

# Eurosclerosis and the Sclerosis of Objectivity: On the Role of Values Among Economic Policy Experts\*

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## 1. Tackling the Irrational Taboo

Schumpeter once observed that frequently economists, "not content with their scientific task, yield to the call of public duty and to their desire to serve their country and their age" by acting as policy experts and policy advocates (Schumpeter 1949, p. 346). This raises the issue discussed by Gunnar Myrdal (1958, p. 4) of whether social scientists can be practical and at the same time objective: "What is the relation between wanting to understand and wanting to change society? How can the search for true knowledge be combined with moral and political valuations?" Myrdal's questions point to serious but rarely discussed issues of objectivity and values when economists and other social scientists become involved in the making of public policy, often in areas of conflict between major interest groups in western societies (see also Myrdal 1929, 1958; Blaug 1992, Ch. 5).<sup>1</sup>

In everyday life the roles of the policy expert and the policy advocate tend to merge. This mixing can be understood in terms of Sen's distinction between basic values, supposed to apply under all conceivable circumstances, and non-basic values expected to hold only under specified factual circumstances (Sen 1970, p. 59). Policy making is typically concerned with non-basic values. Economists can change the goals and choices of policy makers by changing their views of what the facts are.

The frequent reliance on anecdotal evidence and misleading statistics by economic policy advisers has been noted from time to time (Stigler 1965; Rivlin 1986). Like bad weather, this situation has typically been accepted as a necessary evil. However, from the point of view of scientific progress as well as the democratic process, the intellectual responsibility of academic policy experts must be increased. With only the threat of losing intellectual credibility as a potential sanction, from time to time they should therefore be required to justify the empirical base for their policy advice *for a scientific audience*. A case study on the empirical support of policy advice provided by internationally prestigious and influential economists can be relevant for alerting the professional community as well as policy makers to problems of objectivity

among policy experts. The purpose of this paper is to provide such a case study. The paper thus confronts what Myrdal (1958, p. 4) called "the irrational taboo" against analyzing the role of valuations among social scientists.

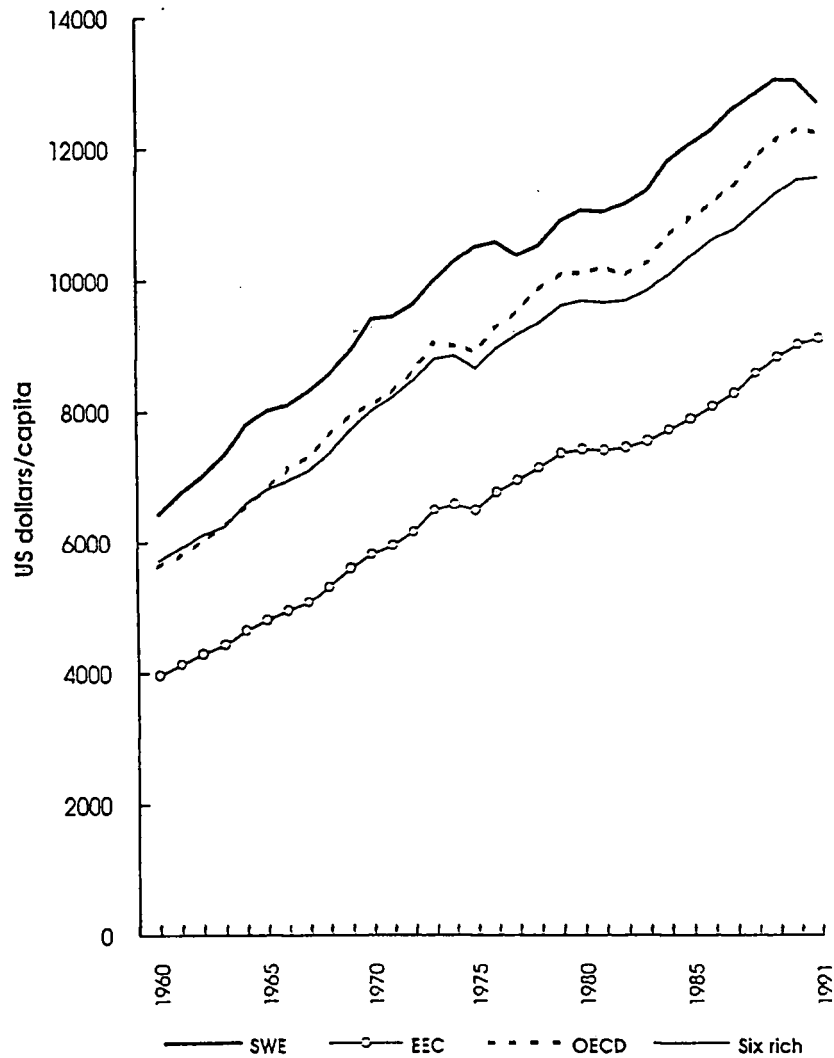
The case study is of Sweden, where economics professors and other university-affiliated economists have exerted a major influence on public policy making by claiming empirical data to clearly show that as a result of its high taxes and large welfare state since about 1970 Sweden's economic growth has seriously fallen behind that in other comparable countries. These economists have thus claimed empirical support for what I here will refer to as the Eurosclerosis diagnosis, assuming serious negative effects on economic growth of the welfare state, taxation, and many other forms of political interventions into market forces.<sup>2</sup> Their diagnosis was summarized in captions such as "*The welfare state – a threat to employment and growth*" (Henrekson *et al.* 1994, p.8, italics in the original) and "*Swedosclerosis – A Particularly Malign Form of Eurosclerosis*" (Ståhl and Wickman, 1993).

It goes without saying that political interventions into markets via taxation or in other forms may have negative consequences for economic efficiency and growth. The purpose of this paper is however not to discuss the sign or size of these effects or to evaluate if the policies based on the Sclerosis diagnosis were good or bad. *The central question of this paper is instead whether the empirical evidence presented by these Swedish economists warrants the Sclerosis diagnosis upon which they based their policy recommendations.*<sup>3</sup> In this context there are two minimum objectivity requirements. Firstly, policy experts must avoid standard methodological pitfalls and use normal care in analyzing data. Secondly, they must take account of comparative growth data from OECD sources and easily available scientific publications in an unbiased way. I begin by discussing the empirical evidence presented in support of the Sclerosis diagnosis. One set of questions concerns methodological problems and care in the analyses of the empirical data. A second set concerns biases in the selection among available evidence of relevance for the Sclerosis hypothesis. In the concluding section, the Swedish experience is discussed in the broader context of the role of values and the problem of objectivity in the social sciences.

