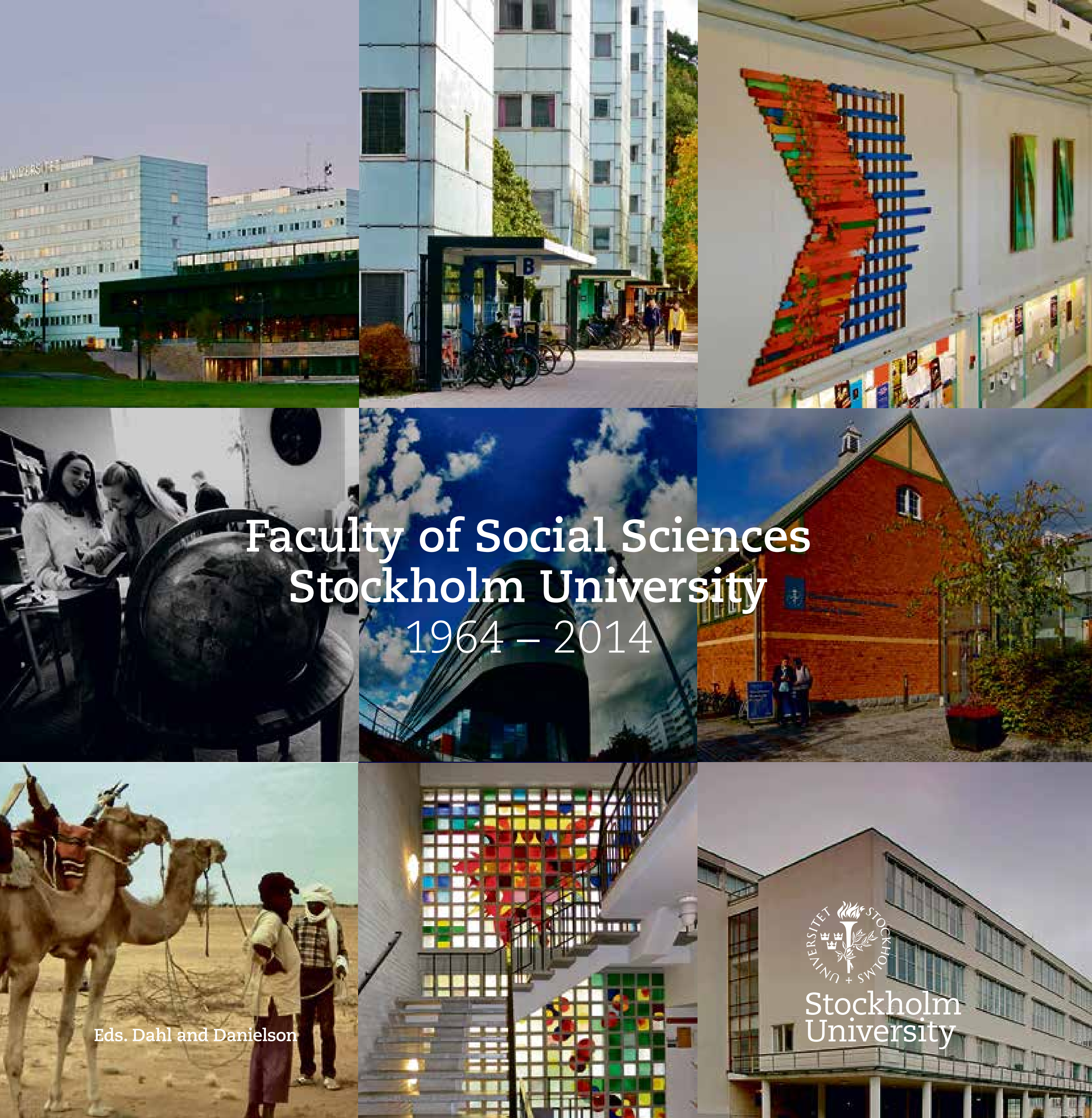


Faculty of Social Sciences Stockholm University 1964 – 2014

Eds. Dahl and Danielson

Stockholm University

Institute for International Economic Studies

Assar Lindbeck

AT THE BEGINNING of 1971, I took over Gunnar Myrdal's professorship in international economics at Stockholm University, where I also became the director of the Institute for International Economic Studies. The Institute was founded by Myrdal in 1962. In his period as director of the Institute, it also constituted a basis for his broad-ranging study of the development problems of Southeast Asia, 'Asian Drama', (1968). He was assisted by a number of foreign colleagues who were employed on a temporary basis. Ingvar Svennilson was director for a few years (1967–69) after Myrdal had retired. He started some ambitious projects on industrial structural change, but after a couple of years of illness, he had to take a leave of absence and later left the position. In February 1971, it became my task to develop the Institute with the aid of new colleagues and a new orientation that suited my experiences and interests. At the same time, the Institute moved, from only a few offices at Wenner-Gren Center at Sveaplan, to new premises in one of the blue buildings at the recently constructed Stockholm University campus at Frescati.

