

RESEARCH PROGRAM

IUI

Yearbook 1995/96



1996



The Industrial Institute for Economic and Social Research (IUI)
Stockholm

IUI YEARBOOK 1995/96

Foreword

The research program of IUI focuses on long-term economic issues. These perspectives should also guide the design of economic policy. In order to promote long-run sustainable growth emphasis has to be put on structural reforms. One key issue in a growth context deserves special attention. It concerns the design of the educational system, both as regards the kind of education offered, and the incentives for young people to embark on costly investment in their human capital.

The present educational policy of the government seems to have a quantitative flavor, stressing an increase in the number of students and regional universities. However, the success of business operations builds on the competencies of the employees and of management. Inferior quality will force firms to recruit personnel elsewhere and to locate production where it can be most competitive. Hence, a stronger political emphasis on education must be based on a careful assessment of the quality implications.

Growth, particularly as it relates to education, preoccupies a growing number of distinguished international scholars as well as the business community. One of IUI's core research programs directly addresses these issues, and the importance given to them at IUI are further underlined through the initiation of the "Astra-Ericsson Seminar Series on Human Capital and Economic Growth" in 1996. I feel confident that IUI will continue to play an important role in the search for a better understanding of the mechanisms behind economic growth.

Stockholm 1996

Håkan Mogren
Chairman of the Board

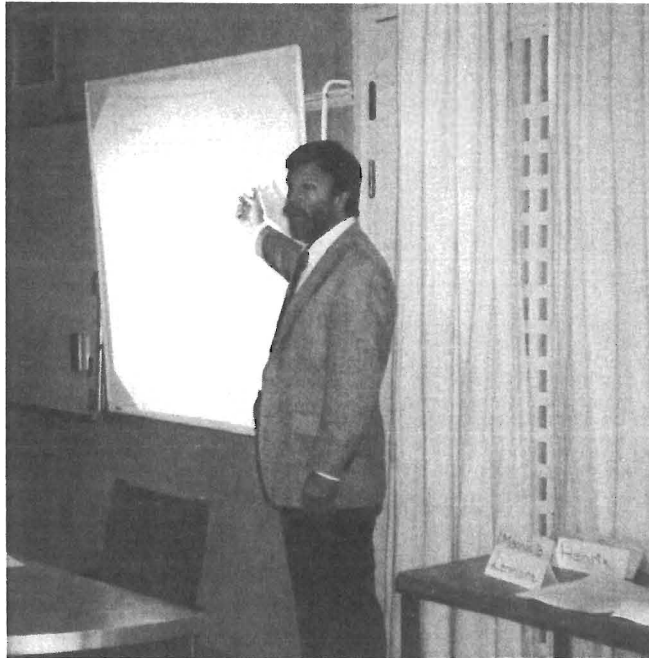


Members of IUI's staff (from left to right): Mattias Ganslandt, Ulf Jakobsson, Jörgen Weibull, Dan Johansson, Karolina Ekholm, Stefan Fölster, Patrik Karpaty, Gunnar Fors and Sten Nyberg.



Members of IUI's staff (from left to right): Pontus Braunerhjelm, Lars Oxelheim, Eva Meyerson, Harri Kanerva, Per Lundborg, Karl-Markus Modén, Roger Svensson, Lennart Grundberg, Gunnel Mattsson and Per Skedinger. The following staff members were not present: Giovanna Arizcurinaga, Marie-Louise Falk, Maria Hedström, Magnus Henrekson, Eugenia Kazamaki Ottersten, Assar Lindbeck, Eva Lindblad, Johan Lindén, Erik Mellander, Jörgen Nilson, Pavel Pelikan and David Sundén.

Some of the participants at the IUI workshop on “Multinationals, Trade and Economic Geography”



