‘Like Locusts on the Mississippi’

A Pioneer Study of the Expansion of the Swedish Public Sector

Benny Carlson & Mats Lundahl

Abstract
In 1962, the first thorough investigation into the expansion of the Swedish public sector was presented as a doctoral dissertation by Erik Höök. This article investigates the origin and reception of this thesis. Höök’s work has been considered a standard work of financial statistics. However, it attracted heavy criticism in the media and from other academics for having explained the public sector expansion as being almost exclusively driven by demand, neglecting the supply side and the role of politicians. Liberals, Conservatives and Social Democrats all reacted – although for different reasons – against the idea that an ever-growing welfare state was fated. The debate thus revolved around what would eventually, by James Buchanan, be designated as responsive (demand-driven) and excessive (supply-driven) public sector expansion. Höök was furthermore optimistic about the prospects of increased public sector productivity and sceptical towards Ingvar Svennilson’s ‘Iron Law of Costs’, a precursor of William Baumol’s Cost Disease.

Introduction

The 1962 doctoral dissertation *Den offentliga sektorns expansion* [The Expansion of the Public Sector], by the Swedish economist Erik Höök, triggered a lively debate both within academia and in the media in Sweden. The perspective employed in the thesis rested on consumption theory, which implied that the public sector was viewed as a large firm whose activities were governed by the needs (demand) of the citizens, and not by the (supply) ambitions of politicians. The dissertation received praise from leading economists, such as Erik Lundberg and Ingvar Svennilson, and was often labeled a valuable

Benny Carlson is professor emeritus at the Department of Economic History, Lund University; Mats Lundahl is professor emeritus at the Stockholm School of Economics.
E-mail: benny.carlson@ekh.lu.se (corresponding author); mats.lundahl@hhs.se

standard work of financial statistics. Most observers and debaters, however, thought that Höök's demand perspective was too one-sided. It was almost fatalistic and could hence be compared to Wagner's law or even Marx' fated theory. Even if the demand for e.g. health care and education increased inexorably with wealth, it was not in any way given that this demand must be satisfied exclusively by the public sector.

The purpose of the present essay is to shed some light on Höök's work because, even though it was widely debated in Sweden in its day, it hardly stirred the international attention that might have been expected given the strong interest in the rest of the world in 'the People's Home [folkhemmet]', 'the middle way' or 'the Swedish model'. Why was Höök's dissertation written? How was it received in the press and in the academic community, during the defense of the thesis, in reviews and in expert statements? What role has it played in the longer run in the discussions about the expanding Swedish welfare state? And what on earth has the discussion of locusts adrift with currents in the Mississippi to do with it?

Background Facts

Erik Höök (1920–1997) studied political science, practical philosophy and economics at Uppsala University, worked between 1948 and 1962 at the Institute for Economic and Social Research [Industriens Utredningsinstitut (IUI)] in Stockholm, a research institute financed by the Swedish Employers' Confederation and the Federation of Swedish Industries, and, in 1962, defended his thesis on the public sector – a result of a five-year research project at this institute. After his thesis defense, he became head of the planning section at the Ministry of Finance, with responsibility for the long-term planning, the roots of which were to be found in the long-term program, for the years 1947 to 1952/53 (SOU 1948: 45), which had been elaborated under the leadership of Ingvar Svennilson during his period as head of the IUI. Thereafter, 1976–85, he was Managing Director of Jernkontoret.[1]

At the beginning of the 1950s, Höök worked at the IUI with questions that to some extent ought to have served as a preparation for his thesis work, questions regarding the development of consumption and the service sector as well as the influence of the state on the private sector. During the latter half of the 1950s and the beginning of the 1960s, he raised problems of child allowances, taxes, pensions and the size of the public sector in a comparative perspective. In a number of articles he sternly rebuked the politicians, while at the same time he was optimistic with respect to the possibilities of increasing the productivity of public service production (see e.g. Höök 1960a and b), a question we will soon return to.

1 More on Höök's career in Wadensjö (2019).

Plans for an investigation about the expansion of the public sector are mentioned for the first time in the minutes of the IUI board in the fall of 1957 (*Protokoll* 1957: 1). In the annual report for 1957, the stated purpose is to provide a statistical account of the expansion during the inter- and post-war years, to clarify in which areas the expansion had been most pronounced and to analyze the factors behind it (IUI 1958: 22). Special attention was to be paid to the question of to what extent the demand for public service was affected by price and income factors and to the study of productivity issues. In addition, the expansion of the public sector was to be studied with the aid of theories about the shift away from primary and secondary sectors toward service sectors.

During 1958, the investigation was carried out according to plan. In the spring, Höök went to the United States to study the subject (*Protokoll* 1958; *Promemoria* 1959). He examined different theories about shifts in the division of labor between different sectors as real incomes increase (IUI 1959: 26). During 1959, statistical information was assembled from public budgets (IUI 1960: 18–19). The following year, different expenditure items were analyzed: the judiciary, health care, social care and education. The 1960 annual report provided a glimpse of expenditure on the elementary school and the report for 1961 a glance at expenditure on the road network (IUI 1961:26–28; IUI 1962a: 29–39).

