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ARTICLE

Architects of the Mixed Economy: Assar Lindbeck, Ingemar Ståhl, and Gösta Rehn

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At what point can a social democrat be described as neoliberal? In 1982, Swedish economist Assar Lindbeck (1930–2020) left the Social Democratic Party, although he claimed to remain a social democrat by principle. Lindbeck was a central representative of the neo-Keynesian turn in economics after 1970. At the same time, he was a principled believer in the welfare state. This essay places Lindbeck, somewhat asymmetrically, in the context of two other Swedish economists: social democrat, eventually libertarian, Ingemar Ståhl, and trade union economist Gösta Rehn. My purpose in comparing these three economists is to examine the boundaries between an evolving social-democrat project and emergent neoliberal ideas. There were important connections of conversation, collaboration and friendship between these three actors. Yet they took different paths. The article proposes that understanding the relationship between social democracy and neoliberalism can be productively done through an emphasis on three things: the relationship between egalitarian objectives and economic instrumentalities in the social-democrat project, specific meeting points between social-democrat and neoliberal repertoires of ideas as proposed in the problem of the mixed economy, and the interplay of personal biographies and economic expertise.

Introduction: social democracy and neoliberalism

At what point can a social democrat be described as neoliberal? In 1982, Swedish economist Assar Lindbeck (1930–2020) left the Social Democratic Party, although he claimed to remain a social democrat by principle. Lindbeck had spent much of his life in a state of empathetic disaffection with the party line. At the same time, he was a principled believer in the welfare state—"that great historical invention!"[1] Lindbeck was a central representative of the neo-Keynesian turn in economics after 1970. He chaired the so-called Lindbeck commission in Sweden in the early 1990s, which introduced a large-scale program of structural change in the Swedish welfare state.[2]

[1]Assar Lindbeck, *Macroeconomics and Economic Policy* (Aldershot, 1993); Lindbeck, *The Welfare State* (Aldershot, 1993). Carl Bildt *et al.*, *Assar Lindbeck*, *Ekonomisk debatt* 2 (2021).

[2]OECD, *Towards Full Employment and Price Stability: Report of the McCracken Committee on the Possibilities of Non-inflationary Growth for the World Economy* (Paris, 1977). "Nya villkor för ekonomi och politik," SOU 1993:16.

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This article places Lindbeck, somewhat asymmetrically, in the context of two other Swedish economists: social democrat, eventually libertarian, Ingemar Ståhl, and trade union economist Gösta Rehn. Ståhl introduced central aspects of public-choice theory to Sweden.[3] Rehn carried the anti-inflation stance of the so-called Rehn–Meidner model, which guided Swedish active labor market policy in the 1950s and 1960s.[4]

My purpose in comparing these three economists is to examine the boundaries between an evolving social-democrat project and emergent neoliberal ideas. There were important connections of conversation, collaboration and friendship between these three actors. Yet they took different paths. Ståhl, who had held important positions in the social-democrat student movement in the 1960s, left social democracy in the 1970s, and joined the Mont Pèlerin Society in 1982. Rehn, in contrast, remained an active social democrat his whole life, but as a social democrat he accepted many of the theoretical stances in so-called structural-adjustment policies and, notably, the predominant need to fight inflation.

While little academic attention has been devoted to Ståhl and Rehn, Lindbeck figures in the literature on the neoliberalization of social democracy as an example of how new forms of economic thinking, commonly associated with neoliberalism, took over social-democrat ideology.[5] In this article, I embed Lindbeck in an intellectual-history account with the ambition of probing the limits of the social-democratic universe. The different positionings of these three actors, indeed the timelines of their conversion, or non-conversion, allow us to repose the question: what made social democrats turn to neoliberal ideas? What, in the interplay between the circulation of economic expertise and their intellectual biographies, explains this?

The question of the relationship between social democracy and neoliberal ideas can be readdressed in important ways. A number of studies have shown that social democracy accepted neoliberal ideas, as defined by the turn to monetarism, supply side policies, and workfarist social policies after 1990.[6] Most studies have seen this as a question of the gradual penetration of neoliberal ideas from the outside, with reference to the availability of new economic expertise. Other studies, in contrast, have emphasized that the conversion to neoliberal ideas emerged from debates and dilemmas that ran through the twentieth century. These had to do not least with the problem of managing the industrial economy, securing the conditions for growth, and finding the right balance of market arrangements and interventionism in debates that were ongoing from the moment when social democrats chose to not nationalize, but to democratize, the economy.[7] Swedish social democracy is a case in point. Swedish social

[3]Christina Jonung and Lars Jonung, eds., *Ingemar Ståhl: A Market Liberal in the Swedish Welfare State* (Lund, 2020).

[4]The Rehn–Meidner model was a Keynesian model of labor market management, designed by the trade union economists Gösta Rehn and Rudolf Meidner (an Austrian Marxist and refugee).

[5]Stephanie Lee Mudge, *Leftism Reinvented* (Cambridge, MA, 2018), 312–27. Philip Mirowski, "The Neoliberal Ersatz Nobel Prize," in Dieter Plehwe, Quinn Slobodian, and Philip Mirowski, eds., *Nine Lives of Neoliberalism* (London, 2020), 219–55.

[6]Mudge, *Leftism Reinvented*. Gary Gerstle, *The Neoliberal Order* (Princeton, 2023).

[7]For instance, Jenny Andersson, "Neoliberalism vs. Social Democracy," *Tocqueville Review* 41/2 (2020), 87–107; Mathieu Fulla, "The Neoliberal Turn That Never Was: Breaking with the Standard Narrative of Mitterrand's Tournant de la Rigueur," *Contemporary European History* 33/2 (2024), 763–84.

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democrats stood out among their international peers because of their pragmatic and rationalist approach to the management of capitalism, and Swedish social democrats were forerunners on the third way, abandoning Keynesianism in 1979.

These two different interpretational frames depend on the understanding of what ideology is and how it intersects with economic expertise. Is ideology a fixed construct, which shifts in hostile takeover, or are ideologies bundles of ideas that evolve? Is neoliberalism a set of economic ideas in a specific field of expertise, or also corresponding moral, disciplinarist, interventionist sentiments that could intertwine with other ideological projects?[8] Elsewhere I have suggested that social democracy and neoliberalism can be seen as two forms of economism that share commonalities in a productivist approach to political economy.[9] At the same time, they posit opposed ideological finalities—on the one hand, a welfare state society in which market mechanisms are made to work for social purposes; on the other, a market society in which the social order is viewed through economic efficiency. In historical reality, the art of tinkering with means and ends is at the core of an inherently incomplete social-democrat project.

In this article, I propose that understanding the relationship between social democracy and neoliberalism can be productively done through an emphasis on three things: first, we can consider social democracy as an ideological project which over time lost some of the more egalitarian objectives in its past, and became stuck with a set of economic instrumentalities. Here, my article revisits a central discussion on prices versus planning that I situate not in the 1990s, but in a specific 1950s and 1960s context. Second, we can identify what are arguably specific meeting points between social-democrat and neoliberal repertoires of ideas, for instance in ideas of the competition state, or, as proposed here, in the notion of the mixed economy, and view the debate around these sites as an active process of redrawing ideological boundaries. Third, by taking personal biographies seriously, we can denaturalize the notion of economic expertise.

Social-democrat dissidents and the mixed-economy problem

If we accept that social democrats have played a central role in the circulation, but also legitimation, of neoliberal ideas, then their registers and repertoires of legitimation become of interest. The emergent historical literature on neoliberalism has pinpointed actors and strands of thinking that were not part of the thought collective of neoliberals, and did not play an immediate role in the making of a canon of neoliberal ideas, but were nevertheless involved in the diffusion and legitimation of neoliberal ideas. Such odd bedfellows figure, in Cornel Ban's and Johanna Bockman's account, as Catholic and communist elites; in Stephanie Lee Mudge's story of economic experts in social-democratic parties; and in Niklas Olsen's description of Danish social-democrat "dissident" Jorn Henrik Petersen.[10] In Nordic political history, dissidents of the welfare

[8]Marion Fourcade, *Economists and Societies* (Princeton, 2009). Plehwe, Mirowski, and Slobodian, *The Nine Lives of Neoliberalism*.

[9]Andersson, "Neoliberalism vs. Social Democracy."

[10]Cornel Ban, *Ruling Ideas: How Neoliberalism Goes Local* (Oxford, 2016); Mudge, *Leftism Reinvented*; Niklas Olsen and Jakob Jensen, "Jørn Henrik Petersen and the Origins of the Third Way: The Market Turn in the Danish Welfare State since the 1970s," *Scandinavian Journal of History*, 47/2 (2022), 203–24.