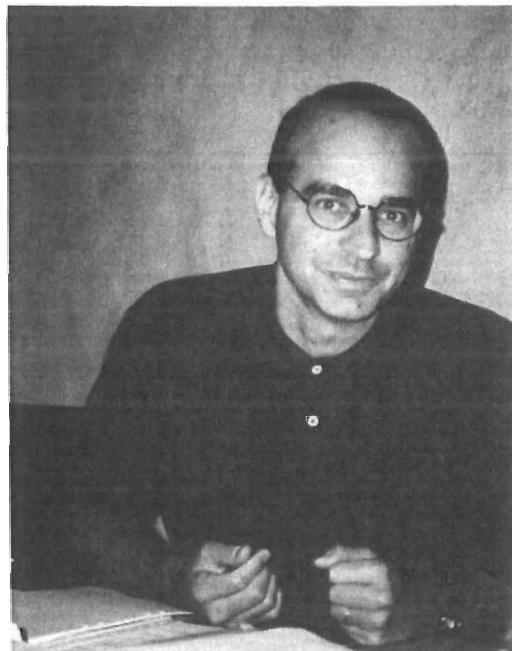
James Markusen



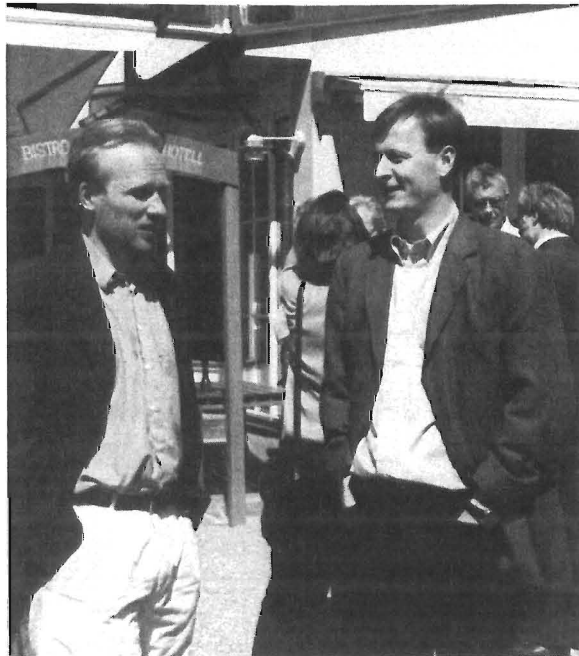
Ari Kokko and Jyrki Ali-Yrkkö



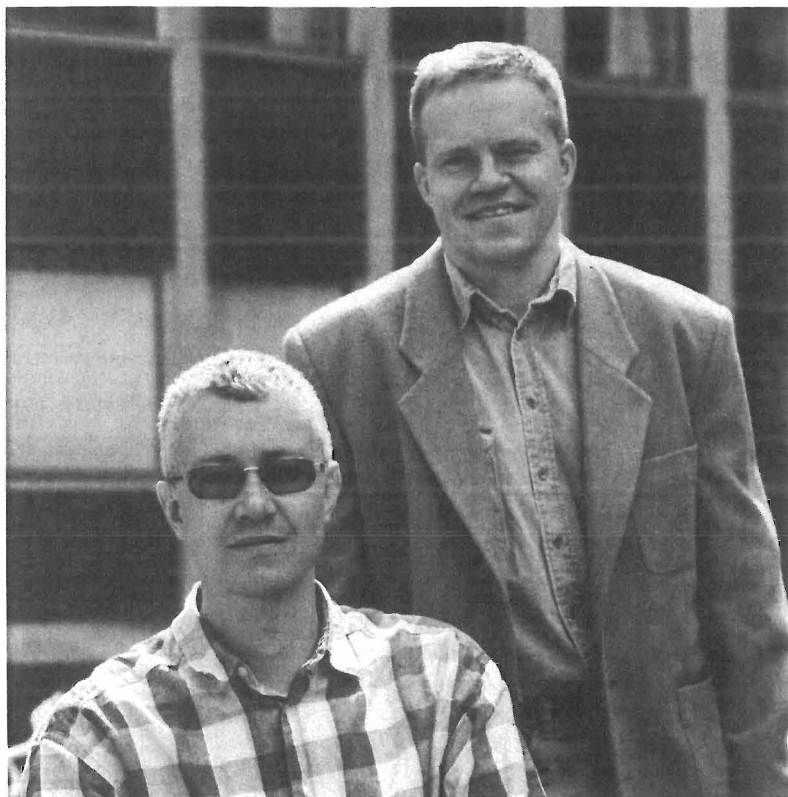
Anthony Venables



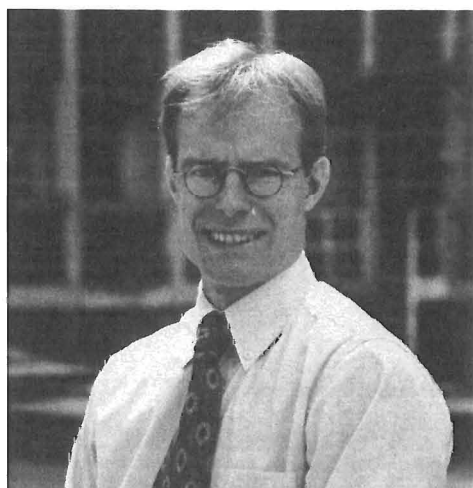
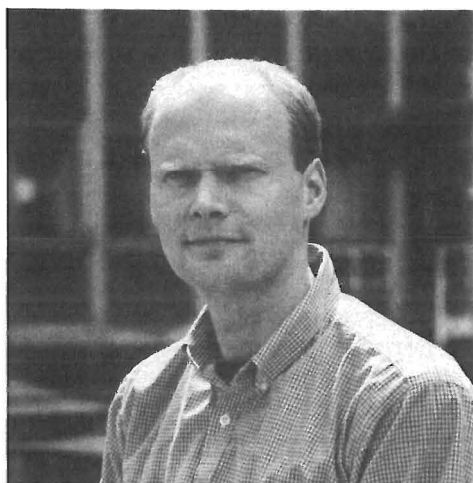
Massimo Motta



Tore Ellingsen and Rikard Forslid



At the workshop Gunnar Fors and Roger Svensson presented some of the results from their theses, concluded at IUI in spring 1996.



Karolina Ekholm, Lennart Grundberg and Dan Johansson represent some of the additions to the IUI staff in 1995/96.

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Presentation of IUI

IUI (Industriens Utredningsinstitut) is an independent non-profit research institution founded in 1939 by the Federation of Swedish Industries (Sveriges Industriförbund) and the Swedish Employers' Confederation (Svenska Arbetsgivareföreningen). Located in central Stockholm, the Institute conducts research on economic and social issues of importance for long-term industrial development in Sweden. Both empirical and theoretical research is carried out at the Institute, but the emphasis is on applied economics.

The academic profile at IUI has always been high. A considerable number of dissertations in economics originate from IUI and a significant part of the Institute's work has been published in international scientific journals and books. Many Swedish professors in economics have also spent part of their research careers at IUI. It is certainly the aim of IUI to continue to meet the challenges posed by the quality requirements of the international academic community. In order to achieve this aim, the research is concentrated on a limited number of areas.

Currently the two main research programs at the Institute are: (1) Human Capital, Knowledge Accumulation and Economic Growth and (2) Industrial Organization and International Specialization. At present, a third research area of importance is the Economics of the Welfare State.

Organization

The majority of the IUI research staff today hold a doctorate in economics. The size of the Institute has been fairly stable over the years, comprising the equivalent of 15–20 full-time researchers.

