly around monetary policy and secondly around the Kreuger credits. Here we will stick to the first theme. Social democrat Viktor Larsson, speaking on behalf of the board of the Riksbank, spoke against the committee minority saying that Sweden would not have been able, with the help of a foreign loan or a discount rate hike on 21 September, to uphold the gold

standard to avoid a rate hike when the gold standard was abandoned. Prime minister Ekman stated that the government and the Riksbank had conferred during the defence and abandonment of the gold standard. "Criticisms in this regard therefore apply to government also." However, the discount rate hike and pound pegging had not been discussed. The conservative leader Lindman argued that all forces must be focused on starting up production and that product prices must be raised. Wigforss touched upon similar thoughts.

All six newspapers commented upon the debate in editorials. Ohlin (1932i) found "an astonishing unity" concerning the guidelines for monetary policy and emphasized how important it was that it had been established that the needs of business must be considered. "Monetary policy guided by index numbers must not degenerate into index superstition." *SvD* also expressed delight at the unity concerning "a monetary programme, which does not allow any further deflationary development". *DN* focused on antagonisms in the debate and believed that the leftist majority, which sought assurance against inflation, had conquered. *SocD* concluded that differences of opinion "did not apply to central but only to peripheral matters". *GHT* did not wish to speak of a programme but only of "some wishful thinking taken to the protocol". *NDA*, finally, devoted all its interest to the Kreuger credits. *SocD* came back to the idea that conservatives and farmers wanted to get rid of the governor of the Riksbank, since he was opposed to inflation, and attempted to accomplish this in a roundabout way through the Kreuger case. *NDA* pressed for action: a discount rate cut, the abolition of credit restrictions and, above all, customs duties and import regulation.

CASSEL SCRAPS GOLD

At the end of May, Cassel (1932h) once again explained the severe crisis as a result of the increased value of gold. "The faith in gold as an eternal and absolute entity of value must be eradicated. The world economy must be footed on monetary units, which have a maximum possible fixed purchasing power against real utilities." He even believed that the world's gold reserves in due time would be transformed into "quite worthless scrapheaps". In mid-1932, Cassel (1932i) continued his argumentation with a historical survey of the value of money from Antiquity and onwards: People had not become wiser as time went by. In Antiquity, gold had been used for ornamentation or for other luxury or martial purposes, in modern times some of the richest countries of the world "amassed the larger part of the world's gold stock and tucked it down in the earth".

In the early autumn, Cassel (1932j) launched another attack on the prohibition against gold exports which had been introduced when Sweden abandoned the gold standard. The larger the amount of gold exported the better, since this could improve the balance of payments of the country and push down the world price of gold. Cassel also came back to the question of how a monetary programme had to be worked out. The government must take the initiative and put a proposal before the Riksdag and once this proposal had been

approved it had to be complied with by the Riksbank, which must be free to choose the means used to achieve the aims.

The relationship between wages and product prices was the next item on Cassel's (1932k) agenda. The level of product prices had fallen "in an extraordinarily violent fashion" since 1929. A reduction of wages was needed to restore economic equilibrium. It had certainly been better if product prices could be increased. But that was a programme for the world economy. Sweden could of course control its own price level. But when this level was raised a corresponding fall in the value of the Swedish krona abroad would follow.

In February 1933, Cassel (1933a) dismissed all hopes that a restoration of the international gold standard would offer an escape from the depression. Countries on gold tried to put the blame for deflation on countries which had abandoned gold. Cassel (1933b) protested against this: "Leading gold countries have been masters of their own price level and should never have allowed a fall in prices." In view of government plans to reduce unemployment with public works, Cassel (1933c) rebelled. The basic cause of unemployment was a worldwide fall in product prices. "The world programme" must therefore be a price increase of about 50 per cent. Sweden at the moment had to limit its price increase to 5 or 10 per cent.

In April 1933, Cassel (1933d) argued that public works had to be financed through an increase of the money stock and in this regard the Riksbank had failed. There was "a lack of economic planning". He (1933e) complained that the unclear relation between government authorities and the Riksbank still had a paralyzing effect on monetary policy. The government must present its monetary programme, preferably in May, when it anyway had to put before the Riksdag a prolongation of the exemption of the Riksbank's obligation to convert its notes into gold. Cassel reckoned that there was a basic agreement that such a programme had to proceed along the route that the Riksdag had mapped out in May 1932. Since wholesale prices had fallen by 5 per cent after September 1932, a price increase of at least 10 per cent had to be considered. And time was now short (Cassel 1933f): "For agriculture, for the industrial unemployed, for the whole Swedish business sector, a price increase which gets production going and makes it once again scantily profitable is an urgent thing, a thing which we cannot wait for week after week, month after month."