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state play a key role in a long domestic tradition of bureaucracy critique, which historically was mainly situated on the left. From the mid-1970s, it came to include ideas of public choice, not all of them neoliberal. The handful of Mount Pèlerin members that can be identified in the Nordics before the 1980s were often skilled in the art of speaking truth to power. At the same time, they often lacked impact—whereas social-democrat critics of the welfare state had ideological legitimacy. Social-democrat intellectuals who assumed a stance of dissidence or welfare state critique were often planners or economists who could link theoretical arguments to the concrete experience of welfare state institutions. Their individual biographies seem to have commonalities in an outside stance or moral high ground. Lindbeck came from a simple background in north Sweden with a father who was a local labor leader with an acute sense of work ethic.[11] Ståhl came from a Stockholm family of doctors and jurists. Central in their dissident stance was exactly the mix of theoretical economic argument and biting commentary on concrete welfare state situations.

The personal and ideational repertoires of Lindbeck, Ståhl, and Rehn intersect around the theme of the mixed economy, to which all three returned both as a central theoretical problem and as practical experience. Observations of the mixed economy also allowed them to link domestic concerns with transnational debates on the future of capitalism.

This allows us to bring back the problem of the mixed economy to intellectual history, in a way that does not remove the idea of neoliberalism but rather sees it as one possible ideational itinerary among others.[12] Amy Offner, in her *Sorting Out the Mixed Economy*, has shown how developmentalism went hand in hand with projects for market making in Latin America in the twentieth century.[13] Offner argued convincingly that the mixed economy was fertile soil for neoliberal arguments, but at the same time did not analyze the changing relationship between ends and means over time and never commented on what distinguishes a progressive version of the mixed economy from a neoliberal one. She also did not discuss the specific intellectual history of the mixed economy. The mixed-economy idea figured preeminently in Keynes's *General Theory*, leading to Hayek's 1944 rebuke, which introduced the idea of the slippery slope—in other words, the idea of a predetermined logic of expanding welfare-stateism, leading to a form of total planning.[14] The mixed-economy problem returned in the 1960s and 1970s mainly as part of revisionist social-democrat debates.[15]

As intellectual history, the mixed-economy debate reminds us of something important, namely that the idea of the capitalist economy as a binary construct between

[11]"Assar minns: Mina tre perioder på IUI," in Magnus Henrekson, *IFN-IUI 1939–2009: Sju decennier av forskning om ett näringsliv i utveckling* (Stockholm, 2009).

[12]Timothy Shenk, "Taking Off the Neoliberal Lens: The Politics of the Economy, the MIT School of Economics, and the Strange Career of Lawrence Klein," *Modern Intellectual History* 20/4 (2023), 1194–1218. Also Ben Jackson, "Putting Neoliberalism in Its Place," *Modern Intellectual History* 19/3 (2022), 982–95.

[13]Amy Offner, *Sorting Out the Mixed Economy: The Rise and Fall of Welfare and Developmental States in the Americas* (Princeton, 2019).

[14]Azavedo Alvarez and John Meadowcroft, "Hayek's Slippery Slope: The Stability of the Mixed Economy and the Dynamics of Rent Seeking," *Political Studies* 62 (2014), 843–61.

[15]Andrew Schonfield, *Modern Capitalism* (London, 1965).

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"free" and "planned" economy is an idea that intersects with the history of neoliberal arguments in important ways. This binary interpretation grew in the period after the 1970s, with Lindbeck as a key advocate. He came to this conclusion based on observations of the Swedish economy in a period defined by wage drift and growing ecological critique. At the same time, the idea of a binary division between the free and the planned economy did not correspond to empirical reality in the variety of postwar economic models. Europe's middle-way models included, for instance, Yugoslavia, the Nordics, and, after 1968, Hungary. These middle-way models were the objects of important forms of knowledge production throughout the postwar era, precisely because they were neither the American capitalist economy nor the Soviet planned economy, but a somehow indeterminate object in between. From economic observations of the mixed-economy construct sprang central conclusions about the role of economic expectations within a specific temporal horizon, and of politics as a market-like game. Central to the mixed-economy idea was the mix of political decision making and price signals. As such, the category of the mixed economy emerged from a second wave of thinking about the calculation problem in transnational debates that involved a broad set of economic arguments including Chicago school theorizing but also emergent post-Keynesian understandings, revisionist social democrats and so-called market socialists.[16]

The problem of the mixed economy was hotly debated in two specific sites of transnational debate and circulation, the OECD and the International Economic Association (IEA). In these circles, it was a marker for a specific kind of capitalist formation, which raised both theoretical and empirical issues. What distinguished the liberal from the socialist economy? Were there points of conversion? The OECD was a central space for Western social democrats, in particular its so-called Manpower secretariat (which Rehn chaired from 1962, and Lindbeck and Ståhl joined in the 1970s). The IEA became a central East–West arena after 1954. Bockman, in her study of socialist economists, emphasized that the neoclassical revolution led liberal and socialist economists to think not only about the logic of two systems, but also about the liminal spaces in between these. In particular, Yugoslav and Hungarian economists made central contributions to neoclassical economics without being part of the moral universe of neoliberalism.[17] Bockman proposes that these exchanges brought back the interwar calculation debate (in which Mises argued against socialist economists that an absence of the price mechanism meant the impossibility of correctly calculating value and distribution).[18] As the calculation debate returned, arguments of Oskar Lange and Michal Kalecki came to the fore. Their work on the New Economic Policy (NEP) had led to conclusions that the socialist economy could also perform as an information system, for instance through specific uses of consumer price, or vouchers. Important strands in this debate looked forward, not least Kalecki's argument, originally from 1943, that Keynesian demand management would tame the business cycle and create a confident

[16]Vincent Gayon, "Debating International Keynesianism: The Sense of the Acceptable and the Neoliberal Turn at the OECD," *Annales HSS* 72/1 (2017), 115–56.

[17]Johanna Bockman, *Markets in the Name of Socialism: The Left Wing Origins of Neoliberalism* (Stanford, 2011), 10.

[18]Bockman, *Markets in the Name of Socialism*, 59–70.

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working class, which would then overreach and undo the stabilizing effects of demand management—an idea that had a profound influence on Lindbeck.[19]

Bockman proposes that Tjalling Koopmans, to whom Lindbeck awarded the Economics Prize in 1975, was central in these exchanges. Lindbeck does not figure in Bockman's book, but, as will be shown, Lindbeck had frequent contacts with the market socialists and used his Stockholm Institute for International Economics (IIES) to provide them with an international platform. As the calculation problem returned, the question was no longer the assertion of the so-called slippery slope or the total-planner problem demonstrated by Mises and Hayek, but rather an empirical problem of identifying the points of how much planning and how much prices. In 1944 Hayek had argued in *The Road to Serfdom* that the totalizing problem in planning would come to apply also to democratic welfare state systems as these developed over time. Good intentions such as those embedded in welfare-statism were logically comparable to totalitarian attempts at command control, because they would incrementally expand state action over time. This began a debate about the temporal structure of the mixed economy—was there a predetermined, functionalist logic to it, or was the mixed economy a horizon of expectation that could be controlled over time?[20]

Prices versus planning: finding the tools for social democracy

Such was the interwar problem that resurfaced after 1945. It was given new bearing in the 1960s as European economies began to see problems of inflation and labor unrest. Thinking about the correct balance of planning and prices was at the heart of Swedish economic debates after 1945, and both Lindbeck and Ingemar Ståhl must be positioned in this domestic context. In the 1950s and 1960s, economists who did not side with the growing welfare state—Johan Åkerman, Erik Lundberg, Johan Myhrman—turned their attention back to price theory and business cycle analysis in the tradition of an earlier generation of Swedish economists: Gustav Cassel, Knut Wicksell, and Eli Heckscher.[21] In so doing, they authored a set of tracts on the consequences of elections on the business cycle. Åkerman wrote one of the first tracts on the "political cycle" in 1947, prefiguring a much later public-choice discussion.[22] It was followed by Erik Lundberg's work on the business cycle. The so-called Stockholm school contained two strands of thinking, and even if, after 1945, the socialist economists and not least

[19]Michael Kalecki, *Political Aspects of Full Employment* (London, 1943). Assar Lindbeck and Thorvaldur Gylfason, "Union Rivalry and Wages: An Oligopolistic Approach," *Economica* 51/202 (1984), 129–39.