## 2. Methodological Problems

In Sweden economics professors have long acted as policy advisers.<sup>4</sup> The setting up of the Nobel Prize in economics in the 1960s greatly enhanced the national as well as the international prestige of Swedish economists. The Sclerosis diagnosis became established in Sweden already in the mid-1980s. Of significance in this process was a 1985 series of newspaper articles by professor Assar Lindbeck arguing for this view.<sup>5</sup> In this context it must be remembered that the majority of Swedish university-affiliated economists did not publicly take a stand on the Sclerosis hypothesis. During the decade up to mid-1994, however, those who did supported it practically unanimously. This group included several of the most prestigious and best-known economics

Figure 1. GDP per capita (1985 prices and exchange rates) 1960-1991 in the OECD, EEC, Sweden and six rich western European countries.



professors and economic advisors.<sup>6</sup> The unanimity among these academic economists was seen by the Prime Minister as strengthening his policy position.<sup>7</sup> Some questioning of the Sclerosis hypothesis however came from abroad (Bosworth and Rivlin 1987).

The academic proponents of the Sclerosis diagnosis have received extensive media coverage and have provided the intellectual underpinnings for basic policy changes since the mid 1980s. Thus leading politicians in all the major Swedish parties came to reverse their previous assumptions and have largely accepted the Sclerosis interpretation. A basic theme running through the memoirs of Kjell-Olof Feldt, Minister of Finance in the Social Democratic government 1982-1990, is that Sweden's "fundamental problem was the low growth of productivity and the lack of efficiency in the utilization of economic resources" (Feldt 1991:p. 432, cf also pp. 254, 286-87, 296, 304, 325, 336, 382, 391 and 429). On the basis of such a diagnosis, major structural reforms were initiated. Thus, for example, Social Democratic as well as Conservative-Center governments have used the assumed low growth as one of the major arguments for the lowering of marginal tax rates and cutbacks in the welfare state.

The evidence claimed by Swedish economists in support of the Sclerosis diagnosis has been almost exclusively based on comparative macro-level growth data.<sup>8</sup> The macro-level effects have been claimed to be large indeed. Hansson's (1984) estimate that in Sweden as a result of tax wedges on labor supply, a marginal increase in taxes by one dollar to finance money transfers to households will create a total cost of 3-7 dollars, has often been taken as a fact describing the seriousness of the problem (for example, Lindbeck 1985).

Since 1991, Sweden has suffered a severe economic recession. In the concluding section, I will briefly discuss the causes for this economic crisis, which came well after the Sclerosis diagnosis had been established. As a background for the following discussion, let us look at comparative OECD data on GDP growth for 1960-1991.<sup>9</sup> *Figure 1* shows the development of GDP per capita (in 1985 prices and exchange rates) 1960-1991 in Sweden, the OECD, and the EEC.<sup>10</sup> The figure also gives the (unweighted) average for the six European countries (Denmark, France, Germany, the Netherlands, Switzerland, and the United Kingdom), which around 1970 together with Sweden had the highest levels of GDP per capita, and from this point of view thus similar startingpoints for relative growth in the following period.<sup>11</sup> As in the other OECD countries, growth rates in Sweden declined after the 1973 "oil shock," in Sweden however two years later than in the OECD. Sweden's absolute advantage over the OECD increased slightly from 1960 to the mid-1970s, then decreased. Its absolute advantage over the EEC and the other six rich countries tended to increase up to 1990.

### 2.1 GDP Growth Comparisons

For several years, the only empirical fact advanced as evidence for the Sclerosis diagnosis was a comparison between the percentage growth rate of real GDP since 1970 in Sweden and the OECD (Bergman *et al.* 1990; Bergman *et al.* 1991a; Henrekson *et al.* 1992; Henrekson 1992; Södersten 1992; Henrekson *et al.* 1994).<sup>12</sup> Such a comparison indicates, for example, that between 1970 and 1989 the average annual growth of the volume of the GDP was 3.0 percent in the OECD but only 2.0 percent in Sweden. However the Sclerosis

spokesmen never reported *figures in the same table* showing that in the period 1970-89, besides Sweden, also other rich West European countries had GDP growth rates below the OECD average, for example, Switzerland (1.6%), Denmark (1.9%), the Netherlands (2.3%), Germany (2.3%), the United Kingdom (2.4%), and France (2.7%).<sup>13</sup> Since many rich countries with greatly differing types of tax and welfare systems have had growth rates below the OECD average, the Sweden-OECD comparison can not support the Sclerosis diagnosis.

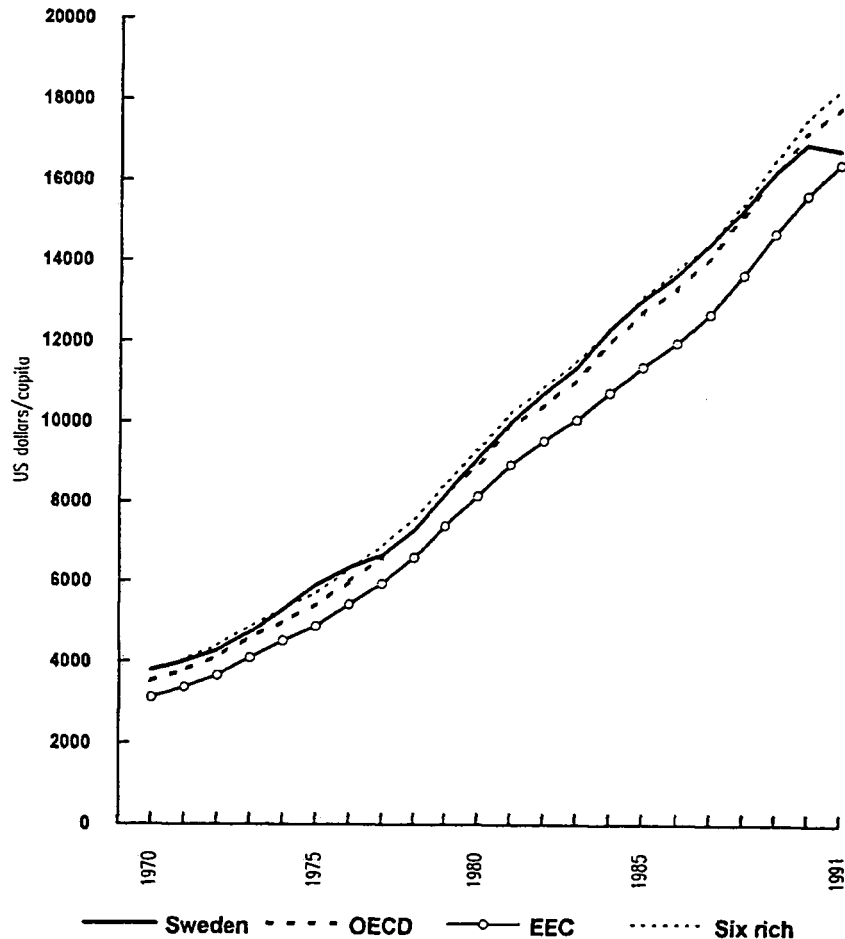
Subsequently Sweden's relative GDP growth was compared with figures for OECD-Europe, EEC, and the "Smaller European Countries" as defined by the OECD (for example, Eklund *et al.* 1993), and was seen as alarmingly low. This type of growth comparisons have also found their way into elementary economics textbooks (Eklund 1994). However, all the aggregates used in these comparisons include several relatively poor countries, such as Turkey, Greece, Portugal, Spain, and Ireland. Therefore they have average GDP per capita levels considerably lower than that in Sweden, which in 1970 was one of the richest of the OECD countries. As is wellknown, the catch-up/convergence hypothesis predicts that *ceteris paribus*, poorer countries will tend to have higher relative growth rates than richer ones (Abramovitz, 1988, 1990; Baumol, 1986; Baumol, Blackman, and Wolf 1989, Chap 5; Dowrick and Nguyen 1989; Korpi 1992; Sala-i-Martin 1994).<sup>14</sup> If we are to make causal interpretations based on comparisons of percentage growth rates among the OECD countries, we must therefore in one way or another control for differences in initial levels of GDP per capita between countries.<sup>15</sup>