For the general public, Gunnar Myrdal is probably the best-known Swedish economist in the twentieth century. He also had a large influence on a whole generation of prominent economists in Sweden – Erik Lindahl, Erik Lundberg, Bertil Ohlin, Tord Palander, Ingvar Svennilson and Herman Wold. Myrdal already had a great influence on his colleagues through his doctoral dissertation, *Prisbildningsproblemet och föränderligheten* (1927), where he emphasized the role of future expectations for the trends in different markets. He was also early with proposals for using the government budget as an instrument for smoothening the business cycle – partly inspired by John Maynard Keynes' early writings on the subject from 1929 and onwards. Myrdal made his large international breakthrough with his interdisciplinary work, 'An American Dilemma', (1944) with the subtitle, 'The Negro Problem and Modern Democracy', – a successful combination of economics, sociology and political science.

Moreover, in the latter part of the 1930s, his writings, together with his wife Alva, on social policy issues played an important role in the social policy debate in Sweden. Among their work in this field, it is natural to refer to their book *Kris i befolkningsfrågan* ('Crisis in the Population Issue', 1934). After World War II, following a short session as Minister of Trade, Myrdal became executive secretary of the United Nations Economic Commission for Europe (ECE). But he increasingly turned towards studies of developing countries (Myrdal 1968). He also attracted a great deal of international attention through his research in this field, even if this work was neither as original nor as important as his previous work.

How to rebuild?

Being responsible for a research institute was a new experience for me. How to manage the funding? How to organize the activities? To what extent should the director try to influence the direction of the research at the Institute as a whole? In particular, how to guarantee that both research and the graduate program reach high international standards? Moreover, I did not want the Institute to only be an internationally prominent research institute. My objective was also that the Institute should function as a 'nursery' for future prominent Swedish economists.

At the beginning, I did not have any clear view about how such a nursery should be designed. Naturally, I did realize that the basis must be a high-quality course program for graduate students and a stimulating environment for writing doctoral theses. But over the years, I started to realize that this was not enough. The first years at a research institution for people with a recent PhD – say the first three to six years – should be considered just as important a part of the training as the courses for graduate students. In my experience, it is largely through work in a strong research environment during those particular years that research talents get the chance to flourish. Thus, it is important to give a number of recent graduates the possibility of working in such an environment for a few years, either in Sweden or in other countries. My ambition was that the Institute should be such a place. It is also important to maintain a good balance between Swedish and foreign researchers in such a group. Foreign recruitment is of great importance, not only for creating diversity, but also for reaching high standards. However, recruiting young promising Swedish students is also important, since it is those individuals in particular that can be expected to remain in Sweden during the main part of their professional life.

The recruitment of talented graduate students and researchers to the Institute went very well. When I took up the position at the beginning of 1971, there were already a couple of graduate students at the Institute. Moreover, four of my graduate students at the Stockholm School of Economics joined me at the Institute at their own request and, after some time, several other graduate students also arrived from the Stockholm School of Economics. But I mainly recruited students with an undergraduate degree from the Department of Economics at Stockholm University. I usually encountered young talents in my teaching at different levels, but several students simply turned up spontaneously at the Institutes' weekly seminars, since it was rumoured that there were interesting seminars at the Institute. The recruitment of young talents into research in economics might also have been facilitated by the fact that the interest in economic and social issues was particularly large among university students in the 1970s, as a result of the political radicalization among students at the end of the 1960s. It was not difficult to convince foreign researchers to visit the Institute. Over the years, we have had about 150 foreign visiting researchers at the Institute who have stayed for at least a month.

In my experience, there is a potential interest among talented Swedish students to do research, and it is the professors' responsibility to awaken and encourage this interest. In particular, creating enthusiasm in young talented students at the University for entering the graduate program, and possibly also investing in a career as a researcher, is an important task for professors at a research institute.