[20]Bruce Caldwell, *Hayek's Challenge* (Chicago, 2004). Andrew Farrant, review of Caldwell's Hayek's *Road to Serfdom, Research in the History of Economic Thought and Methodology* 27 (2004), 309–27. Andrew Farrant and Edward McPhail, "A Substitute End for Socialism? F. A. Hayek and Keynesian Full Employment Policy," *Historical Journal* 54/4 (2011), 115–23.

[21]Lars Jonung, ed. *The Stockholm School of Economics Revisited* (Cambridge, 1991). Thorvaldur Gylfason, "An Interview with Assar Lindbeck," *Macroeconomic Dynamics* 10 (2006), 101–30. Ylva Hasselberg, "Networks and Scientific Integrity: Eli Heckscher and the Construction of Economic History in Sweden, 1920–1950," *Scandinavian Economic History Review* 54/3 (2017), 273–90. Erik Lundberg, *Konjunkturer och ekonomisk politik* (Stockholm, 1953).

[22]Johan Åkerman, "Political Economic Cycles," *Kyklos* 1 (May 1947), 107–17. Lundberg, *Konjunkturer och ekonomisk politik*, 485–7.

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Gunnar Myrdal were dominant, the monetarist strand remained in place. Lindbeck studied with Lundberg, and also wrote his PhD thesis on monetary analysis and early works on credit.[23] Ståhl left Stockholm to study in the Oslo School of Economics, which was fertile ground for micro theory, and became the "first Austrian" on a chair in Lund in 1971.[24]

This division within the Swedish economic profession reflected different positionings around the welfare state in the aftermath of the so-called planning debate (*planhushållningsdebatten*).[25] The planning debate lasted from 1922 to 1945, and its outcome was a kind of social compromise that would remain at the heart of the welfare state model: consensus around Keynesian stabilization policies, and the equation of worker and consumer interest.[26] The mixed-economy model that emerged was based on concert between trade unions and industrialists, and high growth balanced by public-sector provision. Offner discusses the mixed economy as a site, where forms of capital and good are exchanged and defined, and where artifacts and expertise continuously redraw the boundaries between markets and collective decision making. In contrast to how, in the socialist economy, the absence of the price mechanism meant that prices were effectively replaced by planning objectives, in the mixed economy planning objectives coexisted with prices, and regulated entities coexisted with market actors within the welfare state bureaucracy.[27] In the Swedish postwar economy, certain goods were protected by tariffs: housing, sugar, agricultural products. Currency and credit controls remained in place well into the 1980s and 1990s. Planning took place within a corporatist framework, and most decision making was localized to public boards on the level of municipal actors, for instance in housing and construction.

For social democracy, the mixed economy—*blandekonomien*—was a solution to the political conflict of nationalization.[28] After 1945, these boards became targets of criticism: a tension seemed to exist between capital subventions for public purposes, and regulations on private contractors who struggled in open markets. The fact that public boards could act as commercial actors (*affärsdrivande verk*), and that municipal authorities could even run their own construction companies (*kommunala bostadsbolag*), hoarding capital and setting rent, became seen as an anomaly. From the 1950s on, the mixed economy became a site of observation of problems to do with predictability over time, adverse effects such as shortage, and insider–outsider problems. In some ways the role of the arguments of social-democrat economists such as Lindbeck and Ståhl were defensive—they argued against a first wave of (albeit marginal) neoliberal critique of the welfare state that argued that tariffs, subsidies, and public boards had put in place a clandestine nationalization, but at the same time they recognized that

[23]Lindbeck's dissertation, in 1963, was "A Study in Monetary Analysis."

[24]Jonung and Jonung, *Ingemar Ståhl*. Ståhl's 1964 dissertation in portfolio theory was "Risk- och avkastningsförändringars verkan på portfoliosammansättningen," FOA rapport.

[25]Leif Lewin, *Planhushållningsdebatten* (Stockholm, 1967). Benny Carlson, *The Swedish Economists in the 1930s Debate on Planning* (London, 2019).

[26]Niklas Olsen, *The Sovereign Consumer: A New Intellectual History of Neoliberalism* (London, 2018).

[27]Offner, *Sorting Out the Mixed Economy*.

[28]Tim Tilton, *Through the Welfare State to Revolution: The Political Theory of Swedish Social Democracy* (Cambridge, MA, 1991).

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the mixed economy seemed to generate problems emanating from its public–private constellation and mix of different forms of decision making.

The slippery-slope argument was introduced in Swedish through the translation of Hayek's 1944 book in the context of the planning debate. Social democrats saw it as intensely ideological, but the question that it raised remained an issue. Much later, in 1968, Lindbeck would argue that Hayek had been wrong in his ordering of events, and therefore wrong in his prediction. Since totalitarianism came before, and not after, command planning, Lindbeck drew the conclusion that democratic systems had the capacity to determine a future horizon. There was thus potential in the mixed-economy construct to stabilize, and not totalize, the capitalist economy. If the slippery-slope problem was not one of an inherent logic to welfare-stateism, then the question was where to find the optimum point between planning and prices.[29] The problem was thus not theoretical, but empirical.

In the late 1960s, Lindbeck argued that by misunderstanding the price mechanism, social democrats had undermined the workings of the mixed economy to the detriment of social needs. This conclusion was the result of thinking about the relationship between planning objectives and prices in the particular context of the planning apparatus of the welfare state. Both Lindbeck and Ståhl entered the Swedish planning apparatus as young economists. During the 1950s, planning expanded to include wider economic and social planning, complex budget systems, and operations research. Lindbeck worked with later party leader Olof Palme in the budget department and wrote an early memo on the impact of the state budget on the business cycle.[30] Ståhl began his career as a calculator (*laborator*) in the Swedish defence research institute, FOA, doing systems analysis for defence planning. Lindbeck also did fellowships at Michigan University and the Federal Reserve.

From their experience in planning, they developed ideas on democratic planning as a complex and fragile systems logic, dependent on a functional mix of price signals and planning objectives and caught in a potentially unpredictable logic of political and economic incentives. In Swedish planning circles, Hayek's 1945 article on the knowledge problem was read as an epistemological intervention on a problem that was both logical and practically apparent within the planning experience, not least in the context of the now rapidly expanding welfare state.[31] Lindbeck's left papers include a 1957 essay on Hayek's knowledge problem.[32] We don't know much more, only that, as mentioned, Lindbeck returned to the problem of the slippery slope in ways that departed decisively from Hayek's analysis by viewing it as an empirical, and real, problem. Ståhl, as a young statistician, reacted to Hayek's paper with enthusiasm and set out to conduct a thought experiment, which retrospectively it is somewhat difficult to make sense of. Was it earnest, an attempt at irony, perhaps a prank? The experiment concerned how to calculate the total number of decisions that Swedish planners made every day. In any case, he could not—and so he drew the conclusion that Hayek was right and "a

[29] Assar Lindbeck, *The Political Economy of the New Left* (New York, 1971), 32, 57.

[30] "Statsbudgetens inverkningar på konjunkturutvecklingen," SOU 1956:48. Assar Lindbeck papers (AL), Stockholm University Library. They include the records of the Institute for International Economics.

[31] F. A. Hayek, "The Problem of Knowledge in Society," *American Economic Review* 35/4 (1945), 519–30.

[32] AL Ö4:1.

