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LARS JONUNG

Chapter 1. Ingemar Ståhl 1938–2014. A Portrait

For many decades, Ingemar Ståhl was a well-known economist in Sweden. He introduced new perspectives into economic debate, research and teaching. He made his presence felt in areas as diverse as defense economics, rent controls, energy policy, financial economics, industrial policy, higher education, wage earner funds, environmental economics, law and economics, healthcare economics and taxation.

His intellectual curiosity led him to question prevailing ideas and to put forward new solutions. He found traditional welfare theory too limited to provide an understanding of the political process. Instead, he advocated a public choice perspective, which in his view would provide a more realistic interpretation of the goals of politicians and bureaucrats than that offered by traditional welfare economics. Ståhl also introduced the work of Ronald Coase on contracts and property rights in Sweden by applying it on various policy issues in public debate and by promoting it in his teaching. In his view, the study of economics should start from the study of contracts and property rights.

Ståhl was appointed professor at Lund University at the young age of 33, in 1971. Over more than thirty years, he left his mark in many fields, retiring in 2004. He worked to introduce health economics, environmental economics, human capital, public choice, the economics of contracts and property rights, financial economics and law and economics in the curriculum. He embodied a sense of open academic enquiry. In his view, there were no limits to the use of economic theory. He served as a major source of inspiration and support for doctoral dissertations in new fields of research. He was

consistently on an intellectual move, ending his tenure as professor at the Faculty of Law at Lund University, promoting the subject of law and economics.

As an active participant in public debate for many decades, he provided pungent commentary on a range of issues. He contributed significantly to the shift in Swedish economic policy from interventionist controls to the more market-oriented solutions that characterized the last quarter of the twentieth century. Several of his policy proposals, in particular the system of student finance, remain a part of public policy in Sweden.

The early years

Ståhl grew up on Kungsholmen, an island in central Stockholm, in a middle class family. His father was a judicial expert in the central government, while his mother worked as a prescriptionist in a pharmacy. The family also comprised Ingolf, Ingemar's younger brother.¹ At upper secondary school, Ståhl was interested in almost everything, from science to poetry and social issues. At an early stage, his political interests led him to take an active role in the debates and conferences held by the Social Democratic Party's student association, *Libertas*.

On leaving upper secondary school in 1956, he had a choice between studying medicine or social science. Inspired by Bent Hansen's book *Finanspolitikens ekonomisk teori* (The Economic Theory of Fiscal Policy), he decided on economics. He had already come across this book during his last year at school. Ståhl was "completely fascinated by its apparently fully rational view of economic policy based on an analysis of ends and means and the formulation of preference functions" (Ståhl 1990). Later on in life, his encounters with politicians would lead him far away from the

¹ Like his elder brother, Ingolf Ståhl was also attracted to economics. He was a professor of business administration, specialising in game theory, at the Stockholm School of Economics from 1986–2006.

world of beautiful economic models presented by Bent Hansen.

Ståhl started his compulsory military service immediately after leaving school. He took a bus from central Stockholm to a destination that was kept secret from the rest of his family. It was at the Armed Forces Radio Institute (FRA) on Lovön (an island near Stockholm) where he was to spend several summers as well as part of his academic term time. As a member of the student contingent at FRA, he met Bengt-Christer Ysander – a meeting leading to both a fruitful intellectual collaboration and a lifelong friendship. Moreover, it started a long-lasting contact with the Swedish defense authorities and issues related to military policy.

In the autumn of 1956, Ståhl started his studies at Stockholm University, majoring in economics. Two years later, he had completed his bachelor's degree, which also included statistics, sociology and political science. At that time, economists associated with the Stockholm School of thought that had emerged in the 1930s dominated the Economics Department of Stockholm University. Ståhl attended lectures held by Erik Lundberg, Gunnar Myrdal and Ingvar Svennilson that were largely unconnected to the formal course literature. Instead, the emphasis was on more traditional business cycle theory.

Ståhl found himself both unimpressed and uninspired by these famous figures and their views of macroeconomics. Indeed, later in life, macroeconomic issues remained outside his main fields of academic interest. To get away from Stockholm, and with the support of a Norwegian state scholarship, he decided to spend a year at Oslo University. During this period, his encounters with economists of a more theoretical bent affected his entire approach to the subject of economics. This experience contributed to his focus on resource allocation and microeconomics.

The 1960s – a productive decade

After the completion of his bachelor's degree studies and his time in Oslo, Ståhl faced the choice between a career in academia or

in public administration. He chose both. During the 1960s, Ståhl contributed to no less than seven official government reports or investigations, commonly known by the abbreviation SOU (*Statens offentliga utredningar*). The reports were extensive projects comprising a substantial research input.

Ståhl began his career as an economist at the Central Office of Statistics from 1959–1961. He worked on sampling and methodological problems related to the 1960 census. This was followed by a long period in the planning office of the Research Institute of the Swedish National Defense (FOA), which on paper lasted from 1962 until 1967. However, these five years were also interspersed with several leaves of absence for work on official government investigations as well as for serving as an advisor at the budgetary department of the Ministry of Finance in 1965–1966.

He made his principal contributions in his capacity as assistant secretary to the Indexation Committee (*Värdesäkringskommittén*) in 1959–1964, (SOU 1964:1; SOU 1964:2), as an expert in the 1959 Committee on Social Conditions of Students in 1962–1963 (*Studiesociala utredningen*), (SOU 1963:74), and as a member of the Program Budget Group at the Ministry of Defense in 1966–1969 (SOU 1969:25).

In all of these investigations, Ståhl made major contributions to the final reports. Furthermore, he became a member of the Energy Committee (*Energikommittén*) in 1964, (SOU 1970:13), as well as serving as an expert in three further official government enquiries into defense costs, education and seaports (*Försvarskostnadsutredningen*, SOU 1968:1; *Utbildningsutredningen* [U68], SOU 1973:59; *Hamnutredningen*, SOU 1971:63).

In addition to these assignments, Ståhl worked on a wide range of issues with other economists.² This cooperation is reflected in a number of publications, including a book on rent controls co-written with Ragnar Bentzel and Assar Lindbeck. Ståhl continued to be active within the Social Democratic movement in

² See Jonung and Jonung (2018) for a bibliography of Ståhl's writings. To do him justice, it comprises both published and unpublished work.

the 1960s. It was also there that he met his future wife, Solveig Sandberg.

The Indexation Committee

The Indexation Committee was appointed following the pension reform in 1958 against the background of a rising rate of inflation in Sweden. Its aim was to examine the possibility of introducing index-linked loans in Sweden – a type of loan not available at the time. Guy Arvidsson, as a member of the Committee, together with Kjell-Olof Feldt, secretary of the Committee, offered Ståhl the post of deputy secretary. This was the start of his career as a researcher as well as the beginning of a fruitful collaboration with Arvidsson.

Ståhl quickly got to grips with his new assignment. During 1960 and 1961, he rapidly produced ten or so preparatory studies on index-linked loans, indexation, share yields and real taxation. In this context he produced what was subsequently considered to be his major research achievement, a report entitled “The effects of changes in risk and yields on portfolio composition, consumption and production.” It appeared as a mimeographed working report in December 1961. Three years later it appeared as a FOA document, and shortly afterwards it was presented as a licentiate dissertation at the University of Lund (Ståhl 1964a).

The aim of the report was to generalize traditional microeconomic theory to include decisions made under uncertainty. It focused on the identification of optimal portfolios held by three different types of decision makers: households, companies and “placement companies,” to use Ståhl’s terminology. The latter comprised financial institutions such as banks, insurance companies and foundations. Ståhl studied how their portfolio choice was affected by different types of exogenous changes. The analysis was entirely theoretical, based on optimization and illustrated by geometrical figures.

In the early 1960s this was ground-breaking work. However, it was rapidly superseded by new theories and methods within financial economics and subsequently forgotten. A contributing factor

to this outcome was Ståhl's failure to develop his arguments or publish his results in an academic context. Instead, he continued to make empirical contributions to the work of the Indexation Committee, including a chapter in the final report on how index-linked debt could be used as a means of finance in a housing market characterized by rent control and rent fragmentation. He also studied the pattern of yields in the Swedish stock market. As a result of these analyses, Ståhl became an advocate of basing taxation on real rather than nominal magnitudes and of index-linked loans.

The final report of the Indexation Committee in 1964 did not give rise to a government bill in the Parliament. As Ståhl dryly pointed out, the Minister of Finance, Gunnar Sträng, stuffed the heavy document into the drawers of his writing desk. However, some of the ideas put forward by the committee became sources of inspiration for practical policies in two areas of public lending, namely housing and student finance (Ståhl 1975a). The system of general interest rate subsidies was replaced in 1966 by so-called parity loans.³ However, this change proved to be short-lived. Parity loans were withdrawn as early as 1974 when a return to interest rate subsidies for house loans was made. However, the student finance system became a permanent fixture. Here Ståhl made use of insights into financial economics he had acquired while working on the Indexation Committee.

The government report into student finance

The rapid expansion of higher education in the 1950s provided the impulse for a government report on student finance. The report was set up in 1959 under the leadership of Olof Palme, who worked closely with Prime Minister Tage Erlander, whom he would subsequently replace as prime minister. The main purpose of the report was to examine suitable forms of funding for university studies.

³ The parity loan was an index-linked loan designed for use within the housing sector in Sweden. The rise and fall of the parity loan is described in Ståhl (1975a), included in this volume as Chapter 2.

The debate was dominated by a series of proposals related to student loans, grants and scholarships. Various student organizations as well as the Social Democratic Party and the Swedish Confederation of Professional Associations (SACO) were at the outset in favor of the idea of a student wage. Palme also supported this approach. Studies were a form of work that should be remunerated. However, the work of the committee proceeded at a slow pace.

The Prime Minister, Tage Erlander, had a keen interest in the question of student finance since his time as a student at Lund University in the 1920s. He noted in his biography that “Olof Palme had complained on several occasions that the government report was not making any progress. At that point, a young man, Ingemar Ståhl, who subsequently became professor of economics and a lively contributor to a range of public debates, put forward an overly complicated proposal based on reverse pension insurance” (Erlander 1982, p. 197).