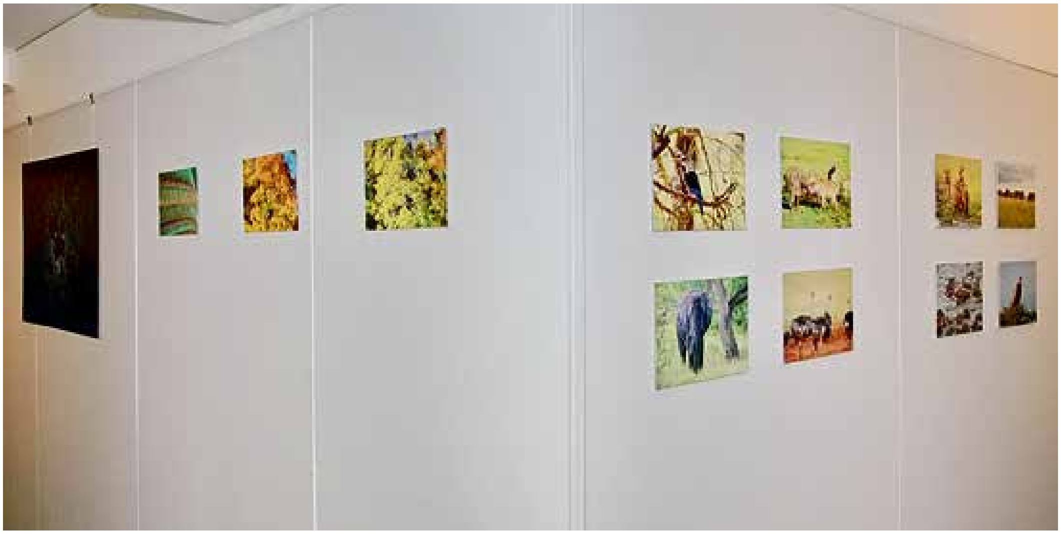
The first problem that I encountered was funding the activities at the Institute. The government funding was very small at that time, about SEK 150,000 annually. Gunnar Myrdal had also created a Foundation for the Support of the Institute for International Economic Studies. It was partly based on returns from Myrdal's book royalties. Other sources for the foundation were donations from *Svenska Handelsbanken*, thanks to Myrdal's friendship with the chairman of the board at *Handelsbanken*, Tore Browaldh, and the Swedish Cooperative Wholesale Society (KF), thanks to his friendship with Mauritz Bonow who, among other things, was secretary of the KF board. But when I took up my position, the remaining assets in the Foundation only amounted to SEK 20,000. The Foundation did, however, later become an important means of channelling funds to the activities at the Institute.

In the 1970s and 1980s, the internal funds of the Institute – principally the government grant – were mainly used to fund three secretaries; this was before the era of the PC. But the funds were also, to a certain extent, used to fund a couple of senior foreign visiting researchers every year, who in several cases stayed for an entire academic year. Several of these researchers contributed greatly to the Institute as supervisors of our graduate students. Important examples during my first years were professors Bill Branson from Princeton University and Ron Jones from the University of Rochester.

Swedish graduate students and recent PhDs were funded by grants from various research foundations, in particular those administered by Erik Dahmén on the basis of donations from the Wallenberg group. These were The Swedish Bank Research Foundation, *Finanspolitiska forskningsinstitutet* and *Stora Kopparbergs fond* – what I called "Dahmén's pockets". In that way, we could simultaneously finance about a dozen young Swedish graduate students and PhDs.

Having produced a group of talented young researchers at the Institute, we started to apply for large research grants from various types of research foundations, in particular Riksbankens Jubileumsfond (The Tercentenary Foundation of the Swedish Central Bank). For many years, this fund was very generous to the Institute. We switched to large 'umbrella projects' – research themes involving a group of researchers. We also invited the directors of Riksbankens Jubileumsfond, Nils-Eric Svensson and later Östen Johansson, to visit us to brief them about our future project plans. Another way to financial consolidation was to replenish the IIES Foundation through grants from various sources, mainly different research foundations. This fund raising was mainly organized by the director of the Nobel Foundation, Stig Ramel, who was chairman of the IIES Foundation for many years.

Gunnar Myrdal used to joke about the fact that I had chosen what he called "building-contractor's funding" in the style of the 1920s. He referred to the fact that we financed more than 75% of the activities with various kinds of external funding. By focusing hard on young promising researchers, I thought that we would eventually become good enough to obtain a more stable financial basis for our activities. This actually turned out to be true. In particular, after several years, we succeeded in increasing the government grant. At that point in time, the Institute was an independent government agency with its own board, which meant that we received our government grant directly from the government, while being part of the university in other respects. It was thus important to inform the Ministry of Education and the Ministry of Finance about our work. Among other things, Ingvar Carlsson, the minister of education at that time, paid us a visit and was informed about the activities at the Institute. Moreover, Michael Sohlman, head of the budget section at the Ministry of Finance, showed great understanding for our activities in research and graduate education. Through these contacts, we succeeded in clarifying to



Several paths to choose from, in corridors as well as in research. (Photo: Mats Danielson)

the funding authorities that there now existed a group of researchers at the Institute worth financing. Many years later, when Sohlman had succeeded Ramel as director of the Nobel Foundation, he also accepted to succeed Ramel as the chairman of the IIES Foundation.

