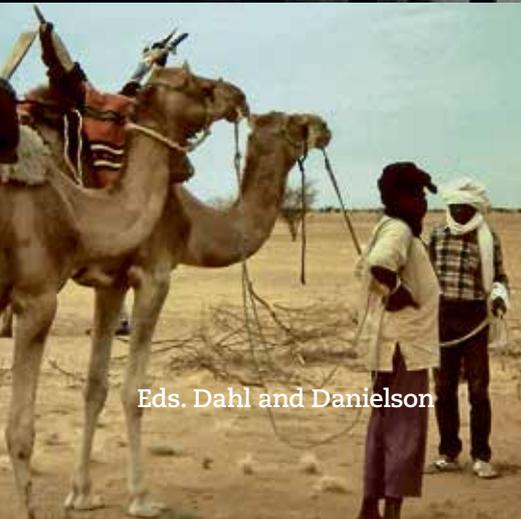




# Faculty of Social Sciences Stockholm University 1964 – 2014



Eds. Dahl and Danielson



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# Department of Economics

**Astri Muren and Hans Wijkander**

**LECTURES IN** Economics at Stockholm University College started already in 1888 with Johan Leffler (1845–1912) as lecturer. Leffler, who had studied in Leipzig, combined economic liberalism with an interest in social policy (Olofsson & Syll 1998). The first full professor of economics was Gustav Cassel who was appointed in 1904 (Nycander 2005, ch.1). Cassel (1866–1945) had originally studied mathematics (writing a doctoral dissertation on linear algebra) and later turned to economics. Cassel is known for his development of general equilibrium theory. During the 1920s, he was one of the most prominent economists in the world, lecturing widely on monetary issues. Bringing monetary analysis into general equilibrium theory is still an unresolved issue, particularly regarding financial economics. A second chair in economics was created in 1921, with Gösta Bagge (1882–1951) as its first incumbent (Wadensjö, in Nycander 2005, ch.2). Bagge's early work concerned wage-setting under trade

unions and long-run unemployment. He played an important role as entrepreneur, channelling money from the Rockefeller Foundation to an extensive empirical investigation of wage formation and national income in Sweden. Bagge was also a politician; from 1913 he was active in local Stockholm politics and later he was party leader for the Conservatives (1935–1944) and Minister of Education.

Cassel retired in 1934 and was succeeded by Gunnar Myrdal (1898–1987) (Gustafsson 1998). Myrdal's dissertation, 'Pricing and Change', introduced inter-temporal planning and risk into price theory. Cassel was the dissertation advisor. Erik Lindahl, another of the prominent Stockholm school economists, who was at the time lecturing in the Department, is mentioned in the preface for his advice. Lindahl's own development of inter-temporal and temporary equilibrium theory in the late 1920s was, in turn, influenced by Myrdal's analysis. During the 1930s, several members of the Department

were involved in the development of employment theory. Considering the economic crisis in the world at that point, it was the hot topic of the time. Gunnar Myrdal, Gösta Bagge, Alf Johansson and Dag Hammarskjöld contributed to the Unemployment Commission. From 1937 to 1944, Myrdal spent his time in the United States, working on ‘An American Dilemma’ and financed by the Carnegie Foundation. After returning, he became Minister of Trade in 1945–47. Much later, in 1974, Myrdal shared the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel with Friedrich von Hayek. He was not entirely happy about that; perhaps the main problem was the co-laureate whose values he did not share, but he had also expressed criticism of the prize itself (Swedberg 2004).

### The Stockholm school of thought

The term ‘Stockholm school of thought’ or ‘Stockholm school’ was used by Bertil Ohlin in 1937 in the first of two articles in the ‘Economic Journal’. He introduced the article by stating:

Owing to a coincidence of circumstances, already at an early stage of the depression Swedish economists came to deal with the problem of variations in employment, output and prices by means of a theoretical apparatus rather different from the price theory in economic textbooks. There are surprising similarities as well as striking differences between that

apparatus and the conclusions reached in Sweden on the one hand and Mr. Keynes’ ‘General Theory’ on the other hand. Hoping that a discussion of two independent attacks on the same set of problems may throw some light on the latter, I intend in this and the succeeding paper to make some observations on these two theories. (Ohlin, 1937:53)

The Stockholm school of thought has attracted a lot of interest and publicity through the years, though opinions have always differed on the extent to which the Stockholm school really was very different from Keynesian theory. In any case, the Stockholm school economists, to which Lindahl, Hammarskjöld, Johansson, Myrdal and Ohlin, as well as Lundberg and Svernilson belong, were creative and influential researchers and policy makers.