IUI's Board of Directors is made up of leading industrialists. The Board appoints the director of the Institute and approves the budget and research projects. The organization of the research projects follows academic principles and the researchers publish their results in academic journals. Researchers at the Institute have full academic freedom in their choice of methodology and, of course, in the conclusions they draw. The Board neither approves, nor does it have responsibility for any results published.

The Institute conducts open academic seminars and maintains many formal and informal relations with leading universities and other research institutions around the world. International contacts are extensive and foreign scholars regularly visit the

Institute. Generous contributions from the Marianne and Marcus Wallenberg Foundation make many of these activities possible.

The Institute also offers doctoral students the opportunity to work on their dissertations at IUI. Through the years, 52 dissertations have been concluded at the Institute.

Financial Sources

The principals of the Institute, the Federation of Swedish Industries (Sveriges Industriförbund) and the Swedish Employers' Confederation (Svenska Arbetsgivareföreningen), account for most of the budget. The remaining financial support primarily comes from various research funds. Generous financial support is gratefully acknowledged from: The Working Life Fund, the Economic Council of Sweden, the Swedish Transport and Communication Board, the Swedish Competition Authority, Telia AB, the Bank of Sweden Tercentenary Foundation, the Royal Swedish Academy of Sciences, Ruben Rausing Foundation, the Swedish National Board for Industrial and Technical Development, Jan Wallander's and Tom Hedelius' Foundation for Research in the Social Sciences, and the Marianne and Marcus Wallenberg Foundation.

Board of Directors

The Board of Directors is appointed by the principals and comprises leading industrialists, as well as the directors of the two principals.