For a few days during the spring of 1960, Höök's name bounced around in the Swedish press. The journalist Åke Ortmark had begun a series of radio programs about power factors in society. On 16 May, the theme was 'the immense public sector', with the participation of Prime Minister Tage Erlander, Finance Minister Gunnar Sträng, and the leaders of the bourgeois parties. The Social Democrat newspaper *Ny Tid* [H.W. 1960] reported from this debate. Erlander had declared that the expansion also in the future had to take place at the pace demanded by the citizens. He received unexpected support from Höök, 'who least of all turned out to be a propagandist for the Right'.

> The rest of the program became a strange duet between … Höök and Finance Minister Sträng, who, point by point, turned out to share the same views. For example, both declared that it was the development of events over time that had led to the heavy expansion of the public sector. […] And then it ended with both Mr. Höök and the Finance Minister forecasting a continued expansion of the public sector.

Productivity and Cost Disease

Höök early on paid attention to the development of productivity in the service sector. An interesting question is hence how he related to the explanation of the expansion of the public sector known as Baumol's Cost Disease.

This explanation argues that productivity in, for example, cultural activities and education cannot be increased the way it can be in the industrial sector (a piece of classical music does not become better if you play it twice as fast, a teacher does not become more intelligible if he talks twice as fast) but the wages in these sectors must increase *pari passu* with industrial wages if you want to recruit musicians and teachers. The share of these sectors in GDP thereby grows. Höök could of course not relate specifically to Baumol's Cost Disease, since the latter was not formulated until the mid-1960s (Baumol & Bowen 1966).[2] He did, however, relate to – and played down – the importance of this phenomenon. In a 1956 debate about the rising cost of white-collar workers he explained:

> The experience hitherto has provided several examples of how capital has been substituted for white-collar work, of how rationalization and mechanization have cheapened services. Through the automatic telephone, the need for telephone operators has been reduced, through radio, television and movies, the services of actors and musicians have become cheaper per listener … Also in the service domain we must envisage that in the future ever stronger efforts will be made to rationalize and cheapen the work … Why could not education be made more efficient, why should not the work of development and time study engineers and others be more efficient? (Höök 1956: 336-337)

Another contribution was made by Höök in 1961, following a lecture by Ingvar Svennilson at the Swedish Economic Association [Nationalekonomiska Föreningen] on education and economic policy. Svennilson argued that the cost of education as a share of GDP would increase and named this tendency the 'Iron Law of Costs' of education,[3] and wrote it as a formula on the blackboard.

> The foundation of this 'law' is that wages dominate the cost of education and that the possibilities of labor-saving rationalization in this area are probably relatively limited. […] Something similar appears to be true for other service branches in the public sector, among others, health care […] My forecast therefore is that in the future, in the same way as hitherto, we must reckon that 'public consumption' will increase faster than GDP, i.e. amount to an ever larger share of the latter. (Nationalekonomiska Föreningen 1961: 37-38)

2 For an introduction to Baumol's Disease, see e.g. Heilbrun (2003).

3 In the first issue of the year of *Ekonomisk Tidskrift*, Svennilson had published an article on the same theme: Svennilson (1961). He did not, however, introduce the notion of the 'Iron Law of Costs' in this article.

Svennilson's 'Iron Law of Costs' appears to be identical with (and formulated before) Baumol's 'Cost Disease'. Höök was not convinced:

> I am of the opinion that in this context you must take into account the problem of teacher productivity [increase]. You can probably not take it for granted that it will always be zero. Professor Svennilson's formula implies that – to push the thing to its extreme – when we have all become doctors of technology, we will get a considerable deterioration in productivity. The pace of progress according to this formula is to a large extent determined by the substitution of more educated for less educated labor. When we have reached the point where no more such substitution is possible, production gains will by and large cease. Drawing out the consequences of this, in the end you get a situation where the productivity increase tends towards zero. (Nationalekonomiska Föreningen 1961: 54)

Höök continued by contending that productivity had increased in the educational system and that it could continue to do so. He found it incontrovertible that the scientific progress that was being made must facilitate the acquisition of knowledge.