However, Sweden's Sclerosis spokesmen appear to have been unaware of the catch-up/convergence hypothesis and consistently failed to control for the effects of initial GDP-levels on percentage growth rates. In an intellectual somersault they instead used initial differences in GDP per capita levels to corroborate their diagnosis in terms of absolute growth. Thus they applied the relatively high *percentage* growth figures of OECD-Europe and the EEC from 1970 to 1990 to Sweden's higher *initial level* of GDP per capita and calculated how much higher Sweden's GDP per capita would have been in *absolute* terms if Sweden's percentage growth rate had been the same as in OECD-Europe or the EEC. In their presentations they then stated that Sweden lagged behind OECD-Europe and the EEC in terms of *absolute* growth of GDP per capita (Henrekson *et al.* 1992, Ch. 7; Henrekson 1992, Ch. 2). Thus they ignored published OECD data showing that in the period 1970-1990, the absolute growth of GDP per capita in Sweden, although being somewhat lower than the OECD average, was in fact higher than in the EEC and OECD-Europe.<sup>16</sup>

## 2.2. The Lindbeck Commission

The most prestigious support for the Sclerosis diagnosis was provided by a commission of public inquiry appointed by the government to analyze the background to the deep post-1991 economic crisis and to suggest remedies. The commission was headed by professor Assar Lindbeck and included four other economists: Torsten Persson (Stockholm), Agnar Sandmo (Oslo), Bir-

Figure 2. GDP per capita in purchasing power parities 1970-1991 in Sweden, the OECD, EEC and six rich west European countries.



gitta Swedenborg (Stockholm), and Nils Thygesen (Copenhagen) as well as a political scientist, Olof Petersson (Uppsala). According to the Lindbeck Commission, because of "deficiencies in the general economic, social, and political milieu," Sweden's economic growth has seriously lagged behind that in other comparable countries (Lindbeck *et al.* 1993, p. 11).<sup>17</sup> In an English summary of this report, the authors argue that "Sweden's problems are largely due to distorted markets, aging institutions and ossified decision making mechanisms, which have not been conducive to favorable long-run economic outcomes" and state that "Sweden's chronic (long-term) problems are revealed in disappointingly low efficiency in both the private and the public sectors" (Lindbeck *et al.* 1993, p. 220). Based on this diagnosis, the Lindbeck Commission advanced a catalogue of far-reaching policy proposals, which received an extreme media coverage.

The Sclerosis diagnosis of the Lindbeck Commission stands on only two legs of empirical evidence. One of these is a table giving the ranks of Sweden and the other OECD countries for 1970 and 1991 in terms of the growth of GDP per capita adjusted by purchasing power parities. According to this indicator Sweden drops from third place in 1970 to fourteenth place in 1991 (Lindbeck *et al.* 1993, p. 13). The most likely symptom of "chronic, long-term problems" would appear to be a gradual retardation accumulating over the years. By presenting Sweden's relative positions only for 1970 and 1991, the Lindbeck Commission implies but does not show such a gradual decline congruent with its diagnosis.

The full set of OECD data indicate that for the major part of this period, between 1977 and 1990, Sweden's ranking was relatively stable, oscillating between sixth and eighth place.<sup>18</sup> *Instead of a gradual decline congruent with the arguments of the Lindbeck Commission, the major drop comes during 1991, the last year of the series.* The annual figures on PPP-adjusted GDP per capita, which the Lindbeck Commission does not refer to although they were found in the same source, indicates that from 1970 up to 1989-90, the Swedish development quite closely follows that in the EEC as well as the average for the six rich European countries (*Figure 2*). Sweden's relatively small absolute advantage over the OECD observable in 1970 largely reflects the extreme Swedish growth peak that year.<sup>19</sup> This absolute advantage disappears in 1989 and changes to a slight disadvantage in 1990. Sweden's absolute advantage over the EEC, however, increases somewhat up to 1990.<sup>20</sup> Published OECD data ignored by the Lindbeck Commission thus do not square with its diagnosis of long-term Swedish growth problems.

Furthermore, the Lindbeck Commission runs into the convergence problem without noticing it. Even if an originally rich country maintains the same absolute difference to the OECD average, in relative terms this difference will decrease because of the marked increase in PPP-adjusted GDP per capita levels. Thus while Sweden's position in relation to the OECD average declined by 14 percentage points from 1970 to 1991, the Commission failed to note that according to their own figures the relative position of, for example, Switzerland fell by 23 and of the United States by 16 percentage points. Here the catch up/convergence effect precludes causal interpretations but they have been frequently made (Henrekson *et al.*, 1992, p. 96; Henrekson 1992, p. 19; Lindbeck *et al.* 1993a). Thus gives away one of the two legs of empirical evidence presented by the Lindbeck Commission in support for its policy advice.