Erik Lundberg and Ingvar Svernilson offered theoretical contributions to the Stockholm school in their doctoral dissertations. Lundberg’s dissertation, ‘Studies in the Theory of Economic Expansion’, completed less than a year after the publication of Keynes’ ‘General Theory’, presents an independently developed dynamic theory of business cycles, later formalized by Paul Samuelson (Lindbeck & Persson 1987). Lundberg took up a position at *Konjunkturinstitutet* (KI, the National Institute of Economic Research) in 1937 and became its head in 1946. The same year he was also given a personal professorship at the Department, where



Seminar in political economy in the seminar room A700. (Photo: Mats Danielson)

he acted as a full-time professor after 1955 when he left *Konjunkturinstitutet*. Lundberg's overview of business cycles and stabilization policy from 1953 (*Konjunkturer och ekonomisk politik*, translated into English as 'Business Cycles and Economic Policy', 1957) influenced a generation of students of Keynesian fiscal and monetary policy.

Svennilson's doctoral dissertation, *Ekonomisk planering: Teoretiska studier*, was a theoretical study of organizational planning exploring intertemporal decision-making under risk. After his doctorate, Svennilson initially worked as an expert in *Konjunkturinstitutet* where Lundberg was already working. He was then recruited

to the newly created 'Research Institute of Industrial Economics' (*Industriens Utredningsinstitut*) and was its head 1942–51. Svennilson was appointed professor at the Department in 1947. In parallel with his professorship, he played an important role in the development of The Medium Term Surveys (*Långtidsutredningarna*) of the Swedish government. Svennilson was an early proponent of econometrics, i.e. the use of statistical methods of analysis of economic data. (Persson & Siven 2009)

At this time the academic world of economics was almost exclusively male, in Sweden and elsewhere. There was only one senior faculty woman in economics at Stockholm University

College, Karin Kock (1891–1976). She defended her doctoral dissertation, *A Study of Interest Rates*, in 1929. It was the second in Sweden presented by a woman – the first was by Margit Cassel (the daughter of Gustav Cassel) in 1924. Kock’s advisors were Cassel and Bagge. Kock became docent in 1931 and replaced Bagge and Myrdal as acting professor during the period 1936–1946, when they were often on leave. One of her teaching areas was monetary economics. Kock was given ‘professor’s name’ in 1945, served as Minister of Trade during 1947–49, and was the head of Statistics Sweden from 1949 until her retirement in 1957 (Jonung & Jonung 2013).

Lundberg and Svennilson were professors in the Department for some considerable time, Lundberg until 1965 when he left for the Stockholm School of Economics, and Svennilsson until 1967, when he succeeded Myrdal as head of the Institute for International Economic Studies. During that time, they were both also much involved in policy advising activities (in those days when there were not many students, it seems to have been perfectly normal to combine a professorship with extensive other commitments). Svennilson appears to have been a kind and caring person, if a bit preoccupied, while Lundberg could be ironic towards his students. In general, the Stockholm school economists were apparently more interested in their own scientific work and in being government advisors than in

encouraging the intellectual development of their students. One of Lundberg’s few graduate students was Peter Bohm, who became one of the Department’s more influential professors in a later era, to which we now turn.

### The 1960s and 1970s: Expansion and change

In the early days of *Socialvetenskapliga institutet*, as the Department was called until 1964 (in English *the Institute for Social Sciences of Stockholm University*, according to Lundberg’s foreword to his doctoral dissertation, written in December 1936), the students were few and comparatively undemanding. The situation seems to more or less have remained like that throughout the 1940s and much of the 1950s. However, in the late 1950s that was about to change in many ways. Ideas about how to organize the education of future researchers were brought in from leading universities in the United States, where PhD course programmes were held. Assar Lindbeck, who returned from a two-year stay at Yale University, started by giving an extensive course on monetary theory one year, and one on fiscal policy the second year. The initiative was followed up by Karl Jungenfelt and Östen Johansson.

It may seem a minor thing to start giving courses for doctoral and licentiate students; yet, this change was probably instrumental in a shift of research focus from research topics

much influenced by leading persons connected with the National Institute of Economic Research to research topics that were instead influenced by international literature in economics and other intensively discussed topics. The courses were much appreciated by young researchers, who later became prominent in academia, such as Peter Bohm, Ingemar Ståhl, Alf Carling and persons who became prominent in politics such as Kjell-Olof Feldt.