As one of the editors of *Libertas*, the journal of the Social Democratic student association, Ståhl had discussed the principles of student finance in two articles as early as 1961. During the spring of 1962, he provided the new start to the Palme enquiry that Erlander described in his memoirs. According to Olof Ruin, the principal secretary of the committee, “The impulse to fresh thinking in the Committee on Student Finance was provided by a young economist, Ingemar Ståhl. In discussions with the Committee’s secretariat, he launched the idea of an educational fund and an educational insurance along the lines of the ATP pension model” (Ruin 1979, p. 41). After an initial period of doubt regarding this proposal, Palme quickly changed his mind.

As a result, Ståhl was invited to assist the investigation. As many as ten memoranda on study finance, costs of education and the returns to investment in higher education appeared in 1962. His underlying argument was that higher education should be seen as an investment in human capital that could be expected to generate higher personal income, viewed over the recipient’s lifetime. For that reason, a system of student loans could be justified on grounds of both efficiency and equity.

In Ståhl's view, a system of student wages would reinforce differences in income over the life cycle between university graduates and other occupational groups, because university students would benefit from higher salaries later in life. His reasoning was based on human capital theory, developed in the 1950s by American economists largely associated with the Chicago school. He introduced the life-cycle perspective into Swedish economic debate, suggesting it was suitable for the analysis of the long-term distributional effects of economic policies.

The challenge facing Ståhl was to persuade the somewhat skeptical members of the committee of the advantages of his proposal for student loans and the disadvantages of a system of student finance based on student wages and student grants. He cleverly solved this problem in a pedagogical fashion by formulating a number of demands that a system of student finance should meet. On the basis of these criteria, he demonstrated unequivocally that a solution could be found using government loans from what he termed a human capital bank. He recommended that the loans should be interest-free and inflation-neutral by means of indexation to the so called "basic amount" in the social insurance system.

Ståhl's approach carried the day, despite firm opposition from student organizations and SACO. He was responsible for the main chapter, "The system of student financial support," in the committee's final report (SOU 1963:74), as well as for two appendices dealing respectively with the costs, revenues and financing of higher education and with the incomes of university graduates. The latter can be viewed as the first study of the returns to higher education in Sweden.

A quarter of a century later, Ståhl looked back on the system of student financial support that he had designed. He viewed the results as "a triumph for rational political solutions" (Ståhl 1990). At the same time, he noted that Olof Palme's major social policy reform was based on ideas and models drawn from the Chicago School – a school of thought associated with market-oriented economists such as Gary Becker and Milton Friedman. However, Ståhl was not wholly satisfied with the evolution of the system of

student finance. In his view, it should have been developed still more along market lines and should also have taken account of the possible use of tuition fees.

The economics of defense and the Research Institute of the Swedish National Defense

Ståhl worked on defense issues for a long time. He joined the Research Institute of the Swedish National Defense (FOA) in 1962. A year later, his friend Bengt-Christer Ysander became his colleague. Their assignment was to apply economic thinking to defense issues and to provide support to a system analysis group. The introduction of economic analysis proved to be a formidable challenge for the young researchers. It had to encompass marginal concepts and opportunity costs as well as the application of a game theoretical approach where two actors, Sweden and the Soviet Union, sought to optimize their military strategic options. At the same time, it was hoped that their economic reasoning would provide greater flexibility and innovative capacity within a strongly centralised military organization characterized by rigid structures, fixed budgetary frameworks and a “good housekeeping” approach to expenditure.

Ståhl and Ysander started with an ambitious in-service training for themselves involving an extensive study of the US literature on defense economics. An important source of inspiration was the Kennedy administration’s system of program budgeting that had been introduced into the Pentagon. These studies gave rise to a series of memoranda distributed by FOA. Ståhl accounted for at least thirty unpublished documents in addition to those that were published within FOA’s official report series.

The titles reveal the subject matter: input-output analysis for defense; an economic defense budget; estimates of the value of a human life; war games in a network diagram; defense costs in the short and long run; estimated rates of return on military procurement; etc. On one occasion, Ståhl remarked that some of his most interesting writings were classified as military secrets. In those

cases, he was unable to get access to documents that he had written, because he lacked the security clearance required.

The emphasis was on developing a program budgeting system along the lines of the U.S. model. This was a formidable task that required deep and detailed knowledge of the entire Swedish military sector, down to its lowest levels. Program budgeting was interpreted as a reform that “would bring together the different phases of the planning cycle – involving studies and projections, planning and budgeting, implementation and control into an integrated planning, budgeting and accounting system.” This attempt was viewed as an innovation not just in the military environment but in the entire government budgetary process as well (Ståhl 1968).

Over time, the FOA group came under the auspices of the Ministry of Defense. Eventually, Ståhl became one of the main authors of *Planering och programbudgetering inom försvaret* (SOU 1969:25) (Planning and program budgeting of defense spending), also known as the Red Book after the color of its cover. Initially, the Red Book was seen as a promising approach to the reform of the budgetary system for defense expenditures. However, it did not lead to any lasting reforms.

According to the reference letter that Ståhl received when he left FOA, he worked on the development of methodologies for long-term planning and administrative routines, especially program budgeting. However, he was also involved in studies and projects concerning the Swedish nuclear weapons program, which had reached an advanced stage before it was stopped in the 1960s. Late in life, Ståhl expressed the hope that the political correctness that had prevented an open discussion of the Swedish planning for nuclear weapons would be subject to greater openness and research. He placed the blame for this silence on Olof Palme and Alva Myrdal. Because of his classified work, Ståhl was unable to comment on the nuclear program. His reference letter from FOA concluded with the statement that “Owing to his oath of secrecy, Ståhl is unable to provide information regarding the work carried out at FOA.”

Following the completion of the Red Book, Ståhl ended his

formal ties with the military establishment. However, he maintained a strong interest in defense issues and security policy, and not just at a theoretical level. He was an admirable guide for walks over the artillery range at Ravlunda, near the Ståhl family's summer residence. The subjects of the day covered all aspects of tanks: their equipment, crew, weight, speed, firing capacity and caliber. He explained why the Ministry of Defense had chosen the British Centurion tank, the numbers that had been purchased, the types of tanks that should have been ordered and how the operation of armored brigades could be made optimal in terms of cost effectiveness to meet a Soviet invasion of Sweden.

What lessons did Ståhl draw from the long period of time that he spent at FOA? He pointed to the value of introducing a "fairly straightforward forms of economic reasoning while observing that more sophisticated methods were subject to diminishing marginal utility" in an organization that was from the outset unfamiliar with economic thinking (Ståhl 1990). His analytical economic perspective collided with the barriers of traditional prestige among leading military personnel and the prevailing power structures within the military establishment. My interpretation is that Ståhl's experience of working on defense issues inspired him to extend his studies to other parts of the public sector, especially healthcare which in common with defense was not subject to the usual market mechanisms.

Ståhl was able to joke about the similarities between the process of decision making in the health and defense sector. The head of a hospital department and a colonel fulfilled largely the same functions. The differences were expressed by the badge of rank and the uniform: a white coat in contrast to camouflage. In other respects, the structure of incentives was the same. Defense, like healthcare, represented for Ståhl centrally planned sectors where market incentives were replaced by a system of orders from superiors and the allocation of resources was determined by means of political processes. Ståhl also considered that universities could be viewed as a centrally planned sector. However, he emphasized that academic discipline was far behind that of the military since

the commanders, i.e. the professors, had had their powers curbed by both university bureaucrats and the recruits, i.e. the students.

Rent controls

Ståhl developed an interest in housing policy at an early stage. His interest is shown by his roughly seventy published and unpublished contributions in this field. In 1963, the Research Institute of Industrial Economics (*Industriens Utredningsinstitut*, IUI) published a study entitled *Bostadsbristen – en studie av prisbildningen på bostadsmarknaden* (The housing shortage – a study of price formation on the housing market). This publication was co-authored with Ragnar Bentzel and Assar Lindbeck (Bentzel et al 1963). The study focused on two principal issues: the economic effects of rent controls and the consequences of deregulation of the housing market.

The study was based on a systematic comparison of markets subject to rent control with markets where apartment rents were determined by market forces. The study concluded that the social and distributional objectives of housing policy could be achieved in a rental market where market forces were allowed to operate freely. At the same time, market forces could lead to the elimination of the housing shortage and reduced disparities in setting rents. A transition towards equilibrium price formation could also be designed to make reform socially acceptable.

The three economists demonstrated that the housing shortage could be solved along reasonable political lines. Their book gave rise to a lively debate and became a classic in the literature on rent control in Sweden. The arguments presented in this study still echo in the long, never-ending debate on housing policy in Sweden.

The road to a professorship

The official government reports (SOU) and the Research Institute of the Swedish National Defense (FOA) became Ståhl's university. Here he developed his thoughts and his writings in areas as diverse

as financial economics, index-linked loans, the costs and benefits of higher education, defense economics, security policy, labor market policy, housing policy, planning in the public sector, the pricing of public services such as icebreaking, road transport and infrastructure policy. These areas would form the basis of his future interests.

His output during the 1960s was singularly impressive. Diverse in character, he produced a rapid flow of appendices, chapters in official government reports (SOU), articles in anthologies and journals as well as unpublished memoranda, reports, literature surveys and presentations. The emphasis was on research reports. His work was invariably well-formulated and constructed around the central idea of applying welfare theory to resource allocation in the public sector. It often involved fairly straightforward applications of economic analysis in new areas. In terms of volume, unpublished material predominated. It ranged from brief memoranda to longer manuscripts. He became a familiar figure, not least in public debate. Through this impressive range of work, he established himself as a well-known economist, opening up the road to a professorship.

Ståhl received considerable support from Guy Arvidsson, who was professor of economics at Lund from 1961–1969. Ståhl's licentiate dissertation, entitled *Risk och avkastningsförändringars verkningar på portföljsammansättning, konsumtion och produktion* (The effects of risk and changes in yield on portfolio composition, consumption and production), received the highest mark. On its own, it opened up the opportunity of a lectureship in economics at the University of Umeå in northern Sweden in the spring of 1966. However, Umeå never became a place of residence for Ståhl. In fact, he never even visited Umeå in his capacity as lecturer. In November 1966, he was appointed Assistant Under-Secretary at the Ministry of Defense. A year later in December 1967, he was appointed associate professor (*docent*) at Lund University. In the spring of 1968, he moved to Lund and took up the post of associate professor and senior lecturer. At the same time, he resigned his posts at the University of Umeå and the Ministry of Defense

He now aimed to become a full professor. He applied for a

professorship in business administration at the University of Stockholm but failed to reach the short list. “With regret” one of the referees declared that Ståhl was not considered qualified for the post. When Guy Arvidsson moved to Stockholm in 1969, his chair as professor of economics in Lund became vacant. Ståhl was the only applicant.