> If you deny this I don't know where you will end up. Such discoveries as the earth being round, why the apple falls and the behavior of sound waves must indeed have facilitated the understanding of the surrounding world and the learning of facts. I hence think that there is some kind of productivity in this area and that you should not envisage a productivity [increase] that is always equal to zero. I thus hold a somewhat more optimistic view than Professor Svennilson on this point. Then, when it comes to teacher productivity as such, I also think that progress within pedagogy etc. has made it easier for a teacher to convey a certain measure of knowledge than was the case in 1913. This is, however, simply a belief. As far as I have been able to find, no clear information is available on this point. (Nationalekonomiska Föreningen 1961: 55)

Svennilson contended that his Iron Law was 'pure mathematics' and his only objection to Höök's argument about the rising level of knowledge and pedagogical progress was a general statement: 'But I don't think that what … Höök has demonstrated contradicts the idea that there is something in this "law" as a long-run tendency.' (Nationalekonomiska Föreningen 1961: 62)

The Doctoral Dissertation

In 1962, Höök's work on the public sector was ready as a doctoral dissertation: *Den offentliga sektorns expansion: En studie av de offentliga civila utgifternas utveckling 1913–1958* [The Expansion of the Public Sector: A Study of the Development of Public Civilian Expenditure 1913–1958].[4] In his introduction, Höök (1962a: 15) stressed that he had wanted to shed light on a forecasting problem but that it was hardly possible to 'arrive at a determination of determinants and relations in such numerically precise form as is needed for a balanced forecast'. Hence, the study should be seen as a 'preliminary study of the forecasting problem'. Höök also underlined that his 'line of attack' was well anchored in mainstream economic theory. 'More concretely, the approach to the analysis of the development of national and municipal expenditure used in the present work implies that the same schema of explanation that is being applied to shifts between firms and branches may also be applied to a discussion of the growth of the public sector.' Höök (1962a: 17) explained that his economic approach was inspired by what he had learned from his colleagues during his IUI years: Ragnar Bentzel's consumption studies, Erik Dahmén's views of the problems of transformation and Erik Ruist's productivity studies. Höök had also had the opportunity to discuss his work with his teacher from Uppsala, Erik Lindahl, and at seminars led by Bent Hansen, where he had received comments from Kurt Eklöf, Ulrich Herz and Assar Lindbeck. In the final stage he had obtained good advice from Erik Lundberg.

Thus, the ambition was to apply 'a traditional consumption theoretical approach', but for some expenditure categories this was not possible, because some items had 'a pretty pronounced ambition to direct the market' (Höök 1962a: 386). This was true e.g. for subsidies of housing and agriculture. The expenditure of public utilities and the military had not been included.

Höök concluded that public consumption expenditure (as a percentage of total civilian consumption expenditure) had increased at an even pace in most areas during the period under investigation. However, consumption expenditure on education and health had increased faster during the 1940s and 1950s than during the earlier part of the period. Some social transfers had increased heavily between 1946 and 1948: old-age pensions and child allowance.

The elements of the growth of public expenditure discussed by Höök were the following: expenditure complementary to private demand, transfer of expenditure from the private to the public sector and expenditure dependent on income and price changes. The complementary expenditures were those of road services and public services linked to private demand for different consumption and production services. The transfer of expenditure had taken place

4 A very concise summary of the dissertation is available in Höök (1962b). The following year, the IUI published a 50-page pamphlet that summarized Höök's thesis. See *Offentliga utgifter 1913–58* (1963).

above all in social care and to some extent education, e.g. school meals and health care. The increased expenditure on education and health care could, however, to a very large extent be related to income increases in society.

Höök did not rule out that a transfer of expenditure from private to public sector could be motivated by political and ideological factors, but his ambition was to study economic, and not political, explanations of the expansion of the public sector. In his thesis he made some international comparisons. He found that the expansion of the public sector in Sweden was in the middle range in a European context. In Sweden, social transfers and investments in publicly owned companies were smaller than in most other countries but public consumption was larger than in any other country. Public expenditure had grown at an even pace in Sweden, whereas Great Britain and the United Stated displayed a stepwise increase. In his international outlook and in the concluding discussion of the dissertation, Höök therefore brought up the theory of displacement effects launched around this time by Alan Peacock and Jack Wiseman (1961). This theory states that the resistance towards taxation weakens during periods of war and crisis, and that taxes and expenditure once the crises are over do not fall back to their previous level. The increasing tax revenues are instead used for other kinds of expenditure than military spending or crisis management. Since Höök had found that public expenditure in Sweden had increased at an even pace, he argued that the displacement effect theory was not applicable there. He also argued that the resistance to taxation in Sweden had been weakened by the tax system itself. 'Through progressive taxation, the public sector has received increased tax revenues at given tax rates, through the ongoing income increases in society. Thereby, room had automatically been made for an even expansion of the public sector.' (Höök 1962a: 405)

In his dissertation, Höök (1962a: 129) also demonstrated his optimistic view of the development of productivity in the public sector: 'It is not completely improbable that the typewriter and the telephone are the individual phenomena that have had the strongest influence on the development of productivity in the public sector.'[5]

The Thesis Defense

Höök's dissertation was discussed in public at Stockholm University on 1 December 1962. During the defense, PhD Göran Ohlin acted as faculty