Heckscher (1933a) believed it would be difficult to carry out an isolated Swedish price increase before the business cycle, independently thereof, had moved into an expansionary phase. It may seem self-evident that an expansion of the money stock would increase monetary purchasing power and demand. However, this took for granted that the velocity of money was not affected by the business cycle and price movements, which was unrealistic.

THE MONETARY PROGRAMME OF 1933

At the end of May 1933, minister of finance Wigforss presented a government bill on the prolongation of the exemption to the Riksbank's obligation to convert its notes into gold in which the principles for Sweden's monetary policy were also outlined. The bill was based

on a document from the board of the Riksbank and a statement by currency experts. The board of the Riksbank had concluded that the possibilities for a small country dependent on foreign trade like Sweden to achieve an independent and regulated price increase were very limited. This fact should not prevent measures to provide relief for business and further a recovery of prices. Neither return to the gold standard nor attachment to any of the leading currencies were at the moment advisable. Also, monetary policy should not in a schematic way be fixed at a certain index number.

The currency experts – including Cassel and Heckscher – also focused on a regulation of the domestic purchasing power of the krona beneficial to business. The best way to achieve this would be through an increased world price level. If this could be achieved and the most important exchange rates were stabilized there would be no hesitation about pegging the exchange rate of the krona. If such a beneficial scenario did not occur, Sweden had to proceed with its independent monetary policy. The task would then be to prevent further deflation and aim for a moderate increase of the domestic level of wholesale prices. One would not in this case have to expect any increase in the cost of living. The Riksbank ought not to have any instruction except for a fixed target for monetary policy. The choice of means to reach this target would rest in the hands of the Riksbank.

Minister of finance Wigforss reiterated the views of the board of the Riksbank and the currency experts. At the moment, pegging the krona against any foreign currency was out of the question, monetary policy could not schematically be tied to certain index numbers and so on. With reference to the experts he thought there were better possibilities to influence the domestic price level than had been suggested by the board of the Riksbank. These possibilities ought to be taken advantage of as much as possible to reach the target, a moderate increase in the domestic price level. Wigforss also emphasized the importance of these measures being carried out without delay.

The bill was immediately commented upon by Cassel, Heckscher and Ohlin. Cassel (1933g) saw the programme as “a desired and needed specification of the line of thought in the principles of our monetary policy which were established by the Riksdag of 1932”. Sweden had taken the first step along a much needed path out of the crisis “and there can hardly be any doubt that this first step must be a recovery of the general level of product prices”.

Heckscher (1933b) wanted, just like Wigforss, to underline the importance of unity and swift action. However, he was sceptical regarding the possibilities of achieving an isolated price recovery in Sweden, but if the business cycle of the world was improving Sweden could anyway join it more swiftly by taking active measures. The Riksbank could “get going without fear of shadows”.

Ohlin (1933a) could not detect any real news but the focus was somewhat different compared to the first formulation of the programme in September 1931. At that time, one had acted under the influence of fears of inflation. Now it was a question of achieving a moderate recovery of wholesale prices to the extent this was possible without substantially increasing the cost of living. “This working out of the principles for our monetary policy is

more distinct and positive than one could have hoped for in view of the need for certain compromises." However, Ohlin was not sure that the Riksbank had caught on: "The board of the Riksbank definitely belongs to the sceptics when it comes to the prospects for increasing the price level."

SocD took more or less the same position as the three economists. The bill contained no real news but was "a more distinct formulation of the guidelines given by the Riksdag last year". "The experts have now in a more positive way established that the target for an independent Swedish monetary policy ought to be a moderate increase in the domestic price level [...]." If by moderate 10 to 15 per cent was hinted at "we have no objections". The paper concluded, just like Cassel, Heckscher and Wigforss, by warning against delays and urging fast action. The unity which had been arrived at, involving a conservative liberal like Cassel, a "neo-liberal" like Heckscher, a social liberal like Ohlin, a social democratic minister of finance like Wigforss and a ditto editorial writer, must be seen as rather unique.