All three referees, Guy Arvidsson, Jouko Paunio and Leif Johansen, considered Ståhl qualified for the post. They viewed his work for the Indexation Committee as the most important part of his academic output. Attention was also given to his writings on defense, economics and housing policy.

Arvidsson provided the most positive evaluation, describing Ståhl as an applied economist who had explored new areas with the help of existing theory. He noted that this line of specialization led Ståhl into “contact with decision makers and the general public rather than with the academic fraternity.” It is evident from the evaluations of the other referees that they wished that Ståhl had produced a greater number of academic publications. At the same time, he was praised for his breadth and his capacity to apply economic theory and methodology to new problems. In November 1971, he was appointed professor at Lund at the age of only 33.

In the following year, Ståhl attempted to return to Stockholm. A professorship in labor market policy was vacant at the Swedish Institute for Social Research (SOFI). In support of his application, he referred to the academic year that he had spent in 1970/71 in Paris at the Organization for Economic Co-operation and Development in the directorate responsible for labor issues. He had written a number of papers concerned with labor market policy that were envisaged to be part of a larger publication.

The two academic referees who were economists, professors Erik Lundberg and Lars Werin, supported Ståhl’s candidature. However, Gösta Rehn was appointed to the post due to the strong support that he received from the Social Democratic government. Ståhl appealed against the decision, arguing that the professorship should be divided into two separate ones: Gösta Rehn could take

one as head of SOFI while Ståhl could be in charge of research. However, this proposal did not meet with approval.

From now on, Lund was the home of the Ståhl family. A row house in Lund became the base for him, his wife Solveig and their three children Nils, Pernilla and Ingela for the rest of his life.

The crisis years of the 1970s and 1980s

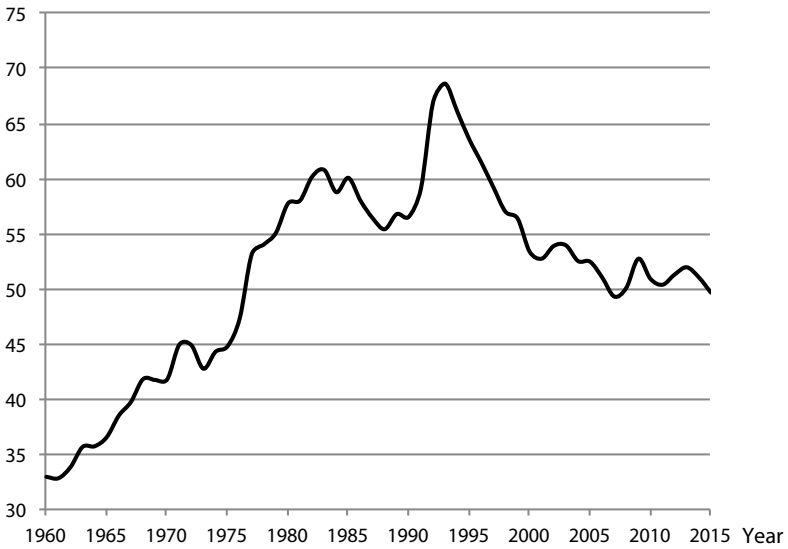
As professor at Lund, Ståhl continued to work on questions that had previously demanded his attention, such as housing, defense and higher education. At the same time, new economic problems emerged during the 1970s and 1980s as a result of the first and second oil crises, OPEC I and OPEC II. This inspired him to take up issues as diverse as energy policy, industrial policy, nuclear power, environmental economics, public sector expansion and taxation. The two oil crises provided a basis for analyses of energy policy. The central argument that Ståhl consistently employed was to allow the market to operate freely in order that it could adjust to the changes in relative prices brought about by the rise in energy prices. He was also in favor of Swedish nuclear plants.

It is difficult to provide a fair and comprehensive account of all of his activities. I have chosen to concentrate on the major issues that concerned him. It was during these years that he participated most actively in public debate.

Public sector and taxation

The large and growing public sector in Sweden, its accompanying high level of taxation and the substantial increases in marginal tax rates fascinated Ståhl. (See Figure 1 and 2, illustrating the growth of public expenditure and marginal rates of taxation in Sweden from 1960–2015). In a long series of articles, he analyzed the driving forces underlying the expansion of the public sector and tried to find a suitable balance between the commitments undertaken by the public sector and the room for maneuver available to the private citizen.

FIGURE 1. Public expenditure as a percentage share of GDP, 1960-2015.



At an early stage, he distinguished between different types of public expenditure commitments (Ståhl 1971). They were divided among a night-watchman state, an infrastructure state, a social state and an interest-group state (Ståhl 1989). The night-watchman state, responsible for the provision of pure public goods and services such as defense and the legal system, accounted for a relatively small share of the budgetary cake. It was rather the social state that was responsible for income transfers over an individual's life cycle and that comprised the largest share of budgetary expenditure.

Ståhl identified the system of tax-financed social insurance as the principal driving force underlying the expansion of the public sector. He was able to pinpoint a number of problems in the social insurance system and argued in favor of more research in this field (Ståhl 1973). He proposed that central government should provide basic social insurance coverage. Citizens could then purchase the level of insurance coverage that they desired. Visible insurance premiums were preferable to concealed taxes and payroll charges. Premiums would allow the level of taxation to be lowered, thereby

increasing individual choice. Ståhl often used the example of third-party motor insurance, compulsory for all vehicle owners although they are able to choose their insurance company and the extent of their insurance coverage.

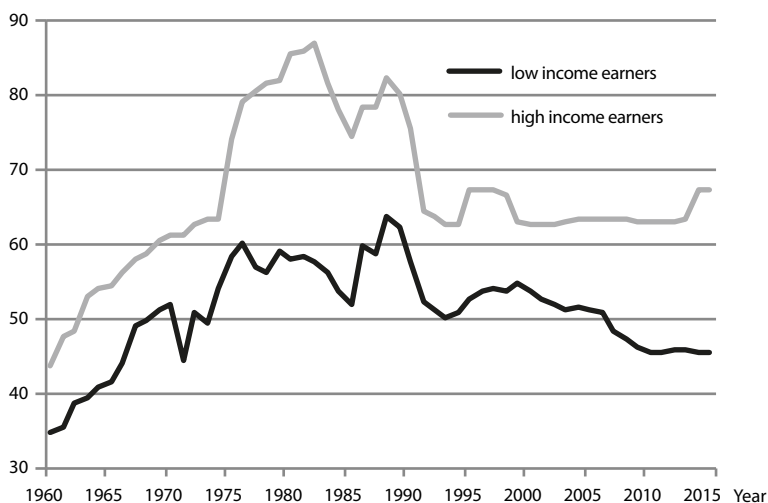
The incentive problems of a high taxation economy concerned Ståhl from an early stage. High marginal tax rates and high average tax levels gave rise to a number of negative effects: lower supply of labor, undeclared employment in the underground economy, increased bartering of goods and services, household and garden work as an alternative to work in the formal labor market, less interest in education, more consumption at work, etc.

Ståhl made frequent use of anecdotes to illustrate his message on taxes for a wider public. This was often a more fruitful form of communication than the formal terminology used by economists. One such example was “The instructive story about a Sunday dinner” where family provider Mr. Jonsson thinks of taking out his wife and two children for a Sunday dinner (Ståhl 1980a). Mr. Jonsson runs a small garage and has a certain experience in working out what he would need to earn to pay for a family dinner that would cost around 200 Swedish kronor. Taking into account all the taxes and charges that he is obliged to pay, he estimates that he would need to earn 2,222 kronor to pay the bill!

Being a rational man, Jonsson decides instead to do the shopping, prepare the dinner and do the washing up. He derives some consolation from the fact that he does not have any children at a day nursery where the charges are income-related. Nor does he have to pay back a student loan, where his repayments would also be income-related. If that were the case, the amount that he would have had to earn would be even higher. Indeed, with a little bad luck, “it would have been completely physically impossible for him to try to slightly increase his standard of living by taking on extra work and at the same time dutifully paying all the taxes and charges that he was required to pay.”⁴

4 In Chapter 5, Ståhl uses satire combined with anecdotal evidence to illustrate how tax evasion is a threat the strengthening of the Swedish welfare state.

FIGURE 2. Marginal rates of taxation for low and high income earners, 1960-2015.



Ståhl drew attention to the arbitrary nature of the Swedish taxation system and stressed the role for fundamental principles of taxation, especially in the fields of housing and capital taxation. In his view, the tax system was the result of a struggle between powerful special interests that had produced dubious distributional effects. He held the work carried out by Knut Wicksell on the theory of public finance in high regard, especially Wicksell's views on constitutional rules for decisions made in parliamentary assemblies. In Ståhl's view, the voluntary principle proposed by Wicksell offered more appropriate guidance for the construction of the tax system than the ability-to-pay principle provided. However, he admitted that Wicksell's proposal of a taxation system based on qualified majority decisions was unrealistic.

Ståhl posed the question: What is the role of the state? His reply was that for many reasons, a smaller state was preferable to high taxation or a social welfare state. He was not only concerned with the efficiency losses incurred by the taxation system. The welfare state had become increasingly "immoral" (Ståhl 1989). It had

reached the end of the line and passed its final station. He was, however, pessimistic about the possibilities of putting the train into reverse. “There is a remarkable tolerance of all of the control systems and abuses of power to which citizens are subject on an everyday basis” (Ståhl 1989). The electorate is grateful for the health-care and pensions that they receive from their “master.”

The welfare state has also damaged the public discourse on the role of government, he thought. Lower marginal rates of tax were treated as a gift to high-income earners. “Solidarity has been put on an equal footing with forced tax contributions for redistribution according to the conditions laid down by the political majority.” Normally concepts such as solidarity assume voluntariness (Ståhl 1989). Ståhl suggested that the debate about the welfare state should be based on moral arguments as well as economic ones.⁵

Stålverk 80 and industrial policy

The 1970s were a decade characterized by unexpected crises in Sweden. The substantial increase in oil prices during 1973 and 1974 (OPEC I) gave rise to serious problems for the Swedish economy. Following a period of domestic fiscal expansion during 1974–76, the Swedish economy found itself confronted with substantially lower economic growth, higher inflation, declining profitability and severe structural crises in many industries. Shipbuilding, steel, forestry and textile production were especially severely affected by the downturn. At the same time, partly as a result of trade union pressure on nominal wage levels, there was a marked loss in Swedish international competitiveness.