We obtained additional resources when, in 1978, the Minister of Education Jan-Erik Wikström discovered – I do not know how – that I had been offered the position as chief economist of the International Monetary Fund (IMF) when Jacques Pollak retired. Wikström called me one day and asked what would make me stay in Sweden. I answered more money to the Institute and more space. Apparently, I was unclear, since Wikström thought that I needed larger housing myself. So I clarified that the Institute would need the entire floor at the University, where we had about ten offices at our disposal at that time. Shortly thereafter, we actually did get an offer from the University to have the entire floor at our disposal. I do not know exactly how this happened. I had previously expressed similar desires to the university administration to no avail. The increased, and in particular more stable, resources made it possible to gradually introduce permanent professorships from 1984 and onwards – the first being for Lars E.O. Svensson, who subsequently moved to Princeton in 2001 after many years at the Institute.

In the mid-1990s, we could fund a group of researchers amounting to 15–20 people: five professors, a few researchers at the docent level, a number of recent PhDs, a varying number of graduate students and a couple of foreign visiting researchers. Thus, we had reached a critical mass in the sense that each researcher had access to other researchers at the Institute who were interested in the same area of research. It was thanks to a combination of increased financial resources, a good supply of graduate students and the presence of prominent foreign visiting researchers that we succeeded in raising the quality of the research to an international level.

Thus, the Institute did not reach its success by initially having large financial assets. It was rather by building up competence on a basis of mainly external funding that we could eventually convince the government authorities and large private research foundations that we deserved more stable funding. In the last two decades, *Handelsbanken's* Research Foundations and agencies, such as the Swedish Research Council and more recently the European Research Council, have played an important part in funding specific research projects. The grants from *Handelsbanken* have, in fact, been quite crucial for the possibilities to fund graduate students at the Institute.

In connection with the 50th anniversary of the Institute, we also received several lump-sum grants from the University, the government and a few private foundations. But the growing importance of external funding has once more increased the need for a consolidation of the financial basis of the Institute – although at a larger volume of research than previously. Indeed, a personal chair funded by a donation from the Savings Banks' Foundation a few years ago made it possible to recruit Per Krusell to return to Sweden from Princeton, as a first step in this consolidation.

In order to get as much time for research and teaching as possible, I did, just like Myrdal had formerly done, delegate almost all administration to an administrative assistant – who later received the title of 'deputy director' and in turn mainly delegated daily administrative tasks to a pure administrator. I was fortunate enough to cooperate with several efficient deputy directors. Sven Grassman was first in line and remained in this position until 1979, when he was first succeeded by Hans T:son Söderström, then Carl B. Hamilton and later Lars Calmfors. Over the years, we have also succeeded in recruiting and keeping a very competent and efficient administrative staff.

Since the Institute for International Economic Studies not only pursues research but is also involved in the graduate program at the University, the question naturally emerges of how graduate supervision should be carried out. I myself have never spent much time on the individual supervision of graduate students. Instead I have invested time in collective supervision – by teaching graduate courses, discussing drafts for theses at seminars and, not least, through informal discussions over lunch and afternoon coffee. One way of justifying this kind of supervision is that students do then not become dependent on views and suggestions from one single person. Supervision takes place in the form of free discussion. This means that the author can decide what views to take into consideration. A less flattering interpretation of my predilection for collective rather than individual supervision is that it gave me more time for research and other activities. However, I still think that my kind of collective supervision contributed to creating independent researchers with their own driving forces. Very few of the admitted graduate students failed to complete their dissertations. I am sceptical regarding the idea of squeezing through less talented graduate students to licentiate or doctoral degrees using very extensive supervisory efforts.

There is, however, likely to have been an increase in the need for individual supervision in recent years in connection with the large increase in the number of admitted graduate students. Graduate students might also be a more heterogeneous group today than previously. This means that collective supervision might be less suitable than it was before. This might explain why my younger colleagues have chosen to spend much time on the individual supervision of graduate students in addition to the graduate courses they regularly teach. However, today there might be a trend back towards more collective graduate supervision, but now as a supplement to individual supervision. In particular, this takes place in the form of lunch seminars ('brown-bag seminars'), where graduate students at the Institute discuss drafts for their theses in the presence of one or several senior researchers.