One topic within economics that interested several young researchers, for example Peter Bohm and Karl-Göran Mäler, and that later became a very prominent research area at the Department of Economics, was welfare economics. An important early contribution to the field was made by J. de V. Graaff in 1957. Another influence was Rachel Carson's book *Silent Spring* (1962) in which she criticized the extensive use of pesticides, in particular DDT, which she claimed threatened the fauna. The book received much attention in public forums and awakened an interest in environmental issues in many economists. In 1974, Mäler published the book *Environmental Economics: A Theoretical Inquiry*, which became very influential.

In the 1960s, the number of students at universities increased rapidly, probably largely due to changes in the school system, which made many more young people eligible for university studies. This development coincided

with the period when the baby-boom generation born in the 1940s was leaving school. Hence, in the period 1956–1960 some 8,000 people received a secondary school degree. In the period 1961–1965 that number almost doubled to 15,000, and between 1966 and 1968 (which is only two years) it increased to 28,000. The volume of higher education expanded, and the number of students at the Department of Economics increased greatly. The Department moved from Odengatan 61 to Haggatan. Lectures took place in nearby cinemas, making good use of the newly invented overhead projector (Nycander 2005:167–168). In 1970, the Department was one of the first to move to the new Frescati campus, and has since then had its main location on floor 7 in building A in Södra huset.

A natural response to a strong increase in the number of students would have been a strong increase in the number of teachers and professors. However, that did not come through; instead, two research institutes were created. In 1962, Gunnar Myrdal was given a personal professorial chair as manager for the Institute for International Economic Studies, which he himself had started. In 1966, Rudolf Meidner became the manager of the Swedish Institute for Social Research. The former institute dealt mainly with macroeconomics and the latter with labour market issues. The two institutes attracted many promising young researchers.



The Department of Economics' version of the ubiquitous *Södra huset* corridor.  
(Photo: Mats Danielson)

In the late 1960s, two chairs in the Department of Economics received new incumbents, Lars Werin and Guy Arvidsson, who were both appointed in 1969. The Department then had three professors: Anders Östlund, Guy Arvidsson and Lars Werin. Werin received his doctoral degree in 1965 on the dissertation 'A Study of Production, Trade and Allocation of Resources', which was an input-output study of the Swedish economy in the spirit of the seminal contribution of Nobel laureate Wassily Leontief's

'Studies in the Structure of the American Economy' (1953). Guy Arvidsson and Lars Werin both had their academic backgrounds from Lund, where they had both had Johan Åkerman as dissertation advisor. In addition, Arvidsson, who was ten years senior to Werin, had succeeded Åkerman when he retired, but later left Lund for the chair in Stockholm.

Guy Arvidsson died prematurely in 1973 (aged 55) and was succeeded by Peter Bohm. Bohm's licentiate thesis 'External economies in

production' (1964), in which he thanks "my teachers, Erik Lundberg and Ingvar Svennilson", is a theoretical examination of optimal pricing under different forms of market imperfections. At quite an early stage, Bohm moved into the new research area of experimental economics, and became influential within field experiments, always with a focus on microeconomic policy and welfare economics (see Dufwenberg and Harrison, 2008, for a description of Bohm's research contributions within the area of field experiments). Östlind retired in 1979 and was succeeded by Claes-Henric Siven, who received his doctoral degree in 1975 on the dissertation 'A Study in the Theory of Inflation and Unemployment'. In addition to labour market functioning and wage setting, which was also the area of his dissertation, Siven has conducted research within the history of economic analysis and economics of crime.

The research in the department during the 1970s and 1980s was informally organized into three different groups, each with one academic leader and several PhD students. One group was headed by Lars Werin and another by Peter Bohm. The third group was headed by Alf Carling who was associate professor and in charge of a large research project dealing with studies of the energy system, a field that was topical after the first oil crisis in 1973.

Werin's group was not oriented towards any particular field of economics. It produced some

very important dissertations such as those by Claes-Henric Siven, Bo Axell and the one written jointly by Thomas Franzén, Kerstin Löfgren and Irma Rosenberg. The internationally most well-known of those is probably Bo Axell. He made important contributions to search theory. By modelling how imperfect information about job opportunities opens up for wage bargaining, search models provide explanations for the existence of unemployment in equilibrium. The dissertation by Franzén, Löfgren and Rosenberg on the effects of the public sector's activities on the income distribution received international attention. Both Franzén and Rosenberg became deputy governors of Sveriges Riksbank (the Swedish Central Bank). The dissertation by Siven was an important specimen when he applied for the chair after Östlind.