The political response to the economic downturn took the form of generous support for companies and branches of industry in crisis. To save jobs, the government took over some companies. Two currency devaluations in 1977 helped to reverse the decline until the second increase in oil prices in 1979 (OPEC II) once

⁵ See also Chapter 6 in this volume for Ståhl’s analysis of the rise of the Swedish welfare state.

again reduced the level of economic activity. Parallel to the crises in industrial sectors suffering from rapidly worsening competitive conditions, the public sector was running large budget deficits and creating growing tax pressure.

The dramatic 1970s created a demand for Ståhl's expertise. He was invited to take part in debates and to participate in projects to find solutions to the new challenges. At the outset, he worked within the framework of traditional welfare theory. However, by the mid-1970s, he had begun to look for new ways to understand the driving forces underlying the behavior of politicians and bureaucrats.

In May 1974, the Swedish parliament decided unanimously to finance a new steelworks in Luleå, *Stålverk 80*. It represented the largest public investment project in Swedish industrial history. The objective, evident from its name, was that the steelworks would be completed by 1980.

The project was led by North Bothnian Steelworks (NJA), part of the government-owned holding company *AB Statsföretag*. It received substantial backing from the Social Democratic government. The government forced through the necessary decisions at a rapid pace. The issue was taken up by the parliamentary committee for business and industry, although its examination was conducted behind closed doors. On the pretext of national security, the government provided the Swedish parliament with only the most meagre information.

In early 1974, the Federation of Swedish Industries (*Industriförbundet*) invited three economists, Erik Ruist, Ingemar Ståhl and Lars Wohlin, to carry out a no-holds-barred assessment of the project. They accepted the offer, arguing that they could bring to the table a different set of views than those put forward by the Department of Industry.

The largest part of their report is taken up by a detailed examination of the project's rate of return, based on an analysis of the entire industrial process from receiving iron ore to producing the final product (Ruist, Ståhl and Wohlin 1975). One conclusion was that the estimated rates of return presented in the government

bills tended to be subject to exaggerated optimism. The authors failed to find any reasonable economic grounds for the project. Nor were they able to identify any social rates of return that were not captured by the traditional measures of the private rate of return.

The three authors emphasized the difference between decision-making in the political sphere compared to the marketplace. The nub of their criticism was that the parliamentary decision to invest in *Stålverk 80* had not been subject to a normal appraisal by the capital market, but had instead been made in a political assembly where the decision-makers, i.e. the members of parliament, had scant personal responsibility for the future outcome of the investment.

The report recommended a more market-based assessment of the project. To ensure profit-oriented managerial control over the project, the steelworks ought to be financed by loans raised on the international capital market without a government guarantee, i.e. the financing of the project should be conducted in the marketplace rather than by means of taxation. The capital market should be used for an assessment of the profitability of the project.

The three economists also recommended that important customers should become part owners to provide a guaranteed market for the output of the new steelworks. In addition, they drew attention to NJA's low level of profitability. NJA had failed to make a profit over the previous ten years. They warned of the danger of trying to solve the problem of low profitability by means of new investments.

Ståhl also discussed the *Stålverk 80* project in the press. The need for reliable rates of return was a central concern. Allowing the public to purchase shares in the NJA would help create a sense of belief in the viability of the project. This would raise the question whether "members of parliament and politicians who had been vocal in their support for the project would also recommend their constituents to invest their savings in NJA shares?" (Ståhl 1975 b). Ståhl considered that this would be the real test of what politicians actually believed less than a year before the election of 1976. He used the idea of a market test in a number of different contexts elsewhere in his work.

The Minister of Industry took the first steps to inaugurate the new steelworks in 1975. Shortly afterwards, however, a rapid fall in the international demand for steel threatened the already unprofitable NJA with even greater losses. When the new center-right government came to power following the election in 1976, *Stålvverk 80* was shelved. The huge vacant lot at the entrance to Luleå harbor, known locally as the *Playa Plannja*, stands today as a reminder of this grandiose project.

Throughout the 1970s, against a background of continuing difficulties for Swedish business, Ståhl continued his work on industrial policy. Shipbuilding, steel, and iron ore, together with the textile and clothing industries, were struggling to survive. The political reaction from the new center-right government was a series of emergency measures to save employment in companies, industries and regions. Industrial policy took many forms: grants, loans, credit guarantees, subsidies, financial support for the holding of inventories, additional capital provision to both private and public companies and financial assistance for the employment support measures undertaken by the National Labor Market Board (AMS).

In 1979, Ståhl was once again approached by the Federation of Swedish Industries (*Industriförbundet*). Together with Nils Lundgren, he wrote *Industripolitikens spelregler* (The ground rules of industrial policy), (Lundgren and Ståhl 1981). Their study started with an analysis of the explosion of government assistance to industrial branches and companies that had taken place throughout the 1970s. Viewed from today's perspective, this long list is almost breath-taking. They went on to discuss industrial policy in terms of traditional allocation theory which they found to be inadequate. Instead, they recommended an approach that focused on the actual incentives that confronted politicians and bureaucrats. In their view, this perspective provided a more realistic description of the operation of the political system.

The authors concluded that the rules of operation for the market economy had become much looser. Decisions that had previously fallen on companies had been transferred to parliament and government authorities. This development would probably have

negative consequences in the long run. The authors proposed a package of measures aimed at creating stable ground rules for industrial policy which drew a sharp distinction between decisions made by companies and those taken by authorities and political assemblies. These ground rules would include open financial borders between Sweden and the rest of the world; explicit, time-limited financial support measures; labor market insurance, including redundancy payments; detailed and frank accounts of the loans and grants made by the public sector; the independent standing of public enterprise; and private co-financing as a means of gauging the rates of return on investment in public enterprises.

Finally, the authors stressed the importance of appropriate wage levels. This was an area where unions and employers should accept greater responsibility. It would lead in turn to a reduction in the need for measures of government support. It became subsequently apparent that the improved competitiveness of Swedish industry as a result of the devaluations of the Swedish crown that took place in 1981 and 1982 provided the basis for a rapid recovery in the private sector during the 1980s.

Contracts, property rights and wage earner funds

At the request of the Swedish Trade Union Confederation (LO), Rudolf Meidner put forward a proposal for wage earner funds in August 1975. The essence of this proposal was the gradual transfer of the ownership of companies registered on the Stock Exchange to wage earner funds run by the trade unions. Ultimately these funds would own and control all Swedish companies. This would involve the payment of a given percentage of company net profits into a fund controlled by the trade unions. The analytical framework was obviously inspired by Marxist and socialist ideas.

This proposal gave rise to a long drawn-out, intense political debate on the economic system to be adopted in Sweden and on private compared to public ownership. Economists also became involved in the debate on wage earner funds. One of the first participants was Ståhl.

In November 1975, Ståhl was invited to the Swedish Economic Society (*Nationalekonomiska föreningen*) to open a debate on “Ownership and control in business enterprises” (*Ägande och makt i företagen*).⁶ The discussion took as its point of departure the report by Meidner, who was himself one of the introductory speakers.

Drawing on U.S. research, Ståhl used this opportunity to present a new perspective on business enterprise, based on a contractual approach (Ståhl 1976). From this perspective, a company’s structure and behavior is determined by its contractual relations with its suppliers, customers, employees, company management and financiers, i.e. shareholders and creditors. Contracts regulate the financial relations, the rights and the obligations between the company and the other contractual parties.

The contractual relationship with shareholders takes on a unique role. Shareholders have the right to the earnings that remain once all other claims are met, i.e. they have a claim on residual earnings or profits. At the same time, they guarantee and monitor all of the other contracts which the company has taken on. To enter into a residual contract, the shareholders must have control over the company’s operations, primarily by means of being able to appoint and supervise the company’s management. They require influence over the company to minimize the risk that they otherwise will find themselves without any return on their investment in the shares of the company.

Ståhl was the first to introduce and apply the concepts of contractual relations in Swedish economics. By combining contract-theoretical analysis with his insights into financial economics and taxation, he was able to dissect a number of arguments concerning wage earner funds.

Ståhl emphasized that corporate structure and behavior are determined by the existing set-up of contracts. If a contract is altered for one party, there will be consequences for the incentives and thus for the behavior of other actors. As an owner, the trade union funds would have a weak incentive to run the company efficiently. Ståhl

⁶ This talk is translated and included as Chapter 3 in this volume.

did not hold back in his criticism. In his view, the Meidner proposal would either lead to a Yugoslav worker self-management model or to “a Soviet socialist model where a strong central trade union organization would replace a strong state.” He deplored Meidner’s “vulgar arguments” and in one instance, his use of terminology that “normally belong to the student cafés of the far left.”

Ståhl concluded by presenting an alternative to Meidner’s fund arrangement. His idea was to extend the national supplementary pension scheme (ATP) to include a premium reserve system that comprised numerous funds that invested in shares and allowed individual savers freedom of choice. These funds would contribute to a more efficient form of financial management that would avoid the concentration of political power inherent in the Meidner proposal. Ståhl concluded that a premium reserve system would “combine increased individual security and freedom with increased proliferation of wealth and shareholder influence.”

In his reply to Ståhl, Meidner noted that “we have very different points of departure and values.” At the same time, he did not entirely reject the proposal for a premium reserve system. However, it did not provide an answer to the problem that LO had asked Meidner to solve.

In his response, Ståhl asked why the trade unions had not demonstrated their capacity to run business concerns owned by them rationally in accordance with their principles. Instead, some of these companies had been sold to private interests. Meidner did not reply to this argument.

In 1984, after many years of political strife, the then Social Democratic government introduced what Meidner’s considered a watered-down version of his proposal for a system of wage earner funds. Following the election of 1991, the new center-right government abolished them. The ATP system was reformed during the 1990s when a premium reserve system was introduced along the lines proposed by Ståhl as an alternative to Meidner’s fund proposal.