New directors of the Institute

When I retired and resigned from the directorship in 1995, Lars Calmfors (1995–98) was the first to take over. Then came Torsten Persson (1998–2009) and Harry Flam (2010–14) – all three were already professors at the Institute.

There have been winds of change at the Institute since I retired – both as concerns organization and research orientation. It has become increasingly common that people with a PhD from the Institute have obtained positions at foreign universities or research institutes – an expression of the internationalization of the market for researchers. It is too early to say how many of these will later return to Sweden. Since 1995, new PhDs have usually been hired by the Institute for a limited period of time, with an individual evaluation for continued employment after six years – a system corresponding to

Combined seminar and coffee room at IIES. Seminar held by Torsten Persson. (Photo: Mats Danielson)

what is called tenure track at US universities. An important change in later years is that the structure of the younger research staff has shifted from Swedish to foreign graduate students and PhDs – yet another expression of the internationalization of the market for researchers. In fact, since the mid-1990s, the recruitment of junior researchers has mainly taken place by advertising positions on the international market and interviewing some of the applicants (several hundred people from different countries) on the international market for young economists in connection with the Annual Meeting of the American Economic Association.

Currently, the Institute has a reasonable number of professors, or more exactly nine. About 15 junior researchers with a recent PhD also work at the Institute. Moreover, some internationally prominent senior researchers at foreign universities are currently affiliated with the Institute; they return as visiting professors on a regular basis.

While it is a strength for a research institute to belong to a prominent university, the independent position in relation to the University has been favourable for the Institute. We have not been subjected to short-term competition with teaching institutions about scarce resources – a competition that is usually won by the teaching side. Moreover, we have been able to act swiftly ourselves when it comes to both funding and recruitment, without cumbersome bureaucracy.

Shifts in the areas of research

The research content at the Institute has changed over the years. The shifts have largely occurred due to spontaneous decisions by individual researchers. But in some cases, the shifts have been due to new umbrella projects that a group of researchers have agreed on, in particular in connection with larger research grants from research foundations. In the 1970s, we largely dealt with questions about the functioning of economic policy in increasingly open economies with free foreign trade and capital movements. In particular, we emphasized the functioning of the labour market, in particular the importance of wage formation, for inflation, unemployment and international competitiveness – an area where Lars Calmfors has been particularly involved. In fact, it was research in this area at the Institute which first attracted international attention. In the 1980's, the research was shifted towards international trade and more generally international economy, in particular our globalization project funded by *Riksbankens Jubileumsfond*. Harry Flam and Henrik Horn, among others, have made important contributions in this particular area. But researchers at the Institute did also devote themselves to other questions in this period, for example the economic consequences of taxation and social insurance by in particular Mats Persson. Several researchers at the Institute have also, with Lars E.O. Svensson as the primus motor, made important contributions in the field of monetary economics and monetary policy.

From the mid 1990's, the emphasis of the research at the Institute has increasingly shifted towards the area of political economics – largely as the result of Torsten Persson's research contributions in this area. This is also an area where I have been highly active. This research, on the borderline with political science, has also dealt with the role of media for political decision-making, in particular through work by Jakob Svensson and David Strömberg at the Institute.

In contrast to the period when Gunnar Myrdal was director, there was not much research on developing countries during my period as director. But such research has expanded in recent years – in particular through research carried out by Jakob Svensson and junior colleagues. The Institute has thus, in later years, to a certain extent returned to its orientation at the time of Myrdal. This new trend might provide some consolation to Myrdal now that he is in heaven, which he, of course, did not believe in.

At the end of the first decade of the twenty-first century, John Hassler and Per Krusell initiated new research projects in macroeconomic analysis through a macroeconomic seminar that they run together with a group of graduate students and young PhDs at the Institute and the Department of Economics at Stockholm University. Moreover, John Hassler, Per Krusell and Torsten Persson have started a large interdisciplinary project on the economic consequences of climate change and climate policy.

A criticism to which the Institute was sometimes subjected in the 1970s and 1980s – as far as I understand from Gunnar Myrdal – was that its research was uniformly theoretically oriented. The vice-chancellor of the Stockholm School of Economics at that time, Staffan Burenstam Linder, did once give our research the epithet "space science". But my general philosophy has been that it is important that young researchers develop a strong theoretical and methodological foundation for their future research. My hypothesis has been that many of them will eventually and spontaneously find their way to applications and empirics, and this has actually usually been the case. More generally, in my experience, the best applied research is usually conducted by researchers who have started their careers as theorists, while those who have only done highly specialized empirical research during their entire life seldom come up with original and interesting contributions.