As a second leg of empirical evidence, the Lindbeck Commission compared productivity increases in Sweden and in the OECD in terms of GDP per employed person in the total economy, that is including the public sector. Sweden follows UN recommendations of setting productivity growth in the public sector equal to zero in its national accounts. The Commission failed to take into account well-known facts about Sweden's exceptionally large increase in government employment and selected an indicator which is biased in favor of the Sclerosis diagnosis (Korpi 1992, Chap. 4).<sup>21</sup> Other more comparable produc-

tivity indicators do not show the same relative decline (cf below). Thus also the second leg of the Lindbeck Commission's empirical support gives away.<sup>22</sup>

In their English presentation of the Commission's report, the authors attempt to support their diagnosis by the often-made argument that since 1970, Sweden's growth of output in the manufacturing sector has been below the OECD average (Lindbeck *et al.* 1993b, p. 221 and 1995, p. 9; also Eklund 1994). Again, however, causal interpretations are unwarranted. In the period 1973-89, the growth rate of manufacturing output in Sweden (1.5%) was at the same level as the average for the above-mentioned six rich European countries (1.3%) (Korpi 1992, pp.71-73). The OECD average is pulled up by Japan, North America, and the less rich European countries.<sup>23</sup>

### 2.3. Systematic Errors

A very large part of the claims by academic economists for empirical corroboration of the Sclerosis diagnosis has been based on what – with an understatement – can be called careless analyses. To alert international readers to the rather astounding nature of this carelessness, I will here give one example. In the 1990 yearbook from the influential Center for Business and Policy Studies (SNS), a group of economics professors and university-affiliated economists presented a table claimed to support the Sclerosis diagnosis. The table gives the average annual growth rates of GDP per capita for Sweden, the United States, Germany, and the United Kingdom during four time periods before 1870-1973 and two time periods thereafter (*Table 1*). Under the caption "*Sweden first in the lead and then in the rear*"<sup>24</sup> the authors summarize the table in the following way: "Sweden is highest in the growth league in all time periods up to the beginning of the 1970s. Thereafter Sweden falls into the rear" (Bergman *et al.*, 1990, p. 15).

Quite apart from the question of the relevance of the above table for the Sclerosis diagnosis, professors with experience in correcting student papers will quickly note that the summary of the table made by the authors is wrong for four of the six time periods.<sup>25</sup> As has been documented elsewhere, this is but one example of widespread errors in the handling of empirical data by the Sclerosis spokesmen (Korpi 1992). It is significant that these errors are not

Table 1. GDP per Capita in Four Countries 1870–1988. (Average Annual Percentage Change).

	1870– 1895	1896– 1914	1920– 1939	1948– 1973	1974– 1981	1982– 1988
Sweden	1.69	2.37	3.17	3.26	1.00	2.31
United States	1.95	1.81	0.84	2.23	1.42	3.22
West Germany	1.36	0.77	3.96	5.44	2.26	2.42
United Kingdom	0.82	0.78	1.38	2.49	0.93	3.06

Source: Bergman *et al.* 1990, p. 15.



randomly generated by individual slips, instead they reflect a systematic bias in favor of the Sclerosis hypothesis.

### 3. Biased Evidence

The Sclerosis spokesmen have presented a clearly biased selection of available evidence and data of relevance for their diagnosis. In terms of bias in references to published research, one example is sufficient. A survey claiming to "summarize the most important results" from comparative studies of the effects of public sector size on economic growth in the OECD countries came to the conclusion that "practically all studies" show this effect to be negative (Henrekson *et al.* 1994, pp.47-49). However, in good economics journals it is easy to find studies which do not give clear support for this conclusion, such as Kormendi and Meguire (1985), Ram (1986), Conte and Darrant (1988), Rao (1989), Dowrick and Ngyuen (1989), Levine and Renelt (1992), Levine and Zervos (1993), and Easterly and Rebelo (1993). The Sclerosis spokesmen have not initiated discussions on any of these studies.<sup>26</sup>

Table 2. Growth of Real GDP per Capita in the OECD Countries 1973-1991 (Percent)

	1973-79	1979-89	1973-89	1990	1991
Norway	4.4	2.6	3.1	1.4	1.4
Ireland	3.3	2.7	3.0	8.7	2.0
Japan	2.5	3.4	3.0	4.9	4.1
Finland	1.9	3.2	2.8	-0.1	-6.9
Italy	3.2	2.3	2.6	2.0	1.2
Canada	2.9	2.0	2.4	-2.0	-3.2
Turkey	2.9	1.9	2.4	6.9	-0.2
Austria	3.0	1.9	2.3	3.3	1.6
Belgium	2.1	1.9	2.0	2.9	3.5
France	2.3	1.6	1.9	1.7	0.6
Germany	2.5	1.6	1.9	3.1	2.4
United Kingdom	1.5	2.1	1.9	0.2	-2.2
Spain	1.1	2.2	1.8	3.4	2.2
Denmark	1.6	1.8	1.7	1.6	1.0
Greece	2.2	1.2	1.7	-1.1	0.5
Portugal	1.3	2.1	1.7	4.2	2.1
Sweden	1.5	1.8	1.7	0.6	-2.4
Australia	1.5	1.7	1.6	-0.2	-2.7
Netherlands	1.9	1.0	1.4	3.2	1.5
United States	1.4	1.4	1.4	0.2	-2.4
Switzerland	-0.1	1.7	1.0	1.2	-1.0
New Zealand	-0.2	1.2	0.7	-1.3	-1.6
OECD	1.9	1.9	1.9	1.4	-0.4
Six Rich European Countries*	1.6	1.6	1.6	1.8	0.4

\* Denmark France, Germany, the Netherlands, Switzerland, and the United Kingdom.  
Source: 1973-79: OECD, *Historical Statistics 1993*; table 3.2, 1973-91: OECD, *National Accounts 1993*, vol. 1; Sweden 1990 and 1991, *Revised National Accounts, 1992*.

Biases in the selection of basic data on economic growth from annual OECD publications are only too easy to demonstrate.<sup>27</sup> *Table 2* shows annual increases 1973-1991 of GDP per capita in the OECD countries, ranked according to average growth rates 1973-89.<sup>28</sup> Since the international recession starting in 1990 hit the OECD-countries with various degrees of delay, period averages are based on data for the years up to 1989.<sup>29</sup> In 1973-89, the average increase in GDP per capita in Sweden (1.7%) was relatively close to the OECD average (1.9%). Using the comparison with the other six rich European countries as a crude control for the catch-up factor, we find that in this group the unweighted average percentage growth rate (1.6%) was at the Swedish level. None of the other originally rich European countries had markedly higher growth rates than Sweden, but the Swiss growth rate was lower.