A couple of weeks later, after the banking committee had expressed its view of the government bill, monetary policy was discussed in the Riksdag. In the second chamber, former minister of finance Hamrin cautioned that inflation is always dangerous. In the first chamber, Örne remarked that currency experts, the minister of finance and the banking committee had each presented their own programmes and that it would be a suitable task for a doctoral dissertation to sort out in what ways these programmes converged or deviated. Wigforss, however, explained that his statement was a reformulation of the statement of the experts and that the statement by the committee was a reformulation of his statement. The statement of the committee was approved in both chambers and all proposed alterations were repealed. No editorials appeared in the daily newspapers after the discussion.

THE ECONOMISTS 1933-34

Now that the course had been determined and most of the important actors had joined in, Sweden's monetary policy debate entered calmer waters. In the summer of 1933, developments on the international scene attracted interest, not least the monetary and economic world conference in London.

In a comment on the London conference, Ohlin (1933b) certified that after recent events in the United States (which had abandoned the gold standard in the spring of 1933) it was no longer possible to argue that an energetic economic policy could not bring about a price hike. Cassel (1933h), himself a delegate in London, soon concluded that the conference had stranded. The only way forward would, according to him, have been if Britain and the United States had agreed on and implemented a monetary programme. Other countries would then surely have joined in and regulated their currencies against the pound-dollar currency.

Cassel (1933i) could see no future for the gold standard in the long run. Even if the central banks of the world managed to stabilize the purchasing power of gold against goods one could question the use of pegging currencies to gold. "It is hard to see why

central banks with the same kind of measures should not be able to uphold the same stability in the purchasing power of money without using gold as medium.”

The fact that gold countries did not want to discuss price increases should, according to Ohlin (1933c), not prevent other countries from doing just that. It was actually an advantage if negotiations could be limited to countries with a similar view of monetary problems. The fundamental cause of the difficulties in reaching agreement was that there were three blocs pursuing different economic policies, namely the gold countries, the sterling group and the United States. “Scandinavia is”, Ohlin (1933d) noted, “more and more associated with the British empire.” Ohlin (1933e) soon reported from London that the British press claimed that important monetary negotiations had been initiated between the British Empire and the Scandinavian countries. Minister of finance Wigforss, on site in London, declared that plans for forming a sterling bloc were embraced with sympathy in many countries but that the final decision rested with Britain. Concerning the sterling group cooperation, Ohlin (1933f) counted on a continuation of the present policy “that the other currencies are held in a practically stable relationship against the pound sterling”.

Cassel’s (1933j) final monetary reflection in the summer of 1933 was a plea to Britain to shoulder international monetary leadership and form a sterling bloc⁷ with its dominions and other countries willing to join a rationally regulated pound. The first objective of such a bloc must be to bring about a limited increase in the price level of goods. The second objective would be to stabilize price levels and peg exchange rates between participating countries. In all probability the Scandinavian countries would be part of such a bloc. Cassel is, as we can see, very close to the views expressed by Ohlin a couple of weeks earlier.

The famous pegging of the krona to the pound in the summer of 1933 did not come about through any deliberate action from the government, the Riksdag or the Riksbank. It was a silent – even haphazard – connection with the pound that was to be permanent for the rest of the decade (see Jonung 1979a, p 474).

At the beginning of September, Ohlin (1933g) noted that Scandinavian currencies “have thanks to the regulation of central banks slavishly followed the pound”. A month later, Cassel (1933k) noted the same thing: “As Sweden since mid-July has had a fixed rate against the pound of 19.40 and consequently has joined the sterling currency, we of course have a strong interest in the fulfilment with necessary force of the monetary programme of the British empire [...]”

The fact that the monetary debate receded after the summer of 1933 becomes clear if we use bibliographies/article indexes of the three leading debaters Cassel, Heckscher and Ohlin as a measuring rod. In the spring of 1934, we only find a few contributions from Cassel and Ohlin respectively and none from Heckscher. This can reasonably be explained by the fact that Sweden’s monetary policy had crystallized after two years of discussion and experiment and that the international business climate was improving.

⁷ A group of countries pegging their currencies against the pound sterling.