The third task

So far, I have talked about the two main tasks of the Institute: research and the graduate program. But, like other academic institutions, we have a so-called third task, i.e. to inform society about what we have learned and to participate in the public debate. Thus, it is important that there are 'economists on two feet' – economists with one foot at the international research frontier and the other in the open policy discussion. A large number of researchers at the Institute have undertaken this task over the years.

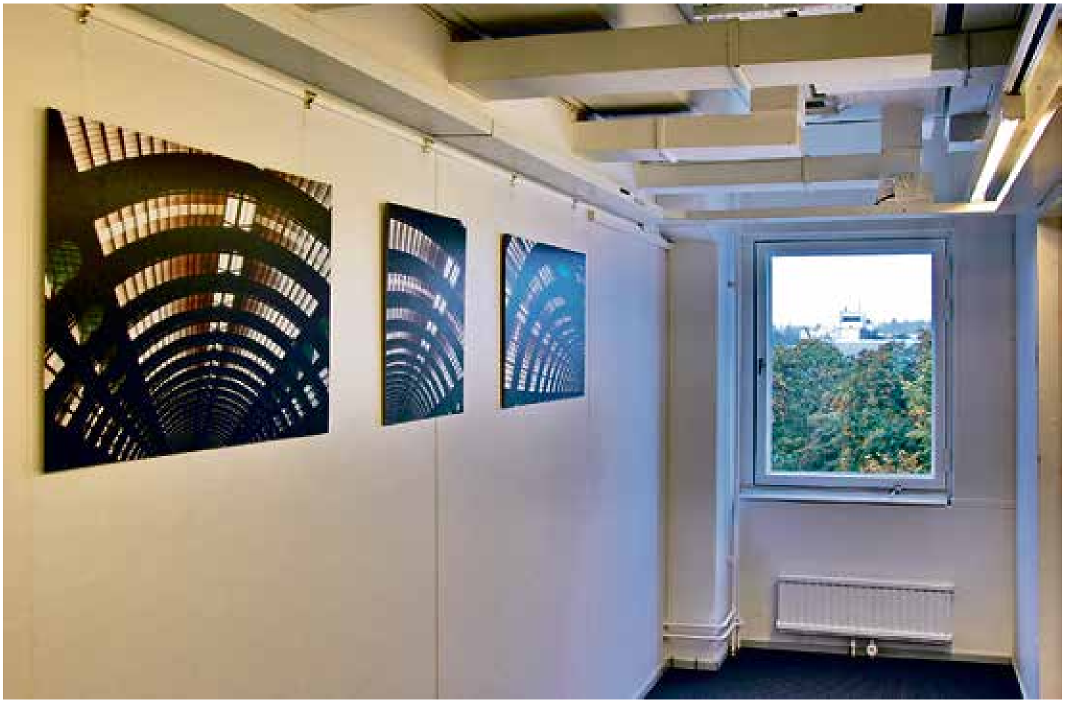
In order to increase the quality of the domestic economic debate, the Institute also initiated a new journal in Swedish, '*Ekonomisk Debatt*', at the beginning of the 1970s, with financial support from the Savings Banks. The first issue was published in 1973 – and it has continued to publish eight issues a year since then. Nils Lundgren, who was at that time a researcher at the Institute, became its first editor and I have been the legally responsible publisher since the start – a job which I have considered to be an entirely legal responsibility, without any right or obligation to interfere with the work of the editors.

Over the years, new sponsors of the journal have supplemented the Savings Bank Organization, which has supported the journal from

Top row: Per Krusell, Torsten Persson, David Strömberg, John Hassler and Jakob Svensson. Bottom row: Mats Persson, Lars Calmfors, Assar Lindbeck and Harry Flam. (Photo: Hanna Weitz)

the very beginning. Highly skilled researchers at Swedish universities have gladly taken turns as editors, members of the editorial committee of the journal and its editorial council. In fact, it has been an old tradition among Swedish academic economists to participate actively in the economic and political debate – since the days of Knut Wicksell, Gustaf Cassel and Eli Heckscher in the first decades of the twentieth century.