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central planning authority cannot escape the role of the price mechanism as an indicator of value." In a "public optimation process, some substitute for the information contained in prices has to be found."[33] Ståhl, in some contrast to Lindbeck, continued to read Hayek as a demonstration of the perversities of social engineering.[34] In a 1960s draft he argued, perhaps ironically, that the absence of a price mechanism ultimately required planners to "fix the monetary value of a human life." Without it one could not control costs in an expanding welfare state situation, since inherently the welfare state was about the integrity and value of human life.[35] The specific context for this conundrum was the new public-health system in 1955, which nationalized private practices. Ståhl argued that a welfare state needed an efficient system for calculating the value of an individual over the life cycle, because without this indicative value, all forms of social planning would be suboptimal. Such a system appeared grotesque in its extreme rationality, but in Ståhl's argument figured both a social-capital argument in the Chicago school sense, and an idea that the welfare state replaced possible market solutions to the same problem of human value. Again, it's hard to distinguish between irony and callous economic calculation:

> From minus nine months we enter all costs … at each time is presented an individual debt to society … This debt is a societal investment that must be paid back in some form. Part of individual revenue is mortgage payment to society. People will have different value, an air pilot is worth more than a doctor, and at the end of their productive life, they must be at zero. And then there are the write-offs.[36]

Who were the write-offs? Ståhl's argument on an alternative health care system postulated a perfect insurance scheme, in which all individuals could choose their risk level in light of their expectations of future illness and health. Ståhl left his FOA planning experiments thinking that the welfare state was a corrupt system both economically and morally, in which the optimal point between prices and decisions was constantly thwarted, in which one could not isolate costs and effects of each decision, and also not ascribe any clear responsibility of the decision. Social intervention stopped people from making economically defensible judgments on their life situation. While Lindbeck thought that the mixed economy was a democratic construct in which the political process legitimately set the balance between prices and plans, Ståhl thought that the very purpose of the planning situation had to be to identify the optimal point.[37] This was the role of the planner. Because the complexity in the calculative process of planning was infinite, Ståhl came to the conclusion that any rational planner must come to see a pure market model as the only acceptable system. His conclusion here is noteworthy: the social democrat that Ståhl still was saw the planning problem as the logical demonstration of the fact that social democrats must embrace the market system, because

[33]Ingemar Ståhl's papers (IS), Lund University Library Archives.

[34]Niklas Stenlås and Per Lundin, *Science for Welfare and Warfare* (Sagamore Beach, 2010).

[35]Draft, 4 July 1962, IS, vol. 6.

[36]Ibid.

[37]Ståhl, 27 May 1963, "Några synpunkter på en programbudget," IS Papers; Ståhl, Nov. 1963, "PM inför forskarkonferens i Köpenhamn," IS Papers; Ståhl, "PM. En programmeringsmodell," 19 May 1964, IS Papers.

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social democracy was a rationalist movement that had promised to optimize human welfare. The perfect economic model for human welfare was "private free-market theory," a market structure that resembled a military command model, where decision was decentralized to the smallest possible unit and a linear relationship between input and output could be identified.[38] The market economy, Ståhl suggested to a bemused audience of young social democrats in 1960, was a perfect model for social democracy.

Lindbeck and Ståhl were part of a milieu of young social democrats who rejected the party's new industrial policy in the early 1960s. This new policy drew on J. K. Galbraith's ideas of social balance and a new industrial state. It contained a targeted use of state subsidies and investment credits.[39] Both argued that the policy was a mistake—from a social-democrat point of view—because it breached the boundaries of the mixed economy by meddling with corporate decision making over investment. Ståhl, speaking to the social-democrat student club in Lund in 1960, argued that the party should simply accept a pure market model of "optimal resource use."[40] The price mechanism, he said, was a central instrument for equality since it worked for consumer preference, and people knew better than the party what their preferences were.[41] One of Lindbeck's first writings argued that targeted investment subsidies would launch a new era of industry regulations far from the party's historic stance of nonintervention in industry. The purpose of the welfare state, he argued, had been achieved—through the welfare state, social democracy had ensured a level of social harmony and acceptance of markets that gave the preconditions for stable industrialism. The role of the state now was to actively make use of the price mechanism in order to ensure consumer preference.[42]

One might argue that both shared a minimalist notion of social democracy as the simple question of managing the economy. Both, by the late 1960s, seemed out of tune with sociocultural developments and disenchanted with social democracy's new stances on youth, gender equality, and ecology. It can be underlined, however, that both positions came from the position of thinking *inside social democracy*, in the idea that social democracy itself was an ideological project with its own systems logic.

Further thinking about prices in the 1960s led Lindbeck and Ståhl to argue against the tariffs and subventions put in place after 1945. This came to the fore in their first collaboration, in which the critique of how the price mechanism worked in the welfare state frame became the basis for an argument that ultimately rejected further implication of the social-democrat state in the market. In 1962, Lindbeck and Ståhl published *Bostadsbristen: En studie i prisbildningen på bostadsmarknaden*, written for the research department of the Swedish Federation of Industries (Industriens utredningsinstitut, IUI).[43] The IUI reacted to social-democrat proposals to increase the political control

[38]FOA Rapport, A 127, 1964, IS arkiv.

[39]LO-SAP 1961, *Samordnad näringspolitik*.

[40]Ingemar Ståhl, "Tal till socialdemokratiska studentklubben," Oct. 1960, "En ny bostadspolitik," IS Papers.

[41]Ståhl, "En ny bostadspolitik."

[42]Assar Lindbeck, "Att förutse utvecklingen," in Ragnar Pålsson, ed., *Inför 60-talet: Debattbok om socialismens framtid* (Stockholm, 1959), 65–83.

[43]Assar Lindbeck, Ragnar Bentzel, and Ingemar Ståhl, *Bostadsbristen: En studie i prisbildningen på bostadsmarknaden* (Stockholm, 1962).

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of capital by launching a series of reports in which the market model served as an abstraction for illustrating the problems of the welfare state. The 1962 study was clearly influenced by Friedman and Stigler's 1947 "Roofs and Ceilings" paper (which had also circulated among Swedish economists). Housing was one of the areas which attracted explicit neoliberal critique already in the 1950s. The 1962 paper compared an actual situation on the housing market, defined by shortage, with a perfect market model where housing flowed freely between supply and demand.[44] The shortage of housing, the report said, was a political construct emanating from rent controls. The public housing policy that had been the flagship policy in Keynesian anticyclical management since the 1930s was mistaken. As housing was distributed from a public queuing system, those who were already housed gained an advantage as they could trade for better apartments but the waiting times increased. This created housing shortage. Ståhl's research notes described the public-housing companies as perfect anomalies: charged with the production of a good, they failed to determine an adequate pricing of this good. Since they underpriced the good, there was shortage. At the same time, a consequentially discriminatory rent system existed for small-house owners, whose homes were built by private actors with market prices on capital and construction material.[45]

The 1962 report introduced the idea of a voucher system, through which landlords would compensate tenants for increased living costs in a new market situation. The vouchers could be used for consumption and there would be no need for taxation: the state would thus keep at arms' length interest groups such as the tenants' association.

Ståhl pioneered this voucher idea in the study loan system in 1964.[46] He took it from Friedman, certainly, but again he viewed it as a new tool in the social-democrat reformist toolbox. Students, said Ståhl, should not be paid for studying (the party was considering demands for a student wage) since this would put them on an equal standing with workers and give them little incentive to finish. Instead, they could be offered a government-subventioned loan. Again, Ståhl used a human-capital argument by which the state could legitimately invest in people, so long as, realistically, they provided economic returns over their life cycle. A voucher or a loan was a forward-looking economic investment, in lieu of a costly social policy.

For Lindbeck, who wrote the party's parliamentary motion proposing to abolish rent control, the reception of the idea of vouchers in the housing report in 1962 was an eye-opener. In parliament, the social democrats backed away from the voucher idea, and argued that landlords needed to be taxed for rent increases and tenants protected by the party.[47]

Some years later, Lindbeck worked on a second and similar IUI study with the development economist Odd Gudbrandsen on agricultural production. In agriculture, wartime tariffs had been replaced after 1945 with key regulation of prices on

[44]Lindbeck's pamphlet on the political economy of the New Left in 1970 figured (without citation) Friedman's quote that the best way to destroy a city is through rent control. Assar Lindbeck, *Den nya vänsterns politiska ekonomi* (Stockholm, 1970), 34.

[45]IS, vol. 6.

[46]Martin Gustavsson, "From Dismantling the Class Society to Investing in Human Capital: The Rise and Fall of Selective Student Finance in Sweden," *Nordic Journal of Educational History* 8/2 (2021), 187–218.

[47]"Assar minns."

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milk and butter. A corporate board set production quotas, and important cartelization through cooperatively owned distribution systems (Konsum) had taken place.[48] Government subsidies protected domestic production, not least in sugar.[49] Sugar had in fact been a state-bolstered monopoly since the early twentieth century, when conservative politicians propped up the so-called sugar trust. Sugar was one of the key issues of the Swedish cooperative movement from the interwar years on. Lindbeck and Gudbrandsen argued that it was absurd to prop up beet production at home, and deliver aid to developing nations in the global South rather than buying cane sugar on the global market. Another educational experience followed. According to Lindbeck's own account, the chairman of Swedish sugar objected to the report.[50] Lindbeck was asked by Palme to prepare a report on how to abolish agricultural tariffs. But the draft leaked and caused uproar among Swedish farmers. Lindbeck's conclusion was clear: government action subsidized a set of interests, who then exerted pressure on policy makers to the detriment of the wider social good. Politics was a marketplace, and social democracy was a poorly functioning market.