In March 1934, Ohlin (1934a) concluded that Swedish monetary policy had developed in two ways. Firstly, the Riksbank had purchased currencies and pushed down the external value of the krona at the same time as it had been holding on to a rate of 19.40 against the pound sterling. Secondly, by purchasing government bonds, gold and currencies the bank had created an “abundance of money”, which had pushed down interest rates. “Compared to such purchases of government bonds and currencies – so-called open market operations – discount rate policy has been of very little importance.”

In May, it was again time for the Riksdag to decide on the principles for monetary policy. In view of this, Cassel (1934) scrutinized the monetary policy pursued during the previous year. He interpreted the Riksdag decision of 1933 to mean that Sweden should join a possible increase of the British price level or – if such an increase did not occur – independently bring about a moderate increase of the domestic price level. Thereafter the krona had been fixed against the pound. The British price level had, however, been constant and consequently there had not been much room for an independent price hike in Sweden. Sweden now faced a choice. If Britain did not carry out its programme of price increases, Sweden had to consider abandoning the pegging of the pound in order to be able to carry out the domestic price increases which had been stated in the monetary programme of 1933.

Ohlin (1934b) was less inclined to see a choice approaching. He turned against sceptics who did not believe that the policy of the Riksbank had been of importance for the comparatively beneficial economic development in Sweden and he saw no reason to abandon the fixed rate against the pound. “The prospects of further economic improvement and price increases in Britain are still fairly good. A fixed position in the sterling bloc therefore still represents a natural position for the Swedish krona.” There was, however, no reason to peg the krona to the pound definitely. If, for example, the price level in Britain went down the peg would have to be abandoned; otherwise the fall in prices would spread to Sweden.

THE ECONOMISTS LOOK BACK

Let us round off this chronicle with some retrospective views of the Swedish experience of its first years on the paper standard, as they were interpreted by the leading experts on monetary policy, Cassel, Heckscher, Ohlin and – in passing – Lindahl.

When, at the end of 1935, Cassel (1935) looked back at Sweden's monetary policy he concluded that the price increases had been weaker than expected when the monetary programme was worked out. This was because the krona had been pegged to the pound from the time of the London conference in the summer of 1933. He consequently hoped for the British programme of price increases to be finally carried out so that Sweden would be able to retain the pound rate and at the same time have room for domestic price increases. However, he did not want to bring the price level back to where it had been in 1929, before the onset of the great deflation. “As years go by an adaption to the lower price level takes place. This adaptation is still imperfect and this is precisely why price

increases are needed. However, these price increases can stop half-way." Half-way in this case meant 1930.

In the fall of 1936, Ohlin (1936) summarized Sweden's five years on the paper standard. The transition to the paper standard in September 1931 had been accompanied by a "monetary declaration of majority". "This is to the credit of the liberal government of the time as well as to the management of the Riksbank and their advisers among economists." Ohlin was impressed by how well the aims had been fulfilled. The cost of living index in 1936 was at the same level as in 1931. "Such price stability surpasses anything that even the greatest optimist thought possible." At the same time, the increase in wholesale prices by some ten per cent, which was needed to make business profitable, had been achieved. There had, however, been no inflationary stimulus of business. "The paper currency has indeed produced brilliant results during this five-year period."

"The paper currency is nowadays regarded as an alternative to the gold currency not only temporarily in times of crisis but permanently. The pioneering work of educating financial opinion, which has been carried out primarily by Wicksell, Cassel and Keynes, is coming to fruition. A rejection of the antebellum gold standard does, however, not necessarily imply that a restoration of an international monetary system is hopeless. However, it seems probable that gold within such a system will play the role of servant rather than "tyrant". [---] The experience of a rational monetary policy gained during five years of a paper currency system is a precious advantage. A future monetary system will surely combine several elements of the old gold standard and the paper standard of the crisis era." (Ohlin 1936).

A few months later, Cassel (1936) also summarized five years of "rational monetary policy". He was, just like Ohlin, impressed by how well the programme of increasing wholesale prices without considerably increasing the cost of living had been fulfilled:

"This programme has been fulfilled to the last letter and has no doubt served us very well. The firmness of the Swedish monetary system is of fundamental importance for the economic upturn we now can rejoice in and which is drawing the attention of the whole world."

Sweden's monetary policy had been supported by Britain's policy, which had followed similar guidelines, since Sweden had had a pound rate of 19.40 from the summer of 1933. The choice between a fixed pound rate and domestic price increases, which Cassel had worried about two years before, had never been brought to the fore. The need to make a choice could, however, arise once more, this time if price increases in Britain were to be too forceful.