Håkan Mogren, Chairman of the Board

Lennart Ahlgren (until October 1995)

Gösta Bystedt

Lars-Åke Helgesson (from December 1995)

Gunnar L. Johansson

Martin Leimdörfer

Per Olofsson (from June 1996)

Göran Tunhammar

H. G. Wessberg (until June 1996)

Ulf Jakobsson, Director of the Institute

Staff*Director*

Ulf Jakobsson

Deputy Director

Pontus Braunerhjelm

Research Staff

Pontus Braunerhjelm

Karolina Ekholm

Gunnar Fors

Stefan Fölster

Mattias Ganslandt

Lennart Grundberg

Magnus Henrekson

Dan Johansson

Harri Kanerva

Patrik Karpaty

Eugenia Kazamaki Ottersten

Assar Lindbeck

Eva Lindblad

Johan Lindén

Per Lundborg

Erik Mellander

Eva Meyerson

Karl-Markus Modén

Sten Nyberg

Lars Oxelheim

Pavel Pelikan

Per Skedinger

David Sundén

Roger Svensson

Jörgen Weibull

Administrative Staff

Giovanna Arizcurinaga
Marie-Louise Falk
Maria Hedström, executive secretary
Gunnel Mattsson
Jörgen Nilson

Visiting Researchers

Michail Antonov, The Institute for Market Economy, Moscow
Abhijit Banerjee, Massachusetts Institute of Technology, Boston
John Bishop, Cornell University, New York
Bo Carlsson, Case Western Reserve University, Cleveland
Steven Davis, University of Chicago
Jan Hatzius, London School of Economics
Per Heum, SNF, Bergen-Sandviken
James Markusen, University of Colorado at Boulder
Massimo Motta, Universitat Pompeu Fabra, Barcelona
Alexey Pomansky, National Credit Bank, Moscow
Philip Reny, Pittsburgh University
Vemund Snartland, Oslo University
Dennis Snower, Birkbeck College, University of London
Hilary Steedman, London School of Economics
John Sutton, London School of Economics
Georgi Trofimov, Institute for the Economy in Transition, Moscow
Anthony Venables, London School of Economics
Pekka Ylä-Anttila, ETLA, Helsinki

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News at the Institute

The staff underwent several changes during the academic year 1995/96. Karolina Ekholm, who received a Ph.D. from Lund University in 1994, joined IUI in spring 1996 to work in the research program "Industrial Organization and International Specialization". She will maintain her affiliation with Lund University. Johan Lindén stepped up his commitment to IUI, from 20 to 60 percent. Lennart Grundberg, after complementing his B.Sc. in economics with a year at the Kiel Institute, took up a position at IUI. He will predominantly work with empirical issues and assist in maintaining IUI's databases.

Two new research assistants joined the staff, Eva Lindblad and Dan Johansson. Dan is engaged in the project comparing economic performance in New Zealand, USA and Sweden, while Eva joined the project analyzing wage system and productivity. David Sundén, left the welfare state group to concentrate full time on his dissertation at the Stockholm School of Economics, while Pontus Engström was offered a position with the Boston Consulting Group.

IUI has also suffered a few losses on the senior side. After eight years at IUI, Per Lundborg will return to the Trade Union Institute for Economic Research (FIEF). Per has been one of IUI's most productive researchers, publishing extensively in scientific journals. Sten Nyberg and Jonas Häckner, who had been at IUI since 1988 and 1989 respectively, left IUI for Stockholm University. Finally, Kent-Rune Sjöholm, formerly employed on a part-time basis at IUI, left to concentrate his efforts on areas outside of IUI's research domain.

Among the administrative staff, Karin Magnusson left IUI permanently while Giovanna Arizcurinaga took the year off to study in Italy. During her leave, her position was filled by Gunnel Mattsson.

IUI wishes all former colleagues and friends good luck with their new positions.

Other Activities

Pontus Braunerhjelm presented papers at the Western Economic Association's meeting in San Diego and at the EARIE meeting in France. An article of his is forthcoming in *Applied Economics* (co-authored with R. Svensson). He has several other publications, e.g. in *Ekonomisk Debatt* and in two forthcoming books. Presently he heads IUI's research project "Foreign Direct Investment, Production Specialization and Trade Patterns". He organized an international workshop in May 1996 on the theme "Multinationals, Trade and Economic Geography", held in Stockholm. Recently, together with Professor Bo Carlsson, he initiated a new research project at IUI, which aims to compare the institutional setting and economic performance in New Zealand, Sweden and USA.

Karolina Ekholm began her affiliation with IUI during spring 1996. She will participate in the Institute's research on foreign direct investment, although she has also done research on effects of high-tech promotion policies.

Gunnar Fors successfully defended his Ph.D. thesis "R&D and Technology Transfer by Multinational Enterprises" at the Stockholm School of Economics. He presented papers at the Western Economic Association's meeting in San Diego, and at the European Association for Research in Industrial Economics (EARIE) conference in France. Together with Pontus Braunerhjelm he has also undertaken a study for SIDA (Sweden's Development Agency) about the role of the private sector in developing countries.