Ståhl applied his contract approach in other contexts. Forms of corporate ownership other than joint stock companies in the

Swedish mixed economy, such as producer and consumer cooperatives, could also be analyzed with the help of contract theory to demonstrate why their behavior differed from that of profit-maximizing companies (Ståhl 1979a).

Problems arose when Ståhl tried to make use of contract analysis in public debate. This type of reasoning was new for Swedish opinion. There was no sign of it in the academic textbooks at either the undergraduate or postgraduate level. In addition, it was difficult to integrate contract theory into the neoclassical view of the firm as a “black box” that transformed inputs with the help of labor and capital into output that was subsequently sold in the market. What went on inside the box was not discussed in the courses in economics.

His interest in contractual relations led Ståhl into an analysis of the role of property rights which he considered to be fundamental for an understanding of how a market economy operates. Inspired by the memory of Samuel von Pufendorf, who was appointed by the University of Lund as a professor of law in 1668 and who was one of the first to discuss the relationship between private ownership and the market economy, Ståhl put forward the proposition that “if private ownership had not existed, we would have been forced to invent it” (Ståhl 1984a).

Ståhl was greatly inspired by Ronald Coase, who as early as 1937 had discussed contracts and transaction costs in a classic contribution. Ståhl made reference to this work in his debate with Meidner in 1975. He returned to Coase in an analysis of Estonia following its liberation from Soviet occupation. In an article entitled “A Coasean Journey through Estonia,” Ståhl interpreted Estonia’s history and future with the help of property rights and transaction costs (Ståhl 1993a).⁷ Independent Estonia was confronted with a completely new situation. In the ruins of the collapse of Soviet domination, the country was seeking to re-create the prerequisites for a market economy. This process had to commence with the introduction of private property rights of ownership and contracts.

⁷ This article is reprinted as Chapter 7 in this volume.

Health economics

Ståhl laid the foundations of the subject of health economics in Sweden. As was the case with defense, Ståhl introduced an economic perspective into the field of healthcare, proposing measures that would raise productivity and efficiency in a part of the public sector that was undergoing rapid change. In his numerous studies of health economics, he brought into focus three particular aspects: the level of health expenditures, efficiency and productivity growth.

He called widely cherished views into question. He disagreed with the standard political view of solving the problems of healthcare by providing additional government funding. With the aid of the theory of optimal insurance, he showed that not all healthcare should be financed by taxation. There were gains to be made combining public and private finance. One particular benefit would be to dampen the apparently inescapable growth of public expenditures on healthcare.

According to Ståhl, the efficiency of healthcare production could be improved by greater use of market incentives and by allowing healthcare providers to compete. He recommended methods such as internal pricing, a greater measure of private insurance and private payment, together with a clearer division between clients and service providers. The most radical of his proposals was a voucher system where the patient/private citizen would be able to purchase healthcare services from competing companies (Ståhl 1979b). He viewed the patient as a consumer who would be able to influence healthcare provision by means of informed choice. These proposals were almost considered shocking in the climate of Swedish debate in the late 1970s.

Ståhl also made an innovative contribution to the analysis of the economic effects of new pharmaceutical drugs. He discussed the pricing of new drugs and the role of patents in the behavior of the pharmaceutical industry. He was a dedicated opponent of government ownership of the pharmaceutical industry – a controversial stand at the time (Ståhl 1975c). By the late 1970s, he had completed a draft version of what would be considered as the first textbook in

Sweden on health economics. It was innovative and was moreover written in English. It was finally published in the mid-1980s, the only book by him in English (Ståhl 1986).

Ståhl was a driving force behind the establishment of health economics as a university subject in its own right. At an early stage, he formed a research group at the Department of Economics in Lund. In 1979, this embryo became the Institute for Health Economics (IHE), the first of its kind in Sweden. He was also influential in the establishment of the first professorship in health economics, at the University of Linköping. The same also applied to the program for health research at the Stockholm School of Economics.

Economics of education

The work on the government report on student financial support had provided Ståhl with a detailed knowledge of the economics of education. He developed his thinking through a number of articles, especially in relation to the proposals of the 1968 government report on education, known as *U68*. In a book entitled *U74 – en samhällsekonomisk analys av den högre utbildningen* (*U74 – an economic analysis of higher education*), (Ståhl 1974), he presented an alternative to the centralised administrative solutions offered by the *U68* report, based on market-oriented, decentralized solutions.

Once again, Ståhl used human capital theory to analyse the costs and benefits of higher education. He expanded his analytical framework from the 1960s to include a discussion on how to make the organization of higher education more market-oriented. He examined this theme more closely in Ståhl (1994), viewing universities from a public choice perspective. His analysis explained why no university organized as a private joint stock company had managed to establish itself on the Swedish market for higher education.⁸

⁸ Ståhl involved himself in many different fields during the 1970s. For instance, he contributed to a number of early works on environmental economics. His main role was that of acting as a source of inspiration (Hjalte, Lidgren and Ståhl (1977).

From a naive welfare economist to a realistic political economist

Traditional welfare theory provided the foundations for the early years of Ståhl's work as an economist. This theory may be described briefly in the following manner. In the world of economic models, an efficient market economy under perfect competition operates at a Pareto optimal equilibrium. Given the structure of property rights, it will not be possible for any individual to improve his welfare without lowering the welfare of another.

The market economy in the real world, however, is subject to various market failures that give rise to inefficiencies in the allocation of resources. These originate mainly from external effects, indivisibilities and public goods. In principle, market failures can be eliminated by appropriate economic policy measures. Armed with the theoretical propositions of welfare economics, an economist can demonstrate how economic policy could be formulated in order to correct for different forms of market failure. The economist finds himself in the role of the social engineer who is able to contribute to society's overall economic efficiency and welfare.

Welfare theory has an obvious ideological bias. It provides a scientific motive for political interventions in the private sector. The role of the state is to attempt to reach a Pareto optimal position with the help of the rationally minded economist. For a Social Democratic party, welfare theory could be used as an argument in favor of interventionist policies.

Ståhl was actually the prototype for that type of social engineer throughout the 1960s. However, he became increasingly skeptical about the relevance and use of welfare theory. His optimism turned to pessimism. His experience from meetings with politicians and other decision-makers in the public sector was part of this process. He had come to the conclusion that the sensible advice he and other economists had given had largely fallen on stony ground. This was the case, for example, with the reasoning of the Indexation Committee and with the criticism of rent controls. It also applied to defense policy. It was difficult to influence politicians and the

heads of public authorities by means of economic analysis. They were governed by other objectives than economic efficiency and optimal solutions.⁹

Ståhl often used anecdotes to illustrate the collision between the well-intentioned, good and unselfish advice of economists and the crass reality of politics. Once, following a departmental meeting in Stockholm with the Minister of Housing, Ståhl recollected for his colleagues in Lund that he had presented a detailed account to the minister of the economic advantages of the parity loan system for housing finance. He had completed his presentation by warmly recommending the minister to do his utmost to protect the system. On hearing these words, the minister had replied “That’s all right for you who understands the system!” Ståhl was obviously shaken by this reply. Not long afterwards, the parity loan system was abolished and replaced by interest rate subsidies.

Welfare theory was incomplete, as it lacked an analysis of the political and bureaucratic decision-making processes. He found this missing link in the public choice school of thought, whose main proponents in the 1970s were economists like James Buchanan, Anthony Downs, Gordon Tullock and Mancur Olson. Ståhl became deeply involved in the theory of public choice and transferred it to a Swedish context. In 1977, he produced the first account of the public choice approach available in Swedish. He described it as “the new theory of political economy” (Ståhl 1977).

The central idea underpinning Ståhl’s analysis was that the prevailing economic model for rational decision making in the market economy, based on the concepts of consumers as utility maximizers and companies as profit maximizers, ought to be directly applied to the political system and the public bureaucracy. Politicians and bureaucrats would then also be recognized as utility maximizers. In this sense, it would seem appropriate to describe politicians as vote maximizers, i.e. their objective is to win elections. Analogously,

9 In Chapter 4 in this volume, Ståhl explains how the incentives facing policy-makers and the problems of information in political decision-making make it difficult to implement the “rational” solutions proposed by the economist serving as expert.

bureaucrats seek to maximize the size of their organizations to increase their funding and expand their budgets. On the basis of these assumptions, it was possible to analyze the operation of the mixed economy of Sweden in a more meaningful sense than by using traditional welfare theory. The central question then arose: In whose interest is politics conducted?

According to Ståhl, “a substantial proportion of the interventions into the allocation mechanisms that have occurred in the post-war period in Sweden cannot be justified on welfare grounds” (Ståhl 1977). The regulation of agricultural prices and housing rents fell into this category. Price controls in those sectors destroyed well-functioning markets. Most of the public consumption of education, health and social care was not attributable to external effects, public goods or indivisibilities. They could have been financed by private insurance policies supplementary to the basic security provided by the state. Ståhl concluded that “the benevolent Pareto-optimal dictator who with the help of a large staff of well-qualified economists equalized all the marginal rates of substitution and transformation has never actually existed other than as a hope of welfare economists to expand their labor market” (Ståhl 1977).

Ståhl then went on to examine the use of the assumption of rationality in the study of the political system. He discussed the principle of unanimity, majority decisions, the median voter theorem, horse-trading, the budgetary process, etc. With the help of public choice theory, economists could now analyze political failures where they had only previously envisaged market failures. The political process in the Swedish mixed economy had transferred decisions from the market economy to the public sector. Ståhl concluded with a veritable catalogue of proposed measures and institutional reforms that could curtail political and bureaucratic power.

This entire study can be seen as a research program for the mixed economy, i.e. for the study of political behavior under alternative institutional arrangements, for decisions made within the public bureaucracy and for the patterns of behavior of special interests.

This became his personal agenda for the decades ahead. His main focus was on the effects on the allocation of resources, although he suggested that distribution and stabilization policies should also be brought into a wider analysis of the mixed economy.

The role of the economist would become that of an “eye-opener” who would reveal the political maneuvers underlying economic policy, rather than that of an expert who provides well-honed advice. Ståhl returned repeatedly to this “eye-opening” function. By extension, it offers several pieces of advice on a different level from those that emanate from welfare theory. It is no longer a question of changing taxes and subsidies to correct market failures. The focus should instead be on the analysis and reform of decision-making processes in the public sector and increasing the scope for the market economy. The ultimate objective is to provide individuals with greater power over their own lives.