5 When Höök left the IUI in 1962 he was given a *Festschrift* with contributions from the friends at the institute. His colleague Lars Kritz made the following comment with respect to the quotation about typewriters and telephones: 'We now understand better why business executives have at least three telephones on their desks. It furthers the productivity of the firm. But why are they still always impossible to reach?' (IUI 1962b: 46)

opponent[6] and Ulrich Hertz[7] and Insurance Director Bror-Johan Lindgren were the two opponents selected by the respondent. Among the audience were Gunnar Myrdal, Erik Lundberg and the head of the Swedish Employers' Confederation, Bertil Kugelberg. According to the newspaper reports, the discussion was lively. Ohlin attacked Höök's thesis that it was the the demand of the citizens for public services, and not a politically driven supply, that governs the expansion of public expenditure, an attack that in *Dagens Nyheter* (1962a) was reported as follows:

> Don't you as a rule do the complete opposite?, wondered Dr. Ohlin. Would for example the subsidies to agriculture be an expression of the 'preferences' of the majority of the voters? By clinging to his 'consumption theory' the author ends up in the most bizarre and misleading ideas about harmony in society … Surely the politicians change the 'preferences' of the citizens – steer their demand – through political decisions that are perhaps arrived at with a slight majority. By disregarding this, taking no notice of political factors, the author in fact reveals a hidden ideology.

In order to drive home his point, Ohlin employed a fanciful metaphor. He argued that politicians according to the view propagated in Höök's thesis could be compared to kicking locusts drifting down the Mississippi, thinking that they are good swimmers. Höök, however, bit back. The actions of the politicians might perhaps be of short-run, but not long-run, importance. All you had to do was to look at how differently the health care system was organized in Sweden, Britain and the United States, while at the same time expenditure on health care had developed uniformly in the three countries.

The second opponent, Ulrich Hertz, seconded Ohlin and called Höök's theory 'the most ludicrous, not to say dilettantish hypothesis'. Carsten Welinder, professor of financial law and financial science, opposed *ex auditorio* and wondered whether the political battle that had been raging about social insurance was simply a misunderstanding. He pointed out that public expenditure remained constant in the 1920s when governments were weak, but began to grow in the 1930s when governments grew stronger.

In spite of their sharp criticism of the fact that Höök had applied only a demand perspective, the opponents underlined that the dissertation constituted a valuable contribution in an essential field, that it was an 'extremely

6 Ohlin had got his PhD at Harvard in 1956 and had thereafter worked at Stanford, Columbia and Yale before returning to Sweden in 1962, to the Institute for International Economic Studies at Stockholm University.

7 Herz was a hard-working author and debater, who in the 1930s had fled Nazism and arrived in Sweden.

valuable standard work in financial statistics' and that in addition the author was one of the 'socially most educated persons in the country'.

The thesis committee consisted of the economics professors Erik Lundberg and Ingvar Svennilson and in addition of David Hannerberg and Åke Hultkrantz, professors of geography and history of religions, respectively. The evaluation of the thesis was authored by Lundberg and Svennilson. They found (*Protokoll* 1962: 1–2) that Höök had solved a 'very qualified problem … reliably and with good judgment […] In this sense, the dissertation has become a standard work which the researchers in the area will have occasion to return to.' They also noticed that Höök had worked with laudable caution but called for 'a somewhat greater audacity in the statistical analysis'. Exactly like Ohlin, they directed their criticism against Höök's one-sided consumption theoretical point of departure:

> As his point of departure he has chosen the so-called interest principle, whose content has been interpreted to mean that the public consumption exactly like the private one is determined by the preferences of the citizens. […] The decisions with respect to public expenditure, [however], are the result of a complicated political process where the connection between the demand of the citizens for public services and the actual development of the latter is not clear-cut. […] The only point of reference that he uses is private consumption, instead of inserting the development into a general context of politics, economics and financial policy. The suffrage reform at the beginning of the period and the shifts between the political parties from Höök's point of view stand out as insignificant and have fallen out of the picture. (*Protokoll* 1962: 2–3)

In their final comparison of flaws and merits, Lundberg and Svennilson found that the thesis was a good scientific contribution that ought to be rewarded with *cum laude*, which it also was.

Reception in the Press

The medial reaction to Höök's dissertation was extensive. Only a few days after the defense, a telegram from the TT News Agency had already been published in twenty newspapers (see e.g. *Svenska Dagbladet* 1962), where the causes of increased public expenditure were concisely summarized in three points. First, the latter is complementary to private expenditure, like expenditure on roads linked to the expansion of motoring. Second, transfers have taken place from the private to the public sector, as in the case of the introduction of free school meals. The third explanation refers to price and income changes in society;

when incomes increase or the price of public services declines, more health care, education, etc. is demanded.