From the mid-1970s on, both Ståhl and Lindbeck would come to see versions of public-choice arguments as part of the analysis of the "endogeneity" problem of the welfare state, and both corresponded at this point with American economists (see below). However, in their thinking about prices was already the embryo of a new analysis of social democracy: social democracy, within the framework of an advanced welfare state, was no longer a universal interest, but a set of rent-seeking arrangements where the turn away from the pluralist arrangement of the mixed economy shaped new and inherently unpredictable patterns over time.[51] Developments of the 1970s eventually led Ståhl to leave the Social Democrat Party, arguing that the only possible state was a state of minimalist social protection.[52]

Market socialism and welfare economics

The neoliberalism literature has placed the main emphasis on exchanges and circulation through the Mont Pèlerin network, at the cost of our understanding of ideational debates in a wider universe of transnational arenas. Through Lindbeck, Ståhl, and Rehn, we can follow how thinking about the mixed economy took place in the OECD and the IEA, in contexts that were marked by a wider range of concerns around Keynesianism. Ståhl was unquestionably more turned toward American decision theory, but Lindbeck was centrally influenced by socialist economists and planners, many of whom were instrumental in the turn to management methods and price experiments in Eastern Europe after 1968. Lange and Kalecki were recurring references in

[48]The cooperative movement was founded in the 1930s, and its main food distribution system was the food store Konsum.

[49]Assar Lindbeck and Odd Gulbrandsen, *Jordbruksnäringens ekonomi* (Stockholm, 1969).

[50]"Assar minns," 248. Correspondence with the Swedish farmers association and dairy central, May 1965, AL Ö2.

[51]Lindbeck, "Att förutse utvecklingen." Assar Lindbeck, "Den missförstådda prismekanismen," *Arbetet*, 9 June 1972. Lindbeck, *Endogenous Politicians and the Theory of Economic Policy* (Stockholm, 1973).

[52]Ingemar Ståhl, "Socialförsäkringarna, en avslutad reformepok," *Ekonomisk debatt* 1/1 (1973), 45–52.

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his texts. This is an important thing to flag, because it meant that in the 1960s and 1970s Lindbeck was thinking that even if the mixed economy shared similarities with the socialist economies, it was possible to reform from within because of its democratic nature and its pluralist mode of planning. Precisely because of this, it was by definition different from a socialist economy (as will be shown, some years later he changed his mind on this point).

A central meeting took place in 1965, when the IEA invited Lindbeck and Ståhl, together with socialist economists, to a conference on housing. To the conference, Ståhl introduced the idea of an index loan, which would treat households as portfolio investors matching loans with different future rates.[53] Some years later, in 1970, the Czechoslovak Economic Association organized an IEA meeting in Liblice on planning and market relations. Lindbeck, speaking in the company of Erik Lundberg, proposed that the kind of indicative planning that existed in Scandinavia was different in kind to command planning, and that it was possible to politically correct perceived anomalies between supply and demand. At the same time, he recognized that the mixed economy had seen a gradual buildup of problems with wages squeezing out profits. Lindbeck argued for a new kind of planning, which would set a "macro picture" of the economy through scenarios and forecasts, but leave decision making to industry. He argued that the multiplication of planners and managers in the welfare state created slack, and that lack of competition constituted a welfare loss.[54]

It was possibly at this meeting that Lindbeck met the Hungarian economist Janos Kornai, whom he later invited to the Stockholm Institute that he took over from Gunnar Myrdal in 1974, the IIES.[55] Kornai left Hungary for Harvard in 1986, as an articulate critic of command planning. His 1971 book *Anti-equilibrium* proposed that political influences disqualified general equilibrium theory, and that demand management was doomed to fail over time. The book *Economics of Shortage* (1980) took up Hayek's suggestion of slack.[56]

Lindbeck's revised thinking on the mixed-economy problem in the early 1970s displays a clear influence from these socialist thinkers, and it seems that he came to them through his analysis of the New Left. In 1968, Lindbeck was invited as a visiting professor to Berkeley and Columbia, meeting, among others, Murray Rothbard (who had shifted his position from left to right in reaction to the student revolts). Lindbeck's observations of the New Left led him to write the book *Den nya vänsterns politiska ekonomi*, which was a major hit in Swedish in 1970. It was subsequently translated as *The Political Economy of the New Left* and foreworded by Paul Samuelson,

[53] Adela Nevitt, ed., *The Economic Problems of Housing: Proceedings of a Conference Held by the International Economic Association* (London, 1967). "IEA: Economic problems of housing," AL Ö2.

[54] Assar Lindbeck, "Efficiency in Long Term Planning," in Michael Kaser and Richard Portes, eds., *Planning and Market Relations: Proceedings of a Conference held by the International Economic Association, Liblice, Czechoslovakia* (1971), 83–108, esp. 89, 94–6. Presentation of the IIES, AL Ö4:21.

[55] "IEA: Central Planning and Market Relations" materials, AL Ö4:3. Assar Lindbeck to Janos Kornai, 12 April 1970, AL Ö4:3. See also correspondence with the Yugoslav economist Aleksandr Bajt, 26 Dec. 1972, AL Ö4:5.

[56] Janos Kornai, *Anti-equilibrium* (Amsterdam, 1971). Kornai, *Economics of Shortage: Contributions to Economic Analysis* (Amsterdam, 1980). Kornai, *By Force of Thought: An Irregular Memoir of an Intellectual Journey* (Cambridge, MA, 2006), 274.

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who also facilitated the contract with a major publishing house.[57] Lindbeck argued that the balance between planning objectives and market mechanisms was being distorted by a new turn to a selective industrial policy, and by new forms of, for instance, family benefits that were not universal and that seemed to correspond with the electoral cycle and not with business needs.[58] In response to what he saw as a dangerous obsession with the state in a new generation on the left, Lindbeck introduced terms such as human capital, individual interest and consumer preference. Trade unions were depicted as concentrations of power that needed to be met with countervailing powers in a pluralistic economy.[59] J. K. Galbraith's industrial state was compared to monopolistic state capitalist structures. An alternative route for the left lay in the ongoing revolution in microeconomics, which Lindbeck saw as a purposeful tool for neutral economic analysis. Microeconomics, in contrast to macro planning, could lead the way to a "decentralized market socialism" with small decision units in corporations and households, coupled with a respect in planning for the preference function of consumers.[60] Decentralized market socialism was again not an argument against the welfare state, but rather a warning against expanding the welfare state further, in an argument that reemphasized local and decentralized solutions as a renewal of social-democrat political economy.

After 1970, Lindbeck became a leading party intellectual who used his media presence to draw up a veritable counterprogram to the direction in which he saw social democracy going. In 1971, the editor of leading daily *Dagens Nyheter* commissioned a series of articles. Their titles were revealing: "Decentralization in Economic Systems," "Do We Need Private Enterprise?", "On the Road to State Capitalism," "Planning the Market Economy."[61] Lindbeck wrote friendly, but tart, letters to Prime Minister Olof Palme: "Brother. I hope I do not too much interrupt your holiday if I mention a few reasons for hurrying up with dismantling price controls." "It will surely be educational for wage earners to realize that their ten percent wage increase will directly reflect in prices."[62] He also published talks given to Sparbanksföreningen (the association of Swedish small savings banks, historically close to the labor movement) on the future problems of the mixed economy. The book featured arguments from Chicago school theory—but the real dialogue was with the "democratic socialists." Lindbeck introduced the term "market socialism" into Swedish, and argued with both Hayek and Lange that politicians were unable to find an optimum point in a mixed-economy construct. This was not because it was impossible per se, but because politicians lacked the right framework for the mixed economy. As he had done at the IEA some years before, he proposed that Hayek's logic was wrong, the Swedish welfare state was not likely to become a totalitarian product, but he conceded that the acute presence of the information problem in all acts of public decision posed a major risk of incompetence—the

[57] Correspondence with William Baumol and Paul Samuelson, 14 April 1971, AL Ö4:4.

[58] Lindbeck, *Den nya vänsterns politiska ekonomi*.

[59] Ibid., 41.

[60] Assar Lindbeck, *Blandekonomi i omvandling* (Stockholm, 1973).

[61] Assar Lindbeck to Olof Lagercrantz, 13 April 1971, AL Ö4:4.

[62] Assar Lindbeck to Olof Palme, 12 July 1971, AL Ö4:4.