As a result of the international recession, in 1990 and 1991 low or negative growth rates were noted in Sweden, the United States, the United Kingdom, Finland, Greece, Australia, Switzerland, New Zealand and Canada.<sup>30</sup> Partly because of the boom generated by German unification, the onset of the recession was delayed in several of the continental European countries. The growth rates for 1990 and 1991 are therefore not easy to use in a comparative discussion of the Sclerosis diagnosis (cf below).

Table 3. Growth of GDP per Capita in Purchasing Power Parities in the OECD Countries 1973-1991 (Percent).

	1973-1989	1989-91
Norway	9.5	5.6
Ireland	9.4	10.1
Japan	9.4	8.8
Finland	9.2	0.5
Italy	9.0	6.0
Turkey	9.0	7.6
Austria	8.7	5.9
Canada	8.7	1.5
Belgium	8.3	7.2
Germany	8.3	7.0
France	8.2	5.7
United Kingdom	8.2	1.8
Denmark	8.1	6.2
Sweden	8.0	1.7
Australia	7.8	2.7
Portugal	7.8	9.3
Spain	7.8	8.1
Netherlands	7.7	5.6
Greece	7.7	4.1
United States	7.7	3.0
Switzerland	7.3	4.5
New Zealand	6.9	2.7
OECD	8.2	4.8
Six Rich European Countries	8.0	5.1

Source: OECD, *National Accounts*, 1993, pp. 146-147.

In the 1973-89 period, the average annual growth of PPP-adjusted GDP per capita in Sweden (8.0%) was close to the OECD level (8.2%) and the same as the average for the six rich European countries (*Table 3*).<sup>31</sup> Again, among the six rich European countries, markedly higher growth rates than the Swedish one were not found. In 1989-91, however, Sweden's growth was low, at the level of those in the United Kingdom, Finland, and Canada.

For the period 1973-89, OECD figures on GDP per capita percentage growth rates, whether based on exchange rates or PPP-adjusted, thus indicate that Sweden's growth performance has not been far from the OECD average and at roughly the same levels as that in the six other originally rich West European countries.

To be of relevance for the Sclerosis Diagnosis, cross-national comparisons of productivity growth should concentrate on the private sector.<sup>32</sup> The Sclerosis spokesmen consistently ignored the table on productivity growth in the business sector published twice a year in OECD's *Economic Outlook*. These tables indicate that in the period 1973-89, in the business sector Swedish labor productivity growth has been at approximately the same level as in the OECD (*Table 4*).<sup>33</sup> Thus in 1973-79 output per employee in the business sector increased by 1.4 percent in the OECD and by 1.5 percent in Sweden. In this period Sweden's productivity growth was however lower than the average of the other six richest European countries, something which primarily reflects a specifically Swedish productivity decrease in 1975-77.<sup>34</sup> Yet it was higher than in the United States and Switzerland and at about the same level as in

Table 4. Growth of Labor Productivity (Output per Employee) in the Business Sector in the OECD Countries 1973-1989.

	1973-79	1979-89
Finland	3.2	3.8
Spain	3.5	3.3
Japan	2.9	3.0
France	3.0	2.6
Belgium	2.8	2.4
Denmark	2.6	2.1
Italy	2.9	2.1
United Kingdom	1.6	2.1
Austria	3.2	2.0
New Zealand	-1.2	1.8
Sweden	1.5	1.7
Germany	3.1	1.6
Switzerland	0.7	1.6
Canada	1.5	1.4
Netherlands	2.8	1.5
Australia	2.2	1.1
USA	0.0	0.8
Norway	0.3	0.6
Greece	3.3	0.4
OECD	1.4	1.6
Six Rich European Countries	2.3	1.9

Source: OECD, *Economic Outlook*, 1991 (49), p. 120.

Canada and the United Kingdom. In the 1979-89 period, Sweden's output per employee increased by 1.7 percent, that is at about the same rate as in the OECD (1.6%) and the other six rich European countries (1.9%). Again Sweden's labor productivity growth was higher than in the United States and at about the same level as in Germany, Switzerland, Canada, and the Netherlands.

Since the service sector, with relatively low productivity growth, makes up a smaller proportion of the business sector in Sweden than in many other countries, business sector comparisons introduce some bias against the Sclerosis diagnosis. The internationally most comparable productivity measures refer to the manufacturing sector.<sup>35</sup> However, here problems of data reliability are especially serious.<sup>36</sup> In the Swedish case problems are aggravated by a break in the labor productivity series giving somewhat lower estimates for the period after 1985.<sup>37</sup> Since 1950, Japan has had an exceptionally rapid productivity growth. I will here limit comparison of period averages to the other ten countries for which comparable data are available, that is Belgium, Canada, Denmark, France, Germany, Italy, the Netherlands, Norway, the United Kingdom, and the United States.

During the 1973-89 period the average growth of manufacturing productivity per hour worked in the above ten countries was higher than in Sweden (Table 5). A specific Swedish lag appeared in 1975-77, when policy makers expected the downturn after the first "oil shock" to be relatively short and induced manufacturing firms to retain surplus labor. This "bridging-over" policy decreased measured labor productivity but also open unemployment. In the following upswing, it facilitated a productivity increase when firms could make use of hoarded labor.

The labor productivity increase in Sweden 1977-79 was at the same level as the average for the other ten countries. Higher increases were evident in Bel-

Table 5. Growth of productivity in manufacturing per hour worked in ten OECD Countries, Sweden, and Japan 1973-1989 (Percent).