Yet another aspect of the third task is to participate in advising public authorities on economic-policy issues. Several members of staff at the Institute have, besides their research, been active in this area over the years. Torsten Persson was chairman of the Economic Council of the Ministry of Finance 1990–92, and Lars Calmfors held the same position in the period 1993–2001. Persson was also a member



Corridor decoration by one of IIES's researchers. (Photo: Mats Danielson)

of the government appointed *Ekonomikommissionen* (‘*Lindbeckkommissionen*’), which presented its report in March 1993. Calmfors has been the chairman of the EMU-commission and the Fiscal Policy Council, and he has played an important role in the Swedish economic policy debate. Torsten Persson and Lars E.O. Svensson served as advisors to the Bank of Sweden during a large part of the 1990s, and Hassler and Krusell are currently official advisors at the analytical department of the Ministry of Finance. Harry Flam has headed a government commission on the financial independence of the Riksbank and has been a member of the EMU commission. Mats Persson has been a board member of The Swedish National Debt Office (*Riksgäldskontoret*), *Första AP-fonden* and so on. Colleagues at the Institute have also participated in a large number of government committees, SNS reports and international expert groups. An example of international expert groups where researchers at the Institute have participated is EEAG (European Economic Advisory Group) – a group consisting of about half a dozen economists from different European countries that has published one report a year since 2002 on forecasts and problems in the European economy. Calmfors, and later Hassler, have been Swedish representatives in this group.

Lessons from the Institute

During my last years as director of the Institute, I tried to summarize my experience of heading a research institute in the social sciences in bullet form. These 'bullet points', which can still be read *in extenso* on my web page, can be summarized as follows:

(i) A research institute should strive to reach the international research frontier and contribute to gradually shifting this frontier. This is the best way of avoiding mediocre or even bad research. Bad research is worse than no research at all.

(ii) In order to fulfil this ambition, research should be published at the international level, normally in internationally respected journals. To guarantee that Institute activities are subject to international scrutiny, it is also important the Institute abstains from its own printed publications.

(iii) It is also important to have prominent foreign visiting researchers at a research institute – in order to import competence and raise the level of ambition at the Institute.

(iv) Each researcher should develop his/her own international network.

(v) It is important that research is concentrated to a limited number of areas.

(vi) Successful research requires a critical mass in one or a few areas.

(vii) At a research institute, it is important to achieve an interaction between theoretical and methodological work on the one hand and applied research on the other.

(viii) Employment decisions and the funding of Institute activities are the most important tasks for the director of a research institute. Other questions can be largely delegated by the director to other people.

(ix) It is a great advantage for a research institute to be part of a prominent university.

(x) It is also a great advantage if at least some of the members of a research institute in the social sciences produce articles and books, not only for the international research society, but also for laypeople who are interested in economic and social issues. This is important both for the researchers themselves, who can thus develop their common sense, and for the possibilities of an institute receiving research grants.

I do not claim that every department/institute in the social sciences should follow these exact principles, but I think that they have worked well for the Institute for International Economic Studies. In particular, I refer to the fact that the Institute has actually succeeded in making a number of talented young people enthusiastic about getting a good graduate education in economics. While many of them have made a research career in Sweden, others have made important contributions outside the area of academic research, in several cases as chief economists at public and private institutions. Hopefully, Swedish taxpayers and private donors have recorded a decent social return to the money that they have invested in the Institute.

It is a delicate task for a former director of a research institute to evaluate its achievements. When it comes to citations in scientific journals, researchers at the Institute have always been at a high level. Among the five most cited Swedish economists, four have usually been employed at the Institute. A study for The Swedish National Agency for Higher Education, by Swedish social scientist Li Bennich-Björkman (1997), uses the activities at the Institute as an example of a research institute at the highest level – even if the name of our Institute was (barely) disguised in the published report. In an evaluation of economic research in Sweden in the 1970s and 1980s by three internationally prominent foreign researchers (Dixit et al. 1992:174), the authors drew the conclusion that: "The most successful single centre of economics research in Sweden is undoubtedly the IIES. This Institute's permanent staff has a better record of publications in major international journals than the rest of the Swedish profession combined."

The situation does not seem to have changed to any great extent since then. Thanks largely to new generations of researchers at the Institute, almost half – that is 31 of the 65 – articles that were published in the period 2002–13 in five or six leading (general) economic journals by Swedish economists have been authored or co-authored by researchers at the IIES (Björklund 2014:4). It should, of course, be remembered that important research is also published in other journals, in particular leading field journals. Statistics that only build on papers from five or six leading general journals might thus be misleading.