Bohm's group was, in contrast to Werin's group, much more focused on one field of economics, namely welfare economics. A number of dissertations were produced in that group and also works by more senior economists such as Roland Andersson who later was appointed professor of real estate economics at the Royal Institute of Technology (KTH). The research in the early years of the 1970s was in the field of transport economics. It involved central elements of welfare economics such as policy alternatives when dealing with increasing returns to scale, public goods and externalities. Bohm was the editor of an influential book

to which he also contributed, ‘Transport Policy and Economics’ (*Transportpolitiken och samhällsekonomin*), which had impact on a major government inquiry about transport policy headed by Alf Carling (*Vägtrafiken. Kostnader och avgifter*, SOU 1973:32). Many of the PhD students who participated in Bohm’s group later went on to careers within public administration. A few stayed in academia, like Hans Wijkander and Jan-Erik Nilsson. Wijkander was appointed professor first at the Swedish Institute for Building Research and the Royal Institute of Technology (KTH), and later at the Department of Economics at Stockholm University where he held the position of department chair for several years. Nilsson is professor in transport economics at KTH.

The group around Alf Carling was somewhat separate from the rest of the Department socially as well as physically, being located across the road from the rest of the Department. Those two factors, together with a more or less pronounced mission to produce policy-relevant investigations into energy related issues, probably made it difficult to produce dissertations. Not many PhD dissertations came out from that research group. There are, however, some exceptions. A number of PhD students defended their theses when the group was about to be dissolved in the 1980s.

The academic field of economics has always been closely in touch with policymakers in the

government sector. To a high degree this has also been the case for Stockholm University’s Department of Economics. The research focus in the Department at different points in time has reflected general policy concerns, partly as a result of this contact. The list of publications in the ‘Stockholm Economic Studies’ series, published within the *Acta Universitatis Stockholmiensis* in 1929–1970, shows a concern with macroeconomic issues as well as with fiscal and monetary policy until the mid-1960s. This is not surprising, given that a number of the leading researchers during that time had been or were connected with the National Institute of Economic Research (KI), which lies under the Ministry of Finance. The latter part of the 1960s represents a change in that the Department became more oriented towards microeconomic policy and welfare economics, and the link with KI was broken. The 1960s were characterized by high growth and expansion of the public sector, which generated demand for the advice of economists on, for example, transport policy. After the oil crises in 1973 and 1979, the referendum on nuclear power in 1980, and the general rise of concern about energy and environment, energy economics and environment economics became important research areas.

The shift in research focus in the late 1960s also brought with it a more fundamental change in research questions. In the earlier period, the

main challenge was to find out more about the functioning of the economy in its many aspects, from the possible causes of business cycles to the importance of forestry in the Swedish economy. This approach is called ‘positive economics’ by economists, and economic models here serve the important function of structuring arguments and clarifying mechanisms of interest. Welfare economics, in contrast, is much more concerned with how things should be, and involves making recommendations for policy (‘normative economics’). These recommendations take their point of departure in a model which presumes to describe the important aspects of the market in question, or perhaps even the whole economy. In evaluating policy recommendations arrived at by this method, the correctness of the model and its assumptions become crucial issues.

In comparison with most present-day academic economists, the welfare theorists of the 1960s and 1970s were quite ambitious concerning the possibilities for economic theory to deliver clear and detailed policy recommendations. This may have been one reason behind the at times considerable controversy over whether economic theory really did, or does, provide a good enough model to motivate such a research agenda. The debate over the book by J. de V. Graaff, ‘Theoretical Welfare Economics’, and the many reprints of this book since its first publication in 1957, provide some

indication of the discussions at the time. Directly after its first publication, the book was reviewed in the top economics journals by Franklin Fisher, Paul Samuelson, Murray Kemp, William Baumol, I.M.D. Little, and others. An interesting and clarifying review by Siven, landing on the side of positive economics, appeared in the ‘Swedish Journal of Economics’ in 1965, after the book’s first reprinting. (Intriguingly, Graaff himself seems to have left academic economics soon after having so successfully stirred up the debate.)