In February 1937, Heckscher (1937a) concluded that the situation which Cassel had foreboded was at hand. England, Sweden and other countries were "experiencing a wave

of price increases without comparison since the World War". Further price increases could be expected in England due to its rearmament programme. Consequently, Heckscher (1937b) found that the pound rate had to be adjusted. Those defending the pound rate from 1933 could not find any support for their position in the official monetary programme, since "this programme does not say a word about any fixed pound rate, but on the contrary explicitly binds our monetary policy to the development of prices".

Cassel (1937a and b) also warned at the beginning of 1937 that Britain had developed "a pure inflationary economy" which could spread to Sweden and increase the cost of living and that it therefore could be necessary to cut the fixed relation to the pound. A few months later, in connection with the government monetary bill of that year, he (1937c) concluded that a choice was necessary. From mid-1936 Britain's price level had experienced "an increase without comparison in good economic times". Now there was a choice between a fixed pound rate and adherence to the Swedish programme of stabilization. Cassel of course recommended the latter alternative.

Another economist and monetary expert, Erik Lindahl, emphasized that Sweden had to make a choice between stable prices and stable exchange rates. If stable exchange rates were chosen, the monetary programme would have been abandoned – "a fatal step out into uncertainty".

This time, the politicians did not pay much consideration to the views of the economists. Wigforss thought that stable prices and stable exchange rates could be reconciled. The statement of the banking committee – which did not perceive a need to make a choice – was approved by the Riksdag "in relative peace and harmony". *GHT* once again demonstrated its disbelief in the ability to control prices in view of "inner spontaneous forces and incentives" in the world market: harvest results, gold production, speculation in goods and psychological factors (Simonsson 1937).

At this time Ohlin (1937), had reached the same conclusion as Cassel five years earlier – it seemed as if the role of gold was over: "A Martian visiting our globe would certainly find it incomprehensible that hundreds of thousands of people are digging gold out of the earth in South Africa and other places, which then to a large extent are dug down in basements in the United States to no avail."

An interesting feature of Cassel's article from 1937 is his claim that monetary policy must be made intelligible for the Swedish population, a claim the government bill on monetary policy of that year did not fulfil:

"The vast majority of the Riksdag can from this bill only get the impression that these matters are so complicated that an ordinary mortal cannot understand them but had better leave the whole thing in the hands of "monetary authorities". Even if such an effect is not intended, it is nonetheless deplorable. Sweden's population should be able to form an opinion, at least some main features, of the meaning of monetary policy and the need for measures intended to support this policy. This is anyway a distinct democratic claim." (Cassel 1937c)

CONCLUSION: QUESTIONS AND ANSWERS

Let us finally pose some more precise questions (inspired by Berg & Jonung 1999) to the material to extract some short answers.

1. How well was the difference between a fixed exchange rate and a domestic price level target understood?

The reorientation of the leading debaters from a firm defence of the gold standard to an acceptance of a *fait accompli* – paper currency – was completed overnight. Economists Cassel and Heckscher could in articles already a few hours after the government decision to abandon the gold standard explain how the new price level target was meant to work. Other economists and politicians also immediately dealt with the question. Furthermore, Sweden had extensive and fairly recent (1914-24) experience of being on the paper standard. The impression one gets from the press material is that more or less all the actors immediately understood the difference between a fixed exchange rate and domestic price stability. However, opinions naturally diverged on the issue of whether it would be *possible* to uphold price stability. Most debaters initially expected that the depreciation of the krona would result in rising prices on imported goods and thus in inflation. Some actors, mainly Brisman and *GHT* but also *NDA*, *DN* and Wigforss, doubted that it would be possible to control the price level. Heckscher also had his doubts at the beginning since there are several price levels and it is not certain that a particular price index will create equilibrium in the economy when held constant. Cassel, Ohlin and Engberg on the other hand were convinced that price developments could be controlled and as it happened – depending on skill or luck – they proved to be correct.

2. How well was the difference between stabilization of the domestic price level and allowing price increases in some sub-indexes understood?