Stefan Fölster pursued his research on the role of the welfare state and industrial policy for growth and entrepreneurial activity. He was also engaged by the Expert Group on Public Finance (ESO) to write two reports, one on the impact and extent of firm subsidies, and one on the quality of evaluation of the performance of governmental bodies. During 1996, he had an article accepted by *Economica*, co-authored with Georgi Trofimov ("The Choice of Entry by Greenfield or Take-over"). At present his work concerns the relation between entrepreneurship, egalitarian income distribution and growth.

Mattias Ganslandt joined the Institute in August 1995. He was engaged in the research project on "Foreign Direct Investment, Production Specialization and Trade Patterns". His own research in this project focused on strategic interaction between multinational enterprises and the implications of multimarket competition. He presented papers at several conferences, e.g. "Investment under Uncertainty" in Helsinki, and "Evolution in Games" in Jerusalem.

Lennart Grundberg devoted most of his time assisting other researchers with their empirical work. In addition, he co-authored the most recent report on IUI's updated database on Swedish MNCs, "Swedish Multinational Corporations: Recent Trends in Foreign Activities". He also presented a paper at the OECD conference on telecommunications in Helsinki, "Swedish Multinational Corporations. The Role of Information Technology" (co-authored with Pontus Braunerhjelm).

Magnus Henrekson did work on issues of economic growth. Together with Johan and Rasha Torstensson, he wrote a paper that will appear in the CEPR Discussion Paper series ("Growth Effects of European Integration"). He also completed a paper on Swedish growth problems together with Steven J. Davis, "Industrial Policy, Employer Size, and Economic Performance in Sweden", which deals more particularly with Swedish growth problems. The latter article was published as an NBER working paper (No. 5237), and is also forthcoming in R. Freeman, B. Swedenborg and R. Tobel (eds.) *The Welfare State in Transition* (University of Chicago Press). In addition he authored a book about the impact of the Swedish model on entrepreneurship and private employment growth (*Företagandets villkor: Spelregler för sysselsättning och tillväxt*, SNS Förlag). Among other publications, he has an article forthcoming in the *Economic Journal*, which examines whether, and to what extent, economic growth has been slower in Sweden than in other comparable countries.

Ulf Jakobsson, director of IUI, continued to be an active participant in the public debate, becoming a regular columnist in the op-ed page of *Dagens Nyheter*, Sweden's largest morning paper. Ulf Jakobsson was one of the contributing authors in the annual report of SNS Economic Policy Group (*Swedish Strategies at the European Union Intergovernmental Conference*) that contains a discussion of Sweden's relation to the EMU. He was also elected a Vice Chairman of the Royal Academy of Engineering Sciences.

Dan Johansson, a Ph.D. student in economics at the Stockholm School of Economics, came to work part time at IUI in December 1995. Dan participated in the cross-country analysis of New Zealand, Sweden and USA, investigating economic performance in the perspective of different institutional settings, emphasizing the size of the governmental sector and labor market regulations.

Harri Kanerva, a Ph.D. student at Stockholm University, holds a research assistantship at IUI in the human capital research project. His research focuses on organization flexibility within firms.

Patrik Karpaty worked as an assistant in the project "Foreign Direct Investment, Production Specialization and Trade Patterns." He also co-authored the most recent

report on IUI's updated database on Swedish MNCs, "Swedish Multinational Corporations: Recent Trends in Foreign Activities".

Eugenia Kazamaki Ottersten continued her work on labor market and human capital related issues. Some of her findings were presented at the EALE (European Association of Labor Economics) conference last autumn. During most of 1996 she will be a visiting scholar at the department of economics at Stanford University. She has also become a member of IVA's (Royal Swedish Academy of Engineering Sciences) board of industrial researchers.

Assar Lindbeck has been preoccupied with three research issues during the past year: The problem of the welfare state, European unemployment, and the "Swedish model". This work has resulted in a number of articles, some of which will be published shortly. During 1996 he received two international awards: The Bernard Harms prize in international economics (Germany) and the Robert Seideman prize in political economy (USA). He also participated in several international conferences, including the International Economics Association's World Conference in Tunis where he presented the paper "Incentive Problems in the Welfare State".

Johan Lindén's research concerns two mechanisms for price formation: bargaining and auctions. He presented the paper "Job Search and Wage Bargaining Power" at the Econometric Society 7th World Meeting in Tokyo in August 1995, and the study "Bargaining Power in Search Markets – an Experimental Study" at the Economic Science Meeting in Tucson in October 1995. Together with Anders Lunander, Uppsala University, he concluded the paper "The Procurement of Road Maintenance Services by Sealed Bid Auctions".