In connection with the defense, Höök's message was debated on the editorial pages in several national dailies and some ten local provincial newspapers. The editorial in the evening newspaper *Expressen* (1962), published on the day of the defense, was wholly positive. The dissertation was seen as valuable both because of its thorough statistical account of public expenditure and because of its attempt to analyze their development. The editorial of the leading Liberal daily, *Dagens Nyheter* (1962b), dealt with Göran Ohlin's criticism:

> In the approach chosen by Höök, political factors remain almost completely outside the picture of the development of society. [...] The opposition offered during the act of defense circled around this theme from the beginning to the end and many examples were brought forward of the unreasonableness of viewing the expansion of the public sector simply as an expression of 'preferences' of the citizens.

After these remarks, the editorial writer turned in another direction and explained that the criticism did not at all mean that Höök was wrong. The dissertation was of practical and political interest. 'It lends support to politicians who attempt to get beyond the old cliché way of thinking that every increase of "the public sector" in general is a manifestation of socialism...'

While Höök was well received in Liberal newspapers, the Social Democratic *Aftonbladet* (1962) sang a much more critical tune:

> The work is usually called a standard work in financial statistics [...] On the other hand, Höök's main thesis, that the expansion of the public sector can be regarded as completely 'apolitical' and that it can be explained in terms of consumption theory – buyer preferences, income changes and price sensitivity – is criticized. It also seems correct that Höök has pushed his effort at such a purely economic explanation, within the framework of some, perhaps unconscious, ideological harmony theory, across the border of the ludicrous.

The editorial writer pointed to the Swedish ATP (General Supplementary Pension) reform as an example of how the labor movement managed to create an understanding of the needs which 'of course had existed earlier but had not been recognized in any "consumption theoretic action patterns"'.

Höök's dissertation was also dealt with by Carsten Welinder (1962), who had acted as opponent *ex auditorio*, in *Stockholms-Tidningen*. He pointed out that the dissertation constituted 'our first standard work of financial statistics', but raised certain objections. He contended that the world wars had been more important than Höök had admitted, since the public then became accustomed to higher taxes (the displacement effect). He also thought that Höök 'aims too low' regarding the question of the importance of political developments. The democratic breakthrough had increased expenditure on purposes of importance for the vast majority, during the weak governments in the 1920s public civilian consumption expenditure did not increase its share of total consumption, but in the 1930s, things took a different turn.

The dissertation was discussed in several Conservative and Social Democratic provincial newspapers. Let us begin with the former. An editorial published in several newspapers objected to the view that the expansion was based on an increased living standard, with arguments that resembled those that John Kenneth Galbraith used to employ against private company advertising:

> Politically, a new idea is born which holds that the public sector should intervene in some way in some sector. The propaganda builds up the idea and creates a demand among the citizens. Thereafter, the project is carried out and a few years later it is contended that it was actually we ourselves who demanded more public services. (See e.g. Håpe 1962)

Another editorial pointed out that if you uncritically accepted Höök's causal chain, 'less responsible politicians will all too easily be able to motivate new demands for expenditure in the future'. 'Let us shift this private expenditure item to the municipality or the state and pay collectively – for we will have to pay anyway, they will say.' (See e.g. *Norrbottens-Kuriren* 1962)

In the Social Democratic *Kuriren* (E-n 1962), it was suggested that Höök had seen the light: '… there is a lot to indicate that science will put ever more people onto tracks that old man Marx once upon a time pointed out. You will soon hardly be surprised at the fact that searching scientists become socialists without even reflecting over it.' *Ny Tid* (Howard 1962) was more critical and argued that Höök had underrated the role of politics and other forces. 'But there is one thing about which there cannot be any division of opinion: that it was the Social Democratic policy that was attuned to the demands raised by the development [of society], whereas the bourgeois one endeavored to act as a brake for as long as it was possible.' An editorial published in Social Democratic provincial newspapers interpreted Höök's conclusions as not leaving 'any support whatsoever to the conservative view that it would be possible to stop or even reduce the increase of public expenditure' (see e.g. *Värmlands Folkblad* 1962).

Reception in Professional Journals

In the first 1963 issue of *Ekonomisk Tidskrift*, a long review article by Göran Ohlin was published, based on his opposition at Höök's defense. Ohlin (1963: 4) found it

> surprising that Höök had chosen to push the parallelism between the economic analysis of the private and public sectors [so] untenably far. His investigation is meant to be a companion piece to Bentzel's earlier studies of the development of private consumption, where it was, however, stated that public consumption had been left out precisely because it had to be studied with the aid of other methods, as a result of a political process and not of private market decisions. […] Anybody who is wondering about the character of the public economy must soon realize that it is impossible to explain why you have a public sector at all if you don't realize how it differs from the private one.