Most actors argued around different prices – wholesale or retail, the cost of living, prices on imported and domestic goods etc. – where some could be allowed to increase whereas others ought to be kept stable. Not least Heckscher's recommendation in the autumn of 1931, that an (as he and many others thought) inevitable price increase on imported goods should be counteracted through a price reduction on domestic goods, put the difference between a stable average price level and a change in a sub-index in focus in a very clear way. However, opinions once again diverged as to whether it was *possible* and *appropriate* to compensate for an increase in one sub-index by reducing another. Heckscher was supported by some social democrats but most actors gradually embraced the idea that a moderate price increase was a precondition for the recovery of business after the deflation of the preceding years.

3. To what degree was the price level one should aim for discussed and how well was the principle of price level targeting understood?

The question of which price level one should aim for was at the very centre of the debate. The initial target, stated at the time of the abandonment of the gold standard, was to “defend the internal purchasing power of the krona”. Most actors soon found this target too vague. Discussions revolved around the need to allow for wholesale prices to increase whereas retail prices or the cost of living were to be kept stable. According to those who advocated price increases, the objective was to eliminate the negative effects of the preceding deflation on business, and after that to fix the price level. The focus of the discussion was whether the appropriate price level should be the one that had existed in 1929, 1930 or in September 1931. The aim of monetary policy was decided on two occasions in 1932 and 1933 and concerned a moderate increase in the domestic price level without attachment to any precise index number. However, shortly after the transition to paper currency and on the initiative of the Riksbank, a new price index had been developed in order to make it possible to follow price developments on a weekly basis and in great detail.

From the press material it is evident that, following the initial confusion after Sweden had abandoned the gold standard, a considerable unity crystallized among leading economic authorities from right to left, like Cassel, Ohlin, Wigforss and Myrdal. They were all convinced that there was room for a moderate price increase after the preceding deflation. They were surrounded by a phalanx which primarily feared deflation and one which primarily feared inflation. The former phalanx was represented by the conservative *NDA* and the laissez faire liberal *GHT* with Brisman as economic spokesman, who argued that prices which had been deflated for a couple of years were unsustainable from the perspective of business. The latter phalanx was represented by liberal *DN* and its spokesman Heckscher, who wanted to hold on to the price level of September 1931 (as least as far as domestically-produced goods were concerned), and *SocD* and its industrious editorial writer Engberg, who feared a deterioration of workers’ real wages.

4. What was the opinion about who should decide the aim of monetary policy?

There was agreement – or agreement gradually became established – that the aims of monetary policy were to be decided by the government and the Riksdag and that, after that, the Riksbank should be free to choose the means to fulfil these aims. Cassel, in particular, demanded on several occasions that this procedure should be applied and in the spring of 1933 it was clear that the social democratic government had listened to this advice as minister of finance Wigforss put a bill before the Riksdag in which the principles of Sweden’s monetary policy were laid down.

5. How well were the differences between separate monetary means understood?

The means discussed were the discount rate, regulation of the money supply (operations in the open market), credit restrictions, currency control, import regulation, customs duties

and wage cuts. Economists like Cassel, Heckscher and Ohlin emphasized the discount rate and money supply. Cassel and Heckscher, however, questioned the efficiency of discount rate policy and Heckscher made a reservation that a certain stock of money could have different effects on the price level due to variations in the velocity of money. Cassel, and to a certain degree Ohlin (but not Heckscher), could accept import regulation but found currency control to be the most devastating measure imaginable. Cassel and Brisman sometimes discussed wage cuts. Conservative papers recommended import regulation or customs duties, wanted to cut interest rates and wages and opposed credit restrictions. Liberal papers normally argued for low interest rates and against credit restrictions, but also against protectionist measures. Social democratic writers put their faith in the discount rate, credit restrictions and currency control but denounced everything that smacked of protectionism or wage reduction. In general, different actors understood the differences between separate means very well and argued for those they thought were most effective or best supported their position of ideology or interest.

6. Could monetary policy be understood by the general public?

Unfortunately, it is not possible to say anything substantial about how well the general public could understand monetary arguments. The fact that some newspaper debaters worried about a lack of economic literacy among the broad masses is clear from the recurring discussions on the need for economic education in schools and educational organizations for adults. A statement (by Örne) that most people do not understand economics any better than a cat understands a windmill seemed to be confirmed when a paper (*DN*) sent a reporter to find out what the man (or woman) in the street thought of the causes of the economic crisis. There was, however, among those initiated into the mysteries of monetary policy, no desire to *hide* the windmill from the cat. On the contrary. But – as *DN* once concluded – it is easier to observe an exchange rate than to observe tendencies in a huge and complex price index material.

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