Per Lundborg completed three projects dealing with the effects of the Swedish tax reform, and some of the results were presented at the European Economic Association meeting in Prague. He also concluded a study for the Economic Council of Sweden (Ekonomiska Rådet) on the implications of the EMU on the labor market. During 1995 he published papers in *Economica*, *Scandinavian Journal of Economics* and *Journal of Economic Behavior and Organization*.

Erik Mellander engaged in joint work with Pontus Roos at the Swedish Institute for Health Economics (IHE) on productivity measurement issues. This cooperation resulted in two articles in *Ekonomisk Debatt* during 1995. He has also presented the paper "Cost and Productivity Effects of Firm Training" (co-authored with Eugenia Kazamaki Ottersten and Thomas Lindh) at a workshop on Nonlinear Time Series and Econometrics at the Stockholm School of Economics, and at the Sixth Conference of the International Joseph A. Schumpeter Society in Stockholm. Together with Eugenia

Kazamaki Ottersten he participates in the EU project "Education and Training: New Job Skill Needs and the Low Skilled" that was initiated in the early spring of 1996.

Eva Meyerson's research was mainly focused on two projects: pay systems and their effects on productivity and wage level, and the market for corporate control, a longitudinal study of publicly traded Swedish firms. The first project focused on the impact of the design of the pay system on performance, while the second one examined the existence of board interlocks and the efficiency of the market for corporate control. She participated in the conference on Social Mechanisms held at the Royal Swedish Academy of Sciences in Stockholm in June 1996, and in the Nobel Symposium on Law and Finance held in Stockholm in 1995, and presented a paper at the American Sociological Association Congress in New York in August 1996.

Karl-Markus Modén is presently involved in research concerning investment, both foreign and domestic. He concluded a report ("The Impact of Tax Reform on Foreign Direct Investment") for the National Institute for Economic Research (Konjunkturinstitutet) and the Economic Council of Sweden (Ekonomiska Rådet). He also worked on the impact of liquidity constraints on firms' investments and on stock prices' sensitivity to news regarding economic fundamentals and decisions to issue equity on a foreign stock market.

Sten Nyberg continued his work in applied micro economics. During the spring he completed an article to be published in *Journal of Public Economics* and participated in a paper on social norms and the welfare state. Throughout 1996 Sten and Jonas Häckner served as co-editors of *Ekonomisk Debatt*. In June 1996 Sten took up a position at the department of economics at Stockholm University.

Lars Oxelheim maintained his affiliation with IUI while holding a full-time professorship in International Business at Lund University. His main line of research concerns the implications of macroeconomic disturbances on firm performance. Lars has been playing an active role in several international research networks, one of which resulted in the book published this past year by Handelshøjskolens Forlag, Copenhagen, entitled *Outsiders' Response to European Integration*. During the year he also finished the book *Financial Markets in Transition – Globalization, Investment and Economic Growth*, published by Routledge.

Pavel Pelikan presented two invited papers at international conferences: "Institutions for Flexible Economies" was given at the OECD Symposium on Institutions and Economic Performance in November 1995 in Paris, and "Government, Markets, and Economic Growth: the Problem of Economic Competence" was presented at the 6th meeting of the International J.A. Schumpeter

Society in June 1996 in Stockholm. His publications include a chapter in the book *Competition among Institutions*, edited by L. Gerken and published by Macmillan in the end of 1995, and a paper (in French) on post-socialist privatization in *Revue d'Etudes Comparatives Est-Ouest* in 1995. Furthermore, his engagement in the Nordic Economic Research Council project on the transition of the Baltic economies has continued. He also served as a member of the Editorial Board of the *Journal of Evolutionary Economics*.

Per Skedinger presented the paper "Capital Gains Taxation and Residential Mobility in Sweden" (co-authored with Per Lundborg) at the European Economic Association conference in Prague. He embarked on two projects, one on international differences in the returns to university education (with Erik Mellander) and one concerning the incentives of the labor market policy administrators (with Sten Nyberg). *Per Skedinger* also taught a course in labor economics at Stockholm University and serves as an associate editor of *Arbetsmarknad & Arbetsliv*.

Roger Svensson successfully defended his Ph.D. thesis (*Foreign Activities of Swedish Multinational Corporations*) at Uppsala University in April 1996. Two of the chapters in the thesis have been accepted for publication in *Weltwirtschaftliches Archiv* and *Applied Economics*. He also presented a joint paper (with Gunnar Fors) at a conference on "Technology and Trade" in Oslo, and a joint paper (with Pontus Braunerhjelm) at the workshop on "Multinationals, Trade and Economic Geography" held in Stockholm in May 1996.