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Central Board problem (*Centralverket*).[63] The mixed economy was a fragile system of balances between *dirigisme* and prices that was constantly prone to being perverted by decision makers who do not have the competence to find the "optimal point." While Lindbeck acknowledged that there were entire fields that a market economy could not manage—including monetary stabilization—there were also domains in the economy where politicians could not possibly find the rational point of decision. If investment decisions were left to capital agents, they guaranteed a form of democratic plurality of decision making. If the power over investment was, on the contrary, concentrated in the hands of policy makers, it could create a societal pyramid of concentration, in a mirror image of the capitalist system that social democracy had historically criticized. Particular points of criticism referred to the collectivized system of pension funds, which for Lindbeck had centralized capital in the hands of corporate boards, and the so-called solidary wage policy, which he argued had created structural unemployment of a new kind.[64] The book ended with the incendiary essay "Merkantilistisk näringspolitik," which Lindbeck had first prepared as a talk given in Bergen to the association of Nordic economists, and then published in the social-democrat daily *Arbetet* with perfect timing just ahead of the Social Democrat Party conference. "Mercantilist" industrial policy breached the limits posed by the system of indicative planning and introduced selective measures of capital allocation. It had a systems-changing potential because it meddled with the investment decision. Lindbeck saw a similar mercantilism operating in social policy, because the welfare state had changed from universalism to targeted ambitions toward specific social groups. "Privilege"—revoked in the eighteenth century—was back, but in the hands of the Social Democrat Party state.[65]

In Lindbeck's social analysis was a breathtaking form of neoconservatism, targeting, in particular, single mothers, but in his economics was still a kind of Lutheran social democracy. Only forms of planning that were compatible with economic incentives and a stable set of expectations were acceptable. Everything else would lead to a deeply static society dominated by an unseen kind of social-democrat aristocracy.[66] Solidary wage bargaining occupied a special place of interest in the argument as Lindbeck argued that there had been a complete reversal in the relationship between trade unions and stabilization. Solidary wage bargaining, once designed to enable structural change and achieve a productive economy, had become caught up in an endogenous system where wage demands squeezed out profits. Labor market subventions had no principled difference to tariffs of old. "There is a tipping point between solidary wage bargaining's positive effects, and its negative consequences."[67]

The lecture prompted a polite but hurt exchange with Gösta Rehn. Rehn wrote,

> I do not have to preach to you that the so-called free market also needs to be criticized in terms of its monopolies and shenanigans [*lurendrejerier*] just as much as the neo-mercantilism with which we are trying to correct it … Do you in fact

[63] Lindbeck, *Blandekonomi i omvandling*, 57–9.

[64] Ibid., 30, 64–81.

[65] Ibid., 84, 95.

[66] Lindbeck, *Den nya vänsterns politiska ekonomi*, 74.

[67] Assar Lindbeck to Gösta Rehn 23 Oct. 1972, AL Ö4:5. Rehn correspondence files, 1965–76.

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say this as clearly as you say that you criticize neo-mercantilism, agrarian policy, housing policy, labor market policy?[68]

In 1974, Lindbeck replaced Gunnar Myrdal as the chairman of the Stockholm Institute for International Economics, a central transnational economics hub. Lindbeck at this point was perhaps more than any other economist in his generation a transnational broker and diffuser of ideas, not only from the US and Eastern Europe but also in connection with the development economists of the global South. The IIES was created in 1962, and following Myrdal's *Asian Drama* and the 1974 Nobel Prize (which Myrdal shared with Hayek), it became a new kind of economics space devoted to a socially purposeful economics. Mudge has suggested that the Stockholm Institute was central in pushing for a shift in economic expertise that ruptured social democracy's old alliance with Keynesian thinking. It's true that the IIES was part of a new nexus in the Swedish economics landscape, aimed at promoting a new kind of practical and policy-oriented economics. This was not in itself a clash with social-democrat ideas, but rather in continuation with the approach to economics as part of reformist policy making that drove the Swedish economic tradition, and which, in my view, also informed the creation of the Nobel Prize in economics in 1969. Stockholm university had been created in the postwar years as part of a distinctly more modernist organization than the two old universities in Uppsala and Lund. Economics was to be a flagship.[69]

Lindbeck was a key actor in this modernization of the economics landscape, and profoundly invested in the reorganization of Swedish social science after 1969.[70] His view on economics as an objective science—a central reason for the decision to award the prize to Friedman in 1976, should be viewed in this context, as part of domestic institution building and as a way of boosting the domestic standing and international reputation of the IIES.[71] Lindbeck's takeover of the chairmanship from Myrdal was on amicable terms, because both shared the interest in development issues, and both also entertained ideas on the possibility of reproducing the social-democrat mixed economy on the global level. Stockholm was a place of symbolic importance—and the institute fit well into Myrdal's ideas of a third way in social science. These friendly relations ended in 1976, when Myrdal threatened to return his own Nobel Prize because of the prize to Friedman. Myrdal could not accept Lindbeck's attribution of Friedman's economics as objective science, and he viewed Friedman as a deeply reactionary ideologue whereas Lindbeck saw him as an important economist.[72]

By 1976, Lindbeck was in constant contact with American public-choice theorists, including Gordon Tullock and Gary Becker. During his chairmanship, IIES activities also changed to reflect the growing dominance of microeconomic perspectives and welfare economics. At the same time, Lindbeck to some extent continued Myrdal's reflections on how mixed-economy arrangements could be transposed to the global

[68]Gösta Rehn to Assar Lindbeck, 26 Sept. 1972, AL Ö4:5; Assar Lindbeck to Rehn, 23 Oct. 1972, AL Ö4:5.

[69]Avner Offer and Gabriel Söderberg, *The Nobel Factor: The Prize in Economics, Social Democracy, and the Market Turn* (Princeton, 2016), 98–106, 174–97.

[70]Forskningsberedningen, *Social Science Research: Problems and Tendencies* (Stockholm, 1968).

[71]Cf. Offer and Söderberg, *The Nobel Factor*, 180.

[72]"I det här landet skulle han ses som reaktionär," *Svenska Dagbladet*, 15 Oct. 1976.

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level. Researchers at the IIES emphasized the failure of development aid, socialist planning, and environmental regulation—contrasting these to open markets and competition.[73] Lindbeck himself argued that open markets could be combined with global forms of welfare-stateism, insuring human needs, social insurance, and efficient labor markets, but respecting the frontiers of the mixed economy in terms of a pluralistic economic system.[74] After 1972, the environment in particular came into focus in work at the IIES, in search of market-oriented solutions. In response to the *Limits to Growth* report, Lindbeck argued that "doomsday" prophecy had no place in economic thinking, and that the alternative to a planning solution to the environmental problem resided in a micro approach, emphasizing consumerism and market-led solutions.[75] Lindbeck also thought that Third World actors in the spirit of the ongoing new international economic order (NIEO) would use environmental arguments of limited resources in order to push for a new set of global protectionist arrangements. Also, Ståhl argued forcefully against environmental policy and for market-oriented solutions.[76]

Sliding down the slippery slope

From the late 1960s onward, convinced Keynesian economists also saw a new connection between inflationary price spirals, social unrest, wage demands, and labor governments. This led them to reconsider the problem of disequilibrium as something that was not created by the business cycle, but in a wider field of political economy and influenced by political systems.[77] In this new world, an important distinction operated between emergent theories of rational expectations, descendent from rational-choice theory and decision science (represented by Friedman and Robert Lucas), and behavioral account of expectations, grounded in an analysis of political institutions. Lindbeck became a forerunner in this debate, eventually developing his own theory of "endogeneity" in small economies with democratic elections, strong trade unions, and a globalized export sector.[78] "Endogeneity," like the related term "sclerosis," meant that the welfare state produced its own problems from an internal logic of political competition.

The idea of expectations had been present in Swedish economic thinking since the writings of Knut Wicksell and Gustav Cassel, and also Myrdal's socialist political economy contained ideas of "norms" as guiding forms of economic behavior. Lindbeck's

[73]Mudge, *Leftism Reinvented*, 317–18.

[74]Gunnar Myrdal correspondence files, AL Ö4:4.

[75]Lindbeck did see a public role for environmental externalities but rejected the Club of Rome's *Limits to Growth* report. Assar Lindbeck, "Domedagsprofeternas julafton," *Dagens Nyheter*, 13 January 1974. Assar Lindbeck, "Den ovissa framtiden: en studie i anpassningsmekanismer", *Ekonomisk debatt* 8/2 (1974), 463–74.

[76]Ingemar Ståhl, *Miljövård och samhällsekonomi* (Lund, 1974).

