

# Dag Hammarskjöld as economist and government official

BY ASSAR LINDBECK

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*Perhaps the most remarkable thing about Dag Hammarskjöld's role as economist and public servant in Sweden from the mid 1930s to the early 1950s is that a non-political official could exert so much influence on central aspects of economic policy. Considering the subsequent politicisation of the government offices, I doubt whether anything similar could happen today.*

In the Thirties Hammarskjöld's principal single contribution was probably the 1937 budget reform, which made a distinction between the current and the capital budget. The idea was that while capital expenditure could be financed with loans, current expenditure would be financed (over a complete business cycle) from taxation. In the mid 1950s, however, Gunnar Sträng abolished this distinction to avoid having to register a surplus on part of the total budget (the current budget) and then face political demands for either tax cuts or increased spending. The division into current and capital budgets does have its limitations, partly due to tricky definitional problems, but today it has its advocates in that government and international organisations (the EU, for example) adopt targets for the government budget's balance, for instance in connection with the Stability and Growth Pact.

When assessing Hammarskjöld's contributions it must naturally be realised that, like everyone else, he was influenced by the spirit of the times. This is very clear from the paper Hans Landberg presented at the Riksbank's seminar on 7 September, which is also included here. Perhaps

this influence is particularly evident in what Hammarskjöld has to say about national economic planning. For him, however, this term, so controversial in the early post-war years, seems to have mainly referred to the government affecting the overall level of investment through monetary instruments and infrastructure investment. He also spoke of the need for some kind of (vaguely suggested) consensus between government and the corporate sector concerning macroeconomic developments. It is possibly more apt to describe Hammarskjöld's view of the role of government in terms of Bertil Ohlin's hazy concept of "framework planning".

But while Hammarskjöld bore the stamp of his times, he had an independent mind. In the Thirties, for example, he argued that the central bank should be kept out of politics – something that largely happened much later. In practice, however, he was a bit ambivalent about this, arguing in the Thirties for the coordination of monetary and fiscal policy. In the Forties, moreover, he himself played a dual role as undersecretary at the Finance Ministry and chairman of the Riksbank's board of governors.

Hammarskjöld was also independent in relation to Gunnar Myrdal, a particularly ardent advocate of making fiscal policy contracyclical, with a deficit on the current budget when economic activity was slack and a surplus when it was booming. Hammarskjöld was sceptical because he doubted whether politicians would manage to ensure a surplus in good times, an objection to fiscal contracyclicity that is often heard today.

Turning to Hammarskjöld's post-war contributions, it is evident from Örjan Appelqvist's paper, for instance, that he was a lively supporter of a low interest rate. It was also Hammarskjöld, according to Appelqvist, who was primarily responsible for the appreciation of the Swedish krona in 1946. In both these contexts, Hammarskjöld's arguments seem to have been based on the notion that prices are driven entirely by costs, while demand is less important – a not uncommon view among decisionmakers at that time. Hammarskjöld obviously saw the appreciation as a way of bringing the price level down so that those who had lost out on

the wartime inflation (creditors and employees with particularly rigid wages) would recoup some of those losses.

With a realistic theory of inflation, the appreciation should, of course, have been combined with a tighter monetary policy but that was blocked by the doctrine of a low interest rate, which entailed a pegged interest rate on government paper. As a result, Sweden landed in an inflationary economy and the authorities attempted to curb inflation with various controls that were a legacy of the wartime regime. It is not entirely clear whether Hammarskjöld regarded these controls as temporary economic policy instruments, designed to roll back a part of the earlier inflation over a limited period, rather than more permanent components. My guess is that the former was the case because he often declared himself to be in favour of a liberal economic system.

All in all, it has to be said that neither fiscal nor monetary policy was successful in the first post-war decade. The papers from the Riksbank's seminar suggest that to a large extent the failures arose just because leading government representatives, Hammarskjöld included, thought of prices as being entirely determined from costs. That explains why they went in for low interest rates, currency appreciation and central wage negotiations when inflation was accelerating, rather than a restrictive fiscal and monetary policy.

When international inflation then shot up in 1950 in connection with the Korean war, it actually provided a sound argument for appreciating the currency: Sweden's terms of trade were markedly improved by strong price increases for primary products (forest products and iron ore), which at that time dominated Swedish exports. There were calls for an appreciation in the public debate but the government and the central bank abstained, with the result that came to be known as Korean inflation. From the papers for the Riksbank's seminar it is not entirely clear whether Hammarskjöld was co-responsible for exchange rate policy on this occasion as well. He had already moved from the Finance Ministry to Foreign

Affairs, where in practice he seems to have borne the primary responsibility for Sweden's international economic relations. He had distanced himself from direct responsibility for monetary policy and exchange rate issues on leaving the Riksbank's board of governors in 1948.

This brings us to Hammarskjöld's contributions in foreign relations. It seems to me that his greatest constructive contribution to Swedish economic policy was just his efforts over many years as a negotiator with the Western powers to reinstate Sweden in international, primarily Western, economic cooperation. Due to Sweden's wartime concessions to Germany, as well as to her somewhat compliant attitude to the Soviet Union immediately after the war, this was no easy task. Moreover, the problem of joining Western economic cooperation was complicated by Sweden's expressed desire to combine this with neutrality in foreign policy and defence policy.

The seminar, not least the paper by Göran Ahlström and Benny Carlsson, made it clear that Hammarskjöld was skilled in conducting confidence-enhancing negotiations in foreign affairs. The other parties to the negotiations evidently relied on the promises he made. Hammarskjöld convinced them that he was someone who could be trusted. At the same time, he appears to have had considerable freedom to give and take in international negotiations. The foundations for his subsequent international career were probably laid in this period of negotiations with other countries.

I never met Hammarskjöld in person. My experience of him derives from the *atmosphere* that his activities still generated in the Government Offices when I joined the Finance Ministry in 1953 as the youngest third secretary. His spirit permeated the building at Storkyrkobrinken. The chief sign of this was the work ethos. When dinner had been eaten at a nearby restaurant, it was considered to be a patriotic duty to return, in the Hammarskjöld way, for a second shift. A more touching example is that the Finance Ministry's undersecretary at that time made a point of ensuring

that just he had the right to the hook Hammarskjöld had used for his coat and hat. Since then, of course, the Ministry has been endowed with a new building, new coat-hooks and a new undersecretaries.

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