There are also other indications of researchers at the Institute having been successful. The Söderberg Prize in Economics, which is awarded every fourth year by the Royal Academy of Sciences at the suggestion of a committee with a majority of foreign economists, has six times out of eight been awarded to researchers at the Institute. One of the remaining two has previously been employed at the Institute. Six out of the nine current professors at the Institute are members of the Royal Academy of Sciences. Over the years, researchers at the Institute have also held leading positions in international economic organizations, have often been invited to give plenary lectures at international economic conferences, and so on. Based on these quality indicators, the Institute has, despite its size, belonged to the half-dozen most prominent economics institutions in Europe.

This chapter is a translated and edited version of (Lindbeck 2012).

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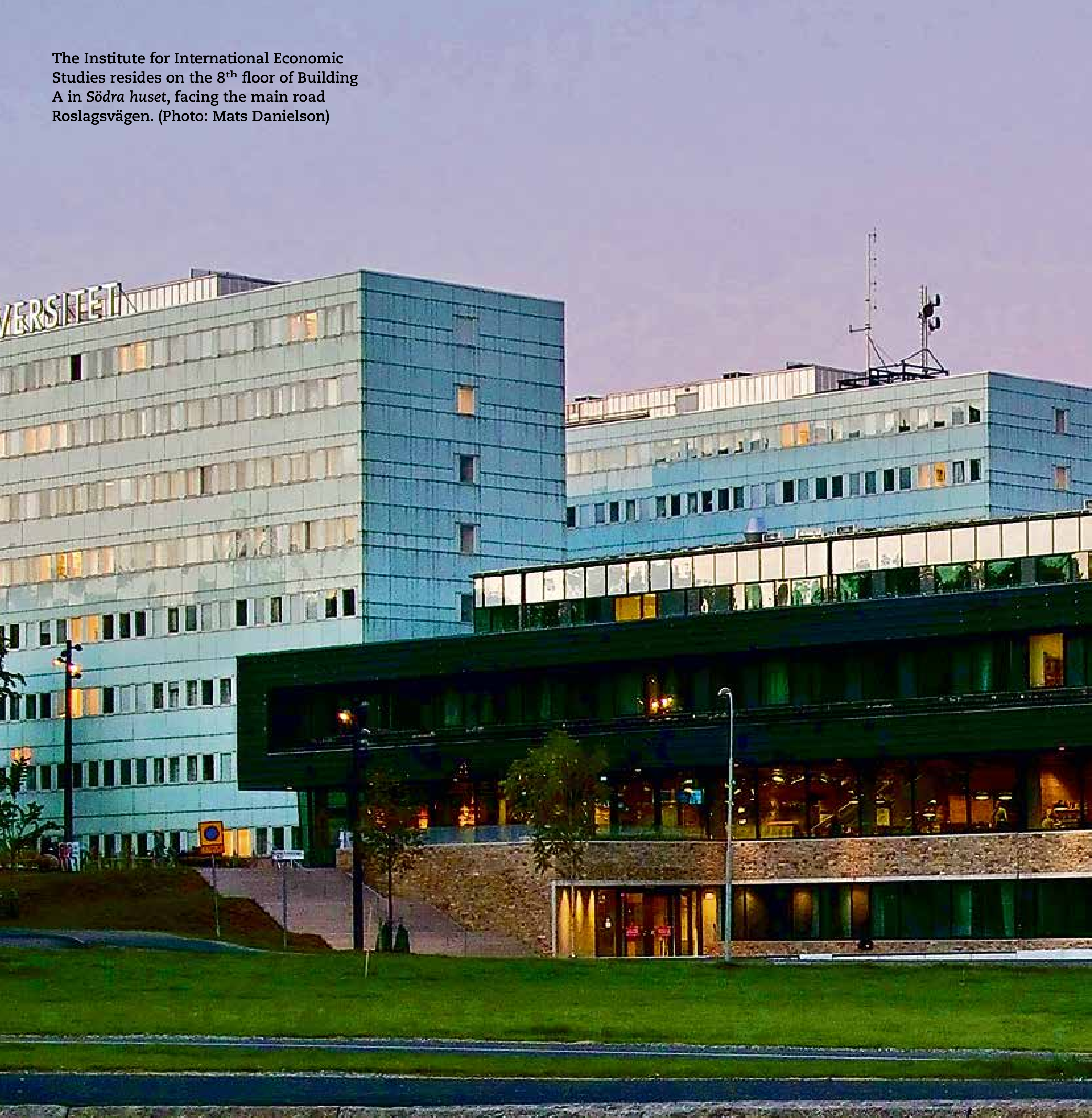

The Institute for International Economic Studies resides on the 8th floor of Building A in *Södra huset*, facing the main road Roslagsvägen. (Photo: Mats Danielson)

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