Ohlin (1963: 5) also reacted against the fact that Höök had used the interest principle as a theoretical cornerstone of his investigation and 'even had been audacious enough to turn this normative theory into something that it was never meant to be, namely an explanation of reality'. Instead of pondering the questions that arose in this context, 'the author majestically brushes away the troubles that he inflicted on himself when he opened the Pandora's box which the interest principle amounts to in the present context'. A central question was what happens when different individuals' demands are in conflict with each other:

> About that question the author does not say a word, but rather expresses himself as if in our political life we had realized the consensus principle that Wicksell discussed on an abstract level or as if we made parliamentary decisions by common vote, as in a Quaker meeting or in the Asian village councils that anthropologists report about. (Ohlin 1963: 6)

Thereafter, Ohlin stated the metaphor about the locusts on the Mississippi whose acquaintance we have already made. There are, however, good reasons for quoting it *in extenso*. Ohlin (1963: 7) contended that according to Höök,

> the political activity, in spite of all the noise and din that it gives rise to, simply serves to discover and realize the demands that are already alive in the breasts of the citizens. Our politicians are hence the victims of an illusion if they believe that their initiatives and their willingness to change society mean anything at all. Henry Adams once described American presidents who through

> the power of circumstances had been driven to great and fateful decisions and likened them to locusts drifting down the Mississippi river and who through their lively kicking convince themselves that they are superior swimmers. This is how the political life appears to be in Höök's interpretation of the management of our public sector.

Altogether, Ohlin (1963: 11) argued that Höök would have been 'better able to judge the development of the public sector as an historical phenomenon' if he had not chosen to combine 'his massive documentary contribution with such a peculiar theoretical apparatus'.

The reviewer of *Industriförbundets Tidskrift* (Grafström 1963: 18) dwelt mainly on the arguments that had been discussed during the defense. Ohlin had among other things stated that the interest principle of taxation (which means that the preferences of the individuals decide the level of public spending), represented above all by Erik Lindahl, 'had been hovering like a lost soul' over the dissertation. The reviewer, however, liked Höök's spirit: 'The cliché-ridden thinking which constitutes a patent risk when it comes to the public sector and its dependence on political decisions have been made to give way to a more nuanced description of this ever more important part of our economy.'

The journal of the Taxpayers' Union [Skattebetalarnas förening], *Sunt Förnuft* (H.S. 1963: 4–5) also took issue with Höök's use of the interest principle and the idea that the development of public expenditure is independent of how you choose to register people's wishes and of how this expenditure is financed. In a rich and democratic country like Switzerland, popular referendums were held about public spending policy. 'It appears likely that it is precisely this which to a large extent has decided that Switzerland has a relatively limited public sector and such low taxes.' The article was headed 'Fate Theory' and it opposed the view that the development of the public sector 'would be determined by a few factors which could not be influenced and that we must expect a continuation along the same path'.

An article in *Industria* (1963: 16), the journal of the Federation of Swedish Industries, began with a question: 'Is Gunnar Sträng of any use to humankind?' According to Höök, the answer was negative since the Finance Minister by and large did not influence anything. The author of the article finished by arguing that there was 'a certain relation not only between the preferences of the citizens and the development of the public sector but also between the preferences and the political constellation'.

Finanstidningen (1963: 33) found that Höök 'shuts his eyes for or conjures away the fundamental difference between "public" and "collective"'.

> However, the fact that the need for, say, education or health care or means of communication, must be satisfied collectively does not mean that they must be satisfied by society. Höök does not say that, but he remarkably easily bypasses the crucial issue, namely the question: couldn't a great deal of these collective needs be satisfied equally well through other forms of cooperation than the public sector? And is it not politics that has decided the choice between the alternative forms?

In spite of this and other objections, the journal 'in no way wanted to hide that through this dissertation we have acquired an almost inexhaustible, exemplary reliable in its factual details and extremely useful summary of most of what is worth knowing about the development of the public sector in our country since the first world war'.

The Social Democratic *Aktuellt i politik och samhälle* (Hallbeck 1963: 9), on the other hand, had no quarrel with Höök's analysis. Increased economic resources ought to be used for improvements 'where the shoe pinches most [...] Then undoubtedly the public sector will increase.' That there were still politicians who wanted to shrink the sector was astonishing. But they would draw the shortest straw. 'Surely, in spite of them, the institutions of society will bring about the necessary increase in activity and effectivity. The opposite would imply stagnation, retrogression, lowered standards.'

When the statistician Olof Lindahl (1963: 178, 180) reviewed Höök's thesis he noted that the public sector was treated as a giant corporation 'whose activities are governed by the same laws as private business'. He paid special attention to Höök's demonstration that a substantial increase in productivity had occurred in the public sector. 'Not least for those who regard the public administration as a petrified and sterile bureaucracy, the endeavors to tailor activities to contemporary demands make useful reading.'

Höök also received attention in some reviews in foreign journals. *Ekonomiska Samfundets Tidskrift* (Finland) (Melin 1963: 276) stated that countries like West Germany, France and Great Britain, which during the 1950s had been ruled by bourgeois parties, had larger public sectors than Sweden. Hence there was no 'reliable correlation between thirty years of Social Democratic Government and an expanding sector' in Sweden. The reviewer of *Nationaløkonomisk Tidsskrift* (Denmark) (Korsbæk 1964: 211) wanted an investigation which dealt not only with governmental and municipal expenditure but also with e.g. health and unemployment insurance and generally speaking called for a less schematic investigation of the vast statistical material which 'would lay the foundations for a more nuanced view of the growth of the public sector than the one expressed in the book'.