[77]Francesco Petrini, "The Politics of Inflation and Disinflation, the Italian Case," in Laurent Warlouzet, ed., *Calmer les prix: L'inflation en Europe dans les années 1970s* (Paris, 2017). Charles Maier, "Malaise," in Niall Fergusson, Charles Maier, Erez Manela, and Daniel Sargent, eds., *Shock of the Global: The 1970s in Perspective* (Cambridge, MA, 2010), 25–48. Assar Lindbeck, ed., *Inflation and Employment in Open Economies* (Amsterdam, 1979).

[78]Correspondence files, for instance 1988, AL Ö4:22.

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notion of political economy as governed by a set of expectations that could in themselves contribute to equilibrium or disequilibrium developed during his time in the OECD, as its Manpower Secretariat set up research groups on inflation, labor market policy, and stabilization policy in Western economies between 1972 and 1979. As mentioned, Rehn chaired the secretariat from 1962. During the 1960s, Rehn became troubled by the wage drift and inflation of the Swedish economy, which he interpreted as revealing failing discipline within the trade union movement. Pessimistic about the possibilities of containing inflation with an active labor market policy, Rehn nevertheless continued to argue that trade unions had to serve a central role in a democratic capitalist economy. Rehn was denied a chair in Stockholm University in 1977 and returned to Sweden as head of the Institute for Social Research. He became deeply troubled by what he saw as an emerging divide between those economists who gave the fight against inflation priority in order to save employment, and those who linked it to an emergent anti-welfare-state stance.[79] In the latter camp he situated Lindbeck, with whom he sometimes shared a metro ride and to whom he handwrote long letters. The letters began "Brother," for Lindbeck was still a social democrat, but Rehn did not hide that he thought that Lindbeck had crossed over to another side.[80] This crossing over arguably took place during Lindbeck's time on the McCracken group, chaired by Paul McCracken (a Reagan adviser and member of the MPS). The group also included the German ordo-liberal and former Keynesian Herbert Giersch, with whom Lindbeck corresponded widely, and the French Robert Marjolin. Vincent Gayon has shown that the McCracken group brought together economists around the emergent Keynesian–monetarist divide, and the group's final report became a benchmark in the turn to supply side strategies and monetarism.[81] A key element in the report was to debunk the Phillips curve as a reliable instrument of economic planning and thus blow a hole in Keynesian orthodoxy. In its stead came the idea that the main political responsibility in the mixed economy was to manage economic expectations. Expectations theory was divided between rational-choice assumptions and emphasis on institutional behavior and norms. Lindbeck and Giersch were hardliners in the group. Lindbeck objected to the final report, arguing that it did not make strong enough recommendations on the need for a decisive break with 1970s policies.[82]

During the same years, in Sweden, the 1976–9 period saw a right–liberal government experiment with countercyclical policy, resulting in price hikes and inflated wage demands (paving the way for the social-democrat response in the so-called third way

[79]Interview with Gösta Rehn in Walter Korpi, "The Great Trough in Unemployment: A Long Term View of Unemployment, Inflation and the Profit Wage Ratio, *Politics and Society* 30/3 (2002), 365–426. Gayon, "Debating International Keynesianism," 132. Rehn explained his own view in "The Wages of Success," *Daedalus* 113/2 (1984), 137–68.

[80]OECD, *Employment Policies, Incomes and Growth in the Medium Term* (Paris, 1978). Rehn correspondence files, AL Papers.

[81]See Samuel Beroud, "Positive Adjustments: The Emergence of Supply Side Economics in the OECD," in Mathieu Leimgruber, ed., *The OECD and the International Political Economy* (London, 2017), 223–58.

[82]Gayon, "Debating International Keynesianism," 148. AL, correspondence files, 1974–1988, Herbert Giersch, "Eurosclerosis," Kiel Institute for the World Economy Diskussionsbeiträge 12 (1985). Assar Lindbeck, letter to Paul McCracken, 18 Feb. 1977, McCracken folder, OECD archives, Paris.

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that followed in 1982). In 1976, the trade union federation (LO) had proposed wage-earner funds in the so-called Meidner plan, which promised to transform ownership in the largest companies by increasing the trade union share.[83] The wage-earner funds proposal led to a heated exchange between Meidner and Ståhl, who used Coase's transaction analysis to rebuke the funds as a breach of contractual arrangements on the company level.[84] To Lindbeck, the wage-earner funds issue confirmed his idea that social democracy was a kind of political market, and that trade unions would always overreach for power unless stopped by some institutional mechanism.[85] In 1976 he wrote the paper "Stabilization Policy in Open Economies with Endogenous Politicians," published in the *American Economic Review*. The paper earned him an invitation by the American Economic Association to give the Ely Lecture to the University of Michigan. Lindbeck argued that the stabilization paradigm that had dominated Keynesian economics in mixed economies like the UK or Sweden was dead.[86] Consumers and trade unions adapted their behavior to the economic model they were in, in such a way that open economies suffered a fundamental incoherence between a "political system" that would promise wage increases and a "market system" that would immediately punish these. Aggregate demand management in a small economy that could not influence world prices was pointless. Lindbeck's conclusion was that demand management was only possible in closed economies with rigid wage structures, and that the global economy would immediately punish small welfareist economies because of their endemic "slack." A central role in the talk was played by the phenomenon of endogenous politicians—politicians causing disequilibrium through the cycle of electoral promises. The only way forward was a new model of political and social behavior, rules for concertation and independent institutions; in other words, a set of rules-based policies and disciplinarist social arrangements. The environmental challenge, he said, strengthened this need because politicians were now involved in making green promises that could disturb the equilibrium.

An indication of the fact that Lindbeck was still viewed as coming from the social-democrat and not from the neoliberal camp is perhaps Milton Friedman's sarcastic response to the lecture. "I am amused by the extent to which you are dragged kicking and screaming to the basic conclusions that you reach, and seek to hold back and accentuate the differences between yourself and such old reactionaries as myself and Hayek who have been at the endpoint of your movement for a long time."[87] Friedman suggested that Lindbeck had confused intent and consequence, and failed to see that he essentially shared a Hayekian analysis but with a more positive view on welfare

[83]Ilja Viktorov, *Fordismens kris och löntagarfonder i Sverige* (Stockholm, 1999).

[84]Ingmar Ståhl, "Ägande och makt i företagen," *Nationalekonomiska föreningens förhandlingar*, 20 Nov. 1975. Jonung and Jonung, *Ingemar Ståhl*, 33.

[85]Assar Lindbeck, "Konjunkturer, politik och utlandsberoende," *Skandinaviska Enskilda Bankens kvartalsskrift* 2 (1975), 49–62.

[86]Assar Lindbeck, "Stabilization Policy in Open Economies with Endogenous Politicians," Richard T. Ely Lecture, May 1976, published in the Proceedings of the Annual Meeting of the American Economic Association," *American Economic Review* 66/2 (1976), 1–19.

[87]Milton Friedman to Assar Lindbeck, 10 Aug. 1977, AL Ö4:10.

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politicians: "I welcome with open arms so able and effective an ally in the battle for freedom!" Lindbeck's response was uncharacteristically humbled:

> I tried to outline the possibility of keeping a decentralized market system, and combine it with certain social and environmental objectives. In other words, I tried to *both* indicate why a market economy is crucial to the survival of a pluralistic system, *and* to indicate that it is possible to pursue a socially responsible policy in the context of such a system. Thus, I tried to indicate how the market economy can be made socially and politically acceptable to politicians and to the general public. I will try to explain better how my views differ from the Hayek–Friedman tradition.[88]

The slippery slope became a metaphor for the unintended consequences of the government of good intentions through popularization efforts such as Paul Samuelson's highly used textbook in economics, as well as through Friedman's 1980s television series *Free to Choose*.[89] But it was not Friedman who argued that the mixed economy was dead. At the Nobel Prize ceremony in Stockholm in 1976, Friedman was asked by a journalist if his ideas applied also to Sweden, and replied that he knew too little of Sweden and that, for all he could gather, Sweden was the home of a vibrant and free business community. He had indeed been heavily courted by the Swedish Business Federation during his visit. Lindbeck at this point thought otherwise. He was convinced that the dynamism of the mixed economy now confronted a deadly threat. In 1976, Lindbeck wrote to Olof Palme of the wage-earner funds that it was "economically unsound and ideologically dangerous, because it questions the very principle of individual autonomy in relation to monolithic blocs." Wage-earner funds would build up a dangerous concentration of capital in the hands of trade unions, and the creative role of capital would be destroyed. Lindbeck urged Palme to distance himself from the proposal (and Palme did).[90] But Lindbeck's analysis of the wage-earner funds went further—as the fund system was debated well into the mid-1980s, Lindbeck went on to argue in lead articles in the Swedish dailies that the alternative to the concentration of wealth in a trade-union-owned system would be a new plurality in a decentralized credit system of smallholder savings accounts. Such a system was also created in the 1980s in Allemansspar, a state-initiated savings system aimed at the working and middle classes.[91] Also this argument seems to contain the notion that the mixed economy was a valid idea—but in 1982 Lindbeck left the Social Democratic Party, with the argument that ideas such as the Meidner plan had asserted that the mixed economy was an impossible construct. In the following years, Lindbeck argued that there could only be a choice of either of two systems. The "planned economy" (*planekonomi*) and the "market economy" (*marknadsekonomi*) were binary-systems logics.