	1973-89	1973-77	1977-89	1980-89
Belgium	5.3	6.3	5.2	4.9
Italy	4.7	4.7	4.7	3.9
Netherlands	4.2	5.3	3.6	3.4
France	3.9	4.6	3.7	3.8
United Kingdom	3.4	1.2	4.1	5.3
Germany	2.7	4.4	2.2	2.5
USA	2.5	1.9	2.7	3.6
Norway	2.3	1.2	2.6	2.9
Denmark	2.2	4.6	1.4	0.6
Canada	1.6	2.6	1.3	2.1
Average	3.3	3.7	3.2	3.3
Sweden	2.7	1.5	3.1	2.8
Japan	4.5	4.2	4.6	4.1

Source: U.S. Department of Labor, Bureau of Labor Statistics, December 1991.  
Sweden: National Accounts 1993

gium, Italy, the United Kingdom, the Netherlands, and France, comparable or lower growth rates in the United States, Germany, Norway, Denmark, and Canada. For the 1980-89 period, when the main effects of previous labor hoarding should have been exhausted, the Swedish productivity increase was somewhat lower than the ten-country average. Yet it was higher than or at the same level as productivity increases in Denmark, Canada, Germany, and Norway.<sup>38</sup> In Sweden, it is thus difficult to discover clear evidence for a long-term labor productivity lag in manufacturing of the type likely to have been caused by distorted market mechanisms.

#### 4. Highly Precarious Objectivity

Needless to say like other Western countries, since the early 1970s Sweden has had serious economic problems.<sup>39</sup> Nevertheless, given the relatively large and often unrecognized unreliability in macroeconomic growth measures, up to about 1990 postwar Swedish GDP per capita growth appears to have been roughly similar to that in other originally rich European countries. Available empirical data thus fail to corroborate the Sclerosis diagnosis.

Is the dramatic decline in Sweden's economic growth after 1990, a decline which came well after the general acceptance of the Sclerosis hypothesis, a lagged Sclerosis effect? In this context a more realistic alternative hypothesis would appear to be that this rapid decline primarily reflects a combination of the international recession and of national economic policies of the late 1980s and early 1990s, some of them inspired by the Sclerosis diagnosis. A tax reform and other political measures increased the household savings ratio by not less than 13 percentage points between 1989 and 1992, thus drastically curtailing internal demand.<sup>40</sup> Banks and international currency transactions were deregulated, and the exchange rate fixed to the ECU. After 1990, the top priority in Swedish economic policy was no longer full employment but instead low inflation. Major financial turbulence was created and mass unemployment returned.

The Swedish economists, who in Schumpeter's words yielded "to the call of public duty and to their desire to serve their country and their age," convinced Sweden's political decisionmakers to base their policies on the Sclerosis diagnosis. They were thus successful in "Turning Sweden Around," to borrow the title of the Lindbeck Commission's report. From an intellectual perspective this exploit is however devalued by the fact that their policy advice was based on causal analyses which can profitably be used as warning examples in freshman methodology courses. The work of these economists thus shows serious symptoms of an objectivity sclerosis. The fact that this group includes members of the Nobel Prize Committee in economics indicates that this type of sclerosis has not been limited to the lower ranks of the profession.<sup>41</sup>

The problems of objectivity identified in the Swedish case would appear to have considerable relevance in time and space. Arguments similar to those made by Swedish Sclerosis spokesmen since the mid-1980s have appeared

among policy experts at least since the debates on the "new" English Poor Law of 1834 (Polanyi 1944). Thus for example, in Sweden in the early 1920s when taxes amounted to only single percentage points of the GDP, the great economist Eli F. Heckscher (1921, p. 55) warned for their serious negative efficiency effects. In the late 1930s, his followers Gustav Cassel and Gösta Bagge produced theoretical arguments for the conclusion that at 15 percent of the GDP the limits of taxation had been reached. A decade later, Colin Clark (1945) raised this upper limit to 25 percent. Since the early 1980s, the Swedish Sclerosis spokesmen have repeated the old theoretical arguments of Cassel and Bagge (Lundberg 1985, pp. 8-12). In the OECD countries government receipts have varied from around 20 to around 60 percent of GDP, but in all of them similar warnings have been sounded by economic policy experts. It can be argued that the negative effects appear with long time lags, but as Lundberg (1985, p. 33) notes, such a statement "cannot be proved, and it belongs rather to the metaphysics of wishful thinking."

Although political measures affecting market processes certainly may have negative efficiency consequences, social scientists should be seriously concerned when theoretical arguments are recycled generation after generation without addition of empirical evidence increasing the precision as to the size of these negative effects and the conditions under which they are likely to occur. This recycling indicates that it is difficult for social scientists to make progress on issues concerning the relationships between markets and politics and the relative merits of small versus large governments, areas of recurring conflicts between major interest groups in western societies.<sup>42</sup> For the community of social scientists, objectivity is a collective good. In areas of central relevance for conflicts between major socio-economic interest groups, however, the individual benefit-cost calculus of social scientists is affected by powerful interest groups outside the scholarly community, something which is likely to generate free riding. Myrdal (1958) argued that to decrease the role of values in the social sciences, its practitioners should make their value judgments explicit. This is however not sufficient. The requirements for social science progress are at least two – more theoretical pluralism and more empirical work.

In 1996, the Sclerosis diagnosis which has guided policy making in Sweden since the mid-1980s, is taken as an established fact in the media and is taught in introductory economics courses.<sup>43</sup> Although the empirical evidence in its support must be described as unimpressive, hardly any university-affiliated economists in Sweden have publicly questioned it.<sup>44</sup> To understand the problems of objectivity within the community of social scientists, we have to explain not only the support for the Sclerosis diagnosis but also why only those who agreed with the Sclerosis diagnosis elected to use their time to participate in a debate which was of major scholarly and public importance. The explanations have to be sought not in personal but in structural factors. Thus we can safely assume that no university-related economists among the Sclerosis spokesmen have consciously mislead their readers. A hypothesis close at hand is instead that this outcome reflected rational action in a situation characterized

by the combination of a dominant theoretical approach assuming major negative effects on economic efficiency of taxation and other political interventions and a relatively homogenous professional reward structure supported by the surrounding society.<sup>45</sup>

A rational choice hypothesis makes it possible to understand variations in the willingness to publicly take a stand on the Sclerosis hypothesis. Any eyeball benefit-cost analysis would have indicated that while a Sclerosis supporter could reap the rewards of the dominant professional networks as well as from the dominant media and other societal power structures without exacting fact finding, net benefits of questioning were likely to be clearly negative.<sup>46</sup> I have heard economists indicate that they have experienced considerable risks associated with a questioning of the dominant view.<sup>47</sup> Whether such perceptions were correct or not, the striking lack of public criticism by economists of the factual bases for the Sclerosis diagnosis may indicate that such questioning was not seen as an abstract intellectual issue or a Sunday picnic. The absence of questioning can thus be understood in rational terms. Since the mid-1980s, as a professor of social policy I wrote a score of articles and a book pointing to the lack of empirical support for the Sclerosis diagnosis. This did not dispose the Sclerosis spokesmen to second thoughts but generated instead an open-handed use of ad hominem arguments. Up to early 1996, thus only one paper by Swedish economists has publicly criticized the Sclerosis diagnosis (Agell *et al.* 1994). The media greeted this attempt with resounding silence.