Last but not least, Höök's book was reviewed in the *American Economic Review*. The reviewer, Edward Marcus (1963) from Brooklyn College, was especially interested in the effects of differences in productivity development between the private and the public sector.

Expert Statements

In 1972, a chair in labor market policy was advertised at the Swedish Institute for Social Research in Stockholm. Erik Höök was one of the applicants, competing with, among others, Gösta Rehn, Ingemar Ståhl, Bo Södersten and Lars Söderström. The position went to Rehn. The expert committee consisted of the Danish professor of labor market policy Bent Rold Andersen and the Swedish economists Erik Lundberg and Lars Werin. Their statements give an idea about how Höök's dissertation was regarded at the time.

Andersen (1972: 4) describes Höök up to the doctoral dissertation as 'an investigator as busy as an ant' who had produced both empirical results and theoretical reflections. Höök's work was solid, of the type that tidied up the public debate. It was theroretically well-founded but not terribly original or scientifically innovative: a very extensive, cautious and sometimes astute analysis of the existing empirical data. Andersen, however, objected that Höök had pointed only to economic explanations. When he for example explained the transfer of social security solutions from the private to the public sector by increased mobility, which made it necessary to move tasks from smaller (e.g. the family) to larger units, it was not clear why it was precisely the public sector that had to shoulder the burden. Andersen concluded that Höök was a very productive researcher with great knowledge of the Swedish society, business community and labor market but that his work lacked scientific stringency and penetrating analytical ability. Andersen concluded that Höök was hardly qualified for a chair in economics, but that he was, though not wholly unequivocally, qualified for the advertised chair in labor market policy.

Lundberg (1972: 5-6) called Höök's dissertation 'a very impressive work':

> This work very clearly shows Höök's critical mind and good judgment when it comes to the processing of statistical sources with varied content [that run] over long periods and presenting the material in a clear and pedagogical way. [...] It should be stressed that Höök is in no way a 'simple' empiricist who collects and processes statistical material for the use of other researchers. Actually, his text abounds with hypotheses of all kinds about possible relations, frequently with imaginative speculations.

According to Lundberg, Höök's way of working called to mind no less a person than Simon Kuznets. Lundberg thought, however, that Höök had pushed his consumption theoretical approach too far. Höök had overlooked factors such as the role of politicians as intermediaries, conflicts between different interests and the fact that taxes cannot be perceived only as prices in demand functions.

In his conclusion, Lundberg (1972: 9) declared that Höök was not a theoretician who used refined analytical methods or produced contributions to economic theory. He did, however, possess 'a balanced judgement, a well developed talent for critical scrutiny of statistical material, a good feeling for rewarding problems and adequate analytical methods, an interest in historical development and institutional change'. Lundberg hence deemed Höök qualified for a chair in both economics and labor market policy.

Werin (1972: 9-10) emphasized that he was less critical of Höök's consumption theoretical approach than many other observers. He provided an exegesis about Erik Lindahl's ideas about the interest principle of taxation and concluded that if Höök had only used a somewhat different terminology his reasoning would have stood up relatively well; 'it should be possible largely to eliminate its blemishes from the theoretical point of view, simply by changing the wording'. Werin's verdict about the dissertation was that it had some flaws when it came to the theoretical approach and that it was sometimes characterized by excessive caution, but that the merits – 'a broad, knowledgeable and stimulating mapping and explanation of the trends in the development of the public sector' – clearly outweighed the flaws. Werin declared Höök qualified both for the chair in labor market policy and for a chair in economics.

Long-Run Impact

In Henrik Jordahl's (2009: 485) words, Höök's dissertation implied 'that the IUI for a while was leading in Sweden in research on the public sector'. Höök's colleagues at the institute have subsequently defended his demand-based explanation. Thus, Jan Wallander (2009: 86), the former (1953–65) head of the institute, states:

> In his extensive investigation of the expansion of the public sector … Erik Höök demonstrated that the expansion was essentially connected with the demands that derive from an increased standard of living. The increase leads to a greater need for such things as education, health care, social care etc. In our country this in most cases was handled by public institutions. The difference between developments in Sweden and, for example, America was actually very small, even though private institutions dominated in the US. This was a bitter pill to swallow, so much the more,

> since the investigation attracted great attention and the author was linked to Gunnar Sträng's Ministry of Finance.

Lars Lidén (2009: 254–255) argues along similar lines:

> Contrary to what some people may have thought – and the political debaters maybe had hoped for – it [the dissertation] did not become a polemical pamphlet. Instead, Erik Höök calmly and matter-of-factly demonstrated how he viewed the connections. An important part of the growth of the public sector, he claimed, was due to the fact that the Government, the County Councils [landsting] and the Municipalities provided the kind of services – e.g. health care and education – the demand for which increased when incomes increased.