[88] Ibid., original emphasis.

[89] Andrew Farrant and Edward McPhail, "Hayek, Samuelson and the Logic of the Mixed Economy," *Journal of Economic Behaviour and Organization* 69 (2009), 5–16.

[90] Assar Lindbeck to Olof Palme, 9 Aug. 1976, AL Ö4:21. Assar Lindbeck, *Fondfrågan* (Stockholm, 1979), 36, 11, 52.

[91] See David Larsson Heidenbladh and Orsi Husz, "The Making of Everyday Capitalism in Sweden: Micro Infrastructures, Unlearning, and Boundary Work," *Enterprise and Society* 24/2 (2023), 425–54.

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In contrast to Ståhl, Lindbeck shunned ideological expressions of neoliberalism. He rejected invitations from milieus such as the MPS or the Institute for Economic Affairs—preferring to deal with industry and business think tanks such as the Swedish IUI and the International Chamber of Commerce, sites in which, after 1945, the idea of the mixed economy was accepted.[92] He didn't engage with the aggressive mobilization of the Swedish right in the mid-1970s—probably because he still believed in the universalist principles of the welfare state and also that there was a line to uphold between "objective" economics knowledge and political-economy recommendations. Ståhl, in contrast, became convinced of the ideological necessity to defend the market economy, joined the neoconservative think tank Timbro after 1978, and engaged actively not only with Gordon Tullock but also with libertarian Leonard Liggio. In 1985, Ståhl was the central force behind the 1985 *Marknadsekonomiskt alternativ för Sverige* report, which laid out the blueprint for privatization in housing, schools, daycare systems, hospital care, and credit. The report posited a radical shift from the welfare state to a market-economic model, with the idea that the welfare state was an economic aberration.[93]

Lindbeck never did abandon the idea of the welfare state as a set of universal mechanisms, defined essentially by a predictable and regulated social-insurance system. During the 1980s, he became increasingly critical of forms of social-policy spending that destroyed incentives and "created" welfare claimants. His universalism was a theory of pluralist class representation and consumer interest, and, until the late 1980s, a certain public responsibity for stabilization policy, as well as for negative externalities and environmental costs.[94]

Nevertheless, in the mid-1980s, following the clash between the Social Democratic Party and the trade union federation after the devaluation of the krona in 1981–2, followed by a wage freeze, Lindbeck started actively comparing the Swedish system to socialist systems in Eastern Europe, with the idea that also the democratic mixed economy suffered from an incremental logic of perverted decision making. A draft article for the *Financial Times* in 1988 warned against creating systems that "use both markets and administrative control for the same type of decision. The problem with such in between systems is that market signals and command signals will be consistent only by accident." Instead, Lindbeck argued, transition from one system to the other should be as speedy as possible:

> These countries are well advised to move to market economies as fast as possible in order to avoid becoming stuck in an inconsistent system. Indeed a non-system. Another question is whether it is important to shift not only to market economies but also to private ownership, ie to capitalism. Or would some form of market

[92]Compare Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, MA, 2018) 37 f.

[93]*MAS-rapporten: Marknadsekonomiskt alternativ för Sverige* (Stockholm, 1985).

[94]Daniel Zamora, "Welfare without the Welfare State: Milton Friedman's Negative Income Tax and the Monetization of Poverty," *Modern Intellectual History* 20/3 (2023), 934–60.

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> socialism ie a combination of markets and collective ownership be a sustainable alternative? In my view, overwhelming evidence and arguments point to the advantage of moving to private ownership.[95]

A second draft of the paper simply said, "We do not know of a Third way." Large-scale privatization would ensure that the decision system changed, and that political appointments could not interfere with prices.[96] The *Financial Times* article was a call to the countries of Eastern Europe—but it mobilized Swedish experiences in order to claim that also democratic welfare state systems needed a radical systems change, such as the one that Lindbeck then proposed in the Lindbeck commission from 1991 on. At the end of his career, Lindbeck joined the ranks of other leading economists in arguing that an economy dominated by "endogenous politicians" but functioning on a global market was an essentially impossible idea. There could only be a choice of mutually exclusive systems. A Swedish model was thus impossible.[97]

Conclusion

Shenk, in his recent essay, proposes to view the American economist Lawrence Klein as a "Keynesian ghost" within an emerging framework of neoliberal ideas. Shenk highlights the economist's view, the tinkering with the machinery of markets and policy decisions, as a fundamental twentieth-century continuity.[98] This argument of continuity should not be taken too far; the tinkering with instrumentalities depends, arguably, on the insertion in a larger thought system of thinking about the objectives of welfare capitalism. At the same time, viewing ideational change as a continuous process of recalibration between means and ends, pragmatic and ideological reasoning, opens up a productive avenue for thinking about the relationship between neoliberalism and its ideological others.

This article has suggested that thinking about the mixed economy was a central site for the development of neoliberal ideas, and that, over time, arguments that began within the social-democrat framework developed into arguments that could no longer remain social-democrat. The comparison between three Swedish economists—Assar Lindbeck, Ingemar Ståhl, and Gösta Rehn—shows that this was for all three a process in which theoretical economic problems mixed with personal experience and ideological conviction. Ideas that may well be viewed as neoliberal already figured as part of their universe in the 1950s and 1960s—within a social-democrat frame. In their stories, social democracy and neoliberalism meet, not as separate thought systems, but as essentially hybrid ideologies, knowledge traditions, and alternative forms of social rationality. Ultimately, I have suggested that the reason why social democrats turned

[95]Draft, 1990, AL Ö4:23, and notes, AL Ö4:32. Assar Lindbeck, "Svensk glasnost utan perestrojka," *Ekonomisk debatt* 1 (1990), 5–12. Lindbeck, "Lessons from Sweden for Post-socialist Countries," Seminar Paper No. 654, Stockholm Institute for International Economic Studies, 1998. The essay was published in Janos Kornai, ed., *Reforming the State* (Cambridge MA, 2001).

[96]Draft, 1990, AL Ö4:23.

[97]See Assar Lindbeck, *The Swedish Experiment* (Stockholm, 1997).

[98]Shenk, "Taking Off the Neoliberal Lens"; Elisabeth Popp Berman, *Thinking Like an Economist: How Efficiency Replaced Equality in US Public Policy* (Princeton, 2022).

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neoliberal was not, or at least not simply, because of ideas coming in from the outside, but because of a long historical process of thinking about the limits of the social-democrat project. There were both knowledge-based and ideological arguments in this process.

Does this story matter to the intellectual history of neoliberalism? I argue that it does. Before Friedman's 1976 Nobel Prize, Sweden rarely figured in the debates of transnational neoliberals. By the time Milton Friedman got the prize in 1976, versions of his, and Hayek's, arguments had already been debated for decades. The mixed economy was a key site of boundary work between social democracy and neoliberalism in sites such as the OECD and the IEA. Debates concerned not the impossibility per se of a welfare-stateist economy, but the empirical question of how a third-way-type model between capitalism and communism could be correctly understood, and how a correct calibration between planning objectives and prices within the mixed-economy framework could be found. Lindbeck's conclusion, that the mixed economy was an impossible construct, grew from the interplay between domestic debates and transnational circulation. It had enormous global implications. If there could be no middle way, then a whole set of economic discourses and practical experiments were doomed as a matter of theoretical purity. The downfall of the Swedish model marked the end of a tradition in postwar economics of thinking about the mixed economy as a pragmatic set of solutions to the problems of welfare capitalism. Lindbeck's key role was thus not as a carrier of neoliberal ideas to Sweden, but as a carrier of a new Swedish example of impossibility into an increasingly neoliberal world.

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