In a pluralistic theoretical setting, tendencies to free riding on objectivity could be checked by an attention to empirical data. As underlined by Leontjev (1971, 1982), however, in economics empirical studies have been relatively neglected (also Morgan 1988; Blaug 1992). From the point of view of objectivity in the social sciences, this is a serious problem. If the verdict between competing hypotheses would be based on empirical data, instead of being a problem the values of social scientists could be harnessed to contribute to scientific progress. When social scientists with different values meet in the analysis of empirical data, their values are likely to generate competition, the virtues of which are not limited to commerce. Such a competition would lead to intensified empirical efforts and social science would benefit. As the more than century-long Sclerosis debate indicates, however, in areas of central relevance for socio-economic conflicts of interest, the conditions for social science progress are – at best – precarious. Given the structure of rewards in Western societies, where major societal conflicts of interest permeate research areas thin on theoretical pluralism and empirical data, scientific objectivity may easily become a luxury economic man can not afford.

## Notes

\*In the work leading up to this paper I have had valuable discussions with many Swedish economists and sociologists. However, several of them have been wary of being publicly associated with the views presented herein. Therefore I thank them all anonymously. This work has been supported by grants from the Bank of Sweden Tercentenary Foundation, the Social Science Research Council, and the Council for Research in Humanities and Social Sciences. The paper is also being published in *The Economic Journal*.

1. In the following discussion, examples refer to economists. However, similar problems are of course also found in the other social science disciplines. One example is the debate around "The Bell Curve" (Goldberger and Manski 1995).
2. These negative effects have been assumed to be generated, *inter alia*, through tax wedges on capital and labor markets (Barro 1990; King and Rebelo 1990; Lindbeck 1983, 1988).
3. An assumption in this debate is that within Europe variations in potential causal factors are large enough to make possible meaningful comparisons among European countries.
4. Cf Myrdal 1958, 237 ff.
5. The articles were published in Sweden's most influential newspaper, *Dagens Nyheter*. One result of these articles was a debate between Lindbeck and myself (Korpi 1985 a, 1985 b; Lindbeck 1985; cf also Korpi 1985c).
6. In this context Magnus Henrekson, Ph.D., was a junior participant, alphabetically listed first among more senior authors.
7. Prime Minister Carl Bildt, *Svenska Dagbladet*, July 21, 1991.
8. I accept their assumption that if the negative efficiency effects are large, it should be possible to observe them also at the macro-level. The Sclerosis diagnosis should however preferably be tested on micro-data. A recent micro-analysis on labor supply effects of taxes and transfers in Sweden reveals negative as well as positive effects but

"does not suggest strong general conclusions" (Gustafsson and Klevmarken 1993, p.131).

9. In the following, data will be restricted to this period, since they were available when the Sclerosis diagnosis was established in Sweden.

10. The source is OECD's *National Accounts, Vol. 1*, 1993 and earlier years. The spokesmen for the Sclerosis diagnosis have used OECD data based on 1985 prices and exchange rates. Because of the drastic Swedish devaluations in the late 1970s and in 1982, the 1985 dollar exchange rate is lower than the average exchange rate 1970 and 1990.

11. The ranking is based on PPP-adjusted GDP per capita. The following comparisons are not significantly changed if we include three non-European rich countries (Australia, Canada, and the United States) in this group.

12. In spite of the scientific and political importance of the issues raised, the empirical arguments for the Sclerosis diagnosis were not presented in scientific works but in newspaper articles and in publications from an influential think-tank sponsored by the Swedish business community, the Center for Business and Policy Studies (SNS). The following discussion is limited to publications by university-affiliated economists with a more "scholarly" touch.

13. OECD, *Historical Statistics*, table 3.1.

14. Convergence has often been interpreted to imply a decline in the dispersion of *absolute* GDP per capita levels among countries. Thus, for example Abramovitz (1990, p. 2) writes that "... as the process of convergence went on, the gaps separating laggards from leaders would be smaller ..." However, among the OECD-countries during the period 1890-1990 although *relative* variation decreases we do not find a convergence of growth paths in the sense of a decrease in the dispersion of the absolute levels of real GDP per capita (Korpi 1992). This circumstance poses problems for the catchup/convergence hypothesis.

15. This can be done, for example, by regression techniques or in a crude way by li-



miting comparisons to a group of countries with roughly similar initial GDP/cap levels.

16. In terms of 1985 prices and exchange rates the total absolute growth of GDP per capita from 1970 to 1990 was \$3622 in Sweden, \$4148 in the OECD, \$2766 in OECD-Europe, and \$3288 in the EEC.

17. In the English translation of the report, the section on growth problems is somewhat revised (Lindbeck *et al.* 1995, pp. 8-12, cf. also footnote 22).

18. From 1970 to 1991 the consecutive ranks for Sweden are 3, 4, 6, 6, 5, 4, 4, 8, 8, 7, 7, 8, 8, 7, 6, 6, 8, 7, 7, 8, and 14. These rankings often hide very small absolute differences in GDP per capita. The high Swedish ranking in 1970 is based on the extreme Swedish peak this year. The relatively high ranks between 1974 and 1976 reflect the fact that in this period the other OECD countries were hit by the growth decline after the first "oil shock," a decline which only reached Sweden a couple of years later. The Commission used rankings based on percentages, which yields tied ranks.

19. In 1970 Sweden registered a growth rate of 5.6 percent, about twice the postwar Swedish average and twice the OECD average for 1970 (cf Diagram 1).

20. The total absolute increase of GDP per capita in purchasing power parities 1970 to 1989 was \$12,400 in Sweden, \$12,675 in the OECD, \$11,540 in the EEC, and \$12,720 in the six rich European countries (OECD, 1993, pp. 146-147). The OECD average is here strongly affected by developments in the USA, Canada, and Japan.

21. From 1970 to 1990, government employment as a percentage of the labor force increased by 11.1 percentage points in Sweden but only by 1.3 points in the OECD. Several OECD countries (including Germany, Japan, and Norway) assume a positive public sector productivity development in their national accounts. The Swedish Ministry of Finance has also used the decline in GDP per hour worked in the whole economy to argue for a long-term Swedish productivity decline.