In 1974, a group of economic historians in Uppsala began a large project about the causes of the expansion of the public sector in Sweden. The project was led by Bo Gustafsson and resulted in four doctoral dissertations.[8] When Gustafsson (1983: 11) summarized the project, he began by referring on the one hand to Peacock and Wiseman, and on the other hand to Höök's 'massive investigation': 'With his detailed and systematic description of the growth of different kinds of public expenditure, this study is probably still unsurpassed in the international literature.'

One of the dissertations that sprang from the project was Anders Forsman's (1980) *En teori om staten och de offentliga utgifterna* [A Theory of the State and Public Expenditure], which argued that the function of the state is to preserve capitalist society. When the economist Lars Söderström (1981: 248) reviewed this dissertation, he compared Forsman's Marxist and Höök's consumption theoretical analyses, and got to within a step or two of Ohlin's locust metaphor:

> What characterizes Forsman's theory is that it does not attach any decisive importance to the political game for the expansion of the public sector. In this theory, the citizens/politicians are puppets under the direction of some 'invisible hand' that governs the development. This is an interesting idea, but it is not completely new. The same idea is in fact found in Erik Höök's dissertation of 1962, which is the only important Swedish work in the area. However, in Höök's theory, the invisible hand performs a different task. […] In his view, the public sector is a conglomerate of companies that grow in competition with the firms in the private sector and the household units. Ultimately, the issue is how

8 Forsman (1980) wrote about public expenditure, Rodriguez (1980) about public revenue, Waara (1980) about public enterprise and Wickman (1980) about macroeconomic planning.

> to produce goods and services in order to satisfy the demand of the public for comfort, safety and other things that yield satisfaction […] This is a consumption theoretical approach. Exactly like Forsman, Höök provides no room for purely political considerations. He does not even provide any space for the traditional market forces (profit maximization, etc.), but the 'companies' in the public sector in some inexplicable way are made always to accommodate supply to current demand.

In his book *Den offentliga revolutionen* [The Public Revolution], the political scientist Daniel Tarschys (1983: 38) accordingly placed Höök's dissertation in the demand-oriented tradition:

> Toward the end of the nineteenth century, the German economist Adolph Wagner launched the thesis that the public sector would increase successively in all developed societies. 'Wagner's Law' became the point of departure for an extensive debate about this growth. Expansion patterns in different countries began to be studied. The leading Swedish contribution to this research is Erik Höök's study of the development of civil public consumption from 1913 to 1958.

Which role did Höök's dissertation play in the longer run? The general impression you get while browsing the literature on the public sector from the late twentieth century is that Höök's figures were occasionally used – but not that he was used as a battering ram in the ideological battles over the welfare state.[9]

Concluding Remarks

Erik Höök's dissertation about the expansion of the public sector originated as a project at the Institute for Economic and Social Research (IUI) and it bore the imprint of the 'consumption theoretical' approach that had been employed there in a number of previous studies. The dissertation triggered a lively discussion in the Swedish press. Bourgeois newspapers took exception to Höök's main idea: that the expansion of the public sector was a more or less inevitable consequence of the general development of society. Social Democratic newspapers, in turn, found that Höök's thesis pulled the rug out from under the feet of the bourgeois politicians but did not want to view the development of the

9 See e.g. Henrekson (1990, 1992 and 1994), Herlitz (1989), Ringqvist (1996) and Uddhammar (1993). In some other works about the public sector, Höök is not mentioned at all. See e.g. Fölster (1990), who goes no further back in time than to 1960, and Krantz (1987).

public sector as automatic, since Social Democratic politicians would then not be able to credit themselves for a number of reforms.

Höök's dissertation was a pioneering work in a field that would become ideologically ever more infected, and hence eagerly researched, during the following decades. The criticism that he had to contend with during the defense and in subsequent reviews and academic expert statements – that he almost exclusively viewed the expansion of public expenditure from the demand side and that the politicians therefore stood out as helplessly kicking locusts in an irresistible current – probably would have appeared as even more warranted if he had carried out his work one or two decades later. During the 1960s and the 1970s, a number of explanations of the expansion of the public sector were advanced by the public choice school which viewed the phenomenon from the supply side and concentrated on the vested interests of politicians and bureaucrats and the political orientation of governments. James Buchanan (1977) divided the explanations of the expansion of the public sector into responsive (demand-driven) and excessive (supply-driven) government. In the words of Söderström (1981: 250), Buchanan's point of view stands 'in bright contrast to Höök's assumption of a mainly harmonic relation between the citizens and the representatives of the public sector'. When Höök carried out his work, Sweden was only at the beginning of the strong expansion of the public sector that would characterize the 1960s and 1970s and which meant that Sweden would differ from most other Western countries. As things turned out, his dissertation attracted much attention in the short run but was largely forgotten in the long run.

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