### **Recent and present times**

In the middle of the 1990s, the Department had entered a bit of a slump. Werin was retiring and the successor to his chair, which was joint with the Department of Law, was on permanent leave and not taking up the position as full-time professor. The research funds for energy applications had dried up and Carling had left the Department, first to KI and later to become an economic advisor to the Mandela government in South Africa. The improvements in graduate student financing meant that the doctoral students no longer took the responsibility for teaching that they had done in previous times. This was obviously in many ways a good change, but meant that most of the teaching was now done by temporary replacement teachers. These young people did good work, but the necessary long-term devel-

opment of courses in response to the research advancement in the different fields of the discipline could not occur.

To move the Department from this state, it was necessary to recruit people who would be qualified and interested in doing both research and teaching. Moreover, it was essential to attract a large enough number of people to create a research environment. The construction of academic positions in Sweden at the time, where the choice was basically between full-time teaching positions and full-time research positions, was not well-suited to achieve this – the full-time research positions were too few and the full-time teaching positions were not attractive enough. The slow and unpredictable hiring process used in Swedish universities did not help in this case. However, in the mid-1990s a change in the way the Employment Protection Act was implemented in the universities made it temporarily possible to create attractive positions. This opportunity was used by Wijkander to enable the Department to recruit young promising PhDs who were given positions that were split between teaching and research. The first who were recruited in that manner were Jonas Häckner and Sten Nyberg. Both have been promoted to professors and Häckner is the current department chair. After them Michael Lundholm was recruited. He was also promoted to professor and is currently (May 2014) on leave to be undersecretary at

the Ministry of Finance. In the years following 1996, a number of promising young persons have moved to the Department from other universities and taken up professorial positions at the department. Some have also left the Department such as Martin Dufwenberg, who moved to the University of Arizona, and Karolina Ekholm and Martin Flodén, who both have become deputy governors at Sveriges Riksbank.

An important change in the Swedish academic system is the possibility of promotion from senior lecturer to professor. This made teaching positions more attractive in themselves, and contributed to changing the focus of academic competition from being mainly within the Department (for docent positions and professorial chairs), to being outside and between departments (for good research environments, high rankings, the best junior researchers, etc.). An effect of that change is that the number of full professors at the Department has increased substantially from three full professors in the mid-1990s to now 17 (including professors on leave). The change in competitive focus may also have contributed to making the academic atmosphere more pleasant than in the old days – boosting one's own department can seem more productive than criticizing one's colleagues. This does not and should not remove the critical attitude and habit which must always be an important part of academia, but the balance between criticism and cooperation may be better nowadays.



Departmental coffee breaks and collective cake eating is advertised by the ringing of the bell.  
(Photo: Mats Danielson)

In the Department of Economics at Stockholm University the policy is that all faculty members should do both teaching and research and be free to choose their preferred area of research. Everyone should teach basic courses as well as specialized courses in their area of choice and should have access to their schedule long in advance. We make it easier for both female and male faculty to combine work and parenthood, for example by using long planning horizons,

opportunities to plan working time, and by not scheduling meetings and seminars in the early mornings or late afternoons. Also, we make sure that the doctoral students and post docs on stipends do not miss out on their rights to parental leave. Both women and men in the Department take out parental leave and sick child-days.

The present Department of Economics has about 30 faculty members with at least a PhD degree, 50 graduate students, 100 master stu-

dents and well over 1,000 students in introductory and intermediate courses each semester. Of the 17 full professors four are women. Most of the faculty members have their doctoral degrees from other institutions of higher learning than Stockholm University, an indication of the growth of academic mobility and contact areas. A sign of the low level of academic endogamy at the Department is that there is only one straight link to the early Stockholm school economists: Wijkander, who wrote his doctoral dissertation on second best pricing within public economics, had Peter Bohm as his advisor. He can thereby count Erik Lundberg as his ‘academic grandfather’, whom he never met.

The current research at the Department covers a wide range of fields from monetary economics to social network theory. Within that wide span economic geography, public finance, financial markets, behavioural economics, political economy, labour markets, competition policy, development economics, economics of crime and education economics can be found. There has been an emphasized shift from theoretical methods into more empirical research. It can of course be expected that the range of research topics has increased since the number of researchers has increased substantially. A benefit of that is that the Department nowadays can offer a broad spectrum of courses and qualified advising of students at all levels.



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Proud exhibition of past and present professors at the Department of Economics. Recently, signs have been seen of a change in the gender ratio. (Photo: Mats Danielson)





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