Jörgen Weibull concluded a research paper, co-authored with Assar Lindbeck and Sten Nyberg, for the welfare state project. His book manuscript *Evolutionary Game Theory* was published in August 1995 by MIT Press, and a second printing is now on its way. He published a paper on evolutionary selection in games, co-authored with Klaus Ritzberger (Institute for Advanced Studies), in *Econometrica*. Joint research with Josef Hofbauer (Vienna University) on evolutionary selection and economic rationality has been accepted for publication in *Journal of Economic Theory*. He contributed to an article, published in the same journal, on the work of the Nobel laureate John Nash. Since July 1995 he is also associate editor of *Econometrica*.

Conferences, Workshops and Courses

IUI organized a workshop in May 23–24 on the theme "Multinationals, Trade and Economic Geography". One objective of the workshop was to bring together Swedish doctoral students in this field with more established researchers. The workshop attracted a large number of doctoral students, and a selected number of senior researchers, both from Sweden and from abroad, were invited. Papers were presented by James Markusen, Anthony Venables, Massimo Motta and Magnus Blomström, to mention a few.

IUI also organized a course on "Technological Change and Market Structure" in January. Lectures were given by Professor John Sutton of the London School of Economics, and were based on his forthcoming book. The course was highly appreciated by students from Uppsala and Stockholm, as well as other researchers who attended the course.

During spring 1996 IUI initiated its Astra-Ericsson Seminar Series on "Human Capital and Economic Growth". The first presentation was given by Professor John Bishop of Cornell University, one of the world's leading scholars in this field, who raised the question whether education is a viable means to boost economic performance in Sweden. Three annual seminars are planned, the next to be held in autumn 1996.

Current Research Programs

Program 1 Knowledge Accumulation, Human Capital and Economic Growth

- 1.1 Empirical Analyses of the Relations between Education, Training, Productivity and Wages
- 1.2 Economic and Industrial Structure in Europe – International Specialization and Adjustment
- 1.3 The Organizational Structure of Ownership, Board Representation and Executives: Implications for Competition and Growth

Program 2 Industrial Organization and International Specialization

- 2.1 Foreign Direct Investment (FDI), Production Specialization and Trade Patterns
- 2.2 Effects of Inward Foreign Direct Investment on Competition and Productivity in the Swedish Manufacturing Sector
- 2.3 Institutions and Industrial Dynamics: A Comparative Analysis of New Zealand, USA and Sweden

Program 3 Economics of the Welfare State

- 3.1 Welfare State Dynamics
- 3.2 The Design of the Welfare State, Capital Formation and Growth
- 3.3 Institutions and Economic Performance

1 Knowledge Accumulation, Human Capital and Economic Growth

Contemporary economic research identifies knowledge accumulation as the prime engine of growth. Growth is endogenized through investment in knowledge which, in contrast to other factors of production, is not subject to decreasing rates of return. Differences in the rate of knowledge investments have been forwarded as the main explanation to differences in growth performance on the macro as well as on the micro level. The Institute's research in this area has been oriented towards microeconomic issues, particularly the role of education and the functioning of the labor market. To secure sustainable growth it is necessary that the return to investments in education compensate its costs. Similarly, without the right incentive structure within the economy, labor may not be optimally allocated from a social point of view. International differences in incentive structures may also induce labor to move between countries. Thus, a proper microeconomic setting is necessary for growth to materialize on the macro level.

1.1 Empirical Analyses of the Relations between Education, Training, Productivity and Wages

Several studies indicate that the return to investment in education is quite low in Sweden, as compared to a number of other countries. One purpose of this project is to examine to what extent the low returns are attributable to the Swedish educational system as opposed to conditions in the labor market. Another issue, which also involves international comparison, concerns the relation between education and labor demand. As skills can be upgraded through training outside the regular educational system, the effects of firm-financed training on firms' productivity and costs are also analyzed within the project.

Responsible for the project: Eugenia Kazamaki Ottersten, Erik Mellander and Per Skedinger

Participating researcher: Harri Kanerva

1.2 Economic and Industrial Structure in Europe – International Specialization and Adjustment

This project also involves researchers from the Trade Union Institute for Economic Research (FIEF) as well as Lund University. Within this project, the research undertaken at IUI focuses on technological progress, growth, structural adjustment and the demand for human capital.