Public choice was one source of inspiration for Ståhl when he discussed industrial policy and wage earner funds in the 1970s. However, it was not until the 1980s and 1990s that this school of thought came to predominate in his analyses, particularly as the co-author of two books with the words “The power over” included in their titles. Both books were published by SNS, a well-established market-oriented think tank in Stockholm.

The power over the food market

Makten över maten (The power over the agricultural sector) was published in 1984. It was a joint venture among Ingemar Ståhl, Olof Bohlin and Per-Martin Meyerson that offered a systematic public choice interpretation of Swedish agricultural policy. The authors demonstrated how the regulation of agriculture had developed through the cooperation of three principal groups: politicians, special interests and bureaucrats. Together they formed an “iron triangle” that defended the regulatory system that constituted agricultural policy. The benefits from agricultural policy were concentrated among a limited group, while the costs of the policy were spread over the entire population. This made it difficult to

find support for a policy that benefited everyone, ending the regulation of agricultural policy. The winners were easily able to defend their privileges by placing themselves in the middle of the political spectrum. They became an important group of marginal voters who could ally themselves with the political constellations that were best able to safeguard the privileges that farmers obtained from the regulatory system. The long coalition between the Farmers' Party and the Social Democratic Party provides an excellent example of this reasoning.

The book gave rise to a passionate debate in Sweden. The reaction from the farming lobby was extreme. The three authors were subject to a fusillade of criticism. The book could be said to represent a turning-point in agricultural policies. It was certainly an eye-opener. Gradually a few steps were taken towards deregulation. By the early 1990s, this process was completed. A few years later, the regulation of Swedish agriculture took on a new form when the country became a member of the European Union.

The power over the housing market

The same approach as in *Makten över maten* was adopted six years later in *Makten över bostaden* (The power over housing), which Ståhl wrote together with Per-Martin Meyerson and Kurt Wickman. This book examined Swedish housing policy from a public choice perspective (Meyerson, Ståhl and Wickman 1990). There are striking parallels between agricultural and housing policy. The same mechanisms govern the regulatory process. While one special interest (the agricultural lobby) was trying to keep food prices *above* market levels, another special interest (the tenants' organizations) sought to keep housing rents *below* the market price.

Rent controls, stemming from the Second World War, formed the basis of a housing policy where powerful interest groups and public authorities exercised control over the rental market to create and retain their positions of power. The same mechanism worked through the agricultural price controls, secured during the depression of the 1930s.

The authors of *Makten över bostaden* did not initially intend to write a book that would propose solutions. Their primary objective was "to open the eyes of their colleagues, the general public, as well as perhaps the interested parties in the housing market to the procedures and relationships that tend to be ignored in a debate dominated by politicians, bureaucrats and well-organized pressure groups." At the same time, the reader could not avoid ending up with the conclusion that it would be desirable to abolish rent controls.

This was the same conclusion Ståhl had reached with Bentzel and Lindbeck in their book on housing published in 1963, and in the 1976 book *Svensk bostadspolitik* (Swedish housing policy) by Ståhl and his brother-in-law, Nils-Erik Sandberg (Sandberg and Ståhl 1976). The 1976 book concludes with the following sentence: "We have only tried to show that if the goal is to achieve social justice and efficient resource allocation, it is better to work with rather than against the market." This is a credo that reappears in many of Ståhl's writings on the housing market.

Makten över bostaden was a sweeping criticism of half a century of rent controls. The arguments that it presented are still relevant, not least the discussion in the final chapter that examined twelve standard "slogvanized formulations" that are often put forward in the debate on housing policy in Sweden. The authors systematically rejected these opinions, which are still to be found in the current debate on housing issues.

The power over the labor market

As a result of the collapse of the pegged exchange rate of the Swedish currency in November 1992 and the ensuing financial crisis, the center-right government led by Prime Minister Carl Bildt appointed the so-called *Ekonomikommisionen* (Economic Commission), better known as the Lindbeck Commission to set guidelines for future economic policy.

Ståhl provided a chapter on the regulated labor market in Sweden to the report of the Commission (Ståhl 1993b). He adopted the

same public choice approach as in *Makten över maten* and *Makten över bostaden*, arguing that price regulation in the labor market, i.e. of wages, had strong similarities with price controls in the housing and agricultural market. He also contended that the same iron triangle of political parties, special interests and public administrations had taken on a dominant role in the labor market. This iron triangle, consisting of the Social Democratic Party, the trade union movement, government authorities and research organizations closely associated with the labor market, had developed as part of a long historical process that formed an essential and frequently highly respected part of the Swedish model.

Ståhl's analysis dealt with several aspects of the labor market. His point of departure was a comparison between two forms of contract: the individual contractual agreement and the collective employment contract. The individual contractual agreement provides the parties who have entered into the agreement with considerable freedom. This type of contract belongs under civil law. The collective employment contract, or, as it is popularly known, the collective wage agreement, which is regulated under labor law, provides two cartels, the trade unions and the employer organizations, with considerable powers. Swedish legislation favored the collective employment contract over the voluntary agreement on which the individual contract is based. Labor law provides the trade unions with considerable powers since it curtails freedom of contract. It creates and protects monopolies and cartels, thus forming a barrier to free competition.

Ståhl pointed out that an employment contract brings an employer and an employee into "a lifetime relationship." He found it ironic that the Employment Protection Act became law at the same time as the legislation regulating marriage was "liberalized," providing for an immediate annulment with markedly reduced maintenance (Ståhl 1993b, p. 347).

A striking feature of Ståhl's approach to the labor market is his broad perspective. He brings together labor law, collective agreements, conflict measures, social security rules and the design of the tax system. All of these features combine to provide an

“eye-opening” analysis of the rights and powers which had been given to cartel organizations at the cost of individual freedom of contract and free competition.

Where should one start to reform the system? Ståhl provided no facile solutions. He was dealing with the highly praised Swedish model, and it could not easily be replaced by another system. However, he did point to a number of possible approaches that could be adopted: small steps could be taken towards increasing individual freedom in the form of a greater element of voluntary agreements (the voluntary principle) and the “negative right” for individuals and companies to remain outside labor market organizations without being penalized socially or economically.

Ståhl invited his readers “to take part in a mental experiment where one imagines a world where strictly individual contracts are renegotiated when individuals and companies find it advantageous to do so. This imaginary situation could then be compared with the contentious atmosphere surrounding the collective decision-making that characterises contemporary wage bargaining, organized along the lines of military conflict models where armies of ombudsmen confront armies of negotiating executives.” In brief, Ståhl wanted to limit the exclusive power of trade unions to negotiate wage contracts and to create greater opportunities for individual freedom of contract.

What was the reaction of the Lindbeck Commission to Ståhl’s study? The section that dealt with the regulation of the labor market stated in its introduction that the labor market was “one of the most regulated markets in Sweden” (SOU 1993: 16, p. 80). The Commission held more or less the same view as Ståhl, putting forward a number of concrete proposals that would contribute to a liberalization of the labor market. Recommendations along the same lines appeared throughout the report, including for example the proposal to abolish the Swedish Labor Court. However, no major reform of the labor market followed from Ståhl’s recommendations.

The 1990s – a decade of suedosclerosis

In the late 1980s, Sweden was undergoing rapid economic expansion. However, a sharp rise in international interest rates in the early 1990s contributed to a severe financial crisis, followed by several years of negative economic growth. Unemployment, especially in the construction sector, rose dramatically. The commercial banking system was shaken to its foundations and the government intervened with massive financial assistance. The budget deficit reached record heights. Finally, in the autumn of 1992, the Riksbank had to accept a flexible exchange rate. The reverberations of this deep economic crisis were felt throughout the 1990s.

The economic crisis during the first half of the 1990s inspired Ståhl to take on new joint ventures with Kurt Wickman. They wrote five books together from 1992–1997: *Riv bostadspolitiken!* (Demolish housing policy!), (Ståhl and Wickman 1992), followed by *Suedosclerosis – en särskilt elakartad form av eurosclerosis* (Suedosclerosis – a particularly virulent form of eurosclerosis), (Ståhl and Wickman 1993), *Suedosclerosis II* (Ståhl and Wickman 1994), *En miljon utan jobb – Suedosclerosis III* (A million out of work – Suedosclerosis III), (Ståhl and Wickman 1995) and *Ännu mera planekonomi?* (Still more central planning?), (Niklasson, Ståhl and Wickman 1997). The latter four books were part of a series entitled *Marknadsekonomisk årsbok* (The market economy annual survey) published by Timbro, a Stockholm think tank and publishing company.¹⁰

A central theme in their analysis was that the crisis in the Swedish economy was not attributable to a fall in aggregate demand that could be dealt with by traditional Keynesian stabilization policies. Instead, Sweden faced two major disturbances. The first was a real interest rate shock prior to the depression due to a sharp rise in real interest rates in Sweden from the negative levels of the late 1980s.

¹⁰ The concept of eurosclerosis was used widely in the debate on the low rate of economic growth in the 1980s. Stagnation was interpreted as the result of far-reaching state regulation and comprehensive social benefits. Ståhl and Wickman identified a Swedish variant, suedosclerosis, as an explanation of the problems that they found affecting the Swedish economy.

As a result of cross-border financial integration, real rates of interest in Sweden had now reached the same high level as prevailed in global financial markets. The other disturbance was the shock to Swedish industry brought about by the increased competitiveness of low-wage economies in Southeast Asia as well as from countries in Eastern Europe following the collapse of communism.

These changes in the international environment, described by Ståhl and Wickman as “Hayekian,” placed new demands on the Swedish model, mainly through the need to adjust the taxation system, housing policy, social insurance and the labor market. It was now a question of organizing a great retreat from interventionism to deal with the global international competition facing Sweden. Their recommendations were largely based on Ståhl’s earlier analytical work on regulations, controls, incentives and contracts, now adjusted to take account of the crisis years of the 1990s and the new global environment.

Regarding the housing market, they proposed that rent controls should be abolished and replaced by complete freedom of contract. At the same time, interest rate subsidies and housing allowances should also be removed.¹¹ The authors were extremely critical of subsidization. Central government property taxation should be replaced by municipal property taxes. Reforms of labor market legislation should establish greater freedom of contract, partly by means of prohibiting trade union monopoly and providing guarantees for negative freedom of association.¹² Marginal tax rates and the tax burden had to be lowered. Collective savings should be curtailed while private savings could be increased partly by means of the privatization of the ATP supplementary pension system. Finally, the authors advocated a greater scope and understanding for market solutions.