22. The Lindbeck Commission also pointed to the decline in Sweden's productivity

growth in the decades after 1970 compared to the decades before. In the English version of their report they add: "This is a serious problem regardless of whether productivity growth has fallen more or less than in other countries, and regardless of whether the slowdown in productivity is caused by the same or different factors in Sweden and in the other countries" (Lindbeck *et al.* 1995, pp. 8-9). However, to support policy recommendation tailored for Sweden, they would have had to show that the causes and/or size of the Swedish slowdown differed from that in other comparable countries.

23. Calculations based on OECD *Main Economic Indicators* and U.S. Department of Labor, *Monthly Review*.

24. Italics in the original.

25. When I pointed this out, the authors (professors Lars Bergman, Ulf Jakobsson, Mats Persson, and Hans Tson Söderström) thanked me for drawing their attention to a typographical error. "The typographical error is that we stated that during all four time periods between 1870 and 1973 Sweden was *highest* in a group of countries. Our own table clearly indicates that it should have been *high* (first or second)" (Bergman *et al.* 1991 b). The editors of *Ekonomisk Debatt*, the leading Swedish-language economics journal sponsored by a professional organization of economists, refused to publish a brief rejoinder, where I was to comment that among four competitors the one who comes second is in the middle, not in the lead. Therefore also the authors' caption (Sweden first in the lead and then in the rear) apparently suffered from typographical errors. It should have read "*Sweden first in the middle and then in the middle*". Typographical errors of this nature did however not throw any shadows on the authors' careers in the academia and as economic experts in the media. This episode is indicative of the level – intellectual and otherwise – of the Swedish Sclerosis arguments.

26. Cf Agell *et al.* 1994. The Sclerosis spokesmen have also ignored micro-studies indicating that the negative effects of taxation and social policies on labor supply would appear to be relatively limited (Danziger,

- Haveman, and Plotnick 1981; Bosworth and Burtless 1992; Moffit 1992; Atkinson 1993).
27. See OECD's *Historical Statistics* and *National Accounts*. The level of unreliability of the GDP growth figures is often overlooked. My comparisons indicate that revisions of national accounts generate an average range of variation for the annual estimates of the order of *one percentage point*. This estimate is based on a comparison of annual figures on GDP per capita growth 1980-1984 in OECD's *Historical Statistics* 1982-1992.
28. Since average annual population growth 1960-1990 was 0.5 percent in Sweden and 0.9 percent in the OECD, growth comparisons should be based on GDP per capita rather than on GDP.
29. To decrease the effects of national variations in business cycles, I will follow the convention of using 1973 as a breaking point. The proponents of the Sclerosis diagnosis have instead used 1970, the year of the extreme Swedish peak (cf Figure 1).
30. Sweden's growth rate given here for 1990 and 1991 are revised figures from 1992.
31. Also the PPP-adjusted GDP per capita figures suffer from a very high degree of unreliability. Thus the 1992 OECD revision of the first estimates made in 1985 generated major changes in terms of GDP/capita expressed as a percentage of the OECD average. For the year 1989, the average change for the 24 OECD countries was 5.2 percentage points. For individual countries the maximum change was 13.0 percentage points. For the top 17 countries the rank correlation between the two estimates for 1989 was only 0.70.
32. The Sclerosis hypothesis deals with the effects of political measures on the functioning of markets. Productivity in the public sector is of interest in its own right but is very difficult to measure. Swedish attempts in this direction have been presented only as arithmetical examples.
33. This holds true also for the growth of capital productivity and total factor productivity in the business sector.
34. Cf below.
35. U.S. Department of Labor, Bureau of Labor Statistics.
36. A comparison of manufacturing labor productivity figures published in nearby issues of the *Monthly Labor Review* indicates that as a result of revisions, for individual countries for the period 1984-89 estimates on average productivity growth differed by up to 1.2 percentage points and for the period 1979-84 by up to 1.6 percentage points. For single years changes up to 3 or 4 percentage points were noted. Since data quality on capital stocks is likely to be even lower, I will here limit comparisons to labor productivity measures.
37. For Sweden, productivity estimates are from the 1993 revision of National Accounts.
38. Especially during the second half of the 1980s, Swedish unemployment rates were very low (below two percent of the labor force), indicating the possibility that also less productive labor was accepted into the labor force.
39. In this context it must however be noted that during the 1980s, Sweden's labor force participation rates were among the very highest in the OECD and average hours worked per week increased from 36.0 in 1981 to 37.9 in 1990.
40. In Sweden the household savings ratio (as percent of disposable income) has changed in the following way; 1986: 1.3, 1987: -2.8, 1988: -4.8, 1989: -4.9, 1990: -0.6, 1991: 3.4, 1992: 8.1, and 1993: 7.8.
41. Thus professor Assar Lindbeck has been a member of the Nobel Prize Committee from the beginning in 1969 and its chairman 1980-1995. Other Committee members who have been important spokesmen for the Sclerosis hypothesis are professors Torsten Persson and Ingemar Ståhl. It is telling that the internationally best-known Swedish proponents for the Sclerosis diagnosis have declined the opportunity to defend their intellectual credibility by attempting to justify for an international scientific audience the empirical bases for their policy advice.

42. In areas less "sensitive" to conflicts of interests, obstacles to scientific progress are probably smaller.

43. Thus for example, at the Department of Economics, Uppsala University, in 1995 a test question at an undergraduate economics course stated that as a result of its low productivity growth, in the 1970s and 1980s Sweden's economic growth rate had lagged behind that of other comparable countries and asked the students to give the reasons for the low productivity growth.

44. Sören Wibe, professor of forestry economics at the Agricultural and Forestry University in Umeå, was long a lone dissenter.

45. The alternative hypothesis that those who participate in the public discourse do not have as good scholarly credentials as those who stay outside would not appear to fit easily with the fact that in the Swedish case, the Sclerosis diagnosis has had its strongest supporters within the Nobel Prize Committee of the Royal Academy of Science as well as at the Institute for International Economics at Stockholm University, widely held to be the very best Swedish research institute in economics. Even if the alternative hypothesis is correct, there remains the problem of the ethical responsibility of a professional community for important policy recommendations made in the name of the economics discipline.

46. Within the small Swedish professional community, the existence of an extremely prestigious body such as the Noble Prize Committee is likely to provide the base for a wide variety of influences, which need not necessarily be conducive to theoretical pluralism. In this context also the relations of economists to economic and political decision makers is of major importance for pluralism within the profession.

47. Such perceptions were likely to be strengthened by a couple of incidents widely seen as demonstration cases.

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