Responsible for the project: Magnus Henrekson

1.3 The Organizational Structure of Ownership, Board Representation and Executives: Implications for Competition and Growth

If individuals alternate between being owners, board representatives and executives in a small cluster of firms, how does such interaction effect productivity? Are close relationships between individuals an obstacle to obtaining economic efficiency within firms? These questions, together with the implications of such networks for entry and competition, are analyzed in this project.

Responsible for the project: Stefan Fölster

Participating researchers: Eva Lindblad, Eva Meyerson and Karl-Markus Modén

2 Industrial Organization and International Specialization

Throughout the Institute's history, this research program has been of central importance. Since the 1960s the Institute has undertaken comprehensive studies of Swedish multinational corporations (MNCs) and their influence on the Swedish economy. Emphasis has been on the location of production across countries and its implication for the pattern of specialization and trade in the Swedish manufacturing sector. Research in this area emanates from a detailed questionnaire sent out approximately every four years to all Swedish MNCs. This database has been updated during 1995.

2.1 Foreign Direct Investment (FDI), Production Specialization and Trade Patterns

The Institute's unique database on MNCs will be pooled with country data to analyze the factors that attract FDI and the implications of FDI on small open economies' specialization in manufacturing and trade. Can changes over time be related to shifts in FDI flows? Furthermore, to what extent are basic versus knowledge-intensive industries involved in FDI, and are shifts in the composition of FDI related to the growth performance of the Swedish economy? How is the process of transferring technology within MNCs organized, and can the impact of such transfer on productivity be measured? Recent theoretical contributions in trade, location and growth will, together with the theory of the firm, be used in the analyses.

Responsible for the project: Pontus Braunerhjelm

Participating researchers: Karolina Ekholm, Gunnar Fors, Mattias Ganslandt, Lennart Grundberg, Patrik Karpaty and Roger Svensson

2.2 Effects of Inward Foreign Direct Investment on Competition and Productivity in the Swedish Manufacturing Sector

While home country effects of foreign direct investment by Swedish MNCs have been the objective of numerous studies at IUI, less attention has been directed towards the effects of foreign investment in Sweden. This project aims at bridging this gap, emphasizing the role of foreign investments in Sweden on competition and productivity.

Responsible for the project: Karl-Markus Modén

2.3 Institutions and Industrial Dynamics: A Comparative Analysis of New Zealand, USA and Sweden

The role of institutions in promoting growth and encouraging industrial dynamics has emerged as an important area of economic research. This project aims at analyzing industrial dynamics in three countries characterized by substantial differences in their institutional settings, New Zealand, Sweden and USA (here represented by Ohio). Comparisons of the evolution and average size of establishments and the development of employment will be undertaken for the period 1978–1995 using disaggregated data.

Responsible for the project: Pontus Braunerhjelm and Bo Carlsson

Participating researcher: Dan Johansson

3 Economics of the Welfare State

The analysis of the welfare state has mainly been preoccupied with problems of a static nature. The overall purpose of this research program at the Institute is to study the welfare state from an evolutionary point of view. How does the design of welfare systems influence the incentive structure and thereby the behavior of economic agents? In addition to this overall question, issues like capital accumulation in the welfare state and the role of institutions on economic performance will be considered.

3.1 Welfare State Dynamics

This project aims at developing a theoretical model of the long-run dynamic effects of welfare state policy on individual behavior. Particular attention is directed towards the interaction between social norms and incentives and their economic implications. The model will be related to empirical data for Sweden and the other Nordic countries. Another part of the project aims at analyzing the links between income distribution, employment and growth in the welfare state.

Responsible for the project: Prof. Assar Lindbeck and Prof. Jörgen Weibull

Participating researchers: Sten Nyberg and David Sundén

3.2 The Design of the Welfare State, Capital Formation and Growth

The focus of this project is the influence of the welfare system on investments in human and real capital. The overall hypothesis is that a generous welfare system has a negative impact on savings, which leads to decreasing investments and, hence, also affects growth rates. The project encompasses theoretical as well as empirical aspects of this problem.

Responsible for the project: Stefan Fölster

Participating researcher: Prof. Sam Peltzman and Georgi Trofimov

3.3 Institutions and Economic Performance

The implications of different institutional frameworks on economic performance have been a high-priority issue on the international research agenda for several years. This project tries to answer how economic efficiency and the allocation of knowledge are determined by the institutional setting. Positive as well as normative aspects are covered in this project.

Responsible for the project: Pavel Pelikan

Publications

Books

IUI Yearbook 1995/96. 1996. 45 pp.

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