In 1994, they summarized their arguments in a letter to the new Social Democratic Prime Minister, Göran Persson. He expressed

¹¹ Ståhl’s views on housing policy are summarized in Ståhl (2000).

¹² “The ideal labor market would accordingly be regulated by individual contracts” (Ståhl and Wickman 1995, p. 24).

his appreciation and replied that he had a different point of view regarding the measures that could be used to lower unemployment. Above all, legislation could not be used if it would be opposed by the trade unions or the employers' organizations. He also underlined the need to protect a large public sector and a high ratio of taxes to GDP. However, he was not opposed to the idea of a review of the welfare system (Ståhl and Wickman 1995, p. 126).

The sclerosis books were pessimistic. Sweden had to be reformed in order to avoid stagnation. Why did things not turn out as badly as the books suggested? The answer is found in favorable international circumstances and the economic policy adopted following the fall of the fixed exchange rate of the Swedish currency in 1992. International economic expansion and the substantial depreciation of the Swedish krona paved the way for a significant upturn in Swedish exports. Economic growth, combined with a tight fiscal policy, helped to eliminate the budget deficit. The Bank of Sweden adopted an inflation targeting policy and kept the rate of inflation at a low and stable level around 2 per cent in the second half of the 1990s. This was accompanied by a fall in international real rates of interest from the levels that had prevailed during the crisis years. The flexible exchange rate following the collapse of the krona undermined the strong position that the trade union movement had held during the fixed exchange rate regime of the 1970s and 1980s. Wage formation became increasingly disciplined partly as a result of increasing competition from low-wage economies as well as a new industrial wage agreement.

The crisis of the 1990s contributed to market-friendly reforms in many areas of economic policy in Sweden. Following the financial deregulation of the 1980s, an increasingly open Swedish economy supported the growth of new companies and entrepreneurship. In short, the welfare state proved capable of reform and adaptation to new global economic conditions.¹³

13 See for example Bergh (2014) for an account of the reforms of the 1990s, in particular chapter 4.

Professor at Lund University

Ståhl became professor at Lund University at a record young age. He had a unique profile. Through his work in central government and in public authorities, he had acquired a deep knowledge of the actual operation of the Swedish economy. He was personally acquainted with many of the key figures in the Swedish government. He had met many of them in the world of student politics. The other professors of economics did not have such a background. They had made their careers from the inside of the academic world.

Ståhl was a breath of fresh air in Lund's economics department. In his most active years, he could conduct a day-long seminar that began when he parked himself in the seminar room, pipe in mouth, for morning coffee. On occasion, this was a long drawn-out affair. Ståhl would read aloud from something that had caught his eye, usually from the morning papers. His favorite newspaper was *Arbetet*, the Social Democratic morning paper from Malmö. He could come up with occasionally hilarious, telling remarks that nearly always had an undertone of humor. This could continue over lunch in the company of a small group who wandered off to a nearby restaurant where they would also meet up with members from other academic disciplines. Lunch became a long debate where the intellectual cuisine was often better than what appeared on the plates.

On their way back to the department, they sometimes stopped to have a look at the stock exchange lists at *Skandinaviska Banken*. It was customary for Ståhl to provide his own comments on the movements of share prices. The seminar finally finished with afternoon coffee at the department before it was time to go home. If the seminar room was empty, he could knock at the door of someone working to test his ideas and trains of thought.

Ståhl usually began his reasoning from the standpoint of an observation or event, frequently in the form of an anecdote. He would then proceed to explain how an economist should analyze what had happened or what should be done. The debate was often lively. His professorial colleague, Bo Södersten, had a standard reply when he

was unable to respond to Ståhl's arguments: "Ingemar! You have an anecdotal world-view!"

Ståhl had a flair for taking initiatives but was less capable of maintaining a presence within any given area. He was always on the move, both mentally and physically. He needed to move on to the next, exciting thing that turned up. He was certainly no empire builder. He made no attempt to surround himself with disciples or a research institute in Lund. The department in Lund became the major exporter of professors of economics within Sweden in the 1980s and 1990s.

Although his thinking and his recommendations were suffused with a sense of rationality and efficiency, along with an awareness of the importance of incentives, Ståhl's academic life was that of a disorganized professor. Unopened letters gathered in piles in his office, while yellow Post-It notes covered the door. He was renowned for his difficulties in meeting deadlines for the submission of manuscripts and for correcting examination papers in time. He liked to accept invitations to public speaking engagements. There were many double bookings.

During the 1980s, Ståhl worked hard to establish financial economics as a new subject in the teaching at the undergraduate level in Lund. At an early stage, the Department of Economics and the Department of Business Administration established cooperation in the field of financial economics. The School of Economics and Management at Lund University became a forerunner in this field in Sweden. Ståhl was heavily involved in undergraduate teaching both in financial economics and microeconomics. His lectures were widely appreciated by the students.

According to him, the undergraduate course in microeconomics ought to start with the concepts of property rights, contracts and transaction costs. During the 1990s, he developed this approach in a manuscript entitled "The institutions of the market place," which he never actually completed for publication (Ståhl 1997). The manuscript was intended to "act as a complement to the basic micro-course in economics". Here the reader is confronted with a different world from that usually encountered in textbooks in

microeconomics. It was both richer and closer to reality. This approach also provided him with a connection to the study of law and economics.

Ståhl's primary role at the graduate level was to act as a source of innovative ideas. The practical role of thesis advisor he usually left to others. The Department of Economics in Lund succeeded in producing a large number of doctoral dissertations considered of path-breaking importance in Sweden, in areas such as law and economics, health economics, labor, taxation, the economics of education and environmental economics. Many of the authors subsequently became professors.

At the turn of the century, Ståhl moved from the Department of Economics to the Faculty of Law. At *Juridicum*, he continued to follow the same pattern as before, taking up a seat in the seminar room. There were both pull and push factors underlying his move. The environment at the Department of Economics had changed. Former colleagues had become researchers or professors outside Lund. The emphasis on mathematics and rigorous presentation had become popular among the younger colleagues. This was not to his liking. He hoped presumably to find a greater response to his interest in institutional economics and law and economics in the Faculty of Law.¹⁴

In the latter part of the 1990s, Ståhl's voice became less prominent in public debate and his research activity began to decline. His health deteriorated and he lost some of his former energy. His involvement and his writing tailed off. When I asked him about this he replied that he had said all that he needed to say. He retired in 2005 and withdrew from economics.

My own experience of Ståhl was that it was both exciting and rewarding to be in his company, although I personally had chosen to involve myself in research far from his fields. He had a humorous twinkle in his eye. He was never far from a joke and laughter. For

¹⁴ Ståhl subsequently received an honorary doctorate in 2001 for his work in law and economics from the Faculty of Law in Lund and a festschrift published in 2005 (Dahlman 2005).

me, he was an inspiring, quick-witted professor who was always prepared to provide a rapid, concise and pertinent analysis. In short, Ståhl made it fun to be an economist. There were many who agreed with me, although others were more critical. They could find him supercilious, domineering and lacking respect. His sharp critical faculties could be difficult to handle.

From a social democrat to a market liberal

Ståhl's fascination for economics ran parallel to a strong interest in political developments. At upper secondary school, he was already active in the Social Democratic movement. He became co-editor of the Social Democratic student association's journal *Libertas* as well as writing articles for the party's own journal, *Tiden*. At an early stage, he got to know the young elite that was rising toward the top of the Social Democratic Party. In that circle, there were two future prime ministers, Olof Palme and Ingvar Carlsson, and a future minister of finance, Kjell-Olof Feldt. This background undoubtedly made it easier for Ståhl to establish contacts with government committees, government departments and authorities during the 1960s, when the Social Democratic Party was the predominant force in Swedish politics.

Ståhl was never a Marxist or a socialist. Not once did he express any approval of the socialist experiments that had been carried out outside of Sweden. The difficulties involved in planning were apparent to him from an early stage. Central planning required so much information that it seemed unrealistic and quite impossible to implement.¹⁵ He could best be described as a social engineer who was ready to improve society by means of rational solutions aimed at increasing overall economic efficiency in society. It was a matter of complementing the market economy and improving the operation of the public sector rather than seeking to replace the market. His proposal in the party journal, *Tiden*, for the creation

¹⁵ See for example Ståhl (1964b and 1979c).

of an institute for structural economics should be seen in that light (Ståhl and Ysander 1965).

On his arrival in Lund, Ståhl was a declared Social Democrat.¹⁶ Gradually, he moved away from the party. Several factors contributed to his reorientation. The Social Democratic Party shifted to the left during the 1970s. He was also influenced by his experience of Social Democratic politicians and policies. He was particularly disappointed by the party's housing policy. He failed to find any support for his ideas, which he considered to be based on rational economic analysis. The wage earner funds issue led him into a critical attack on Rudolf Meidner, a leading economist of the trade union movement. The books on *Stålverk 80* and on the ground rules for industrial policy represented a move to a free-market approach. The debate on nuclear power in Sweden revealed him to be a firm supporter of nuclear power, thus providing support for the line adopted by the conservative party.

His encounter with public choice theory and U.S. economists of more classical liberal and conservative persuasion, some of them associated with the University of Chicago, contributed to Ståhl's shift towards a market liberal standpoint. He had already come across their analysis of human capital and education in his work on a system for student finance. He now wished to introduce these American economists to a Swedish public. He made it possible by writing the preface to Milton and Rose Friedman's book entitled *Frihet att välja* (Free to choose), published in 1980 (Ståhl 1980b). Subsequently, he also wrote the preface to James Buchanan's book *Maktens gränser* (The limits of power), published in 1988 (Ståhl 1988). Ståhl cooperated with Buchanan on the articles to be selected for the book. He was also involved in the publication by Ratio in 1992 of Ronald Coase's book *Företaget, marknaden och lagarna* (The firm, the market and the law). James Buchanan and Mancur Olson visited Lund. Ståhl viewed their work with great sympathy.

As early as 1983, Ståhl became a member of the Mount Pelerin

16 At a very early stage, he pointed out for me the advantages of being a party member in order to advance one's career. I declined this offer.

Society, a group of economists, historians, philosophers, businessmen, politicians and journalists with the aim of spreading the ideas of classical liberalism. He was one of the few Swedish social scientists represented in this organization and was moreover at that time the only Swedish professor of economics in it. Inspired by Knut Wicksell's theory of taxation, Ståhl argued that decision-making in parliament should require a qualified majority, in order to provide the minority with additional powers. This standpoint was in direct conflict with Social Democratic views on taxation and democracy.

In the late 1970s, Ståhl became a columnist of the Stockholm daily newspaper *Svenska Dagbladet* and the business periodical *Affärsvärlden*. He participated in several conferences arranged by SAF (The Swedish Employers' Confederation) and by Ratio and Timbro, two think tanks supported by SAF. He worked as an advisor for them as well as being a member of the board for *Näringslivets fond* (The Swedish Industry and Commerce Foundation). In the mid 1980s, he carried out substantial work for MAS (Market economy alternatives for Sweden). He was the principal contributor to the chapters on healthcare, the housing market, taxation and social policy in the so-called MAS report in 1985 (Thimerdal 1985). This report offered a clear liberal and market-friendly alternative to the Social Democratic program.

Ståhl's market liberal stance became even more pronounced during the 1990s, when he became a contributor to the Market Economy Annual Report published by Timbro. He was also one of the founders of the private City University. He was a board member from 1989–2002 as well as a member of the research institute Ratio's scientific council from 2012–2014.

Ståhl's political journey was far from unique. It followed the same path during the 1970s and 1980s as that of a number of economists who initially shared a Social Democratic orientation, among them Assar Lindbeck, Nils Lundgren and Carl B. Hamilton, joined somewhat later by Bo Södersten.

Ståhl was an early advocate of market solutions, from the start of his career during the 1960s. He was aware at an early stage of the difficulties of central planning and the disadvantages of rent

control. He was also critical of the continuing expansion of the public sector and the negative incentives associated with high levels of taxation. His aim throughout was to extend the scope of the market economy and of the freedom of the individual to make choices. Guy Arvidsson called him a “price enthusiast.” If a political label is to be attached to Ståhl, the epithet “liberal” would be the most suitable. The choice is then available between market liberal, neo-liberal and classical liberal.

The civic role – external commitments

Ståhl was strongly attached to the idea of the civic role of the university professor. He was active in many areas outside Lund University. He wrote articles for the press as well as having a regular newspaper column. He took part in the radio program *Ekonomiska klubben* (The economic club). His experience and knowledge was in high demand. And he satisfied that demand with a prolific supply. He loved to make himself available. He enjoyed public speaking engagements, which provided him with a forum for his eloquence. He was a powerful debater who was able to combine telling replies with rhetorical flourish. At his busiest, his diary would be full of appointments for lectures and speeches. He received invitations from a wide range of organizations: the Swedish Economic Society, Centre for Business and Policy Studies (SNS), Swedish Medical Association, Association of Swedish County Councils, National Association of Homeowners, Swedish Chamber of Commerce, Swedish Employers Association, Timbro, and various local business organizations.

Ståhl became a member of the Royal Swedish Academy of Sciences in 1978 and was a member of the committee that awarded the Nobel Memorial Prize in Economic Sciences from 1981-1994. He was heavily involved in the work of that forum, being a particularly strong advocate of public choice, contract theory and financial economics. Most media attention concerned the prize awarded to John Nash in 1994. Ståhl did not hide his opposition.

In a passionate speech at a plenary meeting of the Academy, he criticized the award to Nash. This led to a serious delay of the customary press conference. Ståhl had raised the objection that the enquiries that had been made into Nash's mental health made it unsuitable to give him the award. He also questioned the originality of Nash's work and its relevance for economics. However, his opposition was in vain. Not long afterwards, he gave up his position on the committee.¹⁷

Over a period of 25 years, Ståhl acted as academic advisor to the Ragnar and Torsten Söderberg foundations as well as being a member of the Ragnar Söderberg foundation. He became deeply involved in the work of these foundations. Following the collapse of the Soviet Union, Ståhl became interested in the Baltic countries. He gave courses in institutional economics, law and economics and financial economics on several occasions at the School of Economics established in Riga, Latvia, with Swedish financial support.

Ingemar Ståhl as an economist

Ståhl was almost certainly born to be an economist. Economic analysis seems to have been in his genetic make-up. He interpreted everything in economic terms. He was able to use economic theory to provide quick, elegant and insightful explanations of his observations of reality. A fallen roof tile lying on the road was probably the result of rent control since it encouraged the property owner to neglect maintenance of the property.

It could perhaps be said that Ståhl did not have to study economics. He actually warned that learning economics could make healthy brains sick. As an example, he chose his experience as an external examiner at Oslo University. It was an important moment for the students. After several years of advanced, demanding studies, they now had to answer questions from professors from other universities.

¹⁷ Nasar (1998) provides a somewhat incomplete account of the events surrounding the award of the prize to John Nash.

Ståhl began his questioning by telling the students that he had taken the tram to the Oslo University, passing a baker's shop that had a sign stating "Today's special offer: bread for seven crowns." Ståhl posed the question: "Why did the bread cost seven crowns?" It became an embarrassing chaos when academically well-trained students were unable to come up with sensible answers. They dug deep into input-output analysis, the labor theory of value, assumptions regarding productivity and other forms of model-based reasoning. Years of higher education were not just a waste of time. In Ståhl's view, they had also damaged healthy brains. He smiled about this unique episode. He was never invited back as an external examiner to Oslo University.

The examination at Oslo illustrates a central feature of Ståhl's approach to knowledge and economics. He chose his example from reality rather than from theory and the world of models. Throughout his working life as an economist, his focus was on concrete questions, which he tried to answer with the help of the most constructive form of analysis. Given the choice between a simple and a difficult explanation, he chose the former. His writings since he became professor contained hardly any theoretical evidence or econometric estimates in support of his reasoning. He was a verbal economist *par excellence*. This approach can be largely explained with reference to his work as an analyst on government reports in the 1960s. He wrote for decision makers, politicians and the general public rather than for a purely academic audience. He continued along that road for the rest of his life.

Almost all assessments of Ståhl as an economist emphasize his inventiveness, ingenuity and relevance. His strength was to stimulate new thought, frequently by adopting surprising approaches. He wrote well and rapidly, although much of his writing remained in his desk drawer. "Stringent analysis, clarity of presentation, capacity to apply theory to practical problems without complicating the theory more than the problem required." These words appear in the formal opinion signed by Guy Arvidsson concerning Ståhl's appointment as associate professor at the University of Lund. This judgement applies to all of Ståhl's work.

Many researchers keep to one field and one type of scientific approach throughout their academic lives. Ståhl did not. He worked in many areas, although his main focus was on resource allocation. He had a thirst for knowledge and a desire to make his presence felt in debates. He was attracted by current problems and finding solutions for them. In spite of his curiosity, he returned to deal with issues that concerned him throughout his life like housing policy and taxation issues.

He did not follow the current road to a professorship based on publishing articles in English in highly ranked peer-reviewed academic journals. Ståhl did not have a single publication in English in an established academic journal, either before or after attaining his professorship. Most of what he wrote was in Swedish. He adapted successfully to the structure of incentives for an academic career in the 1960s. He wrote primarily in response to invitations from external customers – for official government reports, think tanks, organizations, companies and authorities. In this way, he was the product of a bygone period.

The legacy of Ingemar Ståhl

Most of what Ståhl fought for throughout his life has achieved widespread acceptance in public debate and policy in Sweden. This contrasts with the reception that many of his ideas and recommendations received when they were first presented. A central strand in his thinking was that the market economy had suffered at the hands of the Swedish mixed economy. He showed that the expansion of the public sector was not driven by the well-intentioned consideration of public welfare. Instead, it was motivated by the need to use the public purse to protect the interests of privileged groups. He formulated alternatives to prevailing Social Democratic policies based on a positive view of the capacity of the market economy to reflect the wishes and preferences of the citizens.

He wanted to provide individual citizens with greater freedom to change their life situations. Freedom could take many

forms: greater competition in the public sector; deregulation in sectors such as housing, agriculture and the labor market; greater choice for the citizen in areas such as health and education; stable ground rules for both the state and business; a tax system based on uniform principles; and increased scope for freedom of contract.

His role as a public intellectual and his active participation in public debate, together with his numerous proposals for reform, allowed him to exert a considerable influence on the Swedish economic thinking of his time, which initially was characterised by a belief in a strong state, public intervention and control. He helped shift the general state of opinion in Swedish society from skeptical hostility to a more positive view of the role of the market economy during the last quarter of the twentieth century. He was hardly a lone voice in the desert. A number of economists started to argue for a greater acceptance of market solutions. There is a lack of doctrinal analysis of the role played by economists in this process in Sweden. When it is written, Ståhl will appear as an important actor in this course of events.

Ståhl's legacy is also to be found in practical policy. A central part of his intellectual heritage is the system of student financial support. He proposed the idea, developed it and contributed to its implementation.¹⁸ From 1965-2017, 3.1 million Swedish residents received student grants, of whom 2.7 million also took loans. These figures apply to higher education. At the level of the upper secondary school, the comparable figures are 2 million youngsters who received student grants and 1.6 million who took loans. From its introduction in 1965, the system has paid out 191 billion Swedish crowns in grants and 321 billion crowns in loans. These substantial figures have grown out of Ståhl's brief outline, which originally covered only a few pages.¹⁹

Within academia, Ståhl was a pioneer in several fields. He

¹⁸ Berggren (2010, p. 328) praises the system of student finance as “one of the most successful reforms in Swedish educational policy.”

¹⁹ These figures have been made available by CSN (National Board of Student Aid) for the Swedish book on Ståhl (Jonung and Jonung 2018).

introduced health economics as a subject in its own right. He was an early advocate of public choice and contract analysis. As a result of his efforts, financial economics became a part of undergraduate studies in economics at Lund University at an early stage. He encouraged research in new fields.

Ståhl's analyses and ideas have withstood the passage of time. Almost all of the problems that he worked on are still part of the contemporary political debate in Sweden. This applies for instance to issues concerning the tax system, housing policy, agricultural policy, labor market, education and defense. He is a brilliant representative of the tradition in Swedish economics of providing relevant analysis and policy proposals to advance economic and social progress. He deserves to act as a source of inspiration for the current and future generation of economists in Sweden.

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